Morgan Stanley

PRIVATE WEALTH MANAGEMENT

SINGLE FAMILY OFFICE BEST PRACTICES REPORT

Top 10 Considerations Across Common Areas of Importance

There is no simple formula to follow when creating or maintaining a single family office. In fact, some family offices are formed explicitly because the existing service models don't sufficiently address the family's unique needs. As a result, each single family office inevitably reflects the individual objectives, personalities and dynamics of the family that establishes it.

Nevertheless, the single family offices we serve are always on the lookout for new ideas to enhance their efficiency and improve their performance. Many are also expanding the range of services they offer, entering new territory and encountering new challenges. As a result, we often hear a similar set of questions: Which capabilities should we outsource and which should we bring in-house? How do we attract and retain the talent we need? What are the best practices in evaluating third-party services?

This guidebook provides a broad survey of best practices across a wide variety of topics, addressing the key questions our clients raise most often. To compile this advice and to provide practical tips, we reached out to many of our colleagues at Morgan Stanley, several single family officers and the network of preferred partners in our Signature Access program. I would like to thank all of them for their time and thoughtful insights.

We expect that much of the content will raise questions as well as answer them. If you would like to explore any of these topics in greater depth, please contact your Private Wealth Advisor. They can provide you with additional materials and arrange for a consultation with the appropriate specialists.

Best regards,

Valerie

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Introduction

This guide is divided into six parts, each aligned with a common area of responsibility for family offices. In each area, we raise key considerations and share best practices.

We often consult with ultra high net worth families and their family offices on whether they should insource or outsource various functions. So, as you consider each topic in this guide, ask yourself: "Are these questions that we want individuals under our direct control to help us decide, or are they better addressed by experts outside the family office?"

We start with a discussion of the family's mission statement. Why? Because the meaningful discussions a family conducts in order to define its mission often help answer the most critical question of all: "Should we even have a family office?" In the same way that a couple's discussions about a prenuptial agreement can reveal whether or not they have the unity essential for a healthy marriage, conversations about mission can reveal whether family members are best served by conducting their financial affairs through a shared entity. This may seem like a daunting conversation, but the best practices we share in Part One can help make the process as smooth as possible. Once the family unites around its shared purpose, every policy, procedure and practice of the family office can, and should, be evaluated against the family's mission.

In Part Two, we turn to the best practices for establishing and operating the family office, including the choice of legal entity, the hiring, compensation and organization of the leadership team, and the selection of third-party vendors. Approaching these foundational questions thoughtfully may reduce the risk of making early mistakes that can be very expensive to correct. In our experience, these questions are often more important, and less urgent, than families experiencing sudden liquidity events appreciate. Taking time with these questions can pay off substantially. Given the realities of our dependence on technology, we also address perhaps the biggest risk facing families deciding to create a separate entity to manage substantial wealth: cybersecurity.

Asset management is addressed in Part Three. We start with the process of creating the family's investment policy statement, appreciating that a clear definition of goals is critical to long-term success. We then suggest guidelines to follow when either selecting third-party investments or outsourcing the investment function. We also incorporate an overview of art as an alternative asset class, including insight into intergenerational wealth transfer and philanthropic issues. Recognizing that many family offices are created primarily to manage the timely and useful reporting of investment information to family members,

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we address the critical questions related to reporting practices and resources.

Financial administration is covered in Part Four. We explore issues related to maintaining a healthy accounting, reporting and cash management system that protects the family from the risk of mismanagement and even fraud. While the range of bookkeeping and bill pay services can be dizzying, a thoughtful consideration of those options can give family members the comfort they need to truly access and use their wealth with a minimum of hassle or confusion.

In Part Five, we turn to the many wealth management issues that families face beyond investment strategies. In recent years, a growing number of families have recognized that these issues can be far more impactful than the selection of specific investments or even asset allocation. For example, a family's decisions about how to organize its wealth and share it across generations can have huge income, gift and estate tax consequences. Being adequately insured, selecting the most appropriate trustees and structuring philanthropic endeavors in the most cost-efficient and tax-sensitive manner also can dramatically influence the success of a family's long-term legacy. Of course, in families of great wealth, the proper and timely education of the next generation of family members can have the greatest long-term impact of all.

Finally, in Part Six, we turn to the enjoyment of wealth. One of the most powerful benefits of having a single family office is the potential to help family members simplify their personal lives, secure the best health care, ensure their personal safety and travel in the most convenient and comfortable fashion. A well-organized family office can optimize the many staffing decisions these service choices raise and leave the family with the freedom to simply enjoy the benefits of their good fortune.

We hope this guide helps you design and maintain the best-possible family office for your family's needs. Please reach out to us if you have any questions about content in this guide or wish to discuss issues not addressed in these pages.

IMPORTANT CONSIDERATIONS

This document does not provide legal or tax advice, but rather discusses certain legal and tax principles that clients should consider discussing with their legal and tax advisors. Certain tax strategies and income tax percentages noted herein are presumed to be correct, but are subject to change. Clients should consult with their tax advisors before considering them. Some of the services discussed in the document are offered by Morgan Stanley and some are not. This is not a solicitation to offer any of the services either provided by Morgan Stanley or by third parties.

Table of Contents

PART 1

MISSION AND PURPOSE

Creating a Family Mission Statement

Almost every family can benefit from having a shared sense of purpose and a collective sense of what is most important to them. This is especially true of wealthy families, and is of even greater importance for a family who looks to a family office to manage at least some of their collective activities and concerns. The process of crafting a formal family mission statement provides a uniquely powerful opportunity for families to come together to discuss basic, foundational questions: Who are we and what do we value most? What is our place in society and how do we want to be perceived? Where are we going together as a family, what path shall we take and how will we know when we have arrived? In a Morgan Stanley Campden survey of ultra high net worth families, two-thirds of the respondents said that they either have a mission statement or plan to create one.[1]

Glenn Kurlander, Morgan Stanley's Head of Family Dynamics and Wealth Education, offers the following best practices and key questions to facilitate a productive and harmonious process:

1 **Work Collaboratively**
Parents often are tempted to create a first draft of a family mission statement (or even the final version) and then deliver it to their kids. Because family mission statements are not binding legal documents, they operate as a guide only to the extent that they are persuasive. In many families, the "top-down" approach of simply delivering a document to children will not create the necessary sense of participation and ownership for children to feel the document is truly theirs. As a result, families generally find that the most successful experience is one that involves all adult family members and gives them a meaningful place at the table.

2 **Be as Inclusive as Possible**
Some families instinctively want to limit the process to only lineal descendants, excluding in-laws. While acknowledging that it is possible to imagine family circumstances that would warrant excluding in-laws, Kurlander suggests that, as a general rule, it is better to include them. They are members of the family and are, or may become, parents of future generations. The family mission statement is more about qualitative family matters than actual numbers that reveal the complete extent of family financial capital. Moreover, excluding in-laws may generate resentment and impede buy-in.

3 **Air Disagreements Openly but Respectfully**
Even very close families may have divergent views on some matters. This is not necessarily a bad thing. The discussion necessary to create a family mission statement provides the family with a formal, structured way to explore how and why they disagree. Mistaken perceptions can be corrected and opposing viewpoints may be resolved or narrowed.

4 **Engage a Facilitator**
Most families do not ordinarily engage in the kind of philosophical conversations needed to craft a family mission statement, so the process may feel stilted and artificial at first. With the help of a skilled and experienced facilitator, the awkwardness fades away and the discussion becomes more honest and robust. The facilitator can also be helpful when it comes time to distill the conversation into the formal written statement. Because of the depth of knowledge family office executives develop with respect to the principal family members, and by virtue of the deep trust and credibility such executives typically hold within the family, the family office executive often can perform the role of facilitator quite well. Even when they feel more comfortable leaving that work to others who have done it many times before, the family office executive is still generally an important participant in the discussion.

5 **Foster an Open-Ended Discussion**
Especially with an experienced facilitator to guide the process, Kurlander suggests setting aside questionnaires, values cards and other gimmicks in favor of an open-ended, unstructured and free-flowing family discussion around the seminal questions: Recognizing that our family has created substantial financial capital, what does it mean to us? Why was it

important to us to build it? What sacrifices did we have to make along the way? What is it all for? Is it important to us to steward our financial wealth for future generations? If so, how will we do that? What do we most hope to achieve as a family, and how do we want to be remembered?

6 Set Your Schedule

For a two-generation family, Kurlander suggests devoting one and a half days to the process of creating a mission statement:

DAY ONE: Devote four to six hours for a directed discussion of the key issues and questions. Take a break for lunch and finish by dinner. Your facilitator can then distill their notes into a short outline capturing the most important points raised in that day's meeting.

DAY TWO: Your facilitator distributes copies of the outline to the family so that they may discuss whether they captured all of the most salient points. This also gives the family the chance to determine whether everything they discussed on day one is worth including in their mission statement, and gives them the opportunity to make any necessary additions or changes in emphasis. This process typically takes no more than a couple of hours.

7 Drafting a Document

It's generally challenging for families to prepare the written mission statement themselves, and the facilitator can play a key role here by preparing a first draft. Once the first draft is ready and all the participants in the family meeting have had a chance to review it, the facilitator should arrange a conversation so that everyone can offer any thoughts and comments to be incorporated into the next draft. This is typically an iterative process, with the facilitator taking further comments and revising until the family says this is our final mission statement.

8 Sign the Statement

Once the family believes the mission statement accurately reflects who they are, it is time for everyone to sign the statement. By signing the statement, family members acknowledge their personal commitment to the collective mission they helped to define.

9 Revisit the Mission Periodically

No matter how powerful the discussion that led to the creation of the mission statement, and notwithstanding how successfully the statement is drafted, families do not derive the full benefit of the process if they put it in a desk drawer and never visit it again. Kurlander believes that the mission statement only makes a real difference if it becomes woven into the fabric of your life together as a family. Kurlander suggests that families make the mission statement the centerpiece of an annual meeting, where they ask themselves four questions:

- Does the mission statement we created still reflect our foundational principles?
- If it doesn't, typically because of changed family circumstances, how do we fix it?
- If it still reflects who we are, have we lived our lives in accordance with it?
- And the most important question: If we haven't, what do we have to do to get back on track?

10 What Do We Really Get Out of This as a Family?

The families who go through this process year in and year out, continually asking themselves these four questions, get three things most of us probably don't have:

- A destination: "Where are we going together in life?"
- A flight plan: "How do we get there?"
- A compass: "How do we know if we have veered off course and, if we have, how do we adjust our course to get back on our flight plan?"

Please see Sample Family Mission Statement, Appendix I.

[1]Morgan Stanley/Campden Wealth. Family-Decision Making. Ultra high net worth defined as HHNW of at least $35 million.

PART 2

SETUP AND OPERATIONS

Legal Entity Overview

Family offices can be opened and operated under several different legal structures. The choice of legal entity has important tax, liability, cost and other implications, including the options for transferring ownership of the entity. Approximately 14% of U.S. family offices function as part of an operating company and have no legal structure of their own.[2] Of the remaining 86%, limited partnerships and limited liability companies (LLCs) are the most common. However, due to the reduction in the corporate tax rate under Public Law 115-97, commonly known as the "Tax Cuts and Jobs Act of 2017," C corporations are becoming increasingly popular.

Historically, managing assets on your own behalf or for your family members was not considered to be a trade or business. Family offices that provided such services were also not often considered to be engaged in a trade or business, and so were not able to take advantage of certain tax benefits available to most other types of businesses. Management fees paid to the family office were only deductible by the family to the extent that they exceeded 2% of the family's adjusted gross income. Deductions by the family office for salaries, office expenses and payments to third-party vendors were also limited.

A seminal case in 2017, *Lender Management v. Commissioner*, ruled that a family office that provided asset management services to family members and entities owned by them was engaged in a trade or business and could deduct expenses in the same manner as other businesses. That family office satisfied the three criteria required of all trades or businesses: it undertook its activity intending to make a profit, it was regularly and actively involved in the activity and its business operations had actually commenced. Although not an exhaustive list of factors that may be relevant, the following additional facts were viewed favorably by the court in determining that the family office was engaged in a trade or business:

- The family office was compensated for its services through profits interests and owned only a minority interest in the family entities to which it was providing investment services.
- Any investment return the family office would receive as a minority owner was far less than what it could have earned via profits interest payments.
- The family office provided services to a large number of geographically dispersed family members who did not all know one another and most of whom did not have an ownership interest in the family office entity.
- The family office employed as the Chief Investment Officer a family member who was qualified for such role, who worked full time for the family office and whose responsibilities included identifying new investment opportunities and managing existing investments.
- The family office employed nonfamily members as full-time and part-time staff who devoted all of their time to the activities of the family office.
- The family office maintained its own physical office space.
- Family members and family entities were treated as clients and the services provided to them were similar to those provided by hedge fund managers.
- Each client's money was managed on a bespoke basis, tailored to individual needs and goals.
- The family office held regular meetings with clients to discuss investment performance and objectives.
- Clients were free to terminate the services of the family office at any time, and there was no understanding that they would use the family office's services indefinitely.

It is not easy to meet the criteria needed to be considered as engaged in a trade or business, particularly for smaller family offices. Even larger family offices may have trouble structuring and operating themselves to do so. The benefit, however, is significant in that most expenses, including asset management fees, become deductible at the entity level.

[2] The Family Office Exchange. Available at: https://www.familyoffice.com/understanding-family-office/family-office-faqs.

A Review Of Legal Entities

SOLE PROPRIETORSHIP

Sole proprietorships involve almost no organizational documents and few governmental filings. There is only a single level of taxation—that of the owner. The owner also assumes 100% of the responsibility for any liability arising from the business. All personal assets, even those arguably not involved in the business, are exposed to such liability. No other investors or partners can become owners, and no ownership shares can be issued or gifted to the next generation. Upon death, all assets of the business thus fall into the personal estate of the owner. Due to these limitations, few family offices are structured as sole proprietorships.

GENERAL PARTNERSHIP

A general partnership is formed when two or more people pool resources to operate a business entity. Formation documents are not required, but parties typically execute a partnership agreement that describes the rights and responsibilities of the partners. A general partnership is a legal entity separate from its partners/owners. For income tax purposes, it is considered a "pass-through" entity, meaning that the income tax attributes of the partnership flow through to the partners. The partnership files a separate income tax return, which allocates income and deductions among the partners. In a general partnership, each partner has unlimited liability to third parties with respect to the business operations. Few family offices opt for this structure for that reason.

LIMITED PARTNERSHIP

Limited partnerships require the filing of organizational documents in the state in which they are formed. Unlike general partnerships, liability for limited partners is limited to their investment in the entity. A general partner is appointed to manage the day-to-day operations of the business and has full personal liability for all debts and obligations of the partnership. Consequently, many limited partnerships have S corporations or LLCs as the general partners in order to provide the individual owners of the general partners with a liability shield.

Limited partnerships create governing agreements that include rules regarding their operation, the rights and responsibilities of general and limited partners, the allocation of income and losses, and the dissolution and liquidation of the partnerships. The partnership agreement can appoint managers of the limited partnership, who may or may not be member managers.

LIMITED LIABILITY COMPANY (LLC)

Limited liability companies take various forms, all of which provide the member or members with liability protection.
There is no limitation on the total number of members, and each member's liability is limited to their investment in the entity. Membership shares may have different voting rights and/or different economic rights. Absent an agreement to the contrary, membership shares are freely transferable during life or at death. Multi-member LLCs can choose to be taxed as C corporations or S corporations, but the majority choose to be taxed as partnerships. Single-member LLCs are not always required to establish a separate tax identification number, and all income appears on the owner/member's tax return.

One-third of all family offices are structured as LLCs in various forms, making them the most commonly used entities.[2]

C CORPORATION

C corporations are separate, tax-paying entities. The corporation provides liability protection for its shareholders, which is limited to their investment in the corporation. The shares (absent agreement to the contrary) are fully transferable during life or upon death. A C corporation may have multiple classes of stock, each with different rights and/or economic interests. For instance, voting rights can be limited to a certain class of shares.

Gains or losses by the shareholders are recognized when they sell their shares. Shareholders may also receive a dividend, which is taxable income. The C corporation itself is taxed on its income at a special corporate rate. State-level income taxes also may apply. Thus, corporate income is taxed at two levels: first at the corporate level and then again at the level of the individual shareholder when paid as dividends. As noted above, C corporations are becoming an increasingly popular choice for family offices that meet the qualifying criteria of the *Lender* decision. Approximately 17% of U.S. family offices are now organized as C corporations.[2]

S CORPORATION

Similar to C corporations, S corporations are separate legal entities that provide a complete liability shield for their shareholders. However, an S corporation provides pass-through income tax treatment similar to a partnership. Thus the business can avoid tax at the entity level. The income tax advantage comes with significant restrictions on ownership and the type of business in which the corporation may engage. For instance, ownership is limited to 100 shareholders, and permissible shareholders must be one of the following: individuals, estates, certain qualifying trusts, certain 501(c)(3) organizations and employee stock ownership plans. A single-member LLC potentially may be the sole shareholder of an S corporation. Only U.S. persons are eligible S corporation shareholders. The second most popular legal entity, 20% of U.S. family offices are structured as S corporations.[2]

Choosing a Legal Entity

There is no one legal entity that is right for every family office. Among the factors that need to be considered are the office's size and location, the scope and complexity of its operations, its intended life span and more. Paul Stam, Executive Director and Wealth & Estate Planning Strategist at Morgan Stanley Private Wealth Management, suggests that "there is a natural tension between trying to keep a family office structure simple, tax-efficient and inexpensive with the use of an LLC or other pass-through entity, and maximizing tax-deductibility of expenses and providing tax-advantaged retirement and other benefits to members and employees, which would require more complex entities, structures and documentation."

The following questions might be helpful in making your assessment:

Why Is the Family Office Being Created?

The underlying mission of your family office is an important determining factor, as it will ultimately determine the scope of operations and the style of governance. More ambitious missions are likely to benefit from more flexible legal structures. Simpler missions might be achieved with entities that require less filings and other paperwork.

Who Will it Serve?

The number of clients, and particularly the number of legal owners of a family office can eliminate certain structures from consideration and confer advantages on others.

Where Will it Be Located?

Not every state allows for every variation of legal business entity, and there are often tax implications connected to the location of the entity. The city of residence of the primary funder of a family office is a common, but not always optimal, choice.

Who Will Own it?

Different legal structures accommodate different numbers of owners, and different practices for selling and gifting ownership.

Who Will Run It?

Certain legal entities are better suited to employing full-time professionals with investment management credentials. Offices managed by a family member who lacks such qualifications may find some structures are not available to them.

How Many Employees Will it Have?

As the expenses for running a large office tend to be higher, the incentives to deduct expenses become greater. This favors corporations that operate as separate and distinct entities from their owners.

How Will the Office and its Employees Be Compensated?

The manner in which office staff and leadership are compensated impacts whether it can be defined as a business, and thus take advantage of certain corporate structures. If the office wishes to offer senior managers an equity stake as part of their compensation package, the office will need a structure that allows for that practice.

What Retirement Benefits Will it Offer?

While every legal entity, including sole proprietorships, offers some manner of tax-advantaged retirement savings program, not every program is available within every structure. The tax treatment and limits on retirement benefits vary considerably among the various legal entities.

What Liability Protections Must it Offer?

Different legal entities convey different levels of liability protection for their owners and/or general and limited partners. Sole proprietorships and general partnerships offer no such protection.

How Will Ownership Be Transferred?

Not all legal entities allow for the sale, gifting or transfer of family office ownership within an estate. There are also important tax and logistical differences in ownership transfer of a family office.

Recruiting and Retaining Leadership

As the needs of family offices have grown more varied and complex, the recruitment and retention of qualified leadership have become increasingly challenging. Many family offices are expanding their service offerings, requiring a broader range of skill sets and professional backgrounds—everything from investments and philanthropy to taxes and multigenerational planning. Many professionals who possess the requisite skills are not able to perform effectively within the unique cultural environment and governance structures of family offices.

At the top leadership position, family offices are trending toward a more holistic approach, looking for broader business acumen along with strong managerial skills. "Soft skills," including emotional intelligence and talent development, are particularly prized, as they enable the hired executive to more successfully partner with family and appropriately challenge ideas and orthodoxies. Sarah Burley Reid, a partner in the executive search firm for Spencer Stuart's family office practice, notes, "While historically, many families have handpicked long-time trusted advisors or employees associated with family-owned businesses to oversee their family offices, many are now casting a wider net to find leaders who can bring the optimal mix of financial fluency, general management skills, and influencing and partnership abilities."

Given the competitive environment for qualified leaders, it's important to have a disciplined approach to assessing, recruiting and retaining top talent.

1 **Communicate Among the Family**
Open and honest communication among family members is essential to reach a consensus on what qualifications, experience and values you require in a family office executive. Openly discuss any areas of disagreement, but be certain to present a unified front when interviewing prospects. Prospective family office employees are placing increased value on working for a family that has a clear mission and prioritizes a trusted, consistent relationship with its staff.

2 **Assess and Prioritize Needs**
Your pre-hiring planning should include a detailed discussion on what services you expect your family office to deliver. If it is a new office, determine which functions must be performed in-house and which can be outsourced. Existing offices should assess gaps in talent that need to be addressed.

3 **Prioritize Cultural Fit**
Once you have satisfied the basic prerequisites, cultural fit is likely to be the most critical quality in a candidate. It is essential that your new executive will be able to build and maintain a close working relationship with your family. This requires a candidate who shares your values and priorities.

4 **Clearly Define Leadership Roles**
Write job descriptions for all key roles in the family office that clearly delineate the duties of the positions and the requisite qualifications.

5 **Set Concrete Goals**
Establish and clearly communicate specific family office goals for the coming five years, including milestones that must be reached along the way.

6 **Determine Performance Measurements**
Determine specific metrics to measure each leader's performance, and how that performance will be aligned with compensation.

7 **Expect to Pay for Top Talent**
Given that you are competing for talent in the same markets as other top-tier professional firms, you must carefully consider how to design and implement competitive compensation and benefits packages. Do not assume that highly qualified professionals will accept lower compensation in a family office setting than they would in a corporate setting.

8 **Establish Succession Plans**
Given the close, long-term working relationships between families and family-office leaders, orderly succession plans are often overlooked. Whether preparing an internal candidate to succeed a family office leader or identifying an external candidate, you will need a considerable amount of time to cultivate an executive who can balance operational and interpersonal requirements.

9 **Effect Orderly Transitions**
When possible, transition a long-standing family office leader by giving them an advisory role, perhaps even a seat on your governing board. This period of overlap allows for an important transfer of institutional knowledge and enables the incoming leader to receive some coaching from a professional who knows your family well.

10 **Seek Outside Help When Needed**
Consider using an outside consultant to gain an independent perspective on your needs, assess talent gaps, and to identify and screen potential candidates.

Given the competitive environment for qualified leaders, it's important to have a disciplined approach to assessing, recruiting and retaining top talent.

Competitive Compensation

Often the most significant investment and greatest expense for family offices is staff compensation which requires careful consideration, planning, benchmarking and review. To recruit and retain highly qualified professionals, family offices need to offer compensation that is appropriate for the level of responsibility, and competitive from both a geographical and industry perspective. Beyond the responsibilities of a given position, compensation is influenced by the size and complexity of the family office, the industries from which candidates are recruited and, of course, the performance of the employee.

Trish Botoff, Managing Principal of Botoff Consulting, observes, "The market for family office talent continues to become more competitive. As a result, family offices are increasingly adopting more professional practices versus a discretionary mindset, and evolving their approach to compensation to both attract and retain key talent. Increasingly, family offices are implementing business and industry best practices as well as compensation structures that include more defined annual incentive plans, the use of multiple types of long-term incentive plans, supplemental executive benefits, and employment agreements for senior executives."

1 Compensation Strategy and General Approaches

It's important for a family office to define an overall compensation approach and structure so that family members can make well-informed strategic decisions. Approaches may vary between executives and staff, but commonly used approaches include:

FIXED APPROACH
Primarily base salary-driven, limited or no incentives, typical of smaller, less complex family offices

BALANCED APPROACH
Competitive base, conservative-to-competitive incentives, representative of most family offices

LEVERAGED
Conservative-to-competitive base, more formalized incentives, higher prevalence in larger, more complex family offices

2 Most Commonly Used Structures

A compensation benchmarking report prepared in partnership with Botoff Consulting and Morgan Stanley showed that most family offices structure compensation using some variation of the balanced approach, including competitive base salaries, annual bonuses and an array of benefits. Nine out of ten family offices offer annual incentives/bonuses for staff of all levels, which tend to be set at above-market levels for junior-level positions as compared to corporate employers. The use of long-term incentive plans has become increasingly prominent for leadership and investment positions.

3 Geographic Considerations

There are some locations where geographic premiums are required to achieve competitive pay levels, based on the competitive market and cost of labor. This is sometimes impacted by cost-of-living differences, but there is not a direct correlation. Family offices should expect to pay premiums for talent in major Northeastern and California markets, most significantly in New York City and San Francisco/Silicon Valley.

4 Salary Reviews and Increases

The Morgan Stanley/Botoff Consulting report indicates that 87% of family offices review and adjust staff salaries annually. Family offices with larger AUM are more likely to conduct annual salary review on an annual basis than family offices with smaller AUM. The survey found that the primary drivers of salary increases are individual performance, comparative market data and a large dose of discretion. The study further indicated that more than 40% of family offices awarded increases between 4% and 10% or more, which outpaces the overall U.S. average of 3.2%.[3]

5 Annual Incentive Practices

Four out of five family offices pay annual bonuses,[4] the use of which becomes more common as AUM increases. While the use of more structured incentive plans is increasing, family offices mostly award bonuses based on criteria that are discretionary in timing and nature, and may not reflect defined opportunity levels or performance measures. The use of more defined/formalized incentive plans increases along with AUM.

6 Long-Term Incentives (LTI)

Seeking to improve retention and align compensation with results for the family, the use of long-term incentive compensation has been a growing trend in family offices. This trend reflects a maturing industry, with compensation arrangements for executives and investment professionals becoming more sophisticated and formalized. Studies have shown that the use of LTI plans is as high as 60% or greater, and there is generally an increasing use of LTI plans based on AUM.

Many family offices use deferred-incentive compensation plans, based on a variety of performance metrics. Many of those with an investment function also often provide co-investment opportunities and carried interest, with leverage through family loans used less often.

7 Executive Benefits

A core set of health and welfare benefits is typically offered to all employees. Family offices often assume a larger share, even 100%, of the costs of health care benefits, well above plans typically provided by U.S. companies. The most common executive benefits offered by family offices are supplemental life insurance and supplemental disability, as the core plans are often woefully inadequate for higher-paid staff.

8 Additional Perquisites

Even though the use of perquisites is in decline across corporate America, they are generally less prevalent in family offices when compared to other industries.[5] For example, 42% of U.S. companies provide executives with a company car or car allowance, compared with only 10% of the participating family offices.[3] Fewer than 10% of all family offices offer to pay for club memberships, and less than 3% offer access to the family's private aircraft.

9 Vacation and Sick Days[6]

The vast majority of family offices offer paid vacation, holidays and sick/personal days. Most increase the amount of paid vacation days with increasing tenure, and approximately two-thirds allow vacation days to be carried over. It's also common to offer executives and managers more paid vacation time than is given to nonmanagerial employees, particularly for recent hires. For example, only 50% of nonmanagerial employees with one to five years tenure receive more than two weeks of paid vacation, compared to 71% of executives and managers.

10 Retirement Plans

According to a 2018 study by the Family Office Exchange, 87% of all family offices offer a retirement plan to their employees. Of these, 401(k) plans are by far the most popular, offered by 75% of family offices. Nine out of ten family offices offer a matching contribution, with over half setting the match between 3% and 4%.[6]

[3] WorldatWork 2019-2020 Salary Budget Survey

[4] 2017/2018 Family Office Investment Team Compensation Survey (Botoff Consulting, McNally Capital, and Mack International)

[5] The Family Office Exchange. Available at: https://www.familyoffice.com/understanding-family-office/family-office-faqs.

[6] Source: Family Office Exchange. Available at: https://www.grantthornton.com/-/media/content-page-files/tax/pdfs/white-papers-survey-reports-articles/2018/2018-FOX-family-office-compensation-benefits-survey.ashx

Technology Vendor Selection

Typically not among the early adopters of new technologies, many family offices are still utilizing paper-based and manual processes. Single family offices have been particularly slow to adopt more automated solutions, often viewing technology as more of an expense to be managed than an opportunity to enhance the client experience.[7] However, as family offices evolve to serve more tech-savvy younger generations, and tech entrepreneurs establish family offices, there is increasing pressure to adopt more advanced approaches.

We offer the following best practices from the Morgan Stanley Relationship Management Playbook, among other sources, to assist in choosing a vendor to help design, implement and maintain technology solutions:

1 Start at the End

Start with your business requirements and work your way back to identify the data needed to deliver greater value. Greater opportunities often come from leveraging the right technology to improve what you're already doing well. This may include automated services that enable interactions with family members wherever and whenever there is a need. At this juncture, you are not trying to identify the technology solutions you require. You are defining the challenge.

2 Identify Opportunities to Streamline Communications

Outdated processes can generate an extraordinary amount of extra work on the part of the family, family office staff and external parties. Resolving issues may involve numerous emails being sent back and forth without proper controls, creating risk as well as inefficiencies. If you are experiencing inefficiencies and errors due to miscommunication, track the number and nature of these issues to identify processes that could be improved by systems that have controlled workflows and messaging.

3 Define Vendor Characteristics

Determine the business and technical requirements you are seeking in vendors, and define your evaluation criteria. While you may leave some latitude for different approaches, the evaluation team should agree on a core set of "must haves" prior to launching the process. These are likely to include the size and location of the practice, availability of local support and experience working with family offices

4 Have Realistic Expectations

Many family offices initially have unrealistic expectations concerning the flexibility of digital tools to support their unique business processes. There may be times when you will need to adjust your processes to fit how a particular application works, rather than vice versa. If you insist on maintaining nonstandard processes, expect significant and expensive customizations.

5 Source Multiple Potential Vendors

If at all possible, source multiple potential vendors to vet and interview. Having competition throughout the process not only improves your negotiating position, but provides an opportunity to assess different approaches to achieving your objectives.

6 Confirm Roles and Responsibilities

Prior to negotiating a deal with a vendor, delineate who will be responsible for key roles within the family office. In a larger operation, you may want to build a team that includes those most familiar with your current systems, along with sourcing and legal expertise.

7 **Ensure a Fair and Orderly Process**

All vendors competing for your business should be provided with the same information about your family office and your requirements. Whether or not you are issuing formal RFPs, spell out exactly what you expect a proposal to include and how it will be evaluated.

8 **Review Cybersecurity Policies**

Ask each vendor for a copy of their cybersecurity policy to ensure that they incorporated sound procedures. Ask about the training their employees have received and how they communicate sensitive information. While caution should always be exercised, don't fear moving critical systems into the cloud. This removes the risks of fire and theft presented by on-site servers. Cloud-based applications can also be automatically backed up and may offer military-grade security that will protect data from intruders.

9 **Understand Support Capabilities**

As family offices don't tend to stick to business hours, ensure that your vendor will be able to provide technology support whenever a problem or question arises. Be sure that they can meet any special requirements you may have, such as support in a language other than English, for example.

10 **Communicate Decisions**

As a rule, unsuccessful candidates in evaluation processes will be informed first by the sourcing professional and provided with feedback on the reasons they were not chosen. All decisions should be communicated on the same day.

Greater opportunities often come from leveraging the right technology to improve what you're already doing well.

[7] Family Wealth Report. Available at: https://www.familywealthreport.com/article.php?id=183188&page=0#.XicfyWRKiqR. Accessed 1/16/20.

Cybersecurity

Family offices are becoming more frequent victims of data breaches and other cyberattacks,[8] disrupting their operations and creating significant financial and reputational risk. Despite the clear and growing threat, over 33% of family offices have yet to take any notable measures regarding cybersecurity.[9] It is critically important for family offices of all sizes to assess their vulnerabilities and institute policies, training procedures and technology upgrades to protect their assets, their reputations and their peace of mind.

"So much of cybersecurity comes down to good hygiene — the digital equivalent of brushing your teeth and eating healthy," explains Rachel Wilson, Morgan Stanley's Head of Cybersecurity for Wealth Management. "Most hackers are looking to make money quickly, so if you do just a few things to up your cybersecurity game, your family office could go from being an easy target to not worth the trouble."

10 best practices to help you get started:

1 Establish a Cybersecurity Policy

Approximately 40% of family offices do not have a dedicated cybersecurity policy in place, leaving them unnecessarily vulnerable to data breaches.[8] A formal policy should be written so that each employee fully understands proper cybersecurity procedures and responsibilities.

Your personnel are both your first line of defense and your greatest point of vulnerability. Be sure to equip them with the information they need to maintain a secure environment.

2 Train and Retrain

Cybercrime is a constantly evolving threat. It's important to train every new employee on cybersecurity procedures. It is equally important to hold annual or semiannual retraining sessions to ensure that every employee is up to speed on current best practices. The training should include procedures for quickly escalating concerns if they inadvertently click on something suspicious, or simply have a feeling that something is amiss.

3 Use Strong and Unique Passwords

According to a survey by Virginia Tech, 52% of users have the same or similar passwords across multiple accounts. If any one of their accounts is breached, all of their accounts could be vulnerable. To avoid this risk, insist that all employees use complex, lengthy and unique passwords for each work account. Consider using a password manager to create these passwords and store them in a cryptographically sound way.

4 Enable Multifactor Authentication

Accounts protected by multifactor authentication require you to provide something other than your username and password to gain access, usually a registered trusted device, fingerprint scan or security key. You should utilize multifactor authentication whenever available, but particularly to protect access to your high-consequence systems.

5 Use Email Cautiously

Ninety-two percent of all malware is delivered via email.[8] If an employee clicks on a link or opens an attached spreadsheet inadvertently, that employee could unwittingly download malware onto your network. You should also be on alert for business email compromise (BEC) attacks. These schemes involve fraudulent impersonations of an executive or client that are designed to get a target to send money or sensitive information. Never reflexively trust an email you receive. Always rely on multiple methods beyond email to confirm the sender's identity and intent before engaging, and never transmit sensitive information via unsecured email or text.

6 Use an Anti-Virus Product

Regularly run a reputable antivirus product on all personal computers and laptops used for business activities. This will protect devices from future malware invasions and clean up any existing infection.

7 Keep Your Software Up to Date

Software companies typically include security upgrades in every update they release. Installing those updates immediately will help protect your devices. To simplify this process, turn on automatic updates where available.

Your personnel are both your first line of defense and your greatest point of vulnerability. Be sure to equip them with the information they need to maintain a secure environment.

8 Use Extra Caution Outside the Office

Accessing information from a remote location poses a unique set of cyber-risks and challenges. Public Wi-Fi hot spots should be avoided in favor of creating a personal hot spot with your phone and connecting through an end-to-end encrypted channel (LTE). You should also use a virtual private network (VPN) for an additional layer of protection. Never leave your devices unattended, and refrain from using public computers or publicly available charging cords or USB ports.

9 Don't Overshare Online

Social media channels are routinely exploited by cybercriminals for fraud schemes, blackmail attempts and other crimes. Be sure to limit how much you share on social media and be careful when you share it. Posting pictures while on vacation, for example, lets the world know that your house is empty. You should also lock down the privacy settings on your accounts and only give applications the permissions they really need. Granting access to your photos, location, camera, contacts, etc., makes your data and personal information available to the application owner.

10 Enlist an Expert

If you lack the expertise within your family office, consider engaging the services of a cybersecurity expert. A cybersecurity expert can conduct a vulnerability assessment; educate your staff and clients; evaluate your vendors; and advise on encryption tools, cyber insurance, document storage, network monitoring and more.

[8] Forbes Magazine. Available at: https://www.forbes.com/sites/francoisbotha/2018/11/10/why-family-offices-need-to-prioritize-cyber-security/#7273eb2c601a
[9] Source: Morgan Stanley Single Family Office Symposium conference polling data.

PART 3

ASSET MANAGEMENT

Creating an Investment Policy Statement

An investment policy statement (IPS) memorializes an investment plan and its underlying assumptions, and clearly identifies duties and responsibilities. The adherence to an investment policy statement that employs principles of diversification and risk management can help to maintain the integrity of the assets during periods of stress and otherwise can help protect against impacts from changes in personnel stewarding the assets. The investment policy statement creates the family's standards for investment decision-making and can help mitigate behavioral bias.

A well-crafted IPS should include the following elements:

1. **Statement of Purpose**
Open your IPS with a clear statement of its intent. The primary notion is that the document is intended to establish a clear understanding of the objectives and standards applicable to your portfolio.

2. **Assignment of Responsibilities**
Clearly delineate your role and the roles of the investment advisor and any third-party investment managers the adviser recommends. If the adviser also serves as the investment manager, or one of the investment managers, that should be noted.

3. **Legal Entity and Taxes**
Label and describe the legal entity in which your portfolio will be held. You should also specify where your portfolio will be domiciled for tax purposes.

4. **Investment Objectives**
Provide a short, clear and realistic description of your portfolio's overall objectives. More specific objectives concerning liquidity, risk tolerance and other factors will be delineated later in the document.

5. **Risk Management**
Include a statement detailing the level of volatility that is expected given the nature of your investment objectives. If the portfolio's goal is to generate maximum capital gains, for example, the risk management statement should acknowledge comfort with fluctuations in the portfolio and the possibility of losses.

6. **Time Horizon**
Specify the number of years you expect the portfolio to be managed. This is a statement of intent used for planning purposes, and not a contract with the portfolio manager.

7. **Liquidity Needs**
Delineate the amount and frequency of withdrawals that must be made from your portfolio, and include a statement of how much advance warning you should give the adviser for any change in withdrawal requirements.

8. **Additional Considerations and Restrictions**
Describe any special types of securities or strategies that the family wants to include, avoid or restrict. For example, you may want to use specific environmental, social and/or governance (ESG) screens in making investment decisions.

9. **Portfolio Management**
Clearly describe the management style expected and provide asset allocation parameters. Management style should include the use of active and/or passive strategies, alternative investment types that may be utilized and other considerations. Asset allocation instructions should include a minimum weight, target weight and maximum weight for equities, fixed income, alternatives and cash.

10. **Review and Evaluation**
Specify when investment managers will be reviewed and what aspects of performance and operations those reviews will cover. Also include a statement outlining when the IPS will be revisited to ensure that it remains in line with your needs and goals.

Please see Sample Investment Policy Statement, Appendix II.

Selecting a Third-Party Investment Manager

Investment managers offer a broad array of strategies that include both traditional and alternative asset classes. Traditional investments typically include mutual funds, offshore mutual funds, exchange-traded funds, separately managed accounts and collective investment trusts. Alternative investments usually include alternative mutual funds, hedge funds, hedge funds of funds, real assets, managed futures, exchange funds, private equity and venture capital, private credit and private real estate. Evaluating the quality of third-party managers is a critical function for family offices, irrespective of their investment goals.

A robust due diligence process for selecting a third-party investment manager is difficult to simplify into 10 considerations, so please contact your Morgan Stanley Private Wealth Advisor to have a more in-depth discussion.

1 Personnel

Assess the strength of the professional staff to ensure that they are qualified, experienced and stable. Your evaluation should include the credentials and expertise of key professionals, their compensation and incentives, and the turnover rate of their personnel. Determine whether or not they have senior people covering investments, operations, trading and due diligence. For alternative investments, consider conducting background checks on key investment and operational staff.

2 Business Risk

To gain an understanding of business risk, review the stability and structure of the asset base, asset flow trends, product lineup and distribution. It is also important to get details about the third-party service providers they contract with to ensure the firm is engaging with reputable administrators, auditors, legal counsel and counterparties.

3 Strategy

Insist on clarity when it comes to the investment manager's strategy. Do they have an understanding of strategy biases that may lead to headwinds and tailwinds in specific market environments? Can the portfolio managers demonstrate that they are following the stated investment guidelines? Does there appear to be any style drift over time? Be wary of deviations from strategies that may have driven historical performance, or that have the potential to change future performance.

4 Track Record (for active strategies)

Establish that the investment manager has a proven track record of effective security selection and investment skill. This can be measured by the alpha generation (risk-adjusted returns) in various market environments. Be mindful that the differentiation relative to the stated benchmark is meaningful, but controlled. Inquire about examples of key investment decisions.

5 Investment Process and Implementation

Look for a team that follows a sound and repeatable investment process. The key elements of a strong investment process include idea generation, portfolio construction methodology, risk management, sector and/or industry concentration or exposure, style consistency, volatility guidelines and other constraints.

6 Risk Management

Ascertain the adequacy of the firm's risk management program. Look for portfolio risk controls and parameters, a disciplined buy-and-sell process, style and performance pattern consistency, and liquidity risk management programs.

7 Analytical Capabilities

Evaluate the analytical capabilities of the firm. Focus on the firm's depth of analysis, industry expertise, and the suite of additional tools leveraged, including databases, technology and analytical software.

8 Fees and Incentives

A competitive analysis can confirm whether a firm's fees are in line with peers and industry standards for a given level of value added by the strategy. Take the time to understand whether or not the management team's incentive compensation structure is properly aligned with the family office's goals and objectives.

9 Operations and Compliance

An institutional-quality infrastructure protects the firm and its clients. Examine the adequacy of infrastructure operations, including trading, business continuity, data security and compliance. Check documented policies and procedures, clear and equitable trade rotation, representative composite performance, minimum composite dispersion, reasonable asset levels, reasonable fees, clean regulation history, documented code of ethics and disaster recovery procedures.

10 Investment Structure

It's important to understand the implications of various investment structures from a governance, tax and operational perspective. These can be significantly different between mutual funds, closed-end funds, separately managed accounts and ETFs. For alternatives, pay close attention to the terms to ensure that they are fair and reasonable. Key fund terms include expenses, investment limitations, voting mechanics and key-man clauses. Many family offices also want to ensure proper alignment of interests with general partners. For example, the managing director of a single family office noted, "For the GP commitment, we like to see in excess of the standard 2% of fund assets." For multimanager strategies, also determine whether there are operational due diligence resources available to evaluate non-investment-related risk.

Evaluating the quality of third-party managers is a critical function for family offices, irrespective of their investment goals.

Evaluating an Outsourced Chief Investment Officer (OCIO) Solution

If you have determined that it may be more cost effective and efficient to outsource the asset management function, you may want to consider an Outsourced Chief Investment Officer (OCIO) solution. A comprehensive OCIO relationship with full discretion should allow the family office to focus on the big picture rather than day-to-day operations.

1 Capabilities

Assess whether the OCIO solution offers the full suite of capabilities needed to deliver a comprehensive solution. Do they offer investment policy-setting? How do they approach the asset allocation strategy? How do they track performance? Do they assist with cash flow and liability management? What are the portfolio construction capabilities? What does their risk management framework look like? Look for a provider who has demonstrated the ability to customize solutions to the goals and risk tolerances of multiple clients with differing objectives.

2 Investment Expertise Experience and Talent

Establish that the OCIO provider has a track record of achieving their clients' specified performance objectives. Your evaluation should include the credentials and expertise of key professionals, their compensation and incentives, and the turnover rate of their personnel. Determine whether or not they have senior people covering investments, operations, trading and due diligence, and consider conducting background checks on key investment and operational staff.

3 Business Risk

Evaluate the OCIO to make certain that it is a well-resourced, ongoing concern with appropriate staying power. Is the OCIO a startup business or a firm with a long operating history? It is also important to ask for details about third-party service providers so you know that the firm is engaging with reputable counterparties.

4 Service Model

Ask a potential OCIO for details on how they will service your family office. How large is the support team? Can the family office access staff resources in all relevant areas of the business — investing, trading, operating and due diligence? It's important for a family office to partner with a client-centric provider that will truly understand the family's needs and craft solutions to help achieve the overall investment objectives. They should also have experience managing multiple constituencies with potentially competing priorities.

5 Investment Manager Platform

To consistently generate attractive alpha, it is important to have an unconstrained approach to identifying and investing with proven managers. Ask if the OCIO maintains an open-architecture investment manager platform. Are they selecting from an extensive universe of industry-leading managers, or are they constrained to a limited set? Does the universe of strategies include both traditional and alternative investments? For alternatives, does the OCIO have access to direct or co-investment opportunities? How many managers and strategies are on the platform, and how many of those have they screened? If the OCIO only offers proprietary products, be wary of convoluted feeds and a lack of transparency.

6 Investment Process

Ask the OCIO provider to explain their investment process in detail. A robust investment process should be consistent and repeatable. It should have procedures to identify the family office's needs and to solicit opinions across a range of key stakeholders, including the family office, investment professionals, legal, compliance and risk.

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7 Fees and Compensation

Consider the OCIO's fees in comparison to what it would cost to hire an in-house investment team at the family office. Also ask what, if any, compensation the OCIO provider receives in addition to client fees, to identify any potential conflicts of interest. Ask your Private Wealth Advisor for a copy of Morgan Stanley's Family Office Compensation benchmark report for data points.

8 Risk Management

Consider the strength and methods of the OCIO provider's risk management procedures. Do they use a quantitative analysis for the portfolio? What do the portfolio attribution and performance reporting look like? A rigorous risk management process must have appropriate portfolio risk controls and parameters.

9 Fiduciary Oversight and Governance

Inquire if the OCIO provider is acting in a fiduciary capacity. (Under federal law, an investment adviser is a fiduciary, which includes a duty of care and a duty of loyalty.[10]) Look for independent third-party review of portfolios against investment policy statement parameters, and for a dedicated investment oversight committee. Best practices for family updates include monthly reporting, quarterly in-person meetings, and ad-hoc updates on major investment decisions and market dynamics.

10 Operations and Compliance

Examine the adequacy of the operational infrastructure, including trading, business continuity, data security and compliance. Check for documented policies and procedures, clear and equitable trade rotation, representative composite performance, minimum composite dispersion, reasonable asset levels, reasonable fees, clean regulation history, documented code of ethics and disaster recovery procedures.

[10] Source: Securities and Exchange Commission. Available at: https://www.sec.gov/rules/interp/2019/ia-5248.pdf

Art as an Asset Class

Annual art sales total approximately $60 billion,[11] and it is not known what portions are attributable to nonfinancial versus financially motivated buyers. According to Sarah D. McDaniel, CFA® and Head of Family Office Resources Generalists and Art Initiatives, "While a person's rationale for collecting art may be varied, prominent business people from real estate, finance and technology have been publicly vocal about declaring art as an asset. One might consider the evolution of real estate as a definable and measurable asset class as precedence for art, in that real estate and art present similar yet not insurmountable challenges."

McDaniel offers the following insights and best practices:

1 Intergenerational Wealth Transfer

It has been estimated that approximately $3 trillion worth of art is held in private hands, and that art and collectibles now constitute 5%-10% of the average ultra high net worth individual's total assets.[12] The value of a substantial private collection needs to be carefully evaluated within the family's overall balance sheet, and consideration should be given to how high-value possessions can be transferred tax-efficiently between generations. These issues can be particularly complex if a collector segments wealth between financial assets and their prized collections.

2 Governance

The ultimate challenge facing serious collectors may be what to do with the collection after their death. Do they intend to keep any or all of the collection together and, if so, who will oversee it? If that is the intent, collectors may establish legal structures to own and retain the art, and appoint art specialists to advise family members. Such arrangements can be helpful in that they offer guidance from a professional who does not have an emotional association with the artwork, and may help to mitigate the financial burden of imminent or future taxes.

3 Trust, Tax and Estate Planning

While trust, tax and estate planning techniques apply to art, there are some notable differences and challenges. The IRS typically challenges valuation discounts of artwork for gift or estate tax purposes, even though such discounts are commonly applied to other types of assets. A valuation discount may be appropriate where the client owns a large number of similar works (such as by the same artist), because the sale of all of the works at the same time would depress the market value of each work (referred to as a "blockage discount"). Art generally is not an income-generating asset, so leveraging gifting techniques used for financial assets may not be as impactful. Given art's indivisibility, assignment of art works to individuals also likely results in less than fair or equal division of assets. For these reasons, art can be one of the most expensive and complex assets to directly transfer during the owner's life.

It has been estimated that approximately $3 trillion worth of art is held in private hands, and that art and collectibles now constitute 5%-10% of the average ultra high net worth individual's total assets.[12]

In place of gifting to a beneficiary outright, the collector may transfer art into a LLC or a family limited partnership (FLP) and appoint one or more managers. The LLC or FLP owns the art, while the manager or managers assume responsibility for maintaining and insuring the collection, and making decisions regarding sales. The control maintained by the collector must be carefully crafted for estate tax reasons. The collector may then gift LLC and FLP interests. This means that the collection is managed as a whole on behalf of many beneficiaries who own proportional interests in the collection rather than owning specific pieces. The benefit of this structure is that it allows the transfer of an intangible partnership interest rather than a tangible piece of the collection to which there may be emotional attachment. It also keeps the entirety of the collection together. At death, probate is simplified because the collection is owned by the LLC or FLP and interests in the entity are transferred rather than specific pieces of art.

4 Philanthropy

Collectors who intend to donate all or a part of their collection need to have a well-thought-out and documented plan. While 90% of art in public museums comes from private collectors,[13] much of it never goes on display. Many collectors mistakenly believe their donated art will become a permanent piece in the museum of their choice. These assumptions often prove false. Due to financial pressures and limited space, major museums have limited their acceptance of works of art. Smaller and less notable institutions are often more eager to obtain quality work, but even then, it is extremely important to make any gift pursuant to a written agreement that builds in flexibility, and provides clear terms that could be enforceable at a later date. An attorney or an independent art professional can help negotiate and document the transaction.

Consideration may also be given to creating a private museum. However, a collector needs to take a number of factors into consideration. First and foremost, establishing and maintaining a museum entails relatively high fixed and variable costs. Clients must also understand the legal and tax obligations that come with establishing and running this type of organization. In addition, collectors who have families with little interest in the art and its legacy should consider who will run and maintain the museum over the long term.

5 Specialized Art Professionals

As the art market is not regulated, participants must be vigilant. When planning for the sale or transfer of art, it is prudent to work with specialists who can assist in the process. An art executor can help market the works and determine which could be sold for a reasonable price in the short term, which should be held to generate interest and which are less valuable. Similarly, an art attorney can provide a legal perspective on valuing art for purposes such as tax and estate planning. They can also help navigate the legal issues that arise when executors and trustees are fulfilling their responsibilities for safeguarding, holding and disposing of art.

6 Taxes and Transaction Costs

Whether buying or selling, art transactions can be quite complex, particularly when the artwork is highly valued. Beyond negotiating and paying the purchase price, there are numerous additional cost considerations. Art may have high transaction costs depending on the channel through which the art is being sold. While commissions may vary and are negotiable when working through the private market with dealers, the buyer and seller premiums at auction houses may be as high as 20% depending on the achieved sale price. The buyer may also pay sales tax on the sum of the purchase price and premium or commission.

The tax treatment of proceeds from the sale of art vary depending on whether the art is considered a capital asset in the hands of the owner. If the art is considered a capital asset, the sale proceeds would be taxed as capital gain at a rate of 28%. If the art is not considered a capital asset, the sale proceeds would be taxed as ordinary income at the owner's marginal federal income tax rate. ▶

Art is considered a capital asset unless it is owned by (i) the person who created it, (ii) someone who received it from the creator and the property has a carryover basis (e.g., was transferred as a gift), (iii) an art dealer who holds the property for sale in the ordinary course of trade or business, or (iv) someone who has held it for one year or less. Because these rules apply to each specific object, some of a client's art may be a capital asset and some may not.

7 Art Loans

A comprehensive wealth management strategy often includes prudent asset and liability management where borrowing may complement investments. Given that art is a non-income-producing asset with relatively high carrying costs, borrowing against the art and reinvesting the proceeds may help alleviate the costs of maintaining the art. Borrowing may also provide the collector with increased flexibility to navigate the relatively illiquid art market. Not surprisingly, private banks, boutique lenders and auction houses continue to be active lenders, fueling an art loan market that has grown to $25 billion.[14]

8 Art Advisors

Many serious collectors consult art advisors to help them understand the current market dynamics in their area of interest. Even collectors with extensive expertise in a specific artist or genre find that it often pays to have professional help in understanding how works of a given artist in a given period and medium are trending. Like other asset classes, the overall art market is cyclical and exhibits considerable variation. One artist, or one genre, may gain considerable momentum for a time then stagnate for decades. At times, these dynamics can create considerable disparities in value. Art advisors can also help collectors consider the benefits of public auction sales versus private dealer sales as well as which sales season is most beneficial and in which international location.

9 Valuation

It is important to understand the value of each piece in a collection to make informed decisions. There are numerous factors to consider when determining the value of a piece of art, including the artist, type, image, medium, year, dimensions, condition, presence of markings or signatures, provenance and whether the piece is a standalone item or part of a larger set. Of course, it is critical to determine a piece's authenticity by reviewing title and documentation.

The frequency with which art valuations are updated depends on the type of art involved and how stable its valuations are. Generally, there are two types of valuations: fair market value and replacement value. Fair market value is for income, estate and gift taxes, and replacement value is for insurance purposes.

10 Collection Management

The condition of a work of art invariably has a profound impact on its value. Careful measures should be taken to make sure art is well protected and properly insured. A conservator who specializes in the type of art collected should be consulted on a regular basis to assess the physical and environmental conditions in which the art is housed, and a qualified appraiser should be brought in on a regular basis to make certain the insurance coverage remains appropriate for the value of the works in the collection.

[11] Anna Louie Sussman, "Is Art an Object of Passion or an Asset Like Any Other?" https://www.artsy.net/article/artsy-editorial-art-object-passion-asset-other.

[12] CS Global Investment Returns Yearbook, 2018

[13] Cohen, Patricia, "Art Collectors Gain Tax Benefits From Private Museums," 2015 (4).

[14] Deloitte Art & Finance Report 2019, page 108.

Consolidated Investment Reporting

As the number of strategies expands across multiple trusts, LLCs, foundations and personal accounts, it becomes increasingly complex and time consuming to gain a holistic understanding of how total wealth is invested. This can be further complicated by the addition of multiple asset classes, custodians and currencies. The resulting lack of coordination can lead to unintentional concentration risks, unnecessary costs and ill-informed decisions. Jeff Decker, Head of Client Reporting at Morgan Stanley, suggests, "The best practice is to make the reporting repeatable using tools at your disposal, freeing up time for more productive activities." A variety of software vendors and third-party providers have stepped forward to address the demand for consolidated reporting.

In evaluating these options, consider the following questions:

Have You Outgrown Excel?

Family offices that oversee less complex wealth structures with relatively few investment management relationships may be able to avoid the additional cost of securing an automated consolidated reporting solution. Manual solutions may suffice, or you may be able to secure a sufficient level of reporting across all of your holdings through your primary wealth management relationship.

Are You Best Served by an In-House or Outsourced Solution?

Consolidated reporting solutions can be purchased as software packages, outsourced to third-party vendors or secured through a wealth management relationship. If choosing an in-house solution, make certain that you have the resources to provide sufficient tech support and maintain robust cybersecurity protocols. When evaluating outside vendors, make sure that their solution is well-suited to the family office environment, and carefully assess the measures they take to protect your data and privacy.

What Advantages Can Be Gained by Repurposing Staff?

Replacing manual with automated processes can free staff to focus on higher value analytical efforts. When comparing the cost of various reporting solutions, be certain to factor in the time and effort you will save. Conversely, also consider the time and resources needed to learn the software and test the data when acquiring a new system. These expenditures may be mitigated or avoided if you outsource reporting to your adviser.

How Many Asset Classes, Custodians and Managers Need to Be Covered?

Portfolios with complex legal entity ownership hierarchies, and multiple custodians, managers, currencies and asset classes, will require commensurately sophisticated reporting systems. Make certain that the software or provider you choose has the technology to support the full range of your current and anticipated future needs. Note that software providers often have a specialized focus in one area. In that case, it may make sense to ask about integrations potential to ensure all your needs are addressed.

What Level of Granularity and Customization Will You Require?

Assess whether the solutions you are considering will be able to run reports across individual entities and entire portfolios in the level of detail you require. Make certain that they support the ability to make and customize templates, run ad hoc reports on demand and cover any other needs or preferences. Also consider whether you would want the ability to customize the reports yourself, or would prefer to share your preferences with the vendor to perform the customizations for you (generally for a fee).

How Will Your Data and Privacy be Protected?

The secure storage, transmission and processing of your data should be your No. 1 concern. Look for robust protocols at the platform, application and network level, and understand your provider's data backup, business continuity and disaster recovery procedures. Ask what training employees receive and what measures are taken to secure their physical facilities.

How Will Important Information Be Communicated?

In addition to family members and family office professionals, your accounting firm, attorneys and other advisors will need access to your reporting. Determine how your system will provide access to each stakeholder who requires it in a secure and appropriate manner.

How Much Support Will You Require?

Whether choosing an in-house or outsourced solution, determine the level of technical skill, user support capabilities, and time that will be required during implementation and for ongoing system maintenance. Have clear recovery procedures in place in case of a more serious system failure.

Will Your Reporting Solution Integrate With Your Other Systems?

Make certain that any consolidated reporting system you choose will seamlessly integrate with your accounting and wealth management solutions. This will save considerable time and cost, and reduce the potential for error.

What Experience Does the Vendor Have in the Family Office Space?

Family offices have unique requirements, and not all vendors are well-equipped to meet the demands. Favor consolidated reporting solutions that are purpose-built for the family office market and vendors with a proven track record in the space.

PART 4

FINANCIAL ADMINISTRATION

Accounting, Reporting and Cash Management

With many interests and obligations competing for their time and attention, successful families are adopting a more business-minded approach to managing their wealth. This includes creating comprehensive accounting, reporting and cash management systems to capture and manage their financial data and transactions across various entities, businesses, banking and investing relationships, lifestyle and philanthropic activities. According to Gemma Leddy, CPA and Partner-in-Charge of PKF O'Connor Davies Family Office, "Family members are involved in many activities and rely on staff and/or outsourced providers to leverage their time. An integrated financial reporting system, coupled with robust processes and internal controls, provides the family with peace of mind by ensuring that their assets are safeguarded, and reliable and timely information is available to make informed decisions."

Suggesting that "robust accounting and recordkeeping, coupled with comprehensive, timely and accurate reporting, enables proactive planning and better risk management," Leddy offers the following suggestions:

1 **Design a System to Capture All Financial Activity**
A robust accounting and bookkeeping system should help a family capture its wide array of financial activity in a comprehensive and centralized manner. The system should encompass individuals, trusts, partnerships, corporations, foundations and other family entities. It should track, reconcile and report on assets, liabilities, income and expenses to provide information for financial planning, risk management, tax planning and compliance, oversight and investment management.

2 **Establish Robust Internal Controls**
The accounting and reporting system should integrate a cash management and bill payment system with robust internal controls. These controls should include vendor selection and contract oversight, a vigorous invoice review and payment approval process, bank reconciliations, credit card oversight and budgets, and cash activity reporting.

3 **Conduct Monthly Reconciliations**
Someone who is outside of the accounts payable function should be responsible for reconciling all bank and investment accounts at least monthly. The reconciliations should include transfers between entities and third parties, which also should be reviewed on an ongoing basis. Using online access and account alerts, bank and credit card activity should be reviewed closely to enable timely detection of unauthorized transactions.

4 **Incorporate Liquidity Projections**
Liquidity planning will allow families to more effectively manage investments, debt and spending. Families should track and project short-term and long-term cash needs for lifestyle, asset purchases, debt service, retirement, investments, taxes and philanthropy. These inputs are needed to establish annual budgets and track spending. An additional level of oversight and control should be implemented for new investment funding, capital calls, and significant purchases and transactions.

5 **Maintain a Robust Infrastructure**
Your accounting system and IT infrastructure should incorporate strong measures for backup, disaster recovery, permissioned controls and access, and the secure sharing of information. Consider engaging an IT security firm to evaluate and review the IT infrastructure, including a thorough security check of all laptops and mobile devices used by the family and family office employees.

6 Establish an Efficient Document Management System

Establish an organized electronic document management system to store all important documents, including contracts, wills, trusts, partnership agreements, asset purchases and sales, tax documents and filings, banking, investment documents, vendor contracts and invoices, etc. Again, consider having an IT security expert review your document storage protocols to ensure that digital files are properly safeguarded.

7 Establish Flexible Payroll Systems

Implement a process with effective internal controls to manage employee changes, employee time reporting, and payroll processing. Evaluate and review compliance with federal, state and local labor laws.

A robust accounting and bookkeeping system should help a family capture its wide array of financial activity in a comprehensive and centralized manner.

8 Investment and Asset Tracking

Review investments closely, including monthly reconciliation of cash inflows and outflows between accounts and investments. Track values and performance, tax basis, commitments, capital calls and distributions. Reconcile the activity to monthly capital statements and annual tax reporting (e.g., 1099s and K-1s).

9 Oversight of Alternative Investments

Make certain that you understand the tax attributes of each alternative investment so that you can evaluate expected after-tax returns and project potential tax outlays. Your accounting and reporting system should be able to track and project investment inflows and outflows to plan for funding of capital calls.

10 Track Tax Information

Your system should be able to track information and tag transactions that give rise to tax compliance reporting. This includes all taxable income as well as tax deductions for charitable donations, tax payments, investment expenses, deductible business expenses, gifts, etc. Tax basis records should be maintained for all investments, residences, art, collectibles and other assets to report on and substantiate taxable gains or losses in the event of a sale.

Bookkeeping and Bill Pay Services

Whether choosing to bring bill pay and bookkeeping services in-house or hiring an outside vendor, it's important to clearly define the scope of work and delineate the requisite skills. Will the family office need only simple bill payment services, or require a more robust range of personal bookkeeping services that may include recording personal bank accounts, categorizing all credit card and other transactions, and consolidated cash flow reporting? William Farren, president of My Accountant, Inc., notes, "Ultra high net worth clients have complicated financial lives, often making bill paying and bookkeeping tasks more difficult than they first appear."

Farren suggests that experience in the UHNW family environment is an essential prerequisite and offers the following advice:

1 Bank Account Issues

Maintain separate bank accounts for the professional bill payer and the family so both always have an accurate picture of their account balance regardless of what payments, deposits and withdrawals the other is making. This is best accomplished by establishing a disbursement account over which the bill payer has limited power of attorney. They should make all payments, in every form, from the single account.

2 Check Preparation

While online payments are generally more efficient, it is still necessary to print and mail physical checks from time to time. If the bill payer is printing checks from multiple trusts, LLCs and personal accounts, great care must be taken to avoid disbursements from an incorrect account. Use blank check stock and check printing software that interfaces directly with your accounting system. It is important to guard against "check washing" by purchasing high-security check stock, with individually numbered sheets, watermarks, microprinting and other features.

3 Recurring Payments — No Bill

Systems should be put in place to handle regular payments that are not triggered by an invoice. This might include, for example, a monthly payment to a child in college for living expenses. Use calendar software with reminders and task lists to help the bookkeeper stay current with these payments.

4 Email Invoices

As increasing numbers of bills are sent via email rather than physical mail, it is important that they arrive promptly in the bill payer's inbox. Instead of relying on various family members to forward all invoices, establish a client email address at the family office, which is given to all vendors for billing purposes. Determine which family members need to be copied so they can confirm the validity of invoices.

5 One Bill — Multiple Payments

Certain time-sensitive bills require regularly scheduled payments, including real estate and property tax bills. Be sure to input their due dates into your scheduling software along with cash requirements so arrangements can be made in advance for payment of larger expenses.

6 Multiple Names

Bills and invoices sent to the same person may be addressed to several different names (i.e., Bill Smith vs. Mr. William Smith vs. William H. Smith). While this rarely presents a problem with manually entered invoices, it can confuse automated entry systems. It can be very difficult to get vendors to change names on invoices, particularly if they relate to a mortgage or other legal document. Make certain that all names in an optical character recognition (OCR) system are cross-referenced.

7 Credit Cards

Credit card statements present a unique issue in that the amount of payment is optional, ranging from the minimum due to the full balance. Unless there is set a policy to pay all balances in full, this means that each statement must be individually approved. Statements can be sent straight to you for approval, then passed along to the bill payer, who can access your account online to make payment. Alternately, the statement can be sent directly to the bill payer, who can then contact you for approval.

8 Wire Transfers

Wire transfers are commonly used for private equity fund capital calls and many other large purchases and commitments. Extra caution should be used to assure the originators of wire requests are not imposters and that the request is legitimate. Develop a rigorous callback process to validate the transfer request, and do not initiate the transfer until you receive confirmation. These procedures are particularly important with international wire transfers, due to rampant email hacking and regulatory issues.

9 Debit Cards

Posting and tracking debit card transactions can be difficult because the bank postings of transactions rarely come with detailed descriptions. This complicates the task of categorizing expenses, which could create significant accounting issues if debit cards are used with high frequency.

10 General Efficiency Issues

To make sure that all payments are made promptly and securely, and recorded accurately, it's important to streamline the flow of information to the bill payer. When possible, have invoices mailed directly to the bill payer and establish clear and secure channels for him or her to seek approvals, send reports and raise any issues of concern.

To make sure that all payments are made promptly and securely, and recorded accurately, it's important to streamline the flow of information to the bill payer.

Evaluating Third-Party Bookkeeping Services

Maintaining clean and professional records of all financial transactions is absolutely essential to the proper functioning of a family office. In addition to upholding the highest ethical standards, bookkeeping services and their agents must understand the unique requirements of the family office environment. Pay close attention to the technology and software they use and, particularly, to their cybersecurity procedures.

Be sure to verify references for every service you interview, and consider the following qualifications:

1 **Experience**
Choose a provider with a long track record of successful performance in a family office environment. This will have given them the opportunity to encounter a wide array of client situations.

2 **Physical Security and Cybersecurity**
As family offices are prime targets for cybercrime, it's vitally important for your bookkeeping service to maintain high cybersecurity and physical security standards. Ask how your data will be encrypted and stored, and what offline or cloud backups will be utilized. Determine how they will protect any private servers they use.

3 **Client Communications**
Evaluate the protocols that the firm uses to communicate with members of the family and the family office. Insist on highly secure email protocols, including having emails uploaded to a lock box.

4 **Software and Technology**
Evaluate the firm's sophistication in the use of technology and ability to integrate into any required accounting systems. Ask what calendaring software they utilize and whether they use QuickBooks or Quicken and are certified in the use of those programs. Ascertain what systems and software are proprietary, and whether they own check printers.

5 **Reporting Capabilities**
Determine what reporting software the firm uses and whether it can support the robust reporting you require. Determine if the agents working on your account are certified in the reporting software they use.

6 **Medical Claims Processing**
If the bookkeeping services will be required to process claims for medical expenses, be certain that they have experience in that specialized area. Understand if they have the capability to liaise with insurance companies to negotiate claims.

7 **Household Payroll**
Determine if the firm has a relationship with a payroll company to pay salaries out of a bill pay disbursement account. If applicable, make sure that they are able to support the payroll needs of staff in multiple tax jurisdictions.

8 **Trust Services**
Maintaining dedicated trust accounts is a specialized area that calls for specific expertise. Be certain that the agent servicing your trusts has the appropriate experience, as missteps in this area can incur IRS penalties and create reputational risk.

9 **International Capabilities**
If applicable, evaluate the firm's international capabilities and/or understanding of the special needs of nonresident property owners. Do they speak the languages of the family and family office, and can they advise on setting up LLC structures for U.S. properties with linked disbursement accounts that are funded abroad?

10 **Dedicated Agents**
Make certain that the firm will assign a dedicated agent to your account, and that the account manager will invest the time to understand your needs and preferences. This is important in that familiarity with the family and family office should enhance their ability to detect when circumstances are unusual.

PART 5

WEALTH ADVISORY

Property and Casualty Risk Management

Many aspects of the affluent lifestyle create loss or liability exposure that should be carefully considered as part of an overall risk management plan. While some ultra high net worth families choose to fully or partially self-insure, many others leave themselves unintentionally exposed. For example, over 20% of families with at least $5 million in assets report that they have no umbrella liability coverage.[15] Relatively few ultra high net worth families have adequate coverage for art and antique collections, household staff, liability emerging from the board involvements and a variety of other exposures.

CONSIDER having an external advisor review your risk mitigation strategy to identify coverage gaps and opportunities to reduce premiums. In developing a holistic strategy to cover all of your assets, you may gain the leverage to secure more favorable pricing and better terms. As Joseph Toledano, Morgan Stanley Head of Insurance and Annuities, suggests, "Holistic risk and liability management allow for curated coverage and efficient pricing while permitting appropriate calibration of liquidity across your portfolio."

The review may include the following areas:

1 **Multiple Households**
Multiple properties no longer require multiple policies. Today, multi-household families have the option of consolidating homeowners insurance for as many homes as they own, including international properties. With homeowners insurance, it often makes sense to bundle coverage for valuables and excess liability under a single policy to maximize pricing leverage.

2 **Domestic Employees**
Settlement of discrimination claims of wrongful discipline or termination, breach of contract, and harassment are typically not fully covered under homeowners and umbrella insurance policies, so consider adding employment practices liability insurance (EPLI) coverage.

3 **Art and Collectibles**
Many art collections in ultra high net worth households exceed the coverage limits for household items in their homeowners' policies. There are also threats to the value of your art that may not even be covered at all. For example, what if sunlight fades the colors in a painting? Consider working with a specialist who understands how to properly value and protect your investments, whether they are on display at your home, in transit or on loan.

4 **Board Service**
Directors of public companies are generally recognized as targets of shareholder suits and are provided with liability protection. High net worth individuals who are members of nonprofit boards, however, should be aware of the potential exposure risk and protect themselves adequately.

5 **Yachts**
In addition to the vessel itself, comprehensive yacht policies should include fine-art coverage for items kept or transported on the yacht. Worldwide navigational limits, pollution protection, coverage for fire at sea and crew coverage are also standard for many high net worth yacht policies.

6 **Aviation**
Aviation policies cover jets, helicopters and other privately owned aircraft, along with hangars and private runways. These policies tend to have tight restrictions on who can operate the aircraft and many technical areas. Careful review of liability coverage is essential, given the potential for catastrophic accidents.

7 **Automotive**
Exotic and collectible automobiles can be difficult and expensive to insure. Many carriers do not cover higher-powered, street-legal race cars, so you may need to work with a specialty provider. Insurance on collectible cars may have limits on annual mileage driven. If you keep cars at multiple residences, be sure that the umbrella liability insurance you purchase in one state covers cars that are registered in another.

8 **Kidnap and Ransom**
Kidnap, ransom and extortion coverage can go as high as $50 million and includes consultation and training. Many carriers also offer classes on how to identify and avoid dangerous situations, and may discount premiums for families who complete the training.

9 **Trusts and LLCs**
Trusts and LLCs that are typically not listed as property are acknowledged for liability coverage under standard policies. Consider adding separate policies to protect assets within these structures.

10 **Excess Personal Liability**
Ultra high net worth families should own umbrella liability insurance policies of at least $10 million, and often far higher. Make certain you understand exactly what is and isn't covered under your policy, particularly if you have cars, watercraft, aircraft and other vehicles registered in multiple states.

It often makes sense to bundle coverage for valuables and excess liability with homeowners insurance under a single policy to maximize pricing leverage.

[15] Forbes. Available at: http://www.forbes.com/sites/ashleaebeling/2012/03/05/the-1-fear-being-sued-but-shun-umbrella-insurance/

Select Trust Types

A wide variety of trust structures are available to help address an extensive range of estate planning, philanthropic, family-dynamic and other issues. These trusts range from relatively basic to highly complex, and can be used in combination to create highly sophisticated wealth planning strategies. As Andrea Levine Sanft, Morgan Stanley Wealth and Estate Planning Specialist, reports, "We're seeing many clients shift priorities from wealth generation to wealth preservation and wealth transition. The estate planning process that these clients are going through most likely will include trusts."

The following is a review of some of the more widely used trusts and their common uses:

1 Revocable Living Trust

Living trusts are separate legal entities created to own assets, such as homes or investments. A living trust is revocable and allows the grantor who created it to retain control over it. The grantor can change the terms or beneficiaries, transfer assets in and out, and/or terminate the trust altogether. Revocable living trusts are most commonly used as an estate planning tool to avoid probate, or to make sure that assets continue to be managed properly if the grantor becomes incapacitated. Upon the death of the grantor, the revocable trust becomes irrevocable and typically will contain all of the decedent's testamentary plan, such as the marital and credit shelter trusts referred to below. After the grantor's death, the living trust can either distribute its assets outright to beneficiaries, or retain assets in further trust for the benefit of family members or charities.

2 Marital or QTIP Trusts

Marital trusts, also known as "QTIP" (Qualified Terminable Interest Property) trusts, are established generally upon one spouse's death to provide for the support of the surviving spouse and defer the payment of estate tax. Ultimately, the trust assets will pass to the beneficiaries named by the predeceased spouse. Assets are moved into the trust upon death of the predeceased spouse, and the income that these assets generate will be paid to the surviving spouse. When the second spouse dies, the trust is taxed in the second spouse's estate and passes to the beneficiaries.

3 Credit Shelter Trust

Credit shelter trusts, also known as bypass trusts or family trusts, refer to trusts that are often created upon one spouse's death to hold assets equal to that spouse's federal and/or state estate tax exemption. The surviving spouse may be a beneficiary of the trust, but the assets do not go into their possession and will not be a part of the surviving spouse's estate. So, when the surviving spouse dies, the assets in the trust are not subject to estate tax, no matter how much they may have grown.

4 Irrevocable Trust

In contrast to the revocable trust, an irrevocable trust cannot be altered nor revoked during the grantor's life. Because assets transferred to irrevocable trusts are taken completely out of the grantor's name and put into the name of the trust, they are commonly used for gifting purposes and to reduce or eliminate estate tax exposure. Most irrevocable trusts also are used to control and protect assets for beneficiaries, whether individual family members or charities.

5 Grantor-Retained Annuity Trusts

A Grantor-Retained Annuity Trust (GRAT) is a type of irrevocable trust used to transfer appreciation of a particular asset or class of assets to the next generation with minimal gift tax consequences or the use of exemption. To create the GRAT, the grantor transfers assets into the trust and retains the right to receive an annuity payment for a set number of years. Most often, the present value of the annuity stream is nearly equal in value to the assets contributed, thereby resulting in almost no taxable gift (a "zeroed-out" GRAT). The IRS dictates the growth rate used in calculating the value of the annuity stream. For example, the IRS's prescribed rate for April 2020 is 1.2%. All appreciation above the annuity stream will pass, gift-tax free, to the beneficiaries.

6 Insurance Trusts

Insurance trusts are created to remove a life insurance death benefit from the value of an estate for estate tax purposes. Life insurance trusts are irrevocable and the grantor is not allowed to change the policy or borrow against the policy once it is owned by the trust. These trusts often are established to help pay for post-death expenses and taxes on the estate.

7 Qualified Personal Residence Trusts

A qualified personal residence trust (QPRT) is a specific type of irrevocable trust that allows the donor to remove a personal home from their estate, but retain the right to live in the home for a term of years. The transfer of the home to the QPRT is a taxable gift that will use a portion of the donor's gift tax exemption (or, if the donor has insufficient exemption remaining, will be subject to gift tax). The value of the gift is equal to the market value of the home reduced by the actuarial value of the donor's retained right of use. If the donor outlives the retained-use term, then upon the cessation of the term, the QPRT owns the entire home at its then-fair-market value, with no additional gift tax or use of gift tax exemption. And the donor must pay rent to the QPRT if they continue to live in the residence. If the donor does not outlive the term, the estate tax savings are lost and the home reverts back to the donor's estate.

8 Special Needs Trusts

Those who qualify for government disability benefits may lose their eligibility if they receive an inheritance or large gift. Special needs trusts can be established to provide the beneficiary with additional financial support without jeopardizing their Social Security and other benefits. To qualify under Social Security rules, the beneficiary cannot control the amount or the frequency of trust distributions, and cannot revoke the trust. Someone with special needs may also create and fund a special needs trust for their own benefit so that they may qualify for government benefits. However, at the beneficiary's death, any assets remaining in a trust created by the beneficiary will first be used to repay the government for the benefits provided to the beneficiary. Anything left over will be distributed to the remainder beneficiaries.

9 Blind Trust

Blind trusts are established to avoid conflicts of interest between the grantor, the beneficiaries and the trustees who manage the assets within them. As the name suggests, trustees manage assets within the trust without the grantor's or beneficiaries' knowledge or involvement. Certain political offices or appointments require the establishment of these trusts.

10 Charitable Trusts

Several types of trusts are available to support philanthropic goals, many of which have the potential to achieve income, gift and estate tax savings. These include charitable lead trusts and charitable remainder trusts. More information about both of these is available in the Philanthropic Structures section of this booklet.

Choosing a Trustee

Chris Smith, Morgan Stanley Head of Trust Services, suggests that the trustee named to manage and oversee trusts is key to achieving the estate planning objectives of the family: "The success of a personal trust depends on the appointment of a trustee who is capable of addressing what can be complex and constantly evolving family and financial circumstances." The trustee may be an individual, an entity or, in some circumstances, benefactors may serve as their own trustees. Regardless, 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.

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 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 will 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. 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 financial affairs 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 principle 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 certain 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 is to serve as trustee without charging a fee, determine the cost of providing them with proper support and 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.

Law Firm Versus Accounting Firm Tax Preparation Services

Two of the primary service providers to family offices, law firms and accounting firms, are expanding their range of services and capabilities. This has created an overlap in several key areas, giving family offices greater choice. It has also created some level of confusion, particularly with respect to who should prepare and file U.S. tax returns. Gary Nestler, Morgan Stanley Wealth and Estate Planning Specialist, suggests that "while the core competencies of the individual firms should be the most important determining factor, there are areas where one type of firm may have an innate advantage over the other that is worth considering."

1 Clarifying Roles

Most family offices maintain relationships with both legal and accounting firms, and it is common practice to have tax returns prepared and filed by both. The best firm for a specific return depends largely on the core competencies of the individual firm and the potential for a conflict of interest. When one firm, typically a legal firm, serves in a control position, it is a wise check-and-balance to have a different firm prepare and file the return for that entity.

2 General Due Diligence

The due diligence process should begin with an assessment of the provider's experience in filing the specific forms required. Ask how many of these forms they file for clients each year, and how long the firm and the individual preparer has been engaged with such work. Have them explain their process for preparing returns, including what reviews will take place before filing. Also assess their efforts to preserve confidentiality and protect sensitive data.

3 Review and Oversight

Expect a typical accounting firm to have two or three levels of review before any return is filed. This will typically begin with an associate who actually prepares the return, which is then reviewed by a manager and a partner or director. This process does add cost, but is considered best practice in risk mitigation. Law firms may follow similar processes, but this should be confirmed.

4 Individual Tax Returns

Accounting firms are typically the vendors of choice for family offices that serve a large number of individuals residing in multiple jurisdictions. Most accounting firms focus on income tax planning and have extensive experience preparing and filing the Form 1040 income tax returns used by U.S. taxpayers. Professionals in most firms receive ongoing training in new income tax rules and regulations.

5 Private Foundations

Family offices that are responsible for multiple foundation entities should strongly consider working with a single provider to prepare and file their 990-PFs tax returns. Because the form contains a number of nuances and is highly specialized, select an experienced preparer. Accounting firms still prepare the majority of these forms, but law firms are making inroads.

6 Trusts — Law Firm's Attorney as Trustee

If an attorney of a law firm serves as trustee, it is a good practice to have a different law firm or accounting firm prepare the Form 1041 tax return required of U.S. estates and trusts. If you decide to use the same firm, conduct careful due diligence to understand how they maintain separation between the trustee and the return preparation efforts.

7 Trusts — Non-Law Firm Trustee

Many law firms and accounting firms are capable of preparing and filing a Form 1041 tax return for a trust or estate. If there is no potential conflict of interest due to a partner serving as a trustee, there is no particular reason to favor one type of firm over the other.

8 Partnership — Law Firm's Attorney Serves as General Partner

Partnerships are required to file a Form 1065. Similar to when the law firm attorney serves as trustee, consider using a different law or accounting firm for tax preparation to provide a process of checks and balances.

9 Limited Liability Company (LLC) — Law Firm's Attorney as Managing Member

Your choice of a tax preparation provider may be influenced by your selection of the tax treatment for your LLC: individual, partnership or S-corp. If the LLC is treated as a partnership or S-corp and a law firm's attorney is the managing member, it is advisable to choose a different firm to prepare and file returns as a check and balance.

10 C Corporation and S Corporation

Accounting firms produce most of the Form 1120 income tax returns for both C corporations and S corporations in the United States. If a law firm's attorney is in a control position, employ the same considerations as you would if they were a trustee or general partner and consider choosing another firm to prepare returns.

> The best firm for a specific return depends largely on the core competencies of the individual firm and the potential for a conflict of interest.

Philanthropic Structures

Once you have clearly defined your family's philanthropic mission, you need to consider the structure best suited to implement your strategy. Are your aims better met through direct donations to nonprofit groups, the formation or continuation of a family foundation, donor-advised fund or charitable trust, strategic investments in for-profit entities with an integrated social purpose you support, or any combination of the above? You may even take the social entrepreneur route, so that you can work on a gap or deficiency in the market and consider establishing a new nonprofit organization to address an unmet need. Each of these strategies and structures has its own advantages and disadvantages in terms of reporting requirements, tax implications, grant-making flexibility, control and operating considerations.

Melanie Schnoll Begun, Head of Philanthropy Management, notes that "donors have many different options available to them to strategically, efficiently and effectively distribute their charitable, financial and human capital. For those new to philanthropy, selecting the right vehicle or combination of vehicles can be overwhelming. It's important to remember that your charitable goals and the positive impact you wish to have should drive the conversation each step of the way."

1 Private Foundations

Private foundations are trusts or nonprofit corporations funded by families, individuals or corporations. They are required by IRS regulations to make a minimum distribution each year for charitable purposes: roughly 5% of their assets, with certain adjustments, based on the previous year's assets. Private foundations are widely acknowledged as a vehicle that can facilitate the perpetuation of a family's philanthropic legacy through a more formalized, independent structure governed by a board of trustees or directors.

2 Donor-Advised Funds

Donor-advised funds (DAF) are philanthropic giving vehicles administered by a charitable organization that sponsors the program. A DAF allows donors to establish and fund an account by making irrevocable, tax-deductible contributions to the charitable sponsor. Donors then recommend grants from those funds to other charitable organizations. As a donor, you can also recommend how the fund is invested. While DAFs and private foundations are similar in some respects, DAFs do not have minimum annual distribution requirements or a formal board-governance structure at the DAF account level.

3 Supporting Organization

A supporting organization is a specific type of public charity that carries out its exempt purpose by supporting other exempt organizations, usually other public charities. The key feature of a supporting organization is a strong relationship with an organization it supports. The strong relationship enables the supported organization to oversee the operations of the supporting organization. Therefore, the supporting organization is classified as a public charity, even though it may be funded by a small number of persons in a manner similar to a private foundation. The classification is important because it is one way that a charity can avoid being classified as a private foundation, a status that is subject to a much more restrictive regulatory regime.

4 Charitable Remainder Trusts

Charitable remainder trusts enable you to provide for both a noncharitable recipient (such as yourself or your children) and a charitable organization. They are designed to make payments to you or your individual beneficiaries first, and upon the termination of the trust, gift the remaining funds to a specified cause or charity.

5 Charitable Lead Trusts

These trusts are the inverse of charitable remainder trusts in that noncharitable beneficiaries are paid only after distributions are made to a specified cause or charitable organization for a specified term. This trust is often funded with assets that are not currently needed, but that you may wish to keep in your family.

6 Charitable Gift Annuity

Charitable gift annuities enable you to transfer assets to a charity in exchange for a tax benefit and a lifetime income stream. Your charitable deduction is limited to the amount contributed to the charity in excess of the present value of the annuity according to IRS parameters.

7 Pooled Income Fund

A pooled income fund is a mutual fund operated by a charitable organization and composed of gifted assets. Income from the fund is distributed to you or other named beneficiaries according to your allotment of total shares in the fund. Upon your death, or other beneficiary's death, your shares are transferred to the charitable organization. Pooled income funds can be used to provide income and also offer charitable deductions.

8 Low-Profit LLCs

Available in a limited number of states, low-profit LLCs ("L3Cs") are business entities created to bridge the gap between nonprofit donations and for-profit investments. L3Cs have a primary charitable mission and only a secondary profit concern. They are intended to facilitate investments in socially beneficial for-profit enterprises, while avoiding nonprofit regulations.

9 Social Enterprises

Social entrepreneurs can establish a for-profit venture, or "social enterprise," that aims to also achieve social change. As such, its performance is measured by both financial returns and the degree to which it generates positive returns to society. These individuals pursue novel applications and are willing to take on the risk and effort to create positive changes in society through their initiatives.

10 Public Charities

Public charities are corporations or associations that conduct business for the benefit of the general public without shareholders and without a profit motive. Organizations that file for 501(c)(3) public charity status are eligible for tax-exempt status, and companies and individuals who donate to them can deduct contributions (subject to certain income limitations).

"For those new to philanthropy, selecting the right vehicle or combination of vehicles can be overwhelming. It's important to remember that your charitable goals and the positive impact you wish to have should drive the conversation each step of the way."

Melanie Schnoll Begun
HEAD OF PHILANTHROPY MANAGEMENT

Preparing NextGen

Many affluent parents are uncomfortable talking to their children about money. According to Glenn Kurlander, Head of Morgan Stanley Family Dynamics and Wealth Education, "When parents avoid talking to children about money, they risk sending the message that there is something so dangerous and mysterious and frightening about the topic that we can't even talk about it. And if that's the lesson we're teaching, we're not starting them off on the road to forming a healthy relationship with wealth. Even if children can overcome the fears we may be engendering, we're leaving them woefully unprepared for the day when they will have to manage wealth that they inherit from us or create on their own."

A highly experienced North American Single Family Office Managing Director shares the following experience: "I've observed that it can be incredibly difficult for individuals who haven't engaged with, or even been told about, their significant wealth until adulthood. The information can be a shock to their identity, and they may not have the capabilities or impartial advice to form sound wealth management decisions."

Kurlander offers the following rules to help parents become more comfortable talking about money and managing the conversation:

1 Children Know More Than You Think They Know, but They're Confused About What They Think They Know

Trying to keep your wealth a secret from your children is not only unhealthy, but also virtually impossible. If their surroundings and lifestyle are not already an obvious clue, they have access to the internet and to friends who will fill them in. What they lack is the context for what money and family wealth means. Parents should help their children create a context into which they can place their knowledge so that it becomes helpful and empowering, rather than frightening or confusing.

2 Think Before you Speak

Before engaging in a discussion with your children about the values you would like them to develop with respect to money, it's important to come to grips with your own values about wealth. Before parents begin talking with children, they should ensure that their own money values are as aligned as possible, and they should be honest in identifying any matters that they see differently, so that they can be prepared to address those differences if (more likely when) their children raise them.

3 Talk and Talk Some More

You may feel awkward talking to children about money at first, but it is important to keep the dialogue going. Money is a taboo topic in too many families. For good reason, many parents are uncomfortable disclosing how much they are worth. But that shouldn't be the focus of the conversation anyway. Focus instead on the bigger philosophical questions that are rooted in values, identity and purpose. Why did we build wealth and what does it mean to us? What are the responsibilities and challenges that come with our wealth? What lessons did we learn in accumulating it? Most important, ask what are we trying to accomplish with it? As valuable as these informal conversations are, it often is helpful to marry them contemporaneously with a more formal, structured approach. Charline Burgess, Morgan Stanley's Senior Wealth Education Specialist, notes, "Providing wealth education sessions led by an experienced educator creates the opportunity for the next generation to develop the necessary skills for successful personal financial management. This knowledge builds confidence between the generations and becomes the basis for their future partnership in preserving the family legacy."

4 Talk With Them, Not to Them

As a general rule, conversations are more effective than lectures when speaking with your children about money. It can be difficult, but try not to be dismissive of their questions or concerns with phrases like "you'll understand when you are older." If something is hard for them to understand, we need to find better ways of explaining it.

5 A Question is Worth a Thousand Answers

Instead of giving your children ready answers, try asking them questions that help them formulate their own answers. For example, they may ask the often-dreaded question, "Are we rich?" Consider asking them how they would define being rich, a question that can lead more naturally to a discussion of the different components of wealth, such as family, social and intellectual capital. As Einstein said, "Not everything that counts can be counted, and not everything that can be counted counts."

6 Be Wary of Offhand Remarks

Feelings about wealth can be complex, and a single, reflexive statement rarely conveys the whole truth. Be careful with offhand remarks that might teach your child a lesson you don't intend. For example, be careful about making disparaging remarks about other people's possessions, particularly in comparison to your own. If you truly believe that money doesn't buy happiness, be careful not to make an unthinking comment that suggests otherwise.

7 Give Kids an Allowance

Giving children control over a small amount of money can teach important lessons in how to set priorities and defer gratification. Begin with a special allowance for younger children, for example, by giving them a specified amount to spend at an event, like a baseball game or a trip to the zoo. Explain to them the nature of the choices they may make and the consequences of those choices, and that once they spend the fixed amount, they're done for the day. As they get older, transition to a traditional allowance and gradually increase the amount and the type of expenses they have to defray themselves. Also extend the need for them to budget carefully over longer periods by moving from a weekly allowance to one that is paid twice a month to one that is even paid monthly. When they're old enough, consider suspending the allowance in the summer, so that they will have to get a summer job in order to have spending money.

8 Make an Investment in Them

When you can easily afford to buy everything your children need, and virtually anything they want, how do you give them an opportunity to achieve meaningful goals on their own? As parents, we naturally want to help our children, but helping in inadvisable ways has the potential to foster attitudes of entitlement. Instead, try to help in ways that empower them to accomplish things on their own. For example, offer to pay for three-quarters of something they want if they earn the final quarter on their own.

9 Walk the Walk

The most important lessons you can teach your children are taught by example. It's essential to speak with your children about the responsibilities that accompany wealth, but think of your lessons as a sort of gut check. If you want to get the message across, you have to live your values as well as preach them. If there's a notable discrepancy between what you say and what you do, it will not be lost on your children, and may even damage your credibility and undermine your moral authority.

10 Keep the Conversation Going

One-and-done conversations about wealth and meaning will not be effective. These are lifelong discussions that evolve as both you and your children gain wisdom, perspective and understanding. You never stop being a parent. This is one area where you should never stop parenting.

PART 6

LIFESTYLE ADVISORY AND CONCIERGE

Hiring, Managing and Retaining Household Staff

Remaining fully staffed with qualified domestic employees presents a significant challenge to many affluent families and their family offices. These challenges can be particularly acute when seeking to hire the highest-demand professionals in the regions where ultra high net worth families tend to cluster. To avoid potentially disruptive missteps and unintended liabilities, it is important to establish disciplined processes for screening and hiring, training and performance evaluation, compensation, documentation and conflict resolution.

1 Determine Appropriate Staffing Levels

Your first, and most important, decision is choosing who will be responsible for screening, hiring, directing and providing proper documentation for your staff. Will that be a family member, a household manager or an outsourced solution? If you decide to hire a household manager, Anita Rogers, President of British American Household Staffing, suggests that you look for someone who is willing to pitch in wherever and whenever needed, as it sets the right tone. With that person in place, the next step is to delineate the tasks you need accomplished and determine the skill sets and number of hours that will be required for each.

2 Clearly Delineate Responsibilities

Write household manuals and formal job descriptions for all household positions. This helps you and/or your staffing agency identify the right people and provides a clear set of expectations for those you hire. As a corollary, be selective in making requests of employees that fall outside of their job descriptions, as excessive requests can breed resentment.

3 Screen Candidates Thoroughly

In reviewing resumes, seek skilled candidates with records of sustained employment in a household environment. Be wary of those who have switched positions frequently, or have only worked in a corporate setting. Also make sure that candidates live within a reasonable commuting distance from your home.

4 Conduct In-Depth Interviews

In your initial interview, seek to verify information and gain a better understanding of whether a candidate is a good cultural fit for your household. Hold all screening interviews at a neutral location, rather than your home, and divulge as little personal information as possible. Many household positions require very specific skill sets that are not transferable from one job to the next, so be sure to ask very specific questions about their experience and skill sets.

5 Verify References and Qualifications

Check references for the preceding ten years of employment before extending an offer. You should also confirm that they have the licenses and other formal credentials they claim to possess. Always ask to see a current green card or American passport to ensure that a potential hire is legally eligible to work in the U.S. You should also consider contracting a firm to conduct formal background investigations on finalist candidates.

6 Train and Retrain

Review the relevant written job description with each newly hired staff member to ensure that they understand their duties, and encourage them to ask questions. In addition to the site-specific instruction, consider more formal training. (Physical and online classes are offered in everything from housekeeping to child care to household management.) Strongly consider enrolling all employees in CPR and first-aid classes.

7 Determine Legal Employment Status

Continuously employed domestic staff members who are paid on a regular basis are considered employees rather than contractors. As such, you can set their hours, direct how jobs are done and provide the tools and materials to do their work. You are responsible for the employer portions of their Social Security and Medicare payments, and may be required to withhold federal, state and local taxes. You are also required to ▶

pay overtime to all "nonexempt" employees, a cohort that generally includes all hourly employees and all salaried employees who earn less than $35,308 per year.[16]

8 Document Hours Meticulously

Establish a simple and transparent process to properly document the hours worked by nonexempt employees, and be sure to maintain well-organized records in case a grievance is filed. The Department of Labor offers a free mobile app, DOL Timesheet, that enables employees to track and document hours. Private timesheet apps are also available for all major mobile platforms.

9 Provide Proper Insurance Coverage

Providing worker's compensation and disability insurance is mandatory in certain states, and is a prudent risk management practice in all. As settlement of claims arising from employment practices are typically not fully covered under homeowners and umbrella insurance policies, consider adding employment practices liability insurance (EPLI) coverage.

10 Handle Terminations Professionally

When terminating an employee, be clear, direct and fair. Briefly delineate the reasons for dismissal and the terms of severance pay, and consider asking him or her to sign an exit-interview form. Make sure that you have documented any complaints, accidents or pending claims in advance of giving termination notice. Do not terminate live-in employees in their rooms and always have a third person present. Collect all keys and credit cards and immediately change any relevant security or access codes.

Your first, and most important, decision is choosing who will be responsible for screening, hiring, directing and providing proper documentation for your staff.

[16] Available at: https://www.laboremploymentlawblog.com/2019/03/articles/fair-labor-standards-act-flsa/usdol-minimum-salary-threshold-exemption/.

Health Care Risk Management

While medical care rarely falls within a family office's purview, a serious or complex medical condition striking a family member impacts the entire family and family office. Nothing else matters. A family office should therefore proactively establish relationships with professionals in the medical advisory and advocacy space to provide benefits to the family to help them achieve their desired health-related outcomes — benefits that go above and beyond the standardized and status quo health care experience.

1 Identification of the Most Qualified Specialists for Any Medical Diagnosis

Most Americans will receive at least one inaccurate or delayed medical diagnosis in their lifetimes, many with devastating consequences. The benefit to the family is they get the right answers the first time, saving them time and reducing stress.

2 Access to Leading Experts for Second Opinions

Families need help getting in front of top expertise quickly, and they need an experienced professional to handle all the logistics. The benefit to family is it helps to eliminate the guesswork, because the professional knows where all the system's hidden landmines are and how to navigate around them. This enables the family to maintain a sense of control.

PinnacleCare's CEO, Dr. Miles Varn, explains, "Medicine is as much an art as it is a science. Physician opinions are a product of experience, training, interpretation of data and human judgment. As such, two different opinions might be equally valid, but one might be a better pathway for a specific, individual patient. Gathering intelligence and opinions from different experts arms the patient to make an informed and personalized decision for their care."

3 Help Navigating an Emotional and Fearful Situation

Critical medical events leave families feeling out of control and helpless. Having a professional to navigate these situations provides the benefit that they are not alone. Someone is looking out for them and has their back.

4 Delicate Navigation Around Existing VIP Hospital Relationships

Many families have VIP relationships with a local, home-based hospital or with one or two Centers of Excellence, and these institutions want to take excellent care of them because they are dependent on their financial generosity. However, it is important for the family office to protect the family's greatest asset—their health. Thus, having a professional to confidentially and delicately access other institutions benefits the family by preventing negative effects on their existing relationships, yet still providing them the quality of care and outcomes that are directly correlated with the experience and expertise of the treating physician.

5 Collection of Medical Records and Creation of an Up-to-Date Health History

The family's medical risk increases when they do not have quick access to their medical records. Having an organized health history speeds up the diagnosis and treatment process, as well as prevents unnecessary diagnostic testing. This ultimately can help to provide the desired outcome of a lower chance of experiencing medical error.

> "Medicine is as much an art as it is a science."
>
> Dr. Miles Varn
> CEO PINNACLECARE

6 Access to Objective Medical Intelligence

The status quo approach to gathering medical information is to search the internet and try to decipher medical reports by a nontrained family member. The internet is a confusing resource for someone facing a complex diagnosis, filled with subjective and out-of-date information. It's important to have current and reliable information about the potential risks and benefits of treatment options. Having a professional perform medical research provides objective intelligence and prevents the patient and their family from believing or being emotionally driven by inaccurate information, empowering the patient with actionable information.

7 Making Travel Contingency and Risk-Management Plans

Travel, especially international travel, may not only expose you to new viruses and pathogens, but it also raises questions about how you will be treated if you are injured, fall ill or require access to medications. It can be difficult to assess which physicians and hospitals provide the highest-quality care, and how to gain access to them. This may increase the chances of receiving inappropriate or substandard treatment.

Family offices should work with professionals to create pretravel plans to identify and vet the most qualified physicians and hospitals at each destination, and ensure all medical records are immediately available 24/7 to fax pertinent information to treating physicians in the event of an emergency. The benefit to the family and family office is it lowers the anxiety, stress and chaos surrounding this type of crisis, helping to lower the risk of inappropriate care in an emergency.

8 Providing Medical Travel Insurance Coverage

To manage financial risk in the event of a medical emergency away from home, a family office should ensure appropriate predeparture preventative measures are in place. Travel protection should include, but should not be limited to, medical travel insurance to guarantee payment for care and medical evacuation coverage that does not preclude preexisting conditions.

9 Securing Proper Health Insurance/ Medicare Coverage

Family offices should make note of when family members are reaching important insurance junctures. For example, if the family is selling a business, is COBRA an option or do they need to select private health insurance? If a family member is retiring after the age of 65, will they need help making Medicare decisions within their strict enrollment deadlines? The benefit to addressing these junctures for the family in advance is it helps avoid the confusion and stress of facing a new insurance landscape, ultimately avoiding the financial risk of family members facing a lapse if they miss critical deadlines.

10 Advocating and Resolving Medical Billing and Claims Errors

Billing and coding errors happen all the time, and the onus to resolve an error falls solely on the patient. Insurance denials also happen regularly, and trying to solve these issues or advocate to overturn a decision is often a time-consuming and daunting task. Families may also be inclined to seek medical expertise and options that fall outside their insurance network or coverage. They want to seek the latest advancements, and insurance may not yet recognize and cover that care. Working with an objective insurance advocate saves the family and family office time and stress, helping to solve their problems, resolve issues and potentially save money.

Personal Safety

Affluent families, particularly those with a high public profile, can face a unique set of security issues. In working toward a more secure lifestyle, it is important to maintain a sense of balance between personal safety and peace of mind. Risks can be greatly mitigated by taking reasonable precautions and getting appropriate help when you need it.

Consider these simple, security-enhancing adjustments that provide a true, reality-based sense of security:

1 Make Your Family the Harder Target

It is virtually impossible to become immune to every conceivable threat 100% of the time. It's relatively simple to be less vulnerable than other potential victims. Criminals look for easy targets. Even basic measures that create the appearance of safety — like closed windows and locked doors — can serve as an important deterrent.

2 Conduct a Security Assessment

According to Andrew O'Connell, president of the international security company Guidepost Solutions, "Affluent people are more likely to be overconfident about their family's security than they are to be overly concerned." He recommends that all ultra high net worth clients consider a professional security assessment to identify areas of vulnerability.

3 Screen and Verify Household Staff and Service Providers

Conduct a full, professional background check on potential household staff members, including a check on their spouses and partners. This should be completed before extending a job offer, and updated annually. Use equal caution when contracting service providers. Check references to ensure that the provider is reputable, and ask them to explain their procedures for screening their employees and subcontractors.

4 Limit Access to Those Who Need It

Only give keys and passcodes to those employees who need them for their jobs. Be sure keys are returned, and change codes when an employee leaves. Also, be careful about leaving sensitive corporate or personal documents where they can be seen by staff, vendors or visitors. Fully 84% of those arrested for home invasions had been in the home before they committed their crimes.[17]

5 Use Security Systems Properly

Make certain that all members of the family understand how to use your home security system and that it is programmed properly. Use a system that has video recording capabilities in addition to alarms so you will have a record of perpetrators. Systems should have backup power systems to remain operational in case of an extended loss of power. Also be sure that the alarm system extends to the garage, where your family is first exposed to a threat upon returning home.

6 Pay Attention to Doors and Windows

Inspect your home for door and window locks that are broken or easily bypassed, particularly on side, back and basement doors, which tend to be less substantial than front entrances. Installing proper security lighting is also a wise precaution.

7 Understand the Neighborhood Context

Affluent families tend to live near other powerful and influential people, many of whom are targets for all manner of serious crime. It's important to understand the threat levels of neighboring residences and how that may impact the security needs of your home.

8 Exercise Caution on Campus

College students should be made aware of basic safety practices, such as locking their dorm rooms, securing their valuables and trusting their instincts when a situation seems dangerous. They should make sure that a friend knows where they are going before they head out, and that emergency numbers are stored in their phones. If you have a student in a study-abroad program, insist that the organizers show you the due diligence on their host family. For additional security tips relating to international travel, see the Safely Traveling Abroad section.

9 Trust Your Instincts

The self-preservation instinct tends to make most of us uncomfortable when something doesn't feel right. If something raises a question, don't ignore it. A van parked a little too long in front of your house may be testing your security system. A suspicious incident could be a warning sign.

10 Have an Emergency Plan in Place

Every member of every family should have a clear understanding of what to do in case of a fire, natural disaster, intruder or medical emergency. You should all be trained to implement that plan when needed. An essential part of the plan is to know whom to call in an emergency. If you don't have a competent security firm on speed dial, ask your Private Wealth Advisor for a recommendation.

> Criminals look for easy targets. Even basic measures that create the appearance of safety can serve as an important deterrent.

[17] Security expert, Dr. Paul Viollis, speaking at the Morgan Stanley Private Wealth Management Next-Gen conference.

Safely Traveling Abroad

While it always make sense to exercise additional caution when venturing away from home, additional issues come into play when traveling abroad. It is important to understand any specific security concerns in the areas you will be visiting, take appropriate precautions, and know what to do if a situation should arise.

1 Research Potential Security Concerns

Before leaving the country, be sure that you are aware of any evolving security concerns in the country or countries you are visiting. Review the relevant country pages on the U.S. State Department website for any travel advisories and/or alerts. This information can be found at travel.state.gov/destination.

2 Review Local Laws and Conditions

Become familiar with the entry and exit requirements for the areas that you will be visiting, and any local laws and customs that might pose a concern. For example, single-sex couples should understand the risks associated with traveling to a country where their relationship is considered a crime. You should also be aware of risks posed by health conditions, transportation safety and other concerns.

3 Check Your Documents

Well before your travel date, confirm that your passport is signed and up to date, and that you have any necessary visas. Be sure to complete the emergency information page of your passport.

4 Register Your Itinerary

Consider registering your itinerary with the U.S. Department of State's Smart Traveler Enrollment Program (STEP). This registration informs the relevant U.S. embassies and consulates of your whereabouts, enabling them to send you any emergency Consular Affairs messages. In a crisis, the nearest office of American Citizens Services may even contact you to assess your status, location and need for assistance.

5 Load Emergency Contacts Into Your Phone

Record the 24-hour emergency number and address of your embassy or consulate in your mobile phone for the country or countries you are visiting. You should also know the number to contact emergency services in those countries (911 in the U.S., usually 112 or 999 in Europe).

6 Make Backup Copies of Key Documents

Photocopy your airline ticket, passport identification page, credit cards and take two additional passport photographs. Keep copies with you at all times in a separate place from the originals. Maintain copies of the documents at home.

7 Leave Contact Information With a Friend or Relative

Make sure that someone at home has a full itinerary of your trip, including all hotel names and phone numbers, so you can be contacted in case of emergency. If you are using a separate mobile phone for your travels (generally a good idea), make sure that your key contacts at home have the number.

8 Review Medical Coverage

Review your health insurance provider's international coverage to understand what exposure you will have if you require medical care. This will help you determine if you need supplemental coverage for international travel, possibly including a medical evacuation policy. Bring an ample supply of prescription medication and the generic name of any prescription drug in your carry-on luggage.

9 Notify Credit Card Companies and Others

Though not strictly required, notification alerts reduce the possibility that the companies will suspend your cards for what may appear as suspicious activity. It also makes sense to ask your financial advisor, executive assistant and others to use extra caution if they receive an email asking that money be wired to you. It might be from someone who has hijacked your identity, so set up a secondary method of verification.

10 Avoid the Appearance of Affluence

You will make yourself less of a target if you avoid wearing conspicuously expensive clothing and jewelry. Do not carry higher amounts of currency than you will need on a given outing, and limit the number of credit cards in your wallet. Use your hotel safe to store valuable objects whenever you are not in your room.

Private Aviation

Beyond enhanced comfort and convenience, private aviation can produce efficiencies that are best measured by the optimal use of time rather than the lowest net cost. These benefits tend to quickly accrue in family offices and businesses that are dispersed geographically, particularly if some of these locations are far from major population centers.

THERE ARE ADVANTAGES and disadvantages associated with every method of securing a private aircraft, and determining the right fit requires a number of important considerations. Jerry Garner, Senior Lifestyle Advisory Specialist at Morgan Stanley Family Office Resources, suggests, "A good place to begin that process is by determining the number of hours you expect to fly each year." If you need access to a private aircraft:

Flexibility of pay as you go, consider a **membership plan**

Fewer than 25 hours a year, consider **chartering**

About 25 to about 50 hours a year, consider **jet cards**

About 50 to about 300 hours a year, consider **fractional ownership** or **leases**

300 hours a year or more, consider **full ownership**

1 Charter Advantages and Disadvantages

Chartering gives you the flexibility to choose an appropriate aircraft for the number of passengers and distance you are traveling on each flight, without making any further commitments. The cost and availability of aircraft can be highly variable, and the condition of the plane may also vary considerably among providers.

2 Charter Considerations

You should understand whether the charterer manages their aircraft, or are just brokering hours, and ask how long a charter firm has been in business. You want to be certain that the charter company is reputable, financially stable and operates safe aircraft with experienced crews. Ask for a guaranteed quote in writing, but understand that you might be exposed to additional fees for deicing, in-flight phone use and other considerations.

3 Membership Plan Advantages and Disadvantages

Membership-based programs require relatively low outlays of initial capital. These "pay as you fly" plans require an initial membership fee, plus a per-flight-hour-cost that is typically lower than charter rates. Most plans allow members to seamlessly move up or down on the size of the aircraft to fit their mission. A minimum deposit is usually required to lock in the lower rate on hourly occupied flight hours.

4 Membership Plan Considerations

Membership-based programs often have peak dates when a longer lead time is required to reserve an aircraft. Typically, an initial minimum deposit of $100,000 is required to secure the lower occupied rate hours. Annual membership fees are also charged but are lowered after the first year.

5 Jet Card Advantages and Disadvantages

Jet card programs do not require a large capital commitment upfront, and quality providers typically allow you to split your hours between two, or more, types of aircraft. The hourly cost, however, is typically higher than fractional or full ownership. As you don't have access to a specific aircraft, you cannot configure the cabin interior or choose your own staff.

6 Jet Card Considerations

Determine whether you can pay as you go, rather than paying in full upfront. If not, will your funds be held in escrow? Understand when your hours expire and whether you can roll unused hours into a fractional plan if you choose to upgrade. Also make certain that the company is financially sound and has a proven safety and performance record.

7 Fractional Ownership and Leasing Advantages and Disadvantages

Fractional ownership provides availability to a specific aircraft, often with short notice, depending on the type of aircraft and fraction owned. The hourly costs are typically lower than charter or jet cards. These savings are offset by higher initial costs, and you assume responsibility for ongoing management and maintenance costs.

Leasing also provides guaranteed access to a specific aircraft, but with no initial capital outlay (though you will have to leave a sizeable security deposit in escrow). With the lease of a full aircraft, you are free to choose your own staff and customize the cabin interior. The downside is that you are also responsible for staffing and maintenance, or hiring a management company to do it for you. You have higher fixed costs, and it can be very costly to end your lease early.

8 Fractional Ownership and Leasing Considerations

Fractional ownership: Determine whether the ownership plan offers guaranteed repurchase of your shares, and whether there are any repurchase options offered after a minimum ownership or at the end of the contract. Ask if there are any short-leg fee waivers and/or ferry-fee waivers. Also be sure to understand the liability provisions and ask for proof of financial soundness and safe performance.

Leasing: Given that you are gaining access to a single aircraft, be sure that it meets all of your travel requirements, and that you are confident it will serve your purposes for the full duration of the lease (typically seven to 10 years). Ask whether you will be able to use the tax depreciation on the aircraft.

9 Full Ownership Advantages and Disadvantages

In addition to pride of ownership, you have guaranteed access to a specific aircraft, which you can customize and staff to your liking. Full ownership is often the lower-cost solution for high-frequency fliers over the long term. Of course, purchasing an aircraft requires a large initial capital outlay and significant ongoing costs for maintenance, staff, hangaring, fuel, etc.

10 Full Ownership Considerations

Full ownership tends to be most efficient for those who fly in excess of 300 hours a year, and have relatively consistent requirements for a given size and type of aircraft. Once owners commit to the initial and fixed costs, utilization tends to increase, so assess whether personal and business goals would be served by full access. Be sure to factor into your cost analysis any tax benefits deriving from depreciation of the aircraft.

APPENDIX

SAMPLE FAMILY MISSION STATEMENT

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 of a 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, and others some day 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.

SAMPLE—FOR ILLUSTRATIVE PURPOSES ONLY

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 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 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 identity, 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.

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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 is 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;
- 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 ______________, ______________.

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APPENDIX

SAMPLE INVESTMENT POLICY STATEMENT

Sample Investment Policy Statement

Sample Client LLC

CLIENT ENTITY NAME ("CLIENT")

I. Statement of Purpose

The purpose of this Investment Policy Statement (IPS) is to establish an understanding between the investor (Investor) and the Financial Advisor (Advisor) as to the asset allocation that will govern the Investor's assets invested in Morgan Stanley accounts and/or the Investor's assets invested in accounts outside of Morgan Stanley (hereinafter "Portfolio"). This IPS has been created specifically for the Client and should be reviewed periodically to ensure that its goals and objectives have not changed in such a fashion to alter its investment approach.

II. Assignment of Responsibilities

Investor

The Investor is responsible for approving the terms of this IPS, including the proposed asset allocation, which appears below, and for confirming that the proposed asset allocation is consistent with their investment goals, risk tolerance, financial situation and needs. In addition, if the Investor intends for this IPS to apply to a Portfolio that includes assets invested in accounts outside of Morgan Stanley, then the Investor must notify the Advisor and the Investor must cause the Advisor and Morgan Stanley to receive ongoing access to such outside accounts. The Investor's failure to provide access to outside accounts shall relieve the Advisor and Morgan Stanley of all obligations in this IPS. Finally, the Investor is responsible for adhering to the income withdrawal requirements specified in the IPS.

Advisor

For nondiscretionary accounts serviced by the Advisor, the Advisor is responsible for recommending investments consistent with the terms of this IPS.

Manager

For accounts in which the Investor grants the Advisor or a third-party investment manager discretionary authority, the Advisor or investment manager shall have the authority to make investment decisions for such accounts in a manner consistent with the terms of this IPS.

III. Legal Entity

This client is a Limited Liability Company.

IV. Investment Objectives

The primary objective for this Portfolio is capital appreciation.

The investment objective of the Portfolio is to seek capital appreciation with moderate to high risk to principal, over a rolling [insert time period]. The Investor is aware that in order to achieve long-term growth, there may be periods of economic uncertainty or dislocation during which performance may lag the comparable market indices.

While the Investor has selected a primary investment objective for the Portfolio, the Investor acknowledges and accepts that certain individual accounts maintained by the Investor may have stated investment objectives different than the Portfolio's primary objective.

V. Risk Tolerance

The risk tolerance for this Portfolio is aggressive.

The Investor seeks an aggressive but prudent approach to investing the portfolio. The Investor emphasizes return on investment over principal preservation. They are willing to subject a greater portion of their principal to risk in anticipation of a greater return on investment. The Investor is comfortable with fluctuations in the Portfolio, and the possibility of declines in value, in order to seek growth of the Portfolio over time.

While the Investor has selected a risk tolerance for the Portfolio, the Investor acknowledges and accepts that certain individual accounts maintained by the Investor may have a stated risk tolerance that is different than the Portfolio's overall risk tolerance and that investments in these accounts may carry more risk than the overall Portfolio risk tolerance.

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VI. Investment Time Horizon

The Portfolio has an investment time horizon of 6-10 years.

While the Investor has selected an investment time horizon for the Portfolio, the Investor acknowledges and accepts that certain individual accounts maintained by the Investor may have a stated investment time horizon that is different than the Portfolio's primary investment time horizon.

VII. Taxes

This is a taxable account domiciled in the state of New York.

VIII. Liquidity Needs

The Investor's liquidity need for their Portfolio is 6-10 years.

The Investor will notify the Advisor if the Investor has an income withdrawal requirement. In addition, the Investor will notify the Advisor of any changes to the requirement in a timely manner to allow sufficient time to build up necessary liquid cash reserves. The adherence to this spending policy is the responsibility of the Investor.

The investor has an income withdrawal requirement of 2% annually.

IX. Asset Allocation Policy Portfolio

The Portfolio's asset allocation has the flexibility to vary around the long-term strategic asset allocation within the asset allocation ranges outlined in this Investment Policy Statement. The following are asset allocation ranges relative to the target strategic asset allocation [insert percentages for portfolio]:

ASSET CLASS*	MINIMUM WEIGHT	TARGET WEIGHT	MAXIMUM WEIGHT
Cash			
Equities			
Fixed Income			
Alternatives			

*Permissible investments may include U.S. and non-U.S. investments.

X. Restrictions

The investor wishes to impose the following restrictions on the investments in the Portfolio:

Investment grade fixed income only (Baa3/BBB- rating or better).

No KO (Coca Cola).

No PEP (Pepsi).

Morgan Stanley will review the foregoing restrictions, if any, to assess whether it can effectively monitor them. Morgan Stanley reserves the right to refuse to service Investor's accounts at Morgan Stanley if it determines that it cannot effectively monitor the foregoing restrictions.

XI. Portfolio Review and Evaluation

Investment Managers selected from Morgan Stanley's Global Investment Manager Analysis' (GIMA) platform of approved Investment Managers shall be reviewed regularly consistent with GIMA guidelines. Communications regarding such Managers will be sent pursuant to any applicable terms of the investment program or investment advisory agreement selected. Nonaffiliated, or external, assets included for monitoring purposes per the client's request are not subject to review and evaluation.

XII. Investment Policy Statement Review and Notification of Changed Circumstances

To ensure continued relevance of the guidelines and objectives established in this IPS, the Investor will review this IPS periodically and will inform the Advisor of any material change to their investment objectives, risk tolerance, liquidity needs or other matters that might impact the terms of this IPS.

XIII. Conflict of Interest

As a Registered Investment Advisor, Morgan Stanley addresses conflicts of interest in an appropriate manner, whether by avoidance or disclosure, as set forth in the applicable Form ADV, for any applicable investment advisory program selected by the client. The applicable Form ADV will be supplied to the client in the ordinary course at the inception of the selected investment advisory program.

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XIV. Adoption of Investment Policy Statement

The Investor has reviewed, approved and adopted this Investment Policy Statement.

CLIENT NAME	SIGNATURE	DATE
CLIENT NAME	SIGNATURE	DATE
CLIENT NAME	SIGNATURE	DATE
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CLIENT NAME	SIGNATURE	DATE

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Acknowledgements

This guide compiles the advice and insights of experienced professionals across the Morgan Stanley Family Office Resources team, and among many of the firms that participate in our Signature Access Lifestyle Advisory and Concierge Services program.

Morgan Stanley Wealth Management Investment Resources

Morgan Stanley Investment Solutions

Morgan Stanley Wealth Management Cybersecurity

Morgan Stanley Family Office Resources

- Family Governance & Wealth Education
- Estate Planning
- Trust Services
- Philanthropy Management
- Single Family Office Advisory
- Art Resources

Signature Access

- Aviation Portfolio
- Botoff Consulting
- British American Household Staffing
- Guidepost Solutions
- My Accountant, Inc.
- Pinnacle Healthcare Advisors
- PKF O'Connor Davies
- Spencer Stuart

Additional Resources

- Addepar

For more information,
please contact your Morgan Stanley Private Wealth Advisor, or visit www.morganstanley.com/what-we-do/wealth-management/private-wealth-management.

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Alternative investments often are speculative and include a high degree of risk. Investors could lose all or a substantial amount of their investment. Alternative investments are appropriate only for eligible, long-term investors who are willing to forgo liquidity and put capital at risk for an indefinite period of time. They may be highly illiquid and can engage in leverage and other speculative practices that may increase the volatility and risk of loss. Alternative Investments typically have higher fees than traditional investments. Investors should carefully review and consider potential risks before investing.

Life insurance, disability income insurance and long-term care insurance are offered through Morgan Stanley's licensed insurance agency affiliates. Not all products and services discussed are available at Morgan Stanley.

The Morgan Stanley Global Impact Funding Trust, Inc. ("MS GIFT, Inc.") is an organization described in Section 501(c) (3) of the Internal Revenue Code of 1986, as amended. MS Global Impact Funding Trust ("MS GIFT") is a donor-advised fund. Morgan Stanley provides investment management and administrative services to MS GIFT.

While we believe that MS GIFT provides a valuable philanthropic opportunity, contributions to MS GIFT are not appropriate for everyone. Other forms of charitable giving may be more appropriate depending on a donor's specific situation. Of critical importance to any person considering making a donation to MS GIFT is the fact that any such donation is an irrevocable contribution. Although donors will have certain rights to make recommendations to MS GIFT as described in the Donor Circular & Disclosure Statement, contributions become the legal property of MS GIFT when donated.

The Donor Circular & Disclosure Statement describes the risks, fees and expenses associated with establishing and maintaining an MS GIFT account. Read it carefully before contributing.

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