

PHILANTHROPY & THE FAMILY OFFICE

Prepared By :
Gena Rotstein





"Wealth is an amplifier of all things. If not properly cultivated, the very resources intended to perpetuate a family's legacy can be its undoing."

*Dirk Junge, Chairman, Pitcairn Company,
The Top 50 Questions Wealthy Families Ask*

Family philanthropy is more than just giving back; it is a way for families to make a positive impact on society and instill important values in future generations. This document explores how family philanthropy fits into the Family Office structure and dive into best practices for integrating charitable giving into your family's financial planning.

What is Wealth?

For individuals or families who have created considerable wealth through business operations or investments, there comes a point in time when the wealth objectives shift from growing wealth to sustaining it beyond the immediate generation and individual gratification.

Your wealth, and how you approach it, is one of the ways that outwardly expresses who you are. From what you choose to buy, where you choose to live, how you choose to travel, all the way through to the types of charities you publicly support makes a statement of who you are.

But your wealth is not just about money.

Given how much we attribute to this tangible asset (money), it isn't what makes you... well... you. Rather, what makes you, you, are the intangibles; the values you espouse and relationships you carry over your lifetime.

So how do individuals and families of significant means balance the outward presentation with the inward manifestation of wealth?

This is where the Family Office comes in.

Family Offices are designed to manage the financial affairs of wealthy families. As Family Offices evolve, incorporating charitable giving and social impact considerations into the overall management and operations structure of the Family Office is becoming increasingly common.

In 2019 the number of Billionaires grew by 8.5% (2.2% in Canada). A reflection of this growth are the number of Family Offices that have been established. The 2020 Global Family Office Report by UBS, a survey of Family Office respondents across 35 countries, found that 69% were established over the past 20 years. While the concept isn't new (the first family office is attributed to Rockefeller), worldwide wealth is increasing resulting in new models of Family Office structures.

"[A Family Office] is a unique family enterprise offshoot created to provide tailored wealth management solutions in an integrated fashion while promoting and preserving the identity and values of the family."

Kirby Rosplock, The Top 50 Questions Wealthy People Ask

What is a Family Office? How do they Operate?

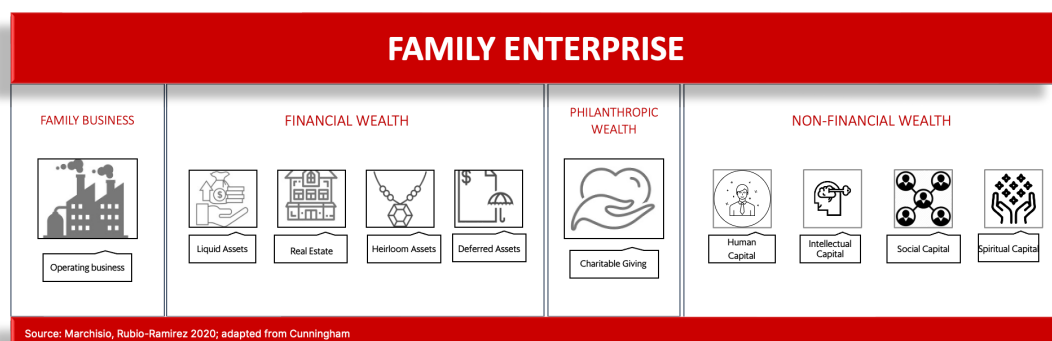
There are no standard set of services offered by a Family Office. It is typically established to centralize and manage the financial affairs and investments of a wealthy family. The needs of the individual or family determine the services provided within a Family Office context. The primary objective of a Family Office is to preserve and grow the family's wealth over multiple generations by providing a wide range of services tailored to the specific needs and goals of the family it serves.

In some cases, a single family will formalize a Family Office with the function to only support the needs of that one family. The mandate of the Family Office might be to help with succession planning and this will morph into other areas thereby melding the tangible with the intangible assets. Alternatively, it might be established to solely manage the tangible assets and operations of the family, and not provide supports for those intangible aspects influencing a family culture or dynamic.

Multi-Family Offices are designed to spread the costs associated with running a Family Office across several family clients. The services offered are just as varied for the multi-family model as for the single family model and those services are dictated by the needs of the clients as a collective.

As Jay Hughes describes in his book, *Family Wealth: Keeping it in the Family*, there are four types of wealth - Human, Intellectual, Social/Spiritual and Financial. In our experience, those who have an operating company have a fifth asset - the Enterprise. These assets combined create the wealth of the family. The Family Office handles various aspects of wealth management including: investment management, financial planning, tax planning, estate planning, philanthropy, and often also offer concierge services.

Family Offices aim to provide comprehensive, personalized, and highly confidential services to meet the unique requirements of wealthy families. They do this by building the infrastructure to support managing family capital: organize and simplify the day to day operations of family businesses (operating companies with investments), provide family governance and continuity planning; develop policies and procedures, and provide oversight to manage risks - privacy, security, and family brand(s); and most importantly transmitting the shared values and family history. In essence, The Family Office provides multi-generational cohesiveness to all the different facets of a family's interactions with each other.



Source: Marchisio, Rubio-Ramirez 2020; adapted from Cunningham

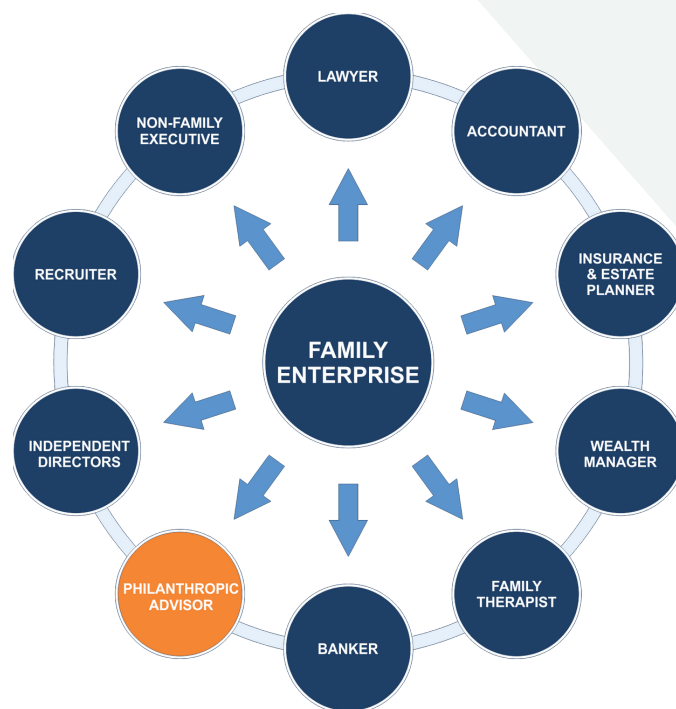
Source: Family Enterprise Canada, the FEA Program

Where does Philanthropy Sit in a Family Office?

It is important to recognize that philanthropy can be a powerful tool for achieving family goals. By engaging in charitable activities together, families can build stronger bonds, promote shared values, and work towards common goals. Additionally, philanthropy can help families establish a legacy, both within their own community and beyond.

The Philanthropy Advisor sits alongside the other advisors within the Family Office. In some cases, they may be the lead connector (quarterback) and in other cases they may be brought in for specific activities around the charitable activities of the family. Regardless of how the philanthropy advisor engages with the family, coordinating the conversations of wealth and legacy are a cornerstone of their activities.

To integrate philanthropy into the Family Office, it's important to establish clear goals and objectives. This means defining what issues or causes the family cares about, and how they hope to make a difference. It's also important to establish a governance structure that ensures all family members have a say in philanthropic decisions, and that conflicts are resolved in a fair and transparent manner.



THE GOLDEN CIRCLE MODEL



Simon Sinek, author of "Start with Why," talks about the Golden Circles.

Your "Why" is the root of your social vision. "How" are the activities you and your family will undertake to achieve your "Why" and the "What" is the corporate structure that provides the guide-rails for your activities (i.e. a foundation, charitable Trust, or Donor Advised Fund).

Once you have figured out the "Why" behind your giving, you can start to think about the "How." Considering what you want your charitable activities to achieve will determine the types human and financial resources (we call this the 4 T's - Time, Talent, Treasures and Ties) you will need to allocate to reach those philanthropic goals.

The philanthropic arm of the Family Office can help you articulate your "Why" and provide the tools and resources around the "How" and the corporate structure to execute on the "What."

Family Office & Philanthropy Considerations

Bringing together a group of advisors to support your wealth strategies can provide peace of mind, it also requires some operational infrastructure. Here are a few things to consider as part of your Family Office operations:

1. FAMILY TIME HORIZON

Because Family Offices are created for multiple generations it is important to understand where you and your other family members are in their business and personal life cycles. This time horizon will influence the types of services and supports you may want to have within your Family Office.

2. GOVERNANCE

Establishing a governance structure is critical to the success of any Family Office. This involves creating a clear organizational structure and defining the roles and responsibilities of each member of the family and any outside advisors.

3. INVESTMENT STRATEGY

Developing a comprehensive investment strategy is another crucial component to starting a Family Office. This includes determining investment goals, risk tolerance, and asset allocation, as well as selecting investment managers and monitoring performance. For some families, included in this Investment Strategy, are the Social Impact Investment metrics.

4. TAX PLANNING

Proper tax planning is essential to maximizing returns and minimizing liabilities. This involves working with tax professionals to develop strategies for minimizing taxes, such as estate planning and tax-efficient investment vehicles.

5. PHILANTHROPY PLAN

Connecting your investment strategy with your charitable giving objectives allows for better overall legacy planning. A key purpose of the Family Office is to provide inter-generational wealth management, so ensuring that the family philanthropy is adaptable to the needs of the community and culture of the inheriting generation while still maintaining the ethos of the founders is critical.

6. RISK MANAGEMENT

Managing risk is a key component of any investment strategy and Family Office operations. This involves developing a risk management plan that includes measures for identifying, assessing, and mitigating potential risks not only within the investment strategy but also around the family brand and public legacy.

7. REPORTING & COMMUNICATION

Effective reporting and communication is critical to ensuring that all stakeholders are informed and engaged. This involves developing clear reporting protocols and regular communication channels to keep all family members and advisors up-to-date on investment performance and other important information.

Establishing a Family Office can be a complex process, but with the right components in place, it can be a powerful tool for managing and growing family wealth as well as building a legacy over the long term. Integrating philanthropy into the Family Office can provide a range of benefits, from promoting stronger family bonds to leaving a positive legacy. By following best practices and working with a team of advisors, families can ensure that their philanthropic efforts are aligned with their values and financial goals.

Resources & Tools

We have provided some resources and tools to help you along your philanthropic journey:

[LEGACY QUESTIONS TO GUIDE YOUR PLANNING](#)

[LEARN MORE ABOUT THE 4 T'S OF PHILANTHROPY HERE](#)

Sources

McCullough and Whitaker, *Wealth of Wisdom: [The Top 50 Questions Wealthy Families Ask](#)*, 2019

Collier, *[Wealth in Families](#)*, 2nd Ed., 2008

National Centre for Family Philanthropy, *[Splendid Legacy: Creating and Recreating Your Family Foundation](#)*, 2017

Hughes, et al, *[Complete Family Wealth, 2nd Ed.](#)*, 2022



www.karmaandcents.com
info@karmaandcents.com