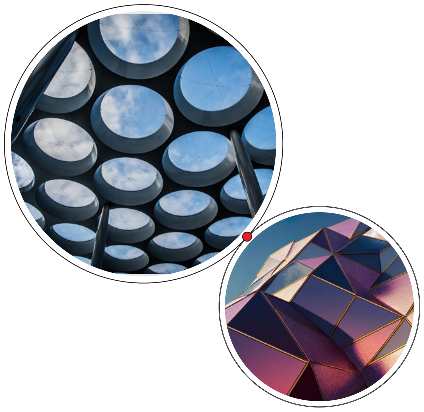
UBS Family Office Quarterly

A Family Office Solutions publication

Second Quarter 2025



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Introduction

We are pleased to share the second edition of the Family Office Quarterly for 2025. This edition offers you a range of topics across the many aspects of managing a family office—all designed to support your success and help evolve the industry.

We first take a look at some of the key areas most affected by President Trump's policies out of the gate, cutting through the noise to assess impacts on growth and inflation, as well as underlying themes such as artificial intelligence and electrification.

Next, we explore the sports investment market, widely recognized as one of the most attractive investment opportunities today. With the rise in valuations and increased interest, Alex Steinberg of DLA Piper outlines the basic protections that a minority investor should consider. This edition also features a panel of leading family offices, consultants and advisors who weigh in on the question of how family offices should structure their cash holdings to maximize efficiency.

On the operational front, Heather George, a senior strategist with UBS Family Advisory and Philanthropy Services, provides a roadmap for family meetings. While families often meet for financial matters, this road map can guide you in creating effective family meetings that address wealth holistically and cover intangible matters such as values, wishes, concerns and even conflicts. Continuing his exploration of family office evolution, Mark Tepsich of UBS Family Office Solutions provides a guide to the new, more robust services now available to family offices by virtue of the convergence of family offices and the industry as we enter the era of Family Office 3.0.

Our human capital section features insights from Neil Kreuzberger of Kreuzberg Associates, who discusses factors driving a strong demand for experienced family office leaders. He illuminates how experienced leaders can take advantage of this opportunity to re-invent later stages of their careers. And last but not least, Brittany Menke of UBS Family Office Solutions explores the private aviation industry in a conversation with Craig Ross of Aviation Portfolio, LLC. They identify trends and important considerations for those looking to fly private, including when ownership makes sense.

So lots to dive into that we trust you'll find meaningful. As always, we'd love to hear about what's top of mind for you as we continue to advance the industry together.

Judy Spalthoff
Head, Family Office Solutions

John Mathews
Head, Private Wealth
Management Americas

Investment outlook

Part of the deal

CIO's outlook on Trump's policies

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All US presidents start their terms by making bold promises for dramatic change. Yet this time, the volume, breadth and speed of executive action, as well as the unorthodoxy of some of the proposed policies, are causing unusual levels of uncertainty. Here we take a look at part of the deal: key areas most affected by President Trump's policies out of the gate.

Against the backdrop of this term's beginning, a failure of imagination about what the president might say, try or achieve is a significant risk. Volatility is likely to be elevated as markets consider a wider range of potential future outcomes.

At the same time, after over a decade in politics, it is still difficult to tell the difference between President Trump's negotiation tactics and bona fide policy plans. His detractors and his supporters can all too easily get caught up in the noise. We believe it's crucial for investors to stay grounded in the data to try and separate rhetoric from reality and diversion from direction.

The initial data do not appear to support sensationalist news headlines around migration, spending cuts and foreign policy. For example, despite heated words between Trump and Ukrainian President Zelenskyy, the US is continuing to negotiate a security agreement with Ukraine.

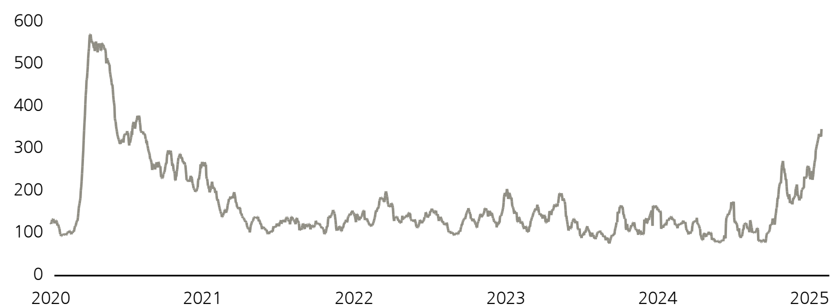
The US economy is entering this period of heightened uncertainty in robust health. So far, the enacted policy measures should not have large direct impacts on growth or inflation, in our view. Meanwhile, underlying growth in themes, such as artificial intelligence and electrification, should remain unaffected by the scope of the policy measures announced so far. And the Trump administration's approach of forcing changes or concessions around core issues could unlock longer-term opportunities.

But hasty policymaking across a broad range of areas is making indirect risks to growth harder to ignore, and we believe volatility is likely to rise.

Figure 1

Investors face heightened uncertainty

US economic uncertainty index, 20-day moving average



Source: Bloomberg, UBS, as of February 2025

Our base case is that a ceasefire can be reached between Russia and the Ukraine over the course of this year.

To navigate the months ahead, we recommend being invested in stocks, with a focus on the US, AI and power and resources, but also hedging those equity exposures to manage near-term risks. Investors should also ensure portfolios are well-diversified with assets including quality bonds, gold and macro hedge funds.

Ukraine

In January, President Trump told Russia to end the Ukraine invasion or face sanctions. "We can do it the easy way or the hard way," he wrote. On the campaign trail, he also promised to end the war in one day.

That has not proved possible, and Trump's actions have since included opening direct negotiations with Russia and seeming to suggest Ukraine started the war. But, despite heated personal rhetoric between President Trump and President Zelenskyy, at the time of writing, the *Financial Times* reports that the US and Ukraine have agreed to terms on a deal to jointly develop Ukraine's state-owned mineral resources. We believe that extracting financial concessions from Ukraine (or Europe) in exchange for US support is indicative of a US administration trying to reach an agreement that allows Trump to claim that the US is no longer being "taken advantage of." We believe this is Trump's preference rather than withdrawing support for Ukraine and European security entirely.

Our base case remains that a ceasefire will be reached this year, though we think that the latest dynamics point to one that lacks the robust security guarantees that would lead to lasting peace. Markets are focusing on the potential sentiment benefits and better energy availability in Europe. But a fragile ceasefire may fail to unlock the full economic benefits for Europe, limit reconstruction and create a backdrop for renewed shocks in the future.

Investors looking to position in Europe may consult our recent publications ***"What could an end to the war in Ukraine mean for Europe?"*** (February 18) and ***"Six ways to invest in Europe"*** (February 25).

A highly partisan political environment increases political event risks associated with the budget and debt ceiling.

Domestic policy

Promises made by President Trump on the campaign trail included undertaking the "largest regulatory reduction in the history of our country," "massively cut taxes for workers and small businesses," and "rip the waste out of our great nation's budget," as well as measures to tackle undocumented immigration.

Whether these policies are right or wrong for the country probably depends on your political persuasion. Whether they're right or wrong for markets will likely depend on whether hopes about deregulation and tax cuts can offset fears about the potential effects of tougher migration policy, higher tariffs and government spending cuts.

At this stage, we would make two observations: 1) The direct impact of measures announced so far is not large enough to have a meaningful direct impact on growth, inflation or the deficit (or on stated policy objectives), in our view; 2) second-order effects and hasty policy execution pose downside risks to growth and upside risks to inflation.

Take government spending cuts, for instance. Through various measures, the number of federal workers may drop by several percent, but this represents only around 0.1% of economy-wide payrolls, suggesting a limited impact on overall employment, GDP or government spending.

Yet, anecdotal evidence points to potential adverse impacts from the expediency of the program. For example, news reports highlight erroneous decisions to lose staff involved with preventing the spread of avian flu or even operating the US nuclear deterrent.

Meanwhile, stricter border security and hostile rhetoric may slow immigration and stall labor supply growth. With the economy at full employment, reduced labor supply risks pushing up wages and potentially driving inflation.

Tax measures may also not provide as meaningful a boost to growth as hoped for. An extension to the TCJA (Tax Cuts and Jobs Act) would prevent an increase in taxes, but is not stimulative in itself, and House Freedom Caucus defections risk imperiling even this. Significant new personal or business tax cuts also look unlikely to pass Congress, in our view. At the time of writing, the House of Representatives has passed a budget resolution bill, but this does nothing more than defer the hard decisions on tax cuts and spending.

Finally, a highly partisan political environment increases political event risks associated with the budget and debt ceiling. For investors, we believe this speaks in favor of staying invested, but we also advise considering hedging approaches for US risk assets, particularly as we head into a potential government shutdown and the April 1 deadline when federal agencies offer recommendations on future trade policy.

Tariffs

President Trump's February 1 Executive Order implementing US tariffs on Canada and Mexico took effect on Tuesday, March 4, after a 30-day pause. As a result, the administration levied additional 25% tariffs on imports from Canada and Mexico, except for a lower additional 10% tariff carve-out on Canadian energy. President Trump also amended the original Executive Order on March 3 to double the additional tariffs on China to 20% from the initial 10% that took effect on February 4, bringing total tariffs in line with our base case expectation in the year ahead of 30%. The de minimis exemption for parcels from Mexico and Canada valued at less than USD 800 remains in effect until such a time when Customs and Border Protection can process the tariffs.

China and Canada immediately responded with a wide slate of reciprocal retaliatory measures. Canada retaliated with a 25% tariff on CAD 30bn of US imports, which will extend to a further CAD 125bn of US imports in 21 days if no resolution is reached. China enacted a 10%-15% tariff effective March 10, targeting a raft of US agricultural products ranging from beef and pork to dairy, fruit, and grains.

The combined effect of the tariff moves since Inauguration Day has lifted the effective US tariff rate by roughly 7 percentage points to nearly 10% from just over 2% (see Figure 1). By comparison, the US effective tariff rate rose from 1.4% to just 2.4% during the first Trump administration and the Biden administration.

CIO view

The rise in Chinese tariffs to an effective rate of 30% from 10% is well within our base-case scenario. However, the additional 25% tariffs on Mexico and Canada falls under our highly aggressive tariff downside scenario. Although we think these tariffs will not be sustained, we have opted to increase the probability of the highly aggressive trade downside scenario to 35% from 25%, while simultaneously reducing the combined upside scenario probability from 25% to 15%.

In our view, the risk that these tariffs remain in place long enough to weigh on economic activity has increased. Moreover, the willingness to impose tariffs against allies and adversaries alike illustrates how far the US administration is willing to go to achieve a range of economic and noneconomic policy goals, thus lowering the odds of ending up in a limited or benign tariff environment.

An important reason for retaining a 50% probability for our base case is the assumption that tariffs on Canada and Mexico will be reversed before they inflict too much damage. If tariffs remain in effect for several months, both countries would likely fall into recession, prompting leaders to offer substantive concessions to arrest the flow of drugs and undocumented immigrants across the borders. Mexico offered to deploy 10,000 national guard troops to tighten the border, release drug cartel operatives into US custody to face prosecution, and establish a bilateral working group to deal with trade, security and migration. Canada proposed boosting border and drug enforcement and appointing a fentanyl czar.

The Trump administration may be looking for additional concessions before allowing a sizable relaxation of tariffs.

Canada, for example, could propose accelerating its commitment to raise defense spending to its 2% NATO commitment faster than the current 2032-33 timeline. Both countries could offer to raise tariffs on China or offer solutions to limit the transshipment of Chinese goods and ring fence China's surplus production of metals and other products. These steps could give President Trump a list of achievements to justify lowering the tariffs ahead of the scheduled 2026 USMCA review.

Investment implications

Our base-case scenario still envisions a limited impact of US tariffs on the global economy and markets beyond temporary bouts of volatility. We expect equities, bonds, commodities and gold to perform positively this year. Uncertainty in currency markets is likely to remain high, with large swings driven by individual policy announcements. For example, the Canadian dollar lost nearly 3% against the US dollar in initial trading after 25% tariffs on Canada and Mexico were first announced on February 1, before fully recovering later the same day after the tariffs were postponed.

Our base-case scenario still envisions a limited impact of US tariffs on the global economy and markets beyond temporary bouts of volatility.

Our downside scenario of highly aggressive US tariffs, to which we now assign a 35% probability, would create a less favorable backdrop for risky assets. Most equity and bond markets would likely suffer losses, while the US dollar and gold would see further strength, in our view. In our upside scenario for global trade, to which we now assign a 15% chance, equities would likely rally with bonds remaining largely flat and the US dollar and gold weakening.

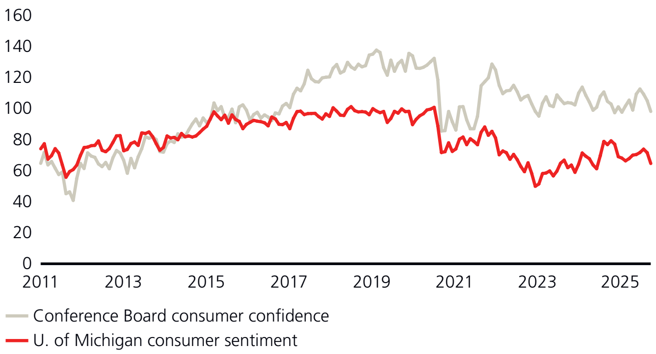
US economic outlook: Recent policy changes are mostly negative for short-term growth

The new administration is off to an aggressive start, already producing a blizzard of policy actions. In our view, freezing spending, firing government workers, imposing tariffs and cracking down on immigration are all negative for the economy in the short run, even if they might bring long-term benefits. It appears that the torrid pace of policy action will continue or even accelerate now that the President's cabinet is in place.

The latest readings on sentiment (see Figure 2) have turned downward, although this is not necessarily an indication that actual activity will weaken. January retail sales demonstrate the ambiguity in some of the recent data (see Figure 3). Inflation hasn't made much progress recently, and the blame goes well beyond the price of eggs (see Figure 4). Policy uncertainty is unusually high (see Figure 5), which we view as negative for growth, as it will tend to make both businesses and consumers more cautious.

Confidence down in latest readings

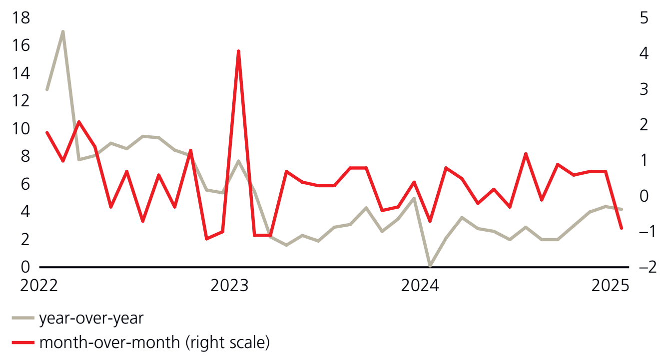
Conference Board consumer confidence and University of Michigan consumer sentiment indexes



Source: Bloomberg, UBS as of 26 February 2025

Consumer spending has been the main driver of growth

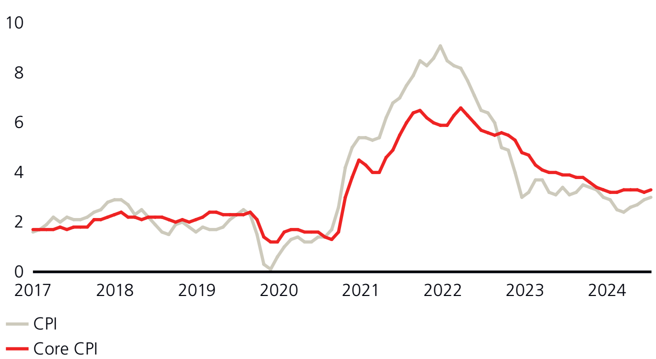
Retail sales, year-over-year and month-over-month change in %



Source: Bloomberg, UBS as of 26 February 2025

Core inflation trending sideways in recent months

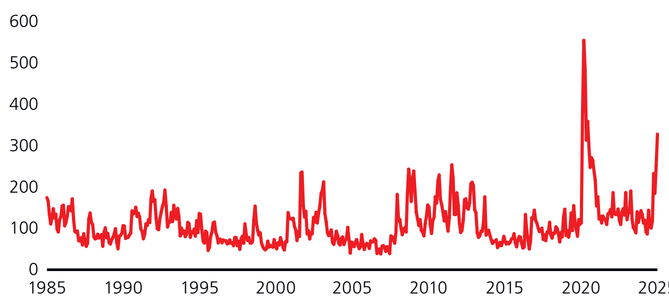
CPI and core CPI, year-over-year change in %



Source: Bloomberg, UBS as of 26 February 2025

Policy uncertainty may weigh on activity

Policy Uncertainty Index, monthly



Source: FRED, UBS as of 26 February 2025

Growth

Our base case calls for GDP growth to slow to around 2% in 2025 from 2.8% last year. As shown in Figure 2, after a strong holiday shopping season, retail sales fell off in January, dropping 0.9% month over month. However, this isn't too much worse than last January (-0.7%), and in year-over-year terms, the data still look robust. If we further consider the unusually cold weather in January and the fires in Los Angeles, it is difficult to make a firm conclusion about the true underlying trend. We expect both wage growth and job growth to slow in 2025, undermining the labor income growth that provides the main support for household spending. We would further note that the savings rate has been unusually low recently, and delinquencies on consumer loans have risen, making it less likely that spending will grow faster than income. Consumer sentiment has weakened, which in our view further skews risks to the downside.

Inflation

The CPI rose 0.5% month over month in January, more than expected. As shown in Figure 3, core inflation, which excludes food and energy, has trended sideways for several months. Our base case remains that shelter inflation will slow over 2025, helping to reduce the overall inflation rate. However, there are some upside risks, especially the possibility of higher tariffs on imported goods.

The tariffs announced so far, including the 10% hike in tariffs on Chinese goods, should push up the CPI by 0.2% or less, which might become apparent starting with April's data. President Trump has threatened to impose 25% tariffs on Canada and Mexico, which in our view would have a much bigger impact. Stricter immigration policy could also end up stoking inflation by curtailing labor supply, causing supply/demand imbalances in the labor market that push up wage growth and creating supply chain problems in sectors that rely heavily on immigrant labor.

Policy

As shown in Figure 5, policy uncertainty is unusually high, and we view this as broadly negative for growth. One immediate concern is that government funding will run out after March 14, and a bipartisan agreement will have to be reached in order to avoid a government shutdown. The two sides are arguing over which branch of government gets to determine the level of spending, and it might be difficult to break the current stalemate without a ruling from the Supreme Court.

Regarding monetary policy, the Fed left rates unchanged at its most recent FOMC meeting, and is signaling that it wants to see further progress on inflation before making any additional rate cuts. As long as the labor market remains strong, the Fed can sit back and wait to see how the economy develops. However, pressure could quickly build if layoffs start to accelerate because this would soon translate into a rising unemployment rate. Our base case calls for 50bps of cuts in 2025, but a wide range of outcomes is possible.

For more insights into our views on how to position your portfolio, please read the report *UBS House View Investment Strategy Guide: Part of the Deal, Global Risk Radar: Tariff scenarios* and visit **ubs.com/potus47.**

Mark Haefele

Mark is the Chief Investment Officer for UBS Global Wealth Management and the Chair of the UBS Global Investment Committee, where he oversees the investment policy and strategy for approximately USD 2 trillion in invested assets. A former lecturer and acting dean at Harvard University, Mark is a frequent contributor to numerous financial media, including CNBC, Bloomberg and the *Wall Street Journal.* Mark received a B.A. from Princeton, and both an M.A. and Ph.D. from Harvard University. As a Fulbright Scholar, he also received an M.A. from the Australian National University.

Solita Marcelli

Solita is Chief Investment Officer Americas for UBS Global Wealth Management, where she oversees both the CIO Research and Investment Solutions businesses, with USD 2 trillion in total invested assets. Frequently featured on CNBC, Bloomberg and the *Wall Street Journal.* Solita is a member of the Aspen Global Leadership Network and the Global Advisory Council for the Wilson Center. Solita holds an M.B.A. from the Stern School of Business at New York University and B.A. in economics and history from Brandeis University.

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Daniel is a Managing Director and Head, Americas Portfolio Strategy & UBS Wealth Way Solutions, for UBS Global Wealth Management. Dan leads research and advises individuals and institutions on asset allocation, goals-based investing, private markets and hedge fund investing strategies, as well as portfolio/risk management. Dan holds several degrees from Lehigh University, including a doctorate (Ph.D.) in Industrial/financial engineering, an M.S. in applied mathematics, an M.S. in management science and a B.S. in mechanical engineering.

Dirk Effenberger

Dirk is Head of CIO Investment Risk at UBS Global Wealth Management. He monitors key financial market risks and runs scenario analyses to assess their impact on global markets and UBS's asset allocation views. He authors the UBS Global Risk Radar, an investor guide to economic and geopolitical risks. Previously, he was an economist at Deutsche Bank Research and the Research & Consulting unit of Swiss Re. He holds a master's degree and a Ph.D. in economics from the University of Muenster.

Beyond investments

Minority sports investments

Fundamental legal protections to consider

Alex Steinberg
Partner
DLA Piper LLP

The market for sports investments is widely recognized as one of the most attractive investment opportunities today. With the rise in valuations, there has been increased interest in minority investments in sports teams. Here we outline the basic fundamental protections that a minority investor should consider.

The past several years have seen an unprecedented increase in investments in the sports and media sector. When I started my legal career in 2012 at DLA Piper as a corporate attorney focused on the sector (after having worked in-house at ESPN), sports investments were largely seen as a passion project for individuals, families and small ownership groups who wanted to invest in an asset that they had an emotional connection to or that they considered a community asset. Fast forward to 2025, the market for sports investments—and the asset class in general—is widely recognized as one of the most attractive investment opportunities today.

> The sports investment market—and the asset class in general—is widely recognized as one of the most attractive investment opportunities today.

Much of this growth has been powered by the continued rapidly evolving media landscape, in which live sports remain one of the last pieces of content that drives appointment viewing. Sports rights fees to continue to soar, thus increasing team valuations across the major professional leagues in the United States and in Europe.

In addition, the five major United States professional leagues (NFL, NBA, NHL, MLB and MLS) now all allow private equity and institutional investors to take minority interests in teams (certain leagues have even allowed sovereign wealth funds). This policy change has continued to drive valuations higher as these new market entrants provide growth capital to teams and liquidity for legacy owners, who may have previously only exited in connection with a control sale or a sale to the controlling owner/general partner at a discounted price.

With the rise in valuations, there has been increased interest in minority investments in sports teams. There are several legal protections that an investor may seek in connection with a potential minority investment, notwithstanding the strong league governance and general absolute authority of the controlling owner/general partner. This article describes these legal protections at a high level. Of course, every situation is unique, and a prospective investor should seek qualified legal counsel with experience navigating the sports investment asset class for advice on a minority investment in the context of their individual circumstances.

Important initial considerations

First, it is important to note that minority investments in sports teams typically start like any other investment process. This involves signing a confidentiality agreement with the seller of the interests or the subject team (or possibly both, depending on the transaction structure), after which you will be provided legal and financial diligence materials. Depending on the size of the investment, you may also have access to management team members and be permitted to conduct site visits.

In addition to general transactional diligence of the underlying assets, there is also a parallel ownership approval process with the applicable league or sometimes multiple leagues (in the case of multi-team platforms). Each league has their own unique package of ownership applications materials, which all potential owners are required to complete. These materials require potential owners to make financial and business disclosures and to submit to background checks, all of which will need to adhere to league rules to the relevant league's satisfaction.

Fundamental minority investment protections

While there is a wide variety of business and legal protections that may be negotiated in connection with a minority investment, there are a handful of fundamental minority protections that an investor should typically seek in connection with their investment. These protections are summarized at a high level below.

- *Limited purpose* – An investor in a team may seek to reasonably limit the investee's purpose to only permit the ownership and operation of the applicable team and related assets/opportunities. Further, the investee should have the exclusive right to such opportunities.

  The latter protection has become even more critical as teams expand the scope of their businesses to include real estate investments and other ancillary business that may involve the team assets.

- *Capital call provisions/preemptive rights* – The capital call provisions in organizational documents can be structured in a variety of different ways and it is important to pay close attention to these provisions. Specifically, you will want to understand when you are obligated to fund capital calls and the associated consequences for failure to fund.

  Investors may seek to have pro rata subscription rights for new equity issuances and issuances of indebtedness to protect their percentage ownership in the team. They may further request oversubscription rights to the extent other owners fail to purchase their pro rata portion.

- *Tag-along rights* – Investors may seek tag-along rights (also known as co-sale rights) such that in the event a controlling owner sells interests in the team, the investor can also sell its interests on the same terms. Tag-along rights can vary in structure, but two common approaches are a pro-rata tag (i.e., the investor can sell a percentage of its interests proportional to what the controlling owner sells) or a tag-along rights only a control sale (i.e., the tag rights only trigger when the controlling owner sells control).

- *Affiliate transactions* – Investors may seek protection that transactions involving the team and its affiliates, on the one hand, and the direct/indirect controlling owners (and their family members), on the other hand, are conducted transparently and on arm's-length market terms.

There are various approaches and standards for affiliate transactions as well as carve-outs, each of which will ultimately be subject to negotiation. As part of these negotiations, it is important for any investor to understand any potential economic "leakage" that may exist as a result of payments to controlling owners and family members of controlling owners as a result of these negotiations.

- *Information rights* – Investors may seek customary information rights in connection with their investment. These often include annual audited financial statements and quarterly unaudited financial statement. Investors also may seek to have further reporting and greater access to the team controlling owner or team management, in order to have greater visibility into the day-to-day business decision.

- *Amendments* – Investors may seek protection to ensure that amendments are not made to the organizational documents that would remove negotiated rights from an investor or treat investors in a manner that would have a disproportionate effect on their investment.

As noted above, the sports investment market has grown significantly and controlling owners have more leverage than ever before. That said, the protections described above are the basic fundamental protections that a minority investor should seek to obtain in connection with any investment.

Every deal is unique and certain investment opportunities may come with more or fewer rights. Factors such as the amount you are investing, the league you are investing in, and the life cycle of the team you are investing in (e.g., expansion team vs. established team) will all impact the terms you are offered. In any event, working with a team that has extensive experience in the space is recommended, as the market has advanced significantly in the last decade plus.

Alex Steinberg

Alex is a Partner at DLA Piper LLP based in New York. Alex also has the unique perspective of having worked in-house as an attorney at both ESPN and the National Football League. Alex's practice includes advising sports, media and entertainment-related clients in a wide variety of transactional based matters, including control transactions and minority investments in professional sports teams in the United States and in Europe. Alex also has significant experience in commercial transactions, including sports media rights, having advised some of the most prominent leagues and rightsholders in the world on media rights agreements.

Beyond investments

Optimizing cash holdings

Panel yields insights for structuring cash

Judy Spaltoff
Head
UBS Family Office Solutions

Panelists
Leading family offices,
consultants and advisors

Managing cash can present challenges for family offices, particularly multigenerational family offices, with dozens of family members, trusts and other entities. How family offices hold cash can make a difference in having a clear picture of total cash holdings and in managing them more efficiently. Here several family offices as well as industry consultants weigh in on ways to structure cash holdings for optimal management.

Like any investor, family offices are constantly looking for ways to optimize their cash holdings. This challenge has only become more prevalent as interest rates have moved upwards the past few years.

Family offices face challenges in managing cash due to the many disparate needs of a family, including spending, capital calls and distributions, and opportunistic investments. The *2024 UBS Global Family Office Report* revealed that family offices held an average of 10% of their strategic asset allocation in cash. The report has identified similar levels over the last several years.

> Challenges family offices face in managing cash stem from the many disparate cash needs of a family—for spending, capital calls, investment opportunties and more.

Questions often arise around what to invest cash in, as well as how best to structurally hold that cash. Here we explore the latter: how the family office should hold cash to enable them to manage it more efficiently. Certainly, the more structures the cash is held in, the more challenging it is to get a clear picture of cash holdings and to report on them.

The current state of family office cash holdings is largely:
- Opaque and complex
- Administratively burdensome
- Overweight in cash due to uncertainty rather than strategy
- A drag on family investment portfolio performance

We posed the question of structuring cash to a handful of family offices and others in the industry. Their responses shed light on the different ways to hold cash. They also noted several nuances that are helpful to think about.

The question

"How have you come to structurally hold your cash positions, to enable your cash to be more efficient?"

Multigenerational family office: Midwest US

We have around five dozen family members, a few hundred separate trusts and around three dozen entities such as LLCs, which are tax partnerships. Of course, each family member often has their own checking account. However, each entity or trust often does not. We have an internal omnibus account. This means that we commingle most of the investment accounts' capital into a single account with our custodian, but we track the books, records and chart of accounts separately inside of the family office.

We allocate very heavily to alternative investments, such as drawdown private equity funds, and many of our investments are allocated to managers, which often have gates. We have to balance family spending and liquidity needs, with the inherent illiquidity of our investment portfolio. On top of that, we need to manage capital calls and try to understand when distributions will occur. And on top of that, family members often make unplanned large purchases or investments.

Managing cash holdings centrally

As mentioned, we opted to manage cash holdings centrally. This means we have a single LLC where family members, trusts and other entities hold cash. Instead of parking cash in separate bank accounts, we leverage a single partnership. Each family member, entity and trust puts their idle cash there and they receive a K-1 at the end of the year. This allows us to get a single view of our cash. It also helps us to use our scale to invest in a variety of cash instruments. So, instead of looking at each separate account, we only have to look at a single account. This allows us to stay on top of our cash products more easily.

Of course, we engage in robust budgeting and forecasting across all family members, trusts and entities for six months, a year and up to three years out. It's part art and part science. These are forecasts at the end of the day, but we base it on historical norms and try to plan for the future—but again, they're only plans and things change.

On top of this, we have a line of credit for emergencies that family members can tap but is often not used. We have a close relationship with our custodian because of our complex structure. We opted for the omnibus account and tracking things internally because it reduced the number of family office bank accounts. We think it also enhanced security and confidentiality. The internal omnibus account isn't for everyone, and you need a strong accounting team and robust controls. You also need a strong accounting system. More than that, we report cash to each family member on our consolidated reporting platform. You need the right people and the right tools, systems, processes and controls—otherwise just keep it as simple as possible.

Multigenerational family office: New York City US

We started off managing cash in separate family bank accounts, as well as separate entity and trust accounts with our bank. Things just naturally occurred this way and we didn't really strategically think about this. However, we realized we spent so many hours each day reviewing cash holdings in each separate account that it was becoming inefficient. Further, this meant that in our 30-plus bank accounts, we had 30 separate cash products—for instance, 30 separate treasuries that were maturing at different times. So, we looked into doing it a better way.

We now manage cash centrally in a single partnership. We still have the separate bank accounts, but there is little cash in each one. Within that partnership, family members and entities park their idle cash. This reduced our administrative and monitoring time across 30 separate accounts for cash balances and 30 separate cash products with different maturities.

Allowing for more choice

Over time, we also took it a step further. Instead of having a single cash allocation with a single risk and return profile, we created a few separate options. We allowed for more choice in product and return to give our family members flexibility. We still leveraged a single partnership for this, but we created side pockets within the single partnership, each with their own unique characteristics. Cash needs are met from this partnership. We tell the family we can meet cash needs within 24 hours. We then calculate the NAV, which we can do within 24 hours, distribute the cash to the respective family member or entity and then adjust the partnership allocations.

Of course, we needed a more sophisticated accounting system, so we ended up investing in a more robust platform. Yes, there is a cost to this, but we justified it to the family because the payback was very quick on our enhanced cash program. You also need to do budgeting and forecasting, otherwise you will tend to hold too much cash. Without the robust budgeting and forecasting, the entire cash management system will be suboptimal.

Family office consultant based in the Midwest US

This is a common question for family offices. There are very complex family offices because of their structures and number of family members and then there are not so complex family offices, which may only have a single household, a few family members and a few structures. Managing cash centrally often makes sense because you're getting a single view and this reduces time spent on monitoring the cash. I also like the omnibus accounting setup for family offices. I have seen family offices manage cash centrally and do it with flexibility, such as with side pockets.

Recognizing what is possible

There are optimal ways to manage cash in a perfect world. However, some family offices do not have the right people in place or the right accounting software to get this done. So, while a better way might allow a family office to manage cash better and get a better yield and return, they need to be able to execute on it. Otherwise, the family office needs to keep it appropriate for the people and systems they have in place.

For instance, managing cash centrally and commingling it often makes sense. However, without a robust accounting system or the right people, this adds a lot of risk to a family. If they were to get audited or sued by a third party and they do not have clear accounting records, the commingling can enhance risk in a variety of ways.

The more complex the cash management, the more operational risk it adds. Unfortunately, sometimes, the family does not want to invest in people or technology, and this creates a heightened risk profile for the family themselves in a variety of ways.

Family office integrated service provider based in the South US

I look at this holistically. You have your cash and what you invest your cash to get yield and optimize it. Then you have your structures and entities. You have intra-family notes between family members, trusts and other entities to smooth liquidity and cash flow needs. You also have estate planning structures, gifts that have been made to reduce the taxable estate. So, when I see various structures, I have to also understand the purpose of those structures, why they were set up, and who the taxpayer is—a grantor or a non-grantor trust.

Aligning structures, goals and risks

There are different ways to manage cash, but that has to be aligned with the structures that are put in place, the family's goals and the risks inherent in any setup across the family.

For example, there are risks of not papering notes correctly and of commingling funds. These risks come from recharacterizing a loan as a gift because interest wasn't paid. There is a risk that the corporate veil is pierced if a family member is sued. Because the books and records, which clearly includes the accounting system, are not reflecting the fact that these are separate entities, that interest is being paid on notes, etc.

So, while you can set up all of the sophisticated cash management structures you want, you must also be detailed and align that with how this cash flows throughout the entire family enterprise. I have to review each entity, trust and family member, including which state they are in because each state has a different state income tax regime and tax trusts differently. So, I take a very holistic and in-depth look and then recommend how cash should be managed. Of course, there will always be trade-offs between simplicity and sophistication.

In addition to all of this are the people who are operating the accounting system, the system itself, the controls they have in place and the processes. For family offices, nothing is done in a vacuum, so being holistic about it all will only yield better outcomes.

Multigenerational family office: Global operations

Our cash operations are very complex because of the family we serve. Our family is originally from the Middle East but family members also reside in Europe and the US. Further, we have direct investment holdings in South America, Europe and the Middle East. These are passive portfolio holdings, the typical private equity and hedge fund managers. However, we also have several large operating companies across these jurisdictions that have their own sources and uses of cash. We also have offshore holdings in several jurisdictions.

Because we have to engage with banks across all of these jurisdictions with different banking regulations, disparate tax regimes and taxing authorities, it is very complex to commingle funds. We would love the simplicity of an internal omnibus account, but because of the tax regimes and banking and financial regulations we are subject to, it is impossible.

It is a challenge for us just to open up accounts because of KYC regulations. For a single entity or a single family member for instance, we have multiples of the same account. On top of this, we have to hold several different types of currencies. Due to the complexity, we have a single person who is intimately involved in managing these accounts across jurisdictions. We have robust internal controls and do a great job on effectively and efficiently managing cash. But this is a large burden for this single individual to monitor.

Keeping everything connected

We found out, however, that multiple people cannot oversee various accounts; it is the connection of all of these accounts that is the true value-add of the family office. If one of our family members is traveling and can't access cash in a jurisdiction that we didn't know they were going to, then it is a poor user experience for that family member and calls into question the effectiveness of the family office. So we really need to have close connection with our family members to understand their plans.

On top of this, we need to vigilantly watch our bank reconciliations and trade settlements. If a wire or cash ends up somewhere that it should not have, we have to track where it went. We have such a complex setup because we are multi-jurisdictional and have found it best to have a single person dedicated to cash management. Of course, we have controls and the right accounting systems, policies and procedures in place as well. We learned that even though we have sophisticated accounting and portfolio systems in place, we still need a close connection with human interaction to make it all work.

Considerations and takeaways

From these responses, we can identify the following best practices and considerations:

- Engage in robust budgeting and forecasting to ensure appropriate cash holdings
- Review current cash holdings setup to ensure it is appropriate for goals and objectives
- Ensure the right human capital is in place based on goals and objectives
- Ensure that the right accounting technology and infrastructure is in place
- Review controls and processes to enhance financial controls to meet complexity

Planning leads to better outcomes

Our panelists also clearly show that there are often better ways to structurally hold cash positions for a family office. However, it is prudent for the family office staff to understand best outcomes for the family they serve, as well as the family office itself.

Some of these outcomes include:

- Transparent cash holdings
- Administrative efficiency
- More informed decision-making
- Appropriate cash holdings based on strategy
- Reduced risk for the family by being holistic in setting up the right structure

In conclusion

These responses surfaced different options for structurally managing cash. While there may be an ideal method or practice to structurally hold the cash for each respective family office, it must be balanced with other factors. These factors include the sophistication of the internal accounting team at the family office, the accounting infrastructure that they use, and the controls and procedures they have in place.

The responses also clearly show that the family office must engage in robust budgeting and forecasting for the family. This is a core family office function. Without it, the family office is missing a key best practice.

Judy Spalthoff

Judy is a Managing Director and Head of Family Office Solutions within UBS Private Wealth Management. The Family Office Solutions (FOS) team was established to holistically serve $50mm+ clients and family offices in partnership with Private Wealth Advisors. Prior to FOS, Judy led the Family Advisory and Philanthropy Services (FAPS) team. The FAPS team serves as thought partners to advisors and their exceptional client families on wealth transitions, family governance, family office strategies and philanthropy as families seek guidance on cohesive dialogue between generations to perpetuate their legacy. Judy joined UBS in 2008 from Citi Family Office where she was the International Services Manager. Before that, Judy was the Advisor Relations Manager where she was responsible for the Citi Family Office Continuing Professional Development and Designation Program. Prior to Citi, Judy was an analyst for Accolade Partners LP, a fund-to-fund venture capital firm in Washington, DC.

Operational excellence

Family meeting road map

Creating effective family meetings that address a family's complete wealth

Heather George
Senior Strategist
UBS Family Advisory
and Philanthropy Services

Families often meet for financial matters with an agenda typically driven by advisors. Some families also meet to address wealth holistically and cover intangible matters such as values, wishes, concerns and even conflicts. Having a road map can help guide you in creating effective family meetings that include not only a family's financial capital but also qualitative assets—a family's human, intellectual, social and foundational capitals.[1]

This article provides a road map for an effective family meeting,[2] whether a half-day gathering or multiday retreat. What matters is the purpose of the meeting—not its duration. In our view, the meeting is for and by the family, and shouldn't be driven by someone else's agenda. And family meetings should be about complete family wealth, not just financial capital.

Regular family meetings provide a forum for sharing news, concerns, opportunities and challenges in an open forum.

Preparation is key

The key to a successful family meeting is preparation, taking the time to:

- Interview family members to identify shared goals and topics for the agenda.
- Craft and disseminate the agenda in advance.
- Prepare materials needed to support the agenda, such as financial statements, investment reports, foundation grant reports and recommended readings.

The more effort a family invests before a meeting clarifying what to cover, the more productive the meeting will be. Also, participants will enter the meeting with clear expectations.

As you are planning, take time beforehand to answer key questions around the why, what, who, when, how and where of family meetings.

Why family meetings now?

Most families don't have "family meetings" per se. So why have them?

Every family that succeeds over multiple generations makes some use of family meetings[3]—an important tool families can use to advance and grow.

Well-run family meetings can be used for at least three purposes:

1. Helping family members learn from each other and remain connected
2. Strengthening family communication and family culture
3. Making decisions together

Regular family meetings provide a forum for sharing news, concerns, opportunities and challenges in an open forum. Family leaders can deliberate and make decisions collaboratively. Meetings help younger family members learn the basics of family finances and traditions.

What to do in a family meeting?

Without a clear agenda, meetings can get bogged down. Members may become frustrated or leave feeling that important business was left undone.

Family meeting activities can commonly include:

- Having family members share updates on their lives, personal goals and plans
- Conducting values-clarifying exercises
- Telling stories, such as how individual members made their start in business or philanthropy
- Learning about each other's styles of communicating through exercises that can be fun as well as eye-opening
- Reviewing the family's business operations or the family's wealth structures and their current performance
- Visiting recipients of the family's charity together
- Learning about each other's roles within the family enterprise

Exercises for determining family values

Clarifying values: Have family members answer the questions, "What matters most to me and why?" and "What does a life well-spent look like?" Older family members share their answers and rising generation family members imagine what their answers would be if they were, say, 70 years old and reflecting back on their lives. Both groups then meet and share their thoughts.

Founding values: Older family members and rising generation members meet in separate groups and define the family's founding values as well as present values. The two groups then make a Family Values Statement based on their findings. The statement can be updated as the family's values change over time.

The "hat": From a collection of hats the family gathers, each family member puts on a hat based on their role(s): a parent, child, trust creator, trust beneficiary, director in a business, manager or employee or other relevant roles. Some family members may find they have four or five hats perched on their heads.

Who to have at a family meeting?

The participant list should reflect the goals of the meeting. Here's a list of some typical goals and considerations on who to include.

Resolving conflicts or building a team: It may be important to limit the attendance to family members and a few facilitators. For technical aspects, portions of the event could include experts such as lawyers, accountants, investment advisors, and even family business or human resources consultants.

Encouraging connections across the generations, engaging in family philanthropy or developing future leadership: Have adolescents and young adults present as well as elders who can provide wisdom, continuity and guidance as well as a voice for the family's heritage and legacy.

Getting started: Include a facilitator or consultant who guides their first few meetings and then gradually family members lead the meetings depending on the content.

Managing more complex cases: Families with experience may run their own quarterly or semiannual conference and then ask a facilitator to join an annual or biannual family meeting to help them "tune up" their relationships or learn new skills.

When to hold a family meeting?

A meeting may take place for an afternoon, a day, a weekend or several days. The length depends on the meeting agenda, its complexity and the size and dynamics of the family.

Often families try to jam too much into one day. If there's a lot to cover, consider splitting the material into two half-days. Breaks between sessions give individuals a chance to recharge and connect with each other informally.

Family meetings can help families in any stage of development. They are crucial during difficult transitions, which may include the sale of a business, a leadership succession, or the death or disability of key members.

The importance of meeting regularly

Meeting regularly helps families face challenges that may arise and gives them a chance to celebrate positive transitions. An annual meeting can include time to welcome new members or celebrate promotions to leadership positions within the family enterprise. Making time for these celebrations shows everyone that your family pays attention to its key resource: its people.

The family's current needs and state of development determines the frequency of meetings—quarterly, semiannually or annually. Finally, timing within the meeting is crucial. People often overestimate how much they can absorb in one sitting.

How to run effective family meetings

A family meeting requires focus to achieve its goals. Families need to take steps to make sure family members are able to meet effectively.

Keep in mind that people learn in different ways:

- Some find it easy to pore over large amounts of text or numbers before the meeting
- Some may be visual learners and benefit from flip charts or illustrated slides
- Most people digest smaller portions of information better than trying to take in large amounts of data in an extended sitting

A good meeting is as much about listening as about talking. For example, many parents use family meetings to disclose information about their estate plans or holdings to their adult children. But that information comes with emotional weight. Make sure you always give people at a meeting a chance to process what they hear, and to react and respond.

Of all the elements needed for a successful family meeting, solid ground rules may be the most important. Use a portion of your first family meeting to discuss ground rules.

Every family should remember that ground rules, once adopted, must be upheld. In the heat of a discussion, members will inevitably start to break the rules. What's crucial is how the family responds. Having to stick to the rules offsets any sense of entitlement. The rules are living testimony that family members act responsibly and respectfully.

Dealing with conflicts

Sometimes conflicts arise despite ground rules. It helps to have an outside facilitator to manage the conflict. Whether you have a facilitator or not, there are steps for dealing with conflict in a productive manner:

- Distinguish between healthy disagreements and inappropriate levels of conflict. Ask yourself, "Is this disagreement generating good discussion or getting in the way of the meeting's effectiveness?"
- Seek first to understand and then to be understood. Ask questions that aim to clarify what others are saying before responding.
- Identify the source of the conflict as you see it and ask the group to do the same. For example, conflict may come from miscommunication, different needs or interests, differences in values or beliefs or an ineffective structure. If you can identify the source of the conflict, and others affirm that is the problem, then the group is well on the way to resolving the conflict.
- Refer to the ground rules that are relevant to avoiding or resolving conflict. Examples might include listening, being respectful or owning your own views.
- Look for common ground. Maybe you disagree about how much to give to a certain organization, for example, but you can affirm your shared interest in philanthropy or to a certain charitable sector.
- Remind others (and yourself) that it is okay to have different values and opinions.
- Take a break. When it seems that the group is getting nowhere, take a short breather with everyone to restore calm.

Sample ground rules

- Be present—demonstrate your respect and commitment by setting aside potential distractions. Turn off electronics and designate a contact person if you need to be reached.
- Be on time so the meeting can accomplish the set agenda.
- Be respectful in words and actions—speak respectfully, pay attention when someone else is talking and avoid jumping in to finish sentences. Avoid negative body language such as eye-rolling, shaking your head or other indications of emotional reaction.
- Listen—listening is a skill that must be practiced, but it pays off tremendously. Be willing to demonstrate you understand what the other person is saying before making your own point.
- Be patient—recognize and accept that, with limited time overall, not all comments or questions must be dealt with right away. Pick the issues you think are most important.
- Own your views—make "I" statements rather than broad, global statements that imply you know the truth or that something "is obvious."
- Be willing to edit what you say—saying anything and everything you feel under the guise of honesty can simply be a license to attack. Delivering your points with tact and respect will make you more likely to be heard and reduce defensiveness in others.

Where to hold the meeting?

Family meetings are special events. Many families look back upon specific meetings as turning points in their development and attach special meaning to where these occurred. Often family retreats become part of the family's collective memory and traditions.

A thoughtfully chosen environment can increase the meeting's productivity. Meeting at parental homes or offices may encourage family members to fall back into old patterns of behavior, plus it may be intimidating to in-laws or to children less familiar with the location.

Gathering family members at a neutral location such as a resort, a rented home or a country club can be money well-spent and sends an important message to the family: "We are not here just to talk about money, but to grow together."

The facilities should allow for recreation in addition to business. People work together most effectively when they feel good about themselves and each other. It is not only about content, but also the process, the place of the meeting and the memories it creates.

To learn more about designing and executing a family meeting please see the *UBS Family Advisory Compass* and *the Planning Your Family Meeting* worksheet. You can also visit us online at **ubs.com/yourlegacy**.

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As a Senior Strategist with Family Advisory and Philanthropy Services Americas, Heather works with clients to develop and execute a plan to achieve true multigenerational success. She advises families on their relationship with money, values and philanthropic intent. Heather supports families through wealth transition in areas such as family governance, education and philanthropy. Prior to joining UBS in 2022, Heather was the Co-Head and National Director of Family Engagement Services at Bernstein Private Wealth Management and previously served as the Director of the Knowledge Center at Family Office Exchange.

[1] For definitions of human, intellectual, social and foundational capitals and a tool for assessing them in your family, see *The Family Balance Sheet* from the UBS Family Advisory and Philanthropy Group.

[2] Based on material previously published by the authors in *Complete Family Wealth* (Bloomberg, 2017). Used with permission; all rights reserved.

[3] This is one of the findings of Wise Counsel Research's study of successful multigenerational family enterprises around the world. For more on this point, see *Good Fortune: Building a 100-Year Family Enterprise* (Wise Counsel Research, 2013). Wise Counsel Research is not affiliated with UBS Financial Services Inc.

Operational excellence

Family Office 3.0 in action

A guide to new resources in the era of convergence

Mark R. Tepsich
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With the advent of family office 3.0, we are seeing well-drawn maps and purpose-built infrastructure that family offices can deploy. Family office 3.0 is also ushering in an era of convergence, with more extensive and robust external resources to enhance operations and create scale and efficiency. Here we look at the range of services now available.

The family office space has evolved from the early days when family office professionals had to vertically integrate solutions, figuring things out on their own as the first explorers. Following the Global Financial Crisis, historically low interest rates and the growth of the private equity industry led to a boom in family offices. While maps were being drawn and some resources and solutions being built, the industry was still coming of age.

> Many aspects of managing a family office today can be outsourced and coordinated from inside, rather than being vertically integrated.

Today, family office 3.0 has arrived. This stage is characterized by well-drawn maps and purpose-built infrastructure family offices can deploy but also external resources to tap into for operations, scale and efficiency. Family office 3.0 is the era of convergence of family offices and the industry, specifically service firms.

What are the kinds of resources now available? Let's take a look.

- Design and build resources
- Technology consultants
- Operations—Accounting infrastructure
- Wealth transfer and tax resources
- Family advisory and governance resources
- Financial advisors
- Sourcing and selection of consultants

Family office build and design resources

When they are getting up and running, family offices face questions such as: What will we do? How will we do it and who will we do it with? As you look to design and build out a family office, it can be helpful to have a thought partner that can help you realize your vision.

Today, there are dedicated resources and consultants to help you design a purpose-built family office. They can help you consider your overall strategy and how that aligns with the design and build-out of your family office. This includes thinking through operations and how best to implement them. You will need to determine how services will be delivered across the following areas: accounting, investment, tax, trust administration and lifestyle and concierge. Will these be built within the family office or outsourced? A careful selection of outsourced partners is critical, as is a review of existing providers to ensure fit and sophistication.

A careful selection of outsourced partners is critical, as is a review of existing providers to ensure fit and sophistication.

It is also important to define roles and responsibilities across the family office and align those with a human resources plan. Some consultants can help source the talent you are looking for, and there are also dedicated family office recruitment firms that know the space and how to identify the right candidates. The worst mistake I see in human capital sourcing is hiring a recruiter who does not know the family office space. I once saw a recruiter who typically sourced marketing candidates attempt to help source family office candidates because of a relationship with the principal. When I asked the recruiter what exactly the family office role and purpose was, he responded by saying, “You know, family office stuff, for wealthy people.” This recruiter wasn’t exactly a good match for his mandate.

Families and/or a family office's first hire can go this alone or they can tap into any number of purpose-built firms. No longer needing to be stuck in the early explorer stage of family office 1.0, you can now leverage those who built the paths and have the maps. Some examples of providers include but are not limited to:

- Janet Joyce Arzt, CFA (see previous article) of Parere Advisory, an independent advisory firm offering recruiting services. With a background in financial services at a hedge fund, Janet also led a single family office.
- Rebecca Cowley (see previous article) of Andersen Consulting who has worked at a few significant family offices.

Of course, within Family Office Solutions at UBS, we also offer these build and design resources to help both start-up family offices and those that are more mature. These services incorporate not only governance and design, but also tax, trust and wealth transfer planning advisory, so that all structures and the family office are aligned. UBS Family Advisory and Philanthropy Services helps incorporate the family into the family office, as well as its philanthropy. All of these services together lead to better outcomes for the family office as an organization, as well as for the family and overall family enterprise.

These consultants are not just for new family offices. Family offices are always evolving to meet the needs of their family and the world around them. Sophisticated consulting services are available for any family office, regardless of where they are at in their life cycle.

The benefits to leveraging someone with extensive experience in the family office space include:

- Purpose-built
- Speed of execution
- Right-sized build
- Fewer mistakes across design and service delivery
- Less costly in the long run
- Family confidence in the family office

Technology consultants

Family offices also have a plethora of tech firms to choose from. This was not always the case. Today, the challenge isn't finding a purpose-built tech solution for the family office but finding the right one among many. Then of course there are questions around how to build the internal network, identifying managed service providers, cyber security specialists and whether the family office needs an internal I.T. professional.

Some examples of specialists in the family office tech space today include but are not limited to:

- Erin Hulse at Deviate Consulting (see previous article)
- Tania Neild who leads Infograte (see previous article)
- Tony Gebely at Annapurna Cybersecurity Advisors

Outcomes to aim for include:

- Choosing the best solutions based on informed and objective advice
- Instilling family confidence in technology infrastructure, capabilities and security
- Reducing risk from enhanced cyber security
- Providing smoother onboarding for the family office and family
- Improving the overall user experience

Operations—Accounting infrastructure

I’ve discussed this before, but it bears repeating because accounting is a core component (or should be) of every family office. Recently, I have seen family offices with slimmed down staff that outsource nearly all functions to external providers. This is not what I would call the proverbial “virtual” family office, but rather an outsourced infrastructure coordinated by a single expert generalist. In my opinion, outsourcing can lead to agnostic solutions, as opposed to those built and vertically integrated into a family office, which must be defended by staff and can lead to inertia.

Having a professional who coordinates the external service providers across investment, tax, legal and accounting ensures that the family has a wealth enterprise that functions like a business, rather than ad-hoc. There are several options to outsource the accounting infrastructure, such as general ledger, partnership and fund accounting, as well as bill-pay.

Bill-pay serves well as an outsourced solution. Even if a family office does not outsource accounting, it could still make sense to outsource bill-pay for a family. Think of bill-pay as the personal treasury function for a family. Outsourcing this function frees up family office staff to focus on higher, value-adding activities and introduces an element of financial control.

This is what is meant by convergence: the industry and the family office merging with each other. While there are trade-offs to consider, whole operations now reside outside of the family office, ranging from departments within large accounting and tax advisory firms to stand-alone bill-pay and accounting service firms that do not offer tax advisory.

Some examples include but are not limited to:

- Andersen Private Accounting Solutions
- Aquilance
- Trove
- Tenet Advisors

As with any outsourced service provider, understanding the downsides is critical. These can include a lack of control over the solution, not having ready access to information needed for critical decisions, etc. Often, the choice of whether to outsource or not comes down to the level of complexity. The more complex the family office, the less likely that the accounting solution will be outsourced, due to the increased time family office staff would need to spend coordinating with the external provider.

Wealth transfer and tax resources

There are also robust resources for wealth transfer and estate planning, as well as income tax planning for complex families. These resources include philanthropy considerations and how they intersect with wealth transfer, estate planning, income tax planning and governance. These are all distinct disciplines, and many law firms have gotten better at bringing these disciplines together to provide more holistic versus siloed advice to family offices.

What can be missing in working with some law firms, however, is how well they understand the complexity across a family office's balance sheet, structures and family it serves. Revealing all of this complexity can be challenging for a family as it involves bringing together a significant amount of information that is not always easily reflected on a balance sheet. Because law firms typically charge by the hour, families may also be challenged in spending the time needed to make the picture more transparent. This is where the family office staff can provide added value because of their in-depth understanding of the family's total balance sheet, unique family personalities and implications of decisions, whether related to cash flow, liquidity needs, governance considerations or trustee/ beneficiary relationships.

UBS resources

UBS Advanced Planning, a sophisticated team of former practicing attorneys, can provide consultation across tax, estate planning, philanthropy, family business governance and fiduciary, to name a few. While they don't give legal or tax advice or write opinions or draft documents, they can brainstorm and give family office professionals an objective viewpoint to enhance other professional advisors whose time may be on the clock.

For families and family offices looking to establish a private trust company, UBS Advanced Planning can be a resource. For example, Todd Mayo, a member of our Advanced Planning Group, has served as general counsel of a trust company, senior executive of another trust company and assisted in rewriting the New Hampshire private trust company statutes. He helps family offices think through the appropriate jurisdiction for setting up a private trust company, as well as choosing the right external partner in that jurisdiction. Again, it can be helpful to have another set of (objective) eyes for not only establishing a private trust company but also its operations, policies and procedures that is off the clock.

Family advisory and governance consulting

Many families need to have important conversations, but for various reasons, never do. These discussions can range from difficult to positive and everything in between on such topics as business succession, leadership transition and financial wealth transparency. Often, everyone knows the topics that must be addressed but find initiating the conversation daunting. It's easy to postpone these conversations and frequently avoid them altogether. Having outside experts who specialize in both the art and substance of guiding families through these conversations can be invaluable.

I've witnessed firsthand how powerful these engagements can be. At the start, tension in the room can be palpable, with family members hesitant to open up. But as the discussion unfolds—facilitated with the right balance of structure and sensitivity—the dynamics shift. By the time lunch rolls around, the air is cleared, and the family is engaging in a much more collaborative and open dialogue. Everyone begins to understand each other a little more.

Seeing this transformation firsthand on numerous occasions has made me a firm believer: the so called "soft stuff" is actually the hard stuff because it's the human stuff.

There are good reasons why family office executives often hesitate to initiate these discussions. It might be a lack of experience in leading such conversations or the need to maintain objectivity in their role. Outsourcing these conversations to an experienced external party can be both prudent and strategic, insulating the family office executive while ensuring critical discussions take place.

More families needing to face these challenges has created an industry of professional consultants over the years. You can engage the UBS Family Advisory and Philanthropy Services team to get conversations started and to facilitate ongoing dialogue sessions, so that your family initiatives continue to evolve and you're supporting generational success.

In addition, there are now resources that may be more structurally suited or enterprise governance-centric resources for family offices to tap into, which include but are not limited to the following examples:

- Patricia Angus of Angus Advisory Group, LLC
- Josh Gentine of Bench Consulting
- Banyan Family Business Advisors

Financial advisors

This section deserves a much deeper dive but is worth covering here even at a high level. Some financial advisors have significant experience engaging with large and complex family offices. They not only have helped families build and construct large and complex investment portfolios (usually with a high allocation to alternative investments), but have also helped family offices navigate the financial ecosystem.

While some family office investment staff choose to go it alone, I think this is a mistake. Financial advisors from larger firms have scale and resources they can tap into on behalf of a family office. This can provide information it would be difficult to gather if the family office goes it alone.

The best advisors offer guidance and solutions, often serving a select group of other family offices. In addition to advice and resources, they can tap into the broad resources of their firms. This leads to better outcomes for the family and family office staff.

Advisor selection process

Of course, in choosing an advisor across an array of services, it is often prudent to undertake a request for proposal ("RFP"). This process helps you make an informed decision among a range of providers. Requesting several proposals helps to ensure that the selection is process-driven and that you can determine whether the advisor has experience working with other clients with similar complexity. Of course, having any counterparty sign an NDA/confidentiality agreement makes sense in many, if not most, cases.

An era of abundance

The intent of this piece is to highlight some of the resources now available for families and family office executives. There are people who have worked in and built family offices before. There are firms that can help you identify tech solutions that are right for you. There are external resources such as our own Advanced Planning Group that can help you navigate a nuanced tax or estate planning issue. Many aspects of managing a family office today can be outsourced and coordinated from inside, rather than being vertically integrated. Of course, there are trade-offs to this that must be considered.

For the family office executive, some things cannot be outsourced. Among them is a deep understanding of the family, its personalities and values, and the complexity of the family enterprise. Thanks to previous pioneers in the space, however, we now have maps and more robust resources to help family offices achieve better outcomes in the era of Family Office 3.0.

Mark R. Tepsich

Mark is the Family Office Design and Governance Strategist for UBS Family Office Solutions, advising families across the Americas on family office organizational design, structure and governance, as well as operational best practices and strategy to manage and sustain their wealth for future generations. Prior to joining UBS, Mark built a family office platform for an investment advisory firm and spent a decade as General Counsel for a large single-family office to a dynastic, multigenerational family.

What's the next career move for seasoned family office leaders?

Neil Kreuzberger
President and Founder
Kreuzberger Associates

A number of factors are driving strong demand for experienced family office talent, making it a buyer's market for seasoned family office leaders. Here's how you can build on your experience and extend your career in new ways.

I am often asked by seasoned family office leaders what makes sense for their next career move. They wonder what options are most viable at this "later stage" of their careers.

While there are several paths worth considering, let me first offer a few framing comments for context before we explore these career options.

> Trends are converging to create unprecedented demand for experienced family office talent.

Probably most significant is that the US family office human capital market is the strongest it has ever been, and it's not likely to slow down anytime soon. Several factors driving this high demand for talent have been gaining momentum since around 2016-2017, and while the COVID-19 pandemic caused a pause or slowing in hiring, it did not change any of the underlying factors driving this strong demand.

First, the massive wealth transfer currently underway is projected to reach $84 trillion over the next two decades, creating new opportunities for family offices.[1] Other factors playing a part include the ongoing generational transition in families, with retiring boomers stepping away from long-held roles, as well as the large amounts of capital within family offices, which now often operate like their own investment sector with wider decision capabilities and far more

[1] ***U.S. High-Net-Worth and Ultra-High-Net-Worth Markets 2023: The evolution of service delivery***, Cerulli Associates, 2023.

patient capital. In addition, family offices are evolving and professionalizing at an accelerated pace to improve their service delivery models for family members.

These trends are converging to create unprecedented demand for experienced family office talent. From a human capital perspective, the family office arena is essentially recession-proof.

Another key development in the past 10 to 15 years is the increasing use of external resources, i.e., consultants and advisors. For years families leaned on their CPA, estate attorney, operating company CFO or investment advisor, all of whom had impact and influence behind the closed and highly confidential family office inner workings. These individuals had proven their integrity, trustworthiness, loyalty and commitment to serving the family over many years, and the family relied heavily on their support.

Today however, that historical norm has shifted as many family office models are heavily leveraged and effectively supported by outsourced resources from third-party service providers. These services have evolved greatly and provide excellent resource options to families, from investment management oversight with OCIOs and MFOs, to large and small professional service firms providing accounting, tax and legal services, to complex and sophisticated back-office and operational platforms from a myriad of firms, to outsourced cloud-based technology and systems providers, and to firms that manage philanthropic initiatives for wealthy families.

And lastly, the wisdom gleaned from years of experience—including a few battle scars—is greatly valued in the family office world.

So what are some viable next career options for seasoned family office leaders? Let’s look at three:

1. Stepping into another family office leadership role

The first and seemingly most obvious path is to step into another similar and relevant family office leadership role. This can allow you to draw directly on your background and skill set. However, “available career runway” can quickly become a gating consideration in many of these situations, so the key for this type of move is to find a role with a shorter duration that can lessen the “available career runway” concern.

This could be a new role for an early-stage model helping to plan and execute the design and buildout of the evolving family office, particularly with financial management and operational initiatives. And once the foundational pieces are well in place, the leadership reins could be handed off. Another option is to serve in more of a transition role, perhaps helping to groom a next-gen family member for leadership by providing mentorship and guidance for a few years; and again, handing off the reins. Or it could be helping during a period of bifurcation, when next-gen family members have decided to divide assets and manage them with individual models rather than continue with a collective enterprise model. Finally, it could be to guide an office that is winding down—perhaps due to the death of a single wealth owner with no heirs, or where the wealth is being channeled entirely into philanthropic endeavors.

All of these scenarios are increasingly common in today’s growing and evolving family office landscape. And they all provide a compelling opportunity for a seasoned family office leader to make a meaningful impact, albeit over a shorter interim period.

2. Consulting for family offices

The consulting model is another viable path, where family office leaders provide outsourced services to one or more families. While this model has long existed in the commercial world, it has been less common in family offices due to privacy and confidentiality concerns. However, with the evolving trends and professionalization of family office leadership, engaging consultative resources to help with key initiatives has become a widely accepted and adopted best practice.

These models can vary greatly in size and scope. They depend on what the family office leader is looking to achieve and how much "consultative drive" they are willing to put into the effort. Several options can leverage the talents of an experienced family office leader, whether it is periodic help to a previous family office employer, helping a colleague with a new business initiative or building out a boutique consulting practice serving a handful of clients.

For those who find themselves concerned about prospecting for these consultative engagements, remember that we are in an exceptionally strong market for experienced family office leadership and some targeted outreach to one's network will likely yield viable leads.

3. Board and advisory roles

Finally, many senior leaders transition to providing board-level support and advisory services, where they shift focus from daily operations to offering strategic oversight and guidance. Common areas where they provide value include:

Governance and oversight:

- Strategic vision: Helping align family office operations with the family's long-term goals.
- Risk management: Providing insights into managing risks related to investments, regulations or succession.
- Family governance: Advising on structures that promote transparency and unity, such as family charters and conflict resolution mechanisms.

Investment strategy and allocation:

- Private market expertise: Guiding families in alternative investments such as private equity, real estate and venture capital.
- Asset allocation: Offering advice on preserving wealth through diverse investments.
- Manager selection: Evaluating fund managers to ensure investment strategies align with the family's risk tolerance.

Family dynamics and succession planning:

- Next-generation mentoring: Preparing heirs for leadership roles within the family office or businesses.
- Succession planning: Guiding families through leadership transitions, handling both the emotional and financial complexities involved.

Philanthropy and impact investing:

- Mission-driven leadership: Helping families align investments with their values, particularly as interest in impact investing grows.
- Nonprofit board experience: Providing insights into the structure and management of family foundations.

Operational oversight:

- Efficiency: Ensuring family office processes, compliance and technologies are optimized.
- Talent management: Assisting with recruiting and developing key staff to execute the family's vision.

Legal and regulatory expertise:

- Compliance: Keeping the family office in line with evolving legal frameworks.
- Estate Planning: Ensuring estate plans align with the family's wealth transfer goals.

Crisis management and mediation:

- Conflict resolution: Offering unbiased guidance during family or business conflicts.
- Crisis management: Strategizing to navigate sudden changes, such as leadership transitions or market downturns.

In these board or advisory roles, senior leaders provide invaluable guidance on governance, investment strategy, family dynamics and more. Their experience helps family offices navigate the complex landscape of multigenerational wealth management.

In conclusion

Before you consider retirement or a less active role, take a hard look at continuing your professional journey of serving families through these "next chapter" opportunities. The family office world is evolving and growing, and there's much to be done—families need your help.

Neil Kreuzberger

Neil brings more than 30 years of executive search and human capital management experience to clients in the family office, wealth management and high net worth arenas. Focused on the hallmarks of integrity, experience and exceptional client service, Neil has served as a trusted advisor to clients including single family offices, multifamily offices, captive investment management firms, investment companies, private foundations, and privately-held and/or family owned businesses across many different geographies and levels of organizational complexity. Neil holds an M.B.A. in Accounting and Finance from UCLA and is a licensed CPA (inactive) in California.

In conversation

Flying private

Key considerations and trends to watch

Craig Ross
Founder and CEO
Aviation Portfolio, LLC

Brittany Menke
Business Development
UBS Family Office Solutions

Clients want to know which vendors they should or shouldn't work with. They seek to understand the best mix of options with the flexibility to meet their needs.

Our Family Office Solutions conversation series features Craig Ross, the founder and CEO of Aviation Portfolio, LLC. Craig established Aviation Portfolio in 2011 to create a more equitable landscape in private aviation by allowing clients to leverage extensive industry knowledge, insights, relationships and proprietary industry intelligence.

Highlights include:

- Private aviation ownership options and the economics that warrant ownership
- Key considerations around signing contracts
- The biggest challenges facing the private aviation industry, topped by staffing and supply chain shortages
- What kinds of change the industry can expect from sustainability and technology
- Trends to watch, including the evolution of "Bleisure" in travel patterns and a resurgence of fractional vendors

Brittany: What are typical options for flying private that clients can choose from?

Craig: Clients can access private jets via three ways:

- Whole aircraft ownership
- Fractional ownership and pre-paid deposit programs
- One-off charter flight purchases

Brittany: Does Aviation Portfolio's business model offer services and guidance on all three services?

Craig: Yes, we operate two businesses to provide all three options for the optimal client experience: Whole Aircraft and Fractional/Card/Charter Advisory.

Most of our clients already own either a whole aircraft or a fractional contract and are experienced in chartering when they hire us. Individuals new to private aviation can also benefit from a relationship with Aviation Portfolio, as we optimize their private aviation investment with the best options in the industry for their needs.

Clients already understand the value of flying private and how it offers them more time for family or business. We establish ourselves as their trusted source of information by providing clear, honest answers to their questions, alleviating their concerns, and presenting the pros and cons of their options—free from conflicts of interest.

Clients want to know which vendors they should or shouldn't work with, and why a complicated itinerary might result in a less-than-perfect private flying experience. They seek to understand the best mix of options with the flexibility to meet their needs.

With our 30 full-time executives, we advise on nearly 100 flights each day and more than 30,000 flights per year. Before each flight, we review our clients' itineraries and objectives to ensure everything is in place to meet their expectations.

Our clients pay us an annual fee, regardless of the number of trips. Private aviation jet managers and brokers do not pay us a commission or referral fee. This independence frees us from any conflicts of interest. That's our secret sauce.

Brittany: Someone new to flying private might think purchasing their own aircraft makes the most sense, but that might not always be the best option. What is so enticing about whole aircraft ownership, and what should be considered before investing in a private aircraft?

Craig: Whole aircraft ownership represents the ultimate private flying experience. You're traveling on an aircraft with an interior you personally designed, operated by pilots you selected and trust, without blackout dates or restrictions inherent in other programs.

This freedom, however, comes with significant financial risk. Unexpected expenses from unscheduled maintenance, pilot recruitment and retention challenges, and other unforeseen costs can quickly escalate to hundreds of thousands or even millions of dollars beyond your initial budget.

The very flexibility that makes ownership appealing simultaneously introduces a level of risk and liability that isn't suitable for everyone. Before purchasing, carefully weigh these considerations against alternatives that may better align with your actual travel patterns and risk tolerance.

Brittany: When do the economics make sense to own a plane?

Craig: Flying at least 250 hours annually (not counting empty repositioning segments) without renting it out and assuming the aircraft is still under warranty or has a robust engine/parts program.

Additionally, there must be hangar space available at your home base airport, which can pose a significant challenge. Owning an aircraft is typically the most expensive way to fly privately; don't let anyone convince you otherwise.

Brittany: It seems like more and more fliers are leaning towards chartering these days, and there are numerous companies out there that offer those services. What should fliers know when comparing different charter options?

Craig: Lower frequency and entry level fliers lean charter, but more experienced and high-volume fliers tend to have programs such as fractional in their private aviation portfolio.

There are 2,000 charter operators in the US. There are about 11,500 aircraft (including turbo props and single engine aircraft) available for charter.

Private fliers should never sign an agreement without having an expert translate the fine print. The agreement may not address pilot experience requirements or service level guarantees. Beware of potential extra fees that may be added AFTER your flight. We have seen extra fees almost match the original cost of a trip.

Brittany: So, for someone looking for easy access to flights with less responsibility, they would look to chartering or fractional ownership. When and why would a flier choose fractional ownership over one-off chartering?

Craig: Fractional ownership makes booking flights and enjoying a familiar experience extremely easy. However, it involves a multiyear term, which means a much larger and longer financial commitment compared to chartering a flight.

Brittany: Overall, do you think private aviation clients are happy?

Craig: The majority are NOT happy enough. The happy meter tracks three significant issues: lack of education, poor communication and negativity bias. The first two issues speak for themselves, but I'll add a little more on negativity bias. Psychologically, negative experiences often have a stronger emotional impact than positive ones and are more memorable. This is especially true in private aviation.

Clients who understand the importance of including a specialist on their team and are willing to invest extra are more likely to have positive experiences.

Brittany: What are some of the biggest flight complaints?

Craig: You would think complaints about delays, dirty and dated cabins, and rude crew members would be the most common, but that is not the case. Most often, unacceptable WIFI connectivity is an issue, followed by complaints about catering and ground service.

Brittany: What do private fliers fail to ask before signing contracts and sending money to vendors?

Craig: They should assess the financial stability of the aviation company if they plan to pre-pay any money. The industry operates with significant debt and credit. Thousands of aviation companies have filed for bankruptcy during my 24 years in the industry.

Private aviation clients should ask to see the cybersecurity protocols of their vendors. These vendors are prime targets for hackers, as they have access to passport data, credit card data and private contact information such as e-mails and phone numbers.

Clients should request documents on pilot training and experience and have an expert translate the information. They should also inquire about who is responsible for maintaining the aircraft and whether that is done in-house or subcontracted.

Brittany: How important are third-party safety ratings?

Craig: Having a rating to reference is better than not having one, as visibility helps reduce illegal charters. Unfortunately, many safety rating agencies are pay-to-play and have been lowering their pilot experience minimums after being pressured by their clients.

Brittany: What are the biggest challenges facing private aviation?

Craig: Staffing and supply chain shortages top the list. There is a crisis among pilots and maintenance technicians. It isn't easy to find and retain qualified personnel for these roles. Despite increased demand, airport staffing, including customs, has not returned to pre-pandemic levels. Finding parts that used to take a day can now take a month. Some manufacturers have run out of loaner engines. The supply chain for rare minerals for parts that used to come from Ukraine and Russia has been disrupted.

Another challenge comes from private equity firms that have bought up many private terminals, known as FBOs, and now charge tens of thousands of dollars in landing fees on busy travel days. They have also rolled up the maintenance shops, known as MROs, doubling labor costs, which are still increasing. All these costs eventually get passed down to the private flier.

In addition, private travel demand has exploded, and many airports are running out of hangar space, parking space and airspace. These infrastructure limitations cause delays, increased costs and frustration. Due to these external factors, what used to take 45 minutes to prepare for a flight now often takes a crew 90 minutes. That creates disruption.

Brittany: How big an issue is sustainability in private aviation?

Craig: Clients in the US do not actively raise this issue. However, some aviation companies have taken a leadership role in reducing their environmental impact. They offer programs focused on promoting sustainability, ensuring regulatory compliance and decreasing their carbon footprint. Sustainability is a major concern for European governments. France recently implemented a "disaster tax" on private jet departures, which took place on March 1st of this year.

The industry is also focused on advancements in Sustainable Aviation Fuel (SAF). Essentially, SAF is a type of jet fuel produced from sustainable feedstocks, which aims to lower air travel's carbon footprint.

Brittany: Will technology revolutionize private aviation?

Craig: Not in the ways people expect. There will never be an Uber for private jets. AI won't solve empty legs. The cost of flying private won't decrease.

The most significant impact will be on manufacturing and maintenance. Enhanced technology will definitely improve the user experience, though I wouldn't call it revolutionary.

Brittany: What new trends do you see arising in the private aviation sector?

Craig: I am seeing a number of trends. Our clients are getting much younger and flying on larger aircraft. Fractional vendors have seen a resurgence. The number of charter brokers and travel agents has surged to 16,000 yet they are still not required to hold any license or certification. Annual budgets and planning for whole aircraft ownership are not keeping pace with the current environment and its realities. And finally, "bleisure" has taken the place of business travel and flying patterns have evolved.

Craig Ross

Craig founded Aviation Portfolio in 2011 to create a more equitable private aviation market by empowering clients with extensive industry knowledge, insights, connections and proprietary market intelligence. In 2001, Craig became a founding member of Marquis Jet and relocated his family from New York City to establish their West Coast/Entertainment office in Los Angeles. He served as the Chief Strategy Officer and Chief Operating Officer at the time of Marquis Jet's sale to NetJets, a Berkshire Hathaway Company. Craig has built a reputation as a highly knowledgeable resource for corporations and high net worth individuals seeking assistance with their private aviation needs.

Brittany Menke

Brittany is a Business Development Associate with UBS Family Office Solutions, where she executes strategic business development initiatives for ultra high net worth clients, with a particular focus on family offices. Brittany manages the UBS Professional Network, a select group of external service providers that complement existing in-house offerings.
She is also the US Relationship Manager for the Growth Entrepreneur Network and the Industry Leader Network, two exclusive UBS networking and leadership development communities. Brittany graduated from Hofstra University with a B.A. in business administration with a minor in legal studies in business.

Want to learn more about Family Office Solutions?

Family Office Solutions is a team of specialists that works exclusively with qualified US ultra high net worth families and family offices. The team helps clients navigate the challenges and opportunities across their family enterprises, including their businesses, family offices, philanthropic structures, and passions and interests. Having this expertise under one roof allows for integration and layering of services across the UBS ecosystem, delivering a personalized, holistic client experience.

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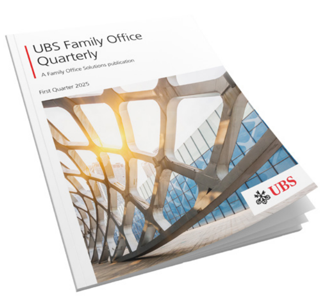

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