

# NMS EXCHANGE

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By *Natasha Pearl*,  
CEO and Founder,  
Aston Pearl

## The Single Family Office: It's Not Just About Investing

Almost all of our clients tell us that they would like more time for the activities they enjoy. Think of what you like to do the most – playing with children or grandchildren, investing, philanthropy, travel, learning, enjoying the company of friends, collecting art – and about how much time you actually spend **DOING** those things. If there is a gap, it surely affects your quality of life.

Seems obvious. So what prevents our clients, who have unlimited financial resources, from spending time on what they enjoy most? Almost always, it's because family members are personally responsible for time-consuming activities that could be handled by the SFO. Some examples:

- ◆ Coordinating various aspects of three, four or more homes
- ◆ Managing private staff
- ◆ Setting up and maintaining home computers and various tech devices
- ◆ Travel arrangements
- ◆ Event planning

Why are wealthy family members so often in “do it yourself” mode? Every family has different reasons: To save money, to keep total control, because once it was handed off to someone outside the family and it was a disaster, to ensure it is done the “right” way, etc.

Cost savings are often mentioned as the reason. Well, how do you value your time, and that of other family members? If it takes you three hours to deal with an annoying iPad connectivity problem, maybe you're ok with that. If, on the other hand, you wanted to use those three hours to explore emerging markets private equity managers, or play with your kids, or read the document packet for the upcoming trustee meeting – think about it.

What's the answer? Move these activities to the SFO, ensuring ongoing careful control and consistency. This is the path to avoiding mistakes and disruptions, and increasing service levels.

In case improving quality of life and reducing errors are insufficient motivation, let's look at risk and liability. So many families are taking risks with private staff—classifying staff as contractors who should be employees, not requiring annual background checks and non-disclosure agreements, no petty cash documentation. Others are inconsistent in fleet management – and as a result, automobiles go unregistered, insurance is not updated to reflect changes in use, and this all goes unnoticed until there is an accident or moving violation.

The first step is to identify the key areas for potential SFO oversight and management:

- ◆ Residential operations management
  - ◇ Renovations
  - ◇ Vendor selection and management

- ◇ Human resources support for private staff
- ◇ Household budgets (and analysis of household expenses)
- ◇ Household supplies inventory
- ◆ Collections management for art and other items
- ◆ Fleet management for vehicles, watercraft and aircraft
- ◆ Preventive wellness oversight for all family members
  - ◇ Medical—A gentle voice reminding family members to obtain checkups and preventive medical services
  - ◇ Nutrition
  - ◇ Exercise
  - ◇ Stress management
- ◆ Care management for family members requiring assistance (elderly and the disabled)
- ◆ Education (for children and for family members on various topics)
- ◆ Travel coordination
- ◆ Event planning (including setting up a book club or play-reading group, or a travel club to visit special places)
- ◆ Family meetings
- ◆ Security (physical and on-line)
- ◆ Information technology (hardware, software, and privacy)
- ◆ Philanthropy
- ◆ Emergency planning (medical, natural and other disasters)
- ◆ Reputation oversight and management
  - ◇ Monitoring the internet and media for mentions of the family

Family members should then undergo an analytical process to determine what role they will play in each of these areas:

1. **Do I enjoy working on this, does it interest me?**
2. **Am I good at it, do I have the expertise required?**
3. **Do I truly have time to do it, or is it likely to be pushed to one side?**

Unless a family member can answer “yes” to all three questions, the SFO is the right place for management and oversight.

Now, how might the SFO organize itself to accomplish this? There is much chatter about how to best to structure the SFO for investing success – with various solutions proposed that include outsourcing the Chief Investment Officer, retaining consultants, setting up an Investment Committee with non-family members, obtaining external due diligence support, and so on. But what about the “quality of life” functions? *[Continued on Page 14]*

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The functional area can be called "Family Services" or something similar. The person who heads Family Services needs to be an "expert generalist," a term created by Mack International (executive recruiting firm handling SFO executive search). In other words, this person needs to know enough about the various areas to be able to assess the family's needs, determine the specific activities that need to occur, and to identify qualified providers. In some cases, external service providers need to be engaged; in others, in-house staff can be deployed. In all cases, the head of Family Services must be skilled at oversight, knowing what monitoring and reporting is needed to ensure that all is running smoothly.

For some families, the Head of Family Services will be sufficient to handle these activities. For others, with more complexity and/or family members, the functions are divided up between multiple individuals, who run groups of activities. As has often been said, when you've seen one SFO, you've seen one SFO, and each Family Services organization will be unique to the family that it serves.

For families that have Estate Managers who are responsible for operations of multiple homes and private staff, the best practice is for this individual to have dual reporting – into the principal/s and also into the Family Services area. In this way consistent standards of service and risk management can be enforced across all residences and all staff. Just a few examples of the benefits of this approach:

- ◆ **Residential operations management.** The office can analyze costs for services across multiple residences and compare. Why does window washing cost three times as much in Home A vs. Home B? Maybe A has 3 times as many windows, but on the other hand, more likely that the vendor is overcharging.
- ◆ **Fleet management.** The office can register all the autos, ensure that mandated inspections are completed, ensure that insurance is current and evidence of insurance is inside each auto. For private aircraft,

if outsourced to a management company, that firm generally is not thinking of the long run or the family's holistic set of needs. The family might do better with fractional. Or perhaps the family is currently fractional but should be chartering, and need assistance in identifying a safe provider.

- ◆ **Collections management for art, jewelry, and other items.** Whether a collection is established and built, or a work in process with constant new additions, a steward is needed to be sure all is accurately inventoried, documents preserved (purchase receipt, provenance, etc.) and locations known. A surprising number of families have art in storage for many years. Unfortunately this can lead to deterioration, unexplained losses, etc.
- ◆ **Information technology support.** Clients arrive at another home only to find that the internet isn't working. Or that when you press "Channel 5" on the remote, it's not the same "Channel 5" that it was when you were last there. And who do you call to fix this? Often families don't know who to call and that causes another delay. Well-maintained vendor lists and maintenance calendars can help with this.
- ◆ **Eldercare.** Older family members are sometimes resistant to attempts made by their children to address their medical and quality of life needs. An objective third party in the SFO can identify care management support and ensure that both ongoing and emergency needs will be met, and the seniors can "age in place" happily rather than moving to assisted living.

In summary, we believe that the Family Services function within the SFO is vital to provide consistent and professional management and oversight of these important areas. The benefits are clear: greater peace of mind, more time, and higher quality of life.