Virtuous Circles:

# Sustainable Family Governance Models in an Evolving Environment


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# Foreword

The research output of the *WealthBriefing* Group encompasses every element of the wealth management sector and often ventures into hitherto under-considered areas as well as ubiquitous topics. Our in-depth analyses of regional External Asset Manager markets and explorations of new technology applications are cases in point. However, among all the subjects we tackle, our growing suite of research focused on the family office space is a source of particular pride.

Because families of great wealth are more able to take a longer-term view and don't experience return constraints in quite the same way as other investors, they can often be seen to be leading the way for the wealth management sector at large. Nowhere is this truer than in their transformational deployment of private wealth for public good. Along with families' time-honoured dedication to philanthropy, their ESG (Environmental, Social and Governance) and impact investing strategies are helping to solve global problems in ways which public money often simply cannot.

Yet as this paper explores, the success of these efforts, not to mention the ongoing success of families themselves, depend upon robust governance frameworks being in place. Aside from setting down practical rules for how the family conducts itself and its interests (although they certainly are invaluable in that), these governance programmes form the basis for meaningful action in the wider world based on their most deeply held values. A formal articulation of these, while perhaps difficult, is the platform from which actionable ESG purpose springs.

We are delighted to have partnered with Jersey Finance, the promotional body of Jersey's international finance centre, to explore what are undoubtedly some of the important issues in family wealth management currently – and to have had contributions from such an illustrious array of experts in this area. Our thanks go to them, and all the advisors who took part in the survey upon which this paper is based.

**Wendy Spires**
**Author; Head of Research,**
***WealthBriefing/Family Wealth Report***

With six decades of experience, Jersey has earned a reputation as a leading jurisdiction when it comes to supporting individuals and families with their cross-border wealth management, succession and legacy planning objectives.

Over those six decades, Jersey has adapted to a constantly evolving private wealth landscape, as clients have become more sophisticated and diverse in their investment strategies and had to react to increasingly complex international regulatory and transparency initiatives.

Today, Jersey firms manage in excess of £600 billion in private trust structures, with clients spanning the Americas, Europe, Africa, the Middle East and Asia-Pacific.

And the private wealth revolution continues. Digital disruption is fundamentally changing the environment wealth advisors are working in, large scale wealth transfer is placing a major emphasis on the attitudes of the "next gen", and there is an increasingly strong sense of stewardship and responsibility as clients assess their place in the world in the wake of a global financial crisis and a pandemic that has led to perhaps the greatest shared period of mass disruption in a generation.

Jersey has long supported clients with responsible and sustainable asset and wealth management solutions, impact investment and philanthropic endeavours – and earlier this year, Jersey Finance launched its own sustainable finance strategy and vision, designed to put Jersey on a path to being recognised as the leading IFC for sustainable finance in the markets it operates in by 2030.

There's no doubt, though, that the pandemic has served to accelerate thinking and best practice in the sustainable finance and ESG space and, as we emerge from the pandemic, it is an opportune time to analyse how attitudes to sustainable finance are changing and ask some fundamental questions about what that means for private wealth professionals.

This is a long-term trend and advisors will need to ensure they are at the top of their game in sustainable finance if they are to remain relevant to their clients. The findings of this report will provide a robust framework and useful insights into best practice in this area as it continues to evolve.

**Robert Moore**
**Director - UK,**
**Jersey Finance**

# Editorial Panel

## Catherine Grum
**Partner, Head of Family Office Services, BDO**

Catherine is a partner at accountancy and business advisory firm BDO, and leads the firm's Family Office Services group. Her practice focuses on family offices and enterprising families. She advises families and individuals throughout the process of transitioning wealth and across the family office lifecycle from entrepreneurs to established family offices and the next generation. Her specialisms include family governance, family office creation and philanthropy.

## Dr. Emiko Caerlewy-Smith
**Founder and CEO, KIT Consulting**

Emiko is Founder and CEO of KIT Consulting, a Jersey-based management consultancy specialising in sustainable finance. KIT helps a global client base to build sustainable businesses, products and services; practice corporate social responsibility; and, leverage the competitive advantage of ESG integration. Emiko is also lead capital markets advisor to HRH The Prince of Wales' Accounting for Sustainability Project (A4S), working across global capital markets to integrate ESG.

## Richard Joynt
**Director and Head of Family Office, Highvern**

As well as having expertise in financial accounting and strategic financial planning, Richard has devoted the last 20 years of his career to the family office sector. At Highvern, he is responsible for managing some of the more complex client relationships, often with innovative structures. He previously served as the Director of a prominent single-family office and led the multi-family office division of an international fiduciary services firm, dealing with UHNW individuals and their families from jurisdictions including Europe, the US, the UAE and Russia.

## Rupert Phelps
**Partner – Family Wealth Group, Smith & Williamson**

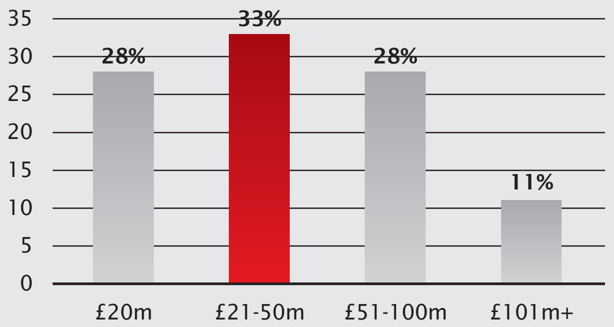
Rupert is the Partner leading Smith & Williamson's Family Wealth Group and gives strategic advice on family governance, family constitutions and councils, succession planning, setting up single-family offices, philanthropy and next generation preparation. He has worked with business-owning families and SFOs all his career and has served on the board of the SFO of an international family.

## Warren Thompson
**Managing Director and Head, Coutts Family Office and UHNW**

Warren joined Coutts from Lloyds Private Banking in 2003 and has built over 20 years of experience in the wealth management industry. Specialising in Ultra High Net Worth families, he joined the Coutts Private Office in 2006, subsequently taking over leadership of the business in 2015. In December 2020 his role expanded to drive strategic and propositional developments for both UK based and international UHNW families across Coutts and the NatWest Wealth division. The first stage of this strategy commenced in January 2021 with a re-launch of the business as Coutts Family Office.

# When does formal family governance become essential?

**Exhibit 1**
**Formal governance a must from $50m in assets**




Family governance may be a somewhat nebulous term, but can be broadly defined as a programme formalising how information is shared and decisions are made, both within the family and in relation to those managing their assets, which encompasses what the family members' financial and broader expectation are concerning their legacy. Put in those terms, implementing a governance framework is likely to seem common sense for any family of significant assets – and essential when they become Ultra High Net Worth.

According to our survey of family wealth practitioners, a clear majority (61%) of advisors believe that enterprising families should definitely have a formal governance programme in place by the time they have £50 million in assets. However, within this a substantial 28% put the threshold at a far lower £20 million.

While a family's level of assets is certainly an important indicator, it is the complexity this implies which often actually the real trigger. "The need usually arises when there is a bit of a strain showing, whether that's because the numbers have got larger or there is some other degree of complexity that's putting the strain on," says Catherine Grum.

**"What mainly drives it is a lack of information around what's going on for those not working in the business."**

**Catherine Grum**

As she explains, although families may still be getting on well, tensions can start to bite as early as the second generation when some members are directly involved with the family's assets and others are not, particularly concerning distributions and dividends: "What mainly drives it is a lack of information around what's going on for those not working in the business."

## Uniting disparate branches of the family

The sheer growth of the family (and so perhaps the emergence of subtle factions) is of course another hugely important driver. "The recognition that there are disparate branches of the family really is a call to action for the advisors around the family and the family themselves," she continues, reasoning that in the second and subsequent generations it is not uncommon to find family members feeling somewhat dissociated both from each other and the assets. Disputes as to how they are used then become far more likely.

Furthermore, as Richard Joynt highlights, asset holding structures created with the best intentions can actually create a pernicious sense of disenfranchisement.

**"If a family isn't communicating and they've put all the power in the hands of the trustees, you can have a situation where the beneficiaries of the trust structure feel disempowered as they never know what they are going to get and why; or what will be said yes or no to."**

**Richard Joynt**

"If a family isn't communicating and they've put all the power in the hands of the trustees, you can have a situation where the beneficiaries of the trust structure feel disempowered as they never know what they are going to get and why; or what will be said yes or no to," he says. "These might be people in their 40s, 50s or 60s with families of their own. We're all taught to have our financial plan, but if your income stream is uncertain and you're not sure when and why it's going to come, that's very disempowering for an adult." As with all matters of family harmony, open communication is key.

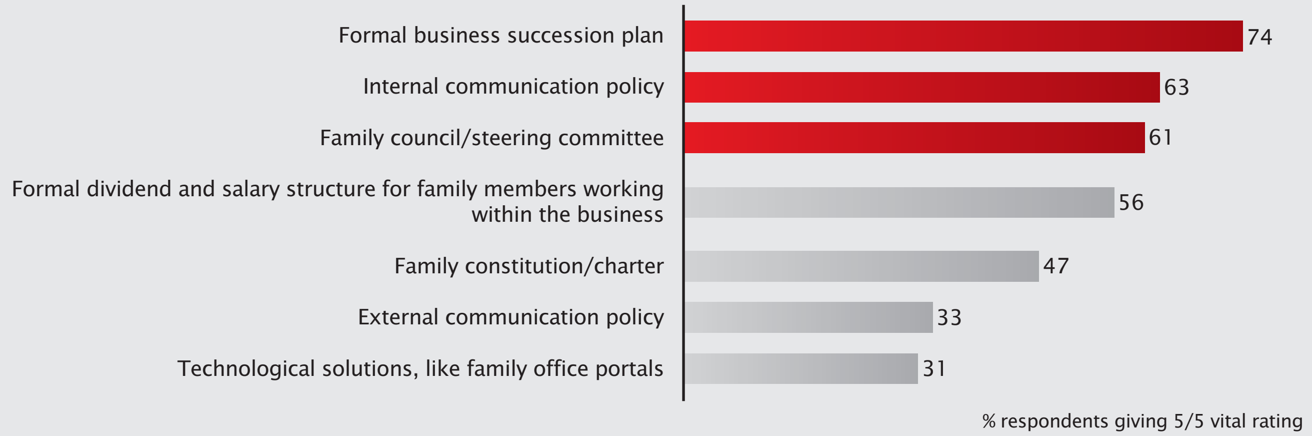
The broader antidote to disaffection, Grum argues, is for family members to reconnect and align with a common shared purpose by reflecting on the building of the business; how family members contributed; and how they have overcome adversity together in the past.

She also advises that a families should also confront the question of why they continue to hold assets as a group *at all*, so that if alignment is proving impossible other options can be explored while relations are still relatively good. If it can be agreed that the benefits of joint ownership outweigh negatives like a loss of individual control and that the family does indeed have a sense of shared purpose, then the scene is set for a formal governance programme to be developed.

# What are the vital ingredients of a family governance programme?

**Exhibit 2**

**Many useful elements, but only a handful are seen as vital**




In formulating a governance programme, a formal business succession plan, an internal communication policy and a family council or steering committee are regarded by advisors as the top three vital ingredients.

However, around half also see a family constitution or charter, and a formal dividend and salary structure for family members working within the business as essential. Though less popular, external communication policies and technological tools like family office portals are also regarded as musts by a third. That is admittedly quite a list. However, the experts assert that although family governance programmes can certainly become quite expansive, families should remember that there is nothing wrong in starting small.

**"Governance is really about having a framework for sharing information and decision-making and it should be remembered that families of all types tend to have some kind of informal governance process in place. You can build up and get a lot more complex than that, but it doesn't have to be initially."**

**Catherine Grum**

"Governance is really about having a framework for sharing information and decision-making and it should be remembered that families of all types tend to have some kind of informal governance process in place," says Grum. "You can build up and get a lot more complex than that, but it doesn't have to be initially." As she additionally observes, "Breaking it down into manageable chunks, rather than creating this big end-to-process, can also mean that people are more willing to make a start."

**"There's doing the end-to-end and complicated stuff and there is also just getting going.  What we're seeing increasingly is that first-generation wealth creators are really writing their own rule books. They are starting governance frameworks, but on a light touch basis for their children."**

**Warren Thompson**

And, while advisors should certainly advise and bring their professional expertise in these matters to bear, they should also be aware that dynamic modern founders are doing things *their* way when it comes to governance. "There's doing the end-to-end and complicated stuff and there is also just getting going," adds Warren Thompson. "What we're seeing increasingly is that first-generation wealth creators are really writing their own rule books. They are starting governance frameworks, but on a light touch basis for their children."

# Succession planning as a first step?

Enterprising families are famed for taking a long-term view with their businesses. Their ability to think in quarter-centuries, rather than quarters, and so to prioritise purpose alongside profit, is widely held to confer a special kind of strength. Paradoxically however, research consistently finds that globally only around 30% of enterprising families have formal succession plans in place[1] – this despite the fact that a full 74% of advisors believe a formal succession plan is vital (see Exhibit 2).

**"Among all the threats to wealth succession families face - politics, economics and pandemics included - a lack of communication and sharing is the biggest."**

**Warren Thompson**

Advisors have long agreed that formalising how the management and ownership of a family's business empire and other assets should be transitioned is absolutely crucial in avoiding the confusion and potential for conflict that so often arise in the absence of a succession plan, and which can destroy not only financial value but seriously damage familial relations too. As Thompson observes: "Among all the threats to wealth succession families face - politics, economics and pandemics included - a lack of communication and sharing is the biggest."

But today, with sustainability in both business and investment strategy higher on the agenda than ever, the importance of effective succession planning is being seen in a far broader sense – that of bridging the founding and future visions of the family to safeguard a legacy which impacts positively on the world as much as for its own members.

Set against their great value in ensuring business continuity, promoting harmony and projecting families' values into the future, the paucity of formal succession planning is striking. It is, however, understandable due to a range of often tightly interlinked factors, not the least of which is the layering of family dynamics on top of business issues which makes these enterprises distinct from any other kind.

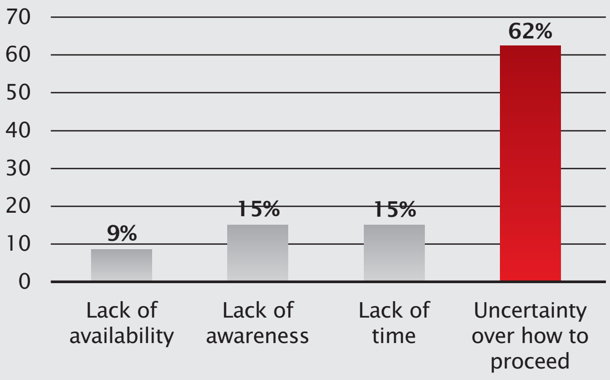
A lack of time is naturally a significant factor since, as our contributors pointed out, all the focus can tend to be on the business and particularly so if dynamic founders are reluctant to cede control even well into old age, which is often the case. Also important are inadequate awareness among families and a (perhaps perceived, rather than real) dearth of available expertise. Although a sensitive approach is essential, our contributors believe it is incumbent on practitioners in the space to work to tackle all three.

As Joynt observes: "I often sense that when advisors are brought to carry out specific asset structuring or transfer tasks, they feel it is not their place to raise succession planning and family governance issues; they don't want to overstep the mark. My approach in recent years has therefore been to ask, quite passively, if these are areas they've looked at, and if not then to offer an introduction to someone who consults with families on succession and governance."

Such expert consultation is of course the key to removing the biggest barrier of all to succession planning, as identified by 62% of participants in this study: uncertainty over how to proceed.

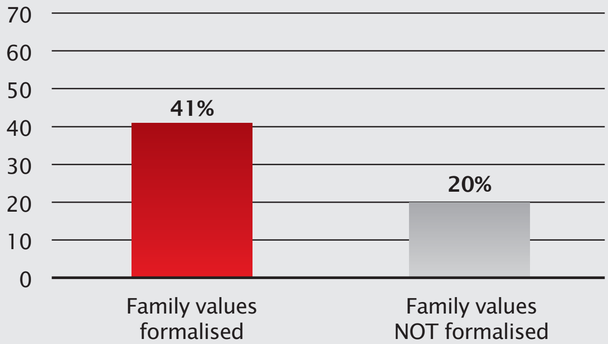
## Exhibit 3

**Uncertainty over how to proceed the biggest barrier**




## Exhibit 4

**Formalised values doubles the likelihood of succession plans being in place**




Source: PwC, Global Family Business Survey 2021

Comments from advisors participating in this study included that "many simply don't know what the options are" and that families "often don't know whether to tackle the business, family values, legacy or their investments first".

For the expert contributors to this report there is no such confusion, however. For them, clearly articulated family values have to form the foundation of all succession and family governance efforts to be truly effective. Indeed, PwC has discovered a compelling correlation between them: 41% of enterprising families which have formalised their values in a written form have a robust, documented and communicated succession plan in place, against 20% for other family businesses[2].

Interestingly, PwC's research suggests that enterprising families are actually prioritising the formalisation of their values over succession planning to a considerable degree: while only 30% currently have succession plans in place, 51% have a documented vision and written purpose statement[3].

There is, of course, something of a paradox here in that the urge towards guarding vision and values often doesn't find expression in the making of practical plans to embody them.

# Laying governance foundations through ESG factors

Succession planning may top the to-do list for families according to our survey participants. However, the consensus seems to be that the foundations for these should be laid in a working out of shared values and objectives, since the family purpose is the foundation for both the family's governance framework and investment strategy to be built upon. As such, judgements around Environmental, Social and Governance (ESG) factors are increasingly both the driver *and* the result of governance deliberations.

As Grum puts it, "Think of a virtuous circle: family governance gives the family a platform to work out their shared purpose and values, and where ESG considerations play, which can then drive their strategy around those aims." Indeed, as she points out, a family should really have sound governance in place for itself before it can look to project and promote this value into the wider world through the management of its business and financial assets.

> **"Looking at all the forms of family capital is a great way of establishing values, purpose and mission, and also getting the next generation involved."**
>
> **Rupert Phelps**

For Rupert Phelps, the starting point is to ask, "What is it for?", the "it" being the family capital in its entirety. For him, financial capital is just one sub-set alongside the human, intellectual, social and spiritual value the family has accrued. "Looking at all the forms of family capital is a great way of establishing values, purpose and mission, and also getting the next generation involved," he says.

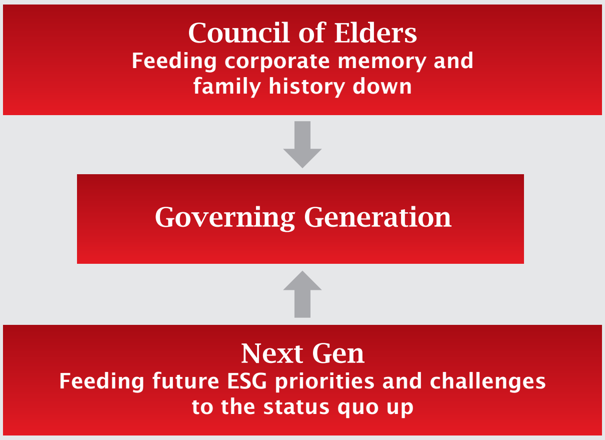
The structure (and style) of a family's governance bodies should reflect its values too, Phelps advises. "The horizontal model is obviously a wonderful way of including people, while the vertical model gets things done, but can be problematic if it's overly hierarchical and dictatorial," he says. "In my opinion, successful families combine the two."

"The one exception where vertical can be really good is where you have the next gen feeding up their ideas on what matters, offering challenges and really getting involved in decisions," Phelps continues. "Then you might look to have a board of elders beyond the governing one feeding in too, as their corporate memory and family history can be such a useful input."

## Exhibit 5

**Family capital split into its constituent parts**

## Exhibit 6
**Horizontal and vertical models combined**




## Generational differences concerning ESG

When it comes to whether ESG principles or the pure financial imperative is prioritised in investment strategy, our survey suggests advisors believe the founding/older generations of a family and the next gen are likely to be in almost exact mirror-image opposition (Exhibit 7).

It is widely accepted now, however, that seeing financial performance and ESG aims as a binary choice is largely a false dichotomy: sustainable equity funds and sustainable taxable bond funds outperformed their non-ESG peer funds by a median total return of 4.3% and 0.9% respectively in 2020[4]. What is more, it may simply be the case that the older generations are less vocal and though they might not be quite as engaged as the next gen on today's all-pervasive theme - the environment - their commitment to ESG is just as strong in other ways. In fact, on this point it is instructive to see that while 40% of wealthy families have climate change as an impact investing priority, education and healthcare score significantly higher at 63% and 50% respectively[5].

Having heterogeneous voices and attitudes within wealthy families is likely to be a very good thing for the world, since as Dr. Emiko Caerlewy-Smith explains, this results in a far more comprehensive approach to ESG:

"It's obvious that the millennial and Gen Z generations are the ones focused on climate change, but research shows that the elder, silent generation are very much on the social side of things in ESG, prioritising social justice and harmony - and extending that to their own families. The governing generation of baby boomers, meanwhile, are very much focused on ensuring that their investments and businesses are well governed.

"This can result in a lovely blend of different focuses across the generations which can really mean that these families have a holistic approach to ESG investing and business creation."

Correspondingly, she observes that families are becoming acutely aware of all the ESG risks inherent in the totality of their investment portfolios, meaning that potential returns are increasingly being seen through this lens in the private equity and venture capital spaces, as well in traditional asset classes. Perhaps more impactful still is the way that ESG concerns are influencing the management – and creation – of family businesses themselves.

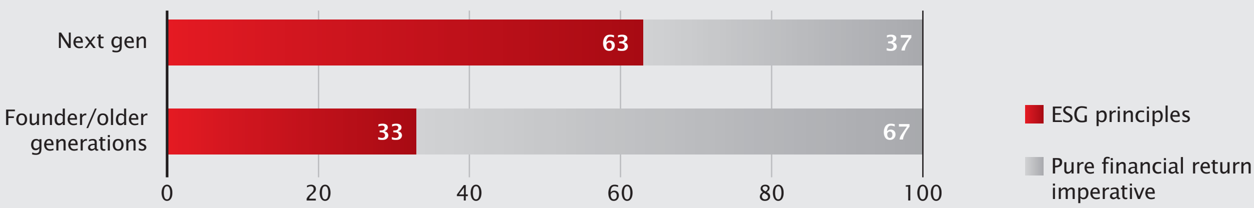
Along with the other experts, Phelps sees a real shift in focus here. "One way to explain the ESG zeitgeist is that we've gone from focusing on shareholder value to *stakeholder* value, which takes in suppliers, supply chains and indeed whole communities."

> **"In families' own businesses we're very much seeing a shift towards entrepreneurship creating social enterprises."**
>
> **Dr. Emiko Caerlewy-Smith**

This quest to generate wider, shared value "means that in families' own businesses we're very much seeing a shift towards entrepreneurship creating social enterprises," says Caerlewy-Smith.

"More and more family businesses are looking to invest in the circular economy," she continues. "I'm aware of one family with strong Mediterranean connections who have a circular business that pays local fisherman to fish plastic out of the sea. That is generating real revenues which are being put back into communities to train fisherman to make a living in different ways. It's tackling the overfishing and plastic problems simultaneously."

## Exhibit 7
**Generational attitudes to ESG vs returns**



# Establishing ESG-focused KPIs (and evolving them over time)

**Exhibit 8**
**The capital deployment spectrum**


As Phelps contends, thinking about family capital in its constituent parts can be very helpful in crystalising what really matters to the family – and what it can commit to achieving out in the wider world through the way in which it behaves as a corporate and investment entity. Yet as ever, what matters needs to be measured. Viewing family governance, corporate practice and investment strategy through an ESG lens therefore calls for whole new approach. As Joynt observes, both the family and its assets will need to have entirely different Key Performance Indicators applied.

He explains: "If you are serious about ESG, you need to look at different factors to see if things are going well and goals are being met. You need to be forward rather than backward looking, and focused on where a company is going, rather than its financial results for last year. This calls for a completely different way of reporting from investment managers.

**"If you are serious about ESG, you need to look at different factors to see if things are going well and goals are being met. You need to be forward rather than backward looking, and focused on where a company is going, rather than its financial results for last year. This calls for a completely different way of reporting from investment managers."**

**Richard Joynt**

"Families are then seeing that the same principles also need to be applied to their own governance, because that also requires a forward-looking set of KPIs to track how they're doing."

There should also be a recognition that things can – and should – shift over time, he argues. "As the ESG movement evolves and changes, your strategy will need to as well. We've got to accept that there will be learning along the way and whatever path a family sets, they're going to have to alter it. The question is, how do we plot a course for all these themes across both issues?"

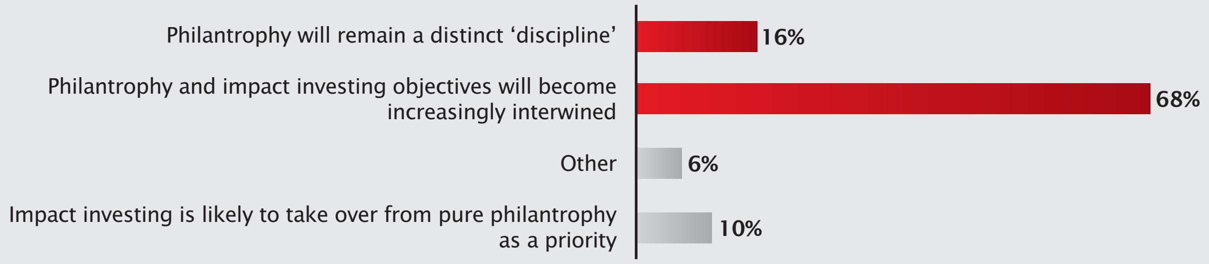
**"That can be articulated in various ways, but I think of this as financial only, financial first, then ESG/sustainability thematic, then high impact, impact first, impact only and charity. The key is to reflect that where a family is with its various endeavours can, and probably should, change significantly over time."**

**Rupert Phelps**

As Phelps points out, it can be particularly helpful for families to think of their business and investment interests - either in whole or part – in terms of an aims spectrum (Exhibit 8). "That can be articulated in various ways, but I think of this as financial only, financial first, then ESG/sustainability thematic, then high impact, impact first, impact only and charity," he argues. "The key is to reflect that where a family is with its various endeavours can, and probably should, change significantly over time."

# Will impact investing eventually subsume pure philanthropy?

**Exhibit 9**
**Philanthropy and impact investing are set to co-evolve**




The rise of impact investing – where investments are made with the aim of generating positive social and environmental impacts alongside financial returns – has been stellar in recent years: in 2020 the market size of impact investing stood at US$715 billion, rising an incredible 42% from US$502 billion in 2018[6].

> **"Families are starting to look at things much more holistically. It's not a barbell approach with investment strategy and philanthropy at either end, but rather them ensuring they are aligned across everything they do, including setting up their family office with an ESG lens."**
>
> **Catherine Grum**

Since they are uniquely placed to make significant investments without being under quite the same pressure to make returns in the shorter term as other institutions, family offices have been playing a very significant role in this growth. Estimates vary, but it seems that a quarter at the very least are engaging in impact investing[7] and by 2025 allocations are expected to have risen by over half to 14% of total portfolios, compared to 9% in 2020[8] These numbers are set to soar even higher in the decades ahead as 61% of the next generation of wealth inheritors are regarded as engaged in impact investing, compared to 47% of their parents today[9].

That families increasingly seek to yoke together doing good for the world and doing well financially can be seen as a broader breaking down of a siloed approach to deploying capital which in the past will have been ineffective at best, and counterproductive at worst. As Grum explains: "Families are starting to look at things much more holistically. It's not a barbell approach with investment strategy and philanthropy at either end, but rather them ensuring they are aligned across everything they do, including setting up their family office with an ESG lens."

## A powerful cohesion tool

This more holistic, proactive approach does however pose interesting questions as to whether philanthropy in its time-honoured form will continue to be as important to wealthy families as it historically has been, or if it will be subsumed into impact investing to some degree.

According to our survey of advisors, 10% believe this will indeed be the case, whereas 16% are adamant that philanthropy will remain a distinct "discipline". The vast majority (68%) however sit in the middle, believing that the objectives of impact investing and philanthropy will become increasingly intertwined.

As the expert contributors to this paper point out, the merits of philanthropy in its pure sense are manifold for the family itself. Indeed, according to Phelps, "Philanthropy is absolutely essential for any family that wishes to be long term in any regard of that phrase."

As he explains, when correctly executed philanthropic programmes can act as a powerful cohesion tool or "glue" holding families together through their most deeply felt convictions, as well as being an excellent way to instil the family's values into its younger members. "If one looks inside at the family, the educative benefit of intelligently planned and engaged philanthropic activity can be transformational," says Phelps. "Its ability to train the next generation in so many ways is just astonishing: you can really see changed behaviours and an opening up of children who may have had somewhat narrow lives."

No less important is the way in which philanthropy provides a route for families to deploy their often very powerful *social* capital. “Obviously there needs to be financial capital to fund philanthropic activities, but being involved in them also shows a wider appreciation of the family capital and their role in the community,” he continues. “Again, it’s this idea that business does not exist in a vacuum and shouldn’t be seen as something separate without a context.”

## Going where other capital can’t

Yet perhaps the most salient reason why philanthropic giving will remain a vitally important part of family wealth management is its ability to achieve things impact investing simply cannot. In simple terms, there will always be crises - like wars and famines - which call for immediate donations to alleviate suffering. And, while an admirable level of innovation is happening in the impact investing space, there will always be causes which just cannot be productised to generate a financial return.

It is clear that philanthropy will continue to play a crucial role in building a better society. Yet the growing intertwinement of its objectives with those of impact investing predicted by our survey respondents can only be a good thing for both disciplines. A virtuous circle of each feeding into the other will powerfully amplify results.

We are already seeing with social impact bonds how philanthropic capital helps sustain start-up projects until they become viable impact investment opportunities, for instance. On the flipside, impact investing can be seen to be accelerating the professionalisation of giving so that strategy and measurable results come to the fore. The growth of donor-advised funds in the US, with their focus on efficient allocation, is emblematic of this trend (particularly when yet-to-be-deployed capital is invested along ESG lines too, completing the circle).

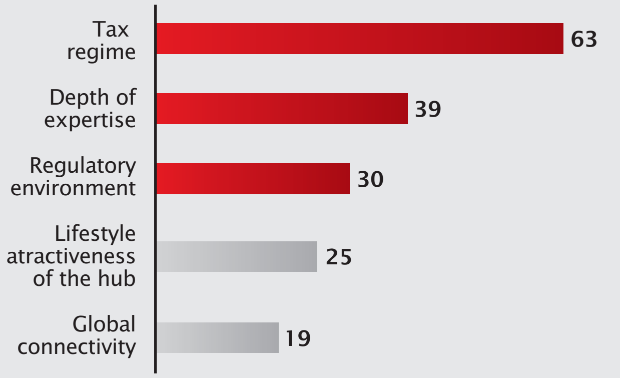
**“Philanthropy and impact investing are parallel worlds that can co-exist very nicely. What’s important is that families start to think about philanthropic donations for the bigger picture issues, and not just smaller scale charities and projects.”**

**Dr Emiko Caerlewy-Smith**

Yet perhaps the most important way in which philanthropy can evolve is in helping mobilise private capital into the achievement of the UN Sustainable Development Goals. As Caerlewy-Smith explains: “There is £150 trillion of global investable wealth in this world. To channel it into those things requires research and policy development and they require funding - funding that comes from philanthropic donations. Philanthropy and impact investing are parallel worlds that can co-exist very nicely. What’s important is that families start to think about philanthropic donations for the bigger picture issues, and not just smaller scale charities and projects.”

# How sustainability is driving choice of family office location

**Exhibit 10**
**Factors driving family office location**

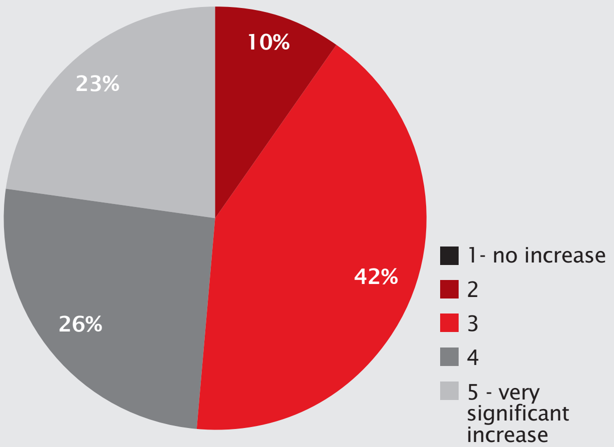



Scores weighted for top-three position

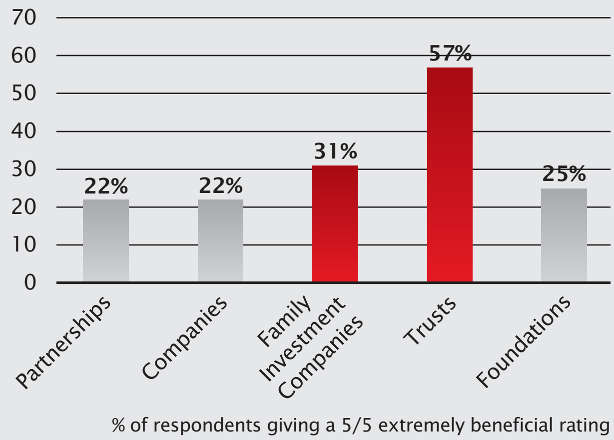
As ESG considerations come to underpin every element of how enterprising families conduct business, where they choose to operate their family offices from is an ever more loaded question. While perhaps predictably tax was found to be of prime importance by our survey, even this has an ESG angle today. “It’s increasingly about how the family office is set up, not just how the investments are,” observes Grum. “Tax is important to building something sustainable and long term. You should consider the impact tax has on operations and how the family’s affairs are structured. But while it’s certainly a relevant consideration, it’s not entirely driving their choices.”

Depth of expertise, meanwhile, is a front-runner for good reason, since as Grum notes: “For family office clients, attracting and retaining talent is one of their biggest headaches. That’s a really crucial practical consideration, whether they’re moving talent from existing operations or hiring new.”

## Exhibit 11
**Regulation spurs professionalisation**




## Exhibit 12
**Trusts, FICs and foundations are the most favoured structures**




While regulatory regime was seldom seen as a number-one driver, it was very often second placed, highlighting just how important rules – and by extension reputation – are. As Thompson points out, tax savings pale into insignificance when set against bigger issues: "Jersey is a wonderful place for families to do business because of reputation, governance and control. However, there are some jurisdictions that don't really pass that acceptability test for families and their advisors. In that situation, you would park any perceived tax benefits because they would be secondary to issues such as that."

> **"Jersey is a wonderful place for families to do business because of reputation, governance and control. However, there are some jurisdictions that don't really pass that acceptability test for families and their advisors. In that situation, you would park any perceived tax benefits because they would be secondary to issues such as that."**
>
> **Warren Thompson**

From the perspective of our survey participants, increased regulatory scrutiny has very much been a good thing, with almost half (49%) believing that this has significantly or very significantly furthered the professionalisation of family offices. At the same time, regulation has come to be equated with protection, the experts note. "In the 1990s, regulation was seen as a bit of pain and something which would be a drag on costs," says Joynt. "Now it is seen as something essential to a family's needs."

As Exhibit 12 illustrates, while trusts top the rankings, foundations, partnerships, Family Investment Companies and regular companies are all also viewed as being potentially extremely beneficial asset holding structures for UHNW families by a good proportion of advisors. As such, the range and robustness of the asset holding structures available in a jurisdiction are a key consideration in their choice of location, factors which bring us back again to the soundness of the regulatory/legal regime and depth of expertise on offer.

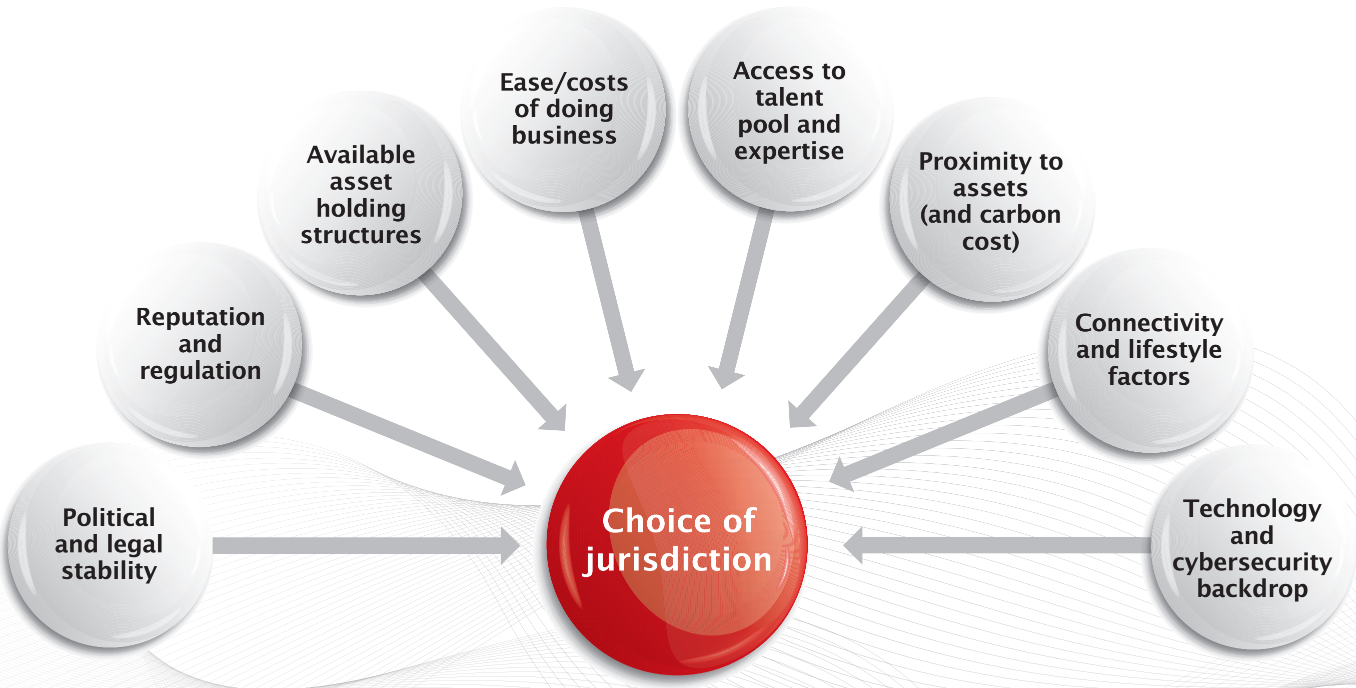
"There has to be a level of confidence and protection both for the family and anybody that they choose to bring into that structure," says Joynt. "If a Russian entrepreneur puts their family assets into a Jersey foundation structure, they know that those hundreds of millions are protected by a solid system. They can be assured things will be managed well, that they'll get great reporting and be fully protected by the regulatory environment."

These more technical factors cannot be entirely privileged over the human and practical ones, however. If individuals are looking to relocate themselves as well as their family office, then the attractiveness of the hub is of huge concern. "I've seen families move and then move again because it hasn't worked out from a schooling or lifestyle perspective," says Grum. "If you or your family can't stand it, then what is the point?"

> **"If a Russian entrepreneur puts their family assets into a Jersey foundation structure, they know that those hundreds of millions are protected by a solid system. They can be assured things will be managed well, that they'll get great reporting and be fully protected by the regulatory environment."**
>
> **Richard Joynt**

Proximity to the family's business interests is also of prime concern, something which will no doubt be exacerbated by the shutdown in global travel stemming from the COVID-19

## Exhibit 13
**The advisor view of location drivers**




pandemic. However, here again our experts are observing ESG drivers at play in where families choose to focus their interests geographically, alongside how much emphasis they place on tending to their affairs in person.

Caerlewy-Smith foresees that "we're going to see families increasingly following the lead of other financial institutions and setting themselves net zero targets to be carbon neutral by a certain date."

> **"We're going to see families increasingly following the lead of other financial institutions and setting themselves net zero targets to be carbon neutral by a certain date."**
>
> **Dr. Emiko Caerlewy-Smith**

Advisors are already seeing behavioural shifts in action, as Grum illustrates: "One family I worked with had operations across several jurisdictions including the Far East and they've actually scaled down what they're doing there and have increased their use of technology instead because of the implications in air miles from them travelling."

> **"One family I worked with had operations across several jurisdictions including the Far East and they've actually scaled down what they're doing there and have increased their use of technology instead because of the implications in air miles from them travelling."**
>
> **Catherine Grum**

The drive to cut down on airmiles, often in favour of technological solutions, may account for the relative unimportance our survey respondents placed on the global connectivity of a jurisdiction. This does however mean that the technological ecosystem and the cybersecurity implications of operating in a particular jurisdiction are now coming to the fore.

"The safety of individual operations and cybersecurity dynamic of how a jurisdiction deals with that threat are increasingly important considerations," says Thompson. As with every other element of family office business, sustainability is making its influence felt in a technological sense too.

# Conclusion

As our advisor survey made clear, formulating sustainable family governance models in a rapidly evolving environment is a highly nuanced affair. While there are certainly best practices which can be deployed to great effect, there are arguably no definitely right answers: there are as many ways of approaching governance and ESG strategies as there are wealthy families themselves, and it is in helping families pick a path that expert advisors really come into their own.

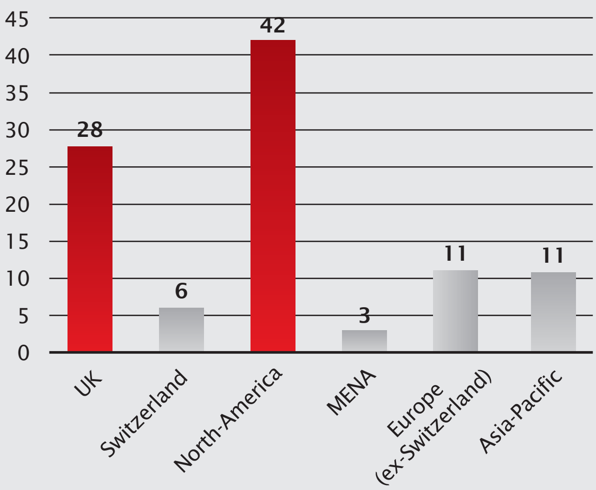
Our investigations with those working in the field have however identified both tried and tested and quite novel approaches which will help families immeasurably in arriving at the right answers for them in what are undeniably complex areas – and to help them pivot effectively so that their strategies continue to reflect what matters to them most into the next generation and beyond. It seems clear that sustainability is proving to be both the driver and the product of wealthy families' most important deliberations, and is creating virtuous circles in all manner of ways.

As ever, we welcome feedback on our research from readers and particularly suggestions of future themes to explore in the family office or any other wealth management arena. Please get in touch via **wendy.spires@wealthbriefing.com** with your ideas.

## Methodology

36 family wealth practitioners contributed survey data for this study, 79% being external advisors and 21% being professionals working within family offices. The regional breakdown was as follows:

**Respondent region**

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