

# A Virtual Family Office Solution: The Family Stewardship Council

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It has been our experience, over many decades of dealing with families of significant means, that they all have their individual levels of complexity which have evolved over the families' evolutionary lifecycles. These complex structures are needed to address the delicate balance that exists between tax and estate matters, asset protection and income splitting issues as well as current lifestyle versus longer term succession and philanthropic goals.

To address these subtle, and sometimes not so subtle matters, these families have had to surround themselves with a myriad of professional practitioners, such as lawyers, accountants, investment advisors and consultants, to provide the technical expertise in each specific area of their wealth continuum such as estate laws, tax laws, tax accounting, risk management and investments. Often it has been left to the families to try to synthesize the various solutions provided to them, but unfortunately, most often they remained unintegrated and although, on a stand-alone basis, technically sound, as a cohesive solution to support the family's purpose and journey in life often ended up to be somewhat less than effective.

In order to combat some the complexity and to close the gaps between the various elements of their structures, many of these families searched for a solution that would bring better integration and cohesion with enough simplicity and transparency to provide them with the comfort and peace-of-mind that only comes from being confident about ones environment. Several options seemed to be available to them:

1. Hire a controller-type individual to quarterback and coordinate activities and reporting
2. Create their own Family Office (FO) with most of the required competencies
3. Join a Multi-Family Office (MFO) with other families of similar needs
4. Employing the services of a Commercial Family Office (CFO)

Each of these options comes with its own strengths and weaknesses:



- 1. Controller:** Hiring a Controller-type individual helps address the coordination role and most often customized reporting for the family but puts the responsibility for staffing and supervision squarely on the shoulders of the family. The strengths and limitations of the job performed then become directly aligned with the competency of the individual hired and the framework that they are provided, by the family, for the position. Many families who have ventured down this path have found that the quality of the advice and information became directly correlated with the competency of the individual doing the job. To make matters worse, some families have also felt that the individuals filling these positions morphed into self-protecting gatekeepers restricting access to the families by other professional advisors.
- 2. Family Office:** Many families with significant wealth have formed their own Family Offices (also known as a Single Family Office – SFO) with most of the required competencies. These were usually headed and staffed primarily with accountant and/or legal professionals. On rare occasions, they would also include an Investment Professional, but given the cost of employing an experienced, proven investment management professional, it is not surprising that this happens infrequently. As with the first option, the primary limitation, of the Family Office, is the competencies and depth of competencies of the staff hired. The added complexities include maintaining the competency level of professional staff hired as well as the over-all cost of operating a private family office. The costs alone restrict this option to families with at least \$100 Million.
- 3. Multiple Family Office:** The Multi-Family Office (MFO) is where two or more families come together to share the costs of operating a Family Office, thus reducing the impact on each family individually. This alternative possesses all the same issues as the first and second options with the added complexity of all families agreeing on costs and staff hired as well as organizing the MFO to meet the unique needs of each family.
- 4. Commercial Family Office:** The alternative that is most commonly found in the marketplace is the Commercial Family Office (CFO). These are most commonly found within large financial institutions, such as banks, but we are seeing more and more boutiques opening up to serve this growing segment of the market. The concept of a CFO is that several professional practitioners, with the requisite competencies, come together in one enterprise to serve all the financial needs of a host of High Net Worth families. Employing a CFO should reduce the costs to the families while providing them with an integrated solution to address their array of complex needs. In principle this sounds great as the magic comes from selecting the CFO with the competencies and capabilities that align with each family's needs while maintaining the required objectivity. Families have to ensure that they are not just having the CFO's own product being pushed at them. They also have to ensure that the CFO has the appropriate processes in place to ensure that the families receive the service that was marketed to them. Lastly, like all intellectually-based models, the families have to ensure that the professionals within these CFO's work together, as a team, and are supported in maintaining their professional competencies. It is all about proper and thorough due diligence.



None of the alternatives, outlined above, come without their individual issues and challenges. The single most significant problem that we have seen in these structures is the neutralizing effect these have with the independent advisors that have often served these families for many years. The impact of this is that, over time, these families that lose objective, wise counsel that only comes from experienced professionals who have a solid understanding of the family's needs, expectations and desires.

The issue then becomes to find a model that harnesses the experience, dedication and loyalty of these families' established group of independent advisors to provide the necessary stewardship over the wealth management issues that these families face on their journey through life. We believe the answer lies in the creation of a **Virtual Family Office**, which is accomplished through structure and disciplined processes.

### The HighView Response: The Family Stewardship Council

We have always stressed, in order to ensure that a family's wealth is sustainable for generations to come, it is critical that effective governance structures be established with specific mandates and with roles and responsibilities clearly defined for all of those individuals who have been charged with a stewardship role for the family wealth. In addition to ensuring sustainability, many of our clients have also told us that this process makes their lives easier, as all of the important financial decisions that need to be made are done so in a disciplined manner with the appropriate advisors all working together. In this regard, HighView will work with our clients to design and implement a robust fiduciary based governance structure for the stewardship of the family wealth that adheres to their unique values, goals and expectations.

Most families that we have worked with have established relationships with various professional practitioners, such as lawyers, accountants and consultants, who provide technical expertise in specific functional areas of wealth management such as legal, accounting, insurance, risk management and tax. The reality is that many of these solutions, although technically sound, can remain unintegrated and, therefore, many times, disconnected from a family's overall purpose. In addition, many families work with multiple investment advisors who often provide conflicting advice and the family is left in the position of trying to determine how best to knit all of these ideas together. Not only is it challenging to determine how best to coordinate all of this advice to meet the family's specific needs, but it can also be very time-consuming. For this reason, we developed a set of processes and disciplines that allows us to design, implement and manage a process with a designated group of your key professional advisors to participate as members of "**A Family Stewardship Council**".



We will employ a “4 Step Process” to establish a “**Family Stewardship Council**”:



**Step #1: Mandate**

The purpose of the Stewardship Council together with the scope of its responsibilities and accountabilities.

**Step #2: Structure**

We need to determine how the Stewardship Council fits within a family’s overall wealth structure, what the legal and/or regulatory implications are for the structure and how decisions will be made?

**Step #3: Participation**

What are the specific types and number of roles required to make the Stewardship Council effective and what are the specific experience and competency requirements for each role?

**Step #4: Standards**

What are the fiduciary-based standards to which the participants in the Stewardship Council will be held, together with the financial, administrative and educational principles that will support the Stewardship Council?

Once implemented, HighView will also act as an ongoing manager of and advisor to the Stewardship Council. This will involve organizing and guiding the Council in the fiduciary oversight of the wealth in order to ensure the prudent and responsible management of these assets in the pursuit of the family’s goals and expectations while adhering to established risk parameters.

The families that we have had the good fortune to work with would state that the key benefits that they have derived from a virtual approach to a Family Office are:

1. **Experience & Competency:** They continue to harness the experience and competencies of their long-established relationships with the professionals that surround them.



2. **Variable Cost Structure:** They avoid the costs of setting up their own FO or participating in an MFO. Instead, each professional participating in the Family Stewardship Council would be paid according to their own fee schedule.
3. **Objective Advice:** They avoid any conflicts that might arise from using the services of a CFO and ensure that they maintain a purely objective set of solutions to address their needs.

The added benefit of utilizing “The HighView Stewardship Council” is the confidence and comfort from knowing that there is a proper and formal governance structure and processes that are in place to ensure that all the Stewardship needs are being opined on in the appropriate manner.

## **HIGHVIEW** stewardship review



*Stewardship Through Structure & Process™*



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