



Family Office Handbook

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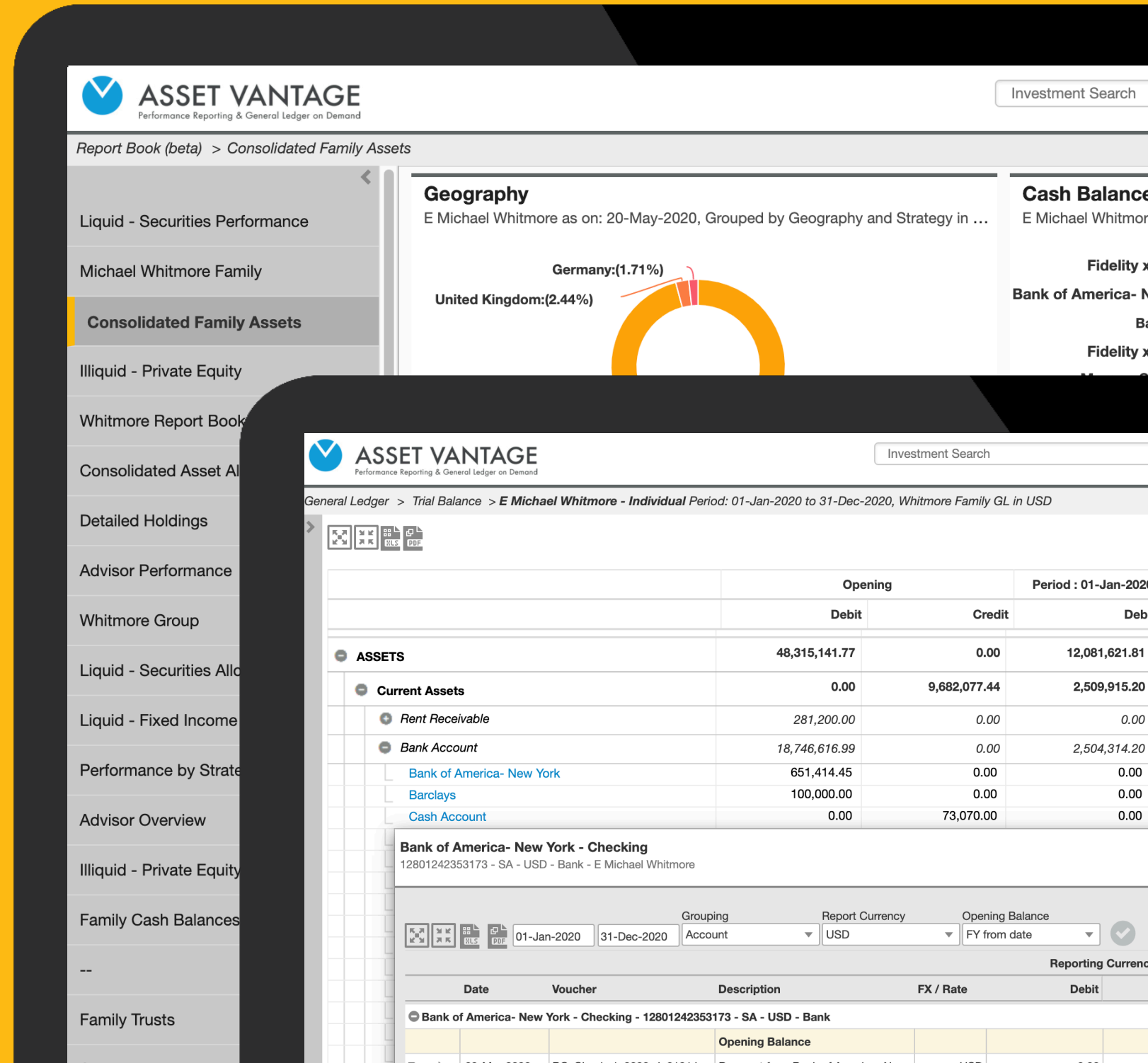
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When I was young,
I thought that money was
the most important thing
in life; now that I am old,
I know that it is.

- Oscar Wilde

Introduction

The world has changed much since Wilde. Many of the institutions he depicted have evolved and been reimagined. While his quip about the importance of money still rings true, there have been substantial changes in the way we think about and manage our wealth.

In its most rudimentary form, a family office is a system through which the day-to-day affairs of a household are managed. Wealth is a fundamental aspect.

The quantification of 'wealth' is relative. If you have money, then regardless of its amount, it needs to be managed. It also comes with regulatory responsibilities, must be reported to family members and passed from one generation to another.

It is a misconception that family offices are exorbitant establishments meant only for super-wealthy individuals with complex needs. They come in many shapes and sizes to meet the needs of different types of families. In essence, *everybody* needs a "family office".

A family office setup, whatever its scale, helps you track, consolidate and invest money, and supervise its risk & returns. Therefore, in effect, a family office is nothing but a tool for a family's financial well-being.

This handbook is designed to bring you knowledge accumulated by the world's leading experts in family office management. Whether you are a wealthy individual, a family principal or a professional managing a family office, it will provide you with invaluable information about setup and governance, operations and decision-making.

Wealth holders' mindset

Wealthy individuals often fail to treat personal wealth deployment as a business endeavour in itself. They don't bring the same rigor and discipline that they would apply in other areas of their family business or professional lives. Some distance is required if they are to maintain objectivity, see the full picture of their assets, and make rational, long-term decisions. A family office enables such an outlook by providing a system that clearly demarcates family wealth management from other business interests and household activities.

Complexity

Family investment portfolios are no longer straightforward. Globalization has opened up access to diverse investment classes in developed as well as emerging markets. Assets may be spread across several entities, and the ownership structures may be convoluted. This brings with it new complications, such as taxation and burdensome compliance regulations. A family needs a comprehensive accounting capability to deal with them.

Control

Control over complicated portfolios is essential to the survival and success of a family's wealth. Control is achieved by having a clear visibility of all investment-related information in a single place through consolidation. A full picture of up-to-date information makes for better decisions. This further enables a family to accurately forecast cash flows, identify investment risks and exposure, hedge against black swan events and carry out appropriate asset re-allocation.

Confidentiality

Confidentiality is, rightly, a key concern for all wealth holders. Setting up your private family office reduces reliance on external financial advisors and negates the need to share private data with too many parties. And where external advisors are required, a family office can build in levels of authority and control, so the right information is available to only those who need it.

Succession

After a point, wealth accumulation becomes wealth preservation. This requires succession planning and smooth intergenerational wealth transfer. A family office doubles as a framework for succession planning and governance. It provides a strategy that is sensitive to the needs of all parties and maintains records and evidence of investment activities.

Costs

Anyone can establish a family office with minimal investment. This system streamlines money management activities, bringing much-needed efficiency and oversight. It saves money, improves returns and cuts risk. These savings add to the capital for investment. When compounded over time, those savings-turned-investments have a profound effect on the long-term value of a portfolio.

Family offices are often seen as the preserve of the ultra-rich. John D Rockefeller Snr., legendary billionaire founder of the Standard Oil Company and a philanthropist, is often credited as the originator of the modern family office. But such structures have existed in some form or another for centuries. Their structure and rules of governance (if such existed) were unique to individual families. In part due to the desire for secrecy and partly because private wealth is subject to less stringent regulation and reporting than, say, a public enterprise.

Many families unknowingly have a semi family office embedded in their business. But by not treating it as an independent entity, its presence remains unnoticed and its potential unfulfilled.

In recent decades, family offices have evolved into a more formal type of institution. Super-wealthy families first established this model for themselves to better manage their wealth and secure the financial success of their family for future generations. Other families, too, began to seek such a system. Over time, a cadre of specialist financial advisors stepped in to establish family offices to service these families. Some family offices that served a single family merged with other offices to achieve economies of scale and serve multiple families. And, as globalization took hold, family offices became multi-jurisdictional.

Another interesting contemporary development is that of family offices becoming pseudo hedge funds and de facto venture capital funds.

Families are now hiring competent investment managers. Such a manager can establish an in-house “fund” using the classic hedge fund strategy. This way, family members have a direct say in investment operations. The manager too can focus purely on investment functions instead of spending time on marketing. With a family’s long-term commitment to its own fund, the investment produces higher returns.

As individual venture capitalists, families can invest directly in other businesses. This grants them an investment avenue, beyond typical assets, like stocks, which can generate greater returns. For their part, entrepreneurs prefer family offices for the freedom, flexibility and “patient” capital they offer, compared to private equity or venture capital firms.

Prior to establishing a family office, it is imperative to first understand the basics of wealth management itself.

Family office principals are experts in the fields through which they have earned their wealth. They may be experts in spending it, too! Rarely is managing, sustaining, reporting and managing risk within a diverse portfolio part of their core competency.

Besides learning the ropes of money management, it is essential to have support activities in place. Only then can a family office be an effective and efficient part of the wealth management process. This requires implementing processes for accounting, investment tracking, risk and return analysis and documentation.

Over the past few years, technology has proved to be an excellent enabler for such processes. It automates menial and repetitive functions and offers opportunities to personalize operations as per one’s financial objectives. Cloud computing technology has ushered in innovations such as Software-as-a-Service (SaaS). This makes fully developed software readily available to all via the cloud at a fraction of what it would have cost previously. Thus technology is now affordable and in everyone’s reach. Cloud-based software solutions provide the immediacy and anytime, anywhere access demanded by current generations. But we must recognize that technology both provides new levels of security and raises concerns about privacy. These and other questions are explored in depth in the pages of this resource.

This handbook is a repository of knowledge gathered from personal as well as aggregated experience from working with hundreds of successful global family firms. It contains all you need to know to establish and operate a world-class family office.



Our accounting and reporting leaves no asset behind.

We create actionable views of family wealth across all asset classes, liquid and illiquid..

General Ledger > Multi-Period Income Statement **E Michael Whitmore** From: Jan-01-2020 To: Dec-31-2020 Whitmore Family GL in USD Report Filter ⚙

	01-Jan-2020 to 31-Mar-2020	01-Apr-2020 to 30-Jun-2020	01-Jul-2020 to 30-Sep-2020	01-Oct-2020 to 31-Dec-2020
INCOME	-5,745.96	114,920.62	601.00	1,143.68
Investment Income	-5,745.96	114,920.62	601.00	-206.32
Long-Term Capital Gains	-19,184.54	87,667.67	0.00	0.00
Long Term Capital Gains-Indirect - Direct Equity	-19,184.54	0.00	0.00	0.00
Long Term Capital Gains-Indirect - Mutual Funds	0.00	87,667.67	0.00	0.00
Short-Term Capital Gains	0.00	10,807.26	0.00	0.00
Short Term Capital Gains-Indirect - Fixed Income	0.00	10,754.75	0.00	0.00
Short Term Capital Gains-Indirect - Mutual Funds	0.00	52.51	0.00	0.00
Dividend Income	13,191.44	8,768.08	601.00	0.00
Dividend Income - Direct Equity	4,420.52	1,466.46	601.00	0.00
Dividend Income-Indirect - Mutual Funds	8,770.92	7,301.62	0.00	0.00
Interest Income	247.14	7,677.61	0.00	0.00
Interest Income-Indirect - Fixed Income	247.14	7,677.61	0.00	0.00
Other Income	0.00	0.00	0.00	-206.32
Other Income-Indirect - Other Charges	0.00	0.00	0.00	-206.32
Unclassified Incomes	0.00	0.00	0.00	1,350.00
Unclassified Income	0.00	0.00	0.00	1,350.00
Taxable Dividends - TD	0.00	0.00	0.00	1,350.00
EXPENSE	3,001.00	4,929.25	13,050.00	13,418.39
Household Expenses	0.00	3,000.00	0.00	0.00
Utilities	0.00	3,000.00	0.00	0.00

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**Watch the little things;
a small leak will sink a
great ship.**

- Benjamin Franklin

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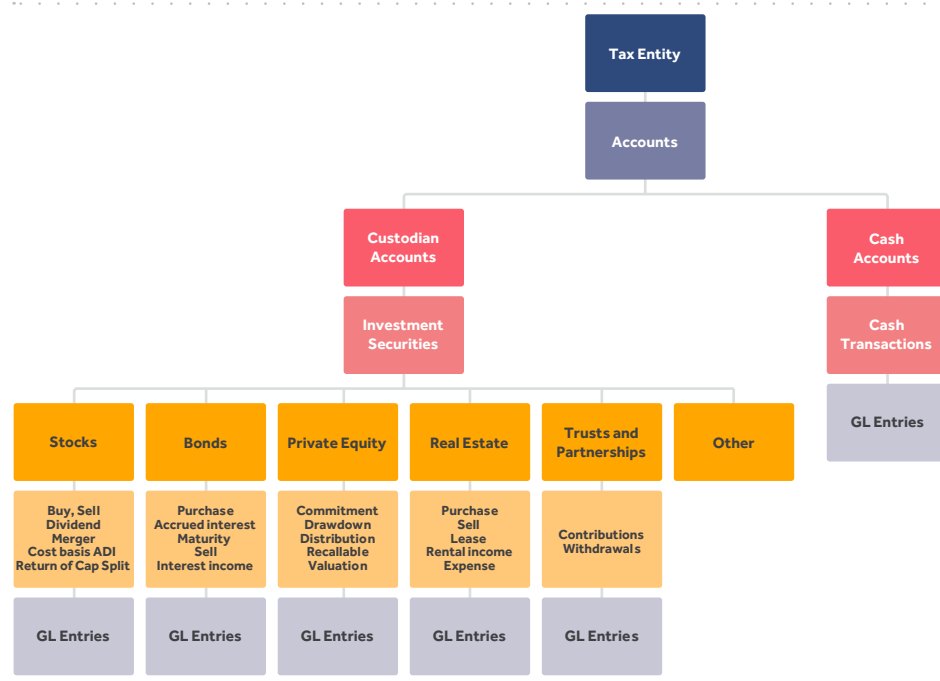
Key takeaways

The generic term 'finance' encompasses a wide range of activities. It includes various functions, of which investment management and accounting are two major pillars.

One of the family office's primary function is to determine risks and maximize return from investments. For this purpose, decision makers need accurate and detailed information that is presented efficiently and on a real-time basis.

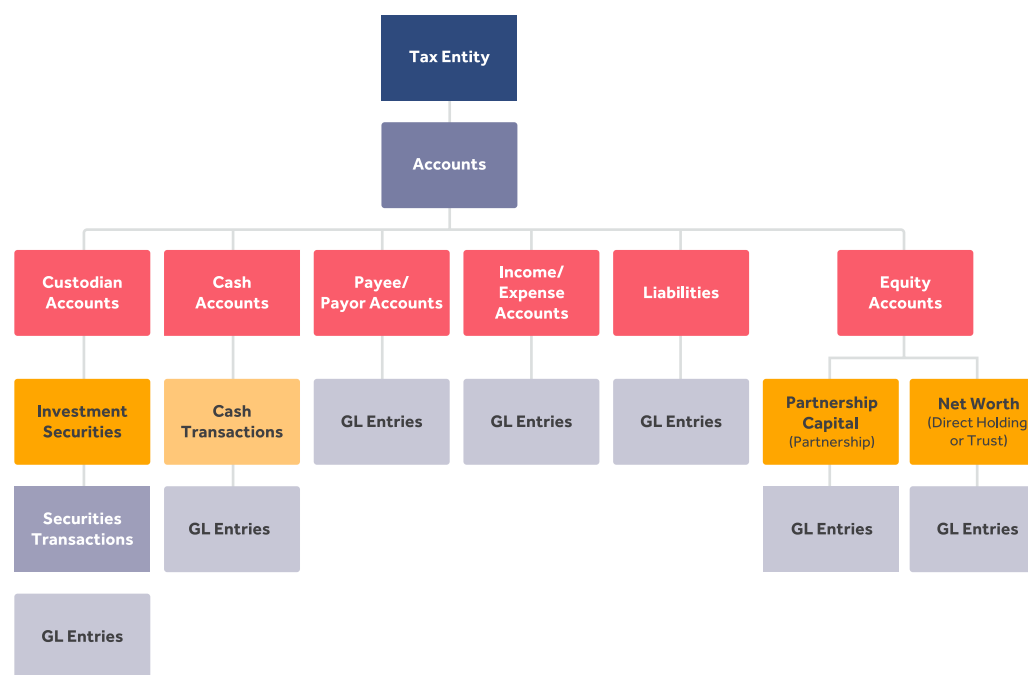
Investments can be held directly by an individual family member or through an intricate structure of trusts and partnerships. Such complex information can be captured only if a robust, modern and dynamic accounting system is in place. After all, investments and accounting are linked:

Chart 2: Linking Investment and Accounting – Investment Securities & Partnership Interests



Daily accounting and administrative tasks determine the overall success and effectiveness of a family office. Best practices indicate that accounting operations and controls should be closely aligned to investment management activities.

Chart 3: Linking Investment and Accounting – Entities



An ideal family office investment and accounting system is one which:

1. Consolidates both financial and non-financial data of different asset classes
2. Generates analytical and regulatory reports
3. Uses automated processing to reduce errors
4. Builds in best practices to maintain uniformity in processes
5. Supports the unique needs of each family office
6. Includes robust audit capabilities to support reviews and track data changes.

The system should be designed to show the full and correct picture of the family's wealth, including all of its assets, liabilities and expenses in a single frame.

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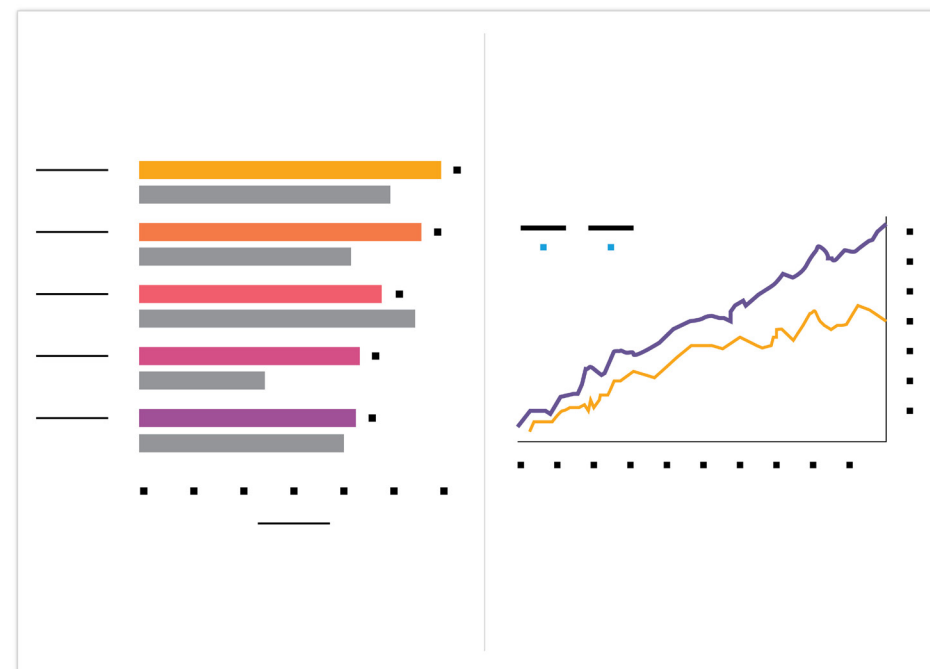
Key takeaways

A consolidated and accurate presentation, with the capability to provide underlying details on demand, allows the family principal, or his or her professional advisors, to effectively analyze total performance of the investments. A comprehensive analysis includes deliberation on:

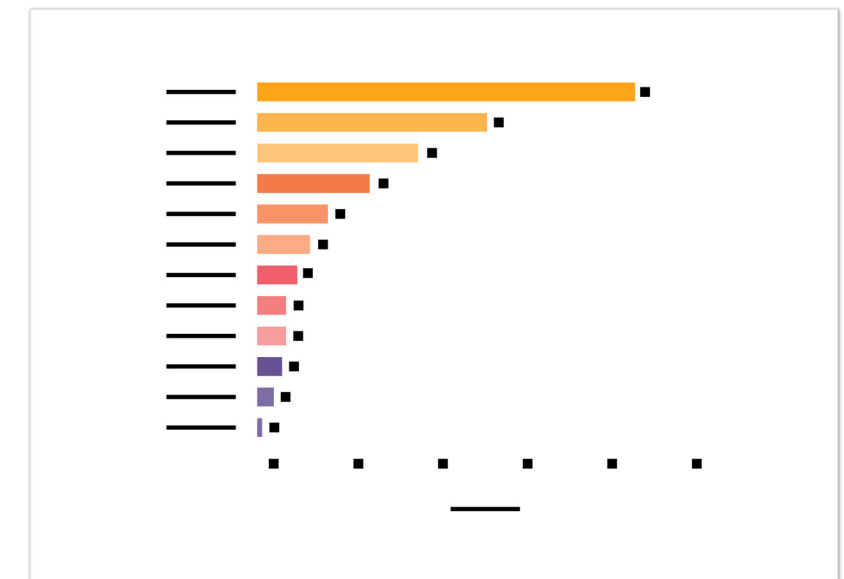
- 1. Asset allocation
- 2. Investment returns
- 3. Expenses
- 4. Cash flow
- 5. Tax planning

A dynamic accounting and investment management system is one that is capable of generating summary and detailed reports that aid performance analysis such as:

- 1. Income Statement
- 2. Balance Sheet
- 3. Statement of Cash Flows
- 4. Portfolio performance (summary of performance over a certain period of time, at an entity, account, strategy or individual security level)



- 5. Holding Statement (summary and details of holdings, sorted and grouped as per user preference, and comparison with a pre-decided Investment Policy Statement)
- 6. Gain and Loss Statement (Realized and unrealized gain and loss report which can be used for tax planning and optimization)



7. Comprehensive and automated reconciliation of system data with custodian or broker data.

In addition to basic financial statements, the system should be equipped to produce detailed investment-related information in a comprehensible and well-structured format. It should be able to calculate metrics such as internal rate of return, standard deviation, and capital account value. (Key investment risk and return valuation measures are addressed later in the handbook).

The system should also be able to output data that can be easily filtered and sorted for preparation of regulatory filings and tax preparation.

The following sections contain suggested best practices to establish standard processes and procedures for accounting, reporting and monitoring of investments.

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“A well-designed COA supports all of the organization’s information, reporting, and accounting needs, and is built on a foundation of consistent definitions for business attributes and data elements.” — “Unlock value through your Chart of Accounts” article published by Deloitte

A chart of accounts (COA) is an index of all ledgers maintained by an entity. It classifies financial transactions into balance sheet and income statement categories. This organizes the financial information, gives clearer insight into financial health, helps to comply with accounting and reporting standards, and facilitates smooth generation of analytical and regulatory reports. The COA should be built with inputs from an accounting professional, to be compliant with accounting standards and Generally Accepted Accounting Principles (GAAP).

Where a family invests in assets through multiple entities like trusts and partnerships, it is advisable to use a single accounting and investment platform for all of them. This platform should have the capability to distinguish and maintain individual data of the different entities. Information of investments held and income earned through these partnerships can then be automatically consolidated from the bottom-up. This is an efficient way to carry out overall family office investment reporting and performance analysis.

Such a system further helps to maintain the shareholder relationship between entities and facilitates inter-entity transactions.

All the entities should have the same general COA structure in order to facilitate such consolidation and comprehensive reporting.

To optimize your family office’s COA, consider the following aspects:

Design

- The COA should be flexible enough to accommodate changes and remain relevant for the long-term
- Even while addressing multiple requirements, it needs to retain simplicity.

Maintenance

- Standard processes are established in order to pass uniform accounting entries
- Authority to add/delete/modify accounts is limited to authorized personnel and the process for making these changes is standardized.

Review

- The COA is reviewed every 3-5 years to ensure alignment with activities and information requirements.

These aspects are explored in detail below:

Designing the COA

All stakeholders, including the CFO, accounting staff, investment advisors and tax consultants, should be involved in designing

the COA. This will ensure the needs of various end users of the accounting system are met:

1. Family principal’s information needs
2. Financial advisors’ information needs
3. Compliance/regulatory requirements
4. Tax reporting information

The COA must be standardized. It is advisable to assign account numbers to avoid confusion. Use sub-accounts to enable detailed reporting, without overly complicating the COA structure.

The COA should be as simple and concise as possible. Do not

Chart 4: Designing COA

Account Number	Account Type
10000	Assets
20000	Liabilities
30000	Equity
40000	Income
50000	Expenses
60000	Non-Operating Income/Expenses
70000	Taxes

create unnecessary or duplicate accounts. It is acceptable to create blank accounts for future contingencies, but avoid creating too many unused accounts.

This will make it easier for ongoing maintenance and review the COA. >>

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Maintaining the COA

Standardized and documented controls and procedures should be followed for maintenance of the COA:

1. Establish authority for adding and modifying COA accounts
2. Establish standard procedures for requesting modifications to COA accounts
3. Map out correct classification of new accounts in the COA
4. Educate those posting entries on the system of the correct ledger accounts to use.

Reviewing the COA

Review the efficiency and standardization of the COA every 3-5 years. Check if it:

1. Fulfills informational needs of stakeholders
2. Meets latest regulatory and compliance requirements
3. Contains duplicate or unused accounts that can be deleted
4. Incorporates the latest changes to data needs and technology.

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Investment-specific accounting

The management team should develop and approve a framework for investment processing and accounting. This will act as a guide to investment decisions. The framework should consist of details on types of permissible investments, proportion of investments to be made in each type, duration of investments and authorization procedures.

An ideal trade investment execution process covering the various steps of an equity transaction is set out in **Appendix 5**. It covers pre-trade and post-trade execution best practices that should be put in place to ensure smooth, error-free process flow.

Detailed steps for processing, accounting and redemption of investments are in **Appendix 6**.

Computing gains or losses on sale of investments is critical for establishing tax liabilities and computing net returns. Therefore, investments in various assets must be recorded correctly.

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Key takeaways

Accountants tend to think in terms of journal entries and ledger balances. But family principals and their advisors are mainly concerned with investment performance. Investment returns are the result of asset allocation and risk – concepts which are explained later in the handbook.

A single, truly robust investment accounting system is one that can generate requisite analytical reports. To meet that need, the books of accounts should be supplemented with investment tracking ability. This capability should extend to directly as well as indirectly held assets. Investment monitoring should further be backed by asset allocation and underlying risk calculation.

Such comprehensive reporting enables principals to exercise control and ask detailed questions.

Defining positions

The purpose of defining the position of an asset is to facilitate categorization and generation of analytical reports based on those specified categories.

To ‘define’ a position is to tag an investment with its asset-class, sector, liquidity status, country and advisor who recommended or manages the asset. However, such definitions that are assigned by default, may or may not be in line with the investor’s position. For example, an investor may own a few stocks, which are, by default, a liquid investment. But if they are pledged against liabilities, they are illiquid and need to be re-tagged accordingly. Hence the investment accounting system should grant flexibility in tagging and re-tagging investments.

The naming convention of assets is another important aspect for errorless classification of investments. Although instruments such as derivatives and equities come with industry symbols and identifiers (such as Ticker, ISIN, CUSIP and SEDOL), their classification can be varied by the accountants.

A single listed entity also sometimes issues different kinds of securities, such as equity shares, preference shares and debentures. Therefore, the standardized naming system should clearly distinguish one asset type from another.

Correct groupings allow for positions and strategies in the portfolio to be compared to an appropriate benchmark. These facilitate generation of summary and detailed analytic reports.

Defining advisor and credit ratings

Having an advisor master facilitates generation of analytical reports to support review of performance by advisors, ratings and type of equities. For convenience, codes can be allocated to advisors.

A credit rating master maintains a list of fixed income credit ratings from agencies.

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Missed deadlines or errors in legal, regulatory, and tax reporting produce unnecessary risk and potential losses for the firm and the family. These can be avoided when systems are established to provide regular reminders.

Compliance matters

Compliance calendars record the frequency of payments and their due dates under different applicable statutes. They serve as the basis of all compliance activities. Sample compliance calendars are in **Appendix 7**.

Legal matters

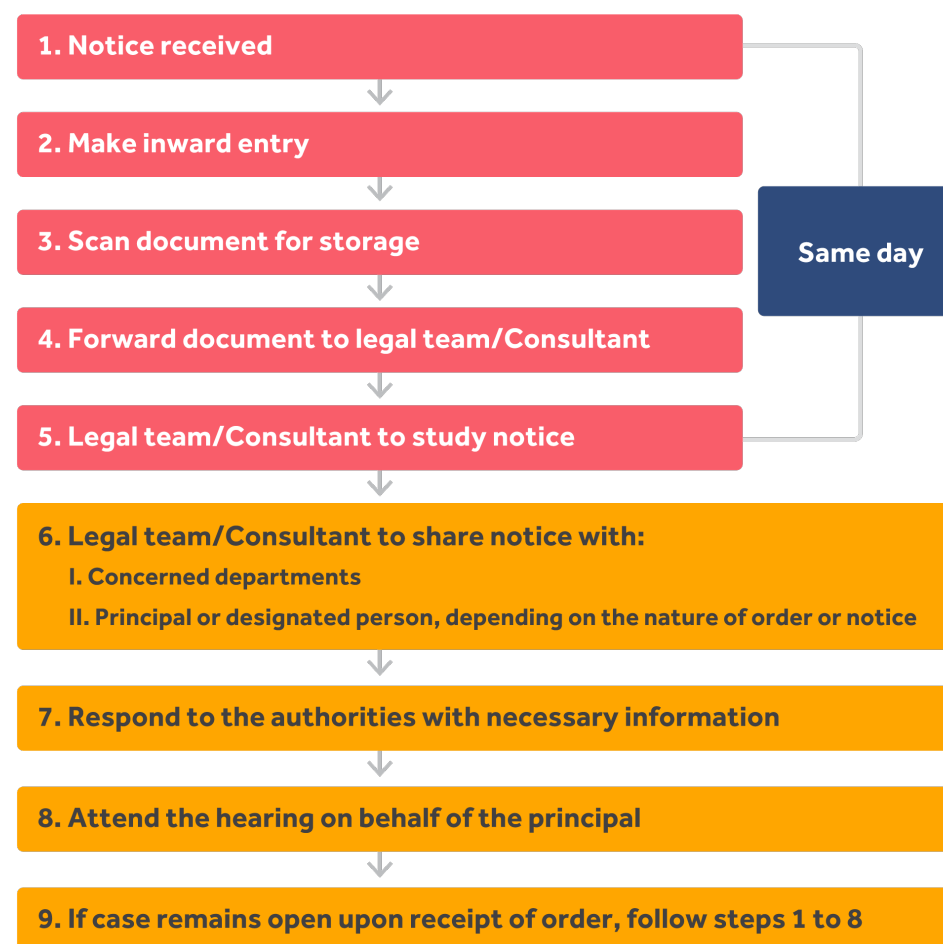
A tracking system for legal matters should be created in which the responsible team can notify and update details, such as:

- 1. Name
- 2. Issue
- 3. Date
- 4. Mode of notification
- 5. Status (ongoing/closed)
- 6. Actions taken with dates and remarks.

An independent checker should verify the tracker periodically to ensure that timely actions are taken. All documents should be scanned and maintained for future references.

The following diagram outlines the process to be followed on receipt of an order or notice:

Chart 5: Legal Matters



Audit matters

Audit is an indispensable part of any enterprise. If you are to run your family office as meticulously as a business, the family office, too, needs to have thorough internal and external audit processes in place.

An audit is an important checking and verification tool. It enables control over and visibility of operations. It protects from frauds, identifies loopholes and highlights areas that can be improved.

Audits must be performed on:

- 1. Entities
- 2. Accounts
- 3. Investments including illiquid investments like real estate and personal assets
- 4. Documents
- 5. Internal processes and user management

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A complicated investment portfolio involves many stakeholders and professionals. There is a constant movement of cash. It is not possible for the family principal to authorize every transaction himself or herself, be it an expense or investment. It becomes necessary to delegate authority for approving transactions, while maintaining control and accountability.

The family office should maintain a register of signatories. It defines the following:

1. People authorized to transfer funds digitally or sign cheques on behalf of the principal
2. Monetary limit up to which a staff member can sign-off on pay-outs
3. The bank account(s) a particular employee is authorized to use for payments
4. Personnel responsible for preparing the payment authorization slip and verifying the said slip. These two personnel have to be different individuals in order to maintain a checks and balances system.

This register thus serves as a final point of control for cash outflows. It must be designed as an auditable log that lets the principals verify transactions and identify the concerned people.

The register must be updated every time a staff member leaves or there is a change in authority.

Technology, security and processes also have a significant role to play here.

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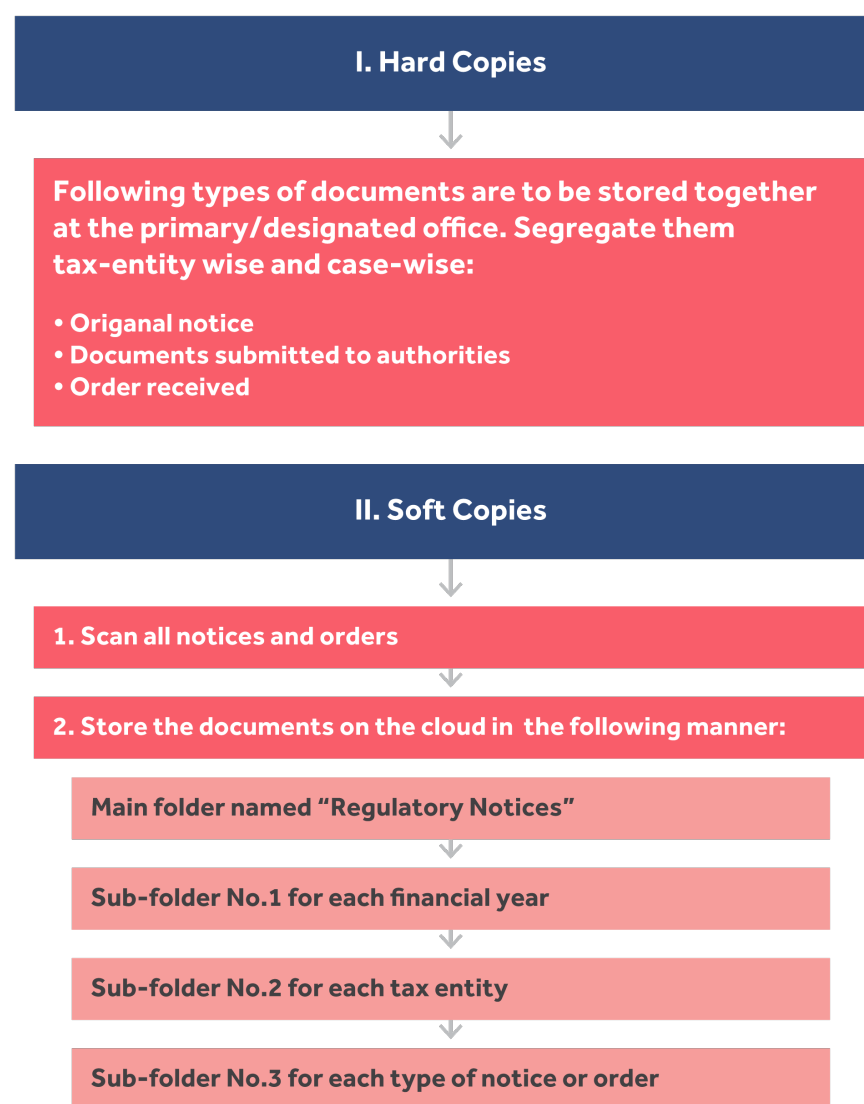
Documents form the basis for identifying and recording transactions. These include agreements, statements, legal notices and invoices. A coherent and consistent system to file and retrieve these documents needs to be maintained.

Best practices which ensure a sound document storage, management and retrieval process are:

1. Record file of master storage is created. Access to it is granted to personnel as deemed necessary
2. Important files are digitized with a standard file naming convention that includes the date of the statement or document
3. All digitally and physically stored files have an auditable access log
4. Acknowledgement is taken from respective users on email, after assigning or recollecting the respective files
5. Administrator gets the respective files back and re-files them properly
6. Whenever any files are added or scrapped, unique file numbers are assigned
7. System is audited periodically to ensure that it is in proper order.

The following diagram depicts best practices for compliance-related documentation:

Chart 6: Document Storage and Retrieval Best Practices



In the main "Regulatory notices" folder, maintain a financial-year wise excel sheet covering the following.

- a. Name of tax entity – **Column A**
- b. Type of notice – **Column B**
- c. Date of receipt of notice – **Column C**
- d. Due date for filling response to notice – **Column D**
- e. Handled by – **Column E**
- f. Status: open or closed – **Column F**
- g. If closed, mention closure date – **Column G**

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LEGACY ARCHIVAL & ESTATE PLANNING

SECURITY

APPENDIX

1. Good wealth management needs excellent accounting

2. Reports that show the full picture

3. Chart of accounts

4. Accounting

5. Investment tracking

6. Compliance, legal and audit matters

7. Remittance processing

8. Document storage and retrieval

9. Family Office team structure, team profile and costs

10. Use technology and educate yourself

Key takeaways

Family offices come in a variety of sizes. They differ in the value of the assets under management, complexity of asset classes, size and number of family investment entities, and the unique lifestyle of the family. Hiring of external advisors and outsourcing certain services also affects the family office team size and structure.

Most small to mid-sized family offices have lean teams of 3-4 members, while large complex family offices can have up to 10-12 people. Regardless of the team size, all family offices should have members possessing certain desired traits and carry out the following roles:

Accounting

- 1. Core booking keeping capabilities
- 2. Thorough understanding of investment accounting
- 3. Strong process orientation

These traits are generally possessed by a CA/CPA or a Bachelor's degree holder in Accounting/Finance with 10+ years of similar accounting experience.

Compliance and tax

- 1. Core regulatory and secretarial knowledge

This knowledge is usually brought by a CS/legal professional with 10+ years of compliance/legal experience.

Investment research and advisory

- 1. Core buy-side investment and finance experience of liquid asset classes like public equities and fixed income

- 2. Larger family offices may also require someone with specialization in sub asset classes like private equity, hedge funds, and other alternate investments

Generally, an MBA in Finance with added qualifications like a CFA and CFP brings this expertise.

Advisor and facilitator

- 1. Straddles both back office and investment related matters
- 2. Is patient and able to deal with changing family member needs and personalities

Typically, someone with a pleasing personality with a sales or customer service background in the financial services industry carries out this role well.

Administration

- 1. Adept at managing a wide range of assets including luxury homes, rental properties, car fleets, yachts, and planes
- 2. Oversees an extensive household and administrative staff with strong leadership capabilities
- 3. Jack of all trades and a confidante who is personally loyal to the family

Retired professionals with a military background usually fit this role.

Family Office leadership

Family offices can be led by family members or hired professionals. Regardless of whether the leader is internal or external, most successful family offices are led by individuals with the competence and experience of running day to day operations.

They should be able to make key decisions and navigate the financial and overall well-being of the family through volatile times.

The best family office organizations are designed to support the core capabilities of the leader. For example, if the leader has a strong finance and investments background, s/he is usually supported by a robust back office operation consisting of a well-balanced team and set of external resources who bring complimentary capabilities.

Managing personal wealth should be treated with the same objectivity as that of a business, and the family office should be designed and set up to mirror it.

Family Office costs

Costs for setting up and managing family offices vary significantly. Whether it's a fully-staffed family office or a modern virtual family office with outsourced professionals, costs can range between 50 bps to 150 bps of assets under management. This excludes fees charged by external asset managers.

One key point to note is that there is no free lunch. You either pay directly for salaries, overheads and outsourcing fees, or these costs are embedded within investment management fees. Some families feel more comfortable when they see their returns net of such costs and not have to deal with the actual transactions.

You need to structure your family office and hire professionals to suit your individual family office needs.

WHY A FAMILY OFFICE

OPERATIONAL
BEST PRACTICES

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Key takeaways

Developing a detailed and integrated investment management and accounting system requires the consideration of multiple facets. The perfect system may be easy to visualize. It's much more difficult to execute.

Technology has a growing role in enabling processes and controls that allow the streamlining of family office operations. Technology also helps the family office adhere to industry best practices.

Principals, as noted in the introduction, usually have core competencies in non-financial fields. It is those competencies that have enabled them to create and sustain family wealth. But they are not always comfortable with accounting and investment principles. Acquiring basic knowledge of these financial areas makes for increased control over operational processes and better investment decisions.

WHY A FAMILY OFFICE

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Key takeaways

1. Investment accounting is the Yin to investment management's Yang.

Both are distinct and complementary functions which, together, present a dynamic and accurate picture of a family's wealth.

2. It's called 'accounting' for a reason.

You can't manage what you can't count. To track and analyze complex financial information, you need a modern and robust accounting system.

3. Stock holdings are liquid; stock holdings pledged against liabilities are not.

This is just one of many reasons to closely align accounting operations to investment management.

4. A well-designed Chart of Accounts supports a strong accounting system, like a solid backbone.

It offers clear insights into financial health, facilitating compliance with reporting standards, and expediting the production of analytical and regulatory reports.

5. Run your family office the way you run your business.

Deploy best practices and standard operating procedures that create process uniformity, promote financial discipline, and encourage managerial rigor.



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Report Book (beta) > Family Partnerships

- Liquid - Securities Allocation
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- Performance by Strategy
- Advisor Overview
- Illiquid - Private Equity
- Family Cash Balances
-
- Family Trusts
- Seddiqi Family Dashboard
- Risk - Geo, Liquidity, Currency
-
- Family Real Estate
- Family Partnerships**
- Family Foundation

Family Partnerships

Capital Partners w/ Partners
Henry Whitmore Trust as on: Apr-30-2021, Grouped by Entity and Strategy in USD

```

graph TD
    A[Henry Whitmore Trust @16.24%] --> B[E Michael Whitmore @16.24%]
    A --> C[Subick Foods Inc @100.00%]
    C --> D[Susan Whitmore @43.16%]
  
```

Capital Partners Asset Allocation
Capital Partners LP as on: 30-Apr-2021, Grouped by Entity and Geography in USD

	Allocation %	IRR %
E Michael Whitmore	0.07%	7.03%
Susan Whitmore	0.04%	7.03%
Jack Whitmore	0.94%	7.03%
Will Clooney	0.11%	7.03%

CASH FLOW MANAGEMENT >

1. Expense budgeting & tax planning
2. Cash flow forecasting
3. Investing savings
4. Key takeaways



We were always focused on our profit and loss statement. But cash flow was not a regularly discussed topic. It was as if we were driving along, watching only the speedometer, when in fact we were running out of gas.

- Michael Dell,
founder and CEO of Dell Technologies

Every goal needs to be backed by a sturdy yet flexible plan. Families may have a firm grip over their investments' notional returns, but lose sight of the real item at the end of the day – cash.

When building a plan to achieve your wealth aspirations, supplement it with cash flow forecasts that are as accurate as possible. The most significant yet often omitted factors are:

- 1. Expense budgeting
- 2. Tax planning

Both these aspects have consequential effects on asset allocation (explained under Investment Approach), too.

Expense budgeting

Many high-income professionals end up with little savings. This is due to not having an expense budget, especially towards personal expenditure.

It is crucial to distinguish personal finances from business finances. But it is also necessary to bring the same financial orderliness and discipline to lifestyle and personal expenses that is applied to business finances. The wealthiest families in the world were quick to realize this.

A budget tells money where to go, so you do not have to wonder where it went. Use technology to track and categorize expenses against a pre-set budget. Keep an eye on the long-term horizon and ask questions like:

- 1. Are the fixed sources of income sufficient to sustain current living expenses?

- 2. Are living expenses expected to increase?
- 3. Is there a regular review of expenses as a ratio to total assets under management?
- 4. Is cash available to invest in desired assets in the coming years?
- 5. Is there a major expense coming up, such as the purchase of a business or property?
- 6. Is there enough money to contribute to charity?

Tax planning

Taxation is a substantial part of investment-related expenses. It affects both return on investments and cash flows. Badly planned, it can cause liabilities in the form of penalties and long-drawn expensive litigation with the authorities.

Before undertaking any investment, consult a tax accountant. S/he will shed light on:

- 1. Method and periodicity of tax on income from proposed investment
- 2. Possibility of tax expense deduction
- 3. Future capital gain implications upon selling the investment
- 4. Tax reporting and compliance associated with proposed investment
- 5. A better investment alternative from a tax perspective, if any
- 6. Upcoming taxation law changes

Where families make charitable donations by transferring stock, they need to consider the impact on their cash inflows and the potential for tax benefits.

A thorough discussion on these lines will enable you to plan your taxes. Carry out periodic taxation reviews to ensure you earn the best possible overall returns within the purview of applicable laws.

Update your compliance calendars to keep a track of legal duties surrounding your investments. This averts undue interest and penalty expenditure.

Expense budgeting and tax planning highlights the importance of building a dynamic Chart of Accounts, which enables accurate tracking of expenses (personal or otherwise), compliance with taxation laws and forecasting of cash flows.

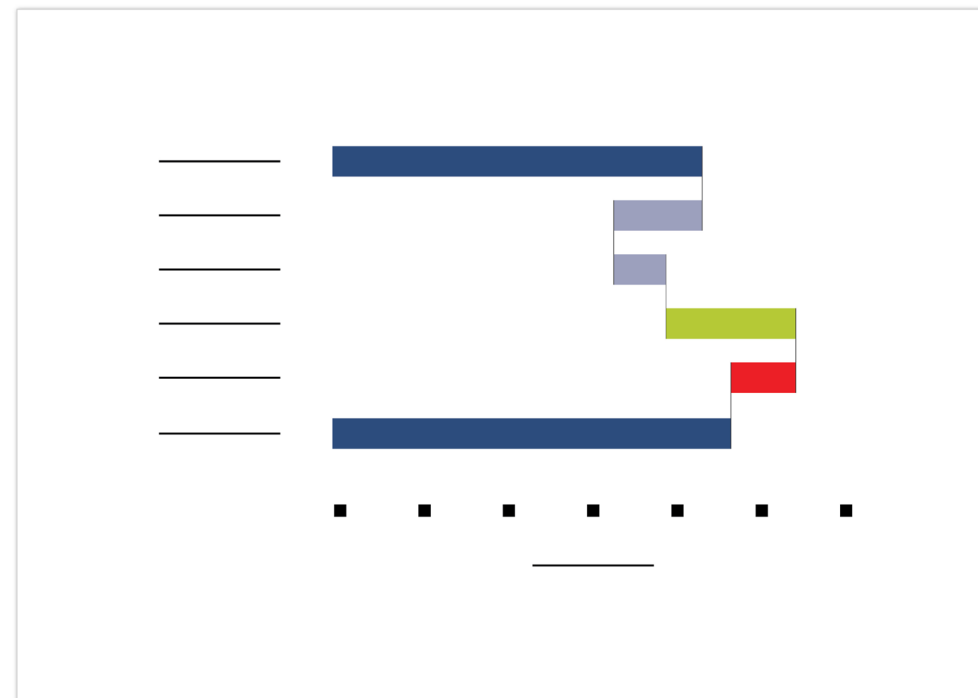
A family may have assets worth USD 10M. But reporting USD 10M and actually having that amount in hand for use are two different things. Half of those assets may be earmarked for investment (say, a property installment or a private equity commitment), or for charity. This, in effect, renders those assets illiquid.

If the family is unknowingly reliant on funds designated for such commitments, it may end up liquidating other assets. It may have to do so at sub-optimal rates, and bear unfavorable tax consequences.

Such unpreparedness and lack of planning usually leads to monetary loss.

The accounting and reporting system should be able to earmark assets and determine their liquidity status. It should help in generating cash flow forecasts, an example of which is given below:

	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8
Income	■	■	■	■	■	■	■	■
Expenses	■	■	■	■	■	■	■	■
Net Cash Flow	■	■	■	■	■	■	■	■
Capital Expenditures	■	■	■	■	■	■	■	■
Debt Repayments	■	■	■	■	■	■	■	■
Charitable Contributions	■	■	■	■	■	■	■	■
Investment Income	■	■	■	■	■	■	■	■
Dividend Income	■	■	■	■	■	■	■	■
Interest Income	■	■	■	■	■	■	■	■
Real Estate Income	■	■	■	■	■	■	■	■
Other Income	■	■	■	■	■	■	■	■
Net Cash Flow	■	■	■	■	■	■	■	■
Capital Expenditures	■	■	■	■	■	■	■	■
Debt Repayments	■	■	■	■	■	■	■	■
Charitable Contributions	■	■	■	■	■	■	■	■
Investment Income	■	■	■	■	■	■	■	■
Dividend Income	■	■	■	■	■	■	■	■
Interest Income	■	■	■	■	■	■	■	■
Real Estate Income	■	■	■	■	■	■	■	■
Other Income	■	■	■	■	■	■	■	■
Net Cash Flow	■	■	■	■	■	■	■	■



“In the long run, it’s not just how much money you make that will determine your future prosperity. It’s how much of that money you put to work by saving it and investing it.”

– Peter Lynch, legendary investor and fund manager

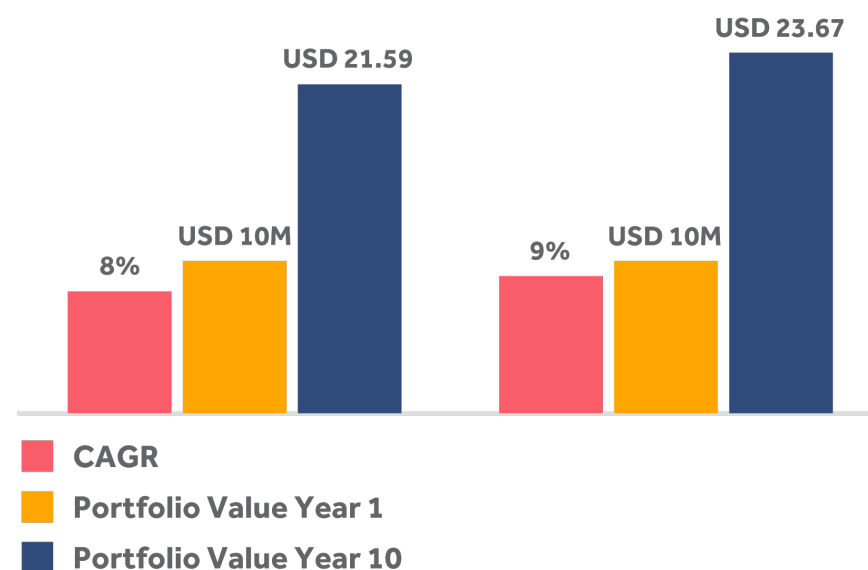
Budgeting and forecasting gives control over wealth and plugs expense leakages. This, in turn, leads to additional savings.

The corollary to saving is investing. Money generates returns and mobilizes the power of compounding only upon investment.

The sole creature in the world that never sleeps is interest. Compounding lets you earn not only on the money saved, but also on the interest earned by that money. Thus, money can work round the clock, multiplying or depleting itself.

Chart 18: Investing Saving

CAGR	Portfolio Value Year 1	Portfolio Value Year 10
8%	USD 10M	USD 21.59
9%	USD 10M	USD 23.67



A small increase in returns or reduction in costs will have a dramatic increase in the long-term value of your portfolio. For example, a USD 10M portfolio’s returns increasing by just 1% over 10 years produces an additional return of USD 2M:

Grow your wealth faster than inflation undermines it. Invest in interest or dividend-generating assets. Or earn capital gains by purchasing and selling assets that appreciate in value.

Generate as much passive income as possible. A passive income is one which requires little ongoing participation from you. It exemplifies self-sustaining wealth and financial freedom.

1. Why do many high-income professionals end up with scant savings?

Because they leave budgetary rigor back at the office. Aspire to the same fiscal discipline for personal expenditures as you would for business finances.

2. A budget tells money where to go but looks to you for direction.

Are fixed sources of income sufficient to sustain current living expenses? Are expenses expected to increase? Is there enough money for charitable donations?

Keep an eye on the long-term horizon.

3. Tax planning. Warning: do not try this yourself.

Taxation affects investment returns and cash flows. But good tax decisions rely on good accounting data. Always consult a professional to prevent penalties or litigation.

4. Know what's liquid and what's not.

USD 10M in assets does not mean USD 10M in hand for disposal. Unknowingly relying on earmarked assets could force liquidation of other assets at sub-optimal rates. So insist on an accounting and reporting system earmarks assets and determines liquidity.

5. You will sleep better when your savings don't.

Savings can work around the clock, but only when invested to harness the power of compounding. Nothing contributes to financial freedom as much as passive income.



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Health

Grouped by Currency and Strategy in USD

Allocation %

Allocation %	IRR %	Value	Un-realized Gain/Loss %
8.78%	2.27%	\$1,704,535.40	14.65%
12.61%	5.44%	\$2,448,038.34	6.32%
0.89%	2.44%	\$173,125.55	8.44%
0.15%	(1.67%)	\$28,270.68	(5.60%)
77.57%	11.54%	\$15,054,724.70	42.80%
100.00%	8.92%	\$19,408,694.67	33.65%

Common Filter

Entity / Group
 Seddiqi Family

Report Period
 Custom

Txn From Date
4/1/2021

Currency
 USD

* Select checkbox for applying filters

Process

INVESTMENT APPROACH >

1. Investment management and concepts
2. Insurance
3. Personal assets
4. Key takeaways



The only thing that money gives you is the freedom of not having to worry about money.

- Johnny Carson,
American television host

Investment policy statement

An Investment Policy Statement (IPS) defines the investment goals and objectives of a family. It is a financial roadmap drawn in collaboration with a financial advisor.

An IPS forms the basis for a family's portfolio construction by describing the strategies to be employed, and processes to measure their outcome.

Following is the outline of an IPS and the areas it should cover. Financial terms, such as asset allocation, risk and benchmarking, are explained later in this section.. The section also provides you thumb rules for drafting your family office's IPS.

I IPS and governance

1. Identification of investor type (individual or entity)
 2. Quantification of wealth under management
 3. Assignment of responsibilities towards different functions
- Investment Function:
- Identifying key personnel involved in decision making process
 - Outlining their responsibilities
 - Laying out the organization structure.
- Monitoring and Reporting Function:
- Identifying personnel involved in monitoring and reporting process
 - Outlining periodicity of reporting.

4. Review of IPS
 - Creation of process to review the IPS
 - Determination of periodicity of review.
5. Asset allocation and external investment manager/advisor selection
 - Establishment of asset allocation process and its alignment with financial objectives
 - Devising criteria for selection and firing of external investment managers/advisors.

II Investment, return and risk

1. Risk assessment
 - Clear definition and documentation of risk tolerance
 - Specification of risk criteria for sub-assets within the asset allocation, along with overall risk tolerance levels.
2. Investment goals capture
 - Statement of investment performance objectives in alignment with risk assessment
 - Mapping them with funding needs
 - Determination of spending assumptions
 - Forecast of liquidity requirements based on short-, medium-, long-term needs
 - Establishment of geographies in which assets will be invested and projecting currency requirements.
3. Benchmark selection and review
 - Selection of custom benchmark as per asset allocation criteria

- Selection may be made for sub-asset classes as well
 - Review of selected benchmark to ensure suitability and cohesion with IPS.
4. Performance evaluation and reporting
 - Setting of evaluation horizon for investment performance review
 - Determination of personnel involved in review process
 - Outlining investment performance calculation criteria to ensure uniformity in performance calculation. This will enable harmonious interpretation and decision making among all stakeholders
 - Designing the formats of reporting
 - Self-reporting may be supplemented with independent third-party reporting to ensure transparency.
 - Carrying out periodic portfolio rebalancing (explained later) to realign investments with the IPS.
 5. Constraints
 - Identification and statement of constraints. These may be related to:
 - Investment criteria (unwillingness to invest in certain assets)
 - Legal limitations (cap on stock holding mandated by law)
 - Tax considerations (tax on income that may render the investment uneconomical).

Appendix 8 contains the specimen of a commonly used Investment Policy Statement. [>>](#)

Chart 7: Inflation > The Effects of Inflation and Taxes Mean Real Returns are far less than Nominal Returns



Investment concepts

This section apprises family principals and family office professionals of basic investment terms and portfolio management techniques. This knowledge will help you manage your wealth better and engage in informed conversations with financial advisors.

The aim of investment is to sustain and grow wealth. This allows families to maintain their lifestyles with financial security, even post-retirement. Your investment returns will assure you of this freedom only if they beat inflation.

Returns that surpass inflation rates can be earned by:

1. Understanding the wealth trinity of risk, return and time
2. Carrying out your asset allocation accordingly
3. Rebalancing and reviewing the portfolio regularly.

Inflation

Inflation affects financial planning monumentally. Despite saving and investing money diligently, the actual value of wealth is diluted by rising prices. Inflation cuts into returns, and, in some cases, even induces negative growth.

The effects of inflation and taxes mean real returns are far less than nominal returns:
Wealth management fails unless the post-tax returns come out higher than the inflation.

Fixed income asset classes provide liquidity for investment and generate stable income and cash flows. But, depending on a country's nominal inflation rate, they rarely outrun inflation. Only certain asset classes, such as equity, have consistently proven this capability.

The following is an illustrative list of various asset classes. Knowledge of different investment avenues and their returns allows families and their family office professionals to oversee their investment portfolio.

Liquid assets are those which can be readily converted to cash. Whereas illiquid assets do not have regular buyers and sellers.

Chart 8: Publicly-Listed Entities

Assets	Liquid	Publicly-Listed Equities	
		Mutual Funds	Equity Mutual Funds
			Debt Mutual Funds
			Hybrid Mutual Funds
			Exchange Traded Funds
	Funds of Funds		
	Other Equity Investment Vehicles	Portfolio Management Schemes/ Separately Managed Accounts	
		Alternative Investment Funds	
	Fixed Income Instruments	Corporate Bonds	
		Government Bonds	
Fixed Deposits			
Illiquid	Real Estate		
	Alternative Investments	Private Equity	
		Venture Capital	
		Hedge Funds	
		Commodities	
Gold			
Art/Antiques			

Wealth trinity – risk, return and time

This section will enable families and their family office professionals to gauge their risk tolerance, and measure returns from diverse investments. This will, in turn, help you draft an effective Investment Policy Statement.

Risk

Risk is the uncertainty in an expected outcome; it is also the possibility of losing some or all of your original investment. Rewards of an investment are tied to the risk associated with it. Higher risk justifies, but does not guarantee, higher returns.

Taking no risk at all does not give the returns required to sustain and grow wealth. Assuming too much risk threatens basic financial security.

The key is to take on calculated risks that promise returns with some degree of certainty. Informed risk-taking is distinct from an outright gamble.

Different kinds of risks, ways of measuring them, and methods for managing risk are:

I Standard deviation (δ)

Standard deviation is an estimation of the expected volatility in an investment's returns. Volatility is the fluctuation in the returns from an asset over a given period of time.

Two stocks may give the same one-year return of 20%. But, if over those 12 months, returns from one stock rose and fell significantly, with those from the other staying more or less consistent, then the former is riskier than the latter.

Standard deviation measures how the returns from an investment vary with respect to its average returns during a given period. So, if a fund gives an average of 8% yearly returns with a standard deviation of 4%, you can expect returns to vary between 4% and 12%.

II Beta (β)

Beta measures the behavior of a stock with respect to the market as a whole. The market is represented by a leading stock market index, the beta of which is always 1.

The higher the beta, the higher the risk. If a stock's beta is 1.2, it is theoretically 20% more volatile than the market.

Chart 9: II. Beta

Beta of Security	Relationship with Market
=1	Security's risk is the same as overall market risk
<1	Security is less volatile than the market
>1	Security is more volatile than the market

III Alpha (α)

Alpha measures the performance of a security on a risk-adjusted basis. It is the excess return of a security over its benchmark. If the market index returns 15% annually over a two-year period, and the investment generates 17% over the same period, the

Alpha over the market index is 2% per year.

Risk tolerance differs from person to person and is tied to one's income, lifestyle, goals and approach in life. This includes the ability to bear notional mark-to-market losses (temporary fluctuations in value) as well as real losses (a company in which you hold shares going defunct).

If you can identify and measure risk with different metrics, you can manage it.

Return

Akin to assessing risk, correctly measuring returns is also important.

Returns can be measured in various ways. Following are some basic return metrics:

I Absolute return

Absolute return is an investment's returns without accounting for the duration of investment.

Chart 10: Return > Absolute Return

Investment Amount	Value after 6 Months	Absolute Return
USD 100	USD 120	USD 20 or 20%

II Annualized return

Annualized return is the absolute return adjusted for 12 months.

Chart 11: Annualized Return

Investment Amount	Value after 6 Months	Absolute Return	Annualized Return
USD 100	USD 120	USD 20 or 20%	40%

III Compounded annual growth rate (CAGR)

CAGR is the measure of an investment's annual growth rate over time, with the effect of compounding taken into account.

Chart 12: CAGR

Year	Investment Amount	Year-end Value @ 35.72%*
1	USD 100.00	USD 135.72
2	USD 135.72	USD 184.2
3	USD 184.2	USD 250.00

* 35.72% is the CAGR — a constant rate of growth — at which USD 100 would become USD 250 at the end of three years

Wealthy families have complex portfolios spread across multiple asset classes and countries. Return metrics relevant to your investment holding are the following:

I Time weighted return (TWR)

TWR measures a fund's compounded rate of growth over a specific time period. It does not consider the effects of cash inflows and outflows on the growth rate.

II Internal rate of return (IRR)

IRR measures the annualized implied discount rate calculated from a series of cash flows. It equates the cost of an investment with the present value of cash generated by that investment. Hence, unlike TWR, it factors in the timing and quantum of cash flows.

Where there are no intermediate cash flows in the life of an investment, TWR and IRR are the same. Here is an illustration:

A] With Cash Flows

Chart 13: IRR > With Cash Flows

Return Type	IRR				TWR
Year	A Portfolio Value at the beginning of the year	B Cash Flows	C Absolute Gain	D Portfolio Value at the end of the year*	Annual Return**
2020	--	+ USD 1,000 (initial investment)	--	USD 1,000	--
2021	USD 1,000	--	USD 100	USD 1,100	10%
2022	USD 1,100	- USD 650 (sales proceeds)	USD 440	USD 890	40%
2023	USD 890	--	USD 445	USD 1,335	50%
Total Gain = 100 + 440 + 445 = 985 IRR = 29.61%					TWR = 32.19%

*Value at year end = A + B + C
**Return calculated on A to give C

B] Without Cash Flows

Chart 14: IRR > Without Cash Flow

Return Type	IRR				TWR
Year	A Portfolio Value at the beginning of the year	B Cash Flows	C Absolute Gain	D Portfolio Value at the end of the year*	Annual Return**
2020	--	+ USD 1,000 (initial investment)	--	USD 1,000	--
2021	USD 1,000	--	USD 100	USD 1,100	10%
2022	USD 1,100	--	USD 440	USD 1,540	40%
2023	USD 1,540	--	USD 770	USD 2,310	50%
Total Gain = 100 + 440 + 770 = 1,310 IRR = 32.19%					TWR = 32.19%

*Value at year end = A + B + C
**Return calculated on A to give C

The TWR remains unaffected by the timing of cash flows. This is because it measures returns from the beginning to the end as if there were no cash flows. It considers only the absolute annual return. Hence, in both the illustrations above, the TWR was the same.

The purpose and way to use these metrics is given in the portfolio review section below.

Time

Often overlooked, time is the most crucial factor when it comes to optimizing the returns from investment, and forecasting cash flows.

Optimizing returns

Time in the market (the amount of time for which an investment is held) is much more important than timing in the market (the time at which you buy or sell an investment). >>

The longer you hold an investment, the lower the probability of a negative return. The caveat is that the investment should be fundamentally sound.

Historically, some of the worst short-term market losses have given way to substantial market recovery. It is essential to not panic and sell holdings during a volatile period.

Forecasting cash flows

Before making an investment, determine the time horizon i.e. the number of years before you start using your returns. This prevents the need to sell investments at less than optimum prices, or at a loss, to fulfill liquidity needs.

Divide the time horizon into:

- Short-term time horizon (Less than 2 years to invest): Low risk investments, such as fixed income instruments
- Medium-term time horizon (3 to 5 years to invest): A mix of equities and fixed income based on your risk appetite
- Long-term time horizon (More than 5 years): Considerably higher proportion of equities.

The earlier you start investing, the greater the odds of generating more wealth.

Asset allocation, portfolio rebalancing and portfolio review

This section gives guidance on determining asset allocation strategies. It then cites metrics to periodically review overall portfolio and individual asset class performances through benchmarking. This will further enable families to evaluate financial advisors' output.

Asset allocation

"90% of your portfolio's risk-adjusted return is connected to your asset allocation" – Findings of a landmark research paper by Brinson, Hood and Beebower, published in 1986 Investments are multi-layered instruments with varying degrees of risks and returns. It is up to families to find the right combination for themselves as per their financial objectives and risk appetite. This includes considering future cash flow requirements.

Determining the asset allocation is more important than the individual investments to be bought. Asset allocation is putting money in a well-thought-out mix that can ride out market volatilities and steadily grow wealth in the long run.

A good mix of assets consists of uncorrelated investments. To have a combination of uncorrelated investments is to possess a well-diversified portfolio. This means not putting all eggs in one basket.

Correlation is the degree to which two securities move in relation to each other. Correlated assets are tied to the same market risks, say, direct equity stock and equity mutual funds. They will rise and fall at the same time and in the same proportion.

Since different investment categories are affected by different types of market conditions, diversifying the portfolio decreases the risk from fluctuations in market returns. Thus diversification protects against losses. If one asset loses value, the others make up for the loss. And, in aggregate, all of them appreciate and beat inflation in the long term.

Diversification helps to balance risk and return.

Portfolio rebalancing

Rebalancing a portfolio is to bring it back to the original asset allocation proportion. Some investments end up growing faster than others. Over time, this gap in growth rates misaligns the investments from the family's financial goals.

For example, a boom in the equity market might change your original asset allocation of 70% equity and 30% fixed income to 90% and 10% respectively.

Chart 15: Portfolio Rebalancing

Year	Equity Investment	Fixed Income Investment	Portfolio Value	Equity Investment Allocation	Fixed Income Investment Allocation
1	USD 70	USD 30	USD 100	70%	30%
2	USD 135	USD 15	USD 150	90%	10%

This means the risk profile of your portfolio has increased. It is beyond the risk tolerance set during the original asset allocation.

You should now either sell some of your equity investments or buy more of the under-weighted fixed income categories, to restore the asset allocation balance. >>

By rebalancing your portfolio in this manner, you will be adhering to Warren Buffet’s mantra by default – ‘sell high, buy low’.

Portfolio Review

A quarterly review of the holdings is equally important. This applies even to long-term investments. Investments lagging in performance should be replaced with a suitable alternative to earn the best possible returns. The power of compounding means even a 0.1% lesser return can result in a massive lost financial opportunity.

The investment portfolio should be reviewed by benchmarking the returns against those available in the public and private marketplace. This is done using either TWR% or IRR%.

These two metrics should not be compared for the same investment. Their purpose and usage differs from investment to investment.

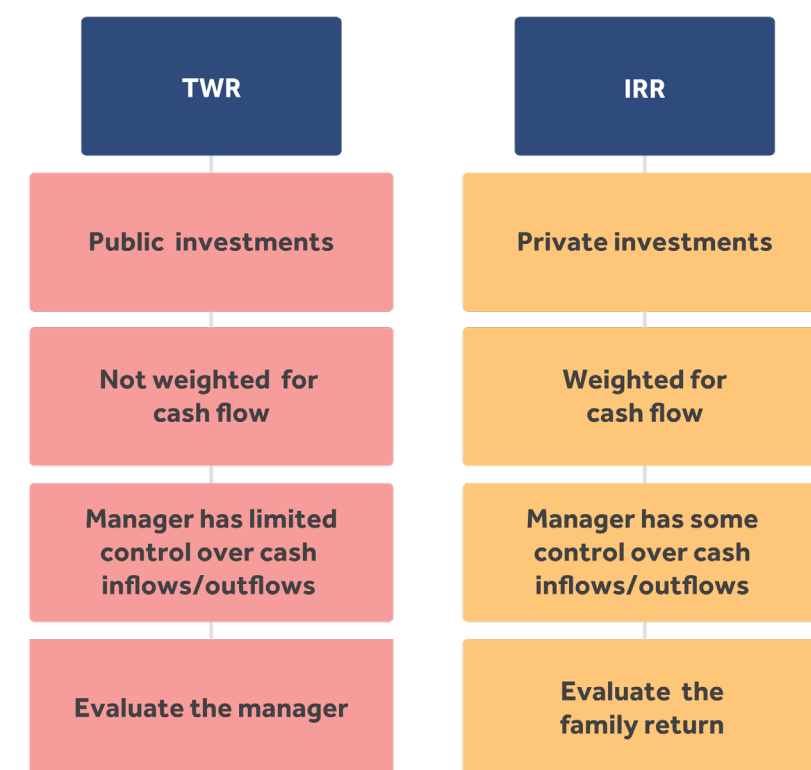
1. Time weighted return% (TWR):

- Also called the ‘portfolio manager’s way’ of calculating return
- Is used to calculate performance of assets where the family has little control over cash flows (say dividend re-investing mutual funds)
- Can be used to measure return only from frequently traded assets like public stocks. The returns so calculated are compared with appropriate benchmark indices
- Helps to evaluate a portfolio manager’s performance.

2. Internal rate of return% (IRR):

- Also called the ‘investor’s way’ of calculating return
- Is used to calculate performance of private investments where there is control over cash flows (say direct investment by the family in private equity)
- Can be used for assets that are not frequently traded like real estate. Such assets do not have readily available and real-time market information for benchmarking
- Helps to evaluate the overall portfolio performance.

Chart 16: Portfolio Review



This is why you need to deploy best practices in creating a responsive and flexible investment grouping while setting up your family investment entities in the performance reporting and general ledger platform.

The investment position grouping, which is distinct from the COA, should enable the family separate their private and public investments. Consolidated groupings where TWR and IRR are presented against the same line items may produce misleading results. >>

Analyzing the portfolio as a whole gives us a general picture of the overall investments.

Asset performance of individual classes, too, needs to be measured using applicable metrics. For example, private equity is a long-term investment. Its full return potential may not be realized until the end of the investment life. Interim performance is measured using the following ratios:

1. Capital Account Value (CAV):

Measures the current value of the investment.

2. Distributed Value to Paid-In (DV/PI):

Measures how much of the invested capital is recovered as cash flow till date. A ratio less than 1 means the investment has not returned the capital yet. A ratio greater than 1 means the investment has generated more cash back than the invested amount.

3. Total Value to Paid-In (TV/PI):

Measures the total return from cash flows generated as well as the amount still invested in the fund.

Harness Technology

Designing an accounting system integrated with liquid and illiquid investment performance tracking ability can be a daunting task. Even if a family manages to combine these functions by putting manual processes in place and using a tool like Excel, their results are sub-optimal at best. It is also difficult to access information that enables performance measurement by benchmarking

with the larger market. Harnessing technology simplifies these activities for families.

The ideal software platform, replete with a document vault, marries a general ledger, applicable accounting standards and investment management and real time market updates. This allows the investors to identify market trends affecting their portfolio and project cash flows so that they can have a better handle on underlying risk and exposure.

Asset Vantage, one of the leading family office software solutions, possesses all of these capabilities. **Appendix 9** illustrates a host of its detailed and nuanced investment reporting and accounting prowess.

Insurance

Every family is vulnerable to different kinds of risk – personal, financial and business. Insurance against these risks forms a vital part of any sound financial plan for a family office. Payouts from insurance give financial reprieve not only in times of difficulties, but also serve as a liquidity tool in the event of liabilities arising from inheritance/estate taxes and succession planning.

Health, life & crisis management risks

Families usually acquire adequate cover for health and life risks. Some families also take cover for protection against crisis such as security threats, emergency evacuation and repatriation. Care should be taken to ensure that these insurance policies provide international protection.

In respect of life insurance, the most optimal life cover is provided by term policies. An assured sum is received only if there is a demise during the tenure of the policy. Other types of life insurance offer some benefit even during the lifetime of the policyholder, making it an insurance-cum-investment. But the returns may not always justify the higher premium demanded by such policies.

Financial and business risks

Families may face large liabilities in the forms of inheritance/estate tax or other tax claims. Payouts from life or term insurance received by the beneficiaries can shield a family from such difficult personal and financial situations. They need not forcibly sell family assets to meet sudden liquidity needs.

Apart from all the standard operating business risk policies, key-man insurance policies are very popular in family owned businesses. Such policies allow the owners to receive a pay-out upon the death of one of their key employees, enabling them to effectively deal with management succession and business losses.

Tracking insurance

Insurance companies are strict and particular. The crucial aid provided by insurance in times of need can be availed only if all of the formalities surrounding the policies are in order. Premium payment must be regular and all documents must be properly maintained.

This makes it imperative for a family office to track and monitor its insurance policies pertaining to its various assets, people and nominees all in one place. Your family office system should be able to capture:

1. Insurance policy name
2. Insurance policy type
3. Premium payable including upward or downward revisions
4. Sum assured on maturity or devolution
5. Date of premium payment
6. Date of insurance policy renewal
7. Interest or penalty for delayed actions
8. Insurance nominee or beneficiary

While forecasting the family office’s cash flows, ensure that cash flows arising out of insurance-related activities are taken into account.

Insurance documents should be stored digitally in a systematic manner alongside the entity to which it pertains. Scheduled periodic reviews of all insurance policies must be in place to check for adequate coverage. Comparing the existing policies with alternatives will also help secure optimum protection against risk at reasonable costs.

Personal asset management

Personal assets include investments in physical artefacts such as gold, jewelry, art, horses, vintage cars or an aircraft. These can be bought directly or invested in through a fund. You may purchase them for purely portfolio diversification purposes, or out of personal interest and passion. Or they may have been passed down as heirlooms through your family's generations. Regardless of the intention, they must be taken care of properly if they are to retain their monetary as well as sentimental value. They need to be protected against theft, fire and any unforeseen circumstances.

Your family office looks after your private wealth like an organized business. Use the same family office to manage your personal assets as meticulously as your business assets.

Tracking personal assets

Ensure your accounting and reporting system tracks the following information:

1. Date of purchase
2. Purchase price
3. Location of asset
4. Latest market valuation
5. Lien on the asset, if any
6. Income earned from lending the asset, if any
7. Day-to-day maintenance expenditure
8. Gain or loss upon sale

Documents pertaining to such assets should be carefully stored digitally. These include purchase receipts, valuation reports and insurance documents. Tracking of the assets' market value and identification of potential risks should take place periodically.

A documented system for regulated access to and maintenance of all your personal assets should be implemented.

Recording all of your personal assets in this fashion creates an inventory of them, which in turn grants better control.

1. Rule #1 of investing: Don't lose money. Rule #2: Don't forget rule #1.

All the more reason to create an Investment Policy Statement that establishes investment goals and strategies as guideposts for managing the portfolio.

2. After-tax returns > inflation = growth.

Measuring market performance is vital, but what you take home after inflation is the true measure of investment returns. Wealth management fails unless post-tax returns exceed the rate of inflation.

3. "What's my return?" The answer is always the same. It depends on what you want to measure.

Metrics used for measuring returns varies according to the asset class and purpose. Understanding those various metrics is key to accurately measuring portfolio performance.

4. The best investors approach asset allocation the way Mozart approached "instrument allocation".

by crafting pieces of music (portfolios) whose instruments offer sufficient chromatic range (degrees of risk and return) to adapt to changing audience tastes (market volatility) en route to becoming classics (accumulating wealth). Good asset allocation consists of an optimal mix of uncorrelated investments. Such a portfolio can survive losses in individual investments to give overall positive returns in the long run.

5. The key to asset allocation? Proportionality.

Some investments end up growing faster than others, creating gaps in performance that misalign the portfolio relative to the family's financial goals. Regularly rebalancing a portfolio will restore it to its original allocation proportion.

6. Don't neglect insurance; the only protection for all forms of wealth.

Life is wealth. Health is wealth. Safety is wealth. Protect them all by making insurance an integral part of your planning.

7. Stay on top of premium payments and record keeping.

Insurance companies don't cut their customers slack. Crucial aid in time of need will be paid out only if all policy requirements are met.

8. "Where did I hang that Monet"?

Personal assets can't be managed, much less preserved, unless they are inventoried. Make sure to keep careful records of these assets—jewelry, art, horses, vintage cars, boats, aircrafts—and file them all in your family office.



A world-class user interface.

Rich in functionality, our intuitive interface brings clarity to complex portfolios and speed to crucial decisions.

Start your trial today >>

ASSET VANTAGE
Performance Reporting & General Ledger on Demand

Investment Search

Report Book (beta) > Whitmore Report Book

Asset Allocation

E Whitmore Group as on: 31-Dec-2020, Grouped by Asset-Class and Strategy in USD

Equity	41.25%
Real Estate	32.34%
Alternatives	10.40%
Cash	7.18%
Fixed Income	4.69%
Taxable Fixed Income	1.59%
Private Assets	1.38%

Legal Entity Split

E Whitmore Group as on: 31-Dec-2020, Grouped by Entity and Strategy in USD

E Michael Whitmore	44.6%
Susan Whitmore	30.2%
Jack Whitmore	21.2%
Vox Investments LLP	3.0%
Subick Foods Inc	0.6%
Henry Whitmore Trust	0.4%

Performance by Asset Class

E Michael Whitmore as on: 31-Dec-2020, Grouped by Asset-Class and Strategy in USD

	Allocation %	QTD %	YTD %	1 Year %	2 Year %
Equity	46.62%	9.14%	12.08%	12.08%	27.88%
S&P 500 Index Total Return		12.15%	18.40%	18.40%	55.68%
Fixed Income	16.92%	(0.39%)	2.65%	2.65%	2.78%
S&P/ASX Corporate Bon...		1.72%	6.10%	6.10%	13.84%
Alternatives	31.12%	0.51%	0.97%	0.97%	1.89%
S&P 500 Index Total Return		12.15%	18.40%	18.40%	55.68%
Private Assets	5.35%	3.32%	76.92%	76.92%	116.75%
S&P 500 Index Total Return		12.15%	18.40%	18.40%	55.68%
Total	100.00%	4.26%	9.99%	9.99%	17.08%

Activity

E Michael Whitmore as on: 31-Dec-2020 in USD

	01-Oct-2020 to 31-Dec-2020	01-Jan-2020 to 31-Dec-2020
E Michael Whitmore		
Fidelity (xxxx1234) USD		
Opening Value	7,813,272.25	7,356,115.68
Net Activity	(1,424.71)	(8,604.96)
Net Gain/Loss	1,137,425.79	1,601,762.61
Closing Value	8,949,273.33	8,949,273.33

LEGACY ARCHIVAL & ESTATE PLANNING >

1. Family legacy archiving
2. Estate planning
3. Key takeaways



Your story is the greatest legacy that you will leave to your friends. It's the longest-lasting legacy you will leave to your heirs.

- Steve Saint,
entrepreneur, pilot and author

1. Family legacy archiving

2. Estate planning

Key takeaways

Monetary wealth is earned, sometimes lost, but can be gained again. Its value fluctuates over time. But your legacy is enduring, and only appreciates with every passing day. No matter what the cynics say, you will be remembered less by your money, and more by your story.

To build your legacy – personal as well as business – you need to preserve your family history. And there can be no history without documented evidence of the past. To preserve your documents, you need to establish an archival program.

Why archive?

Archival material outlines your family and business culture and ethos. It documents your growth, changes, and achievements. It is only by looking back and building up on the past that your family can look toward its future, learn from its experiences, and continue to thrive and function well into the next decade or even the century. Reasons behind missed opportunities, and strategies used to overcome challenges have the power to engage and align the next generation of family members or business leaders with current and future trajectories.

A formally managed archive also has direct commercial value. It is not just a matter for nostalgia but can contribute to the bottom line in the following ways:

- 1. Provides evidence against hostile litigation, trademark infringement or assault on reputation
- 2. Supports better management by improving efficiency and productivity through increased access to information
- 3. Reduces operating costs by decreasing storage space needed for unnecessary records

- 4. Decreases employees' time spent on locating vital information
- 5. Mitigates the risk of loss of important records in the event of a disaster
- 6. Preserves the memory of your business and holds knowledge and experience often forgotten when people move on.

Archives serve as tools and sources for an empathic understanding of your past and help you maximize what is already uniquely yours: your heritage.

Yet, every day, families lose their valued items to neglect, mishandling and misplacement. Your attentive care can ensure their security. A scientifically maintained archive ensures quick access to your heritage and can be used by you, your family and employees. It will give you all the facts and artefacts to craft your story.

What to archive?

Records can be in many forms like papers, photographs, videos, blueprints, maps, drawings, sound recordings and electronic information. All of them have a life cycle. Information is received or created, used and disposed of as per its relevance. Most records can be destroyed when they are no longer needed. However, a certain percentage of business and personal records have lasting value and should be archived.

To identify valuable items, think of the things that can tell the story of your life. Normally they tend to be operational records

of the core functions that shaped and grew the family office, like the minutes of meetings of the decision makers. They can also be private papers of the founders and other members of the family that have significantly contributed to the family office. Personal records relating to non-business activities such supporting charitable foundations or the local sports team, may very well provide insights into the way decision makers run the business. These records place the activities of the business in a broader context. As you go through your items, you may begin to notice patterns in your collecting. Make an effort to locate missing materials to fill out your story.

Generally, the most important offices in your organization will produce the most important records. Many people mistakenly believe that archival records are always 'old' records. The value of information does not depend on its age.

How to establish an archival program

If your family and business has stored materials carefully over the years, the existing collection is your starting point. However, in some cases you may be required to start from scratch by sourcing and compiling materials. Your best resources in that case are the oldest living members of your family and organizations. >>

1. Family legacy archiving

2. Estate planning

Key takeaways

The following will help you build your collection and piece together your story:

- Construct your family tree. Do not restrict yourself to the founder of the business, but instead begin with the oldest known ancestor. Include all branches of the family
- Wherever possible, note down exact dates and places of birth. Trace any migrations or geographic relocations within your extended families. This will help you while searching for records in state archives
- Conduct a focused search on the founder or first generation of the family office. Look for personal items, notes and diaries, correspondence and collectibles. Your resources may be anyone who had the privilege of knowing your founder/s. This may include surviving cousins, extended family members, employees or their offspring
- Involve the whole family - immediate as well as extended. Document all of the important records and papers that make up a family estate such as important personal papers, wills, share certificates, insurance policies, passports and family letters
- Consider performing recorded oral histories to get information from people on paper, audio or video
- Do not discriminate between family members, irrespective of their perceived role. Everyone has stories to pass on. It may not be your immediate kin, but subsequent generations that go seeking to know more about you and the circumstances in which you lived
- Expand your search to include secondary sources. Some prominent families and communities have published 'lineage

histories' that recount their achievements in the fields of trade and philanthropy

- Repeat the above across your organizational hierarchy. Reach out to the oldest employees regardless of rank. Everyone will have a story to tell.

Storage

Proper storage stalls the natural ageing process. Archival material being organic in nature, particularly paper and textiles, are at a risk from damp, mold, insects, pollution, unsuitable packaging and frequent or careless handling. Additionally, organic materials are prone to damage by light. Photographic surfaces are particularly vulnerable.

Keep all vital records in a safe place. Birth certificates, mortgage papers, and other such records should be kept in a fire proof box with copies placed off-site.

Digitization

While conservation and proper storage secures the life of the archival material, digitizing them protects against deterioration from constant wear and tear and eventual loss. Digitization also enables easy sharing and reproduction in various formats.

A successful archival program needs adequate financing for supplies, an effective electronic platform for digital storage, furnishings, and space for storage and research. You can establish your own archival program, or hire a professional archivist/ records manager.

The story of your family is worth preserving and telling. **Appendix 10** gives the classification and list of information you should archive – pertaining both to your family and businesses.

The process of archiving the family history often unearths personal assets of significant value. These need to be accounted for to maintain their worth and procure adequate insurance coverage. Efficient recording of such assets also makes it easy to pass them down to generations. An established family office set-up with the capability to track personal assets and a secure document vault to store documents that tell your legacy will support your archival process.

1. Family legacy archiving

Estate planning ensures that the wealth and legacy you have built is passed smoothly to the next generation. It would be a shame for either to suffer or lose value on account of conflicts due to ambiguities in succession.

It is natural to put off planning for management of your assets in the event of incapacitation or death. After all, such events seem unlikely and distant. But uncertainty is a way of life, and being prepared has never proved to be unfavorable.

An estate is the aggregate of all your investments and assets – movable as well as immovable. It includes partnership shares in businesses, stocks, debentures, mutual funds, life insurance, bank deposits, intellectual property, and personal assets like paintings and antiques. Liabilities, though not technically part of your asset base, must be properly dealt with in your estate too.

An estate plan takes care of your estate's management, preservation and legacy, during and after your lifetime, by ensuring the following:

1. Planned business succession
2. Contingency plans in case of business losses
3. Cash flow management to meet family needs
4. Amicable distribution of wealth
5. Avoidance of family disputes
6. Administration, protection and preservation of assets for beneficiaries
7. Management of all types of assets through expert advisors
8. Minimization of inheritance/estate taxes
9. Provision for charitable purposes

2. Estate planning

Common estate planning tools include wills, trusts, foundations and insurance. Each of them provide varying degrees of asset protection, tax efficiency and protection from creditors. Trusts are the usually favored route to achieving these objectives.

Effective solutions to estate planning involve the intersection of tax, law, and finance, with both domestic and cross-border considerations. Income, assets, and family members spread across multiple jurisdictions add to the complication.

Determine your family's core capital and excess capital. The core capital helps to maintain your lifestyle and provide adequate reserves for unexpected commitments. Excess capital, i.e. the assets over and above your core capital, can be safely transferred to the second generation or beyond, without jeopardizing the first generation's needs. This is known as generation skipping, for which some countries provide tax exemptions.

Major legal considerations pertain to drafting and ensuring the validity of documents. Tax implications also need to be minimized, in both the home country and others. Add to that the constant amendments to law and taxes. The impact of these changes must be understood and managed.

Non-legal or non-tax concerns include business succession, philanthropic activities, privacy and asset tracking, identification and preservation.

Key takeaways

Estate planning can be formidable and complex, but lawyers and tax consultants can help you devise a plan customized to your needs. They will help you articulate your wishes clearly, prevent errors, minimize taxes and adjust your plans with changing circumstances.

An integrated accounting and investment system makes all the assets and liabilities that go into the creation of your comprehensive estate plan readily available. It saves you the effort of collating disparate data for making your plan and discussing with your family members and legal advisors. A consolidated view of your personal and financial assets and liabilities, whether they form part of a trust or are earmarked for charity, gives you control over your wealth. You can plan not just from a short term financial perspective, but create lasting security for several generations. Thorough and informed planning, backed by the solid foundation of your family office, maximizes what you leave behind for your loved ones.

1. While money is forgettable, an enduring legacy is not.

It holds vital business lessons and life inspiration for future generations. History is a powerful force, but only if its elements are preserved: papers, photos, videos, blueprints, drawings, and, increasingly, digital information.

2. What's worth saving is worth formally archiving.

More than nostalgia for its own sake, archives offer commercial value; they can supply evidence against litigation or trademark claims and consolidate records so they can be easily found. Likewise, what's worth archiving is worth doing scientifically and digitally, to professional standards.

3. It's not just about what you save, but whom you involve.

An established family office can support an archival program. But for it to succeed, it must involve all family members and employees – especially the most senior ones – irrespective of their perceived contributions.

4. While the transfer of power in politics can be rocky, the transfer of wealth between generations need not be.

An overarching estate plan will minimize tax liabilities on inheritance. It will also handle critical issues like business succession, asset tracking, and philanthropic activities.

5. In storytelling, rule #1 is "write tight."

The same applies to writing the story of your estate—your legacy. A 'tight', consolidated view of all personal and financial assets and liabilities is vital to the clear articulation of your wishes. Your 'writing tool' should be an integrated accounting and investment system; the only kind of platform capable of creating and maintaining a comprehensive view of family wealth.

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SECURITY >

1. Data security
2. Data management
3. Key takeaways



Cybersecurity is much more than a matter of IT

- Stephane Nappo,
Global Chief Information
Security Officer at OVHcloud

1. Data security

2. Data management

Key takeaways

Why you need cyber & data security

Individuals and small organizations tend to be complacent about cybersecurity. Especially since cybercrime is not physical. Like any rare event, it feels impossible it can happen to you—until it does.

The biggest cause of this complacency is assuming the criminals target only very high-value individuals and large organizations. But cyberspace has its own share of petty offenders, who prey on any identified vulnerability.

Opportunity makes the cybercriminal. Whether a piece of information is considered 'sensitive' or not, any compromised data can provide leverage to miscreants in their schemes. Every click and movement is tracked and collected.

Smartphone software particularly adds to the vulnerability. It collects information from every installed app, including mobile banking and investment solutions. The apps themselves, too, gather data, sometimes even when they are not being used.

With the increasing sophistication and expertise of cybercriminals, it is difficult to implement a fool proof security system. Still, family offices can do much to minimize the threat.

This section enumerates best practices in information technology (IT), privacy and access control that every good enterprise-level system should deploy. The practices should be developed with expert advice, and should be well-documented and clearly communicated with all staff members and users.

Password

"Passwords are like underwear: don't let people see it, change it very often, and you shouldn't share it with strangers." – Chris Pirillo, founder and CEO of LockerGnome

Enforcing passwords is the most basic protection measure. It is also the most vulnerable one if password hygiene is treated casually. Staff members and users need to be sensitized to its importance.

Establish a password policy in the organization that mandates the following:

1. No employees are to share passwords with one another
2. Passwords should be difficult to guess. They should not be set as "password" or "12345", for instance
3. Passwords should not be left in the open, either in plain-text on their computer or written down somewhere near the desk
4. Passwords to documents should not be shared on email
5. Passwords should be reset every time one employee leaves and another joins in his/her place
6. Passwords should be changed every 90 days, and such change should be prompted and mandated by the system software
7. Use two-factor authentication (entering a custom-generated code delivered to the phone or email in addition to the correct password) for all online system logins, such as banks, online tracking, accounting and record-keeping systems
8. All bank passwords should be registered and reviewed quarterly.

Encryption

Encryption is converting information or data into a code, so that it is unreadable to users who do not possess the decryption key. Strong encryption is the best technical defense against most cyberattacks.

End-to-end encryption protects data while it is in transit. If established in its most secure form, the individuals at each end of the message themselves hold the keys for decoding and recoding the message, and not any third party.

Encryption should be installed throughout the network for all devices, data and communication channels:

1. Local computers
2. Computers on the cloud
3. Smartphones
4. Data in transit
5. Data in storage
6. Device interpolation

Without encryption, criminals can easily intercept plain-text that is stored and transmitted on networked computers.

Establish a firm organization policy of not emailing unencrypted or non-password protected documents, spreadsheets and PDFs, especially not if they contain sensitive and personal information.



Inter-process authentication

With internet computing, different software functions or components, such as web, application or database servers, are often not on the same physical computer. But they still need to interoperate to produce the desired outcome.

Inter-process authentication uses a specific type of encryption — using keys that are certified by an authority — to ensure each computer and program can mathematically “prove” their identity. Which means only authenticated programs on the network can exchange information with each other.

This measure protects the data transmitted between different computer programs.

Application software

It is essential to regularly update the software applications in use. These updates rectify vulnerabilities which criminals could exploit.

Regular audits should flag software that is not up-to-date on any system on the network.

1. Data security

2. Data management

Key takeaways

User access and management

“We discovered in our research that insider threats are not viewed as seriously as external threats, like a cyberattack. But when companies had an insider threat, in general, they were much more costly than external incidents. This was largely because the insider that is smart has the skills to hide the crime, for months, for years, sometimes forever.” — Dr Larry Ponemon, chairman and founder of Ponemon Institute

Preventive measures to protect the family office from potential human threats within the organization are:

1. Define role permissions and limit user access to only that data which is necessary for the staff member to discharge his/her duty
2. De-activate the employee account once she leaves
3. Limit access provided to contractors and external consultants. They should not be given the same access as employees
4. Install timed workstation locks and password lockouts to prevent unauthorized access in the event of a computer being left unattended
5. Do not use admin accounts for daily system use. Activities should be traceable to individual users
6. Develop a system that auto-generates unalterable user logs that can trace a user’s activities. User activity and audit trail features are an additional layer of monitoring.

Document management

Digital as well as physical documents need to be handled and stored securely.

1. Use an online Software-as-a-Service document management system for all temporary and final documents, instead of emailing documents. Even with encryption, a highly sophisticated hacker can acquire data in transit for misuse
2. Ensure quarterly audits of each desktop/laptop to ensure temporarily downloaded files are not stored locally. Documents should be located on a central and remote location, so that they are accessible
3. Documents should have version control measures, to keep a track on changes made to them by various personnel
4. Bank statements should be delivered only to the official email ids of specified users
5. Do not print data unless absolutely required. Ensure they are shredded and not left around unattended after use.

Backup

Regular backups are a hedge against data loss. They prevent disruption to operations.

1. Schedule periodic and automatic backups of all critical data in an offline remote and secure location. The location should be physically separate from the primary office
2. No copies of the data must be created without authorization.

Network security

Your network must be accessible only to authorized personnel.

Restrict access to Software-as-a-Service application to local network firewalls and Virtual Private Networks (VPNs). Even if you use a third-party server, it should be accessed only through your private network.

Audit capability

Do not use systems that do not have audit trail generation and reporting capabilities. Your wealth’s security is tied to having a firm control over IT and data security.

1. What you can't see can hurt you.

It is a misconception that criminals target only very high-value individuals and large organizations; the cyberspace has its own share of petty offenders. It doesn't matter if the compromised data is sensitive or not; miscreants are adept at exploiting even seemingly innocuous information.

2. Password hygiene is your first line of defense.

Don't treat it lightly. Establish and enforce a demanding password-protection policy in your family office. Key provisions: Passwords should be complex (difficult to guess), not shared, and changed every 90 days.

3. Encryption is the best technical defense against cyberattacks.

It converts data into code that is unreadable by users who lack a decryption key and should be installed throughout your network to protect all data, devices, and communications channels.

4. Authorized personnel only.

Insider attacks typically do more damage than outsiders. Diminish their likelihood by implementing user access and management protocols that limit network access to authorized personnel.

5. Hedge your data as you would an investment.

Schedule regular automatic backups of all critical data in an offline, remote, and secure location separate from the primary office. Permit no copies of the data to be made without authorization.



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In an industry notorious for denying clients the ability to separate software licensing from asset under management, AV offers transparent pricing.

The screenshot displays the Asset Vantage website's subscription page. At the top, the logo and navigation links (Markets, Solutions, Company, AIP@Drexel, Buy AV, SPEAK TO US) are visible. The main heading is "Start your AV subscription now". Below this, a horizontal menu allows selection of the number of entities (Monthly Trial, 10, 20, 30, 40, 51+). The pricing table below compares three plans: Essential (\$499/month for 2 entities), Pro (\$999/month for 4 entities), and Prime (\$1,499/month for 4 entities, including fully managed reporting services). A table at the bottom details the features included in each plan, such as Asset Classes, Performance Reporting, General Ledger, Data Feeds, Bill Pay, and Data Managed Services.

	Essential	Pro	Prime
Choose the AV product suitable for you	\$499 USD /month Billed monthly 2 Entities Get Started	\$999 USD /month Billed monthly 4 Entities Get Started	\$1,499 USD /month Billed monthly 4 Entities Get Started
+ Asset Classes	Investable + Private	Investable + Private	Investable + Private
+ Performance Reporting	Core	Enhanced	Enhanced
+ General Ledger	Core	Enhanced	Enhanced
+ Data Feeds	Core	Enhanced	Enhanced
+ Bill Pay	Check Print	API to 3rd Party Systems	API to 3rd Party Systems
+ Data Managed Services			Included

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1. Standard Operating Procedures

- Income and expense journalizing and reconciliation
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- Bank and custodian reconciliation
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We don't have to be smarter than the rest; we have to be more disciplined than the rest

- Warren Buffett

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**Appendix 1: Income and expense journalizing and reconciliation
Standard operating procedure (SOP)**

This section lists best practices to be followed for accounting income received or receivable from these key sources:

- Dividend Income – Equity
- Dividend Income – Mutual Fund
- Savings Bank Interest
- Interest on Bond
- Interest on Loan
- Rent Received
- Fee Income

Dividend income – equity

1. Pass weekly dividend receivable entries, to be aware of upcoming income
2. Dividend income would be received either through direct credit in the bank account or in physical form
3. Pass dividend received entry upon its credit in bank (direct credit or physical form)
4. Reconcile dividend receivable against actual dividend received on a weekly basis. In case of any shortfall in dividend received, follow up with agent/entity.

Dividend received – mutual fund

1. Based on the CAMS statements on mutual fund holdings, pass entries towards investment and receipt of dividend on a weekly basis
2. Reconcile dividend receivable against actual dividend received on a weekly basis
3. In case of any shortfall in dividend received, follow up with agent.

Savings bank interest

1. Identify interest earned on savings accounts from bank statements
2. Journalize interest received
3. Document bank statement as per documentation policy.

Interest on bonds

1. Prepare a list of investments made in bonds, along with the maturity date, rate of interest and periodicity for receipt of interest
2. Pass entries for interest receivable based on list prepared
3. Knock off accrued interest upon receipt of bond interest in the bank.

Optional fully convertible debentures (OFCD)/loans

1. Maintain a list of loans provided, with details of rate of interest, periodicity of recovering interest and loan maturity
2. Document the loan agreement as per documentation policy
3. Pass journal entries for interest receivable as per the list
4. Knockoff accrued interest upon receipt of interest in the bank.

Rent received

1. Rent receivable entry should be passed on receipt of rent agreement
2. Verify amount on receipt of income and knock off accrual entry
3. If rent is received in advance, it should be knocked off each month.

Fee income

1. Fee income could be earned on any consultancy provided
2. Sign an agreement with the customer
3. Service request should be approved as per acceptance conditions
4. Pass accrual entry on raising the invoice
5. Knock off accrual entry on receipt of payment from customer.

This section lists best practices to be followed for key direct and indirect expenses incurred to support the investment management activity:

- Salary
- Travel
- Rent
- Insurance
- Repairs and Maintenance
- Others

Salary and wages

- Process salary and associated costs based on the attendance data
- Verify attendance data for outliers and consistency with the previous months' data
- Independent person in accounts team to verify payroll computed by the HR/Accounts team or outsourced service provider on basis the attendance data, by performing the following checks:
 - Verify that all leaves are accounted for
 - Ensure the bank account numbers of employees are the same as the previous month. Any changes should be supported with a written communication from the employee >>

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- Ensure that additions to the list of employees are supported by an e-mail from the HR team or a duly authorized appointment letter
- Ensure variances in any account head are analyzed and queries are resolved
- On completing the above checks, the checker to approve the payroll file and obtain requisite authorizations for processing the payment.

Travel expenses

Design a policy for travel expense eligibility. It should encompass allowable expense by each account head (hotel, travel, food, etc.) for all employee levels. The steps to process travel advances, claims and accounting are:

Travel advance

Perform the following checks on receipt of request for travel advance:

- Verify approval of request for advance is in line with the defined delegation of authority (DOA)
- Ensure previous travel advance has been settled
- Verify that advance requested is in line with the days of travel planned
- Pass entry to record advance after processing request.

Travel expense claim/reimbursement

Perform the following checks on receipt of travel expense claim:

- Verify that approval of expense claim was in line with travel expense policy

- Verify existence and accuracy of travel bills submitted along with the claim. Ensure bills submitted are original
- Verify expense claim against the defined policy and ensure only eligible expenses are reimbursed
- Verify outstanding advance on the travel and adjust the same to the claim submitted
- Pass entries for booking the claim and making the payment upon processing the claim.

Rent/Lease expenses

These expenses may be incurred on rented premises or on equipment on lease. The following process should be followed for processing and accounting of invoice for rent/lease:

- Maintain a tracker of premises and equipment obtained on rent/lease with details on vendor, duration of agreement, periodicity of payment, amount to be paid, other relevant terms.
- Verify invoice received against the agreement and tracker, for validity and accuracy of amount charged, and update invoice reference in the tracker to ensure no duplicate payment is made.
- Verify that invoice for approval is in line with the policies
- Pass entries for booking the invoice and making the payment upon processing the invoice.
- Pass expense accrual entries for booking rent expense each month.

Outsourced services

These cover accounting, legal and advisory, payroll processing,

housekeeping security, etc. The steps for processing and accounting for such expenses are:

- Verify invoice received against the agreement/purchase order, for validity and accuracy of amount charged
- Ensure the services were indeed carried out and received by verifying the attendance register (for housekeeping and security services) or period of service (for accounting services) or count of employees (for payroll services)
- Verify compliance with SLAs (service level agreements) defined, and ensure deductions on account of any non-compliance
- Verify invoice for approval is in line with the DOA
- Ensure the user department acknowledges that the services were actually received by endorsing the invoice
- Pass entries for booking the invoice and making the payment upon processing the invoice.

Other expenses

Other expenses include utilities, insurance, printing, etc. The process for processing and accounting for such expenses is:

- Verify invoice received against the agreement/purchase order, for validity and accuracy of amount charged
- Verify invoice for approval is in line with the DOA
- Ensure receipt of goods (good receipt note or documentation on invoice) or receipt of services is acknowledged by user department
- Pass entries for booking the invoice and making the payment upon processing the invoice. >>

Payment processing

Expenses can be paid using one or more of the following modes:

Cheque and net banking

- Do not approve an invoice which does not contain a reference to the purchase order
- Vendor invoice should also include acknowledgement of goods received (goods receipt note) or of service received (acknowledgement by user team of service received). Invoices can also be for advance payment
- Vendor invoice should be approved in line with the DOA
- Pass entries for expense booking, advance payment and payment of invoice on receipt of the approved invoice
- The approvals for cheque payments, credit card payments and net banking should be as follows:

Chart 19: The Approvals for Cheque Payments, Credit Card Payments and Net Banking should be as follows:

Cheques	2 signatories above a pre-defined value
Net Banking	2 signatories for all transactions

Petty cash

Petty cash should deal with small and non-recurring expenses only. Recurring expenses and expenses of significant accounts should be processed only through bank.

These are the steps to be followed for processing and accounting of petty cash expenses:

- The frequency of disbursement should be pre-defined (weekly or fortnightly)
- Petty cash balance to be maintained should be predefined, and withdrawals from bank should be made in line with the defined balance
- On receipt of petty cash voucher, verify existence and accuracy of supporting bills against the claim in the voucher
- Verify authorization on voucher is in line with the DOA
- Process the payment and mark the voucher and bill as processed
- Update the payment in the petty cash register
- Pass the entry for cash paid.

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Appendix 2: Fixed Assets procurement, disposal, physical verification and depreciation SOP

The steps for procurement of assets are:

1. User department to prepare a capital expense (capex) sheet comparing quotations obtained for an asset
2. Obtain approval for asset procurement based on capex sheet, for authorized person
3. Accounts team to check for availability of budget and obtain specific approval for deviations, if any
4. Accounts team to prepare a Purchase Order (PO) as per approval received
5. PO to list underlying terms and conditions, such as asset specification and delivery and payment terms
6. Accounts team to verify the following prior to processing the invoice for payment:
 - Verify invoice rate against PO
 - Verify goods receipt note/acknowledgment on invoice, to ensure asset is received by user department
 - Verify that invoice is approved in line with the DOA
7. Pass journal entry to record purchase of asset and payment towards it
8. Accounts team to add the asset to the Fixed Assets Register (FAR) using the tag number affixed on the asset by the administration team
9. Accounts team to ensure that each asset is recorded on a separate line in the register (two laptops are recorded on different rows).

Disposal

The steps for disposal of assets are:

1. Administration department to initiate disposal of assets by obtaining an approval
2. Administration department to obtain quotations for disposal, prepare a comparative statement and send it to the accounts team
3. Accounts team to prepare invoice after verifying that request for disposal and comparative sheet is in line with the DOA
4. Accounts team to ensure the sale amount is obtained and credited in advance, before submission of the invoice/delivery challan
5. Accounts team to record disposal of asset in the FAR.

Physical verification of assets

The steps for verification of assets are:

1. Perform physical verification of assets at least once a year and compare the results with the FAR
2. Add assets found physically but not recorded in the FAR to the FAR after obtaining approval
3. Treat assets recorded in the FAR but not found physically as disposed after obtaining approval
4. Pass entries for recording or disposing assets so identified.

Depreciation

1. Enter the prescribed rate of depreciation of the asset after updating the FAR
2. Accounts team to compute depreciation periodically
3. Accounts team to obtain approval for computation
4. Accounts team to pass entries to record depreciation.

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Appendix 3: Bank and custodian reconciliation SOP

Bank reconciliation

1. Reconcile transactions in the books of accounts with bank statements periodically – monthly for key accounts and quarterly for non-key accounts
2. Independent checker to verify bank reconciliation statement
3. Pass entries for transactions that appear in the bank statement but not in the books of accounts
4. Track transactions that appear in the books of accounts but not the bank statement for three months. Reverse the transactions from the books of accounts if they are not reflected in the bank statement within said three months.

Custodian reconciliation

Custodian reconciliation enables users to match investment position quantity, cost price, market price, market valuation and cash position as on a particular date.

The accounts team should reconcile investments recorded in the books of accounts with each custodian statement. The steps are:

1. Export transactions in the investment ledgers of the books of accounts and the custodian statements to an Excel file
2. Manually reconcile the transactions on a monthly basis for fields such as amount, quantity and price
3. Resolve discrepancies identified promptly
4. Pass rectification entries, after approval and verification by a checker, for discrepancies in the books of accounts
5. Prepare a tracker for discrepancies noted in the custodian statements and communicated to the custodian
6. The tracker should consist of details like custodian name, statement date, voucher number, date of communication and date and details of resolution of discrepancy
7. Mark each entry as closed only after satisfactory resolution with the custodian.

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Appendix 4: Financial closing and reporting SOP

This appendix contains the necessary activities to be carried out for period closing.

Provision of expenses

1. Compare expenses for the month with the previous period to make provision for expenses towards which no bills have been received or booked
2. Also make provision for bills received but not booked
3. Pass journal entry to make provision
4. Reverse the provision entry when actual expense takes place.

Prepaid expenses

Prepaid expenses are upcoming expenses paid in advance, partly or fully. Follow these steps to account for them:

1. Pass entries to record prepaid expenses
2. Maintain a tracker with an amortization schedule
3. Pass entries as per the tracker on incurring the expense.

Provision for doubtful debts, and writing-off bad debts

1. Accounts team to review aged debtors periodically, to identify bad or doubtful debts
2. Write-off or make provision respectively after approval that is in line with the DOA
3. Pass entry for provision for bad and doubtful debts
4. Write-off bad debts after approval from the Board.

Provision for gratuity

1. Periodically provide for gratuity as a specific percentage of salary paid
2. Reverse the provision on actual payment of gratuity to the employee
3. Provide for gratuity at the end of the financial year based on actuarial valuation for the differential amount.

Balance confirmation of debtors and creditors

1. Confirm at every year-end balances outstanding from large debtors and towards large creditors
2. Send an e-mail to the debtors and creditors, requesting them to confirm the amount due or payable, respectively, as per their books of accounts
3. Resolve identified differences, if any.

Inter-entity & intercompany reconciliation

1. Reconcile inter-entity and intercompany ledger balances on a periodic basis
2. Verify the reconciliation in line with the DOA
3. An independent checker to review and resolve differences.

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Appendix 5: Investment execution process for equity trade

Pre-trade activity process

- Investments team to share investment thesis or execution rationale with family principal(s) or designated person
- Family principal(s) or designated person to take decision on investment proposal
- Adhere to a written pre-trade activity process to ensure sanctity checks and ease of future tracking.

Execution and Post-trade activity process

1. Investments team to share a trade execution sheet with the back office (BO) for processing. Mention person responsible for the activity for ease of tracking.
2. Pre-trade checks
 - BO to confirm if trade proposed in the trade execution sheet can be made after checking the holding statements
 - BO to specifically check the account name, security name, ISIN and position quantity in the latest holding statement
 - Check for clearing holidays in the upcoming business days to avoid delay in receipt of sale proceeds.
3. Restriction checks
 - BO to check for any applicable restrictions on holdings in the trade execution sheet
 - Flag and mention in the trade execution sheet identified restrictions, if any, such as encumbrances on the holdings.
4. BO to share the trade execution sheet with Investments Team after above confirmations, and then sign off.

5. Trade approval process
 - Family principal(s) or designated person to share their trade approval over e-mail.
6. Trade execution process
 - BO to send trade execution sheet to relevant broker/counterparty for execution after trade approval by family principal(s) or designated person
 - Trade execution sheet to be e-mailed to broker/counterparty only from registered e-mail id.
7. Trade confirmation process
 - BO to request broker/counterparty to send the trade confirmation sheet over email after close of market at the end of the day
 - BO to reconcile trade execution sheet with trade confirmation sheet on the same trade day
 - BO to flag discrepancies, if any, to maintain a trail and reconcile them
 - BO to share confirmation acknowledgement e-mail with broker/counterparty
 - BO to send trade confirmation sheet to the investments team and the family principal(s) or designated person on the same trade day.
8. Trade settlement process
 - BO to seek instructions from family principal(s) or designated person on settlement date for treatment of sales proceeds

- If sales proceeds are required by the family, BO to send pay-out request with amount and date to broker/counterparty over e-mail
 - If sales proceeds are not required by the family, BO to park sales proceeds in liquid assets after approval.
9. Trade booking process
 - Verify trade for accuracy and record it in the system upon receipt of contract note
 - Store contract note in an easily retrievable manner for future reference.

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Appendix 6: Investment management SOP

Investments made

Accounts team to follow the following steps for processing and accounting of investments made:

1. Verify that proposed investment is within defined policy limits and is approved in line with the DOA
2. Obtain specific approval for deviations, if any
3. Process the investment by arranging for funds, completing documentation and obtaining requisite approvals
4. Pass entry to record investment made.

Investment redemption

Accounts team to follow the following steps for redemption of investments:

1. Verify that request for redemption/withdrawal of investment is approved in line with the DOA
2. Check for specific approval for premature redemption resulting in sub-optimal earnings
3. Prepare redemption/withdrawal forms and arrange for them to be sent to the relevant agent/authority
4. Pass entry for redemption/withdrawal
5. Reconcile investments as per books of accounts with custodian statements
6. Identify and resolve differences, if any.

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Appendix 7: Sample compliance calendar

Chart 20: Appendix 7 - Sample Compliance Calendar

List of Compliances Covered Under XYZ Act						Due Date of Compliance Activity				
Description of Compliance Activity as Per Law	Frequency of Compliance Activity					Monthly	Quarterly	Half Yearly	Yearly	Event Based
	Monthly	Quarterly	Half Yearly	Yearly	Event Based					
Tax Payment	Monthly					14 th of the following month				
Return Filing		Quarterly					30 th day of month after quarter end			

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Appendix 8: Sample investment policy statement

Chart 21: Appendix 8 - Sample Investment Policy Statement

Investment Policy Statement for ABC Trust, revised on 12.31.20XX	
Initial Investable Capital	USD 50,000,000
Tax Status of the Account	Highest tax rate for Trusts
State Tax Status of the Account	0% due to South Dakota Status for trusts
Account Structure	Trust, for the benefit of spouse and surviving children
Investment Return Target	Current risk-free Rate + inflation rate + 2.5% market risk
Liquidity Preferences	Preference for monthly or daily liquidity
Time Horizon	Long term (10+ years)
Cash Flow Needs	No monthly distributions are currently drawn out of this portfolio. The current cash needs are: pay taxes associated with investment gains, investment advisory fees, investment management fees, custody fees, trust co. fees, and incidentals. 20XX estimated cash flow outlays = USD XX
Investment Purpose	Primary emphasis on long term portfolio growth, with the secondary objective of preservation of capital
Risk Tolerance	The percentage of the portfolio allocated to high-grade, tax-sensitive fixed income and cash should generally be no less than 25% of the overall portfolio. This portion is meant to serve as a portfolio ballast and dependable liquidity reserve
Values Related to the Account	NET Investment Performance (performance after all fees, expenses & taxes) is valued. No preference is given towards Active vs. Passive investment management, as long as performance meets or exceeds expectations of performance and representative benchmarks
Performance Reporting Requirements	Investment performance should be based on a comparison to an appropriate agreed upon benchmark or real investable alternative
Information Access	On-line access is preferable

Investment Policy Statement for ABC Trust, revised on 12.31.20XX	
Client Communication	It is expected the investment advisors will be available at any time to trustees or employees of Trust LLC for any questions or operations. Semi-annual in-person meetings are requested at the location and date identified by the Trust Company. Monthly reporting within 7 business days of month end is desired. It is likely that individual meetings will occur a minimum of 2 times per year and likely 3 times per year
Asset Allocation Strategy	The investment assets should be segregated into three categories: Principal Preservation Assets, Capital Appreciation Assets, and Private Investment Assets. The definitions and guidelines for each of the three investment categories are the following
Principal Preservation Assets	The objective of this component of the portfolio is absolute liquidity and principal preservation on a nominal, rather than real, basis. Cash and high-grade fixed income will be the core of this allocation, with the purpose of providing the portfolio's "bullet-proof" liquidity reserve
Capital Appreciation Assets	The objective of this component of the portfolio is capital appreciation. Opportunistic fixed income — such as domestic and international high yield bonds and bank debt, residential mortgage-backed securities, and other non-core (high grade) fixed income is — permissible. US and international equity exposure across market capitalizations and sectors is also included in this portfolio allocation, as are selected hedge funds and other alternative assets (e.g., gold). It is worth nothing that preference will be given to liquid strategies in this investment category, unless the expected return premium for less liquid strategies is sufficiently compelling on an after-fee, after-tax, liquidity-adjusted basis.
Private Investment Assets	The objective of this component of the portfolio is longer-duration, tax-efficient capital appreciation. Private equity and private real asset investments are appropriate for this allocation. It should be acknowledged that the average duration of this category is typically in excess of what is conventionally defined as a full market cycle — beyond 5 years. Liquidity is not a consideration, but rather emphasis will be given to investment opportunities that have the potential for attractive multiple of invested capital returns as well as competitive internal rates of return.
Advisor Asset Allocation Target	
Principal Preservation Assets	25% target, with acceptable range of 15%-30%
Capital Appreciation Assets	70% target, with acceptable range of 50% - 80%. At least 10-15% should be in opportunistic fixed income.
Private Investment Assets	5% fully called target, with acceptable range of 0%-10% fully called

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Appendix 9: AV Insights

Asset Vantage’s AV Insights offers the following capabilities:

1. IPS tracking with benchmark & risk parameters:

Track and monitor deviations from IPS to aid portfolio allocation and rebalancing

2. Market & news feeds:

Provide news and sentiments of macro and micro economic factors relevant to the family’s portfolio

3. Market risk perceptions:

Highlight specific market information that has the potential to adversely affect portfolio risks

4. Forensic & underlying risk:

Ascertain risks specific to underlying securities. Risks may arise out of factors like founder holding conditions, liquidity clauses and sector exposure

5. Holdings & sector long tail:

Identify assets or sectors which quantitatively form a large part of the portfolio, but make little contribution to the financial objectives of the family

6. Fund universe performance snapshot:

Compare performance of investment in various funds with all other funds in the market

7. Concentration look-through:

Unbundle assets held through investment structures like mutual funds, hedge funds and private equity to recognize exposure to various sectors and geographies. This is to ensure that effective exposure undertaken is as per the IPS

8. Expense ratio analysis:

Contrast fees charged by the funds invested in by the family with charges of other comparative funds

9. Liquidity ladder:

Determine the liquidity status of investments held

10. Peer group analysis with opt-in:

Draw parallels of the family’s IPS, manager selection, investment performance and risk with peer family groups

11. Portfolio shock analysis:

Simulate crisis events, such as pandemics or a financial crash, to gauge their impact on the family’s holdings. This keeps the family aware of probable exposure and downside, so that they do not get blindsided by losses. These simulations are carried out annually or on change of IPS.

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Appendix 10: Business records to archive

Corporate records

1. MOA and AOA
2. Certificates of Incorporation
3. Partnerships agreements
4. Amalgamation/ liquidation papers
5. Minutes of meetings of board of directors and partners
6. Board meeting papers
7. Minutes of annual, extraordinary and other meetings of shareholders.
8. Directors' correspondence
9. Annual reports
10. Corporate planning records

Public relations and corporate communications

1. News releases
2. Company brochures
3. Newspaper clippings
4. Photographs, films and videos and in-house publications

Staff employment records

1. Wages and salaries records
2. Staff lists and service records
3. Pension records
4. Training and apprenticeship records
5. Industrial relations records
6. Welfare records (say employee welfare trust or recreation club records)

Production / operational records

1. Costing records
2. Estimate and order books

3. Stock books
4. Quality assurance documents
5. Awards
6. Manufacturing records
7. Technical drawings
8. Research and development records
9. Photographs
10. Distribution records
11. Letters or correspondences concerning business operations

Legal records

1. Title deeds, conveyances and leases
2. Insurance policies
3. Litigation records
4. Agreement and licenses
5. Incorporation records
6. Patents and trademark papers

Premises and property records

1. Property valuation papers
2. Rent and repair records
3. Estate records
4. Architectural records or drawings

Accounting and financial records

1. Ledgers (private, general, impersonal and personal)
2. Balance Sheets and Profit and Loss Account
3. Audit papers
4. Wage and salary books
5. Indirect tax records
6. Statutory and management accounts

Sales and marketing records

1. Dealership and agency agreements
2. Customer records and testimonials
3. Product design and packaging
4. Product sales literature (catalogues)
5. Market surveys
6. Advertisements
7. Press clippings

Other records

1. Changes in company profile
2. Humanitarian activities
3. CSR initiatives
4. Industry information
5. Unpublished histories
6. Internal brochures

Family papers / private papers

1. Diaries
2. Notebooks
3. Photographs
4. Wills
5. Family tree
6. Family charters
7. Correspondence of important directors and senior executives

Oral history collection

Reminiscences of:

1. Family
2. Board of directors
3. Vice Presidents and senior executives
4. Senior workers having long association with the company

WHY A FAMILY OFFICE

OPERATIONAL
BEST PRACTICES

CASH FLOW MANAGEMENT

INVESTMENT APPROACH

LEGACY ARCHIVAL
& ESTATE PLANNING

SECURITY

APPENDIX

SOP : Income and
Expense Journalizing
and Reconciliation

SOP : Fixed Assets
procurement, disposal,
physical verification
and depreciation

SOP : Bank and
Custodian
Reconciliation

SOP : Financial
Closing and Reporting

SOP : Investment
Execution for
Equity Trade

SOP : Investment
Management

Sample Compliance
Calendar

Sample Investment
Policy Statement

AV Insights

Business Records
to Archive

Disclaimer

Acknowledgement

All of these operating procedures are reflective of what many global family offices do in the real world. Nevertheless, they are generic, illustrative and recommendatory in nature. They may differ across family office jurisdictions and must be adopted only after consultation with the family office’s local accounting and legal professionals.

All of the operating procedures set forth in this handbook have been designed based on our experience from working with hundreds of global family offices. The suggested best practices and processes are generic and illustrative. They must be implemented as per individual family office requirements, in consultation with the family office’s local accounting and legal professionals.

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To develop the handbook, we, at Asset Vantage, have drawn wisdom from our own history: a family office which reinvented itself after the financial crisis of 2008. The best practices we have put together in these pages have been gleaned empirically, after partnering with hundreds of global clients.

Our commitment to empowering families to take charge of their own wealth is fuelled by the processes developed by our team, who are global experts in the fields of investments, accounting and software technology.

The external sources from which insights and content have been drawn are:

1. 13 Steps to Bloody Good Wealth – Book Co-authored by Ashwin Sanghi and Sunil Dalal, and published by Westland in 2016
2. The Future of Family Offices – Report by Bloomberg published in 2016
3. Securing Digital Assets and Conversations in the Age of Pervasive Cybercrime – White paper published by Summitas in 2019
4. Profit from Your Past – White paper by Sanghamitra Sen published in 2012
5. Course materials jointly developed by Asset Vantage and Drexel University, Philadelphia, a leading academic institution

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info@familyoffice4.com

One Dock Street,
Suite 201,
Stamford, CT 06902