HANDLER THAYER, LLP
FAMILY OFFICE OUTLOOK 2020

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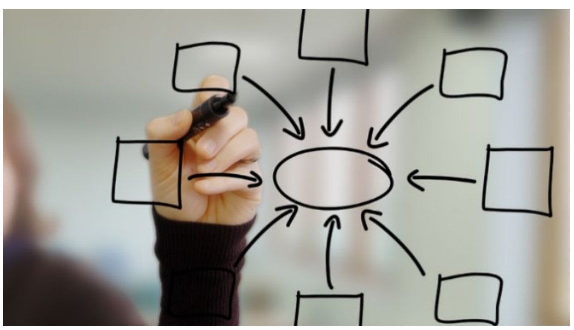
Family Offices have emerged as the 21st century global best-in-class solution for affluent families striving to achieve long-term wealth management and preservation. A Family Office can be generally defined as a private family business designed to serve the interests of a proprietary family and manage and preserve its wealth.



This new decade begins with continued global wealth proliferation, increasing concentration of wealth and globalization of businesses, investments and families. Based upon industry data, client observation and leading wealth, tax, estate, and family office conferences, here are the leading family office trends as we begin 2020.

1. The primary current focus of family offices is squarely on restructuring and reorganization efforts. Most existing family office entities are out of date, not integrated, inefficient and attended by income tax and estate tax leakage compared with modern best-in-class standards. Embedded family offices are de facto created when entrepreneurial families use their operating business employees and resources to handle their personal tax, financial or legal affairs. Such offices will become increasingly disfavored by families and attorneys due to unnecessary tax, business and compliance risks.

2. Family offices are continuing to increase in number globally despite continued consolidation and merger & acquisition activities by wealth management firms. Single Family Offices (SFOs), Virtual Family Offices (VFOs) and Multi-Family Offices (MFOs) are all increasing in number led by the escalating creation of new VFOs in the U.S. and SFOs in Asia.

3. Outsourcing by family offices of all types will continue to increase as administration costs tend to outpace family office revenues and talent becomes increasingly harder to find and compensate. The biggest beneficiaries of this trend will be investment advisors, MFOs and professional service firms.

4. Family offices are allocating additional resources to tax and estate planning, largely driven by deductions eliminated under the Tax Cuts and Jobs Act and the highest historical estate tax exclusion amount in history, $11.58 million per taxpayer (increased from $11.14 million in 2019). Capturing available income tax deductions and utilization of this new exclusion amount to effect substantial tax free wealth transfers are the two key objectives of these advanced planning efforts.

5. Impact investing will continue to grow in importance as increasingly proactive forms of purpose driven investing develop to supplement traditional impact investing focused on environmental, social and governance objectives and socially responsible investing objectives. The overall trend among families is concentrated on significantly aligning and increasing the integration of core values and investments.

6. Appreciation of the importance of compliance efforts by U.S. family offices will continue to grow as families struggle to comply with the Patriot Act, Dodd-Frank Wall Street Reform and Consumer Protection Act, FATCA and a myriad of new tax, securities and other laws at both the federal and state levels. In response, larger MFOs are more commonly recruiting compliance officers, building compliance groups and outsourcing to attorneys and other compliance professionals.

7. The security of family members, data and confidential information will become an increasing area of focus for family offices. A primary tenant of this focus will be centered on technology, cyber-threats and preservation of privacy.

8. Allocations to hedge funds continue to decline, while overall allocations to alternative investments continue to grow. Direct investing by family offices is continuing to increase despite proliferation of better information regarding deal flow, due diligence, analytics, and recognition of complexity and limitations. Direct investments through bespoke syndications and side funds are likely to become more common while allocations to real estate and private equity will continue to grow slowly.

9. Increasing levels of perceived global geopolitical risk are being driven by conflict, terrorism, austerity measures, vilification of affluence, rising levels of nationality sentiment abroad and criminality. As a result family offices will continue to allocate more resources to risk management, conduct protocols, security, privacy, insurance, pre-marital planning and asset preservation.

10. The global escalation of taxpayer flight continues almost unabated as portfolios, trusts, businesses, family holding companies and individuals vote with their feet. Consequently, high tax, financially strapped states, territories and countries are being left behind for greener pastures in financially solvent, low-tax or no tax, more conservative jurisdictions. The expatriation and renunciation of citizenship by U.S. taxpayers has slowed dramatically since the election of President Trump following record-breaking levels of expatriation throughout former President Obama's terms of office.

11. As world financial systems become more sophisticated and intertwined, increased digitalization and expansion of the Common Reporting Standard (CRS) system adopted by the Organization for Economic Co-Operation and Development (OECD) is driving capital to the U.S. as global families attempt to protect assets and preserve confidentiality. The U.S. is increasingly being viewed as a global safe haven and one of the least likely jurisdictions to improperly expropriate private assets.

12. Affluent families are being threatened by strong trends toward the vilification of wealth. Accordingly, political discourse and proposals in this U.S. election year will continue to focus on increasingly punitive and confiscatory taxes aimed at the top 1%. Federal escalation of taxation of high-income taxpayers and new wealth taxes aimed at high-net worth citizens will continue to be proffered as viable solutions by the increasingly socialist-leaning Democratic Party presidential contenders. Accordingly, taxpayer flight, aggressive tax planning and tax shelter efforts will surely increase.

13. Long standing family offices primarily in Europe and North America will continue to struggle with sustainability and succession planning. The competitive market for experienced family office professionals, difficulty in replacing trusted advisors and generally escalating family office expenses will put additional pressures on families seeking to steward, preserve and enhance wealth through the generations.

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Thomas J. Handler is an advanced planning attorney that *Private Wealth Magazine* called "one of the most respected tax and estate lawyers in the world." He has been named one of the Top 15 Wealth Planners in the U.S. and one of the Top 100 Attorneys in the U.S. In 2017 he won the Family Wealth Alliance Leadership Award for Lifetime Achievement.

Handler Thayer, LLP is a national law firm based in Chicago, Illinois serving affluent families, privately-held businesses and family offices throughout the United States and major international jurisdictions. In addition to being named Best Family Office Law Firm in the U.S., the firm has been named Best Overall Law Firm in the U.S., Best Private Client Law Firm in the U.S., Best Private Client Law Firm in North America and Most Effective Private Client Legal Team in North America numerous times.

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