

The Family Office Landscape

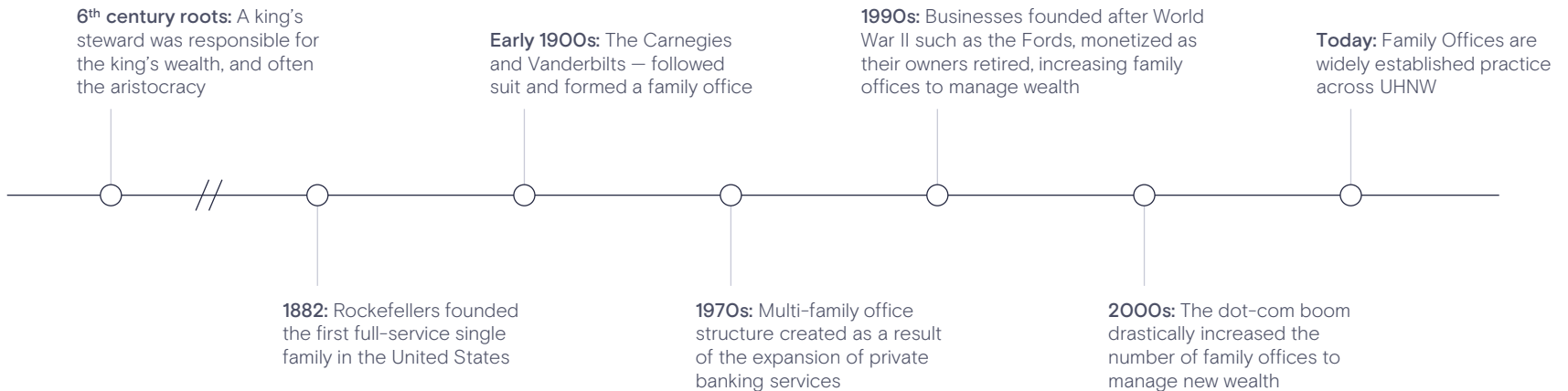
GS Family Office | June 2021

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Evolution of the Family Office

Family offices have long existed in various shapes and forms as a structure to preserve wealth. Over time, the level of sophistication evolved and the number of family offices has increased.

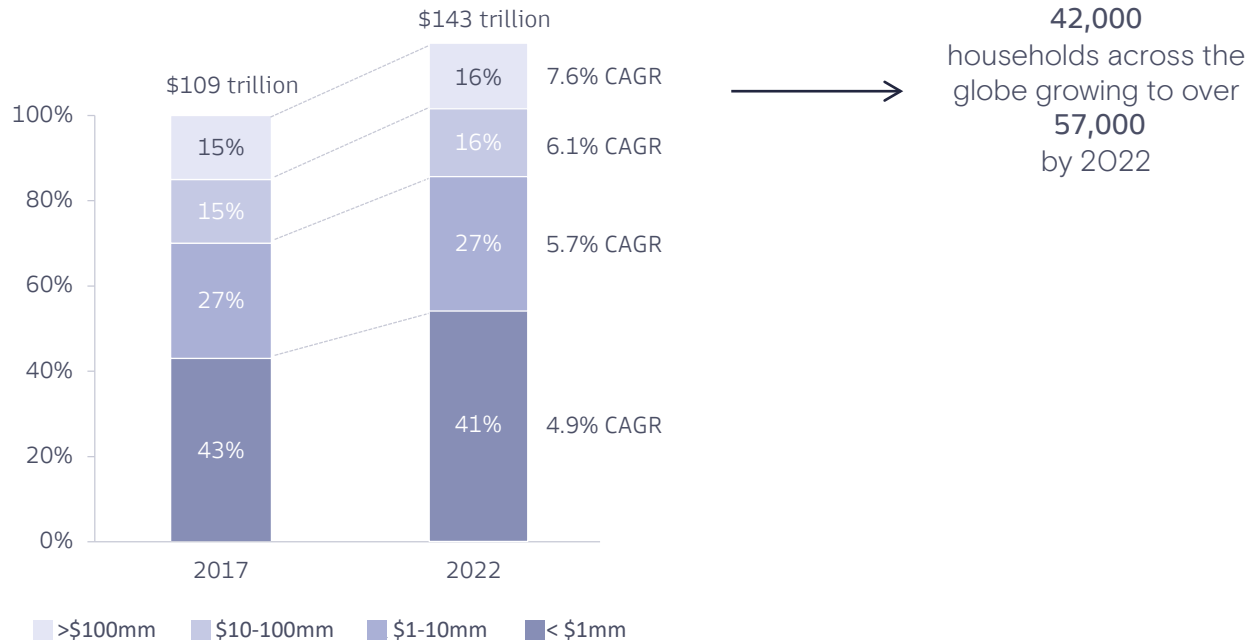


There are 10,000+ single family offices in existence globally and at least half of these were set up in the last 15 years

Ultra High Net Worth Growth

The ultra high net worth (>\$100mm) segment represents 15% of assets globally in 2017 and is the fastest growing net worth segment

Net Worth 5 Year Projection



What is a Family Office?

A family office assumes the day-to-day management and administration of family affairs for families of exceptional wealth. The entity typically performs oversight of investment activities, tax and estate planning, philanthropy, accounting, family governance and support services. The family office provides a platform for strategic and proactive idea generation, decision making and implementation, through the collaboration of a unified team.

Family office functions can be classified into three areas:

Advisory	Administrative	Investment
Wealth planning	Financial administration	Asset allocation
Tax	Expense management	Portfolio management
Philanthropy	Reporting & record keeping	Manager selection & diligence
Risk management	Lifestyle management	Private investments
Family governance	Office Management	Custody
		Trust management

How are Family Offices Structured?

The family office structure will depend on the family's size, complexity and preferences. There are three primary types of family offices structures:

	Wealth	Family Size	Resources	Cost*
 <p>Single Family Office (SFO)</p> <hr/> <p>A private company whose services are exclusively focused on managing a single family's affairs and fortune.</p>	\$250mm+	5-100+	Exclusive	\$1mm+ setup ~50 -125 bps
 <p>Multi Family Office (MFO)</p> <hr/> <p>A Private MFO supports a handful of families, exclusively. A Commercial MFO supports many independent families, typically through a financial institution.</p>	\$50mm+	10-100	Dedicated Team	~25-125 bps
 <p>Virtual Family Office (VFO)</p> <hr/> <p>Services are outsourced to different service providers or consultants. This structure is typically used by families who do not want to set up a company to do so.</p>	\$25mm+	<10	Outsourced	~50 bps

Single Family Office or Multi-Family Office?

It's important to assess your family's unique needs to determine which structure is most appropriate.

	Single FO	Private MFO	Commercial MFO
Strengths	<ul style="list-style-type: none"> Family has full control Creates a strong cohesiveness across family members when done properly Broadest service offering – including personal needs such as project managing a business startup or running an annual family reunion 	<ul style="list-style-type: none"> Resource pooling increases level of talent and ability to specialize Shared infrastructure allows for distributing costs across families Reduced startup and operating costs 	<ul style="list-style-type: none"> Experienced investment professionals with the backing of a large institution Deep bench of subject matter experts (e.g., attorneys, tax, tech) Multigenerational model Low startup and operating costs Advanced technology / infrastructure
Limitations	<ul style="list-style-type: none"> Startup process and maintenance Expense and resources Employment and retention Key-man dependency Succession planning for the long term 	<ul style="list-style-type: none"> Reduced physical oversight by family Cultural conflict potential Sharing of bandwidth and priority with other families 	

Why Set Up a Family Office?

By utilizing a cohesive team to oversee your entire financial picture—numerous entities, advisors and accounts—risk can be effectively managed. This intimate knowledge of your family’s financial affairs can offer long-term benefits for your family that should be taken into consideration.

Drivers

Large liquidity event (e.g., IPO, minority interest sale)

Highly complex lifestyle with limited time to manage

Establish a legacy and security for future generations

Separation of family finances from the family business

Benefits

Alignment of interests across family members and multiple advisors

Provide structure and governance to manage the family's wealth and avoid conflicts

Promote the family’s legacy and create cohesiveness across family members

Access to preferential investments and reduced fees based on large assets under management

Consolidate advisory and administrative services for the family

Centralization of risk management

Manage confidentiality and privacy

What Services Does a Family Office Typically Provide?

Investment activity is largely a hybrid between in-house and outsourced solutions, while administrative services will depend on the existing wealth management infrastructure. A family office will typically outsource advisory services which require a highly specialized skillset or are difficult to scale.

Advisory					Administration				Investments	
Wealth Planning	Tax	Philanthropy	Risk Management	Family	Financial	Reporting	Lifestyle	Office	Asset Allocation	Trust Management
Wealth transfer strategies	Tax education	Goals & mission	Insurance	Governance & Succession Planning	Book Keeping / accounting	Consolidated reporting	Concierge / travel	Human resources / talent	Manager Selection	Discretionary Agent
Estate design	Tax efficiency & Compliance	Charitable strategies	Cyber Security	Domestic Staff	Budgeting & forecasts	Beneficiary level statements	Property / aircraft /yacht management	Office policies	Private Investments	Trustee
Art / Collectables	Tax analysis & projections	Charitable structuring	Physical Security	Family counseling	Bill Pay / mail sorting	Financial analytics	Health	Tech infrastructure	Custody	Corporate Fiduciary
Estate implementation	Coordinate tax documents	Foundation management	Travel security	Education planning	Coordinate financial obligations				Performance reporting	
Legal Counsel	File tax returns									

In-house (often)
 Hybrid
 Outsourced (often)

Philanthropy

The role which a family offices plays in philanthropic activities will depend on the ambitions of the family:

Early Stage

Typical Profile:

New to philanthropy or have an early stage philanthropic program

Primarily interested in creating a strategy through direct personal giving or a donor advised fund (DAF)

Family Office Services:

Philanthropic education

Philanthropic goals and program definition

Charitable structuring setup (e.g., direct giving or DAF)

Annualized reporting on gifts and recipients

Multigenerational succession plans

Advanced

Typical Profile:

Ambitious philanthropic objectives, focused on creating a custom program with personal involvement from donors

Primarily interested in more advanced giving vehicles, including private foundations

Family Office Services:

Basic foundation management, including defining a mission statement, establishing an entity, reporting and annual board meetings

Prepare and manage an annual grant making and operating budget and distribute payments

Customized grant guidelines, submission forms

Identify and vet potential recipients*

Special projects, including staffing support for foundation-led project*

Highly Sophisticated

Typical Profile:

Fully outsourced private foundation with full time staff dedicated to driving a comprehensive agenda forward

Primarily interested in bespoke causes with a highly sophisticated level of measuring non-dollar impact

Family Office Services:

Comprehensive foundation management, including running day-to-day operations and customized grant administration*

Conduct in-depth research*

Manage external communications, website and marketing campaigns*

Represent the foundation in the community, such as at conferences and build donor-to-donor partnerships in interested areas*

Source opportunities for innovative giving

Operational Considerations

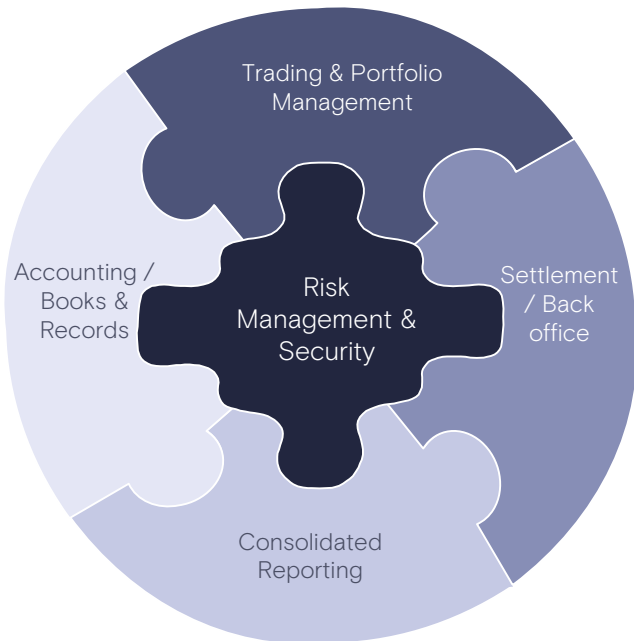
Having the best infrastructure in place requires a mix of hiring and training employees, creating clear controls and maintaining the best hardware and software for your team. Improvements should constantly be made to procedures and technology to ensure for longer-term security.

	Consideration	Action
People	<ul style="list-style-type: none"> Segregation of duties Access management Background checks 	<ul style="list-style-type: none"> Keep responsibilities separate for performing, approving and recording transactions Set up separate user rights with a “need to know” basis and review on a periodic basis and per occurrence with employee changes Institute periodic re-investigations for employees and staff with access to firm information
Process	<ul style="list-style-type: none"> Establish processes Transparency of operations 	<ul style="list-style-type: none"> Formalize policies for information security, account set-up, wire payments, auditing books and records and employee hiring, reviews and departures Require employees to review and sign an employee handbook that outlines these procedures and host periodic trainings
Technology	<ul style="list-style-type: none"> Data sharing Maintenance & upgrades Back office support 	<ul style="list-style-type: none"> Establish secure networks and restrict access to third-party sites that could be used to transmit information Conduct periodic reviews and testing (both internal and external) to ensure all patches and firewalls are working Ensure teams have appropriate support for when issues arise and determinate whether to outsource this responsibility

Technology Infrastructure

Having access to the correct technology infrastructure has become an increasingly important factor to running an efficient and effective family office. Technological requirements vary widely depending on each office’s complexity, scope, AUM, investment objectives and approach.

Technology Infrastructure



Platform Selection

The process begins with an Request for Proposal (RFP) where family offices engage multiple providers. Before the process starts, families consider a budget for their technology platform as well as the type of reporting and service that is required to meet family objectives (see appendix).

Execution

Implementation presents the greatest challenge for many family offices. Families arrange for in-house training for all employees and maintain a key point of contact at the provider on an ongoing basis.

Maintenance

Family offices need to plan ahead to budget for upgrades and new regulations. Although highly dependent on complexity and requirements, the estimated cost to maintain technology can range from \$400K to more than \$1mm per annum.

Consolidated Reporting

When selecting a reporting solution it is important for a family office to outline the specific use cases they are looking to solve. This will inform what measurement and reporting levels will be of highest value.

Measure	Report	Solution
Net Worth	Balance Sheet	Example Reporting Solutions:
Asset Allocation	<ul style="list-style-type: none"> • By beneficiary • By legal entity 	<ul style="list-style-type: none"> • Addepar • Private Wealth Systems • Advent / Black Diamond
Performance/Investment Results	Performance	<ul style="list-style-type: none"> • Archway
Risk	<ul style="list-style-type: none"> • Gross/Net of fees • After tax 	<ul style="list-style-type: none"> • Masttro
Analysis	<ul style="list-style-type: none"> • Time Weighted / Dollar Weighted / Dollar PnL 	<ul style="list-style-type: none"> • Solovis
<ul style="list-style-type: none"> • Exposure • Projected Income 	Risk Metrics / Analytics	<ul style="list-style-type: none"> • Caissa
Activity	General ledger	<ul style="list-style-type: none"> • Many Others
Holdings	Standard and Flexible Reporting Capabilities	

Consolidated Reporting: Considerations

Key Considerations:

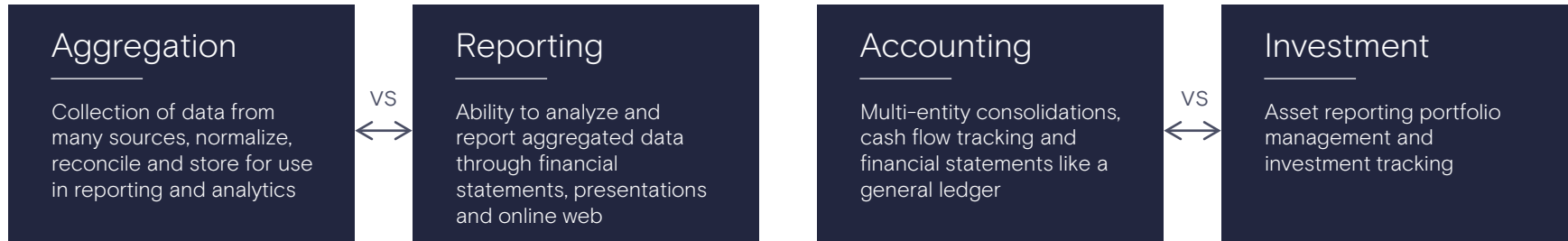
- **Data Reconciliation:** Data reconciliation is critical as reporting bad data diminishes confidence and decision making. How is the data reconciled? Who is the source of quality data? Is unreconciled information seen on reporting application?
- **Data Methodology:** Is the data an exact reflection of the custodian? Is the data source the custodian or market data and transactions?
- **Controls:** What type of automated controls are in place for missing data / stale data, variation analysis, position calculation checks?
- **Data Model:** How is the data model structured? Ability to accept multi-currencies? Ability to accept historical information to calculate inception to date?
- **Customization:** Flexibility to include non-traditional assets (e.g., yacht, collectables)? Ability to override data pricing inputs?
- **Aggregation Breadth:** Which custodians and fund administrators are included in the network? What is their connectivity (data feed, credential based)? Is another data aggregator used or are data feeds unique to the solution? Are international holdings included?
- **Reporting:** What reporting is available? Can a user create custom reports on the fly? Can they be scheduled? Is there an approval workflow? What is the output type (PDF, HTML, PowerPoint)?
- **Portfolio Analysis:** Portfolio analytics (rate duration, credit duration, maturity, yield to maturity / to worst, cash flow projection, etc.), pro forma portfolios, shock simulations?
- **Risk:** What risk metrics are provided out of the box (e.g., vol, Sharpe, drawdown, more exotic metrics)?
- **Calculations:** Are time weighted returns, investment results (Dollar PnL), and IRR calculated independently or by the custodian(s)? Does performance include gross, net and after tax? Are custom time periods included? Is attribution or contribution included?
- **Internal Tools:** Is the user interface intuitive? Accessibility via the cloud? Is any functionality restricted on a mobile device?
- **Implementation:** How long does an average client take to onboard the solution?
- **Service / Training:** Is service and training included in the annual license cost? How much service is included? Is onsite training available during implementation?
- **Security:** What level of security protocol is enforced? How do you protect your clients identity?
- **Pricing / Contract:** What is the pricing model? What is the average term of the contact? Does the price include discounts for scale? What ongoing activities will the client be responsible for?

Consolidated Reporting: Vendor Landscape

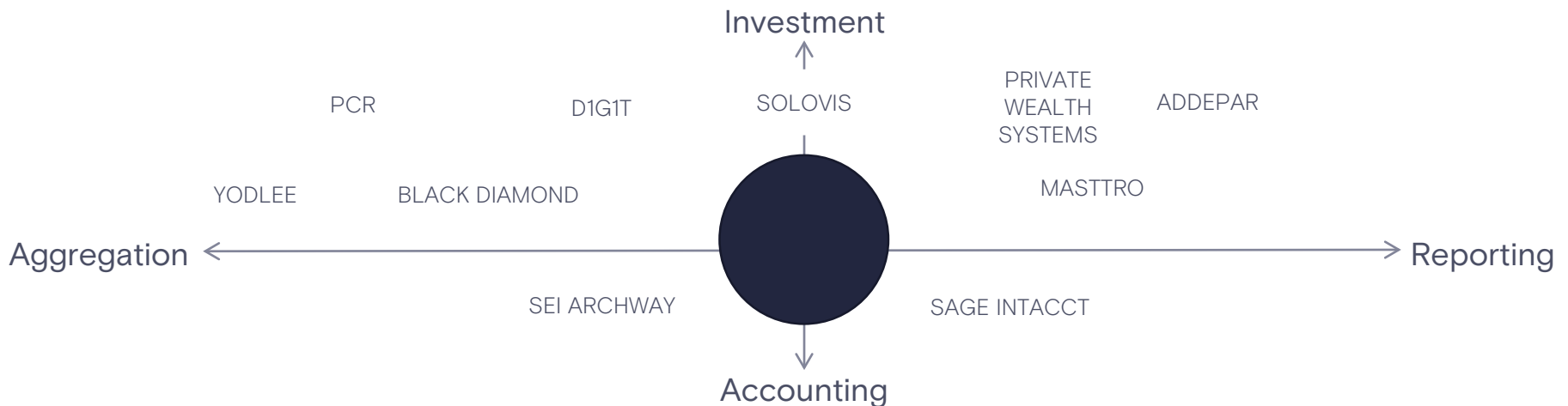
There are many reporting and data aggregation platforms that vary on focus and functionality. The best way to know which is right for each family office is through interviewing and articulating needs to match functionality offered:

Functionality

Focus



Below are a few platforms we have seen and how they compare:



Consolidated Reporting: Aggregation Types

	Pros	Cons
<p>1 Credential Based</p> <p>Linking accounts using the user name and password for the external custodian site</p> <p>Used mainly for banking and investment accounts with liquid assets</p>	<p>Broadly accessible to over 20,000 financial institutions</p> <p>Quick and easy linking process that usually will display data within 48 hrs</p> <p>Credential based is commonly found on the client portal of private banks</p>	<p>Not compatible with multi-factor authentication</p> <p>Susceptible to password changes or other login failures</p> <p>Lower data quality with no access to private equity</p>
<p>2 Letter of Authorization (LOA)</p> <p>Connecting accounts through a letter of authorization, essentially obtaining third party access to the external accounts</p> <p>This can be used for all asset types, specifically used for private and direct investments that have only statements</p>	<p>Highest quality data with no interruptions, continuous data</p> <p>Access to private assets and custodians with no website, only statements</p> <p>Not susceptible to password issues and blocking or security software</p>	<p>Longer user setup process (weeks), requiring all authorized signors</p> <p>Frequency of data availability depends on source</p> <p>Statements = monthly Feed = daily Capital statement = Quarterly Direct investment = yearly</p>
<p>3 Manually Added</p> <p>Manually adding assets that cannot be captured through other forms of aggregation</p> <p>This can include non-traditional assets such as collections of art, wine, cars, real estate, and direct investments</p>	<p>Assets can be added quickly with ease</p> <p>All asset classes are available</p> <p>Assets are added directly to so no passwords or documents are needed</p>	<p>Manual – no updates or audit capability</p> <p>Generally limited data attributes are maintained (name, quantity, and price)</p> <p>No activity is captured</p>

Consolidated Reporting: 5 Pitfalls

It is very important to understand the limitations of aggregated data to help navigate through common problems obtaining data and reporting.

1. **Activity or holding data may not be available:** Some financial institutions do not provide certain types of data to the data aggregator. Before signing up for services, request a full list of institutions and related data fields that the data aggregator currently has available. The data aggregator can work with the financial institution to request the data if not on their list, but there is no obligation for the financial institution to provide.

Example: Cost basis is regularly not provided by financial institutions. This means unrealized gain/loss information will not be available. Until aggregators are able to more broadly and reliably receive this information from the source, it cannot be provided

2. **Lack of Data Feeds:** Some financial institutions will not provide any information to aggregators and will block attempts to retrieve the information. There is no obligation for the financial institutions to provide.
3. **Multi-Factor Authentication (MFA):** MFA can be tricky for an aggregator because they have access to the credentials as the first form of authentication, but they do not have the second. In some cases the data aggregator can be whitelisted, meaning they become a trusted aggregator by the financial institution, and will not require a second form of authentication.

Example: The client has MFA at their bank and links the account to the data aggregation system by entering their username and password from their private bank's website, as well as, approving the secondary authentication (i.e. security questions or text message with one-time security code, etc.). They will see the values flow, but they will quickly become stale as it will not refresh on a daily basis without the secondary authorization. If the client wanted to see the information refreshed daily, they would be required to enter their credentials each day.

4. **Credential Updates:** As credentials change or update at the financial institution, they will need to be updated and verified with the data aggregator, as well.

Example: The institution requires password updates every six months, therefore the information with the data aggregator will stale until the client provides the new password.

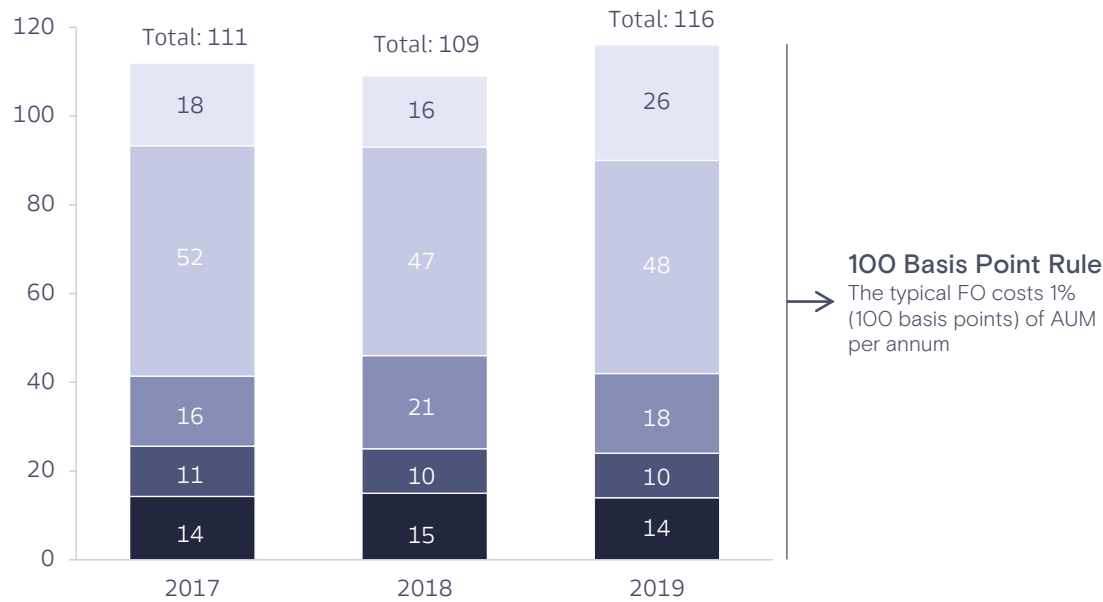
5. **Reliability:** For the reasons listed above, the information included in the data aggregation platform should not be used as the sole source of account performance, tax information, fees, etc. Family offices should refer to books and records information provided by the custodian or fund administrator for these items, especially for tax reporting.

Operating Cost Considerations

Over half of the cost of running a family office are driven from non-investment related activities which underpins the need to having a large amount of assets to spread out the family office operating costs.

Family Office Cost Distribution

(in basis points of AUM)



100 Basis Point Rule
The typical FO costs 1% (100 basis points) of AUM per annum

- Investment-Related Performance Fees
- Investment-Related Administrative & Management Fees
- Administrative Activities
- Family Professional Services
- General Advisory Services (i.e. financial, tax, estate, legal, etc.)

Key Cost Drivers

- Increased regulatory / transparency requirements
- Highly bespoke, custom services across tax, legal and management of family affairs
- Investment complexity
- Technological advances
- Access to talent increasingly expensive

Compensation: Why is it important?

Family offices around the country compete for top talent with other family offices and institutions. Engaging compensation structures will attract desirable candidates that resonate with the family philosophy. Compensation levels are important to consider but their structure is equally as important.

Key Considerations



Seniority of Position



Focus on the Role
(ex: investment vs. administration)



Size of the Family Office



Performance



Geography

Compensation Rates & Structure

Average Compensation Rates (2019)

Position	Average Base Salary	Average Bonus (% of base)	Premiums on Base Salary due to Geographic Location							
			New York (Manhattan)	San Francisco	Boston	Los Angeles	Washington D.C.	Chicago	Dallas	Miami
CEO	\$408,000	52%								
CIO	\$365,000	55%								
CFO	\$293,000	40%	20-30%	20-30%	10-15%	10-15%	10-15%	5-10%	5-10%	5-7.5%

Compensation Structures

It may be advantageous to consider long term incentives for executives to encourage both retention and performance alignment with the family.

Co-Investment Opportunity

Family offices can invest in private markets that are normally inaccessible to most individuals. Co-investments opportunities allow executives to make minority investments alongside the family.

Carried Interest

If the family's investment profits exceed a preferred return or hurdle rate, executives are provided a share of the profits.

Deferred Incentive Compensation

Deferred compensation can promote employee retention through awards based on long term performance that vest over time and pay out in the future.

All information presented on this page reflects North America. Source: Family Office Compensation-Botoff Consulting, Campden Wealth Global Family Office Report 2019, American Investment Council. ¹ In Europe, on average, CEO's earn \$323,000, CIO's \$249,000, and CFO's \$161,000 for a base salary. In Asia Pacific, on average, CEO's earn \$225,000, CIO's \$194,000, and CFO's \$135,000 for a base salary.

Privacy Considerations

At home

Uplift your residential networks with commercial firewall equipment, a Virtual Private Network (VPN) and separate Wi-Fi logins for guests or domestic staff

Ensure all assets like real estate, yachts, private jets, art, etc. are held in isolated LLCs with 3rd party managers and that update all P&C insurance policies to solely reflect LLC's as the owners of the property

Put NDAs in place with general contractors, architects and service providers

Hire domestic staff through LLCs, consider using a professional payroll provider and set up robust employment agreements, NDAs and policies with all employees no matter how close or long-standing the relationship is

Redirect mail to a PO box

Consider off-market selling (private sale) for real estate

On the road

Avoid being flashy (i.e. exotic cars, expensive hand bags etc.) that would attract unnecessary attention from fraudsters and criminals

Any physical security protection should be dressed in plain clothes to not attract attention

Book all domestic and foreign travel with a credit card in the name of LLC or from LLC's bank account

Take additional precautions when traveling to countries of higher risk

Be cognizant that many Uber/Lyft drivers have video recording devices in their cars

Never log into sensitive websites while using public Wifi

Online

Hire a professional company to conduct a thorough inventory of online, social media and news and assist with take down requests (i.e. request to blur-out Google-street views of real estate, remove address and phone number for phone book websites, etc.)

Minimize the amount of content, location-specific posts, and the number of accounts on social media (assume content will be public and available forever)

Utilize an encrypted password manager and two-factor authentication

Avoid sending sensitive information via text, instant message, or email and ensure all sensitive data is stored in an encrypted format

Freeze your credit reports and consider signing up for an identity theft protection service

Private Brand Considerations

Public Relations (PR) and Online Reputation Management (ORM) firms can help create a favorable impression around you and protect your privacy. They can act as a second pair of eyes and ears on what data is publicly available, create strategies around removing or hiding information, and work on your behalf to actively create new material.

Below are the differences between the two:

Public Relations (PR)

Helps **create** the content on you or your business

More relationship-focused, working in the spotlight

They can assist with:

- Evaluating your public image

- Create promotional campaigns

- Actively manage media relations and manage

- Create a strategy to build your brand

- Organize public functions, events and press releases

Examples:

- Gasthalter & Co.

- Zeno Group

- Sugar Bowl

Online Reputation Management (ORM)

Helps **position** the digital content on you or your business

Often operates behind the scenes

They can assist with:

- Promoting your brand by shaping how it appears online

- Monitor and alert you of new content

- Boosting the value of existing web properties and push positive content ahead of unflattering content

- Submitting take down requests (under applicable laws and customs)

Examples:

- Five Blocks

- Haystack Reputation

- Reputation Defender

Goldman Sachs Family Office

How We Can Help

GS Family Office offers a range of personalized services to help you and your family on a regular or one-time basis. We consider ourselves an extension of your team—an outsourced ‘family office’ handling a full suite of custom services.



Financial
Planning



Tax
Support



Philanthropy



Reporting and
Analytics



Administrative
Services



Network
Services

Our Family Office Offerings

We provide step-by-step, hands-on support in the following areas:

Financial Planning

- Formalize goals to ensure your finances are aligned to your lifestyle and objectives
- Create a budget that sheds light on your spending and ensures it is aligned with your long-term goals
- Manage your liquidity to wisely put your cash to work
- Assist in design and implementation of trust and estate plans
- Guidance in managing art collections

Tax Support

- Create a tailored strategy to minimize tax exposure and ensure compliance with the law
- Gather and organize tax data and documents
- Optimize your positions and assets day-to-day to minimize tax liability
- Complete tax returns and payment remission*

Philanthropy

- Define and develop philanthropic goals and program definition
- Set-up charitable structuring (e.g., direct giving, DAF, private foundation)
- Administer private foundations (establish entity, guidelines, applications, payments)*
- Provide ongoing support (budgeting, gift and recipient reporting, special projects)

Reporting & Analytics

- Produce consolidated picture of your total family wealth, including income and cash-flow analysis
- Create beneficiary level financial statements
- Provide analytical support for important decisions (e.g., jet purchase vs. time share)

Administrative Services

- Prevent gaps in insurance coverage (e.g., homeowners, auto, life, etc.)
- Manage financial transactions (e.g., real estate, artwork or other collectibles)
- Coordinate and track ongoing obligations (e.g., loans, GRAT distribution, PE capital calls)

Network Services*

- Security:** Provide in-home cyber and physical security assessment, online presence, identify theft monitoring
- Administration:** Access to bill payment services, household staff management and payroll services
- HealthCare:** Identify best in-class critical care providers and guidance on complex diagnosis
- Philanthropic:** Customized grant identification, private foundation management and special projects
- Family:** Navigating primary and secondary education
- Travel:** Aviation perks

Advisory

Administrative

Network Services

Appendix

Components of a Successful Family Office (1 of 2)

Key Steps	Considerations
Choose proper structure to meet family goals	<p>Broad motivations of the family should be addressed when defining structure and scope of activities to be offered</p> <p>Different structures exist depending on genesis of family office (e.g. consolidated oversight of family business assets like real estate vs. pure investment vehicles for small or extended family members)</p> <p>Clear mission statements should define scope of services to be presented and control costs by delineating the scope of the offering</p>
Create communications framework	<p>Develop a clear statement of family goals for wealth deployment</p> <p>Educate about the responsibilities of wealth for younger family members making wealth a source of satisfaction, not stress</p> <p>Define objectives for Chief Executive Officer and management staff to communicate effectively and frequently with family members</p> <p>Coordinate well planned and interesting family meetings held at least quarterly with family participation above 70%</p>
Define investment objectives upon inception	<p>Time horizon for investment, asset allocation, manager selection, and performance measurements should be established across asset classes and investment vehicles at inception</p> <p>Objectives should be developed by experienced investment professionals with an understanding of generational planning initiatives</p> <p>An external advisory committee may be appropriate to provide oversight and expertise to family objectives</p>
Delineate important wealth-related issues	<p>Choose the optimal team of professionals (lawyer, accountant, tax advisor, wealth advisor, trust & estate lawyer, trustee)</p> <p>Plan in a comprehensive way to ensure that individually sound strategies do not conflict with each other</p> <p>Implement structures as soon as is practical, as this helps to increase planning flexibility and maximize after-tax wealth</p> <p>Periodically revisit issues such as domicile, residency, beneficiaries, tax and estate planning, insurance, charity, location of assets, ownership structures, voting rights and other control issues, advisory team and strategic asset allocation</p>
Establish investment management oversight	<p>Clear investment philosophy developed for the family group as a unit which identifies guiding principles for the family</p> <p>Individual financial plans for each adult family member to be reviewed twice a year</p> <p>Greatest economies of scale for investing assets consolidated from many family members</p> <p>Careful tracking of investment performance by asset class</p> <p>Delivery of accurate and timely information about investment performance</p>
Clearly define benchmarks for success	<p>Benchmarks determine success of strategy after fees, taxes, and inflation and should be set on a risk-adjusted basis</p> <p>Benchmarks should be clearly defined and in-line with broader family objectives for wealth management</p> <p>Measured periodically to inventory assets and review manager performance</p> <p>Both strategic and tactical asset allocations should be considered when rebalancing portfolios</p>

Components of a Successful Family Office (2 of 2)

Key Steps	Considerations
Understand and adjust for risk in its many forms	<p>Traditional investment risk is often the most common focus</p> <p>Business ownership involves different risk considerations and impact on investments</p> <p>Generational shifts in family wealth create risk of stewardship and family strife</p> <p>Technological risks should be assessed daily and require a different level of diligence</p> <p>Personal security risk may also be a factor depending on location and political situations</p>
Maximize efficiency by outsourcing for expertise	<p>Each role or function of a family office requires a different skillset</p> <p>Family members or trusted advisors may not have expertise across all areas</p> <p>Creating internal expertise is often expensive, time consuming, and inefficient</p>
Optimize technology where possible	<p>Accurate record keeping and performance reporting is a cornerstone of asset management and should be delivered on a risk-adjusted basis across asset classes and managers</p> <p>Access to clear financial reports that tell family members what they need to know about changes in their financial positions and permit information to be delivered in a customized manner</p> <p>Developments in technology increase ability to offer customized reporting across the family, but at an increased risk of privacy and often at substantial cost</p>
Facilitate involvement of younger generations	<p>Family office should educate family members on the management of wealth</p> <p>Important to build a cohesive investment philosophy across generations</p> <p>Expert advisors are often key to developing responsibility and establishing a sense of stewardship over assets</p>
Governance is an ongoing process	<p>Executive Committee for interim decision-making (rotating, elected for 3-year terms, representing constituents)</p> <p>Professional advisory board hired to work with the Executive Committee twice a year</p> <p>Commitment to replacing employees who cannot be trained with individuals who are qualified and compatible with the organization's philosophy</p>

Single Family Office Size

Single family offices typically evolve with the growth of AUM and increased levels of sophistication. For families that have an existing operating business, it is common for the FO to organically grow into its own entity with separate organizational structures. Single Family Offices typically fall into three core staffing models:

	Core	Established	Mature
# of Employees	1-5	6-10	> 10
Overview	<p>Starting point, typically evolve from existing operating business. Family members are heavily involved with ongoing operations</p> <p>In-house team supports some family needs, with extensive outsourcing of many services</p> <p>Staff serves multiple roles and has broad responsibilities</p> <p>In-house professionals coordinate with external providers</p>	<p>Clear organizational structure exists with substantial in-house resources devoted to the FO</p> <p>Some existence of a dedicated CIO, CEO and COO</p> <p>In-house team supports all family needs, with outsourcing of some services</p> <p>Staff has well-defined roles and responsibilities</p>	<p>Highly sophisticated investment function and established org structure</p> <p>Dedicated CIO, CEO and COO</p> <p>In-house team supports all family needs with little outsourcing Staff has well-defined roles and responsibilities</p>
Staffing overlap with Operating Business	High: significant overlap between FO and Operating Business	Medium – Low: some overlap for specific roles & tasks	None: FO managed separately with dedicated employees
Typical Services provided	Investments, accounting, taxes, reporting	Investments, accounting, taxes, reporting, concierge, philanthropy	Investments, accounting, taxes, reporting, concierge, philanthropy, legal
Investment decisions	Few formal investment committees	Mostly formal investment committees with family involvement	Formal investment committees with family oversight
Investment model	Outsourced / manager of managers	Outsourced, manager of managers, and direct investments (most common)	

Overview of a Family Office Structure

The primary purpose of a family office is to build a structure to centralize the advisory, administrative and investment functions of a family.

Family Office Owners

- Generally the shareholders of the FOMC can be key employees, trusts, and/or family members.

Family Office Management Company (“FOMC”)

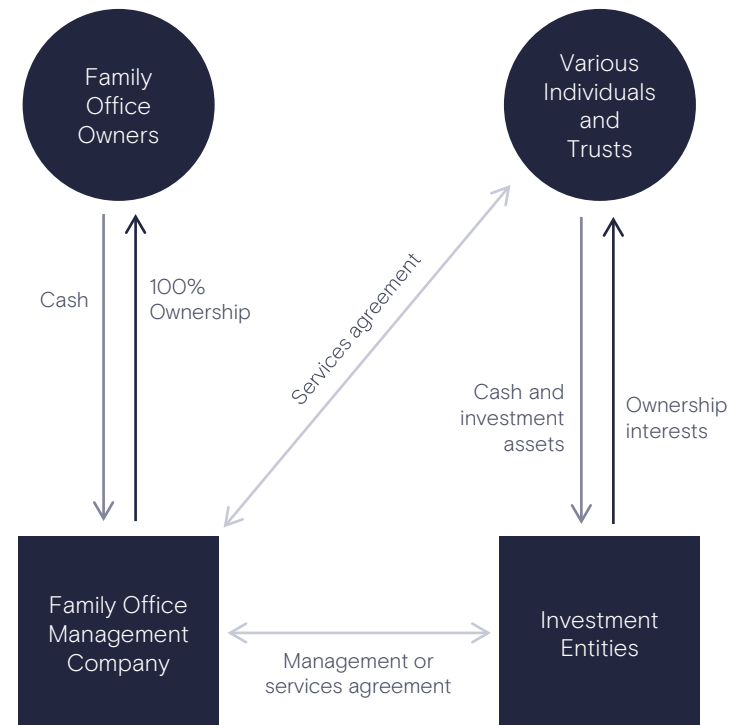
- The FOMC agrees to provide the IEs (and its owners) a variety of financial planning and investment management services in exchange for a fee.

Investment Entities (“IEs”)

- May be structured as Limited Partnerships or Limited Liability Companies
- May be organized by asset class or may be special purpose vehicles for specific investment opportunities
- Various individuals and trusts contribute cash and investment assets to the IEs in exchange for interests in the IEs.
- The assets are managed at the discretion of the FOMC.

Various Individuals and Trusts

- Multi-generational family members pool investable assets into IEs to obtain tailored management of the family’s wealth.
- FOMC may provide a suite of highly customized services to the family members such as:
 - investment management
 - financial statements preparation
 - income projections
 - cash flow management
 - access to financial professionals, including meetings on a regular basis



Note: Some families may have an individual service agreement with the trust in the structure

The analysis of whether an FOMC qualifies for the desired tax treatment is complex and dependent on numerous factors. Clients are strongly urged to discuss your particular situation with your tax and legal advisors. GS&Co. does not provide legal, tax, or accounting advice to its clients, unless explicitly agreed between the client and GS&Co.

Deductibility of Investment Management Fees

Since the 2017 Tax Cuts and Jobs Act, investment management fees are now only deductible if incurred in conjunction with a bona fide “trade or business”.

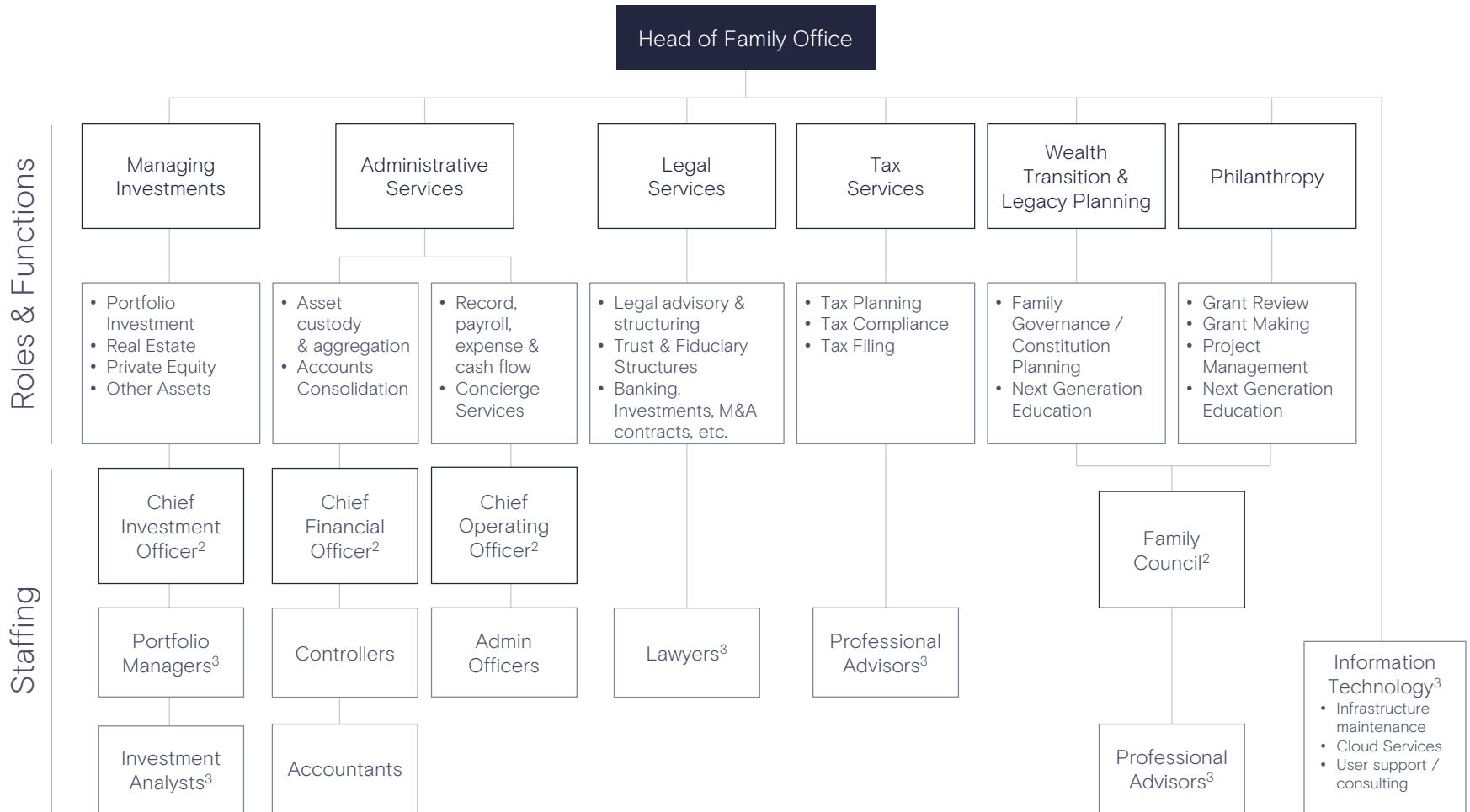
Establishing a FOMC does not guarantee the expenses will be deductible for tax purposes. Most family offices will not have the right fact pattern to support this desired tax treatment. Setting up a structure to support it is highly complex and expensive. It is highly recommended that you hire tax and legal counsel who is familiar with family office restructures.

Below are a few factors that many FOMC’s may consider if they qualify for a trade or business:

<p>Overlap of ownership of the FOMC and The Investment Entities</p>	<p>Number of family members who receive services from the FOMC</p>	<p>Number of employees with investment management expertise</p>
<p>Ability of family members to hire and fire the FOMC</p>	<p>Regular and continuous activity carried on for profit by the FOMC</p>	<p>Profit motive and income against which to take deductions</p>
<p>Number of contracts with third party service providers and/or landlords in its own name</p>	<p>Obligation to pay the various expenses incurred by the FOMC, including investment advisory expenses</p>	<p>Adequately capitalized and/or access to a line of credit to provide and pay for investment services, even in down market cycles</p>

The analysis of whether an FOMC qualifies for the desired tax treatment is complex and dependent on numerous factors. Clients are strongly urged to discuss your particular situation with your tax and legal advisors. GS&Co. does not provide legal, tax, or accounting advice to its clients, unless explicitly agreed between the client and GS&Co.

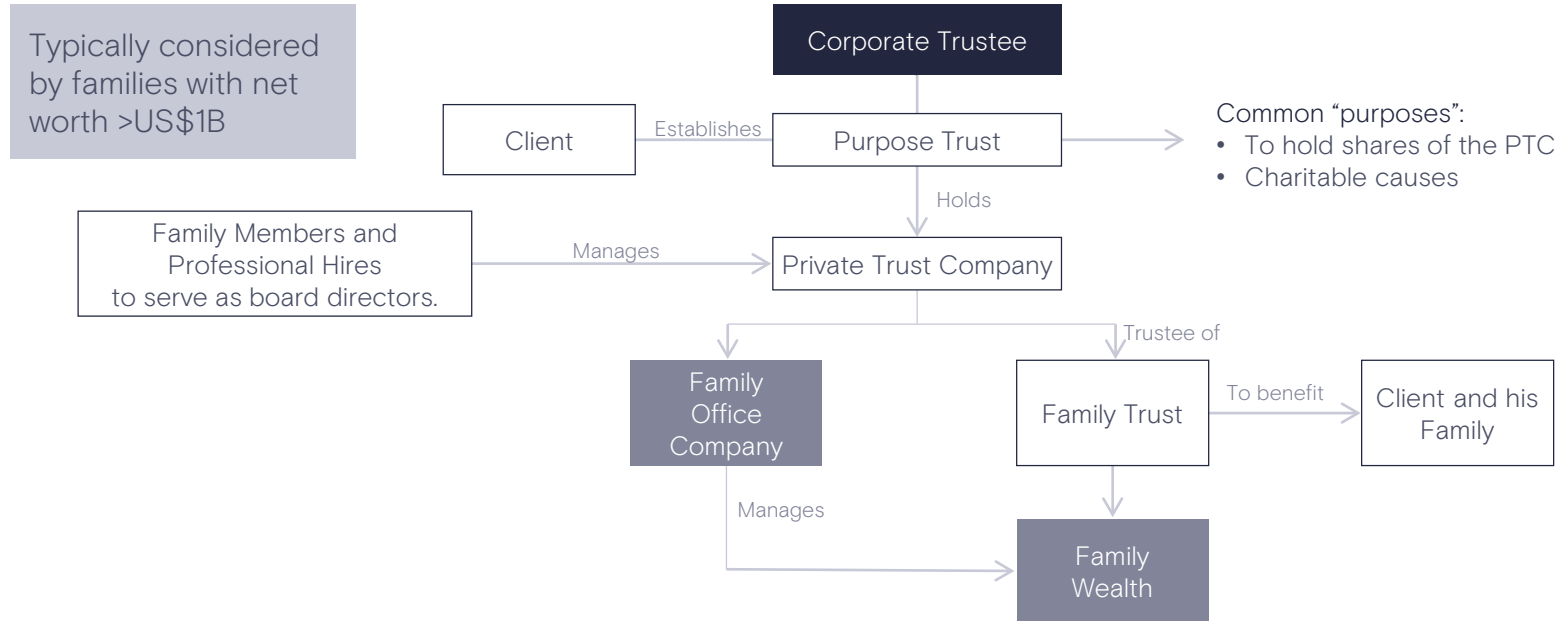
Sample Staff Organization Chart



² May consist of a board, can consider to include family members in decision-making

³ Consider to engage team of external experienced professionals (e.g. banks/law firms)

Family Office with a Private Trust Company (“PTC”)



Benefits of a PTC held Family Office

Direct Control: Greater degree of control over trust affairs is retained by founding family without reducing validity of the trust.

Sensitivity and Flexibility: Board has an intimate knowledge of family needs and interests.

Stability: Established ownership transition between generations.

Confidentiality and Protection: Total privacy and discretion.

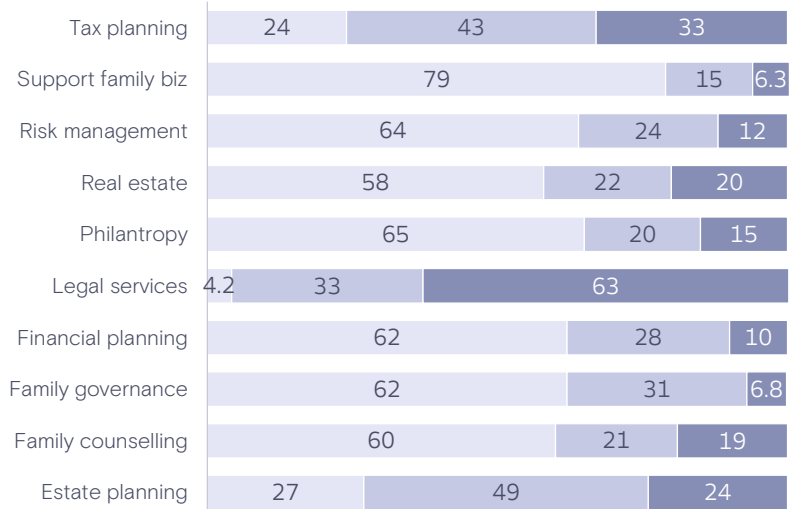
Downsides of a PTC held Family Office

Personnel Selection Risk: Difficulty attracting and retaining qualified staff. This can be reduced by outsourcing some services to corporate professionals.

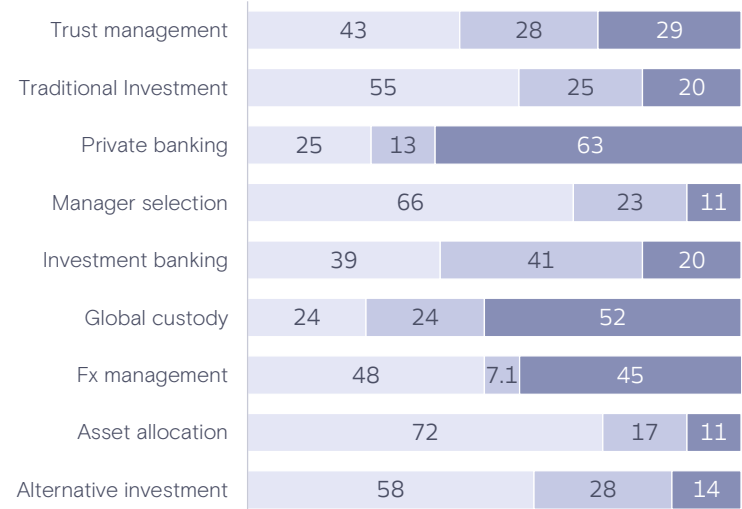
Cost: Very expensive to maintain.

Outsourcing Tendencies

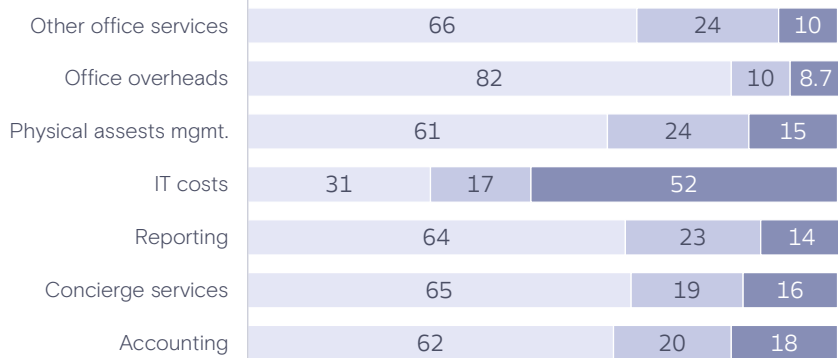
Advisory



Investment



Administrative



■ In-house
 ■ Hybrid
 ■ Outsourced

Disclosures (1 of 2)

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Disclosures (2 of 2)

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