



Family Office Association

Q&A

Angelo J. Robles on
**Perspectives
on Family
Governance**
with
Lowenhaupt
Global Advisors

Contributions by:

Charles A. Lowenhaupt, Chief Executive Officer,

Sean Cortis, Director – Australia Office and

Erik Halvorssen, Director – Miami Office

OVERVIEW

- Q:** What do you mean by “Governance” in the family wealth context?
- Q:** What are the challenges to designing “governance” programs?
- Q:** How does a family achieve harmony and legacy?
- Q:** What is the role of the patriarch or matriarch in the design of governance structures?
- Q:** What do you advise with respect to issues raised over and over again: the age of engagement, the involvement of in-laws, the role of the patriarch or matriarch, etc.?
- Q:** How do families preserve their history and culture, yet also adjust to changing conditions and social norms over generations?



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LGA: The term itself has many of the meanings used in corporate and business contexts. However, we have found that the best way to consider “governance” is by starting with the goals to be achieved. In other words, governance is not an end in itself; it is a means to an end.

Whether in Boston, Beijing, Bogota, or Brussels, patriarchs and matriarchs have two thoughts first and foremost about their wealth: Harmony and Legacy. Sound process and framework for governance ensure both and achieve the ultimate goal: freedom of the burdens of wealth and an opportunity for individuals to live life on their own terms.

Disciplined systems and processes, clearly defined roles, and well-designed deliberative infrastructure allow a family to move beyond the inherent family dynamics of dysfunction and into harmonious relationships around the family wealth and the family culture. Sound business practices – treating the management of family wealth as a “business” – are the tools needed to keep the family wealth over generations and to avoid the very shirtsleeve to shirtsleeve loss of wealth (a concept in every culture but expressed differently in each).

LGA: In the U.S., in Asia, in Latin America and in Europe, the same problem occurs over and over. Families start by pruning trees before they design the forest. We see “Family Constitutions” and “Family Charters” spreading like wildfire. This solution de jour is being promoted by service providers using generic questionnaires to gain supposedly deep insights. Families spend considerable time and money designing and signing family charters and then forgetting about them. Hours are spent deciding on the number of members in family council, the frequency of meetings, and the “precatory” limitations on control of assets.

Harmony and legacy are not achieved on the wings of charters and family constitutions. The documents must be premised on fundamentals that require understanding before the document is written. If that understanding is ingrained adequately as part of the family “culture”, the document may not be necessary.



AJR: How does a family achieve harmony and legacy?

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LGA: Harmony and legacy are achieved only when individual hopes, aspirations and self-actualization are recognized as the overarching principles for family members. Wealth creators are generally fiercely independent and feel that their wealth is a reflection of self-actualization. That independence and freedom to lead life to its fullest must be encouraged in every family member. Families are not harmonious simply because they are told to be so. The family whose wealth is inexorably bundled and whose members feel chained to each other by rules, regulations and “imposed legacy” will destroy wealth trying to struggle for individual freedom.

Sound development of a “governance framework” starts with analysis of what each individual wants to achieve. It opens by exploring where each member of the family wants independence. The process should include developing systems that do not keep any family member from leading the life he or she wants to lead.

We recently developed governance strategies for an Australian family by announcing at the outset that we would not work through “family council.” Instead, we would have one-on-one meetings with family members for two weeks before we could set out the challenges and opportunities the family faced in managing its wealth and in administering its family office. Over and over, we find that approach helps us help the family ascertain whether family harmony and legacy can be achieved.



AJR: What is the role of the patriarch or matriarch in the design of governance structures?

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LGA: The most important role of the patriarch or matriarch is clarifying their wishes and/or vision. This is rarely done well. A few examples illustrate how difficult it can be.

The patriarch of a Hong Kong family wanted his children to take over all elements of the “wealth management,” so he and his wife could lead the life they wanted without concerning themselves with investments. He told his children his wish, but it took them three years of counseling to believe it. Their perception of their father’s dominance was so ingrained that they could not accept that he wanted to relinquish control.

When a US matriarch turned over all the family wealth management to her children and completely stepped away from the table, her daughter confided: “This is just another way mother is really running our lives.”

Surprisingly, what is often completely overlooked is what the patriarch or matriarch means by “family wealth.” Without analyzing that all governance talk is muddled in confusion. The issue is rarely raised while other issues jump out as the topics of extensive conversation.

This misunderstanding about what constitutes “family wealth” was evident in an Asian family in which the patriarch always talked about “family wealth.” He led his children through a “family constitution” process and subsequently the children started constructing uses for the “family money” in business and lifestyle. Frustration mounted as the patriarch continuously “changed the rules.” In fact, a careful conversation with the patriarch disclosed that what he meant by “family wealth” was that he would use it for the family and some day it would belong to the family. The governance system he was designing was all wrong for the patriarch’s perception of what the wealth was really for. The patriarch came to learn that he brought clarity into family relationships by calling it his own wealth rather than the family wealth.

Particularly in families in which wealth is being created by a patriarch or matriarch, we hear complaints that the parent is too controlling and too intent on limiting personal freedom. The answer just may be that the wealth legally belongs to and is controlled by the creator. The way for the child to build freedom is to live life without dependence on the “family” wealth. That freedom can be most easily built into the family “governance” system by saying there is no “governance” and no need to discuss it.



AJR: What do you advise with respect to issues raised over and over again: the age of engagement, the involvement of in-laws, the role of the patriarch or matriarch, etc.?

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LGA: Any solution depends clearly on identifying the needs of the family and, more importantly, the specific needs of individual family members.

A sure-fire destroyer of family harmony is the in-law issue. A European family was embroiled in that situation when we were called in and, as expected, learned that there were one or more in-laws the other family members did not like. That point could not be made directly (of course), so the issue was sublimely clothed in the “philosophical” question of how to define family. In fact, if some members want in-laws and others do not, the family should simply give up and unbundle since one man’s in-law is another man’s wife.

The potential discord stemming from in-laws can present different challenges depending on where the family lives in the world. Consider the Central American patriarch, regularly exposed to the threat of kidnapping and extortion, taking on the additional burden to protect not only his sons’ and daughters’ in-law, but their whole families.’ They, in turn, became targets that can affect the patriarch and cannot merely be dismissed as “in-laws.”

An age of engagement is not particularly significant by itself. What is critical is the strategy for engagement? How and when do you engage younger members in a way that doesn’t interfere with their freedom and sends the clear message that self-actualization is the goal? How do you make engagement all about Freedom from Wealth?

There are other issues not being raised which should be. Whether a family comes from Hong Kong, Melbourne, San Francisco, Caracas, or London, the family is likely to be multi-jurisdictional and multi-cultural. Family members may move “overseas” (whatever that means), will travel overseas, will invest overseas, and will engage in philanthropy overseas. The fact that the “family constitution” craze is worldwide illustrates that family wealth needs and best practices are global.

Children are living in multi-cultural neighborhoods and going to school with children of many cultures. They are marrying across cultural lines and families are becoming “melting pots.”

How are governance structures sensitively designed to deal with cross border wealth? Even more difficult, how should they be designed to be sensitive to cultural differences? Consider the Moslem observing Shariah compliance marrying into a Chinese family of wealth. Or consider family “legacy” in a family where the mother is descended of African-American slaves and the father is descended of slave owners.



AJR: How do families preserve their history and culture, yet also adjust to changing conditions and social norms over generations?

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LGA: Preserving history and culture is impossible unless the family defines its history and culture in a way that can have continuing relevance. The wise family designs culture and values around self-actualization, freedom from wealth. If the family mantra is that every person should be all he or she can be, the culture is universal and relevant, and every person entering the family can feel like a welcome member of the family unit.

When culture is defined, family history must be told to reinforce the culture. If self-actualization is the family culture, the family history should become stories in which individuals each become all they can become with dignity and independence. Success is defined as building a life of freedom and accomplishment. The Chinese fisherman who builds a real estate empire should tell the story of what gave him the ability to become that billionaire. It's critical to make his success a triumph of becoming all he can become so that the satisfaction he derived can be equaled by the artist, the diplomat, or the scholar without creating wealth.

Only when the culture and values, enlightened by the family history, are inclusive and welcoming can a governance structure be designed to allow each individual to feel comfortable and engaged in continuing legacy.



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Angelo J. Robles is the Founder and CEO of the Family Office Association, a global membership organization of single family offices. Mr. Robles has written several books and numerous independently published articles, and has been quoted on family office topics for Bloomberg Radio & TV, Thompson Reuters, Institutional Investor, Registered Rep, HFM Week, Investment News, EurekaHedge, The Luxury Institute, The Greenwich Times and many others.

Mr. Robles had a successful career with positions at Arthur J. Gallagher & Co., UBS and New England Financial. He is the founder and past president of the New England chapter of the Hedge Fund Association, and was an Internet pioneer in retirement planning for Fortune 1000 executives with 401KRollover.com and IRARollovers.com, both of which he founded. Mr. Robles is a member of the Princeton Council on Family Offices and the NYU Stern Family Office Council.

Lowenhaupt Global Advisors has been helping families of substantial wealth build, preserve and control their assets for more than 100 years. Lowenhaupt Global Advisors provides sophisticated, independent advice on family wealth transfer, governance strategies and structures, portfolio allocation and performance evaluation, taxation and estate planning, engagement of the next generation and philanthropic strategies. Charles Lowenhaupt is Chairman and CEO of Lowenhaupt Global Advisors and co-author of the book, *Freedom From Wealth* by McGraw-Hill. For more information about Lowenhaupt Global Advisors, call +1 314 345 8181 or visit lowenhauptglobaladvisors.com and for Lowenhaupt Global Advisors Australia, call +61 2 8031 7690 or visit lowenglo.com.au.

Charles A. Lowenhaupt is a recognized industry leader in managing wealth for ultra-high net worth families around the world. He is also Managing Member of Lowenhaupt Global Advisor's affiliated firm, Lowenhaupt & Chasnoff, LLC, the first U.S. law firm to concentrate in tax law and established by Lowenhaupt's grandfather in 1908. Lowenhaupt is a Founding Advisory Faculty member of the Institute for Private Investors, and he advises the Institute as an Emeritus Member and contributor to its programs. He is also a co-founder and President of the Institute for Wealth Management Standards, a former Director of the Foundation for Fiduciary Studies in Pittsburgh, an appointed Commissioner of the St. Louis Art Museum, a Director of the Clements Library of the University of Michigan in Ann Arbor, and Director of Forest Park Forever. Lowenhaupt also serves as President of Temple Emanuel in St. Louis. He has a Bachelor of Arts degree (cum laude) from Harvard University. He also has a Juris Doctorate (Order of the Coif) from the University of Michigan Law School. He is a member of the Bar of New York and Missouri. Lowenhaupt is co-author with Don Trone of the book, *Freedom From Wealth*, published in 2011 by McGraw-Hill. In 2011, *Private Asset Management* magazine named Lowenhaupt one of the most 25 influential people in wealth management and family office services.



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