

A CBV'S ROLE IN THE EVOLVING FAMILY OFFICE LANDSCAPE

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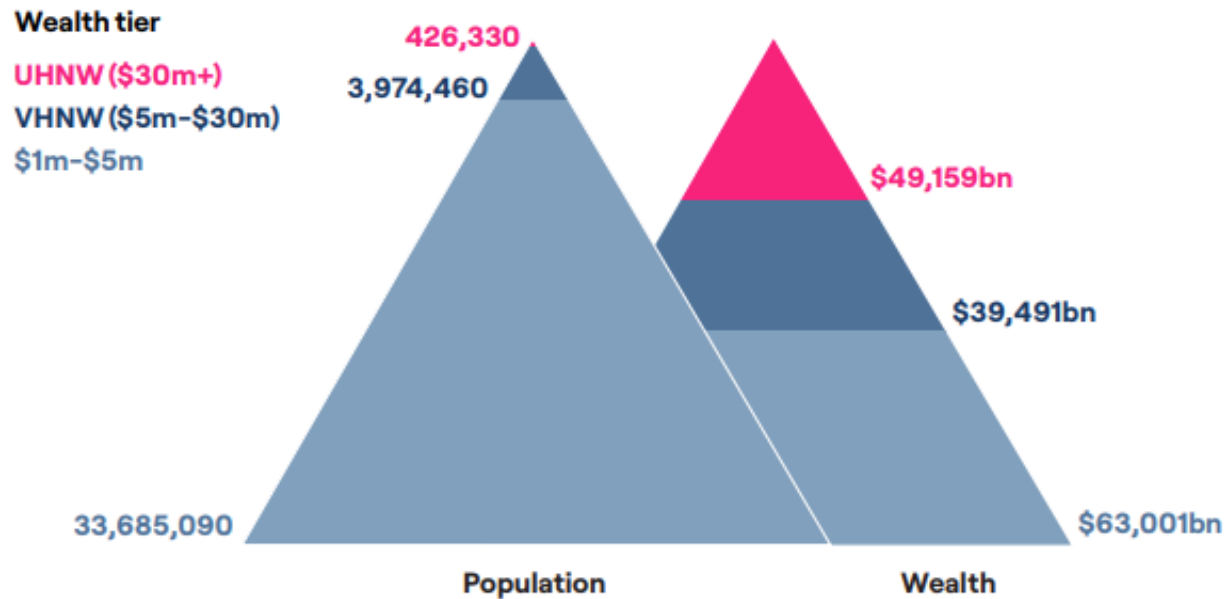
AGENDA

1. Overview of Family Offices
2. Current Family Office Landscape
3. CBV Role
4. Case Study



GLOBAL WEALTH LANDSCAPE

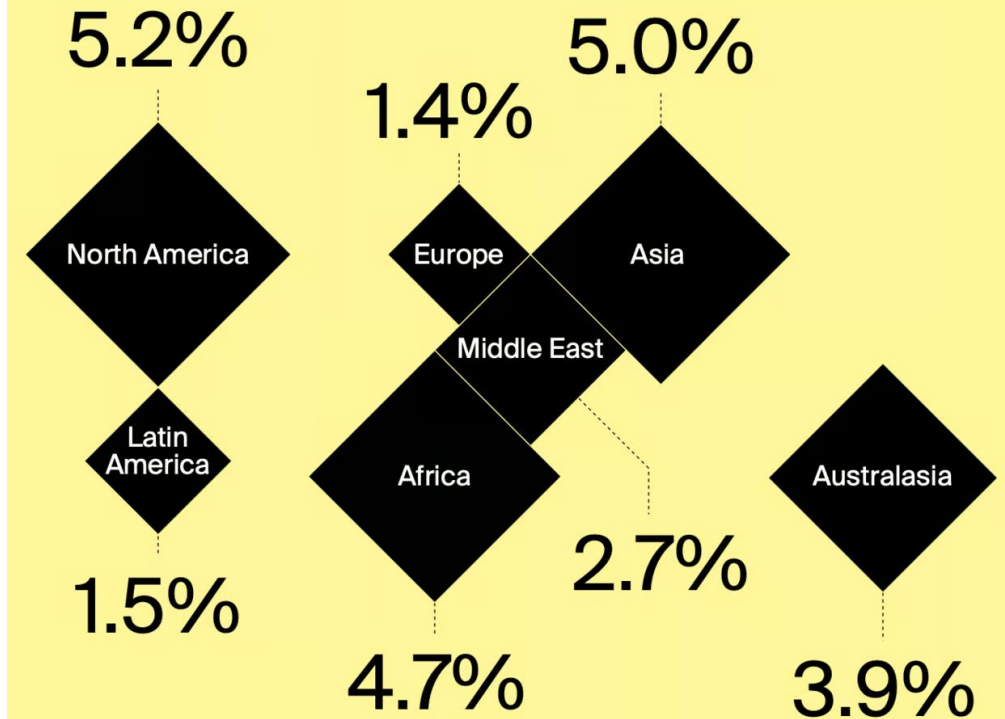
Global population and wealth by major wealth tier in 2023



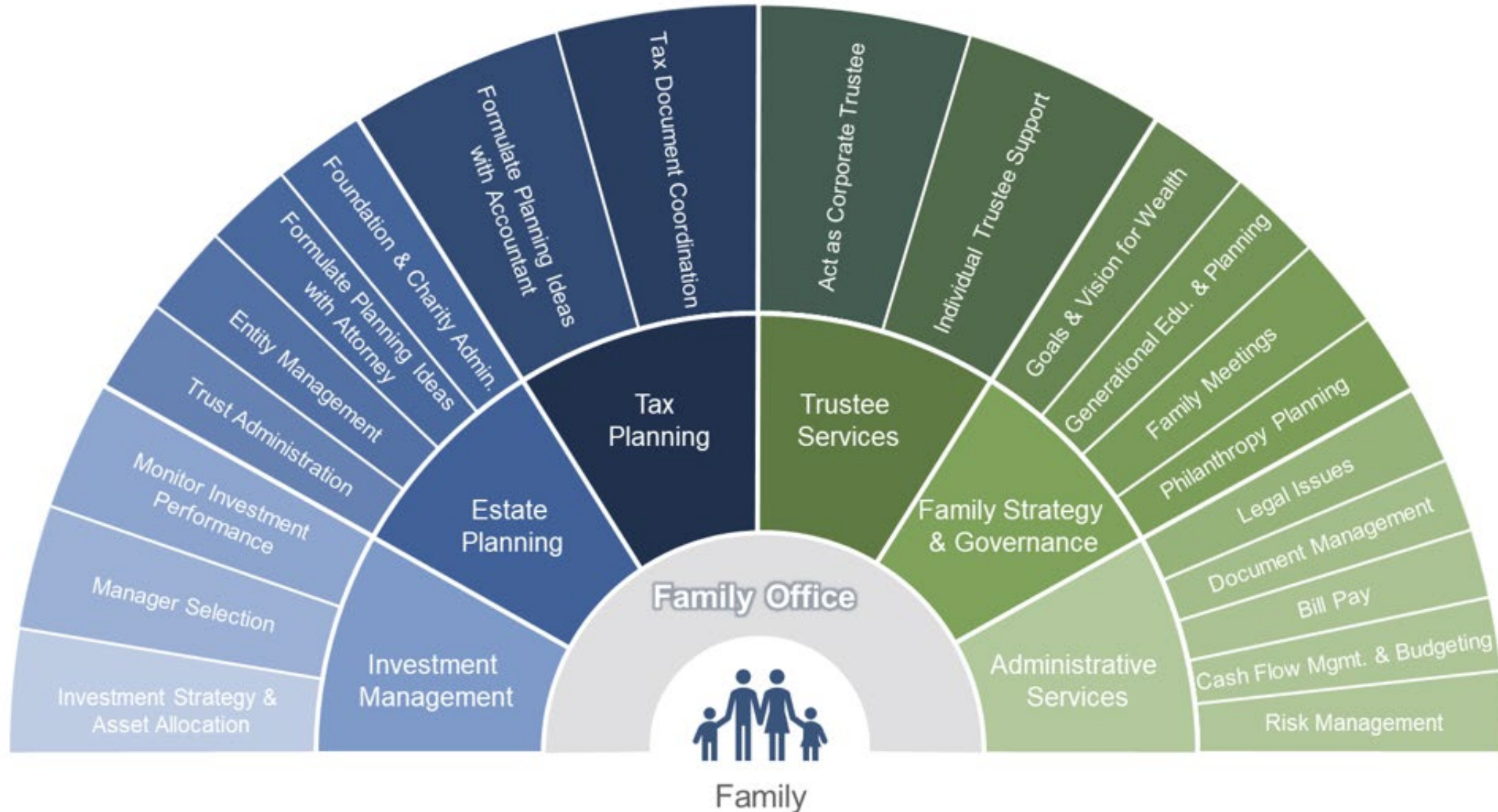
Source: Wealth-X, an Altrata company, 2024

Wealth in flux

Change in US\$10m+ populations by region
2023 vs 2024



WHAT IS A FAMILY OFFICE?



SFO VS. MFO

Family Office 101: The two types of family office

Single Family Office

Serving one family, individual or group of **related** individuals

Cost Center - financed by the owners, usually doesn't charge a fee to the family

Usually **unregulated**

Multi-Family Office

Servicing a wider audience of **unrelated** families or individuals

Profit-oriented - charges fees to its clients, out of which it finances its operations

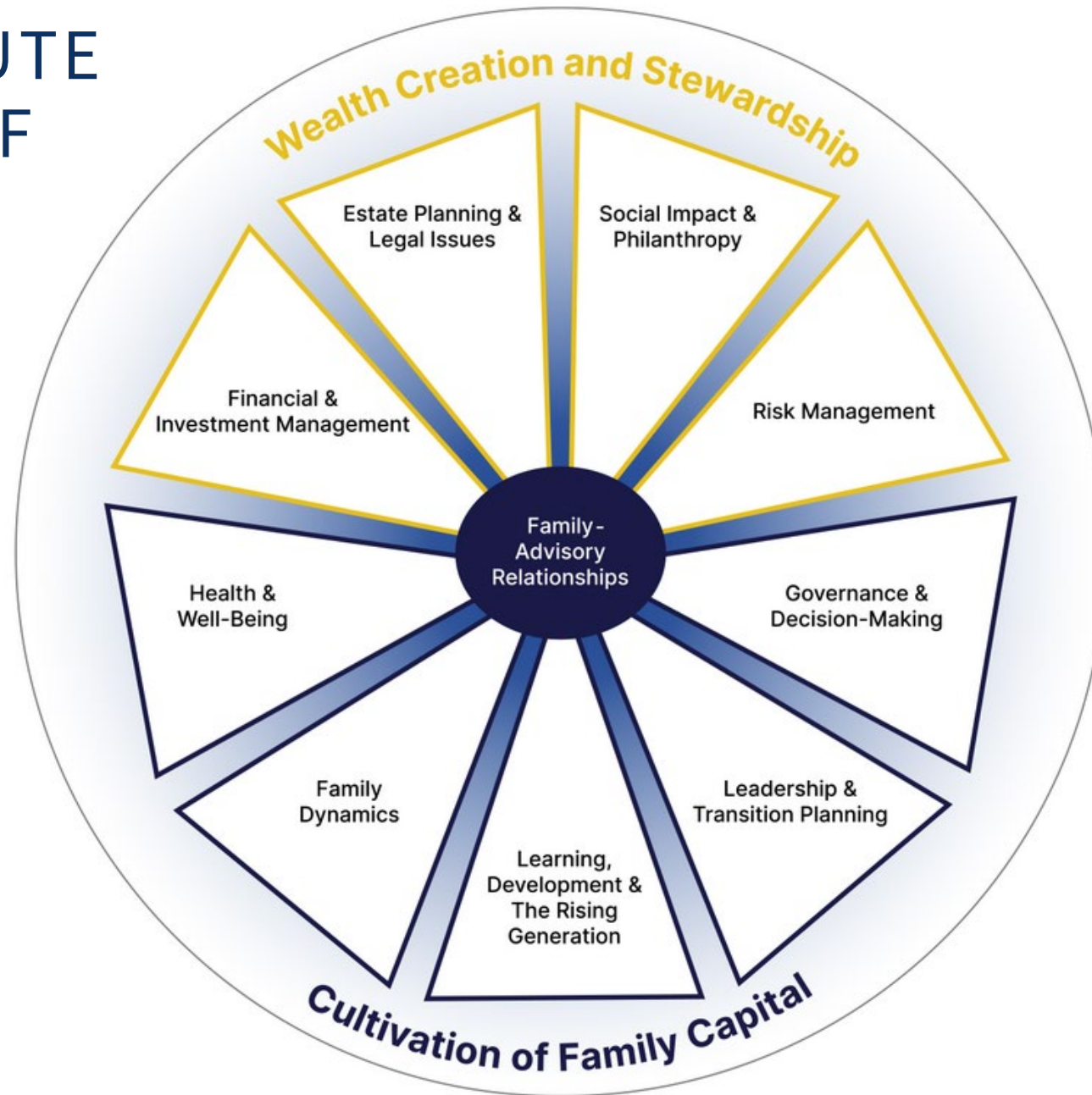
Usually **regulated**

The above is a simplified comparison of common characteristics of Single and Multi-Family Offices based on our personal experience. Actual characteristics can differ. The need for regulation might be different by jurisdiction. The above judgement should not be deemed that an SFO may operate without a regulatory license.

Cape May Wealth

UHNW INSTITUTE

10 DOMAINS OF WEALTH



BIGGEST TRENDS IN FAMILY WEALTH

- Increased complexity – globalization, investments (alternative options), tax
- Seeking better investment outcomes – privates, impact, absolute return, risk management
- Renewed emphasis on integrated financial planning/ goals
- Security and risk mitigation
- Advisor confusion – misinformation, conflicts, overlap, understanding value/ pricing
- Wealth and family transition – longevity/ multi-generational.
- New focus on family dynamics – research around “shirtsleeves to shirtsleeves in three generations”

**Harvard
Business
Review**

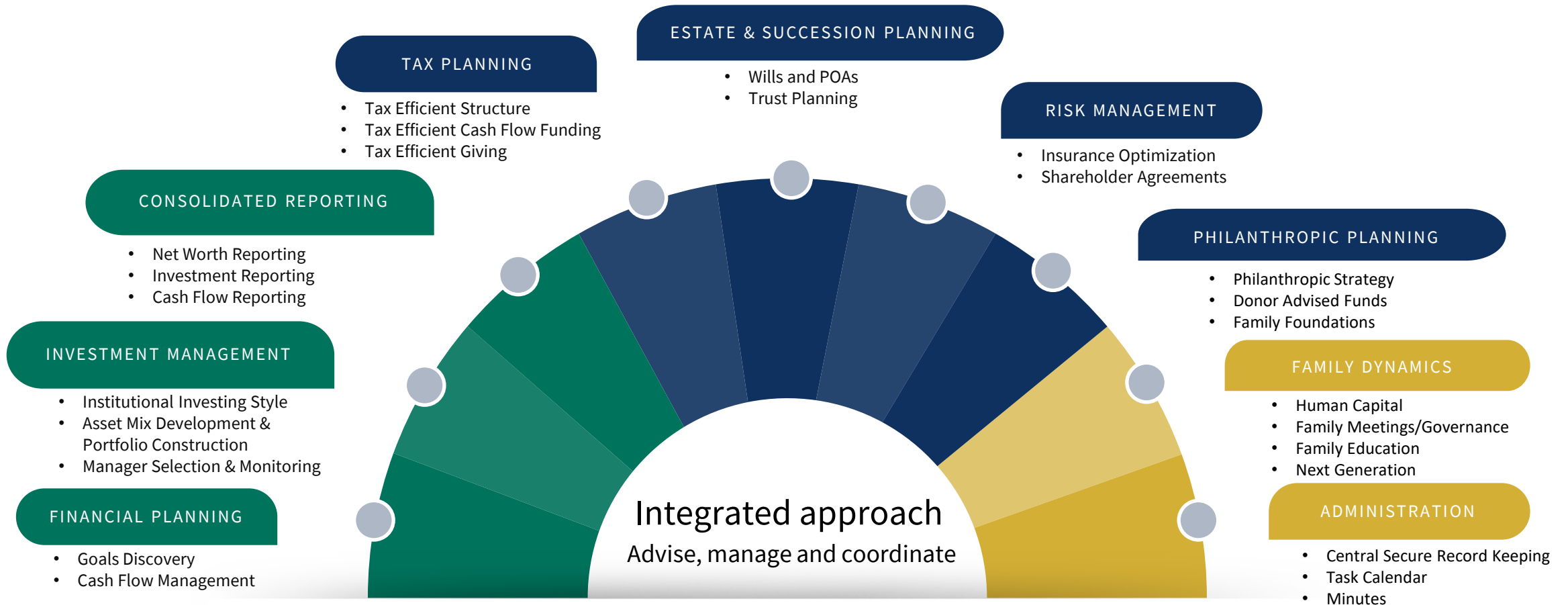
NON-PROFIT

When You’ve Made Enough Money to Cause Family Tension

by Josh Baron, Rob Lachenauer, and Diane Coutu

JANUARY 08, 2016

INTEGRATED APPROACH



GOALS BASED INVESTING (GBI)

Traditional investing focuses on **beating benchmarks** (S&P 500, market indices). GBI asks:

1. *What are you trying to accomplish with your wealth?*
2. *What rate of return do you actually need to meet those goals?*
3. *Are you comfortable with the risks required to achieve it?*

GBI **aligns investment strategies with real-life priorities**, such as:

- **Maintaining lifestyle** – Ensuring liquidity for day-to-day expenses.
- **Major purchases** – Homes, vacation properties, art, or collectibles.
- **Next-gen support** – Education funding, business ventures.
- **Long-term wealth preservation** – Maintaining purchasing power over generations.
- **Philanthropy & impact** – Structuring giving while sustaining financial security.

GBI PHILOSOPHY

Moves Beyond
"More is Better"

Reduces
Emotional
Reactions

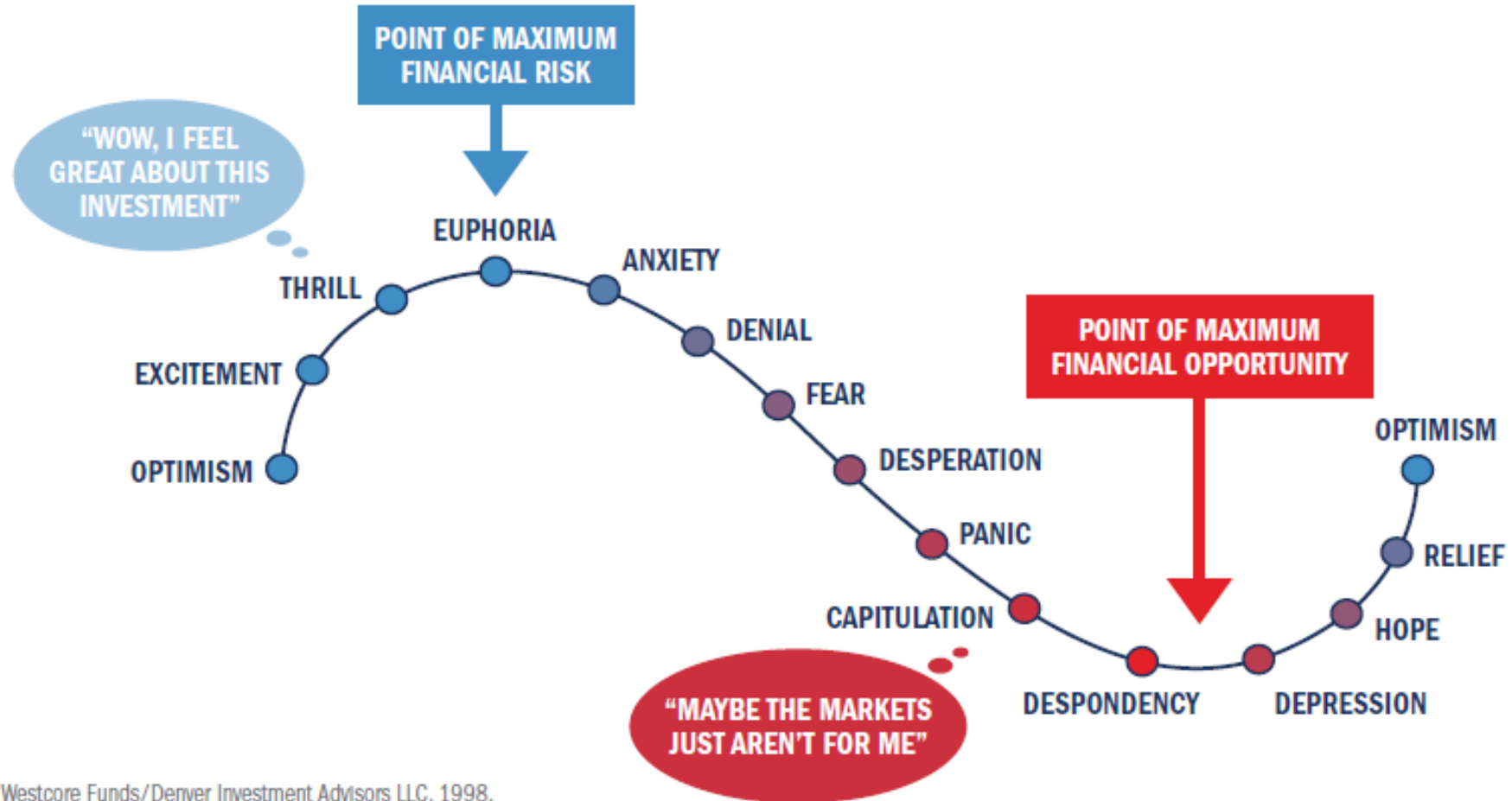
Personalized &
Flexible

- **Shifting from Performance Obsession** – Evaluating success based on **goal achievement** rather than market returns.
- **Multi-Bucket Portfolios** – Separating investments into **lifetime and legacy** allocations.



- **Educating the Next Gen** – Helping younger family members **understand capital as a tool** rather than an end goal.

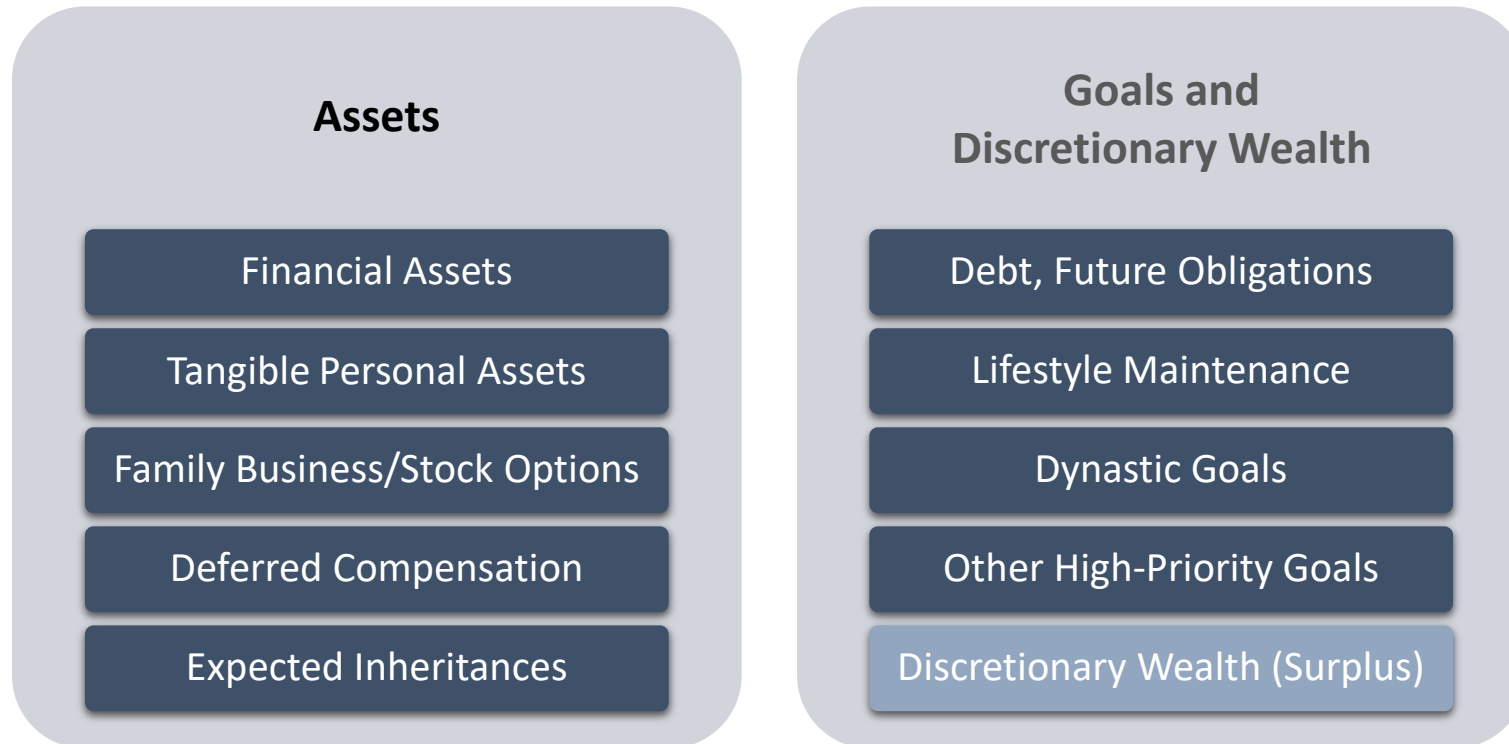
EMOTIONAL REACTIONS



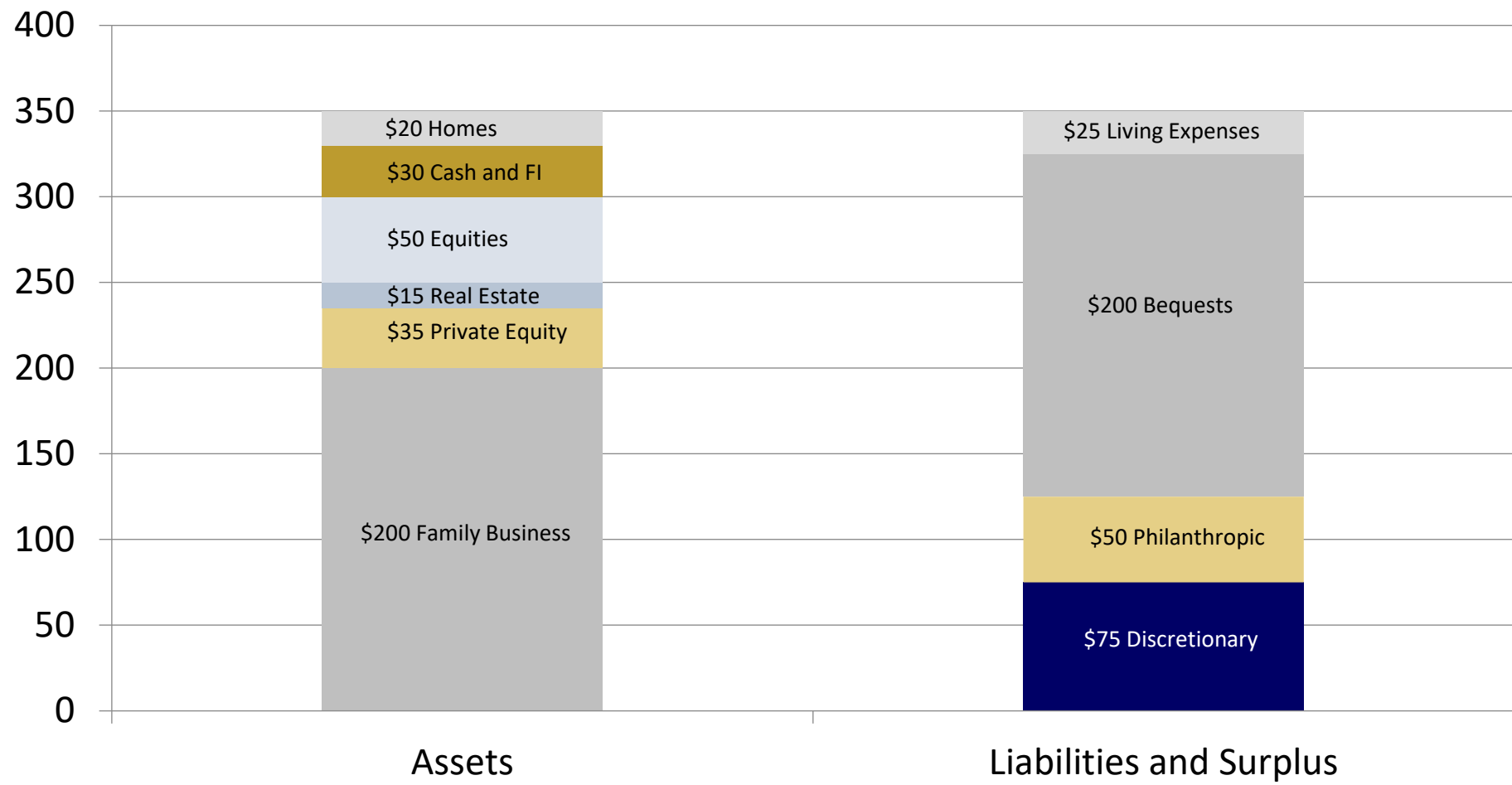
Source: Westcore Funds/Denver Investment Advisors LLC, 1998.

FAMILY BALANCE SHEET

- Understanding the family's balance sheet provides critical context and perspective for making investment decisions



FAMILY BALANCE SHEET



GBI PORTFOLIO

Goals-Based Portfolio Construction

More Liquid, Potentially Lower Return

Less Liquid, Potentially Higher Return



Cash

Fixed Income

Public
Equities

Insurance

Private Credit

Real Estate

Infrastructure

Secondaries

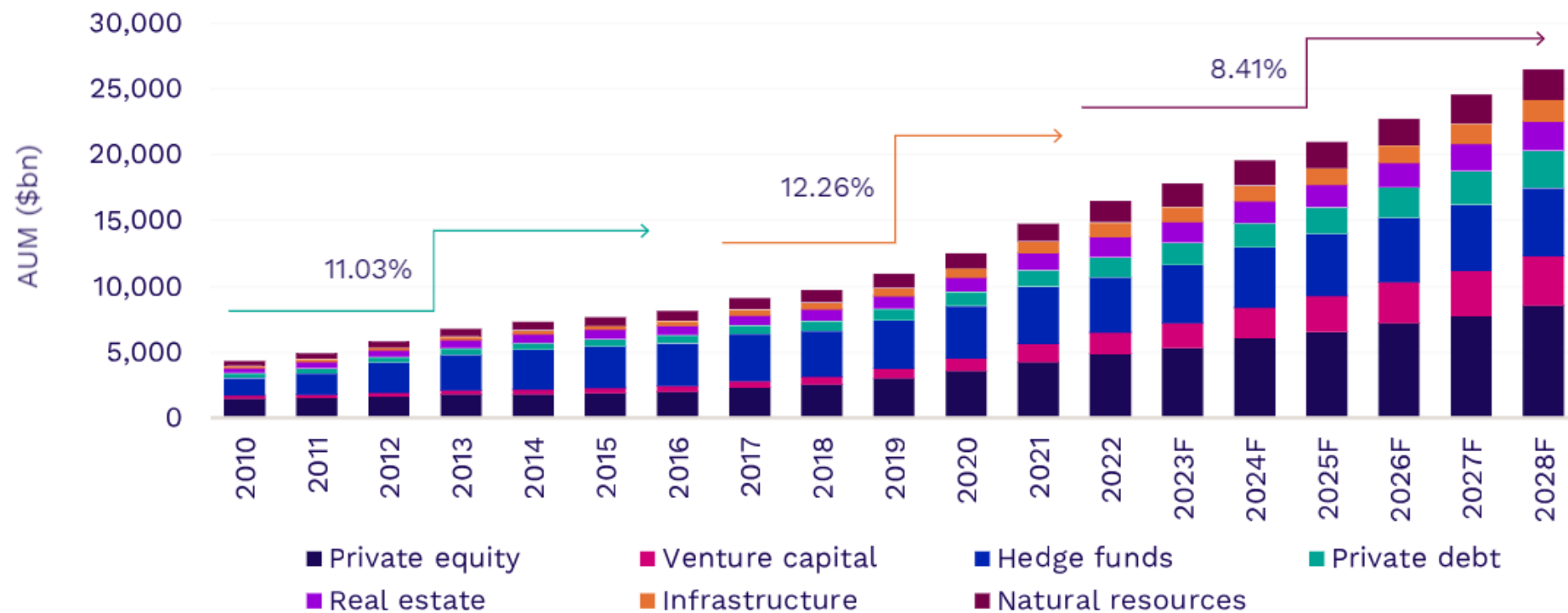
Private Equity

Venture
Capital

Special
situations /
Direct
Investments

RISE OF ALTERNATIVES

Alternative AUM* by asset class, 2010-2028F



Source: Prequin

INCREASE IN M&A ACTIVITY

- **Shift to Direct Investment**

Family offices historically invested in businesses via private equity (PE) firms. Now, many are building in-house teams to acquire companies directly, bypassing third-party fees and gaining control.

10-15%

of buyers in the lower-middle market are comprised of Family Offices

From Passive to Active

Direct investments provide family offices with:

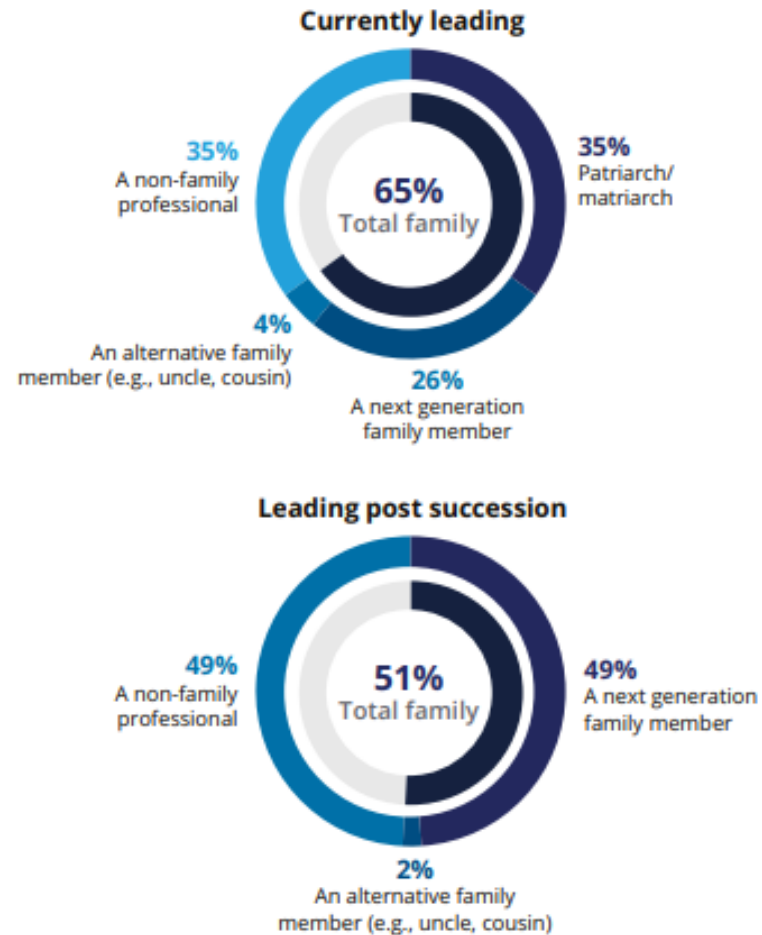
- **Control:** Greater transparency and operational influence in acquired businesses.
- **Flexibility with Permanent Capital:** Longer investment horizons allow family offices to hold assets across generations, unlike PE firms with shorter fund lifecycles.
- **Reduced Fees:** Avoids typical 2% management and 20% performance fees of PE models.
- **Higher Returns:** Lower fees and tailored strategies can increase net returns.

Alternatives to Full Ownership

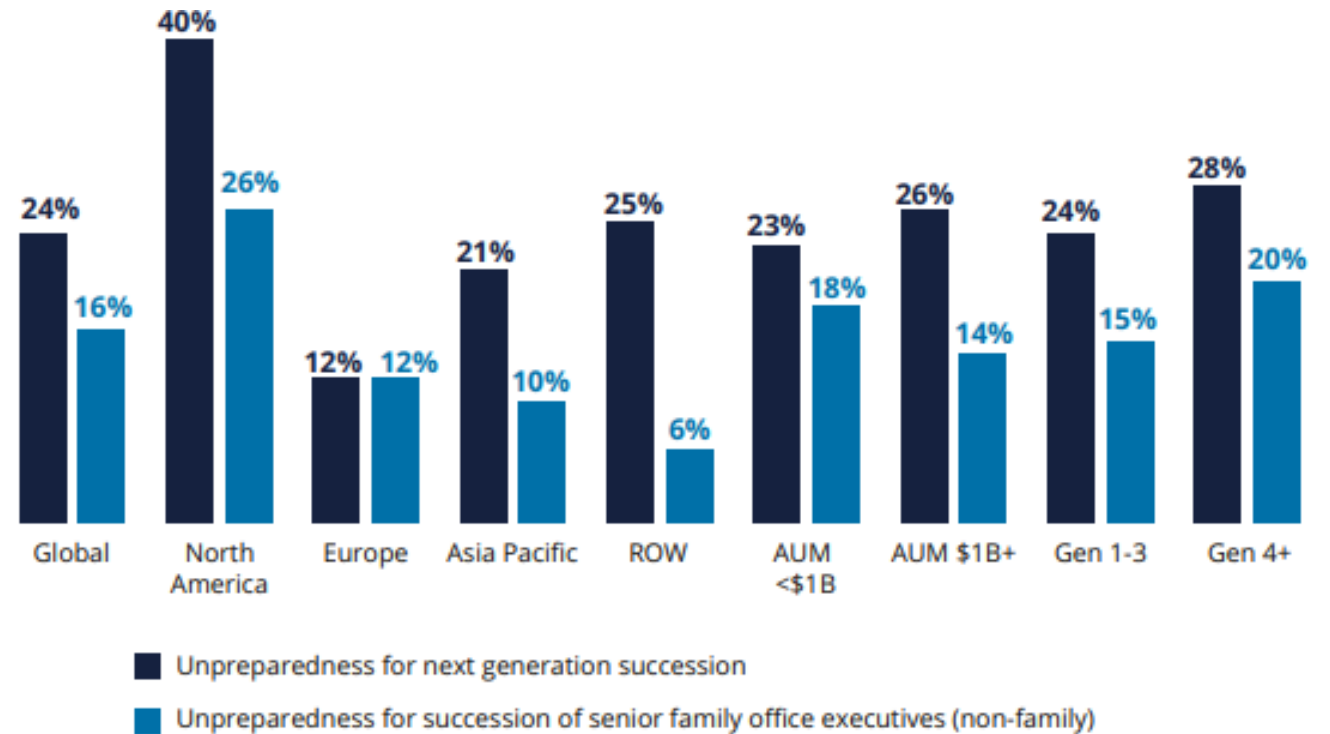
- Over recent years, **more than 40% of the world's family offices have co-invested in businesses on a regular basis.**
- While this affords them a reduced fee structure, it doesn't afford them the benefit of full control over a business, unlike a direct acquisition.

GOVERNANCE TRENDS

Increase in non-family member leads



Lack of Succession Planning is a Key Risk



CBV ROLE IN FAMILY OFFICES

Why CBVs are well-suited to serve family offices

- **World class valuation skillset**
 - Determining fair value and fair market value of businesses and intangible assets
 - Reconciling value vs. price
 - Understanding accounting, tax and other general implications of valuations
 - Familiarity in working with private companies
- **Quantitative and analytical capabilities**
 - Financial modelling
 - Approaching real-world business problems with a quantitative mindset
- **Professionalism and ethics**
 - Preserving client confidentiality and privacy
 - Applying a “client first” approach
 - Upholding the highest standards of ethics and professionalism



CBV ROLE IN FAMILY OFFICES



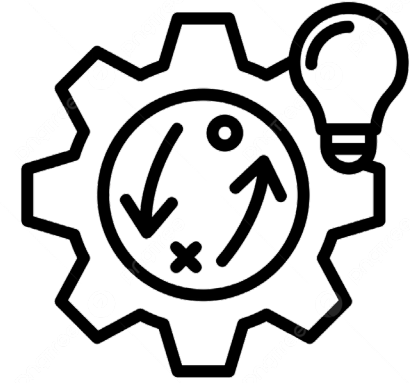
VALUATION DECISION MAKING

How much are we worth?



INVESTMENT DECISION MAKING

What do we buy, sell or hold?



STRATEGY, VALUES AND OPERATIONAL DECISION MAKING

How should we operate?

CBV ROLE – VALUATION DECISION MAKING



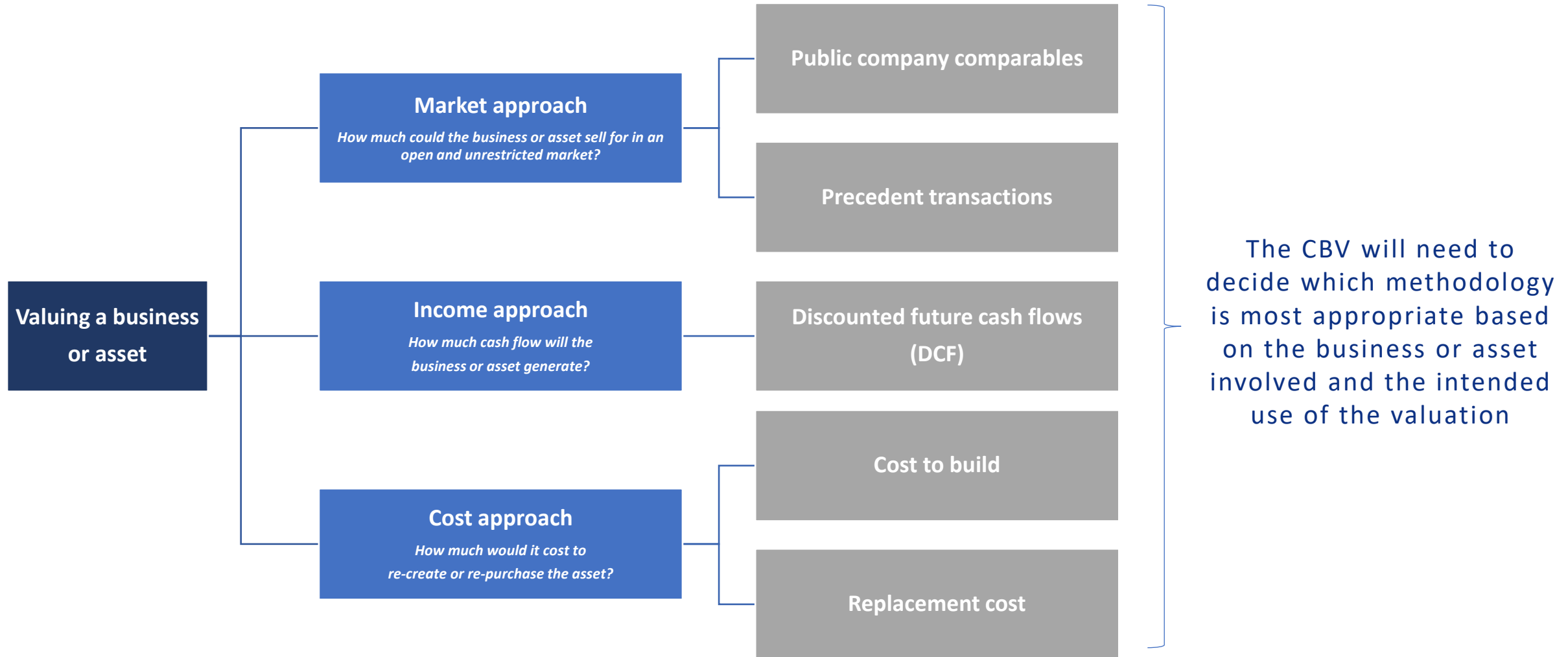
VALUATION DECISION MAKING

*How much are we
worth?*

Practical Examples

- **Operating business valuations**
 - Family business or businesses
 - Affiliate businesses
- **Other asset valuations**
 - Private investments,
 - Real assets
 - Other property, art, collectibles, etc.
- **Transactional events**
 - Mergers & acquisitions
 - Divestitures
- **Tax and estate/succession planning**
 - Estate freezes
 - Insurance planning

CBV ROLE – VALUATION DECISION MAKING



CBV ROLE – VALUATION DECISION MAKING

Succession Planning with Estate Freezes

What is an Estate Freeze?

- An estate freeze is a strategy used in family offices to transfer future growth of an asset's value to the next generation while minimizing immediate tax liabilities.
- Typically, the current owner exchanges their equity for fixed-value shares (preferred shares), locking in the asset's current value for tax purposes.
- Meanwhile, new growth in the asset's value accrues to common shares owned by the next generation, allowing wealth to pass efficiently while deferring capital gains taxes until the preferred shares are disposed of or redeemed.
- This approach facilitates succession planning and preserves family wealth across generations.

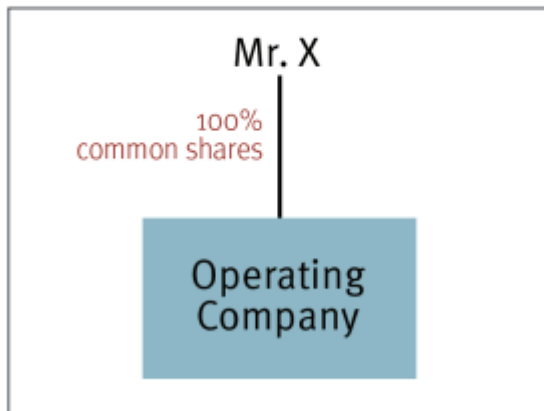
When an Estate Freeze may make sense

- You want to minimize and defer tax. Typically, an estate freeze would make the most sense when you own an operating company that has become so large/valuable that you would use more than the lifetime capital gains exemption upon a disposition of your shares.
- You have family members, such as children or a spouse who could take over operation of your business in the future upon your retirement or death.
- You are looking to split your income with other family members who are in a lower tax bracket.

CBV ROLE – VALUATION DECISION MAKING

Succession Planning with Estate Freezes

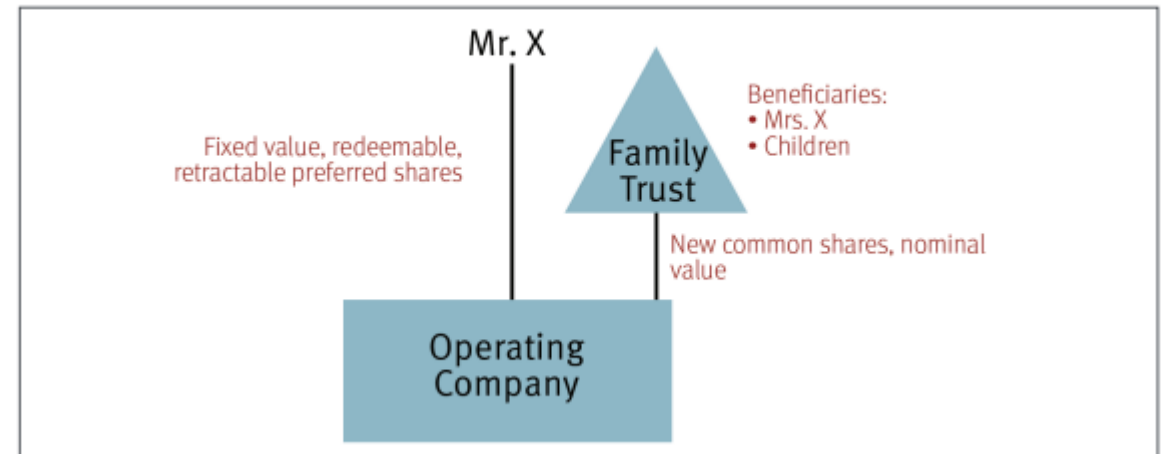
Here is a diagram of what an existing structure may look like before implementing an estate freeze:



Mr. X exchanges their common shares for fixed value preferred shares, based on the fair market value of the operating company as at the date of estate freeze.

VALUATION NEEDED

Post-estate freeze with family trust



- A valuation will need to be done as at the date of the estate freeze in order to establish the value of fixed value preferred shares.
- Typically, in Canada, the fair market value definition is used in the valuation of the operating company as at the date of the estate freeze. Fair market value (in line with the CBV definition) is defined as *“the highest price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.”*

CBV ROLE – INVESTMENT DECISION MAKING



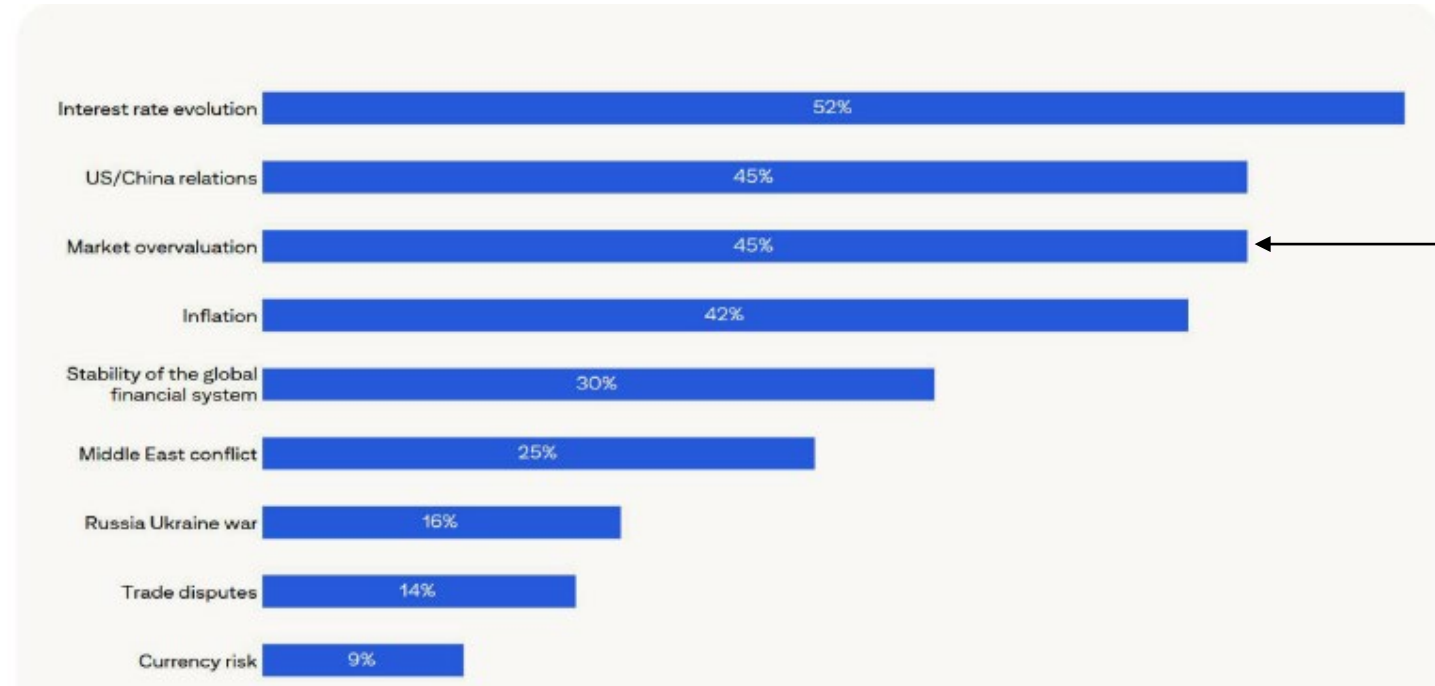
INVESTMENT DECISION MAKING

Practical Examples

- Decisions to buy, sell, or hold an investment
- Asset allocation decisions
- Understanding, quantifying and managing risk
- Understanding and managing liquidity
- Reporting on investment returns

CBV ROLE – INVESTMENT DECISION MAKING

Near-term investment concerns highlighted by family offices (UBS Family Office Report Survey – 2024)



- 45% of family offices cited market overvaluation as a near-term issue impacting financial markets and the economy.
- CBVs can play an important role in understanding the intrinsic value of investments held – whether they be publicly held (i.e. stocks, bonds), or privately held (family businesses, private equity stakes, real estate, etc.)

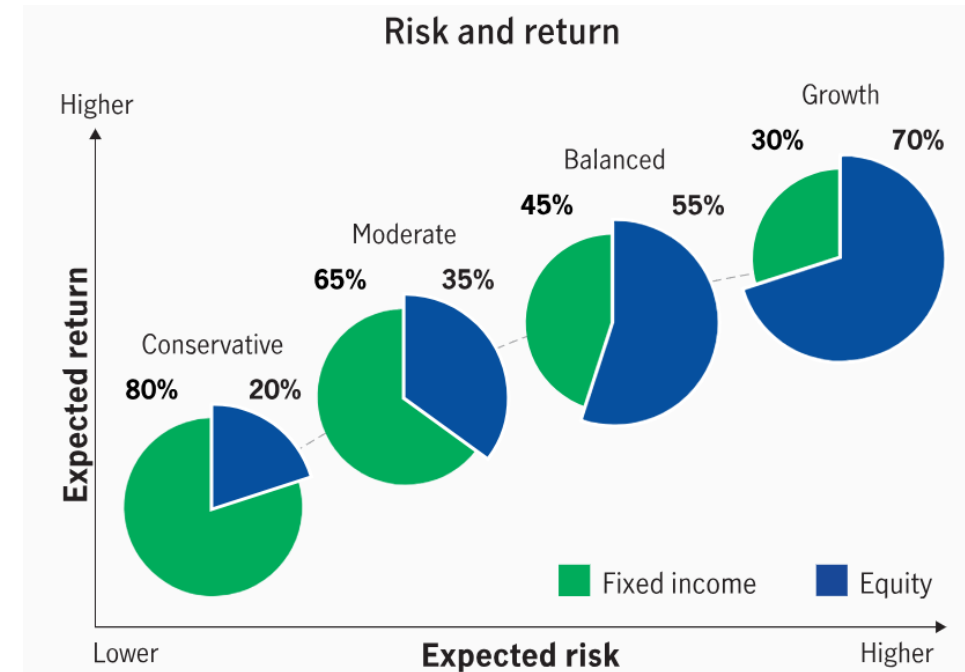
Note: This survey consisted of 320 single family offices across seven regions of the world, representing families with an average net worth of USD 2.6 billion and covering over USD 600 billion of wealth.

CBV ROLE – INVESTMENT DECISION MAKING

Asset Allocation

One study suggests that more than 91.5% of a portfolio's **return** is attributable to its mix of asset classes. In this study, individual stock selection and market timing accounted for less than 7% of a diversified portfolio's **return**.

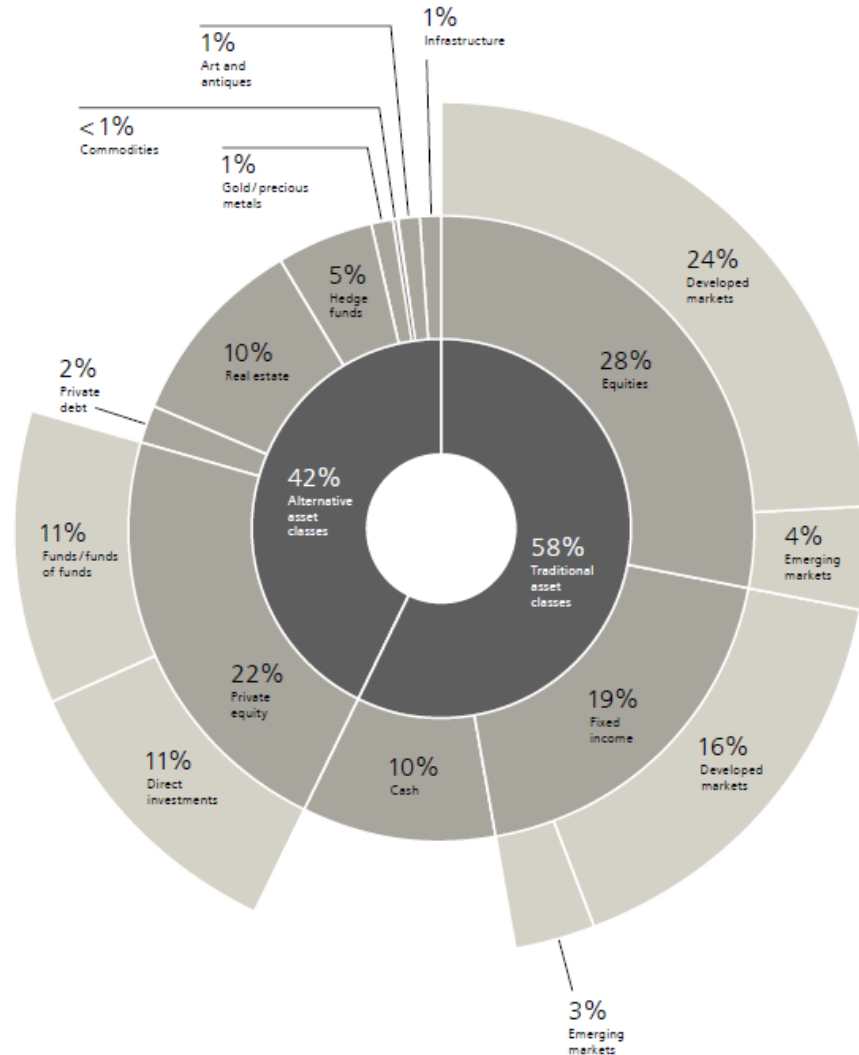
A widely cited study of pension plan managers said that 91.5% of the **difference** between one portfolio's performance and another's are explained by asset allocation.



- A CBVs ability view an investment through the lens of its valuation and risk characteristics can help their ability to analyze asset allocation for an investment portfolio.
- Generally, family offices can afford to employ a long-term growth-oriented strategy in managing their portfolios, though careful management and consideration should be given to liquidity and overall risk.

CBV ROLE – INVESTMENT DECISION MAKING

Typical Family Office Asset Allocation in 2024



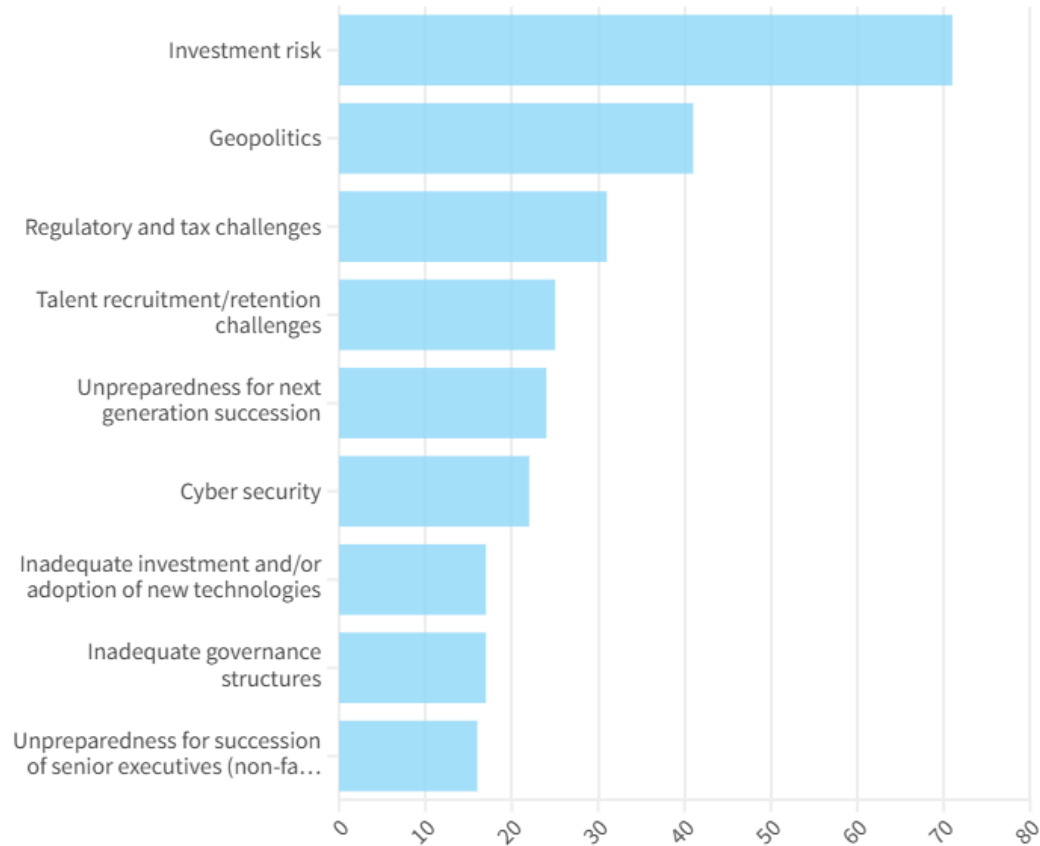
Asset Allocations – Key Takeaways

- There is a heavy investment in equities and alternatives (70%+), given that family offices typically have a very long investment horizon.
- Generally speaking, longer investment horizons are associated with heavier focus on equity investment and less focus on investments in fixed income and cash. However, some level of investments may be required in situations where careful management of liquidity (including meeting periodic liabilities – such as recurring expenses) may be required.
- Alternatives (in most cases) are not publicly traded investments, hence meaning valuation of these assets are difficult to assess and monitor. A CBV's role in valuing and assessing the relative value of these assets in the context of an asset allocation is crucial.
- Each family's asset allocation is unique and subject to unique factors such as liquidity, risk tolerance, values, and desired investment returns.

CBV ROLE – INVESTMENT DECISION MAKING

Risk Management

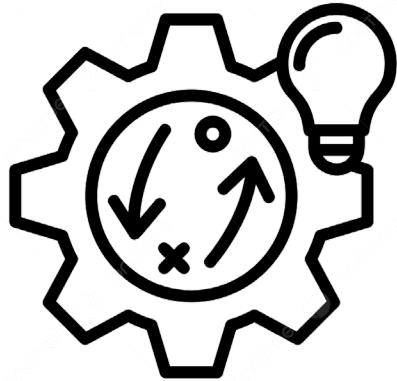
The top perceived risks to the family office in 2024



Source: Deloitte Private (2024)

- Investment risk is typically viewed as the most significant risk in a family office; CBVs are uniquely positioned to help assess risk through the lens of a quantitative lens, examples include:
 - Building a discount rate using the Capital Asset Pricing Model (“CAPM”), which considers unsystematic and systematic risk factors;
 - Using tangible asset backing (“TAB”) to assess risk in the valuation of a business;
 - Risk inherent in a valuation multiple or capitalization rate.
- As a trusted business advisors, CBVs may also be looked upon to help assess other adjacent risks to valuation and investments including risks related to tax and regulatory factors, succession planning risks, as well as accounting/auditing risks.
- A CBV should work closely with the family to understand their perspective on relevant risks, tolerance level for various kinds of risks, and also to communicate the level of their exposure to various kinds of risk.

CBV ROLE – STRATEGY, VALUES AND OPERATIONAL DECISION MAKING



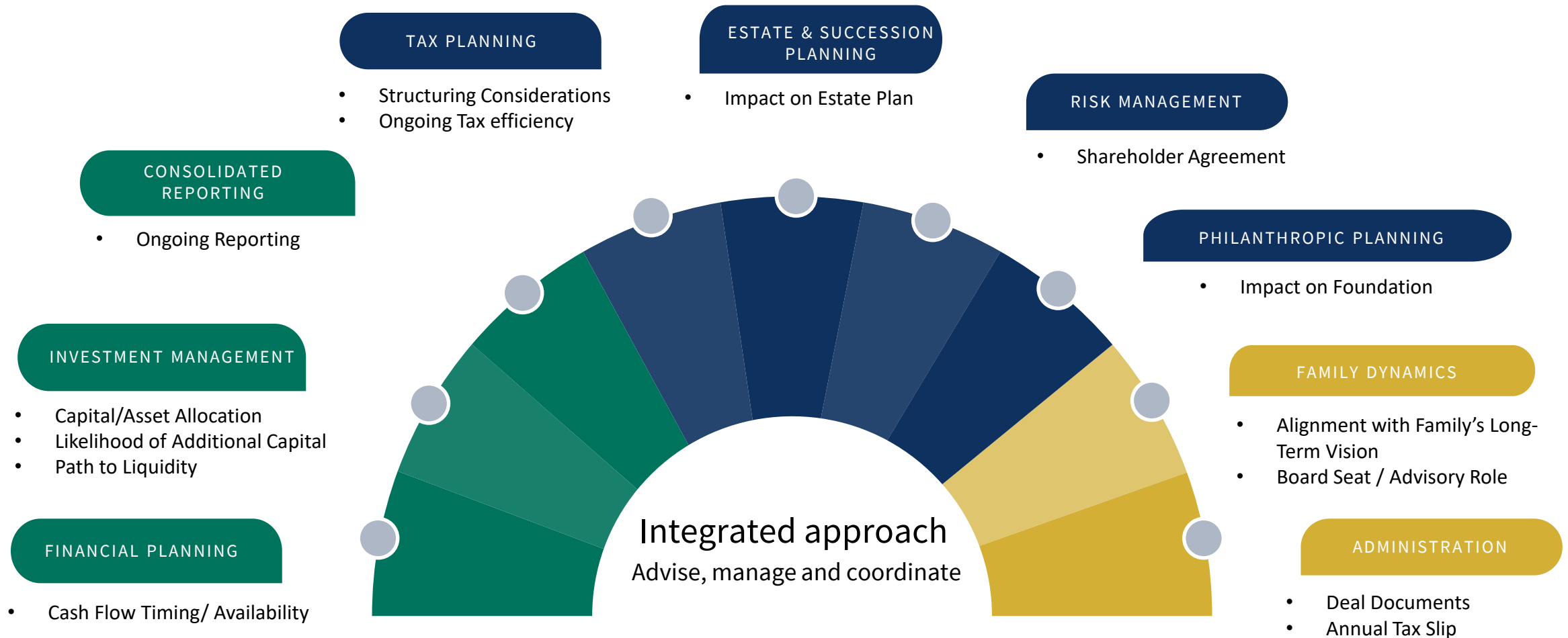
STRATEGY, VALUES AND OPERATIONAL DECISION MAKING

Practical Examples

- Creating investment mandates and investment policy statements (IPS)
- Reporting and budgeting
- Being a trusted advisor – including for non-financial or general “life” or personal decisions – e.g. purchasing a home, a lifestyle asset such as an automobile, yacht or private jet.
- Using family values and principles to guide decision making

CASE STUDY

- Mr. X – Chain of widgets
- New bolt-on M&A acquisition from retiring business owner
- New Investment Opportunity (valuation, investment recommendation)
- Integrated Approach



THANK YOU

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