



# Family Office Forum June 8-10, 2009

In-House vs. Outsource:

Maintain Control Without Sacrificing Quality

**Dennis Kessler** – Family Business Innovations

**Paul Lehman** – KKP Group

Austin-Lehman Adventures

**Richard Morris** – Gen-M Family Office

ROI Consulting

**David Weinberg** – David Weinberg Gallery



# Fel-Pro is sold!

Are we still a family?

How can we tell?

The next step is?



## On Top of the World

- “Fortune” says you are “Simply the Best”
- Your customers say you are “Simply the Best”
- The bank says you are “Simply the Best”
- Your family says you are “Simply the Best”
- Your stockholders say you are “Simply the Best”
- Your sons say they want to follow in your footsteps
- **Why sell the business?**



## What was Fel-Pro?

- Founded in 1918
- Sold in 1998
- Privately owned - five generations
- Three generations active in the business
- Nine family members employed in the business
- Manufactured automobile gaskets and chemicals
- Sales = \$500 million
- 3,100 employees
- Locations: 11 in U.S. and 6 abroad

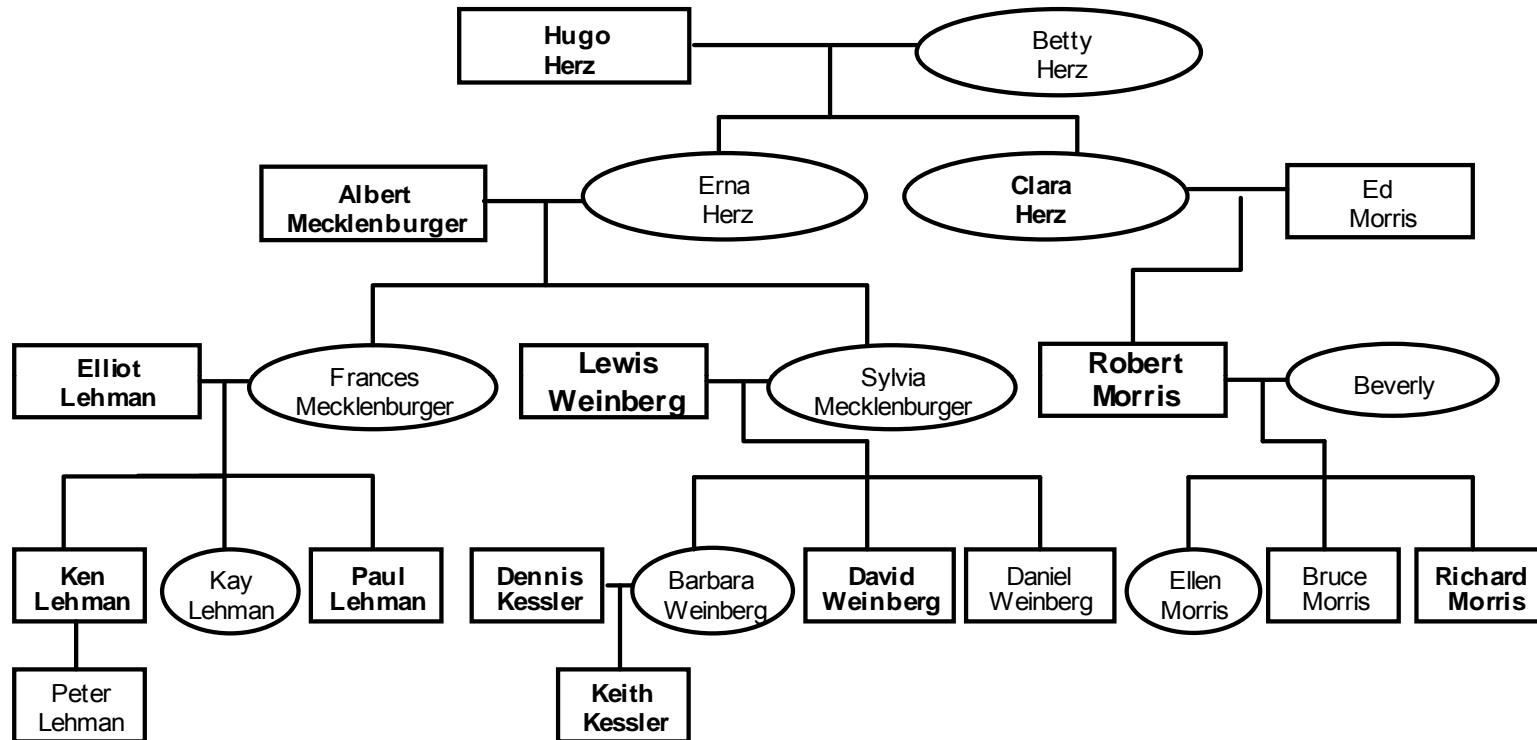


## The Family

- Spread all over the country
- Thirty five stockholders
- Working at Fel-Pro: G-3,4 and 5 (31-85)
- Three primary family branches
  - Lehman,
  - Morris
  - Weinberg/Radov/Kessler



# 1998 Fel-Pro, Inc. Family Tree



**Bold border indicates family member who were employed by Fel-Pro.**



## Some issues to deal with

- Stock certificate vs. cash
- Family office location vs. many locations
- Family office functions
- Family office staffing
- Investment strategies and management
- Philanthropy
- New careers



## The solution

### Three families = Four solutions

- Lehman family = **classic** family office
- Morris family = **modified** family office
- Weinberg family = **outsource** family office
- Kessler family = **virtual** family office



## Morris Modified Family Office - Gen-M

- One G-3 family and three G-4 families
- Winnetka, Illinois (1 location)
- One full time and one part time staff persons
- Separate investing
- One philanthropic foundation



## How did the Morris Family Office come to be?



- Stock Certificate Converted into cash
- No More Services From the Family Company



# What Services Did We Need?



- Tax
  - Preparation
  - Filing/compliance
- Legal Logistics
  - Trust Administration
  - Tax compliance
  - Generational Planning

**Replacement Services: Fel-Pro had provided These services**



# What Services Did We Need?



- Investment Advice
  - Investment Policy
  - Asset Allocation
  - Manager Selection
  - Portfolio Tracking
  - Cash Flow Needs

**New Services:  
Needed Due to  
the Liquidity Event**



# What Services Did We Need?



- Foundation Assistance
  - Grant Tracking
  - Compliance
  - Meeting Planning
- Family Education
  - Investing
  - Spending/Saving
  - Trust administration
  - Philanthropic
  - Group Decision Making
  - Family Meetings

**New Services  
We wanted**



## 1998 Solution E & Y Accounting Firm

- Investment Advice
- Tax

### Left to do on our own

- Legal Logistics --coordinated with our attorneys
- Foundation Assistance – had always done on our own
- Family Education – did not fully understand the need



## 2000 Solution Created Family Office

- Tax & Investment professional
- Part time clerical help as needed
- Single location for all Legal, Tax and Foundation documents



# 2000 Solution Created Family Office

- Tax
  - Preparation
  - Filing/compliance
- Legal Logistics
  - Trust Administration
  - Tax compliance
  - Generational Planning
- Tax
  - 59 yearly returns
  - 10 different states
  - 1/4 are audited by accounting firm
  - Accounting firm offers advice by the hour
- Coordinates all Legal Logistics
  - Savings in time and money
  - Makes sure the investment advisor does not make mistakes



# 2000 Solution Created Family Office

- Investment Advice
  - Investment Policy
  - Asset Allocation
  - Manager Selection
  - Portfolio Tracking
  - Cash Flow Needs
- Portfolio and Manager Tracking is done by Family Office
  - Each Family member gets some shared information about asset allocation and manager returns
- Each choose our own investment advisor/managers
  - No In House CIO
  - Mostly no savings by investing together
  - Invest together when it makes financial sense and works with our asset allocation and investment policy decisions (not often)
  - Family Office provides help in investment manager vetting and non-emotional perspective



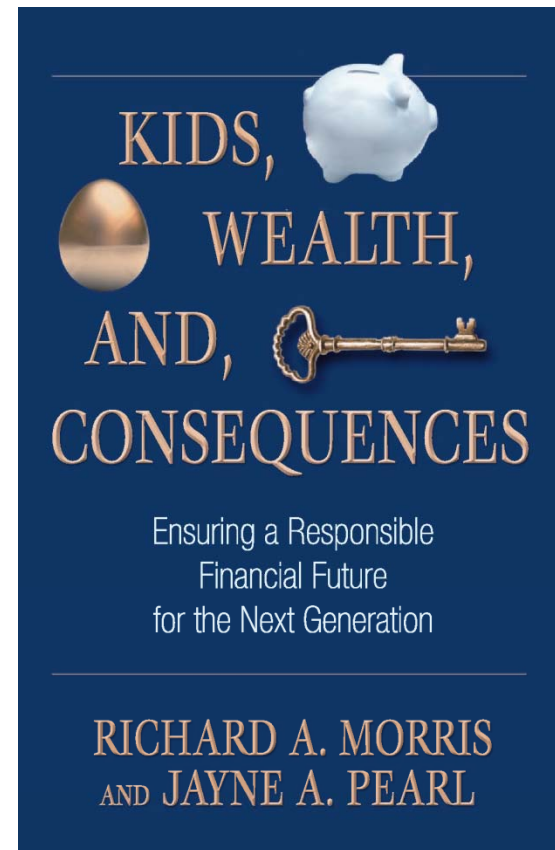
## 2000 Solution Created Family Office

- Foundation Assistance
  - Grant Tracking
  - Compliance
  - Meeting Planning
- All done by Family Office



# 2000 Solution Created Family Office

- Family Education
  - Investing
  - Spending/Saving
  - Trust administration
  - Philanthropic
  - Group Decision Making
  - Family Meetings
- We have used a combination of Inside and outside solutions





# Lehman Family Office—KKP Group LLC

- Overall Goal—Make successful transition from operating business family → financial business family
  - To invest sales proceeds wisely
  - To manage tax compliance and complicated family trusts
  - To assist family members in future pursuits
  - To provide other services that might be required
- 1999—Family Office Exchange hired
- Mission
  - Preserve and enhance families' wealth so that descendents can be comfortable and secure while leading productive, socially useful & satisfying lives. (Our) wealth constitutes an enormous privilege that confers concomitant responsibilities to one another and society.



## Why a Full-service Dedicated Family Office Was Right for Us

- Used to working as a family
- But inexperienced as a financial family
  - Asset allocation and investment manager selection
  - Trust administration
  - Financial planning
- Opportunities to save \$ by pooling assets and needs
  - Common methods and practices
  - Manager's fees
  - Insurance
  - Tax preparation
- Most importantly, peace of mind
  - We are the only client
  - Trusted staff



# KKP Group Today

- The family office serves 24 family members in the following generations:
  - 1<sup>st</sup> 2
  - 2<sup>nd</sup> 6
  - 3<sup>rd</sup> 11
  - 4<sup>th</sup> 5
- 39 Trusts
- 4 Private Foundations
- Office employs 7
  - Executive Director
  - 3 Accountants – 1 investment accounting manager, 2 senior accountants
  - 2 Administrative staff
- Cost-efficient at 31 basis points of investible assets



## KKP Services

- Full service, integrated office
- Investment accounting and management
- Tax planning and compliance
- Trust and Personal Services
  - Financial planning
  - Estate planning
  - Trust accounting and administration
- Advice on individual ventures
- Philanthropic services
- Member education



# KKP Investments

- We are our CIO
  - Investment Policy Committee of 4 family members
  - Asset allocation, manager screening, and performance reporting by CTC of Portland, OR
  - Advice and custodianship from Northern Trust
- Investment partnerships
  - Liquid investments (9 long-only; 25 hedge fund managers)
  - Illiquid investments (40 investments)
  - Low volatility fund
- 2009 themes
  - Cash & bonds
  - Continued hedging
  - Credit, commodity, & energy opportunities



## Weinberg – Outsource Family Office

- Blackman Kallick Family Office accountants
- Same estate planning law firm as the Kessler's
- Same banker at The Northern Trust
- Weinberg-Newton Philanthropy Foundation
- G-5 Donor Advised Funds (2)
- One G-5 cousins philanthropic fund
- Financial advisor Barrington Strategic Wealth Management Group
- David Weinberg Gallery



## Kessler Virtual Family Office

- Same estate planning law firm as the Weinberg's
- Same banker at The Northern Trust
- Part time in-house bookkeeper
- Accounting at Freidman Huey
- Investment consultant firm = CTC
- One joint philanthropic foundation for G-4&5
- One joint G-5 cousins philanthropic fund
- Annual Kessler Family Meeting
- Multiple family businesses and trusts



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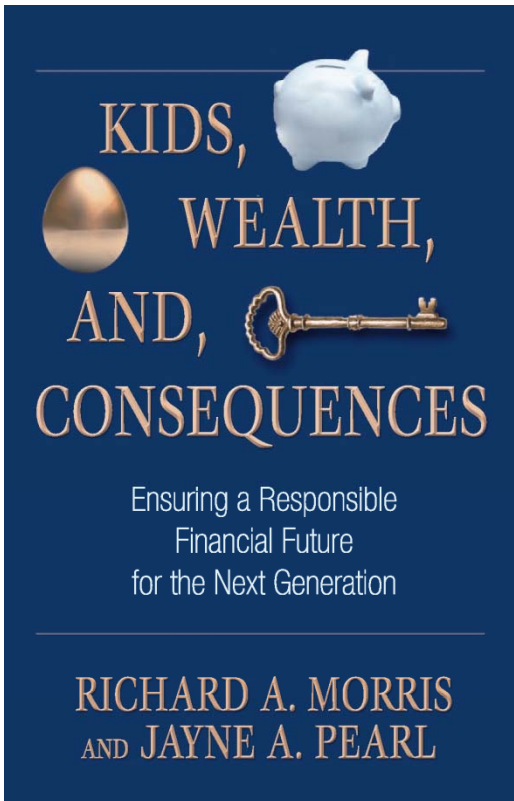
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