

The Only Investment Opportunity That Succeeds in Every Market Environment

Given today's persistent market volatility and economic uncertainty, many families are focused on how to do the best job of investing. Of course, setting the right strategy and choosing the best managers are critical to family success. But that is not enough. More than eight decades of working with families has taught us that the investments you make in preparing your family to work together are of paramount importance to your family's success across generations.

Families who sustain their wealth over long periods of time have a way of working together that evolves to accommodate an expanding group of decision-makers and the increasing complexity of their wealth. These successful families invest time and human capital with the goal of:

- Developing leaders who have the capacity to share power
- Defining a suitable decision-making process
- Creating strategic plans that anticipate and embrace change
- Communicating as openly as possible
- Educating family members through an intentional process
- Attracting active engagement from family members
- Fostering collaboration among family advisors to get the best advice

There is a well-known cycle that families experience as they transition from the generation of the wealth creators to

the generations of wealth inheritors. Wealth is created by the first generation, which sets the groundwork for how the family operates. This single leader has literally earned the right to define the operating principals for the family. He or she is comfortable making decisions, is future focused, has learned by doing over time, is very engaged, and has developed a personal style for working with advisors. The next generation will



typically have to operate very differently in order for multiple decision-makers to effectively manage an enterprise (business, foundation, or liquid wealth) that they didn't create. They not only need to share leadership, but also need to have the opportunity to gain the experience and skills required to be good decision-makers.

Of course, this is easier said than done. The chart on page 3 lays out seven family operating principles. Many wealth creators naturally function on the left side of the chart. In our experience, families flourish

when the wealth creator, in concert with the next generation, evolves to operate mostly on the right side.

What investment do we recommend to help you achieve this goal? Find ways to use family resources so that the next generation can take small but meaningful risks, learn financial skills, develop as decision-makers and leaders, and gain experience working across generations. The return on this investment might be difficult to quantify in the short run, but it has a high probability of paying off over time.

So why don't more families make this investment? There are three main reasons:

1. The wealth creator enjoys running things
2. The next generation does not understand that their engagement is critical to family success
3. Shifting family operating principles takes patience and hard work

Maybe your family is ready to get started, or maybe you are ready to take some steps on your own. If so, here are some ways to get going:

1. **Begin a conversation.** Use the "7 Family Operating Principles" chart to figure out where you think your family is today. Challenge yourself to think of examples that both confirm

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"By failing to prepare, you are preparing to fail."

—Benjamin Franklin



From the Chairman

January is a time for resolutions. We've all done the drill; maybe you'd like to read more or spend more time with family. I'm hoping to work on a book that has been inside of me for a long time, but given the challenges of the last three years, I have not made it a priority.

With this in mind, I am reminded of a quote from Benjamin Franklin: "By failing to prepare, you are preparing to fail." As a signer of both the Declaration of Independence and the Constitution, Benjamin Franklin knew a thing or two about planning.

Resolving is easy; to actually make change happen you must prepare yourself for it, whether that means setting aside time to read every evening, scheduling a family vacation, or in my case, attacking a chapter every month. As you begin down the path towards change, remember that the most important step is preparation. Begin with the end in mind!

I'll leave you with another Benjamin Franklin quote to consider: "Be at war with your vices, at peace with your neighbors, and let every new year find you a better man [or woman]." May we all find ourselves a little better this year. Happy New Year!

Warm Regards,

A handwritten signature in black ink, appearing to read "Alan Houghton".

Family Decision-Making: Thoughts from the Trenches

By Alan Houghton, Head of New York Office

I remember witnessing a friend's family preparing for a next generation meeting. The scheduling, time, and travel costs of assembling so many next generation members together was limiting attendance and the viability of the two-day meeting. One family member stepped up and arranged transportation for a group of on the fence attendees. It was a magnanimous gesture. However, I wondered if there could have been a long-term lesson learned by the family from a failed meeting.

As a family's size, business interests, and net worth grow, there often results the need for broader family member involvement in oversight if not actual decision-making. How this process is established and how it evolves can have a lasting impact. The qualifications for serving on a family committee are a balance between traditional "meritocracy" factors, like education or practical work experience, and "inheritocracy" factors, like branch representation or ownership levels.

I have had the honor of serving on a number of boards and committees for my family as well as for other families. Here are some principles that I believe are important to the success of family governance efforts.

Make the Experience Educational

I don't mean simply learning as you go, but making a concerted effort to incorporate learning into every meeting. This can be as simple as rotating who chairs the meeting or holding each participant responsible for reporting to the group on a committee or topic area. Match the strengths of each individual to a related project or activity so that each member gets the most out of the group and vice versa.

Develop a Formal Process

Meeting formalities and schedules are not for everyone, but there should be very clear rules regarding attendance and participation. Developing a written list of objectives for each group, as well as responsibilities for each participant,

professionalizes the process and demonstrates that the habits of the individual affect the whole. A family member that habitually arrives late to meetings can quickly become a running family joke. But underneath the joke, what does it say about his commitment and about the group in general?

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Be Open and Transparent

As representative bodies get larger, the need to migrate from informal to more formal communication increases. Don't treat those who are not elected or involved as second-class citizens; inviting them to sit in on decision-making and receive regular updates on outcomes will help generate goodwill and broad support. Regularly shooting off short notes or emails on key themes and outcomes can go a long way within the extended family.

Choose Thoughtful Leaders

Often the best committees are those where there is no overly dominant voice, especially in the Chairperson's role. A lower key Chair with good listening skills can be a more effective choice; a subtle approach to the nuances of family politics and persuasion tends to produce better results than a purely intellectual Socratic process. This can be especially true when next generation family members are involved and may be intimidated by the communication style of older family members, particularly those from the business world.

Include Non-Family Members

As decision-making becomes more strategic and externally focused, adding

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and refute your initial ratings.

This may make it easier to engage in a conversation and be open to hearing ratings that differ slightly or significantly from your own. Then, share this chart with other members of your family; ask what they think.

- 2. Read.** There are many helpful books and articles that provide insight and advice to families about how to work together to sustain wealth across generations. Here are four classics we turn to again and again:
 - *Family Wealth* by Jay Hughes
 - *The Compact Among Generations* by Jay Hughes
 - *Wealth in Families* by Charles Collier
 - *Family Legacy and Leadership* by Mark Daniell and Sara Hamilton
- 3. Engage a resource.** Get in touch with us! Pitcairn has a deep bench of resources, both internal and from our network of family advisors, who can help you and your family set and achieve some specific goals.

Even in the best of times, the challenge of sustaining family wealth across generations can be trying. A period of prolonged economic stress can multiply the challenges many times over. But there is a time-tested way to increase success: Investing in your family. We challenge you to start this new year by considering how your family operates today. Are you satisfied with the preparations you and your family have made to enable the next generations to work together effectively? If not, now is the time to sit down with your family and your advisors and work toward achieving that success. Don't wait. And don't worry; we are here to help you start the conversation.

How We Work Together Matters: 7 Family Operating Principles

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experienced and respected non-family members to the process can be enormously beneficial. In addition to bringing their independent perspective, non-family advisors and directors can often more directly confront a sensitive or taboo topic, or redirect in a way that doesn't alienate any particular family group.

Have Fun Together

Finally, let me conclude with a simple motto: *Have fun together!* Families that cultivate a sense of camaraderie and humor create a good balance to the hours spent together in meetings and strategy sessions.

Bringing to life new family endeavors and expanding family engagement can create enormous energy and renewed enthusiasm. I attended a family gathering where a big focus was the next generation. It was inspiring when a newly created Youth Board of one of the family foundations presented their decisions onstage in front of the broader family. Hearing from members ranging from 7 to 18 years old (among them my son), showcased that it is never too early to invest in the next generation. It was a powerful experience for parents and children alike.

News & Events



Celebrating FFI's 25th anniversary are (from left to right): Dirk Jungé, Jim Hutcheson, Jane Hilbert-Davis, Judy Green, Ivan Lansberg, and David Bork.

Pitcairn Sponsors...

Pitcairn sponsored the Family Firm Institute (FFI) *Annual Conference* held in Boston on October 12-14, 2011. This year celebrated FFI's 25th anniversary, honoring the theme: *Next Generation. New Generations*. While at the conference, Pitcairn co-hosted a dinner at Legal Harborside with partners de Visscher & Co., ReGeneration Partners, and Frank Crystal & Company. Scott Berkowitz, a fourth generation family member of the owner-operated Legal Sea Foods chain, was the keynote speaker at dinner.

On November 1-3, 2011, Pitcairn sponsored the *Family Business Magazine* and Stetson University Family Enterprise Center's *Transitions West 2011 Conference* in San Francisco. Chairman and CEO **Dirk Jungé**,

along with colleague Ann Dugan of University of Pittsburgh's Institute of Entrepreneurial Excellence, moderated a panel discussing step-by-step succession planning and led a workshop on building and evaluating succession plans.

Pitcairn in the News...

On October 12, 2011, Pitcairn announced the formation of the Wigmore Association, a global collaboration of the chief investment officers from six family offices spanning North America, Europe, and Australia. There was much press generated from the announcement, including an article in *Barron's Penta* on October 21, 2011, interviewing Chief Investment Officer **Rick Pitcairn**. Rick emphasized how advice and idea sharing among smart, seasoned international investment officers is an essential resource for providing the best global solutions for Pitcairn families. Articles have also appeared in *Family Office Review*, *FundFire*, *Family Wealth Report*, *CampdenFO*, and the *WealthNET*, all following this exciting and groundbreaking initiative.

There's an App for That...

The world will be forever indebted to Steve Jobs. While his legacy is complicated, his impact is incontrovertible. He changed the face of technology and in doing so, how we access, ingest, and share information. However, with more information than ever at our fingertips, it can be a full-time job separating the essential from the extraneous. There are thousands of apps—an overwhelming array of choices—but plenty of gems if you know where to look. Here are our top apps for news and finance:



Flipboard – Forget constantly going from one app to another, the fast and customizable Flipboard allows you to comb through selected sources for up-to-the-minute news on the topics that interest you. Particularly appealing is the integration of social media and news sources. Flipboard brings together updates from your Facebook friends and CNN in a magazine style layout that is easy to scan and then drill into.



DailyFinance – This fantastic free app beats Yahoo! Finance and others as the very best for quotes and real time tracking of up to 25 portfolios and watch lists from 3,000+ sources. Unlike competitors, data refreshes every 30 seconds making it easy to follow leading global market indicators as well as individual stocks moving the US markets. The app's interactive charting utility makes it truly outstanding.



Bloomberg – Keep up with the latest news, world market reports, and your own portfolio; or look up new stocks with this fantastic app by Bloomberg. Surpassing competitors like WSJ Mobile and MarketWatch in news coverage, Bloomberg's interface explodes with information across all topics: health care, international affairs, municipal bonds, and insurance. It is the best news source for sophisticated investors.



CNN – Dozens of apps offer a wide selection of stories and videos of breaking news from around the world, but what distinguishes the CNN app is how it seamlessly syncs with local news outlets to include headlines and weather from papers and television stations near you. This feature, along with push notifications for breaking news and the integration of CNN TV, elevate this app to the top of the list.



Financial Times Mobile – Like its analog edition, FT Mobile stands out from other media apps with its succinct style and unparalleled focus on global business news. This very functional app compiles up-to-date news, articles, and live market data from around the world in an especially user-friendly format.

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PITCAIRN

One Pitcairn Place
Suite 3000
165 Township Line Road
Jenkintown, PA
19046-3593

Representative Office
99 Park Avenue
Suite 320
New York, NY
10016-1501

Fairfax Square III
Suite 250
8045 Leesburg Pike
Vienna, VA
22182-2737