True Stories:

“The Best and Worst of Sustaining Family Wealth and Legacy for Future Generations”

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Who is EWM Group?

- 1st Independent Multi Family Office in Australia
- Clients nationally and internationally
- Established specifically with the expertise to work with multi-generational, successful families and family business
- Focus is to assist families and family offices in protecting wealth for current and future generations
- Menu of Solutions and services to select from including:
  - Investment Strategy and Governance
  - Family Governance and Education
  - Philanthropic Solutions
  - Asset and Wealth Management
  - Risk Management
  - Financial Administration and Reporting
  - Lifestyle Services

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Independent Family Office Services

INSTITUTE *for* Family Wealth
Preparing the Next Generation

Giving Simple

supporter of
Family owned Australian businesses

National Gold Sponsor of
FBA
Family Business Australia

Sustained business success or substantial inheritance brings responsibility and requires the skills of multiple service providers, the management of those providers, control, and the handling of a myriad of financial, investment, family and lifestyle considerations.

Managing wealth is not simply about making the right investment choices. Protecting the family continuity, legacy, education, spirituality, position in community and creating family unity are some of the most valuable assets to a family, but often not considered in that way.

Facts

- 70% of wealth transfers to next gen fail
- Over 90% fail to the generation after that!
- Over 95% of the reasons they fail are due to 4 reasons:
  - Trust
  - Communication
  - Readiness of Next Gen
  - Clear Purpose or Plan of Wealth

The themes are often the same – how they play out is the unique nature!

Facts

- Top 2 Issues for Family Business owners regarding succession / transition:
  - *Communication with Family - #1*
  - *Letting go of leadership / control - #2*
- So why don't we have the conversation?
- Families fear that their children will develop a sense of entitlement and lose ambition.
  - Warren Buffet's philosophy - leave his children enough to do something with their lives, but not so much they choose to do nothing.
- They fear their children will develop a sense of superiority that will harm relationships with their peers.
- They fear their children will blow the family fortune.
- They are trying to protect their children from the burden and responsibility that wealth brings.
- Families avoid direct conversations to preserve family harmony.

Todays Journey

- 2 x case studies – true stories
- The challenge of protecting family wealth from different perspectives and challenges
- 15 minutes per case study plus questions
  - Their starting point
  - What was working / what wasn't working – what didn't they know?
  - What did they do?
  - Where are they now?
  - Key Takeout's

Case Study #1 – "The Smith's"

- 2nd Generation Family Business
- 3rd now coming into the business
- Estate Plan is in place
- Parents concerned if "hit by a bus" kids aren't ready and wanted to start a process
- Other investment assets outside of family business
- Long term advisers
  - Accountant
  - Broker

Starting Point

- Business performing well for many years – level of comfort for parents
- Detailed structure and multiple entities across the family group
- No constitution / charter - No family council
- Succession discussion had started but no real momentum or plan
- Communication was “spasmodic” at best - when dad felt the family needed to know
- Dad wanted to spend less time in the business – but didn’t want to let go
- Other Investments led via traditional ‘Broker’ relationship
- No structure or strategy, poor communication
- No formal performance monitoring or accountability
- Fees for very little service or value
- Poor performance and lack of engagement
- Wasn’t necessarily unhappy but a view that they needed another set of eyes and ears to address the - “Didn’t know what they didn’t know”

The Journey

- Awareness and Assessment
  - Independent review and assessment of key risks
  - All family members involved in questionnaires and interviews
  - Family Retreat / Workshop
- Action Items
  - Family Charter
  - Family Council and Governance plan commenced

Investment / Wealth Management Strategy

- Determined as key element through the review process
- Independent review brought objectivity, clarity and guidance to family and existing advisers
- It was a process of defining family's goals, objectives and investment strategy
- The documenting of a long-term investment strategy and policy across their entire group of family assets took time
- We had to focus the role and expectations of the family stockbroker
- Created a process for sourcing and appointing specialist 'external' managers for different asset classes for international shares, fixed interest, alternative assets as well as other private investments to compliment existing activities and mange risk
- Established regular reviews and communications with all providers and tailored this for the family's needs
- Introduce, educate and engage NextGen throughout the whole process

Where Are they Now?

- Family Charter
- Quarterly meetings – 2 of which include other stakeholders
- Education program and mentoring for next gen
- Advisory Board being formed for succession of patriarch and accountant
- Investment Strategy, Policy and Governance Plan - Implementation Plan
- All Risk controls and Governance processes are now in place
- Operational challenges and Succession considerations included in restructure
- Role of external advisors clearly defined
- Roles and expectations of Next Gen included
- Reporting and benchmarking is now best practice
- Material increase in risk-adjusted returns and significant reductions in external fees
- Effective decision-making process, best practice review created confidence, satisfaction and better engagement of family
- Enhanced relationship and greater clarity with external advisers

Takeout's

- Didn't know what they didn't know
- There are solutions to these challenges
- Communication and Transparency is vital
- Importance of Independent oversight and advice
  - To help you see things you may not see and make tough decisions about change
- Create a framework of governance
  - That secures the interests of family and business
- Develop a strategic long-term plan
  - Captures all assets and helps diversify concentrated positions
- Ensure that you have reviews regularly
- Remember that you are an important role model for the next generation
  - Change should involve NextGen with education & to help passing the baton
- Create an atmosphere of mutual respect between the family members
  - Defining 'family' roles and responsibilities helps create development pathways

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Case Study #2 – "The Jones"

- 5th Generation Family Business
- 4 x Family Branches
- Mix of Family Members (and spouses) in and out of the business
- Estate Plan is in place
- Family Constitution in place for some time – not reviewed for 3 years
- Family Council in place for some time
- Other investment assets outside of family business
- Significant philanthropic / community involvement and strategy
- Multiple long term advisers for the group and individual family members and generations

Starting Point

- Business performing well for many years
- Very detailed structure and multiple entities across the family group
- Family Council in place with representation of each family branch
- Some family branches have no involvement in day to day aspects of the business or family activities
- As a result, some branches feel the structure works well – some do not – feel “steamrolled”
- One family member has a dominant position in the group.
- Some branches / members are concerned communication is not consistent and transparent and feel out of the “decision making loop”

Starting Point

- Discussion underway as to how to engage next generation, their roles and responsibility
- Responsibility given to G3 with a wide range of ages to determine their wishes – but unsure of where and how to start
- Philanthropy is important and while strategy has been determined for business, no engagement or clarity has been determined for family
- Advisory engagement in place for incumbent generation regarding their own investment strategy for their individual families
- No oversight to group interests , consistent reporting and benchmarking nor to assisting next gen
- General Feel of “we don’t know what we don’t know”

The Journey

- Awareness and Assessment
  - Independent review and assessment of key risks
  - All family members involved in questionnaires and interviews
  - Family Retreat / Workshop
- Action Items
  - Family Charter reviewed and updated
  - Family Council and Governance plan reviewed an updated
  - Improved communication for all branches
  - Reset / manage perceptions and expectations between family and spouses
  - Reset / manage perceptions and expectation of family members in the business regarding their roles, responsibility and influence.
  - Implement clear Investment Strategy and Policy
  - Implement and engage family in Philanthropic Strategy

Where Are They now?

- Improved transparency across family in all areas
- Clear separation of business board and family council and clarity of roles within each
- Improved meetings in both areas due to reset of expectations and entitlements
- Annual retreat where all family and spouses are included appropriately
- Clear Philanthropic strategy determined for each generations involvement – tailored and led by each generation
- Investment Strategy and policy determined for individual family branches and generations
- Updated reporting regime incorporating business assets including updated benchmarking

Takeout's

- There are solutions to these challenges
- Communication and Transparency is vital
- Need to review process and test
- Importance of Independent oversight and advice
- Importance of an inclusive governance framework – in all areas
- Need to reset and manage expectations, entitlements, roles and responsibilities – yet….
- Develop an education, mentoring and development plan for next gen
- Remember that you are an important role model for the next generation
- Create an atmosphere of mutual respect between the family members

Summary

- Independent advice and another set of eyes and ears is vital
- Communication and Transparency is key
- Documenting and living a clear plan and strategy in any and all areas
- Education, mentoring and ongoing development is critical

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Thank You - Questions

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