FAMILY WEALTH AND LEGACY PLANNING

MODULE 03

Structuring and Managing Family Wealth

DOWNLOAD INTRODUCTORY VIDEO << HERE >>

Introduction and Overview — PAGE 02

Key Questions — PAGE 17

Selected Reading — PAGE 18

E-Lessons

01. The Family Philosophy of Wealth - HVV1004 — PAGE 19
02. Asset Structuring and Estate Planning - WMA1002 — PAGE 21
03. The HEW Trust: Securing the Long-Term Future of Your Family - WMA1004 — PAGE 24
04. Family Wealth Management - WMA1102 — PAGE 26
05. Being a Good Owner of Family Wealth - WMA1103 — PAGE 29

Key Documents

Family Philosophy of Wealth — PAGE 31

Asset Structures — PAGE 32

Principles of Wealth Preservation — PAGE 33

Annual Investment Policy Statement — PAGE 34

'Our wish is that… [there be] maintained that state of property,

equal or unequal, which results to every man

from his own industry or that of his fathers.'

Thomas Jefferson

Substantial family wealth – inherited or freshly minted – is a great gift. It offers new avenues for personal experience and growth along with unprecedented opportunities for the realization of each family member's personal potential.

Empowered by resources and unencumbered by the stresses of providing for self and family on a daily basis, wealth can be a door to a far more fulfilling life for individual family members. It can also provide the foundation for a positive and lasting legacy for the family as a whole.

A Different World

Ironically, many of the skills required to make an entrepreneurial fortune are the opposite of the skills required to preserve wealth over the long term. First generation wealth is often created by one individual (or small group of individuals), a focus on one or two major business initiatives, an appetite for high risk-taking, leveraging up to maximize equity return, and structuring and managing assets for short-term purposes, often focused on complicated approaches to commercial affairs and tax planning.

Longer-term wealth preservation may be driven by a more diversified allocation of capital, reduced risk and leverage, a longer-term and simplified approach to structuring, and the involvement of an increasing number of professional advisors and beneficiaries in the management and benefits from of the family fortune.

Concerns may also arise over the cultural and individual impact of unearned wealth. Designing and putting into place a well-grounded strategy for Asset Structuring and Wealth Preservation requires addressing both the 'hard' factors such as trust and corporate jurisdiction, and 'soft' factors such as preparing the Next Generation – emotionally as well as technically – to be a good wealth owner.

Long before setting out to invest, spend or give away wealth, it is essential to clarify the views and philosophy that a family holds toward that wealth. Family leaders will thus be better prepared to face future challenges if their views are grounded in a solid foundation of shared forward views crafted by their predecessors.

However, without a clear philosophy of wealth, financial advantage can trigger conflict and heighten feelings of regret or guilt among inheritors. By clearly defining a family's philosophy of wealth, potential negative consequence can be avoided.

FAMILY PHILOSOPHY OF WEALTH

There are two very different attitudes that family members can have toward inherited or newly created family wealth. Some family members may view themselves as personal proprietors of the wealth (also called 'inheritors' by some advisors) who view their inheritance as something passed on to them for their personal use.

These "proprietors" ('or owners') of wealth see themselves as fortunate to have received an inheritance, but don't feel obliged to preserve the fortune for future generations or may not believe that a future enterprise is viable for their family. They are comfortable with the fact that the legacy may end with their generation, and they may spend down the assets. They see themselves as capable of making this decision without regret or concern for future generations.

The families that pass on control of both capital and income may want each owner to have personal choices that are unencumbered by the rest of the family, believing that this builds healthy, independent relationships at each generation.

For others, inheritance is viewed as something to be cared for and passed to future generations. These owners feel a great responsibility to preserve the wealth during, and possibly even after, their lifetimes.

These "stewards" of wealth have a broader definition of what they are passing on and a different attitude toward such issues and actions, legacy, responsibility, risk, spending disciplines and education of the next generation.

Obviously, a family or family member who aspires to preserve family wealth for future generations – and acts consistently with that view – is more likely to create a long-term financial and family legacy than one who sees his or her wealth as a short-term resource to be spent, invested or given away to charities, social causes or other recipients with only personal interests in mind.

Risk of Wealth Dissipation

Families cannot retain their wealth over multiple generations when their members spend more than they contribute to the pool of family assets. Even large family fortunes can disappear if systematically unsustainable distribution and spending patterns become the norm across generations. One well-known entrepreneur in the media world, famed for his great wit and ability to write snappy one-liners as well as his business acumen, announced to his extravagant wife, in the wake of the recent economic crisis that wealth preservation was important making it "Time to go on a 'Money Diet' until we are in better financial shape."

Without the discipline of a sustainable rate of withdrawal, even a large trust or family wealth corpus will be diminished over time, especially in a family expanding exponentially in size at each generation.

Given the nature of money as a kind of energy like a fire that can burn out if not tended properly, it is important to ensure that financial assets are well protected and managed well over time. Dissipation, as quoted elsewhere in this book, was defined by F Scott Fitzgerald as 'making nothing out of something'.

For those interested in preserving their wealth and strengthening their families through effective family wealth and legacy planning, this would be a sorry outcome indeed.

Balancing Different Views

As experts and family counsellors explain, there is no right or wrong about these philosophical differences, and most multi-generational families have both types of owners in their group. Each wealth owner needs to be comfortable with his or her own philosophy and not be judgmental about those who feel differently.

The trouble usually surfaces when differences in philosophy are not discussed openly as a family.

Second generation siblings who inherit wealth are almost always told by the founders that it is important to keep the family and the wealth together. They seldom feel that they are in control of the money during their parent's lifetime, so their views on stewardship are typically mandated by their parents. These parental views may not be seriously challenged during the patriarch's lifetime.

With individuals in the third generation or beyond in a family, differing philosophies emerge. The siblings and cousins grew up in different households, are possibly more diverse in outlook than their parents and hence may have different views on spending down or preserving their inherited wealth.

It is essential for families to have a conversation about their philosophies of wealth as they begin to think about family wealth and legacy from the point of view as both current heirs and future leaders of the family. If not openly discussed, failure to clarify each owner's basic views about stewardship versus proprietorship may lead to a series of misunderstandings or controversies as families struggle to reconcile beliefs when facing decisions on family wealth investment, distribution or structuring.

Consensus and Co-existence

Proprietors and stewards of family wealth can co-exist as long as they respect each other's beliefs and agree on the decisions and actions they need to take that can be mutually beneficial. There is no way to force all family members to adhere to one philosophy; since every family has a variety of owners and stewards, including risk-takers, risk-avoiders, conspicuous consumers and balanced hybrid heirs, the need for co-existence of different views is inevitable. Acceptance of these different views, and their implications, is essential for the family legacy to survive.

In most families of substantial wealth, a balanced approach is adopted. Some assets are considered to be personal or 'proprietary', and with others treated as 'heirloom' or 'legacy' assets for a future generation. Different investment strategies and distribution policies are often in place for the different "buckets" of money. These sophisticated wealth owners see the choice of steward or proprietor as a false choice since they comfortably embrace both roles with clarity and balance.

If there is a shared pool of family assets, and different philosophies about wealth ownership and legacy, there may never be an ability to reach perfect agreement about these matters. But setting up a family structure and process to support different philosophies can allow diversity to thrive and the legacy to survive.

One of the most valued roles of a family leader is to help the family balance the needs of both its stewards and proprietors, and to prepare future generations to live with the imbalance in the size of assets to be passed down to them that results from the application of the two different philosophies.

Asset Structures and Related Documents

The vehicles through which stewards and proprietors hold, protect, and transfer their wealth are also profoundly affected by opinions about the philosophy of wealth. Options exist to tie up family financial wealth for many generations, establishing perpetual trusts and guiding them from beyond the grave through a complex set of trust deeds, letters of wishes and estate documents. Although these documents may create structures that are tax-efficient and risk-sensitive, they may not always be seen as positive forces in the lives of the beneficiaries.

Asset structures, properly established and operated, can have a great influence on income tax, capital gains tax, inheritance tax, estate duty and litigation-related risks (notably marital) that can have a direct impact on the wealth passed on from one generation to the next. A greater share of assets placed in trusts and similar ownership arrangements which are tax-efficient can both perpetuate a philosophy of wealth and protect that wealth to a greater extent over the long term. This approach may be performed by stewards of family wealth.

On the other hand, proprietors may prefer to have no long-term encumbrances on the management and enjoyment of their wealth. This approach could be characterized by fewer trusts, more partnerships, and managed accounts under the direct control of the individuals concerned. In some families, there is a preference to have owners at each generation inherit their wealth through trust vehicles that pay out principal at 30, 35 and 40 years of age, or even the tranches inherited at 30,40 and 50 as mentioned herein...

Needless to say, many families do not believe in passing on ownership and control of the assets until the death of an owner. Other families do not believe in intergenerational inheritance at all and leave all of their money – properly structured to fit the purpose – to charitable or other purposes.

Investment Implications

In terms of investment objectives for family investment portfolios, stewards of wealth and wealth proprietors may well choose very different options for the management and disposition of their wealth.

Wealth stewards, by definition, have a longer-term investment horizon, a greater sensitivity to risk and a view that looks for solid investments that will do well across many inevitable economic cycles and many generations of family circumstances. Wealth stewards may also have a greater propensity to professionalize the investment process, and to establish clear and disciplined investment guidelines.

To meet a balanced approach – with some money considered as personal inheritance or ownership and other as family (stewardship) funds – many families choose to have multiple investment portfolios or partnerships pursuing separate strategies. One portfolio designed for wealth preservation may have a more conservative orientation and be characterized by low liquidity, a selection of lower risk investments (with lower expected return), a higher proportion of real (inflation-resistant) assets and a longer-term investment horizon.

Another portfolio, aimed at meeting the spending needs of a proprietor, may be characterized by shorter investment periods, greater liquidity, more income generation and, perhaps, a greater appetite for risk in the search for higher investment return to fund lifestyle expenses proportionately in the near future.

Trust building

The establishment and management of trusts are among the most common approaches to long-term family wealth preservation used over time. This is so particularly in common law countries where there have been many generations of wealth, and long-established approaches to safeguard and distribute that wealth responsibly across many generations. In civil law countries foundations, *stiftungs* and other similar structures can play the same role.

These arrangements allow "settlors", usually the businessmen, investors or entrepreneurs who have created or inherited substantial assets, to control the investment and distribution of their assets long into the future, and across many generations of their families.

What are trusts?

Unlike corporations, trusts are not defined legal entities or "legal persons". Essentially, trusts can be thought of as three-way contracts which regulate the relationships between the settlor (the person who establishes the trust and provides its funding), the trustee (who oversees the management and distribution of the assets, and must act at all times "in the best interests of the beneficiaries") and the beneficiaries (who are the people designated to receive the distributions and other benefits of the trust assets).

Trusts can take many forms. They can be onshore, offshore, contingent, special purpose, foreign grantor, revocable (allowing the settlor to cancel the trust at his or her discretion) or irrevocable. In addition to preventing beneficiaries from accessing (and then possibly misusing or investing unwisely) family assets held within a trust, trusts have been established for purposes of limiting distributions of liquid assets, obliging future beneficiaries to live within defined parameters before receiving distributions (for example; completing a university degree or living within a "work ethic lifestyle"); managing future tax liabilities; and ensuring that a defined set of assets – legacy, business or financial – remain within the family for a defined period of time.

In addition, through a trust deed and/ or a non-binding letter of wishes – the key documents establishing the terms and operations of the trust – a settlor and his appointed trustee can decide the investment policies for the future, set risk management principles, and define family obligations that must be met with regard to the management or distribution of defined assets.

It starts with a vision and aspiration

In some ways, developing and building an asset structuring approach to family wealth is like designing and constructing a family house. There is a need for a central architecture, a vision and a plan that achieves the purpose established by the owner within the prescribed local and international regulations.

Within that central architecture are the independent materials and building blocks, the legal and administrative structures that can be assembled by a supporting cast of characters in the proper order and with the proper relationships and operating principles to achieve the overall objectives. Protective walls need to be erected to shelter the family from fiscal and economic storms, and foundations need to be firm enough to support the family through many generations of testing and change.

Every exercise of this kind is, to some extent, a balancing act. The need to respect the intentions of the original architecture has to be balanced with reasonable future flexibility on behalf of the beneficiaries of trusts or other purpose-driven or tax management vehicles. Long before a potentially wealth dissipating Next Generation inherits control of family assets, wiser (and usually older) members of the family will have designed and implemented actions to offset any foreseeable future risks.

Structuring wealth to serve multiple purposes

Family wealth always serves more than one purpose within the family, and the structuring and oversight provided by a trust arrangement allow family wealth to be allocated to specific purposes and managed in a particular manner to achieve these different purposes and related investment principles and objectives.

Financial capital can be invested, for example, within a trust established for the lifetime use of one individual or a set of individuals for legacy purposes, or for income or capital preservation, for family or philanthropy, for one individual or group within the family. Before setting out on an integrated family investment strategy, the various "buckets" of assets making up the entire pool of family wealth need to be defined – by purpose, quantum of funds, investment philosophy and financial objectives, assets by type, reporting targets and dates, responsibility and structuring approach.

Multiple non-financial purposes

The financial focus and long-term use of wealth in long-term planning lie at the heart of every trust arrangement, but there are many other factors to consider as well. Equally important can be additional objectives such as avoiding loss through litigation, marital disputes, profligate or incapable heirs, family discord, economic upheaval and even expropriation due to political or other unforeseen events. Careful planning can help ensure that family wealth is successfully protected and preserved across many generations. A typical trust with multiple objectives could, for example, hold funds in a discrete account, invest the funds in safe income generating assets, and transfer a defined quantum of funds to a specified beneficiary upon that person reaching the age of 21 and completing a degree from an accredited university.

Anticipating divorce and discord

Some of the most sensitive and complex asset protection issues for a wealthy family are those related to marital disharmony, separation and divorce, along with those established to limit the impact of family discord. Although one hopes never to have to face the emotional and financial effects of a divorce, in many countries the divorce rate is approaching 50 per cent, while in others non-marital spouses are accumulating financial rights in a partner's assets without ever making a conscious decision to marry or establish a formal legal relationship.

The need for structuring on the marital side stems in part from the fact that national laws on divorce, which can override any specific agreement between partners to a dissolving marriage, are evolving rapidly and unpredictably in many countries, creating a situation where unknown policies and legislation may determine the impact of a future divorce on family wealth.

Should a divorce become necessary, the prior asset structures and the initial selection of jurisdiction, often heavily influenced by the first filing by the petitioner, may have a substantial impact on the final outcome of a litigated action or agreed settlements related to the divorce. While not all risks and disasters can be anticipated and managed, a sound approach to the structuring and administration of family assets can provide protection from many of the established patterns of wealth dissipation that have brought down many wealthy families over time. Effective structuring can thus enhance both the individual and collective future of the family.

The "HEW Trust" long term legacy option

One of the more attractive uses of a trust is to set aside a defined amount of total family wealth, often around 10 per cent or so, for the longer-term benefit of generations of beneficiaries, usually "bloodline descendants" of a defined individual, for their "Health, Education and Welfare". This kind of trust, usually characterized by a conservative investment policy and managed in a safe foreign jurisdiction, can allow future generations of a given family to be assured of healthcare, a good education and support through disasters and other unforeseen events no matter what happens to the main trust corpus.

Multi-jurisdictional approaches

Although all trusts, corporations and partnerships are registered and "resident" in a single jurisdiction, most asset structuring approaches for very wealthy families, especially those outside the US, are multi-jurisdictional in nature. For families seeking to avoid undue scrutiny and preserve family privacy, a multi-jurisdictional approach has many advantages. In addition to sheltering income and assets from taxes, litigation and other risks, a multi-layered approach can make it very difficult for corporate rivals, journalists or other unauthorized parties to discover the extent and nature of a family's wealth and operating approach.

Integrity and integration

The key to success in any asset structuring exercise is to take a fully informed view of the system as it is set up and as it evolves, to ensure that it achieves its original purpose and that it has evolved to take into account any important regulatory or testamentary changes along the way. The principles of operation and the structures selected have to work in harmony, without placing any undue burden on future trustees, beneficiaries and settlors.

Setting Out a New Approach to Family Wealth Management

The family itself is always at the heart of family wealth management. [pull out quote] Under the new rules of the game, the failure to take into account the full set of rules of successful family wealth structuring and investing, to make needed change and invest differently, may well be the greatest risk of all.

Successful investment in this new world order will require avoiding the mistakes many families have made over the years while preserving the best of the past and simultaneously managing important change to prepare for a difficult and uncertain future. It is all about adopting both the 'best practice' of the past, and also putting in place the 'next practice' of the future.

It may be necessary to review basic assumptions about portfolio theory, asset allocation, risk, expected returns and distributions, and to think afresh about what realistic goals can be achieved, and to reset distribution expectations and other actions to realign family wealth management with both long-term family visions and the realities of the new world order.

The principles and practice of old allocation models, for example, may be necessary, but no longer sufficient, input for a less hospitable investment climate, and may not fit a particular family's philosophy of wealth, cash flow timing or full set of objectives. Long held views on such issues as correlation, volatility, liquidity, currency exposure and real after-fees-and-carry performance in alternative asset classes may need to be reconsidered. Overall portfolio objectives, dynamics, risk and costs will need to be measured against benchmarks and managed along with individual investment performance.

Most successful investors understand that Modern Portfolio Theory's (MPT) definition of risk as volatility is only one piece of an overarching investment strategy. The role of risk, especially concentration, systemic, tail, correlation, counterparty, currency and value risk, have all come under renewed scrutiny and policy resetting as a result of the Global Financial Crisis and its aftermath.

There are many elements to a new model of family investment which incorporates recent lessons learned:

- it is first and foremost focused on unique family needs and goals.
- it is more agnostic toward market fluctuations and more aligned with investor cash flow needs.
- it takes into account multi-scenario planning.
- focuses on influencing factors investors can control and predict, setting aside those they cannot.
- it eschews high fees and product-oriented sales.
- it understands that beta can be had very cheaply, and alpha has value, but is not readily available across all asset classes.
- it tilts toward direct investment, where possible, to benefit both family and finance.
- its principled approach takes into account social, environmental, governance, geo-political and other factors beyond just the financial.

This new approach also increasingly combines the intelligence and financial capital of multiple families acting in concert to pursue attractive co-investment opportunities.

Such an approach is well suited to maintaining performance in a more volatile climate characterized by unpredictable swings in market values, major systemic challenges, low growth, higher risk, and fewer opportunities for alpha or substantial income generation in a world awash with cash.

Resetting expectations: Families must adjust their expectations for capital growth and income – and hence review distribution assumptions and policies – to reflect the reality of the markets in which they operate. But they also must hold fast to their long-term financial goals and overarching family aspirations, not losing sight of the long-term vision regardless of the chattering voices that tell them otherwise or tempt them toward a pursuit of the investment flavor of the day.

It is this tenuous balance between steadfastness and adaptability that each family must find to secure and defend its own prosperous future.

Basic Asset Allocation and the IPS

A summary document, called the Investment Policy Statement (or 'IPS') captures both the strategic and tactical approaches adopted for the management of a specific portfolio. This document, often completed annually, will begin with a statement of the purpose, investor profile and objectives of the portfolio.

It will then specify the approach to be taken to all aspects of the portfolio and act as a guide for investment strategies and tactics during the year.

One of the key elements in the IPS is a clear model and statement of the approach and guidelines for asset allocation. There are many models of asset allocation to consider, ranging from Modern Portfolio Theory ('MPT') to Goals based Wealth Management to the reference to simpler models adapted for less sophisticated investors.

Two of those models, the 'S Curve' approach and the 'Risk Bucketing' model, do not specify how much of a portfolio's assets should go into any one asset class, but do highlight that all investors need to think about purpose, risk and the role of both the individual elements of investment and the holistic content and behavior of the portfolio under different scenarios before selecting individual asset classes, allocating funds and selecting managers or investments in each class.

Displays of these two models which allocate assets to broad categories based upon a combination of risk and their purpose and role in the portfolio are as follows:

A 'Risk-Bucketing' Model:

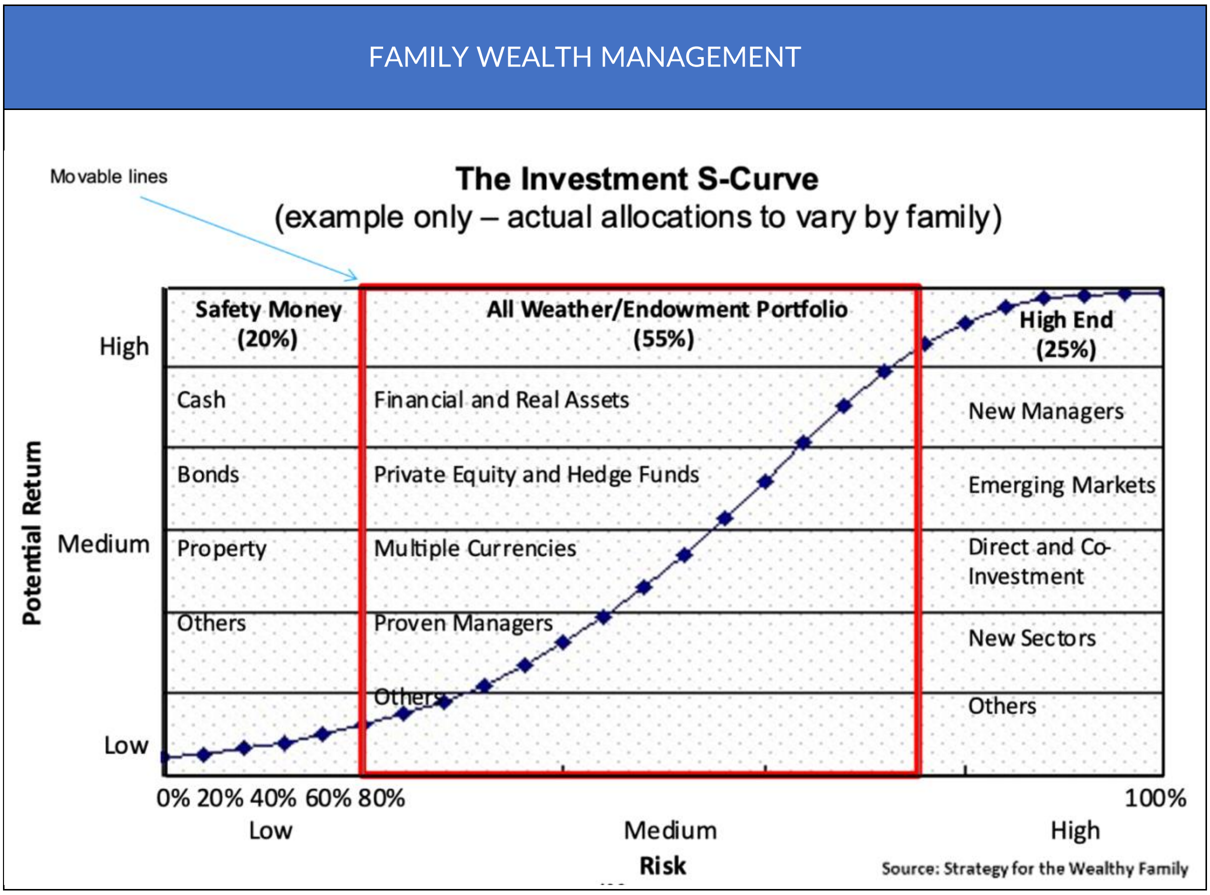
"Personal" Risk *Do Not Jeopardize Basic Standard of Living*	*"Market" Risk* *Maintain Lifestyle*	*"Aspirational" Risk* *Enhance Lifestyle*
Protective Assets	**Market Assets**	**Aspirational Assets**

• Cash
• Home & Mortgage
• Partially Protected Investments
  • Traditional annuities
  • Hedging through Puts/Collars
  • Insurance
  • Human Capital
	• Equities
	• Fixed Income
	• Strategic Investments
	  • Fund of Funds
	  • Liquid "non-traditional" investments, e.g., Commodities
		• Alternative Investments
		  • Private Equity
		  • Hedge Funds
		• Investment Real Estate
		• Small Business
		• Concentrated Stock and Stock Option Positions

Low Risk/Return	***Risk/Return Spectrum***	**High Risk/Return**

And the somewhat similar….

'S Curve' Model:



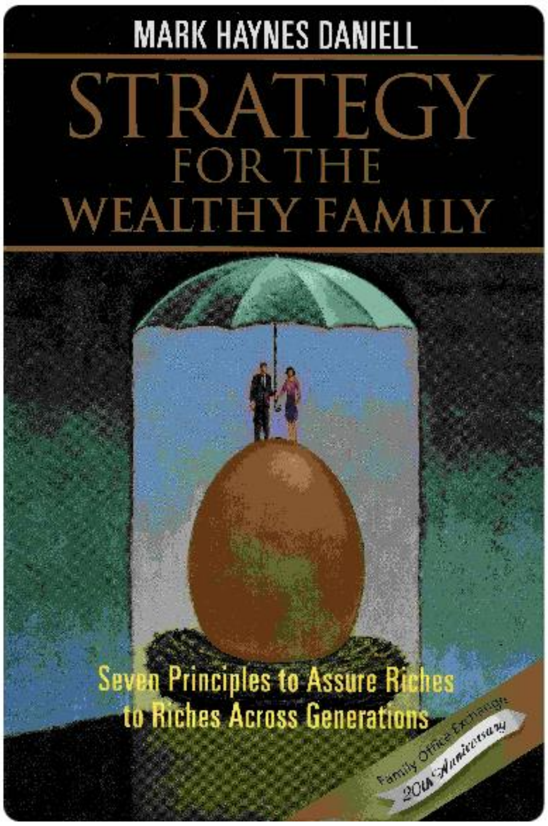
Whatever your historic approach to investment has been, it is always useful to understand your own strengths and weaknesses as an investor, and ensure you are well equipped with the right structures, processes, understanding of purpose and objectives, and benefiting from an 'ecosystem' of advisors and information worthy of trust.

The final document example in this module, which is explained and also included as a template for your editing/completion with your own content, is an IPS created for the entirely fictitious Reynolds family.

MODULE 03 | KEY QUESTIONS |

1	What is your family's philosophy of wealth and its implications for asset structure, investment and distribution?
2	How do you embrace different views within the same family?
3	How will you structure your family assets? Why?
4	What are the implications of defining different investment portfolios within one family? Objectives: short, medium and long term
5	How will you invest and report your family's wealth to make the most of it?
6	What does it mean for you to be a good owner of wealth?
7	Do you have an educational and transitional program for the next generation?

Strategy for the Wealthy Family



Principle 3: Family Wealth Preservation

Pages 155 - 156

Chapters 13 to 17

Pages 157 to 210

Principle 4: Family Wealth Management

Pages 221 to 222

Chapters 19 to 23

Pages 223 to 290

Examples 3 and 4: Pages 431 to 451

01. The Family Philosophy of Wealth |

DOWNLOAD INTRODUCTORY VIDEO << HERE >>

Lesson Summaries

Below you will find summaries for select videos within this module. Note that not every video in the module has a summary document.

Key Takeaways

There are 3 main philosophies of wealth ownership:

Proprietor:

Financial assets are the property of the current wealth owner – can do with the wealth as he or she wants.

Steward:

Family wealth held in trust for future generation.

Hybrid:

The most common wealth philosophy is a hybrid approach– in which some portion of wealth is allocated to the owner of the wealth as his or her own wealth to spend, invest or give away as he or she sees fit, while another portion is allocated to be held and managed by the wealth owner for the benefit of future generations of the family.

Remember to consider in each area, that there are both 'hard' (technical) and 'soft" (culture and people) issues to take into consideration.

01. The Family Philosophy of Wealth | cont'd

Introduction

Defining your family's philosophy of wealth is an important step in defining the roles of family wealth and its legacy objectives.

You need to answer the basic question: Are family members proprietors or stewards of wealth generated by the family business and investments, or possibly a combination of the two? If a hybrid approach is taken, what is the proportion of your wealth allocated to each purpose within each generation?

Knowing this will guide crucial decisions on ownership, distribution, structuring, investments, and other elements involving the family enterprise.

Guidance

Think about your family's philosophy of wealth. The two main philosophies are those of proprietors ("this is my money to spend") and stewards ("this money is for future generations"). A balanced approach to the two may be the best approach.

A third element could be wealth held for philanthropic purposes, with a balanced approach allocating either capital or income to all three 'buckets' – private wealth, long-term family assets and philanthropic ventures – in appropriate proportion.

Your family's wealth philosophy should be clearly documented since philosophical differences can lead to conflict regarding investments, distribution, structuring, ownership and other elements that involve or influence the family enterprise.

02. Asset Structuring and Estate Planning |

DOWNLOAD INTRODUCTORY VIDEO << HERE >>

Key Takeaways

Review your wealth objectives – Do you have multiple objectives for a single pool of wealth or a single objective for multiple pools of wealth?

Understand what you want to do with your wealth and why.

Choose a cost-effective vehicle that is best suited to meet your objectives.

Turn your objectives into practical structuring that allows you to control your wealth – decide how the vehicles will be administered, how decisions will be made, and how good advisors will be selected now and, in the future.

Asset structure management can be as important as vehicle selection; remember that there are both 'hard' (technical) and 'soft" (culture and people) issues to take into consideration.

In which jurisdiction will you operate?

Trusts can be governed by strict rules contained in a trust document or influenced by a non-binding letter advising the trustee.

The rules related to tax and other risk factors are complex and constantly changing, so seek expert advice for vehicle and jurisdiction selection, administration and documentation.

02. Asset Structuring and Estate Planning | cont'd

Introduction

In this lesson on asset structuring, we will be looking at your wealth objectives (multiple objectives for a single pool of wealth or a single objective for multiple pools), creating a practical structure based on your objectives, and using that structure as a part of a family wealth and legacy plan, and also as a risk management device (divorce, dispute, taxes, generational transition, predator in the ecosystem, etc.).

Guidance

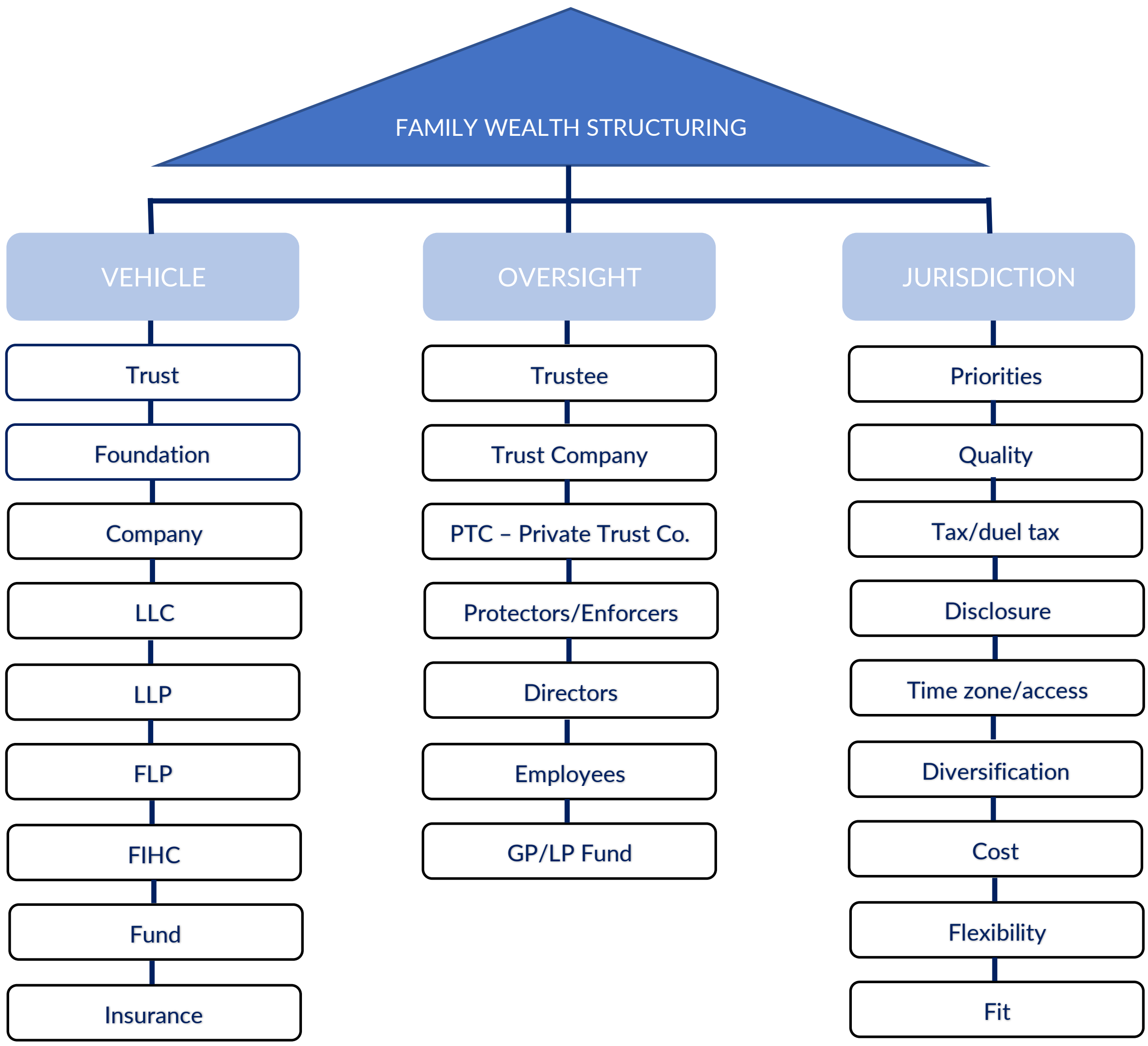
Understanding your philosophy of wealth, investor profile and overall wealth objectives is the foundation of intelligent asset structuring and asset allocation, wealth distribution and investment management. Once you define the goals for your wealth, you can begin to learn and apply best practices to determine how to structure your assets and invest well over time.

Examples of asset structuring vehicles:

- Trust - an agreement between a settler, a beneficiary, and a trustee
- Foundation
- Company
- Limited Liability Corporation
- Limited Liability Partnership
- Family Limited Partnership
- Family Investment Holding Company
- Family Fund
- Insurance Policy
- Other Vehicles

Once the vehicle has been chosen, determine where the entity will be located (onshore or offshore), what are the terms of the investment vehicle, how the vehicle will be administered, what decisions need to be made and how managers will be chosen for each asset. Finding the right people to manage the vehicle can be as important, if not more, as which vehicle is selected.

02. Asset Structuring and Estate Planning | cont'd



03. The HEW Trust: Securing the Long-Term Future of Your Family |

DOWNLOAD INTRODUCTORY VIDEO << HERE >>

Key Takeaways

An HEW (‘Health, Education and Welfare’) Trust can ensure that your family’s most basic needs are attended to in the future; such a trust will carve out a small proportion of a legacy family’s wealth and place it into a long-term structure, conservatively managed.

The capital and income from this trust will only be accessed by family members in the future whose parents may have lost their own direct inheritance, or been victim of expropriation, natural disaster or another unexpected event.

The purpose of an HEW Trust is to ensure that future members of the family will always be able to obtain access to an education (often the first step on the ladder back to prosperity in most jurisdictions), and access to housing and welfare funds for temporary or long-term use.

Guidance

Previous modules discussed how to structure assets at a high level and how wealth will be allocated and used. Another asset structure option is slightly more creative: an HEW trust. An HEW trust addresses the Health, Education and Welfare of current and future generations.

HEW trusts take a small portion of family wealth and set it aside for healthcare, education and general familial welfare in case of hardship. HEW trusts work like an insurance policy that can last many generations.

03. The HEW Trust: Securing the Long-Term Future of Your Family | cont'd

For example, you could allocate 90% of your wealth to your children as inheritance and 10% to a separate HEW trust that will be available to future generations. That 10% acts as an insurance policy to cover basic needs in the event of a financial catastrophe.

An HEW trust can satisfy many long-term needs, help the greater family to achieve its purpose, and promote unity and harmony for many generations.

Remember to consider in each area, that there are both 'hard' (technical) and 'soft" culture and people) issues to take into consideration when planning or implementing such a far-sighted approach.

04. Family Wealth Management |

DOWNLOAD INTRODUCTORY VIDEO << HERE >>

Key Takeaways

A comprehensive and integrated approach to family wealth management:

Define investment objectives.

Set investor profiles and investment objectives.

Agree on potential future macroeconomic scenarios in the short and long term.

Identify the most dangerous risks and most attractive opportunities.

Define asset allocation by asset category and the strategy for each.

Perform necessary due diligence on potential for post-cost return vs objectives and review findings against shortlisted investment options.

Make tactical investment decisions based on the policy target with appropriate discipline, implementation and structure.

Monitor and adjust investment as appropriate.

Insure comprehensive and timely reporting, portfolio efficiency, exposure and risk analysis, linking results with strategy and actions.

04. Family Wealth Management | cont'd

Introduction

The family unit is always at the heart of family wealth management. Following the financial crisis, a more practical, human approach to investing earned favor over a purely theory-based portfolio approach.

This family-centric approach is called Goals-Based Wealth Management (GBWM) and assumes that the true definition of risk is the potential for a family to fail to achieve its goals.

Investment families constantly evaluate which mix of assets will most likely achieve the family's financial objectives for capital protection and growth, income generation, portfolio efficiency and investment effectiveness.

By leveraging the GBWM approach, defined pools of capital are created each serving a specific purpose with separate objectives, which are then coordinated to achieve the family's overall investment objectives families achieve their purpose and promotes unity and harmony for many generations.

Guidance

This module will focus on family wealth management, which addresses the funds outside of the family business. Family wealth management is the practice of dividing and investing liquid wealth into different investment pools to achieve overarching financial objectives. When properly managed, different objectives, risk profiles and investing activities and styles can be managed under one portfolio.

04. Family Wealth Management | cont'd

Successful family wealth management depends upon several factors:

- A disciplined and professional investment process:
- Document asset allocation
- Professional portfolio evaluation
- Understand why you're making an investment (compared to your strategic goals)
- Understand buying and selling tactics
- Track performance over time

05. Being a Good Owner of Family Wealth |

DOWNLOAD INTRODUCTORY VIDEO << HERE >>

Key Takeaways

True family wealth is much more than just money.

Strategies for family wealth also factor things such as integrity, accomplishment, effort, physical security, health and fitness, knowledge, wisdom and spiritual growth and family harmony

The best strategies are developed using best practices and next practices.

Legacy strategy is multi-generational.

Evaluate your role as a leader and member of a wealthy family when implementing a multi-generational strategy.

Remember to consider in each area, that there are both 'hard' (technical) and 'soft" (culture and people) issues to take into consideration.

Introduction

Being a good owner of your family's business is important to preserve wealth and business longevity. However, being a good owner does not necessarily require being directly involved in the day-to-day management of the company.

While preserving the family business is a common goal, maintaining a business that spans generations is not easy. Successful businesses last for an average of 50 years.

Innovation and growth are essential to sustain a business, but good owners also know when to sell a business to capture the maximum value for the family.

05. Being a Good Owner of Family Wealth | cont'd

Guidance

What does it mean to be a good owner? How can you know when you are prepared for the responsibilities of business and asset ownership?

Begin by developing the skills associated with your particular function or domain. For example, if your function is finance, become an expert in accounting and financial management. Through your functional expertise, begin learning management, ownership and governance of both the business and family. While working towards functional expertise, continually refine your soft skills, such as communication and relationship management.

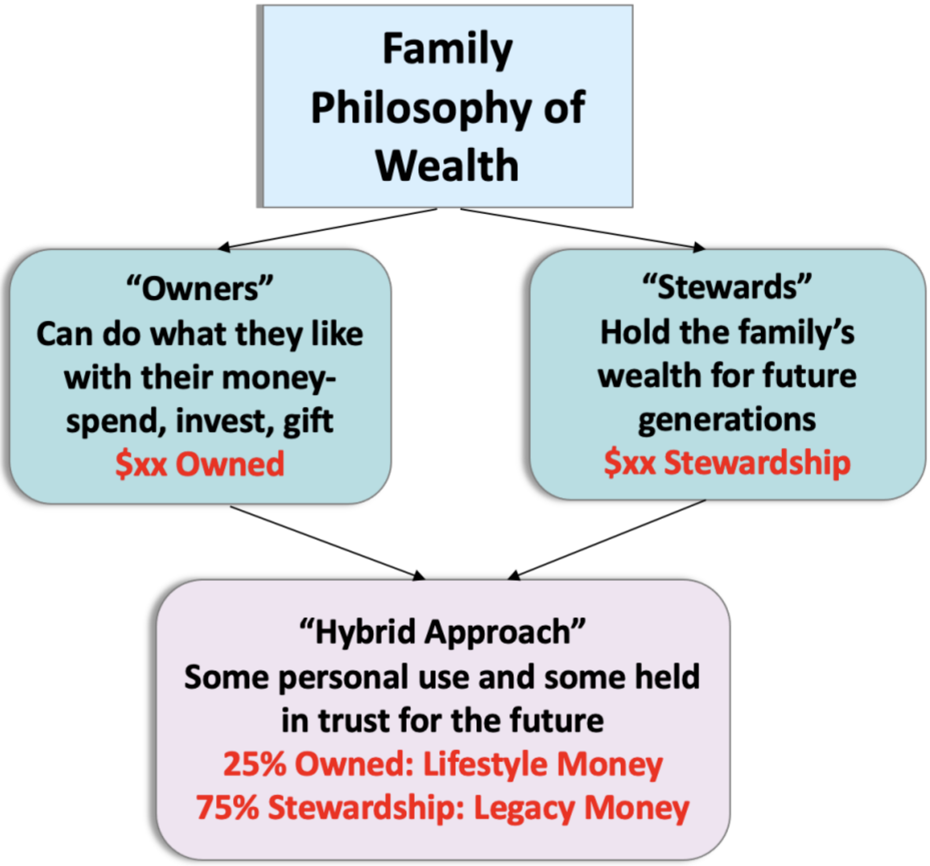
Because of the nature of family businesses, they often have greater potential for longevity than non-family rivals, but sustaining a family business still requires innovation and change. Maintaining growth through generations is a challenge. Knowing how and when to sell may eventually be the best option for your family.

Effective owners not only have functional business expertise, but also maintain a portfolio perspective. They know how to maintain effective boards, comprised of both family and non-family members, to promote objectivity and diversity.

In addition to business management and operations, a good owner must understand the strategic possibilities for the company and appoint a CEO that can execute the family's strategy and company vision in its business engagement.

KEY DOCUMENT I: FAMILY PHILOSOPHY OF WEALTH

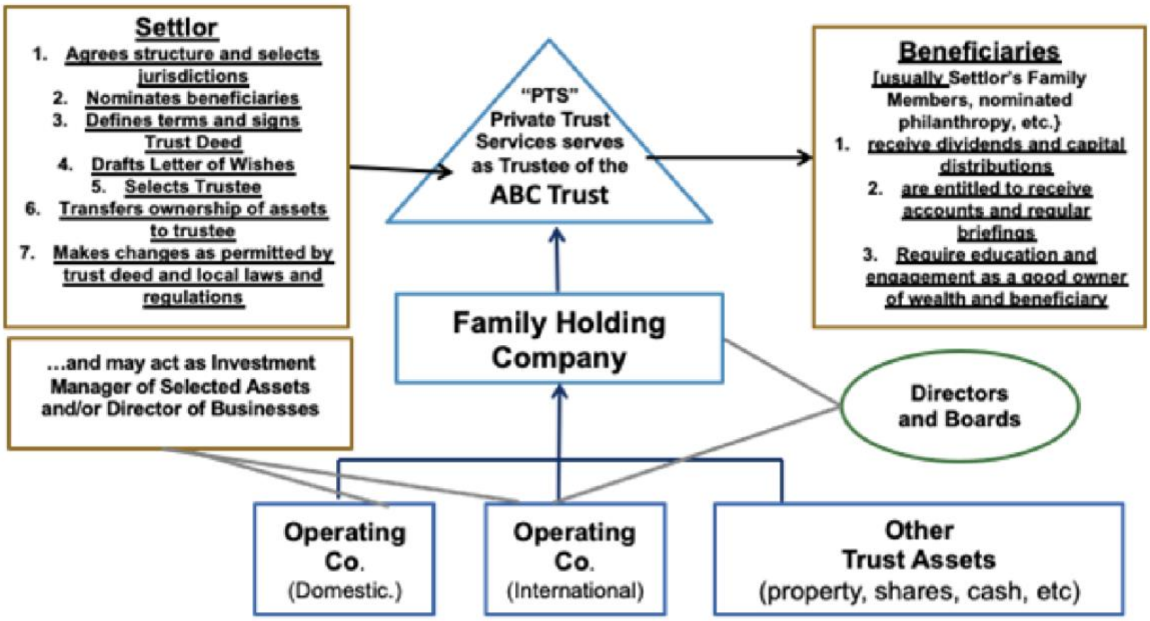
<< DOWNLOAD TEMPLATE HERE >>



KEY DOCUMENT II: ASSET STRUCTURES

<< DOWNLOAD TEMPLATE HERE >>

(Example only: please discuss your own objectives, needs and options with your qualified tax advisor)



KEY DOCUMENT III: PRINCIPLES OF WEALTH PRESERVATION

<< DOWNLOAD TEMPLATE HERE >>

1. 75% of wealth for each principal beneficiary to be placed in a long-term trust with dividends and income reinvested on an annual basis for future bloodline descendants of the Settlor unless there is an exceptional need as defined in the trust deed and Letter of Wishes.
2. 25% of wealth shall be placed in a separate trust and/or bank or brokerage accounts as specified by the beneficiary, with income and capital to be managed and distributed as per the personal choices of the beneficiary.
3. These funds to be delivered in equal proportions at age 30, 40 and 50. No distributions shall be made until a family member reaches age 30, unless the Family Council wants to lift this limitation for any reason it sees fit.
4. Prior to reaching the age of 30, distributions shall only be made for educational costs (room, board, tuition) if the beneficiary is in a full-time accredited degree program, and thereafter for a stipend equal to the average income of a person in the country in which the beneficiary resides.
5. Prior to taking control of the first tranche of the 25% of funds, the beneficiary must show proof of completion of an accredited wealth management course or equivalent, with prior approval of the course by the trustee.
6. No one manager or institution shall have more than 1/3 of assets under his or her mandate at any one time.
7. If the beneficiary shall suffer from drug or alcohol addiction or be convicted of a crime with a possible sentence exceeding one year, no distributions shall be made from funds not yet disbursed except for treatment as recommended by a medical doctor and agreed with the trustee.

KEY DOCUMENT IV: ANNUAL INVESTMENT POLICY STATEMENT

<< DOWNLOAD TEMPLATE HERE >>

The Reynolds Family

Purpose

The Investment Policy Statement (IPS) is a strategic guide to the planning and implementation of the family's investment program for its total family wealth. It provides a framework for managing your investment assets and will prescribe the structure, content and administration of your portfolio.

Objectives

The portfolio is to be constructed to:

- Preserve capital,
- Provide income to fund spending and donation requirement,
- Provide reasonable prospects for growth within a moderate risk context, and
- Provide some limited liquidity

Specifically:

- The portfolio will be expected fund annual family lifestyle income requirements of $X million
- The family intends to continue its tradition of funding all education costs of its descendants for as long as possible and discretionary investments in family member's entrepreneurial ventures. In recent years this has averaged $1 million per year. This funding is expected to come from the HEW Trust
- The family would like to be able to provide additional funds to the Reynolds Family Foundation of $20 million on the death of James and Susan.
- The family would like to retain the purchasing power of the capital and grow the funds modestly after distributions.

The first step in putting together your Annual Investment Policy Statement, is to define your own Investment Profile.

INVESTMENT PROFILE			
Timeframe	Short term	Medium term	Long term
Risk Appetite	low	medium	high
Liquidity Preference	high	medium	low
Savings Rate	low	medium	high
Contingency Needs	high	medium	low
Investment Expertise	low	medium	high

The second step is to define your objectives clearly, which will be turned into informed action in the IPS.

INVESTMENT OBJECTIVES
1. Double value of total family financial assets in seven years (after mandated reinvestment)
2. Distributions below sustainable rate of withdrawal
3. Shift to top-decile managers only, using EFIM (Elite Family Investment Manager)
4. Diversification of managers
5. High-quality reporting

Investment Principles

The portfolio will be managed based on the following investment principles:

- Diversification among uncorrelated assert classes can help to reduce risk.
- Sound investment in illiquid assets can add to return. The family is able to withstand some illiquidity due to the size of its assets and the long-term nature of its objectives.
- Investment fees should be minimized where possible due to the large negative effect they have on investment returns.
- Since the family and its entities are taxable for the most part, sensible tax savings strategies and tactics should figure into the investment policy where possible.
- Investments should be purchased with a margin of safety where possible. Chasing return, following the crowd and speculative securities are not appropriate strategies for this portfolio.
- Reinvestment of dividends and investment returns (net of income requirements) is an important way to grow capital.

Risk Tolerance

The family recognizes that the long-term objectives of the portfolio cannot be achieved without incurring a certain level of risk, and that there are uncertainties within capital markets. The family's investment profile reflects an acceptance of the degree of volatility associated with a portfolio of equities, fixed income and alternative or illiquid asset classes including hedge funds, private equity, real estate and others. A list of risks that need to be considered by the family relative to your investment objectives in included in the Appendix.

Portfolios with an emphasis on long term growth will tend to experience wider price fluctuations in the short-term than over a full investment cycle. In those years when returns are above this range, the excess return can either be considered a reserve for those years when the return falls below this range, or an addition to capital on which to earn future income. We believe that the approach of focusing on a long-term target for returns will provide more stability for future planning.

The allowable asset class universe in this investment policy is as follows:

- Cash and money market
- Bonds and fixed income
- Equities – domestic, global, emerging market
- Hedge funds
- Private equity
- Real estate
- Infrastructure
- Insurance
- Gold
- ETFs

Asset classes and categories specifically excluded from the investable universe include:

- Structured products
- Commodities
- Speculative securities
- Currencies
- Aviation securities (due to the family's continuing large exposure to the industry via Reynolds Aviation)
- Mutual funds
- Cyber currencies

Proposed Asset Allocation

The recommended allocation takes into account your investment needs, time horizon, and ability to tolerate fluctuations in the value of the portfolio. Based on your investment profile and objective of achieving a return in the range of 7-8% per annum before fees, we are recommending that your portfolio be allocated as follows:

	TARGET AVERAGE ASSET ALLOCATION	ASSET ALLOCATION GUIDELINE RANGES	
	Asset Mix	**Minimum**	**Maximum**
Cash	5%	0%	5%
Fixed Income	15%	15%	30%
Equities	40%	20%	40%
Hedge funds	10%	0%	10%
Real estate	10%	0%	20%
Private Equity	10%	0%	10%
Infrastructure	5%	0%	5%
Gold	5%	0%	5%
Total	**100%**		

Rebalancing

The asset allocation recommended for the portfolio represents what we believe to be an appropriate balance among asset classes given our risk tolerance. A rebalancing of the portfolio may be recommended based on a substantial change in the mix of assets in the portfolio caused by relative price movements. At a minimum, this will be reviewed annually. The family office with the approval of its Investment Committee and Board has the authority to make tactical allocations within the asset mix ranges during the year.

Investment Manager Selection

Investment managers will be selected by Mayfair Family Office based on the investment policy. The roster and selection guidelines will be reviewed on a regular basis by the investment committee. The manager selection process will be based on the following Five Ps guidelines: Performance, Policy, People, Process and Price

Performance

The manager should have a proven minimum track record (3 years) of performance and an ability to meet the objectives of the mandate it is being given. We will target managers with evidence of a higher-than-average risk-adjusted return over relevant measurement periods relative to their peers, key benchmarks and/or a minimum absolute rate of return for the mandate.

Policy

Investing in an attractive area of the market with well-structured institutional investments.

People

The senior team of the Investment Manager must have been together for at least three years and have a mutual investment in the funds they manage. They must have clear succession plans as well.

Process

The manager should have a proven process to implement its investment mandate that is sensible, disciplined and repeatable. They should also have sound operational, administrative and regulatory policies and practices.

Price

The fees should be reasonable based on the products offered. The investment committee is sensitive to the level of fees and prefers not to use mutual funds or funds of funds where possible.

Custodian

The custodian(s) will be responsible for the execution, administration and reporting on the assets. They will:

- Maintain possession of the securities owned by the family in separate accounts based on individual or entity.
- Settle all transactions and collect dividends, income and distribution.
- Provide monthly valuation and reporting on all holdings and transactions in the account.

Reporting and Review

A performance report showing the return on your portfolio net of fees and carry and compared to appropriate benchmarks should always be provided.

Regularly

Mayfair will communicate the investment (via James Reynolds, chair) whenever there are relevant issues to discuss. You can contact Mayfair when you have questions or any other issues.

Monthly

The investment committee will receive reports from the custodian(s) each month detailing the holdings and all transactions with the accounts.

Quarterly

Mayfair will meet with the investment committee each quarter and will produce formal portfolio statements and transactions for each account together with a written investment outlook. A performance report showing the return of your portfolio and appropriate benchmarks for return will also be provided.

Annually

Mayfair will provide a comprehensive portfolio review including performance evaluation, evaluation of financial market conditions, and a review of the specific circumstances of each entity on an annual basis. The investment committee will be asked to review and re-approve the investment policy annually as well.

Example and editable templates to download and complete using your own data.

KEY DOCUMENT I: PHILOSOPHY OF WEALTH

<< DOWNLOAD EDITABLE TEMPLATE HERE >>

KEY DOCUMENT II: WEALTH STRUCTURING

<< DOWNLOAD EXAMPLE ONLY TEMPLATE HERE >>

KEY DOCUMENT III: PRINCIPLES OF WEALTH PRESERVATION

<< DOWNLOAD EDITABLE TEMPLATE HERE >>

KEY DOCUMENT III: ANNUAL INVESTMENT POLICY STATEMENT

<< DOWNLOAD EDITABLE TEMPLATE HERE >>