EFFECTIVE FAMILY GOVERNANCE AND ASSOCIATED STRUCTURES

- for Families and Family controlled Businesses
TOTAL FAMILY WEALTH

Operating Businesses

- Core Businesses (10+ years of continuous ownership)
- Other Middle Market Businesses
- Operating Assets
- New Direct Investments

- Automative
- Capital Growth
- Industry Leader
- Add-On Acquisitions
- Related Business
- Unrelated Business

Other Investments

- Cash / Highly liquid Assets
- Brokerage or Trading Accounts
- Public Investment Funds (Domestic & Int’l)
- Private Investment Funds (Domestic & Int’l)
- Real Property
- Insurance & Annuities
- Art & Collectibles

- Stocks
- Bonds
- Options
- Commodities
- Mutual Funds
- Equity
- Fixed Income
- REITs
- MLPs
- Private Equity
- Hedge Funds
- Commodity Trading Funds
- Fund-of-Funds
- Venture Funds
- Other Alternative Investments
- Primary & Secondary Residences
- 3rd Party Managed Real Estate
- Undeveloped Land
- Art
- Antiques
- Cars
- Other

Family Net Wealth

- Business Equity Value = 30%-to-90% of Personal Net Wealth

Family Income

- Business Generates 25%-to-95% of Annual Income

Source: Moosmann & Bly; Governance and Generational Transition Processes

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A CLOSER LOOK AT GENERATIONAL TRANSFER STATISTICS

Plan to Keep Ownership in the Family for the Next Generation

- YES: 66%
- NO: 34%

On average, 50% of Generational Transition Plans Fail

U.S. Generational Transfer Statistics

- Never Gets Past 1st Generation: 75%
- Never Gets Past 2nd Generation: 12%
- Never Gets Past 3rd Generation: 15%
- Make it to 4th Generation and Beyond: 97%

Source: Mass Mutual survey of 3,000 family business CEO’s
WHY THE HIGH FAILURE RATE FOR GENERATIONAL TRANSFERS?
FIVE PRINCIPAL CAUSES FOR UNSUCCESSFUL GENERATIONAL TRANSITIONS

1. Uncoordinated Financial Demands on Business Profits
2. Unclear Boundaries
3. Lack of Non-Financial Capital Development
4. Inadequate Operating Business Oversight
5. The Elephant in the Room – Internal & External Risks

Source: Moosmann & Bly; Governance and Generational Transition Processes
1. Uncoordinated Financial Demands on Business Profits

Business Needs:
- Business Growth, People, Systems, Capital, Inventory, Strategic Risk
- Older Generation Reward and Security
- Younger Generation Development, Compensation, Distributions, Lifestyles
- Taxes and Estate Costs
- Owner Needs:
2. Unclear Boundaries

**Boundaries Blur When Family Members Serve in Different Roles**

*Shading Represents Areas of Role Confusion That Can Lead to Conflict*

- **FAMILY** Concerned with:
  - Human, Social, Intellectual & Financial Capital
  - Family Value & Legacy
  - Relationships
  - Communication
  - Children
  - Fairness
  - Philanthropy
  - Generational Transition

- **OWNERSHIP** Concerned with:
  - Valuation
  - Dividends & Liquidity
  - Working Capital
  - Estate Planning
  - Ownership
  - Transfer
  - Management
  - Succession
  - Social Responsibility
  - Risk Mitigation

- **BUSINESS** Concerned with:
  - Governance
  - Leadership & Management
  - Growth & Profits
  - Capital
  - Strategy
  - Employees
  - Policy
  - Strategic Risks
  - Business Continuity
  - Compensation & Incentives

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**Successful Generational Transitions Require a Broader Understanding of Capital**

Sustainable Wealth Preservation lies in accepting the correlation between the growth of a family’s human, intellectual, and social capital and its financial capital:

- **Human Capital**: The knowledge, talents, values, passions and aspirations of an individual family member.
- **Intellectual Capital**: Alludes to the individual’s learning aptitude and the family’s capabilities to communicate, resolve conflicts and make joint decisions.
- **Social Capital**: The networks of relationships among people who live and work in a particular society, enabling that society to function effectively.

Consequently, understanding and allocating your family’s human and intellectual capital will allow you to sustainably enhance the family’s financial capital:

\[
\text{Family Wealth} = \text{Human} + \text{Intellectual} + \text{Social Capital} \quad (+ \text{Financial Capital})
\]
4. Inadequate Operating Business Oversight

**Generational Transition Often Increases Business Disruption Risk**

<table>
<thead>
<tr>
<th>Performance</th>
<th>Growth Period</th>
<th>Generational Transition</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time Span</td>
<td></td>
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</tbody>
</table>

**Successful Transition**

- **Growth & Competitive Factors**
- **Capital Funding Factors**
- **Transition & Continuity Factors**

Value Erosion or Exit

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Successful Generational Transition for Entrepreneurial Families requires a Generational Transition Process that takes into account factors other than business profits, which can negatively impact the successful transfer of a business from one generation to the next:

- Death & Divorce
- Poor Trustee / Beneficiary Relationships
- Lack of Generational Transition Process
- Unresolved Intra-Family Conflicts
- Talent Gap and/or Lack of Succession Management
- Failure of Sound Family Governance and Multi-Generational Stewardship
- Unhealthy Dependency
- Geopolitical & Macro-Economical Developments

Internal & External Risks
HOW DO SUCCESSFUL FAMILIES BEAT THE ODDS?

BEST PRACTICES: Family & Business Governance Systems
Fundamentals of Family Governance

Principles
1. Family Vision
   - Mission
   - Values

Policies
2. Family Constitution / Charter
   - Rules of Communications & Decision
   - Making Rules for Family Business
   - Expectation for Family Participation

Practices
3. Family Meetings & Committees
   - Family Office / Co-Ordinated Advisors
   - Family Wealth Education Programs
   - Charitable Giving

Source: P. Angus; Family Governance: A Primer for Philanthropic Families, 2004
Governance Systems & Family Involvement Change

Possible Family Business Participation

- Senior executive
- Employee
- Professional advisor
- Family foundation
- Active owner
- Manager
- Board member
- Family office
- Owner council
- Passive owner

Business involvement
Family involvement

Source: Strategic Planning for the Family Business
EXAMPLE OF GOVERNANCE SYSTEM STRUCTURES & PLANS

OWNERSHIP
Concerned with:
- Valuation
- Dividends & Liquidity
- Working Capital
- Estate Planning
- Ownership

Transferring
- Management
- Succession
- Social Responsibility
- Risk Mitigation

Local & Foreign Taxes

The Ownership System
STRUCTURES
Ownership Board & Committees
Shareholder & Beneficiary Meetings
Ownership By-Laws
Shareholder Agreement
Financial Administration

PLANS
Governance Process Development
Business Modeling
Values & Standards Development

The Family System
STRUCTURES
Family Assembly / Family Council
Sibling Partnership – Cousin Consortium
Family Meetings/Retreats
Group & Individual Training

PLANS
Family/Individual Life Plans
Career Plans
Family Values/Constitution
Philanthropic Plan

PLANS
Continuity Plan

PLANS
Estate & Distribution Plan

FAMILY
Concerned with:
- Human, Social, Intellectual & Financial Capital
- Family Value & Legacy
- Relationships

BUSINESS
Concerned with:
- Governance
- Leadership & Management
- Growth & Profits
- Capital
- Strategy
- Employees

- Communication
- Children
- Fairness
- Philanthropy
- Generational Transition

Compliance

The Business System
STRUCTURES
Business Model
Business Board & Committees
Executive Management Team
Organizational Structure
Management Meetings/Retreats
KPIs & Innovation Metrics

PLANS
Leadership & Team Development
Culture & Succession Development
Strategic Planning System
Direct Investment Plan

Source: Moosmann & Bly; Governance and Generational Transition Processes

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MOST SUCCESSFUL MULTI-GENERATIONAL FAMILY BUSINESS ENTERPRISES DEVELOP PARALLEL GOVERNANCE SYSTEMS

Family/Ownership Governance

Today’s Owners, Beneficiaries & Influencers

Tomorrow’s Owners, Beneficiaries & Influencers

Business Governance

Today’s Business Board & Executive Team

Tomorrow’s Business Board & Executive Team

GREATER

Shareholder Value

Source: Moosmann & Bly, Governance and Generational Transition Processes
“BEST PRACTICES” RELATIONSHIP BETWEEN FAMILY / OWNERSHIP GOVERNANCE & BUSINESS GOVERNANCE SYSTEMS

Family / Ownership Governance

- Family/Heirs
- Owners Board
- Human Capital & Emotional Development
- Group Learning
- Preparation for Good Stewardship
- Cooperation
- Mission & Guidance
- Consensus / Direction

Business Governance

- Business Board
- Executive Team
- Current Results & Future Strategy Reports
- Oversight & Development Data
- Operating Results / Operating Data

Patient Capital

Operational Confidence

Source: Moosmann & Bly; Governance and Generational Transition Processes
Select Your Board Members Wisely

"My dear George, you failed as a salesman and got fired as the head of marketing, you've been a lousy accountant and a failure at human resources. Well, to make it short - welcome to the supervisory board!"
PRIVATE TRUST COMPANIES EMBEDDED IN FAMILY GOVERNANCE
Guided by the desire to control the family's wealth beyond the use of individual trusts or similar estate planning structures

Embedded in a Family Governance Structure it can play a vital role in providing for a professional decision-making process and a sustainable wealth preservation

Legal entity whose sole purpose is to act as Trustee for one or few trusts of a family ("connected trusts")

It's unusual for a PTC to act for more than one family (hence "private"), thus it doesn't publicly solicit trust business

Generally set up in a form of a limited liability company, although in some jurisdictions the use of a Foundation/Anstalt is admissible (e.g. Jersey, FL)

Typically, but not necessarily, the shares of the PTC are owned by a Purpose Trust

PTCs have to be tailor-made – there is no boilerplate solution!
PRIVATE TRUST COMPANY ("PTC")

“... though private and focused on the well-being of a single family, a PTC is a business operating within the highly complicated and regulated world of finance. It needs to be managed as a business with appropriate counsel and oversight if it is to achieve its desired objectives.”

THANK YOU!

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