Will the real value of your wealth endure?

Address the now | Explore the next | Imagine the beyond

The better the question. The better the answer.
The better the world works.

Building a better working world

It's a journey and process

Family businesses whose wealth transition goals did not succeed cited these reasons[1]:

- **60%** cited breakdowns in trust and communication within the family unit.
- **25%** mentioned inadequately prepared heirs.
- **12%** pointed to lack of a family mission or purpose that clearly defines use of the family's wealth.
- **10%** indicated issues related to wealth transfer taxation.

More than 75% of upper middle market[2] family-owned businesses will change hands in the next 10 years

While 65% of those owners say they want to transition their companies to the next generation, fewer than 25% will succeed in doing so. Family businesses face challenges that distinguish them from other entities – challenges that, if not addressed, can reduce wealth, jeopardize family unity or derail the family legacy.

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Our job is to enable business owners to make successful wealth transitions. We do this through a process-driven approach that considers external family (financial security, governance, and next-generation and family changes) and business (control and risk, liquidity, performance) factors that influence a plan and are important to understand and consider.

Purpose and philosophy: Phase I – understand the current plan and develop vision, goals and objectives of the owner and family.

Prepare the plan: Phase II – use an iterative process of design sessions to fully develop the vision, goals and objectives and align those with planning options with the intention of outlining a blueprint for implementation.

Execute the plan: Phase III – assist with comprehensive structure and entity design, financial modeling, implementation, and complete documentation of the plan.

Update the plan: Phase IV – develop a system for monitoring the plan on an ongoing basis that includes both life and business events as well as regular touch points, including transactions that need to be dealt with annually.

Lessons learned from successful families

- Clearly define who is responsible for succession
- Develop an ongoing process that consistently reacts to market disruption
- Build a team to support the family and the fund to execute on the plan
- Focus on next-generation education as part of the process

[1] As report

Important considerations — questions to ask to start your journey

Family considerations

Financial security

- Consider whether you and your spouse have enough financial resources to live on if you transfer the fund
- Determine whether you will equally transfer/share your wealth with your children or grandchildren
- Be sure to analyze all of your accounts for long-term annuity, life insurance and legacy-related goals, and objectives impacting both active and inactive heirs

Governance

- Ask whether you are willing to give up control
- Determine who will run the hedge fund, private equity fund or family office
- Think about the legacy you want to leave for the fund
- Consider entity and family agreements
- Identify who will comprise the governing group (family council or family board)

Next-generation and family changes

- Determine how the transfer will take place
- Evaluate whether all family members will be permitted to participate in fund ownership
- Be sure the succession plan accounts for nearly all imaginable contingencies, including deaths, births, marriages, divorces, disagreements or personal hardships
- Maintain documentation of desired owner succession, governance and control preferences and share with various key family members or executive committee members
- Be clear in explaining how "fair," "equal" and personal preferences differ

Business considerations

Control and risk

- Clearly define, codify and communicate roles, duties and responsibilities
- Establish a single family office that creates a clear and professionally managed wall between fund operations and family affairs
- Utilize an outside professional to conduct a company-wide assessment of risk, including IT security, legal, audit, tax and competitive risks, as well as threats from creditors and regulators (offshore and onshore where applicable)
- Understand industry-standard risks by industry, sector, geography and fund size (likely using assets under management as metric)

Liquidity

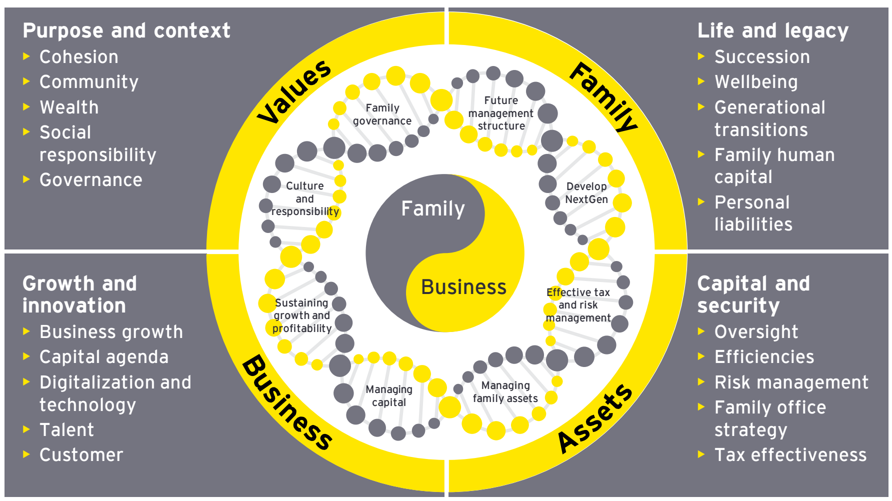
- Utilize an outside professional to conduct a company-wide assessment of risk, including IT security, legal, audit, tax and competitive risks, as well as threats from creditors and regulators
- Understand industry-standard risks by industry, sector, geography and fund size (likely using assets under management as metric)

Performance

- Conduct benchmarking against funds of similar industry, size or complexity to identify opportunities for improvements or cost reductions
- Enable a clear and dispassionate comparison and perspectives that help provide clarity and professional assessments on all business functions such as marketing, accounting, HR and finance
- Develop professional recruitment, retention, compensation, perks, incentives, employee benefits and professional development programs

Generational transition and preparing the next generation of owners

Managing the issues related to the business and the family dynamics requires a proper balance that is anchored in the EY growth DNA of family businesses model.



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