

# Family Governance: Making It Work for Your Family

By Nancy McColgan | Managing Director of Verdence/FAMILY

## Key Takeaways:

What are the Challenges of Wealth Transition?

Why is Family Governance Important?

What are Custom Approaches to Family Governance?

What are Examples of Family Governance?

## Effective Family Governance for Wealth Preservation

Families with significant wealth face numerous challenges, particularly when transitioning wealth to the next generation and managing various wealth-related matters. Key issues include establishing trusts for newborns, training young adults for leadership within the family or business, and educating younger generations on stewardship, charitable giving, and financial responsibility.



A common adage among the ultra-high-net-worth community is “shirtsleeves to shirtsleeves in three generations.” This saying, attributed to philanthropist Andrew Carnegie, refers to the cycle where wealth built by one generation is often lost by the third. The estimation is that 90 percent of wealthy families may lose their wealth by the third generation. Furthermore, poor planning around wealth transfer, estate, and gift taxes can accelerate this process, causing wealth to dissipate in just two generations. Therefore, proper preparation, planning, and communication are crucial to preserving wealth.

## **When to Focus on Family Governance**

Having worked with ultra-high-net-worth families for over a decade, I’ve seen that “family governance” can mean different things to different families. There is no standard definition or ideal application, as each family is unique, and wealth can be “old” or “new.” As family assets grow in value and complexity, and as life events such as births, deaths, marriages, and divorces occur, the need for governance and oversight becomes more apparent. Typically, families recognize this need as the second or third generation reaches adulthood.

## **How Families Carry Out Family Governance**

Many families use different strategies to implement family governance. One great way to start is with a mission statement. This statement summarizes the shared values, vision, and purpose of the family’s wealth. For example, it may reflect the core values and vision of the wealth creators, aiming to pass these principles to future generations.

While a mission statement is not strictly required, it provides a clear starting point for aligning the family’s goals. Families should focus on what they want to achieve through family governance rather than perfecting the mission statement. By starting with a mission statement, families can create a unified approach to wealth management. This can contribute to transparency, effective communication, and the preservation of their legacy.

### **1. Driven by Philanthropy**

For example, a first-generation wealth creator in his 60s established a family foundation supporting specific local causes. He involved three of his four adult children in discussing the foundation’s goals. All other topics - related to estate planning, trusts, wealth transfer, etc., were off the table. One initial, in-person meeting was held, and several one-on-one phone calls. Initially, the effort was minimal, but the wealth creator was able to communicate what was important to him. This created a positive dynamic within the family, eventually leading to discussions on other topics.

## 2. Operating Company Update Focus

In another case, a privately held \$2 billion family-owned company is managed by one of three second-generation members. The other two receive distributions and proportional ownership shares but are not involved in management. The siblings review the company's financials at quarterly meetings, but each family line determines their children's financial management education and stewardship. One of the three siblings takes advantage of training through their advisory firm. The others do not because they have younger children who are not yet ready for more education and preparation.

## 3. Investment, Trust, and Foundation Focus

Likewise, a divorced first-generation wealth creator meets bi-annually with his four children and in-laws, excluding grandchildren at a neutral location. They discuss family trusts and legacy, investment allocations, and their donor-advised fund. They also rotate charitable allocation responsibilities among family lines.

## 4. Old Wealth

Heirs of an early 20th-century industrialist (five lines of cousins) meet bi-annually for a family reunion in the town where the wealth originated. Some family members attend consistently, while others do not. Over the weekend, they review family history and legacy, catch up with each other, and participate in a family picnic. While their only connection is the small pockets of inherited wealth and the original family homestead, some members remain involved in several family foundations.

## 5. Single Family Office

Lastly, a multi-billion-dollar family with four generations holds an annual family meeting for members over 18. The structured meeting, held over a weekend with a firm agenda, focuses on legacy, trusts, charitable giving, investments, and educating younger generations on wealth oversight and stewardship.

## Customizing Family Governance

Each family's approach to governance is unique, with no standard formula. An experienced financial advisor can help develop goals, objectives, and a format that aligns with a family's unique style and needs. Effective family governance is designed to facilitate wealth preservation and promote responsible stewardship across generations.

Ready to talk to one of our experienced Financial Advisors? **Book a consultation now at [www.Verdence.com](http://www.Verdence.com).**

Disclaimer: © 2024 Authored by Megan Horneman, Chief Investment Officer, Verdence Capital Advisors, LLC

Reproduction without permission is not permitted. The indexes presented are unmanaged portfolios of specified securities and do not reflect any initial or ongoing expenses nor can it be invested in directly. An investment's portfolio may differ significantly from the securities in the index. This material was prepared by Verdence Capital Advisors, LLC ("VCA" or "we", "our", "us"). VCA believes the information and data in this document were obtained from sources considered reliable and correct and cannot guarantee either their accuracy or completeness. VCA has not independently verified third-party sourced information and data. Any projections, outlooks or assumptions should not be construed to be indicative of the actual events which will occur. These projections, market outlooks or estimates are subject to change without notice. This material is being provided for informational purposes only and is not intended to provide, and should not be relied upon for, investment, accounting, legal, or tax advice. Past performance is not a guarantee of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product or any non-investment related content, made reference to directly or indirectly in these materials will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. You should not assume that any discussion or information contained in this report serves as the receipt of, or as a substitute for, personalized investment advice from VCA. Alternative investments are designed only for sophisticated investors who are able to bear the risk of the loss of their entire investment. Investing in alternative investments should be viewed as illiquid and generally not readily marketable or transferable. Investors should be prepared to bear the financial risks of investing in an alternative investment for an indefinite period of time. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. All indexes are unmanaged, and you cannot invest directly in an index. Index returns do not include fees or expenses. Sector Watch Use of this website is intended for U.S. residents only. Any recommendation, opinion or advice regarding securities or markets contained in such material does not reflect the views of Verdence Capital, and Verdence Capital does not verify any information included in such material. Verdence Capital assumes no responsibility for any fact, recommendation, opinion, or advice contained in any such research material and expressly disclaims any responsibility for any decisions or for the suitability of any security or transaction based on it. Any decisions you may make to buy, sell, or hold a security based on this research will be entirely your own and not in any way deemed to be endorsed or influenced by or attributed to Verdence Capital. It is understood that, without exception, any order based on such research that is placed for execution is and will be treated as an UNRECOMMENDED AND UNSOLICITED ORDER. Further, Verdence Capital assumes no responsibility for the accuracy, completeness, or timeliness of any such research or for updating such research, which is subject to change without notice at any time. Verdence Capital does not provide tax, or legal advice. Under no circumstance is the information contained within this research to be used or considered as an offer to sell or a solicitation of an offer to buy any particular investment/security. Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed income investments are subject to various other risks including changes in credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. Lower-rated securities are subject to greater credit risk, default risk, and liquidity risk. Commodity-related products, including futures, carry a high level of risk and are not suitable for all investors. Commodity-related products may be extremely volatile, illiquid and can be significantly affected by underlying commodity prices, world events, import controls, worldwide competition, government regulations, and economic conditions, regardless of the length of time shares are held. Data is provided for information purposes only and is not intended for trading purposes. Verdence Capital shall not be liable for any errors or delay in the content, or for any action taken in reliance on any content. Weekly Insights/Qtrly & Annual Outlook The indexes presented are unmanaged portfolios of specified securities and do not reflect any initial or ongoing expenses nor can it be invested in directly. An investment's portfolio may differ significantly from the securities in the index. Semi-Annual Chart Pack Where shown, performance information presented is that which has been calculated and presented by an unaffiliated third-party manager. We have no insight into the performance of the advisor/product/account or fund shown and do not attempt to determine whether the performance presented is accurate. Therefore, the performance could be incorrect, overstated or not reflective of actual trading of client funds. There is the potential that the performance shown is a back test and not the result of real investment advice and trading. As such, it could not be relied upon as indicative of future returns of a particular strategy. Where performance shown is that of a pooled account, limited partnership, or private equity fund, you should be aware that there is a significant lack of transparency into the operations and investment process and investment vehicles invested in. As a result, pricing and valuation of the underlying holdings which produced the stated performance could be incorrect, stale, or overstated and therefore the performance figures presented cannot be relied upon. Before investing, we encourage you to request additional information, particularly performance information, of any product that you are considering for your client. You should read, as applicable, the Prospectus, SAI, Composite Disclosure and/or performance disclosure associated with any product that you are considering for investment for your or your client's. Products shown may have minimum account sizes or minimum investments which may preclude retail and non-high net worth investors from being able to invest in these products. You should be aware that certain LPs may be closed to new investors and therefore your clients may be prevented from investing in these products. Portfolio Implementation and Rationales The SMA Asset Allocation Models do not represent a personalized recommendation of a particular investment strategy to you or your clients. You should not buy or sell an investment without first considering whether it is appropriate for your client's portfolio. Additionally, you should review and consider any recent market news. All expressions of opinion are subject to change without notice in reaction to shifting market conditions. Data contained herein from third-party providers is obtained from what are considered reliable sources. However, its accuracy, completeness or reliability cannot be guaranteed. Supporting documentation for any claims or statistical information is available upon request. Examples provided are for illustrative purposes only and not intended to be reflective of

results you can expect to achieve. Diversification and asset allocation do not ensure a profit and do not protect against losses in declining markets. Any forecasts contained herein are for illustrative purposes only, may be based upon proprietary research and are developed through analysis of historical public data. Investments in growth stocks may experience price volatility due to their sensitivity to market fluctuations and dependence on future earnings expectations. Sector allocation references to market capitalization (“smid cap” or “micro caps” etc.) may be subject to special risks given their characteristic narrow markets, limited financial resources, and less liquid stocks, all of which may cause price volatility. International/global investing can involve special risks, such as political changes and currency fluctuations. These risks are heightened in emerging markets. A significant percentage of the underlying investments in aggressive asset allocation portfolio investments have a higher-than-average risk exposure. You should consider your risk tolerance of each of your clients carefully before choosing such a strategy. An investment with multiple underlying investments (which may include asset-allocation or custom blended investments) may be subject to the expenses of those underlying investments in addition to those of the investment itself. Investments may reside in the specialty category due to 1) allowable investment flexibility that precludes classification in standard asset categories and/or 2) investment concentration in a limited group of securities or industry sectors. Investments in this category may be more volatile than less flexible and/or less concentrated investments and may be appropriate as only a minor component in an investor’s overall portfolio. Investment Managers You and your clients should carefully consider investment objectives, risks, charges, and expenses of Funds discussed. This and other important information are contained in the respective Fund prospectuses and summary prospectuses, which should be read carefully before investing. Investment portfolio statistics change over time. Current performance may be lower or higher than return data quoted herein. The investment return and the principal value of an investment will fluctuate; so, an investor’s shares/units, when redeemed, may be worth more or less than their original cost. Verdenca relies heavily on unaudited third-party data. Data sources include public data, such as mutual fund data, and non-public data, such as information provided by other investment advisors and managers of limited partnership pooled accounts. Data and/or statistics included on this Portal, including references to performance, opinions, ratings, rankings, manager statistics and demographic information, product, or strategy descriptions, either quantitative or qualitative, are based upon information reasonably available to us as of the applicable date(s) then-published. Information has been obtained from sources that we believe to be reliable, but these sources cannot be guaranteed as to their accuracy or completeness. All data and information produced by a third party has the potential to be incorrect, incomplete, or otherwise misleading. No implication shall be created that the information contained on the Site is correct, including as of any time subsequent to the publish date, and Verdenca does not undertake an obligation to update such information at any time after such date. Verdenca makes no warranty or representation of the veracity of the data and information and its use of the information should not be implied as an endorsement of any material or statements made. Data, particularly non-public data, is subject to error and where the information is not audited, the potential for error is greater. Where shown, performance information presented is that which has been calculated and presented by an unaffiliated third-party manager. We have no insight into the performance of the advisor/product/account or fund shown and do not attempt to determine whether the performance presented is accurate. Therefore, the performance could be incorrect, overstated or not reflective of actual trading of client funds. There is the potential that the performance shown is a back test and not the result of real investment advice and trading. As such, it could not be relied upon as indicative of future returns of a particular strategy. Where performance shown is that of a pooled account, limited partnership, or private equity fund, you should be aware that there is a significant lack of transparency into the operations and investment process and investment vehicles invested in. As a result, pricing and valuation of the underlying holdings which produced the stated performance could be incorrect, stale, or overstated and therefore the performance figures presented cannot be relied upon. Before investing, we encourage you to request additional information, particularly performance information, of any product that you are considering for your client. You should read, as applicable, the Prospectus, SAI, Composite Disclosure and/or performance disclosure associated with any product that you are considering for investment for your or your client’s. Certain products shown may have account minimums or minimum investment sizes that are unattainable for your clients and therefore they may not be eligible to invest in these products. Reference to registration with the Securities and Exchange Commission (“SEC”) does not imply that the SEC has endorsed or approved the qualifications of Verdenca or its respective representatives to provide any advisory services described on the Site.