

Family Wealth Management and Governance

Vilnius

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dr. Modestas Plakys – Gausus Family Office /
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Christos Christou

- Cypriot Londoner
- Financial Services Background (37+ years in financial services, encompassing lending, investing, including private equity, advising and capital raising)
- Interest and commitment to Corporate Governance and Family Governance since 1992 when I joined EBRD
 - Served on numerous Boards across industries and jurisdictions including UK, Tunisia, Belgium, Cyprus.
- Strong links to Baltics and particularly Lithuania from 1993
 - 1992-1999 EBRD Banker
 - 2001-2003 Financial Advisor to Achema Group
 - 2005-2019 Member of Avestis Investment Company

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dr. Modestas Plakys



- 2021 – owner and CEO of Gausus Family Office
- 2021 – independent board member
- 2020 – Partnership Professor at Business School of Vilnius University. Main subject: Family Business.
- 2017 – 2020 Chief Investment Officer at Single Family Office “Litvalda”
- 2011 - 2017 Head of Private Banking, Nordea Lithuania
- 2005 – 2011 Investment Product Manager (Nordea/Swedbank)
- 2011 – PhD “Efficiency of Investment Funds Markets”

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Agenda

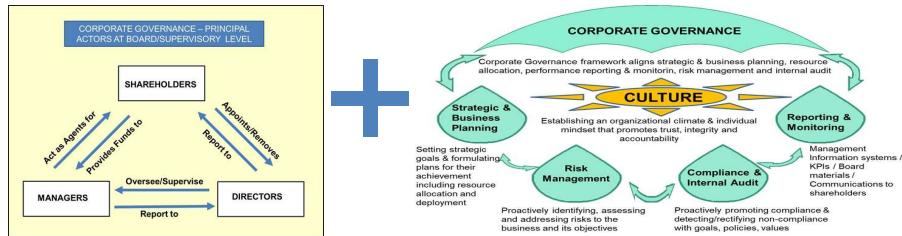
- Corporate Governance
 - What is it ? Why important ? Where does Sustainability fit it ?
- Family Governance
 - What is it ? Why important ? Interrelationship with Corporate Governance & Four Room model
- Families and Wealth
 - Planning for family wealth
 - Wealth Management
 - What is it ?
 - Importance of Diversification, Preservation, Growth
 - Importance of Asset and Risk Allocation
 - Wealth Management options
- Family Office
 - What is it ? When to set up ? How to set up ? What to aim for ?
- Family Purpose
 - What is it all for ?

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Corporate Governance – What is it ? Direction and Control



Corporate Governance is about commitment and discipline to good principles and habits that can enhance the prospect of longevity of a business

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Corporate Governance : Why does it matter ?

- Roles
- Duties
- Rights
- Responsibilities
- Expectations



- Employees
- Managers
- Directors
- Shareholders

- Benefits from Good Governance
- Risks from absence or failures of Governance
- Mandatory for large companies
- Affects access to capital

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When selling a business, Corporate Governance serves like a hallmark when selling gold items



When selling a gold item :

- With a hallmark, you will get a better price as the buyer will have more confidence the item is made of real gold
- Without a hallmark, the buyer will not be sure if it's just yellow metal or true gold and the price will be adjusted downwards accordingly

When selling a business:

- With Corporate Governance in place, you will get a better price as the buyer will have more confidence in the numbers and prospects of the business
- Without Corporate Governance, the buyer will have less confidence and the price will be adjusted downwards accordingly

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When stepping back from a business, Corporate Governance acts as guard mechanism



You have a beautiful house full of valuables. Even if you have a housekeeper you trust, would you leave it without any protection when are away ? Would you not instal CCTV and fire detection and prevention mechanisms ?

Fire Fighting Equipment



When you are stepping back from a business Corporate Governance can act as the guar mechanism to protect your interests as a hands-off/absentee owner

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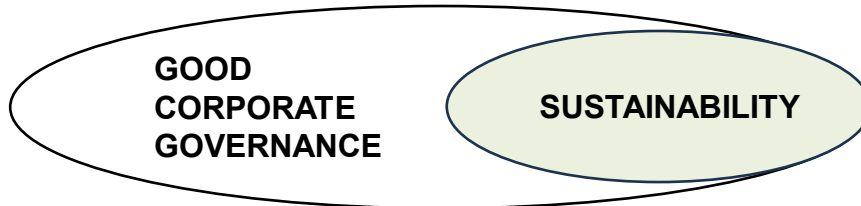
How is sustainability linked to Corporate Governance ?

- What is sustainability ? What are its dimensions ?
 - Worker Rights, Health & Safety
 - Pollution, Environment, Climate Change, Carbon Footprint
 - Product Safety, Regulatory Compliance

Sustainability = function of respect to ALL stakeholders' interests

QN : Does incorporating sustainability in a business model, make a company more or less robust ?

QN : If Good Corporate Governance aims to make a company more robust, how is sustainability linked to Good Corporate Governance ?



PwC's 11th Global Family Business Survey (2023):

15% consider themselves to be 'very advanced' on having a clear ESG strategy.

67% say they put little or no focus on ESG.

19% say minimising the company's impact on the environment is a priority.

20% say reducing their company's carbon footprint is a priority for the next two years.

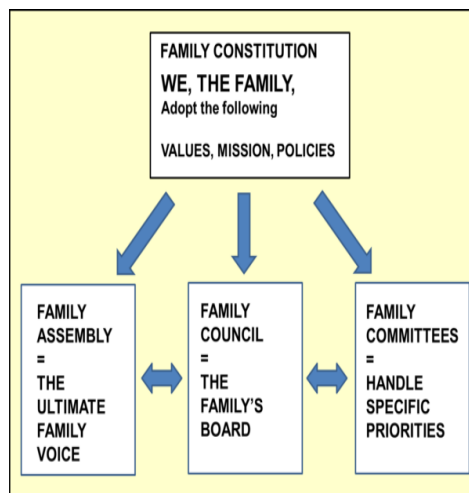
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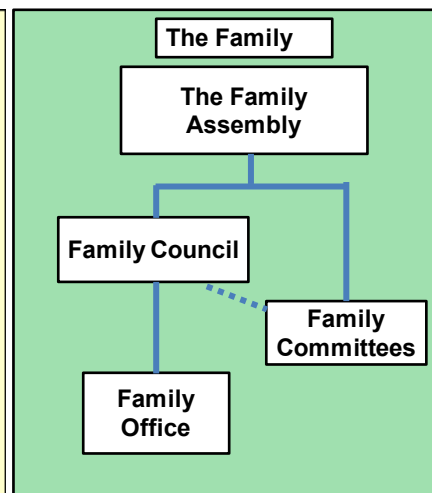
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Family Governance

What is it ?



How do you implement it ?



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Family Governance : Why does it matter ?

- MULTIPLE ROLES, MULTIPLE LEVEL INTERACTIONS BETWEEN FAMILY AND FAMILY BUSINESS
- PREDICTABLE AND TRANSPARENT FRAMEWORK TO GOVERN FAMILY'S INTERACTION WITH THE BUSINESS
- PROMOTE FAMILY UNITY AND HARMONY
- PROMOTE SUSTAINABLE DEVELOPMENT OF BUSINESS

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Main Benefits of Corporate and Family Governance

Corporate Governance

- ✓ Clarity to managers
- ✓ Family understanding of ownership & management issues

Family Governance

- ✓ United family
- ✓ Leadership legitimacy
- ✓ Less interference to business
- ✓ Integrating next generations
- ✓ Conflict resolution framework

Shared Benefits

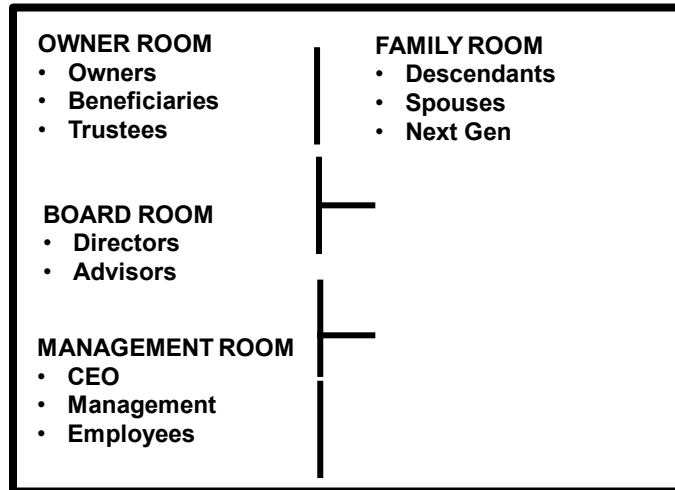
- ✓ Clarity to owners
- ✓ Better financing terms
- ✓ Wider access to capital

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Four Room Model for implementing Family Governance

Harvard Business Review Family Business Handbook



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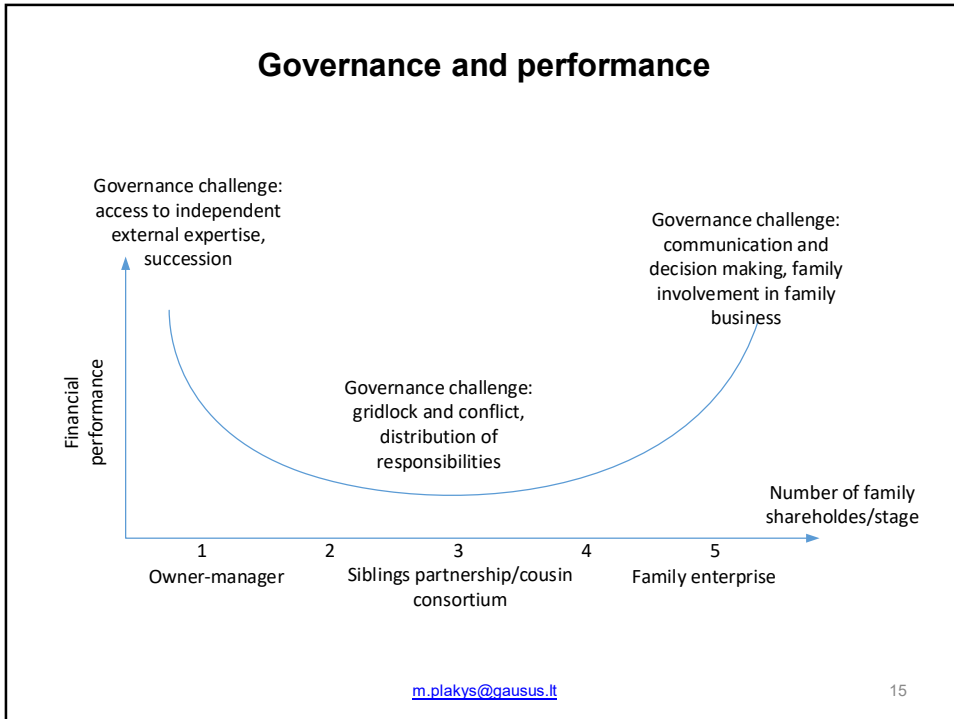
The nature and configuration of a Board

Description	Advantages
Informal Advisory Board : advisory group that provides informal advice to company executives and owners; has no legal authority	<ul style="list-style-type: none"> • Easy to implement • Flexible • Limited liability for its members
Formal Advisory Board : advisory team that meets regularly to provide advice to shareholders and executives; has no legal authority	<ul style="list-style-type: none"> • Flexible • Structured Advice • Institutional Memory • Some outside directors • Limited liability for its members
Fiduciary Board : formal group of directors legally empowered to make board level decisions about the business	<ul style="list-style-type: none"> • Institutional memory • Make tough decisions • Can provide stopgap leadership • Some outside directors • Members have fiduciary duty to ALL shareholders
Hybrid Fiduciary/Advisory Board : mixture of fiduciary family directors with voting power and outside advisors without fiduciary responsibility	<ul style="list-style-type: none"> • Mix of advantages from Formal Advisory Board and Fiduciary Board

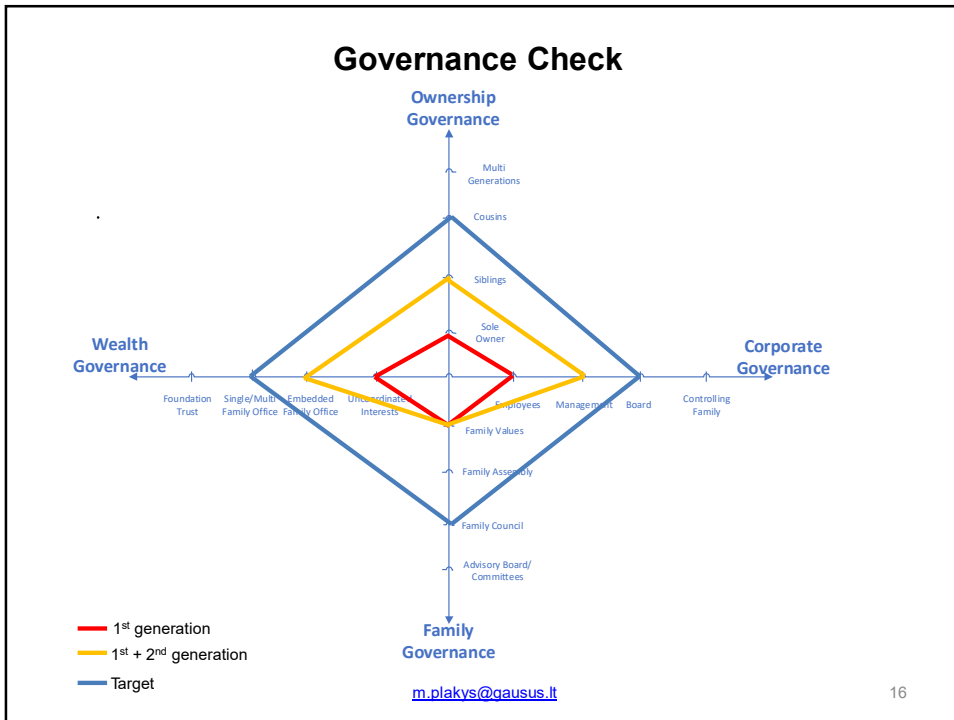
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Role of Family Office in Family Business

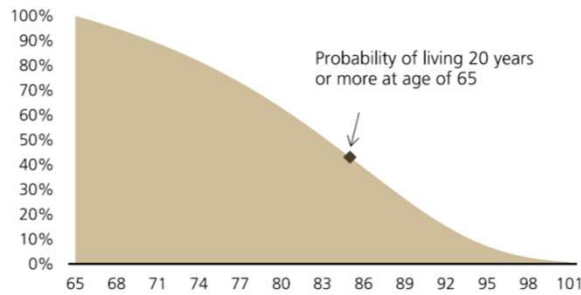


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Families should plan for 100- year lifespans



Source: The Human Mortality Database, UBS

Health over wealth



92%

"Wealth enables me to live a healthier life"



90%

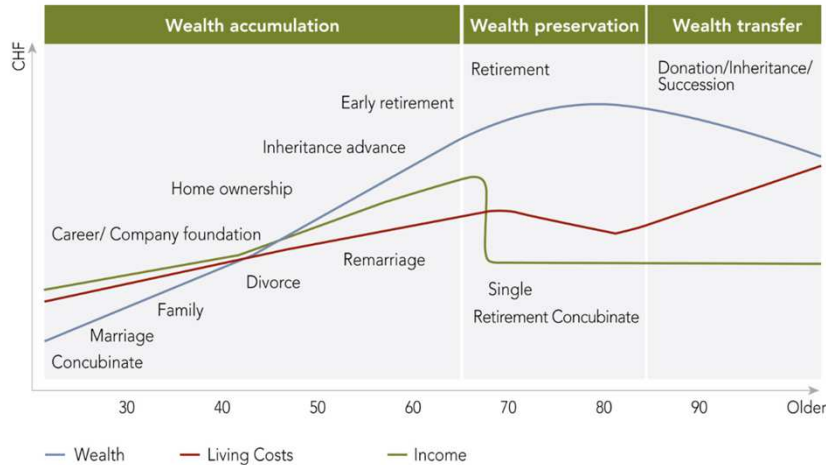
"Health is more important than wealth"

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Family business owners should keep in mind accumulation, preservation and transfer of wealth



Divorce often creates a downward adjustment to wealth depending on jurisdiction and presence or absence of prenuptial agreements

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What does Wealth Management encompass and what is its relationship with Private Banking ?

- What services do Wealth Managers offer ?
 - Investment management, financial planning, tax advise and planning, estate planning
- Where can I get a Wealth Manager ?
 - Independent Wealth Managers
 - Wealth Management services from banks
- How is Wealth Management different from Private Banking ?
 - Private Banking focus on servicing transactional needs of client – compensation usually fee and commission based on transactions
 - Wealth Management more holistic approach to growing and preserving a client's wealth – compensation usually an annual fee based on assets under management
 - Many Private Banks offer Wealth Management Services

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Family Wealth Management within Family Governance

- What are the main functions of Family Wealth Management beyond financial, tax and estate planning?



Allocating resources beyond the initial source of the family's wealth, i.e. the Family Business



=> Managing a family's wealth deserves a family's attention

=> Priorities of family wealth management evolve over time as family wealth evolves

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Diversification for Family Business Owners

Don't put all your eggs in one basket.



The idiom 'don't put all your eggs in one basket' means don't depend on only one idea or plan for success



- In context of a family business owner, it's about avoiding having a family's entire wealth tied to the family business
- Diversification for a family business owner is a matter of having assets whose value and liquidity are unrelated to the family business including
 - Shares in unrelated companies (listed or unlisted)
 - Fixed income securities (e.g. Government bonds, Corporate bonds)
 - Investments in commodities
 - Real Estate assets
 - Participations in funds managed by specialised asset managers (e.g. Venture Capital, Private Equity, Real Estate)
 - Investments in Art and other assets with low correlation to main source of the family's wealth




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Capital Preservation for Family Business Owners

• **Capital preservation matches or beats inflation**
=> Preserves family lifestyle & possibilities for family business owner and keeps options open

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Capital Allocation for Capital Preservation and Capital Growth

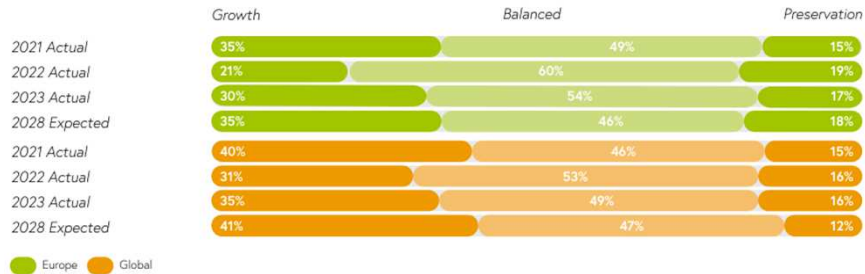
Capital Preservation and Capital Growth are the outcomes of Capital Allocation choices into different Asset Classes

- Asset allocation needs to take into account
- ✓ The riskiness of each Asset Class
- ✓ The correlation of risk for each Asset Class with the other Asset Classes in the portfolio

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Overwhelmingly family offices choose balanced and growth approaches than focus on preservation



40% of European Family Offices outperformed benchmark
 80% of European Family Offices took action to mitigate market drawdown
 28% of European Family Offices portfolio allocated to private markets

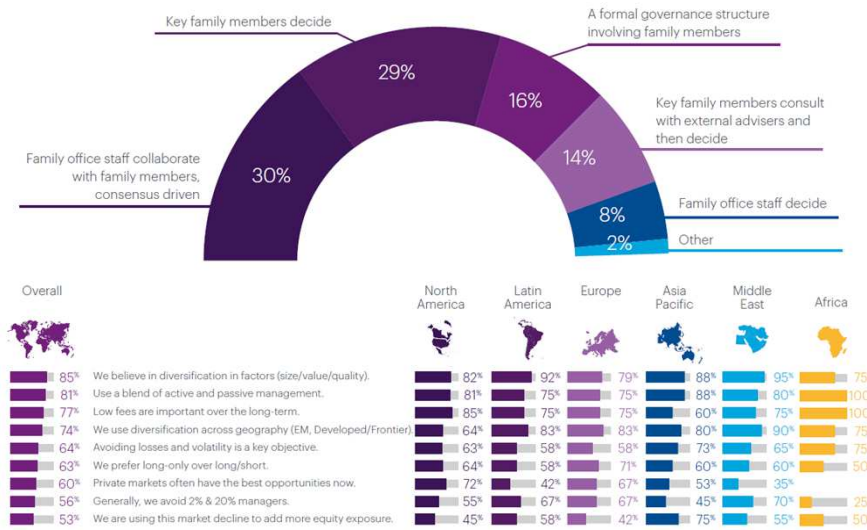
Source: The European Family Office Report 2023, Campdenwealth

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How do family offices make decisions?

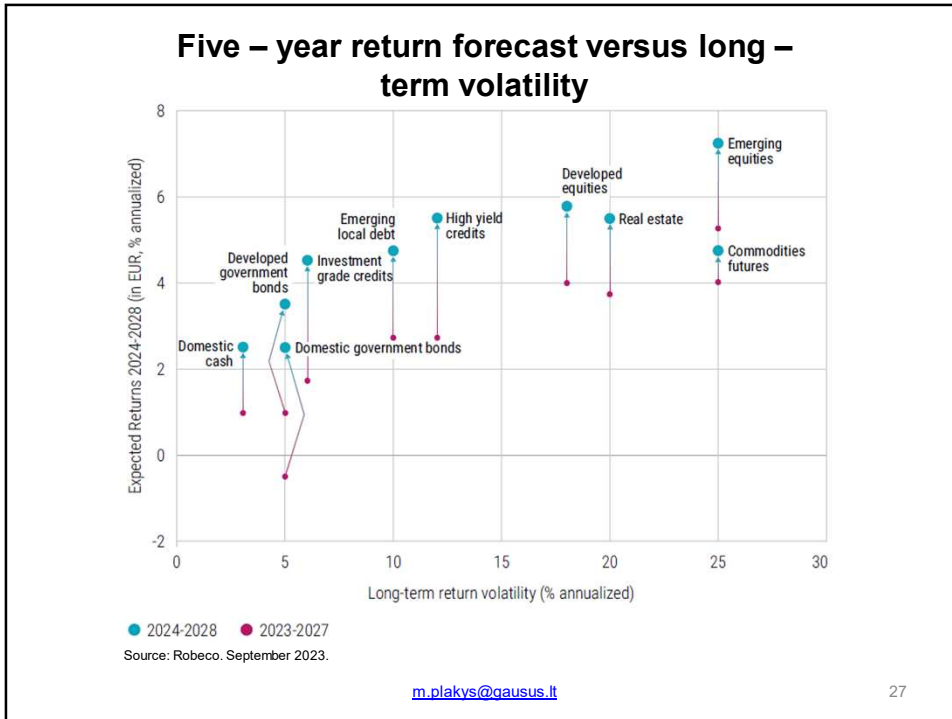


Source: dentons.com FO survey 2023

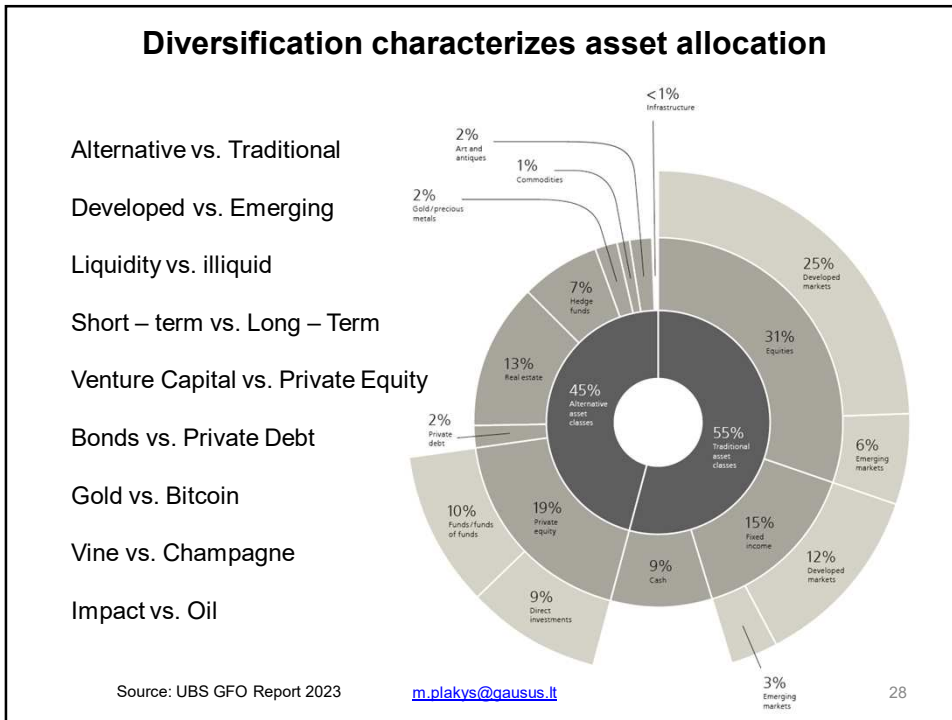
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Strategy does not change dramatically from year to year

	2019 (actual)	2020 (actual)	2021 (actual)	2022 (actual)	2023 (plan)
Fixed income (developed markets)	11%	13%	11%	12%	15%
Fixed income (emerging markets)	6%	5%	4%	3%	4%
Equities (developed markets)	23%	24%	24%	25%	24%
Equities (emerging markets)	6%	8%	8%	6%	9%
Private equity (direct investments)	9%	10%	13%	9%	6%
Private equity (funds/funds of funds)	7%	8%	8%	10%	10%
Private debt	N/A	N/A	2%	2%	3%
Hedge funds	5%	6%	4%	7%	6%
Real estate	14%	13%	12%	13%	9%
Infrastructure	0%	0%	0%	0%	1%
Gold/precious metals	3%	2%	1%	2%	2%
Commodities	0%	1%	1%	1%	1%
Cash (or cash equivalent)	13%	10%	10%	9%	8%
Art and antiques	3%	1%	1%	2%	1%

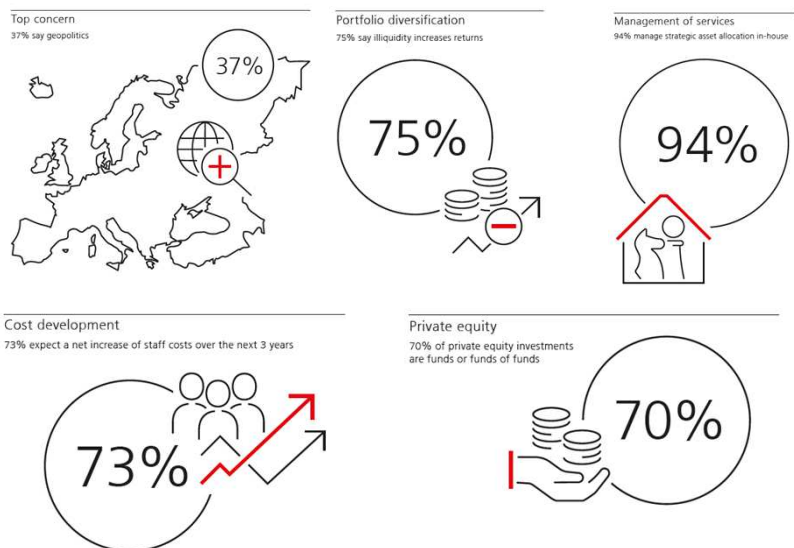
Source: UBS GFO Report 2023

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European Family Offices: Current top concern = geopolitics

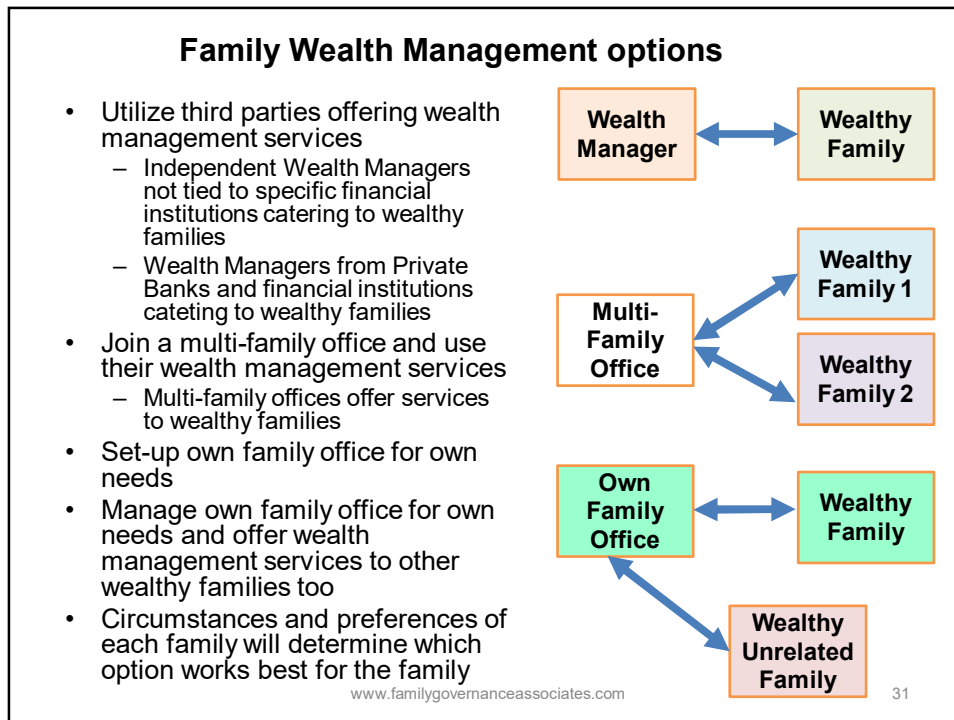


Source: UBS GFO Report 2023

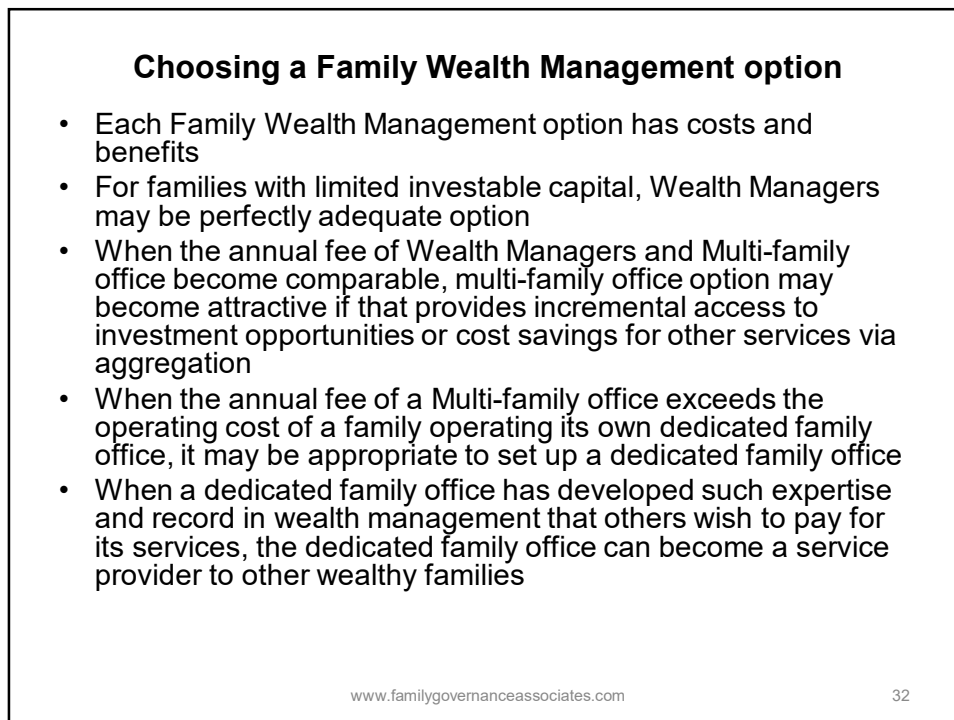
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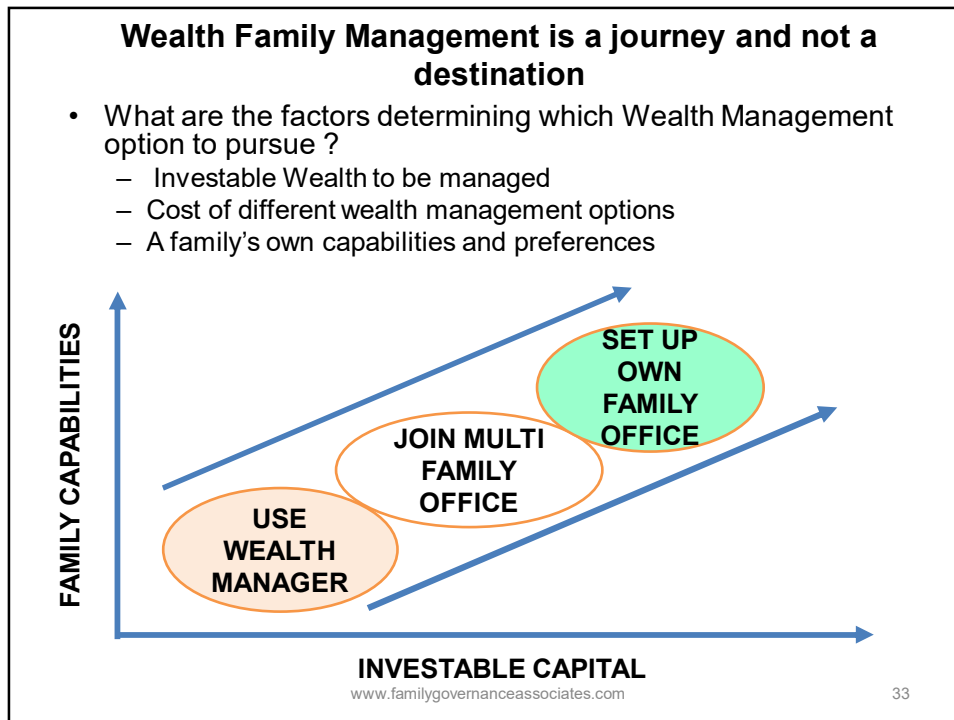
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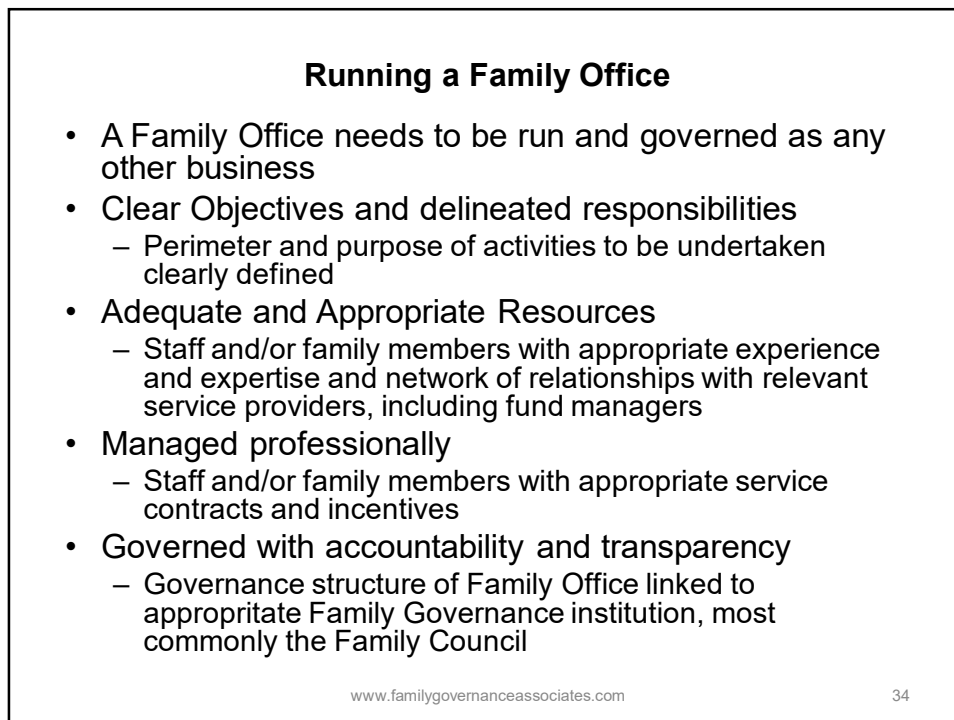
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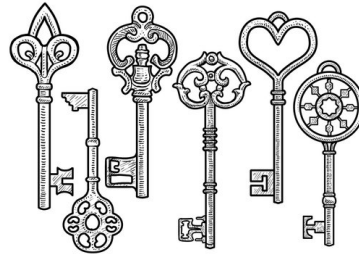
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Keys to successful Family Office operation

- Recruiting right people
- Empowering right people
- Retaining and incentivizing right people



- ✓ **HONESTY AND INTEGRITY AS THEY DEAL WITH FAMILY SILVER**
- ✓ **EXPERIENCE, EXPERTISE AND NETWORKS TO GROW AND PRESERVE THE FAMILY'S WEALTH**
- ✓ **COMPATIBILITY WITH FAMILY AND ITS VALUES AS THEIR ACTIONS ULTIMATELY REFLECT ON THE FAMILY**

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Family Office – usual services

INVESTMENT	SUPPORT	GOVERNANCE
Investment Strategy	Accounting administration	Family events and meetings coordination
Asset Allocation	Tax planning and management for individuals and entities	Communication across the Four rooms
Manager Selection	Financial, estate and insurance planning	Shareholder relations (meetings, statements)
Performance Measurement	Administration of family giving	Education (course, resources)
Investment policy	Payment of family bills	Career development and progression
Investment reporting	Management of family assets (planes, houses)	Family website or portal
Investment opportunity sourcing and due diligence	Management of service providers	
Cash Management		

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Performing wide range of services requires a broad skillset and knowledge at the Family Office

Wealth-related knowledge

- Wealth analysis, structuring, management and controlling
- Balance sheet and controlling – evaluation of financial asset, profit and risk situations
- General, legal, taxation, inheritance law
- Business management and strategy basics
- Experience and network in investing

Ownership knowledge

- Succession
- Family business governance
- Conflict dynamics
- Multi-generation development paths for families
- Assessment of managers and consultants

Knowledge of own family

- The history of the family, the company and family office, including key events
- Current strategy, technological, financial and investment challenges
- Future market developments
- Annual statements with additional balance sheet background

Personal knowledge

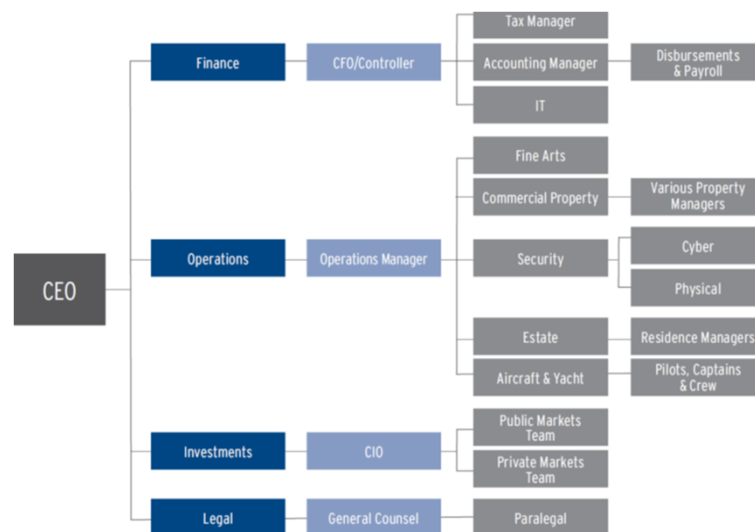
- Career paths (personal aptitudes and interests)
- Health (physical activity, nutrition, mental health)
- Education

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Family Office – organizational structure



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Measures of Success in running own Family Office

- Running one's own Family Office so well that it becomes a successful Multi-Family Office or sets up an asset manager for third parties
- Becoming so big in other businesses through a family office approach, that risk management dictates exiting the original family business



HQ Asset Management

Niarchos exits 'risky' shipping

12 November 2003 11:29 GMT

The Niarchos family empire is said to be poised for an exit from shipping with an imminent sale of its entire fleet.

The foundation in charge of the family fortune is said to have decided shipping is too high-risk. An exit would eliminate its exposure to the high liabilities shipping companies increasingly face.

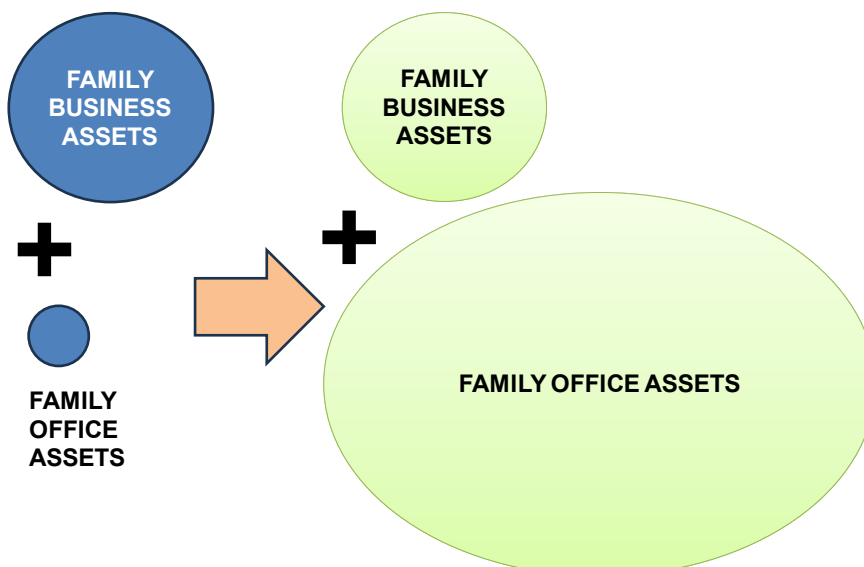


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Eventually a Family Office can become the Main Family Business



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What is the business of the Family Office ?

Keeping the Family Wealthy



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What is the purpose of a wealthy Family ?

- Creating wealth is hard work but also fun
 - Purpose is served by impact of wealth and in using Wealth for Greater Good in line with Family's values
 - Responsibility for Businesses, Communities through jobs, products and services
 - Supporting education, health, research, charities
 - Promoting specific causes, political or other
- Complete Family Governance with Family Constitution, Family Assembly and Family Council is what ensures Family members share a sense of purpose**

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Tilting the odds and economics through one's own Family Office operation via co-investment rights

- Successful asset managers invite limited partner participations in funds they manage and charge management fee (usually 2% per annum) and carried interest on the returns they generate for their limited partners (usually 20% after some agreed hurdle rate of return has been met)
- Limited partner participations usually require minimum commitment to a fund that is typically linked to the size of the fund itself
- Limited partners with significant participation in a fund, can negotiate the right co-invest in individual deals with reduced fees and carry.
- An example – Family Office X – FOX – commits \$ 15 million as an LP in fund AA with a 2% annual fee and a 20% carry over 8% hurdle rate AND co-investment rights for another \$ 15 million with only one time 2% fee on a deal and no carry.
- Fund AA makes 10 investments and from these FOX chooses 5 to co-invest, so after the full capital is deployed, FOX has
 - 5 investments with \$ 1.5 million exposure each on which it pays the full fees and carry for Fund AA and
 - 5 investments with \$ 4.5 million exposure each on which it incurs a blended fee and carry
- All investments are exited in 5 years from investment at 3.0X.
- On the 5 investments without co-investment, in effect FOX invested \$ 7.5 million, paid FOX gets \$ 17.25 million after annual fees and carry for an effective IRR return of 17.7%
- On the 5 investments with co-investment, in effect FOX invested \$ 22.5 million and gets \$ 61.95 million after blended fees and carry for an effective IRR return of 22.1%

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