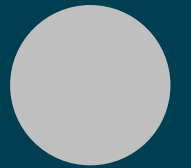
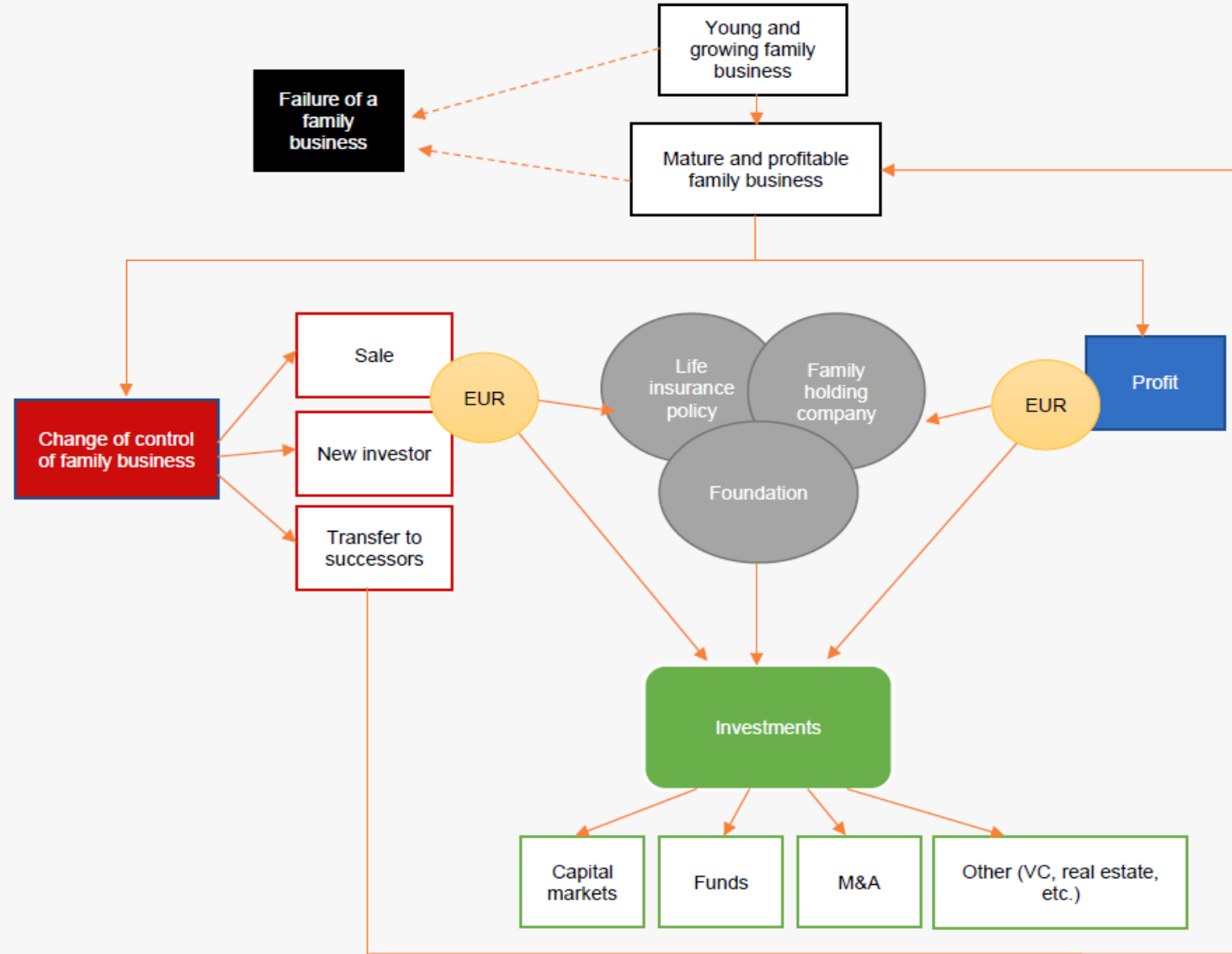


W A L L E S S

Working Principles of a Family Office in the Baltics

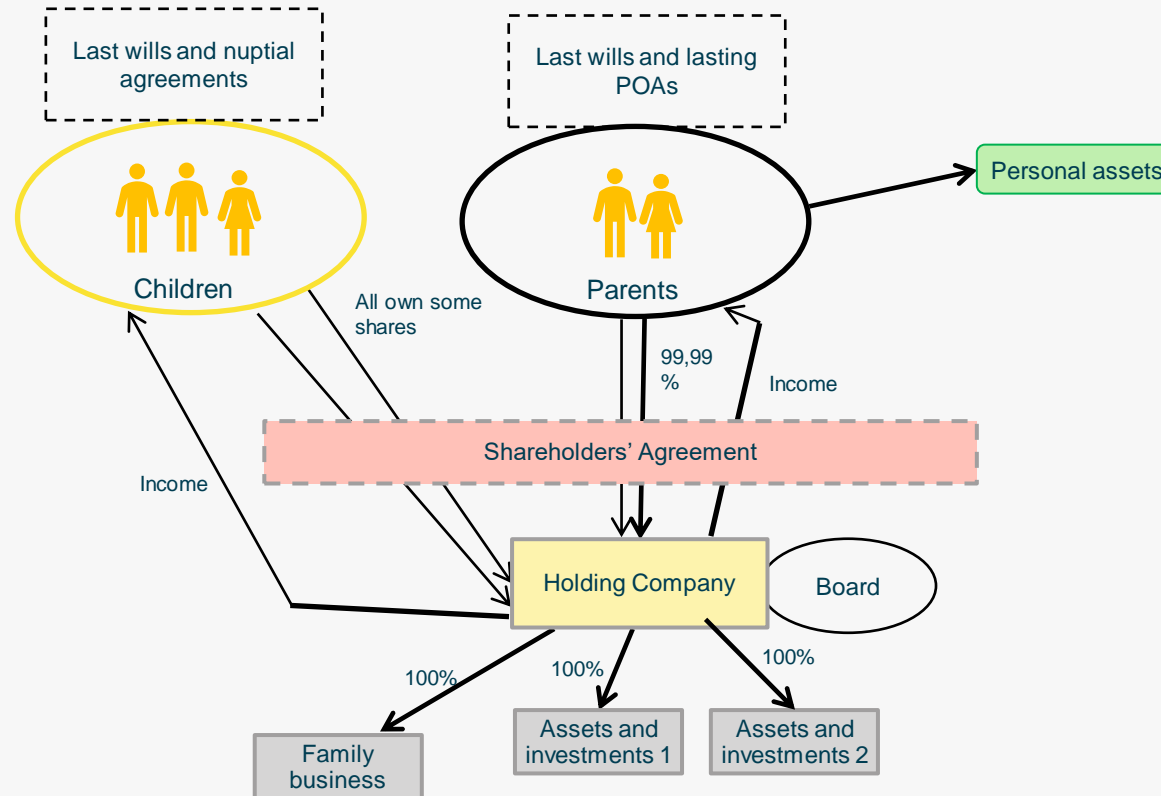


LIFE CYCLE OF A FAMILY BUSINESS



Family Holding Company as Family Office

HOW IT WORKS: FAMILY HOLDING COMPANY – STANDARD STRUCTURE



HOW IT WORKS: FAMILY HOLDING COMPANY – STANDARD TERMS (1)

- Family-owned business or other investment assets are transferred to a holding company, and the heirs are given shares in such a company, which are pre-restricted by a shareholders' agreement.
- The family holding company acts as a centralized manager of the family assets (private family office). The board may be composed of either family members or independent professionals, or a combination of both, to ensure the gradual involvement of family members in the management of the business.
- Family assets are accumulated, managed and their investment returns are distributed to the family members through the holding company in accordance with a pre-agreed shareholders' agreement.
- In case of inheritance/business transfer, the group could be transferred as an integral structure. The shareholders' agreement pre-establishes the property and business management relations between the heirs, separates the right to benefits/income and the decision-making powers/responsibilities.



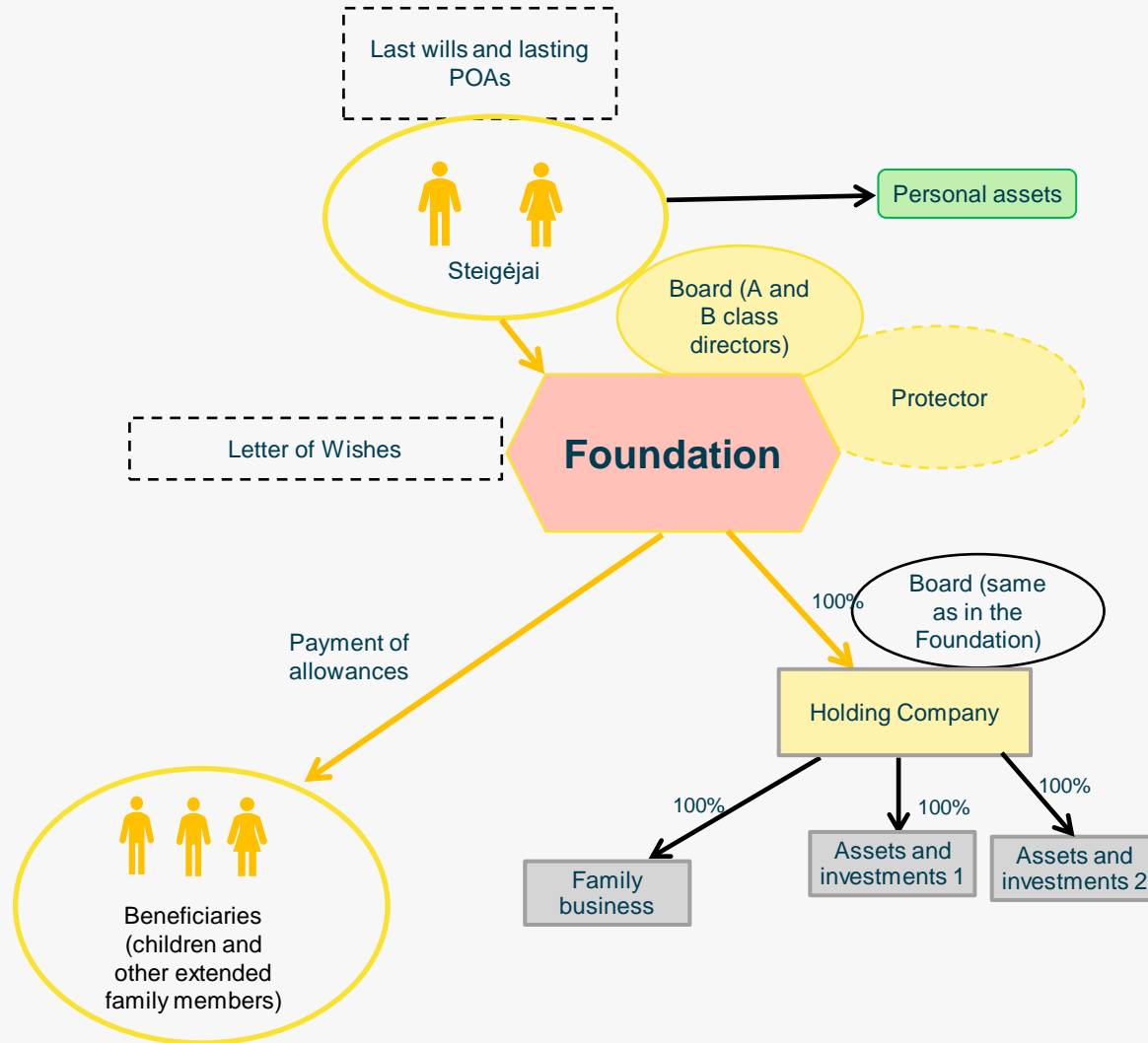
HOW IT WORKS: FAMILY HOLDING COMPANY – STANDARD TERMS (2)

- Part of the holding shares may be granted to the heirs in advance and a shareholders' agreement may be drawn up to regulate their future relationship (to secure the rights of the other shareholders). The remaining shares can also be distributed among the heirs in fixed proportions by will (individual or joint).
- The future shareholders (if married) sign prenuptial agreements separating the ownership to shares.
- The future shareholders sign last wills in respect of the family holding shares.
- Financial and other (e.g., real estate) investments held privately at the moment may be transferred to the family holding company, taking into account both the taxation of the transfer itself, the legal specificities, and the taxation of the income expected to be generated later. The transfer can create an efficient future income stream.



Family Foundation as Family Office

HOW IT WORKS: PRIVATE FAMILY FOUNDATION – STANDARD STRUCTURE



HOW IT WORKS: FAMILY HOLDING COMPANY – STANDARD TERMS (1)

- The foundation is an instrument for the transfer of wealth through family generations, which makes it possible to separate management decisions (taken by the foundation's board) from economic benefits (received by the designated beneficiaries)
- The main documents of the foundation are the articles and the founders' letter of wishes



HOW IT WORKS: FAMILY HOLDING COMPANY – STANDARD TERMS (2)

- Beneficiaries of the foundation may be designated as specific individuals or as a group of individuals (family) defined by certain criteria. The composition of the beneficiaries may vary without the foundation transferring any rights over the assets under management.
- The founder or a person of his/her choice may be appointed as protector of the foundation, who subsequently controls the board, monitors compliance with the letter of wishes, may be empowered to replace the directors/board, veto decisions of the board, etc.



W A L L E S S

Other Instruments used in conjunction with Family Office



NUPTIAL AGREEMENTS – WHAT IS POSSIBLE?

- Protection of family assets and the other spouse from business creditors if only one spouse runs the business.
- Protection against each other's personal creditors by separating the spouses' assets and liabilities to ensure the continuity and integrity of the business in the event of divorce by providing in the nuptial agreement:
 - special methods and principles for the division of property not provided for in the law;
 - specific alternative compensatory mechanisms (periodical payments, options, etc.) not provided for in the law.



NUPTIAL AGREEMENTS – WHAT IS NOT POSSIBLE?

- It is **NOT** possible to have a prenuptial agreement:
 - change the rights and obligations owed to children;
 - limit or deprive a spouse of the right to maintenance;
 - regulate matters relating to inheritance;
 - limit other personal rights of the spouse.



LAST WILL – WHAT IF THERE IS NONE?

- Classic problem – heirs become co-owners of the whole estate.
- Stagnation of the functioning of the family business while succession procedures or disputes are pending (no single manager or, in the event of a dispute, one appointed by the court, which may not necessarily be the most appropriate).
- Division of the family business and loss of value: the heirs may agree to divide the family business or the court may do so in the event of a dispute.
- Difficulties in inheriting foreign assets.



LAST WILL – WHAT IS POSSIBLE?

- **IT IS POSSIBLE** to set forth the following in the last will:
 - family business is managed by a nominee on behalf of the heirs for a certain period of time;
 - Family business is inherited by only one heir, who is obliged to pay compensation to the other heirs;
 - family business must be sold at market price and the proceeds of the sale distributed among the heirs;
 - disinherit certain persons;
 - the heirs have certain obligations (e.g., to provide maintenance to certain persons, to give them the right to use specified assets free of charge, etc.);
 - make use of the EU succession regulation to ensure that the same succession rules apply to the entire estate.



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