

The background of the entire image is a close-up photograph of a tree trunk's cross-section, showing intricate wood grain patterns and concentric growth rings in various shades of brown and tan. The text is overlaid on this background.

Morgan Stanley

The Family Legacy and Governance Institute



Governance in Context: A Case Study and Panel

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A goal without a plan is just a wish.”

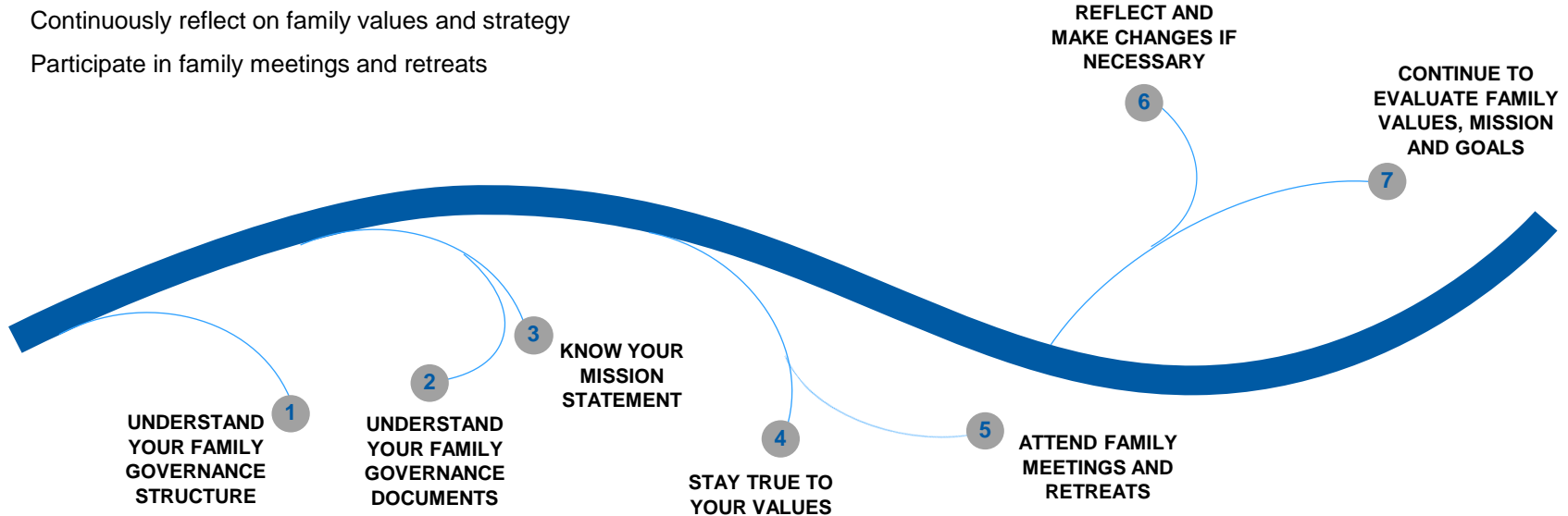
Antoine de Saint-Exupery

Successful Stewardship

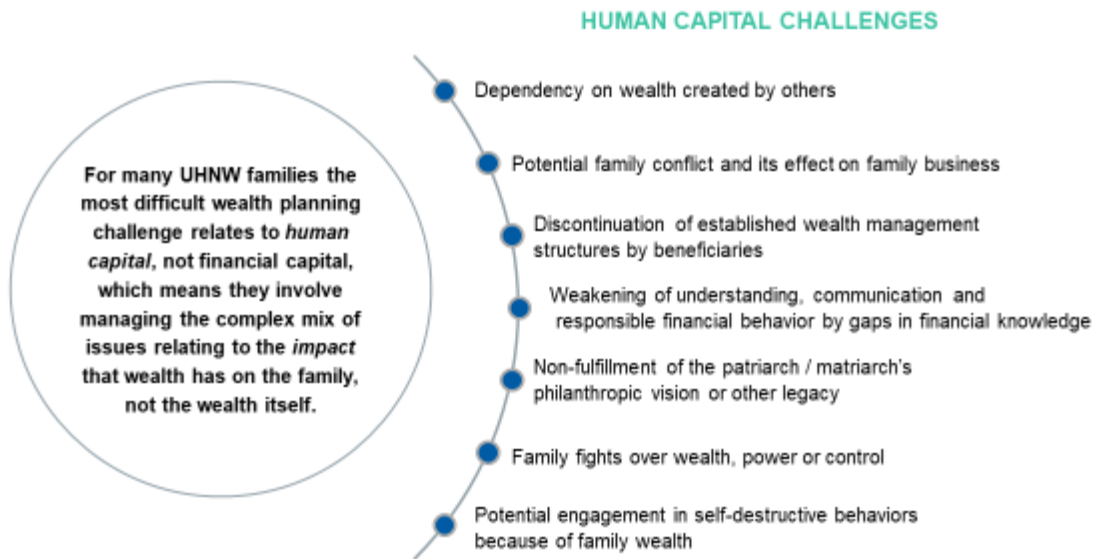
Successful stewardship is an integral part of passing down family values and strategies through multiple generations.

KEY ITEMS FOR SUCCESSFUL STEWARDSHIP

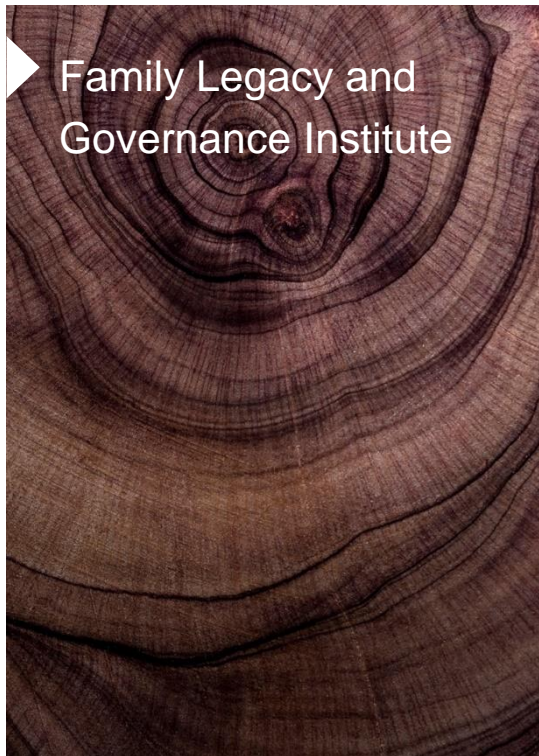
- Understand your structure, documents and values
- Continuously reflect on family values and strategy
- Participate in family meetings and retreats



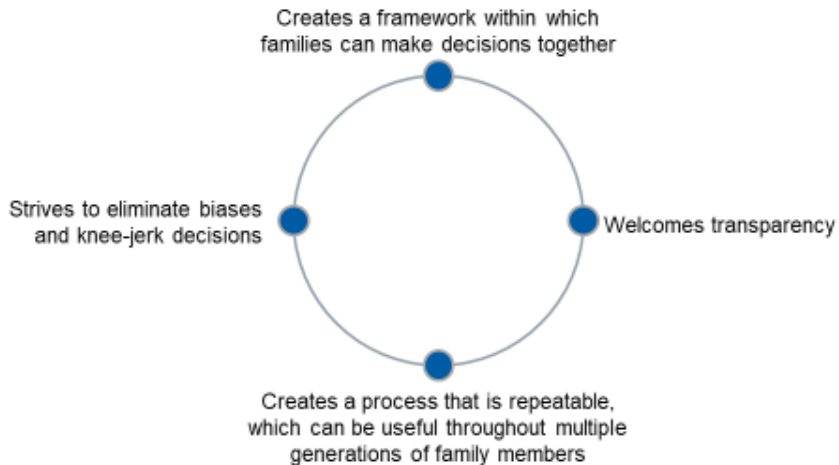
Addressing Human Capital Challenges



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Benefits of a Family Governance Structure



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A system of family governance can help families

- **Foster Transparency**

Statistics report that there will be an intergenerational transfer of approximately \$30 trillion dollars over the next few decades.¹ Family Governance can help create open lines of communication between parents and their children to discuss the nature of the family's wealth and expectations that may come with the potential of inheritance.

- **Build and preserve legacy**

Identifying how wealth was inherited or built will aid in preserving family history

- **Create or maintain the continuum of family rituals and traditions**

- **Execute thoughtful succession planning**

With a Family Governance system in place, families are able to discuss (in addition to wealth transfer) the future of a family business—who will manage the business, what other roles will need to be filled, what will happen if the family decides to sell the company, etc.

- **Establish decision-making frameworks and processes**

Identifying methods of communication for how your family will solve conflict is a key factor in fostering transparency, preserving legacy and tradition and succession planning. An example of conflict resolution may be implementing a voting system

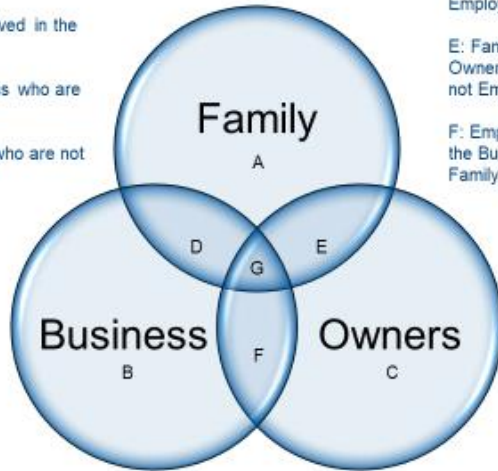
[1https://www.morganstanley.com/ideas/30-trillion-challenge](https://www.morganstanley.com/ideas/30-trillion-challenge)

Interdependence in a Family Enterprise

A: Family members not involved in the Business at all

B: Employees of the Business who are not in the Family

C: Owners of the Business who are not in the Family



D: Family members who are Employees, but not Owners

E: Family members who are also Owners of the Business, but who are not Employees

F: Employees who are also Owners of the Business, but who are not in the Family

G: Family members who are both Owners and Employees of the Business



Components of Family Conflict



Sources: *Baumoel, D. & Trippe, B. Deconstructing Conflict (2016); Pillemer, K. FaultLines (2020)*

Helping Families Maintain Mission Statements

Periodic Review of the Mission Statement

As powerful as the experience of building a family mission statement can be, the families who get the most out of it—the ones who succeed in weaving the mission statement into the fabric of the family—don't stop with creation. Instead, they return to their mission statement periodically and review it and measure themselves against it. If you can become the leader of these sessions, you can perform a very valuable service, while continuing to solidify your position as the Family Wealth Advisor.

Four Questions to Ask Families

Do they still believe their mission statement?

The most effective mission statements are often built on broad foundational principles that tend not to change significantly. But, at the same time, families are dynamic—not static—they grow and evolve. So there may be reasons to amend a mission statement from time to time.

If they don't, what do they have to change?

Typically, this is at most about minor amendments here and there, and not wholesale changes, but where amendments are necessary they should be made.

To the extent the family still believes it, have they lived their lives in accordance with it?

This is about using the mission statement as an accountability tool; we said we were going to live in a certain way; looking back over the last year, have we done it? If families answer this question honestly, the answer always is "No; we haven't lived our lives in accordance with it." That's because the essence of being human is getting it wrong—we're probably off track more often than we're on course. As a result, the next question becomes the most important one.

What do we have to do to get back on track?

This is the most impactful part of the review. When they built their mission statement together, the family committed to one another to live in a certain way. They've just acknowledged to one another that they have gotten off track. Now, as a family, they should decide what they have to do together to get back on course—back on the path they all agreed they would take when they created the mission statement.

Families That Gather Together can Work Together



FAMILY COUNCILS

Entity consisting of family members, formed to address issues relative to the family, business, philanthropy and their intersection.



FAMILY MEETINGS

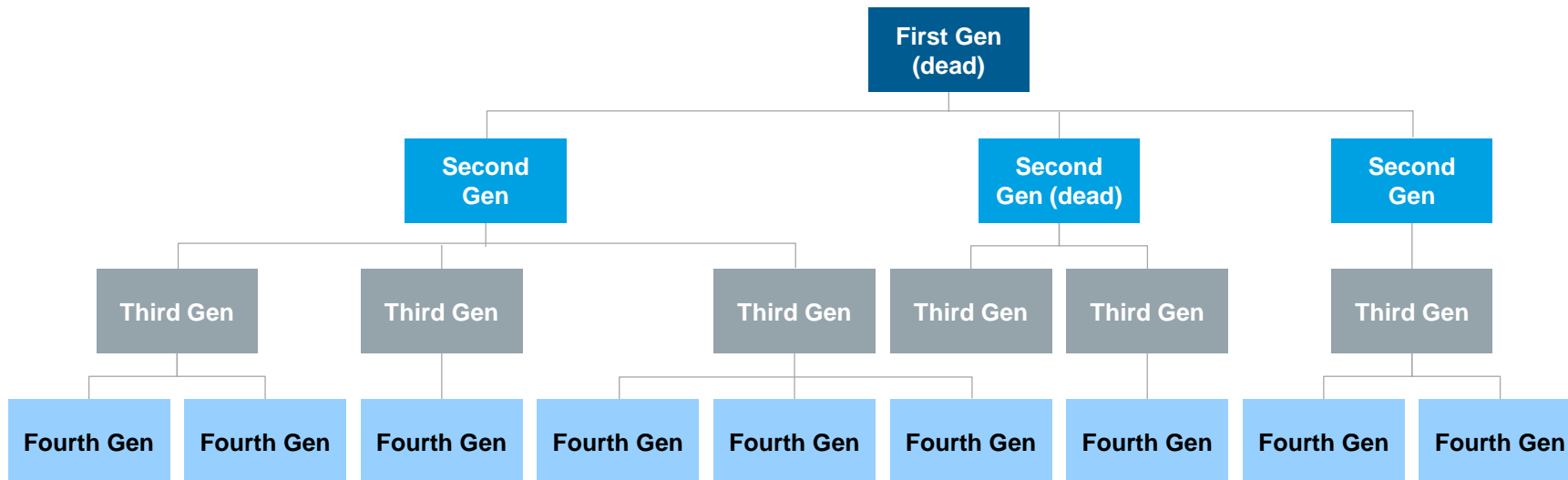
Periodic gatherings to educate and inform family members on matters of business, philanthropy, or other group undertakings. A time to provide updates and celebrate milestones.



FAMILY RETREATS

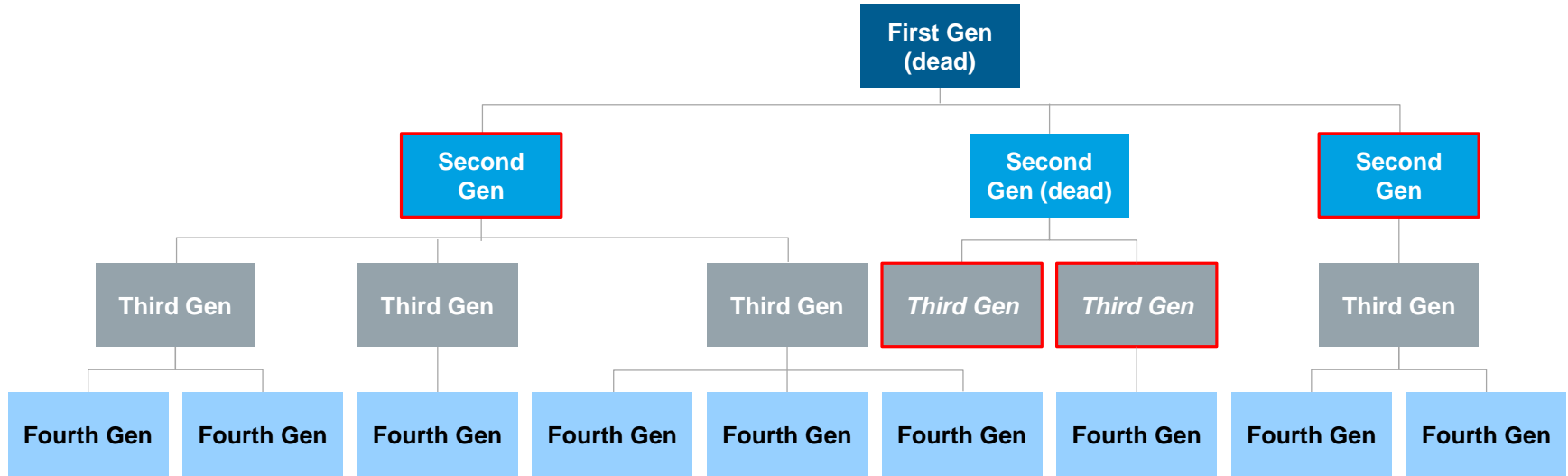
An opportunity for families to remove themselves from their day-to-day life and connect with family. The goal is to share time, strengthen ties and develop trust.

Hypothetical Family



In the family we'll use as our illustration, the members of the founding generation (yellow) are deceased. There are three second generation family members (blue), all of whom had descendants, and one of whom is deceased. The second generation descendants had an unequal number of descendants. Most of the third generation descendants (gray) have children of their own; one does not.

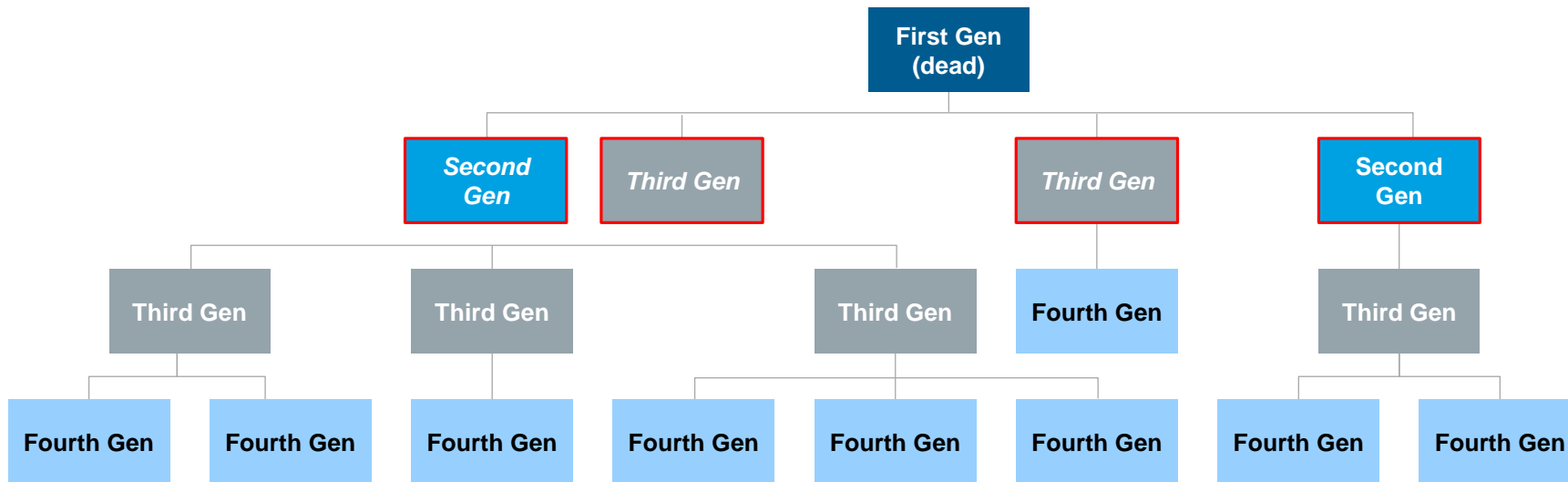
Council Representation Plan: A Stirpital Basis



Hypothetical illustration

In the plan illustrated by the diagram above, representatives are not elected; They assume their position simply by virtue of their position in the family. Thus, the representatives are the senior descendants of the first generation, illustrated by the heavy outlines around the family members. If a family member dies, her or his descendants step into the shoes of the deceased family member.

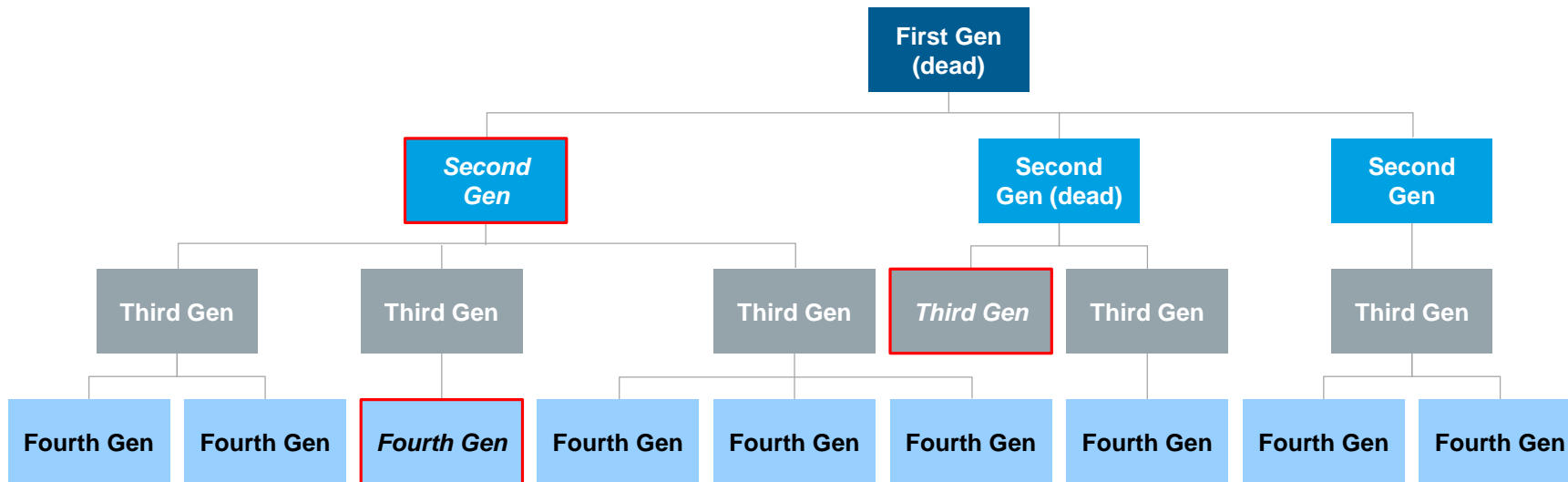
Council Representation Plan: A Modified Stirpital Basis



Hypothetical illustration

Just as in the case of the stirpital plan, in a modified stirpital plan representatives are not elected; they again assume their position simply by virtue of their position in the family. The representatives again are the senior descendants of the first generation, illustrated by the heavy outlines around the family members. If a family member dies, her or his descendants step into the shoes of the deceased family member. But in this plan descendants of a deceased family get fully elevated into the decedent's position, and the number of votes increase. Thus, there are four members and four votes.

Council Representation Plan: Generational Voting Across Family Lines



Hypothetical illustration

The plan illustrated above is radically different from the first two. Here, representatives do not attain their position based on generational status; instead they are elected by the members of the council. This diagram illustrates a generational plan (one member from each generation), but families could also adopt a stirpital election plan (one member is elected from each family line). In either instance (generational or stirpital), families could decide that there will be one or multiple members, from each class, depending on the size and complexity of the family. Moreover, each generation could vote separately (in other words, members of the second generation vote to elect their representative; members of the third generation have a separate election to elect their representative), or the entire family could vote on each representative (that is, the entire family votes for a second generation representative, a third generation representative and so on).

Structuring Considerations: Modes of Decision making

- Another critical issue to address in the structuring phase is how decisions are to be made; that is, whether actions of the family council will be determined by the affirmative vote of a majority of its members or whether the family council must act by consensus.
- While most families adopt majority decision making, consensus decision making, although quite hard, can be the most powerful and effective way to make decisions together as a family. That is because the alternative, majority decision making, necessarily creates winners and losers on any particular issue.
- By contrast, with consensus decision making, the family necessarily must agree, or no action can be taken until a course has been found as to which all family members agree. While that may mean that the action that ultimately is taken is one that no family member finds perfect, it necessarily means that the action is one that *every* family member can at least endorse. For this reason, consensus decision making is an extraordinarily powerful way for families to make decisions together.

Structuring Considerations: Other Important Issues

There are several other issues to address in the structuring phase. These include, for example:

- If spouses are to be members of the family council, do they cease entirely being members upon divorce, or do they continue in some (perhaps limited) function?
- At what age do family members participate in the deliberations of the family council?
- At what age do family members vote? (For example, some families create a structure where one may begin attending meetings after attaining a specified age, say 18, and vote after attaining a different age, say 21.)
- Will non-family members play any role on the council? (For example, some families include professional advisors, such as Financial Advisors, Attorneys, accountants, etc. on their council, either in an advisory or voting capacity. Other possible roles for non-family members could be breaking ties (for families that adopt majority decision making), or seeking to facilitate consensus (for families that adopt consensus decision making).
- If the family council is to include non-family members, what provisions should be made for removal and succession?

While the list is intended to be illustrative and not exhaustive, it will give you an idea of some of the important issues most families seek to address when creating a family council.

The Question of When to Address These Issues

At first blush it might appear better to defer the resolution of some issues until a later date (for example, it might seem better to defer resolution of the question about the status of a divorced former in-law unless and until the family actually has to confront the issue).

But, our experience teaches us that it is often better for the family to try to have a normative code in place that addresses as many of these issues as possible from the outset. That is because, when families defer such issues and resolve them in ad hoc ways as the need for resolution arises, it may always appear (and indeed, may in fact be the case) that the resolution is personality-driven, rather than reflecting a principled application of the family's values.

By contrast, as we've explained, when the family creates a set of rules and procedures in advance, and then seeks to apply them neutrally to facts that arise in the future, it is more likely that the decision will be a principled one. Such a decision is likely to have much greater moral and persuasive force.

Define and Know the Plan

UNDERSTAND WHAT YOU HAVE IN PLACE TODAY

- Know your family governance structure
- Know what values are set for your family
- Understand your mission statement
- Be able to understand the guidelines set forth by your documents

ALIGN WITH YOUR WM STRUCTURE

- Working with your Private Wealth Advisor, make decisions that will incorporate your family values and mission into your investment choices and philanthropic endeavors
- Be able to understand your investments and how they fit with the family goals

COMMUNICATION

- It is important to have members of the family engaged in order for the plan to be successful
- Ensure that there is dedicated time for meetings and retreats to keep the family on the same path
- Engage an advisory board or outside council

PERIODIC CHECK-IN

- Ask yourself if your family values, mission or goals have changed
- Families that ultimately succeed in weaving their mission and values into the fabric of their family dealings are those who periodically return to the statement to review and adjust according to any life or family changes



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