DOES YOUR FAMILY NEED AN INVESTMENT COMMITTEE?

"WE STANDS FOR WEALTH ENTERPRISE."

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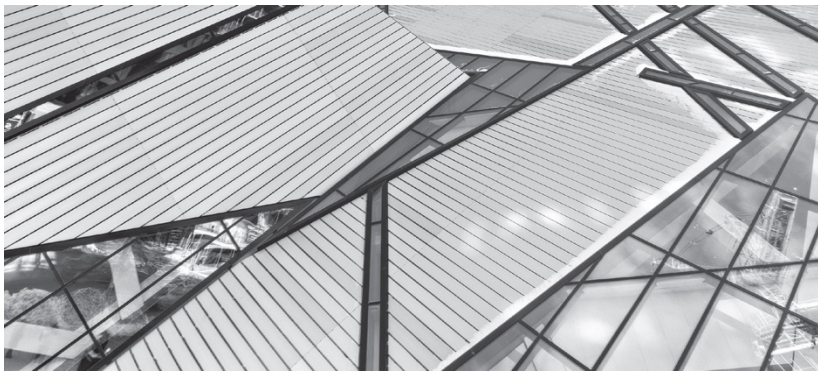

FAMILY BUSINESS INVESTMENT COMMITTEE

Over the years, we have worked with many different families. While each family is unique, what they all have in common, however, is the desire to do things the right way, both for themselves and for their next generations. They have been successful at wealth creation, in an operating company, but they may be new to growing and preserving that wealth as a pool of financial investments. One of the most important best practices we see across families who are successfully managing their wealth enterprise is to have clear and consistent oversight and decision-making processes. While different families will adopt different processes, the common ingredient is defining and implementing a consistent process. In this article, we will try to share our experiences of establishing a decision-making process for the family to oversee their investments.

When a family accumulates significant wealth outside of the family operating company, a family may establish a business in itself, operating as a holding company, albeit without a commercial context. They establish a wealth enterprise. For our purposes, we will call the wealth enterprise "Our Family Wealth Enterprise, Inc." This company generally has bank and investment accounts, real estate investments, hedge funds, venture capital funds, art collections, various residential homes, personal airplanes, boats, and other high-value assets. If an operating business were valued at $100 million, it would not endure or succeed without a clear vision, strategy, structure, protocol for decisions and operational processes. In addition, successful companies have highly effective teams working together to support and execute the company's vision and mission. The same practices and processes can be applied to the family's wealth enterprise.

Creation of an Investment Committee for the Family:

One of the first steps a family can take is to create a committee focused on making investment-related decisions for the family as a group. Decisions such as investment strategy, objectives are defined, a mission is stated, and most importantly, a process of monitoring and measuring success is created. To create a Family Investment Committee, here are seven aspects to consider:

1. **Creation of a Charter**, which defines the mechanisms of that investment committee. In this agreement, it is necessary to define who the members are, whether there are external members or not, how decisions are made (unanimously, qualified majority or simple majority), frequency of group meetings, and who is

ultimately responsible for implementing the investment decisions made by the group. This document will outline the structure for all investment committee meetings during which the minutes of the previous meeting will be approved and signed. All the discussions and decisions made during these meetings will be documented.

2. **Definition of the Family Mission –** Defining the purpose of the family's wealth is an important component that links the family's objectives with the day-to-day administration of the wealth management. The mission provides direction to the family office and others who support the family. Family vision/mission can only be determined by the family based on their specific values and what is important to them.

3. **Education –** It is possible that the members of the investment committee may not all have the same level of investment and financial knowledge. It is very important to provide basic conceptual training on the different components of an investment portfolio, the risks involved in each type of asset, as well as potential returns for each of them. In addition to basic knowledge of each asset class, a conceptual knowledge of diversification, rebalancing, liquidity needs, and long-term investments is important. Each family will have different cash flow needs that will define the type of investments they can make with their financial portfolio. As an example, if they live on operating business dividends, or real estate rents, they may not need the investment portfolio to generate recurring payments over time. If they do not have income in the medium or long term, a family must always have a safe, liquid pool of capital to be able to meet their daily life needs for at least the next 24 months.

4. **Creation of an Investment Policy Statement (IPS) –** This document outlines and defines both the expected return objectives as well as the risk and volatility tolerance that the family decides are appropriate for their portfolios. Instead of focusing on historic returns, this document should take expected future returns into consideration, although it should consider how the strategies have performed and evolved in the past, especially during difficult times.

5. **Financial Service Provider Management –** On average, most high-net-worth families work with more than 20 service providers. This ecosystem is important, but it needs coordination and oversight to ensure efficient integration with the overall objectives of the family's mission and vision for their wealth enterprise. It is critical that the providers in a family's network are professional, of a high caliber, and at a reasonable cost. For the wealth enterprise to function smoothly, a family should define with whom they prefer to work, and how the relationship will function.

6. **Consolidated Information**: Incorporating a process that not only adds data and information about investments, but also reconciles cash flows and reviews data is crucial. There are several aspects of reporting that are critical to a family's wealth enterprise, and should be monitored regularly:
    a. Fees and costs from financial institutions
    b. Excessive commission charges other than those negotiated
    c. Incorrect transaction prices

There are many reasons to have a robust reporting, auditing, and control process.

7. **Periodic Monitoring of the Evolution of the Wealth Enterprise,** as well as the different components of it. While our recommendation is to be strategic and have a long-term perspective, there might be tactical opportunities that can help reduce risks or improve returns. This committee should be open to listening, weighing risks, and making decisions effectively when required. Investments that have gone well, as well as investments that have not evolved as planned, should be analyzed, and the findings and discussion about these investments should be documented in the minutes of each meeting. This will help the learning process and will also support accountability for each decision made.

In our experience, this process has helped many families create a strong and well-functioning wealth enterprise, establish a forum for them to make decisions together and communicate more effectively about critical subjects, all while strengthening their interpersonal relationships. In engaging and providing a learning environment for family members, the family can prepare for a successful transfer of wealth to the next generation.

For more information, contact WE Family Offices at 305.825.2225 or email info@wefamilyoffices.com.