

FOA

CERTIFICATE IN
FAMILY OFFICE ADVISING

The Family Office Set-up

Concepts and Action Agenda

Key Considerations

■ Scope & Organisation

Family Board Advisory
Board Investment
Committee

■ Policies and Documents

Family Constitution
Investment Policy

■ Systems and Processes

Investment Structure
MIS & Reporting Systems

Scope & Organisation

■ Scope

Succession Planning

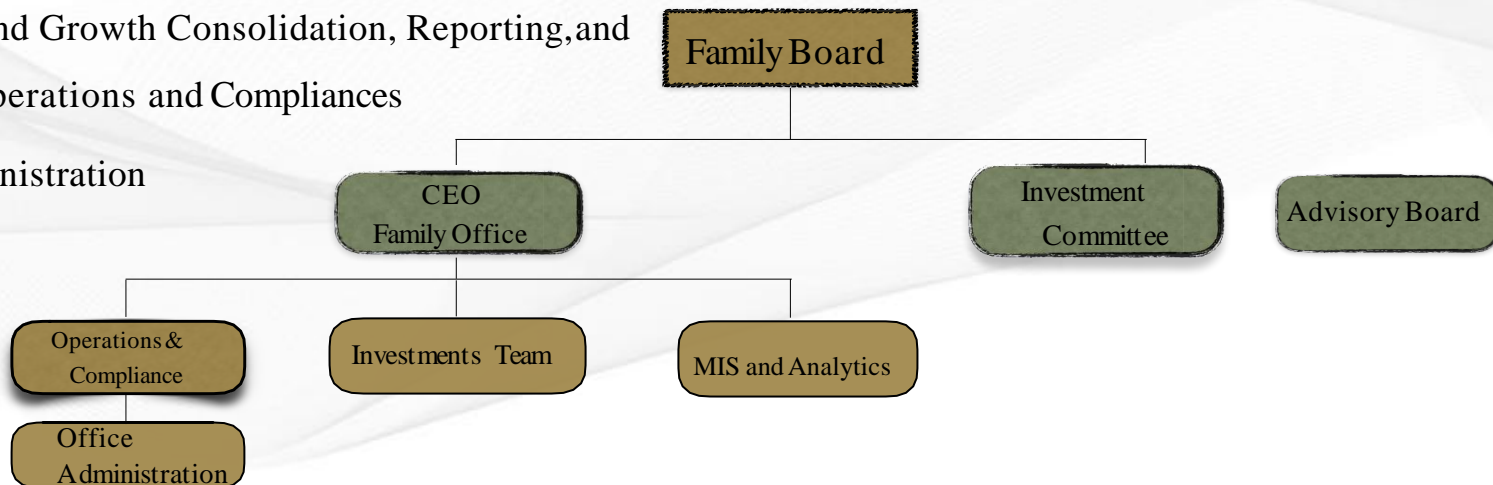
Portfolio Management and Investments New Business

Incubation and Growth Consolidation, Reporting, and

Analytics Operations and Compliances

Office Administration

■ Organisation





Family Board

- Restricted to Bloodline (or once removed)
- Defined qualification criteria (Education, experience, age)
- Power to define and modify Family Office systems and processes
- Act as Protector for Family Trusts, deciding on distributions and beneficiaries
- Approval body for all Investment Committee and Advisory Board recommendations



Advisory Board

- Aimed at providing neutral advice on sensitive family matters and specific business/investment decisions
- Close friends and relatives of the family
- Professionals with long-standing relationships with the family
- Trust Administrators and Trustees
- Trusted experts in the areas of family business, family governance, investments, etc.



Investment Committee

- Headed by Family Office CEO/CIO
- Family Board Representative(s) often have veto rights
- Family's business gets a representation through Strategy Head or CFO
- Representative of Family Office Advisor brings in market intelligence and updates
- Can have Advisory Board representation (experts from different areas, full time or invitees)
 - Risk Management
 - Investment Banking
 - Business Operations



Policies and Documents

- Used to define boundary conditions for the functioning of different entities (Empanelled Advisors, Family Board, Advisory Board, Investment Committee, etc.)
- Family's values and objectives get defined in the Family Constitution
- Investment Policy specifies the guidelines for investment into Business, Financial Instruments, Ventures, Real Estate, and Philanthropy
- Used as annexes to Letter of Wishes from the Settlers to Trustees of the Family Trusts, defining rules related to the Protectors' guidance to Trustees from time to time.
- Strict definitions of clauses in the policies and properly laid down provisions for modifications lead to prevention of conflict within the Family.



Family Constitution Basics

- Core values and Traditions of the Family
- System of decision making and communication between Family Board and rest of the family
- Detailed objectives of family, broken up into needs related to lifestyle, business, succession, and charity
- Parameters related to involvement of Family members with the Group businesses
- Guidelines relating to Family members' conduct and public relations
- Guidelines on engagement with next generation, their grooming and induction
- Defined roles and responsibilities of Family Board members



Detailed Family Constitution

- Vision: Perpetual process to preserve assets, grow them as per accepted risk parameters, and distribute to beneficiaries as per family guidance. Follow fair and ethical principles while managing family affairs, contributing to society and family.
- Structure: Roles and responsibilities, composition, qualification criteria, selection/appointment methods for Family Board, Advisory Board, Investment Committee, and Trustees
- Processes:
 - Detailed deployment process for various portfolios (contingency, lifestyle, growth, strategic, philanthropic) along with principles of allocation to the same.
 - Code of conduct and Public relations policy of the family.
 - Communication process for the larger family with regard to activities of Family Board and Investment Committee and ways of receiving their feedback

- Themes and Principles: Definition of themes (including constraints, preferences, and exclusions) for philanthropy, family run ventures, and financial investments
- Distributions: Clear directions on deployment of investment income and redeemed corpus, along with defined processes for distribution to family members (minimum distribution, one-time distribution for emergencies or venture funding, regular annual or milestone/age based distribution, etc.)



Investment Policy Basics

- Define allocation, goals, cash flow requirements, and rules for different portfolios, each linked to a specific objective
 - Contingency Portfolio - Linked to Inflation
 - Lifestyle Portfolio - Linked to Economy Growth
 - Growth Portfolio - Long term value creation
 - Strategic Portfolio - Locked-in for business
 - Philanthropic Portfolio - As per Family Constitution
- Identification of constraints and preferences across portfolio
- Setting up prudential exposure limits - by manufacturing house, scheme, strategy, etc.
- Defined process for review and monitoring of different portfolios, entry and exit
- Defined roles and responsibilities of Investment Committee members



Detailed Investment Policy

- **Corpus and Goal Definition:** Starting Corpus and goal (including risk-return numbers) definition for each portfolio along with rules on how future income and redeemed corpus is to be treated
- **Asset Allocation:** Define strategic asset (and sub-asset) allocation for each portfolio as per respective risk/return objectives along with provisions and rules for tactical deviations
- **Roles and Responsibilities:** Defined boundaries for each individual and group's role, including meeting frequency, making and approving investment decisions, delegation of authority for investment activities including signing documents, appointing and dealing with external agents (advisors, bankers, investment managers)
- **Reviews and Reporting:** Defined parameters for reviews of different portfolios, format and frequency of MIS reports, periodicity of cash flow reviews

- Prudential Limits: Defined limits for exposure to single investment (<5), single fund (<15), single house (<20), specific sectors, minimum liquidity (bank accounts and otherwise), maximum lock-in (weighted average number of months for portfolio, considering tax and exit rules), clearly defined allowed investments and exclusions for each portfolio
- Risk Management: Defined risk types associated with each portfolio including liquidity, market, interest rate, credit default, legal and regulatory, fraud and corruption, market participant counter-party, etc. Mechanism to measure such risks and defined frequency to discuss the same
- Updates, Modifications and General Principles: Defined frequency and mechanism to update or modify the investment policy as long as it's true to stated general principles (skill and prudence to select investments, diversification of investments and of managers, effective risk management and continuous monitoring)



Investment Structure

- Holding Structure (Company/Trust) governed by Family Charter, with defined objectives, processes, and people
- Family Board to be the final decision maker in case of any exceptions or modifications to Charter
- Supported by Advisory Board, Investment Committee, Trustees, other External Advisors and Agents
- With increase in Family size over generations, the Family may in future, need a Family Council out of which Family Board is chosen/nominated/elected
- External Advisors and Agents
 - Role/Authority defined by Family Charter and Investment Policy
 - Family Office Advisor
 - Trustees/Administrators
 - Bankers, Deal specific Advisors, and Investment Fund Managers
 - Product Distributors (Wealth Management Firms) and Deal-flow Partners (Incubators, Accelerators, Boutique Investment Banks)
 - Tax and Legal Consultants (in-house liaison for coordination)



MIS & Reporting Systems

- Consolidation across service providers, asset classes, and product types
- Simple access to accounting systems for statutory compliances
- Remove/Minimise manual data inputs Manual maker and automated checker provisions to record and verify all transactions
- Fixed format Reports as well as capabilities to slice and dice data as per ad hoc requirements
- Source for research data (on companies, investment products, and people)
- To be managed through
 - Central MIS system
 - Subscriptions to research publications Integrations with existing accounting systems



Next Steps

- Decision on Constitution of
 - Family Board
 - Investment Committee Family
 - Office Advisor
- Formulation and Drafting of
 - Family Constitution
 - Investment Policy
 - Trust Deeds
- Portfolio Re-alignment
 - Existing investments
 - Current Liquidity
 - Fresh Allocations (to define expected timelines)

Thank You