



Structuring the Family Office

May 2022

Family Office
Advisors Program





Table of Contents

Introduction

Why a Family Office ?

What is Family Office ?

Importance/Need of Family Office

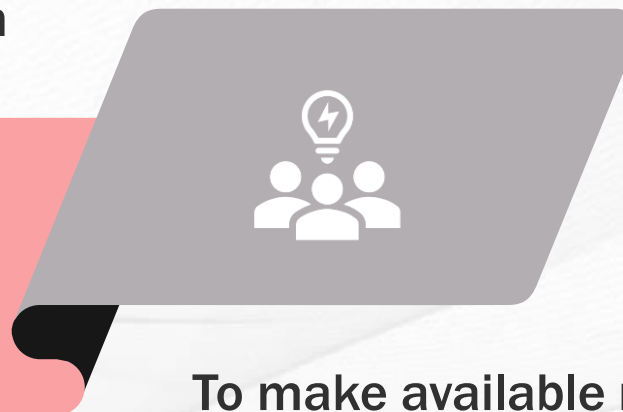
What can it do for you ?

Office Services

Key Takeaways

Why a Family Office?

To leave the principals free to focus on achieving business vision



To make available relevant experts who think and act on behalf of the principals*

Family Office
Advisors Program



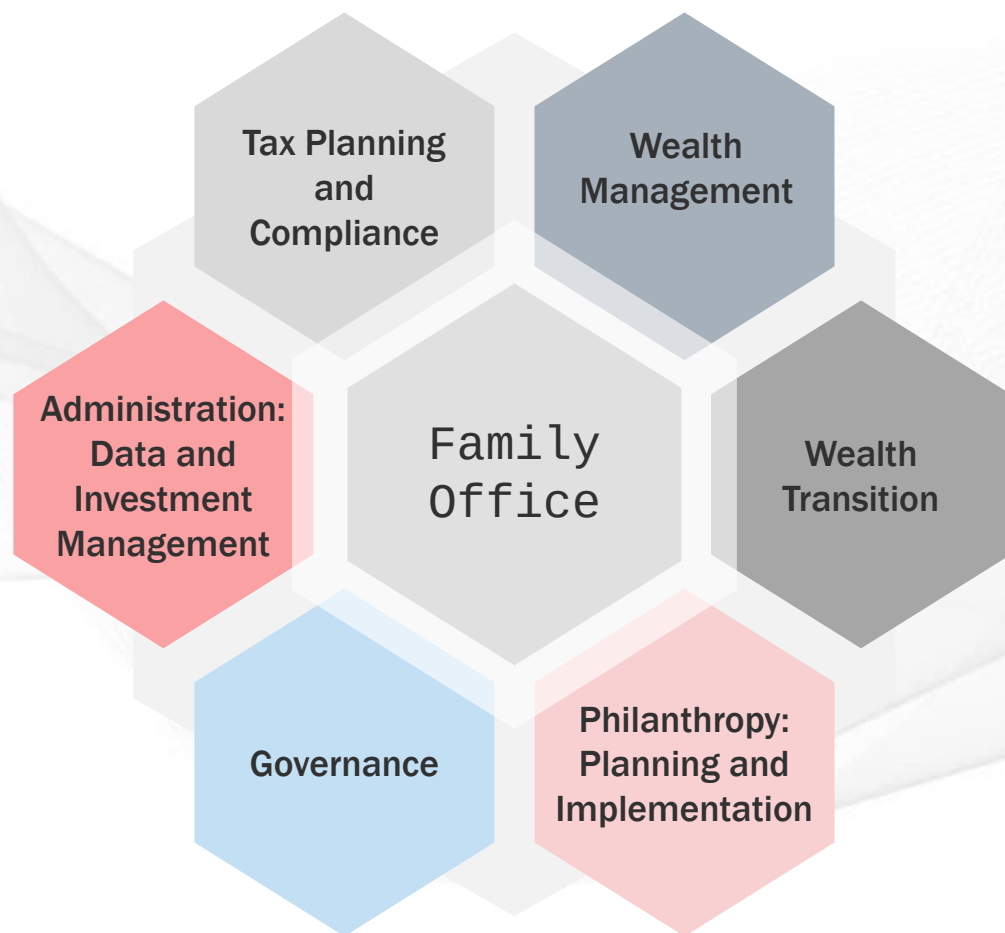
*Principals refers to the person's belonging to the family that sets up the Family Office.



01

- What can it do for you?

What is Family Office ?



Family offices can be structured to provide 360 service to Principals

Family Office
Advisors Program



Family Office: Scope of Services





02. Family Office Services: Deep Dive

Family Office
Advisors Program



Governance: Family & Business

Business Monitoring

- Benchmarking Financial ratios
- Monitoring indebtedness
- Monitoring PGs
- Monitoring Group-wide Funding costs
- Action monitoring and outcome analysis

Personal Expensing

- Monitoring day-to-day finances and payroll
- Budgeting, record keeping, tax planning & cash flow management
- Credit Cards and other banking
- Travel and accommodation
- Paying your bills, banking, handling your budget & cash flow analysis

Personal CFO

- Accounting, reconciliation and analysis
- Overseeing wealth managers, estate planners, and other trusted advisors

Asset Monitoring

- Managing collectibles, luxury goods, & vehicle ownership
- Purchasing & financing major assets
- Ensuring appropriate security measures
- Insurance of assets and personal

Family Office
Advisors Program



Governance: Business Strategy & Governance

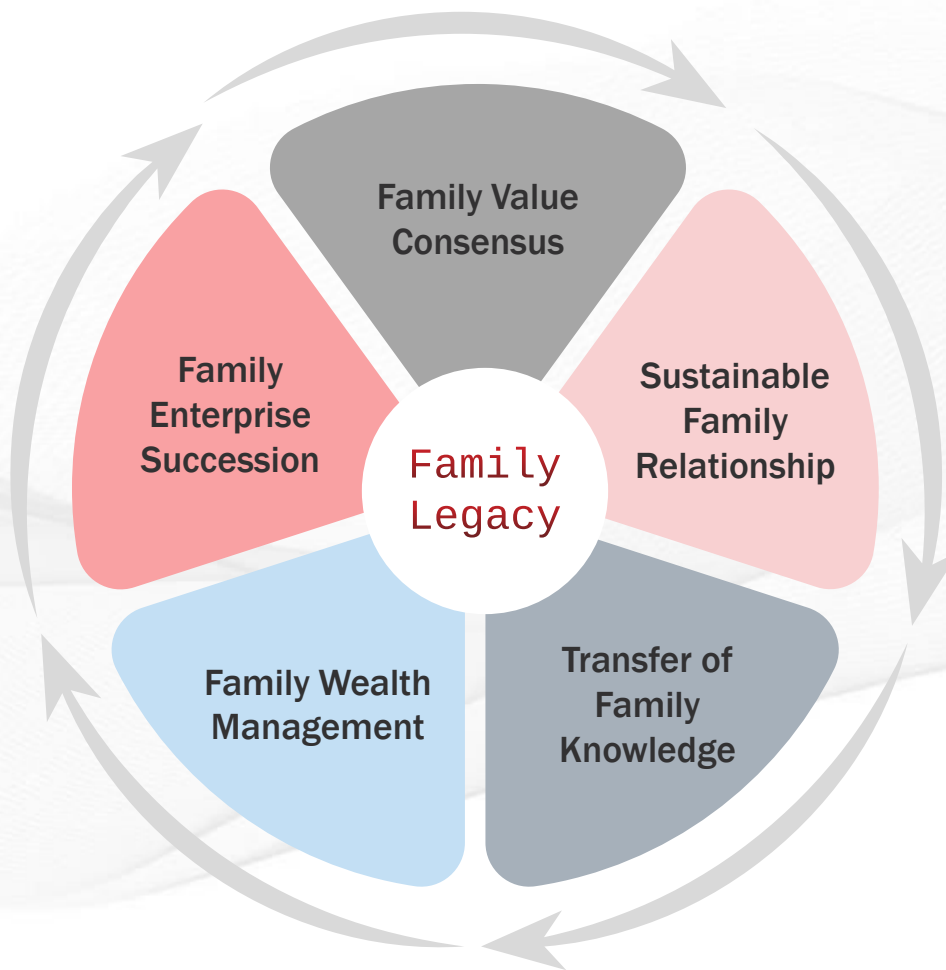
Owner Level

- Maintaining Board Composition relationships with Board members
- Monitoring Voting pattern
- Monitoring entrenchment rights
- Providing Decision Support Systems
- Providing strategic inputs for new ventures
- Negotiating Shareholder agreements
- Equity Dilutions & Fund Raise

Board Level

- Monitoring shareholder rights & enforcement
- KMP Appointments
- Delegation of Financial Powers
- Performance analysis of existing companies
- Performance analysis of individual family members

Wealth Transition: Legacy Planning



Family Office
Advisors Program



Wealth Transitions: Ownership structures

- Studying ownership patterns
- Ensuring ownership patterns are tax efficient
- Structuring holdcos, Trusts etc. in line with constitution and objectives
- Compliance with laws, regulations and rules
- Succession to Trusteeship and Directorship
- Succession to managerial roles.
- Customizing the succession plan to meet the needs of the Successor and family structure



Family Office
Advisors Program



Wealth Transitions: Leadership Mentoring

- Expectation setting
- Gap Analysis
- Suggesting measures:
 - Setting a mentoring program up
 - Role of parents in the program
 - Need for working outside family business
 - Bridging Education programs
- Periodic review
- Successor identification



"The best advice I can give, to a young teacher, is to realize that students will probably forget most of what you say but not how it made them feel."

Family Office
Advisors Program



Wealth Management (1/3)

- Protection & Investment Management
- Asset Protection- Creditor, Regulatory and Marital Claims
- Alignment of Business Risk with Investment risk.
- Decision making process clarity
- Family Risk and Wealth assessments
- Investment Objectives & Investment Policy basis Risk Profile
- Inv. Policy adjustment due to changes in Environment
- Advisor Selection



Family Office
Advisors Program



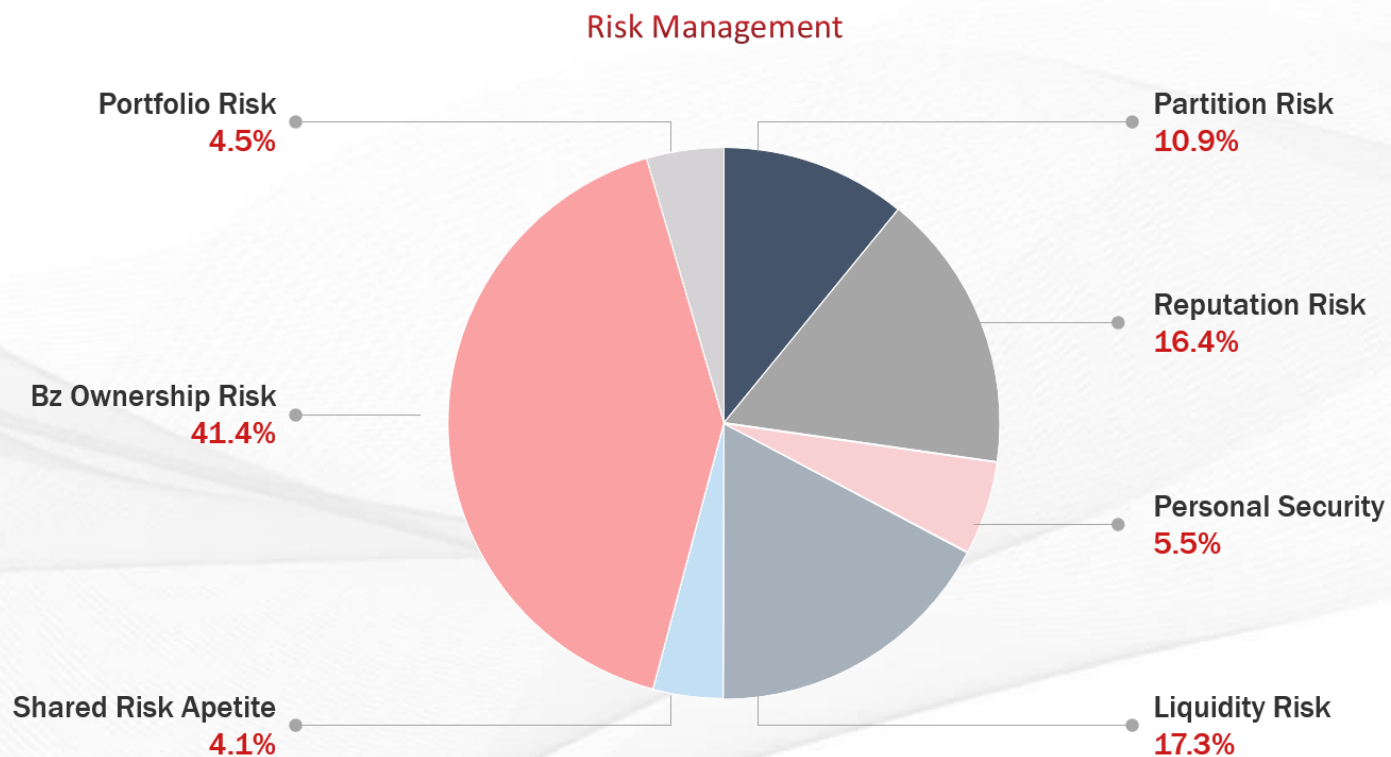
Wealth Management (2/3) – Risk identification

- Defining Shared risk appetite of the Family.
- Defining shared asset and business ownership risks across:
 - Business
 - Network
 - Market
 - Political
 - Succession
- Agency (for families that follow Owner Investor model & outsource wealth management)
- Liquidity risk
- Personal Security Risk
- Reputation risk
- Partition risk
- Portfolio risk

Family Office
Advisors Program



Wealth Management (3/3) - Sample



Each Family has a different risk profile. Mitigation depends on identification & prioritization.

Family Office
Advisors Program



Tax Planning & Administration

- Entity structuring
- Realignment of structures
- Tax Planning & Filing
- Business structuring & restructuring
- Business sales & liquidations
- Accounting & taxation of portfolios
- Asset acquisition & Disposal planning
- Citizenship & Tax residency planning



Family Office
Advisors Program



Philanthropy

- Facilitate agreement among family members on philanthropic vision
- Developing a Family Philanthropy Policy
- Guidance on suitable structures for giving back to the society
- Review of existing charitable and alignment to Philanthropic goals
- Establishing foundations and trusts
- Channelizing CSR contributions to Philanthropic goals
- Monitoring effectiveness of philanthropy



Family Office
Advisors Program





Administration Services

Trust & Hold Co Administration

- Choice of Trustees, Board members etc.
- Book-keeping & Accounting
- Calling meetings
- Minuting meetings

Family Secretariat

- Family Core Purpose & Core Values
- Code of Conduct
- Formation of FC, FBB, FO
- Membership (Council of Elders, Moderator & CEO)
- Frequency of meetings

Archivals

- Property Registers
- Birth & Death registers
- Potential Directors/Trustee Register
- Visa and Tax Residency Monitoring

Family Office
Advisors Program





03

▪ Structuring Your Family Office

Family Office
Advisors Program



Family Office: Types



Embedded-Family Office is one which is housed inside the Family Business.



A Single-Family Office services a single family. It is a full balance sheet 360-degree ultra-affluent CFO solution and wealth management outfit.



A Multi-Family Office (MFO) is a firm that provides services to multiple families or multiple family units.

**Family Office
Advisors Program**



Family Office: Functional Planning

Attributes	Family Member 1	Family Member 2	Family Member 3	Family Member 4	Family Member 5
Governance					
Wealth Planning					
Wealth Management					
Tax Planning					
Philanthropy					
Administration					

In-Source or Outsource

○ Considerations:

- Number of users
- Complexity of Wealth
- Geographical spread
- Existence of Family Business
- Family member skills
- Importance of Confidentiality
- Cost Center or Profit Center



Family Office
Advisors Program



Staffing & Costing

- Will vary based on functions to be performed by FO
- Will also vary based on insourcing vs outsourcing of various functions

Attributes	Insourced		Outsourced (1-10% of AUM based on multiple factors)	
	Staff	Cost (ind.)	Staff	Cost
Governance	CEO & CFO	b/w 1-10 cr (dep. on seniority)		
Wealth Planning	CA/Attorney	25 lacs - 2 cr		
Wealth Management	Inv. Prof/Inv. Banker	25 lacs - 2 cr		
Tax Planning	CA	25 lacs - 1 cr		
Philanthropy	Family Member	As per family's understanding		
Administration	Accountant/Co. Secretariat/Other staff	10 lacs - 5 cr (dep. on the no. of people)		

The cost of office premises and other incidentals hasn't been taken into account.



Key Takeaways

- Family Office Type
 - Different if 1st Gen v/s later gen
 - Different if there is no family business v/s single v/s multiple businesses
 - Different if the geographical spread is high
- Need for Confidentiality - move from embedded family office to multi family office to single
- Prime focus - Wealth preservation v/s succession planning v/s business growth

Bottomline: Enable the Owners



CASE STUDY 1

Designing a Family Office

You have been retained by a promoter of a medium sized business with a turnover of 3000 crores. His family businesses consists of two contiguous business lines. The family consists of two brothers and a sister along with their respective nuclear families. The shareholding is spread across all individuals in each family unit. They have heard about you as a wealth manager who helps families in coming up with appropriate wealth management strategies. You have determined that the knowledge and education levels of family members is quite diverse. Up to now the 2nd brother has been managing family wealth as he is the most educated one. The portfolio has been built by him over years. You have also determined that due to industrial down turn their cash flows have taken a hit and this has had an effect on family finances. While this has affected everyone, the sister has been especially hard hit and has been complaining.

What are the questions you will ask the family to help you with portfolio and family office design?

Questions Asked by Participants

1. How educated are the family members and updated about the investments and family business?
2. What is the current structure of portfolio?
3. How involved is the sister in the business? Do they have the intent to protect her income?
4. How is the income division happening?
5. Portfolio structuring and income flow thereon.
6. Fears, anxieties, vision. Stories of past and their effect on expectations and angst.
7. Common values dear to the family.
8. Succession – family first or business first.
9. Why industrial downturn has affected them?
10. Family structure of each unit
11. Family expenses for each unit.
12. Whether each sibling has individual portfolios?
13. Family liabilities.
14. Corporate resources available.
15. Risk profiling of the 3 families.
16. Future expected big ticket expenses.
17. Giving exit to sister.
18. Objectives to be achieved by WM.

CASE STUDY 2

On his way home, Mr. Sujit Khanna pensively sat at the back of his car and absentmindedly pondered over the conversation he had with his friend Srinivas Raju. Like him Srinivas was a successful first generation entrepreneur who started his business from scratch and built it to a multi-crore, multi-country empire it was today. However, what Srinivas had said during the dinner had him flummoxed. He was unable to understand how Srinivas was happy having yielded all the control of his business to his 2 children. And yet the unmistakable glee and pride with which Srinivas was telling, and the same expression visible on the face of his wife Laxmi, made it apparent that Srinivas was happy with giving up the management of the business to his two children and that things were going to plan.

Thinking about the same, he turned to his wife Sadhna and asked her – “Sadhna, I am really surprised with the joy with which Srinivas and Laxmi were sharing about the passing on of the management to their two children. Frankly speaking, you know I have tried everything to do the same. I have made two trusts and transferred our ownership to those two trusts, I have included our sons as Executive Directors in the company, and yet our sons don't seem to be happy at all. Our Executive Committee (ExCom) meetings seem to last forever, with barely any decision being taken. In this fight between Sambhav and Sukrit, the executive staff seems to be in a limbo, Sambhav does his own thing and Sukrit his own. Things have now come to such a pass that they don't talk to each other anymore. Already the business performance has suffered, and I am afraid that I will have to either sell the company else there will be no value left.”

Sadhna had also been lost in her thoughts. She had seen how Srinivas and Laxmi had shifted their house to a sprawling farmhouse outside the city, and seemed to enjoy each other's company. She was thinking about how her husband, even at this age, was constantly surrounded by his executives or was on his phone leaving very little time for each other. She had lived with him all her life, and enjoyed his success, but now was getting worried about the pressure he was continuing to bear. She had indicated to Sujit that it was high time for them to take a long deferred world-tour without thinking about business. Seeing Laxmi and talking to her about their new life had made her envious. Her husband's talk had disturbed the reverie and had made her think about what he was saying. She had to agree that her husband had made efforts but things seemed to have backwards rather than forward.

She knew that her husband was pained by the way business was suffering and hearing him voice his thoughts she offered – “I can understand your frustration Sujit. Even I felt envy to their new life.” Pondering further, she further added, “Why don't you talk to Srinivas in detail? How did he achieve what he has? There must be something which he has done differently. Talk to him one-to-one, may be over a drink or something. May be that will help”. Sujit didn't answer, but she saw that the gears in his minds had started churning so she sat back and fell into her own thoughts.

After a few days, Sujit called Srinivas and had asked to meet with him alone and take his guidance, and now sitting in front of him at the Trident, he recounted his efforts and asked Srinivas frankly, what did Srinivas do differently that his business seemed to be flourishing under his son and daughter, when his efforts seemed to be failing. Sujit wondered whether it was to do with the fact that he had two sons while Srinivas had a son and daughter. Was it down to the gender difference?

Srinivas laughed at this and shared with him that he had thought that this was the topic that Sujit had wanted to discuss, and he had therefore invited the consultant who had helped him plan his succession. He shared that the consultant should be joining shortly and it was best that the consultant explained his approach directly to Sujit.

Sometime later, when the consultant AS Shah had joined them and settled down, Sujit repeated his query to AS. AS smiled and said, “Sujit I don’t have any immediate relief medicine for you. I am not even sure I will be able to help you, but I can, if you permit help you develop a roadmap for your succession. But first, let me begin by asking a few questions:

1. What are the sets of KRAs you have defined for yourself? Have the KRAs undergone a change after you have inducted your sons into business, or have they essentially remained the same?
2. What are the KRAs of your sons? Is there a defined goal-sheet for each of them? Who does their performance assessments?
3. How was the relationship between your sons prior to their induction?
4. When you conduct an ExCom, if a decision is hanging fire, do you step in to make the decision?
5. Which functions report to your sons? Who are their one-downs? Do you take any information directly from them?
6. Have any of your sons come with a new idea? What are the steps which have been taken to implement it?
7. Has any of your sons wanted to change the staff under them? Have they done so?”

AS continued - “This is just a list of questions to start the process. Succession to management is not a one year journey, it is a multi-year process. Also, it is not a set of tools like holding companies and trusts that can be implemented to complete the work. These instruments are useful and required, however, they only address the transfer of ownership and not of business management. Management transfer is an ongoing and dynamic process. And, whether or not the plan is successful will depend totally on you. I will be happy to discuss my approach and the reasons I am recommending certain steps, but once you have committed to implement the first steps there will be no going back. If you are able to commit to the approach, then we can proceed.”

Hearing this Sujit turned to Srinivas and said, these are some deep questions. I haven’t had time to think about them or discuss them. For example, I have never had a set list of KRAs as I have believed that everything that happens to my business is part of my KRA, so there is no need to develop one. If AS is right, and I need to, then I need to think what are the items of my business that I can afford not to look at.

Srinivas and AS looked at each other, smiled and Srinivas said, “Sure Sujit! Please take your time. I am happy to discuss privately with you my journey through these questions. Whenever you are ready, give me a call.

With this, Srinivas called the steward for the cheque.