The Colony Group

LEGACY SERIES:

ENSURING A SUCCESSFUL FAMILY LEGACY

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The goal of this paper is to help you structure a successful and enduring legacy. Ensuring a Successful Family Legacy will frame the issues around your legacy, enable you to develop a plan and hire a team of advisors tailored to your needs.

Defining your family legacy. One of the most important elements for multigenerational success is to memorialize your mission, your family story or define a set of values that will ensure your legacy and guide your decisions and those of future generations. Typically, a legacy plan will incorporate the three components of family values, wealth management and philanthropic mission or strategy. Without a legacy plan, there will likely be unintended consequences, such as professional, family or philanthropic dependencies that can be detrimental and opposed to your long-term legacy. A well thought out set of guidelines enables you to identify and hire experienced advisors that are fully aligned with your needs and mission.

Governance. Once you have carefully defined your goals and objectives, your governance structure is the essential guiding force of your family legacy plan. In our opinion, careful articulation of control and oversight is a necessary and effective way to maintain proper focus around your long-term goals and to avoid unintended problems. Be inclusive with family members or close friends, beware of investment committees and importantly, make expectations around your objectives clear to all.

Idealized Design. Less is more. To achieve your best outcome, imagine what the ideal solution would be and then work backward to where you are today. A well-constructed game plan, a close team of aligned advisors and proper tracking can ensure that you will understand your investments, philanthropic pursuits and family values 5-10-20 years from now. Experience shows that your game plan will likely need ongoing attention, review and appropriate updating; without this discipline, your family unit may deteriorate, your philanthropy may lack the values and purpose that you intended, and your investment plan will likely lack conviction, become expensive and inflexible.

Your Team. Identify the very best advisors across all the skill sets you require - for most families a small team is all that is required. In our opinion, trust and integrity cannot be overstated. You should have focused discussions with each advisor around your needs, their role, their compensation and how they will work with your other advisors. One of the most important aspects of a well-functioning team is their ability to provide checks and balances. They become your advocates. Some seasoned advisors will speak up if problems develop around any aspect of your program. When

hiring a firm with broad advisory capabilities, make sure to have a team of experts, get to know each of them and have regular updates as your own check and balance.

Alignment of interests. Seek advisors whose interests and strategies are aligned with yours. In our opinion, an incompatible strategy is as bad as an advisor whose incentives are not aligned with yours. Ask about all forms of compensation, monetary or psychological, that the advisor's business generates across its platform including both direct and indirect revenue streams. Advisors that are not willing to be transparent regarding their business model may not be worth consideration. Understanding investment structures and models, combined with the motivation behind them, should give you an important vantage point for directing policy.

The process of "putting money to work" is not really investing. Back in the decades of the 1980's and 1990's, there were models that thrived. They provided good returns, strong diversification and were enhanced by lower correlation assets that could provide returns in tough markets. What happened? The 37-year decline in interest rates caused many of these non-correlated assets to provide less return and with more risk. In the 2008 financial crisis, many market participants learned that these old school diversifying investments, no longer provided the hoped-for protection.

Investment Management. Understanding and articulating your goals around risk first, and then return can provide the basis for getting structured for investment success. A set of clearly articulated guidelines should be designed to prevent unintended outcomes and the tendency to move toward greater complexity.

Experience suggests that too many good ideas can cause an asset allocation in time to become over diversified, inflexible, costly and inefficient. You should not stray into investments that you don't understand and make sure that you are assessing your portfolio on an integrated basis, so you understand your aggregate exposures. Over time there will be plenty of good investment choices. You can afford to be choosy, take your time and be patient.

The ideal investment advisor should have demonstrated capabilities, experience, sound principals, aligned interests and clearly articulated conflicts, if they exist. They should provide thoughtful advice and seek higher conviction managers; whose research and diligence are rigorous and whose processes are repeatable and confirmed ex-ante. In addition, understanding firm size, large or small, access to good ideas and temperament are critically important to long-term success in our opinion.

Estate Plan. This is your legal legacy. You need to get this right. It governs your multi-generation transfer of assets and your charitable endeavors. How should your capital be structured to best suit your legacy plan? Will your family be segregating assets for a family foundation? Are separate trusts established for the benefit of future generations where capital is invested for longer time horizons? This should be reviewed every 3-4 years. Your investment manager and estate planner should coordinate the optimal entity to hold different investments.

Philanthropy. This is your long-term legacy. Many families seek to enhance family cohesion and their long-term legacy around a philanthropic mission. Are you looking for purpose, impact, and sustainability of your legacy? Are there programs that achieve that end, or are you interested in building your own? In today's philanthropy, there are new structures and sophisticated data analytics available that enable you to achieve higher levels of impact than ever before. Apply the same alignment of values, rigor and diligence that you would for your investment management program.

Privacy and confidentiality. You may want to have an NDA signed by your advisor team. Have a clear sense of who has access to your information and that their systems are well-constructed to protect your information.

Tax Preparation. An important check and balance is to separate investment management from tax preparation. In complex portfolio allocations, a separate tax accounting of what has transpired year to year can help confirm proper compliance with your plans. Importantly, don't allow taxes to drive your investment plan. A well-functioning team should confer with each other during the year and make appropriate recommendations for gifting, realizing gains or losses, and analyzing income tax efficiency.

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As a Senior Portfolio Manager in the Institutional Advisory Practice team at The Colony Group, Rob provides comprehensive solutions to the investment, wealth planning and philanthropic needs of owners and stewards of substantial capital. Rob is a financial professional with more than 34 years of experience in the wealth management industry.

Rob has written on alternatives to fixed income, redefining growth and value investing, the impact of innovation on investment decisions and ensuring a successful family legacy. Rob's experience gives him a perspective on all aspects of family legacy planning with an emphasis on investing.