



# Wealth Planning through a Family Office

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# Who Needs a Family Office

## The Wealth Inheritors

- Inheritors of multi- generational wealth and associated legacy
- Challenge to maintain class and anxiety to further family legacy
- Rarely manage to be Acquirers as well, if able to grow inherited wealth by effort
- Inheritors' Dilemma of growing a strong identity out of an environment of wealth

## The Wealth Acquirers

- Acquired through effort or chance.
- Transition between socio-economic classes
- Wealth Creators tend to stick to the source of wealth and find it difficult to let go
- Acquirers' Dilemma of integrating wealth into own identity



# Peeping inside the Head



Liquidity Event and associated need for strategic deployment of wealth along with a consolidated picture



Complexity of affairs with increased wealth and family size, requiring professional advice and efficient structures to ensure continuity of business and transmission of wealth



Global trends of needing unbiased advisors and executors along with demographic considerations of the Business Owner retiring and moving from Wealth creation to preservation and transfer



Non-Investment Risks arising out of personal and professional wealth being fungible, from legal claims to conflicts related to equitable share in family assets



# Demystifying Family Offices

## Single Family Office

Large Size Complex and Sensitive structure Justifiably costly



## Other Forms (Administrative/ Philanthropy/ etc.)

Like-minded non-commercial group

## Institutional Multi Family Office

Potentially infinite number of clients Cookie-cutter but visibly exclusive Tech-enabled, based on best practices



## Virtual Family Office

Commercial service offered to many families  
Templated, but with customisations Outsourced  
CFO/CIO Model



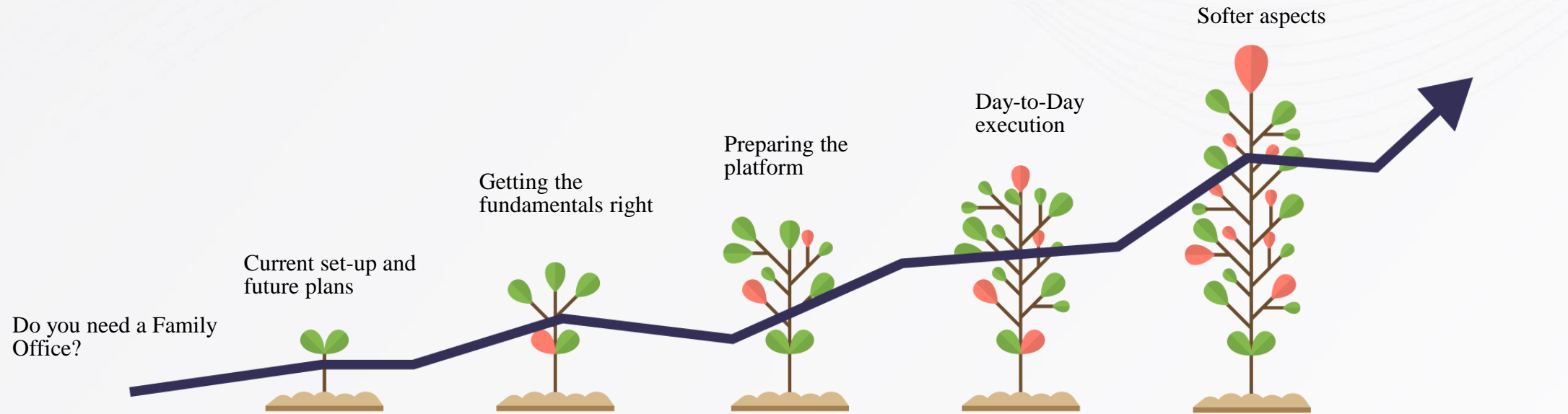
# Characteristics of a Family Office

While each family office is as unique as the DNA of its individual founders, there are some common goals that most family offices strive to achieve:

- To provide formal structure for the management and governance of the family's wealth
- To promote the family's legacy, vision, and values
- To co-ordinate, integrate, and consolidate customized services for the family
- To manage economic and personal risks for the family
- To capitalize on economies of scale gained from consolidated family wealth accumulation, such as preferential investment access and lower fee rates
- To maintain confidentiality and privacy of family affairs



# Family Office Journey



- ❖ Family Coverage
- ❖ Family Lead

- ❖ Present level of preparedness analysis
- ❖ Current investments and holding across asset classes

- ❖ Mission, Charter, Family Constitution
- ❖ Organisation structure
- ❖ Hiring the right team (internal or external)

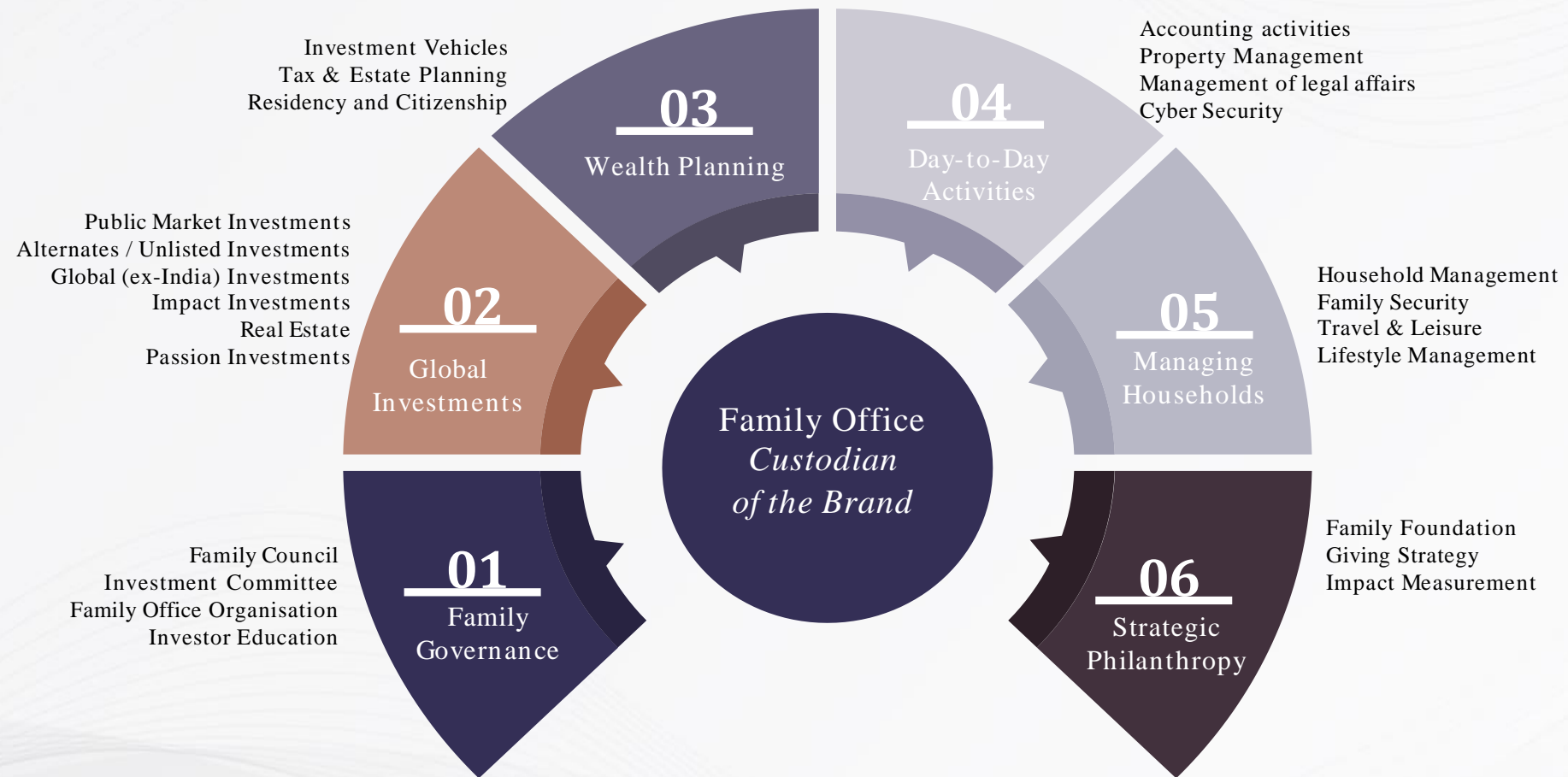
- ❖ Proposed investment vehicles
- ❖ Investment policy and design
- ❖ Wills, Trusts and Legacy plans

- ❖ Investment management
- ❖ Financial reporting
- ❖ Accounting and tax services
- ❖ Legal advice
- ❖ Technology support
- ❖ Risk Management and Governance
- ❖ Management of real estate assets
- ❖ Family security

- ❖ Travel and leisure
- ❖ Mentoring the next generation
- ❖ Philanthropic pursuits



# The Family Office should primarily cater to six areas





# Investment Strategy and Asset Allocation

- ❖ Family Offices are **very focussed and disciplined about their asset-allocation** and tend to not budge from the plan they have created with their advisors
- ❖ **Family offices look for inflation-proofing their portfolios.** With the help of advisors, Family Offices are able to benchmark returns that either cover or beat consumer price inflation or CPI.
- ❖ Customized asset allocation for Family Offices based on
  - a) **Risk allocation** - Core investment portfolio bucketed into risk pools
    - Conservative Pool - Principal protection; Fixed Income
    - Growth Pool - illiquid; Alternative investments
    - Market Pool - liquid; market-linked securities
  - b) **Asset Allocation** - Market pool
    - Equities
    - Fixed Income
    - Commodities



# Access to Alternative assets

- ❖ Compelled by innovative technologies, digitisation and new business models, family offices are turning their interest to alternative investing
- ❖ Alternative Investments include investments in private markets covering both debt and private equity
- ❖ Average asset allocation in alternatives asset class has only been increasing over the years, in the range of 10-15% of the overall portfolio
- ❖ Important to have an allocation to private markets because newer investment themes are emerging in these markets and many companies are choosing to remain private longer.

## *Special considerations for Family Offices | Separately Managed Accounts:*

- Objective: A bespoke solution by creating an optimal & efficient structure to manage Unlisted Investments
- Strategy:
  - Customized strategy for the Family Office
  - Dedicated fund manager for the approved strategy
  - Allocation Strategy
- Advantages:
  - Greater transparency and control over investments and exits
  - The fund reflects the investment thesis of the Family Office



# Multigenerational Wealth transfer and Estate planning

## Wills and Trusts are simple yet impactful estate planning tools

A will goes through probate and a trust vests as per its deed

A trust can protect and insulate assets from third party claims



Both a will and trust allow for control of wealth distribution after death. A trust can also come into play during one's lifetime

A trust provides potential avenues to plan around the possibility of inheritance tax & estate duty being introduced in India



# Family Dispute Resolution

Conflicts and misunderstandings always exist in families and are the greatest enemy of family businesses. Managing conflicts is key not just for the survival of the business but for the survival of the family itself. Family members need to establish strong and well-structured business relationships.

## Why do conflicts arise?



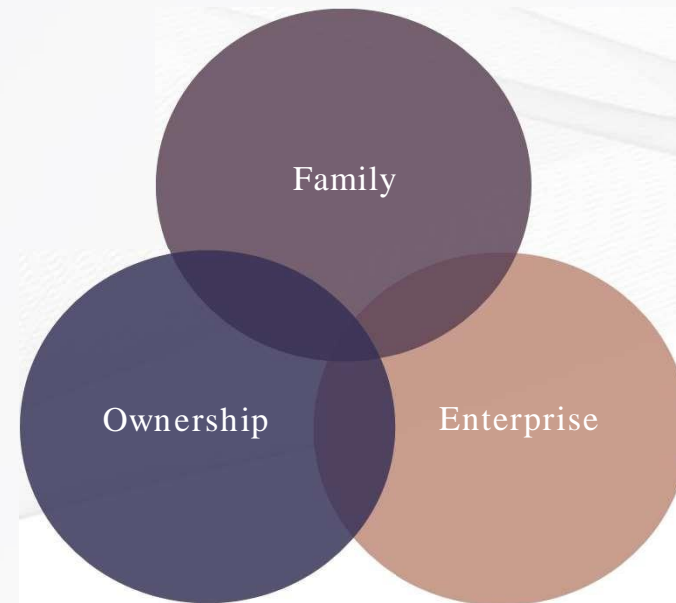
**Needs not met**  
The family owners perceive that their needs are not met



**Lack of Clarity**  
Conflicts arise when situations are unclear or not properly understood



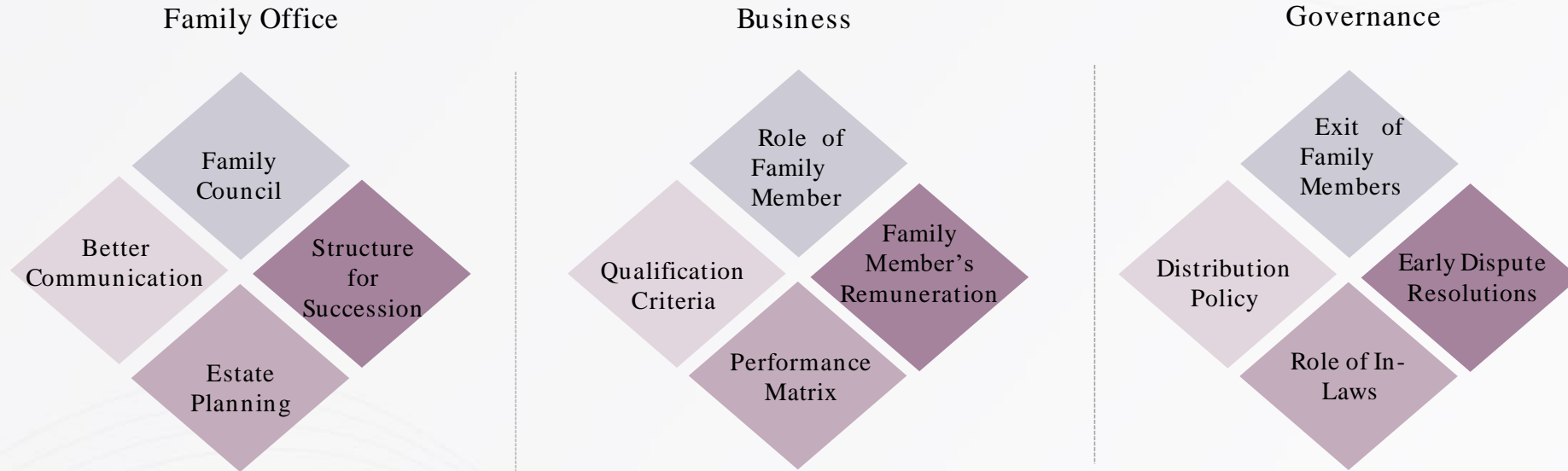
**Lack of Communication**  
Lack of understanding and communication between the 3 family dimensions – the Family, Owners and Enterprise



# Family Dispute Resolution

**How to protect family's interests and avoid disputes**

*Inclusive and fair forums for discussion will help the family and businesses thrive*



# Best Practices followed by most Families Offices



# Some Findings from Priwexus's ongoing Family Office Benchmarking Survey 2023

- 70% of the Single Family Offices are only Investment Office and only 25% are comprehensive Single Family Office. Other forms like Philanthropy Office, Administrative Office form the remaining 5 %
- 60% of the Family Offices are in the second generation, 30% in the 3<sup>rd</sup> generation and only 5% each in 1<sup>st</sup> and 4<sup>th</sup> generation.
- 90% of the families continue to retain the original business that generated wealth.
- The most important objectives behind forming a Family Office are inter-generation wealth management, consolidation of functions (like accounting, tax, estate planning, etc.) and structured philanthropy.
- Implementing a risk management process is the top governance priority for SFOs followed by implementing a succession plan



# Some Findings from Priwexus's ongoing Family Office Benchmarking Survey 2023

- Percentage of employees who are a part of family's operating business- None
- Preservation of capital, portfolio concentration risk and need for liquidity are the most important factors driving investment decisions.
- In 70% of the cases, investment decisions are made by an investment committee and only in 20% of the cases the decisions are made by the CIO of the family office.
- Club deals with other family offices is the most preferred options when making direct investments.
- Businesses in agriculture, consumer-related and climate-related spaces are currently the most appealing ones for investments.
- 70% families are working with external foundations vis a vis 20% who have set up their own philanthropy initiatives and 10% who are only going for impact investments.





# Five Rules for Building a Strong Family Office Structure

- **Build a Solid Foundation for the Family Office Structure**
- **Insulate Wealth**
- **Cultivate Sustainable Wealth**
- **Establishment and Utilization of a Management Company**
- **Family Office Compliance**



# Four Steps to Build a Future Ready Family Office

## Step 1 - Feasibility

Understanding your needs, expectations and models available

### Start with a vision

Setting up a family office starts with defining your vision and purpose for your family and its wealth. These will guide an overall plan that encompasses key areas, including operations, technology, staffing needs, advisers and governance that is truly built around you. This process will best serve your needs and make certain that your family office is future-ready and shock resilient.

- Capturing and understanding of the structure of the family, objectives, ambitions, strategy, technology, succession goals, wealth management needs, tax efficiency, governance, needs, etc.



# Four Steps to Build a Future Ready Family Office

## Step 2: Designing and structuring

Laying the foundations of your future-ready family office

Now that you have made the informed decision to set up your family office, it is time for design. Now you will have the clarity to envision the necessary structures to fulfill your purpose and vision, as well as protecting and growing your legacy.

- Designing legal structures, process flows, staffing requirement, budgeting, selecting vendors, designing reporting processes, designing core services, addressing technological needs.



# Four Steps to Build a Future Ready Family Office

## Step 3: Implementation

Building your family office around you

Now, armed with a robust overall plan, you are ready to set up your family office. This step will include the implementation of all activities, from setting up policies and procedures, legal structures, hiring staff, refining financial models to the actual office set up, including IT infrastructure and cybersecurity.



# Four Steps to Build a Future Ready Family Office

## **Step 4: Operating and monitoring your family office**

Ensuring optimal functioning and benchmarking against leading practice

Now that your family office is up and running it is important that it's functions, processes and governance are reviewed regularly against leading practice and, most importantly, your objectives. It is also time to invest in further refining and building some of the functions and your digital capabilities. This is also the time to further refine your approach to your philanthropic activities and impact investing.



