

The old adages are all too familiar:

“Shirtsleeves to shirtsleeves in three generations.”

“The first generation makes it, the second generation spends it, and the third generation blows it.”

While these quotes oversimplify the realities of legacy wealth, they describe a path that some wealthy families have traveled over the years. Yet, other families have successfully passed wealth down the generations while maintaining the family’s core values and avoiding pitfalls that can lead to family disharmony or worse.

The obvious question is how do families maintain and grow wealth, preserve family harmony, and promote core values without falling prey to the old adages above?

Successful families usually have thoughtfully structured estate plans that reflect their goals and objectives while minimizing taxes and protecting assets. However, while estate planning documents direct the distribution of wealth from one party to another, they do nothing to prepare the receiving party for how they should conduct themselves once the wealth transfers to them. Preparing the next generations is the essence of family governance.

DEFINITION OF FAMILY GOVERNANCE

Family governance is an ongoing process among family members of communication, education, decision making, and problem solving for the purpose of preserving and growing family wealth for future generations in a manner that promotes the family’s core values.

In short, family governance creates rules of the road for how families will conduct “the business of being a family.”

FAMILY MEETINGS

Regular family meetings provide the foundation of family governance. A successful family meeting requires detailed planning and thoughtful execution. At Turtle Creek Wealth Advisors, we can help you plan and facilitate family meetings that work best for your family, its values, and its vision.

Family meetings establish a forum to address the four core components of family governance:

1. Communication

Family meetings allow the sharing of valuable information among the family. This ensures that all participants receive the same information and can ask questions to get necessary clarifications.

2. Education

Family meetings are an ideal occasion to educate family members on topics ranging from estate planning, investment basics, or even personal and cyber security. These learning opportunities are critical tools in preparing future generations for the responsibilities and potential risks associated with wealth.

3. Decision Making

Families often own assets jointly and, therefore, must make decisions together about those assets. These decisions can include how to allocate the use of commonly held property among the family (such as a ranch or vacation home) or deciding which charities to support from the family’s private foundation.

4. Problem Solving

Even the best of families faces challenges and disagreements. The procedures and policies created during family meetings can create a fair and transparent structure to address problems so that families can move forward in a positive direction.



GETTING STARTED

For families embarking on a family governance program, here are key steps to help you get started:

1. Identify Initial Participants

Typically, initial meetings include a smaller number of participants, with the group expanding once the core group establishes the initial protocols. In evaluating the attendees, consider whether spouses are included, as well as grandchildren of a certain age.

2. Determine a Location for First Meeting

Family meetings should be conducted at a venue that fosters open and honest dialogue among the participants. Some families meet for an afternoon in a conference room or in a private room at a restaurant. Others use family meetings as a partial family vacation, meeting for multiple days at a vacation-type spot. If participants must travel to attend the meeting, the family should agree about how travel expenses will be paid.

3. Prepare and Circulate Agenda

For the first meeting, the family member spearheading the process should put together the initial agenda. In future meetings, family members should have an opportunity to suggest topics.

The initial meeting should cover the following topics:

- *Overview of reasons for governance.* For most people, the idea of a “formal” family meeting sounds bizarre. Participants should learn about the four core components of governance (communication, education, decision making, and problem solving) and why they are important to the family.
- *Manage expectations.* This is a good time to manage expectations for the family. If certain topics are going to be off-limits, then participants should know that up front. For example, the senior generation members may initially want to limit disclosure of their net worth and specific asset values until they become more comfortable with the meeting process. Sharing this observation in advance with the participants ensures that expectations align with reality.
- *Obtain commitment to actively engage in process.* Family governance requires an agreement by family members to participate in the program and abide by its outcomes. This commitment must be obtained up front.
- *Agree to meeting rules.* The participants should agree on basic meeting rules. Rules can include (1) maintaining confidentiality of all discussions and materials, (2) listening, without interruption, while others speak, (3) refraining from cell phone use except during breaks, and (4) sticking to only those

topics on the agenda. Each family should develop rules that fit their priorities. These rules will be the first item included in the Family Constitution (see later discussion).

- *Family’s Core Values and Mission Statement.* The family should identify its core values and then develop a mission statement that reflects those values. This process may take more than one meeting to hammer out. The core values and mission statement will serve as the north star that guides all family decisions going forward.



TIPS FOR CONDUCTING THE MEETING

1. Appoint Chair and Secretary

At the outset, the family should select a meeting chair and secretary. The secretary will take written minutes of the meeting.

2. Stick to the Agenda

The chair should ensure that the family sticks to the agenda for the meeting. If a topic arises that is not on the agenda, then absent an emergency, table that topic and add it to a future meeting agenda. Sticking to the agenda ensures that everyone has an opportunity to prepare for that meeting’s topics at hand and will not be caught off guard by an issue that they were not expecting to discuss.

3. Follow Meeting Rules

Once the family establishes rules for conducting family meetings, the chair must ensure participants follow the rules. This accountability enhances the productivity of the meeting and the comfort level of the participants.

4. Schedule Next Meeting

At the end of the meeting, the participants should agree on potential dates for the next meeting. If the meeting will require travel, provide ample time for family members to make travel arrangements.

5. Follow Up

The secretary should circulate the meeting minutes to the participants soon after the meeting ends.

6. Request for Future Topics

Ask the participants about topics they would like to discuss in future meetings. If the family leadership determines that a requested topic should not be discussed, then they should convey that message to the person who made the request.

MOVING FORWARD AFTER INITIAL MEETING

Family governance programs must be aligned with the needs of the family. After the initial organizational meeting, subsequent governance activities can be as elaborate as appropriate.

1. Family Council and Family Assembly

Some families opt to provide distinct levels of involvement for different family members. To that end, families may have a smaller group (called a family council) that makes decisions on family matters and has access to the most sensitive information and a broader group (called a family assembly) that participates in communication and education sessions.

2. Family Constitution

This written document contains the rules of the road that the family agrees to follow. Initially, it should identify the members of the family council and family assembly, as well as the agreed upon rules for conducting family meetings. Over time, the constitution can expand to address other topics.

3. Committees

Families may create committees to focus on particular topics and then report back to the family council and/or family assembly. For example, consider a family with an operating business, a significant investment portfolio, and broad philanthropic goals. This family might create three committees: a (1) business committee, (2) an investment committee, and (3) a philanthropic committee.

4. Employment Policies

Families that own businesses often face questions about who may work for the family business. This presents an opportunity for significant family conflict if not handled delicately and consistently. The family constitution should set out the criteria for those who wish to work for the family.

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