

# Family Wealth Continuity Webinar Series

## *Shared Family Capital Strategy: A Holistic View*

**Session 3**  
October 21<sup>st</sup>, 2020

**Hosted by:**  
Jennifer Pendergast  
German Herrera  
Danielle Valkner

Northwestern | Kellogg

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**John L. Ward Center**  
FOR FAMILY ENTERPRISES

**EgonZehnder**



## Rules of Engagement

- All participants are muted during the session
- Please submit questions in the Q&A box. Questions will be answered at the end of the presentation

## Technical Difficulties or General Questions

- If you are experiencing technical difficulties, please reach out to Shree Rajadurai (our Virtual Conference Moderator) through the Q&A function
- You can also reach her through email at [Shree.Rajadurai@Kellogg.Northwestern.edu](mailto:Shree.Rajadurai@Kellogg.Northwestern.edu) or on her cell phone 630.212.2130

## 2021 Live Virtual Programs

- **Designed to Maximize Your Learning**  
Innovative and engaging learning methods to help you develop new skills
- **Proven Content and Value**  
Leveraging 20 years of excellence in program design and delivery to add value to your family
- **Engagement with Top Kellogg Faculty**  
Access to Kellogg's renowned thought leaders to discuss issues unique to your family and business
- **Enduring Peer-to-Peer Connections**  
Abundant opportunities to interact and network with your peers from family enterprises
- **Convenience for Your Busy Schedule**  
Offering half-day sessions spread across a multi week experience to meet your needs

## Program Dates

**February 1-19, 2021**  
**March 8-24, 2021**  
**April 12-30, 2021**  
**May 3-14, 2021**

Family Enterprise Boards  
Forming Family Enterprise Governance  
Governing Family Enterprises  
Leading for Impact within Family Enterprise

## Information Session

Wednesday, November 18 at 11:00 am CDT  
Register at [kell.gg/kxfam2021](https://kell.gg/kxfam2021)

Learn more about our programs at  
[shorturl.at/enyX4](https://shorturl.at/enyX4)



**Jennifer Pendergast**  
*John L. Ward Clinical  
Professor of Family Enterprise  
and Executive Director of the  
John L. Ward Center for  
Family Enterprises*



**German Herrera**  
*Family Business Advisory  
Practice Global Co-leader  
Egon Zehnder*



**Danielle Valkner**  
*Family Office Leader  
and Partner  
PwC US*

## Speakers

# Program Overview

## *Shared Family Capital Strategy: A Holistic View*

Session

1

- Series overview, objectives
- Vision & purpose
- Introduction to the Shared Family Capital Framework

Why?

Session

2

- Applying the Shared Family Capital Framework
- Developing your Shared Family Capital Policy
- Assessing and aligning capital to your policy

Who?  
What?

Session

3

- Designing a governance and operating model
- Systems for reporting and measuring (impact/results)

How?

Session

4

- Implementation and live group exercises

Try it!

# Family Capital Allocation Policy

## Sample Table of Contents

I.	<b>Preamble:</b> Why this framework and charter was created	Why?
II.	<b>Family Mission and Vision</b>	
III.	<b>Capital Allocation</b> <ul style="list-style-type: none"><li>- Overall Philosophy</li><li>- Role of Operating Company</li><li>- Diversification guidelines</li><li>- Liquidity and income requirement for spending levels</li><li>- Growth guidelines</li></ul>	What?
IV.	<b>Governance</b> <ul style="list-style-type: none"><li>- Structures and authority</li><li>- Responsible parties and delegations</li><li>- Risk appetite</li><li>- Guidelines for formal investment policy statements</li></ul>	How?
V.	<b>Operations</b> <ul style="list-style-type: none"><li>- Systems</li><li>- Reporting and monitoring</li><li>- Role and requirements of advisors</li></ul>	
VI.	<b>Guidelines for Amending</b>	
VII.	<b>Appendices</b>	

Leverage existing documents and materials as appropriate

# Governance and Operations

← **Transparency, Education and Communication** →

Policies, Planning, Decisions, Approvals

**Capital  
Allocation  
Framework  
and Policy**

**Governance Model**

Planning

Structure

Policy

**Operating Model**

People

Process

Technology

Data

Results, Reporting and Analyses, Recommendations

# Governance

## *The organization and oversight of your policy*

### Planning

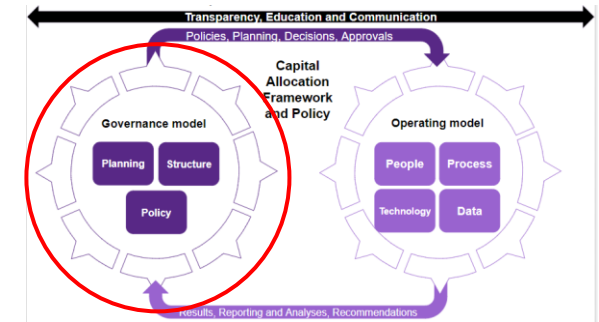
- Review and re-confirm the family purpose/mission/vision
- Define or update strategic plan
- Define or update risk appetite
- Monitor execution of the policy

### Structure

- Ensure there is a specific enterprise-wide oversight structure/entity for your Shared Family Capital
  - Individual (family or non-family)
  - Board or committee
  - Family Office
  - Trustee(s) (Private Trust Company)

### Policy

- Designation of who has decision-making authority as a function of the Policy
  - Each operating business unit or family office/investment entity within the enterprise could have its own governance that is responsible for implementing its own strategy
- Define clear roles and responsibilities for the enterprise and each unit/entity (if applicable)
  - Responsible, Accountable, Consulted, Informed (RACI)
- After establishing, continuously review and revise, as appropriate, all components of the Shared Family Capital Policy including:
  - Dividend policy
  - Investment policy
  - Philanthropic funding policy
  - Venture funding policy (family led)





# Operations

*The actual execution of your policy*

## People

- Roles/Responsibilities
- Required skill sets
- Insource/Outsource

## Process

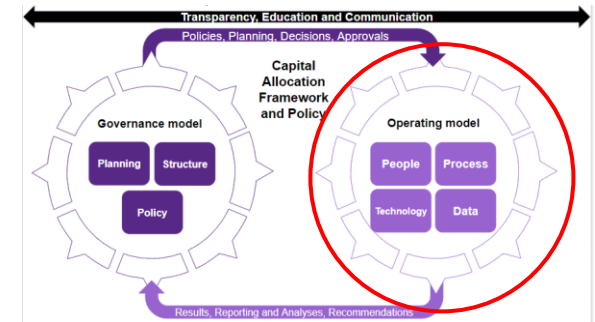
- Procedures
- Execution, management and monitoring
  - Planning/budgets
  - Portfolio Management (Strategy, deal flow, due diligence, oversight)
  - Risk Management
  - Financial Analysis/Reporting
- Controls

## Technology

- Required capabilities
  - Data Aggregation
  - Modeling/Analytics
  - General Ledger
  - Investment accounting
  - Dynamic Reporting and Visualization
- Insource/Outsource

## Data

- Data source/flow
- Validation/Enrichment
- Accessibility/Timeliness
- Security
- Key Performance and Risk Indicators (KPIs and KRIs)



# Example Reporting – Allocation Dashboard

The Allocation Dashboard reviewed in the live session is a proprietary report of the Masttro platform. Please reach out to Masttro directly for additional information:

Padman Perumal  
CEO of Americas, Massttro US, Inc  
[pperumal@masttro.com](mailto:pperumal@masttro.com)

Danielle Valkner is also available to answer additional questions on reporting  
[danielle.valkner@pwc.com](mailto:danielle.valkner@pwc.com)

# Example Reporting

## Key points for reporting

- Aggregated across the entire shared enterprise
- Look through exposures into underlying investments
- Reflective of the policy
- Ideally automated, scalable and timely

## Sources and Uses of Cash

	2019 ACTUAL	1Q2020 ACTUAL	2Q2020 ACTUAL	3Q2020 ACTUAL	4Q2020 FORECAST	2020 TOTAL
<b>Sources</b>						
<b>Operating</b>						
Family Office Billings	876,535	241,047	208,177	230,090	262,961	942,275
Airplane Lease Income	2,350,500	646,388	558,244	617,006	705,150	2,526,788
Rental Income	4,325,675	1,189,561	1,027,348	1,135,490	1,297,703	4,650,101
Total Operating Income	7,552,710	2,076,995	1,793,769	1,982,586	2,265,813	8,119,163
<b>Investing</b>						
Interest	194,530	53,496	46,201	51,064	58,359	209,120
Dividends						
Operating Company	13,565,000	7,460,750		6,104,250		13,565,000
Other	4,350,000	1,196,250	1,033,125	1,141,875	1,305,000	4,676,250
Managed Account Proceeds	7,635,400		7,500,000			7,500,000
Other Sale Proceeds	26,960,474			7,360,530		7,360,530
Private Equity Distributions	6,449,210	1,773,533	1,531,687	1,692,918	1,934,763	6,932,901
Total Investment Proceeds	59,154,614	10,484,029	10,111,013	16,350,637	3,298,122	40,243,801
<b>Financing</b>						
Loan Proceeds	8,455,000	2,500,000	8,500,000			11,000,000
<b>Total Sources of Cash</b>	<b>75,162,324</b>	<b>15,061,024</b>	<b>20,404,782</b>	<b>18,333,223</b>	<b>5,563,935</b>	<b>59,362,964</b>
<b>Uses</b>						
<b>Operating</b>						
Interest Paid	211,375	58,128	50,202	55,486	63,413	227,228
RE Vacation Properties	2,874,967	635,737	682,805	754,679	862,490	2,935,711
Ranch Expenses	5,435,987	1,494,896	1,291,047	1,426,947	1,630,796	5,843,686
Airplane	3,766,394	1,035,758	894,519	988,678	1,129,918	4,048,874
Parental care	81,600	22,440	19,380	21,420	24,480	87,720
Charitable contributions	5,765,500	965,000	1,369,306	1,484,616	1,441,375	5,260,298
Insurance Premiums	665,350	182,971	158,021	174,654	199,605	715,251
Family Office Expenses	1,237,450	340,299	293,894	324,831	371,235	1,330,259
Family Meeting	433,700			466,228		466,228
Family distributions	18,375,000	6,000,000		6,000,000		12,000,000
Taxes	15,784,088	1,973,011	1,874,360	2,071,662	2,170,312	8,089,345
Total Operating Expenses	54,631,411	12,708,241	6,633,533	13,769,201	7,893,624	41,004,599
<b>Investing</b>						
RE Capital Improvements	576,325		301,265			301,265
Managed Account Purchases	2,200,000					-
Equity/Venture Investments	7,745,000		7,500,000			7,500,000
PE Capital Calls	7,895,500	2,171,263	1,875,181	1,973,875	2,210,740	8,231,059
Real Estate purchased	1,176,890					-
Total Investments	19,593,715	2,171,263	9,676,446	1,973,875	2,210,740	16,032,324
<b>Financing</b>						
Loan Payments	2,135,000	587,125	507,063	560,438	640,500	2,295,125
<b>Total Uses of Cash</b>	<b>76,360,126</b>	<b>15,466,628</b>	<b>16,817,042</b>	<b>16,303,513</b>	<b>10,744,864</b>	<b>59,332,048</b>
<b>Net Change</b>	<b>(1,197,802)</b>	<b>(405,605)</b>	<b>3,587,740</b>	<b>2,029,710</b>	<b>(5,180,929)</b>	<b>30,916</b>
<b>Beginning Balance</b>	<b>7,369,323</b>	<b>6,171,521</b>	<b>5,765,916</b>	<b>9,353,656</b>	<b>11,383,366</b>	<b>6,171,521</b>
<b>Ending Balance</b>	<b>6,171,521</b>	<b>5,765,916</b>	<b>9,353,656</b>	<b>11,383,366</b>	<b>6,202,437</b>	<b>6,202,437</b>

# Key Takeaways



**Not one size fits all**



**Key requirements**

- Visibility (What do we have?)
- Education (What are our objectives?)
- Decision Making Authority
- Portfolio Management
- Portfolio Monitoring



**Will evolve over time**

# Next time...

## *Shared Family Capital Strategy: A Holistic View*

Aug. 18  
2020

- Series overview, objectives
- Vision & purpose
- Introduction to the Shared Family Capital Framework

Why?

Sept. 23  
2020

- Applying the Shared Family Capital Framework
- Developing your Shared Family Capital Policy
- Assessing and aligning capital to your policy

Who?  
What?

Oct. 21  
2020

- Designing a governance and operating model
- Systems for reporting and measuring (impact/results)

How?

Dec  
2020

- Implementation and live group exercises

Try it!

# Upcoming Breakouts

<b>Wednesday, December 9</b>	<b>Thursday, December 10</b> <i>*Breakouts will run concurrently</i>	
<b>10:00 AM - 11:30 AM ET</b>	<b>10:00 AM - 11:30 AM ET</b>	<b>10:00 AM - 11:30 AM ET</b>
<p><b>Capital Allocation Strategy &amp; Policy</b></p> <p><b>Target Audience</b></p> <ul style="list-style-type: none"> <li>Entire spectrum of Family Enterprises</li> </ul> <p><b>Topics Covered</b></p> <ul style="list-style-type: none"> <li>Creating an inventory of sources and uses for family capital</li> <li>Evaluating current capital allocation across family enterprise asset base</li> <li>Establishing a capital allocation policy</li> </ul>	<p><b>Low Complexity Governance and Operations</b></p> <p><b>Target Audience</b></p> <ul style="list-style-type: none"> <li>Family enterprises that are primarily concentrated in an operating company</li> <li>Relatively small ownership groups in earlier generations</li> </ul> <p><b>Topics Covered</b></p> <ul style="list-style-type: none"> <li>Planning for the future – increased diversification of asset base</li> <li>Establishing decision making authority over family sources and uses of capital</li> <li>Coordinating decision making across family entities (family governance, business governance)</li> <li>Dealing with embedded family office functions (tax returns, estate planning)</li> </ul>	<p><b>High Complexity Governance and Operations</b></p> <p><b>Target Audience</b></p> <ul style="list-style-type: none"> <li>Family enterprises with diversified assets into multiple different asset classes</li> <li>Large ownership group in later generations</li> </ul> <p><b>Topics Covered</b></p> <ul style="list-style-type: none"> <li>Creating a governance structure to coordinate decision making across multiple asset holding entities</li> <li>Creating a reporting mechanism to pull together assets across multiple entities</li> <li>Developing a dividend/distribution policy(ies)</li> <li>Establishing authority for making decisions that affect multiple entities</li> <li>Creating a single family or engaging a multi-family office</li> </ul>



# Questions