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FAMILY TRUST COMPANIES: BRINGING GENERATIONS TOGETHER – CASE STUDIES

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GETTING ON THE SAME PAGE

FAMILY OFFICE OR (PRIVATE) FAMILY TRUST COMPANY

Family Office ≠ Private Family Trust Company

Services

- Tax, Accounting, Financial
- Lifestyle
- Legal
- Investment
- Philanthropic
- Family Governance

Services

- Fiduciary powers
- Acts as Trustee
- Can provide Family Office Services, too.

PFTC can = Family Office

DISTINCTION BETWEEN SUCCESSION PLANNING & SHAREHOLDER TRANSITION PLANNING

- Succession Planning
  - Passing on leadership and management roles of the family business
  - Creation and execution of a strategy allowing business owners to exit their business on their terms and conditions

- Shareholder Transition Planning
  - Defines the required actions, business management process and estate planning methodologies needed to transition ownership and control of a family business or wealth inter-generationally – keeping generations together

TRUSTEE OPTIONS & CONSIDERATIONS

Traditional Corporate Trustee	Individual Trustee	Private Family Trust Company
Regulated	Sensitive & knowledgeable about family	Confidential
Professional	Flexible/Subjective – saying “no” is difficult	Permanent Trustee Solution
Rigid Policies	Private	Institutionalize the personal, business & investment matters for a family
Conservative	Not Expensive	Personalized Service
Changing Personnel	Not Permanent	Liability Protection
Expensive	Individual Fiduciary Liability	Flexibility in Managing Concentrated Positions
Accountable	Family Dynamics	Infused with Family Values
Impersonal		

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WHAT IS A FTC & ITS HISTORY

- A FTC is:
  - a family owned & controlled entity which limits its activities to the management of assets for the benefit of a single family lineage
  - is authorized under state statutes:
    - ✓ to operate as a corporate trust company (corporation or LLC)
    - ✓ to serve as trustee for Family Clients – may not hold itself out to the public
    - ✓ may be licensed (regulated) or unlicensed (unregulated)
- Formation of FTCs started in the 1990's
- Rockefeller Trust Company was an early adopter being chartered in 1985 under NY law and in 1997 under Delaware's limited purpose trust company statutes.
- In 2016, Ohio joined other states with private family trust company statutes including DE, FL, MO, NV, NH, SD, TN, TX, and WY.

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ISSUE SPOTTING – WHEN IS ESTABLISHING A FTC THE SOLUTION?

FTC SOLUTION – TRUSTEE CONCERNS

- Families doing multi-generational estate planning
  - Addresses trustee succession challenges & trustees with varying perspectives on the family & its wealth
  - Develops permanent trustee solution by standardizing the family's trustee succession plan across family member trusts
  - Decreases trustee costs through leveraging costs across the family trusts plus FTC lacks large profit motive
  - Allows opportunity for maintaining closely held asset or alternative investing options
  - Provides continuity & transparency for trust administration
  - Protects privacy & confidentiality now and into the future
  - Limits liability for family members and trusted advisors serving in a fiduciary capacity

FTC SOLUTION – CONTROL CONCERNS

- Families wanting to maintain control over family business assets held in trusts
  - Family members own and control the FTC for the family (e.g., majority of Board is comprised of family members)
  - Family members can serve on FTC Board & committees (careful consideration on committees making discretionary distributions)
  - Trusted family advisors can continue to assist family through service on the Board & committees
  - Board & committees can be comprised of individuals who understand the family, its history & vision for the future
  - Family can control investment decisions
  - Family can control shareholder decisions of family business
  - Implement risk management through creditor/domestic protections

FTC SOLUTION – FAMILY GOVERNANCE

- Families interested in keeping the family cohesive & working together across generations
  - Creates opportunities for development and control over implementation of family strategic plans – particularly a wealth strategy
  - Establishes more transparency & opportunity to understand the shareholder transition plans
  - Provides educational opportunities for all family members including the rising generation
  - Encourages collaboration with trusted advisors and smooth transitions across generations
  - Supports family governance succession development
  - Creates opportunities for being responsive to the family's evolving needs & desires

FTC SOLUTION – THE TRUSTEE & THE BENEFICIARY

- Grantor/Trustee/Beneficiary interpersonal relationships can be complex because it requires balancing different perspectives
  - A Grantor creates a trust & makes a gift
  - A Trustee is entrusted with the gift and must:
    - ✓ Administer the trust
    - ✓ Invest the trust assets
    - ✓ Determine distributions to the beneficiaries
  - A Beneficiary has responsibilities to become educated about the trust & understand the duties of the Trustee
- It is important to work together to create a positive experience balancing the different roles & to honor the family legacy
- These roles come together under the FTC umbrella

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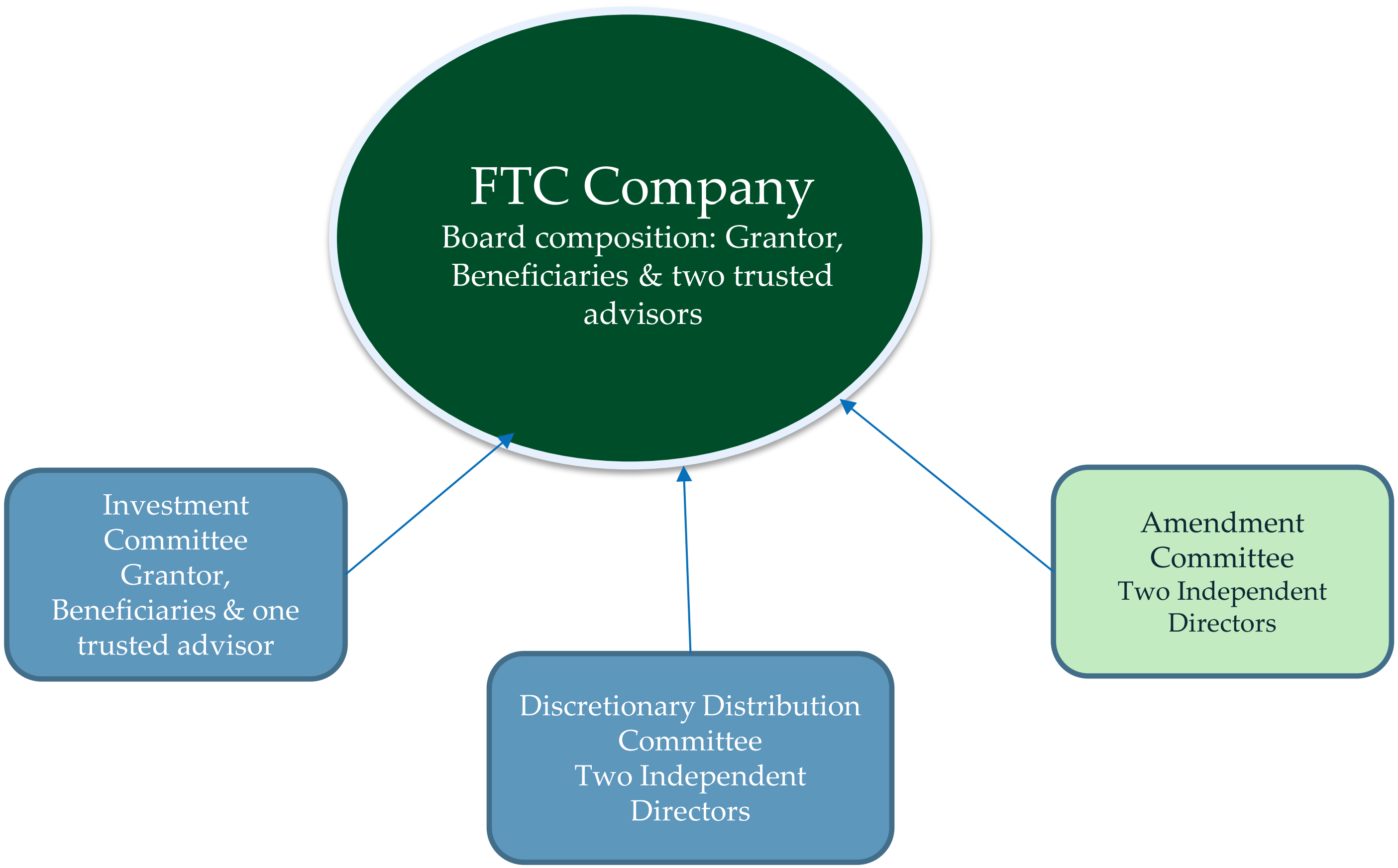
OHIO FAMILY TRUST COMPANY CASE STUDIES

CASE STUDY FACT PATTERN - #1

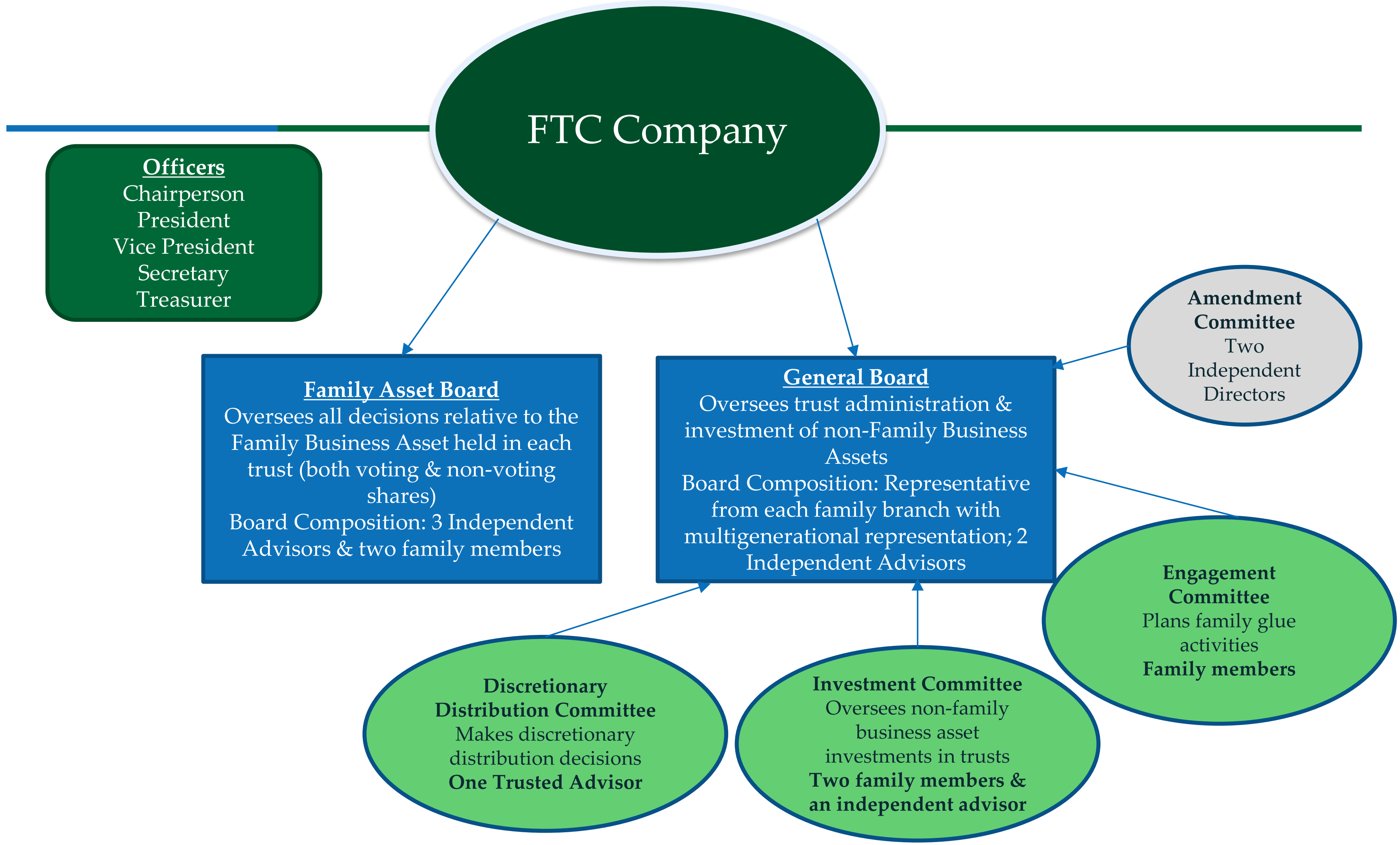
- Motivation to set up FTC: Consolidated future ownership of family business & stewardship education
- G2 wealth creator previously bought out siblings so thinks like a G1
- Current situation:
  - Only one trust under the FTC holds nonvoting shares
  - Wealth creator & children on Board of Directors
  - Meets twice a year
  - Investment Committee
    - ✓ Doesn't meet as only family business ownership held in trust
  - Discretionary Distribution Committee
    - ✓ Meets once a year to consider distribution of dividends from the family business

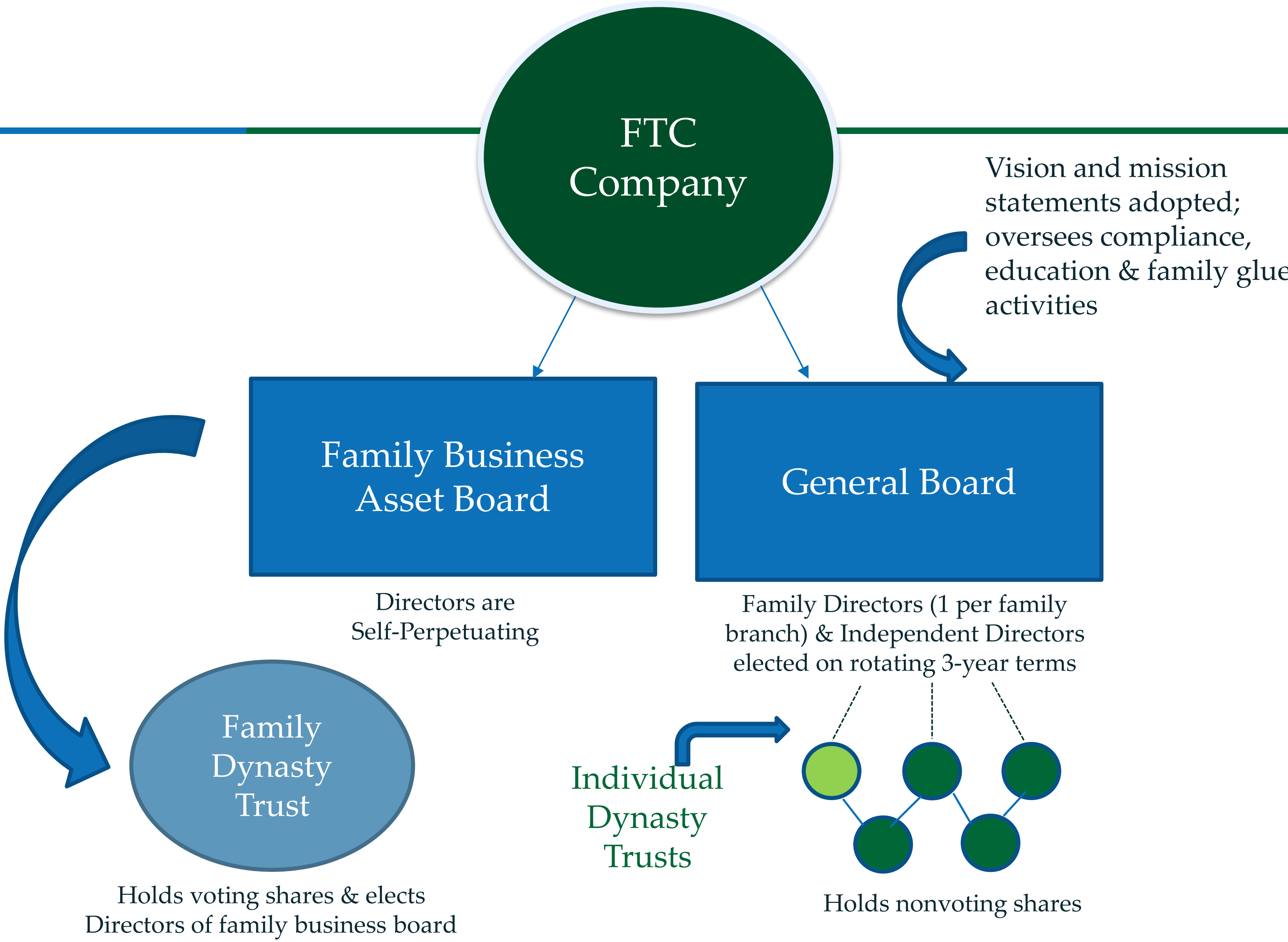
BASIC FTC STRUCTURE



CASE STUDY FACT PATTERN - #2

- Motivation to set up FTC: Control of family-owned business & understanding of need for trust planning to minimize estate taxes
- G2 siblings looking to future & 'spread' of decision making if shares continue to be gifted to G3s
- Current situation:
  - One trust holds all voting shares; each G2 sibling created a trust to hold non-voting shares
  - Meets four times a year
  - Investment Committee - Limited oversight as limited dividends distributed
  - Engagement Committee – Plans family glue activities
  - Discretionary Distribution Committee - Limited oversight as limited dividends distributed
    - ✓ Considering a tuition payment policy


FTC Company
Officers
Chairperson
President
Vice President
Secretary
Treasurer
Family Asset Board
Oversees all decisions relative to the Family Business Asset held in each trust (both voting & non-voting shares)
Board Composition: 3 Independent Advisors & two family members
General Board
Oversees trust administration & investment of non-Family Business Assets
Board Composition: Representative from each family branch with multigenerational representation; 2 Independent Advisors
Amendment Committee
Two Independent Directors
Engagement Committee
Plans family glue activities
Family members
Discretionary Distribution Committee
Makes discretionary distribution decisions
One Trusted Advisor
Investment Committee
Oversees non-family business asset investments in trusts
Two family members & an independent advisor



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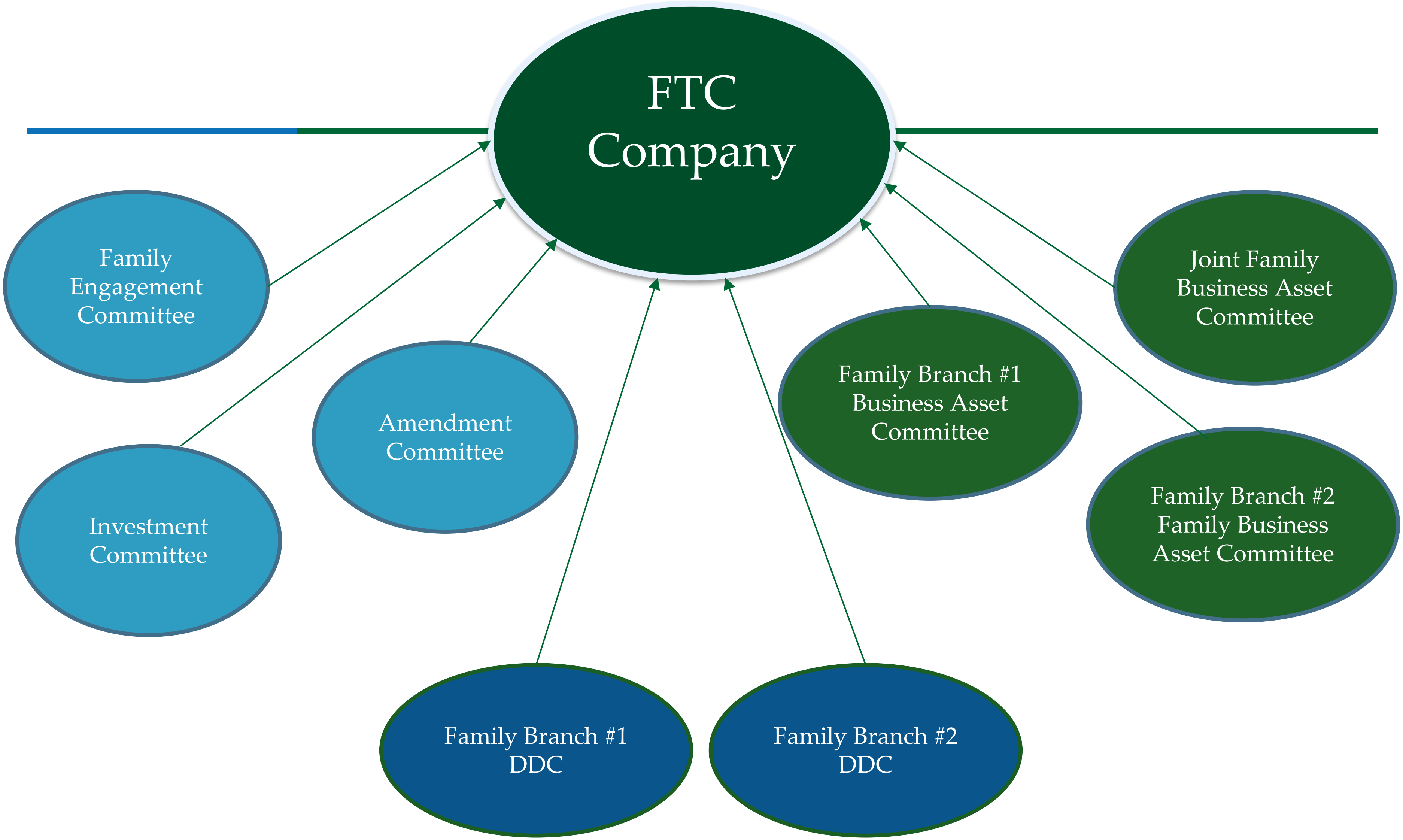
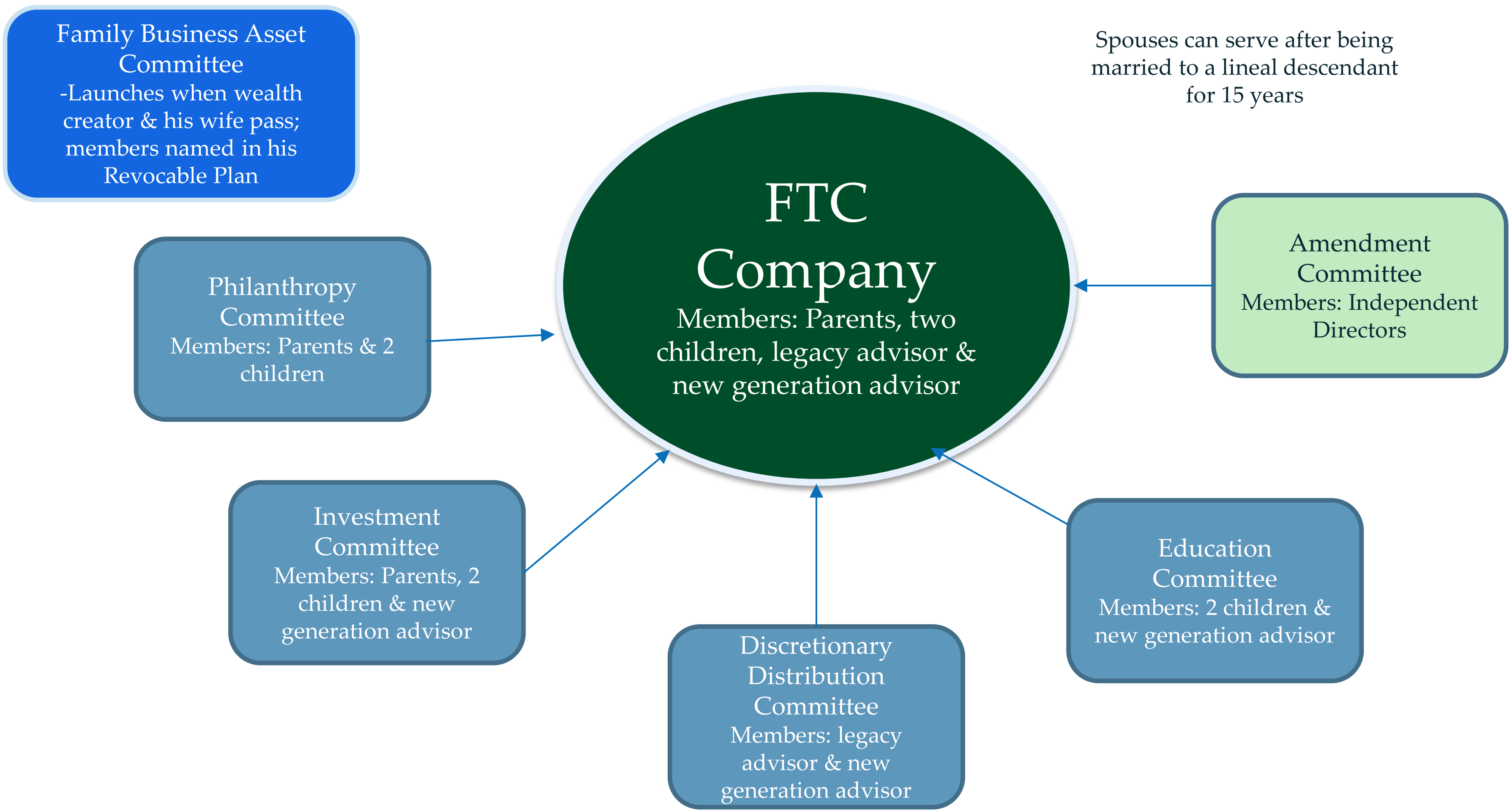
CASE STUDY FACT PATTERN - #3

- Motivation to set up FTC: Control of family wealth strategy & trustee succession of multiple legacy trusts (cousins are <u>not</u> interested in being Successor Trustees)
- Current situation:
  - Multiple trusts hold various family business assets with disparate family ownership
  - Meets two times a year
  - Investment Committee
    - ✓ Oversees joint liquid investments in trusts
  - Discretionary Distribution Committees ("DDC")
    - ✓ For privacy reasons each family branch has a different DDC
  - Family Business Asset Committee<u>s</u>
    - ✓ Differing investment philosophies led to multiple Family Business Asset Committees


FTC Company
Family Engagement Committee
Amendment Committee
Investment Committee
Family Branch #1 Business Asset Committee
Joint Family Business Asset Committee
Family Branch #2 Family Business Asset Committee
Family Branch #1 DDC
Family Branch #2 DDC

CASE STUDY FACT PATTERN - #4

- Motivation to set up FTC: Multigenerational education & transparency for G1 & G2 to work together
- Current situation:
  - Meets four times a year
  - Investment Committee
    - ✓ G1, G2 & trusted advisor oversee liquidity
  - Education Committee
    - ✓ G2 & trusted advisor make recommendations on programming
  - Discretionary Distribution Committee
  - Philanthropy Committee
    - ✓ G1 & G2 meet to discuss family's charitable intentions
  - Family Business Asset Committee (triggered at death of G1)


Family Business Asset Committee
-Launches when wealth creator & his wife pass; members named in his Revocable Plan
Spouses can serve after being married to a lineal descendant for 15 years
FTC Company
Members: Parents, two children, legacy advisor & new generation advisor
Philanthropy Committee
Members: Parents & 2 children
Amendment Committee
Members: Independent Directors
Investment Committee
Members: Parents, 2 children & new generation advisor
Discretionary Distribution Committee
Members: legacy advisor & new generation advisor
Education Committee
Members: 2 children & new generation advisor

QUESTIONS?

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