GenSpring
SunTrust Private Wealth

Sustainability - The Springboard for Future Generations

Research suggests that wealthy families would prefer to pass nearly two-thirds of their wealth to their children, grandchildren and other heirs[1]. But while they may have the desire to pass on their wealth, many families grapple with a fundamental question:

Can our wealth benefit our generation and be passed on to future generations while also having a positive impact on those future generations?

This is what we call the "sustainability" question and it represents one of the most challenging dilemmas that families of great wealth face. Put another way, families question whether their financial capital (their money) can co-exist in harmony with their human capital (their family). There is significant evidence that suggests the two have more often than not been mutually exclusive. From stories in the press about in-fighting and lawsuits that tear wealthy families apart to research that suggests only 30% of families are able to successfully transfer wealth between generations[2], there seems little reason for hope. After all, the shirtsleeves-to-shirtsleeves proverb is universal.

But our experience tells us that sustaining family wealth is indeed possible. After all, while they may not be written about as frequently, there are healthy and happy families who have and continue to sustain their wealth into and beyond the third generation for the benefit of their individuals members, families and society. We constantly seek to learn from these families and share those lessons with others who also want their wealth to last and be a benefit to their families and communities.

THE SUSTAINABILITY ROADMAP

We have synthesized what we have learned into a roadmap for families interested in sustaining their wealth across generations. Not surprisingly, successful families have shown us that the road to sustainability begins by building a foundation around financial capital. They make certain that their investing, tax and estate planning, and risk management activities are performed well and avoid the typical pitfalls of holding large concentrated stock positions, taking excessive leverage or risk, lawsuits, and overspending. They ensure that their investments are managed and grow, net of inflation, taxes, and spending, in such a way that their value compounds consistently over time, across market cycles. Successful families ensure that all of their financial activities are managed seamlessly to avoid

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the unforeseen risks and errors that can hide in any crevice and cause the foundation of their wealth to crumble over time.

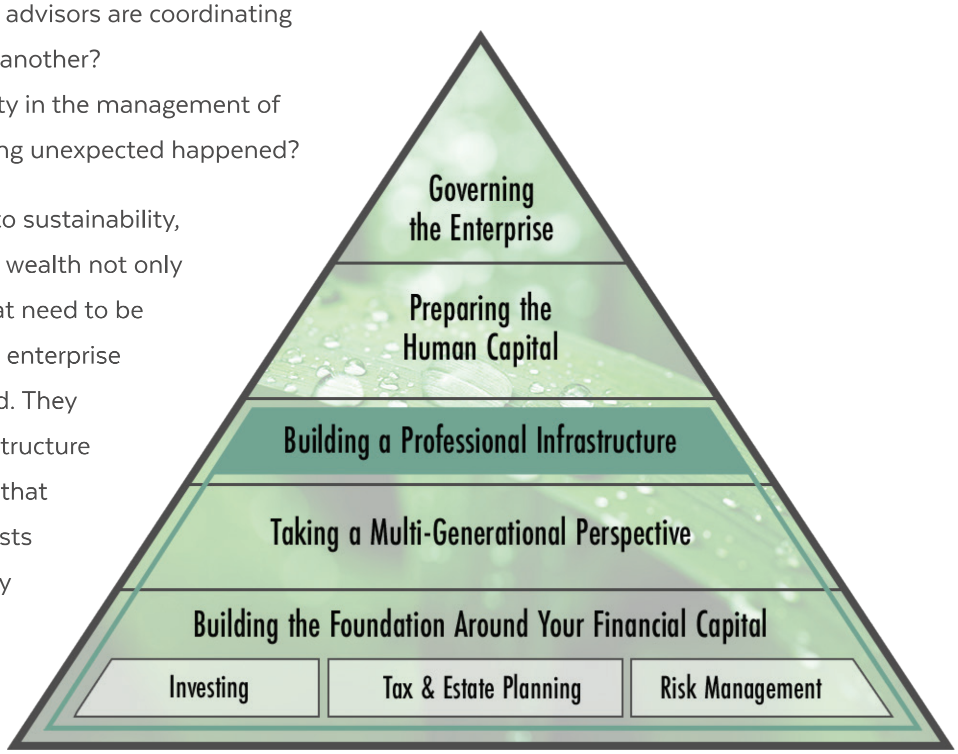
And then, because the objective is to sustain wealth across generations, successful families apply a multi-generational perspective to all of their financial activities. They focus on investing for the next generation, not the next quarter. They seek out opportunities to trade liquidity for return. This longer-term thinking leads them to focus as much on asset location[3] as on asset allocation and to mitigate their risks of capital loss. As they do, other critical questions begin to emerge that highlight the potentially fragile nature of the infrastructure that surrounds their financial capital:

- Are any of our activities overly reliant on one person?
- Can I be sure that my advisors are coordinating their efforts with one another?
- Will there be continuity in the management of my wealth if something unexpected happened?

At this point on the road to sustainability, families begin to see their wealth not only as a series of activities that need to be performed, but also as an enterprise that needs to be managed. They build a professional infrastructure of advisors and providers that is aligned with their interests and can provide continuity across generations for the management of their financial capital.

With their financial capital well taken care of, successful families then shift their primary focus away from their financial capital toward preparing their human capital. They orient their activities toward realizing higher-order needs[4]. They begin to implement the non-financial best practices of multi-generational families[5], including improving family communication, building family competencies, and preparing family members for the responsibilities of life with wealth. These families search for answers to profound questions:

- Is our financial capital really at the service of our human capital or vice versa?
- How do we prepare future generations to learn about and inherit wealth?
- What values do we share as a family?
- What is the purpose of our wealth?



THE SUSTAINABILITY PYRAMID

This last question can often create an inflection point for a family on the road to sustainability. They and their advisors have built a solid, multi-generational enterprise around their financial capital. They have worked hard to prepare their children, and perhaps their grandchildren, to be responsible inheritors of wealth. But they know that money must have meaning beyond its economic value if it is to be sustained. So, successful families take great care in defining a shared purpose for their wealth that is reflective of each family member's values and thoughtfully balances togetherness with individuality.

After capturing their shared purpose in a clearly written and agreed to family mission statement, successful families turn their attention to the last element of sustainability – governing the enterprise. Family governance defines how a family will work together and make decisions, and can be one of the most difficult elements of sustainability to put in place. The questions are complex:

- What will we do to achieve our mission?
- How will we make family decisions?
- Who will assume which roles?
- What policies are we willing to live by?

However, when coupled with well-prepared family members and guided by a clearly written family mission statement, the answers to these complex questions complete the "springboard" that propels families forward and allows their wealth to last and be a benefit for generations to come.

"Sustainability starts with the intentional efforts of family leaders who are not willing to leave the ultimate fate and impact of their wealth to chance"

THE JOURNEY TO SUSTAINABILITY

This is the roadmap that we have seen families follow successfully in their journeys to sustain and enhance family wealth. It begins with building a foundation around financial capital, managing it from a multi-generational perspective, and reinforcing it with a professional infrastructure. It then requires a thoughtful approach to preparing and organizing a family's human capital to manage the family enterprise that is their wealth. Because each milestone takes time to achieve and is accompanied by increasingly difficult questions, the journey to sustainability benefits more from the approach of the proverbial tortoise than the hare. And it does not happen all by itself. The journey towards sustainability starts with the intentional efforts of family leaders who are not willing to leave the ultimate fate and impact of their wealth to chance.

ENDNOTES

1 "Wealth with Responsibility Study 2000", conducted for Bankers Trust Private Banking by Paul Schervish, Boston College.

2 *Preparing Heirs,* Roy Williams and Vic Preisser, 2003.

3 Broadly refers to taxable vs. tax-deferred accounts, estate planning structures and geographies.

4 Reference to Abraham Mazlow's *Hierarchy of Needs.*

5 For more information, please read our white paper entitled "The 25 Best Practices of Multi-Generational Families"

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