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The number of "overnight millionaires" is on the rise. Many newly wealthy families can credit their expanded fortunes to a major liquidity event, most frequently the sale of a business. Sales of companies in the technology sector, especially, have created a record number of multi-millionaires over the last 20 years. In 2020, the wealthiest among them – those with a net worth of $100 million or more – included 64,000 families around the world holding a total of nearly $24 trillion in wealth.[1]

For many in this group, recently acquired wealth creates a host of new and, sometimes unexpected, challenges. These challenges will vary from family to family, requiring their team of financial and legal professionals to deploy creative and personalized solutions. However, the members of this group share some common needs. In this piece, we look at what those needs are and how they might be addressed when creating a comprehensive financial plan.

PRE-WEALTH PLANNING

In most cases, families benefit most when they start planning well before the liquidity event happens. Pre-wealth planning not only helps families make sound decisions during the liquidity event itself, but also it enables families to start thinking about controlling, preserving and passing wealth to future generations.

Families often have a range of considerations and potentially competing interests. Through planning, families can reduce their tax liability and establish the appropriate structures to steward multi-generational wealth. They can also potentially bolster their level of philanthropic giving, which can also impact taxes and legacy planning.

FAMILY OFFICE

A wealth-creation event can create incredible complexity. The needs of families with a net worth of $100+ million include investments, insurance, tax, estate, liability, and property and staff management. Many of these families create a family office designed to oversee the many tasks and decisions related to managing these needs. Each family office is unique in its structure; some family offices are fully staffed with designated professionals handling taxes, estate management, investing, insurance, bill payments and household tasks. Others consist of one person overseeing all aspects of the family's needs, or even set up virtually with all tasks outsourced.

1 Wealth-X Applied Wealth Intelligence. "World Ultra Wealth Report 2021." Page 7.

No matter how it's set up, the family office works in concert with the family's professional advisors to make financial decisions, including those regarding other family-owned business ventures and philanthropic activities. This office also oversees how the money is distributed within the family, ensuring each member receives the amount needed to maintain their desired lifestyle.

DRIVING IMPACT THROUGH CHARITY AND INVESTMENT

Most ultra-high-net-worth families share the same goal: to give back, help those in need, and make a positive impact on the world around them. One strategy is to set up a family foundation, which can serve as the vehicle to make grants and gifts to organizations that align with the family's mission and philanthropic objectives.

Some families might choose to use a donor advised fund (DAF), which allows them to give to charities in a tax-efficient, streamlined way. The family can also directly support businesses or organizations with positive environmental, social or governance (ESG) profiles by exploring impact investing options in their portfolio.

No matter what mechanisms they use to manage their philanthropic efforts, many families will seek out input and collaboration from multiple generations when deciding which causes and organizations to support. Working together as a unit can solidify the family's bond, help teach younger members about the importance of charitable giving and ensure the family's values remain intact as they are passed down through generations.

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INVESTING STRATEGIES

Once the family has decided how it will structure the family office and charitable giving, it's time to address the goals and objectives of the family's investment portfolio. The first step is to develop an investment policy, which serves as a blueprint for how the family invests. The investment policy also provides a roadmap for how their portfolio assets will be managed.

The family should also undertake an asset allocation study to analyze the risk and return goals appropriate for the family's current assets, liquidity needs and tolerance for potential drawdown. In many cases, families will need multiple asset allocation studies, particularly if different generations or branches of the family have distinct cashflow or risk management requirements.

The investment policy and asset allocation study can then be used as a guide during portfolio construction. The portfolio construction phase will vary from family to family, but typically takes anywhere from six to 18 months to conclude. The family might also simultaneously build out a private markets' portfolio, which can take several years to complete.

Following construction, the family and its advisors will provide ongoing surveillance of the portfolio, ensuring the portfolio is being consistently and continuously managed. To do so, they will rely heavily on performance reporting, which will highlight how the portfolio is performing relative to the needs and risk tolerance of each family member or branch.

OTHER CONSIDERATIONS

All of the above decisions can be impacted by other factors. For example, if the wealth was created by a sale of a business, did the family exit that business entirely or will they still have a role in running it going forward? If the family exits entirely, where will they put their focus and energy now? Selling a business can create an unexpected sense of loss for many families, particularly for those members who were directly involved in the day-to-day business operations.

The governance and stewardship of the family wealth can also become a point of contention. Choosing the right person(s) to make financial decisions on behalf of the family can have a direct impact on investment strategy, trust and estate planning, and charitable and philanthropic activities. Maintaining ongoing, open communication among all family members can also help alleviate stress and potential conflicts during the decision-making process.

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The financial needs of ultra-wealthy families require the assistance of experienced advisors who understand the complexities of managing "overnight" wealth. At NEPC, we serve as a resource not only for these families, but also their professional teams. Visit nepc.com/private-wealth/ to find out more about how we serve families, not just their portfolios.

IMPORTANT DISCLOSURES

Past performance is no guarantee of future results.

All investments carry some level of risk. Diversification and other asset allocation techniques are not guaranteed to ensure profit or protect against losses.

This memo should not be considered customized investment advice. Please contact NEPC for advice specific to your investment program.

The information in this report has been obtained from sources NEPC believes to be reliable. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.

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