AB BERNSTEIN

Wealth Beyond Measure

Insights from Business Owners

Introduction

We are thrilled to present Wealth Beyond Measure, a deep dive into the complex world of family, wealth and purpose. Bernstein's UHNW Team has worked extensively to bring you this in-depth study, drawing on our decades of experience helping families navigate the transfer of wealth-related values and knowledge.

During our interviews, we had the privilege of speaking with 40 families from every major US region as well as all corners of the globe. Through these conversations, we gained invaluable insights into the challenges and opportunities faced by families as they manage their wealth, business and family dynamics. We listened intently to their stories, perspectives and concerns, and we are honored to share their wisdom with you.

Our in-depth study is not just a collection of quotes and anecdotes. It is a thoughtful analysis of the issues that matter most to UHNW families, complemented by our own expertise and advice from nearly 60 years of managing private wealth. We hope that these insights will offer you a meaningful glimpse into some of the world's most successful families.

At the heart of this special report is a desire to foster learning and connections among our clients. We know that many of you are eager to learn from each other, and we are honored to facilitate this exchange through Wealth Beyond Measure.

We would be remiss if we didn't express our deepest gratitude to the families who shared their stories with us. We recognize that these are deeply personal subjects, and we are humbled by the trust you have placed in us to report with discretion, neutrality and emotional intelligence. Thank you for your partnership and for helping us create thought leadership that we hope will be of great value to families for years to come.

Very best regards,

Anne Bucciarelli, CFA
Senior National Director, Family Engagement Strategies

Rick Meyers
Executive Managing Director, Head of Client & Advisory

Aaron Bates
Senior National Managing Director, Head of UHNW & Growth Strategies

Bernstein's UHNW team consists of a dedicated group of professionals with experience and training in helping families explore the transfer of wealth-related values and knowledge. Through directed exercises, the team helps uncover what matters the most, and the least, to the families with whom we work. Our experts conduct facilitated conversations and family meetings, ensuring that voices are heard, expectations are managed and key findings are incorporated into strategic plans—including family governance, business succession, educational programs and wealth strategies.

Business Owners

Nearly two-thirds (60%) of the families we spoke to own an operating business. Family-held businesses face the dual challenge of navigating business decisions and family needs—and the complex ways they intersect. While addressing succession planning, some families may ultimately conclude that the business, or part of the business, should be sold. Yet whether the business is held or not, strong governance, effective communication and thoughtful estate planning are all vital to success.

Maintaining a Business

Corporate governance refers to the structures and processes families use to organize themselves and guide their relationship with the business. A well-designed corporate governance structure can limit conflict, create systems and improve clarity around:

- the goals, values and direction of the business, ownership group and family;
- stakeholders' rights, roles and responsibilities; and
- appropriate decision-making processes and ways to resolve issues.

Succession was a key theme for many of the families we interviewed. As new generations assume leadership roles—or the untimely death of a business leader occurs—how will the family enterprise organize itself going forward? If the business is to remain in the family, organized succession planning underpins the transition between generations or to professional outside management. Family governance can smooth the ride and ensure an orderly hand-off.

As she considers the succession plan for her family's real estate enterprise, one second-generation business owner is focused on preparing and educating her daughter. *"I'm doing it as we speak. [My daughter] is getting ready to go to a conference focused on governance. She's come to Bernstein things. She's just got to be more involved with the knowledge of what's going on, and she doesn't have to be an operator. This global board we have formed—I am the trustee of everything. But she [daughter] has the super majority vote. She's got to learn and be at those board meetings."*

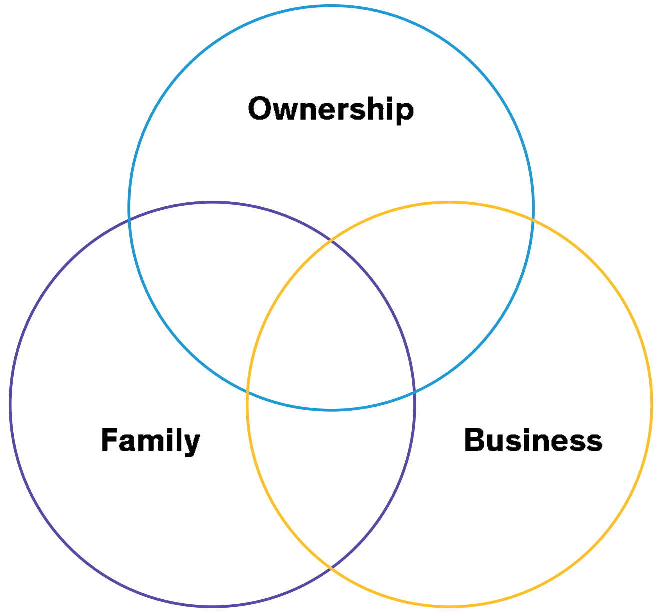
When asked what she was most excited or most concerned about, the mother responded, *"The most exciting part for me is that [my daughter] is wanting to learn about what's happening in the family and the business. What I'm most concerned about is we do not have a buttoned-up process and reporting procedure… we're still an operating company. It needs to be run. And my daughter is wanting for it to be more of a passive investment, you know where she doesn't need to run all these properties."* She is currently in the process of reconciling her daughter's desire to be more hands-off with the operating company's day-to-day needs, weighing the business and management changes that need to occur to satisfy all parties.

Governance involves determining not just who will run the business, but also how to uphold the legacy that the founders had in mind when the business first launched. Strategic succession planning means being proactive and planning for a change in leadership several years before the expected transition. If a departure occurs earlier than anticipated, having a plan for the transition will minimize disruption.

One family with an operating business in Latin America is in the middle of their succession planning as there are several generations currently working in the business. *"There should be a succession in the next few years. We do have a professional manager as CEO, a non-family member. He started with our company as a member of the Board of Directors some years ago. He had a lot of experience running a similar retail business. We thought it was a good idea to place him as CEO to have high level management who is not a member of the family to help us with some issues. And I think it has been a very good experience with him. In a few years, he would probably like to retire."* As to whether they'll bring in another external candidate or have someone from the family take over, he noted, *"Our options are open at this moment. We are in contact with a consulting firm that specializes in advising family-owned businesses to help us determine what we should do."*

Members can benefit from understanding the larger family business, and where they fit within it. The Three-Circle Model of the Family Business System—developed by Renato Tagiuri and John Davis—is an excellent place to start. By examining where members fall in the system (*Display*), families gain clarity around their own personal perspectives and those of other participants. If a member plays just one role (Business, Ownership or Family), he or she will occupy a single circle. But those with two or more positions will belong in overlapping spheres. For instance, a family member who does not participate in the family business (and resides only in the family circle) may have very different motivations, concerns and responsibilities than one who is an owner currently employed in the business (sitting at the intersection of all three).

Visual representations can be helpful when there is high complexity. Our Three Circles Model worksheet can help members understand their role as well as other perspectives in the system.



Source: Tagiuri and Davis (1982).

One family with a large operating business remarked on some of the key elements of their governance strategy. *"Our governance is very strong, and one item we have documented is a voting trust agreement. All the voting shares of the company are placed in a voting trust, which allows the family to speak to the company with one voice. Another key component is having an exit strategy. We have a formula if a family unit wants to sell their current shares. There is a mechanism for them to do so in a way that allows them to get access to liquidity but spreads the payments over a few years to minimize the negative impact on the company."*

He went on to discuss how the family thinks about governance today. *"Governance is like a three-legged stool—one is the shareholder leg, another is the Board of Directors and the other is professional management. It is very important that each leg is strong, but each leg is kept separate. The shareholders' primary role is to provide shareholder goals and elect the Board of Directors. The Board of Directors' role is to oversee management and ensure management's strategy is aligned with the shareholder goals. The management team's responsibility is to execute on the strategy."*

Aligning family and corporate governance assures both the continuity of a family business as well as harmonious family relationships.

Giving Your Time to Causes or Organizations (Volunteer Activities) | **Spending Time with Friends** | **Provide for Your Family Members**

Reduce Stress | **Protect Your Wealth** | **Travel Destinations on the Bucket List** | **Eliminate Debt and/or Liabilities** | **Recognition**

Maintain or Upgrade Spending/Lifestyle | **Funding Education** (for your Kids/Grandkids) | **Grow Your Wealth** | **More Free Time**

Control | **Future Success of Your Business**

Financial Security | **Health and Longevity**

Continued Independence of Your Business

Working Together with Partners or Coworkers

PRIORITIES

Deepen Your Faith/Religion/Spirituality

Create, Invent or Innovate | **New Beginnings**

Family Time (with Spouse, Kids and Grandkids)

Create a Philanthropic Legacy | **Power**

Create a Family Legacy | **Learn New Things** | **Major Purchases** (Homes, Cars, Boats, Planes, Toys) | **Enjoy Relaxing Vacations**

Pursue Hobbies | **Provide Support and Loyalty to Employees** | **Community Impact of Your Business** (Jobs, Economy or Social)

Make a Positive Impact in the Community, Nation or World | **Give Assets to Organizations You Care About** | **Uniting the Family**

Selling a Business

In some family businesses, younger generations don't want to be involved. Other families never intended to pass down the business so a sale may prove the ultimate path forward.

> As one second-generation business owner observed, *"I think we're gonna end up with a liquidity event within the next five years. I don't see either my sister's kids or my kids being involved in this business. Now, at some point down the road, I could see if we really genuinely focus on building the family office, which I'm interested in doing—I'm really not sure whether or not her kids at some point get involved. I think she'd be open to making the possibility available, but at this point, neither one of them is showing any interest. My kids are way too young to even think about."*

Some business owners created wealth through entrepreneurship. And many of them start planning their next venture once they achieve their current business goal. Even so, for those who have spent years building their business, grappling with a sale can be daunting.

> One business owner who sold a few years ago remarked on how his children would view his legacy now that he'd exited. *"As children of CEOs—the logo is on a building. 'That's my dad's building.' With the sale, the sign will come off."* Now, his legacy shifts to the impact of the wealth from the transaction. *"Wealth can bring families together—it's the tool, right? It can be something that transcends generations. I equate [money] to Legos. If you have a little bit, you can build something fun. If you have more Legos, you could build more things that are fun. It's not the pursuit of a particular number or amount that I think creates any level of happiness or fulfillment. I think it's more that entrepreneurs love the chase and winning."*

Many entrepreneurs who have built something from scratch experience a common theme: they are about to receive a significant windfall but haven't considered what such wealth truly means to them.

> As one business owner who sold the business a few years ago observed, *"My top concern is I'm 61...we sold the business, we have lots of money. If there's something I should be doing that could provide value but it's not popping up for me right now because I've been so busy. I don't want to be 70 years old and see I could have done something, but I just don't know what it is because nobody is knocking on a door."*

Before wealth forecasting, business owners should envision their goals and objectives for the sale of their business. This helps establish priorities and provides a clear framework for their financial objectives and goals. Articulating their wealth's purpose is often the first step in paving the way for a favorable transaction and successful outcome. For many business owners, this is the first time they are consciously exploring their motivations, priorities and closely held values.

It's crucial to remember that a business owner doesn't need to face a significant liquidity event to use this toolkit. It could be as simple as forming a business, starting a new venture, changing ownership or pursuing a financing round. Regardless of where an entrepreneur is on their journey, it's essential to check in at various milestones to ensure they're on track to achieve their personal and financial objectives. Additionally, it's crucial to consider the demands on family and time surrounding each decision.

Business owners can use our Priorities Worksheet to help identify goals and make progress toward achieving them.

Crystallizing Choices

Having a clear understanding of your priorities and goals creates the foundation for planning. To bring this to life, consider Adam,[9] an entrepreneur who sold his business two years ago. The sale generated $245 million in pretax sale proceeds with $30 million paid out over the subsequent four years, in addition to the $26 million portfolio the couple had previously accumulated.

Before selling, Adam and his wife Shelly had a facilitated conversation to identify their individual top priorities. This exercise, while seemingly simple, provided incredible value for all parties, allowing each person to gain a deeper understanding of what will shape the couple's wealth beyond the deal.

Initially, they both emphasized lifestyle as a driving factor. After adjusting for a reasonable upgrade, they estimated that they would require $1.2 million per year, grown with inflation, to satisfy their lifestyle needs. With this in mind, their Bernstein advisor and planning team introduced the "core capital" concept, which quantifies the amount the family needs to secure their spending with a high degree of confidence—even if they experience poor markets, high inflation and excess longevity.

Since the couple intended to spend down their post-sale "nest egg" for the rest of their lives, they sought to preserve their investment portfolio in a balanced asset allocation. Ultimately, core capital of $54.2 million would satisfy Adam and Shelly's lifestyle needs, and now they could turn their attention to their secondary goals.

While discussing their priorities, the couple's desire to give—both to their children as well as their community—came through. Having grown up with modest means, Adam highly valued philanthropy and now felt the need to give back. Shelly agreed, while also stressing the importance of "legacy"—passing down both values and wealth to the next generation. They both wanted to cover their children's college tuition needs while being cautious not to fully fund their children's lives. *"I'm happy to help support my kids but they don't need to be as wealthy as I am, and they need to be productive in society,"* noted Adam. Lastly, Adam wanted to reserve $15 million for a potential new venture he was eyeing.

The next step entailed working with their trusted advisor and planning team to evaluate strategies and vehicles that could help the couple achieve their vision—while also delivering meaningful income and/or estate tax benefits. While there are many strategies that could be executed before, during and after the transaction, the pair ultimately earmarked the following (beyond their $54.2 million core) (*Display*):

- $30 million of the pre-sale business interest to a donor-advised fund
- $540,000 to front-load fund their children's 529 college savings plans (post deal)
- $24.5 million of the pre-sale business interest to an out-of-state non-grantor trust for the benefit of their children
- $15 million for Adam's new venture (post deal)

Afterward, they were left with $90.9 million in surplus capital. By contributing their company stock to the donor-advised fund and out-of-state non-grantor trust pre-transaction, the couple reduced their initial tax liability by $23.5 million.

What's more, they felt comfortable investing these vehicles with a growth-oriented allocation of 70% equities and 30% bonds since they knew their core capital was secured and the additional growth would occur outside of their estate. We projected that, over the next 40 years, this pre-transaction planning would help reduce their potential estate tax liability and increase total wealth by 46%. They incorporated a regular estate planning exercise into their annual review with their trusted advisors to leverage additional post-transaction opportunities to further reduce their taxable estate over time.

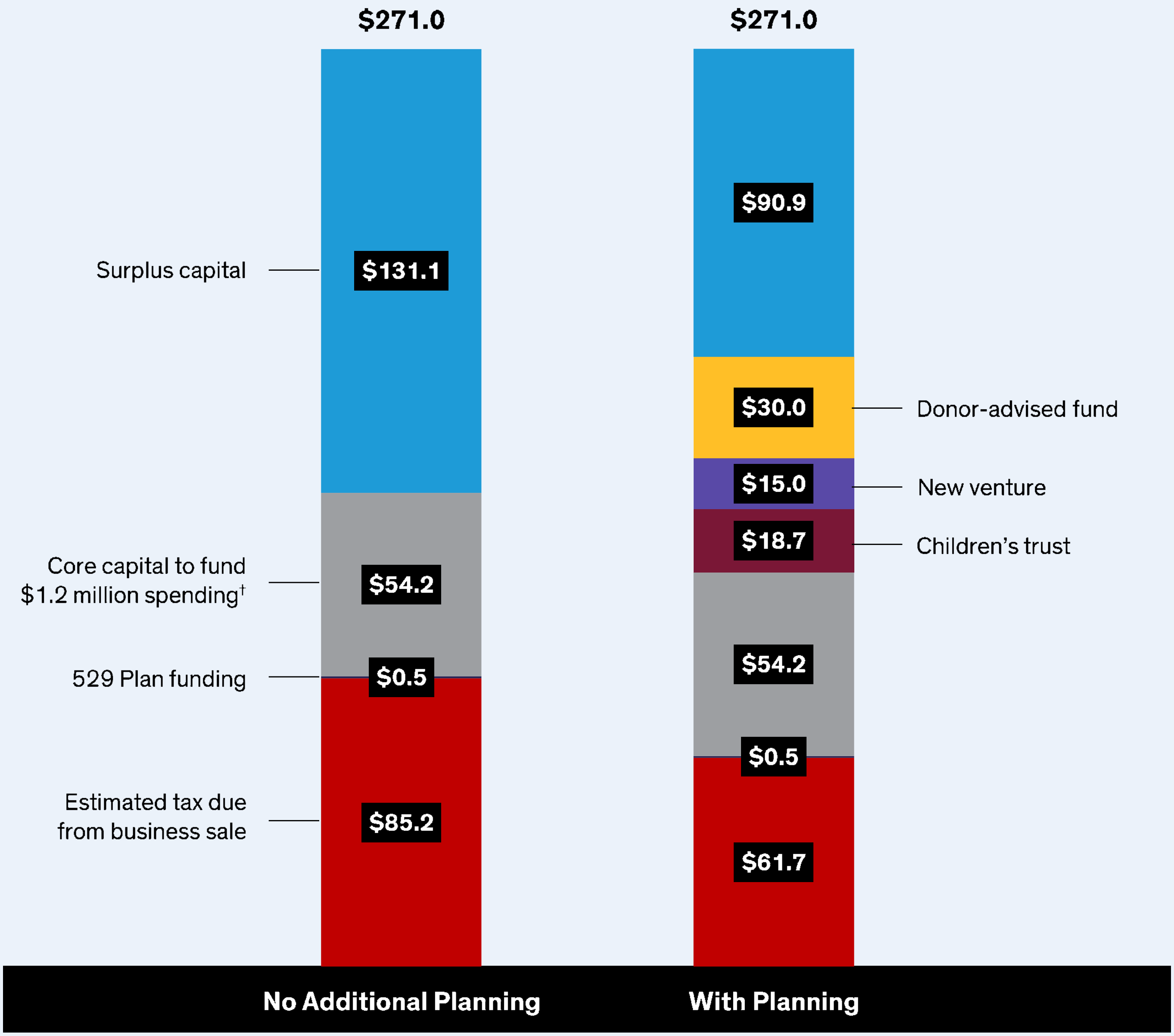
Comparing Deal Structures

When selling a business, it is crucial to evaluate the deal structure and terms, especially when receiving multiple offers. Transactions may include contingent payouts or agreements like earnouts, seller notes or rolled equity, in addition to upfront cash or stock. Rolled equity may present planning opportunities, such as gifting a portion to a trust for family or charity. It is important to work with an advisor to determine the appropriate size and structure for this gift in order to move a substantial asset value off the balance sheet, creating potential future tax savings. Beyond evaluating the impact on wealth, consider life beyond the deal from an emotional perspective, too. Business owners who accept offers from private equity buyers may be asked to continue working for the company in a different capacity. Asking the appropriate questions and thinking through these scenarios is a vital step in the evaluation phase.

9 Names and other small details have been changed for privacy purposes.

HOW MUCH CAPITAL IS REQUIRED TO SUPPORT SPENDING?*

(USD Millions)



*Assumes $26 million current assets plus pretax sale proceeds of $245 million. "No Additional Planning" assumes pretax proceeds of $245 million are subject to a blended capital gains tax rate of 34.78% (20% federal and 14.78% New York City state/local). "With Planning" assumes personal pretax proceeds of $190.5 million are subject to the blended capital gains tax rate of 34.78% with a charitable tax deduction of $30 million, children's trust proceeds of $24.5 million are subject to a federal capital gains tax rate of 23.8%, and DAF proceeds are non taxable.

†Core capital is calculated based on a joint life expectancy for a 57- and 56-year-old couple with a 90% level of confidence assuming a pretax annual salary of $800K for three years and annual spending of $1.2 million for the duration of the analysis, adjusted with inflation. Assets are allocated 50% global equities and 50% bonds. Based on AB's estimates of the range of returns for the applicable capital markets over the periods analyzed. Data do not represent past performance and are not a promise of actual future results or a range of future results. See Notes on the Wealth Forecasting System for further details.

Before, During and After Your Sale

It may be helpful to think of a business owner's company lifecycle and relevant planning timeline broken up into three distinct phases: Before, During and After a transaction. Within each, there are critical issues to weigh and potentially plan for.

1. **Before** Your Sale: During early and growth stages, aligning with trusted professionals—such as corporate and trusts and estate attorneys, accountant, consultant, investment banker and wealth advisor—may prove valuable, even if a liquidity event is far off. A wealth advisor, in particular, can help quantify how much you'll eventually need to secure your lifestyle needs. Forming this "deal team" upfront allows for smoother transactions and pre- and post-transaction planning strategies to accomplish goals and provide tax savings.
2. **During** Your Sale: It is vital to ensure that an offer will meet your financial goals and that enough is set aside for the future tax bill. In addition, there are several tax-mitigation strategies that a business owner can proactively evaluate. Through a Qualified Opportunity Fund, a seller can invest gains from the business sale, deferring taxes and potentially avoiding federal taxes on gains from the fund investment. Additionally, charitable giving (such as through a DAF in the year of the sale) allows business owners to receive an income tax charitable deduction while addressing their charitable goals. If a business interest is gifted prior to the sale, the owner could also potentially avoid income taxes. The pass-through entity tax (PTET) election is available for transactions structured as asset sales and may help business owners effectively bypass the state and local tax deduction limitation of $10,000. Lastly, active tax-loss harvesting strategies help offset significant capital gains with losses from investment portfolios.
3. **After** Your Sale: Planning doesn't stop after the sale. For an entrepreneur with young children or grandchildren, this time can be used to ensure adequate savings for children's expenses—specifically funding higher education and college costs through a 529 plan. By frontloading five years' worth of annual gifts, parents can create a substantial amount in savings.

Additionally, once structures have been put in place, business owners can work alongside their advisors to come up with a strategic, holistic investment plan.

Often, they may view their portfolio in various "buckets"—for instance, funds set aside for upcoming tax payments may be invested in a cash management or other preservation-style approach, while assets with a longer time horizon may be invested in a more growth-oriented portfolio.

Lastly, a serial entrepreneur may want to take some time after the sale of a business to strategize for their next phase or new venture. Thinking carefully through the idea, company structuring, desired timing and level of commitment, and leaning on their community of other entrepreneurs will pave the way for their future success.

For more information on our comprehensive suite of services for business owners, refer to Bernstein's Success at Every Stage.

Before Sale

Key Questions

- How much do you need?
- How much can you give away today?
  - What trust structures can you utilize?

Additional Items to Consider

- Management equity plan
- Financial statements and reporting
- Third-party review of retirement plan
- Building the deal team
- Section 1202—Qualified Small Business Stock (QSBS)
- State income tax planning strategies

During Sale

Planning/Key Questions

- Evaluate offer/final deal terms
  - Asset sale versus stock sale
- Should you accept the offer?
- How much should you set aside for taxes?

Tax Mitigation Strategies

- Qualified Opportunity Zones (QOZs)
- Gift to Donor-Advised Fund (DAF)
- Pass-through entity tax (PTET)
- Tax-loss harvesting strategy

After Sale

Additional (Ongoing) Planning

- Planning for children and grandchildren
- Review of investment plan in relation to goals and time horizon
- Additional estate planning (i.e., annual gifts, GRATs, installment sales, etc.)

Starting Your Next Venture

- Company structure (i.e., LLC, S Corp or C Corp)
- Section 1202—Qualified Small Business Stock (QSBS)
  - Stacking
  - Packing

Priorities Worksheet

Identifying priorities creates a framework that helps individuals and families navigate life with purpose and intention. However, many people assume they know what's important without exploring and defining what matters most. This can be even harder to focus on when there's a looming transition—like a business transaction or life event. Yet sharing what's important can help you understand your loved ones' priorities and improve wealth planning. By mapping out priorities, you can gain clarity about your most important goals (as well as those of your loved ones) and how to build a strategy for allocating resources to achieve them.

As you complete the worksheet below, try to stay in the present or the near future as priorities shift over time. Bernstein's Uncover Your Priorities exercise can help family members articulate individual, and shared, priorities and may be used to complete the worksheet below.

Individual Exercise (complete for each family member)

Identify and rank order the goals and priorities you have right now. Why is each important to you?

1	
2	
3	
4	
5	
6	

Identify any priorities that aren't top of mind right now. Why is each not high priority today?

1	
2	
3	

Family Exercise (complete for each family member)

Work together with a partner, or with additional family members, to identify commonly shared priorities. Keep an open mind—a common focus on your shared priorities can strengthen your bonds with each other.

1	
2	
3	
4	
5	

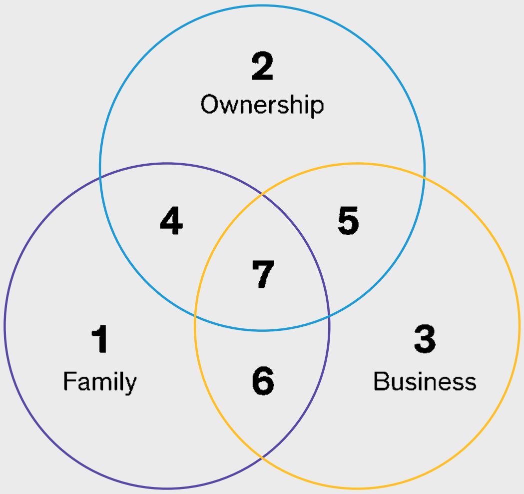
Source: Bernstein

Three-Circle Model Worksheet

The Three-Circle Model of the Family Business System is a straightforward tool to help family members understand the larger family business system and their place within it.

Place family members' names in the grid below based on the role they play. If a family member plays just one role, she or he will occupy a single circle. But those with two or more positions will belong in overlapping spheres. Non-family members who are owners or key employees may be added to the circle(s) as well.

To get started, look to see where your family members fall. Then recreate the circle with family members' names flowed in.



Source: Tagiuri and Davis (1982).

1 **Family members**	2 **Non-family, non-manager owners**	3 **Non-family employees**	4 **Family owners**

5 **Non-family owner employees**	6 **Family employees**	7 **Family owner employees**

About the Respondents

40
interviews

60%
have family businesses

$100 Million to $4 Billion
net worth

2/3
have a family office structure in place

1/4
organized around an operating business

Spanning from wealth creators and small family branches to 8th-generation families with **400+** family members

Demographics

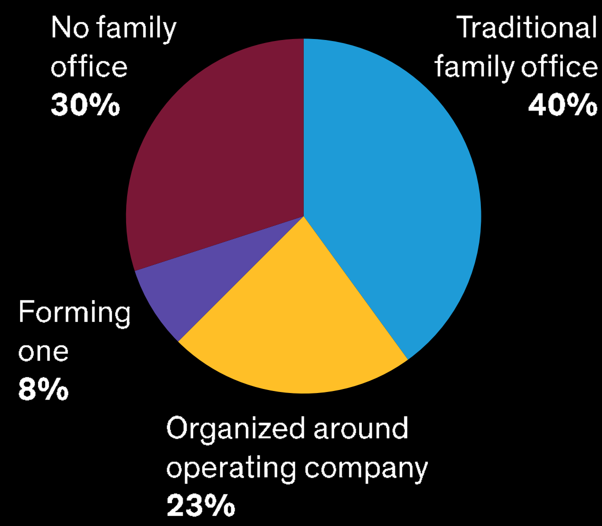
General	Value
# Interviews	40
Total Net Worth	$23.5 Bil.
Average Net Worth	$586 Mil.
Median Net Worth	$1.0 Bil.

Location	People	Percent
North America	27	67.5
Latin America	6	15.0
Europe, Middle East, Africa	5	12.5
Asia	2	5.0

Source of Net Worth	People	Percent
Consumer	7	17.5
Manufacturing & Industrial	6	15.0
Technology	5	12.5
Financial Services & Investments	5	12.5
Real Estate	4	10.0
Logistics	3	7.5
Government Contracting	2	5.0
Oil & Gas	2	5.0
Agribusiness	2	5.0
Automotives	1	2.5
Entertainment	1	2.5
Pharmaceuticals	1	2.5
Diversified	1	2.5

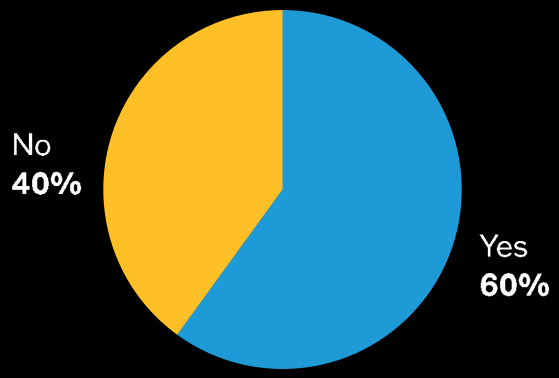
HOW IS YOUR FAMILY ORGANIZED? IS THERE AN ESTABLISHED FAMILY OFFICE?

Is there a family office in place?



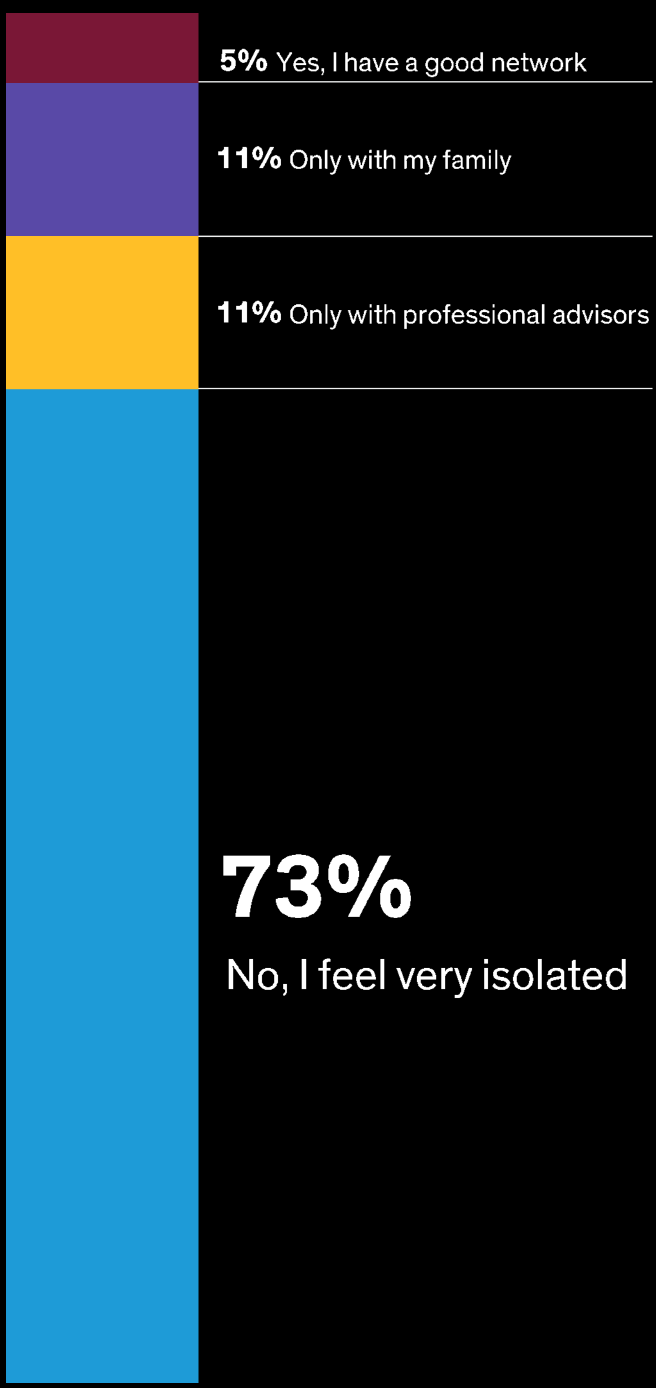
May not total 100% due to rounding.

Is there a family business?

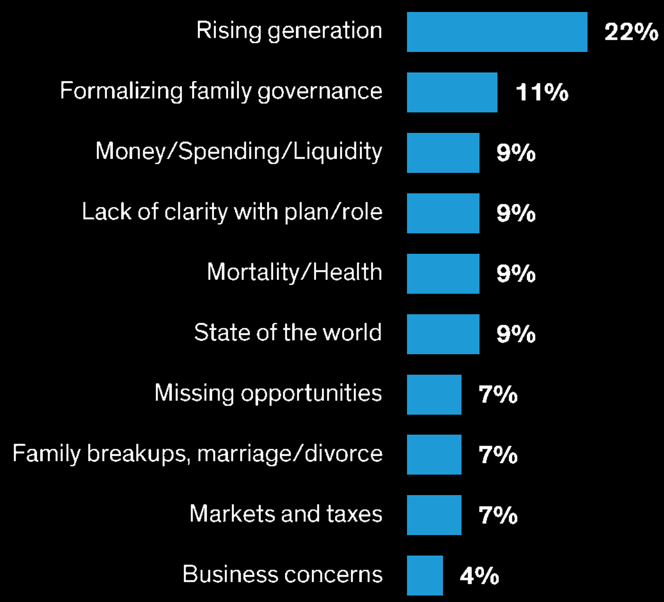


Insights

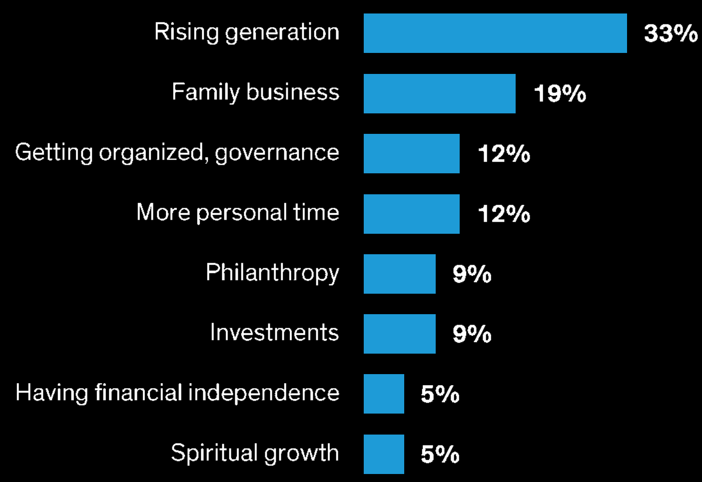
Do you feel you have people you can speak to about the complexities of wealth?



What is your top concern today?



What do you feel most excited about?



Money may bring comfort and security, but it cannot replace the warmth and connection that comes from sharing our wealth-related concerns and joys with others. To help overcome the often isolating nature of wealth, we're letting readers hear from their peers in their own words—and giving them the tools to act on what they've learned.

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