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# FAMILY OFFICE MAGAZINE

SPRING 17 ISSUE



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# MONACO

AN INSIGHT INTO THE MONACO  
ECOSYSTEM FOR FAMILY OFFICES



# DIVERSIFICATION

## SLOWLY DYING OR STILL ALIVE?

by Kloan Smith, Vice President and Steve Karsh, Principal – Innovest Portfolio Solutions



**Sloan Smith, Vice President**



**Steve Karsh, Principal**

Given the positive equity markets in 2016, coupled with the seven-year bull market in the S&P 500 and very strong performance of investment grade bonds, some investors are challenging the value of diversification in their portfolios. With the S&P 500 up over 11% for the first nine months of the year and having generated a 15% annualized return since 2009 it has been difficult for diversified portfolios to outperform traditional benchmarks. Some may be tempted to move away from a diversified portfolio of equities, bonds and alternative investments, and invest solely in a passive equity fund.

However, there are three key components to diversification that some investors have ignored. The first is whether an equity-only portfolio satisfies the level of risk investors are willing to take based on their goals, time horizon, and tolerance for volatility. The second is that recent past performance in equity markets or any other asset class cannot be extrapolated into the future.

The third is that diversification is the only free lunch in investing, because relative to holding a single investment, diversifying across asset classes coupled

with disciplined rebalancing allows investors to maintain the same level of return but at a lower level of risk.

### Equity Returns versus a Diversified Portfolio

Large cap stocks have recorded positive returns every calendar year from 2009 to 2016. However, in all eight of these calendar years large cap stocks were never the top overall performer. Large caps lost to either REITs, commodities, fixed income, international developed stocks, or small cap stocks.

In 2008, large caps were one of the worst performing asset classes with losses of 37%. Even in that horrific year for risk assets, small caps and commodities, which have exhibited greater long-term volatility than the S&P 500 Index, had less severe losses than large caps. Also, looking further back in time from January 2000 until December 2009, the S&P 500 generated a -9.10% cumulative return. Many market observers refer to this time period as the “lost decade” for large cap stocks. A portfolio composed only of large caps has exhibited a much greater risk than is likely suitable for many investors’ goals, time horizon, and tolerance for

volatility. Modern Portfolio Theory defines the concept of diversification as an attempt to optimize a portfolio of assets maximizing the returns and minimizing the risks of the portfolio. This concept becomes very apparent when reviewing asset class annualized returns since 2006 as compared to a diversified portfolio. In this case, a diversified and rebalanced portfolio consists of 25% in large cap stocks, 10% in small cap stocks, 12% in international stocks, 25% in fixed income, 3% in REITs, 20% in hedge funds, and 5% in commodities.

Though the performance of a diversified portfolio from 2006 through 2015 finished behind REITs, large cap stocks, and small cap stocks, it finished only behind fixed income and hedge funds when it came to volatility. On a risk-adjusted basis, where the annualized return of the asset class is divided by the annualized volatility, a diversified portfolio had better risk-adjusted performance than all four equity sub-asset classes: large cap, small cap, international, and REITs.

Proper diversification involves owning assets that have differing risk/reward characteristics and do not move in tandem. Some assets will generate strong returns while others generate weak returns, but the overall effect should lead to a smoother ride. If you include the method of rebalancing in the diversification process where you sell some of your winners and buy some of your losers to maintain your long-term asset allocation then you avoid portfolio drift and further minimize risk. David Swensen, Chief Investment Officer of the Yale Endowment, also found that diversification coupled with proper rebalancing can add 0.4% of return each year.

Though large caps have been strong performers since the lows of 2008, they remain subject to severe losses over market cycles. Diversification is the best solution to help dampen the severe ebbs and flows that are to be expected in single asset class investing.

### **Short-Term versus Long-Term Effects of a Diversified Portfolio**

Financial markets wasted no time kicking off 2016 with a new stretch of volatility. The S&P 500 got off to its worst two-week start in any calendar year in history by falling 8%. If you couple this drubbing with the

reaction to the Brexit referendum, when international markets were down 10% over two days, it can be challenging for investors to stay focused on their long-term strategic plan and asset allocation. Over the short-term (one to three years), correlations between asset classes may increase, losses may be significant, and patience and discipline may be severely tested. But to better understand the benefits of diversification on longer-term portfolio returns it is best to focus on the period surrounding the financial crisis from 2008 to 2009. Investors who remained in a diversified and rebalanced portfolio through the market bottom of 2009 would have recovered all of their losses in 3 years and would have more than doubled their investment by 2015. By contrast, investors who held an equity-only portfolio would have had to wait four and a half years to reach their previous peak. Turbulence in the market can come at any time, but having a diversified portfolio with clearly defined risk/reward objectives can be essential to long-term investment success.

### **Diversification Going Forward**

The main question that investors should be focused on is what does the future hold for the financial markets? It can be argued that quantitative easing by the Federal Reserve has lowered overall market volatility and driven strong performance in bonds and large cap equities. Over time the Federal Reserve is expected to move away from its accommodative policy, which would likely have a negative effect on bonds and force investors to look at alternative asset classes (i.e. hedge fund or real estate) for protection. With the eventual increase in interest rates and removal of quantitative easing from the financial system, volatility in the financial markets should also be expected to pick up substantially. Ultimately, investors who maintain diversified portfolios should be better suited to capture future market opportunities. They are also more likely to have a less volatile experience along the way.

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# Manulife BEATING THE BOND MARKET

BY Chris Chapman, senior analyst, Strategic Fixed Income manulife asset management

Anyone invested in global bonds may have had a nasty shock back in November.

Emboldened by Donald Trump's election victory, investors sold bonds and other safer assets in favour of riskier shares they hoped would benefit from his plans for economic growth. Headlines around the world screamed of trillion dollar losses in bonds. Some three months on, does global fixed income represent a good investment?

As always, the assets you invest in and what you do with them depend wholly on the outcome you're trying to achieve. In fixed income, many professional fund selectors are looking for capital preservation with a level of income healthily above that generated by cash or government bonds. At the end of a long bull run and at the start of a period of rising interest rates this is no easy job. However, a portfolio of well-chosen global bonds that may be positioned differently than traditional global fixed income indices, coupled with sensible calls on currencies and interest rates, can still deliver an attractive level of income and capital preservation.

An unconstrained global fixed income approach has the flexibility to dynamically allocate across countries, sectors and securities and take currency positions not only to reduce risk but also to generate precious alpha. Done well, the idea is that you could gain better returns than the market, or rather an index, but with no additional levels of risk. In other words, you aim to take a smoother road to a higher summit than a rockier and possibly lower path.

## Here's how it works.

Benchmarks – what are they good for?

The first thing is to be aware of is how the index is positioned but avoid using it as the primary foundation for investment decisions. These days, the sort of indices used by many global bond funds have big concentrations in high quality, global government debt. Given the current low yield environment, these securities bring

high levels of interest rate risk. What's more, there is the real possibility of an uptick in inflation across the globe as well as changes to easing policies by central banks this year. At this point, it is fair to assume the Federal Reserve will continue to hike rates. That makes interest rate sensitivity the key risk to the bond market.

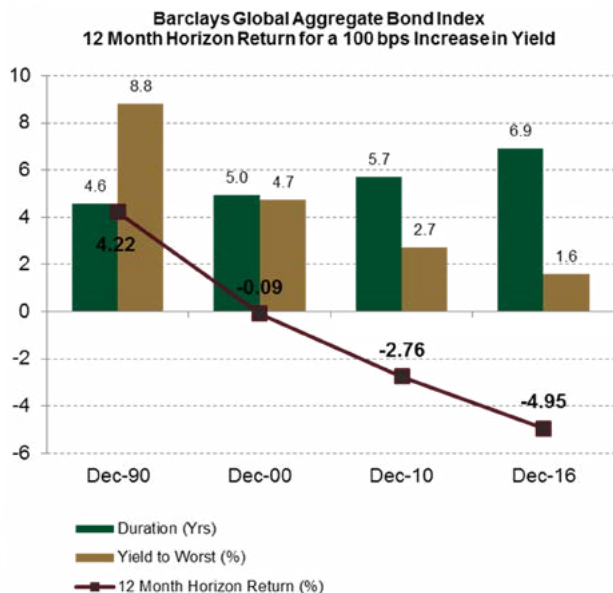
**Rate card** - In fixed income, it can take a surprisingly small move in interest rates to have a large and lasting effect on a bond portfolio. Our analysis, below, shows that if interest rates rise by just 1% then the total returns delivered by the global bond market – in this case represented by a popular bond index – would be expected to fall by 4.5%. The chart below illustrates the 12-month horizon return for the Bloomberg Barclays Global Aggregate Bond Index over the last two and a half decades for a 1% rise in interest rates. It shows growing sensitivity to changes in interest rates, commonly known as duration, and a plummeting yield. Is this a worst-of-both-worlds scenario?

Certainly a market at risk of falling if interest rates go up that also offers declining compensation for that risk is not an ideal scenario in our view.

*The chart facing - Bloomberg Barclays Global Aggregate Index 12 Month Horizon Return for a 100 bps Increase*

How to manage this very real risk in such a difficult environment? - In our view, a number of things help: decades of experience of actively managing fixed income portfolios in challenging markets; making decisions that carefully balance the need for yield with duration risk – for example in the careful selection of longer dated credits; and a willingness to look at the full range of markets, sectors and securities available to a global fixed income portfolio manager – given that some markets are at greater risk of rising rates than others.





Source: Bloomberg, Barclays, Manulife Asset Management, December 31, 2016

At time of writing we believe that a broadly defensive stance is a sensible approach – but within that there are potential pockets of attractive opportunities available in certain riskier segments of fixed income. For example, bank loans, which have coupons that reset periodically and may offer protection against rate rises unlike traditional fixed rate bonds by generating higher income as interest rates rise. And certain emerging markets, such as India and Indonesia have seemingly solid fundamentals and attractive openings.

**Credit where it's due** - In our view, the decisions behind sector and country selection, the rotating of capital through the areas best placed to deliver returns better than the market but without more risk, can be the largest single contributor of a global fund's outperformance. For over a year now we have seen volatility and significant performance deviations across sectors, credit qualities and industries.

Will anything change that? We believe that the Trump presidency, Brexit, rising political risk in Europe and recent developments in Japanese monetary policy suggest investors should steel themselves for more volatility and uncertainty – not less. It's a difficult world today. But, with the broadest possible investment universe, we believe that volatility and business cycles will always create opportunities to dynamically rotate the portfolio.

Liquidity, liquidity all around, but not a drop to drink?

Long term investors seek to buy and sell the right assets at the right price.

There is no doubt in our mind that liquidity has generally declined in global bond markets. In our view it was not so long ago that banks used to 'warehouse' securities, holding onto them to create a pool of securities that could be used to benefit just about everyone in the system. Now, regulatory and commercial pressures have reduced the ability of banks to maintain such warehouses of securities, reducing this role to that of little more than a toll collector, meaning they act as an intermediary between buyers and sellers. Of course, that's an issue for fund management companies rather than their clients. Well-positioned fund managers would likely use their scale and skill to manage this risk with no or minimal impact on the professionals who buy their funds. But it is a risk that has increased, and it requires careful management and monitoring.

**Common currency**

Scouring the world for attractive and sensible investment opportunities requires exposure to multiple currencies. But the risk here is that, as with interest rate movements, small changes in currency markets can have large effects on the returns delivered by a basket of bonds, no matter how well chosen they are. Currency is not for the faint of heart and experience very strongly indicates that currency movements may be seen as an additional method of boosting the returns of a global bond portfolio rather than simply as an unhelpful risk that must be managed. Such an approach can also bring valuable diversification benefits.

**Tying it together**

Add all these parts together and an investor in unconstrained global fixed income has the potential to realize benefits of increased returns in a low yield environment, diversification and protection in a rising rate environment, all in a risk profile consistent with traditional fixed income approaches. These are benefits that traditional fixed income benchmarks will likely no longer provide going forward, or stated differently, in a challenging fixed income environment, investors will increase their chances of "beating the bond market".



# THE KEY OF THE CRAFT

LUXURY SAFES BY DÖTTLING

by Nicholas Thompson

In the picturesque southern German town of Sindelfingen, just a short drive from Stuttgart, fine artisanal craftsmanship is still thriving. Here, veritable treasure chests are made using age-old tradition and elaborate practices for discerning clients ranging from royalty to celebrities looking not just to store their most valuable possessions, but to display their power and status.

Döttling's story is steeped in history. With humble beginnings as nothing more than a locksmith shop in 1919, the company has stood the test of time, passed down through four generations. Today, the brand is helmed by Markus Döttling and Andreas K. Schlittenhardt, who have transformed the business into the leading global manufacturer for luxury safes. "We were filling a gap in the market," explains Markus, whose great-grandfather founded the original locksmith shop. "We started out restoring antique safes until many of our clients began asking us if we could make products that met modern security standards."

No luxury has been spared in the process of creating their own elaborate security devices. For each step of the production process, Döttling employs skilled artisans, ranging from restorers and smiths to leatherworkers, painters and security specialists, who meticulously build their impressive safes by hand, each a bespoke masterpiece designed with the client's specifications and requirements in mind. From fully integrated watch winders to keep timepieces ticking to humidors providing the ideal storage conditions for cigars, there are few limits to what can be done to one of Döttling's safes. "Our clients are used to driving the most luxurious cars, living in lavish homes – and yet each time they get to unveil their safe, it's like watching a small child on Christmas morning," boasts Andreas. Each safe goes through an arduous production process utilising the teams' knowledge of traditional crafting techniques. Some are upholstered in supple leathers, such as the Liberty Barcelona, inspired by Ludwig Mies van der Rohe's iconic Barcelona chair. Others are gilded with

24-karat gold leaf fittings or plated in chrome. Each is a work of art in its own right. "We are very proud of the work we do."

Innovation is at the cornerstone of the Döttling brand, with an impressive product list in tow, such as the limited Narcissus model, the result of a unique collaboration with none other than the fashion tycoon Karl Lagerfeld. In 2013, Döttling released its Guardian line – a unique portable vault enabling easy mobility. This compact cylinder-like piece of luggage proves looks can be deceiving: behind the calf-leather exterior is a nigh impenetrable fortress of metal and military-grade polycarbonate. Safety is paramount to every safe, with state-of-the-art security features like fingerprint recognition and GPS tracking available. The Fortress safe, billed the safest luxury safe on the market, provides certified insurance coverage of up to USD 1,000,000. The price range is vast, largely dependent on the individual specifications of the client. To meet a growing demand for larger safety facilities in private

residences, Döttling have developed their custom Collector Rooms. Clients can choose to either create their own private safe room, which is secured and alarmed with an interior of vitrines and display furniture, or to integrate high-security safes into the existing interior of a non-secure space. Client involvement is key in creating these bespoke solutions, as is the input of an interior designer, who assists from the first step to ensure utmost perfection. Even the most discerning client is left with no desires unfulfilled – materials available range from exotic leathers and rare wood to mother of pearl and gold.

Markus' favourite pieces are still the one-of-a-kind antique safes, which have been suitably dubbed as the Legends series. Many of the safes come from private homes or royal households from around the world, from a mid-19th century Napoleonic coffret to a work commissioned by the Medici in the 18th century. "I love to break into locked safes – ones with keys that have been lost over the years," grins Markus mischievously. "It's a lot of fun more-or-less acting as a burglar." But it's no easy task to break into the safes. Many of them have hidden keyholes, and it is a cumbersome process to replicate centuries-old keys.

Quality, fine German craftsmanship and precision goes into every step of Döttling's manufacturing process. The brand's innovative spirit and desire to push boundaries endures, resulting in stunning works of art that will be treasured for generations. One thing is certain: Döttling safes are often as rare and as valuable as the contents they protect.

[www.doettling.com](http://www.doettling.com)



# BEST PRACTICES FOR COMBATING CYBERCRIME IN THE FAMILY OFFICE SPACE

By: Edward V. Marshall, Family Office Specialist, Citi Private Bank



There were 781 data breaches reported for 2015 . The estimated annual cost of cyber-attacks is \$400B . and the estimated global cost of cybercrime will reach over \$2T by 2019 . These are a few staggering statistics that provide insight into the nature of a risk management problem that is often discussed but whose nature is seldom well-understood.

With this backdrop, data breaches continue to increase annually. There is no shortage of news stories describing cyber-attacks. Attacks ran the gamut from: theft of credit card information, exposing of sensitive medical or financial information, hacking the servers that help run the internet, pilfering political documents, and shutting down power generation in parts of a country at war.

One key trend in the cybersecurity landscape is that the threat is actively evolving. The volume and sophistication of threats is increasing. Whereas perpetrators can make countless attempts but only need to succeed once, those affected by cyber-attacks face potentially overwhelming effects from just one cybersecurity failure. The hacker threat has expanded beyond opportunistic individuals using common techniques to include nation-state actors and professional cyber criminals that are properly motivated and armed to wreak havoc on information systems.

Enter Family Offices. Family Offices represent and manage tremendous amounts of wealth around the world. Family offices represent 8% of the global UHNW population but represent nearly 50% of global UHNW wealth. In the North America alone, there are an estimated 4,500+ Family Offices. Complex and dedicated efforts to ensure cybersecurity are often given insufficient attention within

a Family Office unless a serious breach has occurred in the past with the family. A recent report by Campden Wealth indicated that 15% of Family Offices surveyed were victims of a cyber-attack with losses generally of \$50,000 or less with one incident that cost a family more than \$10 million. Don't let the lower dollar value of losses fool you into a sense of security. Hackers use these lower numbers as demands so that people will choose payment to get a quick fix versus trying to fix a problem. Hackers are often impatient and often prefer smaller "sure thing" targets versus drawing unwanted additional attention (e.g. the FBI) through very large demands.

Willie Sutton, an accomplished bank robber, was once asked why he robbed banks to which he replied "because that's where the money is". This problem creates a similar dilemma for Family Offices and makes them a lucrative target for hackers. Many Family Offices have the "wealth" commensurate with small and medium enterprises, but they typically don't put in place the same levels of security. This unfortunately has often led them to inadequately understand and protect against cyber-attacks, which are often regarded as problems for large corporations and governments. This complacency usually makes Family Offices usually an easier target when compared to other institutions or businesses. However, looking at wealth alone as a predictor of cyber-attack threats is myopic. Specifically, Family Offices face complex cybersecurity challenges because of these six differentiating factors: informal governance structure, efficient service vs. effective security, underinvestment in critical information technology systems, heavy reliance on small staff with outsized access to critical data, security risk from external vendors & partners and fame & publicity.

News headlines and the steady drumbeat of warnings of the consequences of improperly preparing against cybersecurity risks have made the threats look like a hydra-tackle one problem and two more appear.

Family Offices are asking: What should we focus on? Is protection against the threats worth the expenditure? Who can we trust in the cybersecurity market? Are there benchmarks from other sectors we can emulate? Regardless of what stage of cybersecurity preparedness Family Offices find themselves in, they should start developing a comprehensive information security program that is flexible and can incorporate lessons learned and adapt to new threats. We recommend that Family Offices consider a framework on 1) technology, 2) people, and 3) process when implementing and improving their cybersecurity programs. Too often families will sacrifice training over a new hot technology service or ignore simple improvements like annually checking their staff's software and devices to make sure they are updated and conducting routine training on cybersecurity protocols. Furthermore, Family Offices need to identify what and where critical digital assets are. Family Offices have to understand what the "crown jewels" are and determine if they are safe even if their network has been breached.

People are often the weakest link in the information security system for a Family Office. The level of awareness on information security threats and the proper ways to combat them has great variability. Therefore, cybersecurity education should be a key part of family planning and business operations meetings. A simple way to help shore up cyber defenses is through the creation of Family Office cybersecurity policies. These policies can be derivations of parent companies that created the wealth that are customized to the unique nature of the Family Office. Policies should include recommendations on how to prevent cyber-attacks and what to do in case a breach is detected. Policies should be updated regularly and Family Office teams should regularly certify that all members (including the Principal) understand the policies and procedures.

As awareness grows, so does proliferation of published information on cybersecurity issues for Family Offices. Staff should regularly research cybersecurity issues from Family Office associations, webinars, podcasts, and on LinkedIn. Family Offices should also examine private and public cybersecurity organizations such as: APWG (<http://www.antiphishing.org>), ISACA (<https://iasca.com>), No More Ransom Project (<https://www.nomoreransom.org>), the Cyber Threat Alliance ([\[cyberthreatalliance.org\]\(https://www.dhs.gov/how-do-i/protect-myself-cyber-attacks\)\), the Department of Homeland Security \(<https://www.dhs.gov/how-do-i/protect-myself-cyber-attacks>\) or the FBI \(<https://www.fbi.gov/investigate/cyber>\). There is also a cottage industry of security professionals and organizations that springing up to cater to Family Office security and specifically cybersecurity issues.](https://</a></p></div><div data-bbox=)

Family Offices should contact their attorneys, accountants, corporate Chief Information Security Officers (CISOs), and other professionals to identify suitable cybersecurity partners.

Family Offices should also consider working with internal or external partners to test staff awareness of these policies. For example, a family could work with internal teams or hire an outside vendor to perform "white hat" simulated cyber-attack tests against staff to determine weak points and increase general understanding of threats. These tests are usually "pretend" malicious attachments, Tweets, and Facebook messages with pretend malicious shortened URLs. If a Family Office staff member clicks on the link, they typically will get a "gotcha" surprise. Regardless of the type of training, Family Offices should consider refreshing and educating no less than on a quarterly basis.

In conclusion Family Offices face a challenging world as cyber criminals look to exploit their very nature. Threats continue to evolve in cyberspace because new defense mechanisms lead to innovative new attacks methods and vectors. Building a resilient, cognizant, and learning culture around information security is important for Family Offices of all sizes and jurisdictions.



Edward V. Marshall  
Citi Private Bank





# TOP 5 FAMILY DYNAMICS IN PHILANTHROPIC FAMILIES (AND WHAT YOU CAN DO ABOUT

## PHILANTHROPY ARTICLE

Even in the most successful families, misunderstandings, disagreements and power struggles can occur—and that might be on a good day. Add wealth to the mix, and family dynamics become a tricky business that can hinder good decisionmaking. This is especially true when family members must make decisions together about money—whether that’s making money, keeping money, or giving it away.

How can family offices help their families navigate these complex and confidential matters in a way that supports the best interests of the family and its philanthropy?

First, know that all families operate in ways that are influenced by family dynamics. Although a family itself is a larger system, it comprises individual members who have their own interests, goals and preferences. These individuals are born into certain roles in the family and may consciously or unconsciously play out certain scripts as a result of their role, be it patriarch, matriarch, son, daughter, sibling, cousin, niece, nephew. Family dynamics is the way in which members of the family interact with each other, based on their roles, as well as their personality or their individual style.

When working in a family office setting, it helps to be prepared. Here are five of the most common family dynamics that can arise in philanthropic families—and some quick tips to help mitigate them.

1. The family matriarch and/or patriarch establishes a philanthropic foundation or fund with the hope (i.e., expectation) that the adult children will carry on the work.

The challenge here is that if the parents haven’t involved the children early on in the family enterprise or philanthropy, the children may respond to the “opportunity” with delight or dread. The children may



Suzanne Hammer  
Hammer & Associates

feel that philanthropy is their “parent’s thing” or feel pigeonholed by the funding focus set by the parents. The younger generation may also move away and no longer feel connected or interested in giving to the geographic area designated by the parents.

What can families do? Talk with kids in advance, especially as those kids enter early adulthood. Find out about what their interests are, and how they might intersect with the foundation and/or family philanthropy. If geography is an issue, discuss ways the younger generation can honor their parents’ wishes, and yet connect and feel rewarded in the work. Use discretionary giving as an option to meet various community needs and family interests.

2. Founders of the family philanthropy have a hard time passing on control to the next generation.



Some family leaders aren't willing to let go, and are bent on maintaining control—even from the grave. They worked hard to build what they have, and want their wishes to be known and followed. They perhaps are in denial of their own mortality, and want to ensure that their legacy lives on.

What can families do? Encourage the family leader to create a donor intent letter or ethical will that outlines his or her wishes for the family philanthropy. Talk about ways to honor the family leader and legacy, while remaining flexible to future needs and family interests. Engage in succession planning for the family enterprise and philanthropy as early as possible to introduce these discussions in a non-threatening way.

3. Family members have different beliefs, communication or individual styles, which hinders their ability to work well together.

Families can make each other crazy with stylistic and ideological differences. Imagine a boardroom full of family members who fall across the political or religious spectrum. One adult sibling who won't stop talking, and another sibling who can hardly get a word in. A millennial who will only respond to text messages and takes notes on a laptop. A traditionalist who has no time or patience to learn technology. Sound like an interesting meeting?

What can families do? It helps to create a common framework for communicating that can help philanthropic families focus on the good they are there to do. Practice good governance, set ground rules for meetings, and remind family members why they are there in the first place. Ask family members to bring with them certain details about the organizations they are interested in supporting, and share that with the group. Create agreements for how the family will communicate about the philanthropy outside the meetings as well.

4. Family members are in active conflict with one another, and they bring their personal beefs into the boardroom. Conflict is a natural part of all human relationships, and

as a family grows and more people become involved in the philanthropy, the level of tension and competing interests can mount. Family members from different branches may have little in common, or carry personal problems or resentments that get in the way of the work.

What can families do? Start with what everyone has in common—which is the desire to give—and add some structure to it. Determine what is normal, healthy disagreement, and what is simply inappropriate. If the undercurrent of conflict overruns the philanthropy discussions, hire an outside facilitator who is skilled in family dynamics. Make sure every family member has an equal voice. Create agreements for how the family will navigate conflicts as they arise. Hire a skilled facilitator to help.

5. Family members draw nonfamily members or staff into side conversations, choosing loyalties, and other unproductive family dynamics.

In some cases, having a family office executive or staff in the room can keep family members on their best behavior. However, that's not always the case. If not careful, family staff can get sucked unaware into the undertow of family woes.

What can family staff do? Expect family conflict to come up. Know that it's not your job to fix it (nor can you fix it if you tried), however you can help the family find the right resources to navigate it. Maintain a neutral, objective position where everyone is heard, there is no right or wrong, and everyone saves face.

Suzanne Hammer of Hammer & Associates gives family offices the tools they need to engage in and connect with their philanthropy—helping philanthropic individuals and families pair their passion with proven strategies.

To learn more, look for her forthcoming EngagedPhilanthropy™ toolkit Family Dynamics: A Family Office Guide to Meaningful Giving at [SuzanneHammer.com](http://SuzanneHammer.com) or contact 303-319-3029. Follow @philanthrpsolut.



## **BENTLEY EXP 12 SPEED**

THE LUXURY ELECTRIC VEHICLE

The EXP 12 Speed 6e is a concept to show that Bentley is defining electric motoring in the luxury sector, with the appropriate technology, high quality materials and refinement levels you'd expect from a true Bentley.









# BENTLEY EXP 12 SPEED 6e CONCEPT

The EXP 12 Speed 6e is a concept to show that Bentley is defining electric motoring in the luxury sector, with the appropriate technology, high quality materials and refinement levels you'd expect from a true Bentley. This concept enables us to engage with luxury customers and gather feedback on our approach.

"Bentley is committed to offering an electric model in its future portfolio and we are interested to receive feedback on this concept," Dürheimer concluded.

The Luxury of Electric: Effortless, Exclusive and Exhilarating

An all-electric Bentley will not compromise the quality, refinement and high performance levels expected of the luxury brand. These renowned Bentley characteristics such as immediate, effortless surge of torque and grand touring range will be combined with new high performance technology such as rapid inductive charging and state-of-the-art on board concierge-style services for an effortless ownership experience.

Bentley's vision is for customers to benefit from high-speed inductive charging and provide a range sufficient for grand touring requirements. An electric Bentley would, for example, be able to drive between London and Paris or Milan and Monaco on a single charge and the on board experience will be enhanced for both driver and passenger thanks to the integration of state-of-the-art technology.

A fusion of cutting-edge technology and beautiful materials is evident right throughout EXP 12 Speed 6e's luxuriously appointed cabin, ensuring that the brand's use of technology is not cold or emotionless. The entire central console, for example, is hewn from a solid piece of elegantly curved glass encompassing a high-definition OLED screen. All of the car's principle onboard controls are accessible from here, including navigation, entertainment and climate control.

Handmade, cut-glass sections on the steering wheel contain the controls for media, communications, navigation and car set-up. There

Effortless, exclusive and exhilarating, Bentley EXP 12 Speed 6e concept brings luxury ownership experience to EV sector

Luxury customer demands met by Bentley levels of craftsmanship and refinement, with electric performance and grand touring capabilities

Bentley's vision includes rapid inductive charging and connected on-board concierge services

EXP 12 Speed 6e concept to gauge public and customer feedback to shape Bentley's future luxury strategy

Concept showcases future Bentley exterior and



are also two buttons featured at the top of the cut-away steering wheel, one offering an instant performance boost and the other the ability to limit speed, in urban areas for example.

The passenger, meanwhile, has their own control panel on the front fascia with access to social media, email and entertainment.

Exquisite copper elements around the gear selector, Bentley Dynamic Drive dial and in the door veneer panels are integrated into the cabin to highlight the electric performance potential of the concept's advanced new powertrain.

The car's intelligent infotainment system is the central brain to access many real world services using connected-car Apps.

When rapid inductive charging is not available, EXP 12 Speed 6E can be connected to a mains AC power supply via the auxiliary charging point, subtly concealed behind the rear number plate.

#### **A Commitment to an Electric Future**

Bentley believes that the concept will open discussions with luxury car buyers of the future – millennials, members of Generation C and the rising affluent in developing economies - to understand the desired expectations from a future electric luxury car ownership experience.

The luxury brand's electric car strategy includes the introduction of PHEV models across the Bentley model range over the next few years, starting with the Bentayga in 2018.

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*THE BENTLEY EXP 12  
SPEED 6E IS A FULLY  
ELECTRIC VEHICLE*



# FAMILY OFFICE

## A NEW TREND IN ISRAEL

Israel is a small country, about the same size as Belgium in Europe or New Jersey in North America. It is located on the eastern shore of the Mediterranean Sea and has excellent access by air and sea to Europe, Africa, Asia and North America.

Recent statistics show that Israel population of 8,500,000 is comprised of 75% Jews and 25% non-Jews. All of whom enjoy equal legal rights in all areas of life. Israel is a country of immigration. More than 40% of residents in Israel were not born in the country. Some wealthy immigrant families relocate with their assets to Israel and others may keep part of their wealth in the country of origin.

There are no formal statistics available regarding the number of high net worth individuals in Israel. A millionaire is defined, generally, as a person with more than US\$1 million in liquid assets. An ultra-high net worth individual (UHNWI) is defined as one with over US\$30 million.

According to the report of Berkshire Hathaway Company:

1. There were 79,186 HNWI's in Israel in 2015, which collectively held US\$447 billion in wealth.
2. The Israeli HNWI population rose by 2.9% in 2015, following a 3.0% increase in 2014.
3. The Israeli HNWI population is forecast to grow by 17.7% to reach 96,790 in 2020, while HNWI wealth is projected to grow by 24.3% to reach US\$579.7 billion.

### 1. Family Business in Israel

How do Family Businesses cope with their present and future ownership and management of the business? The following stories of family businesses in Israel will demonstrate this:

#### **Iscar family business - Stef and Eitan Wertheimer.**

Iscar was founded in 1952 by Stef Wertheimer in the Western Galilee town of Nahariya and moved in 1982 to the Tefen Industrial Zone, about 20 kilometers away. In 1984 Stef, the father, handed over the reins to his son Eitan. In 1995 Eitan Wertheimer passed the CEO's seat to Jacob Harpaz (a non-family executive) and



Dr. Alon Kaplan  
**Advocate & Notary**

went on to serve as chairman and later president. Iscar is headquartered in the northern Israeli community of Tefen and is now formally known as International Metalworking, or IMC. In 2006 Berkshire Hathaway bought an 80% stake in Iscar for \$4 billion. At a later stage, the son Eitan, sold to Berkshire Hathaway his 20% share

for USD 2 billion. The deal gave Iscar a total value of about \$ 10 billion, about double its valuation when Berkshire Hathaway bought its initial stake for \$4 billion. In an interview to the Israel economist newspaper Eitan was quoted: "it was important for us to sell the business before family problems arise. We see what is happening in other family businesses and there is no need to wait for problems. ... It is preferable that each generation will start his new own business."

#### **1.2. Keter Plastic company, another "happy end".**

Sami Sagol developed the Keter Plastic company founded by his father in 1948. The company is the world's leading manufacturer of plastic consumer products.

Keter Plastic develops, manufactures, and distributes throughout the world a broad range of plastic consumer products. The group has over 25,000 sales points around the world, 18 manufacturing plants, and two distribution centers. The company has 4, 000 workers, including nearly 2, 000 in Israel, and its products are sold in 100 countries. 3

Keter Plastic signed an agreement for the purchase of 80% of the company by a London based investment fund, BC Partners. The Sagol family would continue to own 20% of the company. Israeli media estimate the acquisition to be at a company value of \$1.3 billion. Keter Plastic's 2015 sales totaled €800 million.

According to Forbes magazine Sagol decided to sell the business since the third and fourth generation of the family, four daughters and grandchildren developed other careers and did not intend to continue the family business.

### **1.3. Strauss family business -The successful story of Strauss family.**

The Strauss family business was established 70 years ago by Richard and Hilda Strauss new immigrants from Germany. A small yard with two cows started a business which today is a national and public company working with international business partners PepsiCo, San Miguel, DANONE, Unilever and others. It is the 4th company in the world for coffee production and trade employing 14,000 people worldwide with an annual turnover of USA \$ 2 Billion. 39 years after the establishment of the business the founders transferred the ownership and management to their son.

In the year 2000 the family business was passed on to the third generation who is running the business today together with professional executives who are members of the board of directors and not members of the family. According to Ofra Strauss the granddaughter and president of the business today "This was implemented pursuant to a well prepared organizational program which included members of the family committed to the original business vision of the family founders."

## **2. Transfer of family business to future generations.**

There are 3 possible ways to transfer family business to future generations:

### **2.1. A lifetime gift.**

There is no gift tax in Israel between members of the family.

The law of gift 1965 governs this procedure. The founders of the family business may transfer ownership of the business at the time they choose to do it.

### **2.2. Succession**

The Succession Law 1965, governs individuals who were residents of Israel or owned assets in Israel at the time of their death. The fundamental principle guiding this legislation is that of freedom of testation, based on a last will and testament, made under the Succession Law. The freedom of succession enables the founder of the family business to name in his testament who will be the leaders continuing the business and what would be the share of the other members of the family.

Succession procedure has its perils. The heirs, members of the family, may challenge the testament and a court battle may arise. This happened in the famous case of the Offer family:

The late Y. Offer had owned a company which controlled substantial holdings in a bank and a real estate company with ownership of some of the largest shopping centres in Israel. The late Y. Offer bequeathed most of his assets to his daughter ( 51.7% of shares in Offer investment company) and 15% shares to his son. The son contested the validity of the will and after a long trial the will was declared valid and a probate order confirmed the wishes of the late Y. Offer's will.

### **2.3. Transfer of the family business to future generations by creating a trust.**

#### ***The Trust Law***

A trust structure is recognized in many countries as a good way to hold assets under a central management and regulate its activities according to the wishes of the head of the family business who would be the settlor of the trust.

In Israel the trust has been in part of the society for many years even before the establishment of the state in 1948. The Israel trust law 1979 defines a trust as the duty imposed on a trustee to hold or to otherwise deal with assets under its control for the benefit of another or for some other purpose.



### Creation of a trust

A trust may be created either by contract or by deed:

1. A trust created by contract requires an agreement between the settlor and the trustee with no specific procedure necessary for its validity.
2. A Trust created by deed must be in writing and signed in the presence of a notary
3. This Trust is named: "Hekdesh" and becomes operative during the lifetime of the settlor upon transfer of the assets of the trust to the control of the trustee..
4. A valid testamentary trust must comply with the formal requirements under the Succession Law for executing a will. These include signing the will in the presence of 2 witnesses or a notary.

A Testamentary trust will become valid after probate of the will which contains the instructions to create a trust.

### Conclusion

Family business in Israel is an interesting arena for family offices, asset managers and trust and estate practitioners "According to a recent report by the Institute for Family Business, the family business sector in the UK accounts for a quarter of the nation's gross domestic product ,employing nearly 12 million

people. However, numerous studies suggest that, despite their economic importance, family business' intergenerational longevity can be very limited, with as few as 10 per cent remaining in family ownership by the third generation"(Step journal February 2017). It remains to be seen if Israel will follow the UK trend.

Dr. Alon Kaplan, Advocate and Notary

Dr. Alon Kaplan, LLM (Jerusalem), PhD (Zurich), TEP practices law in Tel Aviv specializing in Trusts and Estates. He is General Editor of Trusts in Prime Jurisdictions (4th edition, April 2016), the Israel Country Correspondent for Oxford Journals' Trusts and Trustees , author of Trusts in Israel: Development and current practice (2015 Helbing Lichtenhahn Verlag) and Trusts and Estate planning in Israel (Oct. 2016, Juris Publishing) . Alon may be contacted at: [alon@alonkaplan-law.com](mailto:alon@alonkaplan-law.com).

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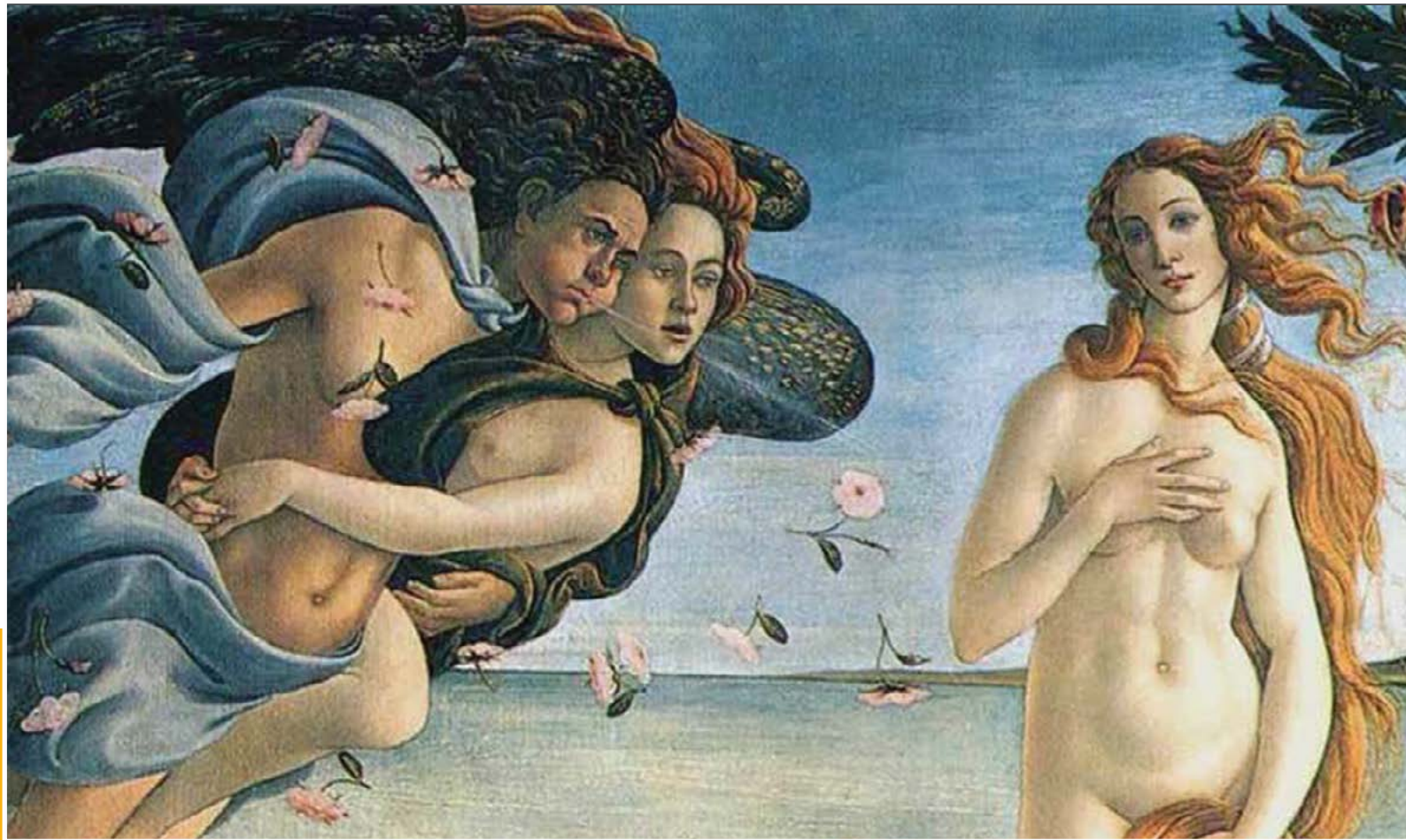


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# THE ELEGANCE OF SILVER

HAND-FORGED SILVER FLATWARE.



## A TIMELESS TRADITION

A brand new service of sparkling hand-forged silver flatware. Sounds interesting. But what is it? And why is it so special? Quite simply, it's the finest newly-made sterling silver flatware in the world, each piece lovingly raised by hand by a small group of English craftsmen who are keen to preserve the quality and traditions of their illustrious past. M.P. Levene, one of London's leading retailers of the finest English silver, specialises in the production of new hand-forged services of silver flatware. This is how all solid silver flatware was made in England before around 1900 and the advent of mechanisation. It's a much longer process because it takes a lot more work, but the quality shines through.

### Hand-Forging a Piece of Silver Flatware

Each spoon or fork starts as a flat ingot of silver, which is heated and hammered into shape entirely by hand by one of the company's skilled craftsmen. Next, it is placed in an enormous Victorian press where the pattern is stamped on both sides using special lead dies, some of which are up to two hundred years old.

The piece is then trimmed and the edges are smoothed. Each piece is then tested for its 925 silver purity at an independent institution - the London Assay Office. If it passes, it is stamped with a special set of marks to confirm its authenticity - a legal requirement. This office has been testing and marking English

silver since 1544, in the reign of King Henry VIII. Finally the curve of the handle is gently hammered into shape and the piece is polished. Clients immediately notice that the bowls are deeper, the shells and scrolls of various patterns are more defined and the pieces feel much heavier in the hand than contemporary machine-made equivalents. The silver knife handles are also produced to the highest standards with stainless steel blades.

### A Wealth of Patterns

M. P. Levene offers a range of sixteen patterns, all traditional English designs. Rat Tail is one of the plainest, originating from the early Hanoverian silver flatware from around 1710. With



a customary long ridge running down the front of the handle. The fork is shown here with three tines - also available with four. They can also make traditional pistol-handle knives.

Fiddle, Thread and Shell was first produced in England around 1810, as a variant of the plain Fiddle pattern that had come over from France. It features a thread around the border with a shell at the end of the handle and is a very popular design. Perhaps the most extraordinary pattern in M.P. Levene's range is Chased and Pierced Vine.

It is illustrated here in silver-gilt (gold-washed) -- each piece is solid silver, but plated with gold. The effect is stunning. It was first produced for London's Great Exhibition of 1851, and each piece is carefully pierced and then chased

by hand in the form of interwoven grapes and vines. It is known as the 'King of Patterns'.

Hanoverian Engraved pattern was first made in the 1780s, when a special style of engraving called brightcutting was invented. Facets, rather than lines, are cut by hand into the surface of the silver, making it sparkle when held up to the light. It is one of Levene's most elegant designs.

Elizabethan is a High Victorian pattern, first made around 1850. Each piece is heavily decorated in Romanesque style, with shells and scrolls above trails of husks. It is a gloriously decorative design that feels particularly heavy in the hand. Bright Vine also dates from around 1850, and features a lovely combination of grapes and vines with shell and leaf ends. An attractive pattern. 'Art Deco' Grecian is a relatively modern

pattern by M.P. Levene's standards, dating from the 1930s. It is based on the plain, straight features of Ancient Greek architecture, with a sunken border and cut corners in classic 'Art Deco' style.

#### Your Own Special Pattern

Sometimes a client comes to M.P. Levene with sketches for a bespoke silver flatware pattern for their home, or even their yacht. A complete new set of lead dies is then created before production of the silver flatware can begin. This unique design remains the copyright of the client who has sole use of it in the future.

To discuss commissioning your own hand-forged silver flatware service, contact Mr. Martin Levene of M.P. Levene of London.

Email: [silver@mplevene.co.uk](mailto:silver@mplevene.co.uk)  
Tel: 00 44 + (0)7710 240 515





## CORPORATE SERVICE PROVIDERS AND FAMILY OFFICES, FAMILY BUSINESSES AND SUCCESSION PLANNING



by Geralda Buckley & Álvaro Becerra

Before launching into a discussion about family offices and corporate service providers, a few facts are worth considering about families and what is probably their number one asset, their business. Only a little more than 30 percent of family businesses survive into the second generation, even though 80 percent would like to keep the business in the family. By the third generation, only 12 percent will still be viable, shrinking to 3 percent at the fourth generation and beyond. The disconnect between what 80 percent of families intend and the far bleaker reality can in part be attributed to a failure to plan for the family dynamics issues involved in family business succession. (These facts were derived from "The Role of the Family Office in Business Succession" by David Thayne Leibell). Today we see increasing numbers of families understanding the benefits in setting

up family offices. This has been driven mainly by concerns about wealth preservation and succession planning within family businesses, and family offices have arguably become the fastest-growing investment vehicles in the world today. There are at least 3,000 single family offices in existence globally with at least half of these being established in the last 15 years. Growth will continue as a means to facilitate inter-generational wealth transfer and reduce intra-family disputes, in an environment of ever increasing global regulations and compliance. Growth is also ensured due to the continuance of wealth concentration, the lack of trust by families in large financial institutions, as well as the desire to control the flow of information and performance of the overall wealth. How can establishing a family office assist with the ongoing family

business? The family office's governance and management structure can deal with the complexities of the family's wealth transparently, helping the family to avoid future conflicts, at the same time as confidentiality is ensured under the family office structure, as wealth management and other advisory services for the family members are under a single entity owned by the family. The next generation can grow into the role of "wealth owner," which is key when an entrepreneurial family is converted into a financial family post sale of their business. Last but not least, there should be a better alignment of interest between financial advisers and the family, and with the centralization and professionalization of asset management activities, family offices may be more likely to achieve higher returns, or lower risk, for their investment decisions. In addition, we find that families are looking to centralize other services such as philanthropy, tax and estate planning, family governance, communications, and education to meet the family's mission and goals. A number of corporate service providers, including Amicorp Group, are servicing both family businesses and family offices in a much more coherent way. The services which should be offered under one roof include financial planning and

investment management services, such as financial situation review, investment objectives, risk profile and overall philosophy of the family, leading to the appropriate asset allocation. Apart from liquid assets, real assets such as holding properties, private jets, and yachts also have to be managed, and budgets managed, with wealth reviews and liquidity requirements addressed. With this in place, succession planning must be addressed. Wealth protection has to be looked at as soon as possible, followed with an analysis of any transfer of assets, specifically regarding the professional guidance regarding wealth transfer to succeeding generations. Furthermore, administrative services, or back-off services, are essential to the smooth running of a family office, whether in the form of general legal issues, payment of invoices and taxes, and arranging tax compliance, invoice payment and review of expenses for authorization, opening of bank accounts, bank statement reconciliation, etc.

More importantly, succession planning and continuity planning in relation to any unanticipated disruptions in family leadership must be put in place, and the development and possible implementation of intergenerational estate transfer plans must also be in place. Corporate service providers servicing the family office market are also heavily involved in the family office's (online) reporting systems and record keeping, consolidated wealth reporting, benchmark analysis, etc., and with ensuring strict compliance with regulations pertaining to investments, assets and business operations, as well as assessment and acquisition of appropriate insurance coverage and ongoing maintenance of the same. How do families ensure that all the services which have already been mentioned in this article are available to them? They set up a family office which best represents the needs of their family, including helping with family business succession. Numerous companies are around to assist with this, including private banks, private wealth divisions of large brokerage firms, registered investment advisors, accounting firms, private client law firms and consultants. However, with the increase in AML regulations, servicing complex structures has become more difficult, and law firms and banks, amongst others, are refraining from providing these services as it is not their core business. Setting up a fully-fledged single family office is expensive, and smaller to mid-

sized families cannot absorb the increasing cost of AML and administration and are consolidating with others or closing down. Today the family first needs to consider the type of family office it will create or participate in, whether it is a Single Family Office, a Multi Family Office, or a Virtual/Coordinating Family Office, and which services they can comfortably outsource.

Enough has been written about the first two, but we will take the opportunity to elaborate a bit further on the virtual/coordinating family office. Here, most or all activities are outsourced, such as gaining access to people, products and services when needed. A much lower headcount is therefore possible, who handle day-to-day operations and coordinate outside advisors and outsourced services. Often they are a senior family member, the family business chief financial officer or an external trusted professional, such as a CPA or attorney. Many private banks and private wealth divisions of large brokerage firms have set up specialized departments to provide these entities with full service around investing, along with external specialty advice in wealth transfer, succession planning, philanthropy, family education and family governance. However, even with this model, a number of key services are usually kept in-house, ensuring a higher level of confidentiality and privacy, the consolidated management of family wealth, greater and more direct family control over its wealth, assurance of optimal goal agreement, along with the avoidance of conflicts of interest with external providers. Given these considerations, it is crucial to obtain the right balance and to identify those services best suited for management in-house.

Amicorp Group, a global corporate service provider, has been serving families and their businesses for decades, but last year we created a dedicated unit, Global Family Office Services, to deliver all the required services under one roof with one global coordinator per family. We have always provided a broad range of estate and succession planning solutions allowing families to transition their wealth from one generation to the next. We have also benefitted in that corporate service providers and trustees are seen as objective by families, in contrast to wealth managers. Trustees are also important in the selection and de-selection of asset managers.

[www.amicorp.com](http://www.amicorp.com)





## INSIDE THE WORLD OF HIGH-END MATCHMAKING BERKELEY INTERNATIONAL

The phrase 'money can't buy happiness' is one which most of us are familiar with and would most likely agree with, to a certain extent. Sure it can provide the glamorous holidays and seats at the best tables in town, but matters of the heart are usually in need of a more delicate hand. This issue we delve inside the exclusive world of high-end matchmaking with Berkeley International and talk to its founder Mairead Molloy. We want to know what happens when you stop swiping through online profiles and instead send someone else out on the mission to find you love.

FO Magazine: If you could sum up the type of clients you have, how would you describe them?

Mairead Molloy: One of the biggest misconceptions with high-end matchmaking is that there's a 'type' of client. Just like other dating services there's a wide range of people who come through our doors. Yes, off course our clients tend to have large disposable incomes, with very high standards and they absolutely

expect a service that reflects this – but they're all from different walks of life, cultures, professional industries, social circles. If I really had to break it down into a type, I'd say they're focused and certain about what they want. You have to take your dating and love life quite seriously to invest in it to this extent. Love is as important as business to these people.

FO Magazine: Are people wary of using a matchmaker? Ironically it's a much older medium than online dating, but it still seems to have a certain stigma and mystery to it.

Mairead Molloy: No, not really. Once you reach a certain level of financial success you quickly get used to real, as opposed to online, people doing things for you. It's no different to hiring a business coach, chauffeur or home chef.

FO Magazine: So how is this type of dating different to just meeting someone in a bar and seeing how it goes?

Mairead Molloy: Time and also discretion. In a lot of cases our clients just don't have the time to meet multiple people in bars and wait until date five to work out if they're truly compatible. They've often been through this and want to hit the ground running and with matchmaking you know more about the intentions of your match from the start. Also, when you have a team of people working across the globe to help you find something you're struggling with, it does feel really supportive.

FO Magazine: What about work-love balance, we're assuming these are people with busy lives?

Mairead Molloy: So it depends, there are some extremely busy people with multiple commitments, sometimes in multiple cities or countries, but you have to get into the right mindset about the love you're looking for. This is a highly personal service, so if we see that dates are always being cancelled, rearranged or even scheduled months apart, we can sit down with a client remind them about the importance of this area of their life. Good matchmaking is also about promoting good communication between people and we ask that, where possible, dating be placed on an equal footing with whatever else is happening in their life.

FOE Magazine: What does this mean?

Mairead Molloy: It means that if you have a date, you schedule it in and stick to it like you would any other meeting. It's not a luxury or an option, it's your life and it shouldn't continuously play second fiddle.

FO Magazine: What's the most important attribute to have when being matched?

Mairead Molloy: Patience and probably openness. Like with any service you're paying for a level of expertise, so handing the reins over, following advice and being patient is the most useful.

FO Magazine: But surely the majority of clients are people used to being in control, is this realistic?

Mairead Molloy: What matters more than whether it's realistic or not is whether it's possible, and most of the time it is.

FO The people who seek out this kind of matchmaking must be more demanding than most, are they looking for perfection?

Mairead Molloy: They're demanding yes, but that's not a bad thing. Like I said, we all expect a standard of service wherever we go and there's nothing wrong with that. People who are looking for perfection usually have other challenges that we need to work through first and we have a team of people in place to help with this. Any good matchmaking service will come with coaches, therapists, stylists and grooming experts. Whilst all of this can be provided, we never forget, or let clients forget, that finding love is far more important than finding perfection.

FO Magazine: What's the biggest success you've had?

Mairead Molloy: There are the obvious ones like marriages, everyone involved gets very excited when this happens. Personally though, it has to be a client I worked with a couple of years ago. His first words to my team were something like "I just need a woman to love, she doesn't have to love me back, I'm just tired of being alone." He'd such bad previous experiences that he didn't honestly think a proper relationship was possible. He ended up meeting a woman who absolutely adores him, who actually has a higher net worth and is worlds away from all the previous people he's dated. Finding love for wealthy people that transcends questions such as "what do you do?" or "what do you have?" is really rewarding.



**Berkeley International founder Mairead Molloy**  
[www.berkeley-international.com](http://www.berkeley-international.com)



# LAMBORGHINI EGOISTA

## THIS FUTURISTIC SINGLE-SEATER IS THE ONLY ONE OF ITS KIND

The prestigious collection in the Lamborghini Museum is now the home of another automotive gem - the Lamborghini Egoista, the supercar developed by Walter De Silva, Head of Volkswagen Group Design, as a tribute to the House of The Raging Bull's 50th anniversary, which was celebrated last year. This futuristic single-seater is the

only one of its kind in the world. Powered by a 5.2-liter V10 engine that churns out 600 horsepower, it takes the attributes that are in the DNA of every Lamborghini to the next, extreme level. The look is sharply distinguished by a muscular structure with alternating open and solid areas, and the profile suggests the

stylized silhouette of a bull about to charge - the iconic hallmark of the Lamborghini logo. The car's aeronautical flair can clearly be seen in the headlight system. The aeronautical inspiration is also evident in the body made of lightweight materials (carbon fiber and aluminum) with stealth capabilities, in the anti-glare



windows with an orange hue, in the cockpit conceived as a removable appendage which allows the driver to be insulated and protected from external elements, and in the head-up display. Because of this latter feature, in order to leave the vehicle, the driver must remove the steering wheel and leave it on the dashboard, open the dome

by actuating an electronic control and climb out of the cockpit with a specific series of movements, as required in fighter jet aircrafts. Described by Walter De Silva as the embodiment of pure emotion and extreme hedonism, the Egoista was unveiled on May 11, 2013 before an audience of more than one thousand invited guests at the Gala Dinner that brought

the 50th Anniversary Grand Tour to a close. Exactly one year after it was introduced, the Lamborghini Egoista has returned to its home in Sant'Agata Bolognese. It will now be permanently displayed at Lamborghini headquarters - at first in the showroom, and then in the Museum.



# ONCE A SLEEPY 'BACKPACKER' ISLAND - KOH SAMUI IS HEATING UP AS ONE OF SOUTHEAST ASIA'S LEADING INVESTMENT

By Kurt Berman, General Manager, Samujana

Koh Samui is the third largest island in Thailand after Phuket and Koh Chang. Gorgeous pearl-white sandy beaches, lush tropical rainforests and magnificent waterfalls can be found at some of the island's famed attractions. With so many breathtaking sights, it's no wonder Koh Samui is fast becoming one of Thailand's most popular destinations. Koh Samui has continued to show strong growth in travel and tourism, and the market has demonstrated great resilience over the past few years despite a relatively flat global market.

Thirty years ago, the island only had dirt roads, with very little infrastructure. It wasn't until the late 1980s that things began to change. Today, the island boasts a slew of modern developments, including an international airport, several high quality hospitals, a top golf course, a wide variety of restaurants and hotels, and a new luxury shopping mall.

Aside from being known for its abundant unspoiled nature, the island is also famous for its ultra-luxurious accommodation options. Just over a decade ago, Koh Samui was better known for its cheap beach-shack lodgings - hugely popular with backpackers. It was only after Four Seasons unveiled a

high-end villa resort on the island in 2007 that changed everything. The Four Seasons resort was the first property on the island with access to a private beach, and each of its hillside villas had its own infinity pool. Following its launch, a swathe of high-end hotels opened too, including Le Méridien, Banyan Tree, the W Retreat and Conrad Koh Samui which have changed the face of the island. Samui now attracts the top-end brands - but because you can't fly long haul direct, it has a small island feel. With the steady increase in tourist arrivals, demand for rentals of villas and apartments, too, have been increasing, which in turn has made Koh Samui very popular among investors, especially those who seek yields and also a holiday home, such as Samujana.

## **Samujana**

Located on the north east coastline, Samujana is a multiple award winning luxury lifestyle villa, comprising 27 individually owned residences ranging from 3 bedrooms to 8 bedrooms. All villas were designed by Gary Fell of GFAB Architects and were developed by each individual villa owner. The villas and estate are managed and operated by Samujana Co. Ltd. which is owned by the villa owners, with the main focus on protecting the owners' investments. Although

a secret hideaway, Samujana is conveniently located near Koh Samui international Airport (USM), offering direct flights from Hong Kong, Singapore, Kuala Lumpur, as well as Bangkok, Phuket & Chiang Mai. Samujana stands proud on a hillside overlooking a coral cove with private beach access and surrounded by acres of lush landscape. Out of the 27 villas, 10 are now for sale and all are available for exclusive holiday rental

## **Why invest in Koh Samui?**

Statistics show that investors who have purchased a condominium or villa in Koh Samui have been enjoying good returns on their investment - between eight to 10 percent per year. For example, the Samujana rental business has grown year-on-year, and are forecasting continued growth in the coming years. The values of properties have been increasing - between 15 & 20% per annum. And with the government's plans to further improve the island's infrastructure, the value of properties is set to rise in the near future. Samui is just a 45-minute flight from Bangkok and Phuket, two hours direct from both Singapore and Kuala Lumpur, and three hours from Hong Kong. There are five airlines that operate direct flights. In addition, Samui is





now accessible by private jet and helicopter, with additional private airport facilities currently under construction.

### Buying guide

As with most Asian countries, it is very difficult for a foreigner to own a freehold property in Thailand. A leasehold agreement is therefore the most common, and is effectively a fixed term lease of the villa from the Thai company which owns the land. Leaseholds in Thailand are for a period of 30 years, but can be renewed for a maximum of two additional lease periods.

A foreigner, however, is entitled to purchase a freehold unit in his/her own name in a condominium project. This is made possible under the Condominium Act. Only developers who have obtained a Condominium License are allowed to sell freehold units to foreigners. Eligible foreigners include those with residence permits, those who were granted permission to enter Thailand under the Investment Promotion Act, foreign juristic persons with investment promotion

certificates, and foreign individuals or juristic persons remitting foreign currency into Thailand for payment for the condominium units. For foreigners who do not hold a permanent resident certificate, they are required to transfer 100 percent of the amount of the purchase price from an overseas source into Thailand.

### Property hotspot

Samujana is perfectly positioned in Choengmon overlooking the "platinum mile" on the north-east coast of Samui. The Chaweng/Choengmon area is also where all the island's best shopping, restaurants and nightlife can be found. The large, lavish villas range from three to eight bedrooms and inside all provide well laid out accommodation, including: air-conditioned bedrooms, en-suite bathrooms, fully equipped kitchens, reception rooms with multi-media and international satellite channels, sound systems, gas BBQ grills, infinity edge private pools, sun loungers and allocated parking. Many villas also include: Jacuzzis, private gyms, state-of-

the-art cinemas, pool tables, games rooms, table tennis and private spas. Samujana has been designed to cater for multi generational living, including families with young children. Set within secure well-tended landscaped gardens and walkways, is an all-weather floodlit tennis court including complimentary rackets and balls, direct beach access and uniformed 24-hour security. Home owners also benefit from high-speed wireless Internet access and state-of-the-art backup generators.

The design concept behind the villas at Samujana, is based on connecting the natural landscape to highlight the sleek architectural design. Every villa incorporates natural elements such as rocky outcrops and mature trees into the contemporary luxury lifestyle. Living areas are open, naturally ventilated (covered) terraces have been carefully oriented to maximise views and lead directly to infinity edge swimming pools. Villas' roofs feature garden planters, reflecting pools and natural rocks.

[www.samujana.com](http://www.samujana.com)





# CAN ECONOMICS TRUMP POLITICS

By: Nancy Curtin, Chief Investment Officer

After years of sluggish growth, recent economic data shows a decisive improvement, with the promise of expansionary fiscal policy providing a further spur to growth. However, political risk remains close to fever pitch. Can stronger economic data withstand political risk?

## Economics are looking up

Moribund no more - The outlook for global growth has improved recently, with inflation also firming. Data have improved in Europe, Japan, the US and the main emerging markets. Better growth and higher inflation are supportive of equity investments.

## Fiscal fillip

After years of austerity, policy makers are turning to fiscal policy to stimulate growth, notably in the US. If employed successfully, this may elongate the recovery cycle and boost GDP growth. We think fiscal policy is likely to become a global phenomenon and begin to take the baton from monetary stimulus.

## Earnings at last

Overall, corporates need above average GDP growth (greater than 2.5%) to deliver earnings growth. Historically, corporate earnings have driven share prices. Better growth should allow earnings and share prices to increase.

## Political risks are heightened

Trump - President Trump's bellicose and unpredictable style of governing has risks. For the moment, investors are giving him the benefit of the doubt. However using his political capital on controversial policies may hamstring his ability to achieve his economic aims.

## Trade wars and protectionism

The protectionist rhetoric Trump espoused on the campaign trail remains a concern. Any form of trade war as opposed to better trade alignment would be

detrimental to his growth ambitions, and for global growth overall.

Brexit - Whilst Theresa May has announced her intention to trigger Article 50 in March, businesses still have little information on which to base their strategic decisions on spending and investment.

## European elections

Whilst European politics have remained relatively sedate until now, key European elections will prove to be a litmus test for EU stability. We are most worried about The Netherlands and France where challenger candidates are clearly anti EU.

## Volatility ahead

Given the risks outlined above, we believe that both market and currency volatility will remain a feature. However, corrections or pull-backs can also provide opportunities to add to shares which remain attractive on fundamental grounds.

## Conclusion

The recovery in global growth is widespread, with better data across a number of economies. However, political risk remains high and the outcomes of events difficult to predict.

Using our multi asset framework, we remain broadly diversified across asset classes, geographies, and securities. We are seeking to exploit the better outlook for economic growth and hence earnings growth through globally diversified equities, but balancing this with volatility reducing assets such as investment grade bonds and alternatives in case sentiment deteriorates.



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# THE MEANDERING JOURNEY OF AN ALCHEMIST

Change and all its ramifications, an inevitable feature of life yet indeed for the wealthiest of families it can prove to be a challenge, sometimes causing downfall and losses; financial, emotional and otherwise, few would dare admit. Loss has sadly featured quite heavily in my personal family life beginning with the tragic death of my father in my late teens, thus life has determined that I must become an expert on the alchemist's journey.

Money may come and go, human life is fragile and circumstances can change in an instant this we know so amidst all this uncertainty we find ourselves seeking roots that ground us, strengthen us, fortifying us for ever more challenges ahead. It is in this way that I discovered the Atlantic Ocean, a wide beautiful expanse of openness as mile upon mile of pure wild nature opened out before me, permitting me to see deeper within myself as I confronted my fears and pushed outside my comfort zone. I truly believe in the nurturing and healing power of the sea so whilst fear was something I entertained on occasion, manifested in sea sickness, I also felt a deep and connected knowingness that I was being supported. The sea is a place I return to time and again to release toxic energies and reconnect with my truth.

We are all capable of so much more than we realise, evolution is showing us that the resilience of the human spirit is infinite and boundless. Multiple opportunities exist nowadays for adventure and test on a global scale. (see Atlantic Rowing) A personal challenge is useful if it addresses a childhood fear and/or supports a lifetime dream, as mine did. Comparison with others is not advised as we each have our own barometer of fear and personal limits. At different times in our lives we may choose differing challenges to suit our situation. My first instilled memory of feeling deep fear along with an awareness of my own immortality began as I was dangling my legs out of a plane door at 3500 feet ready to take a



Sharon Foulston  
FAB Forums - Adventurer  
Global Change Agent

parachute jump with my University mates.

I have pursued various physical achievement goals along the way however they all tend to have a common theme in that they occur outdoors in nature and often amongst some of the most wild and beautiful natural landscapes which can be found on Planet Earth eg. Himalayas, Atlantic Ocean, Indian Ocean, Alps. The feelings experienced of awe, self-love and an interconnectedness are almost indescribable when one immerses oneself in these surroundings. I shall never forget the luminosity of the stars on route up to Everest Base Camp and mid-Atlantic Ocean or the

gorgeous deep blue colour of the sea as it stretched for miles beneath us. Having had the privilege of experiencing these majestic surroundings only serves to demonstrate to me just how small and insignificant some of our daily problems and worries can be and alters perspective entirely. It also enables me to reach inside myself to discover the inner strength and courage which lies dormant waiting to be unleashed so that my goal can be attained. Where does money sit within all this? Well I believe it is the means by which one can attain these goals and for me this is its rightful place. Our soul's journey dictates our bank balance with self-worth being the ultimate prize.

Change on a personal level can be so difficult because we employ obstructive behaviours to avoid change as it feels necessary for our self-protection, quite naturally in fact as humans we are programmed for survival and often change can threaten this on a physiological level. Thus in overcoming immunity to change it is incredibly helpful to put the body into action this takes the desire for change away from the head and a thinking process down to a visceral feeling level which is where the obstruction really sits. Often deep previously unacknowledged emotions lie within our psyche producing feelings of intense fear in the face of change. These negative emotions work to hinder our growth. This is all commonly referred to as self-sabotage or self-defeating behaviours. See Kegan & Lahey Immunity to Change Harvard Press.

The beauty of these physical challenges is that they put the body into action so bypassing the psychological barriers to change. Difficult feelings of grief (in my case) or guilt and blame can be dispelled through physical exertion and the encroachment of these self-protection barriers, thus leaving us with deep seated feelings of openness, inner strength and self-belief. Superficially represented by conversion of fear into excitement. It often helps if you can permit yourself the use of imaginary angels, supporting you and guiding you to your mountain peak or safe harbour.

To come full circle now, as indeed all lives tend to, is to emphasise the key in dealing with loss of any kind be it material, emotional or physical is to do nothing. Take one's time, become a hermit, grieve the loss fully and only once serenity and clarity prevails should one then take action. Life circumstances may change and events occur which we have no control over, yet we always have control over our own thoughts where the journey of the alchemist begins.

# REAL LIFE STORIES OF STRUGGLE AND COURAGE FROM AROUND THE WORLD

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# ROLLS ROYCE

## A MODEL OF ANY SIGNIFICANCE?

# PHANTOM VII

Written by Jeff Firmin. Global Sourcing of Rolls-Royce, Bentley and other Motor Cars of Distinction.

On January 1, 2003, the first example of the seventh generation Rolls-Royce Phantom Saloon was presented to its privileged new owner. The renaissance had begun. After a number of years in somewhat of an automotive wilderness, new ownership and a new model had reinvigorated the marque and quickly established Rolls-Royce Motor Cars as the maker of the 'Best Car in the World' once again. Following, four and five years later respectively, two gloriously exquisite variants were introduced, in Drophead and Coupé guises. Both immediately gaining recognition as ultimate choices for Continental Grand Touring.

Additional models, Ghost, Wraith and Dawn, were launched in subsequent years, perfectly delivering traditional marque values in a thoroughly modern way. But, from its launch, Phantom was and has remained the figurehead model. It became the car of choice for those having achieved at the highest level, with the Coupé and Drophead variants proving exceptionally exclusive. However, as the fictional character Lazurus Long stated; 'Great is the art of beginning, but greater is the art of ending'

By 2016 Phantom had served for over 13 years, dominating its market so convincingly that when asked, it is difficult to conjure up a serious competitor. But it was time for Phantom VII to lay down the reigns. A befitting finale was in order and so Torsten Müller-Ötvös, Chief Executive Officer, Rolls-Royce Motor Cars, announced; "As we begin to write a bold new chapter in Rolls-Royce history, I am delighted to present a Bespoke Collection that so elegantly celebrates two of the world's rarest and most celebrated luxury

goods; Phantom Drophead Coupé and Phantom Coupé. Phantom Zenith Collection motor cars speak of the marque's unrelenting commitment to setting and advancing the standard by which all other luxury goods are judged."

A stunning Bespoke Collection, the Phantom Zenith Collection, focussed on the divine Coupé and Drophead models, served to celebrate these two extraordinary motor cars with a suite of exquisitely executed bespoke pieces, designed to amplify the beauty and luxury of two of the rarest and best-loved luxury goods in the world. This limited run of just 50 examples was soon sold out.

So now we have now settled into 2017, and the last Phantom VII has rolled off the production line at Goodwood, it is time to reflect on what is one of the most significant models in the marque's history. How will Phantom VII be remembered? Indeed, will it be remembered? As with anything of genuine substance, time proves true value. In 20, 30, 40 years time will anyone sentimentalise over Phantom VII in the same way that many of its predecessors are so cherished today? The world's greatest luxury motoring brand, or maybe just simply the world's greatest luxury brand, has brought us many fabulous models over the years, several becoming truly iconic. Can Phantom VII compare?

To begin with there was, of course, the Silver Ghost, one of the most recognisable cars in the world, the car that became the foundation stone of the legend when it was named the 'Best Car in the World' by Autocar



magazine in 1907. The early generations Phantoms, of the mid 1920s and 30s oozed high society 'Gatsby-like' grandeur more than any other motor car on the road at the time. Nothing else looked more classically beautiful. Other models of significance include the Silver Cloud, quite possibly the most definitive Rolls-Royce design with its beautifully regal, flowing lines proving a resounding success from the mid 1950s through to the late 1960s. More recently, from the mid 1970s, the Corniche Convertible carried grace and panache from every angle, even if, on occasion, its custodians didn't quite exhibit such levels; a reflection of the times, when the exhibition of your wealth was all the rage.

Given models of such significance, one has to ponder what destiny awaits the seventh generation Phantom. Will it join the few, glorious, swooned-over creations that even today, draw the spotlight wherever they appear? Or will Phantom VII join the also-rans, those models that whilst having provided the owners with the exemplary levels of service expected of a Rolls-Royce, haven't quite managed to ingrain themselves in the memories and hearts of any but the truest of enthusiasts. Such models include, the Twenty, Silver Dawn, Silver Spirit and the Silver Seraph. All are fabulous Rolls-Royce Motor Cars in their own right but just not quite special enough to reach out much beyond their own life cycle.

So where will Phantom VII sit in our memories? Firstly, and of most significance, is that Phantom VII truly is a phenomenal motor car; in the way it drives, the way it feels and in the way it is built. And because of this, the way it makes you feel. It is a genuine Rolls-Royce for modern times, with the much used description 'Land Yacht' being perfectly appropriate.

There was, and still is, nothing like it.

Secondly, there is its significance in the history of the marque. Phantom will be remembered for swiftly returning Rolls-Royce to the throne. The 'Best Car in the World', a title it had held since 1904, hadn't been truly deserved for at least the two decades prior to BMW's takeover. Many would argue it had been considerably longer.

Thirdly, its design returned us to a sense of the Hollywood era when Rolls-Royce motor cars were grand, and so unapologetically so. Phantom has immense, undeniable road presence and styling that delivers the required statement. But it does so in a way that is classy, relatively understated and traditionally British.

These three points, whichever path is taken by the automotive sector over the coming decades, will surely establish Phantom as one of those Rolls-Royce motor cars that is looked back upon with considerable admiration and respect. Although an incredibly rare sight on our roads, particularly in Coupe form which will likely become the Bentley Continental Fastback of its generation, it will always be recognisable as a Rolls-Royce and maybe that's the ultimate test. One it passes with flying colours!



# COLLEZIONE AUTOMOBILI LAMBORGHINI PRESENTS

## THE FALL WINTER 2017/18



Visionary, cutting-edge and pure, the codes of the most wanted super sports cars in the world in the Classic, Casual, Casual Vintage, Pilota Ufficiale and in the brand new Event Suit lines. These different lines are conceived for a man who makes an impression in every situation, showing off a bold outfit, defined by the cuts, the materials and the refined and innovative details.

Event Suit. Menswear Evolution. This line aims to satisfy masculine needs for the dress codes at social events. From the two-button black blazer with a tailored cut and a comfortable fit in tricot to the total black jeans with gold stitching details, a contrast with an eccentric and impeccable touch. The T-shirts and jersey sweatshirts with inserts that pick up the motif of the "Y", the design of the cars' headlights.

Classic Line. Exclusive Voyager. Formal and functional for travelling, the collection is characterized by very high quality materials for pieces and accessories made with fine and exclusive yarns, fabrics and leathers. From the breathable and waterproof rock-coloured parka in stretch fabric with visible taping, to the leather jacket with laser-cut inserts. From the sartorially-inspired wool blazer with a micro kilim

design to the light and medium blue slim-fit striped cotton shirts. From the polo shirts in geometric micro jacquard fabric to the denim effect wool tie.

Casual Line. Upper Sportswear. Original pairings with a refined taste and a casual DNA. The windproof jacket with geometric cuts is made of water-repellent technical fabric. The prints which reproduce technical drawings from the archive on a series of indigo-coloured denim effect pieces, such as sweatshirts, T-shirts and scarves, are dedicated to the Huracán model. The new colour of the special model Huracán Avio, blu grifo (matte blue), dyes the sweatshirts with taped zips in metal grey and the cotton piquet polo shirts. The graphics paired with tire prints and with the 3D effect relief prints for T-shirts and seamless sweatshirts pay tribute to the Aventador.

Casual Vintage Line The New Heritage. Vintage effect for the polo shirts and sweatshirts with a flock print inspired by the historical Miura and Countach models. The jersey t-shirt is reversible in the colours dark navy-amber gold and rock-white. Double technical fabric for the scuba fabric bomber: externally it has a woollen touch, internally it is in double-knit fabric with a contrasting tire print.



## Milan Men's Fashion Week Collection for Fall Winter 2017/18

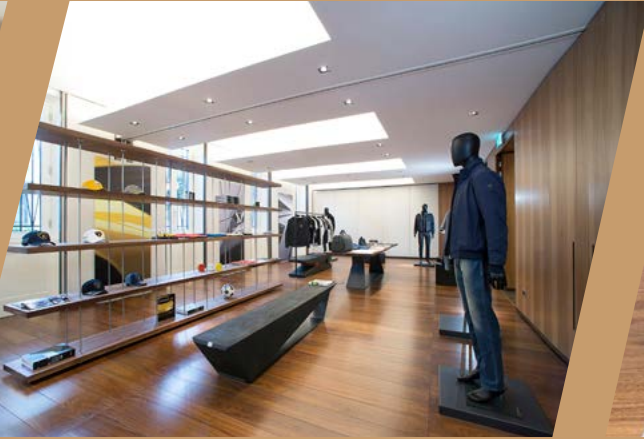


Automobili Lamborghini presents the RTW collection for Fall Winter at the Mandarin Oriental Milan

## Collaboration with Riva Private label on show



A preview of the special editions with Hettabretz and Enzo Bonafè.



Pilota Ufficiale Line High Speed. The passion for the world of racing in a collection with audacious profiles and performing hi-tech fabrics. A series of pieces with graphics which again propose the claim "Pilota Ufficiale" and the "Y" - which picks up the design of the headlights of the supersports cars. The "Y" is made with inserts of different fabrics but in the same dominant colours of black, grey, white and amber gold.

Debut of the co-branding with Hettabretz. The Bologna-based fashion house Hettabretz and Collezione Automobili Lamborghini together for the first time present a limited edition of three pieces of outerwear for men and for women, each in thirty numbered pieces. This co-branding is inspired by the common DNA of the two Italian excellences with the objective of creating unique pieces. strength and the elegance of the two brands.

Alongside the classics of the collection in walnut from areas of reforestation, there are some of the bestsellers of Riva 1920 reinterpreted with the new Volcano black finish, an artisanal process of carbonizing cedar that is inspired by ancient Japanese techniques. The central feature of the space is a table in Kauri, an ancient wood from New Zealand dated as 50,000 years old.





# USA INVESTING

## IN BIOTECHNOLOGY COMPANIES

by Gianni Mattioli

Investing in Biotechnology companies can be a great opportunity. Here are some considerations and rules for making a wise investment.

### A) THE UNIVERSE OF THE BIOTECHNOLOGY COMPANIES IS LARGE.

There are 166 biotechnology companies currently listed on the Nasdaq, of a total of the approximately 3,000. Because of the complexity of this type of securities, it is essential, before investing, to understand the functioning of these companies and the process leading to the approval of a new drug and its marketing.

A biotechnology company produces its medicines on a biological basis, using living organisms, such as bacteria or enzymes. On the contrary, pharmaceutical companies produce their medicines with chemical-based drugs. Biotechnology has broader applications compared to traditional pharmacology and benefit from a term of 12 years for their patents compared to five years for pharmaceutical companies.

### B) THE PROCESS FOR THE APPROVAL OF A DRUG

The institution responsible for the approval of a new drug, is the Food and Drug Administration, FDA. The institution has 6 analysis centers in the US.

The process leading to the approval of a new drug is divided into 3 phases :

#### PRE-CLINICAL PHASE

Tests of tolerability and toxicity on animals

#### PHASE 1

It consists in testing the drug on a limited number of healthy volunteers, patients, in order to verify the safety and tolerability of the drug with the given dose.

#### PHASE 2

It consists in testing the drug on a limited number of patients, from 100 to 300, suffering from the disease to be cured. In this stage, the effectiveness of the drug, the tolerability, the optimal dosage and the possible side effects are tested.

#### PHASE 3

In this stage the number of patients is expanded, up to 3,000, distributed in different locations, divided by age, gender and ethnicity. Here the therapeutic effect and the risk / benefit ratio of the drug are definitely tested.

### C) HOW TO SELECT A BIOTECHNOLOGY COMPANY FOR INVESTMENT

In analyzing a bio company for investment, should be prioritized:

1 - companies that are studying drugs that treat high-risk or highly disabling diseases such as:

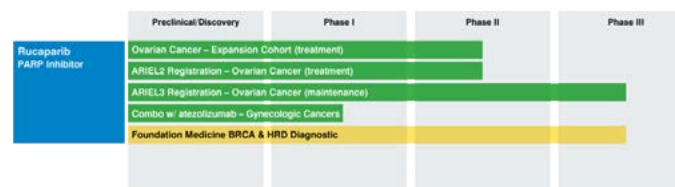
- Tumors, in particular of the liver, lungs, pancreas
- Alzheimer's disease
- Parkinson's disease
- Rare forms of muscular dystrophies

2- companies that are experimenting many drugs, called Pipeline.

The greater the number of drugs, the greater the odds of success.

Figure 1 and 2 show an example of a company's pipeline:

-Clovis Oncology: drugs to cure ovarian tumors.



## Delivering Against NME Filing Targets

NME Filings Planned 2015-2019 Each With \$1B+ Potential\*

Compound	Current Phase	Anticipated Filing Date
<b>DARZALEX®</b> Multiple myeloma double refractory	Approved 2015	2015
<b>Strukumab</b> Rheumatoid arthritis	Registration Filed	2016
<b>Guselkumab</b> Psoriasis	Phase 3	2016
<b>Apalutamide (ARN-509)</b> Pro-metastatic prostate cancer	Phase 3	2017
<b>Erdafitinib (FGFR inhibitor)</b> Solid tumors	Phase 2	2018
<b>Esketamine</b> Treatment-resistant depression	Phase 3	2018
<b>Imetelstat</b> Myelofibrosis	Phase 2	2018
<b>JNJ-4575 (AI-3174)</b> Respiratory syncytial virus	Phase 2	2019
<b>JNJ-4178 (3DAA)</b> Hepatitis C virus	Phase 2	2019
<b>JNJ-3872 (VX-787)</b> Influenza	Phase 2	2019
<b>JNJ-7922 (Orexin-2 antagonist)</b> Primary insomnia	Phase 2	2019

\*Peak non-risk adjusted sales, including partner sales

Johnson & Johnson has brought to market 14 new products between 2009 and 2014. The company has planned, as shown in Figure 2, to bring to market 10 new products by 2019, each with expected sales of more than \$ 1 billion.

3 - give preference to companies that have operational and financial partnerships with major companies. As an example we cite the company Geron which is studying, Phase 2, the product Imetelstat, an antitumor. Geron, is a small company capitalizing about \$ 350 million; nevertheless it has signed an agreement for the worldwide distribution of Imetelstat, once approved, with Janssen Pharmaceuticals, which is owned by the giant Johnson & Johnson.

### D) THE RIGHT TIMING FOR INVESTMENT

The right moments to invest in a biotechnology are basically four:

- 1) when the drug has passed the Phase 3. Sales and profits will increase significantly over time. It was the case, among others, Array Biopharma, Figure 3, On September 26, 2016 Array announced that their drug against skin cancers had successfully passed Phase 3. In followed days the stock doubled its value.
- 2) when the drug has passed Phase 2B: the odds that after this it will also pass the Phase 3 are generally high. Phase 3 requires on average 3 years.
- 3) when the FDA rejects the drug on Phase 2B or Phase 3 for reasons of minor importance as the dosage of the drug, or an insufficient number of patients or others. In these cases, the company has the opportunity to correct these details and prepare a new test for the approval. However when the FDA answer negatively a sharp sell-off of the title occurs immediately, to recover only later some of its value. As an example we can show the trend of Alkermes, figure below. On January

29, 2016 the FDA declared insufficient the results showed in Phase 2 related to its antidepressant ALKS 5461, and required further documentation. The stock lost 50% of its value, and only recovered later, doubling the value in the course of 2016.



### E) WHAT TO AVOID:

- society 'that only drugs embryo experimentation in Phase 1 and Phase 2A
- companies that have only one drug under trial
- companies that are investigating drugs of little scientific relevance and low potential diffusion
- companies that have a history of previous trials with negative results
- companies that have insufficient financial position to continue the trials until the final stage
- IPO: companies that have gone public recently and do not have enough historical data

On 26 September 2016, the FDA sent the company a Complete Response Letter, CRL, which rejected the request of the company' to approve the drug Remoxy. Pain Therapeutics is studying only this drug and the FDA refusal caused the collapse of the stock to few cents.

### CONCLUSIONS

As we have seen, an investment in a biotechnology company can give excellent results. But it is necessary an in depth analysis, case by case, regarding the status of the trial and if the company complies with the requirements of the Food and Drug Administration. A successful new drug can be a revolution both for the company and the market, as it happened with Apple's iPhone. The extraordinary advances in genetics and the study of DNA have opened a fascinating and very promising scenario for the biotechnology companies.

# WEALTH ASSURANCE

an alternative planning structure for Russian HNWI's

The era of global tax transparency requires a re-evaluation of the available wealth planning options. Control, asset protection, reporting and costs are the main drivers of Russian private clients. In this article an investment portfolio in Switzerland indirectly held by a trust and the same investment portfolio directly held by a wealth assurance are compared in terms of how they match the requirements of control, asset protection, reporting and costs. Guidance is also given in finding the right structure, jurisdiction and providers. Wealth assurance; how does it work?

Wealth assurance is on the short list of planning structures of most wealth planners worldwide, but it is relatively new for Russian investors. Although wealth assurance has nothing to do with a classic life insurance, it is issued by specific life insurance companies.

The client contributes the assets that need to be protected as a one-off premium payment, in cash or in kind, to a bespoke investment fund created by the insurance company. The insurer opens a dedicated account at a custodian bank for the underlying assets of that particular wealth assurance policy.

Usually, the custodian bank and the investment manager are the same as those in charge of the investment portfolio before the premium transfer. This internal investment fund is exclusively linked to the client's wealth assurance policy. The value of the client's policy is equal at all times to that of the underlying internal investment fund.

The insurance company has now become the Economic Beneficial Owner (EBO) of the underlying assets. In return for the premium payment, the client has a "claim" on the insurance company for the value of the underlying investment fund. He can withdraw and/or surrender at any time during his life time.



Toon Meyer  
Gatsby & White SA

## Control

During the term of the contract, the client/policyholder has full control over the underlying assets of the wealth assurance. He can surrender at any time, appoint and revoke the beneficiaries by a simple registered letter, adapt the investment strategy, and pledge the policy for a loan. The client has limited control over the assets in an irrevocable, full discretionary trust. If he doesn't comply, the trust can be challenged and declared as a sham trust by court both in Russia and abroad.

## Asset protection

If and when the Common Reporting Standard (CRS) will be effective, all wealth planning structures, including trusts and wealth assurances, will be in scope. Only the best asset and investor protection regimes will then be good enough to protect the Russian clients against unjustified claims from (ex) spouses, greedy family members, (former) business partners, competitors, aggressive officials, raiders and others. The asset and investors' protection

regimes in several jurisdictions of wealth assurance providers offer the strongest protection available against creditors' claims and actions, against foreign public bodies' claims and actions and against bankruptcy of the insurance company and/or the custodian bank. It is the insurance company that is the only legal and economic beneficial owner of the underlying assets.

When the counter party can prove that there was no proper segregation of the assets in the trust and that the client continued to exercise control over these assets, the trust can be challenged and the assets can be seized.

### **Reporting**

Russian residents are free to subscribe to a wealth assurance of a foreign provider abroad. When that wealth assurance meets the criteria to qualify as an insurance contract pursuant to Russian law and requirements, there are no reporting obligations for the client/policyholder in his tax declaration. The income in the investment portfolio held indirectly by the trust need to be reported on the client's annual income tax return.

### **Costs**

No wealth assurance is identical to a trust; it is therefore difficult to compare costs. At first glance, wealth assurances may look more expensive than trusts. But the income generated by the investment portfolio under the trust is to be taxed every year at 13 percent whilst that same income is accumulated without income tax in the wealth assurance under the principle of tax deferral.

Swiss stamp duty (0.15% or 0.30%) is due on every transaction in an investment portfolio under the trust whilst these transactions are exempt of Swiss stamp duty in a wealth assurance.

Payments in case of death of the insured person are exempt from any taxation. At the end, it will be the client's advisor that will decide which structure is the most suitable in a particular case.

### **Best of both worlds**

Wealth assurance is clearly a superior asset protection structure with a lot of flexibility but the trust remains a far better management vehicle. When the stakes are high, i.e. when physical integrity, asset protection, peace of mind, estate planning are extremely important, the trust can act both as policyholder and as beneficiary of the wealth assurance. In some cases, the client is the policyholder but the trust has been given limited or general powers of attorney to represent the client in case of his temporary incapacity or after his death. In other cases, the trust is appointed as beneficiary from the beginning. There are many options to consider once the client's advisor is also familiar with wealth assurance as a planning structure.

### **Independent intermediary**

There are 3 ways to mediate a wealth assurance. One; the client's advisor approaches an insurance company directly. He is probably not qualified to do that and it is not obvious that he will identify the most suitable provider in the appropriate jurisdiction and work out the best possible deal for the client. Two; the client's advisor relies on an in-house broker of a banking group. There is an embedded conflict of interest since the in-house broker's allegiance is with the banking group and not with the client. Three; the client's advisors calls upon an independent intermediary well introduced and highly experienced in the matter. Such an intermediary is not married with one insurance company in one single jurisdiction. Instead, it offers the client a choice out of several companies in several jurisdictions depending on the characteristics of each individual case. The intermediary should never engage on a case without a full tax and legal opinion from a reputed lawyer. Furthermore, this intermediary should have a proven track record of conducting periodic sustainability and appropriateness reviews to keep the wealth assurance in force compliant and effective.

Toon Meyer  
Director Business Development  
Gatsby & White SA  
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# BRITISH COUTURIER CELEBRATES 40 YEARS WITH LANDMARK SPRING SUMMER 2017 COLLECTION



## CATHERINE WALKER & CO - HIGH END COUTURIER

Founded in 1977 by husband and wife design partnership, Catherine Walker and Said Cyrus, the company has set unique standards in luxury bespoke clothing for women. With no catwalk shows and no advertising, this discrete house has earned its reputation through its celebrated clients such as the Princess of Wales and the Duchess of Cambridge.

In a tribute to the brand's history, the SS17 and AW17 collections will feature several reinterpretations of the most iconic pieces seen over the past four decades. From its beginning the company has had a reputation for exquisite and intricately worked evening gowns,

and since the early 80's Said Cyrus has employed Savile Row tailors to hand make their designs that fuse sharply sculpted masculine shoulder lines to a softer feminine silhouette below. The SS17 reworks early 80's little tweed jackets, 90's bead-encrusted bodices over flowing silk, passementerie, exquisite crepe de chine prints and of course the company's signature coatdress.

It is important to note that at an early stage in the company's history Walker and Cyrus faced a decision about the company's future, with tempting offers from North America and the Far East, and some substantial offers to sell

their company. However, the duo decided to do the reverse of what was expected and they returned all the benefits of the company's success back to their clients. By limiting the company's size it allowed them to give each client the love and intimacy on which the company was built. They have often said, "The last thing we wanted was a money making machine with no soul."

As a result of this small-is-beautiful philosophy, to which Cyrus still adheres today, the company owns a seven studio atelier opposite their showroom in the heart of Chelsea, where a tightknit group of thirty lifetime craftsmen and



women lovingly hand make pieces of individual luxury for each individual client, where “the client is the star, not the dress”, says Cyrus. Nothing is made outside these Chelsea studios.

Since Catherine Walker’s death in 2010, Said Cyrus has forged a new chapter in the history of the brand. In this 40th anniversary year it is fitting that the company can look back through Kensington Palace’s major exhibition, Diana: Her Fashion Story, (where over half the display is from Catherine Walker) and also look forward to new clients such as the Duchess of Cambridge.

Until recently, its made to measure designs were only available by private consultation in its Chelsea atelier. However, in response to the growing practice of buying online, an inventive new service called Catherine Walker e-couture now means that garments can be ordered from anywhere in the world, provided clients follow prescribed steps, and secure the services of an approved local tailor or dress-maker to ensure the precision fit for which the House is renowned. This service has now been supplied throughout the USA, the Middle East, central Asia, and even the UK!

The Catherine Walker & Co showroom is located at 65 Sydney Street, Chelsea, London, SW3 6PX.

[www.catherinewalker.com](http://www.catherinewalker.com)





# BUILD TO SUIT

## PROPERTY INVESTMENTS

Build-to-Suit denotes an investment strategy which is particularly appealing to institutional investors in Dubai today, primarily because it has – if well implemented and transacted – the potential to combine highly attractive rental returns on real estate assets while effectively confining the involved risks. Build-to-Suit by definition characterizes a way of leasing property, in which the landowner builds the property to the specifications of the tenant, followed by a mid- to long-term lease. The counterparts (tenants) are usually large, international corporations operating in the sectors of hospitality, education, transport (airlines), retail and manufacturing. Such arrangement is typically chosen when the tenant elects to occupy a building of a certain type, however does not wish to own the land and building.

### Win-Win for Investor and Tenant

The tenant's rationale behind the deal is that housing costs account for at least 40% of an employee's total remuneration package in Dubai today. With the elevated volatility witnessed in Dubai and rents soaring during upward cycles, this either forces employers to considerably increase their accommodation expenditures (and thus total remuneration packages) or else accept highly negative consequences with respect to staff fluctuation and therefore their business. Being a typical outsourcing strategy, the Build-to-Suit concept offers the tenant the tremendous advantage of foreseeable and fixed accommodation costs while at the same time enabling the latter to concentrate on his core business instead of obliging him to deal with matters like property development, facility management and the like.

Obviously, the avoidance of tying up financial resources in non-core operations is another key objective to most companies today. The investor's rewards on the other hand are basically twofold: First, the landlord enjoys exceptionally high net rental yields (15% and more) with zero vacancies and rent fluctuations in turn for shielding the tenant of potentially excessive future rent hikes. Furthermore, the lion's share of investment (construction) need only be committed once the tenancy



Christian Atzert

contract is in place and the future cash-flows are assured. Dubai's Market for Build-to-Suit Property Dubai has just passed the milestone of 100,000 hotel rooms in the emirate, while the Dubai government's tourism marketing body (DTCM) expects another 34,000 rooms to be added to the inventory by 2018 and to reach a staggering 160,000 units by the time the World Expo kicks off in October 2020 in Dubai. At the same time, there are other economic segments that are similarly as labour intensive as they are thriving – think in terms of transport (airlines), education (universities and schools) and retail – to name but a few. That said, it speaks for itself and a constantly growing demand that the price for staff accommodation has increased by about 130% between 2009 and 2014 and is still on the rise to date. Being „off-market“ by nature and with the absence of non-professional, typically more speculation-oriented small investors, the Build-to-Suit sector in general is more supply-/demand driven.

### Critical Factors

As with any other property, the land plot's location and accessibility are major influencing factors,



thereby greatly relevant in determining the attractiveness of the Build-to-Suit object and thus pricing of rents and future valuation. Getting all necessary building blocks in place at the right time is of paramount importance for the successful outcome of the venture. Quite obviously, a suitably located building plot to be matched to a trusted and financially sound tenant (to be complemented by appropriate collateral) are the most important elements of this strategy.

Equally reputable partners should be chosen for construction and its oversight in order to ensure a handover according to schedule and low running costs thereafter.

### Conclusion

Despite some present economical headwinds caused by low oil prices and a sluggish world economy, the UAE is forecast to pick up pace considerably, reaching a predicted GDP growth of 4.3 percent in 2020 (Trading Economics). In light of this, there remains little doubt that Dubai`s successful strategy to further strengthen and diversify its economy will fuel ample future demand for staff accommodation in carefully chosen locations. In such a context, the „Build-to-Suit“ element entails less risk than it might appear at first, owing to the fact that housing requirements typically do not contrast starkly between corporate tenants of a similar size and industry.

This in turn implies that the property will be lettable and/or liquidable at the end of the contract term with little or no alterations. Furthermore, typical amortisation periods of seven years or less grant ample financial leeway at this point in time for disinvestment or subsequent letting. Without a doubt, the beginning of an economic (rather than property-) cycle marks the sweetspot in timing for such an investment as construction and land prices are still favourable. Meanwhile, a premium on rent is achievable owing to the custom-constructed property as well as the contractually granted shield from future market-rent hikes. While the presented strategy offers considerable attainable returns, the related risks can be effectively contained if the undertaking is well implemented - potentially offering the best of both worlds.

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# CECIL WRIGHT & PARTNERS

PHILOSOPHY ON SUPERYACHT VALUATION



## TUROUOISE 3

By Matt Ruane

Being a three dimensional object, it is volume, rather than length, that defines a yacht's size. Hence we refer to a yacht's value using its price per Gross Tonne or "GT". We utilise this measurement as estate agents and property developers may do price per square metre or square foot.

So what price should we expect to pay per GT? The cost of building a superyacht in excess of 500GT today may vary from anywhere around €30,000 per GT to over double that figure. This begs the question: why would anyone entertain paying more than double for the same size of yacht?

'Quality' is too simplistic an answer. One would expect something nearing perfection from shipyards at the highest price point in the market. However, the more value-focused shipyards are constantly striving to enhance their build

processes and improve on quality and finish, often using the same suppliers of engines, generators, exhaust systems, air conditioning, water treatment, coating systems and so on. By combining familiar design formulae, standardising build processes and appropriately specifying materials, build costs may be controlled while still maintaining the demanding standards of quality and finish required by both clients and industry. Benetti's standardised engine room layout being a classic example. Therefore, an owner with a good build team, including a skilled designer and an experienced project manager should be able to build an attractive, well finished and solidly engineered yacht at the more 'reasonable' price points.

So where is the additional value at the top end? Many would argue that it's in the detail. Just close a beautifully finished cabin door on

ayacht from a high end shipyard and feel it hung to the finest tolerance with its impeccably flush hinges and perfectly aligned screws. Note all the chequer plate lining up in a breathtakingly presented engine room or take care to inspect the flawlessly laid teak. At the highest level, clients expect this to represent a build philosophy that extends from their yacht's over-engineered construction to its meticulously detailed finish. It is this no-compromise approach that delivers the ultimate feeling of owner confidence and satisfies those with a true passion for craftsmanship.

Another justification for higher-end build costs is freedom of expression for both owner and designer - the ability to push boundaries of technology, design and materials in order to achieve something truly special. As in the automotive industry, in which

budget and competition drive innovation that trickles down from cars like the Mercedes S Class to an average family saloon, so do the leading shipyards drive innovation in the yacht sector. One of the many areas we could look at to highlight this is the recent use of glass. The Feadship VENUS, for example, features an entire deck surrounded by toughened glass (the three 10x3 metre panels each side). The award-winning Feadship SAVANNAH, with its stunning semi-submerged "Nemo lounge" or HAMPSHIRE II, again by Feadship, which entices its guests to "float" through its engine room via a spectacular glass conduit.

Asked about the inclusion of a breath taking underwater observation lounge into a recent launch, Pataq Fadi of Nobiskrug Shipyard explained to me the staggering amount of structural analysis and calculation required to satisfy the safety authorities, before they were able to even commence the ground breaking lamination and fabrication process of the glass structure and integrate it into the build. "Regulatory bodies are slow at implementing changes because their regulations are based on traditional and well proven methods and experience. These are the guidance for standardized platforms. Innovative shipyards push the boundaries further!" All these examples exceed previously conceived limits of technology and application, above and below the waterline as well as interior spaces. Stepping aboard any of the yachts built on Lürssen's 85m "platform" in recent years (Kismet, Solandge, Phoenix II, to name but 3) provides a perfect illustration of this marriage

of technology and craftsmanship. All bear totally unique interiors and exteriors while being exquisitely finished throughout.

But let us drag ourselves away from pondering the magic possible for those lucky enough to build at one of the world's finest shipyards, and take a cooler, more commercial view. Which price point is the smarter investment? Our broad view is that buying at a higher cost per GT is a better investment, and here are two reasons why:

**Resale.** The highest quality brands sell themselves. Not only do they retain better value, but they generally attract and retain the best crew, enhancing the overall desirability and condition of the yacht. Bas Nederpelt from Feadship has said: "Resale values of our recent yachts are historically higher than any other brand. There is always demand for a pre-owned Feadship." Having sold two of the three largest Feadships last year we agree with Bas!

**The flight to quality.** Looking at the Russian 80m+ market alone from 2011 to 2015, the 2016 Superyacht Intelligence Annual Report tells us that 35% chose to build at Lürssen, 15% at both Feadship and Blohm + Voss and 10% at both Oceanco and Fincantieri. Those that can afford to build in the upper echelons, do. it's also worth considering the pricing of those builds further downstream when they come to the brokerage market. At CWP we deem it essential not to overvalue: it's detrimental to owners' objectives and the market as a whole. We believe value should never be based on a "finger in the air" or "gut feel" judgement. Pricing by length must be disregarded

in favour of GT. Then age, specification, condition and build pedigree all factored in. Naturally, we look at all comparables from the same shipyard but we also take into account how that shipyard prices and approaches its contracts and what was additional to that contract price (design fees, for example). Were significant changes made to the design during the build process resulting in change order penalties? Most buyers would not wish to pay for additional costs associated with an owner's change of heart in respect of the original design or specification while in build as they do not normally add tangible value.

We remain adamant that a logical, measurable understanding of value by all parties at the outset is essential to efficiently achieving our client's objectives. This is borne out by looking at CWP's recent sales successes which reveal a pattern of faster turnaround from listing to sale while achieving closer to asking prices than many larger competitors.

Superyacht broker  
Matt Ruane





# FAMILY OFFICES

## THE CHANGING WORLD OF PRIVATE EQUITY

Wealthy families have been investing into businesses since the dawn of commerce. Initially their role was as founders, managers and owners, and as success brought surplus liquidity, many developed private structures, with a strategic allocation across all core asset classes: family offices were born.

Private equity has been a well-established part of most asset allocations for decades. As investments are at the upper end of the risk spectrum, it is usually, therefore, a relatively modest proportion of total assets for most families. That risk has been largely mitigated through diversification, principally through fund investments, giving investors exposure to multiple managers and strategies, and a much broader underlying portfolio than most could finance independently. More recently, as super-liquidity events have generated even larger cash windfalls, and in particular as generational transition has seen younger family leaders assume decision-making responsibilities, more and more families have moved away from the fund strategy to seek direct investment opportunities.

Sometimes this reflects first hand personal experience – individuals may have worked in M&A or private equity. For others the decision is about a cost-benefit assessment: fund investing can be expensive (often with two or more layers of fees) and at a certain level of scale it can become cost-effective to build your own team. This point becomes even more pertinent when linked to a third driver – the desire to be more involved. Fund investing is essentially passive and puts your capital into a blind pool, so there is no direct exposure to deal-making, to the selection of investments, or the operational value creation cycle. By contrast, an entrepreneurial family office sees value in their own industrial experience and network, and seeks to leverage this through an in-house direct private equity team. These organisations have become much more sophisticated in the last 20 years, often led by best practice from the US. Initially, families might entrust the deal-making role to an experienced line manager, someone they had known for a long period, typically the leader of a successful operational business unit, but critically not usually a proven private equity manager, putting personal



Rupert Bell  
Principal Consultant for PER

trust ahead of technical training, sometimes to avoid complex and expensive remuneration structures. The results were often sub-optimal. Lessons have been learned, and the leaders in the market now routinely hire proven investors with first class origination networks and track records. Costs have often risen accordingly, but in many cases these have been justified by more stable returns. Over the last 3-5 years we have seen the evolution of a further model, an ambitious hybrid where families act as cornerstone investors for new private equity shops, securing better economic terms, as well as greater influence in sourcing and executing investments. In Germany, some 50+ new teams have set up since 2012, with around two thirds supported in this way.

There is clearly a danger that this phenomenon is a text-book definition of the top of the market and we expect quite a few firms to fold if they cannot close deals as easily as hoped, or when liquidity pressures surge elsewhere in a portfolio, but even if half don't survive the next downturn, that is still a material impact on the shape of the overall market. What about the competition for talent? Historically, most family offices were not competitive on compensation or assets under management but this has changed.

As specialist headhunters in this niche, we have been able to bring tier one investors to family office clients precisely because the source of capital is different. So much mainstream private equity is now commoditised in 10 year limited partnership structures; pricing and processes are largely generic, exit pressure remains significant and in truth many of the personalities merge into one another.

But these newer family offices vehicles look and feel differentiated. Fundraising is a more transparent exercise and many families actually prefer their capital to remain productively deployed rather than seeking an arbitrary liquidity event to trigger carried interest payments, so they can contemplate much longer hold-and-build horizons. Possibly more importantly, an effective family office can deploy their industrial heritage as a relationship winner in the origination stages, for example, 'We're not just another faceless fund, we represent a multi-generational industrial owner with a proven record of building value themselves, investors who look and think the same way you do, but can bring fresh capital and ideas to drive your business even further in a partnership of equals.'

This is not just fine words – this approach really works and brings priority access or even exclusive, incremental dealflow, the life blood of a successful PE firm. Working with these tactical advantages excites proven deal-doers. Our advice to candidates considering joining

family office private equity teams is to focus on two issues: commitment to the asset class, and governance. Cashflows in private equity are negative for many years, not least because the lemons ripen before the plums, as the old saying goes, and one truly needs to invest across vintages for diversification so this pre-supposes a certain depth of pocket and a willingness to stay the course to reap the benefits. Similarly, in a competitive market, prices are high and investment decisions need to be backed up by process rigour: scenario analysis, proper due diligence, negotiation and relationship building, and documentation. If an overbearing family principal can bypass these on a whim, this becomes a dangerous career move. The caricature would be for a hired professional to be greeted at his desk by a beaming owner with the news that 'we've bought a football team.'

But get these two issues right and you have a real edge in the market and for the individual, the chance to build something distinctive. Private equity has become a mature asset class.

Rupert Bell is a Principal Consultant for PER, the leading search firm for private equity, based in Munich. He has over 20 years' experience in private equity, as an investor and adviser, including a long period helping to establish a direct investment business for SandAire, a multi-family office in London

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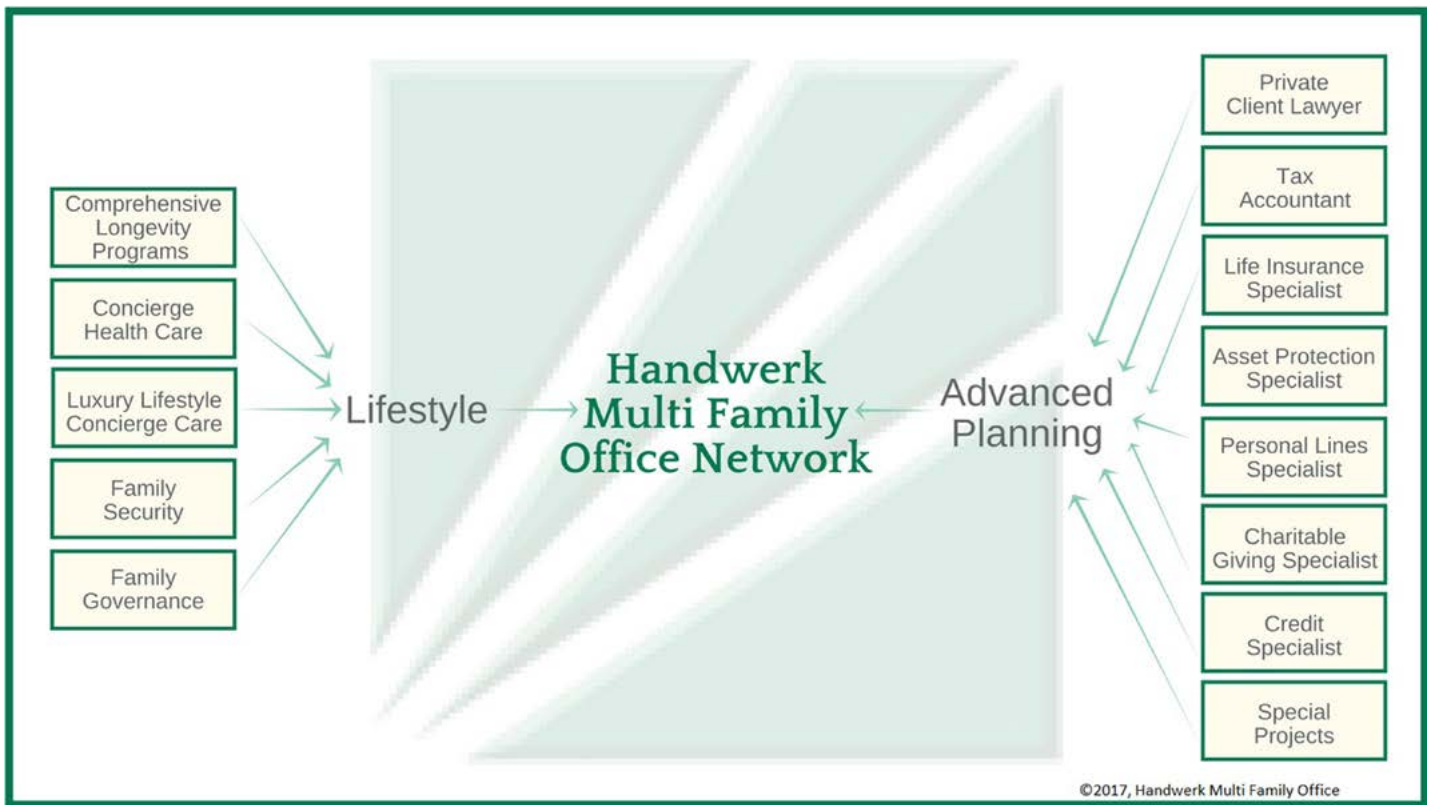
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## THE VIRTUAL MULTI FAMILY OFFICE

Every year I take some time off and reflect on how I'm working with families and how I can improve my company to better serve my clients. Over the past year, I have been working on providing more and better services to my clients by improving my virtual office model. A paradigm shift is occurring across the industry and will continue to accelerate as clients demand more services and reduced fees. The private family office grew out of wealth created by business owners and innovators. When G1 (Generation 1 - the originator of wealth) had several hundred million dollars to billions of dollars, he or she needed an office to administer their day-to-day needs as well as to orchestrate their personal and financial well-being. This

orchestration involved core functions such as tax planning, accounting, investments, charitable gifting, asset protection and estate planning. Also, additional services such as organization of family meetings, financial education, consulting on foundation management, business consulting and concierge services such as property management, travel arrangements and shopping assistants were added. The multi family office (MFO) is an extension of the private family office. This transformation occurred to reduce the burden of family office fixed costs by spreading those costs for services over a larger number of clients. The cost to have a tax attorney, estate attorney, administrative people, accountants and staff members is a significant overhead expense.

However, what I find are clients with a net worth of \$100 million dollars or less, only have a fraction of their net worth to invest with a MFO. It is the management of portfolios that provides the income which allows the MFO to provide services to their clients, so if you have more than \$20 million to invest with one of the traditional multi family offices, you may receive many of the same services I have been offering to my clients but you may be meeting with junior level associates and must work with people the firm employs. From my experience, most families with less than \$10-\$20 million of investable assets rarely have the opportunity to work with a MFO that can provide the family with a full complement of services.

**An Example of the Current MFO Model** - Recently a MFO contacted me and wanted to meet. They seemed to be a very sophisticated company and had beautiful offices. But, as we sat talking in their posh boardroom three aspects of their business model became concerning to me:

1. They were more interested in volume and increasing the number of clients than they were in the clients having a quality experience with a customized array of service offerings.
2. Their investments were all in public securities which are traded on the various exchanges. This fact made scalability easy for them though their clients were not as diversified as they could have been.
3. With smaller clients, those with \$10 million or less in investible assets, the MFO had the junior relationship manager relay information from the client meeting to junior-level people. The resulting suggested strategies and understanding of the client's needs was predictably pedestrian.

**Enter the Virtual MFO** - Cloud computing, the internet, AI, robotics, and vendors offering outsourcing of every type of service on an as needed basis, are all combining to disrupt many industries. However, I have not seen much disintermediation of the traditional multi family office space. Cameron Herold, who engineered 1-800-GOT-JUNK?'s spectacular

growth from \$2 million to \$106 million, espouses only hiring staff for positions you absolutely need to support your core competency and leveraging technology to increase service levels and decrease costs. Except for employees who are absolutely critical to the business, all other work should be done by outside experts. Using this philosophy allows Handwerk Multi Family Office and other virtual MFOs to provide services as needed by clients and allows constant access to the best and brightest minds in each advisory role. (see Image 1) Having access to specialized experts and thought leaders is critical when it comes to advanced planning topics such as succession planning, family governance or transitioning multi-generational assets.

When choosing an organization to partner with, it is important to understand what services they offer as part of the portfolio fee and what other services the MFO offers and the charges for those services. Aside from portfolio management, our organization focuses on:

- Asset protection
- Tax mitigation
- Charitable gifting
- Estate planning

**Working with a Professional Network** - We can work with our client's accountants, lawyers and consultants to try and understand the family's total picture or we can use our own experts each with specialized knowledge. When we outsource, it is to a vetted group

of professionals that we believe to be best-in-class. The client pays only for the services they need and does so with no mark-up. Also, if the professional partner is not providing world class service, they can be replaced with other professionals waiting in the queue. Using variable cost partners allows our senior level people to spend up to 200 hours/year meeting with the family, delegating lower priority tasks but implementing the higher-level strategies with niche-specific professionals.

### **What does working with a Virtual Multi Family Office mean to you?**

As a client with less than \$10-\$20 million to invest, being able to partner with a MFO with low overhead and senior level people who can spend 50-200 hours in the first year meeting with you, performing information analysis and setting/implementing the strategies is like finding a pot of gold. From my research, it seems clear that the margin pressure on family offices and multi family offices is significant and increasing. As a traditional MFO who has a large office with corresponding overhead, it will become more difficult over time to compete in the marketplace for those "smaller" accounts and to maintain current margin levels with traditional clients versus those companies who are adopting the virtual MFO model.

Derrick Handwerk  
Managing Partner  
Handwerk Multi Family Office LLC



# THE ART OF RELATIONSHIP BROKERING AND THE IMPLEMENTATION OF BUSINESS PLASTICITY

## WHAT BRAIN SCIENCE AND GOOD BUSINESS HAVE IN COMMON

By Amana Manori, CLO of Introduction Capital Inc.

Plasticity of the brain, otherwise referred to as neuroplasticity, is the ability of the brain to develop, modify and reprogram itself in response to its environment and impacts. Without plasticity the brain would not be able to develop throughout the human lifespan or recover from injury.

What happens when we take the tenets of this brain science and apply it to the sphere of business? The unconstrained business model, like the human brain, has the opportunity to recover, respond and continually improve throughout its life. With the right stimuli and a favourable professional environment, this type of business model is intentionally structured to evolve - both organically and purposefully. Implementing plasticity characteristics in the design of a relationship-based business offers a modern approach to how we do business today, enabling us to build a business that not only attracts, but also retains, desired clientele.

### **Build A Healthy Environment**

A healthy and stimulating environment can heal a damaged brain. Conversely, a damaged brain can endure prolonged and unnecessary distress with the lack of favourable inputs and amidst poor surroundings.

Similarly, an enriched and invigorating professional environment can allow a business to flourish. A positive work atmosphere and meaningful professional network can foster growth on many levels. In the construct of the healthy work environment, it is worth investing the time to understand the drivers, motivators, values and intentions of all stakeholders in the business ecosystem.

Research shows that mindful activity, such as meditation, positively impacts brain activity particularly as it relates to gray matter. These positive inputs are proven to deal with distressed emotions such as anxiety, depression,



Amana Manori  
Introduction Capital Inc

fear and anger. Moreover, it plays a vital role in the ability of the body to heal itself.

An investment in a purpose-built business that values its players will provide professional ammunition on many fronts, including the establishment of a competitive edge. In addition, it will motivate personnel and embed resilience in the firm's infrastructure that will prove useful in challenging times. A positive and rejuvenating environment will also allow you to stay focused on what is important – the needs and wishes of your clients. This clarity will help avoid common misalignments between client desires and deliverables.

### **Adopt A Discipline**

Brain fitness is an important factor in plasticity. Brain structures show the greatest improvements in gray matter volume in response to aerobic



exercise, including better executive function and faster processing speed.

In mental reprogramming, repetition and reinforcement will cause the brain to remember the new activity. Essentially, practice and discipline determines the skill level of the new ability. It should come as no surprise that the same methodology works in business. Immersion and commitment will go a long way towards mastering your professional domain.

Plasticity requires a focus on upward mobility whether it is a brain that is learning or a business that is leading. In order to learn, rigidity has to be abandoned and flexibility adopted. This nimbleness will allow the savvy business to manoeuvre and pivot in light of shifting economic factors and industry changes. Stagnating businesses are akin to deteriorating brains that are not exercised and are falling behind the pack.

### **Stay Relevant**

Neuroplasticity does not suggest that the brain is malleable without any restrictions or limits – the fact remains that some parts of the brain are simply unable to take on new roles. It would also be an oversimplification to say that age, extent of damage and the level of treatment have no effect on the brain's ability to recover, develop and excel. The truth is that these factors play a large role and some brains will not recover to full function or adapt to new functions. It is also true that younger brains react better to inputs and stimuli.

For a business to succeed in the long term, inherent limitations must be identified. Outdated processes and viewpoints must be compensated for by the introduction of fresh and youthful outlooks. Hiring individuals to accommodate for deficits can complement the existing skillsets of the firm. While perhaps a difficult exercise to conduct, recognizing limitations will foster an open professional environment that is focused on ongoing improvement. Attention to relevance will ensure that you are attracting the right talent, clients and company.

### **Dream Big**

The recent discoveries in the study of neuroscience are important because they show that even an old brain can

learn new tricks; that is, the brain is not static. In the grand scheme, this theoretically means that knowledge has no limits. Specifically, it means that altering the physical brain can result in a change in our abilities and enhancement of our performance.

Apply this to the world of finance, and it not only highlights that legacy businesses can evolve but more importantly, that novice businesses can be designed with the capacity for continuous alteration. If plasticity is built into the DNA of a business, then adaptation and evolution will be integrated features towards manifesting an optimal model – the unconstrained model.

An unconstrained model is open to both minor and major adjustments as required by its clients, environment and industry, as there are no impediments to the potential that can be achieved. It is also a responsive model whereby adverse impacts, however big or small, are not debilitating to business. Optimality is further enforced by the efficiency that the flexible business structure offers. Quite simply, business plasticity is good business.

The ever-changing brain is designed to deal with physical, emotional and other influences of life; however, it also allows us to transcend the responsive level into the creative level. If we adopt this concept it means that we not only have the ability to build receptive businesses within our professional disciplines, but more importantly that we can step outside of what currently exists and forge new paths.

Introduction Capital Inc. (IC) is an avant-garde business that precisely matches sophisticated family office and institutional-grade capital with alternative opportunities globally. With a number of high pedigree global manager clients, the firm offers local dealer services to clients seeking Canadian institutional capital. With a demonstrated track record of over 13 years, IC's unconstrained business model allows the firm to prioritize the interests of its investor and manager clients. IC hosts the leading annual Canadian Alternative Investment Forum (CAIF), which will be held on April 6th, 2017 in Toronto.



**OPEN  
SOURCE  
RISK  
INTELLIGENCE**



**PRIVATIMUS**

# OSRINT

FAMILY OFFICE MAGAZINE poke with Sven Leidel, an expert for HNWI/UHNWI Risk Mitigation & Protection Strategies located in Hamburg, Germany.

He is partner at Privatimus GmbH, a provider of Sophisticated Premium Protection Services, with offices in Hamburg and London, as well as strategical operational hubs in Dusseldorf, Frankfurt, Munich, Berlin, Vienna and Zurich.

FO:

Mr. Leidel, please tell us about your professional security background and introduce yourself to our readers!

LEIDEL:

I was born in 1968 in Hamburg, Germany and I am a German citizen. As a former member of the German military police, I have been dealing with the topic of protection and security since 1988. Today I am involved, as an honorary member, in various national and international security and professional associations in advisory and executive functions. I am a professional lecturer and trainer, facilitator and specialist author, security consultant and expert in the field of protection strategies for exposed individuals.

have gained extensive expertise from more than 25 years of industry and professional experience and I have operated in numerous foreign assignments and projects in Europe, North America, Latin America as well as parts of Asia. My longtime customers include many major national and international corporations and insurance companies as well as small and medium-sized enterprises, exposed private individuals, family offices and family foundations as well as entrepreneurial families and high net worth individuals. Last but not least, I am an author and editor of two books in respect of Travel Risk Management; see [www.travel-security-handbook.com](http://www.travel-security-handbook.com) (English) and [www.handbuch-reisesicherheit.de](http://www.handbuch-reisesicherheit.de) (German).



Sven Leidel

## OSRINT - Open Source Risk Intelligence

FO:

What is OSRINT?

Leidel:

OSRINT stands for Open Source Risk Intelligence. It is probably the most innovative way of identifying risks and critical content in respect of a specific target (person or company) in public sources. In order to be efficient in the most possible way, the internet search is done and supported by a 24/7 operating crawler technology.

This advanced monitoring technology helps to identify and track personal data online in open sources, that might also be useful for criminals. In addition, experienced risk analysts work as 'human filters' to identify threats and sensitive details in public sources on a 24/7 basis. Another part of OSRINT is the removal of critical data from the internet and other online sources, or if a removal is not possible, the displace of such content. Especially in today's world where media and online outlets can ruin a reputation in a matter of minutes, it is important to always be one



and have the latest monitoring technology in place.

FO:

Please tell us about a typical client case!

Leidel:

A family office is reaching out to us, asking for a confidential face-to-face meeting with one of their exclusive FO clients. The client asks us to find out, what kind of private and critical details are available in public sources about himself and his family members. All we get from him is his first and his family name; nothing else. Now it is our job to try to find out as much as possible about the target; pretty much the same way criminals would start in order to identify possible victims.

In one specific case, the HNWI did mention that he has already maintained a "low profile" for many years and he was sure that we should not be able to find any pictures from him, no names and no pictures of his family members and maybe just a handful of companies that he is involved in. He did not even tell us how many children he has, nor any details in respect of his residence home and vacation real estates he might own. We agreed on 5 days of actual intense open source search from our end. Pretty quickly after starting the research, we found many critical details and put all the findings in a 45 pages' written report. We ended up finding 27 pictures from himself, names and pictures of all his children and his wife, private addresses (residential and vacation), as well as 43 companies he and his relatives are currently involved in or he and his relatives were involved in in the past. You can imagine that the surprise was huge, when we presented the findings in a personal meeting. During the meeting we did receive the order to conduct security audits at the residential and vacation houses in order to optimize the physical and electronic security measures and to assist in deleting critical details and information from public sources (internet). Since then, we are also monitoring the internet 24/7 with the latest crawler technology in order to make sure, that we identify critical details and content in the internet around the clock and automatically. This gives us the opportunity to react quickly and in a timely manner as soon as we (the crawler) have identified new critical content. Just recently we found out that his children did establish almost a handful new companies without

consulting with their parents in the first place. Within the company registration process, the children made a mistake and used one of the family's private address, which is absolutely not acceptable, because this is a weak point within the whole personal risk mitigation concept and strategy.

FO:

Can you really delete all data from the internet?

Leidel:

Of course not! Some data and content can be deleted from the internet or from specific homepages and probably the majority cannot.

For example, a solution could be ... in connection with a reputation management strategy, those data and content that is in the internet and cannot be deleted, you can try to displace this content on the internet by a so called "positive story telling technique". This means that you create positive and non-critical content for a specific target (person or company) and strategically place it in the internet on existing homepages / platforms or you create your own new blogs and webpages. On those platforms where you have total control over the content, you can pretty much publish all kind of true or false/fake details that you want or that you need for your protection strategy. That way you create "helpful content" in order to be positively rated by Google, Bing & Co. Having this said, this means that your own non-critical content will show up within the search results on the first couple of pages at the search engines. Unwanted content and details will be pushed back on the pages 5, 6 or even further back. It is our experience that most criminals just take a look at the findings on the pages 1 - 4.

In addition, you can track the traffic on your own blogs and webpages; we call this "The Honey Pot Concept". Which gives you a good first idea, who is looking for your client, what kind of keywords are used for the search, what is the main interest, where is the person located, a.s.o.

FO:

What is a Honey Pot Concept?

Leidel:

Honey Pots are mainly used by IT security professionals in order to find out if hackers are interested in a certain IT landscape, where are they coming from, what kind of search and keywords are used, what kind of technology is used by the third party a.s.o..

Our Honey Pots are kind of modern traps. Like I already mentioned, we create blogs and homepages with a "specific real-fake content", so people that are searching for a specific target (person or company) will get the search results within the search engine they use. As soon as they click on the search result, we are able to track their homepage visit and also their clicks and activities on the Honey Pot blog and homepage. We are able to see the country and city they are coming from, which online network they are using, how long they stay on the homepage, which additional content they have looked at and much more useful details. This is a risk indicator for us, that somebody is interested on specific information about a target. The information of interest could be the private address of the target, private activities / hobbies of the target and other critical details. In addition, you can spread false and fake details about a target, in order to blur the online traces and to make it more difficult for criminals to find real details and information in open sources. This is a

very useful and effective protection concept.

FO:

Why is it so important to know what kind of Details are available in the Internet?

Leidel:

It is our experience that criminals also look first in the internet and try to find out as much as possible useful details about possible targets and victims. The more useful details they find and the easier it is to get access to those details, the more likely it is, that criminals will pick a so called "soft target" for their criminal activities (kidnapping, burglary, blackmailing, threatening).

The goal of a comprehensive personal risk management is to become a "hard target", in order to be unattractive and not of interest for criminals.

You can compare this with the following: You do not have to install a tons of physical and technical security at your house, like they use at "Fort Knox". Your house just needs to be more secured than the neighbor's house. Criminals are looking for quick and easy wins, with hardly no risks of failure.

[www.privatimus.com](http://www.privatimus.com)

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# SWISS WEALTH MANAGEMENT

## FOR US CLIENTS



As an American citizen living in the United States, a home-biased investment portfolio with equity in companies operating in the US, held with an American custodian bank and in US dollars is the norm.

While understandable, it is not a prudent wealth management strategy. The financial well-being of the US-only investor depends solely on one country, one market and one currency. This is un-international and unwise.

Simply adding an emerging market mutual fund, perhaps in other currencies, is not true international investment diversification either. Geographical investment diversification is key. Moving some funds to another jurisdiction, to other financial institutions and to a wealth manager with other perspectives and insights than a domestic wealth manager is the way to achieve true international investment diversification.

Of course it is great to remain confident in the US market but the prudent American investor should be prepared for the unexpected (or the inevitable, depending on the point of view). With all eggs in one basket, the un-international investor stands to take a major loss should developments take a turn for the worse. No one knows how the future will unfold but it is certain that volatility is on the rise and everything is constantly changing.

### **Becoming a prudent, international investor "Made in Switzerland"**

Some people think that there is something illegal, immoral or unethical in investing and holding assets outside their home territory. There are, however, many legitimate reasons for doing so, even if only to have a nest egg tucked away safely for a "rainy day." It is, however, of ultimate importance to do so in a tax-compliant manner, filing reports and paying taxes as



Anne Liebgott

WHERE AMERICANS ARE WELCOME

required. When truly going international, Switzerland is a jurisdiction providing many advantages. Putting secret Swiss bank accounts and tax evasion strategies from the past aside, Switzerland follows a white money strategy since 2009. Switzerland is reconfirmed as the global leader for private wealth management. The country's long-term political and economic stability (in part thanks to Switzerland's neutrality which keeps the country out of wars and skirmishes) earns the country a constant AAA-rating with a stable outlook from the world's rating agencies. Swiss state-of-the-art wealth management expertise is world-renowned and attracts over 25% of the global cross-border wealth management business.

Despite increased transparency in tax matters, privacy, confidentiality and discretion, especially in regard to money matters, is a highly sensitive subject and Swiss wealth managers have an ingrained respect for privacy and handle all financial matters with utmost discretion. With 10 new additions in 2016, there are



now over 50 Swiss wealth managers registered with the Securities and Exchange Commission in the United States as investment advisors. The SEC registration enables them to provide Swiss wealth management services to American clients domiciled in the US as well as abroad without restrictions. There are several Swiss banks and private banks happy to open a bank account for US clients but only in collaboration with a Swiss SEC-registered wealth manager.

### **Swiss SEC-compliant wealth managers come in all shapes and sizes**

Swiss SEC-compliant wealth managers come in all shapes and sizes – individual advisors, independent wealth managers, multi-family offices and Swiss banks with subsidiaries established for US business. Minimum amounts of investment range between USD 50,000 and USD 20,000,000, so there are options for every kind of US investor.

Michel Guignard, Managing Director of LFA SA, Switzerland's largest, independent SEC-registered wealth manager states, "Independent, LFA is not bound to any particular bank and we focus entirely on our clients' specific, individual needs for jurisdictional and international portfolio diversification, complementing domestic wealth strategies already in place back home. Through discretionary, advisory and special mandates with competitive pricing, we enable US clients to take advantage of international investment opportunities while adhering to US regulations and restrictions."

There are Swiss wealth managers affiliated with Swiss banks such as REYL Overseas Ltd. With offices in Zurich, Switzerland and in Dallas, Texas, Oliver Hohermuth, CEO explains some of the reasons for adding Swissness to an overall wealth strategy,

"Since the U.S. has been the world's super power for more than a century and the leading global economy for decades, American investors very often forget to hedge their investments which often are in the United States exclusively and US dollars only. It is wise to understand that every empire comes to end and while we all hope it will not happen in our lifetime, it is a smart business

decision to protect purchasing power, wealth and ultimately, the pursuit of happiness by having some diversification when it comes to jurisdiction, markets, currency and market expertise. A Swiss account is like having a life insurance policy. You hope you never need it but once when you do it can make all the difference."

Felix Weibel, CEO from Pictet North America Advisors SA, one of the early, SEC-registered investment advisors says, "PNAA was set up in 2006 at a time when the Pictet private bank partners believed there was a need for diversification in terms of investments and regions, which many HNWI and UHNWI in North America were neglecting to a large extent. Today we have a well-established business as an SEC RIA and can provide custody outside the US at our parent company Banque Pictet & Cie SA, which is a great additional advantage for our US clients."

Emanuel Agustoni, an individual advisor at his company Golden Eagle Services, points out, "Switzerland is not a member of the European Union and the EUR currency, which gives Switzerland more independence and freedom than other financial centers in Europe." He continues, "Swiss advisors and asset managers also require a Swiss license, which is a guarantee that they are controlled either directly by FINMA the Swiss Financial Market Supervisory Authority or another self-regulatory organization in Switzerland recognized by FINMA."

### **Getting established in Switzerland is uncomplicated**

Establishing a relationship with a Swiss SEC-registered wealth manager and opening a Swiss bank account can be done from home, even though a trip to Switzerland is highly recommended to establish personal relationships firsthand.

The Swiss SEC-registered wealth managers can be found on the Swiss platform WHERE AMERICANS ARE WELCOME – Swiss wealth management for US clients at [americanswelcome.swiss](http://americanswelcome.swiss) where credentials can be checked before a wealth manager is selected. In addition, Swiss lawyers, tax advisers, trust advisers and trusted advisers are also available over the platform.





# FAMILY OFFICE

## EMERGING TRENDS IN INDIA

By C.A. Raghu Marwah

It is often assumed that the acclaimed American family, the Rockefellers, pioneered the family office in the late 19th century. However, history suggests otherwise. Wikipedia defines 'family office' as "A family office is a private company that manages investments and trusts for a single wealthy family." The role of a family office is to manage, build and sustain the wealth of the family for current and future generations. To break it down, a family office makes life simpler to 'enjoy life'. Family Office may be a Single Family office (SFO) or a Multi Family office (MFO). In India the trend of SFOs is picking up with about 75+ SFOs operating. Besides there are some leading Wealth Advisors who have morphed into MFOs for some of their larger Clients. India has had a long and rich history of wealth creation, but with the advent of the Industrial Revolution the centre of wealth creation shifted westward. It is worthwhile to quote from the ancient Indian treatise as follows:

"Kautilya holds that wealth and wealth alone is important, in as much as charity and desire depend upon wealth for their realisation"  
- Translated from Kautilya's Arthashastra

The Forbes 100 list of richest Indians includes persons with wealth of more than US\$ 1.25 billion each, and India's richest man is listed at Number 36 in the list of Forbes 2016 Worldwide Billionaires.

Indian Scenario:

By general rule of thumb, Family Offices may be categorised into the following buckets by global standards, however, in India there are variances from this:



C.A. Raghu Marwah  
R.N. Marwah & Co. LLP

The concept of Trusts as a means of succession planning is gaining ground, not so much for tax reasons because unlike in many western jurisdictions where there is a high rate of Inheritance Tax, in India there has been no such tax since 1997 when Gift Tax was abolished. Tax on receipt of Gifts does, however, survive in a different form thru the Income Tax Act, 1961 when one receives gifts from non-relatives. With the opening up of the Indian economy in the 1990's, the foreign exchange laws were also considerably liberalised and from 2004 onwards every resident individual citizen is now free to make investments overseas across different asset

Sl. No.	Family Office Type	Global Standard (in US\$)	Indian Standard (in US\$)
1.	Fully Integrated Family Office	1 Billion	70 Million
2.	Administrative Family Office	50 Million Plus	35 Million Plus
3.	Multi Family Office	50 Million	35 Million
4.	Family Office Services	Less than 50 Million	Less than 35 Million





classes. The limit presently is USD 250,000/- per fiscal year per citizen and minor children and family members may club their limits together to send higher amounts to acquire their favourite Vacation Home in London or Chalet in the Swiss Alps. Acquisition of more serious assets overseas, would require the person to use his or her corporate vehicle or entity where it is permitted to remit overseas upto 400% networth of the said corporate/ entity.

A Trust or Society, which is the most common vehicle for holding the family wealth can only make Overseas Direct Investments (ODI) from India in the event that such Trust or Society is engaged in the sectors of manufacturing or hospital or education. So making ODI from India from a Private Family Trust can be a challenge.

What has been more common, therefore, has been the practice of setting up Trusts or Foundations outside India in NIL or low tax jurisdictions. However, dealing with the regulatory impact of transferring assets into such offshore Trusts, especially where the majority of family wealth is located in India, has been a challenge. One may also take note of the decision of Mumbai Income Tax Appellate Tribunal (ITAT) in Shri Mohan Manoj Dhupelia & Ors where the ITAT held that the offshore trust had no substance and is a sham and thus to be disregarded and brought to tax the entire funds of the trust as undisclosed income of the beneficiary.

In this global village and more-so after FATCA and BEPS, emphasis by most countries is on transparency by obtaining information from their residents in respect of financial and other assets held globally. Countries have introduced asset-based reporting (e.g. FATCA, FBAR, CRS, AML, similar Indian rules relating to foreign accounts / assets / beneficial interests etc.) and entity / event-based reporting (e.g. CFC's, offshore trusts etc.) What is the need of the hour is to create a global identity and model for Indian family enterprises thru a Multi-Country Family Office. A model which is compliant with regulatory requirements applicable in India as well as other global jurisdictions. The much touted mantra of 'enjoy life' which is the main USP of a Family Office, could very easily go horribly wrong if such compliant models are not followed and adopted.

Global SFO's investing in India Assets:

I would like to close by sharing my thoughts on a different concept which is of global families investing in Indian assets, such as Art, Real Estate, Equity etc. With India's status as an island of economic stability in an increasingly topsy-turvy global market facing political headwinds, this is becoming a more realistic idea.

Real GDP growth in India in the first half of 2016-17 has been estimated at 7.2% by the Government. In comparison, the IMF's January 2017 update of its World Economic Outlook forecast is projecting an increase in global growth from 3.1 percent in 2016 to 3.4 percent in 2017, with a corresponding increase in growth for advanced economies from 1.6 percent to 1.9 percent. Therefore, there is a higher wealth creation potential in India.

The Economic Survey of 2016-17 recently published by the Government in January 2017 has highlighted biases in perception by the global rating agencies between China and India. China's credit rating was upgraded from A+ to AA- in December 2010 while India's has remained unchanged at BBB-. From 2009 to 2015, China's credit-to-GDP soared from about 142 percent to 205 percent and its growth decelerated. The contrast with India's indicators is striking. Such biases are likely to be removed in the short term leading to greater money flows into India. We are already seeing the initial signs of this, with Foreign direct investment (FDI) inflows into India in 2016 calendar year jumping 18% to a record \$46.4 billion, at a time global FDI inflows fell.

Equity Guru's have advised that Indian equities are a good buy with markets remaining buoyed by host of factors including halt in US\$ rally, government's spending focus finely balanced with continued fiscal consolidation and encouraging corporate commentary. Based upon FY 2019 EPS of Rs. 575 for Nifty, the earnings yield is decisively in favour of equities when the 10 year G-Sec yield is quoting at ~6.4% only. Even after considering a Rupee USD hedging strategy of three to five years, the upside potential is significant.

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# PARTNER PROMOTIONS AT CBW

## CBW LONDON ACCOUNTANTS



**Dan Rose - Partner**



**Graham Foster - Partner**

Carter Backer Winter LLP (CBW), London accountants, tax and business advisers, has promoted two new partners to its team. The new partners are Graham Foster and Dan Rose who both have significant experience and expertise in their respective fields.

Graham Foster, Director of Financial Planning, has 18 years' experience in the financial services industry. He has worked in the IFA sector since 1996 and became an IFA in 2001. Over time, Graham developed his own client base and held senior roles in well-established firms where his input led to their further development. He joined CBW's Financial Planning Team in 2012.

Dan Rose, Director of General Practice, joined CBW in July 2013 as Audit Manager. Prior to this, he trained with a local five-partner accounting practice, gaining a wide range of experience and insight across a number of industries.

His skills range from basic bookkeeping and accounting services to more complex share valuations and due diligence exercises. He recently completed the due diligence on a £260m London property and is currently assisting a client with cashflows and valuations to raise funds to trade internationally. The

new promotions bring the total number of partners at CBW to 20. The firm recently ranked 48th in the UK for the second year running, according to the 2017 survey of the UK's Top accountancy firms conducted by Accountancy.

Peter Winter, Managing Partner, said: "We have made two new partner promotions that will enhance the existing partnership, bringing fresh ideas and perspectives with their many years of experience. Developing and rewarding talent is an important part of our growth strategy."

He added: "Graham and Dan thoroughly deserve their promotions, which recognise their hard work and dedication to CBW and its values. Their promotions will help us to build a strong platform for future growth."

CBW is a City accountancy, tax and financial planning consultancy, which offers a breadth of expertise typically only found in the top 20 UK practices. The firm has 20 partners and more than 140 supporting staff who strive to be open, straightforward, principled and accountable.



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# ANGOLA

by Baroness Lindsay Northover



Family Offices which are resilient and looking to the long-term may well show an interest in Angola. This oil rich country, vying with Nigeria in the level of its production (1.7 million barrels of crude per day up to the end of 2016), is now seeking to diversify, with the opportunities that provides.

Angola's economy grew 0.5% in 2016 and is likely accelerate this year to 1.4%; the country's budget deficit is expected to remain relatively high in the period between 2017 and 2021, but lowering to between 5.6% of GDP this year and 4.3% in 2021. While the inflation rate will tend to slow down, the reduction of fuel subsidies and the devaluation of the Kwanza against major currencies will keep it high, although it is expected to start falling to 22.4% in 2017 to reach 7.7% by 2021 (a significant drop given that it surpassed 40% in 2016).

Rating agency Standard & Poor's maintained its rating for Angola at "B" and the outlook negative over the next 18 months despite the likely increase in the price of oil.

But before investors shy away from the challenges undoubtedly to be faced in Angola, it is well worth looking at some of the long-term trends. This is a fertile country, with plenty of scope to supply its own energy and food needs, as well as export to the region and beyond.

The oil sector remains key in Angola. Companies like BP are well-embedded, with a well-established supply chain. It is one of BP's most profitable fields. However, exploration has not yet revealed significant further fields that merit exploitation, and without this, production will decline over the next few years. The decrease in the price of oil has had its effects on the Angolan economy, as with other oil-rich countries.

Seeking to diversify away from oil, the Angolan Government has commissioned a nationwide survey (Planageo) of its mineral resources. Results are already receiving significant attention. At the recent Mining Indaba conference in Cape Town, there was such interest in its findings that many were not able to get into the packed room that was being addressed by the Minister

of Geology and Mines. Various possibilities are emerging – for example copper on the borders with Zambia. Mining companies will be able to bid for concessions, and make further investigations to see if profitable production can be secured.

Diamond mining is also well-established in Angola, with Russian and Israeli companies generally in the lead here.

Angola has major infrastructure needs, as elsewhere in Africa. Chinese investment has improved roads and railways, although some poor quality work can be seen in the disintegration of some of those new roads. With African Union, Africa Development Bank, World Bank and IMF support for infrastructure, there will be opportunities here for investment and investors.

Angola has major potential in hydropower, and could supply its own needs as well as those across the region. There are massive schemes planned or underway on the Kwanza River, and one of these, at Lauca, is due to come on stream in its first stages this July. There are a number of schemes which the dynamic Minister of Energy and Water, Mr João Baptista Borges, proposes for other sections of the river, and other parts of the country as part of the country's Angola Energy 2025 program, which aims

to bring power to 60% of the population by 2025. There are significant investment possibilities here.

Angola has the key African potential in solar power; this has not yet made as much progress as it might, and will merit investment.

A major priority for the Angolan Government is in encouraging development of its agriculture sector. It suffered a long and appalling civil war, and work to clear landmines continues. Its land is fertile, and once again has great potential to supply not only the country itself but beyond, but first needs to rebuild expertise. The UK is playing its part here, in conjunction with the Royal Agricultural University (RAU). Coffee plantations were successful in the past, and could be again, along with cultivating cotton, bananas, maize, cassava, soya, sugar-cane, palm oil, cattle-rearing, and much else besides.

Angola scores poorly on the ease of doing business index, and securing payment in foreign currency has proved particularly challenging. Angola knows that it needs to address this if it is to attract inward investment. Support exists for UK businesses wishing to explore opportunities in Angola, in the form of the Department for International Trade (DIT) team at the British Embassy in Luanda. (Contact can be made with them via DIT regional offices across the UK.)

Some political change is coming to the country, with its President, HE Jose Eduardo Dos Santos, who has been in power since 1979, standing down this year. There will be elections in August, and his successor will not come from his family, who have long dominated the politics, economy and society of Angola. This could be a moment of change for the country.

Companies investing in Angola need to be resilient, but the long term prospects for the country, if it follows the path of reform that its leaders say they wish to pursue, should bring about the change which could enable the economy to fulfil the potential that is clearly there.

## PHILANTHROPIC CAUSES

### UNIVERSAL FILM AND FESTIVAL ORGANISATION



The Universal Film & Festival Organisation (UFFO) was founded to support and implement a code of practice for film festivals throughout the world. It is now dubbed 'FEST-COP', and its logo is now a familiar sight at many film festivals. The UFFO is a global not-for-profit voluntary organisation, and it created a "best business code of practice" for film festivals to combat the high level of corruption that blights the industry.

Its former president was the legendary actress Maureen O'Hara, and the organisation now has at least 240 film festival members.

UFFO's FEST-COP is entirely voluntary, free and easy to implement. Also, it is a blueprint for filmmakers in deciding which film festivals to do business with. Only film festivals that have subscribed to the UFFO best business code of practice are entitled to use the UFFO logo.

The organisation is now seeking a benefactor to help it move forward with its plans to further its remit and to create an online porthole to ensure filmmakers can deal with film festivals via a trusted source. The porthole will also act as a distribution platform and as an online TV channel for filmmakers to show their work.

UFFO is now planning the 'Best of Festivals' event and bringing the member festivals, their best films, actors, directors and producers to one event that will rival the biggest events in the world.

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# REAL ESTATE

## SUSTAINABLE INVESTING AND FINANCING



**Energy Efficiency Investing**-Energy efficiency is a worthy cause but has not captured the excitement of other 'impact' investment classes like renewables. To date very few companies have approached the sector with enthusiasm. However, a few young entrepreneurs are now buzzing because they have brought together tools from the hedge fund industry, engineering and insurance as a means to clearly enlist the profit motive to tackle climate change. They are determined to address the issues that have plagued energy efficiency investing to date. They believe in a modern age with an absolute focus on delivering value and mitigating risk.

**Extract the Green Premium** - The demand to extract energy efficiencies from commercial buildings is clear. Good economic sense to reduce utility bills combines with a commitment from Governments across Europe to a reduction in carbon emissions. Energy performance certification and green building status is not only finding its way into property

valuation reports but also into legislation. Corporate social responsibility ("CSR") is creating a 'tenant pull' for building renovation and the wonderful fact that 40% of EU building stock was built pre-1960 means the opportunity is enormous. So why are so few energy efficiency projects happening? In part because the European legislation is only now growing teeth. In part because of the landlord / tenant disincentive makes it difficult. Most to blame however are poor performance projection tools making projects expensive to finance because the technical risk is not accurately assessed and therefore cannot be insured.

**Whole-Building-Energy-Model** - This is the heart of the problem that exciting young companies like Pivot Energy are addressing. In their case, a multi-disciplinary and international team has come together to grasp the opportunity and requirement to apply the longstanding disciplines of standardisation and risk pricing within the financial services

industry to building engineering and specifically to the business case assessment, risk analysis and delivery of energy renovation projects. Pivot Energy can enter the project development cycle before the commercial building owner or engineering consultant has even determined the scope of their assessment. Because the Pivot whole-building-energy-model uses big data and statistics it can operate on very basic inputs about a building, or portfolio of buildings. Instantaneously and at very low cost it can present viable projects complete with technology solution, savings, business case and returns all within the gift wrapper of a technical and financial risk assessment.

The initial expensive engineering assessment is therefore replaced by an algorithm. Their model does not negate the requirement for engineers who will further inform the model because their involvement now comfortably meets the cost / benefit analysis. Rather, Pivot provides an investment grade decision

support tool that cuts right through the key inhibitors mentioned above and facilitates an educated engagement with the key stakeholders being asked to go on risk. Pivot's Energy Management Platform produces this assessment and then links up with the CFO and/or a third party finance provider, a building engineer and an insurance company and can then manage the project development at the direction of the building owner with the key choices being (a) financing on or off balance sheet, and (b) whether to hold the technical risk or transfer it to an insurance company.

**Investment Case Evaluation** - Pivot is proving that it is unnecessary for these projects to continue to have a problem with confidence around performance which then leads to prohibitive transaction costs, in particular around the financing. Early, science based and commercial engagement with C-suite property investors is key to unblocking and scaling the market. Further engineering design and diligence of a project can then be done in the knowledge there is a real opportunity on the other side of it, and indeed if a commercial building owner chooses a complete off-balance sheet and insured solution then Pivot takes all future costs of the project to full commissioning and beyond.

Core to Pivot's proposition is that buildings are not unique, building construction codes are generally followed and energy management assets have generic outputs. The model combines open source software with CEN-ISO accredited standards to simulate a building's thermal energy demands. A separate module cross refers to a library of generalised building construction data coupled with climatological statistics meaning gaps in initial data can be accurately bridged. When Monte Carlo wrappers are added to this heady cocktail, the model generates probability distributions of energy use and energy savings rather than single deterministic estimates. These are quantified into financial and risk metrics familiar to financiers and insurers who need consistent and reliable performance risk metrics to thoroughly evaluate the investment and or insurability fitness of proposed renovation projects.

**Hedge Fund Asset Pricing Models** - This is what

is meant about applying the practices of hedge fund asset pricing models to the world of building engineering. By providing a familiar, standardised and sophisticated backdrop for financing and insurance providers, Pivot believes this will further reduce transaction costs and enable the energy efficiency market to scale and achieve some of its enormous potential.

**Market Place and Investment Opportunity** - The focus for now must be with large counterparties who own or consult on sizeable portfolios in need of a front-to-back solution to extract energy efficiencies, drive net asset value and achieve regulatory compliance. This is a market place with both private and public institutions seeking the same solution for their building stock; when combining this credit risk with an insurance contract, underwriting the technical performance of an energy upgrade, it becomes a very attractive financing opportunity. Pivot Energy is offering this to investors at high single digit returns over 5 – 10 years and seeking to mitigate risk further through both the portfolio effect and On Bill Finance ("OBF") where debt service is collected through the electricity bill providing a significant credit enhancement given neither tenants, or failing that, landlords will switch the lights off.

**Key Drivers** - As one real and timely example of the market drivers, the UK's Minimum Energy Efficiency Standards ("MEES") will be effective for commercially-let stock from April 2018 and will prohibit the renewal of existing tenancies or the granting new tenancies if the building has less than the minimum energy performance certificate ("EPC") rating of E. This has revealed a large capex hole amongst property owners, private and public, that must be filled, and quickly.

**A New Asset Class** - The market opportunity for energy efficiency is expanding but investors will only enter this asset class if it steps up and meets the standards they expect elsewhere. New thinking is needed to unblock and scale thereby tackling climate change while offering very attractive risk-adjusted returns for investors. Everybody wins (apart from the utility companies).

Markus Rudling  
Pivot Energy Service



Stackhouse Poland  
Insurance Brokers

## OWNING MULTIPLE PROPERTIES

London and New York to Sydney and Singapore

Imagine owning multiple properties across the globe in some of the most desirable locations from London and New York to Sydney and Singapore. You may have significant art collections as a result of a lifetime of passionate investing. Your possessions may well include a fleet of luxury vehicles including classics and high performance cars as well as cars supplied to members of staff. In the summer months you spend time sailing around the Mediterranean with family

and friends on board your private yacht, whilst in the winter you enjoy the slopes of St Moritz from the privacy of your chocolate-box style chalet.

The likelihood is that with this type of lifestyle there are significant assets to be managed in the background. You may decide that a Family Office structure provides the best way to manage your wealth resulting in greater control of your assets as well as reducing the overall costs. While the professionals

employed within the Family Office will be highly specialist experts in their own field one area where Family Offices also get involved is in the placement of the insurance programme from the family. This has potential to leave the principal and their family exposed as they do not ordinarily hire insurance professionals.

The potential insurances that the Family Office will have to place include both personally owned assets, assets held in trust or



through some other corporate structure. This may include Home and Contents across the globe, Valuable collections including Art, Jewellery and other investments of passion, Cars including high value and high performance vehicles, Liability insurance including excess layer or umbrella cover, Yachts and Aircraft, Kidnap and Ransom, Commercial Property (Real Estate) And Directors and Officers

In order to protect the family with a suitable insurance programme it is vital that the Family Office advisors understand the principal's lifestyle and attitude to risk before it can be effectively managed. They will also need to employ advisors who understand the complex requirements of UHNWI's and their families. This is where a specialist insurance broker should be engaged.

There are only a handful of specialist brokers who can truly support the client's insurance programme across the globe. It is often seen that clients will have multiple brokers across a number of jurisdictions. At best this can result in the client overpaying across their portfolio as each broker earns a commission for placing the policy. At worst this can leave the client potentially exposed to a major loss as there is

no coordinated approach to managing the various risks. The first step that a Family Office should undertake is to create a shortlist of brokers who may be able to assist with the placement of insurance. This list can be created but seeking advice from other professional advisors who service the clients varied needs.

The Family Office should conduct interviews with potential brokers to ensure there is a cultural fit and the broker can provide the full gamut of services required. After all it is vital to have a good working relationship and if the personalities do not fit then it is better to know this upfront. There is no benefit in pitting one broker against another in the placement of the insurance programme. In fact this can be to the detriment of the client as it prevents the broker negotiating the best possible terms from insurers.

Once a broker has been appointed a full disclosure of the current insurance programme should be made to the broker including a copy of all policy schedules and details of the claims experience. It is the broker's job to then put together a full and detailed report on the current insurance programme including a gap analysis as well as a proposition

for a coordinated, global insurance programme with a clear, open and transparent fee proposal.

I believe the fee based approach is the most appropriate way for the broker to be remunerated in these circumstances. This is at odds with most of the general insurance industry where commissions are still prevalent. The commission model can lead to conflicts of interest, if the premium is reduced then so are the broker's earnings. Also commission levels can be fairly high which can lead to a disconnect between the brokers earnings and the work that they are undertaking. It can also provide additional tax savings for the client.

For any client choosing the most suitable advisors for their own particular requirements is paramount. The same is true in the placement of large and complex insurance programmes where the ability to mitigate risk across the globe is can only be undertaken by a few specialist providers. The dangers of choosing the wrong advisor can have significant financial and reputation harm.

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# EVERYTHING FAMILY OFFICES NEED TO KNOW ABOUT HOUSEHOLD EMPLOYEES

Family offices work hard to make life simpler and more convenient for their clients. As political circumstances evolve, legislation changes, and scrutiny surrounding tax compliance and employee benefits and protection issues continues to expand, the management of household employees has emerged as a crucial area for family offices to consider when assisting clients.

With the right support, family offices can make household payroll and “nanny tax” compliance a natural aspect of the service they offer to clients. That means saving them time, money, and potential legal penalties.

## Household Employees: A Hot Topic in the Media

As issues remain heated in the political landscape, including concerns like immigration and tax reform, official government bodies have begun to scrutinize anyone who hires a household employee — nannies, senior caregivers, housekeepers, etc. The IRS and labor department are collaborating to further enforce wage and hour laws, as estimates suggest that there is more than \$5 billion in uncollected payroll taxes from domestic workers.

The news has been filled with nanny-tax issues recently as political cabinet members face investigation into their household hiring practices. Soon after the penalization of Mick Mulvaney and Wilbur Ross, another cabinet member, Andrew Puzder, withdrew from cabinet consideration in part for failure to comply with domestic employment law. It isn't exclusively high-profile individuals facing the threats that come with mismanaging employment taxes; many families struggle to understand their position as household employers.

Many high-net-worth employers leveraging a family office try particularly hard to avoid any negative media attention, including litigation with their household staff. To mitigate these risks, it is important for family office firms to provide holistic guidance and protection. Many payroll firms mistakenly believe that regulations



Daniel Rafeedie  
HomeWork Solutions

governing domestic employment through a family office are consistent with those of the corporate world. However, this is inaccurate and can often lead to issues down the road.

According to Tom Hillis, co-founder of Galahad Advisors, a human resource and loss prevention firm for family employers, “In the vast majority of cases, the household employment rules are going to apply to the family regardless of how the domestic workers are technically employed. The key is who directs the work to be done. In almost all of these situations, the family ultimately directs the work and would be subject to the household employment rules (including overtime rules) and would likely be responsible for any discrimination claims.”

## Compliance is Becoming More Complicated for Employers

As important as it is to properly pay nanny taxes, the scope of the information surrounding compliance standards doesn't make things easy for family offices to understand. For instance, the adoption of

a Domestic Worker's Bill of Rights by several states has heightened awareness surrounding the benefits of legally paying household employees, and provided a further layer of protection above FLSA. These laws also define more nuances for which employers must be compliant.

Domestic Worker's Bills of Rights vary by state, but overall, each gives home staff the right to overtime, set days of rest, holiday pay, and protection. Just some of the states implementing these new rules include:

- Hawaii (Signed in 2013)
- New York (Signed in 2010)
- Oregon (Signed in 2015)
- Massachusetts (Signed in 2014)
- Illinois (Signed 2016)
- Connecticut (Signed 2015)
- California (Signed 2013, updated in 2016)

Without a thorough understanding of payroll accountability and withholding systems, it can be difficult to determine how household employees should be properly paid. It's no wonder that current estimates indicate more than 85% of domestic employers fail to file their taxes correctly. In the case of high-profile clients, the risk is certainly not worth the reward.

### **The Complexity of Labor Laws**

Many family office clients still fail to realize that hiring an individual to work in their home in a situation where they have control over how the work is done, makes them a household employer. It doesn't matter how many hours the individual works. That means that W4 forms need to be filled out, and employees must complete I9 forms for employee verification. Additionally, it's the responsibility of the employer to determine that their staff is eligible to work in the US.

Under the guidelines of the FLSA, the Department of Labor works fiercely to protect the rights of domestic workers. This means that in addition to fair and humane treatment, employers must:

- Provide pay stubs: 39 states now require employers

to offer itemized pay stubs for household employees, as part of a wave of new legislation designed for wage theft prevention. Laws suggest that without a pay stub, it's difficult to ascertain if employees are being paid properly, with the correct deductions. This means that family office clients need to frequently fill out information about the dates of paychecks, the pay rate for hours and overtime, and itemized lists of deductions.

**Track employee working hours:** Because domestic workers are listed under the "Fair Labor Standards Act" as non-exempt workers, employees need to manage issues such as minimum wage coverage, hourly wage and overtime compensation.

- **Complete formal wage agreements with employees:** Today, every contract with a domestic worker must state an hourly wage that must be the greater of the minimum wage under local, state, or federal law. Existing G5 contracts also need to be amended to reflect this minimum wage agreement.

- **Pay employees at set intervals:** The times at which domestic workers must be paid vary per state. For instance, Connecticut requires home staff to be paid weekly, while Mississippi allows for semi-monthly payments.

### **There Is Help Available for Family Offices**

Household payroll experts allow family offices to offer broader services to their clients, with a focus on compliance. These services can include; electronic paystubs/direct deposit, employee work agreements, and mobile timekeeping applications. Specialists in domestic taxes and payroll can make compliance a more formal part of family office practices. HomeWork Solutions is a national household payroll and tax compliance company that maintains outsourcing partnerships with family office firms nationwide.

HomeWork Solutions specializes in providing household employers and their tax preparers real solutions for nanny tax compliance





# CLASSIC CAR INDICES

by Pierre-Yves Augsburger Senior Consultant at Fuchs & Associés Finance SA



Over the past decade, the increased wealth measured by the number of HNWI's coupled with abundant liquidity propelled by accommodative monetary policies from the major Central Banks have contributed to the steady price increase of most tangible assets. Classic Cars have largely benefitted from this trend and are definitely on the radar as this "investment of passion" has exhibited the best performance among other tangible assets, both on a 5 and 10 year horizon.

## How to invest in classic cars....

For most investors, the investing into classic cars and benefiting from the attractive returns of the Classic Car market does not appear as straightforward, as access is often difficult. So how does one invest in Classic Cars? On one hand, you could have a closer look at Classic Car Indices, just as you would probably do with equity markets. On the other hand, you may find a Classic Car expert and get advice from him. Anyway, the Classic Car

scene is much more complex than traditional asset classes. Given the observed lack of transparency and close to non-existing regulation of the asset class, it is essential that you really place yourself in the hands of a trusted and highly knowledgeable advisor, or become yourself a true expert. Real independent advice is both key and increasingly rare to find in a market where many dealers and auction houses are just surfing on the wave.

## Classic cars as an asset class....

If looking at Classic Car Indices, you can imagine that each index has its own construction bias as this is also the case with the well-known equity or property indices. And even if a car has a specific identification number: the VIN number and can as such be properly identified. In comparison, in the financial world, a company having the same ISIN number is accessible to investors via millions of shares. Furthermore a

Mercedes 300 SL Gullwing is not fungible with the same 300 SL bearing the same production year and the exact same colour, as history matters in Classic Cars and counterfeits are sometimes to be found.

#### Market Cap-Weighted vs Price Weighter Index....

In the equity world most of the indices are Market-Cap Weighted Index, well known exceptions being the DJ Industrial and Nikkei 225 which are Price-Weighted Indices. In the Classic Car world, most indices are Price Index and in particular if the Index tracks a low number of cars, the evolution of the Index may be largely distorted by this construction methodology.

#### The main Classic Car indices...

In this section, we are going to present the most known Classic Car Indices, with the aim not being to elaborate on the evaluation methods of each index but simply give a few introductory considerations on each. It is important to mention that even though Classic Cars exists since over 100 years, not much long term data is available and it is only recently that we have experienced the emergence of Classic Car Indices together with an interest group not only composed of car enthusiasts but also of investors looking for a good return. Most of the Index providers make available some data and information on their website, however further information and detailed figures often require a subscription.

HAGI (Historic Automobile Group International) offers a Top Index incorporating 50 cars with a monthly calculation of this index, figures exist since 31.12.2008 (back-tested figures since 1.1.1980 using an equally weighted formula). Additionally to this Top Index, HAGI is calculating make specific indices as the HAGI-F Index for Ferrari (12 constituents), the HAGI-P Index (Porsche with 14 cars), the HAGI-MB Index with 27 Mercedes but only 2 Mercedes are part of the Top-Index, this in order not to distort this global index. The HAGI ex P&F is composed of 24 models from 17 makes. HAGI indices are constructed with the same standards as the one used by major financial market indices, the methodology used is the Market Cap-Weighted including a Survival-Weighted Index and tracks not only verified auction results but also private sales. The HAGI indices are calculated in £ and only with approved transaction data of cars in either "concours" or "one" condition.

The Knight Frank Luxury Investment Index use the HAGI Index for the Classic Car component of the KFLI Index.

Hagerty, a US company active in the field of insurance is publishing classic car indices and a rating barometer measuring the status of the Classic Car market in terms of activity. The indices are inflation adjusted and exist for the global market (Hagerty Market Index) and also with the following sub-indices: 1950' American, Affordable Classics, Blue Chips, British Cars, Ferrari, German Collectibles, Muscle Cars and are tracking on a monthly basis the price moves of cars sold.

The K500 Powered by Kidston a dealer and consultant based in Geneva incorporates data from some 30'000 constantly growing auction results from over two decades of sales and tracks 500 cars. Each car of the K500 has been chosen for its historical and intrinsic interest. K500 produce also a curve tracking the price history fluctuation for each car included in the K500 Index. K500 calculate also a rating for a wide range of classic car: the Mercedes 300 SLR , a real "holly grail" would merit 100 points, the Ferrari 250 GT Lusso is rated 72 points, a Fiat 500 15 points...

The German Association of the Automotive Industry (VDA) publishes the DOX Index, the Deutscher Oldtimers Index since 2009. This Index mirrors the majority of Oldtimers driving in Germany, it is calculated once a year and incorporate 88 cars from 7 different countries and 35 makes. The average price of the cars is less than 50'00€, which renders this Index more in line with the type of cars driven by most of the Classic Car enthusiast and way different that the mix of cars included by the other Index providers. The prices are taken from Classic Analytics with car condition being "2" and "3". The constituents of the DOX Index can be changed and rebalanced every 3 years.

The Coutts Index is developed with Fathom Consulting and monitors the performance of passion assets. The Index captures the price return in local currency (net of the holding costs) of 14 passion assets across two broad categories: trophy property and alternative investments. In this last category, we find into collectibles, the Classic Car component which is weighted at 4.2%. In the Coutts Index. The Coutts Index provides since 2014 a broader story on how non-financial assets performed overtime.



The Classic Cars incorporated in the Coutts Index only include vehicles( models) which have exceeded \$500'000 at auction and which have been sold more than ten times.

Putting the indices into perspective...

By analysing and monitoring the main international Classic Car Indices, you can somewhat start to compare the evolution of this relatively new but promising asset class. But beware, a lot of heterogeneity is present. Since the end of 2015, Classic Car prices are either slightly up or tending sideways.

The market and the quest for an attractive return therein are more challenging than they used to be and only collectors cars and extremely high-quality cars (as for example the Bugatti 57S Cabriolet that sold in March 2017 at Amelia Island for 7.7 million \$) are marking new records in terms of price. In some segments of the market, the supply of cars on sales at somewhat non-realistic price tags not reflecting the true quality offered is too high. Nevertheless, some sectors /segments of the

Classic Car market are still following an upward trend such as for instance sports cars from the 80's and 90's or race cars with a pedigree. The supercar and hypercar segments are also continuing to attract new buyers.

As conclusion, we could advise you not to look only at the empirical data derived from classic car indexes as well as the price fluctuations they are capturing, but simply enjoy driving your classic car(s) for the sake of it. As we are approaching the spring season on the North Hemisphere, just drive as if you'll live forever!



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# 7 PITFALLS

## THAT CAN DERAIL YOUR TECHNOLOGY PROJECT

The decision to replace an existing family office accounting system or implement technology for the first time requires substantial thought. Many factors must be considered – from downtime and budget to the availability of internal resources and often varying opinions of family members. While all technology projects face hurdles along the way, the challenge is to prevent hiccups from becoming major roadblocks that run up costs and impact the ultimate success of the project.

To ensure the family does not get saddled with more than it bargained for, below are seven pitfalls to avoid when embarking on a technology project.

1. Failure to secure buy-in from “the top” – Implementing technology is a commitment. For a project to succeed, the entire office, including family members and support professionals, must be on board. There needs to be consensus on the overall project and its priority vis-à-vis other responsibilities. If not, individuals critical to the project may be pulled off suddenly to focus on other activities deemed more important by certain members of the family. Without top-down support, the project risks being delayed (or failing altogether) due to lack of time, funding or resources.

2. Not defining goals and what



by Brian

constitutes success – A family office accounting system must be flexible enough to meet the accounting and reporting requirements of all parties -- whether the 93 year old matriarch, the 22 year old millennial or the tax specialist. Each stakeholder has different goals and expectations. And each will have a different way to gauge success.

It's important to understand why the family is undertaking the project. Is it to save money? Add value? Manage risk? Clarify and align perspectives. Decide up front what problems need to be solved. Articulate goals and determine how success will be measured. Without clearly defined goals, it's easy to lose a sense of priorities and fall prey to “scope creep,” which will impact the perceived success of the project.

3. Not understanding what can go

wrong – Even the best-laid plans can face unexpected hurdles. Expertise gaps, resource shortages, data integration issues and misalignment of expectations can cause delays in the project and increase costs.

To mitigate these risks, ensure the vendor has a rigorous process for implementation that clearly delineates key decision points. Work together to identify where the challenges are likely to arise and proactively develop a plan to address those issues. Ensure that the family office project manager fully understands what is required at each step so that responsibilities can be assigned in advance and experts brought in as needed.

“Get the family’s internal house in order by preparing data,” advises Marcella Odum, Chief Financial Officer & Vice President, The Lupton Company. “Know the new system requirements and address hardware, software, server needs or interfaces to existing systems in advance.” Having a solid grasp of the project will enable the family to quickly identify red flags and correct data or connectivity issues before they become a major stumbling block.

4. Underestimating costs and resources – The first step in evaluating different vendor



solutions is to make sure it is an apples-to-apples comparison. Know what is included as part of the software package, and what costs – maintenance, training, upgrades, reports, customer support – are additional. There is a big difference between a system's price, which is a one-time expenditure, and its cost – which goes on forever.

When calculating Return on Investment (ROI) for the project, don't forget to factor in the cost for internal resources, additional hardware/software and productivity lost as employees get up to speed on the new system. Balance those costs against savings as a result of new efficiencies.

5. Getting blinded by bells and whistles – Many of today's accounting systems include visual components and whiz-bang reporting features, which make it easy to be swept away by the initial "wow" effect. Know the family's technology strategy. Are they conservative or cutting edge? "Balance the advantages emerging technologies present versus the various risks," advises Hugh Bagatelle, founding partner, Windward Advisory Group.

Peel back the veneer. Dig deeper to understand critical components and what the system can and cannot do. For example, how is data gathered -- is it manual or automatic? Can existing spreadsheets be integrated into the system? Are the financial calculations sound? Can custom reports be created in-house?

Request several demonstrations of the software to be sure the office understands the nuts and bolts of the system. Chris Martinez, Managing Director, Oakbrook Solutions' Family Office Practice recommends doing a Proof of Concept (PoC) to stress test the system with the family's own data. And, make sure to kick the tires early in the process to ensure the vendor supports all key requirements. Getting to the final stage only to discover that a vendor's general ledger isn't truly integrated with their portfolio and partnership accounting, for example, is not time well spent for anyone.

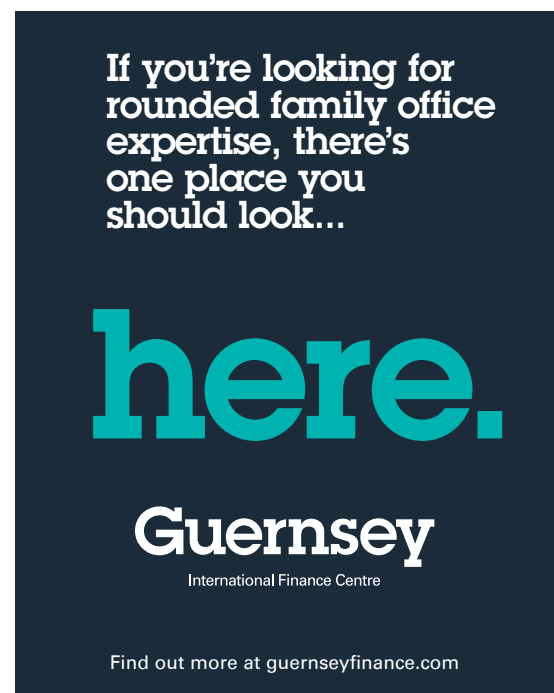
6. Not vetting the vendor – Ensuring the short- and long-term success of any new technology investment is not about selecting the best vendor. It's about selecting the best vendor for the family. Ask for references.

Talk to clients whose implementations were the most challenging. Find out what the issues were so that the family can learn from that client's experience.

Ask about the company's strengths. Software solutions are built for specific markets and functions and each vendor has its strength. Be realistic regarding what the accounting system can and cannot do. Perform due diligence on the financial health of the software vendor, their track record, commitment to the market and approach to product development.

7. Forgetting that it's not only about the software – A vendor-client relationship is just that – a relationship. It's not only about the software. It's about trust, service, support, commitment, dedication, people and addressing challenges when they arise. That's why selecting a vendor that the family likes and can work with for the long term is one of the most important decisions the family can make.

Michael Slemmer, CFA is COO - Americas at FundCount, a provider of integrated accounting and investment management software for family offices, hedge funds, fund administration and private equity firms. [www.fundcount.com](http://www.fundcount.com)



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# FINANCIAL MARKETS FROM A RULES BASED PERSPECTIVE

Heading into spring the global economic backdrop does lie perkier than it has been in recent times. Following Trump's election at the latter end of last year as the 45th president of the United States global growth prospects have taken a tailwind boost into the 1st Quarter of this year. This has been very much evident since the start of the year with the reported improvements in growth, inflation as well as corporate earnings.

Such optimism has also been reflected within financial markets. The nine year equity Bull Run still is very much in play with equities continuing to make new highs, corporate credit spreads be it Investment Grade or more so High Yield are trading through post crisis levels and the VIX remains very much anchored at a low range. Does such a situation warrant fears of euphoria, as your investments may have already exceeded their full year profit targets? Or does one remain hopeful that this rally has steam to continue?



At Eniso Partners we have established and time tested a systematic approach to financial markets that thrives on mitigating the behavioural biases and complexities

of today's financial markets by deploying rules based models that encompass both the fundamental and psychological aspects of global financial markets.

Such an approach to markets does however mean that Eniso Partners is not a "forecasting" house. But having said this very few can be counted to have the propensity to accurately forecast the wide array of events that will be taking place in the near future. With the ECB tapering having commenced, a probable FED hike and subsequent continuous increase in real yields, as well the frothing political landscape in European with this year's elections, one could have many reasons to alter his or hers asset allocation.

What can be distinguished from the graph below are the shifts in asset allocation that have taken place within Eniso Partners funds and mandates in recent times. These shifts in asset allocation are as result of both our Fundamental (GFAS) and Psychological model (RAI) having signalled a change in either investor sentiment (RAI) or the global fundamental backdrop (GFAS). Nevertheless, what they have importantly achieved is mitigating the sharp drawdowns that have been witnessed more frequently and sharply since the trough of financial markets in early 2009.



Today, our fundamental model (GFAS) does find itself in a weakened position to where it has lied in the past. The news flow on the consumer and manufacturing

fronts has been generally much better than consensus and signals a further acceleration in the pace of global economic growth. Even so, support for equity markets – especially from the industrial sector – is still far weaker than during the boom phase from January 2005 to December 2006.

On top of that, the tailwind that monetary policy has provided to equity markets over the past nine years is close to disappearing. Our fundamental sub-indicator for monetary environment has fallen to its lowest level since November 2008. Back then, central banks globally had started to flood huge amounts of liquidity into the system in a bid to cushion potential shock waves produced by the Lehman Brothers crash and to safeguard the stability of the global financial system. Both sub-indicators are trembling the foundations of the Bull Run that that has been fairly solid for the past two years. If there is no imminent trend reversal in one of these two sub-indicators, equity markets could be signalled as “unattractive” for the first time since 2009 as far as the fundamental model is concerned, but this is yet to be the case as the model continues to give the green light.

Changing tack, from a market psychology viewpoint the US equities market climbed to record highs in early March, driven by a further improvement in investor sentiment. Four of the five sub-indicators of ENISO’s Risk Appetite Indicator rose over the course of the last month. Only the volatile subcomponent “Hedging Demand” signalled a slight dip in risk appetite. Our Risk Appetite Indicator, into which we have integrated several anti-cyclical signals, still fails to confirm that markets have reached a state of euphoria. Although there has been the occasional overbought signal of

late, on balance there is no evidence of irrational exuberance.

	Number of Indicators	Current Signal	1 Week	1 Month	3 Months
MONEY FLOW	31	Buy	↕	↘	↕
SURPRISE EFFECT	17	Buy	↘	↕	↕
MARKET BREADTH	24	Buy	↘	↕	↘
HEDGING DEMAND	7	Buy	↕	↘	↕
MARKET RISK	37	Buy	↕	↕	↕
OVERBOUGHT / OVERSOLD		Neutral			
<b>RISK APPETITE INDICATOR</b>	<b>116</b>	<b>BUY</b>	↕	↕	↕

Oliver Collins has been managing systematic strategies and funds at ENISO Partners since October 2014.



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# 大中华地区私人银行家协会

## Association of Private Bankers in Greater China Region





# AN INSIGHT INTO THE MONACO ECOSYSTEM FOR FAMILY OFFICES

## TEMPEST LEGAL SERVICES MONACO

Monaco has become a destination for worldwide families, in an ever-changing environment. This is because the Monaco “ecosystem” is well adapted to Family Offices. Why and How?

Why? There are several factors:

Security (including legal certainty) and Confidentiality being possibly two important incentives for choosing Monaco. Monaco is very international with a wide range of professional and

service companies being present: international banks (around 30), asset managers (around 50), insurance brokers, yacht brokers ...

Regulation and Governance are also key factors in Monaco: banks, asset managers, and insurance brokers are regulated and are subject to strong Governance and Compliance rules. For instance, in Monaco, banks are regulated by the French regulator (the Autorité de Contrôle Prudentiel

et de Résolution); the French Regulator is also closely related to European supervision. Consequently, even if Monaco is not part of the European Union, strong Governance and Compliance rules, inspired by European regulations, apply in Monaco.

Data Protection rules, (Monaco implemented its own legislation on Data Protection a number of years ago) such rules being there both to protect businesses and Private Family Offices.



Excellent Health Care.

Political Security.

Accessibility by air, road and rail/Monaco's geographical position in the heart of Europe.

The Monaco Government actively encourages families to set up in Monaco to conduct Family Office business.

All these factors contribute to why Family Offices operate from Monaco.

How ? When talking about "Family Offices", two separate situations may arise in Monaco.

First, and more traditionally, Single Family Offices may be set up in Monaco, and offer solutions for families across generations to manage their affairs. As an example, it is possible to set up a Monaco investment Fund, dedicated to several members of the families,

managed from Monaco by regulated asset managers. Such a solution, for instance, allows the families (and those who dictate the governance of the family business from Monaco) to be closed to decision making and benefit from expertise and advice from international professionals. Single Family Offices can be set up under the form of a company in Monaco, including, more recently, under the form of a limited partnership (SARL) although the preferred route is as a SAM with civil objects. By adopting such corporate form allows the decision makers (who are partners or shareholders in the enterprise) to benefit from limited liability when conducting business on behalf of the families with third parties.

Second, more recently, and with the objective of developing the services offered to a wide variety of families, the Principality brought in new legislation on Multi-Family Offices. Interestingly in this legislation the founders can opt either for a regulated or a non-regulated route, depending on the services rendered to the families (the families being third parties to the Multi-Family Office/MFO business) or a mix of both. In the regulated arena, the MFO officers can conduct activities in respect of giving financial advice, and act as brokers for the families. In that case, the MFO officers are subject to the same organisational as well as prudential rules as other asset managers in Monaco and are licensed and controlled by the competent local Regulator (Commission de Contrôle des Activités Financières/CCAF). In the non-regulated space, the MFO officers, who must provide professional guarantees (expertise, professional qualifications and experience according to Law), may offer a wide range of services in a variety of areas (wealth and tax management for instance).

A MFO must demonstrate strong governance rules, including prudential rules, since the MFO must be incorporated as a limited liability company (SAM). All these evolutions in Monaco are promising for the future development, in a safe environment, for Family Offices whether Single or Multi.

**Nathalie TANZI & William EASUN: Managing Partners, Tempest Legal Services Monaco**  
[www.empestlegal.com](http://www.empestlegal.com)

Photo credit MY.PRESSCLUB





# UNIT-LINKED SOLUTION

## FOR HNWIS FROM RUSSIA

Wealth of HNWIs with Russian tax residence has been under pressure since 2014: they had to tackle ruble drop, sanctions, rapidly diminished bank deposit rates together with changes in tax, anti-money laundering and foreign currency legislation. Incredible as it may seem, but there appears to be a universal remedy against all of the above mentioned issues, which is called a unit-linked life bond. Let's see how it works.

A unit-linked life policy or bond is a policy opened by in most cases offshore company that enables a policyholder to invest in a wide variety of instruments within the policy like bonds, equities, ETFs, mutual and hedge funds, structured and loan notes etc. In case of the policyholder's death the current value of the policy multiplied by 101-105% (depending on the type of policy, the term, the premium etc.) is paid to nominated beneficiaries.

One could redeem any amount from the policy provided that they leave a minimum amount in cash in the policy, and could make any top-up if they wish. Some life bond providers let their clients use any instruments they wish starting from as little as 20-30K USD, whereas others may require to transfer minimum 250K USD into the policy to get access to the whole range of products available in the market. Such life bond providers include Hansard, Custodian Life, Generali (but they won't receive any new clients from Russia from May 2015), Investors trust etc. Such scheme of investing might be a bit more expensive than trading accounts, but in fact they appear to be ideal for foreign investments in other currencies than RUB for tax residents of Russia. And here is why.

Tax optimization. First of all, due to sanctions and oil prices drop, ruble has fallen from \$1/RUB 34 at the beginning of January 2014 to nearly \$1/RUB 60 in February 2017, which is why most HNWIs converted all or the bulk of their rubles into US dollars either in



Natalia Smirnova  
CEO, Personal Advisor Ltd

2014 or in 2015. In the meantime, the Central Bank of Russia started to decrease the interest rate in 2015, and bank deposit rates for any foreign currency (USD, EUR etc.) fell to 1% in 2016, which made them inefficient to protect wealth from inflation. As a result, HNWIs switched to alternative instruments in foreign currencies like bonds to substitute bank deposits. However, starting from 2014 the Ministry of Finance issued a letter stating that the income tax on any profit from investments in a currency other than ruble should be calculated as follows: the price at which the investment was bought should be converted into rubles at the exchange rate of the Central Bank on the dealing day, whereas the price at which the investment was sold should also be converted into rubles at the exchange rate of that date. As such, if one invests in a mutual fund USD 1,000,000 when \$1=RUB 50, and sells all his holdings at the price of USD 1,200,000 when \$1

= RUB 70, one should pay income tax at the rate of 13%, and the taxable income will be calculated like this:  $USD\ 1,200,000 * 70 - USD\ 1,000,000 * 50 = RUB\ 34,000,000$  (and not  $USD\ 1,200,000 - USD\ 1,000,000$  converted into RUB at the exchange rate of the day when the fund was sold). This rule is now applied to any investment in a foreign currency for tax-residents of Russia, which makes such investments inefficient due to instability of ruble. However there is an exception of this rule – according to the article # 213 of the Tax Code of Russia, any income from a life insurance policy is taxable at the rate of 13% if it exceeds annual interest rate set by the Central Bank of Russia (10% as per March 2017). This helps investors diminish their taxes if they are investing in a foreign currency via a life policy.

Access to a wide variety of investment opportunities with no declaration and reporting. Even if the exchange rate remains stable, HNWIs will be facing other difficulties while investing in a foreign currency. In particular, there are few bonds and stocks in USD available in the Russian market, which makes it impossible to create a well-diversified portfolio for any HNWI. As a result, one should open a trading account abroad to get access to NYSE and other markets. According to anti-money laundering and foreign currency legislation, if one opens a bank account abroad – he would have to inform the Tax Authorities in Russia about that within 1 month and then start sending them an annual report on inflows and outflows within this account together with annual tax declaration, which would be time-consuming and inappropriate for tax-optimization purposes.

If one opens a trading account abroad – he will have to send an annual tax declaration anyway, since Russia will be joining OECD from September 2018, so the Russian Tax Authorities will get access to information about every financial account opened by or in favor of the Russian tax resident. If any HNWI decides to use his foreign company for foreign investments, this will also be an inefficient solution for tax-optimization. Starting from 2015 all owners

and beneficiaries of foreign companies that are tax-residents in Russia are to inform the tax authorities about these facts and pay 13% tax on the annual net profit of their foreign companies if it exceeds RUB 10,000,000 (around USD 167,000 in March 2017). Given the fact that Russia will be part of OECD from 2018, the Tax Authorities will inevitably get access to the information about beneficiaries of these companies' bank accounts. However, investments within a life policy don't require neither annual reporting nor annual declaration since income within the policy becomes taxable when redeemed from the policy (if it exceed the premium amount) or when the policy matures. In addition, all holdings with the policy have a nominal holder (an insurance company), whereas a policyholder remains the sole beneficiary, which makes it impossible to reach the policyholder for the Tax Authorities since the official holder of all investments is not a tax resident of Russia.

Confidentiality and protection. The fact that a foreign life insurance company remains a nominal holder of all assets within the policy protects them from potential suspension should further sanctions against Russian residents continue since such investments within foreign life insurance companies tend to be offshore, and offshore jurisdictions would hardly obey any sanctions. On top of that, life policy also protects all holdings from a divorce and potential collection since life policy plays the role of a trust for all holding within a policy.

As a result, investments via a unit-linked policy instead of a traditional asset management strategy is a more beneficial solution for the estate planning for HNWIs with tax residence in Russia. It protects foreign assets from collection, allows his family to have an immediate access to the funds in case of the client's death. In addition, the client will be able to avoid 13% income tax on the profit of his foreign investments as well as obligatory reporting and submitting a tax declaration as well. The only thing left is to choose an appropriate life bond provider.

# KEEPING WEALTH IN THE FAMILY

What do Abraham Lincoln, Pablo Picasso, Jimi Hendrix and Stieg Larsson have in common? They all died intestate. Despite hard-working, and in some cases hard-living, careers, none had put in place measures to protect their accumulated wealth and ensure it was passed on to those they cared about.

Their stories highlight the often-disastrous impact of not having a comprehensive financial plan in place. Not only can it mean that accumulated family wealth is dissipated, but it can also cause irreparable family rifts and cause those who should have been beneficiaries to miss out.

Picasso left a fortune in artwork, homes, gold, cash and bonds, but had done little lifetime planning and had not written a Will. The battle to settle his estate took six years and cost \$30 million. The fight over Jimi Hendrix's estate continued for more than 30 years after his death, and the royalties that kept accruing caused further complications.

Perhaps the most tragic case is that of Stieg Larsson, author of *The Girl with the Dragon Tattoo*. He had lived with his partner, Eva Gabrielsson, for 32 years. Having failed to make arrangements during his lifetime to provide for her in the event of his death, Swedish law dictated that his estate should be divided between his estranged father and brother. Similar rules apply in the UK, where unmarried couples have no absolute rights to inherit if their partner dies intestate.

More than a Will: the importance of advice

A Will alone may not be enough to protect assets for future generations; detailed succession planning is also essential. That includes planning how you want your assets to be used, determining who you want to benefit from them - and putting in place structures to protect your wealth and ensure these goals can be achieved. Most of us would like the wealth we have created to benefit future generations of the family, not just immediate children; perhaps by providing funds for education, a deposit for a first home, or capital to establish a new business. No matter how wealthy you



Alex Webster  
St. James's Place  
Wealth Management

are, achieving these goals is not guaranteed without careful planning.

And there are a number of risks that can prevent those plans becoming a reality. The Chinese say that the first generation works hard to build family wealth, the second generation reaps the benefit and the third generation squanders it. Nowadays, increased materialism has speeded up the process, and wealth is often dissipated by the second generation.

But spending is not the only risk: tax, divorce, and poor financial decisions by beneficiaries can also all have a big impact. Inheritance Tax, levied at 40% over the nil-rate band, is a major threat to any legacy for loved ones. (The nil-rate band is currently set at £325,000, although this will be increased from April 2017 where certain criteria are met.)

But the divorce of beneficiaries can be more damaging, and may mean the loss of half their wealth. You can



protect inherited wealth from divorce settlements, but it needs careful planning and expert advice. Without this, divorce can significantly deplete family wealth and may force the sale of assets that have been in the family for generations. Subsequent marriages can also introduce new members to the family- such as step-children and step-grandchildren - who may also need to be provided for.

Other threats might be, for example, a family business falling on hard times, or the next generation mismanaging an inheritance. So it is essential to build a flexible plan for the future, to ensure that assets are preserved and protected until the next generation is old enough and wise enough to manage the family estate themselves.

#### Structured solutions

Wealth should provide reassurance, not cause worry. With careful planning, advice and the right Will, you can not only minimise taxation through available allowances, exemptions and reliefs, but also ensure

the protection of funds to benefit a family for decades to come. Trusts still play a major role in succession planning, although they must be properly structured and need not be the only consideration. There are other investment solutions and planning methods available. Every day St. James's Place works with families with differing needs, but one thing most families share is the desire to do the best for themselves and their successors. The impact of taking no action can be devastating. So take advice, make a plan and leave a legacy. Don't let your family wealth fall into the hands of those you have not chosen.

The levels and bases of taxation, and reliefs from taxation, can change at any time. The value of any tax relief depends on individual circumstances.

Will writing involves the referral to a service that is separate and distinct to those offered by St. James's Place. Wills and trusts are not regulated by the Financial Conduct Authority.



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# THE CLARITY HONDA FUEL CELL HAVE A RANGE OF 589 KM. EPA UNITED STATES

CLARITY HONDA FUEL CELLS GIVE A RANGE OF 589km

The Clarity Fuel Cell offers a range of 589 km and a fuel consumption of 28.9 equivalent KME / l according to the parameters of the Environmental Protection Agency (EPA) of the United States.

In Europe, Honda will market the Clarity Fuel Cell in Denmark and the UK as part of HyFIVE program. The Clarity Fuel Cell reach those European markets in late 2016.

The Clarity Fuel Cell electric vehicle fuel cell Honda, was listed autonomy of 589 kilometers and classification of fuel consumption of 28.9 KME / l equivalent to gasoline in combined way [1] of the Environmental Protection Agency (EPA) of the United States. These figures represent the best classification among electric vehicles without combustion engine, including fuel cell vehicles and fully electric vehicles in the United States. The Clarity Fuel Cell, which incorporates the most advanced technologies of Honda, is the first model with bodywork production sedan in the world powered by a system of fuel cell that houses all power unit in the space normally occupy the engine and transmission, under the hood. Honda has reduced the size of the fuel cell by 33%, while it has increased the power density by 60% compared with the Honda FCX Clarity. Thanks to block the fuel cell more compact and integrated drivetrain, the Honda Clarity Fuel Cell is able to offer a more spacious cabin with seating for five occupants. In Europe, Honda introduced the Clarity Fuel Cell in



a limited number of markets through HyFIVE program to promote the development, use and viability of hydrogen refueling infrastructure. Together with its industry partners, Honda aims to collect user experiences with real-world fuel cell vehicles and the use of hydrogen fueling points. The first units of Clarity Fuel Cell euopeos reach these markets before the end of the year.

Honda is the world's largest manufacturer of internal combustion engines, the leader in manufacturing and marketing of motorcycles and eighth automaker in the world. In addition, it is the first automotive company to fully develop a private jet, the HondaJet sector and is the architect of the most advanced humanoid robot in the world, ASIMO, which makes it the leader in mobility company. With 40 production sites in 17 countries,

In Spain, Honda concentrates its activities in Mogoda (Barcelona), where it employs 266 people. The car division of Honda Motor Europe Spain has a dealer network consisting of 78 outlets. Currently, Honda distributes six models in the Spanish market: Jazz, 5-door Civic, Civic Tourer, Civic Type R, HR-V and CR-V.





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# HOW DIVERSIFICATION IN PROPERTY INVESTMENT CAN GROW FAMILY OFFICE WEALTH



Neil Willis  
Rycal Group LTD

Alternative assets have become an important investment consideration in the hunt for income. If we look at periods of low interest rates, such as in the current environment, alternatives can offer more attractive yields than traditional investments. Today, as allocations continue to increase in global alternative assets, PwC has predicted that the market for alternatives will increase to \$15.3 trillion by the year 2020.

So what's the reason for this increase and why focus on real estate? As you'll find, alternatives come in many forms, real estate being one of them. Investors see it as one of the more popular alternative asset classes to invest in because of its stability and consistency over the long-term. For many years now I have helped investors to achieve their short, medium and long term investment goals through focusing

on direct property investments and alternative property funds.

While investors have a wide variety of needs, they all often strive for the same thing, to ensure the financial security and well-being of their family! For instance, I see clients all the time that are interested in saving for a house deposit in the short term, and then saving for University fees for their children in the medium term and of course planning for a comfortable retirement in the long term. The latter two goals, and particularly retirement planning require a combination of capital growth followed by income generation.

Further, in today's world where traditional working patterns no longer seem to be the norm, many clients simply strive towards `financial independence` as quickly as possible. They want dependable monthly income (e.g. having enough investments and assets to generate income to live) without necessarily having to work a 9 to 5. Depending on an investor's goals and timing, there are several strategies clients should consider:

## Direct Property Investments

The Residential Buy to Let and Commercial Property market is for the long-term investor -- and ultimately the goal with these investments is to provide passive income. Below I've broken down the reasons to consider Residential Buy to Let versus Commercial Property:

### Residential Buy to Let:

The Residential Buy to Let market

is still a huge marketplace in the United Kingdom despite recent tax changes making it less attractive than it previously was. Income gained from a rental property is long-term and consistent. Today's lenders will still readily lend monies to invest in these types of properties and rental demand continues to stay high. There can be disadvantages to consider with buy to let, including having to sell the asset to realise capital repayment and the potential costs and void rental periods significantly reducing yield. There is also the chance you end up with a `nightmare` tenant. If you do end up in a situation where a tenant is not paying the rent but staying in the property, and potentially damaging the property, there can be a long and costly legal process to resolve the situation, with no guarantee of costs being recovered.

### Commercial property:

Casual investors tend to and should stay away from this type of property investment as the property prices can be much higher and rental returns lower. However, the advantage of commercial property investment is that rental contracts tend to be much longer, often with costs fully covered by the tenant. It can be more difficult to finance these properties and be subject to higher interest rates. Over the long-term the asset eventually needs to be sold to realise capital.

However, as a long-term home for your money, without needing to

provide day to day help to your tenants, commercial property can still work very well.

#### Property development

It may have seemed at one point in the late 90s that every third person was a property developer. However, with less houses around in need of renovation, following the upsurge in competition from amateur developers in recent years, it has become much more the preserve of professional firms. Significant profit can be made investing in development, however, as banks are now much less willing to lend money to customers, significant funds may be required from the investor to move forward. During the planning and development process, as an investor/developer, the individual should have a great level of control over expenditure to ensure that the profit margin isn't eroded and that the finished price is realistic. The property is only worth what a buyer is willing to pay and that is often capped by the upper values of properties in the same area. All too often amateur developers see their expected profit reduced, as their finished sale cost has been over ambitious.

Property development is typically used for capital growth over the period of development. It can then move into income generation if the developer decides to retain and rent part of the development. All the above direct property investments are subject to market fluctuations. Residential and property prices are now looking very high in certain parts of the UK compared to average incomes, and whilst demand is still high, we may see a correction happen in the near future.

#### Real Estate Funds

Property funds are an alternative to holding direct property that is still asset backed but often provides significantly more liquidity. Funds can also diversify investments away from the UK market to other areas, also providing diversification of currency.

These funds can provide both income generation and capital growth, usually as a passive investment. Clients are not actively involved in management of the properties that the funds own, but they can reap the benefits of the return on investment. One area to be careful of with property funds is looking at exit strategies. Traditional property funds tend to have open ended timescales for investment. The fund simply buys land and property that is expected to increase in value,

and usually keeps a margin available in liquid funds to cover redemptions. From my own experience of this, when the fund does well, proportionally more clients want to cash in their investments and take the benefits. This can often lead to the demand for redemptions exceeding the amount allocated into liquid funds. We have seen this recently in a large way with Student Accommodation funds. The net result is that restrictions are placed on the fund whilst assets are sold to allow for the increased redemptions. This provides worry and drives the fund price back down, not to mention that the fund is forced to sell assets rather than choosing its own time frame to do so. A far from ideal situation for clients!

There is now a new variety of property funds that provide fixed exit strategies by planning to buy and sell assets. These can, if well managed, provide a great alternative to more established funds.

In the past, we have worked successfully with the Carlton James Commercial Real Estate Fund, which allows investors to move into a fund that finances USA based commercial hospitality property. This type of investment has worked well through careful management of the underlying risks, and through having a fixed exit strategy from the fund manager to provide a return of funds to investors in a timely manner.

You can find out more about Carlton James offerings at [www.carltonjamesgroup.com](http://www.carltonjamesgroup.com).

So what is best? Well, of course there is no right or wrong answer. Diversification is always the answer, across property types, areas and even countries using property funds. Using the above investments, you can help your client structure a new portfolio to achieve their financial goals, and review an existing portfolio to make sure the capital invested is working as hard as possible for them.

Neil Willis is Managing Director at Rycal Group LTD, a US- and UK-based property advisory firm.



# TAX PLANNING IN THE POST-BEPS ERA

“BEPS” stands for Base Erosion and Profit Shifting, and refers to tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is a little or no economic activity. To address tax avoidance, the OECD/G20 developed the BEPS Project, consisting of 15 actions, which equip governments with domestic and international instruments to ensure that profits are taxed where economic activities generating the profits are performed and where the value is created (see [www.oecd.org/tax/beps/beps-actions.htm](http://www.oecd.org/tax/beps/beps-actions.htm)).

For example, assume that country X and country Y do not have a tax treaty, but both have its own tax treaty with country Z. One corporation can be created in country Z to take advantage of the tax treaties benefits. Well, it is clear that the only goal of the created corporate is to benefit from the treaties. In general, those corporations do not have economic substance, and the OECD BEPS Project intends to address exactly those kind of circumstances, among others, of course.

According to the OECD 2015 Final Reports (Information Brief), “BEPS results in a loss of revenue for governments that could otherwise be invested to support resilient and balanced growth. Research undertaken since 2013 confirms the potential magnitude of the BEPS problem, with estimates indicating annual losses of anywhere from 4-10% of global corporate income tax (CIT) revenues, i.e. USD 100 to 240 billion annually. In developing countries, where reliance on corporate tax as a source of revenue is generally higher than in developed countries, the potential impacts are particularly stark”.

It is clear that the main targets of the BEPS Project are those Global Multinational Enterprises whose legal and tax structures do not reflect the underlying economic reality. Nonetheless, we can speculate if, in some way, it will affect family offices tax planning. Well, since many family offices are active in global private equity investments, it can be possible to have



Dalton Luiz Dallazem  
**PERIN & DALLAZEM**

some impacts connected to the so-called “hybrid mismatch arrangements”. “Hybrid mismatches are cross-border arrangements that take advantage of differences in the tax treatment of financial instruments, asset transfers and entities to achieve “double non-taxation” or long-term deferral outcomes which may not have been intended by either country” (see [www.oecd.org](http://www.oecd.org)). Among those hybrid instruments frequently employed by private equity investments, we find, for example, the “convertible preferred equity certificates” and “preferred equity certificates.” They could fit into the OECD definition of an “an instrument that is considered a debt in one country and equity in another so that a payment under the instrument is deductible when it is paid but is treated as a tax-exempt dividend in the country of receipt.” Therefore, the “interest deductions on debt instruments structures” may be susceptible to an extensive review under the future new rules.

It is also likely to have effects on interest deductions among related parties (financing costs) because the OECD proposes limitations. The idea is to have

a fixed ratio rule, "which allows an entity to deduct net interest expense up to a benchmark net interest/ EBITDA ratio, within a corridor of 10%-30%, and an optional group ratio rule which allows an entity to deduct net interest expense up to its group's net interest/EBITDA ratio, where this is higher than the benchmark fixed ratio".

One of the most significant approaches of the BEPS Project rests on transfer pricing rules. It is important that the fund managers check if it is the case to review the applicable circumstances. The OECD work "has focused on strengthening the guidance on applying the arm's length principle to ensure outcomes where profits are aligned with the value created through underlying economic activities." This work has focused on several key areas, such as transactions involving intangibles, since misallocation of the profits generated by valuable intangibles has contributed to BEPS; contractual allocation of risks, and the resulting allocation of profits to those risks, which may not correspond with the activities actually carried out; the level of returns to funding provided by a capital-

rich MNE group member, where those returns do not correspond to the level of activity undertaken by the funding company; recharacterization of transactions which are not commercially rational; and service fees and commodity transactions (see [www.oecd.org](http://www.oecd.org)).

It is undeniable the importance of the BEPS Project. On the other hand, it is also important to distinguish between tax avoidance and tax evasion, or between tax avoidance and tax planning. Defining clear boundaries is always a good guidance for both the taxpayers and the tax authorities, avoiding gray areas where the sailing is not safe.



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# DIGITAL INNOVATION IMPACT ON THE FINANCIAL SECTOR

by Douglas Azar CEO of WealthInitiative

Digital innovation has impacted most of the financial sector in the past 10 years and has recently gained rapid pace. Whereas retail banking and consumer finance have been “early adopter”, the wealth management space has been on the sideline, applying the ‘not so efficient’ wait-and-see strategy. Except standard online banking portal, private banks were not investing heavily on digitalization. The players could afford wait part due to their older client base, sustained return on equity and high barrier to entry. The wakeup call has arrived, mainly driven by the new generation of clients embracing technologies and social media, forcing the institutions to rethink their value proposition.

The three main areas witnessing the most appeal for the digital age are enhancing client relationship, reducing the cost of the middle and back office and smoothening risk and compliance tasks. The main question that arises for most wealth management institutions is whether to focus on the external, client-facing (front-office) or internal (middle and back-office) type of initiative.

It is interesting to point out that two third of high net worth individuals (HNWIs) are now using online mobile banking but only a quarter of wealth managers currently offer

digital channels beyond the usual email. According to a survey, 82% of high-net-worth individuals in the Asia Pacific region expect their wealth management relationship to be conducted entirely or mostly through digital channels, while 83% of them said that they are far more likely to leave wealth management firms that cannot offer an integrated digital and direct channel experience.

New private banking service delivery model are empowering clients with round-the-clock access to comprehensive information about their accounts, market insights and intelligence personalized according to their portfolio. The next trend is the rise of digital platform used as market place helping wealth management institutions to create synergies among their client base, unlocking new opportunities.

Regarding family offices, a few trends are shaping the industry on top of the fact that the number of family offices around the globe is increasing at a rapid pace mirroring the higher number of the ultra wealthy. To mention only two in the investment space, there is a tendency to get exposure to direct investment versus the fund approach as well as a greater focus on impact investing. The next

theme that is emerging focuses on the investment of passion such as art, classic cars, vintage watches, rare stamps or any other sought-after collectibles. Passion investments are also often referred to as a store of value in times of financial stress. They also have the particular characteristic of being an emotional asset on top of being a potential lucrative investment.



BIO: Douglas Azar is the founder and CEO of WealthInitiative. He has 12 years’ experience in Banking in various locations (U.S.A, Middle East, Switzerland) including 8 years in Private Banking focusing on investment advisory. He also has extensive knowledge in “art investment” and wrote articles in newspapers on the subject. He is a CAIA (Chartered Alternative Investment Analyst) charter holder.







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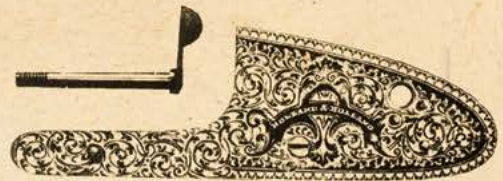
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This new pattern gun is so constructed as to allow of the locks being brought "close up" to action, with the result that a very short, crisp pull of the trigger can be insured.

For illustration of SPECIAL TREBLE GRIP, see page 16.

Extract from *THE FIELD*, January 2nd, 1909.

Messrs. HOLLAND & HOLLAND have submitted for notice a gun embodying an idea which they themselves affirm should have been brought out long ago . . . . Anyhow, there is not one shooter in a hundred who can remove and replace the screws of his gun without leaving the unmistakable traces of his handiwork in the form of scratched and opened screw heads . . . . Messrs. HOLLAND & HOLLAND have settled the question in another way by replacing the ordinary screw, having its head buried in one lock plate, and the screwed tip engaging in the other lock plate, with one carrying an external thumb lever."



Winners of all "The Field" Rifle Trials, London.

## STILL MAKING THE WORLD'S FINEST SPORTING GUNS AND RIFLES





# LESSONS LEARNED FROM INCORPORATING ARTIFICIAL INTELLIGENCE-BASED FUNDS TO FAMILY OFFICE PORTFOLIOS

by Andres Bagnasco

*Andres Bagnasco is a post-graduate professor of finance, and Director of the Investment Management Programme at the Uruguayan Catholic University. He has held several positions such as Derivatives Market-maker, Risk Manager, Quant Researcher and Trader, Data Scientist and Portfolio Manager*

Artificial Intelligence (AI) applied to alpha generation is without any doubts the most disruptive innovation in Finance in the last decade. Even though algorithmic trading dates back to the 70's, technological advances such as Cloud Computing, GPUs and Big Data techniques have shaped forever markets and are here to stay.

Several AI-based hedge funds currently top fund rankings, exceeding in risk-adjusted terms their human counterparts. Others such as Renaissance Technologies' Medallion HFT Fund, has proved to weather over 35 years with average yearly returns in the mid-thirties and a breath-taking Sharpe ratio close to five. Low correlation with traditional assets and the highest risk-adjusted performance are the main drivers for considering allocation in AI-based funds.

Undoubtedly markets are nowadays more efficient than ever before, thus it is increasingly harder to consistently beat the market with active management strategies given the highly competitive environment. Access to technology, open source tools and knowledge has derived into a new breed of AI-

based funds, often led by former Silicon Valley Data Scientists and Quants.

Alternative Investment analysts with backgrounds in Economics, MBAs, CFA and even CAIA charter holders are unfortunately not qualified enough in order to properly screen the most suitable funds from a risk management perspective. A couple of real-life examples will shed light on some of the problems faced by family office analysts and portfolio managers when analysing these very specific type of funds.

I used to work as a buy side Hedge Fund quant, developed some FX interbank arbitrage-like strategies. One of such strategies was in production for about 14 months with excellent results, a Sharpe ratio in the order of four, until it was suddenly arbitrated out by the market. What happened? Backtesting, stress-testing and a good track record are necessary conditions for the assessment of a quantitative trading strategy/fund, however ease of information access and pure reliance on execution speed typically reduces the shelf life of simple "low hanging fruit strategies". Once discovered by

other participants or after the incorporation of new technologies, former money-making strategies cease to generate further profits.

Lesson learned: Paraphrasing Nobel Laureate's Eugene Fama's words; "markets efficiency is in constant increase".

Several years ago, while working as a Fund of Hedge Funds analyst, we used to perform the regular due diligence/risk audits on a target fund which was using Machine Learning algorithms in order to trade US Futures, based on certain automated COT (Commitment of Traders) report feeds the fund subscribed to.

Risk-adjusted metrics were pretty solid, operationally the firm's processes, people and systems were robust and passed with fireworks our firm's toughest acid tests regularly considered before allocating funds to it. My boss, the Portfolio Manager was eager to allocate funds to that Hedge Fund and we actually did so. I just had one objection to it, most of the fund's alpha was derived from a 3rd party data feed vendor, who was also licensing such feed to several other market participants. To me it was a matter of time and traded volume,

for the strategy to stop working. Most of the profits were obtained from thinly traded instruments as opposed to the most liquid ones on the considered exchanges. Time confirmed my hypothesis, the strategy stopped working and the fund had to be liquidated. During the post-allocation monitoring phase, we requested one meeting with the fund as well as their data feed provider. We presented them an early forensic microstructure analysis pointing some scalability issues we observed as there were early signs of trading performance decay. The fund manager was extremely concerned about it. Their feed provider, despite being quite polite and approachable, was obviously not willing to commit any hard limit to the distribution of their product to other firms. That meeting marked the end of our allocation to such fund. Eight months after liquidating our stake, the death of such strategy was confirmed by a drop in the fund's AUM, given the incompatibility of the vendor's data feed sales expansion plan vs the fund overreliance on such source of alpha. In a zero-sum game, not everyone can own the secret sauce and still make money.

Lesson learned: In today's highly competitive arena, being fast, smart or different is not enough; fund managers need to be faster, smarter and unique vs. the rest of the market participants in order to stay in business. On another page, a BVI-based hedge fund manager trading European stocks once contacted me as they had some concerns about fund performance degradation. Apparently, it was mainly attributable to seemingly higher trade execution costs. I carefully designed some experiments and statistical tests in order to determine the possible reasons behind it. There were three main hypotheses, namely:

- a) Market impact/scalability issues
- b) Stolen IP perhaps within the fund or former employees leaving with code or ideas
- c) Fund replication (i.e. some service provider such as primer broker, data-center personnel, either front-running or replicating trades for their own benefit).

After the experiments, we were able to statistically determine with a probability of 99.97% that fund replication was the undisputed responsible explaining the fund underperformance. Needless to say the fund no longer executed trades through the same service providers after our findings, returning back to happy

days. The fund management and their legal advisors wanted to initiate actions against their service providers. Unfortunately our research was not conclusive enough in order to precisely locate the exact responsible(s) in order to either sue them or file a regulatory demand against them. The presence of an execution broker, broker employees, data centre personnel, connectivity providers, as well as the lack of additional data made the task of individualising the end responsible simply impossible.

Lesson learned: Even the most secret black boxes deserve thorough and continuous TCA monitoring (Transaction Cost Analysis), not only before but all along the post-allocation phase.

The research process by which a fund's strategy has been developed is crucial for ensuring the scalability and shelf life of the alpha-generation process. As a Quant, Big Data Scientist and Algorithmic Trading Postgraduate Professor I have been not only trusted, but lucky enough in having the opportunity to carefully learn and dissect many fund strategies in search for their Achilles' heel. Deep Learning Neural Network structures, training algorithms, feature engineering building process, cost functions or analysing concepts such as precision/recall charts has proved to give us remarkable insights about its expected strategy shelf life. Most of these concepts as well as being fluent with technologies such as Google's TensorFlow, XGBoost, h2o.ai, Spark or Apache Storm are technologies simply out of reach for most CFAs, MBAs and Alternative Investment Analysis.

Sorting Alternative Investment databases by Sharpe or Sortino ratios as well as asking standard operational due diligence questions is mandatory, nowadays it is no longer sufficient in order to select the best allocations for your Family Office portfolio. Analysts and Risk Managers need to go one step beyond the underlying fund by modelling what the fund manager may not have planned for, even if it is a black box from the analyst's standpoint. Nowadays it is mandatory to engage expert Data Scientists consultants in the due diligence and risk audit process before allocations.

Your family office analysts truly have the required knowledge in order to address these issues? Remember the old trading adage: What you don't know may kill you.

# LITIGATION FINANCE ATTRACTING FAMILY OFFICE INVESTORS

FIND NEW HOMES IN TENNESSEE

In a world of over-inflated asset prices driven by near-free debt, some investors are on the edge of their seats with respect to what the future holds for their portfolios. This tension has resulted in investors looking toward more esoteric asset classes which are not correlated to the financial markets. As an example, university endowments, who have traditionally been forward looking investors in the alternative asset sector, are looking at the maturity of the private equity space and reducing their allocations therein in favour of investing in non-traditional alternative asset classes such as insurance driven strategies, intellectual property royalties and litigation finance.

The interest in the litigation finance asset class is twofold: non-correlation and inefficiency. As you can imagine, the outcome of a piece of litigation is idiosyncratic to the litigation itself and is generally not influenced by other external factors and hence the value is not dependent on external factors or the performance of the financial markets. Accordingly, the asset class is viewed as one of the least correlated asset classes available to investors.

" Average annual increase in tort costs from 1951 – 2009 was 8.7% "

The Evolution of Litigation & Risk Management: a 50 year Retrospective, Chartis 2011

The asset class is also relatively inefficient (i.e. demand is greater than supply) because the opportunity to invest in litigation finance only presented itself in the last two decades, depending on the jurisdiction. Prior thereto, in most English common law jurisdictions, old common law doctrines of champerty and maintenance prevented a third party from profiting from another party's litigation. However, as justice systems grapple with increasing litigation costs, the global trend has been toward improving access to justice through the use of third party litigation finance.



Edward Truant

Balmoral Wood Litigation Finance

## Litigation Finance Basics

In essence, litigation finance involves veteran litigators (typically former litigation partners at large law firms), who work for the litigation finance manager and underwrite an investment in a particular piece of litigation. Their underwriting process typically focuses on the following case attributes:

- (i) merits of the plaintiff's case,
- (ii) plaintiff's legal representation,
- (iii) defendant's settlement history,
- (iv) defendant's legal representation,
- (v) jurisdictional considerations, and
- (vi) collection risk.

Once the litigation funder determines that the probability weighted outcome of a piece of litigation is compelling, the litigation funder provides a commitment (non-recourse in nature) to fund the litigation, typically pursuant to funding milestones, in exchange for a share of the ultimate proceeds derived from settlement or a court/arbitration award. The asset class has been described as an 'option on an installment plan' because

funds are slowly invested, in 'installments', to support the case. The litigation funder can react as more information is received about the case and ultimately is able to withdraw from the case if the situation changes from that which was originally underwritten. This level of optionality has made the asset class attractive to hedge fund managers.

"Litigation funding is the life-blood of the justice system. It helps maintain our society as an inclusive one"  
Lord Neuberger, President of the U.K. Supreme Court

Australia was an early adopter of litigation finance, followed by the UK and USA. Today, there are several other countries whose judiciary supports the use of litigation finance and the global trend is toward increasing the use of litigation finance, although it remains a niche asset class in terms of its overall size.

Many of the cases tend to be "David vs. Goliath" in nature, but the industry is evolving in terms of its application to the types and size of cases. A recent case brought against Caterpillar Corporation by Miller UK Ltd. is a prime example of where litigation finance is used and how it benefits individuals and corporations. Miller UK Ltd. was a long-time supplier of Caterpillar for a quick decoupling device they had invented. Caterpillar management decided to develop their own device and end the long-standing supply arrangement with Miller.

When Miller viewed the competing products developed and marketed by Caterpillar, they quickly determined Caterpillar had stolen Miller's design ideas and commenced litigation against Caterpillar. The litigation took its toll on the Miller family members, both financially and emotionally. Ultimately, the Miller family turned to a US litigation finance company who provided the capital necessary to pursue the case in US federal courts. The courts ultimately ruled in favour of Miller with a US\$74 million judgement (which will reportedly increase to close to \$100MM when interest is applied). Subsequent to the judgement, Miller UK Ltd. has re-hired many of the employees it was forced to

lay-off and the Miller family has repaid personal debts that they had assumed to pursue the litigation.

"Demand for outside funding outstrips supply. Returns are impressive."

The Economist, April 2013

#### Challenges to Investing in the Sector

While the asset class does present the opportunity to generate impressive returns. There are challenges to investing in the asset class in the form of manager access & selection and portfolio diversification. Given that the asset class is in the early stages of its life cycle and there are barriers to entry associated with entering the asset class, there are a relatively small number of managers with whom to invest. Accordingly, getting access to the best-in-class managers requires an investor to dedicate time and resources to finding, diligencing and negotiating with these managers.

The second issue and perhaps most important aspect to successfully investing in the asset class is diversification. One of the difficulties litigation financiers have is proper portfolio construction because, different from many other asset classes, litigation financiers do not know exactly how much of their committed capital will get deployed until the capital is required. Accordingly, portfolios, when viewed on a capital deployed basis, can end up being very concentrated. Were it not for the potential for binary outcomes in the asset class, this would be acceptable, but the quasi-binary nature of the asset class means that diversification is more important than traditional private equity asset classes.

#### The Way Forward

As with any asset class, manager selection and diligence is critical to investing in the asset class. Specific to this asset class, diversification should be central to your investment decision making process. If the appropriate portfolio design considerations are made, the asset class looks promising to deliver exceptional performance!

About the Author: Edward Truant is a principal of Balmoral Wood Litigation Finance, a litigation finance fund manager based in Toronto, Canada. The author can be reached at [edwardt@balmoralwood.com](mailto:edwardt@balmoralwood.com).



# YACHT CHARTER

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## FALLING IN LOVE WITH THE AMALFI COAST 7 ESSENTIAL PLACES TO VISIT ON YOUR NEXT CHARTER VACATION IN ITALY

While the French Riviera has the greatest concentration of superyachts, the Amalfi coast is a strong competitor, able to boast some of Europe's most important historical sites, impressive restaurants and luxury brands all within the same stretch of unique scenic coast. Whether you and your family are looking to visit only a couple destinations or try to see it all within a week-long charter, the close proximity of these 7 destinations often visited by the rich and famous, provides the fantastic advantage of falling asleep in one town and waking up the next day to a strikingly different locale.

### Naples

Bustling Naples is a magnificent metropolis of towering apartment buildings, narrow alleyways and cobblestone streets. As one of the world's longest inhabited cities, there is rich heritage to explore, with castles, museums and an 18th Century opera theatre scattered across the urban setting. And of course,

no trip would be complete without sampling pizza at its birthplace. As another art form, the cuisine of Italy is ever-evolving and there is far more than the traditional image of pasta and ice cream to discover. Palazzo Petrucci is a Michelin Starred restaurant with a menu as impressive as the views across the harbour, where the city lives under the shadow of Mount Vesuvius. Catering to allergies and different dietary requirements, Palazzo Petrucci offers the sophisticated taste of Italy and a memorable evening along the Coast.

The oldest continuously active venue for public theatre anywhere in the world, Teatro di San Carlo is an essential stop for culture lovers who want to experience opera (running from January until May) or ballet (April until June) as it was originally intended. Before heading to Pompeii, tourists can visit Mount Vesuvius to see the geological power still seething from the dormant volcano. An awesome natural sight

looming over Naples and distinctive landscape visible even from the island of Capri, the volcano could one day change the skyline of the Amalfi Coast forever.

### Pompeii

The famous site of Pompeii is only a short journey from Naples, making this UNESCO World Heritage Site an easy stop on your trip. When the settlement was rediscovered and excavated, archaeologists found empty pockets within the ash: by pouring plaster within, the casts revealed the final moments of the town folk. A selection of these casts are still on display today.

As an affluent settlement Pompeii is filled with artistic details: whether taking in the mosaics of Casa del Poeta Tragico, the statues in the gardens of Casa di Ottavio Quartione or the remains of the Forum, the ruins make for a tranquil visit, if an unnerving testament to the power of nature.

### Positano

Positano is much like a miniature Amalfi: a laid-back atmosphere pervades the streets and historic buildings fill your view in every direction. What differentiates this town is a single road for motorised vehicles, reducing the noise within the town and creating a far more pedestrian-friendly environment. Wisteria vines arch over the steps leading up from the sea into the hills and add to the charm of a town where browsing art galleries, cafes, unique shops and



snapping photographs are the ideal pastimes.

### Sorrento

For travellers who want to see as much of the Amalfi coast without travelling too far, Sorrento is ideally placed for visiting Capri, as well as Pompeii and Amalfi.

The town itself has a population of fewer than 20,000 and in the summer months this can double from an influx of tourists looking to escape everyday pressures and enjoy nothing more than a simpler way of life. Down the back streets, visitors will find a rich medley of architectural styles and sustained cultural traditions, including wall shrines to local heroes as well as Italy's most popular saint, Saint Mary. From Marina Grande up to the ancient walled city, shops display a massive variety of lemons and products made from the fruit.

### Amalfi

The town after which the coastal stretch is named is densely packed with historic buildings and fishing boats that create an unassuming front to this once powerful town. Amalfi's historical significance coupled with her striking landscape and laid-back pace saw her rise again as a tourist destination. Many famous personalities, including Richard Wagner and Henrik Ibsen have also stayed in the town. The imposing cathedral (also known as the Duomo di Amalfi and Cattedrale di Sant'Andrea) looms over the town square



## CONTINUED FROM PREVIOUS PAGE

### YACHT CHARTER



in a stately blend of Byzantine and Gothic styles and is perhaps the biggest attraction for tourists. The imposing stairs lead up the cathedral entrance, where the oldest post Roman bronze doors conceal sacred relics from the holy crusades within. Saint Andrew is buried within the crypt, having been brought from Constantinople during the crusades. Not only is Amalfi Cathedral a worthy visit for the religious, the architecture and artwork within is astounding and deserving of a closer look.

#### Capri

A short trip from the mainland towns of Sorrento, Positano or Naples, Capri is a small island with plenty to occupy the young and old alike. The Blue Grotto is Capri's most famous natural attraction: the limestone in the cliffs forms the walls, ceiling and bottom of the grotto, and when sunlight is reflected a brilliant blue glow appears to emanate from the waters under your boat. The Green Grotto and White Grotto are accessible on the other side of Capri and well worth a visit away from the crowds of the major town if you have the time. The Gardens of Augustus are a must-see, offering

spectacular views of the winding Via Krupp road, profuse flowers in the late spring and summer months and numerous examples of the region's traditional hand-painted Majolica tiles.

#### Anacapri

The second largest town on the island has fewer tourists and plenty of atmospheric locations, making Anacapri an attractive prospect for holidaymakers looking for a quieter break. As with Capri, Majolica tiles decorate public spaces both outdoors and inside, and nowhere is this art form more spectacular than in the San Michelle Church where 'Paradise on Earth' is depicted in the floor tiles.

For visitors wishing to discover more about the famous and infamous antics of the nobles and artists who holidayed and lived on the island, Villa Lysis and Villa San Michele are two perfect destinations to round off the trip.

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- > Asia Wealth Distribution and Main Growth Driver
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- > Best Practice and Expansion of Asian Family Office
- > How to Run a Sustainable Private Banking Business in Asia
- > How to Increase Scale While Maintaining Revenue Margins
- > Citizenship Planning & Cross-border Investment
- > Combination of Robo-advisor and Face-to-face Advice
- > IT application On Private Banking Business

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# THE BENEFITS OF USING

## A BOUTIQUE INVESTMENT MANAGEMENT COMPANY

by: Luciano Lombardo

I have worked in the financial services industry since the summer of 2006 and I am privileged to have worked for some of the largest financial institutions in the UK, if not the world. Each role I have held within a large institution has had the same objective, to provide suitable financial advice and guidance to affluent Private Clients. Six months ago, I made the decision to step away from working for a large organisation and move to a boutique investment management company based in Jersey.

This change and the experience I possess has provided me with a unique insight into the difference in the provision of financial advice to Private Clients within both large and small organisations.

My experiences have highlighted to me that the size and scale of a Financial Services business can significantly influence the provision of investment advice to clients and directly impacts upon the experience they have. As regulation has tightened across the industry, large financial institutions have become increasingly 'risk averse' regarding their own investment propositions and have completely moved away from creating investments that are unique to the client.

This has resulted in the wide scale adoption of a vanilla 'Fund of Fund' based investment approach, allowing the company in question to divert the risk of potential mismanagement away from themselves to the relevant external fund managers. By using this approach the organisation removes themselves from the investment management process and minimises the chances of being pursued by clients, ombudsmen and regulators for remuneration.

In theory, this type of proposition provides Private Clients with numerous benefits. It will provide a 'hassle free' solution that will allow them to benefit from the expertise of multiple fund managers, each with a specific skillset relevant to either a particular



Luciano Lombardo  
Wealth Manager

geographical location or asset class with the addition of the investment oversight of the organisation that has created the proposition. The institution will select the individual funds itself, creating a highly-diversified investment portfolio, with the ability to alter asset allocation decisions based upon the changing global economic climate, driven by an Investment Committee that meets periodically.

In practice, the situation can be very different. A natural outcome from the use of multiple fund managers is generally a severe lack of clarity and ultimately confusion for the client. A typical fund of fund proposition adopted by a large financial institution will normally possess in between 20-30 different mutual funds. Each fund can potentially hold in between 20-40 different direct investments, if not more. If the proposition is successfully screened in



order to not invest in the same underlying investments, the situation that investors can face is that they are invested in hundreds of different direct holdings.

Whilst I completely agree that this will achieve the institutional objective of reducing the level of investment risk experienced within the proposition, the outcome for the client is often that any out-performance (alpha) that has been generated, is diluted across the vast number of investment holdings. I have also noticed rising positive correlations in 'off the shelf' strategies which may perform detrimentally when markets move into the reverse.

Investors face a further hurdle due to the lack of transparency regarding this type of investment. Often investors are only made aware of the top ten investments held within the fund, with little clarity provided on where the rest of their money is invested. Therefore, it can become extremely difficult and confusing for a client to interpret the reasons for their investments' performance, whether good or bad.

A major outcome from the improvement in financial regulation is that the cost of financial advice and investment management now receives more attention than ever before. Large Financial Organisations will often include a number of different charges, that will have an erosive impact on the performance of a client's investments. Initial charges often relate to the cost of the financial advice a client has received and the administrative costs that a company will bear in order to invest on behalf of a client.

This upfront entry fee is often a percentage of the initial amount invested, meaning that clients who invest larger initial monetary sums will pay more for the financial advice received, then they would if they invested a smaller monetary figure. The initial fee charged by a large financial institution could potentially be justified should that company possess a wide number of different investment solutions. However, more often than not, the client will have to choose between 2-3 different options, highlighting a 'one cap fits all' approach, rather than providing a bespoke solution that relates to the client's objectives. Ultimately, the main difference between a Private Client choosing to invest

money with either a large or small company stems from ability of either one to make the client feel 'valued'. From my experience, client's feel 'valued' when they feel like they matter and when they feel like they are in receipt of a service that they cannot easily be provided with elsewhere. This is where, in my mind, boutique investment management companies have a competitive edge over larger institutions.

A rising number of clients feel dissatisfaction at how 'automated' the financial services industry has become. Whether you look specifically at day-today banking, financial advice or investment management, it is clear to see that technological advances have shifted the client experience from 'personable' to more 'automated'.

Boutique investment companies are rarely automated, are able to treat clients individually and do not suffer from the consequences of 'scale' that hinder larger organisations. Bespoke, 'client centric' investment mandates can be generated and implemented that will be 'custom made' to suit the needs of the client rather than be designed to simply generate an income stream that will improve the profit margin of an institution. A 'Boutique' will often base a 'bespoke investment portfolio' on direct investment into fixed interest securities, equities and other asset classes, providing clients with transparency and the ability to monitor investment performance.

Direct investing also provides clients with a more 'cost effective return' as there is a significant cost saving in comparison to the multiple layers of fees levied by larger institutions and their fund of mutual funds.

In the food retail industry it is the smaller bespoke enterprises that offer high quality products and personal service. These establishments are popular with the discerning client who would generally avoid the large mass-market supermarkets such as Asda and Tesco. It is somewhat perverse that 'gatekeepers' often steer clients towards the financial supermarkets rather than bespoke purveyors of quality financial advice.

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# IS A SINGLE FAMILY OFFICE REQUIRED TO BE LICENSED IN SINGAPORE?



Sebastien Hayoz, Director,  
Client Services, Asiaciti Trust

The Monetary Authority of Singapore ('MAS') recently issued new guidance on the licensing and registration of fund management companies to clarify the regulatory treatment for single family offices ('SFOs').

In the absence of a definition under the Securities and Futures Act ('SFA') or the Financial Advisers Act ('FAA'), a SFO refers to an entity which manages assets for and on behalf of only one family<sup>1</sup> and is wholly owned or controlled by members of the same family.

MAS confirmed that it has no intention to license or regulate SFOs and will therefore maintain the current class exemptions under the SFA and FAA subject to successful application by the SFO.

The first exemption is for a corporation which manages funds for its related corporations. Typically this would take the form of a Group holding company having the sole and entire participation in the SFO and the Investment Fund managed by the SFO itself. The corporation may rely on the licensing exemption under paragraph 5(1)

(b) of the Second Schedule to the Securities and Futures (Licensing and Conduct of Business) Regulations. Alternatively, a corporation that provides financial advisory services to its related corporations may rely on the licensing exemption under regulation 27(1)(b) of the Financial Advisers Regulations.

If the entity does not fall under the two above mentioned exemptions but in substance manages funds on behalf of a single family only, it may seek a licensing exemption from the MAS under section 99(1)(h) of the SFA.

The application for exemption to be a SFO which can take between two and four months depending on the complexity of the arrangement shall include the following information to facilitate MAS' assessment:

- Names of the shareholders and directors of the SFO;
- A chart depicting the shareholding structure of the SFO;
- A description of how the SFO is related to the investment fund vehicle and the family/beneficiaries;
- A description of the profile of the family whose assets will be managed by the SFO; and
- A description of the nature of activities to be carried out by the SFO.

Broadly speaking, the typical SFO arrangements considered by MAS are as follows and it is therefore advisable to include such information when applying for licensing exemption:

- Where there is no common holding company, but the assets managed by the SFO are held directly by natural persons of a single family;
- Where assets are held under a discretionary trust, the settlor of the trust and the beneficiaries are members of the same family;
- Where a family trust is set up for charitable purposes, the charitable trusts are funded exclusively by settlor(s) from a single family;
- Where non-family members such as key employees of the SFO are shareholders in the SFO for the purpose of alignment of economic interest and risk-sharing, the initial assets and additional injection of funds are funded exclusively by a single family.

Singapore has demonstrated its top position as one of the world's leading centres for investment funds and asset management, with approximately US\$1.8trn of total assets managed by Singapore-based asset managers, according to MAS 2015 data.

Its political stability, well respected regulatory standards and friendly tax system offer an attractive environment for local and international business.

MAS refers to Singapore as the 'Global City, World of opportunities' and with the clarity now given reinforces its strong commitment to its asset and wealth management industry. Singapore offers the stability and regulatory security which are two key components for wealthy families and Ultra High Net Worth Individuals when considering the establishment of a family office, the opening of a foreign branch in the APAC region or even the relocation of the family office headquarters.

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services provider. For 40 years we have delivered specialist fiduciary and administrative services to individuals, intermediaries and corporations.

The Group is headquartered in Singapore, and has additional operations in Hong Kong, the Cook Islands, Dubai, Nevis, New Zealand, Panama and Samoa. We are Asia Pacific focused with global reach, able to offer structures and solutions in almost any jurisdiction via our extensive international network.

Asiaciti Trust was established in 1978 by our founder, Graeme W Briggs. Over time the Group has expanded steadily and is now one of the most recognised and professionally respected names in the industry. We remain family owned and fully independent.



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## DAVID FOWKES JEWELLERY

Fabulous, artisan cut gemstones are the focal point of David Fowkes Jewellery. He has sourced a wonderful selection of stunning quality gems, ready to become part of a unique collection of jewellery. Not only is David widely known for his use of wonderful coloured gemstones, he is also one of the leading jewellery designers to use boulder and black opal. Exquisite Australian opals are at the core of the David Fowkes Opal-collection. Working

closely with both the miners and the cutters, David has the luxury of being able to "cherry pick" the finest opals for his creations. Together with his in-house opal cutter he can create unique opal cuts you wouldn't see anywhere else. The opals David prefers to use originate from a few selected mines in Australia. Different colour spectrums are often found and mined within close proximity to each other, but the prevalent conditions of their "birth" can

result in a whole diversity of colour and intensity. With this in mind, David will choose the mines in order to generate an interesting variety of these alluring rocks. Throughout history, gemstones have been associated with various beliefs and superstitions. Even today, opal might be considered by some as being unlucky; a closer look into the history of gemstones explains it all. Queen Victoria adored opals and opal jewellery, which made them very

## THE CREATION OF THE UNIQUE





fashionable in that era. Around the same time in 1900 black opal was discovered, and its hypnotizing beauty captivated the gemstone market. Due to its unusual, exceptional dazzle it was immediately perceived as an incredibly lucky and desirable stone. Diamond dealers, who feared losing their clients to this newly found competitor, released the rumour of opals being unlucky in an attempt to protect their business. Another possible reason for the negative reputation of the opal might have come from the jewellers' themselves: due to its brittle nature, opal can be difficult to cut and complex to set. These issues can be dealt with through knowledge. The understanding of how to treat and set opals is much better these days than in times past. Opals naturally contain water, which partly gives them their mesmerising radiance and life. They are

wonderfully equipped for every day wear. All one needs, is a little understanding of how to care for opal jewellery. The hardness of an opal is about the same as glass, hence it is important to treat your opals with care. It is also vital to avoid heat or rapid temperature changes as most precious opals contain 5-6% water, they might crack or dry when exposed to heat or stored in a warm place. Should opal jewellery need cleaning, warm water and mild detergent with a soft toothbrush is the best way to do it. There is no need to store your opal in a damp cloth – a misconception that is deeply rooted in the minds of many. Even though opals do contain some water, this doesn't mean that water will penetrate them and enhance their colour or durability. Things that do damage opals are strong detergents, perfumes and cleaning products. Normal hand wash should not damage an opal ring.



What makes an opal so uniquely change its colours like a flashing fire? Opals are very unique compared to other gemstones as they do not take on the typical crystalline form. Opal is made up of different sized microscopic spheres. This difference in size of sphere reflects different colours. The play of colours, or the "fire", is caused when white light is absorbed into the opal structure, which in turn flashes intense colour and light. To enhance the play of colours, David likes to add high quality diamonds into his opal creations. Like the opals themselves, each design within the Opal-collection is exclusively unique and has its own personality.





# DON'T GET HACKED

## CYBER SECURITY FOR THE FAMILY

On a daily basis the media is flooded with reports of cyber security breaches. The victims appear to be targeted indiscriminately impacting families and companies alike. There are plenty of statistics available but the two most relevant are the recent Crime Survey of England and Wales that states 50% of all crime is cyber related, supported by the Center for Strategic and International Studies findings that it costs the global economy \$300 billion annually.

Why and how are families being targeted? In short they are the easiest to target. Children are very relaxed about sharing their personal details and therefore the most successful attacks we see are a result of phishing. Phishing is when criminals send texts, emails, or pop-up messages to trick people into sharing their personal and financial information. They are very effective when combined with ransomware, resulting in significant losses. This is usually the stage that S-RM first meets our clients. We've seen a 45% increase in cyber extortion and hacking cases in the past 12 months.

Whilst it may feel that there is a certain inevitability about being hacked there are a number of things families are able to do to protect their reputation and hard-earned cash. Prevention and preparation go hand in hand. Simplicity and proportionality is key to hardening the family cyber security posture and ensuring that if you are breached you have a clear and workable plan in place to respond.

Technology is only partly the answer, such as keeping security software updated on all devices and apps. It is also important to get the fundamentals in place - the family needs to agree on their values and how they apply in an online context. If everyone is clear about the values and acknowledge what the information 'crown jewels' are, it will help the family make more sensible decisions when they are online. This needs



Lawrence Shindell  
ARIS Title Insurance

to be an ongoing conversation as it will take time for it to sink in with the children who will need regular reminding. Phishers often get to the family through attachments that look interesting and contain malicious software, such as free promotions, movies, music and access to fan sites.

At S-RM we see at least one client per month who has clicked on an attachment and has unknowingly downloaded malware or whose children have filled in details on a 'too good to be true offer'. Usually, having downloaded their malware, the hackers have waited weeks or months before making their move. This enables them to mimic the email of the victim and contact their bankers or advisors using a similar style of email. The hacker will then take control of the victim's email and ensure that rules are set up to send incoming mail into specific folders so that the victim is unaware of what is going on. The loss of funds have ranged from



£100,000 to over £1m. In addition, address books of the victims have been copied and similar thefts have been attempted on their friends and relations. Swift action at this point has helped cease the losses, protect reputations and enabled the limited recovery of funds.

These are some basic rules for keeping the family cyber safe:

- Trust your instincts – if something seems too good to be true, it usually is.
- Don't click on attachments from unknown sources, and take caution opening attachments from known sources if they seem unusual or out of context.
- Don't reply to text, email, or pop-up messages that ask for personal or financial information.
- Avoid clicking links in email messages, particularly from unknown sources. Where possible, manually go to the website by typing in the address into your browser.
- Don't give personal information on the phone in response to a text message.
- Use security software and update it regularly, especially on your apps.
- Check your bank account statements for unauthorised charges and transactions.
- Show your children examples when you get a phishing message so they can learn to identify them.
- Make sure you have strong passwords. You should change them every so often, however you don't need to change them all the time if they are strong. It is important that passwords are kept private, easy to remember and hard to guess.
- Watch out for scams - when disasters happen, good-hearted people, young and old, can be vulnerable to fake appeals for help.
- Use secure Wi-Fi and ensure your home network uses encryption and a password.
- Use geolocation sparingly and disable it for all apps, except those you specifically need it for.
- Lock down your social media and check the security settings regularly, because sites such as Facebook regularly change them.

- Don't post anything anywhere on the internet if you don't want the world to see it. A good analogy is to imagine you are writing a postcard – if you are happy for anyone to see the content then you can post it on social media.

- If you are breached, ensure you have a plan in place in order to speak to your advisors, security, PR.

- And least popular of all... consider having children using their devices in a semi-public area at home, not locked away in a room and think about setting limits on how often children can be online and how long those sessions should be. A friend of mine allows the devices to be fully charged at the start of the weekend. He takes all chargers and when the battery runs out screen time ends. That breeds different behavior and his daughter uses her devices sparingly then has her brothers running errands in order to earn screen time from her!

#### Heyrick Bond Gunning

Heyrick is the CEO of S-RM. As well as leading S-RM, he keeps close to the clients and is responsible for the development and strengthening of existing client relations across S-RM. He has over 25 years of experience managing risk and prior to joining S-RM in 2006, he was the Managing Director of Security Consulting at Kroll, where he was also Head of Kidnap for Ransom.

He previously consulted to DHL for a year in Iraq, flying into the country the day the second Gulf War ended and setting up a business with annual revenues in excess of \$70m. In 2000, he was the Head of Client Engagement at Mergermarket, a financial services information provider, servicing clients in EMEA and USA, before which he served in the British Army.

Heyrick has an Honours Degree from the University of Manchester, specialising in Anatolian Archaeology, is an Alumni of INSEAD Business School and in 2004 his first book 'Baghdad Business School' was published.

[www.s-rm.co.uk](http://www.s-rm.co.uk)



# AROUND THE WORLD WITH EXCHANGE TRADED FUNDS

## MORE THAN JUST A PASSIVE VEHICLE

The narrative around the growth of ETFs continues apace, as most of you reading this article will know. For those of you who don't – a quick recap. And no, we are not an ETF provider. We are an established boutique investment management firm that identified the advantages of portfolio construction with ETFs in 2007 – when the industry had "just" over \$500bn in assets.

Since the start of the explosive growth in ETFs over the last 10 years, these vehicles have been used to allow easy, very low cost, transparent access to a multitude of markets and asset classes. They have been utilized by virtually all types of investors. These range from financial advisors who were the early adopters, to sophisticated institutional pension, hedge fund, and asset management firms to do-it yourself retail investors, and more recently robo-advisors. In short, they are being adopted across the spectrum, and have even peaked the interest of traditionally harder to reach foundations and family offices.

ETFs have evolved to provide one-stop shopping in the investing supermarket, even incorporating factor based investing and risk management of all types. The result is a dizzying array of ETFs to provide access to virtually any capital market exposure you care to take. Today, there are over 12,000 listings from almost 300 providers on 65 exchanges in 53 countries, according to ETFGI - the leading independent research and consultancy firm on trends in the global ETF/ETP ecosystem.

At end February 2017, assets invested in ETFs/ETPs listed globally stood at US\$3.84 trillion, yet another record high, achieved after three plus years



Susanne Alexandor  
Cougar Global

of consecutive monthly inflows. 2016 recorded the largest annual inflow since the widespread adoption of ETFs. While the trend began in the U.S. market, which accounts for about 70% globally, virtually every other major region – Europe, Asia, and even Canada, is coming on strong.

Canada celebrated the 25th anniversary of listing the first ETF on an exchange, the TIPs (Toronto 35 Index Participation Fund) tracking the TSX 35 index. The TIPS ETF listed in Canada nearly three years before the first ETF the SPDR S&P 500 ETF (SPY) was listed in United States on January 29, 1993. Another Canadian export that (as usual) most people outside of Canada don't know about.

1993 also marked the formation of Cougar Global

Investments as an investment management firm as a global asset allocation manager. The aim of the firm was to provide an alternative to the proliferation of mutual funds and brokerage services and provide the type of high-caliber, globally diversified investment management to high net worth individuals that pension funds had access to.

With its macro-oriented approach, clients were offered a manager of manager portfolio, incorporating some of the best investment talent available in the industry at the time. This approach was ultimately improved upon in 2007 when Cougar Global decided to adopt ETFs as its implementation tool. Cougar Global was both a pioneer in global asset allocation and an early adopter of ETFs as it made its global asset allocation decisions.

The equity bull market that began in the late 80s and continued through the 90s, as today and every decade in investment management, brought about great change. This era saw the proliferation of mutual funds, which provided access to great investment talent, access, and diversification to the mass affluent. They helped provided pools of capital to the firms that went public, distributed by in house advisors. Of course, some not insignificant fees went along with all that. However, it seemed everyone won. Until the tech wreck, 9/11, and eventually the market meltdown in 2008 changed everyone's attitude towards risk.

So, let's talk about risk. Do you want to make money when markets are going up, but want to avoid losses when in a bear market? Welcome to the club. No matter if you are the most sophisticated, or unsophisticated investor in the world, this is what everyone wants and tries to achieve. Investors dislike losses a lot more than they like gains.

This theory was proven mathematically by behavioral psychologists Daniel Kahnemann and Amos Tversky, who were awarded the Nobel Prize in economics (2002) for doing so. They helped provide an alternative to the modern portfolio theory definition

of risk, generally accepted as Markowitz's modern portfolio theory which is still widely used for portfolio construction today. Even Markowitz however suggested his modern portfolio theory, which gave rise to a risk/reward framework for investors, was limited by the computing power that existed at the time. Mean variance optimized portfolios were "du jour" in the 60s, but can be improved upon with advances in computing power. Today, we can capture the types of risks Markowitz would have liked to have incorporate. With today's computing power we can capture and construct portfolios for the real world, unlike the strategic ones captured by defining risk as standard deviation around a mean, is a meaningful advancement, similar to the internet, chip technology, and the iPhone. We all know that when there are "Black Swan" events such as 9/11, the "tech wreck", and the 2008 meltdown, investors buckle down.

This is when risks in a negative macro environment are not symmetrical around a mean. This is when no matter how good a stock picker you are, the likelihood of losing money increases dramatically. Conversely, this is when even in a favorable macro environment, a bad stock picker has a high chance of making money.

The investing world has always been an uncertain place. Bear markets can result in significant losses. The advancement in computing power combined with the many investment opportunities created by ETFs allow for a completely different portfolio construction option. One that can be geared to achieving outcome based investing by taking an active approach to risk managing you portfolio based on the macro environment which we all know is important to managing equity risk. After all, who says the S&P or any index should be your personal benchmark, when all you really care about is consistent returns.





# CANNABIS INVESTING BOILS DOWN TO FAMILIAR FUNDAMENTALS

By Chris Ganan Chief Strategy Officer, MedMen



The numbers are impressive, and familiar to many who follow the U.S. cannabis industry. Triple digit growth in recreational marijuana sales in recent years and predictions of more than \$50 billion in total annual sales within the next decade. The recent passage of recreational marijuana in California, Nevada, Massachusetts and Maine, and new medical marijuana laws in Florida, Arkansas and North Dakota have served only to solidify those predictions. This is by far the fastest growing industry in the U.S. today.

Naturally, there has been a lot of investor interest in the space. From an investment perspective, the federal ban actually creates significant opportunities since it limits options for traditional financing. Given the large addressable market and the general lack of liquidity, much has been written about the "Green Rush." It is easy to get caught up in the novelty of it all. But here's a newsflash; the cannabis industry is governed by the same fundamentals that govern every other industry. Knowledge is still power, and it boils down to evaluating

and mitigating risk. The regulatory environment is highly fragmented and rapidly evolving, while the underlying business is operationally intensive. Understanding the various layers is key for investors to achieve outsized, risk adjusted returns.

## UNDERSTANDING THE MARKET

The federal ban makes investing in marijuana an inherently risky proposition, but it is only one factor in the risk assessment, and not a very big one if you understand the facts. The U.S. Congress has prohibited the Department of Justice from cracking down on legal medical marijuana programs as recently as December. Medical marijuana is legal now in 29 states and accounts for roughly a third of the \$7 billion market. Given that public support for legalization is the highest it's ever been, and the near sweep of pro-marijuana state measures in 2016, it is unlikely that Congress will change its stance. A bigger challenge for cannabis ventures is the patchwork of state and local regulations



that govern business operations. Practically speaking, there is no such thing as a national cannabis market, say in the way that there is a soda market. The legal cannabis market is hyper-fragmented along state, and sometimes municipal, regulations. New York, for example, has issued only five medical marijuana licenses for the entire state. Licensees are highly restricted on what they can produce and sell limiting their ability to diversify offerings, but the small number of licenses also means less competition and potentially big returns.

On the other end of the spectrum, California was the first state to pass medical marijuana, but the state legislature took nearly two decades to formally regulate the program, allowing a huge grey market with thousands of businesses operating in this arena. Today, California is the biggest marijuana market in the U.S. Los Angeles alone accounts for an estimated \$1 billion in medical marijuana sales a year. New state regulations for both medical and recreational marijuana will go into effect in 2018, and are expected to profoundly shape the way the industry operates going forward. Investors who understand those impacts will be better equipped to evaluate winners and losers.

#### UNDERSTANDING INVESTMENT OPTIONS

The Green Rush has spawned myriad investment opportunities, including venture capital, private equity and several public companies, most of them traded in the over-the-counter stock market. The over-the-counter exchanges are less liquid, transparent and regulated than traditional stock markets such as the Nasdaq or the New York Stock Exchange, making such investments highly speculative.

Late last year, San Diego-based Innovative Industrial Properties became the first cannabis-related company to be listed in the NYSE. IIPR is a real estate investment trust that seeks to acquire properties and lease them to plant touching companies, meaning they work directly in the production and distribution of cannabis. Companies that offer ancillary services or products to the industry have garnered some attention. For instance, Scotts Miracle-Gro (NYSE:SMG) has positioned itself as the premier supplier for indoor marijuana growers. Both companies offer some risk mitigation for investors, real assets in the form of commercial buildings in IIPR's case and Scotts Miracle-Gro is a household name that does

not depend on marijuana for its core business.

Venture capital and private equity are two other popular cannabis investment vehicles. Generally speaking, venture capital invests in start-ups with high growth potential, whereas private equity firms buy existing companies and take over management in an attempt to increase revenues and value. Investors also may opt to invest directly in start-ups, marijuana related real-estate or private companies.

Regardless of the investment option, at the core of any successful cannabis investment strategy should be a clear understanding of the regulatory landscape, and a deep grasp of the complex nature of cannabis operations. Running a cannabis business involves a lot more than knowing the difference between sativas and indicas. Does the company or venture you are interested in have the expertise to run and scale a successful operation?

The industry is quickly becoming institutionalized requiring top notch expertise in fields like agrotechnology, chemistry, marketing, operations and logistics, to name a few. Some of the most cutting edge techniques in indoor cultivation like new LED lighting technology, for example, are being developed in the cannabis industry today.

The offerings are so many and the market is growing so rapidly that even sophisticated investors are tempted to skip the fundamentals. But it is important to remember that this is less about investing in marijuana, and all about investing in solid business models backed by the right premise, and the right people.

About the author:

Chris Ganan is chief strategy officer of MedMen, a leading cannabis firm based in Los Angeles, and a general partner of the firm's investment fund. Mr. Ganan will be a featured speaker at the Institutional Capital & Cannabis Conference, March 28 through 29 in San Jose, California. The conference, the country's first ever cannabis expo for institutional and accredited investors, is collaboration between MedMen and IMN, a global organizer of institutional finance and investment conferences.

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