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# FAMILY OFFICE MAGAZINE

AUTUMN 17 ISSUE

## ARBUTHNOT LATHAM PRIVATE BANKERS

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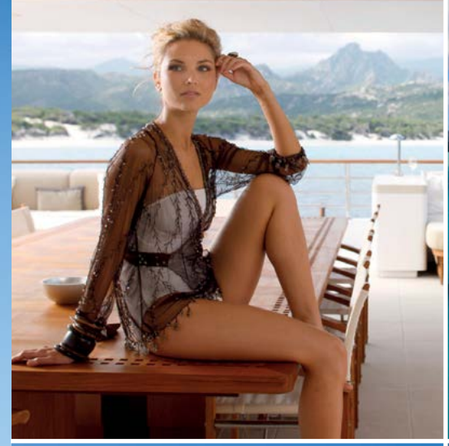

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PRICE WATERHOUSE COOPERS
07 IMPACT ASSURANCE

FAMILY OFFICE
PSYCHOLOGY
09

CYBER CRIME EXPOSURE
PROTECTING HNWI
11

ROLLS ROYCE
'IN FUXIA'
13

ATTEMPTS TO DEFINE "FINE WINE"
21

YACHT CHARTER
WINTER VACATIONS WITH CHARTER WORLD
23

FAMILY OFFICE
IMPORTANCE OF SECURITY
27

PROTECT YOUR TRUSTEES
33

FAMILY OFFICES
BLOCKCHAIN
39

HONG KONG'S FAMILY OFFICE
41

ING BANK
REAL ESTATE IN FRANCE
45

WEALTH MANAGERS AND FAMILY OFFICES
47

JAPANESE STOCKS A CONTRARIAN VIEW
59

HOLDUN
FAMILY OFFICE
55

Anthony & Cie
LIFE INSURANCE
57

FAMILY OFFICES
VAT ISSUES
61

FAMILY OFFICES
RESOLVING ISSUES
87

ESTABLISHING
THE OFFICE
69

HELICOPTERS
BEST MAGIC CARPET
73

BOND PORTFOLIOS
77

FAMILY OFFICE
PASSION INVESTMENTS
83

ARBUTHNOT LATHAM PRIVATE BANKERS
DECODING THE TECH PHENOMENON
03

THE ASCENT OF INTANGIBLES
87

FAMILY OFFICES DISRUPTING WALL ST
89

# DECODING THE TECH PHENOMENON

StJohn Gardner, Head of Investment Management at Arbuthnot Latham

ARBUTHNOT LATHAM
*Private Bankers*
Since 1833

StJohn Gardner, Head of Investment Management at Arbuthnot Latham, explores the recent performance of 'FAAMG' stocks. Is the boom in technology stock prices reminiscent of the 2000 dotcom bubble or a justifiable performance?

StJohn Gardner
ARBUTHNOT LATHAM

FANG, FAAMG and FANTASY – a variety of acronyms that are being embedded in investment literature more and more, referring to a combination of companies such as Facebook, Amazon, Apple, Microsoft and Alphabet (Google) - FAAMG. We loosely interpret these acronyms to cover mega-cap tech stocks, which have performed extremely well over the last 12 months.

According to Goldman Sachs, the FAAMG stocks alone have added $600 billion of market value from the start of 2017 to June 7th, the equivalent GDP of Hong Kong and South Africa combined. At the end of May, Apple made up 1.97% of the MSCI All Countries World Index, Alphabet 1.44%, Microsoft 1.25%, Amazon 0.97% and Facebook 0.86%, all totalling 6.5% of the index. This means that when these stocks move, they have a disproportionate effect on global markets, and particularly US markets.

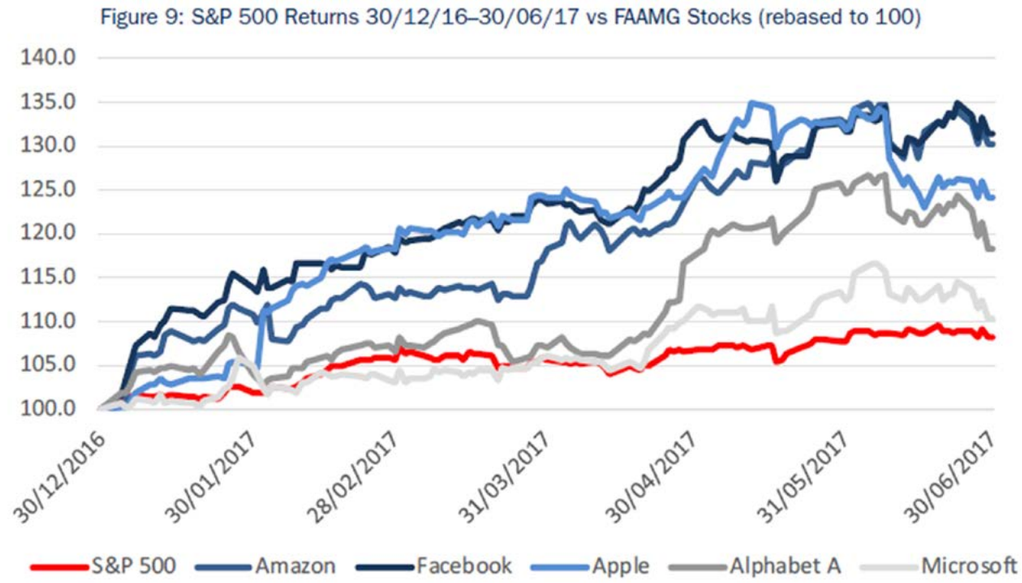
It is this characteristic that causes us to analyse the contribution these companies have on index returns, as well as reassess their current valuations. The S&P 500 year to date has returned around 8%, and the NASDAQ (typically a tech-oriented index) around 14% over the same period – the chart below demonstrates the extent to which some of the FAAMGs have outperformed the market.

The FAAMGs have delivered excellent returns, and they have done so with very low volatility. Technology has always been one of the more volatile sectors, but now the sector behaves with volatility lower than the average S&P 500 stock, even below the historically stable staples and utilities sectors. A problem can occur however when investors focus on the low realised volatility in their analysis, as this can lead them to underestimate other risks within these companies, such as regulation, antitrust issues, cyclicality etc.

**"FAAMG stocks alone have added $600 billion of market value from the start of 2017."**

Furthermore, these companies receive a disproportionate inflow of capital from global passive exchange-traded funds (ETFs), which creates a bias towards technology as well as the US, which provides even more upward pricing pressure. This means that investors may be more exposed to these stocks than they think, so it is important to ascertain whether the current valuation multiples are justified in order to avoid a painful sell-off.

Amazon and Netflix, which have returned around 33% and 28% this year respectively, are two of the highest




S&P 500 Returns 30/12/16 - 30/06/17 vs FAAMG Stocks (rebased to 100)

valued companies within this group. With Amazon trading at 188 times earnings and Netflix at 208, in comparison to the S&P 500 at 23, it is easy to see that valuations in basic terms are extremely high. Analysts at Goldman Sachs recently rocked the markets after releasing a report suggesting that these valuations are stretched, and against the average company in the S&P 500, it would seem that they are correct.

But companies like Amazon are not your average company in the S&P 500, and the recent market-beating performance can be justified by the fact that these are market-beating companies. The average growth rate for the S&P 500 is just over 2%, whereas for Amazon, it is around 20%. The company started in 1994 with founder Jeff Bezos selling books online from his garage in Seattle – today, the company is valued at $466 billion.

Such stretched valuations and optimistic assumptions naturally draw comparisons with the infamous 'Dotcom Bubble' in the late 90s and early 2000s, which included some of the same companies. That ended badly, with many businesses either folding (e.g. Pets.com, eToys.com) or suffering enormous losses in value (e.g. Cisco falling 86% in 18 months, or Intel 81% in a similar period). However, many firms emerged wounded but stronger, and for all the superficial similarities we see many more fundamental, and less worrying, differences.

For one, the five largest technology stocks in 2000 (Microsoft, Cisco, Intel, Oracle and Lucent) at their peaks were trading at an average of 58 times their two-year projected earnings. This time, the figure is a 'mere' 23 times two-year projected earnings, with only Amazon above 25x, as reported by Goldman Sachs. In a similar vein, the five largest technology stocks in 2000 made up a larger proportion of the S&P 500 index's total market capitalisation than currently – 15.8% in March 2000 compared to 12.6% in June 2017.

**"Amazon and Netflix, which have returned around 33% and 28% this year respectively, are two of the highest valued companies within this group."**

However, what most differentiates these companies today in our view is that valuations 17 years ago were arguably based on dubious business models and intangible 'potential', whereas today's are backed to a greater extent by solid cash generation, expanding customer bases and far bigger cash reserves. FAAMG free cash flow, a measure of revenue from sales minus long-term capital expenditure, is far higher than in 2000, with free cash flow yield three and a half times greater.

What is also noticeable is the recent increase in FAAMG's long-term capital expenditure (Capex), which has grown 17% year-on-year. As technology increasingly moves 'to the cloud', huge investment has taken place in data centres and other 'cloud'-based infrastructure – Amazon generated over $12.2b in 2016 from its 'Web Services' division which provides cloud-based online storage services and computing capacity.

Alphabet and Apple are investing heavily in, amongst other things, Artificial Intelligence and Electric Vehicles respectively. It is evident that FAAMG are becoming ever-more diversified in their revenue streams, and because of their already-dominant market positions and cash reserves, are in pole position to push home their advantage and capitalise on the spread of technology into more and more aspects of our daily lives.

"As technology increasingly moves 'to the cloud', huge investment has taken place in data centres and other 'cloud'-based infrastructure."

Alphabet, Amazon, Apple and Facebook are all top-10 holdings in our dedicated technology fund, Pictet Digital Communications. The fund has returned nearly 18% to the end of May and 47% in the last 12 months, and given our generally positive long-term outlook for these giant technology firms we continue to be happy to hold this fund across many of our main portfolios. Although some risks are present, for instance potential security-related Government intervention and increased regulation on content, the sky remains the limit for FAAMG.

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*StJohn Gardner is Head of Investment Management at Arbuthnot Latham – Private Bank, which serves the Banking, Wealth Planning and Investment needs of High Net Worth Individuals and their Families. StJohn was formerly a Director of Merrill Lynch and Lloyds of London Members Agencies.*

i Goldman Sachs, (2017), Tactical Considerations – Is 'FANG' Mispriced?
ii Factset Data Systems
iii Factset Data Systems
iv Goldman Sachs, (2017), Tactical Considerations – Is 'FANG' Mispriced?
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vi Pictet Asset Management, (2017), Pictet Digital I dy GBP May Fund Factsheet



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# IMPACT ASSURANCE

## PwC

**Alan McGill**
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**Laura Kelly**
**Director, PwC**

Being confident about social and environmental impact claims is increasingly challenging and important. PwC can help provide the assurance which investors and other stakeholders need.

Investors and other stakeholders increasingly value social and environmental impacts, and the market is responding at pace. In addition to charities and social enterprises, there is now a dizzying array of options springing up claiming to deliver social outcomes. New investment vehicles claim to balance the desire for financial and social returns, and various stakeholder groups want to know how they are impacted by activities. Investors considering the range of options available to them need to know what risks they may face and gain assurance on any impact claims, and it is this communication to investors and wider society that is valuable for both transparency and accountability.

**Total impact**

Investors and businesses have long been interested in the welfare of their workers, their impact on the environment and leaving a positive legacy. Investors and consumer opinion are helping to drive the agenda for positive social and environmental impact. Wealthy families are leading the way with campaigns to deliver sustainable change. Businesses and investors are striving to move beyond an operating model that takes a short-sighted view of profit, to focus more on the broader performance of the business, its positive contribution to society and sustainable shareholder returns.

An organisation's total impact spans a wide range of elements going beyond the obvious social and environmental concerns to include economic and tax impacts. Organisations can be proud of their contributions to local and global economies through investment, exports and employment and training initiatives. Corporate, environmental and personal taxation is increasingly considered an important part of an organisation's impact on society to make a fair contribution to government and society.

Some social enterprises and businesses are investing their whole being into an ethical way of working and delivering positive social outcomes. Others are doing the minimum to generate a positive headline while leaving key risks unaddressed. Such business will be exposed by different societal groups if they are found out. The challenge is knowing whether a business' claims are true and what risks and opportunities are involved and how these are being managed.

**Challenges, risks and the need for assurance**

The desire for social impact is nothing new, but the challenges and risks in the marketplace are increasing. Social impact investors and business leaders need to understand the social impact of their business interests in the context of five main driving forces:

- Globalisation has increased the distance between both investors and management and their business operations. As a result, the risks of moral disconnect have multiplied. Neither investors nor business leaders may be fully aware of their social impact across the globe.

- Complex supply chains increase the chance that management are unaware of all the risks associated within it, for example, the working conditions or environmental impact of their suppliers.

- Transparency is increasingly required by investors, consumers and the media to cover the social impact of operations. Competitors are seeking advantage by reporting on their positive social impact as a selling point for marketing purposes.

- Scrutiny by investigative reporters is increasingly uncovering issues in corporate reporting and areas which have previously gone under the radar. For example, tax avoidance by businesses and investors, and the working culture of upstream retailers.

- Social media has increased the ethical risks faced by businesses and investors. Negative stories and images spread around the globe quickly and can cause irrevocable damage to corporate brands and personal reputations.

These five driving forces combine to dramatically increase the ethical risks in doing business. Against this backdrop, together with a growing population seeking a better lifestyle, to be delivered from a planet of finite resources, this is the time for a new business model that delivers the impact society needs.

To address this dilemma, PwC has developed a new reporting framework, Total Impact Measurement and Management (TIMM). This framework enables businesses to develop a better understanding of the impacts of their activities. It gives management the ability to compare strategies and investment choices, and how different parts of society are impacted. Impact measurement is a huge step forward in assisting business thinking on an integrated basis.

**Impact assurance**

When assurance is desired over new kinds of information, such as impact data, it can be challenging to identify the best kind of assurance framework to apply. PwC has over 150 years of experience in providing assurance services to give confidence to management, investors, and other stakeholders. We provide a wide range of assurance services under the International Standard on Assurance Engagements 3000. We have long supported clients in valuing their impacts, but they want to go beyond this. As a globally recognised brand, PwC is able to provide a valuable source of public or private assurance to our clients on their total impact.

The assurance applied will enable businesses to stand behind the proposition of 'what is the broader impact created by your business'and have the confidence to be able to talk about this credibly with investors and other key stakeholders.

Impact reporting is a new language to assist business in understanding what their activities are really doing. The measurement, reporting and assurance of this new data is very much a journey for many, and we invite you to join this journey.

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# FAMILY OFFICE PSYCHOLOGY

## THE DANGERS FAMILY OFFICES FACE FROM A PSYCHOLOGICAL PERSPECTIVE

Drs. Saskia Kalb RA

Ir. Frans Peeters

Family Offices are different from other companies. Due to their relatively small number of employees, combined with a large volume of managed assets, they are exposed to specific risks. Psychology plays an important role in this, which is rarely addressed.

Two issues, resulting from the small size coupled with a large volume of assets, make Family Offices vulnerable: 'Other People's Money' (OPM) and privacy.

OPM is a term that points to the phenomenon that people working in a Family Office may identify themselves with the large volume of assets they work with on a daily basis, potentially leading to feelings of exaggerated self-importance.

Consequently, whether unconsciously or intentionally, relationships are established with asset managers, banks and external advisors that can veer past the point of being purely professional.

As a result, the Family Office may potentially no longer obtain best pricing, because a perk, a benefit in kind, or worse, monetary compensation, can cloud the individual's judgement.

Self-control costs mental energy and the energy reserve is exhaustible. If this reserve is affected by personal or working conditions, there is a chance that ego depletion will occur. Ego depletion means that there is no willpower left to cope with impulses. Because of the small size of Family Offices, segregation of duties to prevent inappropriate actions or worse, theft, is not always properly organised.

An employee with ego depletion could seize the opportunity, like a child facing an open cookie jar would do.

Working for a Family Office is therefore not for everyone. One must be strong in opposing ego inflation and ego depletion. Although these two terms seem to be mutually exclusive, they are going hand in hand. If one dilutes a good wine, there is more volume, but its character will be depleted.

Family Office employees might see themselves as part of the family and cross the employer-employee boundary. These employees may start thinking on behalf of the family and make decisions beyond their responsibility. Privacy and discretion are of paramount importance to the family. If the employer-employee borders to the family fade, the need for discretion will be less felt which will increase the privacy risk for the family.

The biggest challenge in avoiding these risks or keeping them under control is often that the family has no knowledge of the psychological issues a Family Office faces. The family members often grow up in an environment in which it is difficult to know the value of money in the "normal" world.

One needs to accept that human nature is not flawless. Greed, for example, is a very negative character trait. However, it is also the innate impulse of gathering of resources needed for self-preservation, the more, the better. Biologically, for any organism that is successful, greed seems a good thing.

However, greed not only has a biological basis; it has a social basis as well. If employees see themselves as part of the extended family, their greed could be boosted by a feeling that they also deserve some of the family's wealth or luxury.

Additionally, over the last decade, a plethora of regulatory changes have been introduced, old standards have been superseded and, for many participants, the financial landscape seems to have become murkier. The family, and even the CEO of the Family Office, may not have sufficient familiarity with the latest fee structures, operating practices, and performance measures used by banks and asset managers.

Thus, Family Office employees could go unhindered in hiring external asset managers and advisors who perform subpar.

Even though a psychological screening process of future Family Office staff is wise, it does not exclude the risk of fraud. Thus, despite the small size of a Family Office, measures must be taken to cope with fraud in another fashion.

In today's increasingly complex world, it is incumbent on all firms, including big and small Family Offices, to take active steps to instil up-to-date best professional practices. Every professional should take to heart Socrates' ancient Greek aphorism, "Know Yourself", and consequently "Know Your Restrictions".

It is recommended that the Family Office periodically hires an external advisor, who operates independently from banks and asset managers, to screen the organisation and its operations.

This independent advisor could be helpful in analysing both the fee structures and the performances of the investment portfolios; And thus perform a check whether the pricing and also the performance are in line with the market, if better fees can be negotiated and whether the best asset managers have been chosen.

In addition, psychological sensitivities could be charted, and appropriate advice could be provided. For example, it might be prudent to change external advisors, including auditors and legal counsel, every few years. Thus, a fresh pair of eyes is guaranteed and the risk of unprofessional ties because of long-standing relationships between staff and external parties is curbed.

Drs. Saskia Kalb RA is a chartered accountant and holds a degree in psychology. She has worked for several Family Offices and is board member of a non-profit organisation funded by a Family Office which supports short-term projects with long-term benefits to communities worldwide.

Ir. Frans Peeters has worked for several international banks, such as UBS, ABNAmro and ING, in the Netherlands, Belgium, France, Monaco and Switzerland. Among other duties, he was responsible for managing UHNWI portfolios and has worked closely with Family Offices in that capacity. Frans Peeters is the founder of Verifin, based in the Netherlands, but operating internationally.

# PROTECTING HIGH-NET-WORTH INDIVIDUALS FROM INCREASED CYBER CRIME EXPOSURES

by Lynn Killeen, First Vice President and Family Office Practice Leader, HUB International

Smartphones, tablets and wireless networks are connecting us in new ways every day. Along with this heightened connection comes increased risk. In 2016, identity fraud hit a record high with 15.4 million U.S. victims in 2016, up 16 percent from the year prior.1 Today, technology is multiplying at a faster rate than device security. Devices are coming to market with minimally imbedded defences — and convenience is winning the race by a long shot.

Smart devices are in demand with or without the most robust security and too many individuals are still thinking, "it won't happen to me." Unfortunately, as most recently illustrated with the Equifax data breach, it very well can. As announced by the credit bureau company in September 2017, attackers accessed the Equifax network by exploiting an application vulnerability to gain access to certain files within the network. While the investigation is ongoing, there is evidence that there was unauthorized access to approximately 143 million individuals' personally identifiable information, including social security numbers, credit card numbers, birth dates and addresses. The U.S. is the most targeted country in the world for cyber-attacks - both by perpetrators across the globe and those within our own borders. That is because Americans have the wealth and economic capital cyber-criminals are looking for. In fact, high net worth individuals in the U.S. are 1.5 times more likely to fall victim to identity theft.2 They have a uniquely high exposure because of how they interact with social media, in the banking sector and more.

It is vital that individuals proactively protect themselves by understanding the risks, reducing their digital footprint and responding appropriately as soon as there is any suspicion that a cyber breach has occurred.

UNDERSTANDING THE VARIOUS RISKS:
Understanding today's most common cyber- crimes and how personal data can be accessed is the first line of defence in snubbing the perpetrators. Cyber hackers have a number of tools they can use to infiltrate someone's cyber presence – and they use them from the office next door or from their bedroom across the ocean. Here is what is in their bag of tricks:
PHISHING: Email messages sent out in the hopes of acquiring usernames, passwords and credit card details. These emails often contain poor spelling and grammar as well as false links known to spread malicious software so the perpetrator can access an individual's computer.

WHALING: Phishing that specifically targets high net worth individuals or senior executives – aka "the big fish." Although fewer nets are cast, and the data is harder for the cyber-criminal to obtain, the potential payback is much greater.

JUICE/BLUE JACKING: Unlike computers, cellphones were designed to charge and send data through a single port. Today, convention centres, airports and train stations all have free charging stations. Cyber criminals have been known to set up these stations and download all the data from an individual's phone while it's charging. Criminals will try to download data directly from a wireless Bluetooth connection. It's simple - there is even a blue jacking program, downloadable for free.

SOCIAL ENGINEERING: Social engineering is the act of obtaining personal information, like a mother's maiden name, the first school attended, birth date, address and banking institution of choice, by skimming the individual's publicly available social media profiles. Because as many as 90% of high net worth individuals are active on social media, spending as much as 48 hours per week networking3- and it is estimated that as many as 54% of social media users are targeted by identity thieves4 - high net worth individuals are a prime target for social engineering. By obtaining this information, a cyber-criminal can answer security questions, gain access to one's bank or credit card accounts, and even use personal information for a virtual kidnapping scheme.

MINIMIZE YOUR DIGITAL FOOTPRINT
The following strategies can help reduce an individual's vulnerability as well as the impact of cyber-crimes and identity fraud.

PASSWORD PROTECTION: Password protection remains the most important step to protecting against a data breach. Make sure to change the default password on all devices and programs to one that is complex and unique. Regularly update passwords to reduce the value of those stolen in a data breach or through malware. Avoid using the same password on multiple accounts. Password managers can provide a convenient way to minimize the potential for compromise.

SECURE YOUR MOBILE DEVICES: Apply software updates as soon as they become available and take advantage of security capabilities built into cellphones, including protecting the device with a passcode or biometric fingerprint. These measures are designed to provide a baseline of protection but must be actively engaged.
BE RESPONSIBLE ABOUT YOUR SOCIAL MEDIA: Think before posting. This includes pictures and posts revealing someone's whereabouts. Also, consider all exposures, including friends, as they could post pictures of you. Know all default settings and understand how to change them. Take friend requests seriously and consider each tag for its content.

BE WARY OF PUBLIC WI-FI: While public Wi-Fi is a convenient way to connect to the Internet when outside the home or office, it presents its own host of risks. Most hot spots skimp on protection, never changing the default setting on their password, and many users are unaware of the potential risk this poses. Unlike most home and office wireless networks, the data flowing around a public hot spot is usually not encrypted and therefore can actually serve as a window into any device connected to it. Every request from a device travels via an access point, before reaching the sites that users want to visit. Without any encryption of communication between users and the access point, it's easy for a cyber-criminal to intercept data entered while using the Wi-Fi network.

TWO-FACTOR AUTHENTICATION: Using two factors (your password and then a unique password sent through a different medium on demand) to get into email or social media profiles will provide an added level of protection. Even if someone knows the password, they still can't get in. Almost all social media and email administrators offer a two-factor authentication option, but it has to be selected and used every time to provide protection.

EMAIL ENCRYPTION: Always available but rarely used, email encryption locks an email system and requires a different code or key each time it is opened. This can be inefficient, but it is an option. Different levels of encryption are available and can be implemented.

TURN OFF WHAT'S NOT IN USE: When not in the car, turn off the wireless Bluetooth to prevent data interception and disable the automatic sync on devices when not in use. Children will often leave apps running on a cellphone. Turning them off each time will eliminate the ongoing pop-up notification and create multiple security vulnerabilities. A recent study revealed that 98% of apps inherently harbour one or more security vulnerability.

In conclusion, most cyber-crimes are not carried out by masterminds but are successful because the average consumer is not as careful as he could be. It has never been more important to minimize an individual's digital footprint in order to safeguard assets and keep families safe.

About the Author: Lynn Killeen currently serves as First Vice President of Personal Insurance and Family Office Practice Leader with HUB International.

1. 2017 Identity Fraud Study. Javelin Strategy & Research. https://www.javelinstrategy.com/coverage-area/2017-identity-fraud
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# ROLLS ROYCE 'Dawn in Fuxia'

Collector Michael Fux

Rolls-Royce Motor Cars heralds a colour palette with more than 44,000 options for the most discerning patrons.

Rolls-Royce Limited owned a British luxury car and aero-engine manufacturing business founded in 1904 by Charles Stewart Rolls and Frederick Henry Royce. Rolls-Royce Limited was incorporated on 15 March 1906 as a vehicle for their ownership of their Rolls-Royce business. Their business quickly developed a reputation for superior engineering quality and for manufacturing the "best car in the world", building on F H Royce's existing standing. Rolls-Royce became a leading manufacturer of piston aero-engines after it was brought into building them by the First World War.

# ROLLS ROYCE 'IN FUXIA' DAWN

## ROLLS-ROYCE MOTOR CARS DELIVERS ON A BESPOKE COLOR CHALLENGE STEMMING FROM A BEAUTIFUL FLOWER

Rolls-Royce Motor Cars heralds a colour palette with more than 44,000 options for the most discerning patrons. However, there is one client for whom the available options are not enough. Today, at The Quail, an Automotive Experience, in Pebble Beach, California, renowned car collector Michael Fux added another Bespoke colour to this palette with the addition of his eleventh Rolls-Royce Motor Car commission to his personal collection. The Rolls-Royce 'Dawn in Fuxia' was unveiled by Torsten Müller-Ötvös, CEO, Rolls-Royce Motor Cars, as part of the company's activities at the 2017 Pebble Beach Concours d'Elegance, the world's premier celebration of luxury and automobiles.

The 'Dawn in Fuxia' is finished in a vibrant colour matched to a flower that Mr. Fux found last year during his visit to Pebble Beach. Mr. Fux had just been presented with one of the first highly personalized Dawns in the world in his eponymous colour 'Fux Blue.' He then presented fuchsia petals from the Pebble Beach lawns to the Rolls-Royce Bespoke Design team with a challenge to them to create a second Bespoke Dawn. One year later he returns to Pebble Beach to see the end result in a familial ceremony presented by Rolls-Royce.

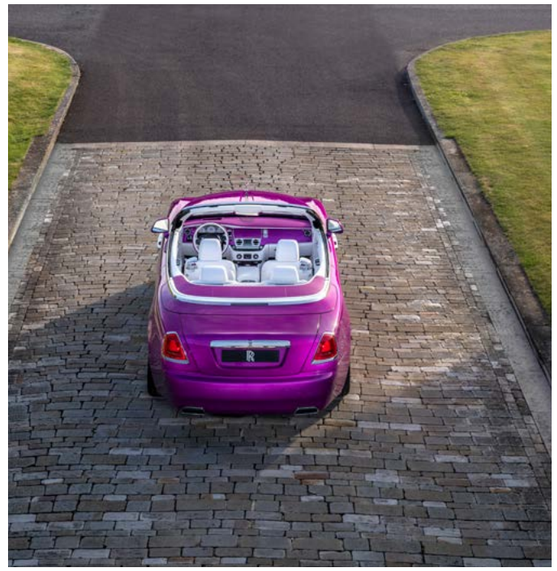
"When I commissioned my first Bespoke Rolls-Royce in 2005, I wanted something completely different than any of the other cars commissioned at the time. I knew the designers had a lot of creativity that I wanted to explore," said Mr. Fux. "I love the heritage of the Rolls-Royce brand and I love these cars. I always challenge my fellow owners to push the Bespoke envelope."

In total, Mr. Fux has commissioned ten other Rolls-Royce vehicles, each highly personalized to his exact specifications.

"Michael is a very special patron of Rolls-Royce Motor Cars," stated Mr. Müller-Ötvös. "Rolls-Royce designers love working with him because he constantly challenges them to take their work to an even higher level, delivering a true work of art."

In 2016, Mr. Fux took delivery of his first Dawn finished in 'Fux Blue' with a stunning Arctic White interior. Other colours he has commissioned remain in the Rolls-Royce Colour Collection reserved exclusively for Mr. Fux, which include:

- Fux Fuxia
- Fux Blue
- Fux Intense Jade Pearl
- Fux Aequus Green Jade Pearl, Cornish White Jade Pearl two-tone
- Fux Deep Purple
- Fux Candy Red
- Fux Yellow



# LIFE SETTLEMENTS AS VALUABLE DIVERSIFICATION TOOL

The strong performance of bonds and large-cap equities over the last seven years, driven by an engine of multiple expansions of Central Banks' monetary policies, has somewhat muted the importance of diversification in the investment allocation process. Indeed, it can not be argued otherwise, that post-2008 period has been a clear demonstration of beta-winning trade with S&P 500 reaching all-time highs.

As we are witnessing hedge funds having record exposures to momentum trades by focusing on an even smaller pool of gain-producing stocks while simultaneously surrounded by red flags of possible market correction, we cannot help but be reminded that long-only strategies are intrinsically exposed to positive and negative annual fluctuations. Look no further, and you will see the S&P 500 trading at an earnings multiple of 18, far away from being cheap, and high-yield credit spreads clearly communicating that traditional assets risk-reward profile has shifted. This is where the importance of diversification and alternatives, as the leading instrument to change the sources of risk and reward, are back on the table. Out of the broader spectrum of alternatives today we would like to focus on one called Life Settlements.

Oleksandra Polishchuk
Carlisle Management SCA

What are Life Settlements?

Life Settlement essentially represents the transfer of ownership and beneficiary rights of an unwanted or unneeded life insurance policy in exchange for a cash settlement. They originated back in the 90s and became popular because of the immediate liquidity available from life insurance policies that often provided materially greater cash to insureds with impaired life expectancies allowing to fund experimental treatments. The boom came during the late half of the 1990s when the industry realized that the senior market could capitalize on the same option. However, with the senior population adhering itself to traditional underwriting guidelines, the Life Settlement industry could then leverage of the existing foundation of the life insurance industry and with a supply of life insurance policies that were exponentially larger and growing.

2003 to 2009 has seen a boom in Life Settlements with a number of investment banks dominating the industry. The subsequent post-2009 retraction has led to substantial increase in industry standardization and fostered the creation of so-called tertiary market which now allows larger investors to enter the industry and increases the liquidity profile of the asset class.

Over the last 20 years, life settlements industry has experienced exponential expansion and now represents an investable market of roughly 10B USD in face value.

The transition of the baby boomers into seniors continues to create a swell of policy sellers, and Life Settlements industry is now expected to reach $160 billion in the next two decades.

What's in there for investors?

Over the past years, Life Settlements have been demonstrating consistently attractive returns, ranging between 14% and 17% per annum, but most importantly with limited correlation to traditional benchmarks. The beauty of Life Settlement is in its nature. Built on the foundation of the life insurance industry it is essentially an actuarial product with a performance driven mainly by mortality. Focusing on mortality as the main variable allows for sophisticated stress testing analysis, therefore, minimizing tail risk. It is that same insurance industry foundation that allows Life Settlements to boast with limited credit risk as the guarantors or creditors are heavily regulated, highly rated insurance companies which are subject to extensive reserve requirements.

Conclusion

Life Settlement marketplace offers investors a wide range of attractive investment options which range from open-ended format through bonds and close-end structures, allowing to fit the risk and liquidity profile of a vast range of institutional investors, especially family offices and pension funds looking to enhance the yield while simultaneously limiting the exposure to market fluctuations.

Finally, although Life Settlements are characterized by transactional simplicity, it is important to note that experience and excellence in execution along with the analytic and accurate reporting remain key factors to the successful Life Settlements investments.

Established in 2008, Carlisle is a leading, highly diversified global investment management firm. Our state-of-the-art facilities and statistical modelling systems incorporate knowledge gained from 60+ years of combined investment experience within the alternative asset sector.

Supervised by the Luxembourg regulator and being subject to controls of reputable audit firms at both management company and fund level, we operate independently, which allows us to focus solely on investors call for transparency and performance, within a regulated framework providing accurate management of the risks involved while maximizing investment returns.

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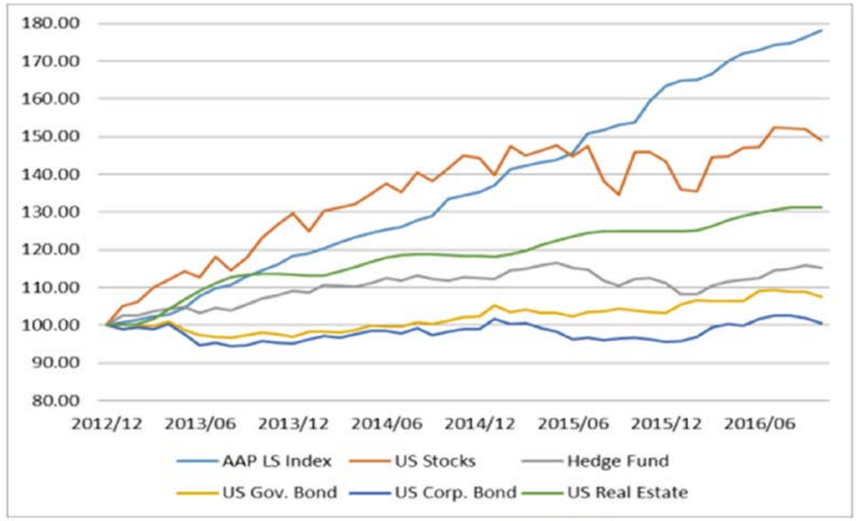
*Low Correlation Asset Classes*




***Data Provided by AA Partners and extracted from other public sources. www.aa-partners.ch

# CAN WE MAKE A BOND WITH A BOND?

Daniel Jolliffe
Investment Manager
Chartered CISI

Luciano Lombardo
Wealth Manager
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Within my previous article, I referred to how BIG institutions have, over time, moved away from offering investment opportunities that are unique to their clients. These clients are often unaware of the implications of this constrained type of investment offering and the potential impact on their financial future.

Over a year ago I decided to step away from working for a large organisation and move to a boutique investment management company, Theta Enhanced Asset Management Limited (TEAM), based in Jersey.

TEAM "distance themselves from the herd" by creating bespoke investment portfolios for clients, regardless of the size of their investment, therefore offering something different to the big asset managers. While big institutions can create Bespoke Investment Portfolios for clients, this offering is normally reserved for High-Net-Worth (HNW) clients who can invest £1m +.

In this article, I will focus on discussing a GBP Denominated Corporate Bond Portfolio and how the investment process of a boutique investment management company differs from an "off the shelf" proposition. So what are the main differences between big institutions and a boutique investment house? Just to name a few:

COSTS – the price of investing is getting more and more attention. TEAM do not charge clients an upfront fee and can offer a bespoke portfolio for in between 0.5-1% per annum plus the costs of trading, i.e. £40 per trade. Unlike a fund, there are no other hidden costs.

As BESPOKE PORTFOLIO Investment Houses across the world are struggling to financially cope with increased regulation and are therefore looking to provide clients with low-cost solutions highlighted by the adoption of 'Robo- advice' for so-called 'low ticket clients'. However, the impact to the client is that they are not provided with any real advice or support when making financial decisions. TEAM, as a boutique investment firm, are not affected by the cost of regulation in the same way as we have minimal overheads. Therefore, we can afford to take time with our clients and create a bespoke portfolio for each and every client based on their specific investment objectives.

ADVICE & SUPPORT – an issue for many clients is that they feel that they cannot easily obtain assistance and support with investment decisions or with any ongoing issues that they have. TEAM treat their clients as individuals and take time to find out a client's investment objectives and requirements so that their ongoing relationship can be managed effectively.

At TEAM we do not see the BOE base rate rising dramatically due to the extremely high levels of corporate and personal borrowing that are in place in the UK. Therefore, the situation of low-interest rates on cash is unlikely to improve anytime soon.

Daniel Jolliffe, the Investment Manager at TEAM, explains why a Corporate Bond Portfolio can be of interest to clients that are seeking a competitive yield, in a low-interest environment.

At the time of writing, a real return cannot be attained from either cash or government bonds, leaving investment into Corporate Bonds as the only remaining option for cautious clients, seeking a competitive return on their money.

TEAM offer a bespoke Corporate Bond portfolio to their clients. This portfolio will benefit from a high level of conviction, where we invest in a set number of companies (15-20) that pay competitive coupons and have solid financial positions. We strive to attain a competitive yield of 4-5%.

Clients that have historically invested in cash in order to generate returns like the set structure that is involved with receiving an interest payment on a fixed, specific date. Corporate bonds act in a similar vein as they will pay a fixed coupon (income payment) on a set date, either once or twice a year. Every client is provided with a cash flow statement so that they are fully aware when income will be provided to them and this can help with the management of their finances.

We manage risk for clients by conducting an extreme amount of research into company financials before investing. We also ensure that we cap client positions in individual bonds to 7.5% for investment-grade bonds and 3-4% for high yield. These weightings help to minimise the impact of the default of a bond issuer we have selected within the portfolio.

Prior to investment, suitability is assessed, and clients are made fully aware of the risks associated with a Corporate Bond Portfolio. Although on the risk/return spectrum a Corporate Bond is deemed to be one of the safer asset classes, it is not a 'riskless' instrument.

How would a bond portfolio would look like?
A current bond portfolio will be focused on single-A, and triple-B issuers as this area continues to offer wide spreads that allow the portfolio to benefit from high carry and the prospect of spread tightening as the bonds shorten. Bonds that are split-rated are preferred, where at least one rating agency deems the issuer to be investment grade. We refer to these classes of bonds as crossover. We will also consider bonds with no ratings that we deem to be of investment grade quality and include this exposure within the portfolios maximum exposure to high-yield bonds. In both these cases, opportunities exist as many buyers are not able to hold these bonds resulting in attractive valuations.

High yield bonds will be held, and we favour issuers with close to investment grade ratings and typically avoid private equity sponsored companies in favour of listed ones.
From time to time we may hold government bonds or supranational debt for portfolio insurance. We did so ahead of Brexit, and we have just crystallised our gains. While it affects the portfolio yield when we do so, it tends to protect capital in volatile times.

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.
The choice is yours...

TEAM
ASSET MANAGEMENT

# STUART GEORGE, FOUNDER AND MANAGING DIRECTOR OF VINS EXTRAORDINAIRES, ATTEMPTS TO DEFINE "FINE WINE"

At Vins Extraordinaires we offer fine wines to our clients. But, what is "fine wine"?

In his 1833 Journal of a *"Tour Through Some of the Vineyards of Spain and France"*, James Busby referred to "fine" wine as being good enough to drink neat in a proper glass, without water or any other additives, as distinct to wine drunk from tumblers and mixed with water. It is still a reasonable definition.

However, we prefer not to put water into our wine. We have five factors that contribute towards defining if a wine is fine or not.

First, price. Fine wine is usually highly priced – but an expensive wine is not necessarily a fine wine. But... A fine wine would typically increase in value as it ages, hence so-called "investment grade" wines that are, by extension, fine wines. Quality is subjective, though we can assume a more or less objective consensus among critics and consumers of what is good and what is not. Define "good"? Length, balance, "elegance" (= smoothness), and "complexity" (= smells of other things than grapes). One might add what the French call "typicité" – how representative an example of its given type a wine is. But... A wine can be atypical and still of high enough quality to be a fine wine. For example, the 1990s vintages of the late Denis Mortet in Gevrey-Chambertin were atypically opulent for red Burgundy but they were very good, and nobody doubted that they were fine wines.

Age-worthiness, or how long a wine can keep gaining smoothness and complexity, is an important factor. Fine wines can age in the bottle and keep improving for a very long time; non-fine wines do not.

A fine wine also needs a track record, or what employers call "credentials": Qualifications, experience, and accomplishments over an extended period. In vinous terms, this equates to many – and the more, the better – vintages of producing outstanding wine. Château Haut-Brion, for instance, was enjoyed (according to his diary) by Samuel Pepys on Friday 10th April 1663 and has been producing great wine since at least the sixteenth century. But... There are wines that are relatively new to the market – for example, the highly priced Napa wine Screaming Eagle's first vintage was 1992 – that are generally accepted by critics and consumers as fine wines because of their exceptional quality.

Provenance is usually defined as where and how a fine wine has been stored since its release into the market – its history of ownership – and is crucial for older wines. However, for our purposes here we define provenance as the place of origin of a wine – and the smaller and better specified the better. Fine wine customarily has a clearly defined and usually relatively small source of grapes, with single vineyard Premier Cru and Grand Cru Burgundy the apotheosis of provenance. But... Consider Penfolds' Grange – by general consensus the greatest red wine of Australia – which has always been a blend of two or more South Australian wine regions. The 2005, for instance, was a blend of Shiraz and Cabernet Sauvignon from the Barossa Valley, McLaren Vale, and Coonawarra. McLaren Vale and the Barossa are well over 200 miles from Coonawarra, which is about the distance that Bordeaux is from Carcassonne.

The notion of a fine wine being made from grapes that are separated by hundreds of miles would be anathema to winemakers in Europe's strictly (and legally) defined classic fine wine regions. But... In 2006, Château Palmer bottled its "Historical XIXth Century Blend" as a homage to how Bordeaux wine was sometimes made in the nineteenth century – with a good dollop of ripe Syrah grapes from the Rhône. Legally speaking, this Palmer was a humble Vin de France (formerly the Vin de Table appellation) – the lowest level of French wine – which puts it on the same level as a supermarket's £5 Merlot-Grenache blend. Does a Vin de France become a fine wine because it has a distinguished estate's name on the label? Well, yes it can because it is reasonable to assume that Palmer, with at least 200 years of winemaking experience, knows what it's doing. But... A blue-chip label can sometimes – though admittedly very rarely these days – offer something substandard. Château Margaux's 1965 vintage was so execrable that it was blended with the (so-so) 1964 and (appalling) 1963 in an effort to produce something drinkable and sellable as a non-vintage cuvée. It is Margaux – but not as we know it.

Nor does a smart appellation guarantee something fine. The Clos de Vougeot Grand Cru vineyard in Burgundy is shared among 80 or so owners – some making their own wine, others selling their grapes – with very contrasting quality levels. All Appellations d'Origine Contrôlées are created equal, but some are more equal than others.

Anyway, we will offer a Vins Extraordinaires definition of fine wine.

A fine wine should offer intellectual and sensual rewards. It is a wine that is not only pleasurable to drink but also worth talking about and thinking about.

Defining fine wine is difficult – but we know it when we see (and smell) it.

Stuart George is Founder & MD of Vins Extraordinaires, which offers fine and rare events and retail sales to private and corporate clients. A holder of the prestigious Wine & Spirit Education Trust Diploma in Wine and Spirits since 2000, Stuart has tasted vintages back to 1780.

He was UK Young Wine Writer of the Year in 2003 before working with Hugh Johnson OBE at *"The World of Fine Wine"* magazine. Vernon Rapley, Director of Cultural Heritage Protection and Security at the Victoria and Albert Museum and the former Head of Art & Antiques Squad at New Scotland Yard, recommended Stuart to Scotland Yard as an expert on wine fraud.

CHARTERWORLD

# Winter Vacations: Jump on board to escape the cold! Amazing destinations for yacht charter this winter

It's 'back to work time' for the world: In the northern hemisphere the autumn colours are putting in an appearance, and the warmth of summer is slowly ebbing away, yet the end of one season brings with it exciting new possibilities for your next getaway. Whether you are looking to enjoy world-class destinations now that the crowds have moved on or to have an entirely new adventure in a romantic far-flung locale, winter season luxury yacht charters combine authentic encounters with lavish on-board facilities and crew skills tailored to your requirements.

To help you find a superyacht with a stellar reputation in all regards, a luxury yacht charter broker is an essential step to matching you with the right crew and facilities: some sailing yachts might have spa rooms with massage services, while a particular motor yacht might have a PADI Certified Dive instructor on-board so that you and your group can earn a globally-recognised diving license during your travels. Then there's the paperwork, and your charter broker will confirm that you have industry-recognised contracts in place to ensure that your only worry is whether you have time to fit everything in.

From the luxury charter world's favourite old winter haunts to up-and-coming holiday havens, each one of these destinations has something spectacular and unique to offer that captures the history and traditions of the locals as well as the mood of the landscape and the wildlife within it. Here are five incredible locations for a fun and festive winter 2017/2018, booking now for Christmas and the New Year.

Maldives & Seychelles

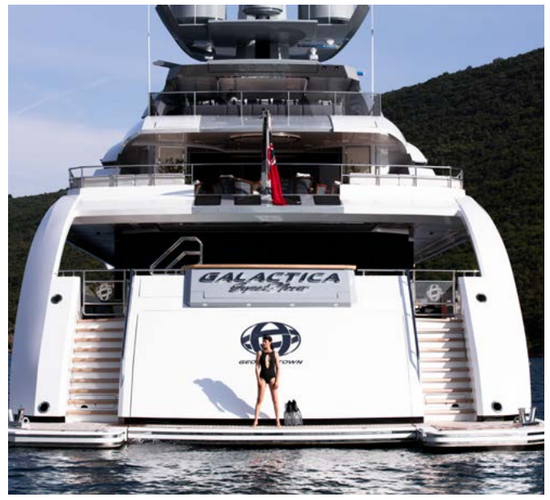
A unique infusion of cultures from India, Africa and the Middle East, the Maldives and Seychelles are the quintessential tropical destination that offers up vivid sunsets, pure blue waters and incredible beaches both close to the respective capitals of Male' and Victoria and to the farthest islands. Whether searching for tranquillity, thrills, culture or unique crafts and collectables, there is something for everyone at these romantic destinations.

When cruising through the Indian Ocean, veteran superyacht charterers are aware that Yas Marina in nearby Abu Dhabi provides front-row seats to the final event in the Grand Prix calendar - a rip-roaring race from late afternoon into the twilight while you watch on from your sundeck Jacuzzi or alfresco dining table on the upper deck aft. Should you choose to start or end your Indian Ocean charter in Abu Dhabi, this luxurious venue is tailored to the superyacht lifestyle and you are guaranteed an incredible time.

Thailand

Thailand has a well-established reputation as a tourist destination that entices travellers from across the world to experience its incredible beaches, thriving culture and warm hospitality which in turn draws visitors back again and again. Whether looking for a tour of historic temples or to shop for everything from luxury goods to market bargains, you are never far from the seashore and with all of the possible islands to visit there are many advantages to choosing a superyacht charter over a land-based holiday.

The coast north and south of Phuket is littered with extraordinary dive sites where younger family members could have their first magical underwater adventure surrounded by sea turtles, manta rays and




primary coloured-fish. For wildlife spotting in the Gulf of Thailand, the best period is between April and October when the bull sharks and whale sharks are present in the region. In contrast, the Andaman Sea is best visited from November through to April, making it an ideal winter destination.

The Thai tourism industry has created excellent infrastructure for superyachts and many marinas can accommodate larger vessels. In January, the Asia Superyacht Rendezvous Cup is held at Mai Khao Bay in Phuket and draws the superyacht crowd for a day of competitive and casual racing with parties and social events adding to the excitement. Be a part of the action and include this annual event in your diverse itinerary.

Indonesia

Home to some of the world's most extraordinary animals and dive sites, a luxury yacht charter in Indonesia is a nature-lover's dream: Covered in dense rain-forests, flourishing mangroves and dozens of UNESCO World Heritage Sites, this exotic Asian destination ensures that every day is varied and unique.

Kayak around one of Indonesia's thousands of uninhabited islands, break out the motorised water toys or spend a warm and sunny winter afternoon soaking in your sundeck Jacuzzi admiring the

incredible green and blue hues of the land and sea. If you ever get tired of your escape from civilisation, Java is the epicentre of the nightclub scene, and the high-end ambient bars provide amazing vistas overlooking jungles and beaches.

Indonesia has a passion for sailing and the locally crafted phinisi yachts that glide through the still, glossy lagoons provide a traditional touch. Comfort is never sacrificed in the pursuit of providing a genuine experience, and all the modern day conveniences of air conditioning and Wi-Fi are on hand for guests to use.

New England
In the international community, New England's image is one of breath-taking autumn leaves and rocky coastlines where lone lighthouses stand proudly atop headlands. While deserving of its reputation for impressive foliage and dramatic artistic scenes, it should be noted that there are a great number of sandy beaches as well as attractions throughout the winter months to draw visitors from far and wide. Along the coast, there is a remarkable variety of wildlife from tiny octopuses to the incredible horseshoe crab, while Scuba divers will not need to look far to uncover an underwater wonderland and guests looking to do some fishing will fit right in with the locals.

For the romantics, there are vineyard tours, the picturesque Acadia National Park and charming covered bridges that truly capture the historical and modern-day culture what differentiates New England from the rest of America.

The incredible range of sports paired with thriving local art and cuisine scenes turns New England into a year-round destination where the marked differences between the seasons ensure that no two visits during the year are ever the same.

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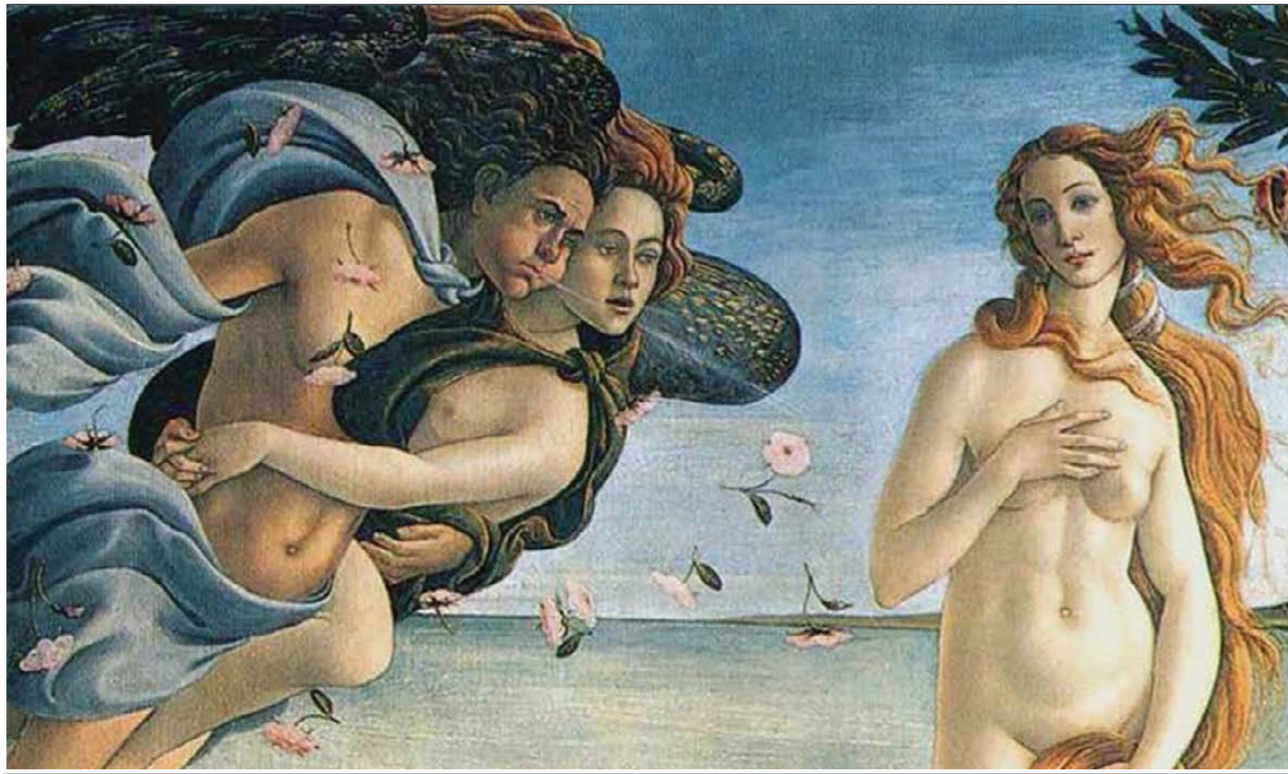

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# THE IMPORTANCE OF SECURITY TO THE FAMILY OFFICE

In 2011, the son of the founder of Kaspersky Labs was kidnapped on his way to work in Moscow. The kidnappers demanded 3 million euros. Less than one week later, Ivan was freed with the intervention of Russia's FSB. It turned out that Ivan's kidnappers were amateurs, an older couple who enlisted the help of their son and his friends to kidnap Ivan in order to address their own financial troubles.

Ivan's father, Eugene Kaspersky, was at the time worth $800 million (now over a billion), making him one of the wealthiest men in Russia. He founded one of the largest IT security companies in the world – Kaspersky Lab has a client base of over 270,000 companies around the world and protects over 400 million people, according to their website.

Eugene Kaspersky, and by extension his family, are extremely high profile. His and his company's role in addressing a number of serious cyberattacks, as well as the prevalence of his company's products worldwide, mean that millions of people know who he is and probably how much he is worth. However, the nature of his business is security, and yet one of his immediate family members was kidnapped by apparent amateurs, and it required the intervention of Russia's state security forces to free him.

High net worth individuals and their families are at risk from criminal activity – not just abroad, in countries like Russia or Mexico, which in 2016 had the highest number of kidnappings in the world – but at home, from these physical threats as well as financial and cyber crime. Moreover, family offices, created to protect these families and their assets, are not able to adequately protect their families and are at risk as well, compounding the vulnerability of the families they serve.

Walter Gaya
International Security Consulting Group

What are the risks?

The risks to family offices and the high net worth families they serve are manifold. They can be broken down into three broad and overlapping categories – physical, financial, and cyber risks.

Physical risks to high net worth families, family office staff, and family property include kidnapping, theft, intimidation, and vandalism. These risks inherently rise in countries with poor security or corrupt security services but are obviously all extant in the United States. The FBI reported in 2015 that property crimes in the United States resulted in losses of over $14 billion.

Financial crimes increasingly involve cybercrime. In 2015, the FBI received nearly 300,000 complaints regarding internet-based crimes. Nearly half of those reported a loss from the crime, with a total loss of over $1 billion. Moreover, of that total, more than one-quarter of the losses were from business and personal email account compromises, a common threat to family offices and high net worth individuals. A recent study by Morgan Stanley of high net worth individuals found that 56% had information compromised by malware or a computer virus and 40% had financial information stolen.

Cyber crime is broader than financial theft. Cyber attacks can also be used for identity theft and targeting. In one of the most visible examples, the leak of the so-called Panama Papers last year detailed not only the financial holdings and profiles of 200,000 companies and tens of thousands of individuals but also the methods by which those companies and individuals protect and hide their wealth. According to the Global Family Office Report for 2016, family offices are spending on average approximately $500,000 per year on IT, their largest single operating expense, and yet 15% have experienced cyber security breaches.

What is the solution?

The function of a family office is to secure and manage the assets of the families they serve and preserve it for future generations. Many offices provide some form of security service or consulting to the families they serve. The majority of family offices continue to use in-house security services, according to the Global Family Office Report. Many offices employ background checks, physical security at offices, off-site data backups, and utilize some level of executive protection for their families. These efforts are not adequate to protect high net worth families or family offices.

Competent security should be able to provide the right security profile to family offices and high net worth families and identify when outside expertise or personnel are needed. Security consultants can run background checks, identify properly qualified and licensed executive protection personnel, perform network testing and improve network security, manage access controls to systems and physical locations, monitor for physical and cyber-based attacks against family offices and families, and myriad other services. Security providers should also be able to teach families and family office staff how to address personal security through lowering their profile, smart use of personal electronic devices, and situational awareness.

Security is a $96 billion industry globally. Thousands of security companies exist just in the United States, and it is often difficult to tell which companies are reputable and able to handle the protection of high net worth families and family offices. These companies are privy to extensive details regarding the family, their assets, and their habits – it is imperative that these companies are well-vetted. An unqualified security provider can create myriad problems beyond failing to ensure the safety and security of high net worth families and family offices.

The company may not be aware of the proper security profile for the family or the family office, and may end up providing inadequate security or charging for services which are not needed. The company could have poor logistical support, or improperly handle confidential information. Overseas, security details can be compromised by local criminals, or may inadvertently rely on local security services that are corrupt or inadequate. A security detail, rather than providing protection, can rob its clients or steal their personal information. A service that was intended to protect the family may instead make the family more vulnerable.

Proper security for family offices, and the families they serve, should provide protection which pays for itself in terms of the safety and financial future of high net worth families and family offices.

Walter Gaya is the founder and managing director of the International Security Consulting Group based in Renton, Washington.

# HAVING THE TIME OF OUR LIVES !

## MAXIMUM VALUE FOR OUR FAMILY ON BOARD REAL ESTATE

"Sim senhor, that is what we want for our Family and nothing less. Having the time of our lives on board. However, take care as we have a big family and they all love to be on board at the same time" the South American Owner expresses clearly what yachting for him and his family is all about. "We want to get maximum value out of our family real estate on board." She is the perfect starting point for the multi-year design development agreement between MCP, the biggest South American custom yacht builder, and Dutch Studio Vripack signed earlier this year.

"Creating maximum space value on a 120'er required a creative approach to space planning," says Bart Bouwhuis, creative director at Vripack. "A very energetic co-creation process between Owner, MCP and our team lead to a perfectly sensible yet highly unconventional layout. Her main deck contains two guest cabins in addition to the Owner's stateroom. Two additional VIP rooms are located on the lower deck, and the upper deck is fully dedicated to the family with a forward facing observation lounge including an a-symmetrical balcony for private family moments. The sky lounge has gullwing lookouts allowing for a forward facing view adjacent to the connection to the large sheltered aft deck. Moreover, all this neatly separated from the crew so they can perform to their best abilities as well."

"We are known for our high-quality aluminium semi-planing yachts" Manoel Chaves president and CEO of MCP explains. "Vripack designed a new hull which allows for a very high level of comfort even in rougher weather while maintaining her semi-planing characteristics. This will give the family a long reach of sailing destination within a shorter time while they all enjoy wonderful, valuable family moments on board. The result of this design identifies clearly why I wanted Vripack to work creatively, side by side with us, for at least the next seven or seventy times seven years. Their Award-winning Holistic team of 80 with over 7300 ships under their belt since 1961 and a hawk eye focus on their Better Boats in Less Time pledge makes them a highly capable addition to our skilled team" concludes Chaves. "For our Studio, it is unique that we have been contracted for such a long period to design custom projects without knowing which ones it will be" continues Bouwhuis. "This goes way beyond one project, so it pushes us to deeply analyze what the future holds. Something we have set up our VriThink platform for back in 2012. We are proud, a bit nervous and very confident this will lead to better yachts for the MCP clients in even less time than today."

About MCP:
Established in 1980 in the port of Santos, 30 minutes by helicopter from São Paulo international airport, MCP is now the leader in custom yacht building in South America, responsible for building the largest aluminium yachts in the region. With a track record of over 250 projects, the MCP team has all experience in-house to handle turnkey projects.

# USE LEGACY PLANNING TO ALIGN VALUES ACROSS GENERATIONS

Years before we met, Jack and Jill Jones had created an estate plan to protect their three young children should something happen to either of them. Since that time, their business and children had matured so their attorney, Sophia, suggested that the Joneses revisit their estate plan. Sophia asked me to meet with the couple before they began the document preparation process.

Mark A. Weber
SilverStone Group

With tax minimization in Sophia's very competent hands, I asked the couple about their legacy, and if or how they wished to attach meaning to their financial wealth. "Are you asking about charitable giving?" Jack asked. "We each have left something to our favourite charities," Jill added.

"Yes and no," I responded. "There are several issues many high-net-worth parents consider as we think about leaving the wealth we have accumulated. First, have we equipped our children to inherit wealth in a way that is consistent with all our efforts to create caring, confident and contributing adults? Second, do we want to use our wealth to continue to make a difference in our community or world? Third, will our lives have meaning?

Jack said, "Talk more about that first issue of 'equipping our children.' I know I wouldn't have known how to handle the amount of money our kids will inherit at their age. I do not know why we expect our kids to be better prepared." Before I could answer, Jill jumped in, "I am concerned about inheritance being a good thing. We have seen inheritances 'ruin' too many kids and families. While we do not think that would happen with our children, is there something we could do to prevent it?"

I suggested that Jack and Jill begin a process that connects their wealth to meaning—a process I call, "legacy planning."

Legacy Planning

Legacy planning as I define it:

- Is the intentional passing of wealth, values and life lessons from one generation to the next.
- Prepares heirs to manage the responsibilities of wealth.
- Is a tool parents use to model and teach behavior over time. As you are more than your balance sheet, a legacy plan is more than an estate plan. Your legacy plan is an extension of your estate plan because it includes both values and financial assets, and grounds heirs in your values as you prepare them to manage a significant financial inheritance.

Passing Values / Preparing Heirs

In the initial stages of legacy planning, couples work together and with their advisors to establish a framework for their legacy. Elements of that framework include defining: 1) financial security for themselves, and 2) how much is enough, but not too much, for their children. Parents then articulate the connection between their values and how, ideally, they would like their children to use their inheritance. With that foundation, the transfer process can begin.

Family Meetings

A critical piece of legacy planning is communication, and arguably, the most effective form of communication is the family meeting. The explicit purpose of these meetings is to equip children to handle wealth, both practically and emotionally. In practice, however, periodic family meetings held over years bring family members together as they interact as a family unit.

During meetings, parents share their financial expertise and experiences, through stories and examples, as a means of helping children become responsible stewards of the family treasure. The parents' values concerning saving, spending, investing, work, leisure, education and, if applicable, the family business become clear to the children.

Many parents include the discussion of charitable giving in their family meetings as well. They want their children to understand why and how they give back to their communities. Some parents invite their children to join them in giving to causes the children are passionate about. Many parents find this to be a window into their children's values as well as a heartwarming topic of conversation.

Successful family meetings are far more than classes in wealth management. Thoughtfully planned and executed, they:

- Can be used to teach the responsibilities of wealth through stories.
- Demonstrate to children that their parents value them and their future.
- Acknowledge children in their roles as responsible heirs to the family treasure of financial assets and values.
- Give siblings the opportunity to discuss (generally) unaddressed issues.
- Give children the opportunity to appreciate the decision-making abilities and priorities of their siblings and parents.

Creating a legacy is a journey, one you will have already begun. I encourage you to take the next step and add legacy planning to your estate plan. Doing so will help you gain confidence in your children's ability to manage their inheritance in a way that is consistent with your values and brings your family closer together.

To help you and your advisors get started, visit www.thelegacyspectrum.com to download free worksheets, questionnaires and sample letters from my book The Legacy Spectrum.

Mark A. Weber is an author and principal and practice manager of the Wealth Transfer Department at SilverStone Group, a risk management and investment company. He consults with business owners and wealthy families on sophisticated uses of life insurance to fund estate taxes and business succession plans.

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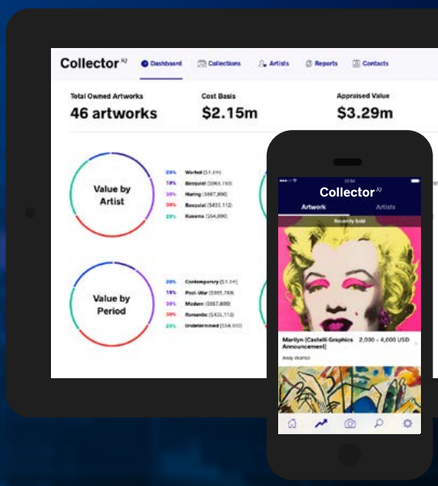


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# Protect Your Trustees Now and Later

By Judith L. Pearson
CEO of Nomadx Solutions,

You've heard the statistics. An astounding amount of wealth is transferring from one generation to the next. Studies estimate that the world's Ultra High Net Worth (UHNW) individuals will transfer $4 trillion to the next generation within this decade, and $30 trillion within the next 30 years. This is happening globally, with roughly 91K UHNW individuals in the Americas, 70K in the Europe-Middle East-Asian countries, and 51K in the Asia-Pacific countries.

As this enormous amount of money transfers, the risk of litigation will undoubtedly increase. Since your family office plays a key role in this process, it's time to think beyond protecting only the trust grantors and beneficiaries. You will also need to protect the fiduciaries and advisors who manage the trust—for your sake and theirs.

What You Need to Know About Trusts: The Environment is Changing

Trusts have always been, and will continue to be, the main vehicle used to hold assets conveyed from one generation to the next. This is true in most countries around the world.

Because they are historically simple and flexible entities, trusts can be structured in an almost limitless number of ways and used to accomplish almost any purpose. They provide privacy for the settlor and beneficiaries, and if structured properly, can protect the assets held in trust from the claims of creditors.

As you can imagine, the pending transfer of wealth has attracted many new service providers to the scene. These providers have assumed some of the functions traditionally performed by trustees. Whereas previously there was a simple definition for trusts; there are now multiple types of trusts (e.g., directed trusts, delegated trusts, qualified trusts, charitable lead trusts—the list goes on), and larger portfolios are bringing more players to the trust management team (e.g., distribution trustees, business trustees, trust protectors, special needs trustees, etc.).

As creative attorneys and advisors seek to expand their offerings, trusts will become even more complex, and the laws are evolving in order to give families more flexibility and privacy and fiduciaries greater discretion. Anytime rules are modified to give fiduciaries more discretion the possibility for making an error or mistake - or being accused of making and error or mistake – naturally, increases because the clear guidelines that used to protect the fiduciary have been wiped away.

In this changing environment, how protected are your trustees and other advisors?

How to Mitigate and Transfer Risk for Your Trustees

No strategy will entirely eliminate their exposure to claims. However, there are actions you can take to mitigate and transfer the risk.

At a minimum, you will include provisions in trustee contracts for indemnification to supplement the statutory limitations on trustee liability; yet these are seldom iron-clad.

Anyone with fiduciary responsibility needs to know what he or she has signed up for. This includes responsibilities and obligations they are required by law to fulfil, plus the consequences for failing to uphold their duties. Beneficiaries can—and should—learn about the roles and responsibilities of their trustees and other advisors, and they should hold these individuals accountable in a positive way.

Families should also consider transferring the risk of claims with insurance – which is the traditional way of transferring risk.

Insurance should be able to advance defence costs if the trust cannot; Trustees and other fiduciaries can get access to accomplished, independent lawyers and experts if claims are made against them; and Funds can be made available to the Trustee and other fiduciaries if their error or mistake causes damage to the beneficiaries.

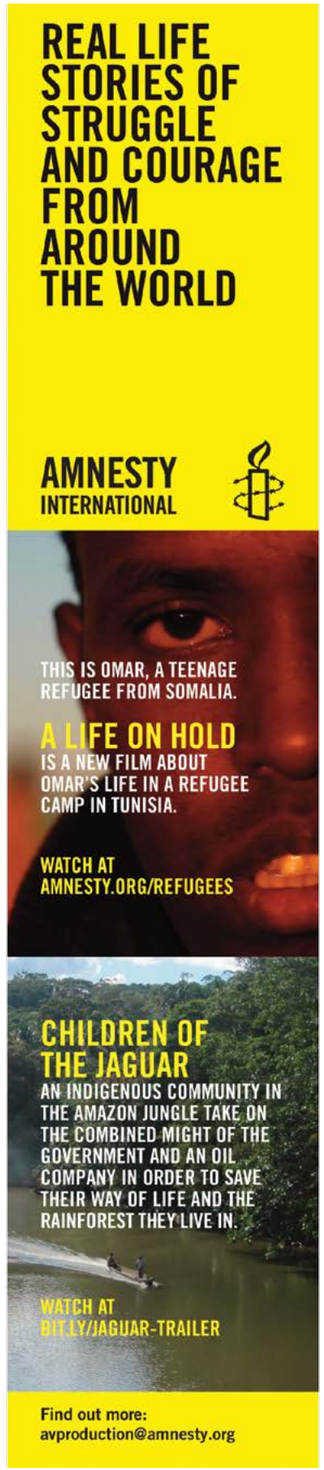
The Bottom Line: Protect Your Family and Your Trustees

As long as families pass on their wealth through trusts and other mechanisms, they will need qualified advisors to protect and maximize this wealth.

As the roles of these advisors become more complicated, they will need expert guidance and protection against personal liability. It does not matter how many players are serving a trust or even if a multinational advisory firm is in the mix. Every family office needs to understand these risks and be able to help identify, mitigate, and ultimately transfer the advisors' risk.

Enlist someone experienced to help you identify vulnerabilities in your trust or estate and the fiduciary role of each advisor. They will know where the claims can come from, what to look for in terms of risk, and the questions you would not know to ask.

Judith L. Pearson, President & CEO of Nomadx Solutions, is a seasoned insurance industry expert who helps family offices, trustees and advisers understand and mitigate risk related to wealth transfer structures.

# GENERATIONS: THE PURPOSE BEHIND WEALTH OWNERSHIP

by Lisa Niemeier

What is wealth for? It is a question asked by multiple colleagues of mine when working with family clients. Most of the answers have something to do with philanthropy. Alternatively, starting a new business or providing education and healthcare for family members. Or providing meaning and opportunity for family members. All of which are admirable uses. However, what is the real, underlying purpose for using wealth in each of these ways? More importantly, how can these uses be most productively and prudently incorporated? Let's start by looking at the direct impact generations have on the wealth.

Five of the most common generational areas of impact include:

1. The selection of investment vehicles
2. The selection of investment advisors and investment committee members
3. Trust Creation
4. Succession Planning
5. Entrepreneurship

Attitudes about wealth, outlooks on life, and the way people interact with family members on a day-to-day basis (i.e. family dynamics) are embedded in the imprint of social and economic experiences we encounter during our formative years. These attitudes, outlooks, and interactions have a direct impact on family wealth issues, most often without our ever realizing it.

Let's take the selection of investment vehicles. A clear example is the preference of the Millennial generation for real estate investing over the stock market. That is because Millennials came of age from 1994 - 2012, encompassing three major equity market crashes--the 1998 US Long Term Capital debacle, the global 2000 - 2003 technology bubble, and the world-wide 2007 mortgage bond crisis. Not a great decade to engender confidence in equity investing.

Next, we come to investment advisor selection. How often do next generations fire the advisor their parents worked with? That would be 86% of the time, according to a 2013 study. The primary reason cited was the advisor's outdated technology and communication methods.

On the advisor side, the advisor's own generational outlook may assume a level of risk for the client that is inappropriate or that causes assumptions to be made about the next generation's investment experience.

As far as investment committee members go, it can be difficult for next-generation family members to approve of the choices made by current generation leadership if, in the particular case of US families, those choices focus primarily on 'equity ownership of America' rather than diversifying into real estate or including international exposure.

Generational conversations are very much considered indigenous to the US. In Europe, conversations about generations have traditionally been considered less prevalent; in Asia, they not only reference the number of generations living under one roof, but also efforts to bridge the communication gulf between them. In the Middle Eastern world and in Latin America, generational conversations have traditionally highlighted patriarchal leadership.

Yet decades of family wealth consulting across the globe have shown that generations impact family wealth multilaterally. Ready examples of global generational phenomena include the Boom generation and the Millennial generation. These impactful generations changed the world as it was known at their time. After World War II, every country involved experienced a boom in births. Technological advancement and the digital age are the path of influence for Millennials and their shadow generation, Gen Zed. The impact of the Millennial generation along with the still-forming Zed generation is barely beyond nascent.

Since generational conversations are indeed global in one form or another, what purpose do they lend? What difference, if any, do they have on everyday management of family wealth?

Generations create a family identity. They are conduits of family culture and values. There would be no wealth transition without generations. No succession in family businesses. No progress in society. Without generations, there is no need for family governance or family organization. No need for a family office, either, really.

What about trust creation? Although formerly thought of as a US structure, trust creation is spreading globally as a vehicle for transferring wealth. Most often, trusts are created through the vision of a single generation--that of the grantor(s)--with no consultation or input from the benefitting heirs. Yet, how is a generation who grew up during the Great Depression to have a clue about how much money Gen-X or Millennial generation heirs need to fulfill their life dreams unless they know what those dreams are and what exactly will be needed to make them happen?

Next is succession planning. Who will take over the family business? The oldest son? The heir who always has pleased parents and caused them the least 'trouble?' Again, these may seem to be US family wealth questions. Increasingly, families in multiple cultures realize that perhaps it is the younger son who has the real talent and passion for the business... alternatively, perhaps a daughter.

Lastly, (on this limited list, at least!) how can entrepreneurship be effectively groomed in the next generation? Driven personalities and inspired ideas are common traits across generations...but the approach one generation takes to funding, executing, and organizing a business concern will be quite different from the approach another generation will employ.

One family leader I worked stated he would never run a business the way his daughter ran hers, yet both had created significant success (and wealth) through the respective businesses they had established. Another so-called entrepreneurial family had some members who had neither the talent nor the inclination to be entrepreneurs at all.

Generations are critical components of wealth creation, wealth management, wealth preservation, risk management, portfolio growth, liquidity, and quality of life. Over the past few years, they seem to be more prevalent in conversation and in articles written; rarely are they cognitively and directly connected to the family wealth in any meaningful way.

Which opens a new window to the way families and the trusted advisors who work with them should approach every aspect of wealth management. A more purposeful approach guided by a deep and clear understanding of generational impact might hold the keys to greater family wealth success.

Lisa Niemeier is a specialist in generational theory, particularly in the impact generations have on family governance and how families talk about their wealth. Her decades of experience as a speaker and family consultant span eight countries and a wide range of family members. She is the managing member of graymatter Strategies LLC. Lisa can be reached at lisa@graymatterstrategies.com or 804.937.3777.

# INTERNATIONAL ISLAMIC BANKING SUMMIT AFRICA

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Held under the patronage of, and featuring a Special Presidential Address from, H.E. Ismaïl Omar Guelleh, President of the Republic of Djibouti and Head of Government, this year's Summit will be held under the theme "Unlocking the Economic & Strategic Potential of Islamic Finance in Africa" and will tackle how to boost the potential of Islamic finance to deliver several key value propositions to Africa, particularly in the high-impact areas of Sukuk & Infrastructure Finance; Trade & Investment; and Financial Inclusion & Innovation.

The Summit also features a Keynote Speech from H.E. Ahmed Osman, the Governor of the Central Bank of Djibouti.

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# WHY FAMILY OFFICES

## CAN'T IGNORE BLOCKCHAIN

In summer 2017, blockchain saw a remarkable spike of interest from institutional investors, willing to invest into technology and take part in the cryptocurrencies and ICO boom. The total number of launched crypto assets surpassed 1,000, creating a whole new universe of alternative investments. With large institutional investors such as pension funds and endowments being still on the sidelines, more flexible family offices have a real chance to be front-runners by playing it smart. There are at least eight ways to profit from this new technology craze.

Family offices are showing an increasing interest in blockchain and cryptocurrencies, according to various surveys, but still, no more than a quarter of them have any exposure to this technology. The latest crypto-rush may be just a bubble, but the blockchain technology is not. It is a new solution, not technically feasible a decade ago. By reducing transaction costs, improving security and trust and dramatically speeding up the processes it has a disruptive potential for many traditional industries. Especially shared economy, financial services, insurance, legal & compliance, retail, healthcare, utilities and real estate, a traditional asset class for family offices' investments.

While investments associated with blockchain and cryptocurrencies may be potentially extremely profitable, they are super risky. However, adding a small portion of these assets into a portfolio may serve well for the purpose of diversification. The correlation between cryptocurrencies and other asset classes is virtually zero.

There are many ways how a family office can venture into the blockchain, depending on risk tolerance, required expertise and time horizon. Importantly, blockchain is not all about cryptocurrencies. There are ways to get an exposure to the blockchain without buying coins.

Cryptocoin mining

The competition in mining is becoming fierce due to rise in specialized equipment capabilities and decreasing rewards (number of coins per block). However, depending on current quotes, technical characteristics of the mining equipment, electricity and administrative expenses, assembling a mining farm can still be profitable. However, keep in mind that there is no other use of mining rigs in case coin prices plunge and stay below your breakeven point.

Active cryptocurrencies trading

Cryptocurrencies are liquid enough for intraday trading. However, this is very risky as they are by far more volatile than any other asset. Besides, the associated costs may be too high. Another big concern is related to lack of reliable exchanges, highlighted by the recent closure of BTC-e, which allegedly was laundering funds lost by the clients of Mt. GOX after its crash in 2011.

Long-term buy and hold (cold storage)

The so-called cold storage simply means keeping the reserve of cryptocurrency offline as a security precaution, which is especially relevant in case of large holdings. This option is good for long-term investments.

Participation in ICOs

This summer saw an explosion in Initial Coin Offerings, which is a crowdfunding alternative to the traditional VC process for blockchain projects. ICOs were facilitated by the launch of Ethereum, an innovative smart contracts platform. The largest offering of Tezos raised record-setting $232 mn in July and the accumulated size of ICOs since the beginning of the year reached $1.5 bn, according to Coindesk. However, this market is still in its infancy, so beware of scams – at least every 10th offering was fraudulent with investors losing their money. It is vital to perform thorough due diligence before investing.

Cryptofunds and derivatives on cryptocurrencies

Derivatives and funds are designed to mitigate investment risks and give a safer and easier access to cryptocurrencies to a wider investor base, including institutional investors. However, right now the choice is quite limited, but new initiatives are coming. For example, in July, the US Commodity Futures Trading Commission (CFTC) gave permission to a New York-based start-up LedgerX to exchange and clear cryptocurrency derivatives. DCORP has created a platform for derivative trading in the form of Ethereum-based smart contracts, allowing investors to hedge their risks. On the other hand, China banned ICOs and SEC have not approved a single crypto ETF and turned down an application for Bitcoin Trust from the Winklevoss twins. But a handful of crypto funds is already there, including a CopyFund by eToro and XBT Provider's Bitcoin funds, offered in the UK by Hargreaves Lansdown. More funds are expected to emerge globally.

Investing into start-ups developing blockchain solutions

Investment in blockchain start-ups is a great way to avoid buying cryptocurrencies, but still get an exposure to the industry. Moreover, this does not necessarily involve private equity – a number of such ventures are publicly traded, for example, Coinsilium, BTCS, DigitalX.

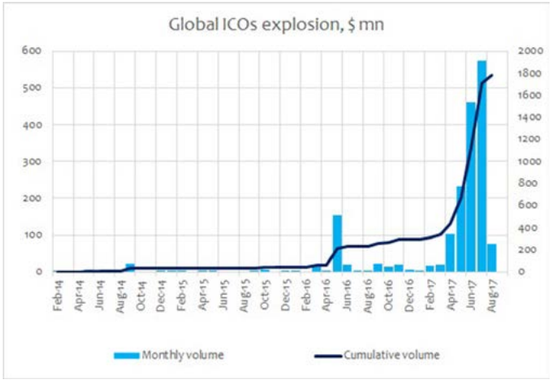
Building your own dApp and holding an ICO

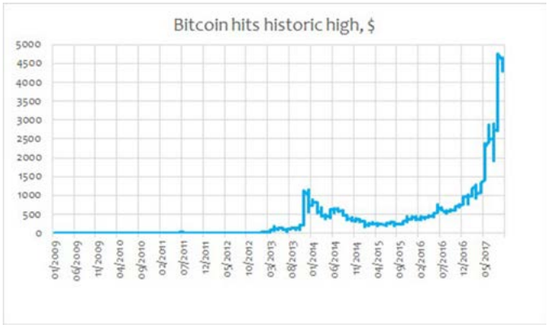
Investing into technology directly can be another alternative to speculations on cryptocurrencies. In the past few years, there has been a lot of progress made to simplify the process of building distributed apps (dApps). Ethereum platform allows the development of dApps without the need to create a completely new blockchain for each application.

Buying shares of companies with exposure to blockchain

If direct investments into blockchain and coins seem too risky, why not try buying shares of listed companies, accepting cryptocurrencies or planning to introduce blockchain solutions or even just selling mining equipment. You probably heard of recent graphics cards shortages as more and more people joined the crypto-mining rush. Since the beginning of 2016, the share prices of Nvidia and AMD, makers of the most efficient chips for Bitcoin and Ethereum mining, grew by 400% and 460% correspondingly. It may be too late to buy these stocks, but similar opportunities will arise within the shares of companies exposed to blockchain and cryptocurrencies.

The blockchain is getting harder to ignore by institutional investors, especially less restricted and more flexible family offices, now that the big money starting to pour in. Many financial giants that previously rejected the technology are now making sizeable investments in blockchain businesses. The names include Visa, MasterCard, AmEx, JP Morgan, Citi, Goldman Sachs, Wells Fargo, Mitsubishi UFJ and even IMF. Moreover, this is happening despite the global regulation tightening as governments are trying to take cryptocurrencies under control.




Dmitry Kotlyarov, MSc
Research analyst at Capcon

# HONG KONG'S FAMILY OFFICE

## AN IDEAL SOLUTION FOR ISLAMIC WEALTH MANAGEMENT

By Wilson Yeung

Under the current unfavourable worldwide macroeconomic condition and a highly volatile financial market, Islamic wealth management is facing new challenges in spite of being a rapidly growing industry in recent decades. The consistently declining oil prices have spoiled Islamic wealth creation, for most Muslim high net worth individuals (HNWIs) originate from oil-rich countries in the Gulf. Saudi Arabia and UAE control two-thirds of the private wealth in the region. The majority of Islamic wealth, however, remains concentrated in non-Muslim nations, in which out of USD12 trillion collectively owned by Muslim governments, institutions and individuals. About 85% is concentrated outside the scope of worldwide Islamic financial services industry (i.e. mainly concentrated in conventional financial services industry). Interestingly, 75% of Muslim wealth in the Middle East region is discovered to be channelled abroad.

The Islamic wealth management industry is gradually picking up momentum to become the new frontier for the worldwide Islamic finance industry with the booming number of Muslim HNWIs. Islamic wealth management is one the fastest-growing areas in international Islamic finance arena alongside Islamic banking, Sukuk (i.e. Islamic bond) and Takaful (i.e. Islamic insurance) in recent years. Currently, Islamic wealth is estimated to be USD12 trillion out of the worldwide wealth of USD108 trillion, and Muslim HNWIs occupy around USD4 trillion.

Shariah-compliant family office is a new development, and one of the remarkable trends is the setting up of family Waqf to manage Islamic family wealth, in which the assets are locked up, and family members or heirs only utilise the dividends that derive from the business, by virtue of stewardship concept, in view to preserve wealth to be succeeded through generations. Hong Kong is always one of the leading jurisdictions for the setting up of family offices in Asia. Many

Wilson Yeung

Partner, WMD Advisory


Asian HNWIs, particularly those from Mainland China, usually choose Hong Kong as the optimal investment platform for their overseas private investments, thereby setting up a family office in the city to manage their assets and businesses centrally. This kind of arrangement makes the best use of Hong Kong's comparative advantages on ease of business formation, sound legal system, free of foreign exchange control and its low and simple tax regime, in which profits derived outside the territory of Hong Kong, as well as dividends and capital gains, are non-taxable.

From the perspective of many Muslim HNWIs, they also prefer to set up a family office in Hong Kong owing to its tax neutrality, fiscal advantages, confidentiality and world-class dispute resolution. It is obvious that Shariah-compliant family office will be of interest in years to come. It may include Zakat planning and probably some form of philanthropy. Shariah-compliant funds and ethical funds are also likely to boost coherently. As such, it would be meaningful to see if Islamic wealth managers and conventional ethical investment funds can collaborate to market investment products not only exclusive to Muslim investors.

In the other parts of the globe, UAE, Qatar and Luxembourg are also widely recognized as excellent wealth management centres, offering a highly attractive environment for private wealth management, combined with comprehensive solutions for managing and structuring HNWIs' wealth. In Luxembourg, for instance, a number of banks have an established track record in providing Shariah-compliant financial services as well as setting up customised Islamic investment structures for private clients. Nevertheless, Hong Kong plays its leading role in Asia when compared to its Middle Eastern and European counterparts.

Looking forward, the increasing concentration of wealth held by rich families and rising globalization are impetus for their growth. Hence, family offices are one of the fastest-growing investment vehicles today, and there are over 13,000 SFOs around the globe, and over half of these were established in recent two decades. The emerging markets are predicted to be the main drivers in the years ahead. Despite some industry observers have recently expressed their opinion that the Islamic finance industry still requires producing a wider range of investment products as a destination for available capital, the market stakeholders are always optimistic, and the golden opportunities for Shariah-compliant family offices are expected to flourish.

Wilson Yeung is a Partner of WMD Advisory, the leading international tax and Islamic finance advisory firm, based in Mainland China and Hong Kong. He is a qualified accountant and tax advisor, possessing over 20 years' practical experience in international tax management, trust and estate planning, project financing,

# Brennan And Arch Street Acquire $100 Million, 2.5 Million Square Foot, 11-Building Industrial Portfolio

Brennan And Arch Street Acquire $100 Million, 2.5 Million Square Foot, 11-Building Industrial Portfolio

Brennan Investment Group ("Brennan"), a U.S. based real estate firm, and a client of Arch Street Capital Advisors, LLC ("Arch Street"), a Greenwich, Connecticut based real estate investment advisory firm, have announced the acquisition of an 11-building industrial portfolio located in 8 states and totaling 2,497,982 square feet. The portfolio is geographically dispersed throughout several top markets in the United States including Chicago, Milwaukee, Pittsburgh, Birmingham, Grand Rapids, Jacksonville, and Minneapolis. Since 2011, through multiple ventures, Brennan and Arch Street have acquired over $1 billion of single tenant, net leased, industrial assets.

"We are pleased to acquire another net leased industrial portfolio with Arch Street. This acquisition marks our 6th joint venture together and demonstrates the breadth and depth of our net lease platform. We have the ability to both acquire large portfolios as well as aggregate individual long-term net lease assets," said Michael Brennan, Chairman and Managing Principal of Brennan Investment Group. "Utilizing our operational expertise and network of regional offices, we can invest across the U.S. in both long and short duration net leased properties with an emphasis on mission-critical assets."

"We look forward to continuing our long-standing relationship with Brennan Investment Group. Our partnership continues to evolve and reflect the versatility of our net lease platform and acquisition capabilities," said Gautam Mashettiwar, Vice President of Arch Street Capital Advisors, LLC.

Brennan and Arch Street continue to seek single tenant, net leased industrial investments meeting the following criteria:

- location in the top 100 U.S. markets,
- remaining lease term of at least 10 years,
- non-investment grade credits,
- "mission critical" properties with significant facility investment by the tenant, and
- all industrial facility types, including manufacturing, assembly, R&D and distribution.

About Brennan Investment Group

Brennan Investment Group, a Chicago-based private real estate investment firm, acquires, develops, and operates industrial properties in select major metropolitan markets throughout the United States. Since 2010, Brennan Investment Group has acquired over $3 billion in industrial real estate. The company's current portfolio spans 25 states and encompasses over 33 million square feet.

Brennan Investment Group co-invests with private and institutional capital to achieve outstanding risk-adjusted returns. The firm's management team is among the most accomplished in its industry, having invested in over 4,000 properties covering more than 60 cities throughout the United States, Canada and Europe.

Brennan Investment Group
www.brennanllc.com

About Arch Street Capital Advisors
Arch Street Capital Advisors, L.L.C. is a full-service real estate investment and advisory firm formed in 2003. The firm specializes in advising international investors on their U.S. real estate strategies and has advised clients on more than $6.0 billion of transactions. Arch Street actively manages a diverse portfolio of investments on behalf of our clients spanning multiple real estate sectors and risk-return profiles. Arch Street has significant experience in the office, multi-family, industrial, retail, hospitality, student housing, healthcare, single-family residential, land entitlement, and development sectors.

www.archstreetcapital.com.
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# THE FRENCH OPPCI VEHICLE OR HOW TO OPTIMISE THE HOLDING AND THE TRANSFER OF YOUR FRENCH REAL ESTATE

Yves Ducaté, Private Banker ING Private Banking Luxembourg

Real estate is a very popular asset class among wealthy investors. Whether they are entrepreneurs, large families or very high net worth individuals, their assets always include real estate, either directly or indirectly, through for example a company vehicle like an SCI (Société Civile Immobilière – a real estate company).

However, this asset class, considered to be lacking in mobility and liquidity, has been subject to increasing taxation in the last few years. The solidarity tax on wealth, capital gains and income tax, transfer and registration fees, VAT, etc., are just a few of the tax charges that investors must expect, whether they are resident in France or not.

In the last few years, alternative investment funds dedicated to real estate have registered significant growth in France. New tools, adapted to investors' needs and increasingly complex regulation, have emerged.
In order to support and empower our clients to preserve, grow and transfer their real estate assets, we have focused on these tools, and selected a specific vehicle, the OPPCI (Organisme Professionnel de Placement Collectif Immobilier - a real estate collective investment scheme open to professionals).

Unlike the OPCI (Organisme de Placement Collectif Immobilier - a real estate collective investment scheme), the OPPCI is reserved for professional investors who wish to grow their real estate assets.
Structured correctly, mainly thanks to the specific OPPCI regime, a property portfolio may be much easier to manage, more flexible and also be subject to lower taxation, which is always a bonus.

When a French company opts for the tax status of OPPCI, latent capital gains on the real estate held will be subject to tax, but under a specific and highly favourable tax system.

The OPPCI is totally exempt from corporate tax on operating results, i.e. rental income, but also on the capital gains generated by property sales.

In return, the OPPCI must distribute dividends to its shareholders, at least 85% of its rental income and 50% of the capital gains generated.

While the shareholder of the OPPCI is generally a holding company incorporated under the French law, we have developed a solution that substitutes the French holding for a Luxembourg based company (Luxco).

Thanks to the specific features of the France-Luxembourg agreement, the distribution of dividends of a real estate company operating under the OPPCI regime to a Luxembourg SOPARFI (financial holding company) holding at least 25% of its subsidiary company, will be subject to a simple withholding tax in France of 5% (quota and charges). While the amounts received by the Luxco will be treated as income of the subsidiary (financial income), but will be exempt from tax, insofar as Luxembourg does not tax real estate income generated by French properties.

In the example above, a French resident who is a shareholder in the LUXCO that distributes the dividend would be subject to tax in France. If he/she lives outside France, the applicable tax system will have to be examined on a case-by-case basis.

Despite the multiple advantages, reorganizing the real estate assets incurs certain costs. The creation of an OPPCI, a scheme regulated by the Financial Markets Authority (AMF), sometimes requires a restructuring of various French companies through takeover and/or merger. This has to be done in order to incorporate eligible real estate assets in the future OPPCI, before it officially adopts this status. Following its approval by the AMF, the OPPCI will have to bear the costs of the real estate management company, also approved by the AMF.

Overall, this is an extremely interesting operation: a real estate portfolio of €40 million, generating €2.4 million in gross rent, will have to bear +/- 15% of expenses and taxes under OPPCI status, while under the common regime, the cost would be around 40%.

In conclusion, investors who plan to purchase, sell or transfer their French real estate under optimal conditions must ask themselves what the most appropriate structure is.

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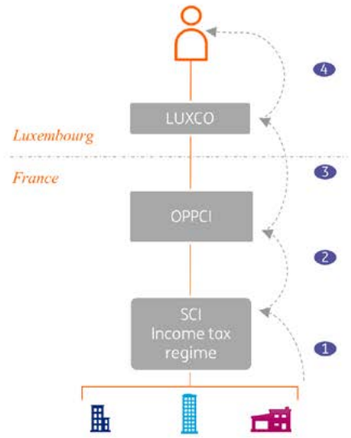
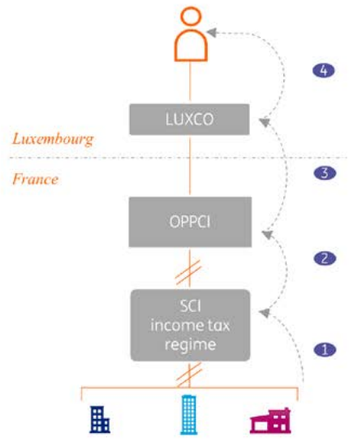
*Our analysis is based on the double taxation agreement signed between France and Luxembourg applicable in September 2017. The scope and content of this article is general in nature and does not incur the liability of ING Luxembourg.*

**OPPCI - real estate income and dividends**




1. Income from real estate assets at SCI are exempt from a France level
2. Distribution of SCI income to the OPPCI : no withholding tax and exemption of taxation at the OPPCI level.
3. Distribution of OPPCI income to LUX SA is 5 % tax and tax exemption at LUXCO level (if holding ≥25%)
4. Distribution of LUXCO income to a natural person Luxembourg resident: 22%.

**OPPCI - capital gains and dividends**




1. Sale of real estate assets by the SAS OPCI, tax exemption at OPPCI level.
2. Sale of SCI securities by the OPPCI, tax exemption at OPPCI level.
3. Fund redemption strategy of the OPPCI: empty the structure via dividend distributions in order to benefit from the tax treatment described above and avoid taxation of capital gains at OPPCI level: 5% tax and tax exemption at LUXCO level (if holding ≥25%).
4. Distribution of LUXCO income to a natural person Luxembourg resident: 22%.

**Total tax paid on operation of approximately 5% (subject to conditions and implementation of an adapted structure)**

# WEALTH MANAGERS AND FAMILY OFFICES: FROM SERVICE PROVIDER TO PARTNER!

The key role played by family offices on a daily basis involves managing complex issues that are human, administrative, legal, tax-related and, of course, financial in nature. Like an orchestra conductor, family offices must possess multi-disciplinary skills to monitor and coordinate these issues. Moreover, to do so, it must be able to rely on service providers it trusts, whose skills will help set to music the strategy laid out by the families and their close advisors.

So choosing service providers who will keep their promises is paramount and a challenge in its own right. This is even more in managing financial assets. Actual returns (net of fees and taxes) are, of course, the primary goal, but these are quite unpredictable, and no guarantees can be offered. Even so, this "best efforts" obligation, which is a hallmark of financial advisory, is no longer enough for investment management mandates. Standards are broader in scope, and the notion of returns has become multi-faceted.

The range of services on offer must include hands-on financial solutions that are quantifiable and that create value. However, they must also help simplify family offices' monitoring and control tasks by making the investment management process as transparent as possible. One reason for this is that financial instruments are increasingly complex, information is ubiquitous, and reliability is often lacking. What's more, the new generations that are taking over family fortunes demand new and innovative practices, levels of commitments and solutions. In this ecosystem that is in constant flux, investment management mandates must more than ever reflect these new standards of performance. One-size-fits-all is out. Family offices want complementary services that are tailored to their needs. Family offices customarily diversify by entrusting their assets to several different managers, including both banking establishments and independent asset managers. While the need for counterparty risk diversification is an accepted fact, this is not as true for the way that assets react once they have been invested. The reason for this is that, while all asset managers claim to be different, investment management profiles have inevitably converged, due to regulatory constraints (standardised risk profiles), temporary profitability biases (retrocessions and high-margin products), and the fear of losing mandates (benchmarking to reduce the risk of underperforming the competition). This has, in turn, increased the financial risk that is inherent to portfolios.

To address this bias and offer more structural and robust diversification in wealth management, it is becoming necessary to combine several different investment approaches. Taking a unique approach is, in itself, one way to diversify risk and manage family assets on a solid basis for the long term. With this in mind, CAPITALIUM ADVISORS has developed a three-pronged model that aims to guarantee the greatest visibility and traceability possible in investments. By reducing the asymmetry of information that too often exists between managers and clients, we provide clients with all the tools for objectively evaluating the work done and making informed decisions. This makes clients participants in the management of their own assets.

"We say what we do and do what we say."
In portfolio management, we stand out in the way that we strategically overweight or underweight assets in a clear-cut manner, as dictated by our analysis of the financial markets. Accordingly, we eschew "cosmetic" transactions, which are too often used to mask a lack of conviction in portfolio management.

"Before making comparisons, accept that it is OK to be different." In contrast to the "fog machines" that are too often used by the financial industry to explain away performances, we want to avail CAPITALIUM ADVISORS® clients of instruments that help them precisely measure the quality of services provided to them. To do so, we have entered into a contract with IBO, a firm that audits returns adjusted to real levels of risk and compares them to the main Swiss investment managers.

"Optimising one's financial ecosystem."
Based on each client's investment management profile, we seek to determine which counterparties and suppliers of financial products are most able to allow us to stay within the commitment we have made to our clients that their total fees will not exceed 1%, hidden fees included. This is what we consider to be the fair price for wealth management. What's more, this enhanced efficiency has a direct impact on performance by reducing the risk incurred on a constant-expected-return basis.

In addition to the more entrepreneurial and contemporary model that CAPITALIUM ADVISORS® offer its clients, wealth management, like many other businesses, is based above all on the notion of trust. Moreover, trust cannot be forced; it must be earned over time. We do believe that it is possible to earn this trust through an approach offering full transparency on the business model, the absence of conflicts of interest, and an uncompromising investment management process. This obviously requires commitment, cooperation and sharing of knowledge. Moreover, this is precisely the difference between a service provider and a partner.

The Geneva-based CAPITALIUM ADVISORS SA is an independent investment manager regulated by the ASG (Swiss Association of Wealth Managers). It offers wealth management services for a clientele consisting mainly of Swiss and international families and entrepreneurs.

CAPITALIUM ADVISORS® SA

CAPITALIUM ADVISORS®
WEALTH MANAGEMENT

# A WORLD OF EDUCATIONAL POSSIBILITY

## Private tuition is opening doors for parents and children to relocate, travel, and explore the world

Modern, high net worth families often don't want to be tied to one place, constrained by school term dates, curriculum schedules, and an outmoded view of what "learning" should look like. Families that have second, or even third, homes abroad may want their children to enjoy and experience life in other countries.

Private full-time tutoring is the alternative to school that enables the lifestyle flexibility and provides the very highest quality education for the children. It is the ultimate in education, personalized, one-on-one teaching with a highly qualified teacher, with access to resources that schools can only dream of.

We have seen a marked increase in the number of clients employing homeschool tutors to travel with the family and provide world-class, seamless schooling while making the most of the educational opportunities that global travel, multiple homes and other life-enriching experiences can offer.

Learning outside the confines of school life can reignite a love of learning, away from the pressures of the classroom, while enjoying time spent as a family and exploring new cultures and climates.

A private tutor can go where you go, wherever in the world you call home. A full-time private tutor will travel with the family on extended holidays and adventures, or on temporary assignments or relocations, for several months or a year or more.

### A global education

A private tutor presents a further opportunity for the modern globe-trotting family: a choice of curricula.

Children may decide to undertake a UK-based curriculum, but if they have a dual passport or have their sights set on Harvard or MIT they can opt to study a US curriculum alongside it. With a private tutor, students can select the subjects they will excel in; that best support their future goals, and take exams from any country, at any level, at a pace that suits them.

I have observed a dramatic shift in recent years: parents are moving away from traditional, one-size-fits-all classroom education systems that can't keep up with their desire to travel, spend time together and explore. What they want is a tailored education system that works for them, embraces their lifestyle and enhances their children's education. Private tuition can do that for them – it is education for the 21st century.

A change of scenery and the chance to decompress
Parents no longer have to wait until their children leave school to take extended trips.

Families are beginning to realise the life-enhancing possibilities that open up to them when they embrace things like remote working, sabbaticals and schooling that's as mobile and globe-trotting as they are.

Employing a private tutor to travel with the family means that important studies continue uninterrupted, but children – and their parents - get the very best out of their trip or temporary relocation, with a deeper understanding of the geography, language, history and culture of the places they inhabit.

A travel tutor will devise a programme of study ahead of the trip that combines a mixture of classroom study and activity-based learning. Learning plans will typically utilise curricula and materials from school while taking advantage of the unique opportunities and experiences afforded by the student's travel.

### Reigniting a love of learning

We know that children learn better, question more deeply, and understand things more thoroughly when what they are learning is tied to something fun and relevant. The normal secondary school day is split into segments, and during each segment, children will learn a different subject – maths, English, art, geography, and so on. However, in a project-based environment, private tutors weave individual subjects into a topic that resonates with the pupil and can be applied to real-world situations.

Private full-time tutoring, and especially travel tutoring, takes project-based learning to the highest level. One-to-one teaching means the project can be tailored to reflect a student's personality and their interests, and exceptional private tutors use their environment to the academic advantage of their student.

One client describes life on board their private yacht as they took a year out to travel with an on-board travelling tutor who incorporated new surroundings and cultures into his lesson plans and learning activities:

"Every other Friday they have a Regional Module, where they work with the tutors on the geography, history and culture of the country we are in. They had decided last week that they would put on a Greek play, using their knowledge from Pompeii combined with research into Greek life and mythology. They wrote the play, made props, costumes, programmes and music... Amazing!"

### Private home schooling opens up a world of educational possibility

There is no guarantee that the best education for today's students lies within the walls of a traditional classroom, regardless of an institution's reputation or price-tag. Attending the most prestigious school does not automatically ensure academic success. Private tuition, on the other hand, provides your family with the opportunity to travel and learn together. It opens up a world of social and educational possibility.

Adam Caller
Tutors International
www.tutors-international.com

# IMPROVING ON PERFECTION

## MORE THAN JUST ANOTHER PRETTY FACE

by Amanda Slaz

**About Gallet**
**Founded in Geneva in 1466**

Gallet Watch is the world's leading pioneer in professional timekeeping.

The famous 1950s Gallet MultiChron model 12, from which the company's new Heritage Edition chronograph was modeled, is considered by many as the world's most perfect auto racing wristwatch. The MultiChron 12 was one of the most durable, accurate, reliable, and user-friendly watches of its time with most examples still in service today. Besides that, it looked fabulous on the wrist.

The Gallet story began over 550 years ago with tower clock construction in Europe. Since then, Gallet has provided its timekeeping expertize during many of history's most significant events. When men first began competing and breaking speed records in motorized vehicles during the late 19th century, Gallet was there keeping track. Throughout motorsport history, Gallet has been the leading provider of timing devices of utmost quality, accuracy, and reliability, and has served as Official Timekeeper for numerous prestigious racing events going back over 120 years. Gallet's iconic MultiChron model 12 often adorned the wrists of such extraordinary drivers as Jim Clark and many other racing heroes of the past.

**Switzerland's most talented timepiece designers have joined forces to do the impossible-** Improve on Perfection

In order to again achieve the ultimate experience in wearing comfort and elegance of design, Gallet's new Heritage Edition chronograph is based on the same minimal, form-follows-function modernist principles of its famous mid-century predecessor. At 40mm in diameter, the new watch nicely aligns with today's larger size standards while being only slightly bigger than its forerunner. This small increase of 2.5mm further enhances the impeccable readability of the dial (face) and its time recording gauges, an obvious benefit to drivers, track officials, and racing fans alike. Further improvements to the structural architecture, combined with increased water resistance of 100 meters, has resulted in a watch built to withstand the most severe of conditions of professional use. By keeping the depth of the case to a slender minimum, Gallet has hit the perfect "sweet spot" for great looks, extreme comfort during long term use, and flawless functionality.

The minimalist elegance of this ground-breaking timepiece, free from any superfluous glitz, belies the extraordinary powerhouse "under the hood." Having no connection to the mass-produced mechanical movements currently used by most other watch brands across the current industry, the Heritage Edition is powered by the new cutting edge Gallet Swiss caliber 550 movement. The result of years of development by Switzerland's foremost engineers and produced in collaboration with Vaucher Manufacture Fleurier, one of the finest watch maisons in all of Switzerland, the 550 incorporates a variable inertia balance as found only in the most expensive timepieces. Twin mainspring barrels provide the perfect level of power for ultimate "Premier Chronometer" accuracy across all functions. This is all kept ticking by a highly efficient self-winding system with extended power reserve of almost 50 full hours.

By achieving this unsurpassed level of engineering, design, and functionality, Gallet's new Heritage Edition chronograph is one of the few modern wristwatches rated as a true Heirloom Quality Timepiece, destined to become a classic and run reliably and accurately for over 100 years. At 12,500 Swiss francs, an incredibly small price for a watch of such excellence, the Heritage Edition chronograph is available in an exclusive limited series of only 500 individually numbered examples.

For more information on the Heritage Edition chronograph, the world's most perfect motorsports wristwatch, visit Gallet on the web at: GalletWatch.com

# NAVIGATION SUPPORT

## IN AN OCEAN OF CONSTRAINTS AND UNCERTAINTIES

by Pascal Rapallino, Group Private Clients Solutions Leader, SGG Group

More and more wealthy families are losing confidence to sail in an ocean of regulatory changes and uncertainties for their investments.

**Rough Waters**

We have read about it, we have expected it and we are now feeling it: the financial landscape has changed.

After the 2008 Financial Crisis, many wealthy families have lost their trust in traditional investments and private banking. This loss of trust, combined with market volatility and low-interest rates, have resulted in a decreased interest in traditional investments such as commodities, bonds and equities and many wealthy families have been seeking out for alternative investments such as Private Equity, Real Estate and Hedge Funds to achieve higher returns with controlled volatility. This being said, ever increasing, changing and ramifying regulations are preventing wealthy families to sail into this ocean of alternative investment opportunities with the required stealth and confidence.

According to the CFA Program 2017 Practice Analysis Survey, nearly half of the CFA Institute members stated that regulations will have a significant impact on investment decision-making going forward. To mention only a few, regulatory standards such as Base Erosion and Profit Shifting (BEPS), Common Reporting Standards (CRS), Foreign Account Tax Compliance Act (FATCA) and Anti-Tax Avoidance Directive (ATAD) have created enhanced analysis and reporting requirements for wealthy families and this has resulted in the need for the restructuring of legal entities that have been set up for investment, asset protection and inheritance purposes.

**Steering the Ship**

Many families do not possess the required manpower and expertise to efficiently adapt their investment strategies to these new regulatory standards and, at the same time, also feel engulfed by the uncertainties of market volatility, geopolitics and disruptive technologies. The right wealth advisor can provide wealthy families with navigation support in the alternative investment setting, by understanding a family's changing goals, risk exposure, expectations and market opportunities. As indicated by the 2016 Capgemini World Wealth Report that surveyed 5200 HNWIs in 23 countries, HNWIs rated wealth planning expertise, investment access and advice as the most important criteria for wealth management relationships. The need now has never been greater for entrepreneurial families to consult experts for the creation of robust wealth and alternative investments structures such as Private Equity and Real Estate support, so that they can set out to achieve their financial goals with smooth sailing.

**Handing over the Ship's Wheel**

Succession planning has always been a topic deserving its own attention and remains one of the most important concerns for HNWIs. The increase of demographics of families and regulatory constraints play no favourable role in contradicting the notorious "from shirtsleeves to shirtsleeves in three generations" proverb. Succession planning should not be seen in isolation and should be pre-empted by proper family and corporate governance. It is vital that families foster communication channels and create family charters with unique decision-making procedures, values and objectives.

Many HNWIs and families see the merit in Warren Buffet's notion of succession by leaving their children "enough money so that they would feel they could do anything, but not so much that they could do nothing". This balancing act is not an easy task to defeat with each family (and its individual members) bringing its own level of complexity and expectations. The best succession planning is generally construed by an external advisor experienced in family succession matters, someone whose judgment is not clouded by the family relations, but at the same time, is someone who can understand the unique needs of the family.

*Pascal Rapallino leads and develops the SGG's Private Clients business unit, focusing on enhancing existing capabilities and implementing new services globally*

www.sgggroup.com



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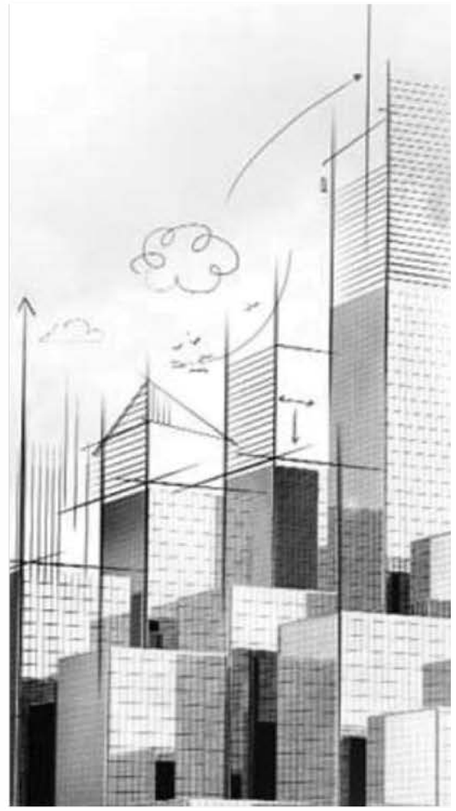

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# HOLDUN FAMILY OFFICE

## GRANDPARENTING

by Stuart Dunn

Holdun Family Office
Holdun is an international, independent, Multi-Family Office that helps your family, like we do our own, build wealth and security for generations.

Our family's wealth is managed alongside that of our clients. We do not worry about market gyrations. We let compounding work for us.

Holdun Family Office traces its heritage back five generations to the industrialist and financier Sir Herbert Holt. Holt would have felt at home in today's uncertain world. He amassed a business empire that spanned three continents during one of the most violent periods in history and the Great Depression. He also served as President and Chairman of the Royal Bank of Canada from 1908 - 1941, multiplying its assets fifteen-fold during his tenure.

Founded in Canada by the Holt-Dunn family, Holdun is a 5th generation family office and has grown over the past decade into a Multi-Family Office. Holdun has expanded its presence into the Bahamas, Grand Cayman and the United States and is now controlled and managed by both the Dunn family and the Meier family. Today, Holdun is an international, independent, Multi-Family Office that helps your family, like we do our own, build wealth and security for generations. Holdun's heritage may be Canadian, but our outlook and approach are distinctly international.

Our Mission is to assist all of our clients, like we do our own family, in growing their assets, protecting existing wealth and preparing the next generation for the responsibilities they will assume in the future.

At Holdun, our goals and objectives are aligned with yours, as we manage our family money in the same way we manage yours, proposing only investments that have been thoroughly researched and that we are comfortable investing our own money in.

Holdun is an independent Multi-Family Office providing discretionary wealth management, tax and estate planning and asset protection for individuals, families, private companies, foundations and endowment funds. Holdun's investment focus is multinational and includes investment banking participation for interested clients as well as related personal financial services.

The Holt-Dunn family has been managing its assets for five generations, beginning with Sir Herbert Holt, Chairman & CEO of Royal Bank of Canada. Today, Holdun is owned and controlled by the Dunn and Meier families with Stuart Dunn as the Chairman and Bruno Meier as the Vice-Chairman. Brendan Holt Dunn serves as CEO and Claude-Philip Meier as COO.

The Holt-Dunn Family Office was founded to manage and transfer established wealth across generations. It is this experience and objective that is offered to its clients.

Given its tradition, history and its historical investment returns, Holdun has an enviable record of achievements to offer prospective clients.

Holdun is a discreet, private provider of Personal Financial Services. It is not aligned with any financial institution and is committed to optimizing prudent returns and providing related personal services to its clients. Client assets are managed alongside those of the Dunn and Meier families, ensuring an alignment of objectives for all investors.

Most significantly, it is the ultimate objective of families to transfer wealth to future generations in a tax-effective and strategic manner. Holdun has accomplished this over five generations and is readily capable of executing these objectives for its clientele, working in partnership with each client's trusted advisors. Other personal services such as bill paying, revenue collection, assistance with eldercare, personal healthcare, education, property management and like requirements are also availed.

One of the, if not the greatest, joys of my life is spending time with my grandchildren, today numbering four. Sadly, my twin grandsons live in Vancouver, so we do not see them as often. However, thanks to FaceTime we speak to them regularly. My other two are here with us, and I am only too delighted to pick up my granddaughter from school, feed her lunch, and bring her home for her afternoon nap (if only I could join her).

It made me think of my father when I was growing up in Canada. He was with us for breakfast, often for lunch, and as we walked back from school, was there to greet us more often than not. I wondered what he did, thinking that he had a great job that gave him lots of free time to spend with the six of us. As it turns out, he was a stock-broker, which is how I started out in the business before becoming an analyst and eventually a portfolio manager.

What has this got to do with investing, you may ask? Just as I wondered what my father did, my grandchildren will one day ask "Opa, what do you do?" This is my response to my granddaughter in the back seat of the car.
I will explain that we are a fifth-generation family business that was started by my great-grandfather, Sir Herbert Holt, who immigrated to Canada from Ireland in 1875 and ended up being one of Canada's most successful entrepreneurs. My job, after assuming the mantle from my parents, was the stewardship of our family assets, and that we expanded from there into helping other families manage their assets in a similar fashion to what we have been doing for generations. My role, I will explain, is to help all of our clients increase their assets, protect their existing wealth and prepare the next generation for the responsibilities they will assume in the future.

Successful investing, I will venture, takes time, discipline and patience. Over the long term, investment returns from equities are earned primarily as a result of growth in the underlying business value. This is so because sooner or later, the market mirrors the business. As evidence, I will point out that the long-term returns of the equity market have approximated the growth in the book value of all businesses.

This, in turn, leads to my conviction that the way to generate superior investment returns is to invest in a portfolio of high-quality businesses. The true nature of a high-quality business, I will point out, is rather simple – it has sustainable, competitive advantages. A business that enjoys these advantages can keep competition at bay. As a result, over the long term, such businesses can grow their economic earnings. Mirroring this, the business value grows as well.

I will finish by explaining that by acting rationally, consistently while harnessing the power of compound interest over a very long period of time has been the underpinning of our investment success. By now, my granddaughter, secure in her car seat has fallen asleep, pondering what I have told her. I bet she can't wait for tomorrow's lesson.

Photo by Ben Jamieson

www.holdun.com

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# LIFE INSURANCE IN LUXEMBOURG

By Christophe Maulny and Alexane Palide - Anthony & Cie

As part of our International Family Office core business, we often work on interesting creative wealth strategy as well as real estate planning that would have been very difficult to envisage before meeting the person at the source of inspiration.

In spite of being confronted with different diversified situations, which is one of the charms of the profession, one's must find the creativity which is necessary to resolve these kinds of needs.

We were recently approached by a couple of prospective clients, both of Irish nationalities and Abu Dhabi tax residency. They wished to change their way of life. Their concern was providing the best education possible for their three teenagers children. Their wishes were to come back to live in Europe and especially in the sunny South of France. It also has the advantage of well-known universities in a pleasant place to live.

Among their different assets, the couple owned real estate assets in Abu Dhabi and Ireland. They had bank accounts and pension plans. They are also shareholders of a private unlisted company based in Abu Dhabi.

The distribution of dividends from this company brings them approximately € 900,000 per year of income depending on the EURO/AED (dirham of the United Arab Emirates) which brings them their principal revenue.

In Abu Dhabi, the dividend is not liable to any tax, and they are also not subject to social charges. Referring to tax treaties, we quickly understand that changing their tax residence to France would create major tax liabilities.

In French practice, these dividends would be subject to income tax but aren't entitled to any tax credit as it is well known that there is no taxation in United Arab Emirates. If one takes into account the family tax restructuration, it already seems that the € 900,000 of dividend revenue would be taxed for a global amount of € 510,000 and a total of € 371,000 directly subject to income tax and questionably the French tax authorities will try to collect € 139,000 for the social aspects. Welcome to France!

Beyond the disappointment of this situation, we needed to find a satisfactory solution, and this seemed clear to us, and a strategy could be put in place to mitigate this substantial potential liability. It is all about a life insurance policy from Luxembourg which offers solutions for an overall wealth management strategy.

The solution concerns the tax advantages with a partial takeover, in other words, a change of ownership. This obviously needs to take place before changing the residency to avoid French capital gains taxes.

The insurance policy is suitable for all families with International business operations and also residing in multiple tax jurisdictions. The purpose of this interesting mechanism is the right to hold diversified assets and for our client's case, the shares of the Abu Dhabi unlisted Company.

Client's profile allowed them to subscribe to a Luxembourg life Insurance contract type D, which means that the net wealth worth of the subscriber has to be higher than 2.5 million euros and the net value of their life insurance policy contract has to be higher than 1 Million euros. For your information, this kind of specific contract is determined by the Luxembourg Insurance Commission rules and regulations.

Such contract has the possibility to hold any type of assets, including 'Emiratis Private Equity' securities from our clients. The amount is limitless, and the contract can be in multi-currency, which represents an essential criteria for the solution proposed. However, the operation is more complex than it seems, firstly the motivation of the client is essential, with a beneficial growth economic sense.

First of all, this operation requires the shares to be initially transferred to the Luxembourg life insurance company, as stated before and also before French residency, which will then be settled into the client's life insurance policy.

For a successful operation, several obligations remain:

• The insurance company does not want to have an operational role in the unlisted company. If the clients have an operational function conditioned to the possession of the securities being transferred, it is necessary to find a contractual arrangement to ensure that this function is assured with a different shareholder structure.

• Usually, like any buyer, the insurance company will request the normal documentation such as company statutes, the shareholders register, the audited annual accounts, an analysis of the company describing its activity and its market, a local legal opinion confirming the transferability of the securities, plus any documents necessary for a thorough "due diligence".

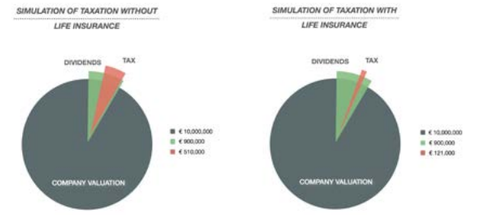
• Finally, the valuation of the company must be carried out; the justification of the valuation has to be shown to Luxembourg insurance commissioner. It is obviously a critical step.

For our client's case, the valuation has been established by the equivalent of the local auditor. The evolution of the company's turnover over the last ten years is considered, but also the debt, the assets held, the strength of the activity, the market and the gross operating profit GOP. The company valuation was compared with similar companies doing the same activity with an available valuation either through quotation or following transactions.

Without forgetting a discount for illiquidity being applied which takes into account the number of shareholders in the capital and the tradability of the shares of the company.

By respecting these several obligations, the company was valued 11 times the profits (which valorises approximately around ten million euros the shares held by our clients) it may seem a little but fiscal wise, a higher valuation would have been more interesting. Reflecting the French rules of the pro rata income/capital invested in the calculation of the tax on partial redemptions in the context of life insurance. The purpose is being able to justify an undisputed valuation.

After carrying out all these steps, the securities are transferred to the Luxembourg insurance company which will then be lodged in the client's policy.




Indeed, the tax advantage is interesting. Assuming that the amount of dividends and the valuation of the shares will not change for the next 20 years, the total annual tax will be € 172,000 the maximum, and € 36,000 the minimum (which concern the total tax on income and social taxation).The average of the total annual taxation of € 121,000 –Presuming the taxation rate will not change... which seems to be already unrealistic.

However, in case of a tax rate evolution proposed by Emmanuel Macron, French President, it should only slightly affect this type of operation. The government are talking about flat taxation of insurance policies.

Last, but not least, this wealth planning operation should ideally be structured a long time before the change of residence in order to avoid the requalification by the French Tax Authorities into an abuse of rights. It should also be emphasized again this needs to be carried out before being tax resident in France to avoid French capital gains taxes on the transfer disposal of the direct ownership of the company.

As far as we know, we did not see any restrictions, but as always, we have to keep in mind that prudence is the key in tax matters.

*This case study and the simulation are for information, illustration purposes only and no advice has been made, or responsibility will be accepted by Anthony & Cie for any action or decisions made from it. We advise readers to take individual professional advice as each person's circumstances are different and the solution made not be appropriate.*

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# JAPANESE STOCKS

## A CONTRARIAN VIEW

By Andrew Hacker
Ballentine Partners, LLC

Japan, the economy and stock market that investors love to hate, is once again seeing renewed interest from Western investors. After 25 years of fits and starts, growth in earnings and GDP have exceeded expectations this year. Second quarter annualized GDP growth came in at a surprising 4% compared to forecasts of 2.5%. Many investors who had written off Abenomics as a failure (the Japanese version of easy money as directed by Prime Minister Shinzo Abe) are starting to reconsider their position. While we are encouraged by the positive economic news, we believe the improvement in the Japanese economy is only a small part of the case for Japanese equities. Our view is based upon a number of more subtle changes that are likely to benefit Japanese shareholders in the future.

In June, our equity research team embarked on a project focused on the Japanese stock market. We found a number of interesting trends supporting a positive view toward Japanese equities, including inefficient and under-researched markets, a general disdain for Japanese stocks based upon past disappointments, improving corporate governance practices, and the rising wealth of the Asian consumer.

In our view, the combination of these trends presents significant opportunities for active managers to construct concentrated portfolios of global-facing companies with shareholder-friendly management teams. These companies, which increasingly export to China and emerging Asia, just happen to be based in the highly inefficient equity markets of Japan.

At the outset of our Japan research, we found ourselves evaluating the prospects of the Japanese economy and Abenomics. The prospects for the Japanese economy are important when considering an allocation to Japan, but the opportunity we were evaluating was the replacement of market-tracking index funds with a concentrated, actively managed portfolio. After some time, we realized opportunities in Japan are centred on market inefficiency, positive trends in corporate governance, and increasing commerce with emerging Asia.

As a result of dwindling investor interest, analyst coverage in Japanese stock markets is exceedingly thin. As of June 2017, 64% of Japanese companies are covered by one analyst or no analyst at all. In other parts of the developed markets (The US and Europe), less than 10% of publicly-traded stocks get such limited attention. Almost 40% of companies in those markets have eleven or more analysts covering their shares. By contrast, only 10% of public companies in Japan receive that much coverage. Less analyst coverage means more opportunity for those managers willing to do their own intensive research.

The difficulty of the language and insularity of Japanese culture, especially business culture, also contribute to the high return potential from stock picking. These characteristics make it more difficult for foreign hedge funds and traders to identify and arbitrage market inefficiencies. As a result, we focused our search on country-specific Japan funds as opposed to those with broader international mandates.

Japan is experiencing a slow and steady revolution in corporate governance and shareholder returns-based management. Companies listed on the Tokyo Stock Exchange returned a record of 17.7 trillion yen to shareholders during the fiscal year ending March 2017, according to Goldman Sachs. That number represents an increase of 3.4% from the year before, after rising over 20% during each of the previous two fiscal years. Nonetheless, the speed and scale of this revolution are inconsistent across the market. Active management is crucial in order to identify those companies truly committed to enhancing shareholder value. A focus on quality management teams when picking stocks should, therefore, provide a significant boon to a concentrated portfolio relative to the index.

Japan is in a strong position to benefit from rising wealth across the region. Until recently, the quintessential high-quality Japanese products (think Shimano bike parts and Japanese diapers) have been unaffordable for much of the population of emerging markets across Asia. The explosion of the middle-class consumer segment in Asia can only be a net positive for Japanese exporters. Again, active management is necessary to take full advantage of this trend by selecting well-managed, export-oriented Japanese companies focused on these emerging trends.

While active management is not the best choice in many asset classes and geographic regions, we believe that active management is poised to significantly outperform in Japan over the coming years. With appropriate research, we believe that investors will benefit by finding those managers poised to capitalize on these trends.

Andrew Hacker, Investment Analyst at Ballentine Partners, LLC

About Ballentine Partners
Ballentine Partners is an independent investment and wealth management firm providing comprehensive services to over 180 wealthy families and entrepreneurs. Managing over $6.9b in assets (AUM), our services are scaled to meet the variety of our clients' needs. Through our customized process, we assist clients by being a strategic partner to identify risks and find untapped opportunities across their entire balance sheet. As we work only for taxable families, our investment advice and planning have a strong emphasis around tax-efficient investing and asset location. Ultimately, our mission is to deliver a comprehensive, integrated approach to help clients manage their financial lives for the long term.



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# VAT ISSUES FOR FAMILY OFFICES

Matthew Shayle

When dealing with issues of private wealth, VAT can be the 'forgotten tax'. Matthew Shayle explains how VAT can impact on Family Offices' management of certain high-end assets and considers what changes may come out of Brexit.

Family members facing jail terms and newspaper headlines about "tax evasion": probably two of the worst things to which a Family Office CEO can wake up in the morning. And yet precisely these things happen too often as a result of misunderstanding or mismanaging duty and VAT as items move around family locations. Knowing how VAT may affect a family's trophy assets can help a Family Office manage them most efficiently and to avoid embarrassment.

Within the EU, most goods circulate freely and so can be brought to the UK with minimal customs control and without import duty or VAT. On the other hand, imports from outside the EU generally attract import duty and import VAT (plus VAT on the import duty). These are two distinct charges, and either, both or neither may apply in any case. Import VAT is, broadly, charged at a rate as if the item was being purchased in the UK and can be recovered by a VAT-registered purchaser under the usual rules.

Artwork

Bringing artwork to the UK is complicated, and issues go beyond import taxes: Family Offices should always have transport plans specifically reviewed by art law and tax specialists. This article describes the broad initial principals, although there are a number of exemptions (e.g. Temporary Admission relief) and arrangements (e.g. using customs warehouses) that can affect planning.

As a broad principle, artwork is a product like any other for the purpose of assessing import duties. Within the EU, personal items circulate without import duty or import VAT.

Matthew Shayle
Burges Salmon

For artwork entering the UK from outside the EU, its characteristics will affect what import duties are payable. HMRC classifies artwork according to type, age and provenance to determine the rates of import taxes payable.

- Import duty varies from zero to 13.9% of the value. For example, antiques over 100 years old and original paintings, sculptures and engravings may be duty-free when brought into the UK; mass-produced works - even created and signed by an artist – are not.
- Broadly, artwork is taxed to import VAT at a reduced rate of 5%, whether imported privately or by a VAT-registered business. That said, certain items (including antiques over 100 years old and objects artwork of special historical or cultural significance) are zero-rated and incur no import VAT when brought to the UK.

Family Offices must know where the artwork is at all times – losing track of it can lead to disastrous consequences if, for example, a painting is hung in the cabin of a family yacht and sailed around the world without a thought for tax and legal implications.

Private yachts

Broadly, EU residents' yachts in the EU must be "VAT paid" or deemed to be so. If VAT paid, the EU resident owner could broadly move through the EU freely, although some countries will impose their own regulations on a yacht spending spends more than six months there.

A yacht is "VAT paid" if VAT has been accounted for after construction. Typically, this is on first sale, if within the EU, but otherwise on the yacht's importation into the EU. VAT is also triggered by a second-hand purchase from a VAT-registered business.

Non-EU residents' yachts can, broadly, cruise within the EU for six months without triggering taxes. However, VAT must be paid on all yachts, irrespective of ownership, that spend more than six months in a calendar year cruising in the EU: there are ways in which an owner can use a yacht in the EU for longer without triggering a VAT charge – e.g. having received a temporary importation certificate.

VAT can be reclaimed on the purchase or importation of a yacht if the owner is a VAT-registered business making taxable supplies of it. For this, the owner will need to be able to show that the chartering business is sufficiently continuous and substantial to be a real economic activity. There are many pitfalls, and professional advice should always be sought before seeking to rely on this kind of planning.

Family Offices will need to watch out for particular red-flags:

- Yachts built outside the EU and imported without import VAT receipts.
- Second-hand yachts built in the EU and being sold without evidence of VAT having been paid since construction.
- Second-hand yachts built in the EU but having spent three years or longer outside the EU.
- Spending six months in any EU jurisdiction, even if "VAT paid".
- Spending six months in the EU if the yacht is not VAT paid in the EU.

Brexit

The future of the 'customs union' between Continental Europe and the UK is something that has attracted widespread commentary from business owners, but the repercussions of any change will equally be felt by Family Offices and wealthy families whose trophy assets move between jurisdictions.

Without a crystal ball to see what final arrangements will come into existence, the 'worst case' scenario may look something like the current importation rules for items from non-EU countries; often, these rules give comfort that assets will only be taxed to import duties once, provided their re-importation occurs within a relatively short time after they were removed. For the time being, however, Family Offices should keep a close watch on negotiation developments mindful of where they may prefer their managed trophy assets to be located if an end to the customs union comes about: early planning may help avoid costly relocation plans at a later date.

Matthew Shayle is a Senior Associate in Burges Salmon's award-winning International Private Client and Wealth Structuring team. He previously worked for five years in the Swiss private wealth industry. He advises ultra-high net worth private clients, their family offices and their institutional service providers on international tax and succession planning.

Burges Salmon

# IntimiSEA

A CONNECTION WITH THE SEA

IntimiSEA concept is developed on the idea of connection with the sea. The design features wide open spaces, big glass windows integrated into an organic structure and a unique bow that allows you to enjoy the sea from every point of the yacht.

As the mission of the design studio is to innovate in shape and approach of everyday products by creating new ideas and visions of products, IntimiSea was designed in the same manner. We started from the use of the yacht and imagined that people want to have fun on it... a lot of fun. With an owner suite on the higher deck and an entire entertainment deck integrated into a unique organic shape that gives the style of InitmiSEA

The 100m concept features an entire deck, designed only for entertainment purposes. From sunbath, swimming pool, party place, dining space, spa and gym, wellness area, games and casino room, even an amphitheatre and everything you need to have the best time of your life on water. A unique feature that was included in this yacht is the water slides from the pool. We imagine that space allowed us to have such nice piece of entertainment on a yacht and we took advantage of that. You could use the water slides even when the yacht is moving so the fun will never end. Besides that, the design also incorporates an amphitheatre and a cinema for up to 45 persons that allows the guests to enjoy a play, a private concert or a movie in a very special interior.

Comfort, feelings, and entertainment has been the drivers for IntimiSEA project which is the most important for a Yacht. The guest have to feel comfortable, feel great and have the greatest time of their lives on board

The Intimisea project was the result of enjoyable work of lead designer Demetrius Tanase from Expleo Design.


IMS

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The fourth IMS event will be held in Guangzhou, with Cocktail Reception, Global Forum, B2B Exhibition and networking opportunities. IMS has built a reputation for events that foster collaboration and relationship-building in the Chinese investment migration industry. We are expecting to bring together over 400 attendees this coming November, including over 40 exhibitors who will present their projects and services through the IMS platform and over 150 Chinese investment and immigration agents who are looking for cooperation and eager to seek perfect projects for their HNWI clients.

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# Flipping Bank Paper vs. Project Funding by Regulated Trade

Every day dozens of people try to find sources for Bank Guarantees, Medium Term Notes, and other bank-issued instruments, so they can buy and then sell them at a profit. Every day these same people are frustrated because they cannot seem to find an authentic provider to sell them the paper they seek.

As Albert Einstein said, "the definition of insanity is doing the same thing over and over again expecting different results". This is a perfect description of the would-be buyers (and the ill-informed brokers who try to find real sources for them), who keep searching for the "Paper-Unicorn".

There are many reasons why this paper is very hard to find, and as many reasons why few if any folks close on paper that is supposedly available. If you understand the underlying reasons for this difficulty, then you will find better understand why the very best option is through participation in a project funding trade program.

When a bank issues a Bank Guarantee, they must set aside the cash to allow for the maturity of the BG. This cash is not supposed to be used in the bank's overnight lending, so it is lost income to the bank. When WILL a bank issue a BG? When they are using deposits of the customer requesting a BG. The banks do not have the cash to back the BG's from their own pockets, which is usually why a non-depositor has little if any success. A large depositor at the issuing bank? No problem.

For illustration purposes only, let's look at the profit potential of buying and re-selling an instrument:
If a BG is purchased at a discount of face value for example of 40 cents on the dollar, then resold to a secondary buyer for 70 cents, congratulations. You made 30 cents profit on the resale. Of course, when we are talking about 6, 9 or 12 digits, the amount of money is nice. BUT.... you can do a lot better with a lot less hassle. By using the same 40 cents that you paid for the new instrument, and being invited into a program running 40-weeks, after accounting for various factors, your 30-cent profit from the buy/sell of the paper directly pales in comparison to the conservative profits of well over 1200 cents paid out by a top-level Internationally regulated trade program over 40-weeks.

Michael J. Weiner
PreConstruction Catalysts, Inc

To put this into perspective, let's look at the comparison:

You want to buy a 500-M BG from a top bank. If you are paying 40% of the face value, you will pay 200-M for the instrument. If you resell it at, say, 70 cents, you would receive 350-M, netting you a profit of 150-M.

| Face Value | Cost @ 40% | Resale at 70% | Profit |
|---|---|---|---|
| 500,000,000 | 200,000,000 | 350,000,000 | 150,000,000 |

If you took the same 200-M that you would have paid for the instrument, and instead allowed a tier-1 regulated program to use that without it leaving your bank account, look at the difference in profit:

200-M in a program that pays a profit of 70-M monthly for a 12-month profit total of 840-M makes you a little more than five times what you make buying and selling paper. The math is clear and simple. 840-M vs. 150-M: Without the aggravation of trying to find paper for you to buy outright.

| Cash | Trading Value | Monthly Profit | Annual Profit |
|---|---|---|---|
| 200,000,000 | 140,000,000 | 70,000,000 | 840,000,000 |

The argument for entry into a trade program as illustrated here should give pause to those who insist on trying to find bank paper (nearly impossible) to make a far greater return in trade is pretty clear, isn't it?
Remember, these are illustration numbers which paint the picture of why you are better off in trade rather than trying to buy/sell paper for a profit.

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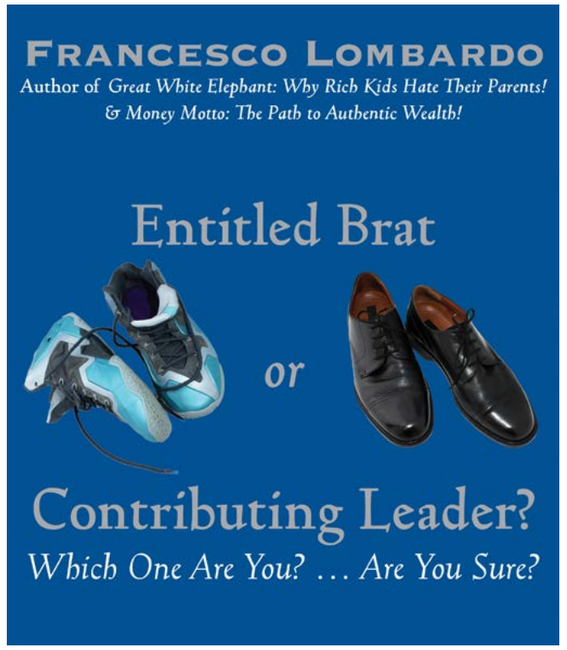



## PHILANTHROPIC CAUSES

### 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.

Email info@uffo.org. - www.uffo.org

# THE ART OF RELATIONSHIP BROKERING EMERGING MANAGERS AND HOW TO INVEST

Amana Manori, Managing Partner of Introduction Capital Inc.

Introduction Capital Inc. attracts a high volume of deal flow and emerging mandates seeking the attention of sophisticated capital. As part of our curating process for the IC Marketplace (our platform of opportunities), we are continually interviewing new managers and deconstructing their investment models. As we onboard only a select few global mandates each year, we need to ask the challenging questions that inform us of a, manager's underlying motivations. It is through this critical manager evaluation that we can decide whether the new investment fund has the potential to morph into an exponential investment opportunity. Below are five quick tips we use to help distinguish preeminent investment managers from the rest of the pack.

1. Identify the Potential to Lead

Emerging mandates appeal to opportunistic investors for many reasons including exposure to: a unique investment approach; niche area; unchartered or frontier industry; off-market opportunity; and/or less readily available sector. It is not enough that the manager simply identifies an investment area that has the potential to deliver impressive investment performance but that the manager has the ability to exploit that area. One helpful way to identify which manager is best positioned to deliver on performance expectations is to understand the barriers to entry for the competition. A manager that has no competition and/or is able to capture the bulk of the market share is absolutely worth a closer look.

2. Assess Business Acumen

Once the manager's ability to model a portfolio is confirmed, the next question to ask is whether they have the ability to build a business. Often a successful portfolio manager is not the same person that can build a successful investment firm. A smart manager will focus on managing the investment portfolio and will partner with someone who can focus on building the business.

3. Expect Performance Accountable Fee Models

Recent lacklustre performance highlights the reality that some managers are not performing in certain market conditions and that their stated strategies are not driving returns as projected. Back tested data, proforma and other modelling tools are not accurate articulations of real performance, as a manager's investment strategy cannot truly be tested until the fund is operational. For example, it is only after inception that a manager's commitment to the formal investment strategy can be appraised (i.e. style drift) and any slippage is exposed. Also, there is an inability to account for actual pressures such as tail risk, the impact of the macroeconomic environment, operational complexities and inexperience while the investment program is theoretical.

Recently large allocators have forced managers towards incentive-only fee models, insistence on seeding with propriety capital and establishment of first loss capital structures as a means of holding them accountable for performance. An ideal manager will realign with the investor by adjusting their fee models to demonstrate that they value the investor and their capital. A manager with strong investment conviction will also likely have some skin in the game and acknowledge that fees are paid in exchange for specific servicing of capital.

In determining alignment, caution should also be taken when managers have unwarranted constraints around the return of an investor's capital including gates, lockups and unusual redemption schedules.

4. Rely on the Law of Attraction

Relationship dynamics have never been as critical as they are today as capital is exiting the fund industry and investors are becoming increasingly selective. Sophisticated investors yearn to be strategic capital sources to help emerging managers achieve their goals thus, fostering long-term affiliations. As such, the intangible characteristics of the manager cannot be ignored including their veracity, charisma, depth and vision.

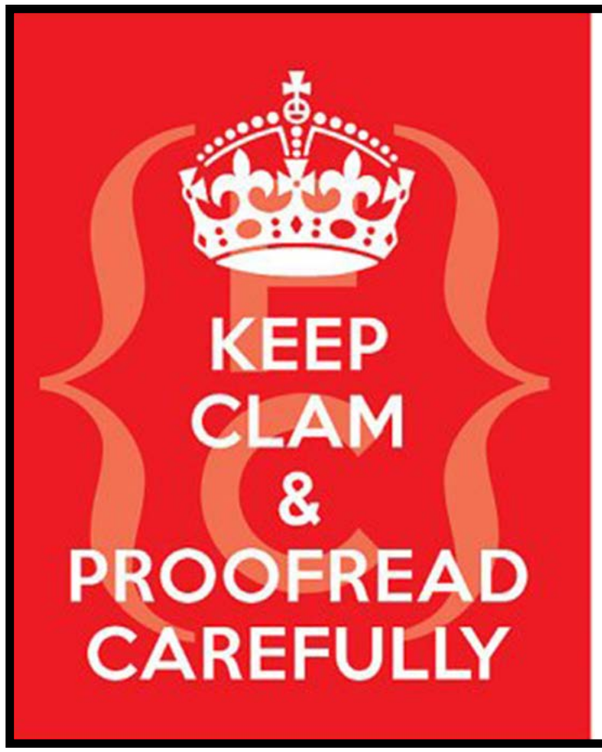
This subjective exploration of the manager's persona and character will likely produce varying opinions of the manager as this is not a case of checkbox due diligence. Notwithstanding the fluidity of this level of evaluation, it is an important step in the process. At the end of the day, investing is often an idiosyncratic exercise predicated on whether the money manager resonates with the individual investor. As such, it is acceptable to walk away from a manager that is very impressive on paper but doesn't pass the 'gut feel' test.

5. Demand Discipline

Notwithstanding the effort it takes to attract capital, a manager should have the self-discipline to walk away when the capital does not make sense. A manager should make the hard decision to decline the capital if accepting the investment will require actions such as a change in strategy, implementation of discounted fee structures, accumulation of an unwarranted cash position and/or the creation of side pockets. When a manager is lacking self-discipline and will easily agree to deviate from his/her investment thesis, this is probably not the manager to invest with.

Exploring the mindset and motivation of a fund manager can help the investor determine whether they are investing in excellence or mediocrity. Understanding the goals, process and personality of a manager can be telling of how they will treat an investor and their investment. Of course, the difficulty arises when we consider money as a driver of success because we are in the world of capital and the accumulation of wealth is an important metric of success. However, what qualitative due diligence allows for is the identification of managers who place their financial success above that of their investors. Unearthing a manager's motivation and desires is no easy task. It is only as a result of hundreds of manager interviews that Introduction Capital can ask the hard questions that access the unscripted responses...those that lie beyond the sound bites and rehearsed marketing pitches.

Introduction Capital is the leading placement agent in Canada for high pedigree global managers seeking institutional Canadian capital.

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# ESTABLISHING THE OFFICE

In this edition, let us look at the issues in establishing a Family Office and ways of avoiding some of the pitfalls.

Globally, wealth is increasing, and the need to retain and build on that wealth remains paramount. For numerous reasons, the big wealth managers and private banks have lost ground and credibility: the Family Office is on the rise.

The USA is no longer the prime reserve of the Family Office. There has been a substantial increase in the number of European based FOs, although numbers still seem to be more an estimate than hard fact.

The timing of when you decide to establish a Family Office may depend on a range of factors, some purely financial, some social and some exclusively family orientated. From the very beginning of the concept, it is advantageous to seek informed, professional advice to minimise the likelihood of mistakes.

The Family Office is just that, so there is a need to think not just what the family elders want but also about the needs and aspirations of the younger members, extending this as wide as you feel comfortable. Succession planning should be in-mind and catered for from day one.

It is imperative that objectives are defined, agreed and articulated in a manner that all those concerned, both on day one and day one thousand and one, can identify with. When you come to briefing external advisors or potential key employees, then time spent on recognising and defining key objectives will prove to be highly worthwhile.

Especially with a SFO, it is vital to recognise and keep remembering the need to be results driven. Your Family Office exists to maintain and build on your wealth, and it is not a philanthropic entity (although Philanthropy may be built in). While the importance of structure and focus is stressed this needs to be coupled with a degree of flexibility that allows the operation to adjust, with minimal upheaval, to changing circumstances be they to do with the Family, tax issues or global economic upheaval. As such it is imperative that the SFO remain fluid in operation.

Dudley Edmunds
Culliford Edmunds Associates

Changes can occur within the family structure that makes the provision of sound but flexible succession planning imperative. Family Offices revolve around the capriciousness of individuals and having an operation to set in stone can prove a disadvantage. However, succession planning is vitally important both from the financial and human perspectives and should be undertaken from both a consultative and educational viewpoint. I would suggest that the majority of private bankers, working in this area, would agree that financial education of younger family members is a core task in ensuring the continuing success and objectives of the Family Office. Some of the larger private banks and wealth managers have carefully structured training programmes for younger family members and will cover subjects from philanthropy to investment management.

When considering setting up a Family Office, there can be no substitute for in-depth research, excellent planning and a strong strategic outlook. Advice should be sought, listened to and then compared with your agreed objectives. It is no point accepting advice to base your Family Office in the Middle East if you really want and need it to be based in the UK. You will, no doubt, encounter conflicting views from advisors and family members but you must keep to your core values and objectives but retain that flexibility!

Dudley Edmunds is a veteran of the wealth management/private banking sector advising Banks, Investment Companies and Family Offices from start up to the successful hiring of senior executives. He can be contacted at dudley@searchint.co.uk

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# TECHNOLOGY AS AN ALPHA INVESTMENT VERTICAL

Identifying, funding, and supporting emerging companies in the technology ("tech") space is an integral part of the Carlton James Group ABC (Alpha, Balanced, Core) investment strategy, and should be a strong consideration for family offices and their clients. Core and Balanced look to assure capital protection for our fund investors and Balanced to support the ability to provide them with a regular income over a defined period.

Tony Moore
Carlton James Group

These two contributors, when carefully managed, help us deal with the consequences of economic turmoil and recessionary shocks on a global basis. Weighting in Balanced and Core is an acquired science (sometimes I wonder if there isn't an element of art involved!) and the associated expertise and ability to implement the selected strategy is what distinguishes one investor from another.

In its way, Alpha is a rather more exciting part of the overall investment strategy. Technology is a word that excites people and is where they expect to see the "sizzle" in a portfolio diversified by asset class and geography. We are not looking for income at the time of investment - albeit investors are often grateful if it becomes a part of a total return equation at a later date - but for upside, equity growth, or rapid increase in shareholder value. Added to this is the all-important exit. When is the investor likely to be able to cash in via a trade sale or an IPO? Investments in tech are the icing on the portfolio cake and where the "oomph" to growth in the value of assets under management comes from.

Talking about a tech investment strategy is the relatively easy part; successful implementation, or picking the winners, is entirely another! Not only that but the timing of the exit is not always clear. I do not know anyone, after many decades in the investment business, who has not suffered from deal fatigue or the short-term slam dunk that has not turned into that rather longer-term investment proposition.

The past ten years have witnessed a burst of growth in incubators, venture capitalists, financing intermediaries and the proliferation of tech start-ups across the globe. How can one possibly succeed when, as an investment manager, you are overwhelmed with approaches from so many wanting to highlight the investment attractions of their particular company or their clients if the message is being delivered by an intermediary, the competence of many of which, I am afraid to say, is very questionable? I have recently noted some conversations on LinkedIn with family office executives commenting on the plethora of calls - uninformed, rude, aggressive, exaggerated - that they receive every day. Bit of a nightmare I am sure you would agree.

So, what should family offices keep in mind when seeking out opportunities for alpha technology investments?

- Tech is an important vertical and desirable component in any investment strategy apart from the most conservative

- It provides an injection of growth potential not being initially focused on capital preservation or production of income

- Try to develop relationships with a few capable, trustworthy and consistent intermediaries and/or with a select few professional tech investors who may want you as a co-investor

- Think of focusing on a few industries and develop a basic knowledge of what's going on in those verticals. You don't need to speak to everyone with any number of ideas and proposals. Energy, media and healthcare provide a very large range of attractive tech investment opportunities. They are also more likely to offer the scalability so important in the tech world

- Be focused on the quality of the materials, i.e. business plan and financial summary with which you are provide

- Take into account the global potential of the tech investment opportunity that you are reviewing

- Assess what assistance you may be able to give the company in question in implementing their strategy. Constructive involvement can be mutually rewarding

- Always be aware of the exit. Trade sale is the cleanest; IPO the more uncertain

Tech is the icing on the cake when it comes to implementing a diversified investment strategy. It's what gets the adrenalin flowing and if executed successfully can provide very satisfying rewards and not just monetary.

Tony Moore is the Chairman of the Board of Carlton James Group, and has more than 40 years' experience in the global financial services industry.

www.carltonjamesgroup.com/

# HELICOPTERS: The Best Magic Carpet Ride You Will Experience

by Nigel Watson

"The engine stops and the helicopter will crash, right?"

"No, like the sycamore leaf falling from a tree, the main rotors of a helicopter are designed to capture the energy of altitude and speed and turn that into a cushioning energy close to the ground, something called an autorotation, a technique we regularly practice."

This was a conversation with an experienced family office manager who was a very nervous passenger in our helicopters. It had taken him years to ask the question, he had never expressed his fear openly to us, however this brief explanation of the aerodynamics quickly put him more at ease.

Helicopters are a safe, secure and efficient mode of transport. They are designed principally for short distances, where they make more sense than the probable alternative, the jet or extended ground transport.

Does Your Principal Need a Helicopter?
Establishing the need is critical in the ownership cycle. There are two options available; either you charter because the need is from time to time, or you purchase because the charter model no longer offers you the service you need. The right helicopter at your personal disposal, go when you want to, flown by aircrew you know and trust is what ownership gives you.

Let's Pick a Helicopter
How do principals buy helicopters, particularly the first one? Peer group conversations, if a friend has had success with a particular manufacturer, model and type, this can be a strong influencer. All the main manufacturers offer an option that can fulfil the requirements of a VIP. Talking to a professional independent advisor without a manufacturers agenda is essential. Deciding on the model and type is just the beginning, and in some respect is the easiest part.

Devil is in the Detail
Just like when you buy a modern car today there are endless customisation options that go beyond colour and wheels, the same can be said for helicopters with the adage it is a lot more complex. This is very much an area where independent advice should be welcomed. The "extras" that form part of the mission packs of helicopters can be very expensive and a discussion with regard to whether you really need them can be invaluable, leading to significant savings.

Should You Buy the Helicopter Outright at all?
There are helicopter leasing options available in the VIP sector, that for some clients might offer a better solution. A traditional cash purchase model from the manufacturer will introduce the subjects of potential discounts and payment plans which an experienced advisor can again assist with when it comes to negotiations.

Optimising the tax position of the purchase is one of the most challenging areas of ownership. VAT on purchase and during operation being of principal concern.

The ownership structure (SPV) requires careful consideration and needs to be considered within the overall financial planning of the principal.

It is important that the deal is structured to optimise the financials, how this is managed is an area that requires professional advice at the beginning of the purchase process.

The Waiting Game
Once the purchase contract is signed a lead time will begin, helicopters do not sit in show rooms, or roll off a production line every day. The project lead-time will indicate the level of oversight that is required from the principals team and advisors. As we move closer to the delivery date, the interaction required with the manufacturer increases both in frequency and importance as the preparation for the acceptance is put in place.

Quality control of completions is a critical area of the VIP acquisition process. The finishing of a VIP helicopter goes beyond the avionics and flight systems that allow the helicopter to fly to include the noise and vibration levels in the cabin - the focus becomes, the quality and appearance of everything; Helicopters have not been accepted due to the pile of the carpet running in the wrong direction.

It is vital that the principal's team have made their expectations clear, and that these have been correctly interpreted by their advisors in order that they can be conveyed to the manufacturer. Acceptance day should be about champagne and smiles.

Flying the Helicopter
This is why your principal has decided to buy a helicopter, to enjoy the benefits of ownership. Today, flying is

more administratively demanding and operational constraining than it has been in the past. This does not mean that the initial objectives of safety, security and efficiency linked to fun will be lost, but it does mean that serious consideration should be given to a professional management service to take away everything except the positive benefits of ownership.

Professional management provides aircrew, operational procedures, administrative and financial control to the project. Quite simply you know where you stand financially so you can plan - a joy for any financial controller! and you have the assurance that the operator must adhere to demanding regulations to provide the safety and efficiency you demand.

The Adventure Begins
Helicopters operate all over the world in the VIP sector, linking homes with private jets, yachts, restaurants, race courses, golf clubs, friends and family. An operator understands that one of the most precious things a principal wishes to protect is their time.

Time spent working, being with the family, moving to places for social or physical activities, or simply enjoying the sheer wonder of flight.

The helicopter remains one of the best magic carpet rides, and the first few flights should be unforgettable. Volcanoes, waterfalls, cliffs, sunrises and sunsets, city escapes all form part of the vistas you will enjoy.

Nigel Watson is recognised as one of the leading authorities on VIP helicopter operations within the luxury yachting industry and in the field of aviation management. As a consultancy, Nigel Watson Limited is focused upon the ownership cycle with a core specialisation in the integration of embarked helicopters upon Luxury yachts and private estates.

We look forward to welcoming new clients to our services and are pleased to announce a new "health check" for any existing heli-yachting customer seeking reassurance that their current operational arrangements are fit for purpose. The health check will incorporate all of the areas we have covered in this article.

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# SIMPLIFYING THE CREATION OF BESPOKE BOND PORTFOLIOS

By: Adrian Gostick

Fixed income as an asset class has always been a core component of an ultra-high net worth individual's portfolio. However, as an asset class historically lagging in innovation, are investors being adequately served, and are their investments truly tailored to their individual goals and requirements?

Adrian Gostick, Chief Revenue Officer of BondIT, shares his thoughts on the challenges facing investors, and how BondIT is bringing much-needed innovation to the world of bonds.

So what are the challenges facing investors in fixed income assets?
Since the Great Financial Crisis of 2007-8, regulations limiting bank trading activities, and increasing costs of holding riskier bonds, resulted in dramatic drops in dealer inventory, reducing market liquidity and available inventory.

To gain exposure to fixed income, in an environment of decreasing liquidity, many investors turned to bond ETFs. From 2008 to the beginning of 2017, assets held in bond ETFs grew 600% as investors were attracted by the perception of higher levels of liquidity, lower fees, and easy diversification. However, there is no free lunch, and such perceived benefits carry several negative consequences, which ultimately result in investors receiving sub-optimal returns versus a portfolio of individual bonds.

As an illustration, to provide sufficient liquidity to an ETF that is based on an inherently illiquid asset class, ETFs must invest into the more liquid spectrum of bonds. This liquidity comes at a cost, with more liquid bonds, in general, having lower yields, all other things being equal, than less liquid ones, thereby reducing the returns of an ETF versus a portfolio without such liquidity restrictions. Looking at the tracking error of a bond ETF against its benchmark adds evidence this view. Despite the relatively low ETF fees versus those for an actively managed fund, once you add the tracking error, the overall cost of owning an ETF can be significantly higher. Many advisors, aware of the limitations of using bond ETFs, prefer the approach of providing a portfolio of individual bonds, tailored to their client's requirements. Providing a bespoke portfolio has many benefits, including optimising the returns for the level of risk taken, ensuring the holdings reflect their clients' preferences, such as investing into "green" assets, or avoiding specific countries or issuers, and providing cash pay-outs for specific life events by aligning maturing bonds with those events.

Why don't more advisors promote bespoke bond portfolios over ETFs?
Quite simply, the main challenge in providing bespoke portfolios to customers is that it is a mathematically challenging problem to create and maintain such portfolios. As businesses scale, e.g. with multi-family offices, the challenge becomes even greater.

Today the process to construct and manage bond portfolios is largely manual and Excel based. The universe of bond is much larger than equities, with issuers often having many bonds versus a single equity issue, and with each bond having different terms and conditions, levels of liquidity, and pricing. Making sense of such a large universe, and ensuring the bonds selected meet the customer's constraints, is the first challenge.

Once a suitable universe of bonds has been selected there are additional challenges in selecting which of them, and in which quantities, should be combined into the portfolio. The difficulty is compounded by the need to look at non-linear constraints, such as a bond's minimum denomination, or the increment in which it can be added to a portfolio, during the construction process, and the enormous amount of correlation data to be analysed in the universe selected.

Due to the mathematical challenge of creating a bespoke portfolio, that honours all the constraints set by the customer, and provides a target return with minimal amount of risk, it is normal to see the use of "model" portfolios, which although helping to avoid the lower returns of comparable bond ETFs, are not truly tailored to an individual customer's requirements.



So how is BondIT helping?
Fixed income has always lagged other asset classes, such as equities or foreign exchange, regarding innovation. Whether it is electronic trading, algo-pricing, robo-advisory, or introduction of ETFs, bonds have always been last to the party! The same is true in portfolio construction, optimization, and investment idea generation, the space that BondIT is focused on.

BondIT was established in 2012 with a mission to leverage data science and machine learning techniques to simplify the process of constructing, optimizing and managing fixed income portfolios. By leveraging machine learning algorithms, a user can enter portfolio goals, such as target returns, portfolio rating, and duration, and detailed customer constraints, for example, types of bonds, level of exposure to specific issuers, and percentage ranges for specific currencies, sectors, and coupon types, and construct an optimised portfolio within a matter of seconds.

Once the portfolio is created the user can instantly see detailed characteristics of the portfolio, such as which sectors, rating buckets, or currencies are contributing to the risk, and portfolio level figures including the yield, duration, rating, and VaR. The agility to quickly create, and tweak; portfolios provides an advisor with the ability to have a more engaging and meaningful dialogue with his customer, helping ensure a truly bespoke portfolio is created.

Portfolio monitoring, with customisable alerts, for example on market level changes, rating changes, and upcoming cash-flows, combined with algorithmically generated switching and rebalancing ideas, helps ensure the portfolios remain optimised for the customer's specific goals.

In conclusion
Fixed income has always been a challenging asset class for investors, with innovation lagging other asset classes. But rather than taking the simple approach of gaining exposure through bond ETFs, which in the long term will provide inferior compensation for the risk taken, and cannot be tailored to an individual's specific requirements or life events, it's worth taking the effort to construct a carefully tailored, bespoke portfolio of individual bonds.

BondIT's unique technology can help family offices provide a truly bespoke service for their customers, by supporting the construction, monitoring and management of their fixed income portfolios.

Bio
Adrian Gostick is Chief Revenue Officer for BondIT, and has over 25 years' experience working in financial markets trading and technology roles across Europe, Asia and the U.S.

# ROLLS ROYCE

## ROLLS-ROYCE CELEBRATES SUCCESSFUL 2017 GOODWOOD FESTIVAL OF SPEED

Rolls-Royce Motor Cars celebrated a successful Goodwood Festival of Speed over the weekend, with a significant presence throughout the event. The highlights:

Dawn Black Badge
The Festival of Speed served as the perfect staging point for the global unveiling of the Rolls Royce Dawn Black Badge. Unveiled in the spectacular setting of the Rolls-Royce display area on the Laundry Green, Dawn Black Badge, flanked by its siblings Wraith Black Badge and Ghost Black Badge, drew huge crowds throughout the weekend.

Dawn Black Badge stands as the most luxurious, social space from which to take in the night air. This most glamorous, uncompromising expression of open-top luxury is given a new and darker sensual dimension through its suite of Black Badge engineering and design treatments. The car shown was presented in a deeply intense shade of black, created by the most exhaustive painting and polishing process ever used for a solid paint colour. The result clothes Dawn's lines in the deepest, darkest and most intense black to ever grace a production car surface. The roof, which opens in a 'Silent Ballet' to allow in the sounds of the night, is in black canvas, whilst the rear deck is finished in black leather.

Rolls-Royce 'Sweptail'
Rolls-Royce's history as the world's pre-eminent coachbuilder is at the very core of its identity as the world's most celebrated luxury brand. The coachbuilt Rolls-Royce 'Sweptail' graced the Festival of Speed in the 'First Glance' category, drawing huge crowds whether at rest in the paddock or wafting up the Hillclimb. Inspired by the beautiful coachbuilt Rolls-Royces of the 1920s and 1930s, the patron's desire was for a coachbuilt two seater coupé featuring a large panoramic glass roof. Rolls-Royce 'Sweptail' is a truly magnificent motor car, exuding the romance of travel for its own sake, placing it in the pantheon of the world's great intercontinental tourers.

Wraith Black Badge
The most powerful and dynamic Rolls-Royce in history, Wraith Black Badge effortlessly ascended the Hillclimb during the Supercar Shootout. Wraith Black Badge peaked at 126mph during the 1.16-mile course and recorded a speed of 102mph as the car crossed the finish line, proving that it is not necessary to sacrifice luxury for speed.

Wraith Black Badge was driven by Endurance Racing legend Joerg Weidinger. The car was finished in Dark Indigo, with the interior in Seashell and Navy Blue contrast leather, and the fascia in Black Badge Technical Fibre.

Ghost Black Badge
The Course Car this year was a Rolls-Royce Ghost Black Badge, resplendent with LED race lights and Goodwood decals. The car was driven by a team from Rolls-Royce Motor Cars and seen on the course between each Hillclimb Run throughout the weekend, completing 85 runs and covering more than 200 miles in total. The car was finished in Andalusian White, with the interior in Black and Tan contrast leather and the fascia in Black Badge Technical Fibre.

Bradley Theodore
Celebrity artist Bradley Theodore created unique artwork throughout the event at the Rolls Royce Black Badge display area on the Laundry Green. Renowned for his instantly recognisable 'Dia de los Muertos' style, Theodore is dedicated to making his art accessible for all to see around the world, producing murals on the streets of Hong Kong, London, Los Angeles, Oslo and Paris. During the Festival of Speed he created artwork inspired by iconic Rolls-Royce images, including the Spirit of Ecstasy, Double R badge and radiator grille, and also the magnificent Rolls Royce 'Sweptail'.

# SITUATIONAL AWARENESS SWITCHING ON YOUR SECURITY RADAR

By Michael O'Rourke

Romanian tourist Andrei Burnaz admired the stunning view of Parliament and Big Ben from where he stood on Westminster Bridge, his beautiful girlfriend, Andreea Crista, by his side. Burnaz, however, had more on his mind than London's iconic landmarks on this mild and sunny spring afternoon—he planned to propose to Andreea later that day.

He would never get the chance.
At 14:40 on March 22, 2017, a terrorist drove his rented Hyundai 4x4 onto the Westminster Bridge sidewalk and accelerated, quickly reaching speeds of up to 76 mph. Thirty seconds, and approximately 350 meters later, he crashed into the Palace of Westminster's fence. Leaping from the disabled vehicle, he fatally stabbed a policeman before armed police shot him dead. In his wake, Andrei Burnaz lay injured on the bridge along with more than 50 others. Andreea had been hurled into the River Thames. The thirty-one year old architect would die more than two weeks later. In total, the attack claimed five innocent lives.

Our opinion is that some, though certainly not all, of these deaths and injuries may have been avoided had the people on the bridge employed the principles of situational awareness.

Situational awareness is a heightened mental state of alertness in which individuals observe, process, and react to their surroundings. While sometimes thought of as a skill for spies, one need not be Jason Bourne to adopt this mindset. In fact, doing so is of particular importance for high net worth individuals and families due to the possibility of direct targeting by criminals or terrorists. Fortunately, adopting good situational awareness is a relatively simple three-part process anyone can master. Deciding one will commit to paying attention at a higher level to the immediate environment is the first step. This is a conscious effort to begin actually observing in detail, and processing, what is seen and heard. Keep at it and these observation skills soon become second nature.

Put into practice, you are looking for anything out of place, encompassing people and objects. Regarding people, you are looking at body language and behaviour. Do they seem aggressive or relaxed? Is someone paying too much attention to you, or walking towards you on a deliberate intercept course? Objects include those both stationary and moving. Why is that package near the event entrance? Is that car driving erratically? Your habits begin to change. You start looking for the nearest exits at each venue upon arrival, and you begin sitting facing the door to observe who enters.

Vanquishing denial is next. Denial, already with an impressive body count, can kill you. "It will never happen to me" and "nothing ever happens here" are among the final thoughts of people in denial. Fireworks do not go off in airports, hotels, or markets. That popping noise is always gunfire until proven otherwise. Until denial is defeated, you will be at war with your natural survival instinct, which is the third component.

Often called a "gut feeling", your survival instinct is that hunter-gatherer part of your brain still performing its Ice Age job to warn you of danger. Even the most sophisticated among us still possess this primitive instinct. Our modern world, however, sees many of us suppressing this vital function. Why? Many violent encounter victims report fear of condemnation for profiling their attackers based on race, ethnicity, or socioeconomic status overcame the feeling of danger. I encourage profiling that is based upon behavioural and situational factors. If something seems out of place or feels wrong, it usually is. Give yourself permission to trust your gut. It could save your life.

Employing a personal security detail should not dissuade individuals and families from the situational awareness mindset. Often, children of wealth travel unaccompanied during gap years or their time at university, yet they may become targets in their own right. Other family members may only move with a detail at certain times and not at others. Terrorist or criminal surveillance will detect this vulnerability.

Making situational awareness a part of daily life requires discipline, especially early on. Think of it as a relaxed alertness. Professional training can ensure the mindset becomes second nature rapidly and can be accomplished in as little as a single day.

The investment pays dividends immediately as your surroundings come into sharper focus. The amount of new detail noticed, and the additional confidence acquired ensures you never see the world in the same way again.

Michael O'Rourke founded his security consultancy, Advanced Operational Concepts, after retiring from the U.S. Army Special Forces.

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BATTLE OF THE QUANTS LONDON

# FAMILY OFFICE

## PASSION INVESTMENTS

With an unprecedented low-interest-rate environment, a toppish equity market and a depressed oil price, the search for diversification in the financial world becomes a crucial necessity.

"Passion investments" such as art, classic cars, vintage watches, rare stamps or any other sought-after collectables can play the role of portfolio diversifier as well as safe heaven in times of extreme stress in the financial world.

According to Deloitte, the global market for passion investments is expected to reach $621bn by the end of 2017 and increases at a compounded rate of 10% per year.

There is an increasing trend of "collecting-investing" where high net worth individuals (HNWIs) favour investments that will not only yield them a decent return over the long-term but will also give them some enjoyment in the meantime. Such assets collectors' motivation is driven by both the emotional benefit of collecting, as well as the potential gains from capital appreciation and investing in an asset class, which represents a stable store of value. While 72 percent of the collectors declare that they buy art for passion with an investment view, the combination of the two aspects makes passion investments an attractive asset class.

According to Capgemini RBC wealth report, HNWIs in Asia-Pacific (excluding Japan) for instance favoured jewellery, gems and watches allocating 32.5 percent last year, compared to global average of 29.2 percent. While allocation to art declined from 17.3 percent last year to 15.3 percent, sports investments witnessed an increase from 9.4 percent to 11.2 percent.

According to Knight Frank, classic cars are gaining popularity among the passion investors due to the

Douglas Azar
CEO of Wealthinitiative

nearly 500 percent returns in the past ten years, outpacing art and wine by more than 100 percent. Pink, yellow and blue diamonds also have increased in value by 167 percent since 2005.

The appearance of new indices tracking the various collectables made it easier to compare passion investments with more traditional asset class such as bonds or equities, helping investors to assess returns on a comparable level.

The most popular would be the Liv-ex Fine Wine 100 for wine, Artprice's global art index for fine art, the coin monitor PCGS 3000 Index for coins and the Stanley Gibbons GB30 Rare Stamp Index for rare stamps. On the financial side, HNWIs are seeking for diversification and low correlation between passion investments and traditional asset classes. Hedging against potential rampant inflation coming from the very accommodative central banks' policies around the world also justifies investing part of the capital in tangible assets.

Passion investments are also often referred to as a store of value in times of financial stress. They have the particular characteristic of being an emotional asset on top of being a potentially lucrative investment. Indeed, they are usually the last assets that investors are willing to sell in times of crisis; investors are more incline to divest their bond portfolio than the Picasso hanging in their family's living room. The lack of liquidity pertaining to tangible assets also plays a role in this behaviour.

Nevertheless, investing in passion investments do not come without pitfalls. The main ones are liquidity (it could take a great amount of time to sell); time horizon (it is a long-term investment and turnover should be low); and high transaction fees (the main auction houses will on average charge 10 percent to the seller and 20 percent to he buyer). It also costs to hold passion investments, including storage, maintenance and insurance, which represent on average an additional 2 percent of the asset value per year. They also generate no dividend income, so all the return has to come from price appreciation net of costs.

There is also no denying that passion investments are subject to fashion, taste, supply and demand and other esoteric market factors that influence their value. For those reasons, most of the banks do not include them in traditional financial portfolios. This is likely to change in the coming future as banks are more eager to capture the total wealth of clients versus only listed assets.

When it comes to selecting the right approach to investing in the wild area of passion investments, one has to consider either direct investing or diversifying the exposure by going down the collective investment route, such as funds. The new trend is the emergence of companies applying the securitization process to art and other collectables using Blockchain. The idea is simple: buying a Picasso is too expensive, so we will divide it into 1000 shares of Picasso and sell them to investors. It sounds interesting but time will tell whether investors will embrace this new investment scheme. It could be alternative to asset owners though who would like to get some liquidity on their collectables without going to a specialized art lending company.

With the wide acceptance and recognition of passion investments as viable alternative investments, one has to remember that the emotional dividend attached to holding a rare tangible asset should be the key motivation.

We can safely assume that as the result of increasing global wealth and the emergence of a new breed of collector-investor around the world, the outlook for passion investments remains promising.

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 eight 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 charter, holder.

# The Best Investment Class Right Now Is Probably Something You Never Even Thought Of

By Michael Dean, Principal at Avamore Capital

Investment in private debt is on the rise. Institutions and family offices are increasingly turning to private debt as a means to generate alpha for their portfolios.

Predominately, these loans are made by specialist debt funds to back large PE fund acquisitions of corporate targets.

However, increasingly investment in these types of loans are made into the smaller-cap property bridging loans, especially in the US and UK. But even smaller investors have the opportunity to invest into property lending via bridge loans and development loans.

Figure 1: Our investors are currently making over 8% p.a. on low LTV bridge loans like this one in Holland Park.

So why now? Given that total forecast 2017 IPD returns on property in the UK (commercial and residential) are likely to be flat at best or even negative in certain markets, having exposure to real estate, albeit exposure that generates yield regardless of whether the underlying market goes up or down, must be highly attractive in the current post-Brexit climate. Particularly as the yields are substantially in excess of rates of inflation.

Granted, good developers/asset managers will be able to achieve 20%+ IRRs whether markets go up, down or sideways and forthrightly these are exactly the types of counterparts lenders should want exposure to. However, there can be a lot of concentration risk from an investor backing a handful of developers on the equity side. Additionally, a well-balanced investor portfolio should only have a very small (sub 5%) exposure to real estate development equity, based on our experience.

Short term commitments - Investing in bridge and development property loans is ultimately transient. That means that if you invest in a 6 or 9-month bridge or development loan, at the end of the term you get your money back and if another asset class looked more interesting at the time of repayment to invest in, then you can naturally do that. Alternatively, if nothing looks attractive, you can recycle your cash into another bridge loan.

Figure 2: A bridge loan was made against this grade II listed residential development site in Hertfordshire with Avamore Family Offices earning over 9% p.a.

Cash Management - Businesses (any, not just property or investment businesses) can also find investing into development loans a useful cash management tool. For businesses that throw off a regular cashflow each month, they can invest in a development loan that can be the aggregate of that monthly cashflow over the term of the development loan.

A bit like investing in a loan in instalments. Compared to the cash sitting in the bank earning nothing, making 5-8% annualised on a property development loan sounds like a much better deal if that cash isn't needed for 6-12 months.

So how do you get access to private real estate debt opportunities?

• High Net Worth (HNW) Investor – in addition to crowdfunding platforms, high net worth investors have more options and can potentially obtain higher returns than their small investor counterparts. Additionally, UK HNW savers with SIPPs (and even those drawing pensions) can even invest in bridge loans potentially tax-free.

The key opportunity for HNW investors (vs retail investors) is investing directly into bridge and development loans originated by specialist platforms, either as lender of record (meaning you as funder are listed on companies house and land registry) or via a security agent/trustee vehicle (where the lender's anonymity is maintained). HNW investors don't have to fund the entire loan, but can part-fund the loans and the platforms will fund the balance themselves, or pull together other investors to lend alongside each other.

Other alternatives for HNW investors are to invest into private debt funds, albeit the HNW investor probably won't have the option to withdraw principal from those funds if they are closed-ended in structure. There are also the options of buying mortgage-backed securities, although the returns on offer for the better-quality tranches are not that high.

Figure 3: Avamore Family Offices made in excess of 8% pa lending against a unit in this residential block in London E3.

• Institutional investor – whether you manage a pension fund, private equity investor or you are an opportunistic hedge fund (or something in between), all options are available to you. In addition to the options mentioned above, the following can be considered as well:

• Appointing a bridge/development lender as an asset manager to lend your money on a managed account basis, or with a discretionary mandate, with a degree of exclusivity.

• Buying closed whole loans, with the originator retaining responsibility for management of the loans.

• Providing a revolving credit facility directly to the loan originator for a fixed period of time (generally 3 years) of a set amount for the originator to lend on at a fixed interest rate.

• Loan-on-loan investment – i.e. lending the lender a proportion of the loan quantum for each loan (up to 80% of the loan advance) where the remaining 20% of funding comes from the originator, whose funds are at risk before yours. Returns are much lower for investors making loan-on-loan investments.

Unquestionably, many institutional investors are beginning to have a material degree of exposure to private debt investment.

Although returns have come under pressure over the past few years, this is as much a consequence of the levels of interest being shown by the investment community in the private debt space.

On the flip side, the market has never been broader or deeper, with a particularly rich pool of potential managers/originators. There are some signs that rates charged to borrowers are starting to creep up and investment returns in the short-to-medium term could increase, which should provide an incentive for you to start to invest in the space now.

Michael Dean is Co-Founding Principal of Avamore Capital and an experienced property investor and funder as well as a member of a single family office.

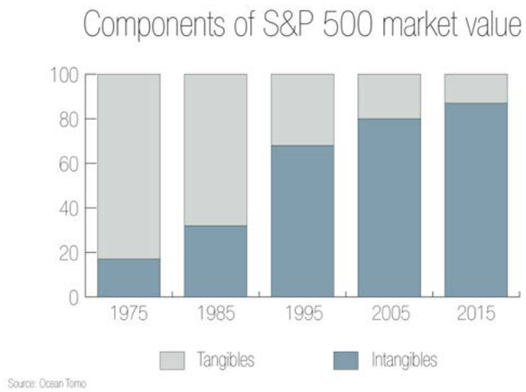
www.avamorecapital.com

# THE ASCENT OF INTANGIBLES

How do investors know how much a company is really worth and how do they make sure that their capital is well spent?

For centuries the combined value of a company's physical assets was roughly equal to its market value. Financial statements normally gave an accurate account of all assets contributing to the company's value. Today this is no longer the case, as intangibles have replaced physical assets as the principal factor of production. Unsurprisingly, investors find it increasingly difficult to understand what lurks beneath the glossy veneer of corporate reports.

Intangibles have no physical substance. These assets - intellectual property, research and development, customer relationships, staff and managerial expertise – are the building blocks of 21st-century companies.
Research by Ocean Tomo, a merchant bank, found that more than 84 % of the value of the S&P500 consists of intangible assets, an increase of 4 % over the last decade and 52 % since 1985. Firms now invest as much or more in intellectual assets as they do in physical capital such as machinery, equipment and buildings.




Traditional productivity and business performance measures have not kept up with this transformation, and many companies underreport their intangible assets. Chicago economist Simcha Barkai estimates that the unobserved intangible capital in the US now amounts to a staggering USD 48 trillion, exceeding the total value of physical assets. Instead, companies should identify these hidden assets and unlock their real value.

Caveat emptor
The absence of intangibles on corporate balance sheets prevents investors from properly gauging risks. Nor can they carry out meaningful comparisons between companies.

In the case of non-traditional investments, the situation is even more challenging. The actual performance of the venture capital industry is notoriously hard to understand. Investors have to spend time and treasure to identify the top performers.

The opaqueness is often attributed to the complexity of venture capital investments and the lack of transparency on the part of most managers about their results. However, a simpler explanation might be that venture capital firms struggle to properly capture the value of intangibles. What assets could a startup possibly possess besides cash raised from friends, family or investors? Without a valuation method that includes intangibles, the industry is bound to remain murky.

Investors in private equity face a similar problem. A recent survey by Augentius, a private equity manager, finds that existing valuation practices and pinpointing suitable investments are the chief concerns among investors. Private equity assets being illiquid, their fair value is calculated using estimates which are often biased and rarely subject to outside scrutiny. As a result, investors find it increasingly difficult and time-consuming to navigate the market for unquoted assets. Needless to say, there is an increasing demand for more transparency.

Decoding intangibles
It has long been recognised that the performance of a company – and by extension its market value – flows from how efficiently its entire capital is employed. This basic truth also applies to intangibles. Intangibles are born out of an investment. For accounting purposes, that expenditure is not capitalised in the balance sheet and is only written off as an expense in the income statement. Nevertheless, these intangible investments are in principle recognised and can be treated as assets under international accounting standards. Such capitalised intangibles are then adjustable under normal accounting rules and practice, making a company's value, performance and market position visible.

More bang for your buck
Apollonian, a new investment firm, aims to shed light on intangibles. Its novel approach to company evaluation allows Apollonian to identify, measure and value all intellectual capital and knowledge based-assets. By analysing these assets, the firm can identify untapped investment opportunities and accurately assess a company's underlying value, risk exposure and potential for growth.

Armed with more than 70 unique algorithms based on 900 indicators, Apollonian assesses all assets underlying a company's value. In so doing, it is able to determine a company's current and future value.
Building on this novel approach to assessing companies, the firm has also launched Apollonian Innovation Growth Fund, a private equity fund focusing on intangibles. The Fund invests in unquoted innovative companies planning to scale up their businesses. Its strategic objective is long-term value creation through active management of intangibles. By combining quarterly redemption rights with quarterly reporting, this open-ended Fund offers both flexibility and transparency to clients.

With its twin approach, comprising value investment and active business development, Apollonian is well positioned to offer investors an alternative to opaque and illiquid venture capital structures.

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# FAMILY OFFICES

## How Family Offices are disrupting Wall Street

by: Ken Carmody

Single-family offices are muscling in on Wall Street's turf by way of drawing away top talent from private equity firms and hedge funds. They are upgrading themselves by hiring experienced, proven investment talent. They promise big paydays without the hassle of sales responsibilities. Senior management can expect to earn 25-30 percent of revenue as a prime family wealth manager as compared with 10-15 percent at an investment bank.

Some truly experienced and exceptional private equity fund managers and hedge fund managers are joining family offices, and it is not just about money. When managing the wealth of a single-family office you have more control, that is to say, you have more of a chance of initiating long-term investment strategies. There is greater likely-hood that the high net worth family will adopt your strategies more willingly. The emphasis moves away from the quarterly results. Payouts are invariably stretched out over some years so as to ensure the managers are not taking unnecessary risks.
We are also witnessing family offices taking Wall Street head to head as they look to strike their own deals directly.

To execute these deals family offices need the relevant talent and aren't afraid to compete for it. There has never been a shortage of service providers trying to sell or market themselves to family offices, but now the tables are turning in a rather unique way as we see the family office trying to make themselves more attractive in order to land the top talent to take their office to the next level. Previously there was little need for a single-family office to invest in marketing, but presently we are seeing more and more sophisticated family offices recognising the need to take a step ahead of the rest and upgrade to the next level of professionalism.

So how are the family offices finding and targeting this investment talent? For years the family office has been served well by networking at industry events, and this is still a useful tool for the ambitious family office. This will often be used in conjunction with the utilization of executive search professionals. However, before either of those steps are taken the family office will be refreshed and brought up to a standard expected by the potential new management appointment through marketing investment.

First impressions count and sophisticated single and multiple-family offices wish to tend toward a best in class showing across as many areas as possible.

What has become apparent is that the asset managers who prove themselves as thought leaders have become the most sought after in the industry. You may be an investment expert but are you actually recognised as one? Have you clearly communicated your investment knowledge and calibre to the wider community? Thought leaders in this sector do not just have excellent track records, but they also maintain a consistent and well-structured content marketing campaign through which they display market insights, analytical skills and prowess. It is these thought leaders that are being fought over. This kind of high-profile appointment makes a big disruptive statement.

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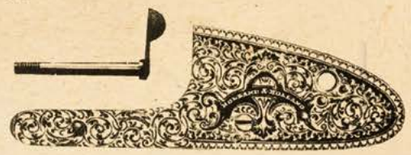
*For Illustration of SPECIAL TREBLE GRIP, see page 16.*

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."



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Adapted from a Holland & Holland catalogue produced between 1910-1912

# LOW BOND YIELDS

## KILL THE OLD BALANCED PORTFOLIO

The 40% bond allocation has killed the 60/40 balanced portfolio. Most investors have heard the saying, "Don't put all your eggs in one basket." This is a catchy phrase to encourage investors to diversify their portfolio. And what do they typically do? The majority embrace the standard asset allocation model of 60% stocks and 40% bonds.

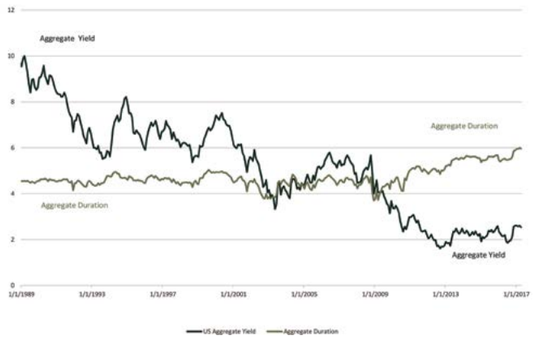
The 60/40 model developed as a recommendation to ward off some of the volatility and risk of being 100% invested in stocks. The idea is that instead of investing in just stocks, you could purchase high-quality bonds (government and corporate) to add some stability to your portfolio. While this should, in theory, lower your expected risk, it would lower your expected return as well. However, the question today, "Is the 60/40 model the best way to maximize returns while minimizing risk? Will having a 60/40 portfolio really help you long term?"

Yes, the 60/40 portfolio is an easy way to allocate your portfolio. Moreover, yes, it has worked in the past. However, as you always hear, "Past performance is not a guarantee of future results." There are two main factors that are hurting a typical 60/40 portfolio.

Low-Interest Rates and Low Inflation

In today's low-interest rate and low inflation environment, the returns on U.S. bonds are at near historical lows. This in and of itself brings down the returns of a 60/40 portfolio. What happens when interest rates rise, as they are beginning to do? As interest rates go up, the price of bonds fall. Current bondholders will see the value of their portfolios decrease. While people think of bonds as relatively safe, we were reminded in November 2016 that there is still risk involved. To earn higher yields, you must purchase longer-term bonds which in turn increases your exposure to interest rate risk.

Inflation has been low for several years. We most likely will not experience the inflation rates of the late 1970s and 1980s again. This means that the outlook for bond yields will not reach the levels we saw before. In fact, we are modelling expected returns to remain low over the next ten years, compounding at around 2.0-3.0% annualized with a current yield of 2.5%. While yields have collapsed, interest rate risk as measured by duration is up over 30%. Lower expected return and higher risk.




Is there a wiser way to invest? We believe there is. Instead of just using stocks and bonds in your portfolio, we recommend the addition of non-correlated or minimally correlated investments. These investments can offer additional diversification to potentially increase expected returns and decrease expected risk. After being faced with this difficult investing environment, we have identified investments that we believe will exhibit these better-expected returns and diversifying characteristics, including reinsurance, private real estate, variance risk premium harvesting, real assets, and alternative lending.

While the performance of the markets is uncertain and unpredictable, the current low-interest rate environment makes the 60/40 model unsustainable over the next 5 to 10 years, possibly longer. You owe it to yourself to try a different, possibly wiser approach.

By Benjamin C. Halliburton, CFA – Chief Investment Officer, Tradition Capital Management

# DUBAI PROPERTY AND ITS PROSPECTS FOR 2020 AND BEYOND: IMPLICATIONS OF HISTORICAL DATA

With preparations for Dubai`s hosting of the World Expo 2020 now gaining momentum, it is a favourable time to have a closer look at the implications which this event is likely to have on the emirate`s property market.

Scarce Empirical Evidence

Empirical evidence about the influence that previous world fairs have effected on property prices in the hosting cities is scarce.

However, Belgian researcher De Groote has undertaken such a study („A multidisciplinary analysis of world fairs (= expos) and their effects"), examining the fluctuation of property prices in world expo cities during the five years preceding the event as well as during an equal time frame after.

Table 1: Property Price Fluctuations Pre- and Post World Expositions:

| | 5 Years Pre | 5 Years Post |
|---|---|---|
| Seville, 1992 | +23% | +15% |
| Lisbon, 1998 | +18% | +60% |
| Hanover, 2000 | +12% | +40% |
| Saragossa; 2008 | +50% | -65% |

It becomes apparent that even markets that are known to generally show less price volatility – i.e. compared to the Dubai market – witnessed substantial upwards pricing trends over the periods under review.

Secondly, it might come as a surprise to some that an expo event is not the equivalent of a one-off straw fire that burns out immediately once the event closes its doors.

Underestimated Long-Term Economic Impulse

In fact, world expo events catalyze investment into and development of several industries and economic sectors, many of which bear fruit only in the mid- to long-term, thus explaining the above figures.

However, as the example of Saragossa shows, this is not an automatism either. As Spain was among the Southern European countries to be hit hardest by the financial market crisis unfolding from 2008, Saragossa witnessed a total collapse of its property market, thereby fully overriding the remainder of any positive impacts.

As a consequence, it can be stated that world fairs, in general, bring about positive effects in demand and investment for the hosting city and country while not necessarily offsetting underlying opposing economic trends. This means that if preparation and hosting of the event are synchronized with the onset of a new economic and property cycle, the positive effects on property prices can be expected to be more pronounced.

What to Expect for Dubai?

The economical data available for the UAE and Dubai today suggest that commercial activity is on the rise. Tourism has shown a remarkable comeback with hotels posting an increase of 18,7% in RevPAR in April 2017 vis-a-vis the previous year while the composite EmiratesNBD Economy Tracker Index clocked a value of 57,5, its highest since February 2015.

Moreover, Dubai`s property market is bottoming out after witnessing a period of softening property prices since mid-2014 with rents retreating equally, thus still offering excellent yields.

While the investor should keep track of some risks on a regional and international scope, the onset of a new property cycle within the next six to twelve months appears highly likely.

As this new cycle will be synchronized with the preparation and implementation of the Dubai World Expo 2020, I expect that the impetus of the non-recurring event will intensify the market upturn at some point in time.

The author, Christian Atzert, advises institutional investors about property transactions and handles property portfolios in Dubai since the year 2007.

e-mail author@property-blog-dubai.com

# CANADA - OPPORTUNITIES ARE ABUNDANT IN EMERGING COMPANIES

Canada has fared very well on the economic front since the 2008 meltdown, and although commodities generally seem to drive the Canadian dollar, there is a vibrant undercurrent of entrepreneurship that is sadly lacking in early and growth stage, patient capital.

Family Offices generally participate in earlier stage companies through the traditional Venture Capital route, and more recently, we have noticed the trend for direct investments into companies. The real question is how to channel your time, focus and expertise in order to find the companies and industries you are searching to invest in?

At Notre Dame Capital, we have significant expertise in identifying, structuring and financing emerging companies in the following areas: organic and natural products, medical and biotechnology, nanotechnology, the internet of things and big data, wireless and mobile phone apps, mining and various breakthrough/disruptive technologies.

Some current examples of emerging companies that we are involved with are:

Medical Technology – Nano Transform Inc., a Montreal company, is creating the next generation Nanotechnology based non-invasive, radiation-free and portable medical imaging technology for mass scale breast screening. Which lowers the incidence of breast cancer among high-risk women, increases the survival rates of breast cancer patients and lowers treatment cost and productivity loss. The company has a brilliant roster of scientists, and the first generation technology has already shown remarkable results.

Fintech – Konnect Mobile Communications Inc., a Montreal based company that has developed a new mobile payments app called PaySocial. This soon to be launched app is an innovative payment app that allows users to send/receive money transfers, pay bills, buy/sell items in-store/online using their mobile phones, and is supported by seamless cash back rewards and viral social affiliate advertising programs. In other words, PaySocial is the first to provide users with the choice to transact for FREE by viewing 5-10 second advertisements and earn 5% cash back on every purchase at participating merchants, by sharing the purchase via social media (Facebook/Twitter/Instagram).

Mining – Goliath Resources Limited, a Toronto based company which has an option to acquire 100% interest in 4 properties in the prolific Golden Triangle area of North Western British Columbia. This area is host to multiple world class precious and base metal deposits and continues to demonstrate its tremendous untapped potential for additional discoveries.

In each case, the business opportunity is significant with outstanding people and good governance committed to executing the plan.

Canada has three stock markets, namely, the Canadian Securities Exchange, (CSE), the Toronto Venture Exchange, (TSX – V) and the Toronto Stock Exchange (TSX). The CSE and TSX V are designed for more junior, emerging companies and collectively have almost 2,000 companies listed and over $45 Billion ( Cad ) in market capitalization. The weighting is clearly skewed to the mining sector. However, there are some absolute jewels in the technology space that could very well become the disrupters we are seeking.

If you are searching for exciting companies that can change the world that are domiciled in a safe, stable jurisdiction where the rule of law is applied equally to all stakeholders, then search no more, Canada is the place to be and Notre Dame Capital has the network and experience to find what you are looking for!

by Richard Groome. Richard has been in the securities industry for over 30 years. Successfully started two investment firms and funded many hundreds of Canadian companies in all sectors. Several of the companies Mr Groome has financed have matured to become billion-dollar success stories. Today, Notre Dame Capital specializes in working with a select few emerging growth companies that can be game changers to the world. Our web address is: www.notredamecapital.com



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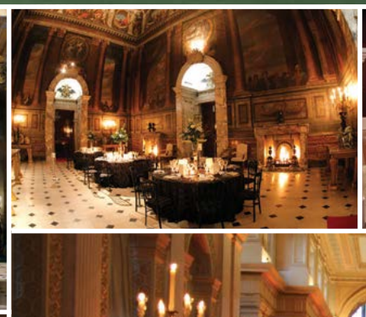

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# ASSET PROTECTION IN THE UAE

## Domiciliation of a Family Office in the Dubai International Financial Centre (DIFC)

By Christian Atzert

Offering political and economical stability, double taxation treaties with more than 60 jurisdictions worldwide besides an environment that is free of income and corporate taxes (exceptions are few), the United Arab Emirates (UAE) exhibit some generally desirable strong points for the set-up of estate and succession planning solutions.

However, especially to non-Muslim foreigners, application of the local („onshore") juridical system can constitute significant challenges inherent in the application of Sharia law and its specifics, especially concerning inheritance provisions.

The DIFC`s Value Proposition

The Emirate of Dubai has addressed these shortcomings by launching its Dubai International Financial Centre (DIFC), a freezone environment with a state-of-the-art autonomous judicial system based on English common-law. Launched in 2004, the DIFC freezone offers a modern regulatory framework and top-notch infrastructure, having since attracted a variety of international banks, brokers and other intermediaries of the financial services industry to its ecosystem. Meanwhile, the DIFC has evolved dramatically regarding resident companies as well as its reputation.

Only recently it was awarded 10th position within the world`s best financial centres („The Banker"), clearly outpacing its rivals for the title of the region`s premier financial hub.

From Trust to Single Family Office

A first step towards servicing family offices was taken in passing the so-called „Trust Law" in 2005, enabling – within the DIFC - „a trust to be created that provides for the vesting of beneficial ownership rights in land or shares to a defined group, being the beneficiaries, while separating the rights of control, stewardship and legal ownership."

Christian Atzert
Property Blog Dubai

In 2008, the regulator extended the DIFC`s rule-set to include the Single Family Office regulations with the objective to allow for Single Family Offices efficiently manage their family-run institutions, private wealth, as well as succession and tax planning from within the centre.

As per the framework`s definition, the DIFC Single Family Office is as a corporation or partnership that is established within the DIFC, offering services exclusively to a single family.

Being on the one hand restricted from offering wealth advisory, asset management or fiduciary services to other than the family`s natural or legal persons, the Single Family office, in turn, enjoys a host of privileges concerning the initial as well as ongoing reporting and accountability burdens imposed by the regulator.

Adaptable Architecture

A DIFC-domiciled SFO can be established in several legal forms, inter alia a company limited by shares or a limited liability partnership. As per the regulations, the inward-oriented SFO is restricted to provide services exclusively to

- family members of a single family (individuals)
- family fiduciary structures
- family entities, as well as
- family businesses.

The family must prove a minimum of 10m USD in liquid/investable assets and furnish evidence about the family relation of the individuals. Likewise, family fiduciary structures are to be linked to the family on the vesting as well as the beneficiary side, while family businesses by definition are entities or businesses under the family`s control.

Although the DIFC initially was completely shielded from the onshore (UAE) economy, latest policy amendments passed in May 2017 now allow DIFC-based entities to hold properties and conduct business onshore (proper licensing provided), therefore making the freezone essentially semi-permeable.

Building Blocks: Flexibility is Key

By solely requiring that there be an existing link between the family office and the natural persons constituting the family or their respective family fiduciary structures, entities or businesses, the Single Family Office may or may not be the legal owner of the assets under management. It can be structured as a holding company or simply as a service provider, offering services exclusively to the family.

Intermediate holding companies („Intermediate SPVs"), often established to partition holding structures along business lines, are other means of adequately adapting the overall structure to the legal and operational requirements of the family`s estate. They are inexpensive to set up and run, being exempt from the requirement of an own physical address (leasing space) provided that their respective holding company already reside within the precinct.

Insofar, the regulatory framework offers a tremendous level of flexibility about the structuring of the family`s worldwide assets and the desired control, interconnecting or shielding between the same.

In Control: Succession Planning

Independently of the Single Family Office regulations, the DIFC`s financial centre has been complemented by a Wills and Probate Registry. Coherently, the DIFC procedure for registering and executing wills is based upon common-law principles, granting the testator considerable freedom to dispose of their estate, rather than subjecting them to specific legal rules regarding distribution or a forced heirship regime.
In the event of succession and pursuant to a will filed with the DIFC Wills and Probate Registry, the DIFC Court will issue grants and court orders to be directly enforceable within the DIFC as well as the Emirate of Dubai, without the need to approach the Dubai Courts.

Summary

To families looking beyond the commonly known domiciliation options, the DIFC offers a range of robust and elaborate building blocks. Since its inception, the DIFC has greatly evolved, now representing a top-notch jurisdiction in its own right, while providing for flexible, scalable as well as highly adaptable family office services and holding structures.

Moreover, the presence of excellent service providers in DIFC provides for the option of externalising services in the spheres of asset management and private banking, fiduciary and specialised legal, as well as accounting and auditing, to name but a few.

Last but not least and in contrast to less prominent jurisdictions, the Dubai option provides families with the opportunity to directly tap into private debt or equity markets, should their operations so require.

The author advises institutional investors about property transactions and handles property portfolios in Dubai.

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# THE SOCIAL DEBUTANTE

From the resurgence in popularity of formal presentation ceremonies such as The Queen Charlotte's Ball, to British institutions such as Royal Ascot and the Glyndebourne Opera, Paul Russell, co-founder and director of Luxury Academy London, www.luxuryacademy.co.uk, asks how we can equip young women with the skills they need to perform well in formal, social situations.

In centuries past, the process of introducing a debutante to society was a ritual for many young ladies of good families, marking the transition from education to them being 'out' in the social arena. Taking place usually around 18 to 21 years of age, it marked their first independent foray into society, their formal entrance into the world, and demonstrated that they were sufficiently socially adept to be 'launched' into the numerous engagements that would follow, from balls and parties to the inclusion within gatherings of their parents' friends.

The launching of debutantes was part of the season, a period of prestigious social events when the monarchy was in residence in London and debutantes were prepared for the culmination of the season, when they would be presented at The Queen Charlotte's Ball, introduced in 1780 as a birthday party for Queen Charlotte, King George III's wife. Whilst The Queen's Charlotte's Ball no longer takes place at Buckingham Palace in the presence of our reigning Queen, after a brief hiatus, the ball continues to this day. Debutantes adorned in white dresses and tiaras are presented to the guests, stood next to the towering and symbolic Queen Charlotte cake.

The demands of a season in centuries past could be difficult for young debutantes. At the turn of the 20th century, etiquette author Mrs Kingsland wrote: "It is usually a somewhat trying ordeal for both parent and child...to the daughter the novel position brings a certain awkward self-consciousness, as she feels directed towards her the lenses of a critical inspection." By the end of the season, it was expected that the debutantes would have significant social experience, which would assist them in their future lives. Traditionally, finishing schools have been utilised to equip young ladies with the tools to succeed in such situations, and both Diana, Princess of Wales and the Duchess of Cornwall attended such schools in Switzerland.

Whilst the procedure of presenting debutantes has changed over time, the skills required to be a successful debutante remain the same- skills that are necessary for successful interaction with others in many formal, business and social situations. Communication is at

the heart of many these, from the ability to converse with those of all ages rather than simply one's own peers and conversational rules. Harnessing strong communication skills will be beneficial as a young woman is not only presented as a debutante, but in her future career. Then, there are matters of etiquette including manners, protocol, international social customs and diplomacy.

Whether a young woman is to follow the path of the debutante with a formal presentation to the world, or to more quietly take their place as they begin to attend the Ascot's and Glyndebourne's so beloved of the aristocracy, it is important that they are well versed in the correct etiquette of the event they are attending, and also feel confident in their abilities to present themselves well. No matter the direction that their lives may take in the future, social training is never wasted.

Paul Russell



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# BOOSTING YOUR RETURNS WITHOUT TAKING ON MORE RISK

By: Ofer Vilenko, Managing Partner VTS Capital Partners

## The Power of joining a Private Equity Sponsor as a GP-Co-Investor

Real Estate Private Equity [PERE] deals are typically structured by its sponsors as a limited partnership or a special purpose vehicle [SPE], which has two types of partners: limited [LPs] and general [GPs] partners. LPs are passive investors who provide most of the equity for the deal while enjoying limited liability and GPs, are the ones who carry the load, have a fiduciary duty to all investors and are responsible for delivering the expected returns.

Incidentally, the Sponsor/GP, is the private equity firm that makes it all happen. The GP roles include but are not limited to: sourcing and underwriting the deal, identifying the intrinsic added value, structuring and negotiating it, financing it, executing the guarantees on the loan, conducting due diligence, raising the equity capital, closing the transaction, executing the business plan to extract value, disposing of the asset to maximize profits, reporting and profit distribution. In addition, the GP may invest alongside the LPs in the deal. Typically, the GP contributes anywhere from 5 to 10% of the equity portion of the deal, however on large transactions that percentage usually gets reduced.

Essentially, a PERE deal is a collaborative effort between GP and LPs in a "for profit venture" in Real Estate. However, how are these profits manifested? What metrics do investors focus on, when selecting an investment? Well, the most common metrics used to evaluate PERE investments are:
[a] Cash on Cash Returns, which basically represent the distributable cash flow before taxes, [b] Internal Rate of Return [IRR], which in plain English, represents the value an investment generates over the entire holding period. Simply put, the IRR is the percentage of "interest rate" earned annually on each dollar invested in a property during the time it is owned. The calculation takes into consideration the capital invested; all the cash flows received, capital events and time value of money [c] The Equity Multiple, which without any consideration to the length of time, indicates to potential investors, what they are expected to get in return for each 1 dollar invested. It considers the gains from the investment as well as the return of the initial $1 dollar invested.

Also, considering that real estate investments offer an added bonus in the form of depreciation, investors also take into consideration Sheltered Income, which is the amount of income they may shelter from taxes through this mechanism.

Finally, Investors also focus on the Preferred Return, which is basically the return on equity investors will receive before, the sponsor earns the right to participate in the deal's Promote.

What is the Promote? Why does the GP deserve it? The promote is a pre-determined percentage taken out of the profits on the deal that is set aside for the sponsor/GP. The promote is, therefore, a bonus for the GP for delivering returns to investors that exceed the Preferred Return. Even though the GP is also compensated through a variety of fees that are paid by the project, the promote has a special relevance, since it represents the lion share of the sponsor/GP's potential earnings on a deal, but as indicated earlier, it is not "earned" unless certain performance hurdles such as preferred returns have been achieved, further aligning the sponsor/GPs interests, with those of the LPs. The sponsor/GP deserves the promote in consideration of all the work outlined above, as well as for delivering outstanding results in the project as the other fees it collects barely cover the GPs expenses.

Most of us, from our early forays in the investment world, have worked and allocated capital under the unquestioned understanding that there is a direct relationship between risk and reward; the investment gods will allocate lower returns to those who take less risk, while higher returns will be bestowed upon those who dare to take higher risks... however, is it so? Is there a way to earn a disproportionate higher return for virtually the same amount of risk? As far as PERE is concerned, the answer is yes. As indicated earlier, a GP, to demonstrate "skin in the game", may contribute 5 to 10% of the equity of the deal. However, due to its desire to make the best and highest use of the existing capital to scale its operations, fill a temporary capital shortfall needed to capitalize on an awesome deal or another reason, a GP may want to limit or reduce the amount of capital it deploys and still meet the above equity contribution.

In order to reconcile the above, meet the expected equity contributions to ongoing deals and maintain sufficient capital to participate in future deals, GPs have resorted to using a GP co-investment model; where they invite selected investors (very select few), typically UHNW individuals and family offices to join them as GPs in the deal and provide a portion of the capital they need to help them fund their GP equity contribution.

Clearly, this mechanism does not come cheap. In return for their assistance, these investors benefit handsomely, as they [a] receive as any other equity investor, the returns allocable to their share of the equity invested in the deal, [b] they enjoy lower costs as they typically negotiate a lower fee structure on their equity contribution and most importantly, [c] as the proverbial carrot, they may also receive a share of the GPs promote, effectively enabling them, at the end of the day, to walk away earning the highest share of returns [IRR & Equity Multiple] of any other passive investor in the deal, arguably, for virtually the same amount of risk that everyone else took.

So next time you get a call from a sponsor to invite you to participate as a GP co-investor on a deal, take the call, do your due diligence but take the invitation seriously as it may be the key to higher returns.

Ofer Vilenko is a managing partner and CIO of VTS Capital Partners. An experienced private equity and real estate professional with over 15 years of real estate investments, including acquisitions, due diligence, asset management and dispositions.

Who should study
- Financial planners
- CPAs & Tax advisors
- Investment bankers
- Wealth Managers & Investment Advisors
- Wealth owners
- Estate planners
- Trust officers
- Finance professionals
- Students aspired to join the industry

APB

FOI Family Office Institute

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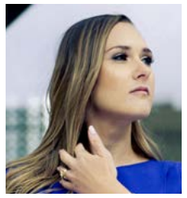

# CHOOSING YOUR WEALTH MANAGEMENT PROVIDER

Indre Butkeviciute, Founder, Lily Advisory

Affluent investors looking to select a firm for their holistic wealth management needs might find themselves overwhelmed with the choices at their feet. Especially in situations when you have come into liquidity you end up fighting off phone calls, emails and letters and putting off the exercise all together.

So how do you approach the selection process? First and foremost if you are not a seasoned investor you might consider hiring a wealth coach as a starting point. As one of my clients has put it recently, 'you need a sparring partner' to make sure you make the right decisions.

The second step will require a lot of thinking time and is a phase where you should have someone challenging your views with an objective mindset, so ideally not an adviser working for a particular firm, but more of an outside person. This is probably the most important stage of your decision-making process as it will determine which road you will be taking in the short term, midterm and long-term.

Your goal for this second step is to come out with a Request for Information (RFI) that you can then send off to potential companies you might see yourself working with for your wealth management needs. Before you set out to prepare the RFI firstly think about what is important to you. This should include a twofold approach. Firstly, thinking about what are your financial goals for the short term, medium term and long term, how you see the world of investing and if you have any preference towards specific asset classes or investments, your thoughts on active investing versus passive, what is your attitude towards cost, how much risk you want to take on and so on.

These can vary somewhat depending on the individual person, but are quite similar broadly. The second aspect is more personal and generic and goes down to your personality and thinking about what type of companies you prefer to work with, what is important to you overall, perhaps a company that engages in charitable work, or someone who is focused on investing in new talent, what type of personalities do you tend to get on with the best and so on. You can come up with various important aspects that then can be incorporated into your RFI to determine which company will be best placed at servicing you. It is unlikely that you will be able to find one company that will fit in with all your requirements, so make sure you pick up to 5 of the most important factors that you would consider to be 'deal-breakers' that way your elimination process will be easier.

Once you have your goals well thought through, the next stage is to prepare the questions around the various topics. Some of the key topics that should always be included in your RFI are:

i)In-depth understanding of the company: history, management and ownership structures, mission and vision for the future, key strengths

ii)Clients: this is your chance to understand if the company is used to working with clients in similar situations, e.g. ability to deal with various structures, multi-jurisdictions, having several family members involved and any other personal aspects that you have identified in the prior exercise

iii) Investment management: how does the company approach portfolio building, custody, execution, risk management, safeguarding of assets, depth of investments offered and flexibility

iv)Administrative side: wealth administration, reporting, regulation

Now that you have outlined the important questions, you need to pick a list of companies to send it to. Optimal number is anywhere between 10 and 15 as anything above that will be rather cumbersome to manage once you receive the answers back. Going through a completed RFI in detail can take you anywhere between 1 and 3 hours depending on how much information is provided and you do not want to be so overwhelmed by the information that it will end up taking you weeks to get to the next stage. It is imperative to choose a variety of different providers, including large private banks, established wealth management firms as well as smaller and newer boutiques. You can never be sure how each of them will approach the exercise and who will come out on top. When sending the RFI out make sure you give everyone a clear deadline, two weeks should be the maximum time allowed to complete this.

Once you start receiving the completed RFIs it is time to move to step three and design an easy way to analyse. It goes back to all those important factors that you listed in the beginning and you can design a simple point system based on that enabling you to then rank all the companies in the process. The last such exercise I completed with a client, we had come up with 30 factors, and we simply assigned one point per factor. The top ranking providers scored between 21 and 26 points out of 30.

Once you have completed the rankings, choose 3-4 top runners for the next stages of meeting them face to face, receiving a full bespoke proposal and making the final decision who the winner is. At times it might make sense to split your wealth management between two companies. This could happen if they have a different and complementary approach or even if they have a very similar approach but you are not sure who the better firm is, you can always take your time and judge based on how they perform the tasks you have set for them over time.

It is not an easy exercise to run through, but it is extremely helpful not just to make sure you choose the right provider, but it also helps you filter through and figure out what is important to YOU.

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# THE ADVANTAGES OF ASSET-BASED LENDING

OLD HILL PARTNERS

The persistently low-interest rate environment has resulted in an unprecedented search for yield by investors needing robust fixed-income exposure, yet family offices face the challenge of earning adequate risk-adjusted returns without overly exposing their portfolios to excessive risk. Indeed, the old adage about more money being lost reaching for yield than by the point of a gun looms large in the minds of most capital allocators these days.

However, not all risk is created nor mitigated equally and for investors seeking to thread the needle between decent returns and acceptable risk levels, the rapidly-growing private credit space – and the asset-based lending niche within it – offers an alternative.

Private debt allows investors to act as a direct lender to companies instead of through an intermediating financial institution. It is generally illiquid and not traded in organized markets, but is usually backed by various forms of collateral including corporate credit, real estate, infrastructure, and hard, financial or esoteric assets. In contrast to public debt, such investments are typically originated directly between the lender and the issuer, as opposed to a public offering of securities.

Within private debt, asset-based loans are highly customized transactions that emerge, when properly structured, from due diligence of the borrower, principals, collateral, and business prospects.

They are underwritten with an emphasis on capital preservation and income generation, and typically yield above other public fixed income instruments due

Jeffrey Haas
Old Hill Partners

primarily to illiquidity, not because they face materially higher issuer, interest rate or market risk.

Although historically considered a disadvantage, this lack of liquidity in well-structured asset-based transactions actually provides investors with the opposite; a risk-adjusted yield pickup of 400-700 basis points and relative immunity from the mark-to-market challenges presented by swings in the traded credit markets. In addition, most private asset-based loans are structured with floating-rate coupons, ensuring protection against rising benchmark interest rates, while correlation with other asset classes typically found in investor portfolios, including income-oriented ones, is also low. Returns associated with private debt do not typically move in tandem with other assets, such as stocks, private equity or public bonds, in response to changing economic and market conditions. For the portfolio owner, this can increase portfolio diversification and reduce volatility.

Finally, although there is a perception that default rates among private asset-based loans is high, the data suggests otherwise. Senior secured loans have similar long-term default rates as seen in the non-investment grade high-yield corporate bond world - 3.6% and 3.5%, according to Prudential data - while recovery rates are significantly higher at 70% vs 40%.

Take It Outside

Although a properly structured asset-based loan portfolio has the potential to offer consistently above-average returns with minimal volatility, the market is not a simple one. The process of identifying, structuring, and underwriting a private debt transaction is complicated, variable and by no means a one-size-fits-all process, which makes it a challenge to execute in-house for all but the largest family offices.

In our experience, successful asset-based lenders need broad experience in, and the resources to accomplish, a number of areas including:

- Deal sourcing
- Covenant protection
- Collateral valuation
- Portfolio size
- Issuer due diligence
- Transaction structuring
- Post-close monitoring and support

Critical to any asset-based transaction is collateral analysis, since collateral is what secures principal against loss. Accordingly, prudent asset-based lenders focus intently on loan-to-value when contemplating a transaction, and typically lend 40% and 75% of the value of the collateral, depending on its value and liquidity.

Also, fully understanding the value and the liquidity of a borrower's collateral before a transaction is consummated identifies potential problems before capital is at risk, and when correctly done, can form an adequate basis for long-term credit decisions. Proper loan-to-value calibration is vital, and can be raised or lowered depending on the strength of the collateral and the issuer, embedding an additional buffer should the need arise. Generally speaking, smaller borrowers are more attractive than larger ones, since their demand for credit is greater yet their access to traditional sources of capital are constrained, which in turn increases the workload on both the origination and monitoring fronts.

Family offices interested in exploring private asset-based lending should, therefore, consider whether they have the resources and experience necessary to take advantage of the opportunity, or whether allocating to an experienced specialist is more effective.

The Bottom Line

Yield will remain very difficult to find in traded credit markets for the foreseeable future, particularly without accepting large levels of issuer, market, or political risk. As such, family offices seeking the twin goals of current income generation and adequate protection of principal should consider devoting a portion of their fixed-income allocation to carefully structured and analyzed asset-based loans as a way to generate attractive risk-adjusted returns while maintaining interest rate protection.

Jeffrey Haas is chief operating officer of Darien, CT-based Old Hill Partners Inc., an SEC-registered investment adviser focused on asset-based lending transactions and alternative investment management.

# QUANTITATIVE INDICES FOR FAMILY OFFICES

by Florian Garivier - CEO www.quantilia.com

Whether you are running a single-family office or a multi-family office, your clients are expecting a certain level of service from you, and increasingly, that is including the use of quantitative indices. Thankfully, modern technology is there to augment the traditional portfolio manager's skills and knowledge, to help you make investments quickly and effectively using the available quantitative indices at your disposal.

How QIs Work

Quantitative trading is designed to take as much guess-work out of the trading equation as possible. By collating historical market data, mathematical formulas and computer modelling, quants and traders will create an algorithm that allows them to quickly assess market trends and increase the probability of successful trades. The various factors used to compile this model are the quantitative indices, which will vary according to the specific market, asset class, and so forth that is being traded in.

When traders and developers put in the effort to keep the algorithms up to date and dynamic, making sure that they match their portfolio needs and do not fail under changing market conditions, this type of trading can be exceptionally accurate and effective.

Why FOs Should Use Quantitative Indices

By focusing on a quantitative analysis of indices, the family office portfolio managers face challenges to understand and master their use, but also opportunities. Some of the benefits of quantitative indices include the following:

Transparency – Because quantitative indices are based on historical, publicly available data, there's no hidden information that can trip you up at the last second. It is predictable to a high degree of accuracy, and anyone putting in the time and effort to perform diligent quantitative analysis will experience similar results.

Differentiation – Having a unique value proposition can help differentiate your Family Office from others. By using innovative quantitative indices and other tools, you can define and create a unique investment model, leveraging on the hundreds of indices available in the market, tailored to your clients' needs, interests, desires and so on. FOs are seeing an improvement in their market image reach a wider client base and manage this expansion in a scalable manner.

Flexibility and accuracy – There are several ways to access quantitative strategies, as well as a multitude of specific indices, which means that investment managers have gained the ability to invest in what genuinely interests them. For example, if a client has a particular affinity for companies that invest heavily into social development, or are environmentally friendly, the investment manager can focus on these easily. Likewise, there are indices concerning Shariah-compliant companies, international trade agreements, asset classes like FX or commodities, and various others. You can even select indices based on their risk factors or diversification.

Coherence and consistency – Once your Family Office has clarified and defined an investment process for QIs, it is a simple matter to translate that process into different areas and investment universes, thanks to the broad variety of indices and the extensive market-related, thematic and profile-specific horizons available.

Cost efficiency – Once the algorithms have been defined, it should not change, which means you do not need a dedicated portfolio manager to renew the model on a regular basis. As a consequence, indices are usually cheaper than actively managed funds, even if more transparency could and should still be reached in this sense (regulators are aware and have produced interesting pieces which will be in place next year).

Access to investment opportunities – Thanks to their considerable accuracy, quantitative indices gives investors significantly improved ability to react to potential return-generating market events which they may have avoided previously, due to their unpredictability.

Through the use of QIs, predictability is tightened and sharpened, making apparent risks less risky and potentially more return-generative. One can, for example, invest in the rise of risk in the market through volatility indices, as well as benefiting from quiet markets with short volatility ones.

The Investor's Choice

Typically, quantitative indices have been used by institutional investors and have long been a favourite of pension funds and sovereign wealth funds. So, what is spurring the growing interest among Family Offices, and why should you be considering including QIs in your strategies?

As with many things in the Digital Age, the answer comes down to improved and more easily accessible technology. For example, French FinTech startup, Quantilia, has been disrupting the traditional investment industry with its intuitive interface that is designed to connect institutional investors with asset managers and investment banks, as well as facilitating a move from traditional investment models into Quantitative Indices-based investments.

Launched less than one year ago, Quantilia can already count some of the major players in the investment industry among its clients. The company specialises in QIs, in creating the complex but accurate and reliable filtering tools that are helping investors make better, more informed decisions on their clients' behalf. The Quantilia offering includes both wide-reaching, up to date data, and quantitative analysis tools that are designed for effectivity.

www.quantilia.com

# ROBOTS AND MILLENNIALS: HUMANIZING THE FAMILY OFFICE IN THE AGE OF AI

Brittany Ryan, freelance tech writer and former producer of the Elite Summit, shares her views on why high-net-worth millennials need wealth advisors more than robots.

Let's face it. Nobody likes banks.

Family office advisors are tasked with navigating a labyrinth of multi-jurisdictional regulatory requirements, and 71% of millennials say they would rather go to the dentist than take advice from a bank.

With a globe-trotting Gen Y poised to inherit $30 trillion in wealth, AI and automation could be a solution for both sides of the table.

## Millennials Are Changing the Game

The first thing to understand about the tech revolution is that it is driven by and for millennials—and not just because we love selfies.

Most millennials can tell you exactly where they were the day Lehman Brothers collapsed, and we remember the demise of the Madoff family shortly thereafter. Even the most privileged among us know life's only certainty, is uncertainty.

To the modern millennial, technology is our greatest ally in an unpredictable world. We appreciate the increased transparency Zillow brought to the real estate sector, the enhanced productivity tools like Slack has brought to the workplace, the myriad ways we can talk to anyone, anytime, no matter where in the world we are. Not only are we excited by technological disruption, we expect it. This great love affair between tech and millennials has prompted many in the industry to ask, do millennials even need a family office?

It is a fair question. In 2016, funding for the global FinTech industry reached $36 billion, and disruptors are not mincing words about their mission to overthrow traditional banking. Some family offices have embraced the change, as seen by a recent influx of investment from single family offices in bitcoin. Others still have doubts, but regardless of what the future holds for bitcoin, blockchain technology has created a lasting shift in the financial services system.

## What Matters to the Next Gen

In my time as the producer for Europe's leading family office and private wealth management conference, the Elite Summit, I heard many accounts of advisors going to great lengths to engage next-gen clients. Some built trust through video games, others orchestrated character-building excursions deep in the Arctic. Millennials do indeed have vastly different values from their boomer parents, and advisors should go to extreme lengths to engage and understand them. However, those who are worried about being replaced by a banking app are missing the point.

Technology is important, but only insofar as it enables a better relationship between the client and advisor. Robotics and AI can reduce costs, mitigate risks, and alleviate the cumbersome administrative tasks that keep advisors from spending more face-to-face—or perhaps, screen-to-screen—time with clients, and that is important because engagement is everything to millennials. Not only because of our instant response lifestyle but because we need to know you are on our side.

A highly connected upbringing has shaped our beliefs in a way our parents may never fully understand. Perhaps the best example is in the way high-net-worth millennials are taking philanthropy to new heights through impact investing. Millennials have no hesitations about giving across borders and cultures, the whole world is our community, and we are prepared to look after it.
Family office advisors who hope to keep the account after the boomers pass the torch must be willing to not only accept the unique values of the next generation but to actively adopt the technology needed to make tactical changes that support those beliefs.

## Advisors Should Think Like Entrepreneurs

Investors are already using deep data algorithms to drive returns and identify endogenous risk, and as AI gets smarter, I believe it is short-sighted to think progress will stop at robotic process automation (RPA). For advisors who think outside the box, there's no end to the benefits technology can bring to the modern wealth management firm or family office. Millennials are entrepreneurial by nature, and they will actively seek out like-minded advisors.

According to BNP Paribas and Scorpio Partnership's 2016 report on global entrepreneurship, members of the millennial generation have started almost twice as many new businesses and have had significantly higher profit margins than our parents' generation.
Take, for example, Malaysian venture fund, RHL Ventures. Founded by three second-generation high-net-worth millennials, RHL Ventures invests in a variety of global startups, including a consumer behaviour analytics platform called Perx and Sidestep, an app that allows fans to buy concert memorabilia online and either have it shipped to their home or skip the line and collect it at the show. Given a choice, most millennials would prefer to make their own mark, rather than follow in their parent's footsteps.

The challenge for advisors is surprisingly similar. For those prepared to relinquish the inherited workflows that can be better handled by technology, and embrace a possibility-driven mindset, there's no end the amount of innovation and value you can provide to the high-net-worth millennial. Especially with the help of a few smart robots.



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ISS MEMBER 2014

# ISRAEL: POPULAR YET COMPLEX DESTINATION

A little less known fact about Israel is that it is a country built on immigration. About 40% of the country's resident were born outside of it. A 2016 study by international consultancy New World Wealth, suggests that there is one cohort of people who have moved to Israel and that is millionaires. The company's survey of millionaire migration describes Israel as the fourth most popular destination worldwide for migrating millionaires in 2015, after Australia, the United States and Canada. The survey claims that 4,000 high-net-worth individuals relocated to Israel in 2015. Since the number of immigrants and returning residents was around 37,000, that makes approximately one in nine new arrivals to the country a millionaire.

One of the likely incentives for the well-to-do to relocate to Israel, was the passing of an unprecedented tax law in 2008, that grants new immigrants (called "Olim") as well as returning residents who have lived abroad for at least 10 years a 10-years tax exemption on income earned abroad. Exempt income and related assets do not need to be reported to the Israel Tax Authority for the same 10 years. All types of income and capital gains are covered by the exemption if they are derived from non-Israeli sources, such as income from salary, business, pensions, investments, etc.

Taking into account not only the waves of antisemitism and terror attacks that enhanced in the last few years but also a very vibrant life-style one can find in Israel, the country has become appealing for new immigrants, mostly from Europe and the Americas.

The new waves of immigrations are indeed in part the result of the tax incentive and benefits, but at the end of the day, immigration waves of recent years are no different than previous economic-fueled immigration. Beyond obvious considerations such as experience, expertise and reputation, their advisor is a partner that needs to understand the complexity and the unique goals of each family. Therefore, advisors have shortly become the clients' representation in every aspect: correspondence with financial institutions, networking within the local business community and point of contact with all experts.

Karen Schwok
Lucid Investments

And so, whether it is the considerations accompanying gifts between family members (as there is no gift tax between family members under the Israeli jurisdiction), or the Succession Law for example - where the testamentary freedom under the Succession Law enables families to establish non-conventional wills and testaments (which would not be possible in many other jurisdictions) – these every-day life experiences are all of a sudden becoming complex when not all family members have relocated to Israel or are not planning to relocate at the same time: how does one distributes family assets among the members of the family in the most beneficial way?

The financial ecosystem has changed in the last few years, but Israeli banks had struggled to adapt and were not fully prepared to provide the full extension and assistance for this important wealth creation. We experienced in various aspects uncertainty in terms of handling bank accounts openings, selection of appropriate investment solutions in line with the 10 years tax holiday. Also, as many families are coming closer to the end of their 10 years tax holiday, clients expect advisors to suggest and prepare an action plan to reduce their future taxable capital gains.

Even those who had decided to maintain their relation with the same foreign banks they used to work with from their country of origin, often find themselves tangled in long-lasting discussions with their bankers as Israel's bureaucracy and local legislation has not yet been fully comprehended .

Israel's Tax Authority does not always possess full information in order to assess whether a person qualifies for tax exemption. Therefore, the OECD's Multilateral Convention on Mutual Administrative Assistance, which allows for the automatic exchange of information at the end of 2017 will be done via the banks and information will start moving around because of the common reporting standard. In other words, as financial institutions will take no risk when it comes to tax reporting, it makes having a local expert more essential now than ever.

As the Israeli government does not have worldwide sovereignty, new residents should check if they are still taxable in their origin country. They should analyze the whole family situation, taking into account all the jurisdictions the family is subject to and family members should be able to provide if necessary a proof of their new status locally ("Teudat Toshavut", a Residency Certificate provided by the Israeli authorities).

Naturally, another concern and interest of New Residents is their willing to better familiarize themselves to the Israeli business community, mainly driven by innovation in the Hi-Tech and healthcare industries. People are interesting to demonstrates their continuing commitment to innovation (businesswise and philanthropy) and a local advisor could guide them through the local pool of investment options.

In conclusion, an absence of common language and cultural barriers contributes to a lack of comprehension, collaboration and trust. Left unchecked, these factors often inhibit solid decision-making and undetermined role clarity and a common sense of purpose to the business of family investing. The inevitable consequence of these missteps can result in mistrust, an "us and them" mentality, slow or no decision making. However, when properly executed, a foundation of trust and confidence can be created that will sustain a healthy and long-term relationship between the family and investment staff.

Karen Schwok is the CEO of Lucid Investments that offers comprehensive Family Office and Wealth Management services for High-Tech entrepreneurs and mostly bi-national families that relocated to Israel. Karen has Wealth Management expertise from over 15 years in the field. She is the former CEO of Pictet Wealth Management in Israel, has an MBA from Tel-Aviv University. She serves as Board Member of various associations such as the Chamber of Commerce Israel-Switzerland & Liechtenstein and the Association of Foreign Banks in Israel.

LUCID INVESTMENTS

# WOMEN AND WEALTH: WHY MONEY MANAGERS ARE FINALLY FOCUSING ON FEMALE CLIENTS

by Wendy Spires, Director of Client Research at findaWEALTHMANAGER.com

For too long wealth managers have tended to neglect the unique wants and needs of women, but the explosive growth of female financial power around the world is finally spurring real change. Here, Wendy Spires, Director of Client Research at findaWEALTHMANAGER.com explores the main issues surrounding women and wealth management.

The question of how wealth management firms can better serve female clients has been high on the industry's agenda for a number of years now, but it seems to have shot right to the top in 2017, with institutions around the globe launching new initiatives, offerings and research focused on the topic.

The reason is clear: global wealth demographics are going through seismic changes, and ever more money is in the hands of women, as well as younger people and those from newer markets. As competitive pressures ratchet up, wealth managers are having to rapidly get to grips with these trends, and - while millennials are a dominant industry theme - many are choosing to channel their energies into adapting their offerings and culture to better suit female clients.

The figures motivating change are certainly compelling at both ends of the wealth spectrum. At the upper, research shows the growth of the world's female billionaire population outstripping that of males and ultra-wealthy women really driving their families' businesses, with 57% in the US, 63% in Europe and 96% in Asia being active wealth creators. Meanwhile, in the US it is now the case that 40% of households have a female as the primary earner and that women are expected to control $22 trillion of personal wealth by 2020.

True gender equality may be a way off in some regards, yet women's financial strength is growing rapidly right across the globe due to greater workforce engagement and entrepreneurialism – even in regions one might not particularly associate with female empowerment. Overall, it is estimated that women control 30% of the world's private wealth, with holdings in the Middle East amounting to around a quarter of the total and perhaps surprising levels of entrepreneurialism and investment at play. Women's investments in Saudi Arabia have long been expected to reach $18 billion by next year, for example. However, for all women's very noticeable growth in financial power over recent years, in general, the wealth management industry has up to now been woefully behind the curve, both regarding female representation and provision specifically for a segment which, after all, comprises half of the population.

The lack of women in the broad financial services workforce is well acknowledged, but this appears to be particularly acute in wealth management. Even in the US, a country well advanced in its equality journey, only 16% of financial advisors are female. The picture seems even worse at senior management level, with female wealth CEOs in very short supply indeed, although it should be said that this reflects a broader picture of under-representation at a senior level in most leading firms.

Female representation improving

Great strides are being made by leading organisations, however, banks and wealth managers included. In the UK, the Davies Review drove female representation on FTSE 100 boards from 12.5% in 2011 to 26% over five years, while we now see large institutions such as Royal Bank of Canada and UBS pledging to promote gender equality across their workforces and making moves like signing the Women in Finance Charter.

The importance of improving female representation at all levels amid growing female wealth is threefold.

Firstly, while it would be reductive to suggest that female investors prefer to work solely with female advisors, this sometimes might well be preferable due to situational, cultural or personality factors (such as when a lady is going through a gruelling divorce, or their religion prohibits contact with male non-relations).

Secondly, female clients will want to know that the organisation they have chosen to manage their affairs values the role of women and respects their achievements. Seeing an obvious gender bias within the institution's management team will signal that it perhaps doesn't as much as it might. For this reason, the visibility of female leaders is essential, even when the client sees gender as unimportant to the make-up of their personal team.

Thirdly, and perhaps most important of all, is the fact that strong female representation within wealth managers increases the likelihood that women's particular wants and needs are being addressed. Again, although it would be wrong to take a reductive approach or be constrained by generalisation, there are undeniably specific differences and preferences to be taken account of.

Differing wants and needs

There is abundant research suggesting that women often have very different investment tastes and objectives compared to men, along with differing preferred engagement styles – factors that might easily cause a relationship to founder.

Accurately assessing a client's risk tolerance is the cornerstone of a successful engagement given the trade-off between risk and return, and here we see that a third of men describe their risk tolerance as aggressive, against a quarter of women, for example.

More broadly, research suggests that women tend to take a more holistic view of their financial objectives, defining "success" in wider terms. This often translates into responsible or impact investing having great appeal for women (although that is not to say this style of investing isn't gaining huge momentum for both genders because this is one of the most striking growth stories of recent times). Many firms have no offering and very limited expertise in these areas.

Differing communication (and life) styles

It must also be remembered that women's lives tend to follow a different "arc" to men's due to career breaks related to having children or other caregiving responsibilities, and the fact that they tend to live significantly longer. That they will need to fund perhaps many more years in retirement is just one of several factors that might be neglected when their financial planning needs are seen solely through a male "lens".

Even at the upper echelons of wealth, female entrepreneurs can often be "first-timers" to complex issues like business succession, and lack mentors to guide them, meaning that special attention might be warranted here.

Finally, numerous studies show that women tend to prefer a collegiate approach to wealth management issues, with them liking to share and validate ideas with various advisors, friends, family and colleagues before settling on a high-conviction strategy. Wealth managers, therefore, need to be prepared for relationships to proceed along far broader lines.

The corollary to this is however that women tend to be far more prolific in making referrals than men – and here we come to the hard business benefit driving the softer moves being made by wealth managers to better accommodate female clients. Not only are women a growing wealth segment, but their tendency to be loyal "net promoters" means they are also very desirable clients from a profitability perspective too.

The notion that the wealth management industry – and those it serves – can in any way be characterised as "pale, stale and male" anymore is rapidly falling by the wayside. Across regions, firms of all types are really upping their game when it comes to serving women well, and it will be fascinating to discover which approaches win out.

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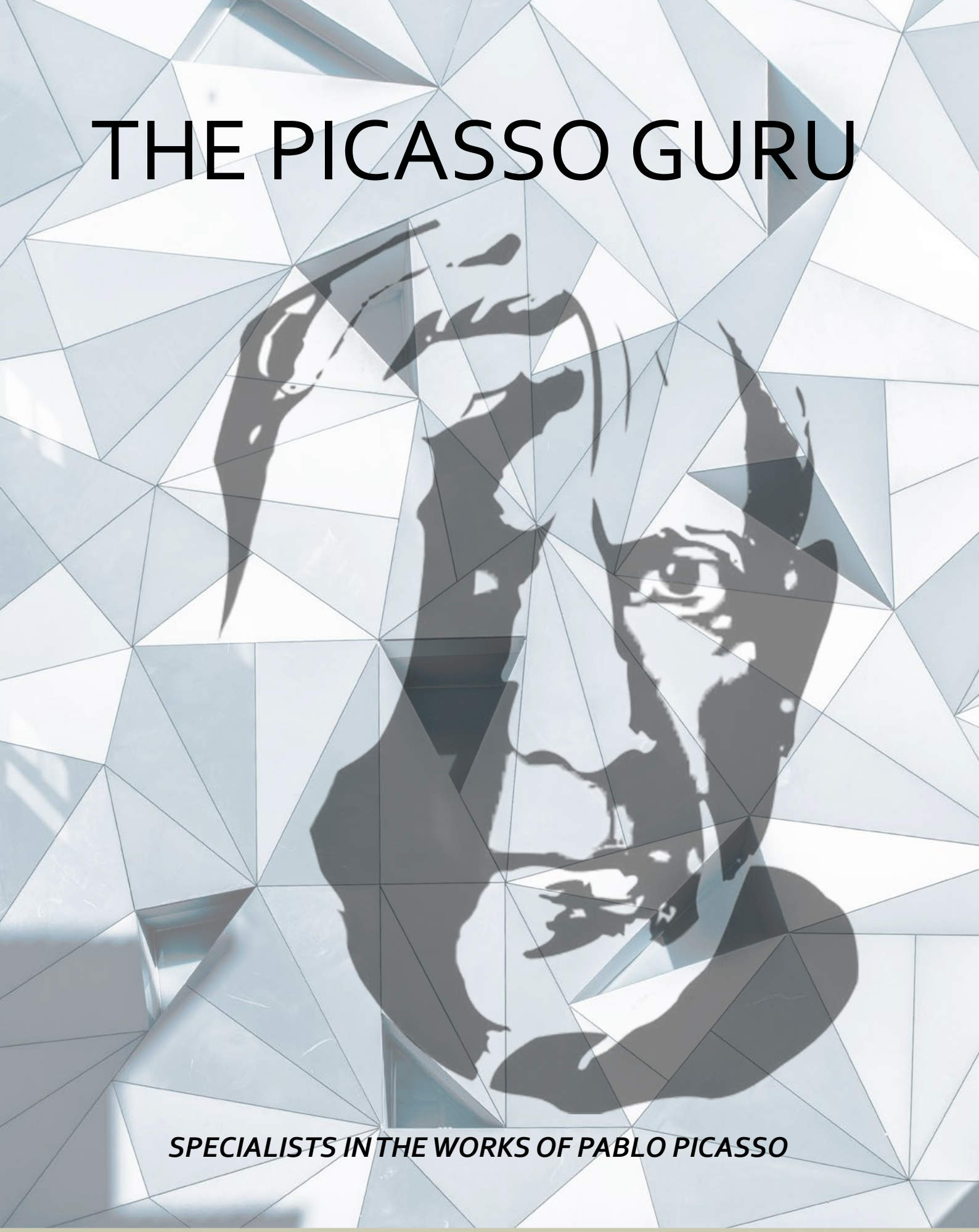

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