# The International Family Offices Journal

Editor: Nicola Saccardo




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STEP ADVISING FAMILIES ACROSS GENERATIONS

Globe Law and Business

# The International Family Offices Journal

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# Welcome to the September 2022 issue of The International Family Offices Journal

Nicola Saccardo

Welcome to the September issue!

I am delighted to be the Editor of this Journal. I and all the editorial team at Globe Law and Business wish to express our deepest gratitude to Barbara Hauser, the Founding Editor of the Journal, for her leadership, knowledge and graceful guidance and support. Thank you Barbara!

We trust you will enjoy the broad range of subjects dealt with in this issue by prominent experts. Please remember we welcome contributions and comments, so do not hesitate to get in touch.

We start with an article on philanthropic collaboration by Donzelina Barroso. The author explains the different forms of collaboration between donors and the related benefits, supporting her analysis with a number of cases, and sets out recommendations as to how to approach collaboration with other donors.

In the following article, Dennis T Jaffe, Maya Prabhu and Carolina Cintra describe and comment on the five-generation 100-year journey of the Tavares de Melo family. The in-depth description of the family history is based on interviews with several family members. The article highlights the core family principles that helped the family to overcome several crisis points over such a long period by rethinking their business and family organisation to become stronger and more resilient. A special thanks goes to the Tavares de Melo family members for their valued involvement in this article.

Richard Grasby explains the benefits of offshore financial centres to family offices, ranging from privacy to political and economic stability, strict regulation and legal instruments that may not be available elsewhere, and highlights that, in each case, specialist advice is required to select the most suitable offshore financial centre.

The importance of financial education of family members is the subject addressed by Peter Brock. The author explains the importance of this education for the successful transfer of wealth across generations, how it should comprise both family structuring subjects and technical financial education and how it will benefit both families having their own single-family office and families relying on the services of external multi-family offices.

David Whittaker deals with the UK and EU sanctions regime insofar as they apply to Russian private clients and their assets-holding structures. The consequences of a breach of these rules are very severe so it is extremely important that advisers have a clear understanding of such rules.

Paul Knox provides a very 'entertaining' article. He describes some of the most interesting examples of estate planning in the entertainment world and provides his personal in-depth comments on the lessons to be learned from such cases. The article shows how the issues encountered by musicians are not that different from those encountered by wealth creators and others.

France recently introduced the Right of Compensatory Levy. Michael Khayat and Jeanne Marcilhacy explain clearly how this new legislation goes beyond the original intent of the legislator. It introduces additional forced heirship restrictions when the estate includes French assets, the succession has a qualifying link with the European Union and the applicable succession legislation does not provide for forced heirship rules. The authors point out the possible incompatibility with EU law. Practitioners must be aware of these new French rules.

In "Family offices and the art of investment", Mary Elizabeth Klein explains the current trends regarding investment in art. She describes the benefits and the risks of investing in art, as well as the different ways of investing (eg, art funds, NFT-based art and art lending). She stresses the importance of involving art professionals due to, among others, the market opaqueness and the lack of regulation and the fact that the type of investment depends on the objectives of the investor. For instance, an investor may prefer to invest in an art fund in order to avoid the responsibility of owning and maintaining the physical piece of art.

Jim Coutré explains how relevancy, ie, the connection between a family and its family office, is the key to success of a family office. The author highlights how important it is for both family office executives and family members to articulate the needs of the specific family. He sets out ideas and questions that may help family office executives and family members to identify these specific needs to ensure the success of the family office.

In the luxury corner, Eymeric Segard busts some misconceptions of flying private and explains the pros and cons of the four options for flying private (full ownership, fractional ownership, flight cards and chartering).

The Journal ends with the usual selection of news from STEP News Digests. Thanks to Helen Swire, news editor at STEP.

Finally, we are planning to hold a reception in London. Further details will follow, so stay tuned.

# The importance of financial education for securing wealth transfer across generations

Peter Brock

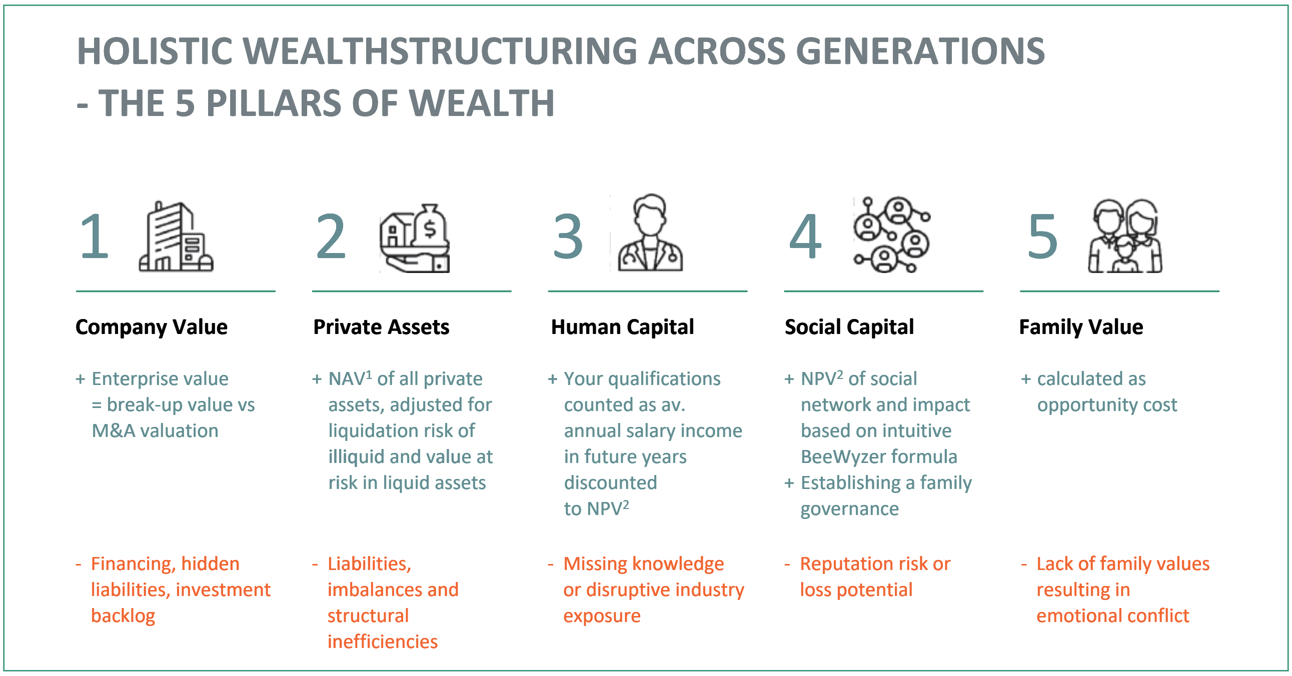
Unless you are a banker or a financial planner/adviser, you will not normally have been taught techniques for structuring your own wealth. This is never part of the curriculum at any school or university – only few mainly post-graduate or executive education courses exist in this area of expertise. If you are due to inherit a significant amount of wealth or call it your own already, many advisers, banks and wealth managers will be wooing or even chasing you with investment products and services. But how do you ensure you make the right choices and be in the driving seat when optimising your individual wealth structuring?

In this article, it is intended to raise your awareness that every individual in the context of families of wealth needs some financial education and how the different aspects of wealth structuring as well as family organisational aspects come together in sustainably transferring wealth across generations with success.

**Wealth structuring aspects**

Some principles are important for you to consider when interacting with the wealth management industry:

- External advisers of all kinds are great and will be able to assist you a lot, but only if they are truly independent and if you are able to instruct them according to your individual requirements. Without some basic understanding about financial planning, it will be almost impossible to pick the good ones.
- You can delegate most of the financial work, but only if you can fully rely on and trust your service providers or your own team. But ultimately, wealth will always remain your responsibility and final decisions cannot be delegated away – so you cannot escape from dealing with your wealth anyway!
- Always consider your wealth on a holistic basis, taking into account all the different asset classes you own – from entrepreneurial activities, possibly your family business, your more liquid private wealth, but also your human and social capital, as well as your family value. Only by taking everything into consideration can you make wise decisions at top level about your strategic asset allocation. Too often advisers only know part of the story or deal with part of your wealth – in that case it is up to you to bring it all together.

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Once you, the wealth owner, have obtained a solid understanding of both the liquid and illiquid asset classes – the status quo – of your portfolio, and a good overview of your potential future income from your human and social capital, as well as your future cash flow requirements, you can start planning your strategic asset allocation. Either you do the principles yourself or you do the exercise together with an experienced and truly independent adviser. But it remains your responsibility to set the scene.

The Strategic Asset Allocation (SAA) divides total assets into asset classes or categories. It factors in your risk appetite, your return expectation and your own personal liquidity needs. This strategic financial planning is done with a time horizon of five to 10 years with annual revisions. Broadly, it picks the asset classes to invest in and defines ranges for each of them. It covers fixed assets such as your business, private equity or venture capital or real estate you hold permanently as well as your private, more liquid assets like cash, equities and bonds. Liquidity or income needs, tax restrictions, sustainability targets and other long-term investment objectives are also factored in. Personal affinity or aversion to specific asset classes may be covered by completely excluding an asset class or by giving it a bigger share than the numbers would otherwise suggest – a sort of 'human overrule'.

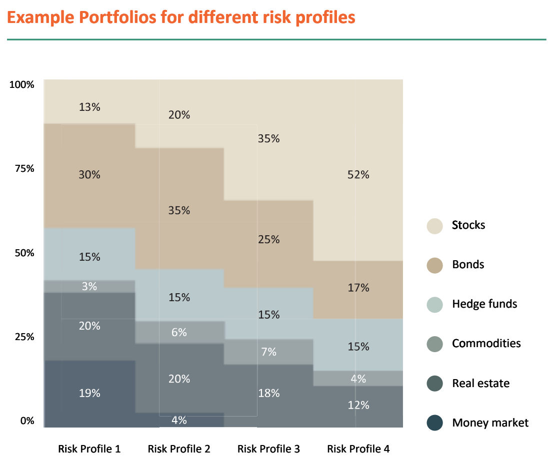
The SAA divides your total assets across the asset classes you have chosen to invest in. You either aim at the highest possible return for a given risk budget or at a target return for the lowest possible risk. And – possibly most importantly today – you would also factor-in sustainability aspects to ensure that your capital is invested mostly to contribute to make the world a better place. Future risk and return are figures based upon market expectation as seen in futures contracts and other instruments. Or you make an economic forecast, starting with present values, factoring in historical developments in similar circumstances and extrapolating it into the future. In this sample (see chart on left below: example portfolios for different risk profiles) you see the neutral value for each asset class in a given risk profile. The neutral value is in between the upper and the lower limit of the range for each asset class. Within this range, tactical asset allocation (TAA) and eventually the selection of managers or individual investment vehicles (see pyramid chart on the right below) do their job during the year by changing the exposure to that asset class.

The old school of portfolio theory and research attributed a performance contribution of 90% to the SAA. More recent research for specific markets has also shown lower levels, but never below 60%. So the SAA remains the most important base of your performance pyramid. This confirms that it is of utmost importance to get the general allocation of asset classes right in order to optimise your results. A bad selection to start with cannot be corrected by a good manager selection process or the tactical asset allocation.

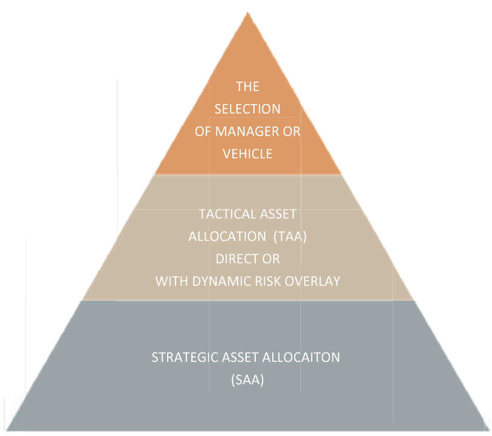
Financial planning for private wealth has been around for some decades now and has certainly done a lot of good – people started to treat their personal finances with more care, applying a systematic approach and the concentrated knowledge of trained advisers.

It always starts with the individual wealth balance sheet – a good financial hygiene for everybody as it

## STRATEGIC ASSET ALLOCATION - SAA




## THE IMPORTANCE OF PERFORMANCE CONTRIBUTION

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*Everyone wants their wealth to be organised in a sustainable way and it should be robust against the current insecure investment climate.*

forces you to look at your status quo once a year. Shortcomings in that balance sheet as well as personal aims and needs help to define a goal for the size and structure your wealth should have in the future. And the journey from status quo to that goal allows you to identify a strategy for your investment approach.

Adding solid cash flow planning, including your life expenses and income flows from investments or salary-kind of income, complements the balance sheet to an integrated financial plan – as it is done in corporations. Why shouldn't you plan your private wealth just as professionally as your entrepreneurial activities?

Unfortunately, financial planning often became a standardised practice, doing the whole exercise even for smaller or less complex wealth, thus overdoing it at times. And for substantial wealth it often showed irrelevant dimensions, eg pension planning or insurance issues that may be irrelevant or immaterial.

The balance sheet approach should ideally take this issue to the next level, focusing not only on corporate and private wealth, but on human capital, social capital and family values also. Generally, it should take all assets into account in a holistic way. It just makes sense in a complex family wealth setting. Combined with this solid financial education the basic SAA becomes a simple process where no complex maths is needed – after all this is not too difficult, if you are at least aware of the basic principles. In our experience, this gives a helpful orientation for wealth structuring – sufficient in most situations. But if the complexity is higher – you can and should bring in a financial planner for the fine-tuning. Such advisers could also work for or alongside you on questions that may come up along the way. For example, on cost controlling or risk management, when you are not sure and need a second check. This may be money well spent, when your own knowledge and insights are insufficient.

**The robustness of your wealth**

Everyone wants their wealth to be organised in a sustainable way and it should be robust against the current insecure investment climate. When I use the term 'sustainable', I mean two things: investments should contribute to making this world a better place; and investments should be structured to withstand external shocks.

Diversification is usually the name of the game here and it is no bad thing to diversify and thus de-risk your wealth. But it does not in itself get you to the robustness you aim at – here are the reasons:

- As we learned during the financial crisis, in a general market shock even historically negative correlations tend to regress to positive mean or average out – driven by liquidity shortages. The most diversified portfolio of wealth might turn out to be undiversified with all asset classes behaving almost the same way, ie downwards.

  So a diversification that works even in times of difficult market conditions has to go far beyond traditional asset classes and tap assets which investors seldom think about, such as farming, gold, diamonds or food and drugs, things that people will always need or want to buy. On top of that a higher quota of liquidity is needed than investment professionals usually see as efficient. Because you will not be able to create it when you need it.
- External shocks are often 'black swan' events. You do not know what is coming and you do not know when it is coming. And nobody can run a diversified investment mix based on researching historic financial data that tackles an external shock not known at all. A diversification that possibly works here has to cover the recommendations from the first point and add the topic of resources – besides your financial resources, the liquidity and the broader diversification, you have to make sure to have access to all physical and intellectual resources needed in times of external shocks. This way you will be able to move your assets, to unwind old inadequate structures or businesses and start new ones, to win suitable staff for it, to secure material and physical resources or the like.
- Most people think only about their business assets and their private assets, in effect limiting their diversification potential in the sense of everything described above.

  But as personal financial planning is about your life, it should go further than that. We think that your individual holistic wealth balance sheet should consider the following five dimensions of wealth: the company value and private wealth, but also human capital, social capital and family value, in order to make your wealth more robust.

That is why financial awareness and education are crucially important to deal with a broader holistic balance sheet approach. Based on this knowledge, you are enabled to deal with an easy-to-understand robustness tool for your wealth.

So, in a nutshell, unless you want to rely completely on others, you need to have at least a basic understanding of the different asset classes from listed equity and debt to real estate or private equity/venture capital investments or simple derivatives. Some basic understanding of the economy and relevant markets as well as the business models in the financial services industry will help you to avoid being misled and also help you to navigate the complexities in today's difficult market situation with increasing inflation and interest rates, the Covid-19 pandemic, the war in Ukraine and the over-indebtedness of most countries.

Furthermore, the trend towards an ever-increasing number of family offices being set up also highlights the need for more financial know-how of the wealth owner. While a great family officer that you may or may not have can take the heaviest burdens off you, global regulation and common sense requires that any wealth owner should have at least a basic understanding of his or her overall wealth situation. This is supported by the trend of using more and more robo-advisers in managing wealth. Clearly, any family office team as well as any robo-adviser needs some input from the wealth owner as to the overall willingness or need to invest in certain asset classes, the required returns and the risk propensity. These key criteria are individual to any wealth owner and will form the basis of any asset allocation and wealth structuring exercise.

**Family organisational aspects**

The same is true for the family aspects in dealing with your wealth. Many things are very different in various cultures, but the main lessons on how best to transfer wealth to the next generation and how to organise your family structure are the same in every country, culture or region. And some tools or references are true globally:

- For example (at least) larger families (either regarding the size of the wealth or the size of the family) should ideally have a family governance in place in order to have an orderly framework for dealing with wealth, succession and the education of the next generation.
- As part of the governance framework, it definitely makes sense to establish a family or individual investment policy (or investment policy statement) in order to avoid discussing the same questions over and over again. The family values will be the basis for any investment policy and will guide you on how serious you take sustainable investment approaches or if you might want to go deeper, for example into impact investing.
- Setting up regular family gatherings and a representative family council to simplify the decision-making process within the family are also typically very helpful measures. The family council should then be enabled to overlook or even manage the family wealth structure.
- Regarding the wealth management aspects within the family network, it remains an individual decision to set up your own family office or work with an external multi-family office. The differences are manifold and it is important you are aware of them and what they mean for you individually.

No matter from what angle you look at wealth, financial education is the basis for everything, whether you have your own single-family office or you are using a multi-family office for external services. The relevant know-how and competencies allow you to base trust on understanding, replace chaos with processes and combine financial return for your capital with sustainable impact. For example, it is just too easy at the moment to get fooled by lots of ESG products, unless you understand what the differences to honest impact investing are and how to avoid greenwashing.

In a recent article on wealth protection, the German *Manager Magazin* (February 2022 issue) reported on large entrepreneurial families like the Metzlers, Mercks or Freudenbergs and how they have secured their wealth over many generations. The most encouraging insight was that many pieces of advice do not require a degree in economics or finance, but a willingness to understand some practical lessons. The article mentions:

- Invest in stocks/equities as a core of your wealth strategy;
- Invest strategically considering your holistic wealth;
- Practice beats theory in these difficult times;
- Reduce fees/commissions charged by your bankers and advisers; and
- Acquire basic knowledge, so that you stay in the driving seat!

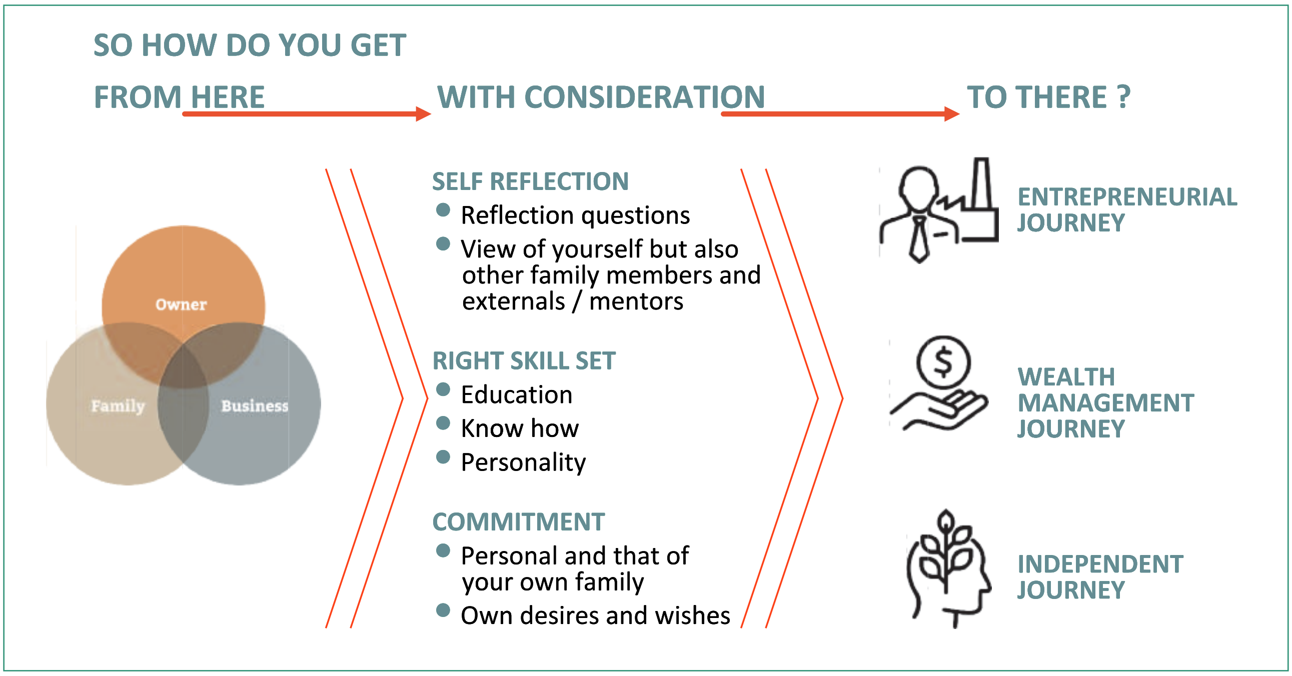
Setting up your own asset manager or single-family office is what families of wealth increasingly do, like nextgen Jonathan Steinhardt, a Berlin-based film producer. He comes from a German Mittelstand family enterprise. Jonathan studied economics, but he was still certain that he needed tutoring on wealth issues. And as a newcomer to Berlin, he turned to BeeWyzer, a start-up that specialises in financial education for entrepreneurial families. The founders Christian Stadermann (56), formerly managing director of the Quandt sisters' multi-family office, and ex-investment banker Peter Brock (55) have produced more than five hours of video material with basic knowledge about company succession, governance in entrepreneurial families and asset organisation. The video learning comes with worksheets and tools to apply the knowledge to the individual's own situation. Most clients do not aim to become investment experts themselves, says Stadermann, "It's about creating a balance sheet with our tools to develop an investment concept and to be able to select and evaluate service providers. Nevertheless, we show instruments for investment strategy, risk management and in-depth controlling – a good starter kit for those who want to do something themselves."

A fully fledged financial education course for wealth management should typically include both the family structuring subjects as well as the more technical finance literature. This includes defining the family values based on the existing family legacy, defining and dealing with family and generational conflicts, as well as subsequently setting up your own family charter or governance. A nextgen client put it very clearly: "Any family governance needs revision every few years to adapt it to the current circumstances and to the currently most active generations. It needs to be relevant for the current generations and they need to buy-in! … otherwise, the charter just collects dust on grandpa's cupboard." To make the discussion about family values more relevant, this can be linked directly to the family's investment policy by discussing, for example, "What does the family think about sustainability? And how do we want to invest in order to make the capital work to save the planet with strategies like sustainable, ESG or impact investing?"

Sustainable investing today is a mega subject – not only for nextgens – and directly links to the family and any individual's own set of mind and values. So the combination of the soft and the hard skills is increasingly important to create a coordinated action and set of rules for the whole family in transferring wealth across generations. This includes a modern approach to philanthropic activities. While in the past the entrepreneur wanted to return something to society towards the end of his or her career, today a modern philanthropic strategy is becoming more common – this entails clear aspects of CSR (corporate social responsibility) throughout the whole entrepreneurial career in the family business, possibly investing in social entrepreneurship or venture capital. Often not just ESG-integration in the liquid portfolio, but also a move towards the application of more stringent impact investing strategies across the wealth portfolio. Any wealth owner should be clear about his or her competencies and should design their level of involvement in structuring the wealth as a learning journey.

The famous Three-Circle Model (see below, developed by Renato Tagiuri and John Davis at Harvard Business School, starting in 1978) typically depicts three different positions you can be in – the owner of the business or the wealth, a manager in the business or simply a family member. Within such family systems, every participant should carefully reflect on his or her own position, should review his or her respective skill set and also the desires and

**The Three Circle Model as adapted by BeeWyzer**

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wishes that he or she may be working towards. An optimal concept of financial (and family) education enables the individual to define the role positioning: is it more an entrepreneurial focus with operational responsibility in the family business (entrepreneurial journey), or is it a deeper involvement in the wealth management activities of the family (wealth management journey) or – alternatively – is the individual going on a more independent journey in life outside the entrepreneurial or wealth responsibilities. But even if it is the latter, some basic and relevant financial education is necessary for this person to understand the basics and decide on the optimal wealth structure and reporting mechanisms in order to stay on top of the matters. Either way, financial-know how provides the basis for all and enables the individual to tackle both soft and hard wealth issues by themselves.

For film producer and nextgen Steinhardt, the financial education programme has fulfilled its purpose: "After that, I knew what questions I could ask when I spoke to the investment manager." For any nextgen like Jonathan Steinhardt, it is crucial to be aware of their own skills and competencies in order to evaluate how best to interact with the family, the family business and also the family wealth.

Whatever your personal journey, you will need some training in relevant know-how to deal with your wealth. It comes with duty and, in many cases, a family legacy. Your responsibility for dealing with that cannot be delegated away completely – so live up to it, equip yourself and enjoy your own individual journey while educating yourself for managing the wealth transfer process better and sustainably across generations!

*Peter Brock is the co-founder and managing partner at BeeWyzer GmbH (www.beewyzer.com), an independent, holistic and enabling step-by-step online video training programme for better wealth organisation. It enables wealth owners to develop strategies to grow, secure and transfer wealth successfully to the next generation.*

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