EVENT · 2014

Family Office: The Rolls Royce for Family & Wealth

A Family Office forum at the Château de Septfontaines

By Diana Diels, President, Luxembourg For Family Office

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> *"Most things in life (automobiles, mistresses, cancer) are important principally to those who have them. Money, in contrast, is equally important to those who have it and those who don't."*
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> *— John Kenneth Galbraith (1908 to 2006), President of the American Economics Association, Professor of Economics at Harvard University and adviser to four US Presidents.*

A Family Office can help families to preserve their wealth over the generations. Those that have professional, high-calibre staff, who are independent and understand the long-term needs of their families, will have success.

The event on 30 June at the Château de Septfontaines in Luxembourg explored the issues wealth families face, how a Family Office can assist in the long-term planning for families, and the potential of Luxembourg as a place for families to locate their family offices. The audience (only family offices and private individuals, with speakers coming from all over the world) was given insights and examples throughout the afternoon.

Luxembourg as a transparent onshore hub

Diana Diels made the introduction. We see a growing importance of Luxembourg as a transparent onshore hub for wealthy families. Key elements such as Luxembourg's wealth management toolbox, the new family office law, a high-calibre set of service providers and new initiatives such as the Luxembourg Free Port, the commitment to data security and the Private Foundation make Luxembourg the ideal central place for wealthy families to do business. Luxembourg has invested for more than ten years and is a leader in highly secured, integrated "Trusted Europe Services": datacentres, managed services, cloud, advisory and security services.

The many shapes of the Family Office

Frederick Metz Shepperd, Managing Director of Shepperd A.G. (Switzerland/USA), gave an overview of different types of family offices: the multigenerational office, the financial office, the fiduciary office, the family investment office, the legacy office, the family business office and the administrative office.

Frederick's own Family Office is organising the purchase of mineral rights and royalty interests from local landowners in Ohio. Ohio is today the Dubai in the making, turning the "Rust Belt" into the "Black Belt" of the US and the world. They also invest in mid-stream and downstream infrastructure. It will capitalise on their local knowledge and experience in Ohio, in oil and gas, and on the long-term ownership of real estate and leadership in the local community since 1918 up to his formation of SIAG in 2007. Frederick is developing the concept of "families for families".

Why families increasingly deal with families

Family offices are rapidly doing business with other family offices. They keep their costs low and put 98% or more of the investment in the deal. Raising money on a stock market, by contrast, could take a huge bite out of the initial investment, so that only 75 or 85% of the investment actually makes it to the target of the investment.

The rest goes to "distribution costs" (payments to your banker or investment adviser) and to lawyers, auditors and a host of businesses that have grown to take advantage of the lack of transparency in many investments. Family offices are correctly taking more control of their investment decisions. A 1% fee agreement for asset management all too often turned into fees, direct and indirect, of 5 to 12%, depending on the hidden fixed transaction charges that were, to be kind, part of the fine print.

The qualitative side of money

Francesco Lombardo, CEO of Veritage Family Office, has coached some of North America's wealthiest families for almost twenty years. Through personal, extensive work and research with family businesses, he recognised and then identified a universal dynamic: a previously ignored and unexamined connection between the individual and the relationship with money and wealth. He works more on the emotional side of wealth and is a leading expert on issues related to the psychology of money. He is committed to healing families, detecting their "Great White Elephants", so that they might embrace their own greatness by unconditionally loving themselves.

Francesco explains: "When it comes to our money as a society we tend to spend the bulk of our time either thinking or talking about how much money we make, spend, earn or save. We think about the quantitative aspects of it. We give little or no thought to the qualitative aspect of money.

This deals with our behaviours and beliefs about money. You know how you have those tapes that play in your head, I'm too tall or I'm too short; well, we have a tape around money. I call this tape your Money Motto. This Money Motto dictates most of the financial decisions we make in life, from how we earn our money, to how we spend it, inherit it, negotiate for it, transition it, gift it and of course how we invest it. If you stop and think about it, where do you learn money? For most of us it was by observing our parents."

"As individuals most of us spend a considerable amount of time in knowledge acquisition in order to make more money and save money. However, most of us spend little or no time searching for information or knowledge regarding our relationship with money. As a friend of mine said, other than your relationship with food, your relationship with money and wealth is the longest relationship you will ever have, so it better be a healthy one and one you understand."

How we treat people, how we treat money

Francesco was interested in the relationship between how we treat those closest to us and how we treat and handle our money. The result of the research was surprising. He revealed that in a significant number of cases there is a strong parallel between how we treat our closest relationships and how we handle our money and wealth. This includes how we deal with our investments. He has seen this parallel pattern of behaviours reflected countless times in his clients and in how they make financial decisions.

For example, people who are generous with their time and energy are often generous with their money. Similarly, many individuals who engage in spontaneous behaviours in their relationships engage in spontaneous spending or investing. Likewise, individuals who are guarded with their time and energy in relationships are guarded with their money and how they handle it. On a more serious level, individuals who sabotage their relationships often sabotage their investments and money as well.

For some people, understanding that there is a connection between the way we engage in relationships and the way we engage with our money may be alarming and unsettling. As he tells his clients, uncovering your Money Motto is not a bad thing or a good thing; it is a great thing. Once you are aware of it, you can change it if it is not serving you. But first you must become aware of what your behaviours or beliefs are with money. This will assist you in better understanding how and why you handle money and wealth the way you do. Francesco has authored four books, his latest being "Entitled Brat or Contributing Leader: Which one are you... are you sure?"

The legal case for the Luxembourg hub

Claude Medernach of Arendt & Medernach, Counsel, Wealth, gave an overview of the legal aspects of Luxembourg as the Family Office hub. Luxembourg is a founding member of the European Union situated in the heart of Europe, one of the leading private banking centres in the world, with highly skilled multilingual financial professionals. Luxembourg is a constitutional monarchy governed by Prime Minister Xavier Bettel, with Grand Duke Henri as head of state. Luxembourg has a pragmatic approach and is business-friendly, with a sound legal and regulatory framework. The people in Luxembourg are cross-border thinkers, with good mobility and a cosmopolitan workforce.

The country has political and social stability with a high quality of life, attracting investors and residents from all over the world; a financial centre that is the largest investment fund centre in Europe and the second in the world after the United States; and, last but not least, an economy that it seeks to diversify more and more (with the financial sector but also the industrial sector) and a European centre of excellence in the management of sensitive information.

Onshore, and why it now matters

At the end, Jeremy Mann of Certus Trust (Guernsey) and Géraldine Arnaud of Arnaud & Co (Brazil) exchanged their experiences and the challenges of operating a Family Office in today's environment. Offshore places were traditionally the home of private banking and family office services. But the developments of the past years have started people thinking things over.

The interventions of the authorities worldwide have made people aware that every fortress can be broken, and that for EU residents it is better to have their money in a European country with a stable political and tax system, such as Luxembourg.

— Diana Diels, President, Luxembourg For Family Office.

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