EVENT · 2015

New risks and a new awareness for Family Offices: investing in tangible assets

Luxembourg, a new hub for art and other tangible assets?

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> *In today's global environment of volatility and uncertainty, alternative investments are increasingly seen as a means to achieve safer returns, or a safer use of assets, by family offices.*

With the focus on art and other tangible assets, Luxembourg For Family Office brought together a group of experts to share their views and experiences across a variety of asset classes.

"We are delighted with the overwhelming response we have had to this event, and it clearly demonstrates the growing importance of Luxembourg as a hub for wealthy families. With the Freeport we created the focus on art and finance. Unfortunately, there is currently no commercial or legal framework to support auctions. Given the importance of this activity, we continue to develop Luxembourg's Family Office hub, and we proactively try to put all tools and measures in place respecting transparency, best practices, anti-money-laundering and KYC practices, and best governance."

The booming business of risk

Michel Foucher and Olivier Schatz of Compagnie Financière Jacques Cœur introduced the conference with the booming business of risk: many choose to ignore it, yet investors in and exporters to Russia have learnt that complacency can carry a cost. The world has become less stable and less predictable than during the Cold War. There is some money to be made in calculating geopolitical risk, and there is much more money to be saved in understanding it.

The art market

The art market continues to boom. A few weeks ago at Art Basel it was reported that many of the booths sold out within a few hours of opening. Last week in London, both Christie's and Sotheby's reported impressive sales figures. The total traded art at the Sotheby's auction was GBP 178m for 51 artworks, compared with GBP 122m the previous year. Seven works were sold for more than GBP 10m each, including a painting by Gustav Klimt which beat its estimate of GBP 12 to 18m and sold for GBP 24.8m. Sotheby's reported a very global market, with more buyers from China and Russia.

A panel was organised by Venetia Lean of Banque Havilland together with Aude Lemogne of Link Management, Adriano Picinati di Torcello of Deloitte, Luc Mazet of FL Auction Paris and Boris Adlam of Adlam Meier & Co. They gave their view of the current state of the market for art and collectibles, with the key developments and changes of the last few years.

Today art is impacting the investment sector. It is more appropriate for family offices than for private banks to be involved in this sort of activity. Luxembourg can play a serious role in the art and finance sector, but it needs more professionalism and a legal framework for auctioneers and auctions. We need best practices and a deontological code. Luxembourg has to build up a centre of competence in this field, where auctions can take place with the highest level of protection for the buyer, clear responsibility for the auctioneer and the auction houses, and recognised experts in the art market. We have to ensure that no falsifications are sold.

Single malt Scotch whisky

Michel Kappen of Scotch Whisky International introduced us to the world of exclusive rare single malt whiskies. He explained that only 1% of total whisky production is worth buying as an investment. The historical annual average over the last seventy-two years is 6.6%; in 2014 it was 11.1%.

Since 2002 he has developed his skills as a connoisseur. Smelling, tasting, reading and travelling, he became more and more aware of changes in the market value of rare and old single malts. To create demand for these extremely rare bottles, a whisky exchange platform was created, allowing investors to sell their physical bottles like stocks, without handling them. Private barrels and private collections give more benefits compared with bottles. All barrels are stored in Scotland in a bonded warehouse, a tax-free zone. In this space, supervised by the UK customs authorities, whiskies mature until the optimal anticipated maturation time has expired and bottling is due. Another alternative to invest, to collect, and, last but not least, to enjoy.

Rare metals

Vincent Donnen of Comptoir des Métaux Rares spoke about preserving wealth through diversification within tangible assets. The world has changed dramatically in the last 250 years. The first metals, gold and copper, were discovered 7,000 years ago, and only fourteen metals were known at the end of the Middle Ages. Since 1750, 100 elements have been discovered, but the last non-radioactive metal to be discovered was rhenium, in 1925.

A new universe of investable tangible assets has arisen. Rare metals are usually produced only as by-products of base metals. As an asset class they are not correlated with gold, but are driven by real industrial demand. They represent leverage on energy and are mandatory for our technological world. Supply concerns are high in the long term but, above all, a metal cannot go bankrupt.

Art and philanthropy

Philippe Gaboriau and Anne-Sophie Autran of the Fonds de dotation du Louvre spoke about the endowment fund. When patrons and sponsors want to make a long-lasting gift to the Louvre, they make it through the endowment fund, and a dedicated fund is created. The gifts are then invested and the financial revenues are distributed to the Louvre to fund major projects. Every year the endowment fund provides the Louvre with the investment income of its endowment, nearly 3% a year. Philippe Gaboriau then explained different cases: funds dedicated to the renovation of the museum’s galleries, to the restoration of its artworks, and to the promotion of Persian arts.

Entrepreneurial philanthropy

Virginie Issumo of WomenRoleInPhilanthropy presented entrepreneurial philanthropy as impactful and visionary. Today, best practices and a coming legal framework obliging the integration of social and environmental indicators to evaluate the impact of any activity are key in terms of smart management, including natural resources and their price fluctuation, long-term profitability, and risks such as reputation, human-resources retention and climate change.

The third industrial revolution is taking place, and it is all about renewable energies, recycling, and clean ways to produce, deliver and consume. The need to address vital issues such as climate change, unemployment and medical research is a real one. To support innovation, start-ups and global sustainable development (including women’s empowerment and fair access to health and education), an equitable distribution of natural resources requires common actions, means and expertise.

Value investing

Léon Kirch of European Capital Markets introduced us to the world of value investing. Value investors do not believe in the concept of market efficiency: in the short run, markets are a voting machine; in the long run, markets are a weighing machine. Value investors accept the fact that the entire investor population as a whole cannot beat Mr Market: after costs, mathematically, they will underperform.

The inefficiency in the market is driven more by sentiment than by reasoning. The herd-like behaviour of investors can make them sell shares in sound companies, allowing the value investor to snap them up at a bargain, only to sell at a higher price, at the intrinsic value of the company. It is not contrarian investing: it is all about buying sound businesses at bargain prices.

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