NEWS & EVENTS · 2024

"Provide a robust and supportive environment for family offices"

The LFFO Annual Event 2024: MUDAM, Luxembourg

By Diana Diels, President, Luxembourg For Family Office

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Luxembourg For Family Office held its annual event, beginning with a networking cocktail at Shinzo on 26 June and continuing with the conference at the Musée d'Art Moderne Grand-Duc Jean (MUDAM) on 27 June 2024.

Value creation in high-growth markets

The first speaker was Gabriel Amiel of Invest Capital Group (ICG), on investment through value creation, risk management and capital preservation in the high-growth markets of Florida and Texas. He is a successful entrepreneur who, after founding and selling a lucrative startup in France, shifted his focus to socially impactful investments in the United States. His entrepreneurial vision led to the creation of a family-owned company focused on acquiring and developing profitable real-estate investments while making a positive impact on society. ICG stands out for its commitment to the development of high-quality multifamily housing.

By focusing on high-growth markets like Florida and Texas, where the demand for housing exceeds supply, the company provides quality housing solutions in attractive neighbourhoods. ICG's management team emphasises capital preservation, risk management and value creation for investors. Their strategic approach includes acquiring, managing and selling real-estate assets within defined timelines while minimising risks. Their commitment to operational excellence is reflected in dedicated teams for acquisitions, development and asset management, and in open communication and transparency ensuring a smooth process from start to finish.

Was Benjamin Franklin right?

Olivier Garin of Carlisle Management observed that innovation has always been at the core of the alternative-investment philosophy. It led to the discovery of a multiplicity of new asset classes, but only a few managed to capture the requirements of institutional investors, most notably Insurance-Linked Securities (ILS). ILS represent a broad spectrum of financial instruments, all based on the same principle: the assessment of insurance risk covering a specific event such as, but not limited to, a catastrophe or a person's death. Their performance is therefore contingent on the occurrence of that specific insurance event. There are two main categories: Non-Life Insurance-Linked Securities, such as catastrophe bonds, and Life Insurance-Linked Securities, such as life settlements.

Both main types fall within ESG-oriented investment: catastrophe bonds on the environmental side, designed to provide additional sources of capital to help the broader societal goal of helping countries and communities recover from disastrous events; and life settlements on the social side, providing much-needed liquidity to seniors in possession of an unwanted or unneeded life-insurance policy.

Several factors led to the inception of life settlements: the huge volume of active life insurance in the US, where life-insurance products represent $12.8 trillion according to the 2022 study by the American Council of Life Insurers; a robust regulatory framework; and an ageing population with skyrocketing policy-lapse rates, which caused many US seniors to look for a cash exit strategy from an unwanted or unneeded policy. Such liquidity may be used to cover more immediate healthcare or pension expenses. Life-settlement yields have already attracted the largest private-market investors to the industry, thus moving the demand curve up. Interestingly, some affiliate this investment proposal with hedge-fund or alternative fixed-income strategies such as private debt, as there is a contractual repayment obligation at maturity.

Wealth preservation through donations and succession planning

Maître Edouard Delosch noted that 75% of family businesses have a shareholders' agreement, while only 64% have a will. However, 78% of family businesses believe that protecting the business is the most important family asset in the long term, and 72% want to ensure the business stays in the family. For that, succession planning is a priority, yet only 34% have a robust succession plan, and not even 12% have a succession plan reaching beyond the third generation. From the perspective of employees and customers, the succession plan is a warrant of the stability and reliability of the family business.

Maître Delosch explained different scenarios for succession planning and donations in Luxembourg, for residents and non-residents alike. Cases were shown such as a Belgian, French or German person with real estate in Luxembourg and/or in France, Germany or Belgium, and the difference between the legal and the tax treatment. He gave useful information on inheritance and succession from a civil point of view as well as from a corporate view, with movable assets or without, which matters greatly in both civil and tax terms. He covered the civil code and the different forms of will, with particular attention to the holographic will, which must be written entirely by hand. Finally, he set out the restrictions on the freedom to dispose of one's property on death: the reserved portion is one half of the legal assets of the estate if the deceased leaves one child, two thirds if he leaves two children, and three quarters if he leaves three or more.

Family governance: affectio societatis versus affectio familiae

Diana Diels, President, and Fabrizio Roy, Vice-President of LFFO, turned to the family factor: how do I avoid intergenerational conflict? The patrimonial and corporate charter, values and mission: how does the family handle them, and how can they be optimised?

A harmonious integration of the affectio societatis and the affectio familiae involves clear communication, shared values and the establishment of governance structures that address both business and family dynamics, preventing conflicts between family members in their roles as relatives and as business partners, and contributing to a smoother transition across generations. Affectio societatis emphasises the importance of treating the family enterprise as a business entity separate from the personal relationships among family members, and a commitment of the family to the success and growth of the business.

Affectio familiae pertains to the emotional aspect of the family: the ties between family members, the emotional bonds, trust and mutual support. It is about how we establish our family values and guide decision-making; how to avoid or address conflicts, with regular meetings to discuss family and business matters and effective methods to prevent and resolve conflict through mediation or a family council; and succession planning: the transition of leadership and ownership, education and training, where appropriate with the assistance of professional advisers.

The corporate charter brings a balance between all actors in the business: identification and integration of all the ideas of the family founder, respect for the stockholder and legal acceptance of the manager, long-term sustainability for the stockholders, and the overall orientations of the shareholders.

The patrimonial charter asks whether our assets are sustainable against inflation, tax burdens or exceptional income and expenses. It is about understanding financial and economic income and expenditure, and managing communication and the relationship between management and family members. The family charter is about the constitution of the family (guidelines carrying the values of the family, its origins and missions) so that present and future generations are aware of the important principles to respect in all future decisions.

Carbon-neutral biofuel and AI-managed solar

David Peters and Jürgen Haizel presented two technologies aimed at revolutionising energy production: abolishing coal as a fossil fuel across industry, and improving solar technology by bringing higher efficiency and greater flexibility to Europe.

The first has developed a technology to produce “black pellets” from burnt and waste wood at industrial scale. These pellets are created in a high-pressure steam combustion chamber, turning biomass into pellets with density and energy levels similar to coal, which can therefore replace coal in any industrial use, especially in steel and energy production. Black pellets, even after burning, come with a negative output of CO_2 and greenhouse-gas emissions. This means that coal-powered production can be switched to green without having to take down the power plant and replace it with a completely different technology, at a cost of hundreds of millions and the loss of hundreds of jobs.

The second has developed a technology that improves the efficiency of any solar panel by at least 20%, is more cost-effective and is designed as a plug-and-play system. The smart panels are equipped with a newly invented battery technology that can operate at temperatures between −30 and +70 degrees Celsius. They are managed by AI technology and can therefore control each single unit in a network of an unlimited number of panels, thus becoming a virtual power plant. This gives any household, community, village or city the opportunity to become independent of any other electricity supply, especially as the panels are lighter and do not need the usual vast amount of cabling.

Navigating wealth growth in the current landscape

Yann Robbiola and Frédéric Petre, General Secretary of LFFO, revealed the main findings of the Luxembourg Family Office Q2 Investment Survey. Family offices are worried about the French parliamentary elections, with a worrying rise of the extremes as well as their expensive economic programmes, at a time when France is already under an excessive deficit procedure from Brussels and has just seen its rating downgraded by S&P to AA−. However, participants noted that the relentless search for a credible finance minister is reminiscent of the same quest in Italy, where Draghi's former right-hand man had “normalised” the government in the minds of the markets.

The families' main fear lies in the outcome of the US election in November, which may seem paradoxical given their overexposure to US equity markets and in particular to AI-related tech stocks.

In the end, it was more an underlying fear of a reversal in the AI sphere that participants noted to justify this point.

Finally, there were many questions about European and American rates, as the ECB began its rate-cutting cycle ahead of the Fed for once. While many market participants were talking about a possible cut in long rates, the meeting seemed more dubious, noting the different inflationary context from the last cycle, with the decarbonisation of the economy in particular, but also the strength of US growth and the European rebound. The natural long-term slope between European short and long rates oscillates between 80 and 120 basis points. For the time being, expectations of a fall in short rates seem too low to return to a more usual steepening, and therefore do not argue in favour of a reduction in long rates.

The association's objectives

The conference concluded with the core objectives of LFFO: an esteemed organisation with a clear and focused mission: to provide a robust and supportive environment tailored specifically for family offices. LFFO aims to offer family offices access to optimal structuring. Luxembourg's regulatory landscape is renowned for its flexibility and robustness, providing a secure foundation for wealth management.

One of the paramount concerns for HNWIs is privacy. LFFO is dedicated to safeguarding confidentiality through stringent regulations and best practices. In Luxembourg, privacy is not just a service; it is a principle upheld with the utmost seriousness. The regulatory framework in Luxembourg is designed to support and enhance wealth management activities. With LFFO you have a guiding hand that ensures compliance and maximises efficiency.

— Luxembourg For Family Office.

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