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The Worldwide Rise of Family Offices, a success story

The ten-year celebration of Luxembourg For Family Office

By Diana Diels, President, Luxembourg For Family Office

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> *Research still shows that less than 15% of the wealthy succeed in transmitting their wealth to the next generation over three generations. Family governance is crucial.*

The annual Luxembourg For Family Office event celebrated its tenth anniversary as part of the Global Series focusing on the Family Office, considered the Rolls Royce of family and wealth management. The event was held on 28 and 29 June at Belenhaff, Junglinster, in Luxembourg.

The programme introduced new risks and a new awareness for family offices: investing in tangible assets; family office climate change and uncorrelated investments; the worldwide rise of family offices; the European Family Office Alliance and the Swiss family conference, Zurich chapter; philanthropy and art; philanthropy and sustainability; philanthropy and entrepreneurship; the Family Office Investment Club; seizing the opportunities for family offices in Luxembourg; Chinese families in Luxembourg; and the SForum, the Single Family Office Forum: two golden days to network.

An ecosystem built since 2010

The President highlighted that Luxembourg continues to house a pool of highly skilled experts across various functions within the family office sector, single and multi alike, in a central financial hub boasting both political and economic stability. The association has built since 2010 an international ecosystem, founding a consortium through the European Family Office Alliance as a platform for collaboration, shared knowledge and co-investment opportunities. Through Families for Families, it promotes collaboration among family offices and emphasises the importance of families helping each other and sharing their insights.

From the fifteenth century to today

The Family Office has come a long way from its humble beginning in the fifteenth century, when wealthy merchants established private offices to manage their wealth and ensure its continuity for future generations. Over time, family offices have evolved from an administrative function to sophisticated entities that not only manage but also address the multifaceted needs of wealthy families. As the dynamics of the family and their wealth evolve, the family office will continue to adapt, ensuring its relevance for upcoming generations.

A single or multi family office differs from traditional wealth management firms. They offer comprehensive solutions to manage the financial, tax, legal and personal affairs of a family. The family office operates for each family in a unique way, in a context that respects their values, vision and mission.

The evolution of services offered is huge today: investment management, asset allocation, risk management and portfolio oversight; alternative investments including private equity and hedge funds; estate planning, ensuring wealth transfer across generations; tax services, tax planning, compliance and mitigation strategies; philanthropy, managing charitable giving and foundations; real-estate management, overseeing family properties and investments through real-estate funds or portfolios; legal affairs coordination, working with legal experts on matters such as trusts, estates and business ventures; and lifestyle management, concierge services, travel arrangements and personal security.

We see trends in the family office world such as digital transformation with fintech solutions, and sustainable investing with a growing emphasis on environmental, social and corporate governance and on impact investing. Direct investing is increasing in private companies and start-ups, as are co-investing club deals where families collaborate with others on larger transactions. But the overall challenges are evolving financial regulations; succession planning to ensure continuity and smooth transitions across the next generation; cybersecurity, as robust measures must be implemented to protect sensitive data from breaches and cyberattacks; and, finally, managing wealth in an increasingly complex global landscape with today's geopolitical risks.

A global economic overview

An economic global overview was given by Yann Robbiola, who set out his macroeconomic views and the best asset allocation to achieve the highest degree of diversification in the current environment. We often hear "Don't fight the Fed" as a mantra in the finance industry, yet this is clearly what investors are currently planning. Contrary to what the Fed has been selling as its main scenario, markets are pricing what the Fed has done in raising rates, and expect it to cut by 2% next year. The same scenario applies in Europe, with a 1% cut by the European Central Bank.

The credit-cycle downturn should continue as the cost of capital and stress in the banking segment rise. The recession is still ahead of us, and family offices should be cognisant of the fact that every recession over the past ninety years has led to a market crash. Family offices should not eliminate tail risks, which are related to ample central-bank liquidity and a resilient labour market that renders policy tightening ineffective. Diversification is key, and the discussion centred on sovereign bonds and structured products for defensive plays, as well as the opportunity to invest in new private debt through bridge loans, or to re-enter the real-estate market by early 2024.

Families and private aviation

Sky-high excellence through fractional ownership was presented by the North Sea Aviation Centre and Luxaviation. Families and private aviation have a unique relationship. Private jets offer several advantages for families: convenience, comfort and a high level of privacy, allowing families to conduct meetings, relax, or spend quality time together. But they also come with significant costs and considerations, and must comply with aviation regulations, including customs and immigration requirements.

What struck the speakers most in their interactions with family offices was the shared pursuit of perfection and the importance of in-depth trust, with an operational excellence that provides the highest comfort and safety. In a world where time and trust are essential, the synergy between family offices and business aviation is a powerful combination, and the event provided a valuable opportunity to explore and enhance it.

Two views on bitcoin

A much-debated subject is bitcoin, and LFFO invited two speakers and early investors. Some see the 2030 price of bitcoin lower than a single euro, and some see it north of half a million; this fight drives bitcoin's extreme volatility.

Yves Choueifaty, CEO of TOBAM, discussed the unreasonable passion around bitcoin, drawing an easy parallel with the emergence of the internet. He set out his investment thesis from fundamental and empirical perspectives, and how and why bitcoin has the potential to become a new standard of value. Bitcoin is an extremely risky asset; however, in his view this is never a rational reason not to consider investing in an asset, since risk is only relevant in the context of sizing the investment, not for the investment case itself. He was the first asset manager to launch a fund invested in bitcoin, and explained why it makes sense from a diversification perspective.

Navid Saberin, founder of Liberland and the Liberland Next Generation Fund, presented bitcoin as a new hope: a pioneering digital monetary network offering a decentralised, unchangeable and incorruptible store of wealth. In a world besieged by inflationary pressures and fiscal irresponsibility, he argued, bitcoin stands as a hedge against currency devaluation, providing individuals and institutions alike with the opportunity to preserve and grow their capital across time. Its design, governed by mathematical certainty, ensures a fixed supply of 21 million coins, shielding it from the pitfalls of traditional fiat currencies.

Alternatives: not being fashionable is rewarding

Frédéric Goblet, partner at Ascot Investments, highlighted several crucial points regarding investment opportunities and the limitations of the traditional financial industry in the face of uncertainty, emphasising that relying on historical data and probability distributions from past events may not be sufficient in today's rapidly changing world. The scope and pace of change are unprecedented, which questions the accuracy of such assumptions.

To navigate uncertain environments without a crystal ball, he suggested focusing on long-lasting themes with a higher probability, such as demography and an ageing population. He underscored that risk is not necessarily higher in new ventures; rather, it signifies the unknown. By understanding various risk premiums, including complexity, we can unlock a plethora of opportunities, opportunities that big financial institutions often overlook.

The Luxembourg toolbox

Renaud Graas and Gabriel Amar of Van Campen Liem provided an overview of the Luxembourg investment vehicles available for family offices (the RAIF, SIF, SICAR, SCS and SCSp, SOPARFI and even the SPF), with a key focus on regulation and tax. Luxembourg offers a wide range of vehicles able to accommodate any type of project: opaque or transparent, regulated, lightly regulated or unregulated, subject to tax or to a derogatory tax regime, GP-LP type or standard corporate.

The use of a specific vehicle will, of course, be dictated by several criteria, such as a deal-by-deal vehicle versus a blind-pool vehicle, AIF versus non-AIF, as well as tax and corporate governance. The cost component of any of these vehicles has to be considered beforehand, ensuring that the family office will not jeopardise its returns and track record. In a nutshell, Luxembourg is well equipped to deal with any type of project that a family office may envisage.

— Diana Diels, President, Luxembourg For Family Office.

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