EVENT · 2017

The Worldwide Rise of Family Offices

The LFFO Annual Event at the Château de Septfontaines

By Diana Diels, President, Luxembourg For Family Office

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Family offices are definitely today the new force of nature in the world of families and their wealth. Family offices come in all shapes and sizes to meet the needs of their families and the family business.

Like every year, Luxembourg For Family Office brought families together with interesting people in a pleasant social setting. The association held its annual gathering on a private terrace in Luxembourg, and on 30 June the conference was held at the Château de Septfontaines.

You do not have to be a Rockefeller

The audience was opened by the President, Diana Diels. Even if you are not a Rockefeller, a Family Office can help a family to acquire financial expertise. Many families do not consider that they can benefit from a family office. They miss out on an opportunity to tighten family bonds, bolster the family's financial and legal savvy, and enhance their purchasing power.

A lot of families have a family council and think they cannot afford one, but a family council simply provides a forum for discussion. The family trust holds shares in the operating companies and concentrates family control. A family investment company is a structure that parallels the family business and manages assets outside the family company, such as real estate and liquid assets. We took a dive into the family office world: families as owners, families as employees, family as family, family as community.

The RAIF as a family vehicle

Eduard von Kymmel, CEO of VP Fund Solutions (Luxembourg) SA, explained that the RAIF (the Reserved Alternative Investment Fund) is a professional, flexible and straightforward solution for families. Luxembourg now offers, throughout the world, a first-rate and highly reputable alternative for families and family offices. The RAIF is compliant with all regulatory requirements, and white-label funds allow a delegation of regulatory duties to the AIFM, a regulated and supervised management company, as well as to the custodian and the auditor.

The RAIF offers asset protection through a fully ring-fenced fund vehicle in a AAA-rated country with a very stable political environment. It allows a family to focus on its core business and to outsource tasks, legal duties and responsibilities to a third-party management company. It is tax-efficient, and the vehicle benefits from double tax treaties and from legal forms that are of interest for succession planning and asset protection. A RAIF can be used for all asset classes: traditional, alternative such as real estate, private equity and infrastructure, but also listed securities and funds. No approval from the supervisory authority is required, supervision being indirect through the regulated AIFM, the custodian and the auditor, which makes it a fast time-to-market solution.

The circular economy and the family business

Jeannot Schroeder, Partner at PROgroup, spoke with tremendous passion about the circular economy and the impact of this ecosystem on business and family management. The economic and societal rationale for moving towards a more circular economy has significantly increased, and we took a deep dive into the subject.

We learned that even though there is significant value creation in a linear economic model, in the end all of the product value is close to zero, or even negative, as most products end as waste or scrap material. In contrast, in a circular economy the aim is to retain the highest possible value of the product through a change in the design of the product and of the related business model.

Hope for the best, prepare for the worst

Andrey Bastar, CEO and Co-Founder of Brasidas Group AG, spoke on proactive risk mitigation. Key developments that had transpired over the course of 2017 alone indicated that we were arguably at the precipice of one of the most volatile global environments since the Second World War. Growing tensions, marked by uncertainties regarding the direction of US foreign relations and "America First" policies, could potentially isolate significant trade partners and change the face of global commerce.

Advancing technology also continues to expose the world to cyber threats originating from state-sponsored organisations through to small hacktivist groups, which have been responsible for devastating actions, including exposing national security level data, corporate intellectual property, and the personal secrets of high-profile individuals, among them globally recognisable members of affluent families. The general public's fascination with the ultra-wealthy, whether wanted or not, also makes affluent families attractive targets for cyber criminals.

Seed investment in the SME sector

Larissa Best spoke about seed investment opportunities for family businesses in the small and medium-sized company sector. These companies are the backbone of the European economy and make up around 60% of GDP worldwide. At the time, the financing gap in Europe for SMEs, at 10%, was still three times bigger than in the US. With a yearly growth of 8 to 15%, this asset class represents an interesting and exciting opportunity to invest. The challenge, however, is how to capture the potential and monetise the growth and profit margins.

Furthermore, in order to minimise risk, it is important to diversify the portfolio of SMEs you invest into. A portfolio of ten to fifteen investments will give good exposure and minimise the underlying risk. Finally, the structure of the investment needs to be considered. This can range from debt to equity to hybrid models such as cash-flow notes or convertible debt, with a clear preference for tax-positive vehicles. A challenge to be taken up.

How data is driving electrification in Africa

Christian Schattenmann, Fund Manager at Bamboo Capital Partners, spoke about how data is driving electrification in Africa. At the time, about 1.2 billion people had no access to electricity. They literally live in the dark, while they spend over USD 20 billion annually on polluting, expensive and inefficient fuels such as kerosene or candles. But this is changing.

Modern, clean solar energy solutions are becoming affordable even to low-income households in Africa and Asia, because of sharp drops in the cost of solar PV equipment, batteries and efficient appliances, along with the recent development of mobile money, cloud software-as-a-service platforms, pay-as-you-go technology, machine learning and artificial intelligence.

Those technology and business-model innovations drive a new breed of distributed energy service companies that are building data-driven smart virtual grids to reach millions of off-grid households. Africa and Asia are about to leapfrog energy the same way previous transformative innovations such as mobile telephony leapfrogged fixed lines, or mobile money leapfrogged traditional banking.

A presence in Monaco

Luxembourg For Family Office also contributed this year to the Monaco Global Family Office Investment Summit on 14 and 15 June in Monte Carlo. The summit is a private forum organised exclusively by family offices for family offices, ultra-elite private investors, prominent business owners, financial families and their private offices from around the world.

Luxembourg For Family Office contributed to the keynote panel session “The Rise & Rise of Family Offices”, taking a dive into the trend of family offices. The greater part of family offices are now younger wealth holders, who are more socially and environmentally conscious than the baby boomers.

— Diana Diels, President, Luxembourg For Family Office.

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