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LFFO EDITION

Families For Families

BREXIT

Cornelia Meyer

IN THE SPOTLIGHT

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WEALTH & FAMILY · EDITORIAL

Welcome to the Family

FAMILIES FOR FAMILIES · #1

> *Welcome to the family, and to the new world for family offices. We have come a long way in a short time since our first meeting together.*

Dear Readers, Welcome to the family and the New World for Family Offices! We have come a long way in such a short time since our first meeting together at the Hotel Sonne in Kuesnacht in March. We are pleased to report that the European Family Office Alliance (EFO Alliance) is strong and growing and, “Families For Families,” Magazine (FFF) is just part of what is developing for our families and friends. We hope the magazine will be a toolkit for you for your business, investment and personal life. It is by families for families, with the latest from

— Diana Diels, EFO Alliance

WEALTH & FAMILY · FAMILY PERSPECTIVES

Families for Families, the Way Forward

FAMILIES FOR FAMILIES · #1

> *We are still getting thank-you emails from families who attended our event in March. It means something greater is happening — families helping each other, in business and in life.*

We are still getting thank you emails from families who attended our event in March! It means something greater is happening that we have certainly touched on and will play a leading role. Families have again come together as families like many times in history when politicians, central banks and the public markets can no longer be looked upon to solve the problems coming at us on a rapidly increasing basis. It is up to the families to show the way forward and rely on our leaders, institutions and public markets with realistic expectations. So we really need to expect less not more and rely on ourselves for the real solutions.

To that end we have created the European Family Office Alliance. It is an alliance exclusively by families, for families to help annunciate the true place for families in the solutions for the problems of today, to renew and revitalize the private sector of the economy, where family businesses are the backbone and real job generators and to help families grow their businesses and help their children and grandchildren thrive in the future.

So, our first focus will be on returning the family to the center of the solution for social and economic problems. Look within, not outside and rely on yourself and other families in these difficult times. We are apolitical in our approach. You can define family any way you like. Only children have a way of creating their own family, even though there blood relatives are sadly long gone. In German, they call it, “Wahlfamilie.” It is up to you for your own definition, but, in the end, it is about family.

The next is to revitalize the private sector of the economy. There is none, as central banks have dominated the news with their macro-economic models that have resulted in a Zero Economy around the world. The sovereign debt of the world is the highest in world history, so there is very little big government and big institutions can do. It is up to the private sector to generate the jobs and that goes back to family businesses around the world acting in their own way to hire people and pay a fair wage for their work.

Finally, families need to help other families grow and thrive. That means helping make working capital available to help them grow, invest in their businesses, or in other projects that create jobs and make a real social and economic impact. Smart capital to do good things for good people! Forget all those intermediaries, banks, or third party managers. Keep simple rules in mind. The person with the risk should get the reward. Money should flow where it is best used. Simple truisms forgotten in the financial world filled with obfuscation and deception.

Families have been in businesses and industry niches for generations. They are the best people to talk to regarding where money should be placed and have the same goals and objectives as you! So who do we really need but each

Frederick Metz Shepperd is CEO of Shepperd Investors AG, a Single Family Office in Zurich, Switezrland. He is Co-Founder of the EFO Alliance and Editor of Families for Families Magazine. You can send your views and comments to fmshepperd@shepperd.ch other? They talk about real returns on investment, not giving you what you expect and pocketing the difference!

We will keep you informed through this very different and relevant magazine, twice a year, a newsletter and event updates as we grow the Alliance and our activities. In the meantime, relax, enjoy the magazine and have fun with your family!

From the Family Corner...

Frederick zurich, May 23, 2016

WEALTH & FAMILY · FOCUS

The Importance of Intelligence

FAMILIES FOR FAMILIES · #1

> *The family office serves as the mechanism for preserving and expanding a family's wealth and legacy for future generations. In this role, actionable intelligence has become indispensable.*

The family office serves as the mechanism for preserving and expanding a family's wealth and legacy for its future generations. In this role, an efficient family office represents the frontline of this delicate endeavor and is charged with overseeing and protecting all aspects of the family's needs. In a conventional setting, the family office is comprised of tax advisors, lawyers, top investment advisors, and public relations specialists to provide the relevant direction and guidance. In the past decade, with intelligence becoming a fixture in the corporate world, family offices have also recognized its value and need beyond traditional strategic planning, pre-investment assessments, and litigation preparation.

It is now crucial for family offices to maintain a working understanding of the political, economic, social, competitive, and reputational repercussions that can result from a lack of actionable intelligence. It could be detrimental for a wealthy individual or family to disregard the relevance of effective intelligence collection before making major commitments or changes. Gathering actionable intelligence and integrating it into the decision making process early on is significantly more efficient than remedying the impact of an ill- informed decision.

Regardless of the outcome, all decisions have an effect on reputation, which is the family's most significant asset. As such, it is imperative to remain vigilant and actively protect it. Family offices must be ever mindful of reputation management, and the need for quality intelligence is vital as both a deterrent and a solution after the fact for when things do go wrong. This includes understanding the importance of properly screening a potential marriage into a family, as well as managing major events such as divorce, inheritance issues, blackmail and extortion, hacked files, or other potentially embarrassing situations. This is especially concerning in today's era of social media, as public opinion is now affected in ways never before seen, making the need for intelligence in determining an effective strategy against unwelcome publicity a must. Through access to actionable intelligence, the family office is better positioned to discreetly contain and counteract situations that can have a long-term impact on a family's reputation.

Family offices are also tasked with ensuring the ongoing safety and security of their family members. However, many wealthy individuals and families do not prioritize security policies, thereby exposing themselves to unnecessary risks when travelling abroad. Intelligence is used to effectively identify and hedge against travel risks anywhere in the world through access to real time information concerning political or social developments, as well as through providing the necessary insight to safely navigate through a given jurisdiction while drawing limited attention when necessary. Access to quality intelligence also provides solutions in sensitive situations that develop during travels that require local level access to physical protection or even facilitate a timely evacuation during hostile circumstances, such as political unrest, natural disasters, or even evading unwanted media attention.

Intelligence is also necessary for protecting families from fraud or embezzlement. While most family offices value discretion and seek to maintain anonymity in their investments, this does not preclude them from taking basic precautions. As investment opportunities grow exponentially in this fast-paced globalized economy, so do the opportunities for fraudulent activities as affluent families, no matter how discreet, are valuable targets. Therefore, now more than ever, family offices need to exhibit measured caution and prudence, which can only be afforded through access to key information and truly knowing to whom they are entrusting the legacies of their families.

In the modern information age, navigating through actionable intelligence can prove difficult as technology inundates us with volumes of information that need to be prioritized, analyzed, and explained. When dealing internationally, we quickly learn that the availability of information can be drastically different from country to country. Intelligence helps to get the right information to the right people at the right time, which can lead to the development of new opportunities that provides a competitive advantage in a fast moving market. Thus, exploring investments during turbulent times, especially in new markets, requires cultural awareness and an experienced network with access to actionable intelligence. Global economic uncertainty and geopolitical instability in regions such as the Middle East remains high, making it crucial for family offices to have the tools on hand to effectively distinguish opportunities from potential financial pitfalls in these emerging markets, which are comprised of complex multi- layered political machines that directly influence the commercial landscape.

As opportunities become more diverse and complex, it is more important than ever for family offices to maximize awareness prior to an investment, allowing for informed decisions that help minimize potential risks. This requires having access to specialists and industry-level experts who understand discretion and the nuances of human intelligence-driven research, including how to assess political and economic factors, identify key drivers, and anticipate the potential impact of an investment. Armed with this information, the family office is better equipped to anticipate trends and triggers that can have an impact on trade or strategies. This will significantly contribute to mitigating susceptibility to reputational risks as well as outright financial loss through fraud or misrepresentation.

Lack of actionable intelligence can create havoc on a family and its portfolio at the onset of a transaction or investment. In light of increasing investment opportunities in a globalized economy, intelligence collection has seldom been more appropriate for the modern, efficient family office. Aside from the potential for huge monetary losses, lack of actionable intelligence can also lead to unfavorable political exposure or unwittingly dealing with sanctioned nations, both of which would bring irreparable damage to a family office's name. Considering the huge sums at stake and potential for wasted expenses due to bad business decisions that lead to aborted transactions, the need for effective intelligence is essential to mitigate the pitfalls of being exposed to the global community.

Anthony iglesias

Director of Global Research Brasidas Group AG

WEALTH & FAMILY · LIFESTYLE

In the Spotlight: Sophia Lisovskaya

FAMILIES FOR FAMILIES · #1

An interview with concert pianist Sophia Lisovskaya, who performed for the families at the first annual EFO Alliance gathering.

FFF You performed on the evening of March 10th for the Families, at the First Annual EFO Alliance gathering. How did you like performing at the event and at the baroque concert hall of the Hotel Sonne in Kuesnacht? S.L. I really liked the atmosphere. It was very, very intimate and cosy and a little bit, "Oldie Worldie," in the best possible sense of the word. It was like a music salon used to be but in a ballroom, with people just gathered together on a beautiful lake, enjoying a Spring evening and a beautiful sunset with some really great music. So I enjoyed it very much

FFF You are from Russia and studied at the Royal Academy in London at an early age. What brought you to London? S.L. My initial core training was in Russia and, like tennis players, we start very young at the age of 4, or 5. By the time you are a teenager, the level of training is quite advanced. I was offered a scholarship at the Royal Academy of Music and it was a wonderful opportunity to broaden my horizons. So, I came to have another view with a very systematic Russian training. I can say that I really had the best of both worlds.

FFF Do you like to perform a favourite style music, or do you have a favourite composer? S.L. I try not to specialise as I am still exploring the many different facets of music and not confine myself to a particular composer. It is a wonderful thing to do. I like to discover things for myself as a musician, a person, as an artist and depending on the stage in life, one's mood and what is of course most important, what is closer to your character. I play a lot of romantic music and a lot of Russian music because that is something I know extremely well. I grew up with it, it is imbued in my psyche and I feel very, very passionate about it.

FFF Do you like to perform with an orchestra, a chamber group, or, "out there," as a soloist? S.L. I think these are very different ways of making music. It's a good and quite tricky question to answer. I am a soloist and used to playing solo concerts for about two hours at a time, on stage. It is a wonderful experience because the artist drives the audience. The piano repertoire is so enriched with magnificent works by amazing composers, who generously wrote for the piano and I love doing that. I also love performing concertos with orchestras. It is probably my favourite form of making music, because you are sitting amidst an orchestra with almost 100 people on stage and feeling a part of this big music-making machine, with a huge sound. It is great and very exciting to be on stage with other musicians producing such a superb sound. Playing chamber music is also very nice. When you rehearse for chamber music, you reflect the way you are as a musician and try to blend in with other people without compromising too much. The other form of music I like to perform, is accompanying a voice. It is a wondrous form of music because the piano follows the voice in a most natural way. I love vocal repertoire and a lot of inspiring music has been written for the voice. I try to be multi-dimensional and creative, as an artist.

FFF There have been large cut backs in funding for music in Schools and the Arts generally. What do you think is the role of the Families in promoting the Arts in keeping the cultural arts alive for future generations? S.L. I think patronage is a very important role and in essence it has always been there and we do not have to look very far back for examples. Haydn worked for Esterhazy, Mozart worked for what effectively were Family Offices and Paganini as well. Look at the Medici family and the Royal Courts also played a similar role. I don´t think there is a big difference between visual artists and performing artists. Family offices have and always will, play a part in the future.

FFF Do you see the similarities with regard to philanthropy and support of the arts between the US and Europe. S.L.I like the US set up. It is about giving and is wonderful for people to actually grow up with the initiative to give funds to the arts and good causes. I think in the UK is a little bit behind. It is not in-bred and I think people have to be brought more forward. Something has to be done to explain how it affects peoples´ lives. I am involved with a lot of educational projects and children perform better in their life, if they have music and art in their early years. This should be encouraged and can only be encouraged through philanthropy. More of these projects should be in the public eye for performing and visual arts, which I whole-heartedly support. You have to know the difference it makes!

FFF When should the next generation learn about philanthropy? S.L. It should start immediately! My friends have a child who is 5 years old and he was given a choice to keep all the money he made, or give some away to a charity. It is tough to explain charity in the abstract. You need to be concrete in giving children choices and examples by doing, so that they understand.

FFF Are you looking forward to future projects with the EFO Alliance? S.L. Oh, absolutely! We are developing some interesting concepts. I can´t tell you much about the first, because it is a bit of a surprise. I can only tell you it is inspired by the legacy of Mozart and will be held in Salzburg. We are at the moment finalising some artistic details and we will be pleased to give further information as the project develops.

Sophia Lisovskaya is represented by Panmedia UK

WEALTH & FAMILY · FOCUS

The Rise of the Wealth Peer Network

FAMILIES FOR FAMILIES · #1

> *Recent years have seen the flourishing of independent family office networks, investor platforms and educational opportunities targeted specifically at wealthy families.*

Recent years have seen the flourishing of independent family office networks, investor platforms and educational opportunities targeted specifically at the owners of wealth. A quick tally of the best known of these organisations suggests there are now more than 30 family wealth networks worldwide now regularly convening business owners. This expansion would have been considered unthinkable 10 years ago, yet it underscores the importance wealth owners place on being able to connect directly with their peers. It highlights the extent to which wealth owners have embraced new technology to facilitate their interactions. It also, perhaps, provides some empirical evidence for the confidence gap that has emerged between wealth owners and financial institutions in recent years. While knowledge sharing still stands at the cornerstone of many of these peer networking communities, roughly two-thirds also now facilitate direct investment transactions; around half of them offer a mechanism for syndicating these deals between members and a quarter have a lending facility. Of course, these networks vary significantly from the purely commercial to the entirely family-led. In this context, the European Family Office Alliance (EFO) is an interesting example of a family-led network where some of these innovations are playing out in practice.

Firstly, and most importantly, it is a network run by families for families. It is not a membership organisation, per se; rather it is a community of like-minded wealth owners that want to come together to share ideas, knowledge and experiences.

Secondly, and perhaps most interestingly, the investment activity that is facilitated by this group is introduced directly by EFO participants who share the enlightened view that private capital can be a powerful catalyst for economic growth and prosperity.

This kind of direct collaboration and shared investment purpose marks out the different motivation that some of these networks have when compared to the broader financial industry; yet their activities are still largely ignored by the mainstream. At one level this is not surprising, 2015 was a record-breaking year for global M&A earning the leading investment banks an estimated $21 billion from the $5 trillion of international deals last year. Much of this activity was fuelled by low interest rates and high cash balances in the corporate sector which resulted in a swathe of mega-deals that wrapped the attention of the financial community.

By contrast, the investment activities of the wealth peer networks perhaps totalled just $3 billion - $5 billion, based on reported levels of activity from some of the networks. It is not enough to catch the eye of global investment banks, but it is starting to become a meaningful amount in the context of the wealth management industry and particularly so as the economic environment in 2016 looks set to shift again. Changing monetary policy and shifting economic fortunes across continents will likely take the heat out of the corporate M&A market year. In turn, this will likely to signal a rise in activity in the venture arena as corporates seek innovation over cost synergies. Private equity firms are also expected to show a resurgence having been crowded out by corporate buyers in recent months.

Taken together, these trends suggest that levels of investment activity can only increase across the wealth networks with more opportunities and more buyers and sellers in the market. Indeed, this kind of transactional activity is much more aligned with the investment activities of the family wealth networks, which typically favour early stage and innovative opportunities. Moreover, as highlighted by the EFO example, family wealth can offer other benefits to start-up firms as a form of patient capital that is willing to take risks to generate a positive economic (and even societal) return. Thus, as investment conditions change, wealth peer networks are likely to find themselves in an ideal position to pick the cream of the deals by offering capital that is more in tune with the needs of start-ups than other funding sources. As these levels of activity ramp up, it is likely that wealth management firms will take notice and once again seek to get a slice of the family wealth investment activity.

Compared to the growth and innovation that has been happening in the world of wealth peer networks, the efforts of wealth management firms and private banks have certainly been lagging in recent times. While many of the global wealth managers provide family wealth networking activities, these largely rely on the tried and tested formula of investor education. At these events, portfolio theory, asset allocation and investment management basics dominate the agenda. While there may be a side line in wealth transfer, philanthropy or entrepreneurship, among business-owning families these programmes offer little that gets the pulse racing in terms of direct deals or investment opportunities. That is not to say these programmes are not appreciated. Attendees like the opportunity to meet their peers;

they benefit from sending their next generation for a crash-course in investment theory and they enjoy the social and cultural activities.

However, when all of these activities are also available from the wealth peer networks, along with the added attraction of direct deals, then the possibility of creeping disintermediation of the traditional market makers starts to look like a growing possibility. Undoubtedly, wealth management firms will take note and start to refresh their formula. We anticipate, for example, that a handful will enter the deal making fray, either sourcing opportunities or offering up their balance sheet for financing or leverage. One or two may even collaborate with the larger independent wealth peer networks. What we do not expect, however, is for these organisations to appreciate fully the perspective that many wealth owners share, which is that their private capital is a precious resource in the context of the fragile economic recovery. This potentially leaves the field wide open for wealth peer networks to continue to innovate as deal makers, syndicators and even as thought leaders.It is hard to say exactly what those innovations will bring; although specialisation, social investment, governance and transparency will almost certainly come to the fore. What is more exciting, however, is the possibility that there is a new form of independent capital carving its own niche in the market.

Catherine tillotson

Managing partner, Scorpio Partnership