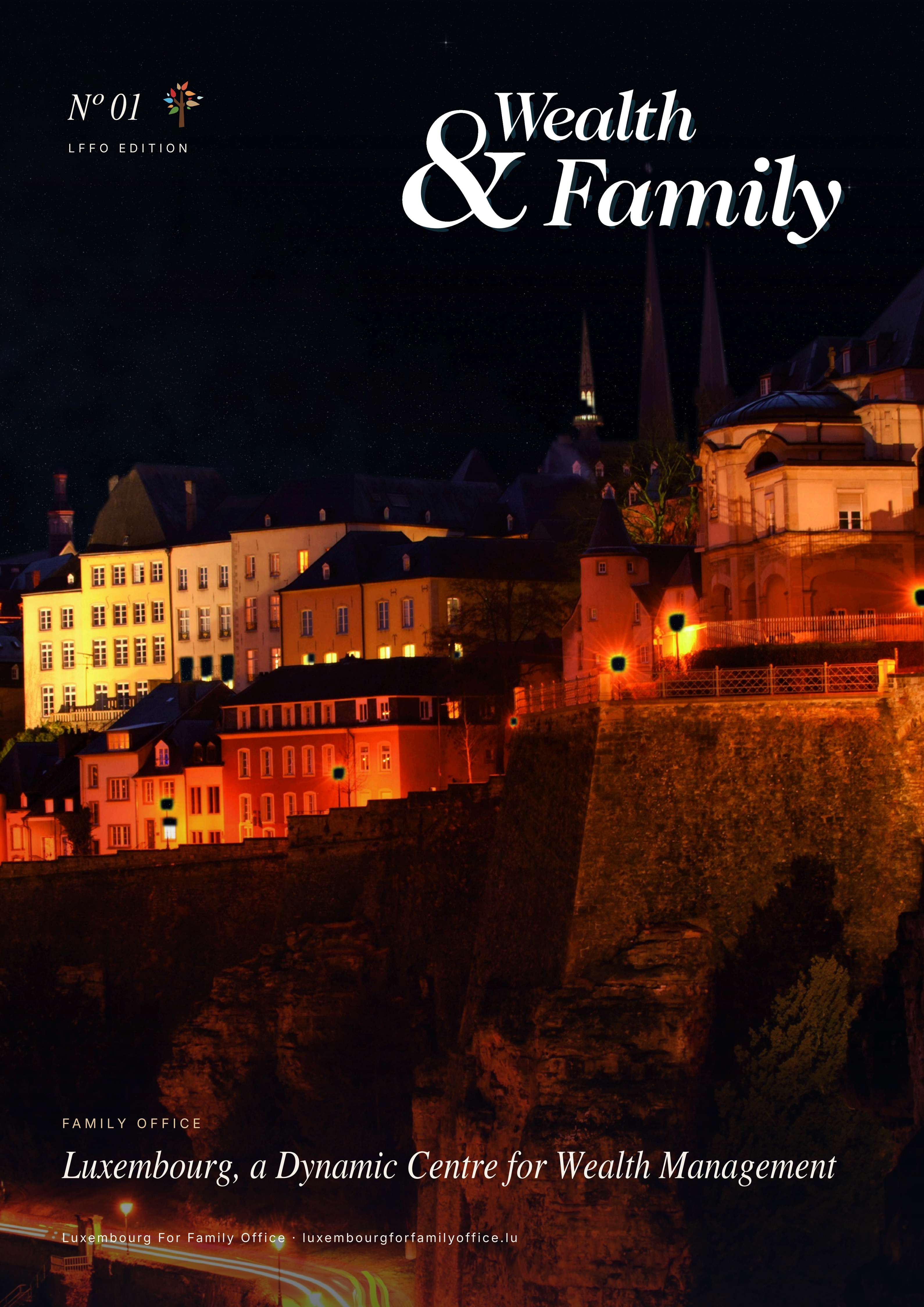
Nº 01

LFFO EDITION

Wealth & Family



FAMILY OFFICE

Luxembourg, a Dynamic Centre for Wealth Management

Luxembourg For Family Office · luxembourgforfamilyoffice.lu

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Nº 01

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Dear Readers

WEALTH & FAMILY · Nº 1

> *Luxembourg For Family Office is proud to present the first edition of this magazine — a collection of articles, reports and stories that together show Luxembourg's growing role as a hub for wealthy families.*

Dear Readers, Luxembourg For Family Office is proud to present to you the first edition of the FLAEG 4 Family Office magazine.

Inside, you will find that the various articles, reports and stories have one thing in common: they all demonstrate Luxembourg's position as an increasingly popular hub providing wealthy families with a wide array of solutions for managing their assets. Strong support from the Luxembourg government combined with a broad choice of second-to-none providers ranging from global and local banks to custodians and fiduciary services make the financial center the ideal place to do business for Family Offices.

In December 2012, a new Family Office Law was passed by the Government, allowing service providers to apply for a Family Office license. This law demonstrates Luxembourg's willingness to ensure that the highest standards and best practices are respected and that clients are protected. The development of these standards for advisory and execution further recognizes Luxembourg's efforts to strengthen its financial center.

Testimony to Luxembourg's growing role in this domain is the fact that more and more Family Office events will take place in the Grand Duchy. First on a busy agenda was the Luxembourg for Family Office event, which took place on June 30 at the Château de Septfontaines. Following this first annual event Luxembourg For Family Office will organize an event on the 30th March 2015 in Zurich to position Luxembourg as the place to be in Europe.

Our sincere gratitude goes to all those people who have agreed to contribute to this exciting first edition of FLAEG4Family Office. We hope you find the perspectives and insights interesting and conducive to advancing Luxembourg's ambitious agenda for Family Offices.

Yours sincerely, Luxembourg for Family Office aidemssorC063

— Luxembourg For Family Office

WEALTH & FAMILY · ANALYSIS

The Importance of Family Offices for a Wealthy Family Today

WEALTH & FAMILY · Nº 1

The notion of a family office is not particularly new, given that its origins can be traced back to the mid-nineteenth century, when powerful industrial and financial families such as the Rockefellers and Morgans set up offices to manage their wealth.

The notion of a family office is not particularly new given that its origins can be traced back to the mid-nineteenth century when the powerful industrial and financial American families, such as Rockefeller and (JP) Morgan set up offices to separate and manage the assets of the family. Research shows however that at least 50% of the family offices that exist on a global basis today have been set up in the last 15 years.

There are a number of factors that can explain this statistic. Firstly the growth in wealth has been phenomenal in a relatively short space of time. The World Wealth Report 2014 recently published by RBC and Cap Gemini showed a 15% increase in global HNW individuals to 1.76 million which is the second largest increase since 2000. It goes on to state that nearly 40% of HNW wealth has been created in the last 5 years.

Rising globalisation and internationalisation brings greater complexity in all aspects of our lives. Changes in the regulatory, legal and tax environment for example have major implications for today's families. Imagine the challenges facing families spread over multiple generations, with multiple marriages, multiple- geographies and broad portfolios of assets covering all classes from stocks and shares to real estate to art operating in today's ever- changing global regulatory environment. Family offices help their clients keep abreast of changes and proactively manage the issues that arise.

The financial crisis in 2008 exposed many wealthy families who were not able to cope with the volatility and the global impact on their assets and as a result are now much more risk averse. This loss of liquidity during the 2008 crisis taught many wealth owners valuable lessons about income diversification and risk management. Today these families are looking for strategic wealth preservation advice as opposed to specific short term trading opportunities. They understand the need for an independent advisor to help them diversify their personal assets and manage investment risk.

Increasingly the wealthy are business owners and entrepreneurs. Wealth-X World Ultra Wealth Report 2013 found that of the global UHNW population only 19% inherited their wealth with the implication that the remaining 81% are self- made. When businesses are successful, the family wealth typically reaches a complexity level where there is a driving need for centralized

Venetia Lean, Banque Havilland SA information, professional advice, and tax- efficient structures. They are sophisticated, demanding and looking for efficiency, effectiveness.

Whilst these factors driven by the external environment and the nature of wealth families are prime reasons for establishing a family office, it is also important to consider how they can support arguably the most important goal a family would have – the successful transmission of wealth between generations and sustaining a family legacy and connections. Unfortunately the reality is that this rarely happens.

According to research conducted by The Williams Group, 70% of intergenerational wealth transfers fail. The main reasons for failure were identified as a lack of post-transition planning or preparation took place. No-one was preparing the multiple heirs for the multiple responsibilities they would need to take on. Coupled with the fact that these issues can be highly difficult to discuss openly within families as they involve people, their assumptions, perceptions and feelings, and can often lead to conflict within the family. As the complexity grows with each generation and the changing world a family office can offer a neutral framework and an objective voice to govern the family.

In order to cope with the continual change in the business environment and internal family pressures as people develop a family needs a clear infrastructure to manage the interrelationships of people, business and investments. This framework needs to regulate and integrate the interests and concerns of a diverse group of connected people in many ways. As the family grows, both in number and wealth, it is critical to address the management of the family's personal financial future with the same diligence that goes into managing the future of the business. The world is becoming an increasingly complex and fast-paced and for the wealthy this brings a unique set of challenges that require a whole host of skills, expertise and knowledge to cope with effectively. With this in mind a family office can be a vital tool for a wealthy family today.

Venetia lean

Member of the Board of Directors, Banque Havilland SA

WEALTH & FAMILY · ASIA

Why Luxembourg Attracts Asian Families

WEALTH & FAMILY · Nº 1

In 2013, the global population of billionaires reached 2,170 people and it will continue to increase. Asia saw the highest percentage increase, and by 2020 it may have as many billionaires as North America.

In 2013, the global population of billionaires reached a total of 2,170 people and IT will continue to increase. Asia saw the highest percentage increase in the billionaire population and the largest increase in total wealth. IT is expected that by 2020, Asia will have as many billionaires as north America .

American and European families have multi-family offices in various urisdictions, including China and/or Singapore for investments in Asia. the well-heeled from fast-growing economies will increasingly look to the west to diversify their investments and plan their succession whilst preserving their history, culture and values.

Potential conflict within the family, the founder's values and management style which profoundly impact on the success of the business, the technical skills required to run the business which might not have been passed on to the next generation, risk management (including political risk), tax management, wealth loss in the succession process May be areas of concern to be addressed by the founder to preserve wealth . there is, therefore, a strong appetite for family offices to build a family's legacy, but there is not, to date, family offices combining asset management, succession planning and tax planning in China and hong-kong. Asian investors turn to Singapore for such services, but they also increasingly turn to Luxembourg which is the gateway for investments opportunities in Europe and the USA.

There is a large variety of Luxembourg vehicles and legal instruments that May be used to structure wealth accumulation and development and, where needed, plan succession. in addition, Luxembourg is the first European jurisdic- tion (and one of the first in the world) to have a regulatory framework for the activities of multi-family offices.

Start small

For the first generation, the structure will be primarily focused on preserving wealth for the future generations whilst for the following generations, the structure will focus on wealth generation. A fully-fledged family office is not always the best solution to launch. In practice an Asian entrepreneur often seeks a structure that protects assets in the long- term. To date, China's family offices are faced to a limited range of sophisticated financial products and exchange rate controls that hinder fund transfers out of the country. Estate taxes may be introduced by Beijing, which would further impact on capital preservation for family members. Singapore has no estate tax and offers an investment platform for Asia as Luxembourg does for Europe, close to the London expertise in real estate and private equity. No family is the same, and the meaning of a family office very much varies from one family to the other. For many of such entrepreneurs, a family office is a structure to be dedicated to the preservation and the accumulation of wealth, set-up as a regulated/ unregulated fund investing in designated assets whilst meeting the family's objectives and strategies in the long run, in Europe and/or North America. Much is outsourced to asset managers, banks and other service providers.

Luxembourg is a jurisdiction of choice because of its secure, flexible and reliable structures familiar to most investors wherever their location. The special limited partnership is particularly attractive to Asian investors as it preserves the limited liability of investors, guarantees tax transparency whilst providing a maximum flexibility for returns on investments and the distribution of power, thus controlling drawings by family members and keeping key decisions within the powers of senior family members. That vehicle can be adjusted to tailor the specific needs of families, taking into consideration

Alexandrine Armstrong-Cerfontaine, Partner King & Wood Mallesons SJ Berwin what matters to them most. Some of these factors may include, for instance, the protection of family influence, organisation of an orderly succession, fulfilment of social responsibilities, separation of family members as owners and business managers, long-term success of their business through a geographic and asset-class diversification, nurturing of the family culture, rekindling with original business drivers, the preservation of a fair and equal treatment between all siblings, controls over expenses, controls over some family members who have a negative influence on the development of the business, etc. The multi-lingual and highly skilled workforce, the political and economic stability of

Luxembourg are also determining factors when comparing countries in which to establish a single

'family office' structure.

It comes as no surprise that Asian HNWIs and

UHNWIs are now setting their platform as a special limited partnership in Luxembourg to protect and grow their wealth. The streamlined set-up process of the special limited partnership, the protection of the anonymity of its investors and its features being more attractive than in the UK, Cayman and BVI, the very broad number of double tax treaties with all

EU Member States and almost all OECD jurisdictions with lower tax rates for interests, dividends and royalties all together provide an ideal environment for wealth transmission and growth by tapping the

European and North American markets.

WEALTH & FAMILY · ASIA

Learn and Build Strength

WEALTH & FAMILY · Nº 1

For most Asian families, the primary objective is to avoid the erosion of their fortune and to draw on the knowledge and experience of the entrepreneur who created the wealth.

Learn and build strength

For most Asian families, the primary objective is to avoid the erosion of their fortune and to draw from the knowledge and experience of the entrepreneur who created wealth. As the family grows, the dynamics change towards wealth creation to sustain the lifestyle of future generations. The simple structure on which building blocks were placed to hold various asset classes will often morph into an investment manager. Whilst it does not make sense for most family structures to launch as regulated family offices, investing in IT, a legal team, custody, asset managers which are outsourced, some of these functions will progressively be internalised, delivered either by a team of professionals or trusted family members with an interest in and exposure to portfolio management.

Some families will continue to achieve their objectives to protect and preserve wealth for future generations by acquiring personal and business assets using international asset holding structures including companies, foundations, funds and partnerships. Today, family offices are investing in private equity funds as part of their investment portfolio. The second investment of choice is a participation in venture capital vehicles. Investments in growth funds, distressed debt, mezzanine and funds of funds come third, fourth, fifth and sixth respectively. The structures set up in Luxembourg to invest in such assets are largely unregulated vehicles, in which family members hold a participation. They are set up as unregulated funds or holding companies.

It is expected that the trend will continue and that Asia-Pacific-based family offices will be an increasingly important source of investment for the private equity industry. Structures set up by families co-invest with other structures set-up by other families, pool talents on specific investments, share knowledge and form club deals to buy assets together and avoid leakage through the payment of management fees to funds.

Family offices implement directly their investment strategies, they work together with private equity firms to get deals closed and they manage investments post-closing. The scale of its direct operations becoming larger, they draw on different experts and internalize some or all functions.

As a result, some families prefer at that stage to set-up their own asset management structure so as to keep absolute control over the equity and management of their asset manager, which deals with the day-to-day requirements of family members, offering the opportunity for some or all members to opt-in investments in identified business opportunities all over the world. Some families will join forces together to set-up large asset managers and assets-holding structures to use liquidity for common projects on an ad hoc basis whilst sharing the cost base of the asset manager. This impacts on the original structure set-up, with changes to its governance, goals, risk management policy, reporting policy, regulatory review, as the level of sophistication increases.

Think big

If and when a multi-family office is considered appropriate, the Luxembourg regulatory requirements have a greater relevance as the law of 21 December 2012 on the activity of family offices (the “Family Office Law”) applies to them.

A family office provides, on a professional basis, advice or services to individuals, families and/or patrimonial entities in relation to their wealth. Among the services offered, family offices provide advice on estate planning, estate structuring, financial advice on investments, administrative services. It mandates, on behalf of its clients, providers servicing the estate and it is responsible for the day-to-day management of a large and diversified estate. Given the level of skills required to for such activities, the Family Office Law provides that the following regulated professionals may exercise such activities:

1. credit institutions; 2. investment advisers; 3. wealth managers; 4. professionals of the financial sector which are licensed as domiciliation agents; 5. independent auditors (réviseurs d’entreprise) and authorised independent auditors (réviseurs d’entreprise agréés); and 6. chartered accountants (experts comptables).

The Luxembourg financial regulator (the Commission de Surveillance du Secteur Financier, the “CSSF”) further requested in its Circular dated 21 January 2013 that investment advisers, wealth managers and domiciliation agents may use the name Family Office to the extent that they effectively provide such services.

In addition, the Family Office Law permits the creation of a family office independently to any professional who is not falling into the category of the professionals referred to above, subject to obtaining a business license from the Ministry of Finance. The Family Office Law offered, therefore, the unique opportunity for families to join forces together to set-up their own asset management structure. This opportunity is particularly attractive to ultra-high-net-worth individuals, clubbing together and hand picking their teams which will be solely dedicated to the management of their assets.

Any corporate structure may be used to set up such multi-family office, which shall have a minimum share capital of EUR 50,000. The shareholders and the directors of the independent multi-family office will have to justify their professional honour and anti-money-laundering and financing terrorism duties.

A minimum of three directors is required, and in practice, the maximum number of directors is between twelve to fifteen. This is because, often, families pooling forces to set-up their own structure, wish a representation at board level to control the decision-making process (a shareholder of a multi-family office can be a director). One of the great advantages of the Luxembourg legal framework is that there is no compulsory quota on the Luxembourg based directors, which is particularly attractive to the families' members who will be living in many jurisdictions, sometimes close to experts investors in the asset class targeted by the multi- family office. However, at least two Luxembourg based directors, highly respected in their profession, are required for the day-to-day management, at local level. This proves to be a great help locally and provides comfort to obtain the license from the Ministry of Finance. A third director being responsible for administrative matters suffices to obtain a license (i.e., two Luxembourg directors with the level of experience and honour required to act as director of a multi- family office and a lower qualified individual suffice to launch activities).

The preparation of the file for submission to the approval of the CSSF (pre- requirement to obtain the business license from the Ministry of Finance) includes, among other things, (x) the set-up of the structure that will act as an independent multi-family office, with its central administration in Luxembourg, (y) manuals of procedures and (z) internal controls. In practice, many of the functions of independent multi-family office will be outsourced to local providers (e.g., IT, internal audit, external audit, etc.). Given the expected growth of HNWIs/UHNWIs globally and related increase of family offices, there will be a lack of resourcesglobally to internalise all functions and Luxembourg, with its long and most established tradition in private wealth management will be one of the rare jurisdictions that will offer both the expertise with a tax and legal environment most favourable to wealth growth. Process to obtain a license takes up to six months from the date of filing the application with the CSSF.

It is essential to note that the choice of the investment vehicle, or as the case may be, investment platform, depends on many factors, which must be carefully assessed on a case-by- case basis. There is a multitude of options available, which are narrowed down to specifically meet the culture, tradition and long-term strategy of each family. A family office may come into existence as an unregulated fund holding a family's investments in real estate in various jurisdictions, debt securities, private equity investments. Its feature will vary to preserve a multi-generational wealth. The matrix used for the organic structure will be adapted and expanded progressively to protect the future generations and manage the original wealth creator's company. Luxembourg is, by far, the most advanced jurisdiction. It is totally unique as it offers a safe economic environment, political stability, tax efficiency and a flexible legal and regulatory framework to roll out the organic single- family office into a regulated multi-family office.

Alexandrine armstrong-cerfontaine

Partner, King & Wood Mallesons SJ Berwin

WEALTH & FAMILY · ZOOM

The Makes, Models, Size and Colours of the Family Office World

WEALTH & FAMILY · Nº 1

> *The family office world is really an enigma to the outside world. There are so many kinds of family office, and no single, one-size-fits-all ideal of what one should be.*

The family office world is really an enigma to the outside world. There are so many kinds of family offices and there is no cookie cutter, one- size-fits-all ideal of a family office. However, there are ways to identify the various kinds of family offices and what is important to them. In fact, you can develop a very nice matrix that can sort out the family office space. As I have a rather extensive background in the auto industry, I thought the automotive metaphor translates into a very easy key to open the door to this mysterious, opaque world.

You can develop a nice matrix based on the generation level the family office is away from the founder and the purpose for which it was created by the founder. Then, you can realize they have their own personality and investment style. The first generation family office is often a single family office headed by the founder. Call them the Porsche The founder usually created the wealth, is entrepreneurial and is a natural risk taker. Of course, to them, it is not a risk. They know what they can do and it is only a risk to a banker, or asset manager. They made their future and can handle whatever comes.

The second generation grew up in the shadow of the founder. It is a very tough act to follow and has crushed the potential for many children in the second generation. They are duty bound not to lose the money the first generation made and need to make safe and secure investments. Call them the Volvo. They are the first to use outside advisors. They also have a tendency to join groups to co-invest and form multi-family offices. "If you invest, then I will invest." This is also called the dumb money syndrome. Looking at it a different way, "let's both give money to some third party and lose money together." They do not have the hands-on business acumen of the founder, so they rely on third parties often to their detriment.

The third generation is in a real difficult position. They have to live with what the second generation has done, good, or bad. They are often quite removed from the experience of the founder. If the second generation is not successful, they have to go back to work to remake the wealth. There may be a large number of decedents in the third generation that also dilutes the pot created by the original founder. So they are either comfortable with a nice BMW 7 Series, or have to restart the engine and become an Entrepreneur to make the money again. Say, like a Porsche Cayenne. The economic cycle can easily wipe out the wealth of the founder, like the Great Recession in the US. Yes, the last 10 years has its own name in America. They have intellectual capital, even if their financial capital has vanished through no fault of their own.

The fourth and subsequent generations are a much different group. There are so many family members and now very little contact to the source of the wealth. There are so many, they cannot fit into a car, so I see them as a big, Actros truck. The office is institutional and most likely headed by a professional asset manager. Compared to a Porsche, it is tough to manoeuvre and make tight turns. You also have many people with very divergent interests and needs. So the only thing you can do is stay the course

Frederick Metz Shepperd, CEO Shepperd Investors AG and try to keep a focus to preserve the assets and look to protect future generations.

The second part of the matrix is the economic purpose for which the family office was created.

The founder has many reasons to establish a family office. This includes furtherance of a particular objective, as in philanthropic outreach, or to provide for family in need of special medical care. Of course, it can also be to simply have fun and enjoy life. The founder may simply want to provide opportunity to their family that he, or she did not have themselves

Having identified the purpose of the founder the function of the family office becomes very clear.

Only then can you really enjoy the drive, or the ride, in the right vehicle through the family office world!

Frederick metz shepperd

CEO, Shepperd Investors AG,

A Single Family Office

WEALTH & FAMILY · GOVERNANCE

Family Governance: Codes of Conduct Are Better than Governance

WEALTH & FAMILY · № 1

Most would argue that good governance is one of the keys to a successful transition within a business-owning family. So what defines good governance — and why is it so often not enough?

In the study conducted by Deloitte in April 2013 titled "Perspective on Family owned businesses, Governance and Succession planning" respondents (222 business owing families with revenues of $50Million to over $1Billion, 10 industries sectors represented in 36 states). The findings included:

72% of respondents have a formal board of directors. 66% of respondents say their companies do not have formal board evaluation processes.

The question which I pose is this:

"If Good Governance is one of the keys to successful transition within business owning families, and 72% have a formal board of directors to provide governance, then why do we have a 70% failure rate of transition from first generation to second generation in business owning families?" What is missing in the Governance structures? My view is that most of the current governance structures which business owing families have are not working. Governance is designed to assist the individuals, the people it governs to be good "citizens" within the business family structure. Governance as John Davis says is typically a set of rules, policies and processes to provide structure for the group it represents. With this model there is an assumption that goes along with it. The assumption is that the individuals the governance is set up to serve, will behave in a way that supports the governance structure, they will have and demonstrate "good behaviour". What if their behavior is not good, but poor; and filled with a sense of entitlement based on their unexamined beliefs and conditioning from childhood? I call these "Great White Elephants". Most advisors and families tend to avoid addressing the "Great White Elephants" conversations.

Our work assists the family members to develop a personal code of conduct which is how they will commit to interacting with themselves and other family members. These are personal rules/ guidelines which are designed to foster open and transparent communication within the family. Once each family member has developed their personal code of conduct, they are ready to create their familial code of conduct. Think of this code of conduct as how I/we are going to behave/treat each other. How are we going to interact with ourselves, each family member and ultimately that family as a whole?

In my experience in assisting individuals and families become Contributing Leaders and exceptional stewards there are three code of conducts, behaviour/ ways of beings that stand out, which are the foundation of good personal governance:

- Operate from a place of Authenticity.
- Are transparent in their dealings by what they do and say.
- Take full accountability and responsibility for their actions. Good governance starts with an individual's code of conduct. This is the platform for how individuals

Veritage Family Office commit to dealing with themselves and each other. Once a personal code of conduct is in place, good Governance follows.

As individuals examine their Great White Elephants, and address them, they are on the path to identifying their beliefs; which leads to having the choice to engage in a different set of behaviours, behaviours which are values based and are manifested by a personal code of conduct.

Put another way; one does not do things to be compassionate, one is compassionate and hence acts a certain way. A personal code of conduct is a way of being and is shown by action. Action which is congruent with the individual's values. This is Governance that works in my opinion, the kind that the individual self-governs, not some piece of paper.

Franco lombardo

Managing Director Veritage Family Office www.veritage.ca

WEALTH & FAMILY · ART

Towards a Unique Cluster for Art Advisory Services

> *Besides the appetite for tangible assets, we have observed another trend among our client base over the past five years: passionate art collectors keep broadening their collections far beyond the limits of their private space.*

Besides this appetite for tangible assets, we have observed another trend among our client base over the past 5 years: passionate art collectors keep broadening their collections far beyond the possibilities of their private space, and in some cases, with a real desire to enhance the public exposure of their works. Turnover of collections has also increased, partly a kickback to the drastic rise in value of blue-chip art and young hot artists.

These recent developments have required more elaborate infrastructures, encompassing the financial, logistical and risk management aspects of art collections. The Freeport in Luxembourg is a first step towards an integrated solution: security, optimal storage facilities, art and financial advisory, a tax effective environment, that appeal both to private individuals and financial institutions.

Along these lines, we have included sophisticated risk management tools into our art advice and acquisition offering. Risk management and due diligence still sound pretty unusual for the art world, but every day we see proof supporting our opinion that these are key issues in these times of increased velocity of trading, and resilient opacity in the art world. Financial institutions also realize that whilst they need to respond to art related requests from their clients, the protection of wealth must remain a priority.

Art collectors rely increasingly on wealth managers to address tax and inheritance planning. In addition, along a certain defiance towards art funds, there is an interest for dedicated, individual art investment portfolios. Some of our clients generally opt for such flexible managed accounts because they appreciate the direct control over the invested assets as well as the active part in the decision process. Each investment suggestion is detailed in a business case and needs to be validated by the investor before implementation. Such tailor-made investments clearly demand equally flexible structures, that the financial sector in Luxembourg is well positioned to offer. Combining Luxembourg's financial expertise with the facilities offered by the Freeport will permit to propose a unique cluster for art advisory services.

Aude lemogne

Director, Link Management

Aude Lemogne Director Link Management

Aymeric Thuault

Director

— Aymeric Thuault, Link Management

WEALTH & FAMILY · FOUNDATION

Fondation de Luxembourg: Simplifying the Philanthropic Journey

WEALTH & FAMILY · Nº 1

People are becoming increasingly concerned about the major environmental and social challenges of today's world, and a growing number of wealthy individuals want to give back by concretising what they believe in.

People are becoming increasingly concerned about the major environmental and social challenges of today's world, and a growing number of wealthy individuals want to give back by concretizing what they believe in. They have amassed their own fortunes and are driven by a desire to use their knowledge and wealth to make the world a better place. Unfortunately the personal nature of philanthropy makes it complicated, and very often donors lack sufficient information about how to go about their project. Family offices are uniquely positioned to provide value- adding philanthropic support as a service related to succession and estate planning. By asking a few pertinent questions, they can help their clients clarify their aims, and how to achieve them: Why do you want to engage? What matters to you, what do you want to achieve and how do you wish to approach your philanthropy?

Luxembourg has responded to the need for a center of expertise in philanthropic engagement that can provide the necessary advice and guidance to philanthropists and their trusted advisers. As an independent foundation with public support, the Fondation de Luxembourg facilitates philanthropic engagement by acting as a consultant and service provider. It is a gateway to associations and NGOs around the world and can assist donors in the selection of their ideal charitable project. The umbrella structure of the Fondation de Luxembourg enables donors to establish their own charitable foundations, benefitting from all the advantages of a stand-alone foundation, while minimizing administrative and cost burdens. This allows them to structure their long-term philanthropic commitments within a secure and transparent legal framework, based in one of the most economically stable countries in Europe. At the same time, they can influence and control their project through board meetings and the provision of detailed impact reports. As a state-sponsored organization, the Fondation de Luxembourg brings institutional credibility and sound governance to the philanthropic projects under its umbrella. Each foundation maintains its own bank account and management committee, and files its own annual reports. Furthermore, the Fondation de Luxembourg is a member of a European network, which recognizes cross border donations in 15 European countries as tax deductible.

Since the Fondation de Luxembourg was created in December 2008, it has facilitated a number of worthy philanthropic projects.

Tonika Hirdman Fondation du Luxembourg

They range from Foundation Education and Integration for All (EIFA), founded by a Belgian entrepreneur to finance the creation of schools in Namibia, to the C. Ehrnrooth Foundation, set up by a well known Finnish family which finances scholarships to post-graduate neurological students at the Helsinki University Hospital. The foundations under its aegis also support numerous other areas, such as the Fondation Loo&Lou, established by a Paris-based couple for the support of emerging artists. The wide-ranging origin of the funders and their target beneficiaries reflect the diversification and international reach of the Luxembourg financial center.

Tonika hirdman

Fondation du Luxembourg

WEALTH & FAMILY · INSURANCE

Philanthropic Commitment: "Philan-Vie" and Life Insurance

WEALTH & FAMILY · Nº 1

Life insurance is a means of using life to transmit one's own wealth. Designing a foundation as the beneficiary of a policy is entirely possible, and it is increasingly used as a tax- and inheritance-efficient philanthropic tool.

On their side, professionals in the financial sector have understood that these donations are a tax and inheritance tool beneficial not only for the community, but also for their clients. However, when a banking institute tackles the topic of foundations, within the sphere of wealth transmission, clients are not usually aware of the details of this juridical structure and do not think of accessing it.

Farad has designed a made-to-measure insurance contract called «philan- vie» by combining the establishment of a «fondation abritée» (protected foundation) under the auspices of the Fondation de Luxembourg.

This solution, which uses the flexibility of a life insurance contract, allows well-off clients and their consultants to design the implementation of a philanthropic commitment without difficulty. Life insurance is much more than a savings product. It is a means for transmitting one's own wealth.

Designing a foundation as beneficiary of services following a death is absolutely possible.

Irrespective of the contract, a beneficiary clause is provided which allows the underwriter to freely choose the individuals and bodies that will be the beneficiaries of the services following death.

«philan-vie» formalises the wish of the client interested in allocating his wealth well.

The client underwrites the insurance policy and at the same time signs a contract with the Fondation de Luxembourg for the establishment of a protected «fondation abritée». This contract states that the Fondation de Luxembourg commits itself to setting up a dormant foundation which will become active when the capital resulting from death is released when the insured party has died. The underwriter will have taken pains to designate the dormant «fondation abritée» established under the auspices of the Fondation de Luxembourg as beneficiary of the capital resulting from death.

In this way a foundation of public interest is created post mortem with the commitment by the Fondation de Luxembourg to manage it in the name of and according to the wishes of the donor on the basis of that defined at the time of the establishment agreement. A management and control committee is set up with a view to supervising the administration of the fondation abritée and its long-term wealth. If the amounts in question are insufficient, they may be protected by allocating them to existing foundations that operate in the sector the client wishes to support.

Stefan Fank, FARAD International

Advantages

When the client is still alive, the assets deposited in a

«Philan-Vie» contract are always accessible. This means that amounts can be withdrawn at any time, for any reason. In this way, when alive, the client retains an action and a maximum flexibility over his assets. At fiscal level, during the contract, the assets paid into the insurance policy appreciate in a privileged fiscal sphere. At the time of death, the defined assets are paid according to the beneficiary clause and therefore they are not paid to the heirs or (where there are no heirs) to the State, but to the foundation. In this way the client realises his inheritance wish, possibly at the same time as his family inheritance. At fiscal level, the insurance benefit is paid to the public utility foundation, set up with an exemption on income and inheritance taxes. This capital from which the foundation benefits in order to realise its objective is therefore higher thanks to the effect of this tax exemption.

The client may pursue three objectives with the «Philan-Vie» contract:

- He separates parts of his wealth for the further creation of a foundation at the time of his death.
- He can increase this separated wealth by benefiting from a tax exemption.
- He can dispose of this wealth at any time within the sphere of the insurance contract, in this way benefiting from a maximum flexibility.

The «Philan-Vie» contract allows the donor to regulate his philanthropic commitment without obstacles in the handing over and transmission of the wealth of the person still alive.

In practice

Situation: Mr. Schmidt, who is 60 years of age, married, without children, is a resident of Luxembourg.

The sale of his business has allowed him to earn an important sum of money. He wishes to allocate 1,000, 000 € to his pension fund and to that of his wife in order to finance the last years of their life. He wishes to control his inheritance while he is alive and to create a dormant public utility foundation after the death of the two spouses in order to transfer the remaining capital.

Solution: Mr. Schmidt and his wife stipulate «Philan-Vie» insurance for their personal pension fund in the capacity of underwriters and insured persons. In compliance with the insurance donations, on the death of one of the insured persons, the surviving partner takes over the contract alone in the capacity of underwriter. The beneficiary of the policy, via a separate contract, creates a foundation in the event of a death benefit as per the insurance contract (at the time of the death of the last insured person).

Case 1: Mr. & Mrs. Schmidt cancel the insurance 20 years after underwriting it. Result: The redemption in Luxembourg is subject to tax exemption since the insurance was contracted at least ten years previously.

Case 2: the policy has not been cancelled. Mr. Schmidt dies after 5 years and his wife after 15 years. In this way the policy has expired after 15 years. The value of the contract after 15 years amounts to 2, 000, 000 €. Result after five years: the transfer of half of the policy to Mrs. Schmidt is first of all exonerated from income and inheritance taxes. Result after 15 years: the policy is payable, the foundation of public interest is created on the request of the spouses and disposes of a donation exempt from taxes of the amount of 2,000,000 € for a permanent utilisation of incomes according to the objectives of the foundation established by the Schmidt spouses.

Stefan fank

«Philan-Vie» – Spiritus rector, FARAD International S.A.

WEALTH & FAMILY · PASSION

Art as an Investment

WEALTH & FAMILY · Nº 1

> *For many UHNW individuals, investments in passion assets — art, precious metals, diamonds, jewellery and fine wine — have been increasing, representing around 10% of their entire net worth.*

For many UHNW Individuals, investments into Passion Assets such as Art, Precious Metals, Diamonds, Jewellery and Fine Wine has been increasing, representing around 10% of their entire net worth. The overall market for Passion Assets amounts to close € 3.5 trillion.

The Deloitte Art & Finance® report 2013 has highlighted the heightened awareness among wealth managers about the importance of art as an asset class and the need for private banks to offer art related services.

The survey highlights several points:

Economic uncertainty favourises client demand for alternative investments.

- There is more demand for art related services and private bankers need to be able to meet the client's expectations.
- The role of art in wealth management is changing, moving from client entertainment to art management services.
- The increasing value of art is triggering the need for new wealth management services such as protection, enhancement or monetization of the art.
- Succession planning in art is becoming very relevant.
- Collectors see opportunities to use their art collection as collateral for loans.

Due to the evident economic and financial risks devaluing individual and family legacies today, asset protection in general and the security of personal wealth in particular have become even more important than before. People are thinking about their future more now than they did previously. The current trend is that asset security and wealth preservation have become more important today for UHNWI than the actual performance of their own portfolio. Collecting Art is a passion and it requires a lot of dedication, perseverance, knowledge as well as substantial financial means. Over time a collection does not only gain in substance but also in value. Art is an integral part of a family's patrimony, it is a family heritage as well as a legacy for the generations to come and needs to be protected.

Indeed keeping a collection intact can be a challenge as its storage requires outmost care: economic downturns may force partial sale, legal controversies may force surrender, badly managed transmission may dilute the collection and lack of privacy imposes limitations. It is important to view Art in terms of a family asset which should enjoy similar protection and preservation as all other assets owned by the family.

Luxembourg's Private Banking Centre has been undergoing major changes and has transformed itself into becoming a centre of competence for an increasingly sophisticated international UHNW clientele. The Luxembourg Freeport (www. luxfreeport.lu) has been established in order to satisfy the needs of international art collectors. It is unique in its design. This high-tech Freeport has a single purpose in mind: the optimal storage and preservation of valuable works of art. The Luxembourg Freeport is not a secret place and all Luxembourg laws apply including the anti-money laundering laws. With this activity the Luxembourg Freeport will significantly contribute to the ongoing diversification of Luxembourg's dynamic prime Wealth Management Centre.

Alain Mestat

Managing Partner PassionProtect®

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— *Alain Mestat*