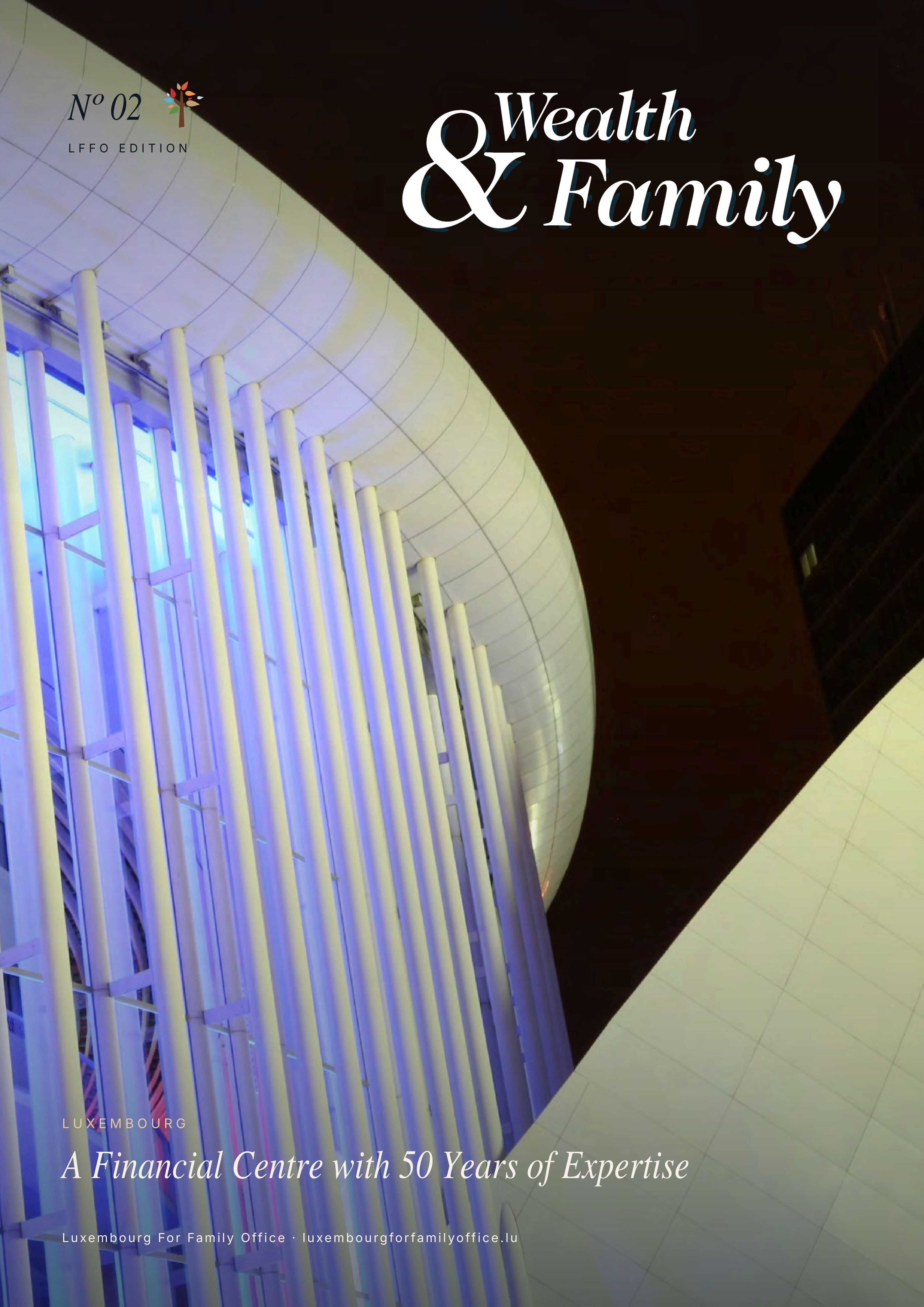

Nº 02

LFFO EDITION

Wealth & Family

LUXEMBOURG

A Financial Centre with 50 Years of Expertise

Luxembourg For Family Office · luxembourgforfamilyoffice.lu

IN THIS ISSUE

Contents

Nº 02

WEALTH & FAMILY · ANALYSIS

Geopolitics and Economics in 2015: a Challenging Interplay

WEALTH & FAMILY · Nº 2

> *Words carry meaning, particularly when they are spoken by the President of the European Central Bank. He delivered his plea for a more active and coordinated budgetary policy, backed by a European political union.*

Words carry meaning, particularly when they are spoken by the President of the European Central Bank. He delivered his plea for a more active and coordinated budgetary policy, backed up by a European political union to drag the continent out of stagnation, at the annual summit of the world's top central bankers in Jackson Hole (Wyoming, 22 August 2014); his criticism of overzealous austerity certainly made people sit up and take notice. In his previous speech (Frankfurt, 7 August) Mario Draghi had mentioned "heightened geopolitical risks" which "may have the potential to affect economic conditions negatively, including through effects on energy prices and global demand for euro area products".

In both cases he continued his strategy of "forward guidance" for investor expectations" by presenting criteria for monetary policy, expanding them for the very first time to include a factor that is neither economic nor financial.

In its report on Regional Economic Prospects, the EBRD also emphasised the threat to the peace dividend resulting from the end of the Soviet Union should Russia's neighbouring states react to the "new geopolitical risks" with a significant increase in military spending. The OECD highlighted in its interim report (15/09) the short-term "geopolitical risks" that could have a negative effect on the economic upturn in the Eurozone: tension in Ukraine and the Middle East, and uncertainty in Scotland. And the recent Economic Forum in Davos pointed out the growing role of geopolitical uncertainties to be addressed within the framework of long-term decisions to be made by investors.

Yet geopolitical change is underway, sparked by economic change. The pursuit of the Chinese dream so dear to President Xi Jinping is evident in its ambition to establish a new China-led regional order in East Asia. One manifestation of this are the maritime tensions between China and Japan – between a revisionist power and a country fretting about a loss of status – which has resulted in a 50% drop in direct investment in 2014 and a fall in exports by Japanese companies. Japan is now actively looking for new markets and investment opportunities in India, Africa and ... Europe. Russia, whose reputation is tarnished by its weak legal system, its tendency to resort to armed interventions and forecasts of declining foreign (western) investment, is examining economic models based on greater self-sufficiency to make up for a lack of imports, which have been hit by the Kremlin's counter-sanctions and retaliatory measures. To circumvent Western sanctions Russia is turning to China, Turkey and Brazil.

Across a united Europe, the business environment will be affected by nine sets of election in 2015. These include Greece, which will not leave the Eurozone nor have its debt erased, but its repayment schedule will probably be extended; and the still-United Kingdom, where close parliamentary election results on 7 May will lead to a situation where Conservatives or Labour will not reach a majority. Although the economic climate will remain extremely clement, the government will have to decide whether or not to organise an "in/out" referendum on Europe, something David Cameron hopes will resolve once and for all the tensions within his own ranks over EU membership, an issue on which the Conservatives face fierce competition from the populist UK Independence Party to their right. The Bank of England will not raise interest rates between now and then.

The Eurozone could see a gentle upturn, riding on the common currency's exchange rate, which should work in favour of exports, and an oil price that is expected to stay low for several months due to increased production on the Arabian peninsula and North America, and reduced demand from emerging economies. Despite the reluctance of six ECB board members, the Eurozone might also benefit from the introduction of quantitative easing sometime between now and March. Is there any alternative when inflation is stuck at 0.3%? The ECB's goal is to boost investment in conjunction with the Juncker plan, whose effectiveness will be judged by whether it proves a springboard for a genuinely European industrial policy.

Due to strong economic growth in the US, the Federal Reserve is planning the opposite; its Chair suggested in San Francisco that the Fed will raise base rates in June. Discussions between the two central banks can only result in the realisation that they have no choice but to bolster economic recovery in Europe and that the Fed must allow the dollar to appreciate.

The conflict between Russia and Ukraine has had a real impact on European countries, as they have had to apply sanctions to enforce international law (German exports to Russia fell by 20% in 2014), yet the issue of borders of the autonomous Donbass region has proved a serious stumbling block in negotiations between the two presidents. Unless Ukraine forges closer ties with NATO (something that both Berlin and Paris oppose), the tensions between the two states will ease in 2015, although local clashes will continue to occur in a now largely static conflict. It will fall to the two capital cities, along with the European External Action Service, to reboot the unfinished task of defining a framework for relations between the EU and Russia, which is in the obvious interest of both parties.

Among other geopolitical situations with an economic impact, it is worth mentioning a probably non-agreement/ non-aggression settlement of indefinite length with Iran, allowing business to pick up again; dynastic succession in Saudi Arabia; continuing Western military assistance to Baghdad but no boots on the ground; and the extension of French military operations in the northern Sahel, without any fresh military intervention in Libya. A rising China will face domestic development challenges and increasing demands from civil society. Modi's India will follow on its heels.

In 2015 the impact of geopolitical tensions on economic development, so evident in 2014, will be coupled with the increasing effects of domestic political change in established and emerging powers on public policy.

Michel foucher

Former Ambassador, Senior Advisor to the Compagnie financière Jacques Cœur

— Michel Foucher, for Luxembourg For Family Office

WEALTH & FAMILY · TECHNICAL

Private Family Funds: How to Manage Your Family's Wealth Like a Pro

WEALTH & FAMILY · № 2

> *Over the next 30 years, $16 trillion of UHNW wealth will be transferred to the next generation. To minimise the impact on the fortune, families need to start planning their wealth well in advance.*

Today's wealthy families

Over the next 30 years, $16 trillion of UHNW wealth will be transferred to the next generation. In order to minimize the impact on the fortune, families need to start planning their wealth well in advance. Nowadays families consist of multiple generations where members are frequently scattered around the world, living in one country, working in another. The assets the family holds are located in various jurisdictions, thus being exposed to multiple legal and tax systems. Moreover, family' portfolios have increased in complexity during time. Over the past 30 years, asset classes have proliferated and managing such a portfolio becomes more difficult every day. Typically, wealthy families spread their assets across multiple banks, thus aggregating the information and assessing the net worth becomes a true challenge.

ONE VEHICLE TO HANDLE THE COMPLEXITY OF MANAGING A FAMILY'S WEALTH It's no surprise that wealthy families are becoming more interested in a single vehicle or structure that can hold and manage various types of asset classes. One option that increases in popularity across families is the private family fund. A private family fund is a tailor investment vehicle that can be used by wealthy individuals or families to hold diverse assets. The fund allows families to aggregate assets they hold worldwide and across multiple institutions. It can also be used to pool together assets across multiple families in order to gain economies of scale and to access a wider universe of investments. Having a clear overview on the underlying assets with the help of the net asset value reporting will ease the management of the assets and optimization of the wealth. Moreover, as families have multiple generations, with different views on investments or liquidity needs due to the stage of life they are currently in, the fund can have multiple compartments to accommodate individual needs. On the wealth transfer side, because the family fund groups the assets all together, it simplifies the wealth distribution as it is less complicated to transfer to your children 50% of an investment funds compared to transferring a company, three houses, portfolios of securities available in four banks and a yacht. The private family fund, depending on the laws of the country of residence of the family member, can provide potential tax benefits or can be used in a further structuring process to optimize the tax position. When considering a private family fund as a tool for wealth management, families should consider all the aspects involved, like the costs of setting up and maintain the fund, the asset managers, the service providers involved, the jurisdiction etc.

Private family funds in practice – a Luxembourg example

The Fernandèz family owned through different vehicles, companies and private investments (yachts, real estates...). Mr. Fernandèz is involved in the management of all family assets. Due to the lack of uniform wealth reporting and management, the family was looking for an efficient vehicle to simplify the way the family's business and private investments were held and managed. Other issues had to be solved like the transfer to the next generations as well as a good communication because family members are scattered all over the world.

Sandrine Pompidou, ING Private Banking Luxembourg

The family's advisors recommended a Luxembourg private fund, a Specialized Investment Fund (SIF).

In addition to being a vehicle with a specific tax regime, this is a regulated fund which allows the family to have a clear view of the management/ performances of the investments through disclosure and reporting obligations specified in the law.

Several fund compartments were created to reflect the different areas of activity of the family group and to segregate the risks, losses or performances resulting from each area.

Furthermore, all of the fund's assets were designated to be administered and held by Mr. Fernandèz. The

SIF was then incorporated under a specific legal form (e.g. a partnership limited by shares ("SCA")) which allows Mr. Fernandèz (as the general partner of the SCA) to manage the fund and have authority over the investments. The other partners (i.e. the

Limited Partners; the other members of the family) only have the economic rights through limited shares.

As the largest European fund centre, Luxembourg has a wide range of investment vehicles available that are suitable even for the most complex needs.

ING, together with reputable partners, can help to set up a dedicated private family fund in Luxembourg, so that you can focus on living your life.

Diana tache sandrine pompidou

Wealth Analysis and Planning Manager

ING Private Banking Luxembourg

WEALTH & FAMILY · ART

At the Heart of (Collecting) Art

WEALTH & FAMILY · Nº 2

> *For me the world of art is a mysterious, deeply fascinating and endlessly satisfying place — and, increasingly, a considered part of a family's wealth.*

For me the world of art is a mysterious, deeply fascinating and endlessly satisfying place. For instance, there is nothing as fulfilling as going to The National Gallery in London, sitting down and gazing at Cezanne's Les Grandes Baigneuses or any other great works by masters such as Da Vinci, Caravaggio, or Botticelli. If there is one thing I can never get enough of, it's the joy of art. There is always a hidden soul to be unveiled through the eyes of the beholder within a piece of fine art and that's a truly magical experience. But can we still expect such moments and reactions to be replicated by simply thinking about art?

In the changing world of the 21st century, art has entered a period of (r)evolution. Never for a moment did Gauguin think that his painting Nafea Faa Ipoipo, or When Will You Marry? would break sale at nearly $300m. Even though the price achieved at auction does not necessary reflect the fair market value of the work in question, it still is sad to think that Gauguin was faced with increasing hardship after retiring from stock broking in 1883 and later died in poverty and alone just like so many other great masters. It is true that the latest auction records and the appearance of numerous art funds and financial institutions have been showing a different breed of buyer new ways of exploiting the art world. A combination of financial and 'emotional' assets as investment vehicles with focus on long-term returns is now a way of business for an increasing number individuals with a vast net worth around the world. Particularly when prices are rising, the idea that the aesthetic value of a painting can now be evaluated and even exploited for profit, gains credibility.

The growing interest of art as an investment requires new expertise as new 'games' demand new rules and here the most important rule is undoubtedly connaissance followed by trust. This kind of trust can only come from the collector's heart together with intuition and a profound knowledge for what has been passionately acquired. In the art world everyone can air their opinions but there is one point with which we should all agree. This is that no successful personal art investment can be driven solely as a pure asset – beneath such an investment must lie passion and an enjoyment of life correlated with financial motivations.

This advise is certainly based on our experience, and our experience tells us that any collector or investor should not fall into the embrace of today's market fantasy associated with celebrities playing in, and with, the art game which might be seen to be approaching a state of notoriety. One-of-a-kind works of art do not just appear and exclusively start to increase in value, like a bond or a share. The value of a quality artwork differs from this and this can be supported by fundamental rules that establish and maintain the importance of perception of appreciation.

Collections assembled with the hope of financial profit alone often prove to be poor investments. Collectors should be wary of apparent bargains and promises of future gain. Art chosen solely on the basis of price will yield a mediocre collection that does not necessary hold its value on resale, especially during economic downturns. It is collections formed with passion and intelligence that stand the test of time, both aesthetically and monetarily. Buying an artwork from a gallery should be the beginning of a long-term relationship, and a great one at that. One of the privileges when buying from a respectable and traditional gallery is the seller's control of the final price and conditions of sale. The lack of pressure plays in favour of private and independent art galleries and advisors in comparison to auction houses.

At Gladwell & Patterson's Gallery we provide a long- term service, dedicated to meet the requirements and taste of each client or family. As we are well aware, in today's art world time has gained a different meaning for both, whether seller or buyer. I find these aspects crucial when, for example, dealing with Family Offices around the world. There is no other way to gain their welcome and confidence if you do not exhibit a deep understanding of the importance of such special needs.

Family Offices, more than private investments banks, have the great responsibility of managing families' assets and investments based on an individual approach but shouldn't stop there. During the good times things must run smoothly and efficiently. Increasing or maintaining the families wealth is essential, but a successful and long-term close relationship goes beyond that. A Family Office's advisor should know all about their client's family tastes, joys and pleasures. For example, I would hope in the future to see more Family Offices dedicate special attention to art. There's so much you can do with paying such close attention without, of course, forgetting the core purpose of the business. The overall financial goal can easily be paired with the beauty and pleasure of cultural and philanthropic collecting activities. Finding the viability and long-term sustainability of the patrimony of a wealthy family should sensibly include a respect for art, in addition to other types of wealth, while fully respecting each family's financial aims and philanthropic commitments. But the heart of collecting can perhaps gain most credibility if we think in terms of the matter of inter-generational transfer that allows a family to pass on not only financial benefits but also family traditions of taste and heritage based on both emotional and intellectual motivations. Passing an art collection down the generations not only creates a wonderful legacy but also reinforces the family tradition. Bringing Families closer through art appreciation together with a collection of fine artworks can be both an enjoyable and a worthwhile way to add to a family's, or a single client's, business strategy.

Fine art may well be regarded as a new kind of asset that combines financial reward with the thrill of ownership and stewardship of one of the world's most coveted paintings, for a brief moment in time. Present evidence from the art market suggests to me that over a reasonable period of time, fine art may be expected to perform well as an investment. A keen, well informed specialist eye may spot those works that remain undervalued, currently unpopular for reasons of taste and fashion. Both privately in a gallery or at an auction house the collector should be able to sit down quietly for a while and gaze upon the artwork in question and be open to being magically captured by its ambience and the essential spirit that the artist has imbued it with, all the time letting the emotions of the moment prepare the way for an intelligent and well advised decision. The artwork should be calmly contemplated with considerable care, the more so as prices rise.

Above all the collector needs to reflect on the reasons for the purchase and perhaps remember that there isn't any greater profit than that which arises from the act of acquiring what is loved and will be forever much appreciated. This sentiment of passion still is the most valuable link between the collector and the piece which is being collected. Whatever the reasons or circumstances, private individuals or Families should be guided to the world of fine art first through an emotional and cultural perspective and then, with enjoyment and passion, learn the steps towards a quintessential art experience.

Carla Pinto is based in Luxembourg and represents the London gallery Gladwell & Patterson. For further enquiries please contact Carla@gladwellpatterson.com and for more information about G&P collection and services please visit www.gladwellpatterson.com

WEALTH & FAMILY · REAL ESTATE

The Residential Real Estate Market in Luxembourg

WEALTH & FAMILY · Nº 2

> *Luxembourg has shown in recent years an impressive growth in inhabitants, and its residential real-estate market remains well worth investing in.*

Martin stoz, inowai group s.a.

Luxembourg has shown in the past years an impressive growth in terms of habitants (+20% over the last 10 years) which has led to a highly dynamic residential property market. The industry in general which did not anticipate this sharp rise, together with urbanistic hurdles in Luxembourg are at the origin today of a residential market where over several years now the demand has been higher than the offer. Consequently, the average price per sqm has soared by 47% in the City of Luxembourg over the last 7 years. The new VAT rule in place since 1 January 2015 which has been increased from 3% to 17% for pure investors does not seem to reverse this price curve initially due to the above mentioned unbalance. Looking at the map of Luxembourg, it is interesting to see that two third of the population live in the southern part of the country. This is, inter alia, due to the poor road connections between the north of the country and the City of Luxembourg as well as the iron ore mining beginning of the20th century in the south of Luxembourg which pushed the South rather than the North in terms of urbanistic developments over time. The highway to the north finally should open end of 2015 after 30 years of decision taking and road constructions which should give a boost to the residential market in the northern parts of the country! Luxembourg-City is more and more changing from single-family houses to multi-family houses as old houses have to make room for modern developments. Within the City, the residential areas most looked after are the City-Center, Limpertsberg, Belair and Merl / Hollerich. Popular neighborhoods are Bonnevoie, Station, Clausen and Gründ. The Kirchberg / Weimershof area is developing rapidly over the last years, a little bit in the shade of the office developments in the same area. The wealthy suburbs in the close vicinity of the City are for instance Bertrange, Bridel, Hesperange, Senningerberg, etc... In these areas, the landscape is mostly filled with free standing single family houses on plots of land between 500 and 1.000 sqm. Finally, the general trend for Luxembourg is unlikely to change over the coming years; the growth of the population in combination with the increase in the number of households in relation to the general growth of the population, due to the increasing number of singles, should keep a certain dynamic in the residential market in Luxembourg.

Martin stoz

Marketing Manager INOWAI GROUP S.A.

WEALTH & FAMILY · INTERVIEW

Private Banking versus Family Office: Competitors or Complementary?

WEALTH & FAMILY · № 2

> *When it comes to increasing share of wallet and even to basic customer retention, the in-depth knowledge and profound understanding of a customer's overall situation is a key success factor.*

When it comes to increase of share of wallet and even to basic customer retention, the in-depth knowledge and profound understanding of a customer's overall situation is a key success factor. This is especially important today when clients are more and more sophisticated when it comes to wealth management and structuring ideas and use many different advisory sources, and no longer depend on their Private Banker as the sole source of wealth management inspiration. The capacity to read into, and understand complex family situations and the resulting delicate balances between its members, which are often conditioned by misunderstandings and miscommunications, will make the difference for a wealth advisor to deliver successfully pertinent solutions.

On the other hand the capacity to solve fundamental problems for these customers will yield if not gratitude, at least a higher customer satisfaction thus retention which will consequently serve to deepen the relationship and lead to further opportunities with the client, which serve to develop profitability for the Private Banker. So, what prevents a Private Banker from choosing that path? There are many reasons which inhibit efficiency at that point. It can be a lack of empathy, lack of time, or simply the incapacity to create strong enough relationship in a short timeframe, to be part of the inner circle where secrets are shared. These relationships take time to develop and for the trust to develop between the client and the Banker. Here is where the Family Office comes into play, in a complementary role. Family offices manage a large range of services for wealthy families: from tax planning and structuring for both business and private projects to investment management, estate planning for often complex family situations, philanthropy, organisation of education and accommodation abroad for children, art and wine collections to even managing the family's vacation homes, planes and yachts. In effect Family Offices, in particular the single Family Offices have a deep understanding of a family's holistic situation, its needs and contingencies. On the other hand they may lack technical and markets knowledge. They often specialize on specific themes, such as philanthropy or tax planning and need support from other

Manlio Unfer, Banque Havilland partners on the areas where they lack knowledge and sufficient resources. This is where the synergies between Private Bankers and Family

Offices can play out in order to deliver tailored solutions to client's needs.

Family Offices can also create access to different type of investments. There has been a trend in recent years for wealthy families to diversify from traditional private equity funds, instead looking to hold direct investments on their own, or with other families in privately held companies, which can benefit from the entrepreneurial know-how of the families. The Family Office can work closely with the Private Bank to help to structure the transaction, provide investment and financing advice.

My conclusion is that in the value chain of the

Private Banker's Wealth Management service offer, Family offices have an important role to play, not only in terms of filtering the best value for money offer for their clients, but also in facilitating the delivery process by filling the information gap and creating an invaluable information flow and link between the parties.

So rather than being competitors, the Private Bankers and Family Offices complement each other in efficient synergies for their mutual benefit and the best interest of their common client.

Manlio unfer

Group head of Private Banking

— Manlio Unfer