

N° 01

Wealth & Family



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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,

DIANA DIELS

Luxembourg for Family Office



THE IMPORTANCE OF **FAMILY OFFICES** FOR A WEALTHY FAMILY TODAY

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

Family office can offer a neutral framework to govern the family.

Venetia Lean, Banque Havilland SA



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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,
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WHY WEALTH MANAGEMENT MATTERS

WEALTH MAY BE DERIVED FROM HARD WORK, TALENT, INHERITANCE, GOOD FORTUNE OR A COMBINATION OF THE ABOVE. HOWEVER, MAINTAINING, ENHANCING AND TRANSFERRING WEALTH (I.E. "WEALTH MANAGEMENT") REQUIRES MORE: IT DEMANDS VISION AND A STRATEGY FOUNDED ON SOUND PROFESSIONAL ADVICE. THIS ARTICLE USES EXAMPLES TAKEN FROM THE LUXEMBOURG CONTEXT TO DEMONSTRATE HOW PROFESSIONAL ADVICE CAN ASSIST IN DEFINING A SUITABLE WEALTH MANAGEMENT STRATEGY.

1. PROTECTING ASSETS

Regardless of how or when wealth is acquired (investment, inheritance or labour), the purpose of wealth management is to protect existing assets. Asset protection does not involve "hiding" assets, but merely exposing them to the extent necessary by structuring and securing wealth in an efficient way.

A good adviser can assist in this by suggesting the best vehicles in which to hold and protect assets. This can be done through a legal entity (subject to tax, such as a SOPARFI or SICAR, or exempt from tax, such as an SPF), or investment funds (such as the specialised investment fund or "SIF"). The adviser can also recommend the most appropriate time to move assets into such vehicles and can assist in declaring those assets in order to comply with the applicable laws and reporting requirements.

Wealth management provides the right tools to protect existing assets not only from third parties, but also from potentially hazardous management decisions.

2. ENHANCING WEALTH

Making the most of what you have is in human nature. Wealth Management and tax advice can provide a relevant vision and strategy to build on your existing assets.

The most common way to enhance wealth is through investment. This requires an accurate strategy not only on what to invest, but also on

when and how to enter into such investment, how to hold it and how to exit, if necessary, from it.

Corporate and individual tax structuring provides a flexible structure to enhance existing wealth depending on the individual's current and future needs, with the option to integrate additional business activities within the structure (e.g. real estate, financing, portfolio investments). Tax structuring aims to optimise the tax position of the investment by enabling tax deferral, double or multiple tax relief and efficient use of losses, and by optimising third-party loans within the group, maximising after-tax return and providing efficient repatriation of profits and taxation upon exit.

As part of the added value provided by wealth management, corporate and individual tax structuring is a key factor in enhancing available wealth.

3. FREEDOM TO MOVE AND PERSONAL TIES

Wealth usually involves travelling or relocating from one country or city to another, either for professional or personal reasons. Wealth management can provide a safety net during the move by shedding light on the tax implications of the former and new place of residence of wealthy indi-



Alain Meunier



Serge Saussoy

viduals and their families. From a tax point of view, residence is in many cases the starting point of taxation. Therefore it is not only about where the assets are located, but also where the individual is residing and the synergies between these two locations.

Personal affairs and decisions can also influence relationships with family members and their access to the estate. Wealth management can assist in maintaining control over such access and thereby protect the value of the assets.

Through appropriate advice, wealth management can provide the freedom to move and to maintain personal ties, while ensuring that the assets left behind (such as real estate, portfolio investments, even intangible assets such as patents, know-how or confidential information) are managed, protected and structured in the most efficient way possible from a legal, regulatory and tax point of view.

4. SHARING YOUR WEALTH

Compassion and the desire to share are equally part of human nature. Wealth planning can help maximise this generosity by providing appropriate vehicles and structures, such as charity funds, foundations, trusts and SIFs, to share your wealth efficiently and give where it matters the most.

5. PLANNING YOUR EXIT

Paraphrasing Benjamin Franklin, death and taxes are the only two certain things in life. Wealth management can help you orchestrate your own “exit” through appropriate succession, estate and inheritance planning. Distributing and maintaining control over assets before death are not mutually exclusive. Wealth management can provide the most suitable vehicle to transfer wealth efficiently from a legal and tax point of view. This is achieved by taking into consideration the domestic legislation of the place of residence of the deceased and heirs, the location of the estate or assets, as well as any available unilateral or multilateral relief.

A closer look at the specialised investment fund The SIF encompasses many of the advantages of wealth management.

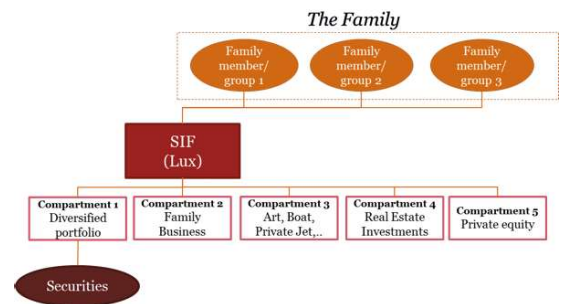
Example: as the head of a wealthy family, you are looking to consolidate your assets within a tax-efficient vehicle to simplify the holding of investments (both professional and private), facilitate asset valuation and find solutions to pass on your legacy, while maintaining full decision-making authority.

As a convenient private wealth solution, the SIF offers a favourable tax regime and provides different compartments to allow family members to invest jointly in different business areas. This ensures that losses or liabilities from one compartment will not affect the others. The SIF provides a centralised platform for the family’s assets, a single reporting framework, as well as flexible family governance and exit plans. Security is also guaranteed as the vehicle is regulated.

CONCLUSION

Through vision, strategy and professional advice, wealth management:

- helps protect and build your assets;
- gives you the freedom to move and manage personal affairs without jeopardising your assets;
- helps you plan, manage and share your legacy, both in life and death.



Luxembourg offers a wide range of regulated and non-regulated wealth management solutions. This includes on-shore structuring, which affords more stability, less administrative burden, better communication between stakeholders and solutions to estate planning and governance issues, among other benefits.

Vision, strategy and an experienced professional adviser are key to successful wealth management.

SERGE SAUSSOY AND ALAIN MEUNIER

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WHY LUXEMBOURG ATTRACTS ASIAN FAMILIES

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 POPULATION⁵ AND THE LARGEST INCREASE IN TOTAL WEALTH. IT IS EXPECTED THAT BY 2020, ASIA WILL HAVE AS MANY BILLIONAIRES AS NORTH AMERICA⁶.

AMERICAN AND EUROPEAN FAMILIES HAVE MULTI-FAMILY OFFICES IN VARIOUS JURISDICTIONS, 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 PROCESS⁷ MAY BE AREAS OF CONCERN TO BE ADDRESSED BY THE FOUNDER TO PRESERVE WEALTH⁸. 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 JURISDICTION (AND ONE OF THE FIRST IN THE WORLD) TO HAVE A REGULATORY FRAMEWORK FOR THE ACTIVITIES OF MULTI-FAMILY OFFICES.

⁵ An increase of 3.7% between 2012 and 2013

⁶ Wealth-X and UBS Billionaire Census, 2013.

⁷ J. Fan, *The Great Succession Challenge of Asian Business*, speech available at http://www.cuhk.edu.hk/iei/josephfan/doc/public_speech/12.pdf.

⁸ On China, see J. Fan, M. Jian and Y. Yeh, *Succession: The Role of Specialized Assets and Transfer Costs*, IEF Working Paper, Chinese University of Hong-Kong, 2009. Notable also is the survey conducted over 217 registered privately owned companies in Hong-Kong, Singapore and Taiwan, where the successor choice by founders clearly envisaged succession within the family (65%) rather than a transfer to a buyer (12%). On Asia, see M. Witt and G. Redding, *Asian Business System: Implications and Perspectives for Comparative Business Systems and Varieties of Capitalism Research*, The Oxford Handbook of Asian Business Systems, 2014.



*Asian HNWIs and UHNWIs
are now setting their platform
in Luxembourg to protect
and grow their wealth.*

*Alexandrine Armstrong-Cerfontaine, Partner
King & Wood Mallesons SJ Berwin*

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

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 royalties⁵ all together provide an ideal environment for wealth transmission and growth by tapping the European and North American markets.

⁵ There are currently 64 double tax treaties in Luxembourg, providing an effective tax rate ranging from 0% to 10%, depending on activities and Luxembourg provides advanced tax agreements which gives certainty to investors. This contrasts sharply with (i) Hong-Kong, with 29 double tax treaties and an uncertain offshore regime resulting in no taxation for certain activities and (ii) the BVI, where no tax is paid but is considered as a tax haven. In addition, Luxembourg has a strong tax appeal, notably for its investments tax credits, limited anti-abuse rules, efficient tax structures, absence of capital duty, unlimited carry-forward of tax losses and tax grouping rules.



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.⁶ 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

⁶ Preqin, Family Offices' Above-Average Allocations to Private Equity – August 2014: their survey tracks 32 Asia-Pacific-based family offices with a preference for private equity funds, constituting 8.3% of family offices worldwide that are interested in the asset class, of which 53% of single-family offices and 47% of multi-family offices.

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).

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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 resources globally 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

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THE MAKES, MODELS, SIZE AND COLOURS OF THE FAMILY OFFICE WORLD

WHAT IS A FAMILY OFFICE? WHAT MAKES A FAMILY OFFICE A FAMILY OFFICE? SO OFTEN, THE FINANCIAL WORLD PUTS NUMBERS ON THE ANSWER. THAT IS ALL THEY REALLY KNOW. THAT IS HOW THEY MARKET AND STRATIFY WHO IS WHO. BUT FAMILIES KNOW IT IS SO MUCH MORE. FOR FAMILIES, IT IS THE INSTITUTIONALIZATION OF THE GOALS, THE DREAMS, THE STANDARDS AND THE PRINCIPLES OF THE FOUNDER OF THE OFFICE.

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

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

*Frederick Metz Shepperd, CEO
Shepperd Investors AG*

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

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!

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FAMILY GOVERNANCE : CODE OF CONDUCTS ARE BETTER THAN GOVERNANCE

MOST WOULD ARGUE THAT "GOOD GOVERNANCE" IS ONE THE KEYS TO A SUCCESSFUL TRANSITION WITHIN A BUSINESS OWNING FAMILY. SO WHAT DEFINES "GOOD GOVERNANCE"? JOHN DAVIS QUOTES "DEFINING AND MAINTAINING THE BASIC DIRECTION OF THE ORGANIZATION THROUGH CERTAIN PROCESSES, STRUCTURES, PLANS AND POLICIES, RULES AND AGREEMENTS."

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/



Good governance starts with an individual's code of conduct.

*Franco Lombardo
Managing Director
Veritage Family Office*

© Veritage Family Office

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

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



TOWARDS A UNIQUE CLUSTER FOR ART ADVISORY SERVICES



IN THE WAKE OF THE SUMMER 2011, WHEN FINANCIAL MARKETS ENTERED ANOTHER PAINFUL PERIOD OF TURMOIL, THE NASCENT INCLINATION OF INVESTORS TO DIVERSIFY ASSETS BY INCORPORATING TANGIBLE INVESTMENTS EVOLVED INTO A MORE POWERFUL TREND. INDEED ART OFFERS ADVANTAGES THAT GO BEYOND A MERE EMOTIONAL GRATIFICATION. IT IS A PRIVATE ASSET, EASILY TRANSPORTABLE AND MOVABLE, AND FREE OF GOVERNMENT INTERFERENCE.

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

www.link-management.lu



AYMERIC THUAULT
Director

“We have included sophisticated risk management tools into our art advice and acquisition offering.”

Aude Lemogne
Director
Link Management



FONDATION DE LUXEMBOURG: SIMPLIFYING THE **PHILANTHROPIC ENGAGEMENT JOURNEY**

INTEREST IN PHILANTHROPY IS GROWING AMONG WEALTHY INDIVIDUALS AND FAMILIES.

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.

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

www.fdlux.lu



The Fondation de Luxembourg brings institutional credibility and sound governance to philanthropic projects.

Tonika Hirdman
Fondation du Luxembourg



FAMILY LIMITED PARTNERSHIPS & **FAMILY UNIT TRUSTS**



© DR

THE CHOICE OF PLANNING VEHICLE FOR PRIVATE CLIENTS IN THE OFFSHORE WORLD HAS INCREASED IN RECENT YEARS. WE HAVE WORKED WITH CLIENTS ON TWO VERY INTERESTING DEVELOPMENTS RECENTLY. FIRSTLY, AS A RESULT OF TAXATION CHANGES IN THE UNITED KINGDOM IN 2008, SOME ADVISERS STARTED SUGGESTING THAT FAMILY LIMITED PARTNERSHIPS (FLPS) OFFERED A MORE ATTRACTIVE ALTERNATIVE FOR PASSING ON FAMILY WEALTH TO THE NEXT GENERATION THAN THE TRADITIONAL DISCRETIONARY TRUST. WHILST WE HAVE NOT SEEN A SIGNIFICANT REPLACEMENT OF THE TRUST BY THE FLP, NONTHELESS IT IS A USEFUL ALTERNATIVE FOR CLIENTS WHO ARE UNFAMILIAR WITH THE TRUST. THE SECOND DEVELOPMENT RELATES TO THE USE OF THE FAMILY UNIT TRUST (FUT) WHICH HAS BEEN USED BY FAMILIES IN THE MIDDLE EAST IN PARTICULAR, FOR THE HOLDING OF A VARIETY OF ASSETS AND THE PASSING ON OF WEALTH TO THE NEXT GENERATION.

*A key advantage
of the FUT is
its flexibility.*

FAMILY LIMITED PARTNERSHIPS

The FLP is a limited partnership, which, as with conventional limited partnerships, consists of one or more general partners and one or more limited partners. The General Partner is usually a limited company established so that it is held by a charitable trust, purpose trust or foundation. The donor will contribute the assets to the FLP in return for a limited partnership interest which can subsequently be divided and transferred to family members to the extent required and at the appropriate time.

Interests in the FLP are held subject to the terms of the FLP and it is therefore possible to protect the assets from young or spendthrift family members by requiring the consent of the General Partner to any transfer or charging of their partnership interests. FLP's may also provide protection in the event of a partner's divorce in the English courts due to the fact that the partner's interest is limited to the income which derives from such interest.

Jersey remains an attractive destination for FLPs because firstly, our laws provide a modern and comprehensive framework for operating limited partnerships, secondly, there is no requirement to disclose the identity of limited partners on any public register and finally Jersey limited partnerships are likely to be tax transparent.

FAMILY UNIT TRUSTS

A unit trust provides high net worth families with a flexible vehicle for acquiring and holding a variety of investments and family assets.

Unlike a discretionary trust, the unit trust enables beneficiaries to participate in any profits or income arising from the underlying trust fund pro rata, according to the number of units they hold.

Where appropriate, the unit trust can be structured so that the units are held by the settlor during his lifetime but then pass to his heirs in a pre-determined manner on his death or incapacity, such as in accordance with Sharia law.

A key advantage of the FUT is its flexibility. The trust instrument can be drafted to meet a family's requirements in relation to the scope of the trustee's powers and the extent to which the trustee can direct investments, and also the extent to which units can be transferred, redeemed or charged as security by the holders.

In conclusion, our experience at Ogier is that in addition to the traditional trust or foundation, private clients are very pleased to have the greater choice that the FLP and the FUT now offers.

**SALLY EDWARDS AND
STEVE MEIKLEJOHN**

www.ogier.com



PHILANTHROPIC COMMITMENT AND «PHILAN-VIE» LIFE INSURANCE, A WAY OF USING LIFE INSURANCE SENSIBLY

PHILANTHROPIC COMMITMENT IS A TOPIC WHICH SEEMS TO BE ASSERTING ITSELF ON A PERMANENT BASIS IN THE FINANCIAL SECTOR. FOUNDATIONS ARE EXPERIENCING A SIGNIFICANT INCREASE IN COLLECTIONS EVEN IN THIS DIFFICULT ECONOMIC CONTEXT. THESE DYNAMICS OF GENEROSITY COME FROM NEW GENERATIONS OF DONORS WHO HAVE FEW HEIRS OR NONE AT ALL, AND WHO DECIDE TO SUPPORT CAUSES WHICH ARE DEAR TO THEM.

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.



*Life insurance is much more than a savings product.
It is a means for transmitting one's own wealth.*

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.

www.philanvie.lu, www.farad.lu





ART AS AN INVESTMENT

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 favours 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 utmost 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

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*It is important to
view Art in terms
of a family asset.*

Alain Mestat
Managing Partner
PassionProtect®



A NEW TOOL FOR **PRIVATE WEALTH MANAGEMENT**

In order to strengthen Luxembourg's position as a European center for private wealth management, Bill No. 6595 proposes the introduction of a private foundation ("PF") to facilitate patrimonial structuring and succession planning.

The PF will be a vehicle open to individuals or patrimonial entities which ensures the sustainability of the family estate by avoiding the scattering of assets in the event of death of a family member, dissociating the economic ownership of the family estate from the management of the family business, preserving the privacy and safety of the family members, or designating the family estate to a specific purpose.

The PF will be an orphan vehicle with no shareholders, incorporated by a notarial deed which may be subsequently amended. Unlike the Anglo-Saxon Trusts, the PF will have legal personality and will be the legal owner of its assets while its management will be entrusted to a board of directors that, in some cases, will act under the control of a supervisory board.

Although the PF will be fully liable to income tax, it will benefit from exemptions on investment income including dividend, interest, capital gains as well as capital and surplus surrendered on life insurance policies.

In order to ensure tax neutrality, the transfer of the PF's assets in favor of beneficiaries,

certificate holders, or founders and their heirs will not trigger the realization of latent capital gains and distributions made by the PF to its beneficiaries will be exempt from withholding tax.

In terms of indirect taxation, transfers made by the PF during the founder's lifetime will be subject to gift tax depending on the relationship between the founder and the beneficiary. In the event of the founder's death, registration duty will apply at a rate between 0% and 40%, except for specific cases.

The introduction of the PF makes clear the legislature's commitment to consolidate Luxembourg's hub for private wealth management completing the range of wealth management solutions already available.

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The PF will have legal personality and will be the legal owner of its assets.



PROTECTING ASSETS IN A VARIETY OF WAYS

Aspects of risk prevention and mitigation are taken into consideration in the risk analysis.

Janneke Nijssen, Augemus

PROVIDING PEACE OF MIND FOR FAMILIES IN ANALYSIS AND IMPLEMENTATION

More than two thousand years ago, in his letters to his son, Cicero already provided wise advice on how to sensibly manage the family's wealth: "res familiaris augeatur ratione, diligentia, parsimonia" (family wealth will grow through reason, care and frugality). Today, those words are more relevant than ever, and function as the leitmotif for Augemus, a multifamily office established in 2012 by professionals with many years of experience in private banking and asset management, and with complementary fields of expertise.

WHAT IS DIFFERENT ABOUT AUGEMUS' APPROACH?

As a family office, we examine numerous aspects of a family's wealth, including family governance, education of and transfer to the next generation, asset structuring, asset management and, last but not least, (consolidated) reporting on those assets.

The underlying objective at all times is to protect the family's assets.

Augemus continuously reviews the wide variety of existing risks, pinpoints hidden risks, makes cumulative risks transparent and conducts a thorough analysis. The result is an action list that ultimately matches the family's wishes. Augemus assists the family in the analysis and risk prevention, providing peace of mind by playing a major role in implementing the action list ensuing from the family discussion and decisions.

WEALTH COMPOSITION AND THE ASSOCIATED RISKS

Which assets constitute part of a family's wealth? What about the personal aspects of risk and security? In which asset classes has the family invested? How are property rights organised and secured? Not just third party co-investment and counterparty risk, claims such as pledges from banks and other creditors, and country-specific aspects, but also any other contractual arrangements and fiscal issues are all relevant for the review that forms the starting point for analysing the current situation. In addition to mapping the family's success, an initial analysis may also bring to light weak areas and points for attention. Together with wishes for future investments and developments within a family, such as a potential transfer to the next generation, this often produces a good action list from which most advisors would start working. At Augemus, however, we believe that risk analysis needs to be expanded and combined with a macro-economic analysis.

EXPANDED RISK ANALYSIS

We conduct an additional analysis, drawing on our own expertise, using proven technology and accessing a wide variety of sources. Reviewing each asset class in terms of macro economic developments enables us to determine whether it corresponds with the family's future requirements and, even more so, whether the combined asset classes have the right balance to safeguard and protect the family's wealth. The impact of growing world debt and currency wars and the aim of maintaining purchasing power parity are just a few of the factors reviewed. Another aspect we consider is the method of investment in the asset. Should the investment be held directly or indirectly, to ensure a smooth transfer or disinvestment in the future, for instance? What is the most cost-efficient investment method and should the investment be shared with other investors? Finally, aspects of risk prevention and mitigation are taken into consideration in the expanded risk analysis.

TRANSPARENCY

The family can then be presented with the pros and cons of each asset class and their combination, to enable decision-making with a full and transparent view of all aspects. The risk appetite of the family as a whole or of each individual member, depending on the set up of the family structure, can then determine how the wealth should be composed. This sometimes introduces families to a broader scope of possible asset classes, as the analysis occasionally prompts out-of-the box options. The decision to make such new investments can then be taken with greater peace of mind, as other families' experiences are part of the knowledge Augemus shares with the family.

PEACE OF MIND IN IMPLEMENTATION

Only then is an action list formulated, specifying a timeline and desired third party involvement. An action list that results in a structure corresponding with the family's requirements for managing its wealth. Augemus not only assists the family continuously in the analysis and risk prevention, but also provides peace of mind by playing a leading role in implementing the action list ensuing from the family discussion and decisions.

JANNEKE NIJSEN

Director

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www.augemus.lu



FL AUCTION: THE FREEPORT'S IMPACT

JACQUES DE CAE, REPRESENTATIVE OF THE AUCTION HOUSE FL AUCTION IN LUXEMBOURG, AND AN INFLUENCER IN ASSET DIVERSIFICATION INTO ART, EXPLAINS HIS PLANS TO HELP COLLECTORS IN THE GRAND DUCHY, PARTICULARLY THOSE WISH TO USE THE FACILITIES OF THE FREEPORT.

CAN YOU PRESENT FL AUCTION TO US?

FL AUCTION is a Parisian auction house which is a shareholder in the famous Hôtel Drouot. It is a generalist, small-scale house with experienced auctioneers. Our business attracts a network of experts and professionals recognised in their fields, and we are convinced that to sell effectively we need to be surrounded by them. After 30 years of experience in the art trade we have built up some good contacts!

YOU ARE BASED IN PARIS, SO WHY DO YOU WISH TO DEVELOP YOUR BUSINESS IN LUXEMBOURG?

We understand that in order to compete with the very established names in the auction house sector, we need to innovate. We are also looking to expand our sales spectrum and



attract new clients, whilst retaining local consultants. We have taken the gamble and decided to establish ourselves in a place where the auctioneer trade is not well represented. We have also done this in Reunion Island, where we organised the first auction sale in September. We began working in Luxembourg last year, by organising a conference to present our business at the Cercle Munster. This is only the first step in our expansion plan.

WHAT IS YOUR VIEW OF THE FREEPORT? WHAT IMPACT MIGHT IT HAVE ON YOUR BUSINESS AND THE ART TRADE?

The Grand Duchy is a premium international market, the second most important global investment funds centre, and the leading private banking centre in the eurozone. Its



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Japanese Clock, Meiji era.

Madonne and Child, 16th century
Flemish school.

*The Grand Duchy
is a premium
national market.*

political stability, flexible legislation and international openness have made it very prosperous and attractive to wealthy investors. Following the financial crisis, some assets suffered a loss of confidence and art emerged as a refuge security. Luxembourg was lacking a Freeport capable of offering the art trade a warehouse for storing works of art in modern facilities.

As an auction house, we expect that these spaces, which suspend VAT and customs duties on goods, will facilitate sales of works of art. They will require the services of auction houses for inventories, valuations, authentications and sales. FL AUCTION's new ambition is to take part in this!

In terms of the market, these Freeports maintain demand and encourage investors. If we follow the model of Geneva, which has become the third largest hub for the art trade, I am sure that Luxembourg will have the same success.

MORE INFORMATION
www.fl-auction.fr



“Most things in life – automobiles, mistresses, cancer – are important principally to those who have them. Money in contrast is equally important to those who have it and those who don’t.”

John Kenneth Galbraith (1908 – 2006)

President, American Economics Association, Professor of Economics, Harvard University, Advisor to 4 US Presidents

Name : _____
Address : _____
City : _____
State : _____
Zip Code : _____
Telephone : _____
Email : _____
Family Office Name : _____
(if applicable)
Activity in case of Partner Membership : _____

Please tick the box if you would like to be added to our mailing list for news and event information.

Membership Term One Year :

Premium Member (*) One Year : € 300

Partner Member (**) One Year : € 500

Application Terms

Application to join the association LUXEMBOURG FOR FAMILY OFFICE for one Year :

Please pay to Banque de Luxembourg, for the account of Luxembourg For Family Office a.s.b.l.,
account number IBAN LU 09 0080 2187 4210 2001

* Premium members are natural or legal persons who exercise a Family Office activity

**Partner members are any natural or legal person who carries out an activity that is related or complementary to that of Family Office, and in general any natural or legal person whose activity is likely to interest the Family Office (e.g. independent managers, registered address service providers , trusts, etc.).

Signature : _____ **Date :** _____

Contact details

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