Family Office Global

fog

SPRING/SUMMER 2021

QE and inflationary risks

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Global Partnership Family Offices

A GLOBAL PARTNERSHIP FAMILY OFFICES PUBLICATION

FUTURE VIEW

Hello, and welcome to the latest edition of *Family Office Global (FOG).*

In my introduction to the last edition of FOG, I drew attention to the many challenges which surround operating a business, such as ours, during a pandemic. We have turned these challenges into opportunities, and I am very pleased to say that over the last 14 months, we have managed to reach out to more families than ever before. This is due to a combination of things, including the hard work of the excellent in-house team at Global Partnership Family Offices (GPFO) to adopt new technologies; the loyal support of our global ambassadors; and the excellent partnerships with International Deal Gateway and the Lorange Network. I also wish to thank all our readers – principals, family members, executives, and appointed advisors – for our continued success. We are here to serve YOU and thank you again for your ongoing support and ideas.

While video conferencing has been forced upon us, it has proved effective for reaching new members and addressing certain topics and will continue to be part of our offering going forward. For example, over the past six months, we have been humbled by the praise for the Family Office Solutions (FOS) series. However, there is no replacement for face-to-face meetings and, as we emerge from the pandemic, we will continue our intimate and impactful gatherings. As you know, GPFO has never believed in the approach where we lock people up for two-days in a drafty London ballroom, where delegates don't know if the person they are sitting next to is a family member or someone who has been sold a ticket to attend the event. Aside from our European conference, our events last no more than a few hours.

Everything we do sits astride three pillars: best practice and thought leadership; investment ideas; and research and advocacy. It is only because we spend much of our time listening to our network that we can respond to the ideas which come from you. One of these is minimising negative impact and maximising positive impact whether via ESG initiatives, philanthropic activities or making impactful investments. We have heard many calls for more, and our advocacy for this is and will be paramount to aiding developments here. From the second half of 2021 we will launch the Building Impact subgroup to provide a collective group to share, learn and act based around a backbone of closed-door roundtables led by individuals in the GPFO network. Look out for more on this and how to be involved.

As we emerge, cautiously, from the virtual world we wish all of you a safe and enjoyable summer undertaking face to face activities. We look forward to seeing more of you in person during the autumn, and hope that you can join us online, face to face and in print, as we continue to respond to your requirements post-Pandemic.

Michael Oliver
Co-Founder,
Global Partnership Family Offices

EDITOR'S LETTER

Martin Barrow, Editor

We have been living through uncertain times and it is so good to be back with another edition of *Family Office Global*. We are looking forward to the future with confidence, and the team has put together an exciting collection of articles and features for our community of family offices.

We are delighted to welcome **Sir Michael Fallon**, the former Defence Secretary and a stalwart of the Conservative Party. Sir Michael shares his views on the UK's place in the world after Brexit and explains why we should be proud and optimistic about the future, despite current uncertainties.

Michael Oliver, co-founder of GPFO, has an exclusive interview with the legendary **Gordon Pepper**, doyen of gilt-edged analysts. Gordon shares his thoughts on the long-term impact of financial measures taken in response to the pandemic lockdown.

Peter Lorange, chairman and founder of the Lorange Network, considers how family offices have fared during the pandemic, while **Steve Rosenbaum** concludes his fascinating essay on the impact of each family's history on the outcomes of family offices.

Our own **Hugo King-Oakley** and **Ben Palairet** take stock of the period of consolidation we are witnessing in the family office world and share insights on the issues that family offices should consider when seeking partnerships and alliances.

We have two real treats when it comes to alternative investments. **Max Wakefield**, racing driver and car collector, makes the case for investing in racing cars and road cars, while **Thomas Kellein**, art historian and gallery director, has an introduction to the world of art investment.

Raconteur and writer **Bruce Anderson** selects some of his favourite restaurants in London as he looks forward to a return to normality after the pandemic.

Finally, **James Cox**, Managing Partner of Stonebridge, submits to our quickfire Q&A and reveals a passion for golf, David Attenborough and nice linen. Could you be the next guest? We look forward to hearing from you!

Martin Barrow,
Editor

"Banks create money, the increase in money will create inflation and in due course the gilt-edged market will have an even bigger fall."

*Gordon Pepper, joint founder of W. Greenwell & Co's gilt–edged business, and the premier analyst of the gilt-edged market for many years, talks to **Michael Oliver** about QE, inflationary risks and the economic outlook after COVID-19.*

Michael J Oliver: You were a keen advocate of Quantitative Easing (QE) back in 2009, as a short-term measure. It now appears that markets have become hooked on QE for something other than the short term.

Gordon Pepper: Let's go back to why we recommended QE.

When Mervyn King announced QE in March 2009, he was quite clear. He wanted to bypass the banking system and inject money directly into the economy. Now that was successful: the market was in disarray when he announced QE and it stopped the fall in the market. The bears were caught on the wrong foot, and the market bounced back. Now, there's a lot of nonsense talked about QE because some people thought it was designed to boost bank reserves, and they're worried about hyperinflation because of the size of the central bank's balance sheet. That was complete nonsense – the money supply is the thing that matters as far as inflation is concerned and throughout the period, monetary growth was not excessive.

> "A worldwide boom in asset prices, and this created a financial bubble... QE went on for much longer than it should have done."
>
> **Gordon Pepper**

MJO: But QE was pursued for 10 years, which seems like an awfully long time for a short-term measure.

GP: There's no doubt at all that the time lag between savings becoming expenditure was longer than usual with QE from 2009. One of the main reasons for that was the lack of confidence at the time because of the banking crisis. People are reluctant to spend, they tend to save, and therefore the time lag tends to be much longer than usual. There are other technical issues which we won't go into, whereby, for example, companies, because long-term interest rates were so low, had bond issues and repaid bank overdrafts, which led to slow monetary growth. So by and large the time lags were longer than usual after the monetary expansion from 2009.

Gordon Pepper, right

MJO: You've been very concerned about what has been happening in the government bond market over the last year. Are central banks destabilizing the bond markets rather than stabilizing them?

> "Inflation is a very efficient way of reducing the national debt and national debt to GDP ratio and we are likely to do the same thing this time"
>
> **Gordon Pepper**

The Bank of England announced another dose of QE when the Brexit referendum took place

GP: QE went on far longer than we thought was necessary, and I think it was very wrong when the Bank of England announced another dose of QE when the Brexit referendum took place in 2016. But it hasn't just been the Bank doing QE: the European Central Bank (ECB) did it; the US Federal Reserve also did it and it's a worldwide movement. Now, under QE, what happens is that the central bank, in our case the Bank, bought gilt edged stock mainly off the life insurance company and pension funds. They receive money in exchange for that stock. What on earth were they going to do with that money? The answer was they wanted to reinvest it. So, supposing they reinvested some of the balances in equities, that merely transferred the balance to the person who sold the equities who wanted to reinvest it. Every single time it is reinvested, prices tend to go up. A huge amount of QE was created, so much so that investment managers became desperate, trying to find an attractive home for investments. There was therefore a worldwide boom in asset prices, and this created a financial bubble. Bubbles in due course burst. And that was a danger. QE went on for much longer than it should have done.

MJO: But in March 2020, markets fell off a cliff again and that started another round of QE. Has the policy been wrong since last March or do you think central banks have undertaken the right amount of QE?

GP: Well, it was quite remarkable. What I just explained was that QE was advocated when the money supply was undershooting. In March 2020, monetary growth was already excessive. The massive new dose of QE since then has been taken in utterly different circumstances than 2009. The reason for this new dose was that that financial bubble was bursting. We now know what happened in March 2020.

The Debt Management Office had a large issue of gilt-edged stock, and it was undersubscribed and in the words of its chief executive, there would have been a huge rise in yields (that's a fall in gilt-edged prices) if the Bank hadn't stepped in. The Bank stepped in and bought the entire issue. There is a danger of a financial crisis, because of the behavior of non banks. The IMF had warned about this earlier on, and the Bank injected the money to bail out, basically, the non banks and speculators in the market. Now, if you want me to be really naughty, the Chancellor (who is an ex-hedge fund manager) agreed to the Bank spending £15 billion or so to bail out hedge fund managers who got it wrong! And what historians will say about that in due course will be very interesting indeed. But the QE in March 2020 was done to stabilize the government bond market.

70%

the loss in value of War Loan in 25 years due to inflation.

Now, the danger is in fact worldwide. In early March 2021, the ECB announced that one of its aims is to peg long-term bond yields. This is going right back to the way the Bank behaved in the 1960s and 1970s!

MJO: This brings us onto the past. The current amount of UK government debt is akin to that of the late 1940s, and then the post-1950 period was characterized by financial repression. How do you see financial repression playing out in the 2020s and 2030s?

GP: You've got to go back and look at the way the Second World War was financed. The current pandemic is a war: a war against the virus. And when you're fighting a war, all your focus of attention is on winning the war. Once you've won it, you've got to go back and sorting out the mess of this huge amount of borrowing is very similar to sorting the mess out that the government had borrowed after the Second World War. At the end of the war, by far the largest British government bond issue was three and a half per cent War Loan. It was priced at 100. 25 years later its price had fallen to below 30. People had lost 70% of their value of War Loan. Now that was in nominal terms. Meanwhile, inflation has gone up. So, with inflation, the whole value was actually written off.

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THE U.K. GILT-EDGED MARKET

A talk by Gordon Pepper at a Seminar on the Economic and Investment Outlook for 1980, organised by The Society of Investment Analysts on Monday 19th November 1979

One of Gordon Pepper's bulletins, via the Margaret Thatcher Foundation

And inflation is a very efficient way of reducing the national debt and national debt to GDP ratio and we are likely to do the same thing this time.

MJO: But Gordon, you of all people should know, that if you are trying for a 'modest' inflation of five or six per cent, it can rapidly become double digit inflation.

GP: Well, you come back again to what the fundamental cause of inflation is. Inflation is caused by too much money chasing too few goods. Notice the two sides of it. Too much money causes inflation and too few goods cause inflation. So, producing more goods is one of the ways of reducing inflation. But what's happening at the moment is the government is pegging yields in the gilt-edged market and that has become the main aim of debt management. This means that they will sell too few gilts.

Let's go back again. There is no question at all that the government can always borrow whatever it needs. The key question is who does it borrow from? If it borrows from non banks there are no problems. If it borrows from banks, that increases the money supply. So, the danger basically is because the government is pegging yields in the gilt-edged market at too low a level it won't borrow as much as it wants in the government bond market and it will borrow from banks. And banks create money, the increase in money will create inflation and in due course the gilt-edged market will have an even bigger fall. We've been through all of this in the 1960s and 1970s and we have spent a long time trying to educate the Bank that trying to preserve an orderly gilt-edged market creates an even bigger fall in due course. This is a classic example of policy in the short-run having precisely the opposite effect to that intended in the longer run. And the same is likely to happen this time.

MJO: Economics is often referred to as a dismal science and perhaps in part this is because economists' forecasts are often too bearish. They're often proved wrong. Would you care to comment?

GP: Economics is a dismal science because it neither art nor science; in other words, it can be a soft science. Now, one of the fascinating things about economics is the outturn is often precisely the opposite of consensus forecasts. This has happened again and again. Let's go back to the situation in the late 1970s. Inflation had got up to over 25% under Ted Heath. Under Jim Callaghan we had the 'winter of discontent' in 1979. We had unemployment rising, everything was going wrong. And there were serious concerns that UK was in absolute decline, not just relative decline. *And then what happened?* The Conservatives were elected. The economy was heading downwards into recession and in 1981, Geoffrey Howe increased taxes. The whole of the economic profession, clubbed together and in the famous letter to *The Times* 365 economists said this would drive the UK economy into outright depression. It almost coincided to the day with the start of the economic recovery. Now, this is a classic example of the whole of the conventional economics profession getting it completely wrong. Now, what we need is the sorts of policies that Margaret Thatcher introduced when she came to power. The trouble is, the opposite appears to be happening.

Gordon Pepper was the joint founder of W. Greenwell & Co's gilt–edged business, which became one of the leading bond advisory businesses in the world. For more than 10 years he was the premier analyst in the gilt-edged market and was often described as the guru of that market. He was the principal author of Greenwell's Monetary Bulletin which in the 1970s became one of the most widely read monetary publications produced in the UK. He was an unofficial adviser to Margaret Thatcher in the mid-1970s. He was awarded a Silver Medal by the Institute of Actuaries and was appointed CBE for services to the financial community.

Britain is one of only four countries in the work with new aircraft carriers

Finding our place

By Sir Michael Fallon

Six months ago, my good friend the former Prime Minister Sir John Major caused a stir. He argued that Britain should abandon any remaining delusions about our place in the world. He attacked complacency and nostalgia as routes to national decline: "We are no longer a great power. We will never be so again. We are a top second-rank power".

The government's answer came in March with its *Integrated Review*, the five-yearly analysis of the threats to our country and the policies to deal with them. Its tone certainly wasn't defeatist. On the contrary the review was the first serious attempt at defining "global Britain" after the trauma of Brexit. It set out an ambitious programme of re-engagement with every continent of the world, deploying hard and soft power in a relentless focus on a competitive future, especially in science and technology.

Of course, the Review was profoundly affected by Covid. What we now call "geo-economic security" lies at the heart of it: never again should we be exposed to fragile supply chains, dependent on importing surgical gowns, face masks and ventilators from the other side of the world. The lesson lay in our own capabilities, life-saving biopharma and genome sequencing.

From now on the government plans to identify, prioritise and invest in more national capabilities – from biosecurity to artificial intelligence, space technology to advanced warship building. And so do our competitors – allies and adversaries alike. Huge increases in security spending – on both hard and smart power – in countries like India, China, Australia and indeed Britain – are a new kind of protectionism, putting national resilience ahead of free trade and competition on price.

That sea-change in outlook has two important implications for us and the other major democracies. First, we will see a much closer relationship between government and industry. Already the UK Government is investing in the newest technologies through its Advanced Research and Invention Agency, with a £800 million budget over five years. We have spent another half a billion dollars buying OneWeb, which competes in the lower-level satellite market against Elon Musk's SpaceX.

£800 million

The budget for the Advanced Research and Invention Agency over five years

> "The Government wants to back winners again."
>
> **Sir Michael Fallon**

Competing in space: Elon Musk's SpaceX

A National Security Strategic Investment Fund will invest alongside normal markets in new "dual-use" advanced technologies. Growing our science and technology power "requires strategic choices and decisions." The Government wants to back winners again.

The UK has bought OneWeb for $500 million which competes in the lower-level satellite market

Second, stronger resilience will involve us all. There will be a "whole of society" approach. That means closer working with senior managers of key infrastructure, services and systems; regular exercises and testing to improve local resilience, whether it is food supply, healthcare or energy; greater use of the military here in the UK, with plans for a "civilian reservist cadre" to back them up in time of crisis. Countries like Sweden, Israel and the Czech Republic already carry out large-scale resilience exercises and require their citizens to be involved.

But Covid has done something else: it has made policy-makers, and business too, look further and faster into the future. Developments in digitisation and quantum technology that might have taken a decade to go mainstream are now becoming standard today. Advances in science and technology, once the preserve and pride of academia, are now an important metric of competitive global power, conferring strategic economic and military advantage on leading tech nations and their companies.

Of course, this benefits us as consumers and customers. But it also complicates the task of maintaining the rules-based international order. Already the treaties and conventions by which countries dealt with each other were breaking down. After the end of the Cold War Russia committed not to store or develop chemical weapons: now it uses them to try to murder its own citizens. China signed the Law of the Sea Convention but refuses to abide by court rulings on the South China Sea. President Trump actively undermined the World Trade and World Health organisations.

Democracies will have to strengthen these conventions, making them more robust against newer threats to free societies. The world expects Britain and our allies to help draft new global rules for cyberspace and data privacy, and to counter China's ambition to build the first sovereign digital currency, challenging western payment systems (China's State Council decreed last year that "the five key means of production are: land, labour, capital, technology and data").

There is no need for either complacency or fear about the future. Britain should not be a bit-part player. I'm proud that we are one of only four countries in the world with new aircraft carriers. But we should be prouder still of our values, of our brainpower, whether it is our academic research, our biopharma or our financial know-how (look how all that came together in the vaccination programme), and of our international leadership in the G7, UN Security Council and Commonwealth.

Second-rank? Not yet

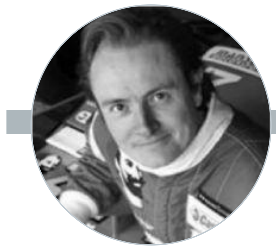
£500 million

The price of OneWeb to the UK taxpayer

Sir Michael Fallon served as Defence Secretary 2014-17. A member of the Conservative Party, Sir Michael served as the Member of Parliament for Sevenoaks from 1997 to 2019, having previously served as the MP for Darlington from 1983 to 1992.

Alternative investment

The danger of beautiful machines



By Max Wakefield

There is no particular reason to place particular regard in anything I write here. Worth mentioning, since I don't want you to drop off the page on line one. I have raced and collected cars and motorcycles for thirty years. I created and ran the motorsport show, Chelsea AutoLegends: 500 cars and 10,000 people. Mistakes were made in both but by and large, they've washed their faces and brought me and others pleasure.

The question I am asked frequently and I ponder without answering, is: "With the advent of clean running and driverless cars are classic cars about to die? And if racing is your bag, surely the thrill of driving is all but captured on simulators."

Are we collecting horse drawn carriages just as Mr Mercedes designed the first motor driven machine? Will I have a museum of outmoded contraptions that make children yawn? I scratch my jowls, frown and wonder about the future.

Group B rally cars like the1986 MG Metro 6R4 haven't moved as far north. Buy.

> "With the advent of clean running and driverless cars are classic cars about to die?"
>
> **Max Wakefield**

To do that, I wonder about the past. What first attracted me to machines? In part, it was a medieval frontline appeal of the charger. The eye is drawn to the form and my heart races and I salivate at the thought of battle. Naked motorcycles appeal too. Their metallic muscles displayed, as if an anatomical drawing; the hip-shaped fuel tank; the delicate control through the hands and the threading the machine with balance. I love all these things. The danger of beautiful machines.

I love watches too. Machines that are both left- and right-hand drive, their garage is a shoe box, the insurance an option not a legal requirement. With tiny jewelled internals, they tick towards infinity. I wonder, were there people in the '70s who asked: 'Now digital and quartz watches better at keeping time, will anyone bother to wear a mechanical watch?' The watch collector of their day will have scratched his jowls, frowned and wondered what would become of these clockwork marvels. They survived. I think it was hard going for a while and even Rolex made a quartz movement. More than survival, the good ones thrived. Now we must cast our minds forward to a time of only driverless cars on motorways, probably not even owned by the user. Given the speed of drone development, likely we will be thrashing about in sky taxis. What cars will make it?

When assets give a yield, all things can be calculated. When they don't, we must have faith that they will keep heading upwards in value. My Lola t332C was sold in the '70s for £2,500 – I believe circa £37,500 in today's money. I suppose it's worth £130,000. This is a workaday race car with no utility beyond the circuit. Being a single-seater it is less valuable than the equivalent Le Mans car. The Lola T70 has gone up far further, say to £750K. I see racing cars as a solid investment. In the future, if they do away with driving on the road, there will be people like me who crave chancing their arm at the circuit.

What racing cars are interesting today? Anything unfashionable is likely the answer. Group B rally cars haven't moved north as far as they might. Brutal, dangerous, fast, madness. No car has a reputation like a Group B car. It's a bag of primed mantraps. A buy.

Road cars. What of them? The easiest thing to contemplate will be the cost of a tank of fuel. Say you have an Aston Martin DB5 worth millions (£500 in 1970, £750,000 now). What's the issue with paying a thousand pounds to fill up? Nothing, especially if the value is increasing faster than it is drinking. But, were you to put the same money into topping up your rusty BMW, you might have an issue. Sadly, fuel will be that expensive. It nearly is already; when you buy leaded race fuel, it makes you gulp. I think this fuel conundrum is the simplest tool to think about what might or might make it through. What will be the Rolex and what won't?

Solid investment: The Lola T70 now worth £750,000

Aston Martin DB5 worth £750,000 now, £500 in 1970

What will improve in value like Rolex and what won't?

Max Wakefield is a racing driver, car collector and restorer and an ex-army officer. He is MD of the EIS-supported fund Chillingham Classics.

Image courtesy of Benetti Yachts

Superyachts as a safe haven

and the evolution of 'business onboard'

By Shane Owst

The ongoing impact of Covid-19 restrictions is fuelling a growing demand for superyachts, both for purchase and extended charter. A realisation that superyachts are a safe haven in an uncertain world; where you can both live and work from, has seen a growing number of requests for the provision of bespoke workspaces onboard.

At SMART, we're designing more and more onboard business workspaces. They are deeply personal areas to clients, who devote a significant amount of their time to ensure they mirror how they operate in business. This may be a large, shared area for themselves and their key staff, or a private and secluded space where decisions can be made without distraction. To achieve their end result, a close relationship between their designer and technology consultant is vital. Together, we effectively marry the two disciplines of design and technology to create the ideal workspace. Without this, the unwelcomed scenario of something looking great but failing to perform, or being an engineering masterpiece that is unusable, are common grievances expressed by many superyacht owners.

A perfect example of technology and design harmonising in a business-focused space can be found on a recent project, Luminosity, a 107m superyacht design by Zaniz Ltd and built by Benetti Yachts.

"A very specific brief was developed with the client," says Zaniz. "The space had to be multi-functional and self-contained with its working, conferencing, relaxing, and dining zones both inside and within its immediate exterior surrounds.

Custom designed curved computer desk: based on a watch strap design

Starting from the possibility to arrive directly in front of the office by helicopter on the touch and go landing deck and be greeted. One had to be able to feel comfortable spending the whole day and night there in meetings, so everything was put in to facilitate this."

All the desks and tables were custom designed to facilitate wire management for the myriad of devices needed. When sitting at the centre desk the client had the possibility to turn onto the curved computer desk, based on a watch strap design, and work with others and view all the screens. Within the office panelling is direct access to the PA's office, printer and storage room, and a concealed large en-suite bathroom.

The ceiling "clock" uses dynamic lighting, having a direct reference to our biological clock, stimulating well-being, and keeping you feeling alert and refreshed whatever time you are working.

The design of the space is based on time. The notion that we measure time on a 24hr cycle. The ceiling was designed to have an integrated drop-down projector and 160" screen for video conferencing and the curved wall panels have two 55" displays.

Connectivity was high on the agenda for secure communication to the client's headquarters. A solution was designed to enable the yacht's communications system to act as an extension of their office, rather than creating an additional segregated system. Not only did this provide familiarity to communicate effectively when moving from 'office to office', but also a safe and secure link managed by the client's land-based staff.

Private and secluded workspaces have many of the challenges as those discussed above, although smaller in scope; they are often more personalised. Despite these differences, the operational objective remains constant: secure, reliable connectivity in an environment designed to meet the client's specific needs.

A successful technology solution, including connectivity, is achieved by creating a strong foundation built on adaptability, capacity and longevity. A well-designed single solution avoids the unwelcome and unnecessary traps we have seen on many refit projects. We have spoken with clients who have fallen into the pitfall of having two separate technology systems - one for leisure and one for business. This adds unnecessary and often significant cost and complexity, for no real benefits. Designed correctly, a single technology system will have all the capabilities to comfortably and effectively manage both elements at the same time.

A client's request for 'wireless coverage everywhere' has several elements to engineer into a single design. Firstly, what is actually included under 'wireless coverage' (e.g., Wi-Fi, GSM, UHF, etc.). Some of the other factors to then consider are mast design, antennae and radome positioning, signal types, data routing and distribution and of course cabling. Only when you have these answers can you determine what coverage is achievable and what technology is required from start to finish.

Knowing the importance of each element and how to combine them to reach your goal is one reason why SMART exists. We manage these technology risks and design a solution for you based on our independent, unbiased, expert knowledge and advice.

Connectivity is crucial for both work and pleasure, on land and at sea. Superyachts will be scrutinised far more in a business environment than in a leisure one. The impact of a technology failure for a business is far greater than in a solely leisure-based environment. Having the right team at your disposal ensures your expectations are met. SMART's expertise in 'business onboard' projects, means we're ready for the next generation of superyacht, no matter the purpose or function required.

Shane Owst is a Senior Technology Consultant at SMART Technology Advisers.

SMART is the leading independent superyacht technology consultancy. Working as part of your team we manage your project's technology risks and ensure your expectations are met.

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SMART

Challenge for the next generation of families is to change the current script

By Steve Rosenbaum

Steve Rosenbaum concludes his article about generational impact on the fortunes of family offices.

When we make changes, our surroundings remain the same we must not assume a fairy tale or we are merely swapping myths.

"Family business stories are plagued by three curses: greed, fear and control"

Steve Rosenbaum

At certain junctures in our lives, we have to face up to important decisions as to whether we will go with the flow or make active change. What is our motivation to keep the past myth alive? We need to be honest with ourselves and analyse both our conscious and unconscious. Is it because we are so used to our lives and the family myths that have shaped us that we do not want to part with them? Are we prepared for change and can we count on the support from our loved ones? Will they understand what we are going though?

Change can be risky and even punitive in the high stakes of a wealthy family. The family script will have given each of us a role and, curiously, there may already be a prophecy attached with that role if you try and break free from the shackles of your label. This prediction can become a self-fulfilling prophecy. He was always likely to become a troublemaker. She never communicated well. He was a user from the start.

As we climb unchartered mountains without a map, we must try not to blame the past and fight our compulsions to repeat previous patterns of behaviour using our moral compass. We must concentrate on the present and keep a check on our motivation. We cannot change the past and we will not be happily ever after. We need to accept the truth about our respective families and the human conundrum that we are not in control.

When we make changes, our surroundings will still be the same so we must not assume another fairy tale or else we are just merely swapping myths. Ultimately, we often cannot convince those around us in the family that the myths were false or fabricated. Others may have a strong emotional investment in the past and this will lead to conflict which cannot be resolved. We may have to withdraw from battles with other family members we cannot see eye to eye with. Only this way can we can escape the drama and our stereotypes.

Change can be risky: The family script will have given each of us a role

Katrin Himmler.
Author of The Himmler Brothers

When Katrin Himmler wrote about her Nazi grandfather and great uncle Heinrich in *The Himmler Brothers*, she faced up to her monstrous family's past and not everyone in her family supported her decision to write this book. Niklas Frank wrote about his father Hans Frank, one of Hitler's henchmen, in *The Shadows of the Reich* and not only renews his hatred for his parents every time he publicly speaks but tells his German audience that he does not trust the German people. For many of the descendants of the perpetrators of the Nazi atrocities, their lives have been ruined and their identities are forever inextricably linked with the past. Frank's daughter recognises that her father has slayed the dragon of the past and brought good reputation and a new family myth she can take forward for her three children. He has successfully changed the family script.

I try to listen to the few remaining holocaust survivors still alive tell their tales of survival and what they took away from these awful episodes in their life. Every time one hears such a speaker you start to understand how fortunate we are today and how our worries pale into insignificance. I take away new lessons that should I live long enough, I hope to pass on to future arrows.

On 9/11 when victims were stuck on doomed flights or burning skyscrapers, they phoned their respective partners not to advise them on their share portfolios or their family business, but to simply say I love you. Why is it that when family businesses describe their humble beginnings and how they grew into the success they are today, their stories sometimes leave me feeling empty and even puzzled. Surely their stories are worthy too. Family businesses talk with pride how they created businesses from poverty, how they would not tolerate waste and how for example they had strong leadership. There are of course lessons to be learned here as well. Both the holocaust and family business stories are about life but there is a difference that extends beyond the heavy weight and gravity of the holocaust. Family business stories are plagued by three curses which put their wholesome mythical stature and best practise value into dark shadows: greed, fear and control.

For the next generation of families who are cursed with the latter, perhaps their role in life which can often seem confusing is to address the past, change the current script and insulate future generations from the fallout of previous family myths.

__Steve Rosenbaum__ has been awarded The Certificate in Family Business Advising from the Family Firm Institute, the premier international organisation of family business consultants and works as an independent consultant.

The first part of this article appeared in the Autumn 2020 edition.

Above: Prophecies can often become self-fulfilling

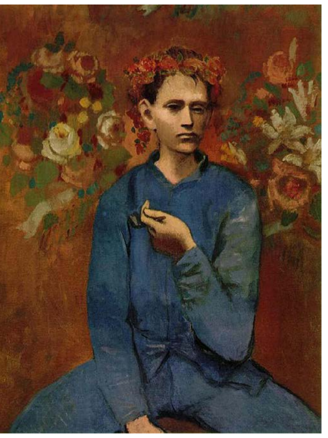
Climbing mountains without a map: fight patterns using your moral compass

“Art is like a lovely child that grows steadily.

Once we are assured of her proximity, we love it, we care for it and grow with it.”

By Thomas Kellein

Thinking about investing in art? Let Thomas Kellein, art historian, gallery director, curator and author, be your guide.



Magic limit: Picasso’s Garçon à la pipe was the first work to exceed $100 million at auction in 2004

Is the art market a bubble?

Art: what is it? Is it a fantasy? An object that resists all rational definitions? Especially when we are talking about the art market, with its seemingly crazy eight- or even nine-digit prices. For thousands of years, art has been an asset class in which large sums were and are invested. People trade in art. It is admired and treasured almost everywhere in the world. The Seven Wonders of the World celebrated in ancient literature included descriptions of fabulously beautiful buildings, which consequently became socially binding travel destinations. Since the 1980s a global market for painting, sculpture, graphic art, and also photography has developed. There was measurable growth, and the yields were at times astonishing.

Stable or volatile?

As a financial product, art is seemingly stable compared to other asset classes, but very volatile at the same time. If one thinks of a successful auction, art is highly liquid, but when one has bad luck with one’s sales, it is almost completely illiquid. We, the respective societies that value the arts, decide on their worth on the basis of education and, not unrelated, with money.

$69 million

The sale of digital works by ‘Beeple’ aka Jan Winkleman

“What remains of man on the physical plane? Actually, almost only art.”

Thomas Kellein

In his *Critique of Judgment*, Immanuel Kant spoke of the “presumptuousness” of making judgments of taste about art. He demonstrated that an individual’s taste, however “disputable” it may be, is perceived as fitting by a society because there exists a “public spirit”. Conceivably, Kant says, the idea of taste entails the vision of *Bildung* or cultivation – in his words, “the idea of an artificial faculty that is yet to be acquired.”

Exceptionally good art is never free of charge

The art market as a construct involving goods that are extremely coveted, especially at the highest level of value, goes further back than the 20th century. It is not only buyers and sellers who meet at such moments. As with the other asset classes, there are also advisors, intermediaries, silent partners and, more recently, “art lenders.” A good art consultant should know all sides and very many of the players. Some of the newcomers are free-riders, as it has become fashionable to support sellers of high-priced works in the hope of a commission. Ever since the sale of Picasso’s *Garçon à la pipe* in 2004, the magic limit of US $ 100 million per work has been exceeded. In 2019, the financially lucrative sphere of this global market was penetrating the media with US $ 64 billion in annual sales. *The Financial Times* spoke of “eye-watering prices, the parade of billionaires vying to acquire trophy assets, the powerful dealers advising them,” and characterized the current art market as a “high-octane world.” That same world experienced a turnaround between March and July 2020, the first four months of the pandemic. But exceptionally good art was almost never free of charge, and the market is fully back now.

Are there excesses?

What most authors are reluctant to take into account are the well-known historical precedents in Florence, Rome, or Paris, where great art has been created and shaped by “excesses” over many centuries. The “investor,” preferably a king, the pope, or a particularly wealthy family head, was willing to give practically everything for a particular work, as it still happened in 2017 with Leonardo’s *Salvator Mundi* selling for more than $450 Million. In many cultures, the aim of art is to meet the pronounced needs of competing ruling houses for impressive representation. It is a desire for style. So, art is not a fantasy: After all, it is what almost exclusively distinguishes us from animals and occasionally even from the most beautiful plants. What remains of man on the physical plane? Actually, almost only art. It is a very emotional asset.

Cultural courage?

In our age of industrial and societal “disruptions,” it is no wonder that art and its buyers have a penchant for shock and vie for maximum attention. Today, we are supposed to buy art by “women” and “people of color” and no longer art by “white men.” The widely prevalent catchword “diversification” is now seen and heard in the foreground of many cultural institutions that have traditionally operated under predominantly white and male auspices. Linear cultural history is a bit passé. During the spring of 2021, reports have been unceasing that NFTs, non-fungible tokens, are now on the map. The sale of thousands of digital works in one by Jan Winkelmann, aka “beeple”, for more than $69 million, created a new star in the sky of art speculators. A new sharing culture shall grow in the art world; art works may be sold in fractions soon.

What is the best thing we can do with our highly emotional asset class? Before we love it, it’s worth our while to touch it with caution. Art is like a lovely child that grows steadily. Once we are assured of her proximity, we love it, we care for it and grow with it. Art is and remains what we may safely presume is the noblest asset class, for it bestows material, spiritual, and emotional wealth. Only when absolutized can it become dangerous. To be cognizant of this, too, is one of the noblest tasks for professionals in a good private bank.

$450 million

Leonardo’s Salvator Mundi sold for an eye-watering figure in 2007

Thomas Kellein is the head of Bergos Art Consult in Zurich since 2013 (formerly Berenberg Art Consult in Hamburg). Before joining Bergos AG, Kellein worked as a curator at the Staatsgalerie Stuttgart from 1982-1988, he was director of the Kunsthalle Basel until 1995, the Kunsthalle Bielefeld until 2010 and director of the Chinati Foundation in Marfa, Texas, until 2012.

How to protect your family's interests in the era of consolidation

By Hugo King-Oakley and Ben Palairet

BESSEMER TRUST

Bessemer Trust was the first multi-family office considered modern

Key

SFO: Single-family offices

MFO: Multi-family offices

AUM: Assets under management

The oldest dated attribution to the establishment of family offices dates back to the 6th Century royal families, which later raised its head in modern form and credited to the Rockefellers or the family of J.P. Morgan. Since then, some single-family offices (SFOs) have evolved into multi-family offices (MFOs). The first of these that could be considered a 'modern MFO' was the Bessemer Trust, which opened its doors to external capital half a century ago.

Subsequently, we have seen the emergence of a multitude of MFO offerings as investment advisors have conceived tax planning; private banks have developed impact and philanthropic initiatives for clients; and wealth managers offer have proposed softer services to lure in the next band of clients. We are often asked whether a SFO or MFO is the right solution for a family; unfortunately, the answer is not that simple. As every family is unique, the best solution for their needs is unique. The diversity of the MFO space means that there will likely be a company offering the services you require but that does not mean it is the right solution. The purpose of this article is to examine some of the reasons for the growth in MFOs, including the consolidation in the industry and what this means for you as a client. Understanding these dynamics should help in the evaluation of your options for managing your family office.

A good starting point came from our first Family Office Solutions session entitled 'How to review a family office', where Gordon Pollock identified at least seven distinct areas of focus that could fall under the umbrella of a 'family office' ranging from concierge and travel to investment and fiduciary. Many of these areas are becoming ever more complex and expensive, therefore the benefits of an MFO seem obvious; namely, that by sharing the costs you will have access to these services when you need them whilst ensuring that these services are of higher quality as, in theory, an MFO employs the best systems and attracts the best talent. Importantly the MFO structure should also ensure that these professionals remain at the top of their game; it can be all too easy for professionals in the insulated environment of a SFO to ossify.

"The economies of scale of a MFO should be able to significantly reduce administration costs but the relentless improvement of technology means that this is not necessarily the case"

Hugo King-Oakley and Ben Palairet

However, with the MFO you are relinquishing far more control than when using a SFO with you becoming the 'client' rather than the 'boss'. This does not necessarily mean you will not receive the service you need but it can lead to a divergence in incentives. The clearest example of this is those MFOs offering investment management services, the majority of which operate a fee model based on a percentage of assets under management (AUM). In this case the clear incentive of the MFO is to increase their AUM and the huge increase in compliance costs pushes firms towards the 'consensus middle ground'. As such there is increasing homogenisation of investment offerings, both across the industry as a whole and among individual client portfolios within an individual firm. In theory this should result in reduced investment costs for the client which is often the biggest handbrake to mainstream investment returns. However, some require, and pay for, bespoke investment management but receive nothing of the sort.

It can be assumed that the economies of scale of the MFO should be able to significantly reduce administration costs but the relentless improvement of technology means that this is not necessarily the case. Building a bespoke operating system, as many MFOs have done, may meet their requirements in the short term but are very expensive and can quickly become obsolete. Our second Family Office Solutions forum showcased a variety of back-office systems which a family office could use to improve the efficiency of the administration and governance of their often-disparate interests. Not only are these very flexible in adapting to different requirements; they are also vastly less expensive than a system built from scratch.

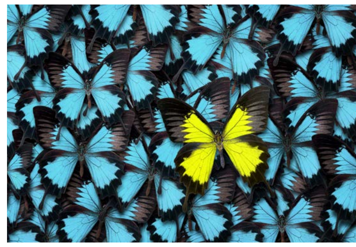
As with so much in life it comes down to the people who are working for you – whether in a SFO or MFO structure. Finding the right talent should therefore be key to the MFO but is not easy. The obvious starting point for hiring is the wealth managers and private banks but deferred compensation packages mean that enticing the most successful of these individuals can be very expensive. As such, those MFO's looking for asset growth are looking to M&A and this has led to significant consolidation in the space.

Understanding the underlying dynamics and incentives of those working for you, either in a SFO or MFO, is key to getting the right solution for your family. One of the biggest criticisms of the SFO is that they are expensive and miss out on the opportunities from others in the industry as they become insulated. Learning from other family offices, from using back-office systems to exploring co-investment opportunities, can negate a lot of this criticism.

Hugo King-Oakley and Ben Palairet are members of the team at Global Partnership

"With a MFO you become the 'client' rather than the 'boss'"

Hugo King-Oakley and Ben Palairet



SFO or MFO?
with every family being unique so are the best solutions

John D. Rockefeller with family

Family businesses show resilience
during the Pandemic

By Dr Peter Lorange

85%

of the world's companies are estimated to be family firms (Pilita Clark, *Financial Times*)

As the pandemic abates and we move into the recovery phase, a picture is emerging that family businesses seem to have weathered the storm better than publicly-traded companies. It is important to understand the reasons for this relative success to ensure that we rebuild the economy to ensure that everyone benefits.

Pilita Clark, the *Financial Times* columnist, suggests that a major reason for why family businesses have outperformed during the pandemic crisis seems to be that family enterprises tend to be more community-minded, thus representing a kinder face of capitalism. She further reports that family businesses take a longer-term view and are focused more on resilience. And, while they tend to have lower R&D budgets than their public counterparts, they generally seem to be more innovative and focused. So, for each dollar spent on R&D, more patents and new products are created. Finally, she reports that successful family firms tend to avoid aggressive over-expansion, and instead tend to focus on their basics. This means they are less likely to have high levels of debt.

> "Family businesses are unsung in modern economies... these companies tend to do well in disasters."
>
> **Pilita Clark,** writing in the *Financial Times*

Peter Brabeck, the legendary former CEO of Nestlé, argues that this might have a lot to do with the typically more action-orientated leadership in many family firms. He contrasts this "can do" attitude from the "cannot be done" way of thinking that can be found in so many public firms. He emphasizes that, while successful management must clearly understand the past, they must, nevertheless, abstain from looking back too extensively.

Thus, a forward-orientation is key, embracing change and flexibility. Family firms seem to excel here. What were keys to success in the past might not work so well in the future! To always improve, to be ready to embrace rapid changes when called for, is crucial. When making mistakes, some of which being inevitable, to learn from these are also important. To repeat the same mistakes should be avoided. Family firms seems to be able to cope with this in a better way!

What are additional lessons to those already highlighted by Pilita Clark and Peter Brabeck? First of all, virtual innovations seem to come about much more rapidly now, in light of the pandemic, compared to before. It has been said that important virtual approaches to the ways in which we work seem to have been reached in, say, a period of six months compared to what might have taken, say, up to ten years in pre-pandemic times. Cost-savings are achieved. And time is saved!

A second issue relates to how many family businesses have been able to develop effective portfolios of business engagements, thereby being able to spread the overall risks, including also to generally being able to react more promptly and decisively than many of their public corporate counterparts. There is often less ceremonial "fuss" regarding getting out of business, and higher speed in the seizing new opportunities. There are typically much fewer constraints at work when it comes to internal executive committees behind decisions as well as when it comes to stock market reactions. Public companies are typically at an even higher handicap when it comes to these issues today than even before, given the added turbulence, unpredictability and risk of the business sector.

A third area where family businesses at times seem to thrive during the pandemic, relative to their public counterparts, comes as a consequence from many public corporations being forced to spin off what for them might be non-core businesses, to maintain healthy financials and protect their stock price levels during these difficult times. Such businesses often indeed quite healthy, can then be picked up by others, often by family businesses. A healthy long term growth platform is thus being built. Again, family businesses tend to come out on top.

> "Family firms tend to avoid aggressive over-expansion, and instead tend to focus on their basics"
>
> **Peter Lorange**

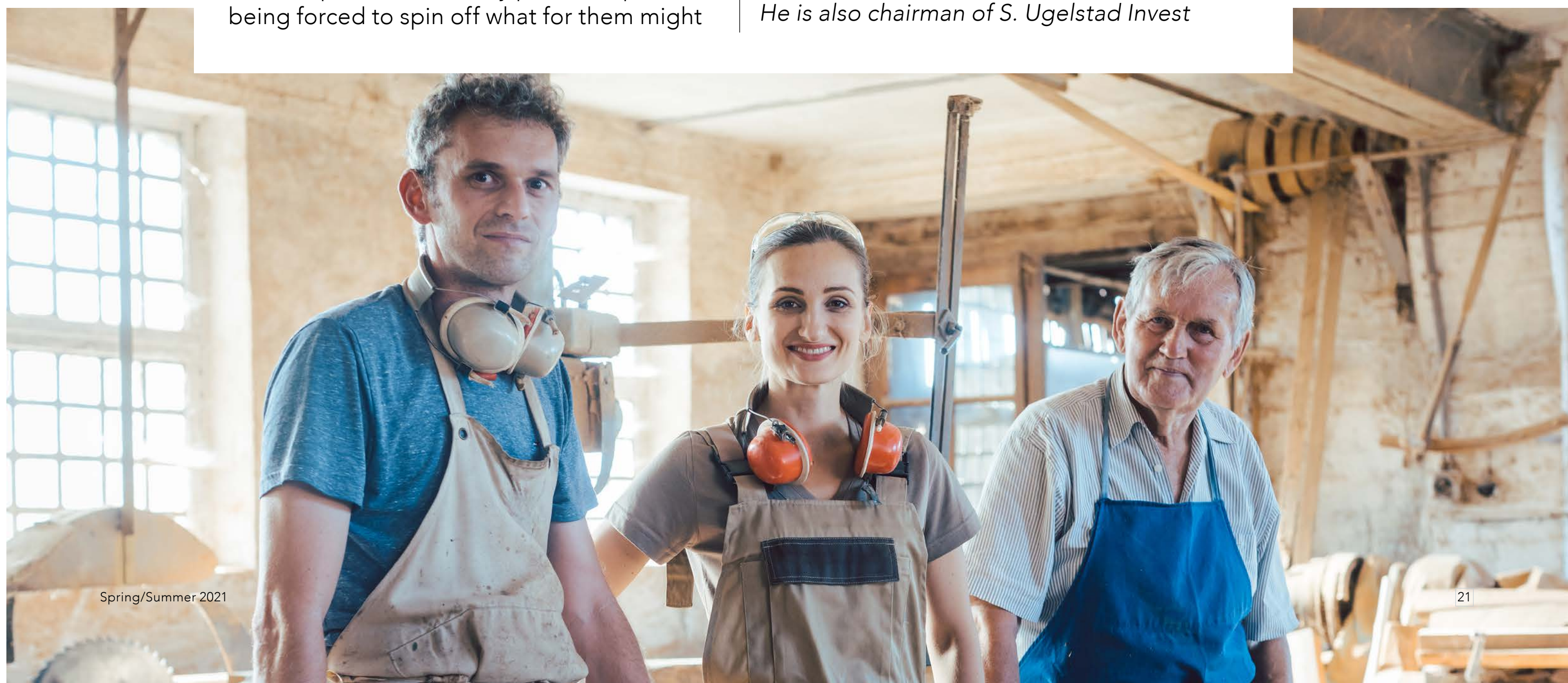
Finally, the rapid changes in many businesses coming about largely as a consequence of the pandemic has opened up for an earlier entry of the so-called "next gen" into responsible management positions in many family companies. Younger minds are often better at coping with such often entirely new business realities. Here, public companies seem to be having handicaps too, in that executives shall continue to have to rise through the organizational ladder, typically a rather slow as well as an organization-political process.

All in all, family businesses are generally coming out as winners relative to most public firms. and are even more critical today than ever! This should be kept in mind when it comes to assessing which countries may be coming out of the pandemic crisis in the best way, and for politicians to create regulations that foster business freedom for family firms, for our educational sector, and for investors, of course.

***Dr Peter Lorange** is chairman and founder of Lorange Network lorangenetwork.com*

He is also chairman of S. Ugelstad Invest

Family firms excel at embracing rapid changes when called for



Age cannot wither them, nor custom stale

Restaurant review

By Bruce Anderson

Wiltons
Private dining

Throughout the UK, a large number of thoroughly respectable persons have been behaving like imprisoned convicts. While they are not exactly keeping a tally on a drawing-room wall, as if it were a gaol cell, they are counting the days until social liberation, and indeed hoping that there will be a remission of sentence.

This is especially true of gourmets, who have been suffering acutely from restaurant deprivation. At the risk of adding to their pain, here is an evocation of three favourites. They all have one thing in common. They like to treat their customers as if they were members of a club. However long it has been since you crossed the threshold, the staff appear to have a remarkable memory. There is no need for them to excite further enthusiasm: you will be feeling that already. But the charm of being treated as if you had arrived at a home from home is an additional savour to enhance culinary expectation.

The first of them is **Le Gavroche**. Founded by the Roux brothers in 1967, it was instantly acknowledged to be the finest French restaurant in the country. Over the years, there have been challengers. Serious chefs appeared on the scene. Several of them became fashionable and despite the temptations of television cheffery, some have continued to produce outstanding food. The brothers, Albert and Michel, were never interested in fashion: they were too self-confident for that, and their confidence was justified. They had worked hard to master their trade, their craft, their art. Michel junior, who is now in charge, has carried on that tradition, in perhaps the most seamless transmission of familial mastery since the Bellinis in Quattrocento Venice. The Roux clan knew and know how to produce the sort of repast that a member of the Parisian haute-bourgeoisie who had spent decades cultivating his palate would expect, on a very special occasion. In their Upper Brook Street establishment, with its surprisingly modest exterior, he would find a meal which justified the trip from Paris.

> "Le Gavroche's souffle suissesse was one of the Queen Mother's favourite dishes, and it is easy to taste why."
>
> **Bruce Anderson**

Le Gavroche
Souffle suissesse

I once heard an American ask his waiter to recommend a special of the day. The reply was simple: 'Monsieur, everything is special. Tell me what you would most feel like eating, and I will guide you.' That remains true, with perhaps one exception. Le Gavroche's souffle suissesse was one of the Queen Mother's favourite dishes, and it is easy to taste why. So: order your meal, and then reply on appetite and taste-buds to create extra room for the souffle.

Over the years, like the more transient celebrity chefs, French ambassadors have some and gone. Some made good friends and left happy memories. Others were less successful, especially in recent years, when relations have been soured by Brexit. One or two gave the impression that they have still not forgiven the British for their part in D-Day. But this did not matter. In Mayfair, there has been a second French Embassy, in Le Gavroche, always promoting the diplomacy of the dining plate. Long may it continue.

Oyster, Jersey Rock Wiltons

Longevity brings us to **Wiltons** in Jermyn Street. It was originally founded by George Wilton, a shellfish-monger, in 1742.

Le Gavroche serve meals that justify a trip from Paris

Those were the days when oysters were at least as cheap as chips. From such humble origins, Wiltons grew and flourished. By the 1960s, it was under the formidable stewardship of the great Jimmy Marks, always known as Marks. Whether you want smoked salmon, oysters, gulls' eggs: turbot, lobster, Dover sole, wild salmon or sea trout: game in various forms - all will be as good as it gets. I am sure that the same is true of beef and lamb, though I have always concentrated on fish or game. There is an obvious difference between Wiltons and the Gavroche. Although both of them make their dishes sing, Gavroche exemplifies great French cooking. With Wiltons, it is the glorious harvest from Britain's rivers, seas, moors and mountains. Neither is cheap: that would be impossible on this side of Heaven. Oysters cost rather more these days than they did in the 1740s. But until something better is invented, they are both striving for perfection. They regularly achieve it.

> "the glorious harvest from Britain's rivers, seas, moors and mountains"
>
> **Bruce Anderson on Wiltons**

Silver cresent tasting menu Veeraswamy

Veeraswamy
The oldest Indian restaurant in Britain

The British Empire in India had a lasting influence on both countries. The UK is still benefiting from an important one-way traffic: Indian cookery. I doubt if there is any town of any size in Britain which does not have at least one Indian restaurant. These vary in quality. Some aspire to be nothing more than outlets for the cheap and cheerful, providing plates of chicken vindaloo to help soak up the many pints of lager pouring down football supporters' throats. But this is not real Indian food. For that, it is necessary to go to Indian private homes or to serious restaurants. London is well-endowed with that benign Imperial legacy, including **Veeraswamy** at the bottom of Regent Street. Established in 1926, it claims to be the oldest Indian restaurant in Britain and this is probably true. Everything is excellent. This is a thoughtful kitchen. Its waiters are also delighted to assist customers who do not know much about Indian cuisine and are keen to learn about different ingredients and subtle spicing.

From all this, there is only one conclusion: the full opening of restaurants cannot come fast enough.

Le Gavroche *43 Upper Brook St, London W1K 7QR*
le-gavroche.co.uk

Wiltons Restaurant *55 Jermyn St, St. James's, London SW1Y 6LX*
wiltons.co.uk

Veeraswamy *Victory House, 99-101 Regent St,London W1B 4RS*
veeraswamy.com

Quickfire Q&A

James Cox

What was your first job?
Equity trader

What was the best advice you were ever given?
Follow your gut; what will be will be.

Which was the last book you read?
Principles by Ray Dalio

What would be the first item on your bucket list?
More time.

Who inspires you?
No single person; instead, I like to take inspiration from a range of people, some in a personal / family perspective and others in a business sense.

How would you spend your ideal weekend?
Sunshine, golf and family.

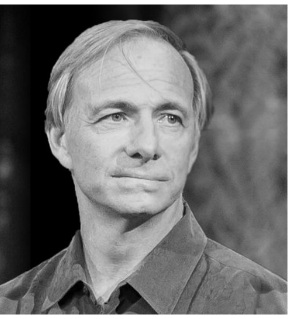
How long can you go without your mobile phone?
Not long, ever.

What advice would you give the young you?
Stay calm, stick with it and if it doesn't work, try again.

What would be your luxury item on Desert Island Discs?
Nice linen!

Who would you most like to meet and why?
A tough one, but would still have to be David Attenborough; it is something I have always wanted to do.

Sir David Attenborough



Ray Dalio.
Author of *Principles*

James Cox *is Managing Partner of Stonebridge*
stonebridge.gg

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