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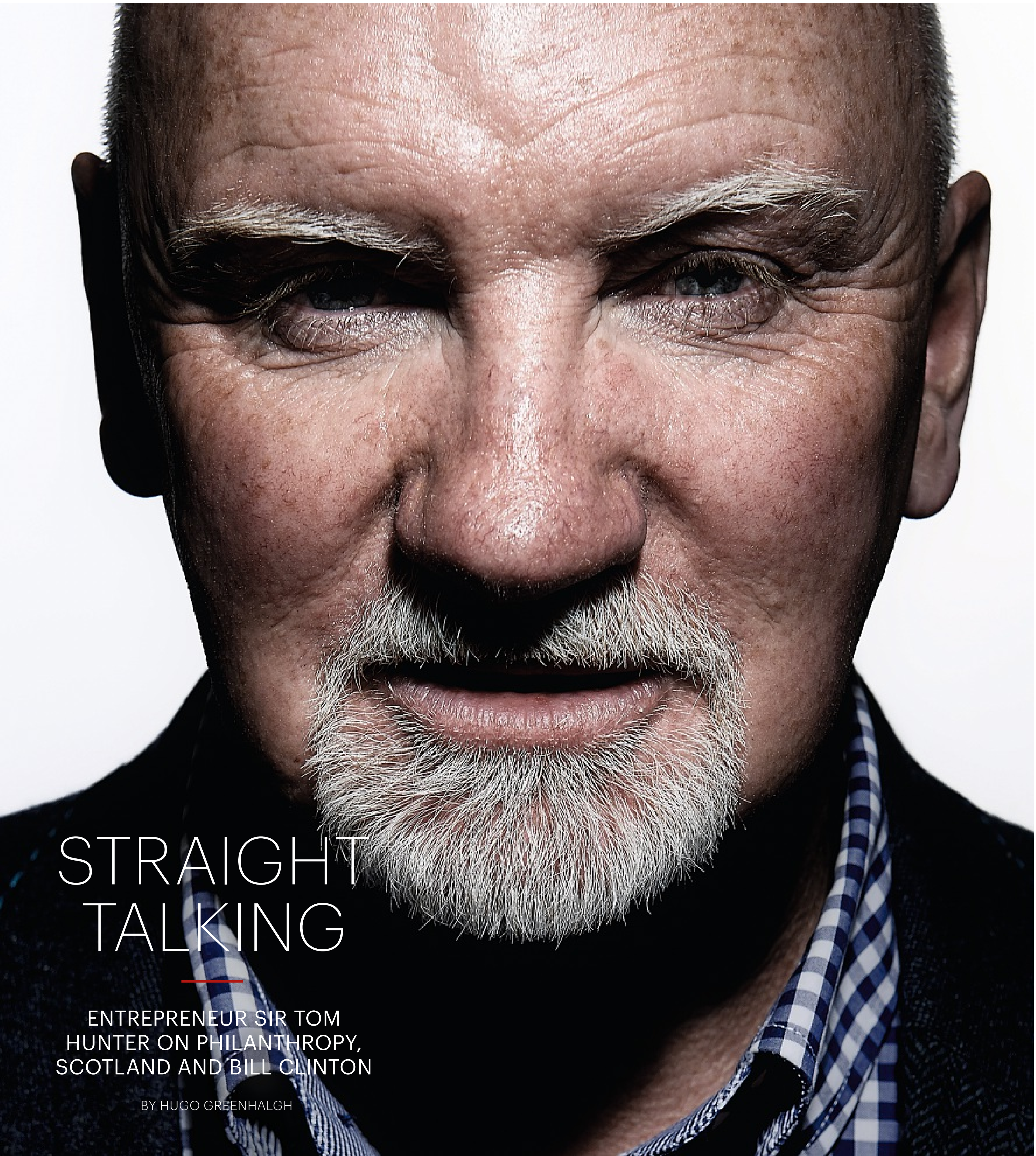

REBUILDING CHRISTCHURCH | **CHINA IN VOGUE** | PROPERTY INVESTING | **THE ART OF COLLECTING**

JUNE 2016 | FT.COM/WEALTH

STRAIGHT TALKING

ENTREPRENEUR SIR TOM HUNTER ON PHILANTHROPY, SCOTLAND AND BILL CLINTON

BY HUGO GREENHALGH

ISSUE 39

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CHRISTCHURCH WINS ACCLAIM

Five years ago, at 12.51pm on February 22, an earthquake measuring 6.3 on the Richter scale ripped through the heart of Christchurch, New Zealand's then-second-largest city. The sleepy garden town on the east coast of the country's South Island was torn apart, with 185 deaths and its iconic cathedral left in ruins. Five years on, building continues apace.

The cathedral awaits repairs, but its cardboard replacement, literally built out of recycled tubes, has won plaudits. As have the country's entrepreneurs, discovers Jamie Smyth, the Financial Times's Australia correspondent. Money is now flowing in for the reconstruction and the Ministry of Awesome, an entrepreneurs' club that meets every Tuesday, is helping to ensure the city's regeneration.

Sir Tom Hunter knows a few things about regeneration — not least when it comes to his own fortunes. Hit by the 2008-09 crash, Sir Tom remains an active — and successful — investor, but is also channelling his energies into philanthropy in his native Scotland and abroad.

What to do with vast wealth has taxed many a billionaire and while Sir Tom has announced he is to give most of his fortune away, Christian Levett is determined to ensure that the public benefit from his stunning collection of art and antiquities.

Dalya Alberge writes how the British investment manager built the Mougins Museum of Classical Art in the hills above Cannes to house and display his extensive collections of works.

Hugo Greenhalgh, *Editor*
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YOUR NEXT FT WEALTH
09 SEPTEMBER 2016

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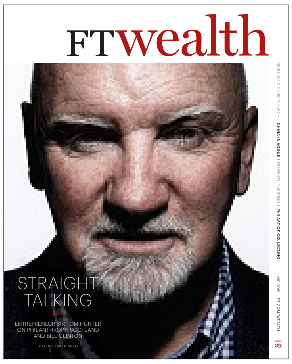

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CREDIBLE INDIA

Emerging market stocks and currencies have been the "big short" for many professional investors for several years now. But for selective investors with some risk appetite, the asset class is definitely worth a look.

The slowdown in China's economy remains a reality, but growth is only set to slip from an annualised pace of 6.5 per cent this year to 6.3 per cent in 2017. Compared with more developed nations, China's overall economic health remains intact.

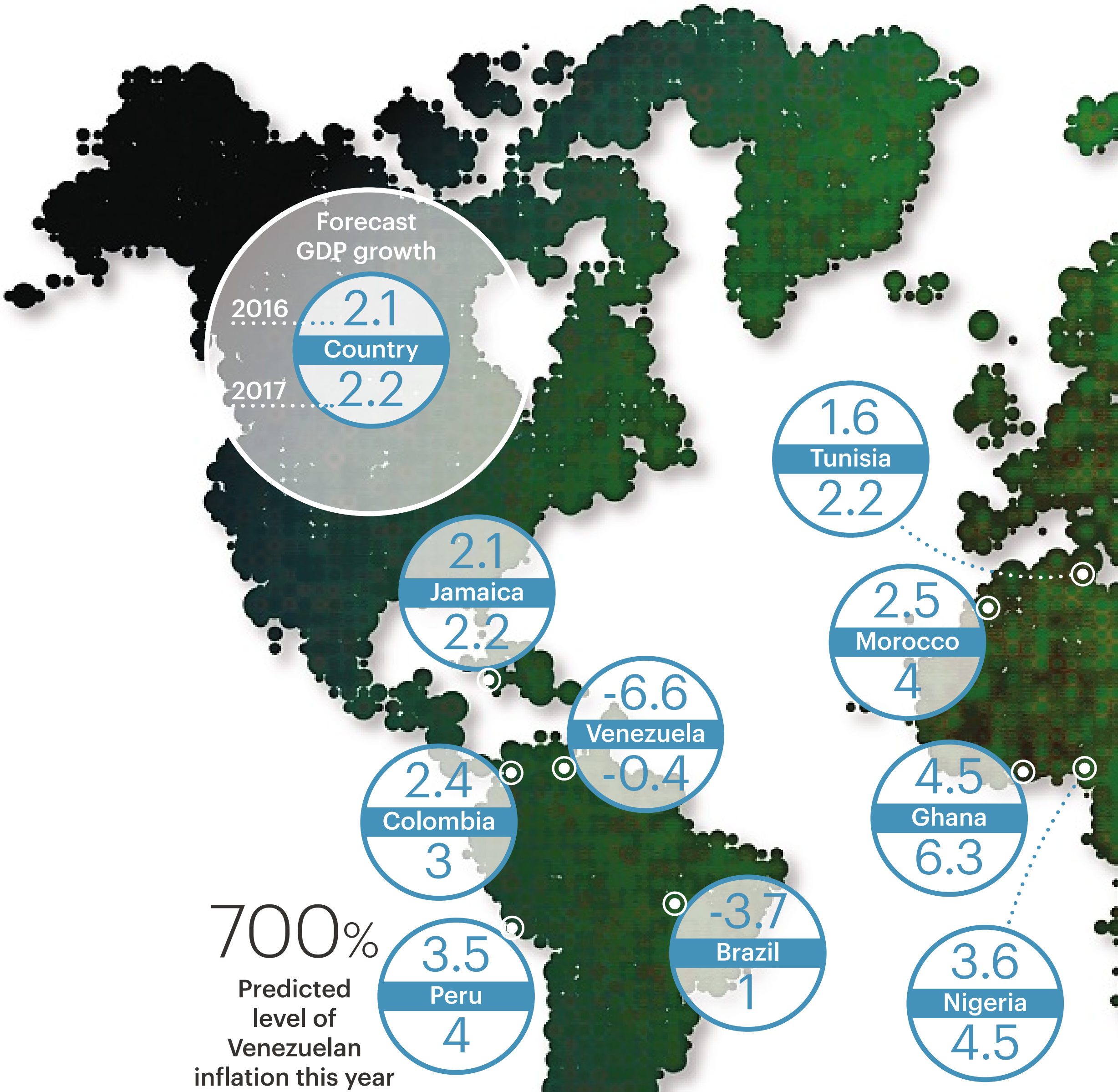
India remains buoyant. Economists expect India's GDP to increase by 7.5 per cent this year, and 7.7 per cent in 2017, making the country the world's fastest-growing large economy.

India is not overly dependent on commodity production — or on China. With a growing consumer economy, growth has been stymied by bureaucracy and corruption. But there are signs of change.

Prime minister Narendra Modi has closed a loophole that allowed wealthy Indians and foreign investors in the country from routing investments through Mauritius to escape taxation. Meanwhile, India's central bank has stabilised the rupee, brought inflation to heel and begun tackling bad loans by banks.

India's main stock market, the BSE Sensex, is valued at 20 times forward-earnings, fair value for non-Chinese Asian markets and lower than the ASX in Sydney, which trades at 25 times. Investors seeking greater value should look to India.

Naomi Rovnick is digital and communities editor of FT Money



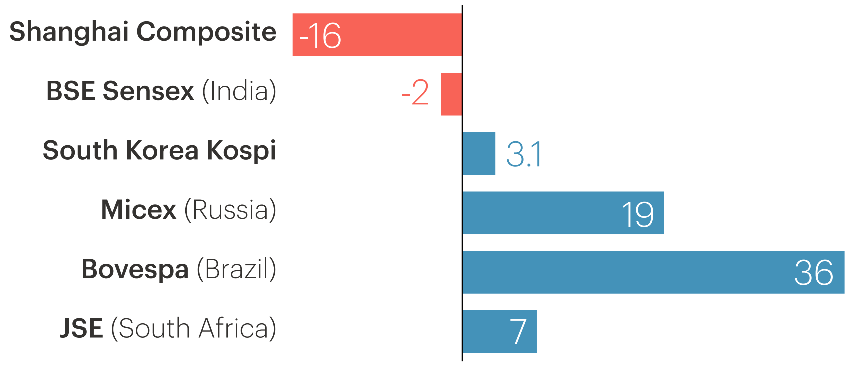
22% Proportion of Brazilians who bought premium cosmetics in the first quarter, despite the country's recession (FT Confidential)

17.6% Proportion of income people in Latin America saved last year (IMF)

GRAPHIC BY RUSSELL BIRKETT

Stock market performance

Year-to-date % change

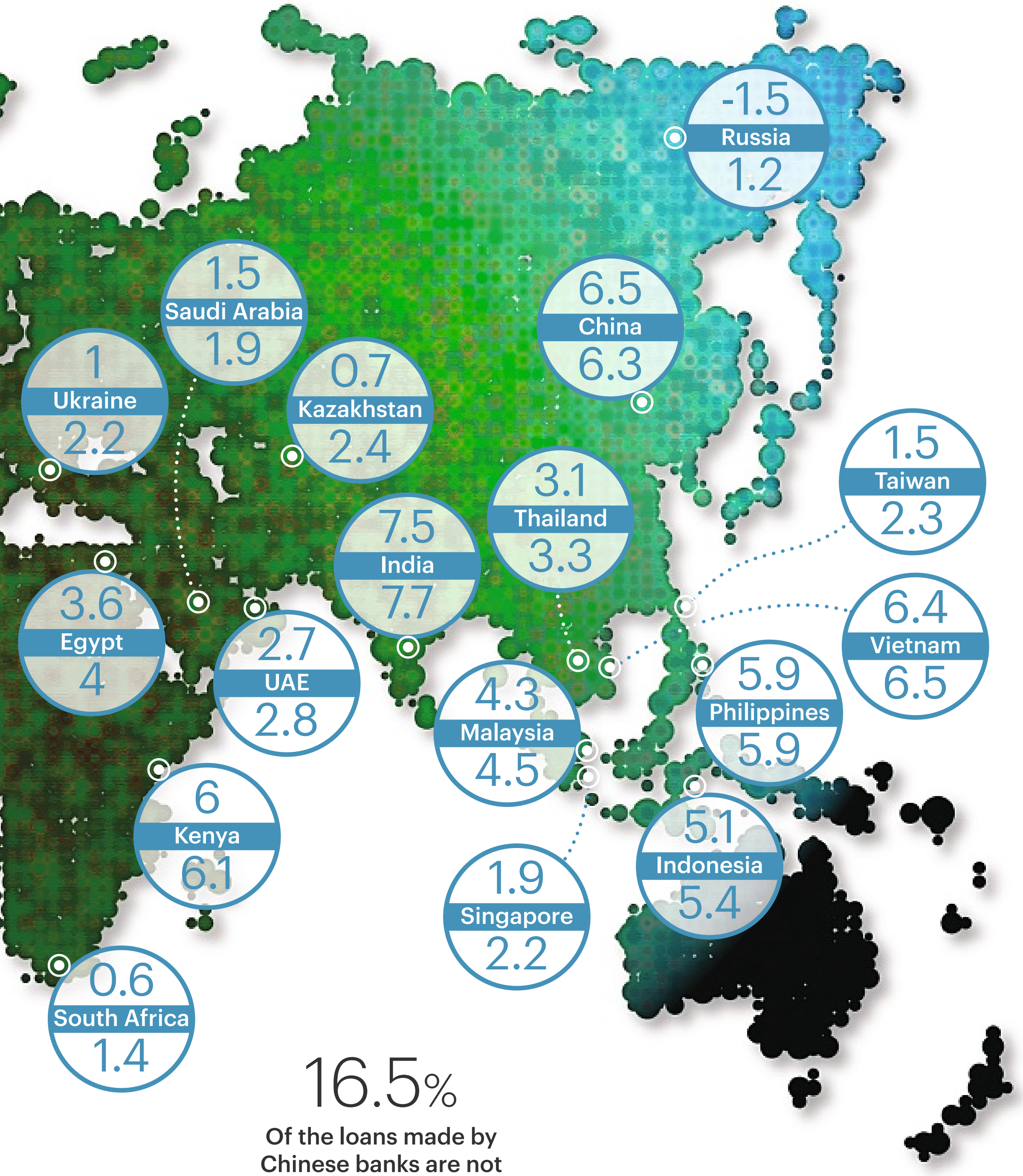


67%

increase in the Brent Crude oil price since the market hit bottom in January

41.5%

Proportion of income people in emerging Asia saved last year (IMF)



1 in 30

Chinese people own equities, so the effects from the Shanghai stock-market slump are not widespread (Capital Economics)

12

the number of consecutive quarters that clients of emerging markets-focused Aberdeen Asset Management have pulled their money out

100%

Proportion of Turkey's FX savings that its gross external financing requirement accounts for (Capital Economics)

16.5%

Of the loans made by Chinese banks are not officially classed as loans

THE RICH COLUMN
MATTHEW VINCENT

@MPJVincent

A FAMILY AFFAIR

One of Britain's largest mortgage providers has been accused of granting £5bn worth of loans without any formal checks on borrowers' ability to repay — in a disturbing echo of the subprime mortgage scandal that triggered the global financial crisis.

Research by Legal & General showed that 300,000 of these high-risk loans are due to be advanced this year, financing a quarter of all UK property purchases, despite many of the prospective buyers having a history of indebtedness, poor financial and laundry management, and an impatient telephone manner when called about home computer problems.

In almost one in five cases, borrowers were deemed unlikely to be able to sustain their interest payments, or, in a worrying sign of escalating delinquency rates, their interest in Aunty Noreen's hip replacement anecdotes when they come over for Sunday lunch.

Richard Bertin, managing director of FF&P Wealth Planning, expressed concern that the loans were being targeted specifically at millennials, in much the same way as craft beer and beard grooming equipment. "Is there another mis-selling scandal looming?" he asked.

OK, by now you may have realised that this is not an entirely genuine news story. Richard Bertin did not mention anything about beer or beards. Everything else in the report, though, is 100 per cent true.

Last month, L&G really did identify £5bn of non-compliant lending, via 300,000 loans, that will help fund 25 per cent of all British homebuying in 2016. It will go principally to young people unable to meet today's strict regulatory criteria for mortgage borrowing, 18 per cent of whom will pay no interest. And it will be provided by an institution big enough to rank as the country's 10th-largest mortgage lender: the Bank of Mum & Dad.

MUM AND DAD WERE LOOKING TO TIE SEBASTIAN INTO A FLEXI-RATE DEAL FOR 25 YEARS

More and more young adults are looking to their parents to help them climb the property ladder

According to the L&G research, the average lump sum advanced by British parents to adult children is now £17,500, but many loans are considerably larger — making it not so much the Bank of Mum & Dad as La Banque Privée du Mater et Pater (London, Monaco and Luxembourg).

Wealth managers, globally, say these high-value inter-family loans are now a common feature of clients' financial plans. However, as the loans get bigger, it appears that BoMaD is having to act more like BofA, BNP or RBS. Accountant and adviser Emily Griffiths-Hamilton has published a book called *Build Your Family Bank*, and appears to mean it, literally. She recommends that "all family members are given clearly communicated guidelines regarding the family's loan process, how family members qualify, terms of repayment, interest charged".

John Maitland, head of UK private banking at SGPB Hambros insists on "a legal document to provide certainty over how the funds would be repaid if the parents' circumstances changed".

Indeed, with L&G estimating that average family loans in London work out at 51 per cent of parents' household net wealth (excluding property), advisers say the risk exposure of mothers and fathers needs to be more closely monitored than Lehman Brothers.

Then there are the tax implications, which no self-respecting global bank can ignore... any more. Tom Gauterin, chartered tax adviser at Irwin Mitchell Private Wealth, says: "Be aware that the interest will be subject to income tax."

After the L&G research, spoof news website The Daily Mash reported the case of a 29-year-old who claimed: "I took out an £80k loan with the Bank of Mum and Dad... But today I've got a shitty letter on headed paper saying that my mum wants an extra £200 per month or she's going to kick my door in and take the fish tank."

Could never happen really? Sunaina Sinha, managing partner of Cebile Capital, warns: "Borrowers may have less recourse should the family decide to call the loan in. The stress and anxiety can certainly outdo that of a traditional bank loan."

Matthew Vincent is the FT's deputy companies editor

Matthew is thinking... *Did global bank and wealth management bosses listen to the Queen's Speech? They should have: the Criminal Finances Bill that Her Majesty announced will make it an offence to fail to prevent staff from "facilitating tax evasion". The Chartered Institute of Taxation got its excuses in early. "It is very problematic to hold a company responsible for an individual's actions," it (under)stated.*

PHOTOS: TOM KELLEY/ISTOCK; CHARLIE BIBBY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TIME TO MENTION THE 'D' WORD

Next time you see the person who manages your money, you need to ask them about the "D" word. I call it this, for there are few who will speak its name — though its damaging effects are visible all around us.

I refer of course to deflation — and your wealth manager should be busy coming up with strategies to protect you from its worst effects.

Perhaps the difficulty of finding a workaround is why the "D" word is seldom on managers' lips. Put simply, the chief agents of deflation are globalisation, technology (which is enabling the spread of the former) and the ageing population with a side order of slowing global growth.

Economists describe deflation as "China's biggest export" noting how cheap labour in Asia is filling western shopping baskets with cheap stuff. Recent data from UBS show that for the cost of employing one female industrial worker in Chicago, you could hire 20 in Jakarta. But while we may enjoy the gains as consumers, we're losing out as investors.

WHILE WE MAY ENJOY THE GAINS AS CONSUMERS WE'RE LOSING OUT AS INVESTORS

Now China's great economic engine has misfired, there's not only wage deflation for the west to contend with but also extreme price deflation (note how China's surplus of cheap steel has as good as bankrupted the British steel industry). Plunging prices of commodities and resources such as oil, currently languishing at $50 a barrel, have blighted whole sectors of global stock markets with dividends cut or curtailed altogether.

And the effect? Sadly, even more negativity. Inflation is close to, or below zero, across the UK and the eurozone. At the time of writing, six central banks around the world have negative interest rates, with more tipped to follow. There are about $10tn worth of negative-yielding government bonds outstanding, according to a recent report by Fitch, which calculates that investors are paying about $24bn annually to hold these instruments. And coupons on corporate bonds are increasingly entering minus territory; as of April this year, €188bn of the €1.863tn investment-grade bonds in issue were negatively yielding, according to JP Morgan Asset Management.

Investors who are "paying to hold" negatively yielding assets do so because they feel they are the least bad option right now. You could say that in volatile times, you pay a high price for low risk.

So what steps should you, and your wealth manager, be taking? Wealth preservation should be your goal, says Maike Currie, investment director of Fidelity International, who advises that in a low-return world, investors need to "save more and invest smarter".

How much exposure you have to the bond market is top of the list to discuss.

Traditionally, investors have moved from higher-risk investments such as equities and into bonds as they get older (a strategy known as "lifestyling") but this outbreak of negativity is turning that theory on its head. Currie advises seeking out stocks that boast what Warren Buffett refers to as "strong moats" where the company is the castle and the moat is its competitive advantage. The "moat" could be a strong brand, unique products or high levels of cash flow, she says.

And if you can't beat the agents of deflation, why not invest in them? Emerging markets were once the obvious solution for investors seeking growth. China's economic wobbles sparked a sell-off, but many are now bouncing back as technology and manufacturing businesses move deeper into Asia in search of cheaper labour.

Investec analyst Michael Power notes that India is now the largest importer of sea-borne coal. He predicts there will be a "hiatus" in terms of resource consumption growth between China's past and India's future, noting that Vietnam and Indonesia cannot pick up the demand slack in the interim.

And as a final idea, investing in robotics is increasingly in vogue, with estimates the market could be worth $135bn by the end of this decade.

As the world turns, it's time to ask if your investments need to turn, too.

Claer Barrett is the FT's personal finance editor

Claer is thinking... *By the time this magazine reaches you, we should (just) know the result of the UK referendum on whether to leave or remain in the EU. Investment managers have used "uncertainty" as an excuse to defer decisions in the first half of 2016 with higher than normal levels of cash in many funds. So let's see them earn their money now!*

PHOTOS: ISTOCK; CHARLIE BIBBY


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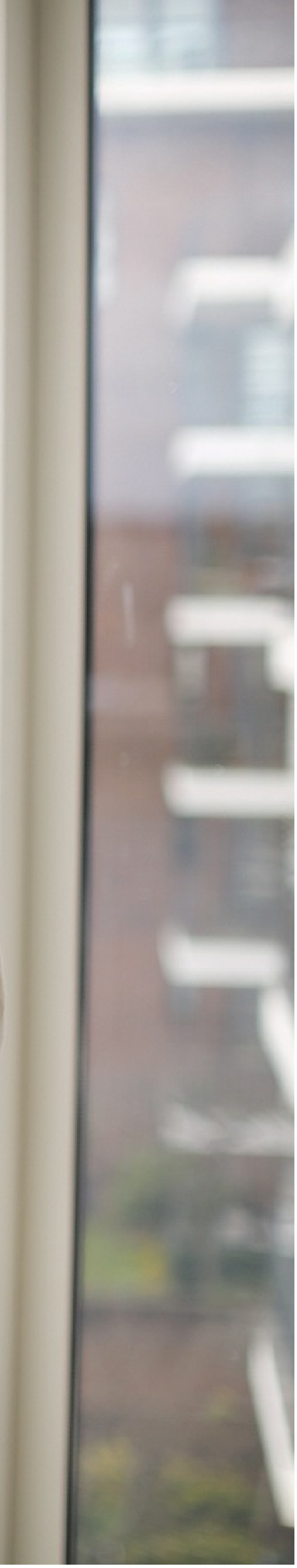


Sir Tom Hunter is balancing philanthropy and business

STRAIGHT TALKER

SIR TOM HUNTER IS A RARE BUSINESSMAN WHO ADMITS HIS FINANCIAL MISTAKES

BY HUGO GREENHALGH
PHOTO BY CHARLIE BIBBY

t is a fair bet to say that not many people will have lost £250m. And, even further, to readily admit that they made a mistake. However, Sir Tom Hunter, Scotland's first home-grown billionaire, is blunt about what happened when the world's markets crashed in tandem over 2008-09.

"I got it wrong," he says, candidly. "I did not see the financial crisis coming; that was my mistake. We were overreaching, had too many investments and had not stuck to our knitting from a financial point of view — and I got it wrong."

Straight-talking is Sir Tom's style. We are here at his apartment in London's Battersea to talk about his work in philanthropy, but I cannot resist asking him about his business track record as well.

So how much did you lose, I ask? "We're still adding it up," he says, "but it would be over £250m. Thankfully I had a little bit more."

When Sir Tom was 37, a cheque arrived on the welcome mat following the sale of his sports chain, Sports Division, to JJB Sports in 1998, for £290m, of ➤

which his share was approximately £260m. The Sunday Times Rich List puts his current wealth at £540m, not quite the billionaire he once was, but certainly still left with more than a little.

The sale of Sports Division was a turning point. Still motivated to make money, Sir Tom decided that the family had more than enough. Any money made subsequently would go to The Hunter Foundation. He once pledged to give away £1bn, a plan somewhat stymied by the economic crash, but a promise he still aims to meet.

"We are £55m in, and yes, with a long way to go. But I did say before I'm dead and I'm not dead yet," he laughs.

Hunter started his career working for his father, a grocer with a small shop in "a little mining village in Scotland". Yet prospects were bleak. "The careers adviser at the school I went to said you should go down the pit," Sir Tom says now. "It's a job for life."

Which, of course, it wasn't. The closure of the mines in the early 1980s sparked a long-running miners' strike and the devastation of New Cumnock.

"I watched my dad lose the business and I suppose my journey actually started in 1984 when I started selling shoes from the back of a van. It then goes to 1998, when I had built the business and sold it for a great deal of money — and I was still only 37."

A dangerous age, I suggest, to come into vast wealth. "Could be," he shrugs. "But thankfully my wife made sure I wasn't...", he says, leaving the sentence hanging. There were some splurges, though, including indulging his love of cars. "A Ferrari, Bentleys..."

But ultimately, he made a decision to focus on philanthropy. Informed by his childhood in East Ayrshire, Sir Tom quotes his father, which he does frequently throughout the interview.

"He always said to me, 'Look son, this is a community where we make our living, so we have to put something back into it.'"

Scotland, therefore, is a main focus of his attempts to foster links between eradicating poverty, boosting education and creating more entrepreneurs.

His philosophy is informed by Andrew Carnegie, the Scottish-American industrialist best known for funding thousands of libraries around the world.

"The amassing of wealth is one of the worst species of idolatry," Carnegie wrote in 1868. "No idol is more debasing than the worship of money!"

"A Scotsman who left Scotland in poverty when he

1.

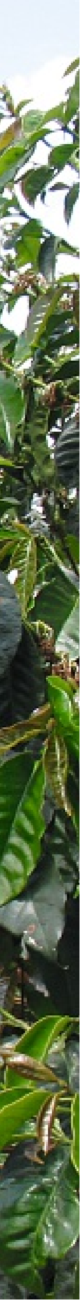
'WE HAVE A RICH, LONG HISTORY IN ENTERPRISE... THE SCOTS INVENTED THE MODERN WORLD'

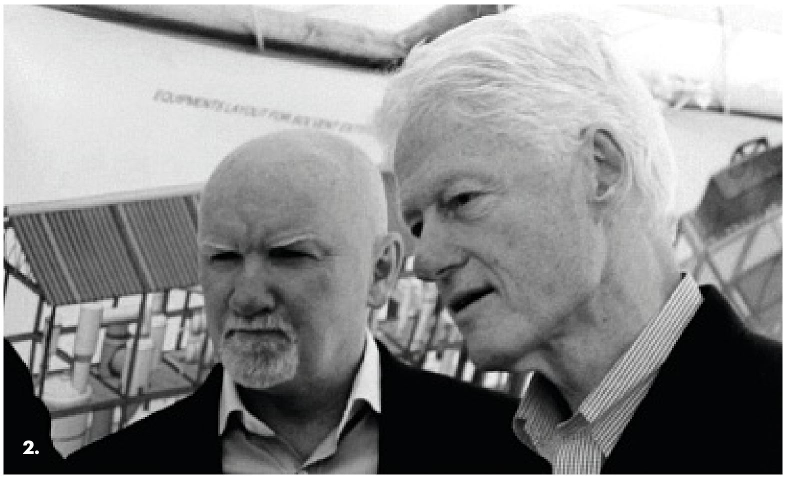
was nine, went to America and became the world's richest man," Sir Tom says. He rejects suggestions that he might be seen a modern-day Carnegie, but holds the philanthropist up as a much-needed role model.

The problem, he explains, is that Scotland has fallen into a culture of dependency. "Dependency on nationalised industries like deep coal mining, steel making and ship building," he says.

"Someone else takes care of you. Well, guess what? There are no more deep mines in Britain let alone in Scotland. [There is little remaining] steel making and ship building, so these big, government-owned industries have almost disappeared."

Scotland was not always like this, he continues, nor does it have to be in the future. "We have a very rich, long history in enterprise. Look at the Enlightenment [an intellectual movement in Scotland during the 18th century]; the Scots invented the modern world. But when we look at this, [we can see] that Scotland has some pretty horrendous child poverty figures, and that we are not very good at starting businesses."





BILL ASKED HIM IF HE HAD EVER BEEN TO AFRICA? 'HE SAID COME WITH ME. WE DID SEVEN COUNTRIES IN SIX DAYS'

1.
A coffee plantation in Malawi that is run with the aid of the Clinton Hunter Development Initiative
2.
Bill Clinton, former US president, and Sir Tom Hunter
3.
Actor George Clooney with staff at the Social Bite sandwich shop in Edinburgh Scotland, which has been helped by The Hunter Foundation

PHOTO: GETTY IMAGES

Jobs offer the best way out of poverty — and the best way to ensure people get good jobs is through education. "We firmly believe that the best social policy ever invented is a job," he says. "Simple as that."

His other focus is on Africa and was born from sitting next to Bill Clinton, the former US president, at a G8 dinner in Gleneagles.

"As one does," he laughs.

The former US president asked him if he had ever been to Africa. "I said no," says Sir Tom, "and he said, 'Come with me'. What an offer. We did seven countries in six days; the whole thing blew my mind."

It also informed his style of giving. In between the motorcades and presidential palaces, Sir Tom was taking notes, the archetypal "fly on the wall", as he puts it.

On returning to the UK, a representative from the Clinton Foundation attempted to tap him for some cash. Perhaps bravely, Sir Tom said no.

"'But I'll tell you what I do want to do, which is to look at a development initiative to help people help themselves out of poverty' — and that's when we came up with the Clinton Hunter Development Initiative, working in Rwanda and Malawi."

Sir Tom cuts an incongruous figure. When he talks of his childhood or his father, it is clear both inform decisions made today. Yet he seems very much at ease in his vast apartment overlooking the River Thames at Battersea.

Designed by Foster & Partners, from the outside the building resembles nothing more than a light industrial estate. Inside, though, it is all about the view: a bank of windows revealing an expanse of river that only the truly wealthy ever get to see.

Yet he sits in his socks in an easy chair, out of place in a flat which, despite its unprepossessing exterior, is suitably sumptuous inside. He reminds me a little of Martin Crane, father of Frasier in the popular US sitcom, who, when forced to move into his son's swish Seattle apartment, is adamant that his comfy chair must come too.

Sir Tom wants to ensure that his three children also remain grounded. Alongside his pledge to give away £1bn, was another not to leave them his fortune.

"We weren't going to leave them penniless," he says, "and we were going to support them in what they wanted to do. But they had to have their own sense of purpose and achievement. I've just seen too many kids of rich people go wrong," he adds.

Throughout our conversation, Sir Tom has been pretty responsive to most of my questions, but bristles slightly when I probe the career choices of his two sons aged 25 and 21 and a daughter who is 22.

Both his sons are musicians and his daughter works in a social media company, creative jobs that might be seen by others as possible, if you have dad to fall back on.

"These are decisions they have made and they will fall and rise on their own decisions," he says firmly. Quite how much he is going to leave them is "still a work in progress".

But this is key to Sir Tom's career as an entrepreneur. In the UK we are still too afraid of failing, he believes. We should look to the US for lessons on how to deal with failure and, much more importantly, how to pick ourselves up and start again.

"People think, goodness, that's personally terrible if you fail and that our peers look down on us, but that's rubbish. What we teach is that if you're going to fail, fail fast and fail quick — fail cheap — and learn and get on. I find I judge people on how they deal with failure rather than how they deal with success.

"Definitely," he adds, leaning back in his chair. "Definitely."


"Most positive changes start from dissatisfaction. It's that impatience and a feeling that something isn't quite right. That's often the birthplace of progress."
Dupsy Abiola, Founder of Intern Avenue
See how her impatience created careers
investec.co.uk/privatebanking

BLANK CANVAS

POST-EARTHQUAKE CHRISTCHURCH IS BUZZING WITH ENTREPRENEURS

BY JAMIE SMYTH IN CHRISTCHURCH

Sam Hooper dodged falling roof tiles and masonry as he escaped from an office block during the devastating earthquake that struck Christchurch, New Zealand, a little more than five years ago.

"The rumble of the quake sounded like a huge truck hurtling towards me," says the 30-year-old entrepreneur. "When I ran into the street I saw the church opposite collapse in a pile of rubble. There were three people inside."

A few months after the February 22 earthquake, which claimed 185 lives, Hooper left Christchurch to live in Auckland, thinking he would never return to a city where painful memories lingered amid scores of derelict and crumbling buildings.

But within three years he had returned to set up a restaurant called Pot Sticker Dumpling Bar, joining a new generation of entrepreneurs who are helping to regenerate a city in the middle of a NZ$40bn ($27bn) rebuilding programme.

1. The clear-up process continues five years after Christchurch was rocked by a devastating earthquake

2. Sam Hooper escaped the devastation and within three years set up his own restaurant in the city

1.

PHOTOS: GETTY IMAGES; DAVE RICHARDS


2.

"Christchurch is a blank canvas," says Hooper, who recently opened a second restaurant and has plans for a third. "There isn't as much competition as in Auckland, rents are cheaper and there are a lot of experienced people willing to mentor young entrepreneurs like myself to help improve their city."

New restaurants, bars and other entertainment venues are badly needed in Christchurch's central business district where rebuilding work has been slower than many locals had hoped and which remains largely deserted after dark.

Bureaucratic delays to signature projects, such as a new convention centre and the city cathedral, coupled with long waits for insurance payouts for some residential homeowners, have created a sense of frustration among the city's 370,000 inhabitants.

"The scale of the rebuild is enormous," says Peter Townsend, chief executive of Canterbury Employers' Chambers of Commerce (CECC). "Realistically, there was no way we'd ever have been finished within five years. I'd say we are now about halfway through the rebuild and have spent NZ$13bn-NZ$14bn."

About 1,100 commercial buildings have been pulled down or are awaiting demolition in Christchurch's central business area following the February 2011 earthquake and an earlier quake on September 2010. About 6,000 businesses were forced to move to new premises, 10,000 homes were destroyed and a further 25,000 homes faced repair bills of more than NZ$100,000, according to the CECC.

But amid all the rubble and dust, which sweeps across the town centre on windy days, there are signs of entrepreneurial activity taking root, in part driven by necessity in the aftermath of the earthquake.

Fashion retailers have squeezed into shipping containers, pop-up shops have colonised recently cleared sites, and street art and sculptures provide a splash of colour to a city dominated by scaffolding and building sites. Businesses forced to leave the city centre after the earthquakes are slowly beginning to creep back. ➤

'DISASTERS ALWAYS ATTRACT PEOPLE WHO WANT TO GIVE THINGS A GO'

‘THE DEMOLITION PROCESS IS VERY SAD BUT IT CREATES OPPORTUNITIES. FOR ENTREPRENEURS’

“In those early days after the earthquake it was chaos. We had 40 staff with no equipment or place to work from and lots of orders to fulfil,” says Henry Lane, president of business development at Cerebral Fix, a video games developer with clients that include Disney, Dreamworks and Sony.

Cerebral Fix was based in Christchurch’s central business district, which was largely cordoned off as an exclusion zone for two years after the earthquake. Like many other companies, the games developer scrambled to find alternative accommodation and ended up in a shed near the airport with several other companies.

Conditions were cramped in the co-working space but it quickly became a “buzzing hive of collaboration” as employees working for these companies in exile forged personal networks and swapped ideas, according to Lane. This experience sowed the seeds of Epic, Christchurch’s Enterprise Precinct Innovation Centre, a collaborative work space based in the business district that houses 25 technology companies. The two-storey campus building is based on designs provided free of charge by Google. Cisco Systems installed the telecoms networks and some funding was provided by the government.

“It has become the beating heart of Christchurch’s innovation sector and helps us attract skilled staff to come and work in the city,” says Lane.

Every Tuesday, Ministry of Awesome, a social enterprise, holds its lunchtime “coffee and jam” sessions at Epic for budding entrepreneurs, investors and people seeking support for ideas or events they are planning.

“There wasn’t a lot of support for entrepreneurs after the earthquakes and yet there was an outpouring of ideas as people began thinking about how they could help their city recover,” says Lauren Merritt, who styles herself as “chief awesome officer”. “So we began these grassroots events to connect people together and provide a platform for people to share their ideas.”

Robert Henderson, who was among 60 participants at the 161st “coffee and jam” in May, says he chose to stay in Christchurch after the earthquake because he felt it would be exciting to be part of the spirit of regeneration.

He initially thought of setting up a bicycle share scheme for students to help them get around in the wake of events. Henderson later expanded the idea to cover the city centre and founded Cycle Solutions.

He raised NZ$50,000 via crowdfunding and secured sponsorship from Spark, a telecoms company, for a project that is providing a sustainable public transport option in the city.

“The demolition process is very sad but it also creates opportunities. Christchurch is a blank slate for entrepreneurs,” says Henderson. “We can use the bike share as a way to revitalise the centre of Christchurch.”

The success of Epic has spurred local authorities to create an innovation precinct, which has attracted

1.
Henry Lane is president of Cerebral Fix, a video games developer, seen here with its CEO, Benjamin Dellaca
2.
Construction continues at the Re:Start project, an innovative shopping area in the centre of Christchurch
3.
Robert Henderson, founder of Cycle Solutions
4.
Nicola Valentine, co-founder of PropertyPlot
5.
Enterprise Precinct Innovation Centre in Christchurch
6.
Pensolve’s Maxim Millen responded to the earthquake by developing technology to help engineers

mobile phone giant Vodafone to choose Christchurch as the location for its sixth global “xone” start-up accelerator and innovation lab.

The Vodafone xone centre, which is expected to open shortly, will be located next to Greenhouse, a government-funded incubator for early-stage companies that provides entrepreneurs with low rent, advice and support. “There are massive highs and lows when you are a start-up and it is great to have people in the same position to talk to and swap ideas with,” says Nicola Valentine, co-founder of PropertyPlot, a company that is developing software products to help buyers and investors manage their property portfolios.

PropertyPlot was one of the first companies in the Greenhouse incubator to raise first-round funding of NZ$225,000, says Valentine, who returned from Australia to Christchurch following the earthquakes to be close to her family. “I reckon the earthquakes have made Christchurch more entrepreneurial — it was quite a conservative city before,” she says.

Another Greenhouse tenant, Maxim Millen, founder of Pensolve, responded to the disaster by developing technology to help engineers working in earthquake-prone regions to quickly find calculation

PHOTOS: DAVE RICHARDS; AFP/GETTY IMAGES;

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errors and understand design decisions in engineering spreadsheets. Millen says some people at his university moved away to other colleges following the earthquake. “For me, as a structural engineer, it was the most interesting place in the world to be,” he says.

A factor that bodes well for the city’s long-term recovery and the support of entrepreneurial activity is the high rate of insurance cover in Christchurch. More than 90 per cent of homes and commercial buildings had comprehensive cover. This compares with rates of 19 per cent in Kobe, Japan and a little more than 30 per cent in California — other earthquake-riven regions.

Justin Murray, who founded Murray & Co investment bank in Christchurch in 2004 after a decade working in London, says a significant proportion of the money recouped from insurance payouts is being funnelled back into the city. “Private sector developers have got on with the job and are building new offices on spec,” he says.

Canterbury Development Corporation estimates there was 446,000 sq m of office space in the central business district prior to the earthquakes, which fell to a low of 104,000 sq m by 2013. It is now back at 215,000 sq m with a further 80,000 to be completed later this year.

The new office buildings are significantly more efficient and a higher grade of development than the previous generation of offices, which means they can hold significantly more employees and are aimed at high-end clients.

“Christchurch will need a growth engine to attract more people from New Zealand and from abroad to fill office supply in the city,” says Murray.

In the aftermath of the earthquakes, local authorities estimate about 13,500 residents left the city. But they have been replaced by almost 8,000 foreign workers and about 6,500 workers coming from other parts of New Zealand.

Christchurch city council is now lobbying central government to allow them to pilot a “talent visa” to bring in workers with special skills from abroad. It is also focusing on harnessing the outburst of entrepreneurial energy in the city to drive its development. “Disasters always attract people who want to give things a go,” says Dalziel, Christchurch’s mayor. “People are in a state of flux and all these young people are doing innovative, creative stuff and are willing to try things they wouldn’t have done before.”

Christchurch: Mind the Gap

What do you do if almost 80 per cent of the buildings in the heart of your city are flattened or made uninhabitable overnight?

Ryan Reynolds and two friends in Christchurch came up with a novel answer and began filling vacant sites with innovative community projects, events and installations.

Their “Gap Filler” project has installed dance floors, pop-up shops, crazy golf courses and other temporary projects amid the rubble and empty spaces that continue to blight New Zealand’s second city five years after the earthquake.

“Our idea was to turn these fallow places into public places and inspire a conversation about the city,” says Reynolds, an American who teaches at Christchurch’s University of Canterbury.

The idea foreshadowed a wave of social entrepreneurial projects in the city’s post-earthquake era that are helping citizens through a difficult and lengthy rebuilding process. Everyone from graffiti artists to gardeners have become involved in projects, which have added welcome splashes of colour to a city that was ripped apart.

Greening the Rubble, a charitable trust, has created a network of temporary public parks and gardens on the site of demolished buildings. Scape public art has continued to erect contemporary public art works across the city.

And while most of the ideas are temporary, some are gaining a life of their own.

Gap Filler’s Dance-O-Mat — an open air dance floor with a glitter ball, lights and speakers that can be turned on by depositing NZ$2 in a coin-operated washing machine — has proved such a hit it is spreading to other towns.

ART FOR ALL
COLLECTORS WHO WANT THE PUBLIC TO ENJOY THEIR TREASURES

BY DALYA ALBERGE

Most collectors keep their hoards hidden in their homes, in bank vaults or in storage. Not Christian Levett, a British investment manager, who wants only to share his spectacular collection of art and antiquities with the public.

The 46-year-old philanthropist has a "compulsive need to collect", he says, but not to hoard. He wants the public to see his Greek and Roman sculptures, his Egyptian antiquities and his ancient armour — one of the world's largest private holdings. He also wants them to enjoy his art by Rubens and Picasso, as well as contemporary artists.

"The collecting frenzy got to the point where I was putting things into storage," he says. "I thought that was a great shame."

Most of his purchases now go straight into the Mougins Museum of Classical Art, which he built five years ago in the hills above Cannes in the south of France. It is filled with more than 700 exhibits spanning 5,000 years, a collection worthy of international museums, which regularly borrow from him for their own displays. ➤

PHOTO: ANDREAS VON EINSIEDEL

Christian Levett satisfied his "need to collect" by creating the Mougins Museum of Classical Art in France

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Recent loans arranged include an important Thracian gladiator helmet, which the Metropolitan Museum in New York wishes to borrow next year, and he rattles off numerous other loans made in the past two years alone. They include loans to Germany of a 2nd-century Roman cavalry helmet for the Braunschweigisches Landesmuseum and a 1st-century bronze head of Augustus for the Romano-Germanic museum in Cologne. Among his contemporary works, Ai Weiwei's monumental Iron Tree is on loan to the Yorkshire Sculpture Park.

The collection has been built with an eye for quality. Its jewels include a colossal Roman depiction of the Emperor Hadrian, which shows off the extraordinary skills of its 2nd-century maker. The 216cm high marble statue has drapery that flows like real material over his left arm, revealing his fine muscular torso.

The "Crowe Hall" Roman urn of the 1st century is among other treasures. Despite its exquisite carving, it had been adapted for use as a lamp in the 1970s. But its importance was recognised when it sold for £445,250 at Christie's London in 2011 — more than 40 times its estimated price. It had come from Crowe Hall, one of the finest Regency villas near Bath. Levett bought it from a European dealer who acquired it at auction.

Levett, a softly spoken man, prefers people to focus attention on the collection rather than the collector. He is an Essex bookmaker's son who made his fortune from hedge fund management during the mid-1990s.

Other wealthy individuals splash out on fast cars and boats, but he is divorced with two children who drives a Mini and spends money on art and antiquities. He has

THE COLLECTION HAS BEEN BUILT WITH AN EYE FOR QUALITY.

Other fund managers who display their art:

Andrew Hall: loaned more than 100 paintings, sculptures and drawings by Andy Warhol to a 2016 spring exhibition at the Ashmolean Museum in Oxford. They were from a collection boasting some 5,000 works by several hundred artists. In February, in a BBC interview about why he started collecting, British-born Hall said: "I turned 50 and then 9/11 happened and suddenly I thought, there has to be more to life than just trying to build up one's bank account." The Hall Art Foundation, founded in 2007, makes available post-war and contemporary art works from its own collection and that of Hall and his wife Christine "for the enjoyment and education of the public".

Steven A. Cohen: one of the world's top collectors of Impressionist and modern art, he is a generous lender to institutions and exhibitions. Last year, the billionaire was revealed as the secret buyer of Alberto Giacometti's L'Homme au doigt (1947) for $141.3m at Christie's, which became the most expensive sculpture ever sold at auction. His collection is said to include Vincent van Gogh's Peasant Woman Against a Background of Wheat (1890) and Paul Gauguin's Bathers (1902).

Kenneth Griffin: a billionaire hedge fund manager said to have an insatiable appetite for historic and expensive art. His purchases reportedly include $80m paid for Jasper Johns's False Start and $50m paid for Jackson Pollock's Number 17A. His loans to public exhibitions include the Art Institute of Chicago, to which he has also made multimillion-dollar donations.

a house in Mougins, a medieval village, where he also owns two restaurants, including La Place de Mougins, frequented by Picasso under a previous management.

History and collecting have been passions since childhood. Levett's parents regularly took him to castles and cathedrals and he caught the "collecting mania" aged seven through Victorian coins, which cost "almost nothing" of his pocket money, he recalls. He has never forgotten the boyhood excitement of "touching items, which seemed to bring the history behind them to life".

As a young adult, his interest in history was rekindled with visits to museums and galleries, including the Louvre in Paris and the British Museum in London. He bought 18th- and 19th-century furniture and Georgian and Victorian hand-painted natural history books, and recalls his excitement at discovering that he could actually buy Roman and Greek antiquities. He had long assumed that they were only in museums and he was astonished that the prices paled against those for the Impressionists or contemporary art.

Realising that these pieces needed to be looked after and kept in proper conditions, he hired Mark Merrony, an academic and archaeologist, with whom he established the museum. They converted a post-medieval four-storey building once owned by Sistercian monks into a 550 sq m museum in Mougins.

The site could not be more appropriate. It is close to the Graeco-Roman settlements of Nice (Nikaia), Cimiez (Cemenelum) and Antibes (Antipolis), but it also reconnects its ancient past with the modern art produced by more recent former residents.

Picasso spent the last 12 years of his life in Mougins. Fernand Léger, Jean Cocteau, Francis Picabia and Man Ray also lived there, and Marc Chagall, Raoul Dufy, Henri Matisse and Amedeo Modigliani were nearby. All are represented in Levett's collection, alongside master sculptors of the ancient world.

His items reflect the classical world's influence on later artists, from Rubens (the 17th-century Flemish master's portraits of Roman emperors, for example) to contemporary ones such as Sir Antony Gormley (the British sculptor's two cast-iron male figures suggesting the Greek myth of Narcissus).

Ancient, modern and contemporary exhibits that one

ANCIENT, MODERN AND CONTEMPORARY EXHIBITS WORK WELL TOGETHER TO CREATE DRAMATIC DISPLAYS

might not think would work comfortably together create dramatic displays: a Roman Venus is next to Salvador Dalí's eccentric Surrealist Venus de Milo with a giraffe neck; and the Blue Venus cast by Yves Klein is next to The Birth of Venus by Andy Warhol. There are also Roman depictions of the goddess of love and a Cézanne drawing of the Venus de Milo.

At last year's Masterpiece, the prestigious annual art fair in London, he bought a vase by Grayson Perry, the Turner prize-winning potter. He was drawn immediately to its design with the word "Antiquity" written across its front and he has placed it alongside 4th-century BC ancient Greek vases.

Levett speaks about each piece with scholarly knowledge and puts emphasis on the importance of a pre-1970s provenance. He notes, for example, that he bought the Thracian gladiator helmet from a French medieval arms dealer and that it had been sold at Christie's in 1933, having been found in Italy in the 19th century. "If you can't provide provenance on a... piece, it reduces the value to almost nothing," he says. "[Then] it comes down to the overall quality and workmanship incorporated in the piece and its natural beauty."

Although he keeps adding to the collection, the pace has slowed as prices for antiquities have risen dramatically. He bought an Egyptian sarcophagus for $1.2m about seven years ago and a dealer recently offered him "five times what I paid for it".

"I'm not buying in the quantities that I was years ago," he says. "Financially, it's not really possible any more when things are trading at £7m instead of £500,000."

Does he keep certain artefacts for himself? "Not really," he says. "Most of the best stuff is in the museum."

Although he spends about two months of the year in France, he is based in Britain. He works as a portfolio manager at Moore Capital, one of the longest-standing hedge funds. While talking to FT Wealth, he keeps an eye on the crude oil and gasoline markets, apologising beforehand that he may need to break off to trade.

He misses his collection when he is away from it: "I don't see it as much as I'd like." Initially, he did consider opening the museum in London, but he did not have the confidence.

"I was overly paranoid about what other museums would say about it and generally the academic approach to antiquity collecting. In fact, I got that completely wrong because other museums have been unbelievably supportive and the academic world has embraced it as well," he says.

The museum now attracts about 18,000 visitors a year, an impressive number for a tiny village.

"When I opened it, I really had no idea whether it would be tens of thousands or two men and a dog on a summer's day," he adds.

PHOTO: NIGEL RODDIS/REUTERS

4.

5.

1.
Bronze Phrygian-style cavalry helmet, 2nd-3rd century AD
2.
Marble statue of Emperor Hadrian's head and a Baroque body, 17th century

3.
Ai Weiwei's Iron Tree
4.
Collector Christian Levett
5.
Roman ornamental cinerary urn, 1st century AD

SECRET TREASURES
CHINESE SHOPPERS NOW LOOK FOR MORE THAN A LOGO

BY NAOMI ROVNICK

Jacqueline Lam sells western fashions to Chinese shoppers, via her website MiHaiBao. What may come as a surprise to anyone who has seen the throngs of Chinese tourists jostling to get into the Louis Vuitton section at Galeries Lafayette in Paris is that she does not focus entirely on top-end brands.

The 28-year-old Chinese-born Danish citizen, who says she developed a keen sense of what Chinese shoppers want to buy abroad after years of being hassled by friends and relatives to bring "everything from toilet seats to cookies" back from Europe, is selling her customers on the idea of discovering new designers.

MiHaiBao does stock Moschino and Christian Louboutin, but its main focus is niche and relatively undiscovered brands, such as Italian knitwear group Boboutic and Sweden's Acne Studios, whose brightly ➤

PHOTO: MIHAIBAO

Fashion website MiHaiBao sells itself on the idea of discovering new brands

FIVE YEARS AGO, SELLING THE CHINESE LABELS THEY HAD NOT HEARD OF WOULD HAVE BEEN UNTHINKABLE

coloured, androgynous pieces sell for less than £1,000. MiHaiBao, a name which translates as "secret, overseas treasure" promises on its website that customers will "hit on something new".

Yet just five years ago, selling Chinese customers labels they had never heard of would have been unthinkable.

Lam has tapped into a trend that could really shake up how the providers of luxury experiences, from handbag retailers to hoteliers, cater to ultra-wealthy Chinese. This market used to be about conformity and easily recognisable displays of wealth. Now, however, the richest Chinese consumers do not want to show they have money, but that they have good taste and that they are individuals. They are becoming much harder to sell to.

"In the 1990s in Hong Kong, you would sell to rich mainland Chinese shoppers wearing designer sunglasses with the price tag dangling off the side," says Sunny Wong, a veteran Hong Kong-based retailer who until 2014 ran outlets in mainland China for brands including Gieves & Hawkes, Kent & Curwen and Cerruti 1881. "What they wanted to buy was the label and [what] they wanted to show was that they could afford the price."

Wong explains that the small proportion of Chinese with the money to shop in Europe really want to show their friends back home that they had been to Paris, London or Milan. The best way to do so is to bring back an item of obviously high quality that is definitely not available in the luxury malls of Beijing and Shanghai, which are now stuffed to the gills with Dior, Chanel and Burberry.

They "search online to find out about boutiques before they travel", Wong explains. "On [London's] Bond Street the shops are very familiar. It is not anything new for them any more; and they like European department stores for the labels they can discover there," he says.

In an intelligent take on this theme, through MiHaiBao, Lam is also offering those Chinese who cannot travel the chance to feel they, too, have visited a European boutique. "The middle class consumers can buy from us and they also get to discover a new European brand," she explains.

Federica Levato, a Milan-based partner at consultancy Bain & Co, has seen the same trend. She says that while much of Chinese shopping in Europe is price driven because of China's high taxes on luxury goods, "what we have seen in Europe in perhaps the last 18 months is this rapid growth of the sophistication of the Chinese customer in Europe". These shoppers are looking, she explains, "for the less showy and more sophisticated items, with an intrinsic value, not only a nice logo". They want "a unique and personal buying experience".

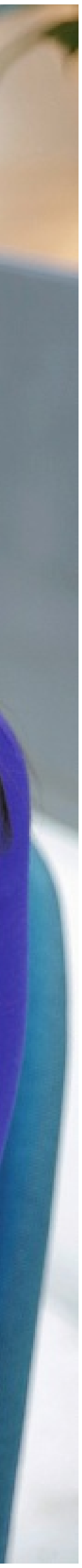
Politics, as well as culture, also plays a part.

Bain & Co's most recent report on Chinese luxury spending identifies a "growing individualism [that has] continued the trend toward fashion and exclusivity; smaller, fashion-orientated brands are still gaining popularity". While their parents and grandparents were inculcated with notions of conformity, Chinese millennials make more self-focused decisions.

1.

The Bain report notes that while middle-aged Chinese tourists still often travel in large tour groups – often wearing matching caps and trailing after a guide – the nation's under-30s are more likely to travel independently.

Fashion tastes are changing for political reasons, too. Since he became president in 2012, Xi Jinping has cracked down on corruption in business and politics, creating a culture in which ostentatious displays of wealth are frowned upon. Wearing obviously expensive



2.

3.

clothes is too risky nowadays for many of China's super-rich. According to a recent report by Goldman Sachs, the country is becoming home to "a more austere, individual and lifestyle-conscious consumer".

The report added: "A far more pertinent issue for many of the large established luxury brands is how to stay relevant in today's consumer environment."

China's changing tastes have been felt closer to home. Hong Kong used to be the favourite shopping destination for mainland luxury buyers, thanks to the territory offering lower prices than in the rest of China, which has a dazzling array of import taxes. In March, however, retail sales in Hong Kong fell, on a year-on-year basis, for the 13th consecutive month.

Analysts say this has something to do with Hong Kong's commercial landlords having chased the high-end brands as tenants. The territory's top shopping streets are dominated by the likes of Prada, Gucci, Chanel, Louis Vuitton, Armani and Dior. But luxury outlets are now starting to close down.

Chow Tai Fook, a Hong Kong jeweller that has reported slower sales, said in January that it would close between five and six stores.

"Hong Kong has gradually come to be seen as a 'commoditised' destination and wealthy Chinese now favour edgier destinations in the region," wrote HSBC analysts last year. Those who are not travelling to Europe are visiting South Korea, which enjoys a reputation in Asia "for up-and-coming trends".

"We do not see Hong Kong recovering," says Bain's Levato. "All the brands are over-exposed in terms of retail surface in Hong Kong, with some having 10-20 stores, and keeping all these locations is becoming unsustainable."

In China, luxury brands may have to move downmarket, to attract those consumers who are still fascinated with brands. Wong, who now runs a private equity investment unit at Hong Kong sourcing giant Li & Fung, says: "Maybe a secretary in Shanghai cannot buy the handbag from Prada but she could save up for the sunglasses. This is a really exciting market. The ultra-rich? This is maybe a couple of million people in China; it is not a big growth market."

The money has moved elsewhere and the high-end brands need to follow. "The middle class is 200m-300m," Wong says, "and it is growing hugely."

1.
Jacqueline Lam promises customers something new
2.
A model presents a creation for fashion house Marni in Milan
3.
Irene Kim wears an Acne Studios red coat and a Jimmy Choo bag in Paris
4.
Fashion student Jaime Lo wears a dress from Korea and an Acne Studios jacket

4.

PHOTOS: KIRSTIN SINCLAIR, AFP/GETTY

Extract the attached supplement and keep it for your enjoyment

G • BEIJING • DUBAI • NEW DELHI • LAGOS • WINDHOEK • ST KITTS & NEVIS • SINGAPORE

INSIGHT

Chimney stacks that billow out smoke reveal the dark side of wealth p42

PHOTO: AFP/GETTY IMAGES

PROPERTY
JUDITH EVANS

@JudithREvans

LIVING IN AN ASSET CLASS

How does it feel to reside in a fully fledged, internationally traded asset class? You can't follow the performance of luxury London homes on a data terminal and you can't live inside a share or a commodity tracker. These homes have plenty else in common with other asset classes, though — such as global appetite, sensitivity to currency movements and plenty of traders looking for a quick buck..

That is where the high-end London housing market — and that of other global cities, such as Hong Kong, New York and Dubai — seems to have come somewhat unstuck. Estate agents are not too keen to talk about these aspects of their marketing in public, but one major player is circulating a brochure with hundreds of newly built London flats, promising buyers a capital gain of 20 per cent by 2020.

True, that is not exactly high-frequency trading. But it also comes with none of the warnings attached to other types of investments. Unlike companies advertising funds, estate agents and developers neglect to warn potential buyers that their investments may go down as well as up, or that past performance is no guide to the future.

Similarly, while an advertisement for a new residential development in Shoreditch might focus on the nightlife, or the fashion retailers, or the proximity to London's tech scene, it instead opts to trumpet: "Fact: 46 per cent increase in growth. Fact: 20 per cent growth in 10 months."

This kind of marketing may be technically accurate, with a backward-looking view, but it is also disingenuous, given that prices for high-end London properties are currently falling. With tens of thousands of luxury apartments in the pipeline, analysts are predicting prices in this segment could fall by up to 10 per cent this year. Fact: the property market is notoriously cyclical.

SOME NEW-BUILDS ARE DESIGNED AS BOXES FOR MONEY RATHER THAN AS PLACES TO LIVE

The focus on short-term investors is partly down to how developers finance themselves. Often their bank financing depends on a certain number of "off-plan" sales, which almost by definition are to investors. There are few owner-occupiers who can afford to buy a new property that may not be completed for years while hanging on to their old one. On the positive side, these investors may let out those new properties, adding to rental stock, which is much needed.

But off-plan investors' inability to see the property they are buying can also compound the problem, since some — not all — new-build blocks are designed more as containers for money than as places to live. If a property is conceived to dazzle speculators reading brochures in Guangzhou in China but not homebuyers trekking around with pushchairs in Clapham, south London, then we are in trouble.

It also adds to the headaches for those who want to buy a home to live in, but would prefer it not to be at the mercy of market swings. The thousands of new flats rising up in London will need to begin trickling onto the secondary market before their genuine resale value is established, though buyers should be aware that mortgage lenders offer lower loan-to-value ratios for newly constructed homes because of the premium added to the prices.

Those aiming to buy for the long term can, however, take comfort from the fact that over many years, property in central London does appear to be a reasonable investment.

1.

Richard Donnell, director of research at Hometrack, says the 20-year compound annual growth rate in central London has been 11.25 per cent. That compares with 10 per cent for broader London and an average RPI inflation rate of 2.8 per cent over the same period, though of course that is not a guide to the future.

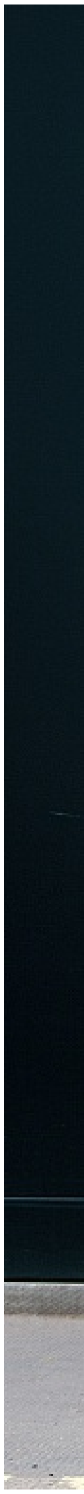
This still may not be a great time to buy. Donnell says: "I think the market looks like it was in 2002 after the dotcom crash and a stellar run in central London house prices from 1993 to 2001. The value for money relative to the rest of the UK and internationally just isn't there, hence we are seeing lower sales."

Jason Butler, former senior partner at Bloomsbury Wealth and an occasional Financial Times contributor, agrees. "Overall London property seems a good long-term investment. But by long term I mean 15-20 years, not 10 — and only if you buy right." Market research is crucial, he adds.

Recent research found that improvements in ratings by Ofsted, the UK schools inspector, at a local school immediately push house prices up by 1 per cent — just one of many signs of how sophisticated this market is on a local level.

Provided the algorithmic traders do not get involved, details such as this are where people with a real commitment to the city will always have an edge.

1. Bricks stacked up ready for a new-build project in London
2. Dubai is a global city where the high-end housing market has slumped
3. An advertisement for the $4.3bn development of the former Chelsea barracks in central London, where almost 30 homes have been sold ahead of being offered to a wider market



PHOTOS: BLOOMBERG

2.

'LONDON SEEMS A GOOD LONG-TERM INVESTMENT... OVER 15-20 YEARS'

3.

BY MATTHEW VINCENT

TOO MANY PARTY POOPERS

How to cope with 21st-century etiquette conundrums, number 94: a party guest tells you that he is a hedge fund manager. What should you say?

a) "Nice car/yacht/spouse!"

b) "May I valet park your car/yacht/spouse, sir?"

c) "Another day, another $4.7m, eh?"

d) "How is Panama at this time of year..?"

Having never moved in these exclusive circles (apparently, a recent US hedge fund jamboree featured multiple Las Vegas hotel-suite soirées and a private performance by rock group The Killers), I have not had to contemplate such a poser. Or such a bunch of them. But if I were to, I would recommend the response coined by late British satirist Peter Cook, on meeting someone who claims to be writing a book: "Neither am I."

Because, while hedge fund managers can claim to be managing funds — some $3tn worth, according to industry estimates — they do not appear to be hedging anything at all.

Apart from their bets on real estate in the Hamptons.

According to the HFRI Composite index, hedge fund managers have lost 4 per cent of clients' money, on average, since the second quarter of last year — and Bloomberg has calculated that the Russell 3000 shares they most commonly hold are down 31 per cent over that time. Yet, the fees charged by the "top 25" for hedging against these eventualities have somehow risen 10 per cent. Now, to point out these shortcomings in a social setting might

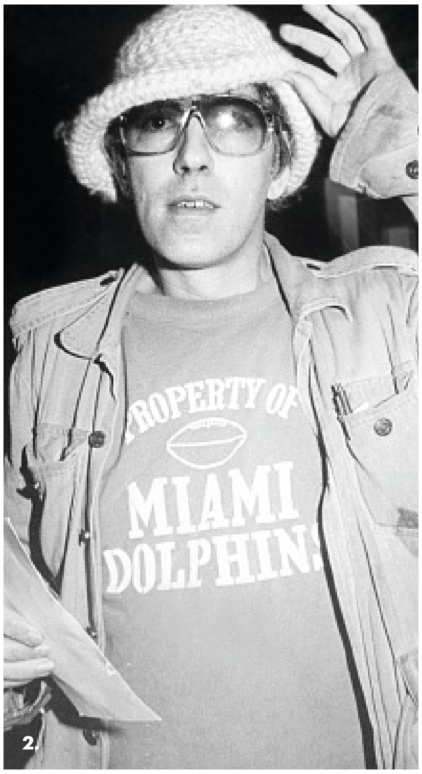
WHILE HEDGE FUNDS CLAIM TO BE MANAGING FUNDS THEY DO NOT APPEAR TO BE HEDGING ANYTHING AT ALL

1.
Mike Leigh's *Abigail's Party,* a television play about awkward questions and uncomfortable answers

2.
Peter Cook, master of the pithy put-down

TRY THE RESPONSE BY SATIRIST PETER COOK ON MEETING SOMEONE WHO CLAIMS TO BE WRITING A BOOK: 'NEITHER AM I'


1.



2.

PHOTOS: REX FEATURES

appear the height of bad manners.

However, in a month when the world's 12th-richest monarch can question Chinese civility at a Buckingham Palace garden party, rarefied company is no protection against harsh reality. Even hedge fund managers' peers have stopped being polite about them in public.

In April, US activist investor Dan Loeb described the previous eight months as "one of the most catastrophic periods of hedge fund performance that we can remember".

He likened managers' performance to the "first innings of a washout" in which some strategies became "a hedge fund killing field" — mixing his metaphors but hardly mincing his words. Last month, former hedge fund boss Steve Cohen told a conference how he feared for the industry's reputation: "I'm blown away by the lack of talent."

At the same time, billionaire investor Warren Buffett expressed confidence in winning his $1m charity bet that over 10 years an S&P 500 index tracker fund would outperform a hedge fund portfolio after fees.

With a year-and-a-half to go, his low-cost tracker is 40 percentage points ahead — leading him to note, pointedly: "[Losing by 40 points] may sound like a terrible result for the hedge funds, but it's not a terrible result for the hedge fund managers… If you have a couple percentage points sliced off every year, that is a lot of money… It's a compensation scheme that is unbelievable to me."

Unbelievable, but you had better believe it. Even though hedge funds have achieved only one-third of the return from a simple 60:40 equity:bond portfolio over the past five years, their managers have charged 36 times the fees, according to new research by wealth manager SCM Direct. No wonder the parties are good.

But with hedge funds still accounting for 11 per cent of a family office's portfolio, according to US research firm Peltz International, is your wealth manager being sufficiently rude over the crudités?

Iain Tait, a partner in the private investment office at London & Capital, sees no reason to spare hedge funds' feelings. "The talent pool is worsening," he says. "This has led to often average sell-side analysts deciding that they are going to break away and start a hedge fund of their own with often sub-par strategies and poor results."

Dimitris Paraskevas, managing partner of Elias Paraskevas Attorneys is more tersely damning. "Too many, too similar, too mediocre," he calls them.

Combine this declining talent with one-way fee structures and Uwe Ketelsen, head of fund research at Coutts, finds little to like.

"Hedge funds typically charge inflated management fees — a guaranteed way to erode returns," he says.

"And these are combined with performance fees that cannot be clawed back by investors in times of underperformance. These fee structures… make the vast majority of hedge funds unattractive for us."

If your wealth manager is still not convinced, pass on this tip: the next time a hedge fund manager introduces himself, think of those party bores who claim to be writing a novel, crowdfunding an art-house movie, or having their Twitter feed turned into a TV show… then repeat after me: "Neither am I."

INVESTMENT
SCHOOL FEES

BY EMMA BOYDE

GOLD STAR FOR ENGLISH

English is not only the language of business, it is also the lingua franca of privilege and it is set to become even more so. It is already used by many of the young heirs to the world's wealth and in 10 years' time, twice their number are likely to be fluent in English, if forecasts by an educational consultancy hold true.

The number of children enrolled in English-language international schools is expected to grow from 4.16m in 2016 to 8.75m by 2026, according to research published in February 2016 by International School Consultancy, which has been charting the growth of these schools for more than 30 years.

"There is huge demand the world over for quality education and international school enrolment is increasingly dominated by the richest 5 per cent of non-English-speaking parents who want their children to compete on the global stage," says Nicholas Brummitt, the consultancy's chairman.

For the newly and truly wealthy, not only is money no object, but there is rarely any historical connection with a particular school. So what influences their choices?

"The UK influence is disproportionately the highest in the world," says Kevin Ruth from the Education Collaborative for International Schools, a non-profit organisation that provides market intelligence as well as professional training. He says that influence can be seen through schools' choice of curriculum and in the institutions that many families prefer.

Despite the rapidly expanding range of English-language international schools — the International School Consultancy says that there were 8,178 from January 1 compared with 2,584 in 2000 — many parents are determined to ignore the increasingly large number of institutions on their doorsteps and consider sending their children to board instead. Education advisers say the best British boarding schools continue to be seen as the gold standard in terms of quality of education but that some have already become victims of their own success.

The advisers say that in some institutions there are so many overseas students that native English speakers are vastly outnumbered. Often the first to complain are the overseas parents who have invested considerable amounts of money to ensure their child learns English and is immersed in British culture.

It is hard to quantify how widespread the problem might be. The recently published annual census report from the Independent Schools Council, which represents 1,280 institutions, or about half of the total number of independent schools in the UK, shows that non-British pupils whose parents live overseas represent just 5.3 per cent of the total pupil population surveyed, the same percentage as last year and a proportion that it says has not changed significantly in 30 years.

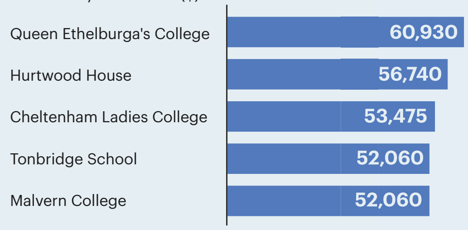
"Over the past few years a number of commentators have pointed towards large increases [in the proportion of overseas students] not borne out by the statistics, and unfortunately this perception has stuck," says Julie Robinson, general secretary of the Independent Schools Council.

However, Susan Hamlyn, director of the Good Schools Guide, an advisory service, insists that the proportion of foreign students at many of the UK's most prestigious schools has grown significantly. She points out, for example, that 20 per cent of pupils at the well-known Benenden School, for girls aged between 11 and 18, were from overseas in 2016.

At Stonar School, known for its equestrian facilities, the proportion jumped from 10 per cent in 2003 to 70 per cent in 2016.

Five most expensive UK schools

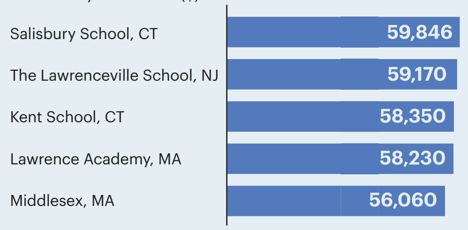
Academic year 2015-16 ($)*



Source: The Good Schools Guide

Five most expensive US schools

Academic year 2015-16 ($)*



Source: The Good Schools Guide

Five most expensive Swiss schools

Academic year 2015-16 ($)*

Source: The Good Schools Guide

THE BEST BRITISH BOARDING SCHOOLS ARE SEEN AS THE GOLD STANDARD AND SOME HAVE BECOME VICTIMS OF THEIR OWN SUCCESS

PHOTO: ISTOCK

Hamlyn says the problem of overpopulation with overseas students has not been picked up by the Independent Schools Council simply because it does not represent all independent schools.

"There are quite a lot of schools that would not survive without international students," she says.

International demand for an English-language education is a lucrative business. A number of advisers say they have begun to notice a two-tier fee system for boarding school pupils, with some schools charging a higher rate for international boarders.

"They're saying it's for extra services like English classes or help with visa applications, but 10 years ago the fees were uniform," says Les Webb, managing director of Education Advisers.

Among those with a two-tier charging system is the most expensive boarding school in Britain, Queen Ethelburga's College, that asks for £34,434 for domestic boarders at sixth form and £42,471 for overseas sixth form children.

Steven Jandrell, principal of Queen Ethelburga's Collegiate, explains that the difference is due to the additional tuition received by international students. "All of our international students receive a full programme of English tuition in addition to their normal educational programme and the cost of this is reflected in the fees," he says. "Also the expenses involved in admission and enrolment of overseas students are far more than for UK students."

BY ADAM SAMSON

AN IRON CLAD SOCIAL BOOST

Forget iron pills. A social entrepreneur hopes to alleviate the scourge of anaemia that affects more than a billion-and-a-half people worldwide with a lump of iron.

Gavin Armstrong, a 29-year-old who this year earned his PhD in biomedical science from Canada's University of Guelph, is betting that Lucky Iron Fish, the company he founded in 2012, will be able to increase people's iron intake by convincing them to cook with a smallish piece of iron. And make a profit while doing it.

It all began with research by Christopher Charles, a Canadian scientist who in 2008 explored an alternative to iron supplements in Cambodia.

Anaemia, a condition that is often caused by iron deficiency in which people's blood does not carry enough oxygen through the body, is particularly acute in Cambodia: 55 per cent of children under the age of five are anaemic, according to World Health Organisation research for 2011, compared with 42.6 per cent worldwide for the same year.

The condition can cause a range of problems from harming cognitive and motor development, to fatigue and low productivity, according to the WHO. It may also be associated with low birth rate and an increased risk of maternal mortality in pregnant women.

Charles's research sought to build on previous studies that found iron pots may leach the metal and improve blood parameters. He believed if people cooked with a piece of iron when they boiled soup every day, it may provide similar benefits in a country that largely cooks with aluminium pots.

THE FISH SHAPE WAS CHOSEN TO LOOK LIKE A LOCAL SPECIES THAT IS CONSIDERED LUCKY

1 and 2.
Children in Cambodia holding the Lucky Iron Fish ingots that are helping in the fight against iron deficiency

How we got started

Lucky Iron Fish has found success in its dual bottom lines: looking to earn profits while also working on the global fight against anaemia.

Founder Gavin Armstrong has garnered C$1.6m in grants to help scale the group. Among the organisations he gained funding from, were Grand Challenges Canada, backed by the Canadian government; Guelph Innovation; the University of Guelph, where Armstrong completed his PhD thesis on the Lucky Iron Fish project; and the Saving Lives at Birth, an initiative that is funded in part by the Bill & Melinda Gates Foundation.

Lucky Iron Fish also received C$270,000 in equity investment from two impact investors, who look for financial returns alongside social benefits, says Armstrong.

The funds were used to pay for various start-up costs such as launching its website, as well as research and hiring staff. The group recorded C$1m in sales last year that it reinvested into the company.

Armstrong said a programme in which consumers in developed countries can buy one fish and donate another to someone in the developing world has proved an unexpected boon.

2.

THE COMPANY IS A FOR-PROFIT WITH A MISSION THAT FOCUSES MORE ON SOCIAL GOOD

The fish shape was chosen to look like a local species of fish that is "considered lucky in village folklore".

The study, which specifically surveyed women, found that anaemia was indeed reduced over a course of three months compared with a control group. However, the benefits ebbed after six months, perhaps because the women shifted to a water source with higher levels of a substance that prevents iron from being absorbed properly.

The iron fish was also more affordable, costing $1.50 and, according to Lucky Iron Fish, lasts up to five years, compared with $2.50 a month for iron pills, the study found.

Armstrong has turned the research into a company that seeks to alleviate anaemia, which the WHO data show affects 1.6bn people worldwide. It sells the fish to individuals in developed countries and to aid organisations in the developing world that currently provide iron pills.

The business model taps into a growing trend of groups that seek to generate profits and also produce a social impact: it generated C$1m ($760,000) in sales last year, Armstrong said, selling 70,000 fish. Its main direct-to-consumer market so far has been the US, where customers pay $25 to buy a fish and at the same time donate one to a family in the developing world.

It is backed by a group of investors and also funds itself through grants.

Armstrong said he went with a for-profit model after working at non-profit companies that "did absolutely incredible work... (but) don't seem sustainable and nimble enough to adapt and grow".

Lucky Iron Fish utilises a foundry in Cambodia to produce the fish it provides to that market, something Armstrong hopes will give an additional boost to the local community.

Now Armstrong hopes to hook more consumers in the developed world onto the fish by working to make it available at leading retailers. His sights are set high, with hopes that the little fish could "improve potentially billions of people's lives".

PHILANTHROPY
'ILLTH'

BY ANDREW HILL

THE DARK SIDE OF WEALTH

"Wealth" is an uncomfortably broad term. It can be applied to natural riches (the "common wealth") and cash earned through productive toil and then distributed to good causes. Yet it also covers savings accumulated for no social purpose, or spent on a third yacht, a landscape-defacing property, a polluting factory, a drugs haul or an order of arms for a rogue state.

What is needed is a word to define the dark side of wealth. In fact, there is such a term already: "illth".

John Ruskin, the Victorian sage, best known to many as an art critic, coined the word in the essays he wrote in 1860, which were later collected in a single volume called *Unto This Last*. The book is an attack on market economists such as Adam Smith and a critique of the actions of self-enriching "merchants". It contains perhaps the most famous of any of Ruskin's many insights: "There is no wealth but life."

Ruskin defines wealth as "the possession of the valuable by the valiant", and illth as the reverse. Most rich people, the great Victorian points out, are "no more wealthy than the locks of their own strong boxes". They are economically stagnant, "operating… as pools of dead water and eddies in a stream". Unlike wealth, which merchants should use to "provide for the nation", illth causes "various devastation and trouble".

While Ruskin's essays were widely read, and influenced many thinkers from George Bernard Shaw and Gandhi, to Proust and Tolstoy, the term illth did not catch on.

But illth itself has continued to expand. Money made from socially useless finance is illth, as is profit on the back of misselling of financial products. Global growth at the expense of social welfare creates illth. Tax evasion adds to illth. Self-enrichment,


2.

merely for the sake of it, is undoubtedly illth, contradicting as it does Ruskin's stern admonition that it is "no more [the merchant's] function to get profit for himself… than it is the clergyman's to get his stipend".

The reason why illth should be restored to the lexicon of capitalism, though, is not just to draw attention to Ruskin's progressive ideas, which lay behind the foundation of Britain's welfare state and the growth of environmentalism. Identifying wealth's dark side could help the rich recognise when they are on the wrong side of


4.


1.

THE CONCEPT OF ILLTH ECHOES IN THE RALLYING CRIES FOR AN END TO GROWTH

1.
A boy receives polio vaccination drops during a campaign in Sanaa, Yemen
2.
Smokestacks in China billow out carbon emissions into the atmosphere
3.
English writer and art critic John Ruskin
4 and 5.
Whole Foods has been criticised for outgrowing its original principles


3.

5.

the illth-wealth divide and clarify the objectives of many large wealth-creating companies.

The concept of illth already echoes through the rallying cries of advocates for an end to growth, such as Tim Jackson of University of Surrey, who boils his radical message about the need to find prosperity without growth down to “more fun, less stuff”. Prof Jackson railed in a recent lecture against the “degenerative investment of speculative industries extracting material resource and gambling on the value of stocks into the future” — illth creation, in other words.

Illth destruction is also implicit in the purpose of companies such as Google, with its original “don’t be evil” maxim, and Johnson & Johnson, whose “credo” includes the line, “We must be good citizens — support good works and charities and bear our fair share of taxes”. It is even clearer in the mission statement of Patagonia, the manufacturer of outerwear, which aims to “build the best product, cause no unnecessary harm, [and] use business to inspire and implement solutions to the environmental crisis”.

Ruskin, an angry purist in most matters, would not have brooked any deviation from his high standards. But wealth creation takes even the best-intentioned capitalists into greyer areas, which the acknowledgement of illth helps us to explore.

For instance, can philanthropy convert illth into wealth? Andrew Carnegie made part of his fortune from exploiting his workforce. Bill Gates pursued aggressive business practices that saw Microsoft accused of abusing its monopoly power. We might prefer these businessmen to have taken a more benevolent tack earlier in their careers and perhaps made less profit as a result. But would we then be prepared to hand back some of the 2,800 libraries that Carnegie backed, or accept hundreds more deaths from polio and malaria in countries the Gates Foundation is helping?

Another question for those examining the blurred line between illth and wealth is whether any large company can avoid creating illth, even as it tries to spread its wealth. John Mackey, idealistic co-founder of the Whole Foods chain of supermarkets, once told me that the group had “a much more positive impact in the world” now than it did when it was smaller, even though it attracts constant criticism for having outgrown its original principles.

Patagonia is famous for once publishing an advert for one of its garments on the peak shopping day after Thanksgiving with the slogan “don’t buy this jacket”. It recognises that everything it produces causes harm. Yet it continues to try to grow. Rick Ridgeway, its vice-president of public engagement, told me recently that “by remaining profitable, we can influence a lot of [other] corporations”. Patagonia strives, through innovation and research, to reduce its impact on the planet — to the point that it is now exploring how to expand regenerative farming that may actually yield a net environmental benefit.

Perhaps the truth is that, *pace* Ruskin, there is a little illth in every fortune. But recognising and naming the dark side to wealth could be the first step towards an illth minimisation strategy that — who knows? — could ultimately eliminate it altogether.

Andrew Hill is the FT’s management editor and a trustee of The Ruskin Foundation

PHOTOS: REUTERS; GETTY IMAGES; BLOOMBERG

BY SARAH MURRAY

FUNDS FOR DEMOCRACY

In March 2015, amid a crowd that included US president Barack Obama and civil rights leader Amelia Boynton Robinson, Bradley Byrne joined a pilgrimage to the Edmund Pettus bridge in Selma, Alabama.

They were marking the 50th anniversary of Bloody Sunday, when police beat black marchers as they tried to cross the bridge to register to vote in 1965.

For Byrne, a Republican congressman for Alabama's first congressional district, the trip was not only an opportunity to remember America's civil rights struggle. Travelling with a group of Republicans and Democrats, it was also a chance to become acquainted with politicians from across the aisle. "It's easy to focus on the things that divide us," he says. "But when you develop these personal relationships, they help you transcend the differences."

This kind of comment is what those running the Faith & Politics Institute hope to hear. The institute organises trips to places of significance in US history with delegations made up of congressional members from both houses. And it is among a growing number of organisations receiving funding from philanthropists who want to use their dollars to strengthen democracy in America.

1.

"There are a very large number of foundations in the US who are deeply concerned about the health of our political system," says Joe Goldman, president of the Democracy Fund, whose grantees include the Faith & Politics Institute. "Each comes from a different perspective, but there's a shared concern about the health of our political system," he adds.

With its unprecedented vitriol, the 2016 presidential election has drawn more donors' attention to the need to rebuild trust in political institutions. "It would be hard to look at the American political system right now and not be very concerned," Goldman says.

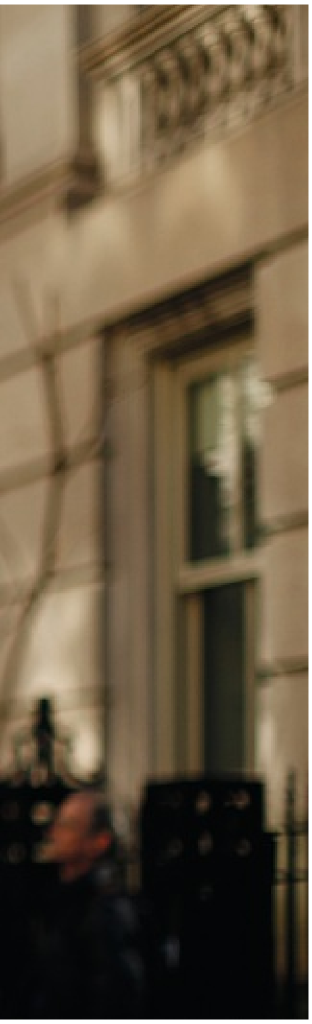
Established to address problems facing the US political system, the work of the Democracy Fund is focused partly on the health of journalism, with grants to media organisations such as the Investigative News Network and the American Press Institute.

It also funds projects that are aimed at improving the nuts and bolts of elections — from voting technologies to providing training for poll workers. For example, it gives funding to TurboVote, an online platform that helps people keep track of local and national elections and makes it easy to register, to update their voter registration or to request an absentee ballot.

Meanwhile, to promote the building of bipartisan relations, the fund makes grants to organisations such as the Faith & Politics Institute, as well as to the Aspen Institute, which brings together politicians from different parties for off-the-record meetings and fact-finding trips focused on complex policy problems.

Behind the fund are the charitable dollars of Pierre Omidyar, the billionaire founder of eBay.

PHILANTHROPIC SUPPORT OF DEMOCRATIC SYSTEMS REMAINS TINY COMPARED WITH FUNDS THAT FLOW INTO HEALTHCARE AND EDUCATION



1. New Yorkers join a global climate march outside the City Hall in November 2015
2. President Obama and marchers on the Edmund Pettus bridge in Selma
3. Ohio voting stickers in March 2016

PHOTOS: GETTY IMAGES, REUTERS, BLOOMBERG

"It's something he's cared about for a long time and since eBay went public, his philanthropic efforts have always included supporting civic engagement and elections," says Goldman. "And he very much comes at this work from an anti-partisan position."

Of course, for some donors, there is an agenda to be advanced. Billionaire Tom Steyer, who founded NextGen Climate to campaign for climate action, recently announced that his group plans to spend at least $25m to encourage more young people to vote.

Steyer's motivation comes from data showing how interested young people are in climate change. "Eighty per cent of people under 30 in the United States want an accelerated move to clean technology," he says. "It's one of a handful of issues on which they are very engaged."

Yet, they are also less likely than most to participate in elections. "In 2014, they had very low participation rates in terms of showing up at the polls and voting," says Steyer.

This is something he hopes to change by launching a voter outreach campaign on college campuses.

"What we're trying to do is to talk to them about the climate and... how much is at stake to encourage them to go to the polls."

Young people are not the only group that donors want to see becoming more engaged in the political process.

For Betsy McKinney, supporting democracy means helping more women to become involved in political processes — something she does through the It's Time Network, which she founded and funds through her private family foundation.

She believes other donors are now more prepared to back initiatives supporting democracy. "Philanthropists are very clear that we need to fund this and more are getting involved in this issue," she says.

Even so, the amount of philanthropic dollars being directed towards support for democratic systems remains tiny compared with the funds flowing into causes such as healthcare and education. While US foundations make $54bn in grants every year to a wide range of causes, when it comes to supporting the health of democratic systems, the figure is about $1.4bn since 2011, according to the New York-based Foundation Center.

"The foundations in this field are doing fantastic work," says Goldman. "But there's not enough attention being given to these issues."

Also, as he puts it, the stakes could hardly be higher. "The combination of hyper-partisanship, money in politics and struggling media has created significant problems for our political system," he says.

"You can see the results in how deeply distrustful the public is in political institutions — and a healthy democracy cannot be sustained if the public doesn't believe in it."

'A HEALTHY DEMOCRACY CANNOT BE SUSTAINED IF THE PUBLIC DOESN'T BELIEVE IN IT'

PART THREE
of a five-part series on foundations

PHILANTHROPY
PRIVATE FOUNDATIONS

BY SARAH MURRAY

SEARCHING FOR THE SWEET SPOT

In 1995, Charles Mohan and his wife Adrienne were mourning the loss of Gina, their 15-year-old daughter, who died from a mitochondrial disease. "We were the typical husband and wife sitting across the table asking, 'What do we do now?'" he says. The following year, Mohan joined several family foundations to create the Pittsburgh-based United Mitochondrial Disease Foundation, which has now funded more than $5m in research to find a cure for the disease.

The foundation is not alone. Families affected by disease are making a growing amount of philanthropic funding available to medical research. Much of this goes to academic research centres. But, increasingly, foundation funding is also providing seed capital for medical start-ups — filling gaps left by other forms of funding.

In the US, this amounts to about 3 per cent of all medical research funding, says Melissa Stevens, executive director of the Center for Strategic Philanthropy at the Milken Institute. "But it can have an outsized impact," she says.

This is partly because of shifts in the venture capital landscape. "The 2008-09 financial crisis took a lot of the wind out of a lot of venture funds," says Al Hawkins, who has raised capital from foundations for research and clinical trials for several start-ups. "So there was a bigger funding gap than in recent years in biotech and the disease foundations came in and filled that."

Hawkins' start-ups have been beneficiaries. For example, at Milo Biotechnology, his current start-up, funding for clinical trials for gene therapy technologies for muscular dystrophy has come primarily from foundations — some from families whose child has the disease and some from larger organisations such as Parent Project Muscular Dystrophy. And while overall venture capital funding for biotech companies has not diminished, says Stevens, the nature of firms' investments is changing.

"Traditionally, they funded more early-stage companies and now they're funding more later-stage companies that are closer to market," she explains.

This is where family foundations can step in. "They can help bridge the gap between our understanding of disease, the basic biology and how it gets into a development pipeline and pushed through by a larger company," says Stevens, who until recently led the Milken Institute's FasterCures, which focuses on accelerating medical research. "That's the sweet spot for philanthropy."

Moreover, family foundations can have an impact beyond funding, adding to the body of knowledge on a disease and tapping into their networks to find candidates for clinical trials. "Even the smallest family foundations have a lot to add in terms of parent and patient experiences and networks with clinicians," says Hawkins.

They can also raise awareness of diseases. "Families with financial resources can organise communities to advocate for more resources for the issue they care about and can galvanise that community to fund-raise," says Melissa Berman, president and chief executive of Rockefeller Philanthropy Advisors. In fact, she sees these philanthropists as more collaborative than most. "There's a clear recognition that if you're dealing with a relatively rare condition, you have to form a

PHOTO: ISTOCK

'FAMILIES CAN ORGANISE COMMUNITIES TO ADVOCATE FOR MORE RESOURCES'

'YOU HAVE TO BE VERY TRANSPARENT ABOUT IMPACT BECAUSE FAMILIES OFTEN WANT SOMETHING NOW — AND THAT RARELY HAPPENS'

Disease foundations are effective at shining a light on rare diseases that have little appeal to big pharmas

community to advocate and to get attention," she says. In this, technology has done much to help, giving families a way to identify similarly affected families and form online communities.

However, becoming engaged in funding medical research is not easy. First, families need to get up to speed on complex science and the latest research. Then there is setting up the foundation where, in addition to the normal incorporation processes, they need to make sure their board of advisers has the right skills and knowledge.

In the US, the National Organization for Rare Disorders (Nord), a non-profit organisation, helps families take these steps. Nord offers training, mentoring and advice on everything from establishing a fundraising strategy and building a website to creating a scientific advisory board.

Meanwhile, the Milken Institute provides support through its philanthropic advisory service. "We work with families to help them understand the landscape, the state of the science, the unmet needs and how best to deploy their philanthropic asset to fill the funding gaps," says Stevens.

Another thing that can be hard to grasp is how long it takes before research translates into a treatment for patients. Ann Boyd-Stewart, assistant dean for development and alumni relations at Indiana University's Lilly Family School of Philanthropy, says: "You're starting from tragedy and that can be so emotionally charged. You have to be very transparent about impact because families often want something now — and that rarely happens."

However, when donors understand the timelines required for drug development, philanthropic capital has an advantage over private sector investors – it can buy time. "For some of these technologies, time is one of the most important things," says Lindy Fishburne, executive director of Breakout Labs, a funding and support centre for radical science that is part of the Thiel Foundation, created by PayPal founder Peter Thiel.

She sees another benefit to philanthropic funding — the willingness of donors to fund development of cures for diseases that, because they are rare, do not attract the attention of industry.

"The disease foundations are really powerful partners," she says. "They've got the constituency that needs the drug and will engage and move forward when it might not hit the hurdle rate for a top-10 pharma company."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CORRESPONDENT ROMANIA

BY ANDREW MACDOWALL IN TRANSYLVANIA

ROOTS RECLAIMED

Gregor Roy Chowdhury pauses for thought outside his family's stout but elegant 17th-century manor house deep in the Transylvanian countryside, as the sun strakes through the surrounding fir trees.

"Throughout history, every 30 years someone [has] tried to take the property from us, but for some reason we were stupid enough to come back," he says. "I thought that now Romania is in the EU, things would be better, but it's nonsense."

Roy Chowdhury is the scion of two aristocratic dynasties, one Bengali, the other Transylvanian Hungarian. The latter, the Mikes family, has had property on this site in the village of Zabala, once fortified against raids from invading armies, since the 15th century. It is now engaged in its latest battle for ownership, this time with the Romanian state.

The Mikes family's struggle is symptomatic of the knotty problem of the restitution of property seized by the communists in Romania after the second world war. Many feel the difficulties around restitution, including the disputes and challenges, is still having a corrosive effect on property rights and the country's investment environment.

Restitution has long been a complex issue but has been lent a further degree of controversy in recent years by what Roy Chowdhury and others see as backtracking, with state agencies fighting for property that courts have ordered to be given back to its original owner.

Many lay the blame at the EU's door, which has not concerned itself with the push for greater restitution since Romania joined the union, allowing populist domestic politicians against the process to gain ground.

The issue in Transylvania has become so heated that the Hungarian


1.

government has stepped in, supporting claims that the interests of Hungarians in Romania — at 1.2m, one of Europe's largest ethnic minorities — are being threatened in property cases, against a broader background of marginalisation.

"Hungarian communities in Transylvania are in a much more difficult position than they were in the years immediately following Romania's accession to the EU [in 2007]," says Zoltan Kovacs, a spokesman for Hungarian prime minister Viktor Orban.

Kovacs says cases of "the nationalisation of Hungarian private property... raise serious doubts as to whether Romania is truly complying with requirements to uphold the rule of law and with the obligations which it accepted upon its accession to the EU".

Roy Chowdhury's mother Katalin, the Countess Mikes, and grandmother Eva were hauled from their beds on the night of March 3 1949 by the police as the Stalin-backed Romanian communist regime seized properties from aristocrats of all ethnicities.

Katalin, now 72, remembers walking across broken glass to the front door; the last she would see of her home for more than four decades. She was sent to live with relatives in Austria while Eva was shipped to a labour camp in the Danube Delta for two years.

In January 1990, just weeks after communist dictator Nicolae Ceausescu's death, the countess returned to Romania. The following year, the government passed its first law on restitution, introducing the principle of restitution in kind, that is the return of properties that are claimed, rather than by compensation with other assets, such as shares in a company listed by the Fondul Proprietatea, a joint-stock enterprise established by the Romanian state.

In 1998, the Mikes family won a court case on the ancestral estate, which returned part of their property, including the manor house and several buildings that have been transformed into a boutique hotel, and parkland.

In 2002, Roy Chowdhury and his brother Alexander moved to Romania to work on the restitution process, Gregor having given up a lucrative job in the City of London to do so.

Between 2004 and 2006, by going through painstaking legal and administrative procedures, the family reclaimed more land including 3,500 hectares of forest of the 12,000 they applied for. Roy Chowdhury estimates they have invested €2m, including €1m to turn part of the estate into a hotel popular with visitors from Bucharest and beyond. Guests currently stay in a half-timbered building below the main manor, while a large, peach-coloured structure overlooking green fishing ponds and blossom trees, which until 2005 was a state sanatorium, is being refurbished. Nearby, the estate gamekeeper prowls with a bow and arrow. ➤

1. The Mikes family's manor house in Zabala, Romania
2. Gregor Roy Chowdhury and his daughters

'I THOUGHT THAT NOW ROMANIA IS IN THE EUROPEAN UNION, THINGS WOULD BE BETTER, BUT IT'S NONSENSE'

PHOTOS: NICK LAING/GETTY IMAGES; JOVANA RAKEZIC

'THROUGHOUT HISTORY, EVERY 30 YEARS SOMEONE [HAS] TRIED TO TAKE THE PROPERTY FROM US, BUT FOR SOME REASON WE WERE STUPID ENOUGH TO COME BACK'

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In 2013, however, Romsilva, the state forestry company, lodged a claim for 3,500 hectares of the estate, claiming it had been incorrectly restituted. Its claim was backed by the local prefect, the ministry of finance and the state restitution commission (the ANRP). As a result, forestry work has been suspended, resulting in the 150 jobs it supported in three surrounding villages dwindling to just 30.

Naturally, the Mikes family disputes the forestry company's claim of ownership, pointing out that the countess's grandfather had successfully fought for the land during Romania's agrarian reforms in the 1920s.

One of the contentions of the state's case was that the land was not the Mikes's in 1947, when it was seized by the state, a claim that the family says is clearly disproven by documentation.

'IN THE COMMUNIST ERA, WE [WERE] ENEMIES OF THE STATE AND SOMETIMES WE FEEL WE ARE ENEMIES OF THE STATE AGAIN'

Were the Mikes family case unusual, it might be written off as misfortune, but there are hundreds of such struggles across Romania.

Theoretically, there was to be a cut-off point of December 2005 for claims of restitution to be filed, but in practice courts have allowed challenges to continue, while 55-60 per cent of cases are still unresolved, says Bryan Jardine, partner at law firm Wolf Theiss in Bucharest.

"The process has been re-injected with uncertainty," he says. While he believes changes to restitution law in 2011 and 2015 have improved the rights of bona fide owners, and title insurance is more widely available, he notes that disputes are having "a chilling effect on investment".

He emphasises that they are by no means limited to the Hungarian minority. "We've seen it for years, even

'THERE ARE NO CONSEQUENCES FOR NOT EXECUTING FINAL DECISIONS OF THE COURT. IT'S A LIABILITY FOR INVESTORS — AND DANGEROUS FOR THE STATE, AS IT COULD CREATE CHAOS'

PHOTO: GETTY IMAGES

in developing shopping malls in and around Bucharest," Jardine says.

While title disputes are common across central and eastern Europe, particularly where restitution in kind has been practised, in Romania challenges by state bodies on properties whose restitution has been ordered by the courts, seem to be a growing problem.

In some cases, including 35 or so in Transylvania's Mures county alone, state agencies have refused to return properties, says Jozsef Rozsa, a local lawyer. "The problem is that decisions are not executed," he says, adding that cases drag on for years, with state institutions always demanding a further piece of paperwork.

"There are no consequences for not executing final decisions of the court. It's a liability for investors — and dangerous for the state, as it could create chaos."

Like many others, he sees the easing of pressure from Brussels following Romania's accession to the EU as the reason for backsliding on restitution. Rozsa cites cases involving Canadian and German citizens of Translyvanian descent, as well as Romanians and Hungarians.

Manuel Costescu, secretary of state for trade and investment, says it is possible some rightful owners are being caught up in anti-corruption allegations, as the authorities address suggestions of fraud in past restitutions.

He insists that Romania's investment environment and judicial system have significantly improved over the past two years, adding that ecological issues, and endemic illegal logging, exacerbate the challenges of restitution in forestry.

But it is not just former noble families who have been caught up in restitution wrangles. Some of the highest-profile cases involve churches. Between them, seven predominantly Hungarian-speaking Catholic and Protestant dioceses have submitted 2,147 applications for restitution, a little more than half of which have reached a conclusion.

One prominent case is that of the 18th-century Biblioteca (library) Batthyaneum in the old walled city of Alba Iulia, claimed by the Catholic Church but remaining in state hands despite having been put on a list for "urgent restitution" in 1998. The library has 65,000 valuable books and codices, with the dispute arising partly over the meaning of an 18th-century will.

"If the state can't identify another owner — it just takes the property," says Zoltan Ferenc Ballai, chief financial officer of Romania's Reformed Church, from his base in the elegant university city of Cluj. "It's an abuse of law — you go to Bucharest, wait 10 years for your rights and then it starts over again. In the communist era, we [were] enemies of the state and sometimes we feel we are enemies of the state again."

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The Mikes family estate
2.
Nicolae Ceausescu delivers his televised New Year's message in 1977

The Romanian government insists that its minority rights legislation is among the strongest in the EU, a view supported by Jardine, the Bucharest lawyer, and many ordinary Romanians.

In a joint statement, the ANRP and the department for foreign investments and public-private partnership (DFIPP) said that in their view "difficulties signalled by certain former landowners only represent isolated cases" among 5m property deeds issued for land ownership alone since 1991.

But the Hungarian government is clearly worried about restitution problems affecting Hungarians and the country's many predominantly ethnic Hungarian churches.

"One of the conditions of Romania's accession to the EU was the return of unlawfully confiscated church properties — including Hungarian ones," said Kovacs. "This is not only about the freedom to practise one's religion in one's mother tongue — schools, care homes and children's homes are also maintained by the church," he says.

FAMILY OFFICE
HARRIET AGNEW

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BALANCING THE EBB AND FLOW

Buddy Enterprises was founded in 2011 to develop digital health tools in collaboration with the National Health Service. Rooted in social impact, the initiative was designed to support mental health patients and take the pressure off the understaffed and overstretched NHS.

The team developed the BuddyApp, a text-messaging service linked to a web application that let mental health patients manage their care between sessions, at the same time as giving their doctors a wealth of information. The health social enterprise received £300,000 in backing from one of the pioneers in the sector of impact investing, Big Society Capital.

So far, so good. Until earlier this year. Buddy Enterprises was shut down after one of its creditors issued a winding-up petition over its failure to pay interest. The fate of the fledgling digital health service illustrates the potential clash between financial and social considerations in the growing field of social impact investing. It can be seen as a cautionary tale for the family offices and advisers trying to navigate this deeply fashionable sector.

According to the Global Impact Investing Network's 2016 survey of the industry, its more than 150 respondents managed $77.4bn in impact investing assets and committed $15.2bn to impact investments in 2015. While banks and diversified financial institutions plan to commit less capital to the sector, family offices plan a steady level of activity over the next year. They typically make social impact investments through equity (primarily private equity) and real assets, rather than debt.

'SOME CLIENTS WANT THEIR CAPITAL DEPLOYED IN A MORE CARING WAY'

It is a market that is fragmented and opaque. There is a paucity of information on the size of the industry and the performance of social impact projects. The industry also suffers from a lack of transparency on the huge diversity of risk and return profiles across the spectrum, and a lack of standardised impact metrics and methods.

Family offices are also coming under pressure from the next generation,

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which is encouraging a greater focus on responsible investing.

"The millennial generation is pushing their parents and the corporate world to do more," says Alexandre Mars, who runs the Epic Foundation, which aims to create tools to help people give to charities dedicated to children and young people up to the age of 24.

A desire by the millennial generation to do more with their money is one of the reasons that Vestra Wealth, a £6bn wealth management boutique, is planning to launch a subsidiary called Tribe Impact Capital later this year to provide advice and investment management for clients who want a social return as well as a financial return. "Some clients want their capital deployed in a more thoughtful and caring way," says David Scott, founding partner of Vestra.

Vestra will work with clients to help them decide how much money they want to put into social impact investing, the level of financial return they are looking for and the sorts of areas they are interested in, be it women's health, environmental conservation or education. It will then conduct due diligence on potential investments. The key for Vestra will be educating clients on the tension between the financial return and the social impact.

A lack of appropriate capital across the risk/return spectrum is perceived as the most limiting characteristic of the market, according to the GIIN survey. Many investors who come with a financial mindset are not aware of the years it can take for a social impact investment to break even. They also have unrealistic expectations as to the financial return they can make.

"There's a mismatch between people's financial return expectations and what the market of social impact investing can deliver," says Chris West, a partner at Sumerian Partners, which advises on philanthropy.

West believes that while most social impact investors are looking for returns of 5 per cent a year, annual returns are more likely to be in the range of 1 per cent to 2.5 per cent.

For Vestra, all of this means that while in principle their plan to help clients invest in social impact is a very commendable one, it would do well to advise them that returns from social investing can be low and slow.

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Weighing expectation with what can be delivered is tricky
2.
Alexandre Mars, founder of the Epic Foundation

PHOTOS: PASCAL PERICH; RAFAEL ELIAS/GETTY

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BY DANIEL BEN-AMI

HOW TO HEAL AMERICA'S GREAT DIVIDE

Yuval Levin may be a self-avowed conservative, but he takes aim at both sides of America's dysfunctional political divide in this perceptive look at the country's acute crisis of social fragmentation.

The former White House staffer under President George W Bush sees both progressives and conservatives as wallowing in unhealthy nostalgia. *The Fractured Republic* argues eloquently that striving for a better future means resisting romanticising the past.

Republicans, in Levin's view, tend to hark back to 1981. In the first full year of his presidency, the conservative Ronald Reagan set about implementing free market reforms in earnest.

The nostalgia of the Democrats, in contrast, looks to the Great Society of 1965. That was the high point of the Lyndon B Johnson administration's campaign against poverty and racial injustice.

Neither side, Levin argues, has the answer to the most pressing contemporary challenges facing the US. The left is too wedded to statism and the right too often favours a hyper-individualism. Neither, in his view, is up to the urgent task of uniting America's fractured society. Both social order and economic security have been weakened. The political system shows little awareness of these problems and is, in any case, ill equipped to deal with them.

Levin's concerns are widely shared among social thinkers, although their exact diagnoses and conclusions vary. Robert Putnam, a Harvard academic, has bemoaned the decline of social capital in US society. Bill Bishop, a prominent journalist, has used demographic data to show Americans increasingly choose to live with like-

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A homeless person in a subway station near the White House in Washington DC
2.
Ronald Reagan talks tax in 1981, the time for which Republicans are most nostalgic, Yuval Levin says

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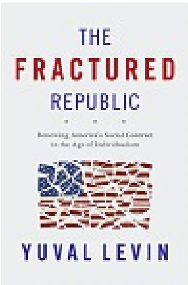

minded neighbours. Charles Murray, a conservative academic, has noted how a powerful upper class has separated itself from the rest of society.

For Democrats, and those who more generally define themselves as progressive, economic inequality is generally central to this concern. Typically, they criticise the ostentatious and heartless super-rich for detaching itself from the rest of society.

Levin recognises that high inequality is a reality but is surely right to argue that it is an effect rather than a cause. The wealthy, for instance, have benefited from the booming of the financial sector and financial assets over the years. But to see this trend as the main reason for America's fractured society is misleading.

Conservatives also identify a growing social divide but they tend to see it in moral and cultural terms. Levin is influenced by Murray's observations on the growing social divide between those with a university education and those without.

It is perhaps not surprising that college graduates suffer lower unemployment. But they also tend to have significantly higher marriage rates, lower divorce rates and more religious commitment.

While Levin is critical of both conservatives and progressives, he argues, not surprisingly, that the right is better able to devise solutions. His preference is for reinvigoration of what he calls mediating institutions in society: a strengthening of community life. As a self-professed conservative, he naturally sees the family as playing a central role in achieving this task. But he also argues for increased importance to be attached to liberal education (as opposed to vocational learning) and greater civic engagement. Above all, he emphasises the importance of religious institutions, as he sees these as a direct challenge to this fractured age.

This emphasis on mediating institutions is in line with his support for what he calls a modernised politics of subsidiarity — the idea that key decisions should be made as close to the community level as reasonably possible.

Despite the many insights in Levin's work there are good reasons to call some of his key points into question. For example, there is a lot of emphasis on rebuilding institutions but much less on the ideas needed to develop a common outlook.

He also fails to explain adequately why inequality has become such a widespread concern. The irony that the super-rich and powerful are often the most concerned about widening inequality is too often missed. In large part this reflects an insecurity among the elite itself. It has lost confidence in its hold over society.

The Fractured Republic should be required reading for all those trying to understand contemporary America.

ABOVE ALL, LEVIN EMPHASISES THE IMPORTANCE OF RELIGIOUS INSTITUTIONS, AS HE SEES THESE AS A DIRECT CHALLENGE TO THIS FRACTURED AGE

The Fractured Republic: Renewing America's Social Contract in the Age of Individualism by Yuval Levin (Basic Books, $27.50)

The writer is the author of Ferraris for All *(Policy Press 2012)*

PHOTOS: BETTMANN/GETTY IMAGES; REUTERS

AMBITIOUS WEALTH
STEPHEN FOLEY

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FROSTY RECEPTION

When today's billionaires are awoken from their cryogenic sleep and have their brains attached to their new robot bodies, what will they discover about how the economy has changed?

They will discover that governments introduced a universal basic income for citizens, to counter the collapse in employment that accompanied automation and to free people to pursue more meaningful activities.

The techno-utopians of the early 21st century seized on the idea that the government should pay every citizen enough to live on. Of course they did.

Driverless vehicles wiped out jobs in the trucking industry. Internet shopping, automated warehouses and drone delivery drastically reduced retail sector employment. Pattern-recognition software was better at diagnosing disease and robot surgeons were less accident-prone than their human forebears, so medical doctors went the way of the shaman.

The entrepreneurs who pioneered these technologies risked supplanting bankers in the pantheon of popular villainy and a universal income appealed as a means of keeping the mob at bay.

There were other reasons, too, that a basic income won support among the moon-shooting investors of Silicon Valley. They understood the freedom to pursue one's ambitions that comes from not having to worry about money.

They also remembered how lucky they were; how many people drowning in student debt had opted instead for a mundane paycheck when their talents would be better unleashed on a risky start-up?

Trailblazers such as Facebook co-founder Dustin Moskovitz, through an organisation called GiveDirectly, and Sam Altman, president of the start-up incubator Y Combinator, who funded universal basic income (UBI) pilots in the second decade of the century, found enough evidence to silence the doubters, though no study could capture the impact on a full economy.

Today's billionaires may awake from their cryogenic sleep to a future riven with the same injustices and inequality they thought they had left behind

Conservative welfare reformers and liberal youngsters had combined to make it an unstoppable cause, however, and UBI was introduced in some form or another around the world.

The cryogenic dreams of a world where poverty and anxiety had been replaced by opportunity and fulfilment did not come true, however, instead, our frozen billionaires reawoke to a nightmare where UBI had exacerbated class conflict in many nations and introduced conflict between countries, too.

Governments had been faced with the same choices for UBI as they are with all spending programmes: increase government borrowing; shift resources from existing programmes; or raise taxes. Politicians picked a little of all of them, but in a world of soaring unemployment and plummeting income tax receipts, each only seemed to make matters worse.

Central banks were more than willing to buy up the extra government bonds, in the name of quantitative easing, as the bond market maven Bill Gross had predicted in 2016, but that eventually stoked inflation that undermined the value of UBI.

Governments scaled back social programmes for the most needy, such as people with disabilities, the mentally ill and the elderly, in favour of the universal payment. Plenty of young people were able, as a result of UBI, to go into the world of volunteering, but the philanthropic impulse was not enough to alleviate the extra distress.

UBI was conceived as a contract under which the beneficiaries of automation — such as tech companies themselves and the other businesses that are able to slash costs, as well as tech company founders and the employees who built and supervised the robots — subsidised the losers of automation. Except that companies with a fiduciary duty to their shareholders, and wealthy individuals with their pick of international addresses, were no more willing to voluntarily submit to higher taxes than they ever were.

Piecemeal efforts to get them to pay their fair share, such as limiting global capital flows and tax competition between jurisdictions, succeeded only in stoking international tensions.

Meanwhile, inequality had not been lessened and the howls of outrage over corporate and individual tax avoidance were as loud as ever. Loud enough, in fact, to wake the cryogenically undead.

Stephen Foley is the FT's US investment correspondent

Stephen is reading... *Whenever I whip up a mousse, or bread a chicken breast, or tuck into an omelette, I wonder at how life would be so much less delicious without the chicken. But where does the chicken come from and how did it become a ubiquitous part of our diet? I knew not, but Andrew Lawler did and his book* Why Did The Chicken Cross The World? *might be the best Kindle impulse purchase I've ever made.*

PHOTOS: PORECHENSKAYA/DREAMSTIME; PASCAL PERICH