FTwealth

FAMILY FIRST

BILLIONAIRE BROTHERS JB AND TONY PRITZKER ON INVESTING, DEAL-MAKING — AND SOFTBALL

BY STEPHEN FOLEY

THE FAMILY OFFICE EDITION | GERMANY'S QUANDTS | TAX PLANNING | SUCCESSION | ASIA

OCTOBER 2015 | FT.COM/WEALTH

ISSUE 35

WWW.GRAFFDIAMONDS.COM

FT WEALTH OCTOBER

@Hugo_Greenhalgh

FAMILY OFFICES: THE NEXT STAGE

What constitutes a family office? Both Pritzker Group, managed by brothers Tony and JB Pritzker, and Cascade Investment, which looks after Bill Gates's wealth, prefer not to be described as family offices.

Pritzker Group calls itself a "world-class investment firm". Indeed, unlike most family offices, rather than take stakes in individual companies, it seeks to buy whole businesses. Cascade, as Lucy-Warwick Ching writes, is "purely an asset management company that invests Gates's personal wealth".

Catherine Tillotson, managing partner at consultancy Scorpio Partnership, notes the rise of the term "private investment office". Accountants and lawyers are also eying wealth management opportunities. The ground traditionally occupied by family offices is shifting — as is the nature of their business.

As the structure is adopted around the world, notably in Asia, it will surely change further. Simply exporting western wealth management models eastwards does not work — as many companies have discovered over the past decade.

What does the future hold? We attempt to answer this question — and more — in this family office-themed edition of FT Wealth. As ever we value your input. Do let us know what you think of this issue. Which other areas should we have looked at, do you think?

December's edition will return to our analysis of what we have termed "Ambitious Wealth": examining new ways of creating and preserving money — and how the world of philanthropy is changing in response.

Hugo Greenhalgh, *Editor*
hugo.greenhalgh@ft.com

YOUR NEXT FT WEALTH
4 DECEMBER 2015

CONTENTS

24

FEATURES

12 KEYS TO A FORTUNE
The multi-family office for Germany's Quandts is expanding its client base

16 MASTER SUITES
Luxury hotels are turning themselves into fine art spaces to rival many galleries

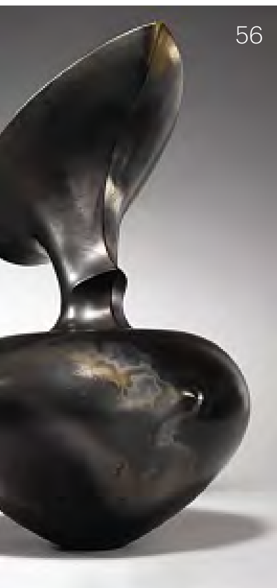
20 COOL RECEPTION
The move by hedge funds to become family offices has not been universally welcomed

24 GLOBAL OUTLOOK
Why central banks hold the key to long-term growth or recession

32 DIRECT DEALERS
The Pritzker brothers have been pioneers of direct investing in family firms

42

PHOTOS: GETTY IMAGES



56

OPENINGS

6 INVESTMENT FOCUS
Family offices are favouring riskier assets more and more

8 THE RICH COLUMN
Wealth managers' struggles with modern technology

10 THE IDEAS COLUMN
Li Ka-shing is the epitome of Asia's new altruists

12

INSIGHT

38 EQUITIES
Outsmarting Harvard on how to handle market volatility

40 IMPACT INVESTING
Family offices are expanding their philanthropic ventures

42 SUCCESSION PLANNING
Ensuring smooth transitions between generations

44 TAX PLANNING
The implications of the UK's clampdown on non-doms

46 PROFILE
Cascade Investment, Bill Gates's wealth manager

48 THE FUTURE
Challenges for family offices in emerging markets

50 PROFILE
Sandaire Investment Office's community spirit

52 INDUSTRY OVERVIEW
Consolidations gather pace in multi-family offices

54 WEALTH MANAGEMENT
What the common reporting standard will mean for families' planning set-ups

56 INVESTMENT PASSIONS
The pleasures and pitfalls of collecting ceramics

58 AMBITIOUS WEALTH
Redressing the balance between labour and capital

FT Wealth editor Hugo Greenhalgh
Deputy editor Rohit Jaggi
Production editor George Kyriakos
Art director Jonathan Saunders
Picture editor Michael Crabtree
Sub-editors Philip Parrish, Ruth Lewis-Coste
Special reports editor Leyla Boulton
Global sales director Dominic Good
Global relationship director for banking and finance Valerie Xiberras
Publishing systems manager Andrea Frias-Andrade
Advertising production Daniel Lesar

CONTRIBUTORS

Dalya Alberge is a freelance arts writer
Yuri Bender is editor of Professional Wealth Management, an FT publication
Kate Burgess is the FT's Small Talk columnist
Stephen Foley is the FT's US investment correspondent
Jeremy Hazlehurst is founder of Business Family
Ceri Jones is a freelance journalist
Dan Jones is editor of Investment Adviser, an FT publication
Louise Lucas is the FT's Asia news editor
Madison Marriage is the FT's deputy asset management editor
Chris Newlands is the FT's asset management editor
David Oakley is the FT's investment correspondent
Adam Palin is a reporter on FT Money
Matthew Vincent is the FT's deputy companies editor
Lucy Warwick-Ching is digital and communities editor of FT Money

COVER PHOTOGRAPH
DAVID WALTER BANKS

FAMILY OFFICE FOCUS
LUCY WARWICK-CHING

GRAPHIC BY RUSSELL BIRKETT

AN APPETITE FOR RISK

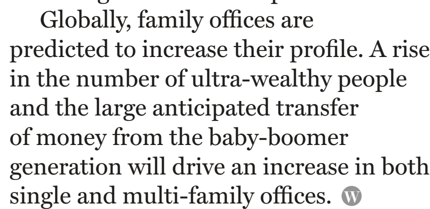
Family offices are taking on more risk, placing additional money into equities and holding less in cash, according to the latest UBS/Campden Research Global Family Office Report.

This is shown not only in their investment intentions, where the percentage of family offices following a wealth-preservation strategy has fallen from 26 per cent to 21 per cent, but also in a portfolio shift towards riskier asset categories.

The average family office, which has assets under management of $806m, invested $73m in hedge funds in 2014, primarily in global macro strategies. This asset class is particularly popular with North American and emerging market family office portfolios.

However, while other classes, such as property and private equity, performed well during the same period, the slowdown in equities damped returns. The return on the composite global portfolio of family offices fell from 8.5 per cent in US dollar terms in 2013 to 6.1 per cent in 2014. European family offices performed the strongest, achieving a return of 6.4 per cent.

Globally, family offices are predicted to increase their profile. A rise in the number of ultra-wealthy people and the large anticipated transfer of money from the baby-boomer generation will drive an increase in both single and multi-family offices.



34%
of family offices are in North America

$926m
Average assets under management in family offices in the US

75%
of family offices in North America are involved in philanthrophy

2%
Proportion of annual assets under management family offices in emerging markets give to local causes

10%
of family offices are in emerging markets

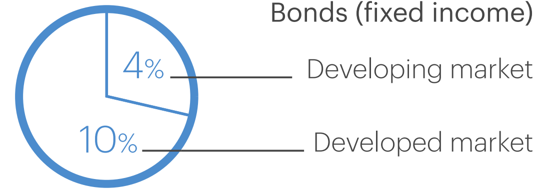
4.9%
Annual return for emerging market family offices in 2014

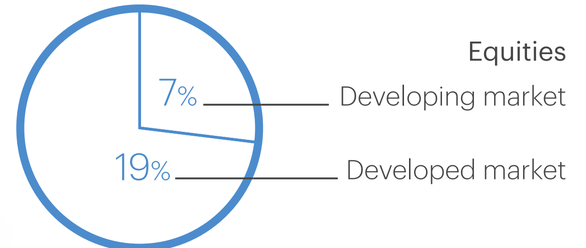
5.8%
Annual return achieved by North American family offices in 2014

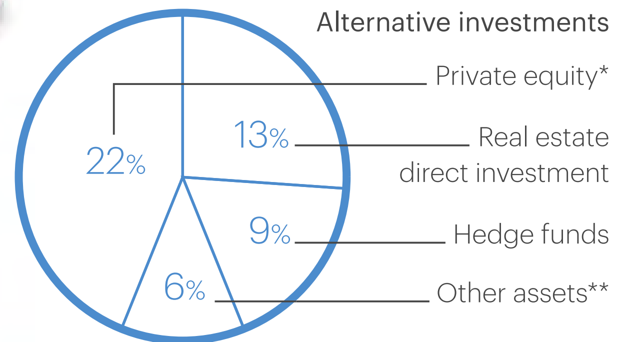
51%
of global family wealth is still invested in the family business

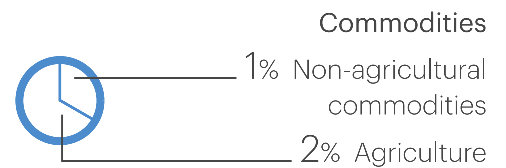
64%
of family offices were founded after the milliennium

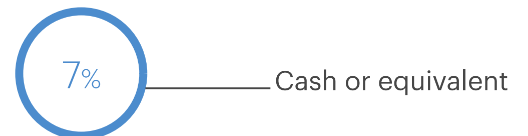
How they allocate





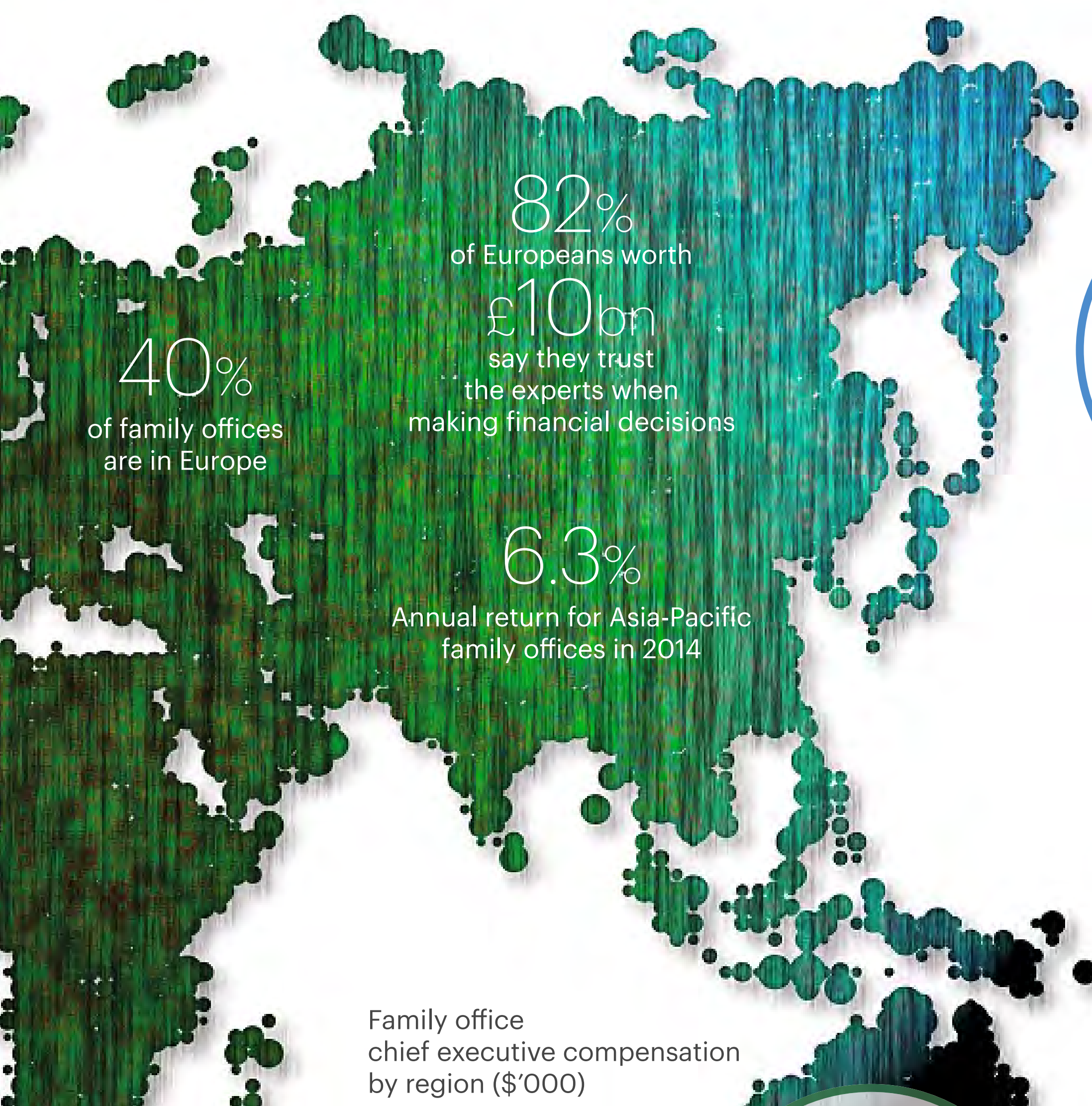






6.4%
Year-on-year return achieved by European family offices in 2014

The average family office chief executive's basic salary is
$333,000



A financial analyst within a family office receives a basic salary of
$82,000
a year

Family office chief executive compensation by region ($'000)

16%
of family offices are in Asia-Pacific

Sources: UBS, Campden Wealth. Withers/Scorpio Partnership

* Includes direct, venture, funds, co-investing and investment bank syndication. **Includes ETFs, REITs, tangibles and other assets (eg, art)

THE RICH COLUMN
MATTHEW VINCENT

@MPJVincent

SHOCK OF THE NEW

Senior family members inevitably get to the stage where they just can't keep up with new technology. No matter how cutting-edge they may have been in their younger days, there is always a cut-off point.

City slickers who shouted into brick-like cellphones in the 1980s can seem bemused by the brevity of today's text messages. This smartphone exchange was recently shared on the web: "Dad: 'What do IDK, LY and TTYL mean?' Son: 'I don't know. Love you. Talk to you later.' Dad: 'OK, I'll ask your sister.'"

A generation that learned to use scientific calculators now initiates a web search by typing "The Google" into Bing. Using Internet Explorer 6. Disco enthusiasts who could rewind their Walkmans while on rollerskates cannot work out why their audiobooks now feature so many flashbacks and bizarre plot twists. Or what that "Shuffle" setting on the iPod means.

If this sounds familiar, you have my sympathy. Wealth may cascade down generations, but IT support only ever flows upwards.

All of which leads me to the question posed last month by Zurich-based consultancy MyPrivateBanking Research: "What navigation, content and interactivity should wealth management websites incorporate to satisfy the needs of clients?" Especially senior clients.

Old family offices, which have been managing wealth literally for generations, appear to face similar technological challenges. Many started out at the forefront of innovation, such as Brunner Investment Trust, which ran the finances of boffins who went on to form ICI, the chemicals group. Today, many of these 100-year-old London-listed trusts can appear more dozed off than switched on. As their distinctly Web 1.0 online offerings suggest.

Not so slick: users of brick-like cellphones in the 1980s can seem bemused by today's text messaging

PHOTO: KYPROS/GETTY IMAGES

WEALTH MAY CASCADE DOWN GENERATIONS, BUT TECH SUPPORT ONLY FLOWS UPWARDS

In fact, when MyPrivateBanking Research ranked the web technology used by wealth managers worldwide, only one family office featured in its top 40. MyPrivateBanking Research managing director Steffen Binder was too discreetly Swiss to say anything more than it was "not in the top 10". As he diplomatically put it: "Family offices are targeting an even more conservative segment... [they say] the telephone is for us, digital is not a necessity. So I think the pressure for them has not been that great to change."

As if to emphasise these unchanged priorities, two days after the MyPrivateBanking Research report came out, an unnamed Spanish family office invested a huge amount of money in a new state-of-the art multi-client interface: it paid £9.2m, or £3,918 per square foot, for 29 Charles Street, a Georgian townhouse in London's Mayfair. Who needs servers when you can have sofas?

Some multi-family offices, however, are now trying to offer the comfort and convenience of both. Stonehage Fleming, the international family office, is using digital technologies to provide up-to-the minute reporting on all of a family's assets, including businesses, property, even art.

"At a glance they need to see what the art portfolio is worth," says Ari Tatos, managing partner at Stonehage. "They then have the ability to do a 'deep dive' on any particular work to see where it is kept, when it was bought, when it was last revalued, when it was insured."

Kleinwort Benson can provide family offices with similarly high-tech reporting on art, furniture and fashion, through its quaintly named "chattel management systems".

But all also stress the human touch. "The most old-school or bespoke service is being at the family's side," says Tatos. Alexandra Altinger, chief executive of Sandaire Investment Office, says families value "concierge services" — having "travel arrangements, domestic or family issues" taken care of. But to Paul Kearney, managing director of Kleinwort Benson's private investment office, the question is when these relationships might be informed by artificial intelligence.

"The most highly valued service continues to be omniscience: the ability of the family office team to anticipate the needs of the family and be ahead of the request," he says. "Currently this remains the domain of a human but maybe we are not too far away from data analytics giving this sixth sense to our smartphones."

Just don't send let them send text messages to the family patriarch.

FINANCIAL TIMES
Property Listings

DISCOVER EXCLUSIVE
PROPERTIES WORLDWIDE

The new FT Property Listings is a showcase of the world's finest properties, including many one-of-a-kind, award-winning homes. Whether you're looking for a riverside penthouse in London, a mansion in Malibu or an Italian farmhouse with its own vineyard, you'll find an unparalleled choice of properties – all in one place.

Find your perfect property now at ftpropertylistings.com

LOUISE LUCAS

@louiseflucas

ASIA'S NEW ALTRUISTS

For Hong Kong tycoon Li Ka-shing, it is his "third son". Alibaba's founders thought it deserving of 2 per cent of the proceeds of the world's largest initial public offering. And for a group of wealthy Asian businessmen it offers the opportunity to save a vast stretch of coral.

The "it" is the charitable foundation. Philanthropy it is big business in Asia. The wealth is here — 560 US dollar billionaires at the last count, according to Wealth-X, the data provider that tracks the super-rich — and so too is the growth. Fittingly for a continent of largely self-made tycoons who came from roots both humble and ghastly, there is a desire to give back to society.

Take Li, one of Asia's wealthiest tycoons whose charitable foundation, which he has called his "third son", will receive the same inheritance as his two flesh-and-blood offspring.

As he told a Forbes gathering in 2006: "I grew up amid the turmoil of war. It certainly shaped me — the great tug of war with destiny and the taste of poverty.

"They are hardly memories one can forget. It has not been an easy journey. I can still remember vividly the day I started work at 12."

Almost a decade later he said: "Social capital is the key. Its assets of empathy, compassion, trust, shared values, community involvement, volunteerism, social networks and citizenship have quantifiable value. These assets can be measured."

Jack Ma, founder of Alibaba, the Chinese ecommerce group, ensured 2 per cent of its equity — valued in total at $168bn at the IPO a year ago — went into his charitable trust, along with 0.3 per cent of annual revenues.

The numbers are growing. An analysis by UBS, the investment bank, of tax authorities' data (which underestimate total donations as they exclude personal giving) reveal some substantial increases over the past decade — for example, from $830m in China to a staggering $16.5bn last year.

A FOUNDATION CAN BE AN INCUBATOR FOR CHILDREN TO JOIN THE BUSINESS LATER

Three-way split: Li Ka-shing, above, has decided his legacy will go to his two sons and his foundation

Giving is also evolving from the big-ticket donations — for example, endowments to universities, usually the alma mater, such as the Chan family's $350m to Harvard University in the US.

So far, so logical. Asia has an enduring respect for education and, as with clothes, the bigger the name the better: consider the Li Ka Shing Centre for Health Information and Discovery at the University of Oxford and Harvard's TH Chan School of Public Health.

But the interesting activity is at the lower end, as a new generation focuses on self-sustaining giving to beneficiaries who are closer to home.

"It is a more structured way than was the case 10-20 years ago, when you were just writing a cheque and didn't know how the money was going to be spent," says Christina Tung, head of philanthropy and value-based investing at UBS.

The question of money spoiling the next generation is also present, adds Annie Koh, academic director of the business families institute at Singapore Management University. "The older generation don't want the younger ones to have a mentality of entitlement, so they set up foundations to ensure their children don't get too much wealth and it goes to society," she says.

Others suggest a foundation is also a useful place to park any offspring reluctant to join the family business and still keep them in the fold.

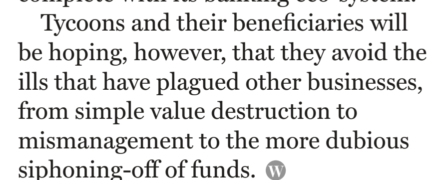
It can also be an training ground for children who envisage joining the business later.

Finally, tax may not be a driver to the extent it is elsewhere in the world, given the prevailing low rates in the region, but it can provide a fillip. China has lifted its tax deduction to 12 per cent, but there is a strict limit on the charitable bodies this applies to.

Singapore, which is eager to keep charity at home, offers the best rates of all. For the right domestic charities, every dollar invested merits a deduction of up to $3.

Most Asian giving is local, but it can cross borders, as with a recent bid to save the swath of coral that spans Indonesia and the Philippines, down to the Great Barrier Reef off Australia.

But with philanthropy in its infancy in Asia, and billions of dollars pouring in, a whole new industry is being born, complete with its banking eco-system.



Tycoons and their beneficiaries will be hoping, however, that they avoid the ills that have plagued other businesses, from simple value destruction to mismanagement to the more dubious siphoning-off of funds.

PHOTO: AFP/GETTY IMAGES

Save the Date

Following an acclaimed first edition, the biggest photography fair ever staged in London returns featuring 80 of the world's leading galleries

PHOTO LONDON

Somerset House, London
19–22 May 2016
Preview day 18 May

For details on partnership opportunities please contact
joanna.payne@candlestar.co.uk

photolondon.org
#PhotoLondonFair16

In association with

FT Weekend

Partners

LUMA FOUNDATION

PAST FORTUNES

ONE OF THE GERMAN QUANDT DYNASTY'S FAMILY OFFICES HAS BEEN EXPANDING ITS CLIENT BASE

BY CHRIS NEWLANDS

The art of discretion: Gabriele Quandt, one of four siblings whose money is managed by Harald Quandt Holding

PHOTO: GETTY IMAGES

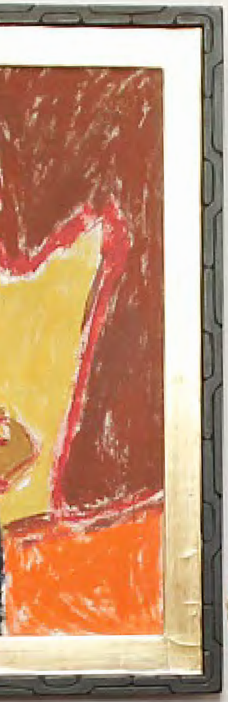
The BBC television programme *Who Do You Think You Are?*, now in its 11th year, takes notable people, who have included author JK Rowling, artist Tracey Emin and London mayor Boris Johnson, and traces their ancestry to uncover past secrets. The more scandalous the better: ratings rise for every skeleton revealed.

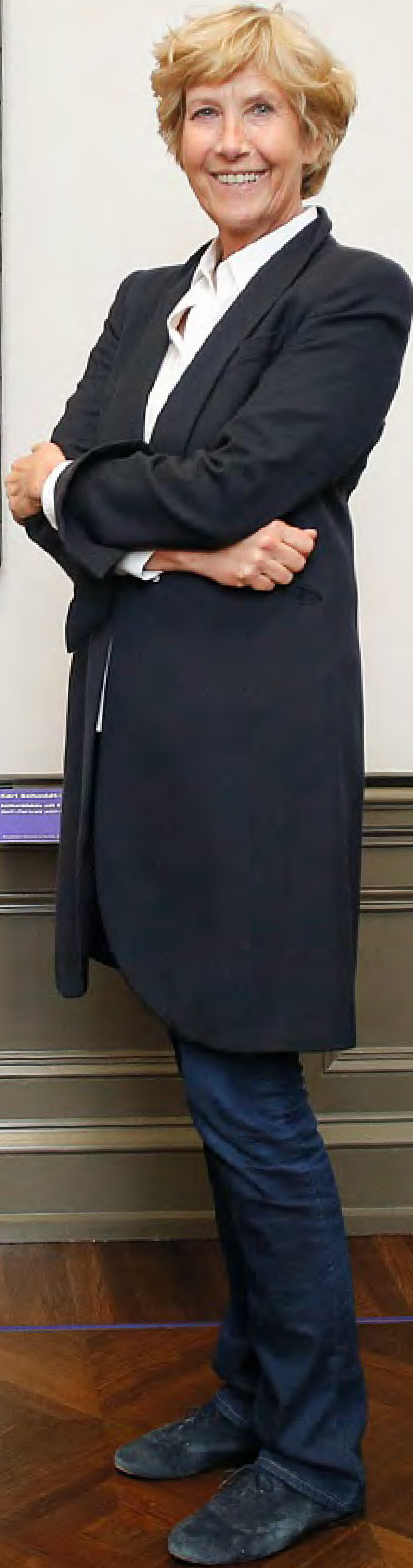
Harald Quandt, the German industrialist, would have made an ideal subject. Although he died in an air crash in 1967, his name lives on via Harald Quandt Holding, a family investment company and trust based in the spa town of Bad Homburg, near Frankfurt, that manages the money he inherited and accumulated during his 45 years.

Had he appeared on the BBC show, the presenter, aware of the fortune's murky origins, might have asked: "Where exactly did the money come from?"

In 1954, Quandt and his half-brother Herbert inherited an industrial empire built by their father, Günther, a former member of the Nazi party. The Quandt family factories produced firearms and anti-aircraft weaponry for the Third Reich's war effort.

From 1940 to 1945, the factories were staffed by more than 50,000 forced labourers, prisoners of war ➤





1.

and concentration camp workers, according to a family-commissioned study that was produced in response to a highly critical German television documentary in 2007 about the family's ties to the Nazi regime.

The strength of those ties is perhaps best illustrated by the fact that Harald's mother, Magda Behrend Rietschel, married Nazi propaganda minister Joseph Goebbels after her split from Harald's father in 1929. Adolf Hitler was the best man at the wedding.

Although the half-brothers passed away decades ago — Herbert died in 1982 — their legacy has lived on. Herbert's widow, Johanna Quandt, who died in August this year, and their children, Susanne Klatten and Stefan Quandt, have remained in the public spotlight thanks to their 47 per cent shareholding in carmaker BMW — a stake bought by the half-brothers after their father's death. When Johanna Quandt passed away she was the second-richest woman in Germany and the ninth-richest in the world, according to Forbes magazine.

Meanwhile, Harald Quandt's daughters — Katarina Geller-Herr, Gabriele Quandt, Anette-Angelika May-Thies and Colleen-Bettina Rosenblat-Mo — have kept a lower profile, and it is their money that is managed by Harald Quandt Holding.

Philipp Geller, a partner at HQ Trust, the multi-family office of the Harald Quandt family, will not disclose the wealth of the daughters, other than to say it is "sizeable". According to the family's sanctioned biography, *Die Quandts* (The Quandts), the four sisters inherited some 1.5bn deutschmarks (then about $750m) after the death of their mother, Inge, in 1978. A Bloomberg report suggests the siblings have harvested average annual returns of roughly 7 per cent since the family office was founded in 1981. Together, the four sisters — and the two children of a deceased sibling — share a fortune of at least $6bn, according to the Bloomberg Billionaires Index.

1.
Stefan Quandt
2.
Johanna Quandt
3.
Harald Quandt
4.
Herbert Quandt

Harald Quandt Holding and its related investment subsidiaries have some $18bn of assets under management, and HQ Trust is now using its experience to offer asset management services to outsiders.

Geller, who joined HQ Trust from private bank UBS in 2011, says attracting third-party assets has not been difficult. "But you'd have to talk to our relationship managers to get a definitive answer on that," he says.

The evidence would suggest it has not been a hard sell. HQ Trust runs money for 30 other families and now manages more assets for third parties than it does for the Quandt family. According to Geller, HQ Trust is one of the largest independent multi-family offices in Germany.

"Twenty of us moved from UBS in 2011, which gives you an indication of the size," he says. "A client makes a decision very early on whether they want to be with a family office or a private bank — and that decision has to do with privacy."

Despite the arrival of so many staff, none of the money managed by HQ Trust, which is also based in Bad Homburg, is run in-house. It employs external investment houses and, says Geller, raising assets from other families has been crucial to keeping those transaction costs down.

A failure to do so has long been a criticism levied at family offices.

‘WHETHER TO BE WITH A FAMILY OFFICE OR A PRIVATE BANK IS TO DO WITH PRIVACY’

“We only use external managers,” says Geller. “The problem is that if you do it yourself and then decide you want to invest in something new, you would need to hire people internally to do that for you. That’s not easy, and if you change your mind, you would then have to get rid of them, which is expensive.”

He adds: “By building scale, however, you would be surprised just how low you can get the fees of external managers.”

Dominic Samuelson, London-based chief executive of Campden Wealth, an independent provider of research for family offices, believes HQ Trust manages sufficient assets for it to be a viable proposition for the Harald Quandt family and other outside clients.

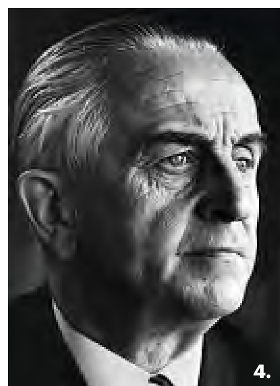
“Traditionally, for multi-family offices to be sustainable over the medium to long term, they must manage cumulative assets of more than $3.5bn,” he says.

A large proportion of the family’s assets are invested in alternatives. Harald Quandt’s daughters — who are not involved in the day-to-day running of the office but have a “strategic” input — committed to alternative assets in the late 1980s, long before many other investment groups were considering such strategies.

“A third of assets are in alternatives,” says Geller. “The family have done very well out of [them].”

3.

2.



4.

PHOTOS: FRANK RUMPENHORST, RICHARD KOLL/DPA; EPA; ULLSTEIN BILD/GETTY IMAGES

DOWN A SEPARATE ROAD

The death in August at age 89 of Johanna Quandt, the billionaire BMW heiress, has had no impact on the money managed by Harald Quandt Holding.

The BMW matriarch was Germany’s second-wealthiest woman, with a fortune estimated by Forbes at $11.6bn, thanks largely to a 17 per cent stake in one of the world’s largest premium car makers.

Her stake, however, was left to her by Harald Quandt’s half-brother, Herbert, who took over the interests in the family’s car businesses when his father died. Harald, meanwhile, oversaw the interests of his late father’s industrial companies.

Though managed by a single-family office just across the road from Harald Quandt Holding in Bad Homburg, Herbert’s half of the Quandt fortune is completely separate. “The wealth is split between the two families, so the passing of Johanna Quandt had no impact on us,” says Philipp Geller of HQ Trust.

Johanna’s two children, Stefan Quandt, 49, and Susanne Klatten, 53, who are members of BMW’s supervisory board, will inherit their mother’s stake and retain the family’s combined 47 per cent holding in BMW, which also owns the Mini and Rolls-Royce marques.

Johanna Quandt married Herbert in 1960, becoming his third wife. At the time, BMW was on the edge of collapse and had flirted with a takeover by Daimler-Benz. Herbert helped preserve its independence and steered it back to profitability.

MASTER SUITES
LUXURY HOTELS ARE BECOMING FINE ART SPACES TO RIVAL MANY GALLERIES

BY DALYA ALBERGE

Bruce McLean's "Concept Menu", right, on display at 45 Park Lane

He is a former winner of the Turner Prize and represented in collections worldwide, but if you tell Sir Antony Gormley his art sends you to sleep, he won't be offended. That is assuming you are referring to the "inhabitable sculpture" that he created for a hotel bedroom, rather than one of his other artworks.

Gormley, best known for his "Angel of the North" sculpture in Gateshead, received the commission from the new Beaumont Hotel in Mayfair, London. He came up with an oak-lined bedroom — titled "Room" — which fills the void of his monumental crouching figure on the building's exterior. Since it opened last year, "Room" has had no shortage of guests prepared to pay £2,500 for a night there.

It is a bold statement piece and one that reflects a trend among top hotels worldwide to fill their spaces with original art. They are acquiring paintings and sculptures that would not disgrace a public gallery and which, even if you can't afford to stay there, you can see free of charge or for the price of a coffee in the bar.

Alex Toledano, a Paris-based art consultant whose clients include Ritz-Carlton hotels, says: "Hotels, especially hotel owners, recognise that they have been spending a decent amount on art for many years without it doing anything special for their property. They've realised that the money could be used not only to tell an interesting narrative about their properties but also to make them more memorable."

He adds that hotels used to purchase decorative art from "manufacturing companies" that churned out works in bulk. "Now you're starting to see the desire of hotels to ask more of the artwork to make their property unique, rather than resembling many others."

There is also a move away from abstract art, previously considered the "least offensive" form, he says. "Now, hotels are willing to take more of a risk. That is what is making art in hotels exciting right now. Our clients are asking for a diversity of art that we wouldn't have expected a couple of years ago."

He has been purchasing contemporary art for the Ritz-Carlton's second hotel in Kazakhstan, due to open in 2017 in the capital, Astana. He also acquired an historical collection for The Lanesborough in London. "Every single room is different from the next," he says. "We sourced all the art, bought it, framed it and restored a lot of it." The focus was on art from the 1830s and earlier. "We imagined a wealthy English family living in London at the time The Lanesborough was built."

Along with English portraits and military and hunting scenes, the hotel has two paintings by Sir Joshua Reynolds, the 18th-century master. His portraits of a Captain John Smith and his unnamed wife greet visitors.

Some hotels want to establish a sense of place through their art, though not necessarily through local artists. In Norway, a luxury establishment in Oslo called The Thief has three original collages inspired by national and cultural symbols and created by British Pop artist Sir Peter Blake, best known for his iconic sleeve design for The Beatles' *Sgt Pepper's Lonely Hearts Club Band*. The collages, which include depictions of the quay in Bergen and folk dancing, decorate the hotel's penthouse suite.

PHOTO: BRUCE MCLEAN. ALL RIGHTS RESERVED, DACS 2015

‘I LIKE THE FACT THE WORK IS NOT IN A GALLERY. YOU LOOK AT IT IN AN INFORMAL WAY’

The Thief, whose guests have reportedly included Bill Gates, the American technology entrepreneur, is situated in an area that was once home to criminals and shady goings-on. Today, it is a centre for contemporary art and the hotel’s exhibitions are curated by Sune Nordgren, former director of Norway’s National Museum of Art. Exhibits include loans from the nearby Astrup Fearnley Museum of Modern Art and Petter Stordalen, a Norwegian collector, hotel tycoon and owner of The Thief. Changing displays include modern and contemporary artists, from Andy Warhol to Gormley.

Richard Prince’s painting “The Horse Thief” is in the reception area.

Scottish artist Bruce McLean, whose work is held by Britain’s Tate galleries, is among artists chosen to decorate entire floors — bedrooms and public spaces — at 45 Park Lane, a new Dorchester Collection hotel in London. He selected large semi-abstract prints — he would not have wanted to create something especially for a hotel, he says.

Asked about his work being viewed by a captive audience in a bedroom, he adds: “I like the fact that the work is put not in a gallery space. You look at something in an informal way. You’re not told, ‘it’s meaningful because it’s in the Tate’. You can look at it — or not.”

He is among high-profile artists who work closely with Gillian Duke, managing director of CCA Galleries, which supplies high-quality prints to international hotels. They include 45 Park Lane, where the art programme extends to offering guests personal exhibition tours by artists and even painting lessons with them.

She says that when hotels are refurbished, art is sometimes seen as a last-minute add-on, “missing the point that the art and artefacts — the things that go in last — are usually what make the hotel what it is”.

Roy Ackerman heads an art consultancy, Tadema Studios, whose specialisms include hotels. Commenting on art that hotels previously acquired, he says: “It was normally cheapskate art bought in, quite a lot from the Far East. It was pretty ordinary stuff.” He curates art at 45 Park Lane, regularly briefing staff on the work with one of the artists. “There are changing exhibitions, so a new artist comes in once a quarter. It makes it interesting for the staff as well as for the guests,” he says.

At the Beaumont, Gormley’s artwork is within a suite of rooms finished in the hotel’s deco style. White marble

PHOTOS: BRAD FEINKNOPF; ANTON SOGGIU

steps lead to a threshold divided by a thick black curtain, creating a sense of theatre. Walk through them and you enter Gormley's "Room", which he wants "to bridge the gap between sacred and domestic space". You are cocooned in a space that resembles a cross between a sauna and a garden shed, with glows of discreet lighting and a high ceiling. A large window is placed too high for guests to see more than the sky.

Overlooking Brown Hart Gardens in Mayfair, the hotel was converted from a former garage, built in 1926 and most recently occupied by car rental company Avis. It is the first hotel of Jeremy King and Chris Corbin, business partners behind a string of justifiably popular London restaurants, including The Wolseley on Piccadilly.

As the Beaumont was a listed building, the Gormley project needed approval from Westminster council, the Grosvenor Estate (the ultimate landlord) and English Heritage, the building preservation and listing agency now known as Historic England. King says after initial reservations, it was rubber-stamped. "It's an interesting parable. Everybody is scared of the unknown," he says. "If you look back on the big public manifestations of art — in Paris, the Eiffel Tower was derided when it was first built and the Louvre Pyramid was loathed by many — after a bit of time people begin to appreciate them."

King had his own doubts, though, about agreeing to Gormley's suggestion that a television should not be in the room. "My commercial head thought, 'This is commercial suicide'," he says. But he felt it was in keeping with the work itself — taking a guest from a world where "we're constantly beset by distraction — electronic, social, whatever it might be — into a haven where you can lose yourself only 200 yards from Oxford Street".

He adds: "People sleep incredibly well there. To achieve profound sleep means that not only is it an aesthetic success, but a practical one too." (Guests can, if they choose, watch TV in a separate sitting room.)

Asked about hotels buying more original art, he says: "The danger is that they use the art to attract attention, rather than to enhance the experience. You find that a lot of it becomes too narcissistic, as opposed to harmonious for the clients' experience."

Possibly the finest top-class hotel with an art collection is La Colombe d'Or in St Paul de Vence in France. It

1.
Le Méridien Columbus, The Joseph
2.
Sir Antony Gormley's "Room" at The Beaumont
3.
Fernand Léger's ceramic mural "La jeune fille et l'oiseau" at La Colombe d'Or
4.
Sir Peter Blake, who has created three collages for The Thief

'A LOT OF ART IN HOTELS IS TOO NARCISSISTIC AND NOT HARMONIOUS FOR CLIENTS'

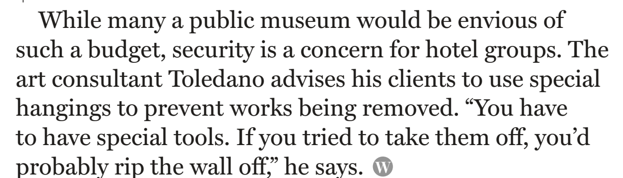
boasts art by 20th-century masters who frequented this charming Provençal establishment, often exchanging their work in return for a stay or a few meals.

There is a Matisse portrait of a woman and a Picasso still life of flowers. "As we are not a museum, they always considered artworks as part of the house, so there are no exact titles," the hotel says. "The Picasso was given to Paul Roux [the original owner in the 1920s]. Picasso came to see him with two paintings under his arms and left with one." Works by other regular guests include ceramics by Georges Braque (by the pool) and Fernand Léger ("La jeune fille et l'oiseau", on the terrace).

Among the grand hotels of Europe with notable fine art collections are The Dolder Grand in Zurich, Switzerland, which has paintings and sculptures by masters such as Camille Pissarro and Salvador Dalí.

American art dominates US establishments such as New York's Gramercy Park Hotel, which is decorated with works by Warhol, among others. The hotel says the works it displays are "constantly changing, ensuring guests never experience the same hotel twice".

Erin Hoover is vice-president of global brand design at Starwood Hotels, which includes the Westin, Sheraton and Le Méridien names. "Art is becoming more and more important for hotels, just as it is for other kinds of buildings and public spaces," she says. "A great example is the soon-to-be opened Westin Denver International Airport. The city of Denver requires all public buildings to contribute 1 per cent of their construction dollars on large projects to artwork. As a result, the hotel features $5m-worth of artwork and installations."



While many a public museum would be envious of such a budget, security is a concern for hotel groups. The art consultant Toledano advises his clients to use special hangings to prevent works being removed. "You have to have special tools. If you tried to take them off, you'd probably rip the wall off," he says.

COOL RECEPTION

HEDGE FUNDS' MOVE TO BECOME FAMILY OFFICES IS NOT ENTIRELY POPULAR

BY MADISON MARRIAGE

Being a billionaire hedge fund manager is not as much fun as it used to be. The 1990s, so legend has it, were a golden era for the humble hedge fund manager, who could set up a company with just a computer and a telephone, without facing the glare of regulators, the media or the public.

But the days of 21-year-old whizz-kids founding wildly successful investment businesses from their university dorm rooms or their parents' garages are over. Today, the sector has been reined in by a swath of new rules in the US and Europe designed to clip the buccaneering habits exhibited by some industry figures in their heyday.

Rather than face the pressures of the new world of investing a handful of hedge fund managers have turned their backs on running money for external investors altogether.

Two of the best known are George Soros, the 85-year-old investor and philanthropist worth an estimated $23bn, and Steven Cohen, the controversial financier who was forced to wind down his hedge fund, SAC Capital, after the company pleaded guilty to insider-trading charges in 2013.

The backgrounds of Soros, a Hungarian-born liberal who made a fortune by betting against the Bank of England during the Black Wednesday currency crisis of 1992, and Cohen, a New York native and poker

Quantum leap: George Soros is the best-known member of the hedge fund industry to have quit running money for external investors

PHOTO: JOSHUA BRIGHT/NY TIMES/REDUX/EYEVINE

1. New York, where hedge funds now face greater regulation
2. Steven Cohen, whose Point72 firm manages his $10bn fortune
3. Franz Müntefering, former chairman of the Social Democratic Party, who branded hedge funds "locusts"

‘HEDGE FUNDS MAKE A FORTUNE. THEY PAY NO TAX. IT’S RIDICULOUS’

enthusiast whose company was fined a record $1.8bn by US authorities, are worlds apart.

Yet the pair are united in their decision to transform their companies into family offices, which are exempt from most of the new rules in the US and Europe.

Soros closed his Quantum Endowment Fund to non-family members in 2011 to avoid unwanted regulatory scrutiny under the Dodd-Frank financial reforms, which aimed to improve investor protection but also raised compliance and reporting costs for hedge fund managers.

Cohen’s SAC Capital made the same transition last year to become Point72 Asset Management, an entity focused on managing the 59-year-old’s $10bn fortune, albeit for very different reasons. As part of his company’s guilty plea, Cohen agreed his firm would no longer manage money for outside investors.

The consensus among investment professionals is that more hedge fund veterans will follow this path as the industry continues to shed its Wild West reputation and the burden of running large amounts of external money intensifies.

“Those hedge fund industry founding fathers that remain active in it may barely recognise today’s $3tn industry compared with its form in the past,” says David Walker, head of European institutional research at Cerulli Associates, the asset management research group. “Onshore regulation, plus public reporting of significant short positions, are worlds removed from the barely regulated industry they once knew. Those managers that grew up in a less restrictive regulatory landscape may yearn for its freedoms.”

When a hedge fund becomes a family office, all funds are returned to outside investors and the new entity runs the money of the manager and his or her family members alone. Family offices do not need to be registered with the US Securities and Exchange Commission as an investment adviser and therefore are not subject to its regulation and disclosure requirements.

There are provisions in the SEC rules by which key employees may invest alongside the family and thereby participate in the investment results, but non-family members may not have direct equity participation in the business, according to Marv Pollack, managing director of the Family Office Exchange, a network that provides advice to wealthy individuals.

Other changes that have proved unpopular with many in the industry include pay restrictions for managers active in the European market under the Alternative Investment Fund Managers Directive (AIFMD), which came into force in 2011. The new rules also include restrictions on how leverage can be applied and contain onerous reporting obligations.

Troy Gayeski, partner at SkyBridge, the New York-based fund of hedge funds company, believes more family office conversions are imminent as hedge fund executives who have amassed large amounts of money tire of the new regime. “Ten years ago a hedge fund with $50m of assets could generate plenty of revenue to cover overheads. These days it has to be $500m, and part of the reason is that regulatory requirements have gone up dramatically,” he says.

Covepoint Capital, a New York-based hedge fund set up by former Bear Stearns employee Melissa Ko in 2008, is just one example of a large hedge fund that succumbed to this desire for greater freedom. The company returned all outside money to investors and converted the business to a family office in 2013. Greg Williams, business controller at Covepoint, which at its peak handled more than $1bn of assets, told the FT at the time that the changes were in response to “regulatory requirements [that] have become much more burdensome”, adding: “The family-office structure allows

for the flexibility that we are seeking at this time."

In May, JAT, the $1.7bn hedge fund known for its large stakes in companies such as Twitter, Yahoo and the Madison Square Garden company, joined the list of groups that will be returning money to outside investors and becoming a family office. John Thaler, who founded the company in 2007, had encountered performance difficulties, including an 11.3 per cent loss last year, according to the Wall Street Journal. In a letter to investors, however, he attributed the decision to wanting to spend more time with his "young family".

More hedge fund luminaries are expected to bring the shutters down on external investors, as a growing number of alternative funds struggle to produce decent returns. The average hedge fund returned 3.3 per cent in 2014, compared with 5.5 per cent for the MSCI World index.

"Hedge fund managers are rational entities who understand what a challenging environment this is," Gayeski says. "For some, it's not worth the effort to grind out what they view as less than thorough returns."

Perhaps more disturbingly for other hedge fund veterans, however, their business is no longer as revered as it used to be. It has become almost routine for politicians in the developed world to attack the hedge fund industry in the run-up to elections.

Such moves are seen widely in the industry as insincere and calculated, designed to score points with an electorate that has become disillusioned with the world of finance in the aftermath of the financial crisis.

In Germany, Franz Müntefering, former chairman

2.

'I EXPECT TO SEE MORE CONVERSIONS BUT NOT FOR IT TO BE A HUGE TREND'

of the Social Democratic Party, branded hedge funds "locusts" in 2005. The term has stuck.

Even Donald Trump, the Republican property magnate running for president of the US, has lashed out at hedge fund managers, branding them "paper-pushers" who do not pay their fair share of tax. In an interview with CBS television in August, the 69-year-old said of the hedge fund elite: "They are energetic. They are very smart. But a lot of them — they are paper-pushers. They make a fortune. They pay no tax. It's ridiculous.

"The hedge fund guys didn't build this country. These are guys that shift paper around and they get lucky. Some of them are friends of mine, some of them I couldn't care less about. These guys are getting away with murder."

But while hedge funds — and their managers — do indeed pay tax, within this hostile political and regulatory environment it is little surprise that managers who have already made their fortunes have begun to question the appeal of managing outside investors' money.

"The hedge fund industry may still have a glamour appeal compared with other sectors, but we are a long way from where we were in 2006 or 2007 when everyone wanted to quit the sell-side [investment banks] and join a hedge fund," says Gayeski.

The investment moguls at the head of some of the recently established family offices may not escape the long arm of international regulators for much longer, however. Barbara Wall, director at Cerulli, says: "I would expect to see more conversions but I don't expect this to be a huge trend. Family offices are on the radar of the SEC, and Europe will also be turning its attention to these quiet but powerful entities.

"Single family offices manage significant sums and their actions have a major impact on global capital flows. It's only a matter of time."

3.

PHOTOS: ISTOCK; BLOOMBERG; GETTY IMAGES

GLOBAL OUTLOOK
CENTRAL BANKS HOLD THE KEY TO LONG-TERM GROWTH OR RECESSION

BY DAVID OAKLEY

nvestment officers at some of the world's biggest family offices and private banks are cautiously optimistic over markets, the prospects for the continuation of the equity bull run and the global economy.

Six chief investment officers and strategists are broadly in agreement on the big trends that are likely to dominate over the next 18 months and what it means for their asset allocations.

Without exception they favour developed world stocks over underperforming emerging markets, with some increasing allocations to mid-cap companies, while others think hedge funds, private equity and infrastructure are worth a bet as they hunt for returns in a world of historically low yields.

In their view, the risk is the slowing Chinese economy, whether there will be a hard or soft landing, and the effects of the unwinding of extraordinary monetary policy with the US Federal Reserve eyeing its first interest rate rise in a decade. In particular, the US central bank seems to hold the key with the debate intensifying over how soon it should tighten monetary policy, the effects this will have on a strong dollar and fragile emerging markets, which could undermine global growth and the world recovery.

In short, investment managers say central bank decisions, not just in the US but in Europe, Japan and China too, over the next 18 months may prove critical for the long-term economic outlook and the health of the financial system, with recession a distinct possibility if they make the wrong calls. ➤

PHOTO: GETTY IMAGES

Soft landing: strategists say the China slowdown is of great concern but they do not expect it to slip into recession

Eric Verleyen, chief investment officer at Société Générale Private Banking:

"We think the recovery in the US is sustainable and we don't think there will be a hard landing in China. The developed world equity markets and earnings should continue to do well.

"We prefer equity over bonds as we think corporates will generate earnings and growth and risk assets will benefit, which means we are broadly overweight equity and underweight bonds.

"We expect a pick-up in the eurozone economies with the help of accommodative European Central Bank policy, which should help growth. For that reason, we are overweight European equities.

"We are overweight Japanese equities, based on the view that there will be a soft landing in China that will benefit Japan, which should therefore see a recovery.

"On US equities, we are neutral. The US is growing and the economy looks relatively strong, but stocks are expensive.

"On government bonds, normalisation is on the way and we expect US rate rises soon. Being a government bond investor, you will therefore suffer as monetary policy is tightened.

"Government bonds are not great value with such low yields, so we are inclined to opt for corporate bonds because of higher yield, particularly as we don't think there will be a pick-up in default rates as we expect the US economy will continue growing over the next 18 months.

"Overall, we are underweight in emerging markets, where falling commodity values are having a big influence. For this reason, we are more favourable towards Asian equities, where we are neutral, but we don't like South America stocks. We are also underweight in eastern Europe.

"On currency, the dollar looks like it will remain strong while the euro is likely to remain weak, which means it is good to hold dollars and US companies, which are denominated in dollars.

"The consumer will benefit from low commodities, which means we like sectors that are linked to the consumer, such as consumer discretionaries and luxury goods groups. Cyclical stocks linked to the consumer and recovery are worthwhile investments.

"On the alternative front, we like hedge funds. We think they can perform better in a differentiating market where QE [quantitative easing] is not such an influence and a premium is on companies that are well managed."

1. Eric Verleyen
2. Willem Sels
3. European manufacturing and the eurozone economy are slowly recovering
4. China's stock market turmoil is still a cause for concern

'THE SINGLE GREATEST RISK IS THE UNWINDING OF US EXTRAORDINARY MONETARY POLICY'

Willem Sels, UK chief market strategist at HSBC Private Bank:

"We downgraded global equity in May because we were worried about the emerging markets. For this reason, we are temporarily overweight in cash.

"We have also increased credit positions and hedge fund positions, while our equity allocations are neutral overall.

"In European equities we are overweight and hoping for strong earnings growth in Europe this year. Valuations in Europe are cheap relative to the US and fair overall. Monetary policy is also supportive in Europe.

"In corporate credit, we are overweight. We particularly like the cross-over space between investment grade and high yield — companies with a triple B or double B credit rating. These assets make sense, if you are a buy and hold investor who is not worried about liquidity. They offer relatively high yields, but it is not that easy to liquidate positions. We think the US economy will grow while the default environment is very benign.

"We are also overweight hedge funds because they are an uncorrelated asset class and we are in an environment of high volatility, which hedge funds should be able to exploit. We like private equity. You can't get in and out of private equity easily, but you need to create value in equities and private equity creates value.

"There is a lot of nervousness about China, but we think over the next 18 months the country will stabilise, which will help equities.

"China can help its economy by increasing infrastructure spending and cutting rates while the currency can depreciate somewhat further, even if we don't expect it to fall sharply. This should help to give markets more confidence that there is a gradual slowdown of growth in China, but it does not mean there will be a hard landing.

"We don't expect equities to plunge, nor do we expect a big jump. Equities are more likely to trade in a sideways channel, which we are at the bottom of at the moment.

"On the dollar, we think the first rate rise has been priced in and that the dollar is the most overvalued of currencies so it would be hard for it to rally further.

"We are underweight emerging market equities because of the lack of clarity around China in the short term, and underweight government bonds because we think the yields are too low to offer decent returns." ➤

4.

PHOTOS: BLOOMBERG

Bruce Stewart, chief investment officer of the family office services group at BNY Mellon Wealth Management:

"First, the overall trends favour developed world equities to emerging market equities. The most obvious decision in this environment and for the medium term over the next 18 months is to go underweight emerging markets because of the problems in this region.

"However, we don't consider emerging markets to be a homogenous asset class. Eastern Europe and emerging Asia are holding up fairly well, as opposed to Latin America where there are big problems.

"In simple terms, you have to look at the net exporters and the net importers of energy. For example, India is doing well and Brazil not so well.

"On equities as a whole, we are re-allocating from large-cap stocks to mid-cap stocks. We like mid caps because they sit well between small and large companies. They are higher quality than small caps but present greater growth opportunities than large caps. On a risk-adjusted basis, mid caps are what we favour most.

"Internationally, we like small caps as it is one of the least inefficient asset classes. We think there is more opportunity to pick up capital value in small developed world companies.

"On the currency front, we have a climate of strong dollar and weak euro and we think that will continue for a while, which could make US dollar-denominated assets attractive.

"In bonds, we like floating-rate securities to offset expected US rate rises. We have also gone short US Treasuries, while going long the US aggregate bond index, which is a broad collection of fixed income securities including investment-grade and other bonds.

"Another trend among some family office clients is to hold cash and wait for good opportunities to invest."

Anton Sternberg, head of investments at Stonehage Fleming:

"We are fairly optimistic on stocks over the next year or so. We are constructive on equities in a focused way. Our equity exposure is in global-based ideas in concentrated, high-conviction, defensive high-quality companies or with good exposure to consumer markets.

"We are happy to have companies that are exposed to emerging markets without them being emerging market companies themselves. We want decent growth and decent dividends.

"Emerging markets still have huge potential and still offer opportunities. We have companies with emerging market exposure such as Nestlé and AB InBev as they are quality businesses.

"We are not that keen on bonds. We have been wrong on the view of bonds as yields have remained low, but we find it hard to be constructive on bonds. We have some credit exposure.

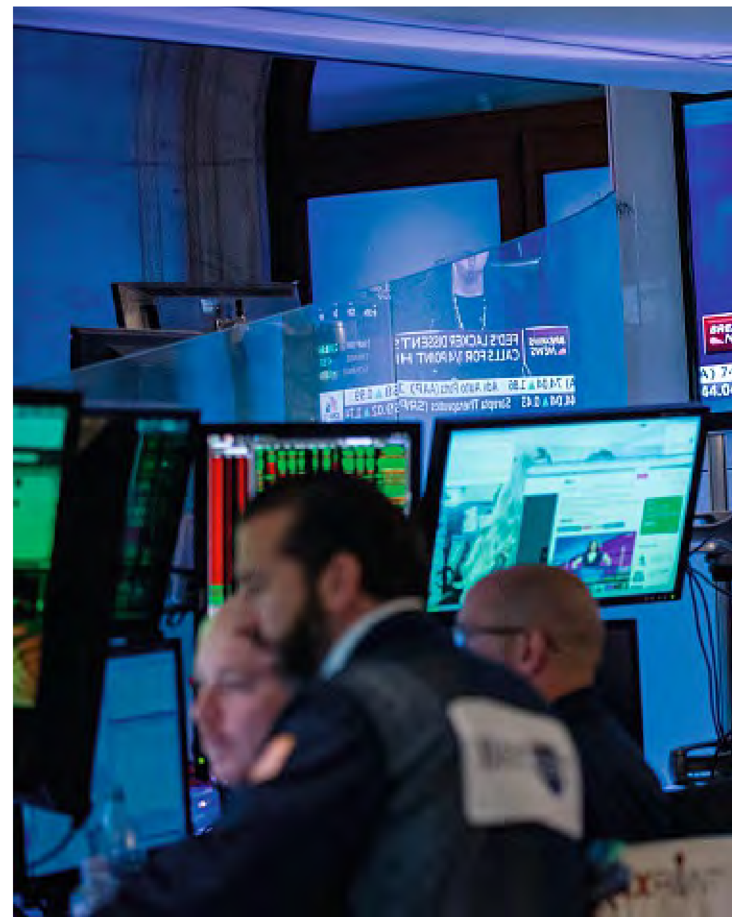
"If you had to look at it on an analytical basis, we like the US as the economy looks healthy and is likely to grow over the medium term. We are, therefore, constructive on companies with headquarters in the US.

"We are looking at a slow recovery in the US, which will benefit from consumer deleveraging and the oil price dividend, but we are not yet optimistic on commodities and don't hold miners because we think commodity weakness is likely to be a continuing trend.

"We are underweight bonds and we don't have a strong view on currencies.

"On alternative investments, long-term multi-generational family wealth makes private equity, private debt, infrastructure and real estate assets attractive as these people are not worried about illiquidity."

1. Bruce Stewart
2. Anton Sternberg
3. The weaker yen is driving Japan's seafood exports
4. How the US Federal Reserve stages rate hikes will determine the outlook for the world economy
5. Japan's manufacturing sector has been affected by the China slowdown
6. Simon Smiles
7. Steven Wieting



Simon Smiles, chief investment officer for ultra high net worth at UBS Wealth Management:

"We have seen higher volatility in recent weeks, which is concerning because it is against a backdrop of low volatility. But we think the overall investment trends still broadly favour developed world equities.

"We are overweight global equities, Japan equities and European equities. There is improving economic growth in the eurozone and Japan, while corporate earnings are continuing to grow in the US. Low interest rates should also help recoveries in Europe and Japan.

"The US, the world's biggest economy, has also revised up growth in the second quarter while the jobs market is strong. Our views would change if corporate earnings were to fold, but they are robust and monetary policy is supportive with low defaults.

"We think China will grow around 5 per cent this year. But it is still a big concern with the possibility of further depreciation in the Chinese currency, which could hit economies such as Japan, South Korea and Taiwan.

"At some point, there will be another recession but we do not expect it over the next 18 months as some suggest.

"We were overweight US equities in 2013 and 2014, but we are neutral in 2015 because of high valuations. US earnings are growing but are more muted, which is a reason not to be overweight.

"Oil and the US dollar will be influences on economies and markets. Low oil prices should be good for global growth, but a stronger dollar is holding back US earnings. We are underweight emerging markets because of the oil and dollar factors.

"Over the next 18 months China is a big concern, but the single greatest risk is the unwinding of extraordinary monetary policy. It is not the first rate hike but how the US Federal Reserve will stage the next rate hikes that will determine the outlook for the world economy."

4.

5.

6.

7.

PHOTOS: BLOOMBERG; GETTY IMAGES; REUTERS

Steven Wieting, global chief investment strategist at Citi Private Bank:

"We expect slow growth in the world economy to persist. We see this as a bull market with a curfew. We don't expect a collapse in equities over the next 12-18 months, although we have seen some recent volatility.

"China's economy has been slowing since 2010, but we do not think it will collapse. We also do not expect the US to have a contraction in 2016, but there are risks that there will be one in 2017. For this reason, we have made gradual cuts in our global equity overweight positions.

"We are neutral on US Treasuries and overweight US investment-grade bonds.

"A big risk is more Chinese devaluations, which could be disruptive. However, we remain overweight eurozone equities, with a smaller overweight in US and UK equities. We are also overweight in Japan and India equities with a smaller overweight in Chinese H shares.

"On emerging markets, we are neutral or underweight. We are neutral on Asian hard currency debt but underweight in Brazil and on emerging market debt.

"We also have a deep underweight in eurozone and Japanese government bonds, while we are overweight in dollar-denominated assets.

"In alternatives, we think there are opportunities in selective private equity and real estate, particularly as there are higher long-term returns in that asset class than in public markets, where we don't think it is worth paying a liquidity premium.

"Overall, we are cautiously optimistic for the next 18 months but the risk for recession is increasing as the US economy is not enjoying the labour force strength of recovery that some people had hoped for."

This advertisement has been approved for issue by Pictet and Cie (Europe) SA, London Branch, which is authorised and regulated by the Commission de Surveillance du Secteur Financier and subject to limited regulation by the Financial Conduct Authority.

The value of an investment can go down as well as up, and investors may not get back the full amount invested.

Asset Management
Wealth Management
Asset Services

A lot of people understand money. How many people understand families?

Geneva Lausanne Zurich Basel Luxembourg London
Amsterdam Brussels Paris Frankfurt Munich Madrid
Barcelona Turin Milan Verona Rome Tel Aviv Dubai
Nassau Montreal Hong Kong Singapore Taipei Osaka Tokyo
www.pictet.com

DIRECT DEALERS

JB AND TONY PRITZKER HAVE MOVED BEYOND THE FAMILY OFFICE MODEL

BY STEPHEN FOLEY
PHOTOGRAPH BY DAVID WALTER BANKS

The Pritzkers were Warren Buffett before Buffett was Warren Buffett. The Chicago family, which boasts 11 billionaires in its ranks, has been accumulating businesses for more than six decades, across an array of industries, from manufacturing to casinos to banking to cruise ships, as well as building the Hyatt hotels chain that remains the family's trophy asset.

As his investment vehicle, Berkshire Hathaway, has grown, Buffett has in recent years switched from buying shares to purchasing whole companies, but the Pritzkers have been in the acquiring business since the beginning.

It is a tradition that scions of the family continue today. The pitch that Tony and JB Pritzker are making sounds remarkably similar to the one Buffett makes to family-owned businesses when he offers a "permanent home" at Berkshire Hathaway: sell your company to us, the brothers are saying; an industry buyer will subsume it, private equity will strip it and flip it to the

Brotherly bond:
JB, left and
Tony Pritzker

'WE ARE MORE LIKE A WORLD-CLASS INVESTMENT FIRM THAN A FAMILY OFFICE'

highest bidder, but sell to us and we will invest in its employees and in its future.

"I grew up watching my mom and dad selling rooms in our motels," says JB. "We had CEOs coming to our house so that my dad could persuade them to have their executives stay in Hyatt hotels. I can relate to how Hyatt is talked about in the media. How it does as a company matters a lot to me, even if I am now doing other things. So it's personal. And that is true for family owners that sell — even if they are selling the entire thing, their legacy is wrapped up in the name and the future of that business."

Pritzker Group — into which the two brothers have pooled their personal fortunes, estimated at $3.4bn apiece — illustrates the rising clout of family money. After three deals this year, the group now boasts nine wholly owned businesses, a diverse portfolio that runs the gamut from Entertainment Cruises ("North America's largest dining cruise operator") to Peco Pallet, a logistics company, to Clinical Innovations, which makes obstetric equipment. It also has a venture capital arm, which has taken stakes in more than 100 start-ups.

Family offices are increasingly looking for ways to circumvent the high fees of private equity and venture capital funds by making those investments directly — and sometimes bidding against private equity firms to buy whole businesses. PitchBook, which collects data on takeovers, has recorded a big increase in acquisitions by family offices: 97 deals in the US in the past five years, versus 56 in the previous five.

'IF A FAMILY IS SELLING THE ENTIRE THING, THEIR LEGACY IS WRAPPED UP IN THE FUTURE OF THAT BUSINESS'

The brothers are itching to do more but prefer not to call Pritzker Group a family office. "We've been at this quite a while and we don't operate much like a family office," says JB. "We are much more like a professional and world-class investment firm."

Tony and JB are the sons of Donald Pritzker, who built Hyatt with his brother Jay; a third sibling, Penny, is commerce secretary in US president Barack Obama's administration. Frictions and factions across the extended family necessitated a delicate restructuring of the Pritzker empire that culminated in the sale of the its industrial conglomerate Marmon Group in 2007 — to Berkshire Hathaway, no less — and the flotation of Hyatt in 2009. But while feuds between siblings and cousins bubbled for a decade, the brothers only became tighter.

Working together since 2002, JB focuses on the deal-doing side, drawing on his experience in investment banking and venture capital, while Tony — at 54, the older by four years — is the operations guy who cut his teeth at various subsidiaries of Marmon before its sale.

Their relationship is recognisably that of brothers, by turns lavishly praising and relentlessly ribbing each other, not least about the annual Pritzker Group softball tournament.

"I wake up in the morning and I have 15 emails from JB," says Tony. "He works his butt off. I'm convinced that time moves more slowly for him. I can't keep up. But we are both extremely competitive. Like, JB's team beat my team in softball this year and I'm not so happy about that."

JB: "But it's not like I'm rubbing it in every day."

Tony: "Well, you have put that trophy right in front of the door to my office."

JB: "I didn't say I wasn't rubbing it in every week."

Tony: "But we won the year before. Two years ago, we won."

JB: "What have you done for me lately?"

When FT Wealth magazine speaks to the pair, they are in Las Vegas, attending a trade show for the packaging industry called Pack Expo and showing off Pritzker Group portfolio companies that include LBP Manufacturing, which makes the cardboard sleeves that keep Starbucks' customers from burning their hands on hot coffee cups. "We are not here pulling slots," says JB. "We love packaging."

Showing up to meet customers is part of the deal. By going hands-on at their various portfolio companies, the brothers are demonstrating they are engaged owners who are in it for the long haul, rather than entitled billionaires pursuing a fad for direct investing. "It is important people don't feel like we're going to decide not to be in this business tomorrow and go sit on the beach and eat bonbons," says Tony.

Another part of the deal is stuffing Pritzker Group with talented investors and operational managers. This, they say, is the test for a family office considering copying the Pritzker model and plunging into the acquisition

2.

1.
One of Entertainment Cruises' fleet
2.
Penny Pritzker, commerce secretary to Barack Obama
3.
LBP Manufacturing's cardboard cup sleeves

3.

PHOTOS: GETTY IMAGES; BLOOMBERG

of operating businesses. It cannot be done, they say, by drafting in the family lawyer or the chief financial officer of the family business to run acquisition talks.

"The family members who are involved ought to have a background of having done it before, outside or inside the family business," says JB. "Just because one happens to be wealthy, it doesn't mean you are naturally any good at building an investment operation that is world-class or successful."

'WE UNDERSTAND FAMILIES OFTEN NEED DIVERSITY IN THEIR HOLDINGS'

4.
The Park Hyatt hotel, Buenos Aires
5.
JB and Tony Pritzker

Pritzker Group's private capital team is led by Paul Carbone, formerly of Robert W Baird's private equity arm, and there are veterans from Blackstone and Sam Zell's Equity Group Investments, as well as executive talent from companies as diverse as Redbox, the movie rental kiosks business, and medical equipment supplier Cardinal Health.

The hunt for acquisitions is focused on mid-market companies valued at $100m-$500m. The appeal continues to be to family-run or entrepreneur-owned businesses looking for capital that can take a "40 years, not four years" perspective, the brothers say.

As well as the emotional appeal to family business owners, there are practical attractions, too, and several reasons why the Pritzkers believe family capital has an advantage over private equity in some deals. Chief among these is the ability to offer greater flexibility in deal structure than a private equity firm can; the latter has a short time horizon for buying and selling assets for its funds.

Family acquirers can shape a deal to fit around a seller's tax plans or trust arrangements, for example, much as Pritzker Group allowed the Duchossois family to keep a minority holding in Milestone AV Technologies, which makes wall mountings for flat-screen televisions, in their deal in 2013, or as Buffett acquired the Pritzker family's own Marmon Group in chunks over a six-year period.

"We don't lay all of our family baggage, and they don't lay all their family baggage, on the table always," says JB, "but we certainly empathise with all the challenges of multi-generational wealth. We understand that families often need diversity in their holdings, and sometimes there are complexities in the way that those assets are held that we can manage through."

It is a pitch the brothers are making as vociferously as ever, as more family offices are attracted to direct investing and set themselves up to compete for deals, along with a private equity industry pumped up on cheap borrowing. The Pritzker name may be famous, but getting sight of the best acquisition opportunities involves telegraphing the group's availability to invest for the long term and highlighting what makes family money different.

They would never do anything as gauche as posing for photos with an open cheque book but, as JB says: "We have to try harder than Warren Buffett."

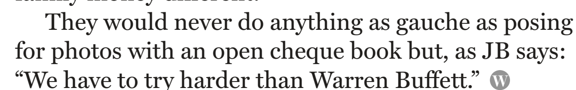


PHOTO: DAVID WALTER BANKS

BY MATTHEW VINCENT

A HANDLE ON VOLATILITY

Ask five economists and you'll get five different answers… six if one went to Harvard." Thus quipped Edgar Fiedler, the late US government adviser (and University of Wisconsin graduate). Conservative commentator (and Yale alumnus) William F Buckley was even more scathing about the Massachusetts seat of learning's pecuniary competence: "I'd rather entrust the government of the United States to the first 400 people in the Boston telephone directory than to the faculty of Harvard University."

So, news that the new head of Harvard's century-old endowment fund is concerned about "frothy" markets, and hiring managers to make short-term bets on falling share prices, is likely to divide opinion. It sounds like one man giving a very different answer to the long-term approach that went before. Or someone with a telephone directory of 400 hedge fund managers.

But it matters to your portfolio, too, because so many of today's wealth managers cite Harvard as alma mater or idea stimulator (State Street used to charge a flat fee of $100,000 to run the $38bn endowment fund because so many of its fund managers went to the college). Where Harvard's endowment leads, top investment houses follow.

Judging by the fund's latest report, that means some may be following chief executive Stephen Blyth out of "potentially frothy" equity markets and into cash, and joining his search for "equity managers with demonstrable investment expertise on both the long and short sides of the market" — ie a willingness to short-sell shares and profit when they fall. This from a fund that made a 0.1 per cent return on the $6bn it gave to "long/short" and other hedge funds last year.

In fact, Blyth is overhauling the fund's entire approach to assessing risk and return. However, while the Harvard academics expend much chalk on reinventing portfolio theory, a more real-world approach to market froth has been developed by swots down the road.

In Harvard's shadow: where its endowment fund leads, top investment houses seem to follow

> 'CLIENTS VALUE LOW VOLATILITY LESS THAN THEY SHOULD'

For some years now, Acadian Asset Management (whose chief investment officer is ex-Massachusetts Institute of Technology and whose portfolio director is a Boston University postgrad) has been exploiting a theoretical anomaly. Although traditional financial theory teaches that risk is rewarded with higher average returns — and the rule generally holds good at an asset class level — there is extensive empirical evidence for a "low-risk anomaly" in equity portfolios: shares that exhibit lower beta, in other words, their prices vary less than the market and perform better than high beta counterparts. Acadian calls it "the greatest anomaly in finance", and is not alone in researching it.

In 2004, Eugene Fama and Kenneth French — the academics who developed the efficient markets theory — tracked US share prices back to 1923 and found their textbook risk/return trade-off underpredicted the returns from low beta stocks. Similarly, a study by investor Jeremy Grantham of the 600 largest US stocks between 1969 and 2005 found the lowest decile by beta outperformed by an average 1.5 per cent a year, while the highest beta holdings underperformed by 2.7 per cent.

In the UK, wealth manager Charlotte Thorne of Capital Generation Partners (and Oxford University) has just compared Acadian's managed volatility portfolios with other managers' efforts to capture the anomaly. She identified 20 global developed market funds with low volatility mandates, and found that over the past four years they outperformed the MSCI World Index by 150bps with 30 per cent lower volatility. Similar results were achieved in emerging markets.

"Clients value low volatility less than they should," Thorne concludes, noting that volatility can have a big impact on wealthy families' portfolios designed to pay an income. She calculates that over the 14 years to January, a $100m portfolio paying out 4 per cent a year would be worth $115m if it matched the MSCI World Index with no volatility, but only $98m when exposed to full market volatility.

To her, the performance of managed volatility portfolios is no mystery — it is explained in two papers: "Benchmarks as Limits to Arbitrage: Understanding the Low-Volatility Anomaly" and "The Low Beta Anomaly: A Decomposition into Micro and Macro Effects". Lead author on both? Malcolm Baker, professor of finance at Harvard Business School and senior consultant at Acadian.

It seems a simpler answer to the Harvard endowment's challenge was under its nose — and it is not always bad when, in the words of entrepreneur Mo Ibrahim: "People suspend their common sense because they get drowned in Harvard business school teachings."

PHOTO: BLOOMBERG

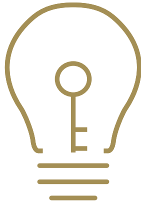
THE GLOBAL AUTHORITY ON WEALTH INTELLIGENCE

Wealth-X is the global authority on wealth intelligence, providing sales, marketing, strategy and compliance solutions to clients in the financial services, luxury, not-for-profit and education sectors.

Our members identify, develop and enhance relationships with high net worth individuals as a result of working with us.

UNCOVER
POTENTIAL CLIENTS

THEY MAY ALREADY BE IN YOUR DATA OR ARE CONNECTED TO PEOPLE YOU KNOW.



UNDERSTAND
YOUR CLIENTS BETTER

THEIR PASSIONS, HOBBIES, INTERESTES & NEEDS.

ENGAGE
WITH YOUR CLIENTS

IN MEANINGFUL WAYS THROUGH CUSTOM MARKETING INTIATIVES.

contact us:
AMERICAS@WEALTHX.COM
EMEA@WEALTHX.COM
APAC@WEALTHX.COM

WEALTHX.COM

IMPACT INVESTING
JEREMY HAZLEHURST

@JHazlehurst

MANAGEABLE AMBITIONS

One of the most memorable characters in Charles Dickens' novel *Bleak House* is Mrs Jellyby, a woman who spends her life raising funds to build "settlements" for poor children in Africa, while neglecting her own offspring who ran around her filthy house hungry and in rags. The Mrs Jellyby problem is an ever-present one for wealthy families when they engage in philanthropy: it might be tempting to sink money into blockbuster projects that promise to change the world, but there is always a niggling suspicion that you might do more good by doing something less appealing. So what is the best way for families to do good? And how can the family office help?

Traditionally, family offices have usually not been involved with philanthropic endeavours, which the family either made directly, or via a foundation. But families are increasingly becoming interested in impact investing, which aims to make a profit as well as benefit society or the environment. And when investing is in the title, you can be sure the family office will become involved. According to the World Economic Forum, 17 per cent of the $50bn under management in impact investing projects stems from family offices. The Global Impact Investing Network's 2015 impact investor survey shows that 58 family offices are involved — more than the number of foundations (47) or development finance institutions (34).

There are good reasons why more family offices might become involved. The WEF lists three main factors: as a way to unite families "around values and positive legacies"; that it helps family members "to be explicit about their shared values", particularly when it comes to investment and wealth management decisions; and, third, that it can also help "to engage a younger generation in the leadership and management of a family office".

Undoubtedly some impact investing schemes are impressive, but they are not for all family offices. It is true that many families do have values and want to create "positive legacies", as the WEF says. But, the GIIN adds, many of the family offices involved belong to wealthy entrepreneurs, often those who have made their money in technology, which means, unsurprisingly, many impact investing projects involve tech solutions. Pierre Omidyar, founder of eBay, for example, has invested hundreds of millions of dollars in microfinance and mobile banking technology in sub-Saharan Africa, as well as in a business that sells solar-powered lanterns in India.

Many family offices, especially those of multigenerational families, are far too conservative for impact investing. Part of the issue is its novelty. One family office adviser said he prefers traditional philanthropy simply because people have been doing it for longer and "have a clearer idea of what works". Some family business members are sceptical about the need for impact investing and its sibling, social enterprise.

"Why would you set up a business that doesn't have social impact? The whole idea of setting up a business just to make money is ridiculous," says one.

Could there be a way to launch impact investing-like projects in a more conservative way?

A suggestion comes from Wadih Hannah and Guy Warner, partners at the Termes Partnership, which advises wealthy families. Riffing on the concept of "family capital" — the idea that business families are not driven by purely financial metrics but are also long-termist and have an ethos of responsibility towards their workers, the communities they live in and the environment — Hannah and Warner have suggested that a group of family offices get together and form a Family Capital Bank to fund businesses.

Tech solutions: many family offices have values and want to create 'positive legacies'

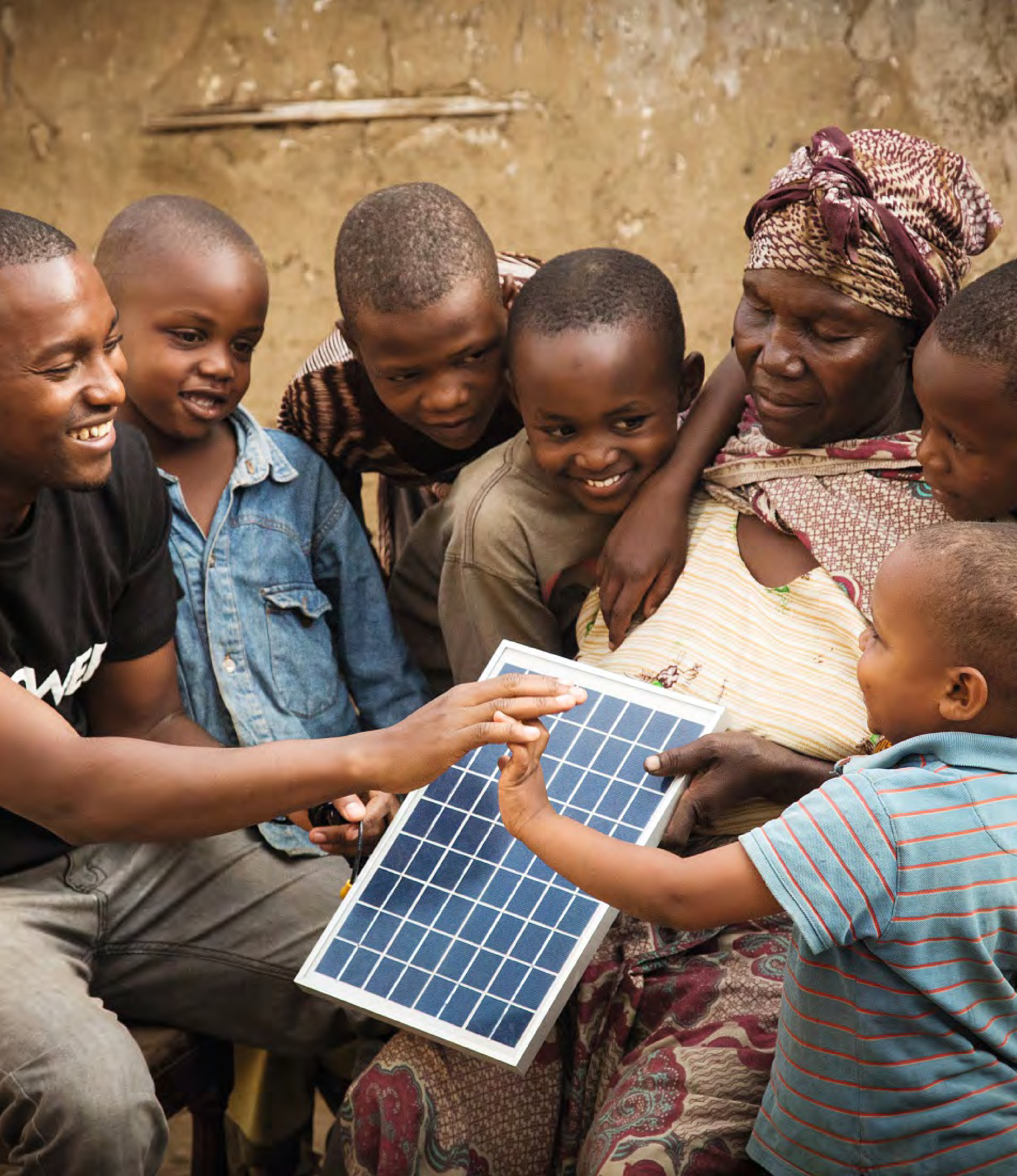
The idea is that this might be similar to an old-fashioned merchant bank that would put the buyers and sellers together, and maybe even over time might evolve into a principal itself. An entity that encourages "long-term patient capital with a conscience" could, they say, potentially have a huge impact, especially given the amount of money in family offices. And because it would be a form of straightforward direct investing, it would also keep them in their comfort zone.

> IMPACT INVESTING AIMS TO MAKE A PROFIT AS WELL AS BENEFIT SOCIETY

The sorts of projects a Family Capital Bank funded would probably tend to be slow burners that improve the world in small increments, rather than blockbusting philanthropic projects such as the Gates Foundation's malaria eradication programme. But creating sustainable, long-term businesses that make the world a slightly better place is a credible alternative.

For all her enthusiasm, Mrs Jellyby's settlements were never going to get built. But she could have bought her children new shoes.

PHOTO: ADAM WOODHAMS



BY JEREMY HAZLEHURST

SMOOTH HANDOVERS

With the exception of a few, such as the Rockefellers', which dates from the 1930s, the majority of family offices have been founded in the past 20 years. In the UK, their popularity has increased over the past decade because of changes to the trust regime that have reduced the appeal of these structures for families. This means that even if the wealth they manage is old, few family offices have gone through the process of transitioning from one generation to the next. So how should they deal with succession?

One of the main issues is working out how to deal with the family members themselves. "Some people really do plan for succession and others just ignore it," says Sabine Rau, professor of family business at King's College London. "It seems to be something inherent in the incumbent generation; something to do with the personality and experiences of the family." She once heard a patriarch begin a sentence with the words, "If I ever die…". "Someone in that state of mind will not plan," she says.

Such denial of reality is not unusual. Matthew Fleming, a fifth-generation member of the investment and banking Fleming family and partner at multi-family office Stonehage Fleming, says he once heard the head of a family describe a 59-year-old as "nearly ready".

Another problem is that the needs of the individual generations can differ hugely. The transition from the first, entrepreneurial generation to the next is always the biggest change, as the family's affairs usually become more professionally managed.

Recognising this fault line is the first step to mitigating problems. It is inevitable that the family office will change during succession, says Alistair Morgan, chief executive of Mayfair Private, a firm that advises wealthy families. "The family office is generally built around one key family member, and although it inevitably ends up providing services to others in the family, it is constructed with that person in mind," he says. "When the next generation take over they will have different needs and requirements."

Succession is easier if the process happens slowly. "One way to smooth this is to always have two generations on board, to have the next generation involved early on so that when the one in command leaves they have been there for a while," says Emile Zakhia, head of consulting at Quilvest Private Equity, which invests in private equity for the seventh-generation Bemberg family, the Argentine industrialists. "Then they are included in the process, know how it is run and have been involved in the hiring of the staff."

The next family head should also be eased into the job. "They should have a seat at the table, then a voice at the table and then they can change the rules at the table," says Francesco D'Amico, managing director of Quilvest Switzerland, the multi-family office of Quilvest Group. "Only once you master the rules can you change them."

John Davis, who runs Cambridge Family Enterprise Group, a US advisory firm, says the family office cannot be allowed to function separately. "Consciously or unconsciously, the family office managers often make themselves indispensable by creating a 'hub-and-spokes' method of communication where they disseminate information from a central position," Davis explains. It is far better "if they are integrated into the family's other programmes, developing the next generation, for instance, so they can demonstrate they are interested in the family's sustainability".

'SOME PEOPLE REALLY DO PLAN FOR SUCCESSION AND OTHERS JUST IGNORE IT'

Spanning generations: John D Rockefeller Sr with his great-grandchildren John and Elizabeth at his Pocantico Hills estate in New York

More and more UK families are using family investment companies, which are excellent structures for dealing with governance issues, says Dermot Callinan, UK head of private client at KPMG, the consultancy. "This determines the constitution of the board, objectives for the company, a system of reporting back and providing information, and a structural handover of ownership, non-executives and advisers. There is process and accountability and it helps get everything clear and correct at the beginning, with a structure and a purpose that complement each other."

This structure allows the older generation to place equity into a trust, while retaining their own voting rights. This separates the ownership of the company from the money. "[There is] good succession planning going on, but there is also clarity about who is in control and this can be passed on when the time is right," says Callinan.

Making sure all parts of the family mesh is vital if succession is not to cause the family office to grind to a halt. Quilvest notes that a family office often evolves from an administrative organisation to dealing with wealth and estate management. The next stage is to integrate it into the family's wider education and planning for the next generation.

Ultimately, it is a question of transforming the issues surrounding money into ones about the other sorts of wealth families have, says Fleming. "You have to think about financial, cultural, social and intellectual capital," he says. "If a family's decisions are based on financial capital alone, I don't think the family office is going to be there anyway."

Jeremy Hazlehurst is founder of Business Family

PHOTO: THE SEATTLE TIMES/JR PARTNERS/GETTY IMAGES

BY DAN JONES

FOLLOW THE MONEY

The decision by George Osborne, the UK chancellor, to scrap the permanent non-domicile status has created issues for London's family offices and their clients. The move, announced as part of this year's summer Budget, means those who have lived in the UK for more than 15 of the past 20 years will be deemed UK domiciled as of April 6 2017, subjecting their foreign income and gains to taxation.

With the wealthy in the Treasury's sights, some suggest the changes could have a significant impact on the structure of the family office industry itself.

"It is very much a destabilising move. We are at risk of throwing the baby out with the bathwater," says Ashley King-Christopher, a partner at Charles Russell Speechlys, the private wealth law firm.

The single family office, which provides a range of services to wealthy families, may be under threat, according to King-Christopher.

"When I get an instruction, saying, 'We want to relocate our family office team, our key money guys, from Brazil to London', my next question is whether the family is coming as well. Often the answer is, 'No'."

Paul Kearney, a family office specialist at Kleinwort Benson, the private bank, agrees: "Family offices that act as asset managers can be here even if the families are not. [But] if the family office really deals with private needs, those would move with them."

How likely are departures? Recent tax reforms, of a scale less severe than the latest proposals, have seen the number of UK resident non-domiciled taxpayers fall from a high of 140,000 in 2007-08 to 114,300 by 2013-14. But the figure has remained relatively constant since 2010-11, and numbers rose 3 per cent last year.

Pinsent Masons, the law firm, says this increase masks significant churn. The suggestion is that those arriving in recent years have done so with a lower degree of commitment than in the past.

Clampdown: UK chancellor George Osborne's reforms could lead to the return of 'day counting' among the wealthy to avoid a change in status

With many non-doms able to move around the globe with relative ease, the chancellor's latest reforms could lead to the return of "day counting" among the wealthy, according to Kearney. Those who spend an average of fewer than 90 days a year in the UK do not qualify as resident non-doms.

The larger multi-family offices say their relationships are strong enough to survive this kind of scaling back. Many already necessitate "travelling to see clients, conference calls and video calls", says Michael Parsons, client relationship manager at Sandaire, the wealth manager.

This ability to serve international clients does have natural limits. Wealthy clients moving to far-flung time zones are less likely to retain UK connections, as Parsons acknowledges.

But many non-doms are deeply embedded in the UK, making mass departures "doubtful", according to one adviser. For these clients, the question is how to adapt to the new rules.

The government's consultation on its proposals, released on September 30, revealed that personal income and gains from non-doms' offshore trusts will not be taxed in the event that individuals become UK domiciled.

But changes governing these vehicles' inheritance tax liability will go ahead as initially outlined. It is this legislation that has caused the most concern among family offices, given the importance they place on succession planning.

As of April 2017, non-doms will no longer be able to avoid UK inheritance tax by holding UK residential property through an offshore company, ending a common method of tax planning.

John Rhodes, director of Stonehage Fleming Law, a subsidiary of Stonehage Fleming, the multi-family office, says tax is just one factor in succession planning. But he acknowledges the inheritance tax changes could have significant repercussions. "Families are going to have to think most critically about estate planning. This is really the angle we want to cover."

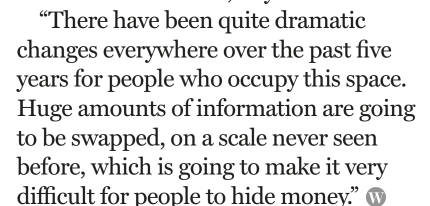
In a sign of the sensitivity of these proposals, the government will dedicate a separate consultation to the subject later this year.

Kearney adds: "The idea that a significant house in Chelsea falls into UK inheritance tax is a sufficiently material risk for a family to consider leaving. I think we will see a lot of that."

The Kleinwort Benson director says offices should hold little hope of being able to plan around the change. Nor are family offices clinging to the belief that the crackdown represents an epilogue to the non-dom taxation story. But their overall outlook is far from downbeat.

Family offices retain faith in London's relative merits, not least because other mainstream jurisdictions, such as Switzerland, are less of a haven than they once were.

"We can simply do what we have always done, which is to look at co-ordinating the affairs of these wealthy cross-border families," says Rhodes.



"There have been quite dramatic changes everywhere over the past five years for people who occupy this space. Huge amounts of information are going to be swapped, on a scale never seen before, which is going to make it very difficult for people to hide money."

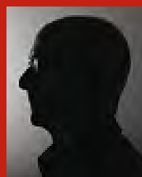
PHOTO: CHARLIE BIBBY

FT Weekend
Experience a different world

FT Fives Wine Dinners

With Jancis Robinson and Nicholas Lander

Jancis Robinson OBE, MW
Wine correspondent
Financial Times



Nicholas Lander
Restaurant correspondent
Financial Times

The FT's wine correspondent **Jancis Robinson** has long maintained that vintages divisible by five are some of the world's finest, and 2015 looks to be no exception.

To celebrate the long-awaited publication of the 4th edition of the multi award-winning Oxford Companion to Wine, edited by Jancis, FT readers have a chance to savour some hand-picked great wines from vintages ending in 0 and 5 at a very special dinner with Jancis and FT restaurant correspondent **Nicholas Lander**.

Featured wines include:

Krug 2000

Château de Beaucastel 2005 Châteauneuf-du-Pape Rouge

Château Pichon Lalande 1995 Pauillac

Château Léoville Barton 1990 St-Julien

Château d'Yquem 1990 Sauternes

Monday 23 November | London
German Gymnasium, 6.30pm

All tickets include a signed copy of the new 4th edition Oxford Companion to Wine

Associate Sponsor, London

Full list of wines and tickets:

live.ft.com/fives-wine-dinners/london

An event from FINANCIAL TIMES LIVE

PROFILE
CASCADE INVESTMENT

BY LUCY WARWICK-CHING

WHAT'S IN A NAME?

Michael Larson is one of the most powerful men in US wealth management you have never heard of. He is the chief investment officer for Bill and Melinda Gates Investments (BMGI), and as such is in charge of managing Bill's personal wealth through Cascade Investment, as well as handling the Bill & Melinda Gates Foundation Trust endowment. Despite his high-profile job, he works hard and successfully to stay out of the public eye — Cascade declined to speak for the purposes of this article.

Bill Gates hired Larson 22 years ago to take over the investment of his personal wealth, which was about $5bn at the time. Since then Gates's fortune has grown to around $80bn (of which he has given away around half) after Larson diversified the funds out of Microsoft, Gates's software company, and into a broad range of investments.

Cascade is not a family office in the traditional sense and does not like to call itself one. It does not handle logistics, payroll or expenses for the foundation and is purely an asset management firm that invests Gates's personal wealth. BMGI is an organisation that manages the portfolios of Cascade, the Bill & Melinda Gates Foundation Trust and other entities, but again it does not label itself as a family office.

The way BMGI is structured allows the foundation to separate its programme work from its investments, say people close to the organisation. This has meant that more money has been created to go into the foundation's mission to fight disease and improve education in the developing world.

Based in Kirkland, Washington, Cascade shies away from media attention. It declined to comment on its investment strategies but it is known to invest globally and across many asset classes. Its five largest publicly disclosed equity holdings are: Canadian National Railway; Republic Services, the waste removal company; Ecolab, the disinfectant maker; Femsa, the drinks group; and Deere, the maker of agricultural machinery.

Cascade has holdings in property and non-technology companies. It holds around a 4 per cent stake in Warren Buffett's Berkshire Hathaway investment group, owns 47 per cent of the Four Seasons hotel company and about 6 per cent of Bunzl, the distribution and outsourcing group. In August, it increased its stake in Strategic Hotels and Resorts to 9.8 per cent.

Under Larson, Cascade has focused some of its attention on UK-listed stocks. In 2008, it bought a 3 per cent share of Carpetright, the flooring retailer, but has since reduced its stake. It has also invested in Diageo, the distiller, and JJB Sports, the retailer.

Cascade does not publicly disclose its performance results but it has been reported that because of Larson's relatively conservative strategy, Cascade's losses in the 2008 financial crisis were smaller than the industry average for the full year. Since 1995, Larson has delivered a compound annual return of around 11 per cent.

Like Cascade, many single family investment firms are moving away from the term "family office". Catherine Tillotson, managing partner of Scorpio Partnership, the consultancy, says: "A tour around London's elite wealth management boutiques reveals the growing popularity of the term 'private investment office'. Once loosely described as family offices or multi-family offices, this linguistic shift aims to put a finer point on their capabilities as independent advisers on family wealth."

This change is not only happening among high-end investment firms; lawyers and accountants too are coining new phrases. "Family business consulting", "private company services" and even "strategic philanthropy advice" have joined the lexicon of wealth management for the extremely rich, she says.

1. Cascade, the company managing Bill Gates's fortune, has invested in Femsa, a bottler of Coca-Cola
2. Bill Gates
3. Cascade also has a stake in Deere, the maker of agricultural machinery

What they signal is that family wealth investment management is big business. Across the world, Tillotson believes there are about 79,000 very rich individuals (those with personal wealth greater than $50m) who control roughly $19tn in assets. Many of them are business-owning families or those so-called "financial families", who have sold operating businesses. When it comes to managing that money, they want to apply the best possible investment advice.

"To this end they are increasingly sharing their experiences with other families via specialist peer networks, events and publications, and with their advisers," says Tillotson. "So where once the term 'family office' was synonymous with the isolated management of an individual family's wealth, today it perhaps best describes a growing body of professional knowledge and an industry in its own right that includes both specialist and general practitioners."

The family office market can take many forms, from a single former executive assistant helping a patriarch/matriarch, to a 40-person professional investment organisation that also deals with personal affairs.

Bill Woodson, north America head of the family office group at Citi Private Bank, says: "While family offices take different forms, the challenges they face are very similar and, as a result, the ultimate solutions they adopt as they evolve tend to be similar, although addressed with varying levels of focus, staffing and professionalism."

He adds that family offices are changing and evolving in a number of fundamental ways. First, an industry has developed around supporting family offices. This allows them to

PHOTOS: CHARLIE BIBBY; BLOOMBERG

2.

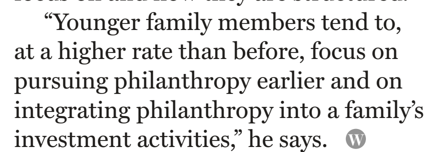
outsource functions previously done in-house.

Second, there are more family offices as a result of the increase in wealth globally and greater information is available about best practice and resources.

This helps family offices "professionalise" earlier than they would have before.

Third, Woodson adds, the generational shift in control of family wealth has changed what family offices focus on and how they are structured.

"Younger family members tend to, at a higher rate than before, focus on pursuing philanthropy earlier and on integrating philanthropy into a family's investment activities," he says.



BY YURI BENDER

THE GENERATION GAME

Leading family offices in Latin America and the Caribbean are going through a transitional period, says Steven Cantor, managing partner of Cantor & Webb, a Miami-based law firm.

"As the world moves to tax transparency, with a crackdown on undisclosed tax savings in Swiss bank accounts, Fatca [the US Foreign Account Tax Compliance Act] and common reporting standards, these are the glory days for tax attorneys in the US."

The tendency of families with assets of more than $50m to set up their own family offices is increasing, he says. Disappointed by wealth managers in the region scaling back their private client business, "sophisticated families are setting up their own trust companies and taking a much more active role in-house with regards to succession planning", Cantor says.

More and more wealthy families from developing economies are realising that the complexity of their financial issues requires some degree of bespoke planning, he says. "It is not just about pulling a trust document off the shelf in a preprinted format."

For most wealthy Latin American families, the issue of ensuring personal safety is just as important as diversification of assets, he says.

"Since I started in this business in the mid to late '70s, there has been a significant amount of political change across Latin America," Cantor says.

"But if you had told me then that Caracas would become the most dangerous city and Bogotá one of the safest, I would have thought you were crazy, as it was just the opposite."

This changing nature of the landscape is key to his clients' needs. "We have lived through several kidnappings of our clients in Mexico and seen first-hand in pre-residency tax planning for Venezuelans and other wealthy Latins how important a role their political and economic situations plays."

Single family offices have proliferated in Latin America over the past 25 years as very rich families sold parts of their businesses and, taking their cue from US and European structures, set up their own investment operations, says Gerard Aquilina, an independent family office adviser, previously a senior executive at several leading global banks.

Recently, multi-family offices have "mushroomed throughout the region as disgruntled and entrepreneurial ex-private bankers and asset managers left their former institutions", he says, setting up "gatekeeper" firms to offer neutral advice to wealthy families.

Many Latin American banks have not been equipped to provide the succession planning, account reporting, concierge services and private equity investments these families need, Aquilina says. However, the likes of BTG Pactual and Itaú are beginning to respond to this wave of potential business, he adds.

Top of families' investment wish list is access to private equity opportunities. "If anything, single family offices will view local political upheavals and fraud issues such as Petrobras as excellent opportunities to invest in assets when other investors are fleeing," says Aquilina.

This desire to invest in unquoted companies is just as prevalent across Asia as it is in Latin America.

"Family offices across Asia are setting up trusted and dedicated private client investment teams. These are more interested in private equity than companies listed on financial markets," says Michael Benz, global head of private banking at Standard Chartered, the bank. "One can observe this trend over the past two to three years, as it has become more and more difficult to earn a decent yield from financial markets in a low interest rate environment."

Asian families are increasing foreign allocations.

1. The garment-making industry is expanding fast as Myanmar pins its hopes on industrialisation to reshape the economy
2. Rio de Janeiro is undergoing a massive transformation with a flurry of projects

PHOTOS: AFP/GETTY IMAGES; BLOOMBERG

"Most recently there has been much interest in European investments," Benz says. Asian investors are attracted by European economies lagging behind the US, coupled with the lure of a cheap euro.

But any suggestion that Asian family offices were turning their backs on home markets because of fears of a Chinese implosion would be short-sighted, he suggests. "It is clear that

'THESE ARE THE GLORY DAYS FOR TAX ATTORNEYS IN THE US'

Chinese growth is slowing down, but not many people in Asia are expecting it to stop."

Most of StanChart's Asian family clients are sophisticated investors, experienced when it comes to diversifying internationally and holding property not only in the UK, but often in the US and Australia.

They are less advanced in the area of estate planning, says Benz.

"A lot of wealth in emerging markets is being created by entrepreneurs and companies in full swing, still in the hands of the first generation," he says. "The biggest step is to take it from the first to the second one."

Many of the most successful family businesses bear the scars of internal disputes, stemming from a lack of good governance or disruptive fall-outs between clashing generations, says Bernard Rennell, global head of family governance and family enterprise succession at HSBC Private Bank.

"While Asian family leaders think about their businesses and investments strategically, when it comes to transferring wealth from one generation to another, the same commitment of time and effort to planning is often missing," he says, drawing attention to the Chinese saying that "wealth does not last three generations".

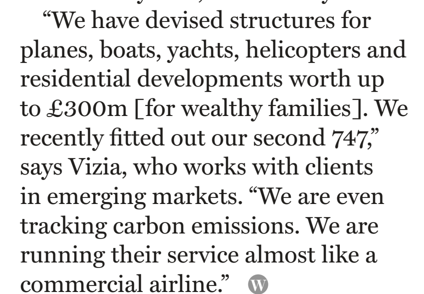
Splitting assets between siblings after the death of a patriarch or matriarch seldom makes sense, Rennell believes. "A key area of focus needs to be how families make decisions as a group after the controlling member moves on."

Asian family offices face very different challenges than those in the US and Europe, adds Bernard Fung, head of family office services for Asia-Pacific at Credit Suisse.

"The Asian wealth here is younger, closer to the original business, so more often than not the family or business leader is still the same person," he says.

A generation of ageing Asian tycoons reluctant to let go of the reins hinders younger family members from developing expertise in either business or investments, he says. This can result in investment strategies with a time horizon suited to the founders, but not their children.

Advisers who help family offices structure investments can end up dealing with physical as well as financial assets, says Lisa Vizia, head of the family office team at Saffery Champness, the accountancy firm, in Guernsey.



"We have devised structures for planes, boats, yachts, helicopters and residential developments worth up to £300m [for wealthy families]. We recently fitted out our second 747," says Vizia, who works with clients in emerging markets. "We are even tracking carbon emissions. We are running their service almost like a commercial airline."

PROFILE
SANDAIRE INVESTMENT OFFICE

BY YURI BENDER
PHOTOGRAPH BY RICK PUSHINSKY

COMMUNITY SPIRIT

Alex Scott, founder of Sandaire Investment Office, which manages his own funds and those of a handful of other families, smiles wistfully as he thinks about his home in north-west England's Lake District.

"Of course I would rather be in Kendal," says Scott, the fourth generation to head his family business at its Cumbrian headquarters. Sandaire has its roots in the 19th-century cotton industry, before it moved into insurance and financial services in Manchester at the turn of the 20th century.

"But you have to have access to the vibe, the ideas, the dynamism and the talent," Scott says. That has meant basing the investment operation in London's West End, tucked behind Selfridges department store on Oxford Street.

Sandaire, which manages assets of more than £3bn, is looking further afield. The group merged with fellow wealth manager Lord North Street last year and is keen to expand in Singapore.

"We are anticipating a need for these entities to gain scale, as they are facing a variety of legal and compliance costs," says Stefan Jaecklin, head of the Emea wealth and asset management practice at consultancy Oliver Wyman. "In these areas, scale really matters."

Family offices are often preferred by wealthy investors because they can provide unbiased advice and independent access to specialised services, unlike costlier alternatives from banks, believes Jaecklin.

Traditional private banking centres such as Geneva and Zurich, Scott says, have been discredited because their institutions failed to put clients first, charged excessive fees and sold inappropriate products. "Swiss institutions always had a significant advantage in attracting clients, which was banking secrecy," he says. "Now that has been dramatically eroded, giving other places a step-up."

The tight-knit private client culture that put Switzerland on the map has also contributed to its downfall, he believes. "Switzerland has always been dominated by private banks. But in London, we live alongside asset managers who can provide both performance and authority. We are measured against that and have to compete against those standards."

But the "pendulum of global opportunity is swinging east", adds Scott, explaining the firm's interest in Singapore, where Sandaire established an office three years ago.

The long term is critical, he says. The group is not aiming its services at families who want to sign a form and have immediate access to investments.

"My own family is always working to a 30-year time horizon," Scott says. "All the clients we are working with are thinking several decades ahead."

The main problem families have with banks is trust, he adds. "The banks have collectively paid £160bn in fines and settlements, but the power of their brands means they are able to endure these penalties. That is the environment in which we must compete."

But an eventual rejection of banks' investment offers by millionaire families is coming closer, he says. "I am an entrepreneur and optimist. We are early on in terms of consumer acceptance of what an independent provider can do, but we have proved there is a commercial case for this. People who come to us have decided they want a different solution, and what is out there does not answer their needs."

Developing technology is one way to meet those needs, although Sandaire has to be more judicious in its spending than its wealthier banking competitors.

"We will never have the budget of the big firms for tech spend, but we can be more nimble than they are, outsourcing modules to different tech companies and plugging them together," says Alexandra Altinger, Sandaire's German-Italian chief executive.

Long-term horizons: Alex Scott and Alexandra Altinger, opposite

Serving just 45 wealthy families, Sandaire does not employ technology in the same way as mass-market operators. "A lot of players recognise this need to be part of a community, but they see it as a purely digital play," says Altinger.

"That is not a community — it is a digital platform. There is an intimacy necessary to host a community. We realise there are experiences our clients go through where they can help each other. That is the definition of a community — a two-way thing.

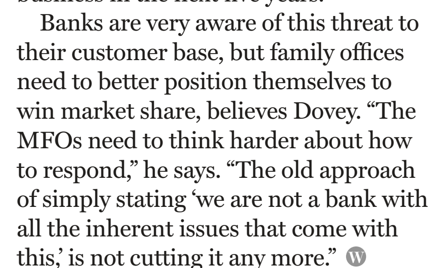
"Some of our clients are keen to invest together. Even though these are people with deep knowledge, they can't do everything alone. It is the reason we joined forces with Lord North Street."

The Sandaire transaction reflects a wider trend among multi-family offices to increase their size, also demonstrated in a recent merger between Stonehage and Fleming Family & Partners, creating a powerhouse of 500 staff serving more than 250 families across the Emea region.

"As these firms enter the next phase, they will need to focus more on the strengths of their brand, process and client relationship, while still maintaining the sense of a family-owned experience," says Sebastian Dovey, managing partner of wealth think-tank Scorpio Partnership.

While he feels the sector gets disproportionate attention compared to its relatively small size, there is a window of opportunity to be exploited, with those offices that are currently expanding "better placed to face the increasing competitive challenges for business in the next five years."

Banks are very aware of this threat to their customer base, but family offices need to better position themselves to win market share, believes Dovey. "The MFOs need to think harder about how to respond," he says. "The old approach of simply stating 'we are not a bank with all the inherent issues that come with this,' is not cutting it any more."



'PEOPLE WHO COME TO US HAVE DECIDED THEY WANT A DIFFERENT SOLUTION TO WHAT IS OUT THERE'

BY CERI JONES

COST CHALLENGES DRIVE CONSOLIDATION

Recent merger activity in the multi-family office world in London demonstrates the fierce pressure on margins across the industry. Stonehage has merged with Fleming and Sandaire has scooped up Lord North Street, the consolidations driven primarily by the need to achieve economies of scale by attracting more profitable clients in the range of £25m-£30m upwards.

The Stonehage Fleming deal has created the biggest independent multi-family office (MFO) in Europe, the Middle East and Africa, advising on more than $40bn of assets for 250 families in eight countries. Anton Sternberg, partner and head of the investments division, says the deal brought Fleming a combination of services such as corporate finance and private capital resources that appeal to the firm's largely entrepreneurial client base. This broader offering has resulted in a number of significant wins that neither firm would have gained on its own, Sternberg says.

The main challenge for the industry is rising costs, which have soared by an average of 7 per cent among family offices globally over the year, according to the 2015 Global Family Office Report published by Campden Research and UBS. At the same time, returns have dropped by 2.4 percentage points on an average portfolio. The biggest hike is in administration costs, which have climbed from 15 basis points in 2014 to 24bps in 2015.

"The trend to consolidation has been led by considerations around the cost base such as the ability to acquire and retain good-quality talent and the increasing cost of technology and regulation, which are generally underestimated," says Dominic Samuelson, chief executive of Campden Wealth. "To preserve the investment management piece, you have to be seen to be delivering other more practical lifestyle services such as operational management of yachts and aircraft, philanthropy services and mentoring the next generation.

> A PRESENCE IN TWO WEALTH CAPITALS OF THE WORLD IS CRITICAL

"The majority of the costs incurred are investment-related but families require concierge services — they need school fees to be paid and households to be managed — so it is a complex piece for these organisations which requires hiring experienced and skilled talent, but accepting part of their time will be allocated to services that may erode their value.

"The prime reason for consolidation is to scale up the assets under management," continues Samuelson. "If an MFO does not have AUM greater than $3.5bn-$4bn, then its sustainability beyond the next five years must be in serious question. If you look at the mergers in the US over the past decade, some of which were prior to 2008, many of those offices became unsustainable and had to be acquired."

The market has also been flooded with competition from professional firms, independent advisers and spin-off teams from investment management firms. Banks and asset managers have been keen to offload

non-core operations; Jupiter, for example, sold off its private client business to Rathbones last year.

Similarly in the US, firms on the east coast are setting up arrangements with those on the west, in a bid to attract more high-end customers, while a handful of family offices are collaborating with non-US counterparts.

A presence in at least two or three wealth capitals of the world has become critical. Ultra-high-net-worth families — those with assets of more than $30m — are largely multi-jurisdictional and have to comply with initiatives, such as Fatca (the Foreign Account Tax Compliance Act), that they would not have faced in previous years. However, while a broader geographical base is increasingly seen as a prerequisite for clients facing greater complexity in many areas of their lives, the sweeping regulatory changes facing advisers, such as the Dodd-Frank Act in the US, for example, which will require firms to maintain additional records, are adding substantially to family office costs.

'THE COST OF TECHNOLOGY AND REGULATION IS UNDERESTIMATED'

"For international clients, it is important to have local expertise," says Sternberg. "The resources need to be on the ground. This certainly applies to our US office which is small but frankly is necessary as our families do things in the US and we could not manage that out of our London office."

"The hype we hear is of cross-border acquisitions but we are not convinced we will see much of that soon," he adds. "The markets are very different. But there are constructive arguments for cross-border expansion. The UK client base is different — most families will do something in the US and Asia and offices in these regions allow the firm to have a level of local trust."

PHOTO: DBRUS/DREAMSTIME

BY ADAM PALIN

THE TAXMAN COMETH

1.

PHOTOS: REUTERS; CHARLIE BIBBY

The "common reporting standard" (CRS) may sound innocuous enough to those outside the tax world, but to families with carefully designed and international wealth-planning structures, these three words are critically important.

Under an OECD-led initiative, agreed in May 2014, more than 60 countries will start to exchange details of individuals' bank accounts and trusts on an automatic basis from September 2017.

It promises to prise open the secretive affairs of those who are evading tax, and to play a part in reducing the so-called "tax gaps" of governments struggling with stubbornly high fiscal deficits.

The initiative is symbolic of a broader move towards more disclosure of information, with a greater onus on individuals and their advisers to comply and steeper penalties for those who do not.

Damian Bloom, a private client partner who specialises in international tax and estate planning at Berwin Leighton Paisner, the law firm, says changes are "unavoidable" for wealthy families.

"Clients have moved on from throwing their hands up in horror, to accepting that all of their affairs will soon become available to at least one tax authority, and that they need to plan on this basis," he says.

Bloom says families are worried about having to explain some of their arrangements to authorities for the first time. "There are many justifiable

“INDIVIDUALS USED TO BE HAPPY TO TALK ABOUT THEIR NON-DOM STATUS AT THE DINNER TABLE, BUT NOW IT IS WHISPERED IN THE CORRIDOR”

reasons for having an offshore bank account, not least privacy, but in the current climate there is an assumption that those with offshore accounts must be dodgy.”

Sophie Dworetzsky, a partner at Withers, the global law firm, says the common perception that wealthy people with offshore accounts and trusts must “have something to hide” is misplaced. It is often due to perceived threats of extortion and kidnap in many countries.

The EU’s proposals to require tax advisers to report the beneficial ownership of trusts, with the creation of a publicly accessible register of the details, would undermine the anonymity that trusts currently afford. “If information like this is open to the public, it is open to abuse,” says Edward Stone, a partner at Berkeley Law.

Dworetzsky says many families are “justifiably” concerned that details of their wealth could prompt targeted attacks, particularly in their home countries. They are re-evaluating their arrangements in the EU because of the plans for a beneficial-ownership register.

Other large tax jurisdictions, such as the UK, have become less attractive for wealthy non-residents recently as politicians have tightened tax regimes.

Dworetzsky points to the UK government’s pledge this July to abolish the permanent non-domiciled status that allows overseas income to be exempted from UK tax. The announcement that anyone living in the country for more than 15 years out of 20 will become a tax resident followed other changes, including increases to property taxes, that target wealthy foreign families. “When you put everything together, people are starting to feel a little hounded,” she says.

It is this rising cost of compliance combined with new regulations that is prompting action now, Dworetzsky continues. “There are frustrations that costs are being incurred to disclose different information to different jurisdictions… [and] it leaves people wanting to simplify their structures.”

Bloom says that his firm’s clients are looking to consolidate their affairs in one jurisdiction, often from myriad countries, to avoid costly duplication of administration and reporting.

Moving assets to low-tax jurisdictions outside the common reporting standard has not been on the agenda, he adds, especially because financial institutions are increasingly unwilling to risk facilitating tax evasion.

HSBC, Europe’s largest bank, came under scrutiny earlier this year after detailed allegations that its Swiss private bank helped clients to avoid tax. In March, it launched a review of the Jersey accounts of its UK-resident clients.

At a time when banks are particularly fearful of breaching compliance rules, Bloom says “there is growing tension between banks’ desire to protect their own reputations and their responsibilities to act in clients’ best interests”.

The cost and complexity of complying with the US Foreign Account Tax Compliance Act (Fatca), which requires financial institutions to pass on details of overseas assets held by US citizens, prompted some wealth managers to shun their custom.

Wealthy individuals are, of course, not immune to reputational concerns, and although it may be possible to circumvent international information sharing, very few appear to be adopting aggressive strategies, says Berkeley Law’s Stone.

“There are low-tax jurisdictions where people could go, such as Panama and Dubai, [but] tax is just one item on the balance sheet,” he says. “Families do not pay more [tax] than they have to, but their main goal is wealth preservation while remaining compliant. Tax is not the number one priority.”

1. The EU’s proposals to require tax advisers to report the beneficial ownership of trusts would undermine the anonymity they currently afford
2. In July, the UK government pledged to abolish permanent non-domiciled tax status

“Individuals used to be happy to talk about their non-dom status at the dinner table, but now it is whispered in the corridor,” says Bloom. “It is now not socially acceptable at all to say ‘I am moving all of my assets to Panama’.”

Stricter penalties are also a factor. Tax evasion is a criminal offence in most countries, but intent must usually be proved. The UK government has proposed introducing a “strict liability” offence, meaning individuals can be prosecuted automatically for tax evasion regardless of whether they necessarily intended to break the law.

Dermot Callinan, UK head of private client advisory at KPMG, the professional services group, says that opportunities such as the Liechtenstein Disclosure Facility for “accidental” tax evaders (who may have inherited undeclared offshore assets) to become compliant with tax authorities are running out.

“People are effectively being told they must now be compliant, having had years to settle any issues on beneficial terms,” he says.

“Once tax authorities have information from the CRS, it will be a very different environment where people need to understand that carelessness can lead to severe penalties.”

INVESTMENT PASSIONS
CERAMICS

BY KATE BURGESS

POT SHOT

Whatever it is — the feel of the clay, the roundness, the lustre — I find pottery hard to resist.

I am not discriminating, and do not pay enough attention to condition and provenance. My greatest prizes are a big-hipped, long-necked Ethiopian bottle in soft, black clay and a large studio ceramic by Jane Perryman, which I picked up in a flea market for less than £100 a decade ago. Neither the bottle nor the bowl, which is made of paper-thin smoky blue clay and balances precariously on a table waiting for a child to obliterate it, are worth much.

That is the downside of pottery as an investment: it continues to be affordable. But that is also the upside.

Pottery is often deemed domestic and functional — in fact, hardly art at all.

As an anthropology student in the 1980s, I was struck by a bunch of feminists who claimed pottery as their own. They called it the art of the kitchen and expounded on how women have kneaded, coiled, burnished and baked pots, much as they did bread, since the Neolithic revolution.

Many believe that pottery, particularly mud-coloured, rough stoneware or earthenware mugs and bowls, has less to do with artists than artisans.

They even say that about the (blue) jasperware and black basaltware of Josiah Wedgwood. The scientist, slave-trade abolitionist and supporter of the American revolution set up his kiln in the Potteries in Staffordshire. He was part of a ceramics movement "to create artistic and technological innovation", in the words of Dr John Wall, who built the first Worcester porcelain factory in 1751. These reformists were at the forefront of the industrial revolution, inventing heat-proof tableware and democratising tea consumption with mass-produced but exquisitely painted tea sets. It is probably true, though, that they were more concerned with commerce than great art.

Perceptions began to change in the late 19th century with the Arts and Crafts movement. It revived traditional handicrafts and elevated the design of ordinary objects. The first anti-industrial British studio ceramicists emerged soon after, working in colonies to throw, sculpt and decorate individual pots as pieces of art. One of the first was Bernard Leach working in St Ives, Cornwall, where, having been influenced by Asian and medieval English forms, he philosophised about "the ethical pot".

He was followed by Hans Coper and Lucie Rie, who fled the Nazis in the 1930s and came to Britain. Their work created new interest in ceramics in art colleges and studios. Galleries popped up all over Britain. These galleries now display the work of modern studio ceramicists such as Gabriele Koch.

Interest dipped a little during the financial crisis but is resurgent. After a £6m redevelopment finished this year, York Art Gallery's Centre of Ceramic Art will display the largest collection of British studio ceramics in the country, including 10,000 bowls that make up an installation by Clare Twomey.

Works by Grayson Perry, winner of the Turner Prize, the UK art award, regularly go for £20,000 and he has done much to glamorise the medium. So too have Asian buyers prepared to pay huge prices throughout the financial crash.

This year Magdalene Odundo's "Untitled 1991" went for £86,500 in New York, making it the most expensive work sold by a living British ceramicist. Her hand-built and burnished masterpieces, with their round bodies and angled necks, drive collectors into frenzies.

But she is the exception.

The market will be tested this month by an auction of 20th-century Japanese and British studio ceramics

1.

3.

1. Lucie Rie bottles
2. Magdalene Odundo's "Untitled 1991" went for £86,500 in New York
3. Lucie Rie's graffito bowls

> ‘THAT IS THE DOWNSIDE OF POTTERY AS AN INVESTMENT: IT CONTINUES TO BE AFFORDABLE. THAT IS ALSO THE UPSIDE’

at Christie’s. Fifteen years ago, all the big auction houses held regular stand-alone sales of studio potters. These are rare now. So too are the regional auctions of blue and white Delft, Staffordshire figures and tin-glazed earthenware that were in fashion in the last century. The collectors stopped collecting, says Keith Heddle, head of investment at Stanley Gibbons, the auctioneers. “We are seeing growth in investment in rare coins, rare first edition books, contemporary art, not pottery [or] porcelain. In fact, many collecting fields such as blue and white pottery and Staffordshire figures are vanishing as an area of interest.”

“Prices are only now matching levels seen in 2005,” says Robin Stewart, a specialist in modern British ceramics at Sotheby’s.

The “Made in Britain” sale held at Sotheby’s last month was deliberately designed to appeal to a broad audience, with estimates starting at a modest £150.

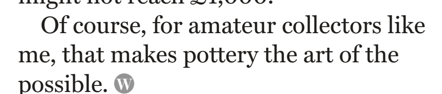
A spadeform vase by Hans Coper was expected to fetch up to £25,000 and went for £36,250.

Works by Lucie Rie did particularly well, but she has a wide fan base in Asia and Europe. One of her footed bowls went for £23,750 against a maximum estimate of £8,000. The estimate on a bottle, with a characteristic elegant long neck and flaring lip, was up to £8,000. It went for £18,750.

But a Bernard Leach dish went for under £500.

Comparatively few ceramic artists come to auction, explains Stewart. “And there is a divide between what a piece goes for in a gallery and what it goes for at auction.” Galleries may charge hundreds of pounds for a relatively obscure ceramicist, but under the hammer even a Lucie Rie coffee pot might not reach £1,000.

Of course, for amateur collectors like me, that makes pottery the art of the possible.



STEPHEN FOLEY

@StephenFoley

CAPITALISM FOR EMPLOYEES

Can companies be persuaded to pay their workers more? In the perpetual struggle between labour and capital, it is no secret which side has the upper hand. The share of the national income that goes to wages has been in decline in the developed world since the 1980s, and precipitously so over the past 15 years.

Union-led protests outside fast-food chains last year, with people waving placards demanding a $15-an-hour living wage, did not seem to get heard in the C-suite.

Maybe what it takes is a billionaire hedge fund manager with a madcap scheme to bend the capital markets in the service of improving wages. Or maybe one of the US's wealthiest politicians, with a dream of rewriting the tax code to favour labour over capital.

Such are the ambitious plans being hatched as inequality rises — and with it the political temperature.

The hedge fund manager in question is Paul Tudor Jones, whose successful bets on currencies and interest rates have added up to a $4.7bn personal fortune. Back in 1988, he created the Robin Hood Foundation, which takes money from rich financiers and gives it to charities helping the poor in New York City. Now he has co-founded Just Capital, a non-profit organisation that plans to rank US companies according to how well they treat their workers and to launch a "Just 100" index of the best.

The theory is that if enough investors switch to following the Just 100 instead of the S&P 500 or the Dow Jones Industrial Average, that will make it cheaper for those companies to raise money, giving chief executives an incentive to do the right thing by their employees. Even if that seems fanciful, there might be enough cachet in the "Just 100" seal of approval that employers want to get on the list, improving pay and benefits to do so.

Paul Tudor Jones (left) and Senator Mark Warner (below)

What marks Just Capital out from the hundreds of ESG (environmental, social and governance) indices already available is the amount of marketing money behind the project, almost all of it coming out of Tudor Jones's pocket.

Its index will reflect the priorities revealed in a survey of 43,000 Americans unveiled at a glitzy ceremony last month, a stone's throw from the United Nations headquarters in New York. Those priorities rank employee pay and benefits, and fair hiring practices, above a company's human rights record or environmental impact.

The consequences of failing to tackle inequality will be "higher taxes, revolution or war", Tudor Jones says.

If Just Capital is taking a circuitous route to change corporate behaviour, via trying to influence capital flows, one of the wealthiest men in the US Senate is thinking of something a little more direct: tax incentives.

Mark Warner, a former venture capitalist in the telecoms industry, has been a Democrat senator for Virginia since 2009. Recently, he has wrestled with how the federal government might update regulations to reflect the sharing economy and shift the tax code to deal with what he calls the "imbalance" between labour and capital. Tax incentives largely favour capital, such as lower levies on capital gains than on income, and a host of tax breaks for investment.

But what if there were a way to favour companies that pay workers higher wages, offer larger benefits and do better training?

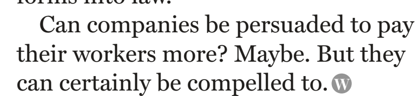
Congress has permitted new kinds of corporate tax structures in the past, to encourage particular kinds of economic behaviour. Real estate investment trusts exist to boost property investment, for example, and business development companies were created to provide financing to small businesses.

Some states have recently permitted benefit corporation, or "B corps", companies that do not have to prioritise shareholder interests but can also act for a wider social benefit. The idea of a new structure to favour employee-friendly behaviour specifically is an intriguing one, if Warner can get it off the ground.

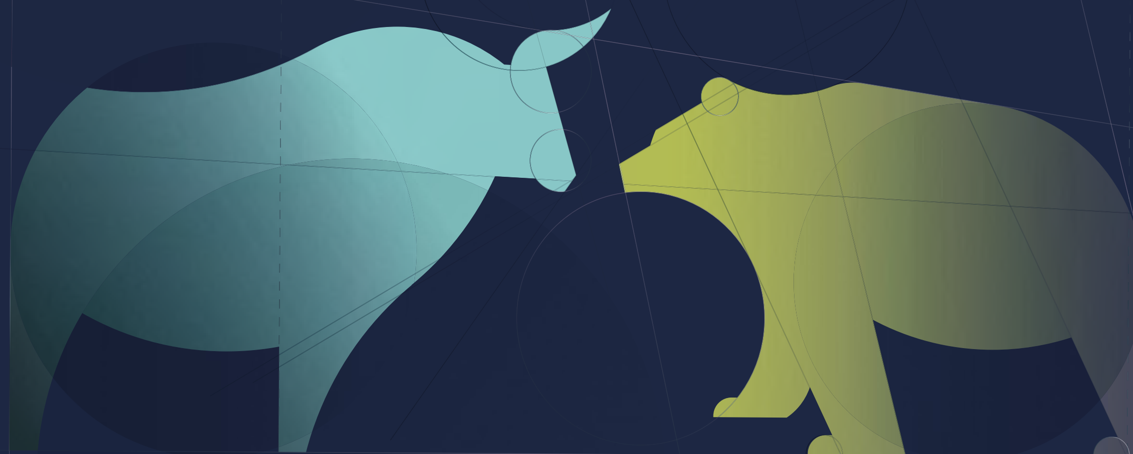
So, yes, Tudor Jones and Warner both think companies can be persuaded to pay their workers more. Financial incentives, positive returns, everyone's a winner.

The question is whether this ought to be a matter of persuasion at all. The same unions that were protesting last year are now pulling political levers to and campaigning to gain a big increase in minimum wages at the state and federal level. This would be a much quicker fix than bending the capital markets or conjuring new corporate forms into law.

Can companies be persuaded to pay their workers more? Maybe. But they can certainly be compelled to.



PHOTOS: CQ-ROLL CALL/GETTY IMAGES; REUTERS



FT INVESTMENT MANAGEMENT SUMMIT: NEW YORK

Managing Risk and Generating Return in Complex Market Environments

October 27, 2015 | The Westin New York at Times Square **NEW YORK**

Against the backdrop of a strengthening US economy and a slowdown in the pace of growth abroad, this full-day, accredited program will provide a comprehensive overview of today's global economic climate and explore the various factors influencing investment strategy as investors adjust to increased volatility and uncertainty in the markets.

Don't miss featured morning keynote session "Ambitious Wealth -- Millennials and The Future of Financial Advice", moderated by the FT's US Investment Correspondent, Stephen Foley.

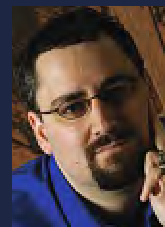
WHY ATTEND?

- Hear senior investment professionals and market experts engage in lively debate about the key factors influencing investment performance.
- Gain a competitive edge by staying current on recent developments in the investment management industry and implications for financial advisory professionals.
- Earn valuable continuing education credits toward the CIMA®, CIMC®, CPWA®, CFA®, CFP® certifications.

Register now! For more event information, visit our website at:

live.ft.com/IMSNY

FEATURED SPEAKERS



Michael Kitces
Co-Founder
XY Planning Network

Alexa von Tobel
Founder and CEO
LearnVest

Platinum Sponsor:

Deutsche Asset
& Wealth Management

Silver Sponsor:

Luncheon Sponsor:

An event from FINANCIAL TIMES LIVE

This advertisement has been approved for issue by Pictet and Cie (Europe) SA, London Branch, which is authorised and regulated by the Commission de Surveillance du Secteur Financier and subject to limited regulation by the Financial Conduct Authority.

The value of an investment can go down as well as up, and investors may not get back the full amount invested.

Entrepreneurs shouldn't have to be their own wealth managers.

Asset Management
Wealth Management
Asset Services

Geneva Lausanne Zurich Basel Luxembourg London
Amsterdam Brussels Paris Frankfurt Munich Madrid
Barcelona Turin Milan Verona Rome Tel Aviv Dubai
Nassau Montreal Hong Kong Singapore Taipei Osaka Tokyo
www.pictet.com