FT wealth

BRAND LOYALTY

PATRICK THOMAS, FORMER CHIEF EXECUTIVE OF HERMES, ON BEING AN OUTSIDER IN A FAMILY BUSINESS

BY JEREMY HAZLEHURST

ATLANTIC CITY'S BOARDWALK | BRUTALIST ARCHITECTURE UNDER THREAT | BOLIVIA RISING | GALLERIES IN EXILE

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FT WEALTH
DECEMBER 2014

> RESTORING ST PETER'S IS VERY DIFFERENT TO TAKING ON A COUNTRY HOUSE

COVER PHOTOGRAPH
BY MAGALI DELPORTE

Building blocks

St Peter's Seminary, a modernist masterpiece, stands crumbling deep in the woods outside Glasgow, Scotland's second city. NVA, a Scottish arts charity, plans to raise £7.5m to restore the building, abandoned since 1987. Its plight touches on the continuing antipathy the British feel towards Brutalism, that particularly blunt form of 1960s architecture. As Catherine Croft of the Twentieth Century Society tells Mure Dickie: "It's a very different ask from taking on an 18th-century country house."

Bolivia is grappling with a different type of concrete explosion, as the emergent wealthy splurge on brightly coloured mansions. Andres Schipani looks behind the boom to examine the roots of the country's new rich, particularly among the indigenous population.

In the UK, galleries face a different type of housing pressure: being priced out of their central London addresses. Cork Street, the world-renowned centre of the higher echelons of London's gallery scene, is undergoing redevelopment, and as galleries move out to make way, Dalya Alberge asks whether they will be able to afford to return.

As ever, please email your thoughts on the magazine – and ideas for other subjects – to the address below.

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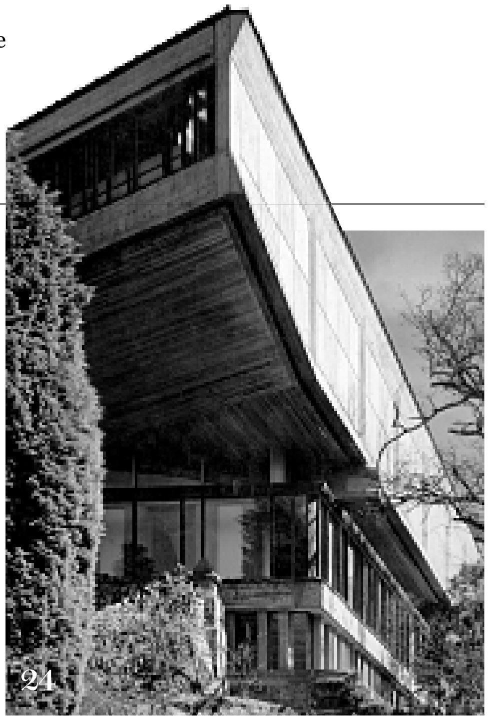
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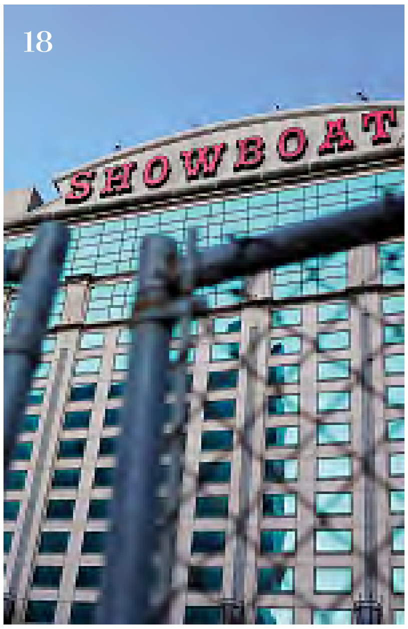

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INSIGHT

PHOTOS: ALAN KNOX; AIZAR RALDES/AFP/GETTY IMAGES; CHARLES OMMANNEY, SPENCER PLATT/GETTY IMAGES

INVESTMENT FOCUS
ADAM PALIN

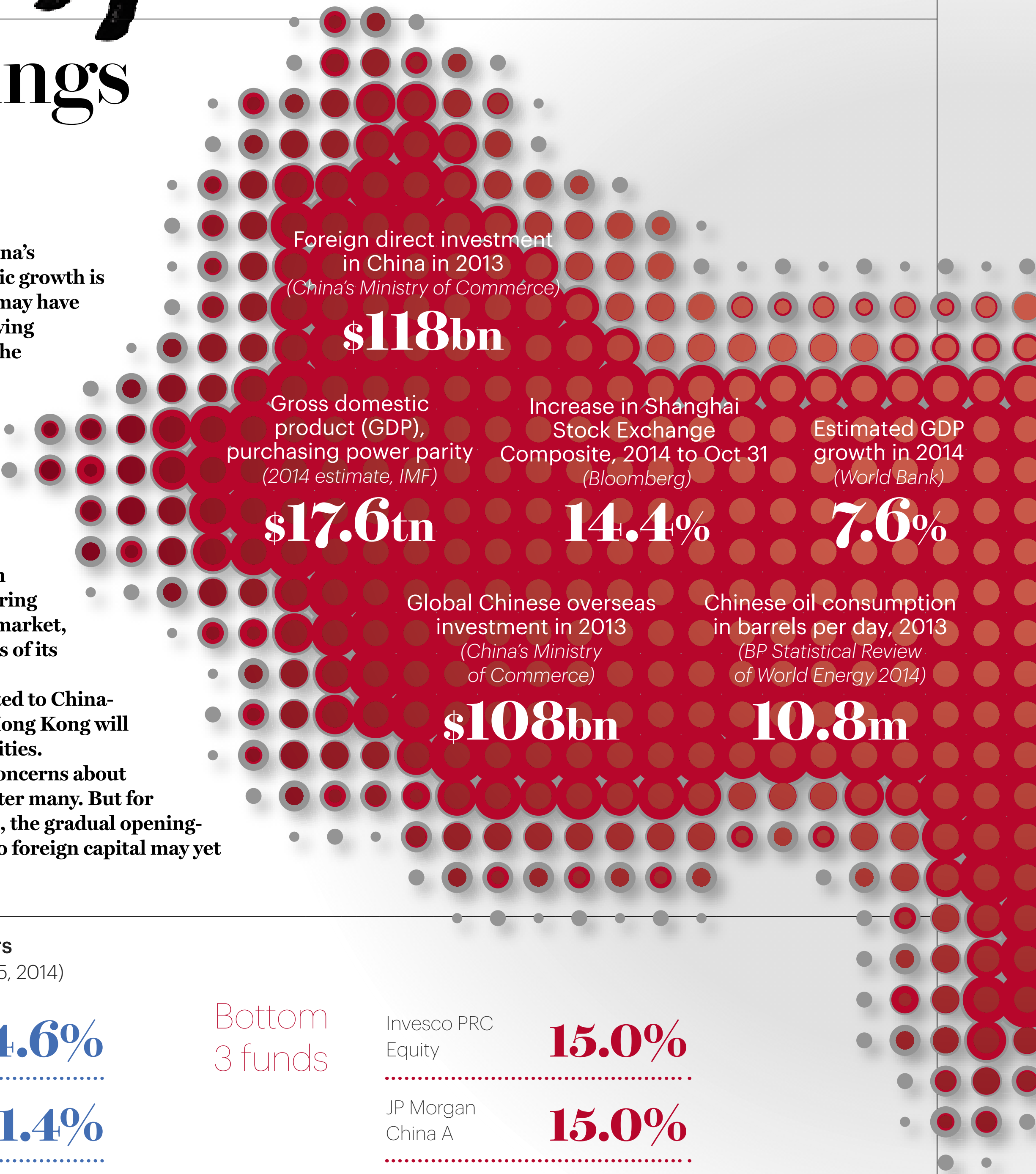
New openings in China

By international standards, China's "new normal" pace of economic growth is anything but. Annual growth may have slowed to about 7 per cent, having averaged double figures over the past two decades, but China is on the cusp of becoming the world's largest economy. Taking into account relative prices between countries, the International Monetary Fund forecasts China will be larger than the US over the duration of this year.

Investors attracted by the relatively high levels of growth, though, have suffered during the past seven years. The Shanghai stock market, China's largest, has lost roughly two-thirds of its value since its 2007 peak.

For international investors long restricted to China-focused funds, a stock-trading link with Hong Kong will allow direct access to Shanghai-listed equities.

The volatility of the market, as well as concerns about corporate governance, will continue to deter many. But for investors more comfortable with the risks, the gradual opening-up of the world's most populous country to foreign capital may yet prove an irresistible opportunity.



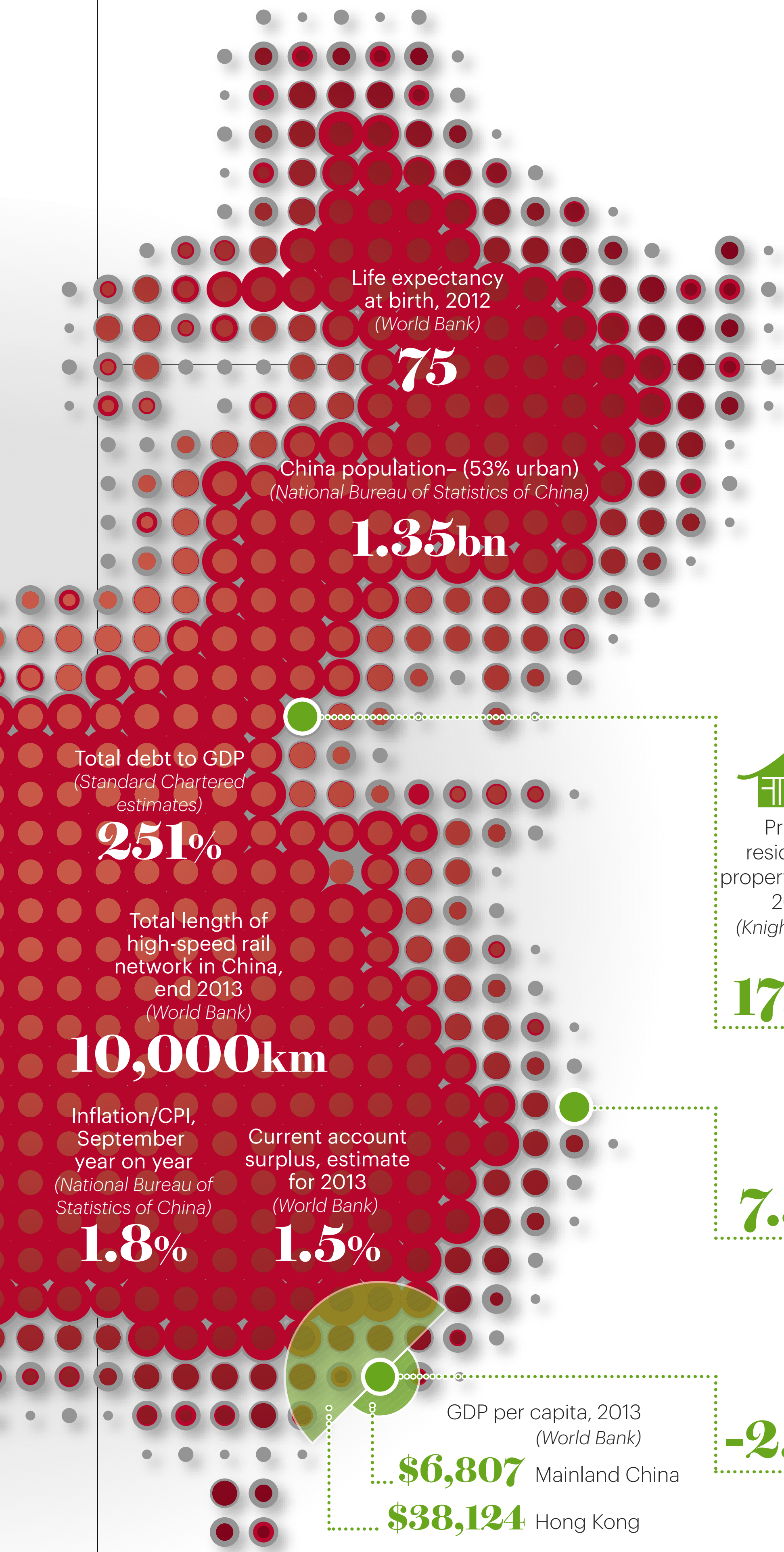
Performance over the past three years

(China funds, cumulative returns, % to Nov 5, 2014)

Top 3 funds	
GAM Star China Equity	34.6%
First State China Growth	31.4%
Pioneer Funds China Equity	26.6%

Bottom 3 funds	
Invesco PRC Equity	15.0%
JP Morgan China A	15.0%
Baring Hong Kong China A	11.9%

Source: Morningstar



GDP per capita, 2013
(World Bank)

$6,807 Mainland China

$38,124 Hong Kong

LAITH KHALAF
SENIOR ANALYST
HARGREAVES LANSDOWN

The Chinese stock market has been weak over the past 18 months, partly due to concerns over China's ability to shift the source of its economic growth from investment to consumption. A weakening property market and high levels of debt also cast a shadow, but the country has become too big to simply ignore.

Only the most adventurous investors with well-diversified portfolios should consider investing via a Chinese equity fund, however. Those with more delicate dispositions should consider a more generalist Asia-Pacific fund.

	Prime residential property prices, 2013 *(Knight Frank)*	Population, 2013 *(World Population Review)*	
Beijing	17.1%	19.6m	Average daily passenger journeys on the Beijing subway: 10m
Shanghai	7.3%	23.9m	Handled by the port of Shanghai in 2013 – the world's busiest container port *(World Shipping Council)*: 33.6m teu*
Hong Kong	-2.2%	7.2m	Mobile broadband subscribers per 1,000 population *(Source: Hong Kong Special Administrative Region Government)*: 1,642

* Twenty-foot equivalent unit

GRAPHIC: RUSSELL BIRKETT

THE IDEAS COLUMN
JAMES MACKINTOSH

Mistakes maketh the man

We have a natural tendency as humans to focus on our past successes, not our mistakes. Sometimes – remember teenage diaries? – it is just too cringeworthy to think about our errors. When it comes to investment, our egos prefer to remember what went right, not the rallies we missed or the plunges that pushed us to sell at what turned out to be multi-generational buying opportunities.

Guy Spier has taken a different view in his highly readable book, *The Education of a Value Investor*. Not only does Spier, manager of a small hedge fund, focus incessantly on some toe-curlingly embarrassing moments from his life, but he re-examines his investment errors too. Most importantly, he sets out how he attempts to avoid repeating the mistakes.

Regular readers already know how important it is to be aware of investor psychology, and how easily humans slip into patterns of buying high and selling low. Hundreds of tomes document "behavioural finance" and there is a semi-scientific discipline emerging to combat – and take advantage of – cognitive biases, most famously in the "nudge unit" at Downing Street, now being copied by the White House.

Investors have long been advised to keep a journal to see what they were thinking when they bought Enron or sold Apple – the idea being to learn from both successes and mistakes.

Spier goes further. Wrapped up in his search to be a better person, he explains how he attempts to recognise and overcome his mental failures. "Intellectually, it's easy enough to master the technical tools of investing – ability to read balance sheets, say, and to identify undervalued companies," he writes. "But what good are these skills to investors who are drowning in a sea of fear that utterly overwhelms the rational neocortex?"

Few will want to change their life to the extent Spier did, moving from the distractions and competition of New York to Zurich, changing his circle of friends and experimenting with self-help courses. Few would think it a good use of $200,000 to pay for a charity lunch with the Sage of Omaha either, even if, like Spier, they were fully paid-up members of the cult of Warren Buffett.

Yet despite its flaws, Spier's guide to the ideal time to buy offers practical tools for everyone.

• Keep a checklist. Like a surgeon or airline pilot, building a checklist to avoid past mistakes acts as a last-minute restraint on stupid decisions. Spier's involves sensible items such as whether there is a safety margin in a stock price to cover unexpected problems, whether any of the management are going through personal problems and whether the company's success comes at the expense of suppliers, staff or society.

> "SOMETIMES – REMEMBER TEENAGE DIARIES? – IT IS JUST TOO CRINGEWORTHY TO THINK ABOUT OUR ERRORS"

The idea is to overcome personal cognitive failures by producing a list based on one's own past mistakes.

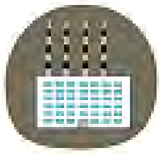
• Step back from the market. Traders need to check prices constantly. Investors do not. Watching the tickers is an invitation to buy or sell on the basis of short-term moves – which are mostly noise. Similarly, Spier refuses to put in buy or sell orders when the market is open, freeing him from the question of whether the share is right at this exact moment.

• Take a long view. Spier aims never to sell anything within two years of buying it, which focuses the mind. Given the market could fall sharply, this forces him to consider whether he would be happy to own the company even if things went badly wrong.

• Never talk to management. Most big investors disagree – and fund managers typically trumpet their access to management teams. But Spier is right to point out that executives who get to the top almost always play down the risks. Investors able to put the sales pitch to one side might benefit from meetings, but must be careful not to be sucked into the always-bullish management story.

• Build a network of people without an axe to grind, to allow for unbiased discussion of stock ideas. This is hard and feeds into Spier's insistence on never buying anything being sold to him. But bouncing ideas off a friend is a great way to highlight issues.

There is more, some of it odd (take up playing bridge) and some just too much ("becoming the best person we can be"). But the idea of recognising where our mental models mislead us and doing our best to overcome them is worthwhile for everyone.



WHAT JAMES IS THINKING…

Can the US really decouple from the rest of the world and produce self-sustaining expansion, or is the US just handing the baton of a growth-inducing weak currency over to Japan and Europe for a while?

PHOTOS: PETER DAZELEY/GETTY IMAGES; CHARLIE BIBBY

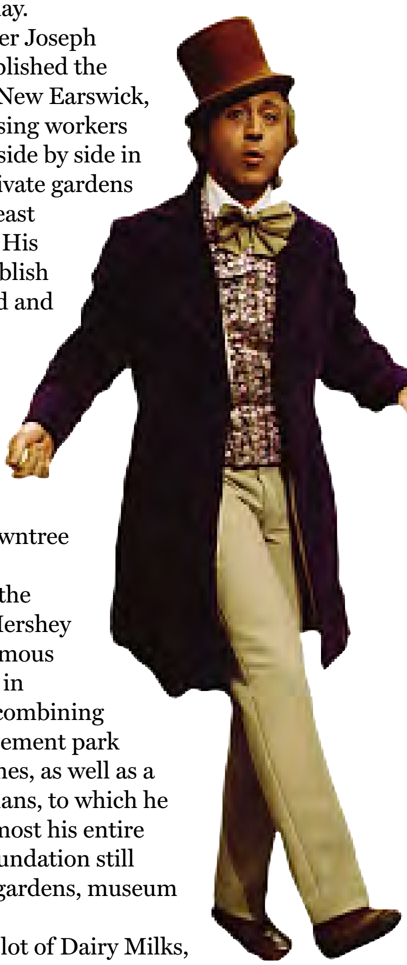
THE RICH COLUMN
MATTHEW VINCENT

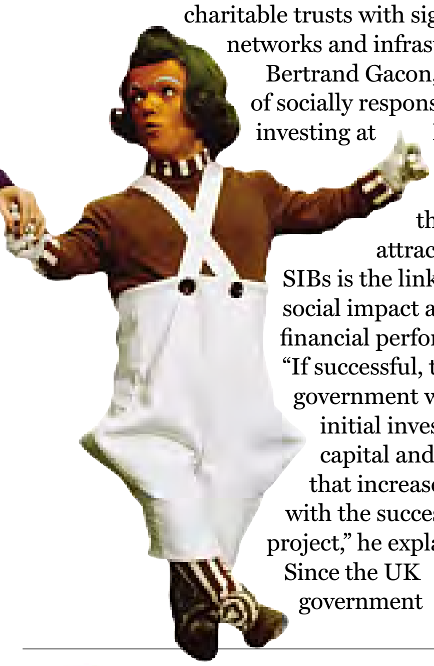
“DIRECT SOCIAL IMPACT CAN BE ACHIEVED ON A SMALL SCALE WITH A LARGE PERSONAL FORTUNE”

Sweet returns

Wealthy sponsors of the social good in the early 20th century generally needed three things: an architectural vision, a charitable foundation and a state-of-the-art chocolate factory.

In England, George Cadbury used his own money to buy 120 acres of land around his Birmingham plant, on which he built Bournville: a model workers’ village to “alleviate the evils of modern, more cramped living conditions”. His Cadbury Foundation donates to educational and housing causes to this day.





Fellow Quaker Joseph Rowntree established the community of New Earswick, near York, housing workers and managers side by side in houses with private gardens containing at least two fruit trees. His mission to establish “rightly ordered and self-governing communities” continues through the Joseph Rowntree Foundation and Joseph Rowntree Housing Trust.

Similarly, in the US, Milton S Hershey built his eponymous company town in Pennsylvania, combining a factory, amusement park and family homes, as well as a school for orphans, to which he bequeathed almost his entire fortune. His foundation still maintains the gardens, museum and theatre.

But it took a lot of Dairy Milks, KitKats and Hershey’s bars to bankroll these mini utopias – proving what many wealth managers have long advised clients: direct social impact can only be achieved on a small scale with a large personal fortune.

Today however, a new construct is giving even the moderately better-off the means to do good: the social impact bond (SIB). Devised to attract private money to government social projects by sharing the ensuing cost savings with investors, SIBs are a palatable addition to investors’ portfolios. They fund the same social causes as those industrial philanthropists – housing, family welfare and employment – but without spending millions on bricks and mortar.

As Daniel Kuehne, UK investment solutions head at Julius Baer International, notes: “Social impact bonds can offer a wide spectrum of clients the opportunity to engage in the types of philanthropy that previously were the preserve of foundations or charitable trusts with significant networks and infrastructure.”

Bertrand Gacon, head of socially responsible investing at Lombard Odier, says the attraction of SIBs is the link between social impact and financial performance. “If successful, the government will pay initial investors their capital and a coupon that increases in line with the success of the project,” he explains.

Since the UK government launched the first SIB in 2010 – a £5m investment in the reintegration of short-sentence prisoners into society, offering repayment of capital if reoffending falls 7.5 per cent and a profit if it falls 10 per cent – banks have started to develop their own instruments.

Around 25 SIBs are being piloted around the world, says Gacon. George King, head of portfolio strategy at RBC Wealth Management, believes they are already making an impact “as charities and governments have been stimulated to think more broadly and creatively about solutions to social challenges”.

Bridges Ventures’ new practitioner’s guide to choosing SIBs highlights three with hints of early 20th-century flavours.

In London, the Rough Sleepers SIB pays for trusted adult “navigators” to help move homeless people into settled accommodation, increase employment levels and reduce use of accident and emergency services. Investors receive a return of 6.5 per cent a year, paid quarterly, but capital is at risk if target outcomes are not delivered.

Across the UK, the It’s All About Me SIB funds voluntary adoption agencies to help place children in local authority care with families. Investor returns of 5-10 per cent are wholly contingent on successful placement of children.

And in New York, the Increasing Employment and Improving Public Safety SIB raised money through Bank of America Merrill Lynch to place former state prisoners in jobs. Its investors are repaid if there is a 5 per cent long-term increase in employment.

A wholesome product, offering the prospect of a golden ticket for the less privileged in society? A certain fictional chocolatier would surely approve.

WHAT MATTHEW IS READING:

Oxford Dictionaries’ 2014 Word of the Year, which he is pleased to discover is “vape” (something he has done this year), rather than the shortlisted “slacktivism” or “indyref” (which he hasn’t).

PHOTOS: STEVE SCHAPIRO/CORBIS


LEGACY® 500
BY EMBRAER

Stepping out: an Aymara woman dances in the ballroom of one of El Alto's new mansions

PHOTO: JUAN KARITA/AP

ANDEAN ATTITUDE

AN ECONOMIC BOOM HAS SEEN BOLIVIA'S INDIGENOUS PEOPLE COME IN FROM THE MARGINS TO FLAUNT THEIR NEW WEALTH

BY ANDRES SCHIPANI

It is more than 20 years since Rosalío Vera left Bolivia to seek his fortune in the bright lights of Argentina's capital, Buenos Aires. But Vera, an Aymara whose indigenous ethnic forebears were ruled by the Incas, then the Spanish, found success only when he returned two years ago to his hometown El Alto, a sprawling city on the windswept high plateau above Bolivia's capital, La Paz.

"Argentina is not doing very well – there's inflation, devaluation," says Vera, now a clothes merchant. "Here in Bolivia the situation is stable – that is why I returned. You can do businesses in any area here now. And you can do very well."

He is using his riches to build himself a six-storey mansion – in keeping with a new affluence and assertiveness that is emerging among Bolivians generally and, in particular, an ethnic group that has been marginalised for generations.

'THERE IS NOW A VISION OF HAVING A BETTER LIFE, OF BEING WILLING TO SPEND A LITTLE MORE'

The Andean country has long been associated with poverty. Europe-centric Argentinians tend to look down on the Bolivians – up to 300,000 of them – living in their country. But the tide is turning, and buildings constructed in the style of the "New Andean Architecture" are an increasingly visible sign of that change.

Locals who have hauled themselves up the economic ladder are known as *chola* bourgeoisie, after the belittling local term for indigenous people. Some call the mansions they are building *cholets*, a blend of the words *chola* and chalet.

"Economically, Bolivia has grown – that is why there are these Andean constructions," says Freddy Mamani Silvestre, a local architect who is the mastermind behind the mansions. He has already built about 60 of them in El Alto alone in the past eight years.

El Alto is home to about 1m indigenous people, who have been neglected for centuries. But their fortunes have changed since Evo Morales, who was recently re-elected Bolivian leader, became the country's first indigenous president in 2006.

Since then, the economy of Bolivia, a big exporter of gas and minerals, has tripled in size. The combination of the commodities boom and prudent macroeconomic policies has financed higher wages and cash redistribution to people such as the elderly and pregnant women.

Bolivia's gross domestic product per capita grew from about $1,000 eight years ago to $2,700 last year, according to the finance ministry. And the UN Development Programme says 1.2m people – out of a total population of 10.7m – joined the ranks of Bolivia's middle class between 2006 and 2012. All that has fuelled a consumer boom, which is reflected in the proliferation of shopping centres across the country.

The growing number of people with more money in their pockets to spend is coupled with a new sense of pride among indigenous people. The Aymara owners of the colourful mansions are former peasants who have turned stalls and small businesses into riches and are not afraid to show off.

"There is now a vision of having a better life, of being willing to spend a little more, of buying cars, better houses," says Kurt Koenigsfest, chief executive of BancoSol, a commercial bank that was originally set up solely to offer small microfinance loans to the very poor.

This economic confidence is a fundamental shift, says Mamani Silvestre. "Through architecture we are showcasing our culture, our essence," he says. "Things have changed; there has been a revolution. Now, with the arrival of our president, Evo Morales, our culture is being brought to the frontline. One can now say: 'I have money – I can do this if I want to.'" Reviewing the green and orange colours of the decorative mouldings for Vera's *cholet*, Mamani Silvestre explains that his mansions usually have six or seven storeys, and nearly three-quarters are specified with lifts. The visual effect blends pre-Inca Tiwanaku culture and the strident colours of Andean textiles.

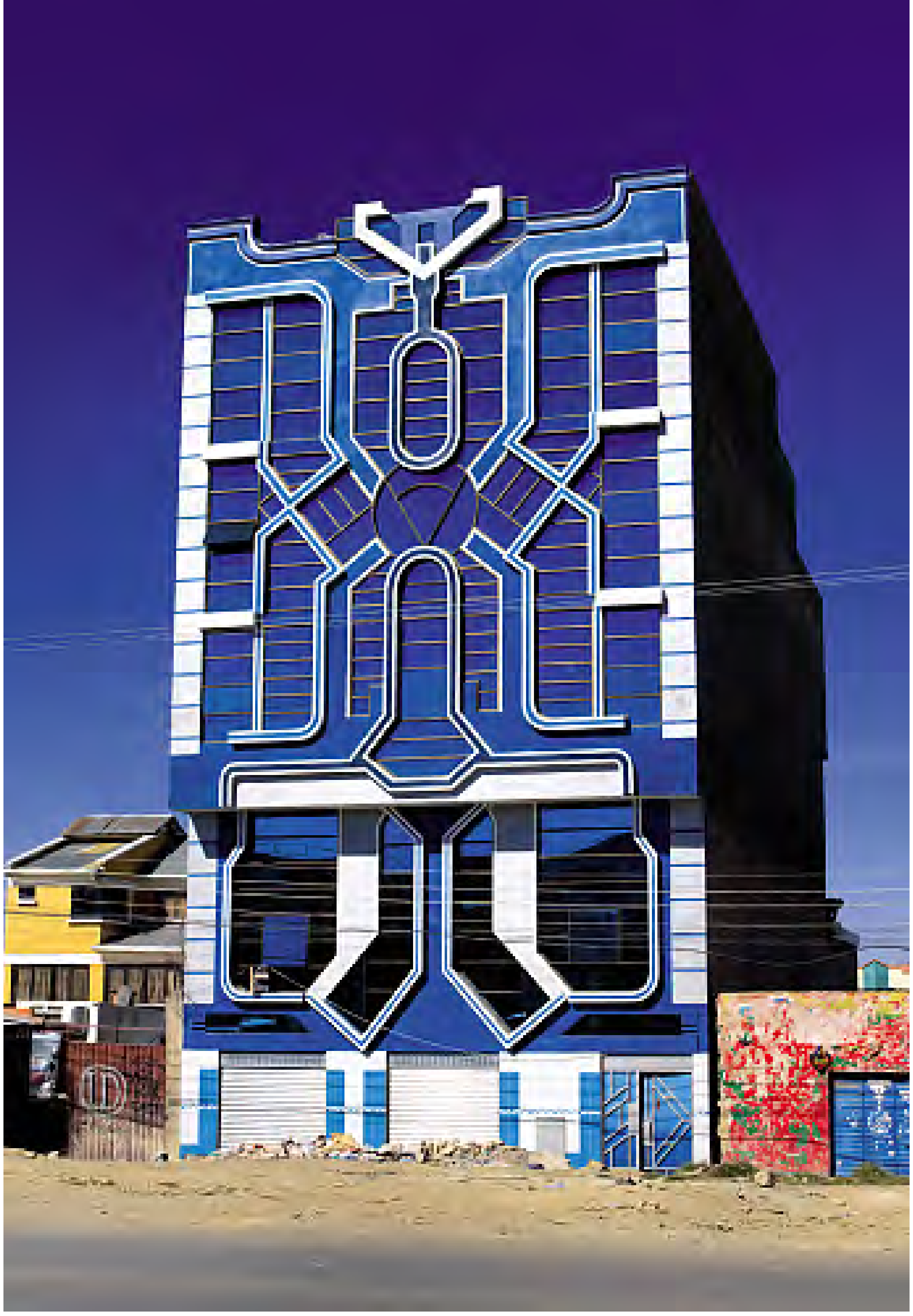
These buildings are altering the landscape of El Alto, their ornamented and brightly coloured facades slowly replacing cinderblock and tin-roof structures and contrasting with the snowcapped peaks overlooking the city.

But these mansions are not just about ostentation. In each the ground floor is usually a store or warehouse that is rented out, the floors above might have restaurants or ballrooms, often a sporting facility such as an indoor football pitch, topped by apartments that are rented out, and on the top floor is the owner's home.

The buildings "have to keep generating income", Koenigsfest explains. Which is necessary – Mamani Silvestre says the average price is about $250,000 and some cost up to $500,000 – a small fortune in what, despite its increasing wealth, remains one of Latin America's poorest countries.

Some critics mutter about how smuggling and drug trafficking are financing part of the *cholet* boom, as

The colours of money: top row, Freddy Mamani Silvestre building designs in El Alto; below, a modelling school for *cholitas*, in La Paz



PHOTOS: ANA NANCE/REDUX/EYEVINE, AIZAR RALDES/AFP/GETTY IMAGES; ALFREDO ZEBALLOS

PHOTO: ANA NANCE/REDUX/EYEVINE

Building on the boom: Bolivian architect Freddy Mamani Silvestre, above

'THROUGH ARCHITECTURE WE ARE SHOWCASING OUR CULTURE, OUR ESSENCE. THINGS HAVE CHANGED'

Bolivia is the world's third-largest cocaine producer. But Carlos Toranzo, a La Paz-based political economist, says the trend is part of a much broader phenomenon. "With this economic boom there is an important presence of new businesspeople," he says, "business people that come from the Aymara world and who control the trading channels. This also speaks about economic and social inclusion."

Bolivian finance minister Luis Arce, credited by many for his country's economic advances, is more forthright. "Everyone has the opportunity to become rich in Bolivia, because today's economy is for everybody," he says.

That is apparent down the hill from El Alto in the upmarket neighbourhood of Calacoto in La Paz, where renowned Danish chef Claus Meyer, creator and co-founder of Copenhagen's accoladed Noma, opened a restaurant last year.

Gustu, which means flavour in the Quechua language widely spoken by indigenous people in the Andes, is a restaurant and cookery school that serves a tasting menu made completely out of Bolivian produce for prices that would have made locals roll their eyes only a few years ago – $140 for a 15-course meal including wine from the growing number of local vineyards.

"If there is a country with potential, that is Bolivia," says Kamilla Seidler, Gustu's head chef. Most of her students are ethnically indigenous, but she admits that "we still need to lure indigenous people into the restaurant" as customers.

It looks likely to happen, though. Rising disposable income and increased confidence among indigenous people have already made inroads into other areas such as fashion.

Many *cholitas*, or Andean indigenous women, have rediscovered the allure of their distinctive voluminous skirts, imposed centuries ago by Spanish colonisers, and the bowler hats allegedly brought to this area by British railroad workers in the early 1900s.

"Years ago the indigenous skirt-wearing women were discriminated against," says Rosario Aguilar, a model agency manager and fashion retail entrepreneur.

At her modelling school in the centre of La Paz, two dozen young *cholitas* learn the tricks of strutting down the catwalk. They have emerged from oppression to find panache. "Today, these women are businesswomen, micro-entrepreneurs, artisans, merchants," says Aguilar. "Today, they can indulge in the luxury of dressing up with the best outfit they can find."

And a *cholita* outfit can be pricey. The skirt may cost up to $100. The shawl, if it is made of ultra-soft vicuña wool, costs more than $2,000. The bowler, worn on top of braided hair, ranges from $43 to $144 if made in Bolivia, but the original Italian Borsalino hat costs $500, she says. Then there are the accessories.

Eli Mendizábal, owner of Andean Jewels, a small shop that designs and crafts its own bling and serves exclusively the demanding skirt-wearing women of La Paz, says that in a month packed with religious feasts, when ostentatious displays of expensive fashion take centre stage, she could earn as much as $40,000.

"The usual jewellery set of a skirt-wearing woman has a pin for the bowler, a pair of earrings, a brooch and often rings and a necklace," she says. "When the customer is demanding and wants gold and encrusted precious stones, they could pay up to $25,000 for the lot."

That amount of ostentation carries risks, though, and during festivities some women have a bodyguard or two in tow to ward off thieves. But Aguilar points out how much that too signals a change in indigenous people's fortunes. "Those are the kind of luxuries these women can afford now," she says.

As her models swagger round a dance studio, clacking their short heels on the wooden floor while practising their swings for an upcoming fashion show, the young Elizabeth Mamani (a common name in the Aymara community) wears a glitzy green designer version of the shawl and flouncy skirt – a high-fashion treat unthinkable only a few years ago.

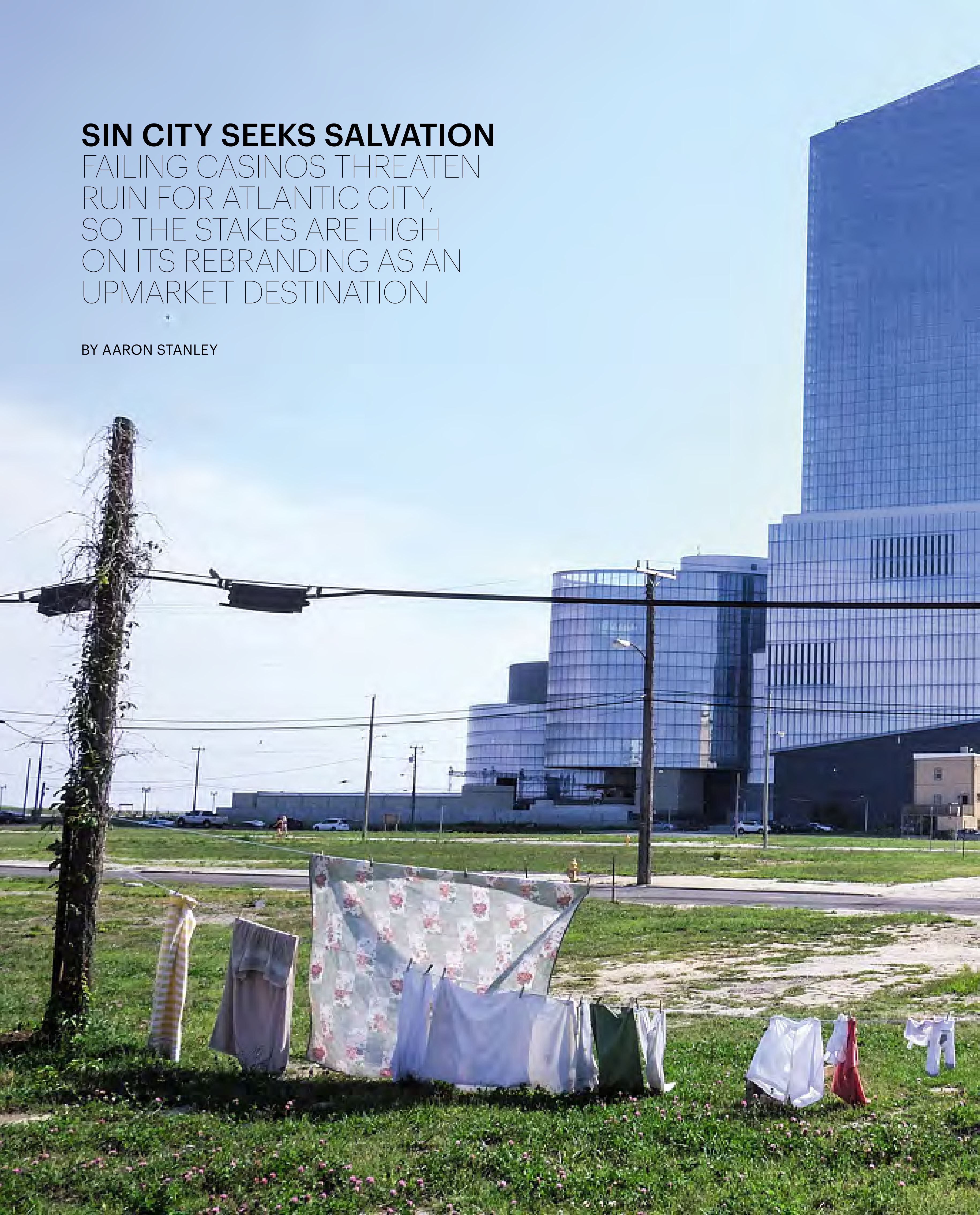
She says her family is now well enough off for her to have 50 *polleras*, or pleated skirts, in her wardrobe.

"Today you'll find *pollera* women in powerful positions – they have money, they have pride and I want to follow on those footsteps," says the aspirant model. "Maybe one day I can have all of my skirts hanging in a dressing room in a colourful mansion of my own."

SIN CITY SEEKS SALVATION

FAILING CASINOS THREATEN RUIN FOR ATLANTIC CITY, SO THE STAKES ARE HIGH ON ITS REBRANDING AS AN UPMARKET DESTINATION

BY AARON STANLEY



Real estate going cheap: the Revel Casino Hotel sits among vacant lots

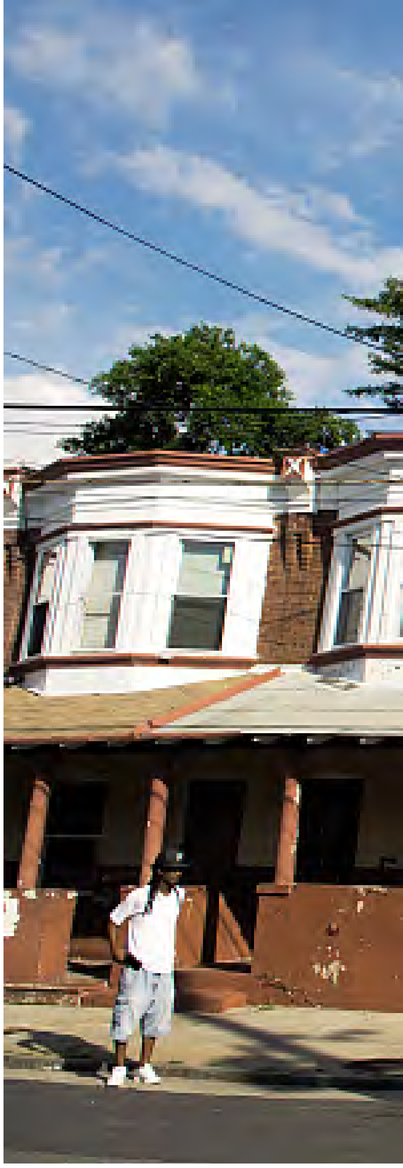
PHOTO: DEVIN YALKIN/REDUX/EYEVINE

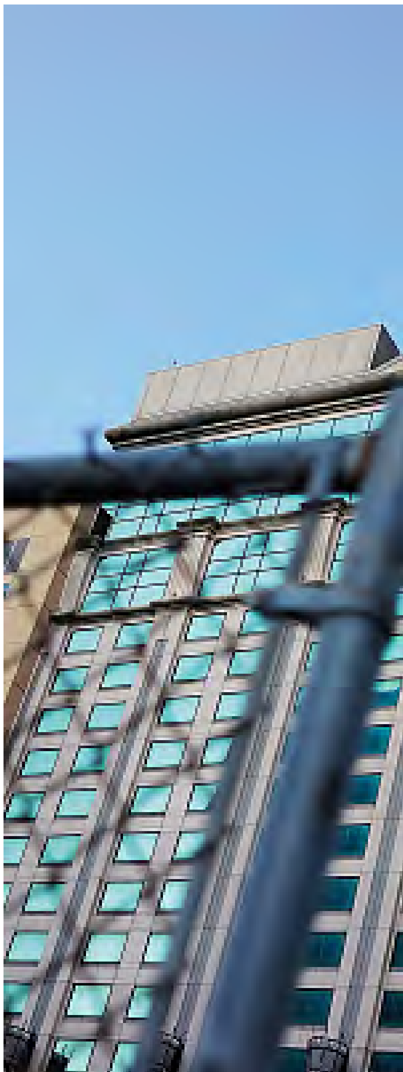
Perched in his seventh-floor office overlooking the ocean, Don Guardian, mayor of Atlantic City, shrugs off the welter of recent negative media reports – "Detroit with a boardwalk", reads a recent one – that proclaim his city's best days are over.

The famous Jersey Shore resort is nudging rock bottom. Four of the city's 12 casinos along its iconic boardwalk have closed in the past year – another could close next week – hitting the local economy hard and prompting calls for Atlantic City, like Detroit in 2013, to file for bankruptcy. Is it time to start afresh?

Guardian asserts that the struggles are fleeting – part of the city's boom-and-bust tradition. Atlantic City's past as a Wild West-style experiment in tourism is coming to an end, he argues, as the city moves away successfully from its reliance on the casinos.

From its start as a beach resort for Philadelphia's working class in the late 1800s, through its Prohibition-





PHOTOS: GETTY IMAGES; BLOOMBERG

FROM ITS START AS A BEACH RESORT ATLANTIC CITY'S EXISTENCE HAS ALWAYS DEPENDED ON BOOZE, SEX AND GAMBLING

defying prosperity of the Roaring Twenties, to its most recent reincarnation as the centre of east coast gambling in 1978, Atlantic City's existence has always depended on booze, sex and gambling.

The city has been hit by a combination of rising competition from neighbouring states – following the collapse of its near-30-year east coast gambling monopoly – a fall in consumer spending during the recession and negative press reports that have deterred visitors.

The casino industry, which generated $5.2bn in revenue as recently as 2006, had shrunk to just $2.8bn in 2013. By comparison, Las Vegas turned over $11.1bn last year, while Macau, the world's premier gambling destination, drew in $45.2bn. To make matters worse, Atlantic City's budget shortfall has grown amid declining gambling revenues and property tax assessments. Last summer, Moody's, the rating agency, downgraded its debt to junk status.

The city is fighting back, however – or at least its mayor is. Recognising the urgency of the hour, Guardian and his allies, including New Jersey governor Chris Christie, are attempting to attract new investment, diversify the city's economic core away from gambling and, most importantly, combat the perception that Atlantic City is dying.

The mayor's message is simple: property prices may have plummeted, but now is the time to buy. ➤

Eyes on the prize: the Revel Casino Hotel in the distance, above; the Showboat casino, left, which a university says it plans to buy

PHOTOS: REUTERS; BUYENLARGE/GETTY IMAGES

"You're never going to get a bargain like you're getting in Atlantic City these days," Guardian says.

But it is not that simple. A bid by the Toronto-based Brookfield Asset Management to purchase the Revel Casino Hotel, a shimmering 6.5m square foot glass structure that became the city's most notable casino failure this year, out of bankruptcy for just $110m was abandoned in late November.

The deal's collapse came as a blow to the city's hopes to use the Revel's rebirth to reset its image. But mayor Guardian remains upbeat. Reacting to the deal falling through, he said the city would continue to attract new investors.

"Atlantic City is a resilient city and better days are still ahead of us," he said.

The failure of the Revel, the second-tallest tower in New Jersey, has come to define Atlantic City's struggles. The $2.4bn project opened in 2012 amid much fanfare and hope that the building would prove the silver bullet to rejuvenate Atlantic City's struggling boardwalk.

However, gamblers stayed away and the casino and hotel faltered under an enormous debt load, filing for bankruptcy twice in the 30 months it was open, before closing entirely this September.

But the Revel's asking price of just five cents on the dollar for a brand-new, union-built construction illustrates the opportunities available in Atlantic City.

"It's the best real estate value in the world. I tell everybody now they'd be crazy not to buy in Atlantic City. The prices are ridiculously cheap," says Bart Blatstein, a Philadelphia-based developer who began buying properties in the city in the autumn. He has been busy redeveloping blighted portions of Philadelphia. His focus now is on renovating Atlantic City's two most cherished assets – its beach and the world-famous boardwalk – both of which, he says, have been badly neglected.

In October, Blatstein snapped up The Pier Shops, a luxury retail mall that juts off the boardwalk into the ocean, for just $2.5m. The four-level structure, which boasts the address One Atlantic Ocean, opened in 2006 at a cost of $200m.

"I believe strongly that Atlantic City will come back stronger than ever before because it won't be dependent on one industry," he says. "I put my money where my mouth is and my money is there. This will be probably the best turnaround story of my career."

A crucial attraction for investors, says Josh Levin, a local commercial property broker, is that Atlantic County has added $50bn in new infrastructure since the casino era began in 1978, including new thoroughfares, tunnels and even an international airport.

Rolls of the dice: the Trump Taj Mahal, above, centre of a union dispute; a clearout at the closed Trump Plaza, opposite; better times for America's playground, left

"There's nowhere else in the world – that I know of – where you can get all the use of that infrastructure that was paid for by the people that you're buying the buildings from for three cents on the dollar," he says.

In addition to the Revel, three other casino hotels along the boardwalk have also closed this year: the Atlantic Club, the Showboat and the Trump Plaza, leaving a string of shuttered oceanfront properties along one of America's most popular tourist strips.

Though the properties in question are in the best locations in town, they have suffered from neglect and struggled to keep pace with new competition over the past decade. Strategically placed casinos in surrounding states have siphoned off much of the low-hanging fruit reaped during the monopoly years – the so-called "convenience gamblers" who made day treks, often by the busload, from New York and Philadelphia to play slots.

Financier Carl Icahn, who holds the mortgage on the Trump Plaza, has emerged as a possible saviour. He led a group of creditors to acquire Atlantic City's Tropicana casino out of bankruptcy in 2009. "Carl Icahn has turned around Tropicana," says Guardian. "If we were having this conversation 10 years ago, we would have written it off."

Icahn's next target is the Trump Taj Mahal, which filed for bankruptcy in September after opening in 1990 at a cost of $1bn. He aims to inject $100m into the property but is locked in a struggle with union workers over pension and healthcare benefits. As FT Wealth went to press, Icahn was unavailable for comment.

But Icahn's effort may be for nought, as the Taj has announced it will close on December 12 if the union does not withdraw its appeal to an earlier bankruptcy court ruling that terminated the union's contract with the casino.

TJM Properties, a Florida-based developer, purchased two shuttered casinos this year, the Claridge and the Atlantic Club, for $12.5m and $13.5m respectively, with the intention of operating them as non-gaming businesses. A local university has announced it intends to purchase the Showboat, which was shut down by Caesars last summer.

Even Donald Trump, who entered the city with a bang in the early 1980s before divesting at the peak of the market in the mid-2000s (he has since been licensing his name to the Trump casinos but is attempting to have his name removed), has expressed interest in jumping back into the fray. "I would consider going back," he says.

Trump warns, however, that the city's high property taxes and bloated municipal government are strong deterrents to anyone looking to buy. "Before anybody can go to Atlantic City, those taxes have to be reduced dramatically, and until that happens you can't make an investment there," he says.

In an effort to quell the concerns of Trump and other

developers, Guardian has pitched an austerity plan designed to balance the city's budget by 2016. He has been forced to raise taxes and enact harsh cuts to the city government.

But if the city can get its books in order, its fundamentals as a tourist destination remain strong, in spite of sagging casino revenues. It is within eight hours' drive of 25 per cent of the US population and attracts 25m visitors a year, down from 34m during the boom years but still enough to make it the most popular beach destination on the Atlantic coast.

Many of the city's nightclubs, restaurants, convention centres and shops have performed well, even during the difficult post-2008 years, indicating that though people may not be gambling, money is still being spent in the local economy.

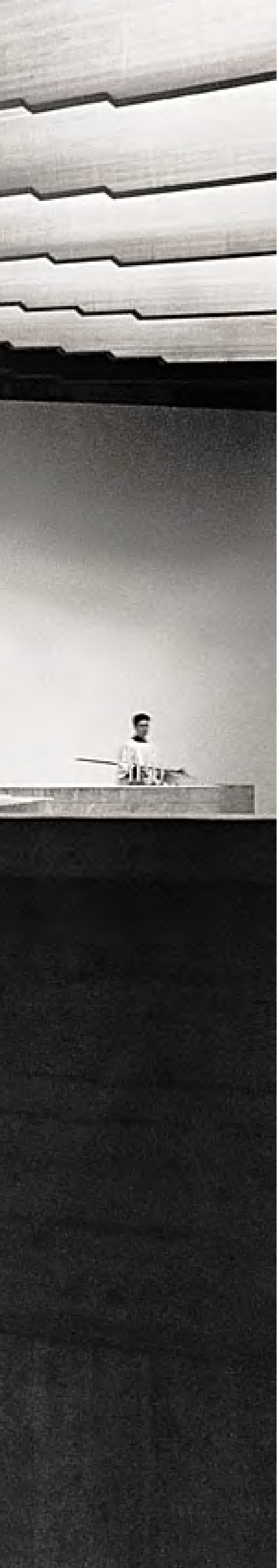
"We feel this is more a gaming issue than it is a destination issue," says Liza Cartmell, president of the Atlantic City Alliance, which is tasked with marketing the city's rebranding. She notes that gambling revenues have also stagnated in neighbouring states. "We are the tip of the spear in terms of what's going on nationally in the gaming world."

Most importantly, the mayor is endeavouring to reinvent the city's business model so that it is open to tourism but not wholly dependent on it. He is focusing on transforming the city's somewhat kitsch image, finding new ways to keep hotel beds occupied during the week and building a sustainable, non-gaming-related economy.

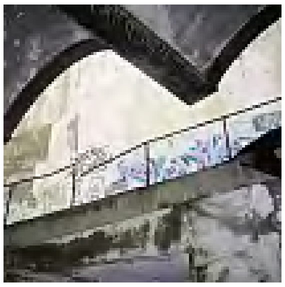
Guardian points to the Borgata, which opened in 2003, as a shining example of how the city's casinos can thrive in a competitive marketplace. In just 11 years, the Borgata has established itself as the premier resort casino on the east coast by offering a more upmarket experience designed to win back the "Atlantic City rejectors" – those people who have written off the city as a sleazy or unattractive destination.

The Borgata's strategy is, in essence, the principle behind Atlantic City's comeback. Its success or failure depends not only on how well the city caters to consumers' demands but also on how much it reverses the perception that the glory days of America's playground are behind it.

CASINOS IN SURROUNDING STATES HAVE SIPHONED OFF 'CONVENIENCE GAMBLERS' FROM NEW YORK OR PHILADELPHIA



Then and now: a processional ramp at St Peter's, pictured in 1967, left, and signs of decay in the estate today, right



PHOTOS: ANGUS FARQUAR; ALAN KNOX; CHRIS HUGHES

BRUTALIST BEAUTY

PLANS TO RESTORE ST PETER'S SEMINARY, A MODERNIST RUIN IN SCOTLAND, SYMBOLISE THE REDISCOVERY OF 1960S ARCHITECTURE

BY MURE DICKIE

Scotland is rich in ruins, but there is only one like St Peter's Seminary, the modernist architectural masterpiece that lies mouldering amid dense forest 30km northwest of Glasgow. Approaching from the west, the first sight through the undergrowth is of a sharp-angled concrete wing that seems to hang over the surrounding trees. "It's uber-modernism," exclaims Angus Farquhar, leading the way up a muddy slope toward the building. "It feels like a take-off pad from *Star Wars*."

Others say St Peter's is like a spaceship itself, a futuristic vessel set down on the Victorian Kilmahew estate near Cardross in 1966 but then abandoned to suffer a decay so compounded by vandalism and neglect that one of its architects, Andy MacMillan, who died in August aged 85, once said it might have been kinder to knock it down.

That is a verdict Farquhar refuses to accept. After years of failed efforts by other groups and investors to

Sacrificed to the elements: NVA's £7.5m plans will go as far as stabilising and partially restoring the main buildings of St Peter's seminary

PHOTO: JAMES JOHNSON

restore St Peter's, the creative director of Glasgow-based arts charity NVA is confident a scheme is in place that will finally bring the complex and surrounding estate back to life.

NVA's £7.5m plan aims to stabilise and partially restore the seminary's main buildings, creating educational facilities and a 600-person performance venue, while also opening up the lushly wooded Kilmahew grounds to the public. The scheme would preserve the fabric of the seminary, which is listed by the Scottish authorities as a category A building of national or international importance, and turn it into a hub for artistic activity. "This is the restoration project of the generation," says Farquhar, who founded NVA in 1992. "It's such an amazing challenge."

St Peter's certainly demands ambition. Designed as a college for training priests, it was conceived by MacMillan and his co-architect Isi Metzstein as a complex series of buildings half-wrapped around Kilmahew House, a baronial mansion built in 1868 for the wealthy son of the founder of the Cunard shipping line. MacMillan and Metzstein, who died in 2012, were among the most influential Scottish architects of the 20th century and had already won fame for a series of modernist Catholic churches. For St Peter's they echoed the work of French pioneer Le Corbusier. The dramatic exterior featured sharp angles and large areas of raw concrete and glass in the Brutalist style, while the interior was formal and austere, a complex orchestration of light intended to perfectly match the practical and spiritual requirements of young men preparing for priesthood.

Even in its current ruinous state, the building – particularly the central chapel, which features an altar that was once bathed in light from a ziggurat glass roof but is now open to the elements – has enormous presence. It was this mastery of the architecture of faith that made MacMillan and Metzstein favourites of the Catholic hierarchy in Scotland. When asked how he as a Jewish atheist could create such brilliant churches, Metzstein used to reply: "You don't have to be a cow to design a byre [cowshed]."

The seminary's decline came quickly, however. Before it was even completed, some of its rationale had been undermined by reforms to priest training introduced by the Second Vatican Council. And the Catholic church would increasingly struggle to find enough recruits to justify such a large facility.

Flaws in the building itself did not help. It was always difficult to heat, a problem exacerbated when the 1970s oil shocks sent the price of oil soaring. The large areas of glazing gave the interior a Japanese-style engagement with the gardens outside but did little to keep out the Scottish winter chill. "In the winter you could not survive within six feet of the glass as it was not double-glazed," recalled one of the college's first students decades later on the Hidden Glasgow website.

The building also struggled to cope with the wet and harsh west Scotland climate, admits Farquhar. "Outwith the concrete, some of the materials were a little bit too experimental," he says.

The seminary closed in 1980 and while the building was later used as a drug rehabilitation centre, that too closed in 1987 and it has lain empty since.

Time, the elements and the vandals have not been kind. External walls have lost their render, glass roofs and windows are gone; much of the interior is little more than a concrete shell, its floors clogged with the detritus of internal walls, including shards of dangerous asbestos. Accessible surfaces are covered with colourful but mostly crude graffiti.

Though its secluded setting is unusual, St Peter's is hardly alone in finding itself at risk in the 21st century. In recent years, many UK modernist landmarks have been demolished.

The term Brutalism comes from the French *béton brut* (raw concrete), but many in Britain find it an apt description of an architectural approach that can seem crude and overbearing. The planned removal next year of the St James Centre in Edinburgh, built in the late ➤

1960s and one of the Scottish capital's most high-profile buildings, is awaited by its residents with widespread satisfaction and no sign of opposition. There were some attempts to save the category B-listed Scottish Provident building in St Andrew Square in the centre of Edinburgh, but it was still razed this year, leaving only plans for a replica façade to be included in its replacement. Meanwhile, campaigns to preserve the Robin Hood Gardens residential estate in east London and Birmingham Central Library have made little headway.

There is an element of irony in the efforts to conserve modernist buildings, given the lack of delicacy their designers tended to show for the urban physical and social fabric in which they were placed. Heritage often lost out amid the general confidence in technological progress.

In a newspaper prepared for this year's Venice Architecture Biennale, Volha Druhakova, an architecture student at Robert Gordon University in Aberdeen, noted that Michael Shewan, designer of the 1960s Gray's School of Art in Aberdeen, would himself have argued for progress rather than conservation. "It was after all specifically these conservative tendencies that he and many of his generation saw as a retardation of culture," Druhakova wrote.

Even Brutalist buildings as monumental as St Peter's can show surprising delicacy, however. The seminary was carefully designed not to overpower the baronial mansion that it enfolded and that was demolished in 1995 after a fire. One reason for the dramatic concrete overhang was a desire to leave a Victorian retaining wall in place.

'THIS IS THE RESTORATION PROJECT OF THE GENERATION. IT'S SUCH AN AMAZING CHALLENGE'

Efforts to preserve the best modernist structures are gathering steam. The World Monuments Fund put "British Brutalism" on its 2012 watch list at the request of the Twentieth Century Society, a conservationist group. One of the buildings it highlighted as endangered, the 1969 airport-style Preston bus station, has since been saved with a statutory listing and a redevelopment plan.

Catherine Croft, director of the Twentieth Century Society, says fighting for Brutalist buildings remains a challenge, and notes that few are likely to be saved by wealthy individuals or philanthropists. "I can't think of a good example with a Brutalist building where a major individual or trust has taken a leading role," she says. "It's a very different ask from taking on an 18th-century country house."

Yet Croft says the society, which until now has relied mainly on membership fees and income from organising tours, is stepping up efforts to find donors amid a wider shift in public attitudes, architectural fashions and growing awareness that concrete can be easier to conserve than once thought. "People are beginning to appreciate the architecture of the 1960s," she says, citing as one straw in the wind a recent newspaper fashion shoot that featured London's Brutalist Barbican as a backdrop – "and it wasn't a dystopian reference".

Private funding will be crucial to NVA's plans for St Peter's and the Kilmahew estate. Farquhar says most of the £7.5m needed for the first stage will come from the Heritage Lottery Fund and Scottish government bodies. Two individual donors have already made important contributions, but the project still needs another £2m for asbestos removal, work on the estate's walled garden – which is to be opened to green-fingered locals – and other priorities, such as restoration of the seminary's chapels.

PHOTOS: JAMES JOHNSON; CHARLIE BIBBY; NIKREATES/ALAMY

BRICKS AND MORTALITY: BUILDINGS UNDER THREAT

Historic buildings are always in danger. If they are left empty, they decay and turn into ruins. If they are used, they wear down or need to be adapted to the changing demands of contemporary life. But the world's architectural landmarks are safer now than they ever have been. Partly this is because of their increasing status as national and local symbols, markers of identity. But mainly it is to do with money. Architectural tourism is big bucks. Whether it is the cityscapes of Venice or Paris, the temples of Angkor Watt or Athens, tourists in ever-increasing numbers are flocking to witness the historical authenticity embodied by the world's great monuments. And tourism means money.

At the moment there is no doubt that the buildings in the most immediate danger are those in Syria, but this is not only because of war or sectarian iconoclasm. It seems remarkable that the rich historic architecture of Islam's holiest city, Mecca, has been almost entirely destroyed by the Saudis to replace it with massive modern tourist infrastructure. The lack of regard for history seems strange to us. But perhaps we have swung too far the other way. Are we protecting too many buildings at the expense of progress? This move is welcomed by historians but raises the question of how cities might survive if they leave no room for contemporary development. Do they all become gentrified tourist destinations – the preserve of the global wealthy and the global traveller? The proposals to resurrect the wonderful modernist St Peter's Seminary raises questions about our contemporary obsession with perfection. Can a building not be beautiful as a ruin?

Yet the ever more voracious appetite for history is not abating. So which are the world's most endangered buildings? For decades, London's was the hulk of Battersea power station, a curious target for nostalgia. Yet the success of the transformation of Bankside power station – originally designed by the same architect, Sir Giles Gilbert Scott – into Tate Modern art gallery demonstrated the potential even in industrial architecture, which is now as treasured as gothic cathedrals.

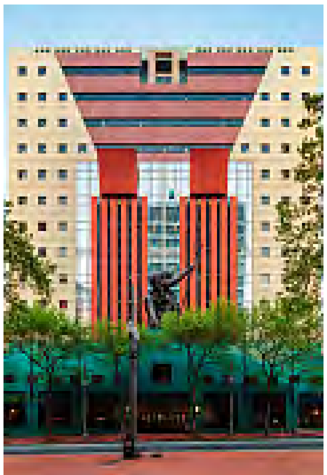
But this is a problem with no solution. We are demolishing late-modernist and even post-modernist architecture to make way for new buildings – Michael Graves' huge and once trend-setting 1982 Portland Building in the US city of Portland is one of those under threat. In 20 years' time, we will regret its loss as taste changes and nostalgia moves on. Whether due to war, religion, taste or nature, architecture is mortal. It is always endangered.

Edwin Heathcote is the FT's architecture correspondent

Sir Mark Jones, a former director of the Victoria and Albert Museum and the National Museums of Scotland, says he decided to become patron of the project partly out of admiration for St Peter's and partly out of excitement at the new role it will be given by NVA. The group's other work ranges from creating an urban garden in Glasgow to organising light and sound shows on Scottish mountainsides.

One inspiration for NVA's plans is the restored Duisburg-Nord steelworks in Germany, now a setting for contemporary public art that draws visitors from across the world. "It's not just about saving the building but also making it into a venue for NVA's art," Sir Mark says.

The group has already begun preparatory work. On a chilly November day, workers labour to finish clearing the swathes of invasive *Rhododendron ponticum* that previously clogged the estate. Back when the magnates were in residence, the area was an elegant but unusually informal Victorian pleasure ground and the plan is to reopen the paths running through it for visitors. Another attraction is the ancient keep of Kilmahew castle with its later romantic Gothic additions. But the star of the show will remain the seminary, which when opened to visitors will surely catch many imaginations as it has Farquhar's. "I don't think I've ever seen a building that says 'I'm here' like this one," he says. "It doesn't ask you to like it. It asks you to think about it."



Conservation battles: an impression of a restored St Peter's, opposite, and its former teaching block, top; the Tanks at Tate Modern, above; and the Portland Building, left

MAYFAIR ON TOUR

PRICED OUT OF THEIR FLAGSHIP PREMISES, LONDON'S FINE ART GALLERIES ARE TRYING NEW WAYS TO LURE IN CUSTOMERS

BY DALYA ALBERGE

There is something intimidating about bells and buzzers to gain admission to an art gallery residing on a hidden upper floor or in some intimidating basement. Seasoned collectors, as well as casual art lovers, often tell dealers they were initially wary. Even galleries with wide shop-fronts, where spacious emptiness is a virtue, at times can seem a little daunting with a Monet and a Matisse looking out forlornly from their easels and the owner barely glancing up at someone's entry.

It may only be a psychological barrier, but it needs to be addressed, because galleries in central London – notably Mayfair and St James's – are increasingly being forced out of long-established street-level shop premises

Treasures on show: Ludovico Carracci's 'Flight Into Egypt', left, on display at the Dering Street gallery of Clovis Whitfield

by exorbitant rents. Landlords see pound signs as demand from international fashion houses for exclusive buildings soars. The overhead is forcing dealers out of their flagship premises into the upper storeys.

Quietly realising they need to be more proactive, dealers have been collaborating with Brown's Hotel, the five-star establishment in the heart of Mayfair's gallery-land, organising art tours for their guests – and anyone else who wants to come along. Every Saturday morning, one of around 30 participating art dealers guides up to eight guests to four different galleries, showing them that museum-quality artworks can be found behind the doors of period townhouses and at "appointment only" premises. The exhibitions are free of charge.

After introductions over coffee, the "art tourists" spend half an hour in each gallery, where they get a tour from the relevant dealer, before heading off for a three-course lunch at Brown's restaurant, Hix Mayfair.

Brown's Hotel, which is near the green oases of Green Park and Hyde Park, reopened in 2005 after a £24m refurbishment. In 1837, James Brown and his wife, Sarah Willis (Lady Byron's maid) acquired 23 Dover Street and by 1838 had expanded into numbers 21, 22 and 24 to create a hotel.

Illustrious guests have included Alexander Graham Bell, who checked in when he came to tell the British government about his invention, the telephone; US President Franklin Roosevelt, who spent his honeymoon there; and writers Agatha Christie and Rudyard Kipling.

The Brown's Saturday Art Tour has proved so successful that it has taken place almost every week this year. It costs £60 per person, including lunch. British cuisine is served against a backdrop of British contemporary artworks, such as a Tracey Emin pink neon piece that reads: "I loved you more than I can love."

Sophie Darley, a spokesperson for the hotel, says: "A lot of our guests are fascinated by art and are passionate art collectors. It seemed interesting to offer a tour hosted by one of the gallery owners. That's what makes it special. People can get a little bit scared of going into ➤

Jewels from the collections: a detail from Simon Vouet's 'St Peter Visiting St Agatha'; Philip Mould, opposite top, and his gallery in Mayfair, opposite bottom

these incredibly modern impressive galleries. We wanted to make them a bit more accessible."

John Martin, a dealer in contemporary art, observes that the English are "a bit nervous going in because they feel [obliged] to buy something", but that dealers can also be quite shy and are unfairly seen as "standoffish". He was a driving force behind the hotel art tours. Although many of Brown's guests wander into his nearby gallery, he acknowledges the general problem in London's West End of getting people through the door. "People are still intimidated. This is a nice way of breaking the ice," he says.

Noting the intimacy of the tours, he adds: "The lovely thing is that you see people relaxing. As you go through the morning, people are more confident about chatting to each other. We have a laugh. Then we end up at Hix for lunch, which can go on all afternoon. It's not about trying to sell people paintings. It's about letting people get to know the gallery owners. That's what so special still about Mayfair. It's not just the galleries. There are shoemakers, shirtmakers... You can still find owner-run businesses. It's nice to meet the owner. That is quite a special thing."

Building up a rapport with collectors takes time, says Martin. "There's nothing more boring than sitting here and not many people come through the door. You are putting on a show as well." And for that, he says, you need an audience. He keeps his door wide open, unless it is freezing, joking: "I haven't got to the point of dragging people in, but it might come to that."

'THE TOURS ARE NOT ABOUT SELLING PAINTINGS BUT LETTING PEOPLE GET TO KNOW THE GALLERY OWNERS'

He recalls a couple of American contemporary art collectors who, through the tours, had their eyes opened to Old Masters. "They hadn't really experienced Old Masters before and they absolutely adored them." Collectors commonly are narrowly focused.

Lamenting that "some galleries have been hit with quadruple rent increases", Martin adds: "We are talking hundreds of thousands of pounds a year in rent. In my case, it would be utterly impossible to recover.

"Probably within a year or two, there won't be many smaller ground-floor galleries left." Galleries, he says, are resolved to moving outside Mayfair or else upstairs. "In which case, we really have to get visitors used to ringing buzzers," he says. Dealers recognise they must work to keep Mayfair known for its art galleries, which have been part of London's cultural heritage for two centuries. Galleries and auctioneers in Mayfair and St James's generate more than £7.7bn in annual sales and support 60,000 jobs, according to The Art Newspaper.

Christopher Battiscombe, director-general of the Society of London Art Dealers (SLAD), says: "Dealers are facing huge pressures on rents. A lot have had to move, many of them pushed upstairs. Look at Bond Street: virtually all SLAD member dealers are upstairs apart from The Fine Art Society and Richard Green."

He points to Cork Street, which is undergoing two big developments: "There were something like 22 dealers in that small street. About 12 have been forced to move by the development." One development involves knocking down buildings. "That's going to take a couple of years, so [galleries have] just had to move. The dealer finds somewhere else and never comes back," Battiscombe says.

He says SLAD has been conveying its concerns to Westminster Council. "It has come up with this idea of a special policy area to help to maintain dealers. There has been a consultation about it," he says. "In the case of these two developments, we have persuaded the council to impose a condition for the planning permission – that they must keep as much space for art dealers in the future as was there before. Retaining dealers in Mayfair and St James's is in everyone's interest because it attracts the sort of people who you want to come to these areas. You shouldn't really kill the golden goose."

But Matthew Flowers, who has a Cork Street gallery, is more optimistic. He senses that the area is being rejuvenated by overseas galleries, such as Pace from the US: "We are going through a hiccup because they are doing this massive renovation on Cork Street. When it's finished, it's going to be such an enormous attraction, there will be a big reason to pay a premium to be in the area. We're definitely staying put, I feel for dealers who have been there a very long time, on low rents who have been forced out, but this is the way of the world."

Clovis Whitfield, a leading dealer in Old Masters, based in a first-floor gallery in Dering Street, off Bond Street, was interested to hear of the tours. Not being on the ground floor is a "deterrent" to visitors, he says. "People are not necessarily used to going to what are often private offices [above]." He says that "despite putting on a marvellous display of paintings, I haven't really found people banging our door down". He does have some passing trade, though. "But it's mainly 'modern'," he says, "because [there is] a modern art gallery above us and they have a much more active exhibition programme. We do find that if we have the door open, people drift in. There has always been that shyness of knocking on the door."

It is also not every day that he can stage major draws such as his 2010 exhibition, Caravaggio's Friends & Foes, though his current jewels include a painting by Simon Vouet of 1625, "St Peter visiting St Agatha", and another, "Flight into Egypt" by Ludovico Carracci, circa 1595.

Dealers participating in the Brown's tours include Philip Mould, who appears as an expert in the BBC art series *Fake or Fortune?* He says of the tours: "The underlining principle, which is a sound one, is that, yes, galleries are daunting. I think it was Mallett's [a Mayfair dealer], about 30 years ago, which used to talk about 'the whistle': when people walked in for the first time – [the gallery] was on a par with Versailles with all of the gilt and the magnificence – they would begin to whistle as a way of coping with the grandeur. It was a form of shyness and slight shock, of being unsure how to behave." People will happily go to museums but "there is this problematic entry point" when something is for sale, he says.

From a dealer's point of view, Mould adds, how to behave is also an inexact science. Dealers face the dilemma of whether to engage with someone who walks into their gallery. "What's great about the Brown's groups is that everyone is licensed to come in, enjoy themselves and ask direct questions, which immediately breaks down barriers. So you don't get the Mallet whistle,"

In the next few months, a tour of Mould's gallery will include a painting by Paul Swan of legendary dancer Isadora Duncan. Early 20th-century portraits are the type of pictures that spark conversations among Brown's visitors, he observes.

For art lovers, it is an unusual opportunity to feed their passion with no obligation. Christopher Dickinson, a retired financial consultant, attended a tour in August. He says he and his wife have an "amateur interest" in art. "If people want to have a very genteel but entertaining four or five hours with some interesting art, I would definitely recommend it," he says.

PHOTOS: CHARLIE BIBBY

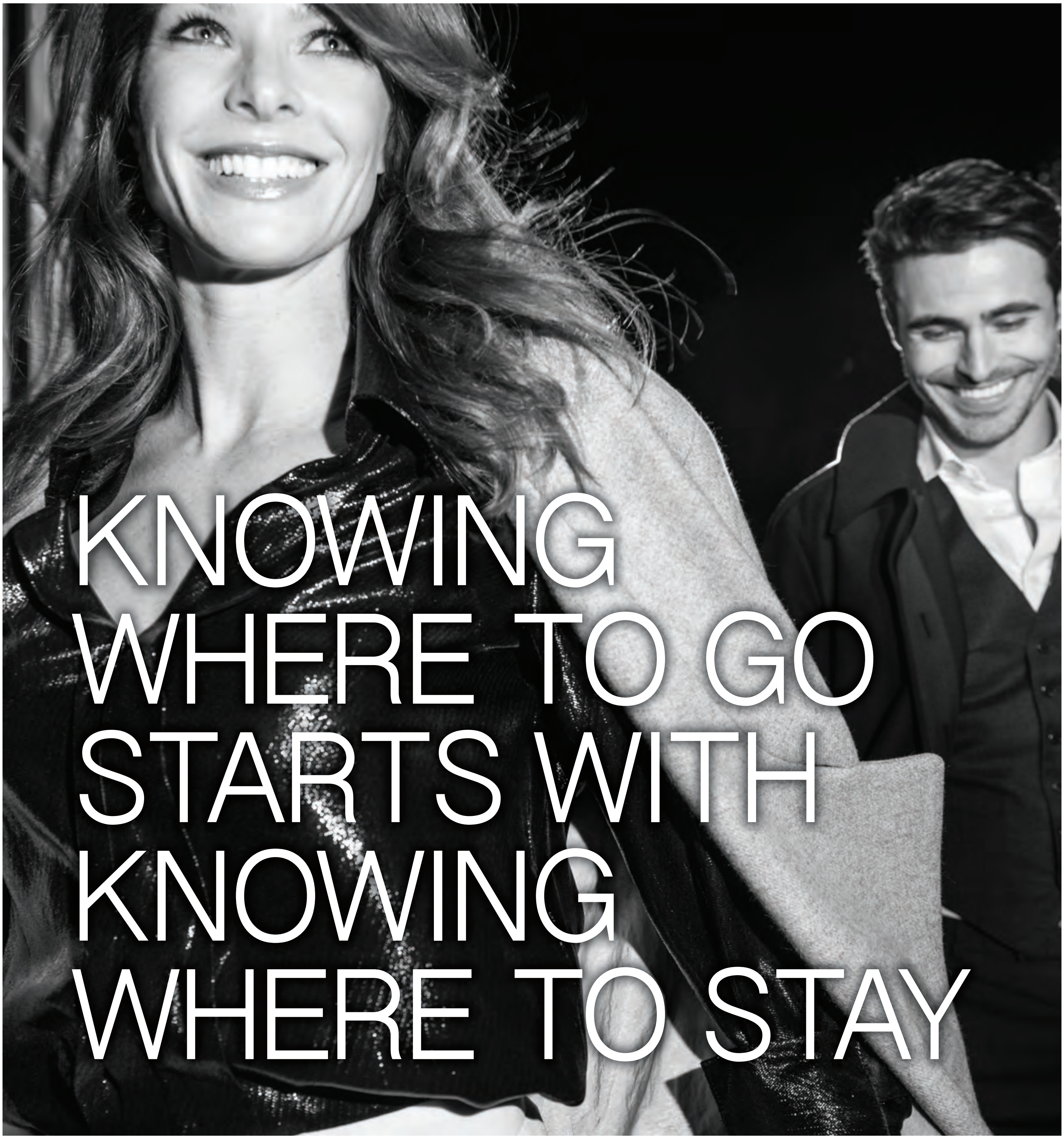
HARD TIMES: THE GLOBAL PICTURE

Galleries in other art capitals around the world also face unsettling times. In New York, Dorsey Waxter, president of the Art Dealers Association of America, says history keeps repeating itself: galleries move into one area, only to have to move on when properties become more sought-after.

Until the 1980s, 57th Street was an historic art centre. Then big fashion names and other retailers started eyeing up the most prestigious sites, sparking a rise in property values. "That created a migration of the galleries," Waxter explains. Dealers moved to SoHo, where the enormous factory and warehousing spaces were perfect for art. But in the 1990s, with rising property values, rents pressured them to move again, this time to Chelsea where, yet again, dealers are "under a lot of pressure" over leases.

But there seems to be less movement in Germany. Galerie Boisserée, which has just staged a major show of Picasso prints, is in the centre of Cologne, widely considered the country's art capital. However, Johannes Schilling, the gallery's managing director, says German dealers have had to contend with an increase in sales tax on works of art from 7 to 19 per cent and finding a solution has been "very difficult".

Thole Rotermund, a Hamburg-based modern art specialist, observes: "Most of the galleries, especially in Berlin, are not located in the premium shopping streets, but more in 'creative quarters' like Linienstraße."



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INSIGHT

Rapid progress: full throttle in the high-tech McLaren 650S (page 54)

> TRADERS DESCRIBED THEIR ATTEMPTS AT 'MERGER ARBITRAGE' AS '#ARBAGEDDON'

Losing streak

BY MATTHEW VINCENT

recommend the BlackRed event-driven hedge fund."

"BlackRed? Don't you mean BlackRock?"

"No, BlackRed. It's relatively new but follows a time-honoured strategy. All terribly clever."

"Really? How does it work?"

"Well, like most event-driven hedge funds, it uses a proprietary screening methodology to evaluate a range of investment opportunities ahead of corporate transactional events – such as mergers and refinancings – that may include arbitraging various debt securities, as well as taking equity positions to gain selective exposure to acquisitions, consolidations, restructurings, bankruptcies and liquidations. Its managers continually scour the market for potential valuation anomalies surrounding these events. Then they make a high-conviction asset allocation call and generally place 100 per cent of investors' capital on Noir."

"Noir?"

"Oui. Or rather, yes. But not always. In certain market conditions, they might allocate cash to Impair."

"As in impaired credit?"

"No, Impair. You know: French for 1, 3, 5, 7 etc, up to 35. You probably call it 'odd'."

"I certainly do."

"Would you rather they put it on 19-36?"

"Hang on. Are you trying to tell me they just bet people's money at a roulette table?"

"Oh, no, no, no. Sometimes they use a revolving credit facility."

"Revolving?"

"Well, more like spinning – although that brings some tail risk."

"Tail risk?"

"Mmm – the coin could come down heads."

Some investors might wish real-life, event-driven hedge funds offered this risk/return profile. Their actual bets this year – on politically sensitive pharma deals and US mortgage settlements – have proved scarcely more profitable than putting everything on black.

According to Bloomberg, "billionaire John Paulson posted a 14 per cent loss in his firm's event-driven hedge fund" in October alone – after events at drugmaker Shire and lenders Fannie Mae and Freddie Mac took a turn for the worse. Shire's shares lost a quarter of their value after AbbVie pulled out of a takeover that would have cut its US tax bill; and holdings in Fannie and Freddie more than halved when a US court rejected shareholder payout claims. These losing bets took the total hit for investors in Paulson's fund to 25 per cent in 10 months.

Nor was this an isolated run of bad luck. This year, several high-profile funds, including Bill Ackman's Pershing Square and Richard Perry's Perry Capital, also placed their chips on Fannie, Freddie and Shire. Tyrus Capital – a $1.4bn event-driven hedge fund based, appropriately enough, in Monte Carlo – lost 10 per cent of its value on the Shire bet alone.

Nor is this unusual. Earlier in the year, so many event-driven hedge funds placed disastrous bets on takeovers of Time Warner and T-Mobile that traders described their attempts at "merger arbitrage" as "#arbageddon".

By October 31, the average event-driven hedge fund was on a -3.6 per cent losing streak for 2014, as measured by the Hedge Fund Research index – and getting closer to 2011's annual loss of 4.9 per cent.

Wealth managers who choose hedge funds for clients point out that, in other years, gambling on mergers has paid off. That same index recorded a 13.8 per cent gain last year, and 6 per cent in 2012. You win some, you lose some, they suggest.

Kirsten Boldarin, a director of Stonehage Investment Partners, says: "All strategies can suffer extended fallow periods where an approach doesn't add value, despite the manager exhibiting long-term competence."

Pau Morilla-Giner, chief investment officer at London & Capital, reckons investors in hedge funds just need to hedge their own bets. "Equity-focused hedge funds represent just one section of the hedge fund industry and we advise that they are combined with other strategies to better diversify," he says.

Investors, however, might ask themselves two questions.

First, why are we bankrolling so many managers to play out dodgy hunches? In the third quarter, Hedge Fund Research found that $11.4bn of new capital flowed into event-driven strategies, taking the total invested to $756bn – more than a quarter of all hedge fund assets.

Second, why are we paying managers – including "the billionaire John Paulson" – up to 2 per cent of all their losing bets and 20 per cent of all winnings? Forbes estimates that this fee structure allowed the world's 25 best-paid hedge fund managers to earn $24.3bn last year.

Some institutions have already decided "rien ne va plus!" Calpers, the largest US pension fund, has taken $4bn off the table, claiming that hedge funds are too complex and costly.

In the meantime, this column can offer a cost-effective insurance policy for all concerned readers: $1,000 to correctly predict the outcome of any corporate event. Or your money back.

IMAGE: DIANE LABOMBARBE/ISTOCK

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FT

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PLANNING SUCCESSION

Dynastic decisions

BY LIZ BOLSHAW

Muthu Murugappan may still be a student, but as the scion of a well-known Indian business family, he already has his future mapped out. He is the elder son of MM Murugappan, vice-chairman of the Indian conglomerate Murugappa, which encompasses 28 different companies, from sugar and fertilisers to bicycles. It is India's 20th-largest company by revenue.

Currently in the second year of a full-time MBA at London Business School, Muthu Murugappan has no right of succession, but he has always known his career would be in the family firm.

"I am part of the fifth generation," he says. "In my case I have grown up having discussions about the business with my father. We also spent holidays going to the offices and the factory, so I always knew I would be part of the business."

Yet as part of the family's fifth generation to enter the business, Murugappan is the exception rather than the rule. Most businesses fail to progress beyond the grandchildren. According to data provided by PwC, the consultancy, only 12 per cent of family firms make it to the third generation and just 1 per cent to the fifth.

One reason that family businesses fall apart is that fresh thinking is suffocated by an old guard intent on retaining control.

"Next-generation people I talk to in India have an absolute expectation that they will inherit the leadership of the business and it is a troubling prospect for them," says Nigel Nicholson, professor of organisational behaviour at London Business School and an expert in family business. "They feel they are kept on a tight choke-chain by the senior generation."

Not so the scion of the Taittinger champagne business, Pierre-Emmanuel Taittinger. He heads the family firm, having bought it back with a consortium of investors led by Crédit Agricole du Nord Est two years after selling it to Starwood Capital in 2005.

"I will retire at 65," he says. "When the *chefs* of family firms are too old they are not so capable of running the business. This year we will probably produce our Comte de Champagne [reserved for exceptional vintages] and it will be 10 years before it will be ready. I will be long retired."

Having family members involved in the business can be and often is a major strength. The trick is to avoid a sense of entitlement. "Family dynamics are unique and the gene lottery throws up its new characteristics in the new generation: they are not going to be 50 per cent of each parent," says Prof Nicholson.

Part of the problem for the new generation is persuading the board – and fellow workers – they have got there on their own merits. For Muthu Murugappan and his peers, the next generation are put through their paces in a long, 10-year process. "There are two rotations in two companies before there is any question of taking a leadership position," he explains. "It is a meritocracy."

Of sorts. Complications arise particularly when the incumbent generation remain glued to their chairs in the corner office.

"We are often talking to chief executives of 80 or more years old and the potential successor is in his early fifties," Peter Bartels, a partner in PwC's family business practice, says. "These people are not regarded by external management nor staff in the company as future leaders."

Critical to any company, family-owned or otherwise, is to have a succession plan

> "WHEN THE *CHEFS* OF FAMILY FIRMS ARE TOO OLD THEY ARE NOT SO CAPABLE OF RUNNING THE BUSINESS"

Keeping it in the family: Pierre-Emmanuel Taittinger, left, and his children Clovis, right, and Vitalie, below right

in place. When Christophe de Margerie, also a member of the Taittinger family and chief executive of Total, died in an air crash in Moscow this October, the French oil group appointed a new chief executive within days. Any questions over who was in charge were immediately quashed.

Yet the 2014 PwC Global Family Business Survey reported that just 16 per cent of companies of the nearly 2,400 questioned had a formal, written succession plan in place.

"Some firms want to leave themselves a lot of elbow room," says Prof Nicholson. "It's their firm after all, and they want to be able to do with it what they like."

According to the Family Firm Institute, family companies account for more than 70 per cent of global gross domestic product, and approximately 35 per cent of Fortune 500 companies remain largely family concerns. Many household names – including Walmart, BMW, Fidelity and Mars – remain majority-owned by members of the extended original family. ➤

PHOTO: REUTERS

Founded in 1672, C Hoare & Co is the UK's oldest bank that remains in private – and family – hands. Alexander Hoare, the last family member to be chief executive and still a partner with the bank, says: "Looking at succession, I would say it is self-selecting. Any member of the family – our children but also any descendant of the founder – can have the opportunity to work here but they may or may not end up as a partner."

Hoare's ceased to operate as a traditional City partnership in 2001 and as part of that re-organisation created the post of chief executive, an executive board and, over it, a supervisory board. "At that time, we also brought in non-family non-executives and then, in 2009, I stepped down as chief executive and we appointed Jeremy Marshall," says Hoare.

Now in its 11th generation, the family's ownership of the bank is also unusual. Only the seven partners of the firm own it, and, says Hoare, "the shares never appreciate in value – they bring no benefit at all; just a lot of extra liabilities".

Less clear-cut ownership and governance structures can prove problematic, however.

John Elkann, grandson of Giovanni (Gianni) Agnelli, always knew that he would be "the eventual leader of the family business [carmaker Fiat] as the first grandson", says Giuseppe Berta, associate professor of contemporary history at Bocconi University Milan and former head of Fiat's archives. "The Agnelli family is like the British royal family and succession is by primogeniture. There is just one heir but many family members and shareholders."

The complexity of the family's ownership structure through the holding company Exor threatened to derail Elkann's authority and with it the Agnellis' 115-year family involvement in Fiat when his mother, Margherita Agnelli de Pahlen, sought to challenge the valuation of Gianni's estate through the courts. Under an intense international media spotlight, the 2010 suit failed but left an ugly trail of family linen in its wake.

"John Elkann leads Exor himself," says Berta. "He is no hands-off owner and with Sergio Marchionne, chief executive of Fiat Chrysler Automobiles, is building it into an international company."

But these sorts of family arguments or disputes are a depressingly common theme in the story of companies attempting to span the generations.

When Société du Louvre, the Taittinger family-owned group that encompassed hotels, perfume, banking and Baccarat Crystal, and Groupe Taittinger were sold to Starwood Capital for €2.1bn in 2005, not all family members were in agreement.

"I had worked for Taittinger for 21 years," says Virginie Taittinger, daughter of Claude Taittinger and cousin to Pierre-Emmanuel. "My father had given me enormous knowledge and I loved my job. It wasn't work for me: it was – and is – a passion."

Following in the footsteps: John Elkann, above right, with Sergio Marchionne; Muthu Murugappan, below; Virginie Taittinger, opposite

When family and external shareholder pressure forced the sale of the group, Ms Taittinger believed the new American owners would "beg [her] to stay in the company" because, after all, "champagne was not their business". All three Taittingers – Claude, Pierre-Emmanuel and Virginie – did indeed continue to work for a while for the champagne house that bore their name, albeit under new ownership.

Pierre-Emmanuel says he bought back the family business because "it was – it is – my name". Taittinger is one of the largest family-owned champagne houses that still bears the name of its owners on its labels. When Pierre-Emmanuel retires he will pass control to his son Clovis and daughter Vitalie, both of whom work in the business.

The relationship between owning and running is undoubtedly challenging, but when family firms get it right, it can be a winning formula. "We have two strategies," says Alexander Hoare. "The business strategy is to be best in our niche; the family strategy is to perpetuate a profitable family business. What makes a good bank? We'd say family ownership."

MY FATHER GAVE ME ENORMOUS KNOWLEDGE AND I LOVED MY JOB. IT WASN'T WORK FOR ME: IT WAS – AND IS – A PASSION

TURNING POINTS: WOMEN AT THE HELM

Virginie Taittinger describes the family as "macho" and, as a woman, she says she never expected to be invited to become head of the business. Instead, she now manages her own champagne label, Virginie T. "I had no choice," she says. "I was never going to be offered a job with Moët as a Taittinger." She makes her champagne, which she sells online, in her own modern winery some 6km from the Taittinger-owned Château de la Marquetterie.

Venetia Hoare is the first female family member to make partner at Hoare's. "Our policy has changed now, but when I left university Hoare's did offer me a job, but I could think of nothing I would like less than working for the family firm," she says.

However after a career in the City, including a stint with Barings Bank, Alexander Hoare, the last family member to be Hoare's chief executive, persuaded his cousin, Venetia to join. "It has opened the door to future generations of women in the family," she says.

"The bank's policy is to hire the best," explains Alexander. "We only need to find the best half a dozen cousins to join the firm as partners."

Over in India, for Muthu Murugappan, the issue is on the horizon. "Daughters find careers of their own," he says, "but in our generation there is only one girl, so that has made it easier. "This is an issue that needs to be thought through in a changing landscape."

DEBATE
BEHAVIOURAL FINANCE

Are the rich different?

BY DANIEL BEN-AMI

There is an apocryphal tale about an exchange between two of America's most famous novelists on the nature of wealthy individuals. F Scott Fitzgerald, author of *The Great Gatsby*, is reputed to have said: "The rich are different from you and me." In reply, Ernest Hemingway is quoted as saying: "Yes, they have more money."

As it happens, the quote attributed to Fitzgerald seems to be a corruption of a line in *The Rich Boy*, his 1926 short story: "Let me tell you about the very rich. They are different from you and me." Either way, Fitzgerald raises an important question: are the very rich different from everyone else besides the fact that, by definition, they have a lot more money?

Thanks to advances in behavioural finance it has become possible to answer whether the wealthy do indeed think differently from the rest of us.

A rich source of information on the topic is the behavioural finance team at Barclays. It conducts an extensive survey – its Financial Personality Assessment – on 40,000 of the bank's wealthy clients around the world. The survey goes way beyond the risk tolerance questionnaires that have become commonplace among wealth managers. Instead it questions investors on three dimensions related to attitude to risk – risk tolerance, composure and market engagement – and three on decision style – perceived financial expertise, desire for delegation and belief in skill.

Of course, Barclays conducts the survey in a bid to better serve its clients, rather than out of purely intellectual curiosity. Nevertheless, it provides an interesting peek at how the rich think about risk and investment. In this respect it is particularly fortuitous that it covers the periods of extreme market volatility of recent years.

The survey yields some results that do not conform to the traditional depictions of the wealthy. Greg Davies, head of behavioural finance at Barclays, says that, controlling for other variables such as age, the wealthy only exhibit a slightly higher risk tolerance than the general population.

Entrepreneurs, however, stand out from the rest of the wealthy, he says. "Among entrepreneurs we definitely observe higher risk tolerance and higher levels of engagement with the markets," Davies says.

Entrepreneurs also display a marked reluctance to hand over the management of their wealth to others. "We observe lower delegation scores," Davies adds. "These people like to have control over it themselves and are less willing to hand it over to an adviser."

But although entrepreneurs are willing to take risks to expand their businesses, it does not necessarily follow they are risk-takers in other areas. "We know from academic research that someone's financial risk attitude may be entirely different from their attitude towards taking risks in terms of health behaviours or participating in dangerous sports," says Davies.

Perhaps more surprisingly, many entrepreneurs hesitate before investing in the markets because of the perceived risks involved. Davies draws the analogy with a mountaineer. Although climbing a mountain appears risky to laymen, the experts often deny it because of the amount of planning and training they engage in beforehand. Similarly, entrepreneurs often feel they can understand and control risk within their businesses but are less confident about the markets overall.

When such people invest, they often need to create what Davies calls "stories" to provide them with emotional comfort. This could be that they perhaps have a personal connection with a

Living the life: Robert Redford and Mia Farrow in the 1974 film of *The Great Gatsby*

PHOTO: PARAMOUNT PICTURES/GETTY IMAGES

> THE RICH LIKE TO HAVE CONTROL AND NOT HAND IT OVER TO OTHERS

particular firm or they prefer companies from their home country. Often they are reluctant to embrace the conventional view that the best strategy is to have a broadly diversified portfolio.

Hersh Shefrin, a professor of finance at Santa Clara University, draws similar conclusions to Davies about the preferences of the newly wealthy. From his base in Silicon Valley he observes the behaviour of one of the world's largest concentrations of super-rich entrepreneurs. He has also worked with many ultra-high-net-worth families.

"Wealth acquirers are typically entrepreneurial," Shefrin says. "That means they set ambitions that are high and they also attach a very high importance to configuring their environment to maximise the likelihood of achieving those aspirations."

In addition to their strong desire for control, the super-rich tend to exhibit "dispositional optimism" or what a layman might call a rosy outlook. They also typically have good social skills, larger than average families and lower divorce rates.

In psychological terms they tend to emphasise what is often called "system two thinking" rather than "system one". That means they prefer to ponder difficult decisions slowly, rather than come up with quick answers.

Both Shefrin and Davies agree that what are often perceived as national or cultural differences among the rich tend to reflect this division between old and new wealth. Western Europe and Japan have a higher proportion of inherited wealth, while the US, particularly in Silicon Valley, has more new wealth. Russia, which did not even exist as a market economy until a generation ago, has a particularly high proportion of ostentatious new wealth.

If F Scott Fitzgerald were alive today he might no longer declare that the rich are different from you and me. Instead, he might claim, in terms of behavioural psychology at least, that it is the new generation of wealthy entrepreneurs who are different.

Targeting treatments

BY SIMONEY KYRIAKOU

Ann Romney describes herself first and foremost as a "mom of five boys; grandmother of 22" – a person for whom caring for her family comes first. This was the motivation for her recent philanthropic endeavour: funding the Ann Romney Center for Neurologic Diseases (ARCND), which opened this October at Boston's Brigham and Women's Hospital.

The centre conducts research into the treatment of neurological diseases such as multiple sclerosis, Alzheimer's, ALS (amyotrophic lateral sclerosis) and brain tumours, which affect more than 50m people worldwide. "I want my children and grandchildren to grow up and grow old in a world free from these devastating diseases," says Romney, the wife of former US Republican presidential candidate Mitt Romney.

Her comment is rooted in personal experience: she was diagnosed with multiple sclerosis in 1998. "When you get the diagnosis, you are desperately sick to begin with and then you get the enormous worry and concern as to how bad it is going to get. And you lose control," she says. The treatment was aggressive, but Romney expresses gratitude that her doctor was "engaging, comforting and reassuring".

The centre will "fuel life-giving breakthroughs that will change outcomes for future generations", Romney adds. But as Howard Weiner, ARCND co-director, says, without more philanthropic backing such research would be difficult.

"With a decline of available federal dollars to support neurologic research, Brigham and Women's Hospital is focused on developing new models of funding. Strategic partnerships will play a critical role in accelerating treatment, prevention and cures," he says.

Romney is not the first member of the US political establishment to sponsor life-changing work. For the past 12 years, the Clinton Foundation, founded by former president Bill Clinton, has been funding research into cures for Aids and HIV. Indeed, philanthropy is a big deal among the global political and business elite. In the UK alone last year, 166 people made a total of 292 donations of £1m or more, adding up to £1.36bn, according to the Coutts Million Dollar Donors Report.

Yet while the spotlight is often on charities, medical research across the world needs vital funding. Scientists cannot rely on the UK's National Health Service and the US National Institutes of Health, for example. These bodies do give grants but must also consider their obligations to taxpayers.

"There are two traditional ways of getting funding: relying on doctors using their 'free time' or relying on government donations. But you can't expect doctors to work all hours, and given the demands on governments, grants cannot be guaranteed," says George Dover, paediatrician-in-chief at Johns Hopkins Children's Center in Baltimore in the US.

"There is a crisis developing as far as medical research is concerned. This is where philanthropy has been critical."

The late billionaire Jim Stowers, founder of investment house American Century, created an endowment company using 40 per cent of American Century's profits. This founded BioMed Valley Discoveries, which researches early-stage cancer treatments. "BioMed does primary research similar to the UK's Wellcome Trust. It can be so early-stage that commercial backers consider it too risky," says American Century's London head, Michael Green.

"Without philanthropy, such work could not be done, and freedom of research is only possible from a private endowment. The scientists answer to a peer group of academics, not to a pharmaceutical sponsor."

"It is difficult to get across to commercial backers and the public that the work we are doing is fundamental to all subsequent translations into a clinical setting," adds Stephen Desiderio, director of the Johns Hopkins Institute for Basic Biomedical Sciences in Baltimore. "Almost every treatment has had its roots in basic scientific discoveries, but few commercial entities will back these. This is where philanthropy comes in."

Bringing cutting-edge treatments to the clinical sphere also relies on donations. Steven Corwin, chief executive of NewYork Presbyterian Hospital, says government grants and philanthropy are critical to treating patients. "We use philanthropy to be transformational, not to plug a deficit. We use the donations for new builds and recruitment of physicians, increasing our expertise and creating new centres," he says.

One of NYPH's trustees is David Koch, the industrialist who has a net worth of $42.7bn – the same as his brother Charles – according to Forbes. "He has been helping with donations and by his governance as a trustee," says Corwin.

Developing countries, too, need funding to treat even basic medical needs. A visit to a maternity hospital in Malawi spurred Scottish philanthropist Sir Tom Hunter and his wife to get involved. According to Ewan Hunter, spokesman for the Hunter Foundation, they described it "as possibly the most inhumane thing they had ever witnessed. No mother or baby deserved

"WE USE PHILANTHROPY TO BE TRANSFORMATIONAL, NOT TO PLUG A DEFICIT"

PHOTO: CHARLES OMMANNEY/GETTY IMAGES

Campaign trail: Ann Romney, left, aims for the research centre that bears her name to 'fuel life-giving breakthroughs'

to be treated in that manner. A quirk of geography shouldn't condemn anyone to such abhorrent conditions."

With partners that included the Children's Investment Fund Foundation and the Clinton Foundation, the Hunter Foundation redeveloped the hospital as the Ethel Mutharika Maternity Hospital.

Independence from political or commercial influence is paramount when it comes to medical research. Desiderio at the Johns Hopkins Institute has not encountered any problems but says: "One could run into issues over medical intellectual property, especially if a corporation is backing a project. A donor could sponsor equipment for a specific purpose, which is fine, but they cannot specify the expert hired to use it."

Pharmaceutical entrepreneurs are welcome to endow a chair, but they cannot pick the individuals to occupy it, says Desiderio, adding that nor can political families funding research expect to use the medical profession as a vote-winner.

Many philanthropists do not want their names made public, while others are happy to put their names above the door for the awareness it can bring.

"Publicity is an important driver of both awareness and fundraising," says the ARCND's Weiner. "As the centre's global ambassador, Ann Romney will help bring national awareness to the issue and will bring these devastating neurologic diseases to the forefront of public attention."

Corwin of NYPH adds: "If well-known names want to donate, their fame can amplify the effect and induce others to give to the same cause."

But philanthropy has to end somewhere and others must take over. Ewan Hunter of the Hunter Foundation, agrees that fame helps raise awareness and can be a positive force but believes "philanthropy is no substitute for government".

Artistic licence

BY LIZ BOLSHAW

I used to find death much scarier when I was younger," the artist Lucian Freud once confided to a reporter. "I had more to lose."

Since death claimed Freud, however, the courts and the media have been preoccupied with the contents of his will – and the disputes it has provoked. Freud's estate, valued at about £42m after payment of debts and taxes, has been the subject of contentious litigation, and all because details of the final beneficiaries were kept outside the will in a secret trust.

The artist's final will, executed on May 10 2006, revoking a previous one written in 2004, left the entirety of his estate to his executrices – his daughter Rose Pearce and Diana Rawstron, his solicitor. While they were, they argued, left the bequest as an absolute gift, the gift was subject to a secret trust that set out who was to benefit from the estate. Its existence was, they said, quite separate from the will.

Unlike a will, which is a public document, a secret trust is private and allows a testator to keep confidential who finally benefits from his estate.

"The reason the Lucian Freud case attracted so much publicity is that [the use of a secret trust] is quite rare," says Mark Keenan, a specialist in domestic and international trust and succession disputes at law firm Mishcon de Reya.

Part of the problem, he says, is secret trusts carry the risk of a legal challenge. There is also the critical question of whether "you trust the recipients of the gift to honour the trust's contents".

In the case of Freud, no one doubts Rawstron, as both a lawyer and trusted friend, "would carry out the wishes of the trust", Keenan says. "As a lawyer, she will have extraneous evidence in kept files that record his wishes, albeit subject to secrecy."

The executrices sought a declaration from the High Court that clause six of the artist's will made an absolute gift of his residuary estate to them as named individuals. They then said this was subject to a secret trust, the existence of which was quite separate to the will.

"What our barrister argued," says Caroline Cook, the solicitor representing Paul McAdam Freud, whom the court acknowledged to be one of Lucian Freud's alleged children, and defendant in the case, "was the wording of the clause did not satisfy the demands of a secret trust and therefore at most it was only a half-secret trust."

Had McAdam Freud convinced the court, the artist would have died largely intestate and the residue of his estate would have been distributed equally among the next of kin, namely the 14 known children. "The judge, [Richard Spearman QC], argued clause six made no reference to the existence of the trust, while in the wording of the earlier will of 2004 that clause had made reference to a trust. The later draft clearly amended the wording in order to maintain the secrecy of the trust," explains Cook.

"With a fully secret trust," adds Keenan, "no mention is made at all about the trust in the will. If a will mentions the existence of a trust, but does not mention the beneficiaries, then this is termed a half-secret trust."

With a large number of children, both legitimate and illegitimate, from at least six different women, "Freud... had a complicated family arrangement and he was, one might speculate, trying to avoid an allegation of unfairness between the beneficiaries", Keenan says.

The claimants, the executrices, won their case, with Spearman ruling they were absolute beneficiaries of the will and were not obliged to make public the contents of the secret trust. They did, however, confirm McAdam Freud was not named in the trust.

"Under English law the individual has complete testamentary freedom," says Cook. "You are allowed to leave your estate to whomever you like. It is possible to bring a claim against a particular estate if you feel you are entitled to something, but in general your wishes are your own to make."

The Inheritance Act of 1975 enables claims to be made by those connected to the deceased who have not received "reasonable financial provision" from the estate of the deceased. "Although we say that we have testamentary freedom," says Keenan, "that's not quite right."

He says his practice has seen a significant growth in disputes and contests, and the firm is not alone. "This can be ascribed to the increasingly complex family arrangements people have, the increasing size of the estate, particularly due to rising property values, and the increasing awareness of rights, enabled by the internet," he says.

There is one exception in English law to the public disclosure of wills: royal wills. The convention of sealing royal wills dates from 1911, when Queen Mary's brother, Prince Francis of Teck, is thought to have left part of the crown jewels to his mistress, Lady Kilmorey. Queen Mary convinced the attorney general to "seal" the will and in doing so prevent a royal scandal in the queen's coronation year.

The convention was tested in 2007 when Robert Brown, then 52, claimed to be the illegitimate son of Princess Margaret and Peter Townsend, and made an appeal to the High Court for the princess's will to be unsealed. Frank Hinks QC, acting for the executors of the royal wills, argued that Brown had no right to see the will and won.

If you are not a senior royal, however, there are other ways to "make provision for individuals and keep that provision confidential", says Keenan. "But in all these instances – discretionary trusts, lifetime trusts – you are relying on the trust being properly administered and not being challenged by potential beneficiaries."

The Freud case illustrates that for a secret trust to avoid being contested it must be subject to very precise administration and will preparation.

GLOSSARY

Secret trust
A testator bequeaths property to a specified person who, it has been agreed, will hold this on trust for a third party. Neither the existence of the trust nor the identity of the final beneficiary is revealed in the will.

Half-secret trust
A testator bequeaths property but makes it clear the bequest is not for him absolutely but as a trustee. While the identity of the ultimate beneficiary remains concealed, the existence of the trust and the status of the beneficiary as trustee is explicit.


Picturing the future: Lucian Freud in his studio in Paddington, London, c 1952

PHOTO: THE JOHN DEAKIN ARCHIVE/GETTY IMAGES

Best of British

BY JOE BARNES
PHOTOGRAPHS
BY CHARLIE BIBBY

Until recently, the idea of entering into service with a wealthy family was a hangover from the Victorian era – a reminder of the inequality that characterised the British Empire. Today, however, through television shows such as *Downton Abbey*, the idea of domestic service is taking on a new romance and respectability.

This is anathema to John Buttfield, a butler for more than 20 years and now a tutor at the British Butler Academy in London. He says he loathes these characterisations. "I can't even watch *Downton Abbey*," he grimaces.

At first, Buttfield had intended to join the military, before deciding on a different route. "I saw being a butler as an opportunity to challenge myself," he says. "It's a way to earn a good living without necessarily being academically skilled."

Buttfield links his choice of career with his desire to join the army. "The best butlers usually come from military backgrounds," he says. "Many of the things that constitute great service are already instilled in the armed forces: discipline, good time-keeping, looking smart, obeying orders, the respect for a hierarchy – it's all there if they've served in the army or navy."

Though all these attributes remain vital to providing good service to the wealthy, the gentleman's gentleman has had to move with the times. "The role of the butler has changed immeasurably in recent years," says Tracy Jewitt, marketing manager of domestic service recruitment agency Greycoat Lumleys. "The modern butler is more likely to be on a BlackBerry than ironing *The Sunday Times* for the breakfast tray."

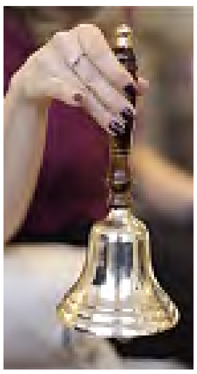
In 1930, there were more than 30,000 people working as domestic servants in the UK. These days the figure is down to 5,000, most of whom work for rich foreign clients.

"A British person that had a whole household of staff can't afford to do so any more. These days 80 per cent of our clients are Russian, Chinese or Middle Eastern," says Sara Vestin Rahmani, founder of the British Butler Academy.

So does that mean a British butler brings an element of class to a household, particularly to those deemed by the more snobbish remnants of the aristocracy as nouveau riche? "The British butler is seen as the ultimate in accessories," says Nick Bonell, an experienced butler who relocated to Shanghai in April 2013. "The Chinese super rich have all the trappings money can buy. The homes, private jets, works of art, supercars and now the British butler are vital as symbols of ultimate wealth."

This is a view shared by Vestin Rahmani, who has also founded schools in China. "There used to be a wonderful tradition of finesse in their imperial past," she says, "something

"THE MODERN BUTLER IS MORE LIKELY TO BE ON A BLACKBERRY THAN IRONING A NEWSPAPER"



that has been lost under communism and that many rich Chinese would like to see restored."

With an increasing number of Chinese doing business internationally – China is forecast to have 1.4m individuals worth more than $1m by 2015 – a good domestic servant can help greatly in making a good first impression. Bonell adds that in China, "the British butler can educate the principal in etiquette and protocol issues in order to avoid embarrassment in a given social situation".

Such an international client base brings many new demands but not necessarily the need for butlers to learn a new language. Indeed, according to Vestin Rahmani, "for Russians, the ability of a butler to speak Russian is seen as a negative, as clients prefer to hide their conversations from servants" – an idiosyncrasy with which any reader of *Anna Karenina* will be familiar.

Loyalty to one's employer remains important – at least to an extent. Buttfield views the relationship between a butler and his master as "a personal thing, a marriage of sorts", but, like any marriage, he stresses it must be reciprocal.

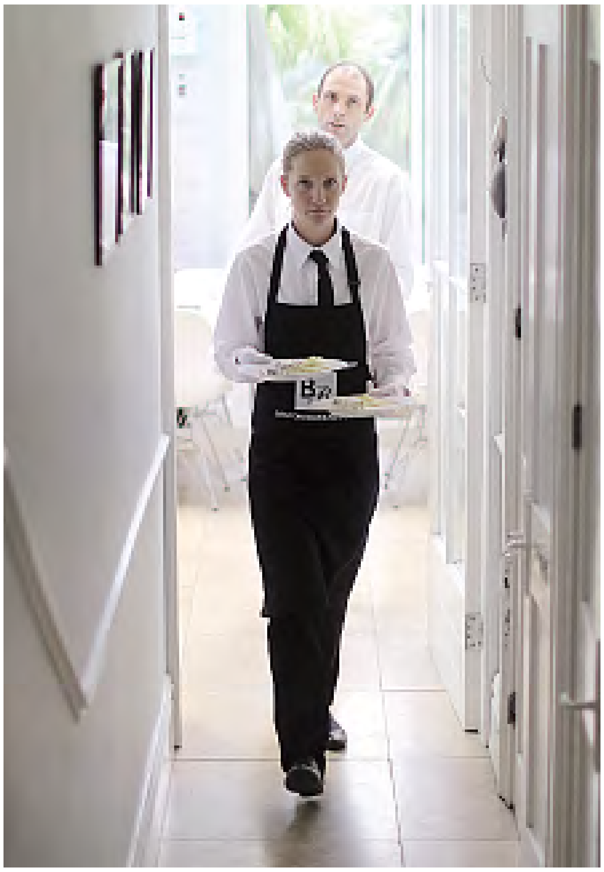
"Fifteen years ago," he says, "I worked for a gentleman, a multibillionaire Russian. The work was good, but one day I found that all my communications had been wire-tapped. I resigned immediately."

In the Middle East, where demand for well-trained butlers is highest, rich clients will pay well to ensure loyalty. According to Manal Ramadan, who hopes to set up a school to train butlers in Dubai, finding quality staff in the emirate is unbelievably difficult.

"The majority of the people working in domestic service in Dubai are not very well trained; many are just taken off the street with little idea how to perform the role. Many rich people are prepared to pay significantly more for well-trained servants. They particularly identify with servants trained in 'the British way'.

"The history of Britain, with its traditions and its royal family, is very appealing in Dubai, where people also believe in the idea of royalty."

> FOR THE CHINESE SUPER RICH, THE BRITISH BUTLER IS A SYMBOL OF ULTIMATE WEALTH



At your service: the decline of British aristocracy means most butlers in the UK – some seen here under training at London's British Butler Academy – work in Chinese, Russian or Middle Eastern households

BOOK REVIEW FORGING CAPITALISM

Honesty and the pursuit of profit

BY DANIEL BEN-AMI

Astute observers of capitalism have long recognised there is a tension at its heart. Although the market economy is based on the pursuit of self-interest, its legitimacy depends on benefiting the wider society.

These two contrasting elements were understood as far back as the second half of the 18th century. Adam Smith, viewed by many as the founder of modern economics, famously argued in *The Wealth of Nations*: "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest." Less well known is that in his other great book, *The Theory of Moral Sentiments*, he emphasised the importance of human sociability. Smith saw virtue as necessary to keep the pursuit of self-interest in check.

Capitalism's subsequent history amply illustrates both the broader benefits of a market economy and the problems that arise when self-interest becomes selfishness. There can be little doubt that popular living standards have increased enormously over the decades. Even the poorest sections of society have access to material possessions that the wealthy of the 18th century would have found unimaginable. On the other hand, there is always the temptation for those pursuing honest profit and self-interest to cross over the line to greed and fraud.

Forging Capitalism is an engaging history of how Britain attempted to negotiate this tension in the century running up to the outbreak of the first world war. The title is a pun. It is a study of the rogues, swindlers and fraudsters who tried to benefit from the market economy through the use of deceit. It is also an examination of how capitalism itself was forged through

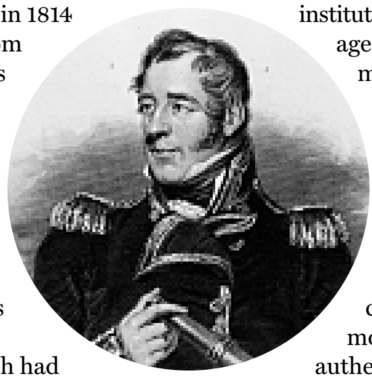
> CAPITALISM'S HISTORY ILLUSTRATES THE PROBLEMS THAT ARISE WHEN SELF-INTEREST BECOMES SELFISHNESS

PHOTOS: HULTON ARCHIVE, RISCHGITZ/GETTY IMAGES

A question of trust: Mr Micawber introduces David to Mrs Micawber in Charles Dickens' *David Copperfield*, left; Lord Thomas Cochrane, right

evolving mechanisms to curb these dishonest tendencies.

Ian Klaus, a member of the policy planning staff of the US state department and a former Harvard academic, includes many colourful rogues. Among them are Lord Thomas Cochrane, who in 1814 attempted to benefit from spreading false rumours of Napoleon's death. Since the Napoleonic wars were coming to an end such news would have a substantial impact on asset prices. Cochrane quickly sold his holdings in Omnium, a form of government stock, which had risen in price on the false news.



If such stories have a familiar ring it is probably because they provided raw material for some of the most prominent figures in English literature. Novelists such as Charles Dickens, William Thackeray and Anthony Trollope were inspired by some of the same characters and tales.

The other side of Klaus's story is how different mechanisms evolved to tackle breaches of trust. In the early 19th century the emphasis was on status and virtue. Transactions were typically underpinned by the standing of those involved and market participants were expected to behave virtuously.

By the mid-19th century these notions were giving way to reputation. Although the concept was not new, it became more important and prominent. An increase in literacy and technological developments played an important part. The expansion of the press meant that news about an individual's reputation could be more easily transmitted to the public.

Finally, in the latter part of the century, there was the shift to what Klaus calls verification. This form of regulation is closer to what exists today, including institutions such as credit rating agencies and the financial media, to check the veracity of transactions. There were also new technologies, such as fingerprints, to verify individual identity.

It was during this period that the state came to play a much more prominent role in authenticating information.

The one weakness of *Forging Capitalism* is that it underestimates the extent to which the market economy was transformed over the century it covers. Klaus sometimes refers to free market capitalism as if it is a system that still exists. Yet by the late 19th century it was already clear the state was playing a central role in supervising and underpinning economic activity. Certainly by the eve of the first world war the role of government was vastly greater than a century earlier.

There is considerable room to debate whether this transition was desirable or even inevitable. But it is striking how few contemporary commentators are willing even to acknowledge it.

Forging Capitalism: Rogues, Swindlers, Frauds and the Rise of Modern Finance, by Ian Klaus (Yale, 2014). $30.00
The reviewer is the author of Ferraris for All *(Policy Press 2012)*

THE QUOTE

"Participants in the market are increasingly forced to refine their means of trust and their protections against fraud. Trust as we know it today is an evolving legacy of our repeated ability to rise to capitalism's challenges – and of capitalism's failure to save our souls."

CAR REVIEW
MCLAREN 650S

> THE CAR HANDLES THE HIGHLY TECHNICAL CIRCUIT WITH ALMOST CASUAL POISE

Speed by stealth

BY ROHIT JAGGI

There is a section of the Ascari race circuit in Spain where a fast, steeply banked left-hand curve turns abruptly into a sharp right kink that you cannot see until you are past the point at which you should be braking hard. The thick lines of tyre rubber on the track, some disappearing off into the grass, prove how easy it is to be caught out by this corner.

The McLaren 650S, with twin-turbocharged 3.8 litre V8 power and stable cornering, should be a prime candidate for this sort of error of overconfidence. Yet no matter how quickly I come to that right-hand corner, the little two-seater makes it around with ease.

In fact, the car handles the whole of the highly technical Spanish circuit with almost casual poise. It can be provoked into the tail-sliding, tyre-smoking antics adored by look-at-me drivers, and the traction control system's track mode ably assists in such heroics, but that is not necessary for rapid progress.

The car, with 650 horsepower, is indeed fast. A 0-60mph time of less than three seconds and a top speed of 207mph certainly qualify it as quick; so fast on the track that it is difficult to imagine it being anything but frustrating on normal roads with bumps and traffic and speed limits.

Not so. Where many similar cars would leave chunks of low-slung aerodynamic adornments littering the weather-beaten mountain roads of southern Spain, the 650S has plush suspension that – mainly – prevents the teeth-grittingly expensive sound of carbon fibre meeting road surface.

In addition, its acceleration is both explosive and accessible, which means slower vehicles can be dispatched from the windscreen to the mirrors in moments. On far too many occasions on European mountain roads I have been so frustrated by slow traffic that I have stopped to give myself at least a few minutes of enjoyment before I catch them up again. This McLaren, however, is almost as good as a supersports motorcycle for being able to exploit overtaking opportunities denied to lesser four-wheelers.

One of the car's key ingredients is the seven-speed dual-clutch gearbox. Leave it in auto and the electronics are good at working out which gear you want. Take control with the paddles behind the steering wheel and the almost-instant gear changes are even better. In cars, dual-clutch systems with paddles approach the physical involvement in gear changes a rider has on a sporty two-wheel thoroughbred.

Another ingredient is the active dynamic panel on the centre console: its complicated and slightly fiddly rotary switches evoke McLaren's illustrious Formula One experience. There are normal, sport and track settings – "sport" tightens the suspension and sharpens the throttle response as well as changing the gearbox behaviour; "track" makes everything a bit wilder, including giving the option to turn off the electronic stability system completely.

The modes also bring other tools into play, such as the airbrake that, in the two sportier modes, deploys when my foot lifts off the throttle or the car goes over a crest. But at full throttle, when there is no steering input, the rear wing goes flat to minimise drag. This is technology usefully recycled from F1, where active aerodynamics are now banned.

For a car with this level of equipment and refinement, its weight – 1.33 tonnes dry for the coupé, 1.37 tonnes for the spider – is svelte. A carbon-fibre tub and standard carbon ceramic brakes help. The way that weight is distributed, along with the aerodynamic aids, make the McLaren's response to steering wheel inputs linear – I never have any uncertainty about what the car will do, whether on smooth track or frost-damaged road.

Surefooted performer: even poor road surfaces fail to ruffle the McLaren

The spider version has a retracting hard top that makes the car as snug as the coupé when it is closed – and there is the option, with the roof up, of rolling down the vertical back window for extra ventilation and an extra-fruity in-cabin sound track from the engine. Like many cars, the engine, in both sport and track modes, makes more noise – good for the enthusiastic driver though perhaps less so for others.

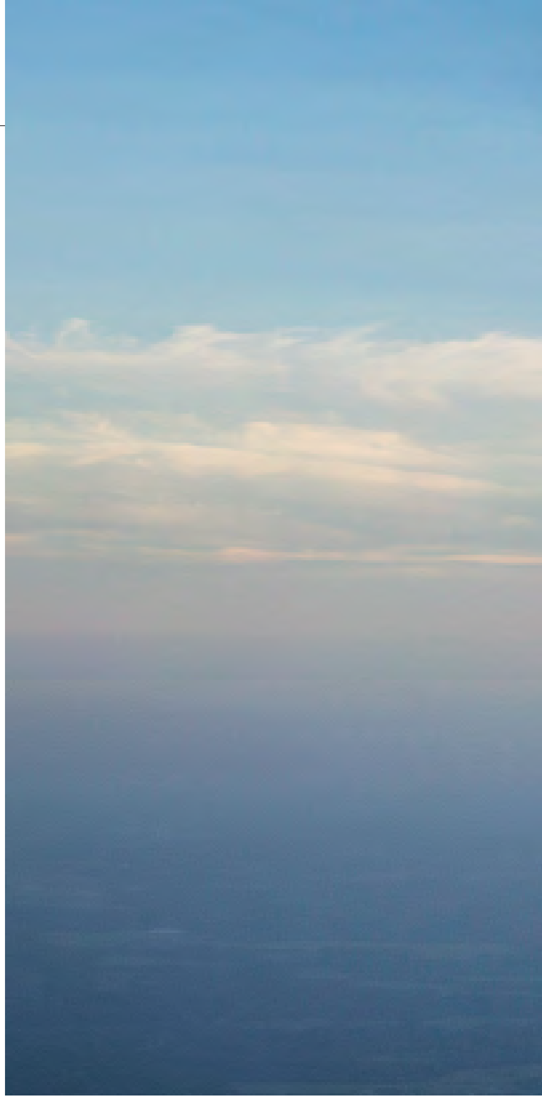
Overall, however, the 650S is understated for such a competent sports car. If you avoid the more eye-searing colours such as orange or bright green, this is almost a stealth supercar, with little in the way of badging that shouts loudly.

The blade doors, which open vertically, are in contrast to that – although, as with the BMW i8 reviewed in the last issue of FT Wealth, this type of attention-seeking door is now seen on more cars than just Lamborghinis, McLarens and the occasional pimped-out hatchback.

The times when one can make full use of 650 horsepower and a 0-124mph time of 8.4 seconds are, sadly, rare. For that performance to be instantly accessible without compromising the McLaren's usability, means that this car is something of a bargain at any price.

STATS

ENGINE:
Twin-turbo 3,799cc V8, 650PS, 678Nm of torque
TOP SPEED:
207mph
ACCELERATION:
0-62mph in 3.0 seconds; 0-124mph in 8.4 seconds
PRICE: £195,250 (coupé); £215,250 (spider)



Upwardly mobile

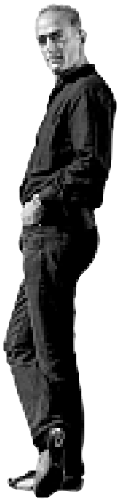
It is more than seven years since I first flew the Mustang jet in Kansas. Then brand new, the diminutive jet made by Wichita-based Cessna – a company that has been around since near the dawn of powered flight – was a sign of the upwardly mobile times. The 340kt twin-engined jet, revolutionary in some of its high-tech features such as the avionics but reassuringly evolutionary in its all-metal construction, was in the vanguard of what many believed would be a new age of personal aerial transportation.

The wider economy had other plans, though. Yet the six-seat Mustang, even at a price of $2.6m in post-crash dollars and now $3.3m, was still warmly received by buyers, and about 450 have been sold. Many of those owners are looking to trade up – and Cessna has been developing an aircraft it feels is just right for them.

Enter the Citation M2, which is a bit bigger, a lot faster and not that much more expensive than the Mustang. If it is as easy to fly, its market is as close to being assured as anything in this time of roller-coaster economies.

Strapping myself into the cockpit of the M2 at Wichita's Mid-Continent Airport, blue skies beckon. But even the grey storm clouds of the day before would not have kept the M2 from flying. It can cruise as high as 41,000ft – above almost all weather and using the thinner air at altitude for better economy and speed.

The Mustang I flew in 2007 was fitted with three big screens instead of the confusion of tiny round gauges that were the norm. Screens have since become standard and offer much greater functionality and ease of use. Overlaying maps, a depiction of the terrain hidden by clouds, and the path to fly on to the same screen that shows whether the plane is the right way up transforms the art and skill of piloting. The occasional heart-stopping moment when one is "unsure of one's position" – or lost – is almost completely consigned to history.



That is relevant here because the M2, like the Mustang, is certified to be flown by a single pilot. For those whose sole job is to fly, that is not even a factor. But for owner-pilots who may fly rarely, keeping the workload manageable is a vital safety feature. Flying in dense cloud concealing nearby mountain peaks is energy-sapping at best and fatal at worst.

The M2 goes one better than the large triple screens of its smaller jet stablemate. Its customised avionics system uses small touchscreens to control functions. Even more usefully, the screens employ big, clearly labelled virtual buttons – handy in turbulence, when fingers bounce around, and very useful for those who need reading glasses to make out the small print on some other avionics displays: a small but important concession to the age group of likely buyers of the aircraft.

The user-friendly avionics make start-up and set-up procedures simple and quick. Runway performance of the M2 is unchanged from the Citation CJ1+ it is based on – but more capable engines, now with 8.74kN of thrust each, and some subtle aerodynamic tweaks mean the aircraft can also get into and out of short runways on hot days when the air is thinner.

The climb performance is also sparkling – climbing to 41,000ft takes about 24 minutes. And at altitude, the M2 can zip along at a maximum cruise speed of 404kts, which is about 20kts faster than the CJ1+. That cuts journey times by an appreciable amount – which is almost a shame, as the M2's cabin is a comfortable place for up to seven passengers over as many as 1,580 nautical miles.

Ease of use extends to the pressurisation, which is now handled automatically. And when it comes to taking control back from the autopilot to land, the aircraft is docile and predictable.

Grimmer economic realities than seven years ago make this a tough environment for aircraft of this size. Demand for large-cabin, ultra-long-range business jets costing more than $50m is healthy, but light jets have had a harder time. The M2 has some good rivals, such as the Phenom 100E from Brazil's Embraer, which I found to be an excellent performer, and the long-delayed HondaJet, first deliveries of which are expected next year.

Cessna knows how tough market conditions are. Its parent, Textron, this year bought another aviation veteran, Beechcraft, and has laid off 750 employees from the two companies – although it says demand is returning.

The M2 exemplifies why the fleet of Cessna jets in service outnumbers that of any of the company's rivals. Personal jet transportation is going to remain a privilege for a minority in the foreseeable future. But those who can afford the entry fee, which for the M2 stands at about $4.5m, will find a very useable aircraft that will not intimidate the owner pilot.

Entry-level experience: passengers can enjoy a comfortable cabin as the M2 cruises in the thinner air at altitudes of up to 41,000ft, allowing for greater economy and speed

THE BUSINESS GURU

PATRICK THOMAS

> "NOTHING GIVES BETTER RETURN ON INVESTMENT THAN INVESTMENT IN YOUR PEOPLE"

Forget the label – see the person

BY JEREMY HAZLEHURST
PHOTO BY MAGALI DELPORTE

Patrick Thomas began his career in 1969 at International Telephone & Telegraph, a global manufacturing company based in the US. In 1971, he moved to Pampryl, a French fruit juice maker founded by his grandfather which by then was owned by Pernod Ricard. In 1980, aged just 33, he became Pernod Ricard's chief financial officer, and later the company's UK managing director.

In 1989, he joined French luxury goods maker Hermès as chief operating officer. He left in 1997 to become chief executive of Lancaster, the cosmetics company, and then became the first non-family head of whisky maker William Grant & Sons. He repeated that feat at Hermès when he returned as chief executive in 2003.

He retired in January 2014 but still holds non-executive positions at companies including carmaker Renault, Laurent-Perrier, the champagne house, Chinese luxury brand Shang Xia and Ardian, the private equity firm.

"The world has changed a lot since I started out," he says. "When I left business school I had 10 offers on the table, so I was able to select the job I wanted to do. Back then it was sort of a dream world, because we were basically in charge. You could send out four CVs, and get four jobs. Today you have to send thousands.

"You have to be much more flexible and adaptable than we had to be. But you are more likely to find a job that suits you. In my day, your exam results determined your career, but these days employers are much more interested in character. That is positive, because we should never think in terms of labels but human beings.

"I've got three pieces of advice for young people. First, work for a family business if you can. I always did. They outperform non-family ones, and one reason is their longer-term view. The companies I managed were more interested in the inheritance of the next generation in 20 years from now than the profit at the end of December.

"That is very positive, especially in sectors like luxury where it takes five to 10 years to build a brand. I worked with one American company, made up of professional managers, and I saw what short-term thinking means for a business.

"Family firms also treat people much better. If you are loyal, they will give you a good career, not just in terms of money but fulfilment in your job. A career is not only to make money but also to help you have a beautiful life. You should always be learning new things and meeting new people. If your work is making you miserable it is not a job – it is a nightmare.

"Second, have a vision. If you don't know where you are going, you won't get there. If you have a strong vision your management decisions are almost obvious. Hermès has a very strong vision: respect for craftsmanship, the search for excellence and to always be very, very, very creative. Apple has an unbelievably strong vision. It's all very well to copy the others, but you will only ever do as well as the best in your class; if you have your own vision you can be the best.

"The third thing is to be people-centred. Nothing gives better return on investment than investment in your people – not only financially. Yes, train them so they feel competent, but sharing the vision is more important for their happiness. In every company I managed I made sure everyone from the factory worker to the managers understood how they were contributing to the company's vision and direction. That helps them feel fulfilled.

"I was too young when I became chief financial officer of Pernod Ricard; there was a lot I didn't know. If you are the CFO of a subsidiary, you are basically a financial controller. But if you are the CFO of the group you have lots of problems you haven't experienced before, like currency management and consolidation. At a subsidiary you call the mother company and ask for money, but if you are CFO of the group you have to raise the money. I didn't have enough experience, and I had to gain it as quickly as possible.

"My biggest mistake? Recruiting the wrong people. I tended to want to recruit people I liked. But the recruitment decision is a very rational one and you have to recruit on objective criteria and listen to the professionals. By the end of my career I had realised that and trusted more in the people around me."

Jeremy Hazlehurst is founder of Family Capital, a family business sector website

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Peter Aspden, Arts Writer, *Financial Times*

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