PREPARING FOR TOMORROW: A REPORT ON FAMILY WEALTH TRANSFER

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WEALTH-X

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A Message from NFP

In 2014 we embarked upon a journey with Wealth-X to discover just how much wealth the world could anticipate passing from generation to generation in the coming years. Our findings reveal that a staggering US$4trn will be transferred in the next decade, and almost US$30trn will be transferred over the next 30 years.

A lot has happened in the world since 2015. We've seen ostensibly stable countries invaded and an increase in terrorist activity. There has been on-going discussion regarding the stability of the European Union, exacerbated by the UK's vote in favour of Brexit and the persistent financial difficulties of several member countries. China, and the Asia-Pacific region in general, have seen much slower growth than most experts had projected. Institutions and governments around the world and within the US are increasingly skeptical about the US economy. Stability in Central and South America has ebbed and flowed, as new governments and ideals take hold. The Panama Papers and hacking of central banks have pushed global authorities to take stronger regulatory positions on secrecy, transparency and protection of personal data.

These developments affect the volatility of markets, and, consequently, directly affect the future of personal wealth. Those fortunate enough to qualify for statistical inclusion in this report are nevertheless forced to face the issues head-on, as they try to predict how the current climate may impact their asset holdings. This realisation has caused Wealth-X and ourselves to pause and consider what the highly affluent need to do in order to minimize the impact on their estates and to pass on their wealth, businesses and family beliefs in the most efficient and flexible way possible.

Our new journey with Wealth-X continues to explore the amount of wealth that is expected to be transferred in the near future. In addition, we've sought the input of experts in the fields of family offices, international tax planning and structuring, real estate and business succession. Their thoughts on the trillions set to pass from one generation to another should make clear the immense opportunity at hand for the ultra-affluent and the professionals who advise them. The way forward is clear: plan now to protect your assets, maximize your holdings and harmonize your family succession.

Tomas A. Povedano
Chief Operating Officer
NFP Life Solutions

Resources for this Report

This report, published in September 2016, utilises the unique and proprietary Wealth-X Ultra High Net Worth (UHNW) Database, the world's most extensive collection of curated research and intelligence on UHNW individuals (UHNWIs). For the purposes of this report, a UHNWI is defined as having a net worth of US$30m or more.

Wealth-X's researchers and analysts have created the Wealth-X UHNW Family Wealth Transfer Model with the aim of identifying when these individuals are likely to pass on their wealth to the next generation, how much of this wealth will be passed on, and how it will be passed on. Our forecasts incorporate factors such as current and future wealth growth, taxes, and money passed onto spouses who will not transfer it to the next generation in the next 10 years.

For this second Family Wealth Transfer report, we have also spoken to a number of experts on Family Wealth Transfers, the associated assets of the ultra wealthy, and the challenges they face when planning transfers. We thank them all for their time and expertise in contributing to this report:

PHILLIP ANDERSON
Director, **Estera Bermuda Group**

Philip is a Director of the Estera Bermuda Group, heading up the Insurance Management, Listing Sponsor and Private Client & Trust teams. Philip specialises in providing solutions to and working with companies, individuals and families on corporate and trust matters and is involved in the management, administration and accounting of financial structures, working closely with clients and their advisors.

LEIGH-ALEXANDRA BASHA
Partner, **McDermott Will & Emery**

Leigh-Alexandra Basha is co-head of McDermott's Washington, DC, Private Client Practice Group. She focuses her practice on domestic and international estate and tax planning. She counsels an affluent international client base on a wide range of sophisticated matters, including estate and trust administration, family-wealth preservation, tax compliance, as well as business succession, expatriation and pre-immigration planning.

JOSHUA COLEMAN
Founder & CEO, **Momentum Advanced Planning**

Joshua brings advanced tax and legal planning, actuarial design and insurance architecture to advisors working with high net worth families. His business, Momentum, offers turn-key tax planning, wealth-transfer, estate, charitable, and insurance services to families, institutions, and their advisors, as they seek to initiate the planning process, or add to an already significant set of planning strategies.

MAYUR DALAL
Chief Executive Officer And Wealth Coach, **Dalal Capital Advisors**

Coach and adviser for 20 years to UHNW families for family governance, business succession, philanthropic planning and wealth transfer-planning needs. Mayur works for 65 families and leads DCA's Manhattan-based multi-family team.

FRANK GARCIA
Vice President, **Global Planning Group**

Frank has an extensive background in Latin America having spent nearly two decades successfully advising individuals, families and business owners by providing them with comprehensive financial and estate planning. Global Planning Group is a partner company of NFP Insurance Solutions, an independent UHNW advisory firm specialising in risk-management and insurance solutions.

SIMON KHALIL
Property Acquisitions, **Khalil & Kane**

Simon is a founding partner of Khalil and Kane, a multi-award-winning London-based property-advisory firm providing investment-management, asset-management and acquisition services to private clients, UHNW and family offices since 2004.

JON MEADMORE
Partner and Head of Corporate and Commercial, **Colin Biggers & Paisley**

Jon leads the corporate and commercial team at Colin Biggers & Paisley, one of the oldest legal practices in Australia, specialising in the construction, property and insurance industries. Jon has extensive experience in advising wealthy clients on commercial activities with a particular focus on sales and acquisitions and dispute resolution. Jon was also named in Doyle's Guide 2016 as a leading commercial lawyer in Brisbane, and was also listed in the 2016 and 2017 editions of Best Lawyers in Australia for commercial law.

KIRBY ROSPLOCK
Researcher, Adviser, Author and Speaker, **Tamarind Partners**

Kirby is the founder of Tamarind Partners, Inc., a research, advisory and consultancy practice that works with families, advisors and institutions connected to the family-office market, providing cutting-edge insights into and knowledge of the family-office domain. Author of The Complete Family Office Handbook, A Guide for Affluent Families and the Advisors Who Serve Them (2014), and The Complete Direct Investing Handbook (2016).

HOWARD SHARFMAN
Senior Managing Director, **NFP Insurance Solutions**

Howard works with clients and their advisors to craft custom insurance solutions for the high net worth community to help grow and preserve their wealth. NFP Insurance Solutions is an independent insurance advisory firm specializing in risk management and life insurance solutions.

KRIS STEGALL
Vice President, **NFP Corp.**

Leading NFP's international life and annuity insurance division, Kris is a consultant to family offices, financial advisors, and insurance professionals for the global wealth transfer needs of the highly affluent.

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Introduction

Securing a legacy is of vital importance to many UHNWIs, as is avoiding the dreaded "shirtsleeves to shirtsleeves in three generations" phenomenon, whereby, historically, it has proved very difficult for a family to maintain its wealth from grandparents to grandchildren.

This report examines, in depth, the most pertinent issues and challenges for the ultra wealthy in transferring wealth to the next generation. It focuses on the importance of private businesses and property as wealth-transfer asset classes, as well as the challenges arising from continued political instability and the impact that the increasing demand for transparency has on the wealth-transfer process.

The average UHNWI is nearly 60 years old. Considering that over 60% of this demographic is self-made, it is likely that any given individual within it will be party to, or be considering, the transfer of significant wealth for the first time in their lives. For UHNWIs likely to transfer their wealth during the next decade, the average age is even older, at 85 years, and their children already have their own lives, with most being between 40 and 60 years old themselves. These are not "trust-fund kids" in their 20s waiting to inherit a fortune; most have successful careers in their own right, whether within the primary family business or forging their own path.

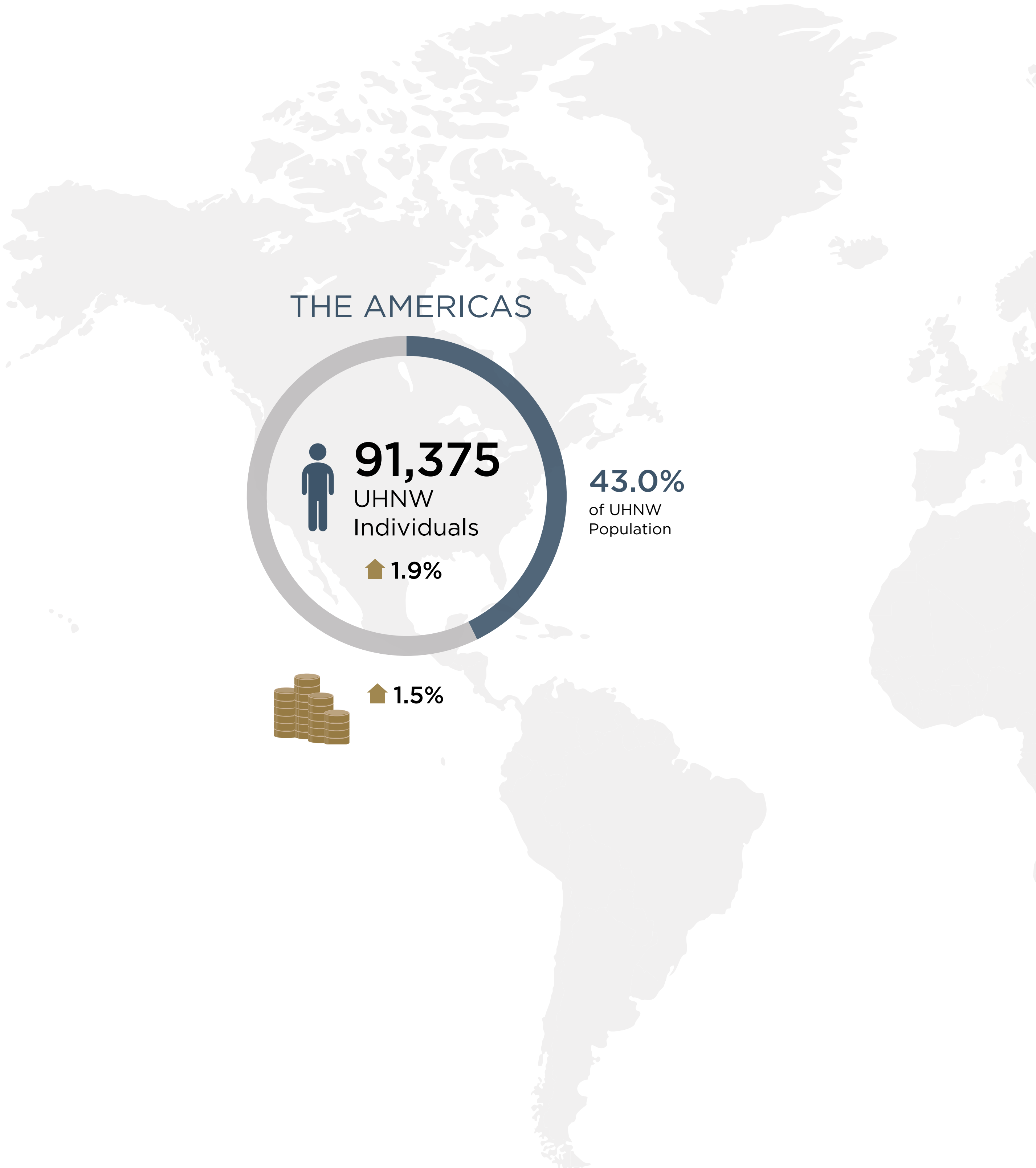
The importance of early planning and education of all affected family members cannot be overstated. We find that setting expectations prudently can enable the creation of the long-term legacy and stability that is so important to many UHNWIs.

THE STATE OF THE ULTRA WEALTHY

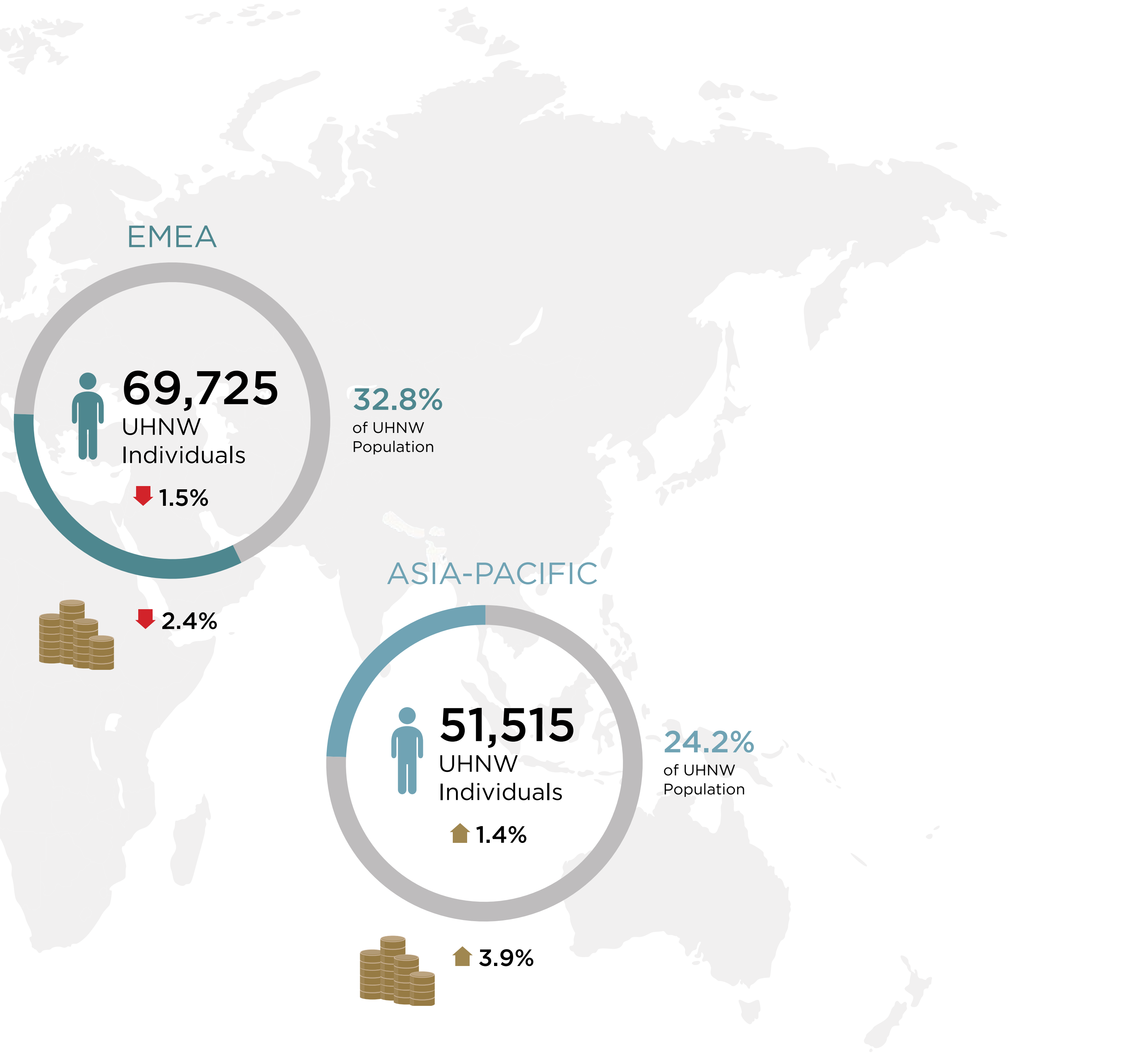
The world's ultra wealthy population achieved a new record size in 2015 of 212,615 individuals, having grown 0.6% year on year. While this growth rate is low, it remains a strong result, given the global uncertainty of recent times, including a slowing Chinese economy, oil prices at seven-year lows, and unpredictability engendered by geopolitical events such as Russia's intervention in Ukraine, the impending Brexit, and the Panama Papers.

Despite the aforementioned fears of a slowing Chinese economy — that may have larger implications in the long term — in 2015, the Shanghai Stock Exchange still finished the year higher, and helped the Asia-Pacific region record the strongest ever growth in its UHNW population, with its wealth growing by 3.9%, to reach a cumulative US$7.8trn.

THE GLOBAL ULTRA WEALTHY POPULATION



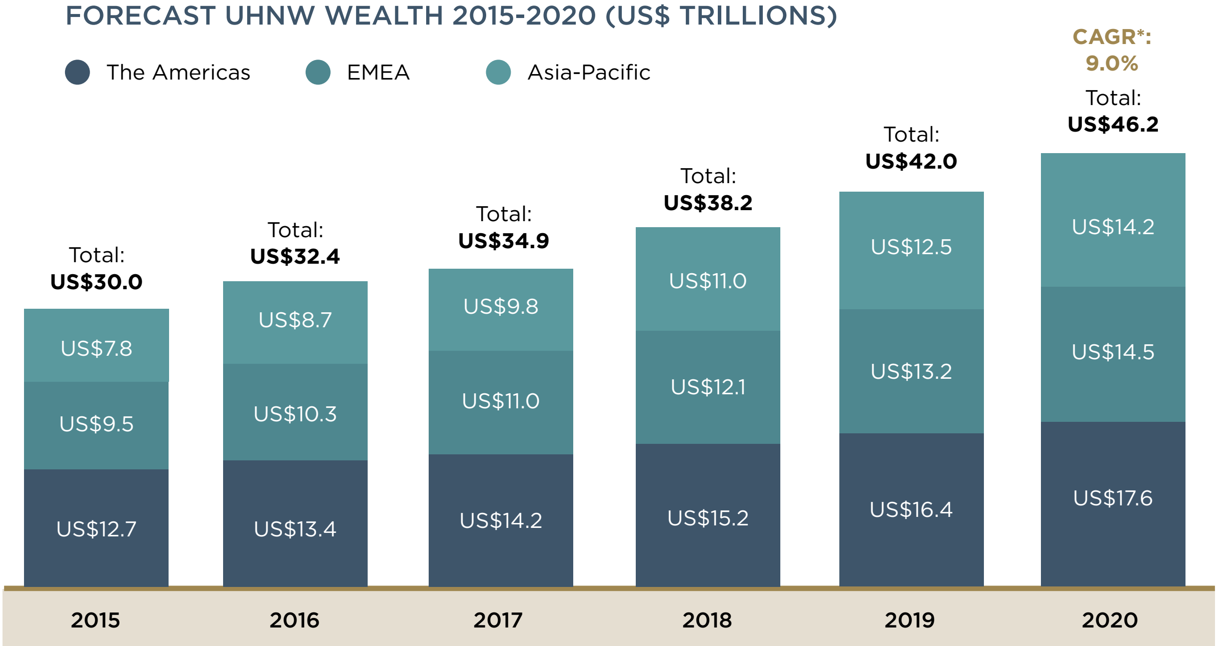
Region	2015 UHNW Population	2015 UHNW Wealth (US$ Trillion)	2014 UHNW Population	2014 UHNW Wealth (US$ Trillion)	UHNW Population Growth	UHNW Wealth Growth
World	**212,615**	**30.0**	**211,275**	**29.7**	**↑ 0.6%**	**↑ 0.8%**
The Americas	91,375	12.7	89,670	12.5	↑ 1.9%	↑ 1.5%
EMEA	69,725	9.5	70,800	9.7	↓ 1.5%	↓ 2.4%
Asia-Pacific	51,515	7.8	50,805	7.5	↑ 1.4%	↑ 3.9%



Source: Wealth-X

Looking ahead to 2020, we anticipate the total wealth of UHNWIs to increase by 54%, to reach a total global wealth of US$46trn.

FORECAST UHNW WEALTH 2015-2020 (US$ TRILLIONS)

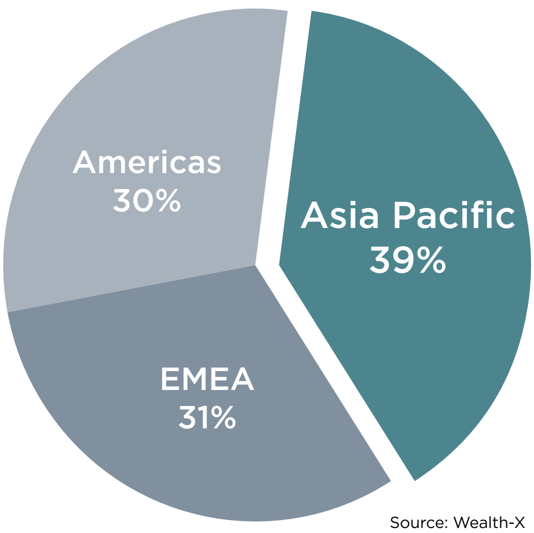


Totals may differ due to rounding

Source: Wealth-X

Indicative of developments over the past 12 months, we expect wealth in the Asia-Pacific area to continue to grow at the fastest rate – adding US$6.4trn of UHNW wealth in the area by 2020. EMEA and the Americas will also increase their UHNW wealth, each contributing around 30% of the global total between 2015 and 2020.

ATTRIBUTION OF EXPECTED GROWTH IN UHNW WEALTH 2015-2020



Source: Wealth-X

*Compound Annual Growth Rate

THE IMPORTANCE OF WEALTH TRANSFER

Successfully transferring family wealth to the next generation is a growing priority for UHNWIs. For example, in the Knight Frank Wealth Report 2016, the biggest concern of the wealthy around the world was reported to be "succession and inheritance issues" (67%).

> "THERE IS THE SAYING ALONG THE LINES OF 'FROM BLUE COLLAR, TO WHITE COLLAR, BACK TO BLUE COLLAR, OR SHIRTSLEEVES'. I THINK MOST WEALTHY PEOPLE... WANT TO EDUCATE THE NEXT GENERATION, SO THEY CAN MAKE THE RIGHT DECISIONS, TO HAVE THE RIGHT TOOLS AT THEIR DISPOSAL, AND TO HAVE GOOD JUDGMENT SO THEY CAN MAKE THE BUSINESS CONTINUE ON, EVEN IF IT TRANSFORMS."
>
> — LEIGH-ALEXANDRA BASHA

> "THE FIRST [SHIFT IN UHNW BEHAVIOUR] IS THAT ULTRA-HIGH NET-WORTH FAMILIES ARE MORE CONCERNED ABOUT THEIR NEXT GENERATIONS MAKING A DIFFERENCE ON THEIR OWN... OUR CLIENTS ARE WORRIED ABOUT THEIR FAMILY MEMBERS BEING ABLE TO MOVE THE NEEDLE ECONOMICALLY FOR THEIR FAMILY, AND, IF ONE DOESN'T SEE THE ABILITY TO MOVE THE NEEDLE, WHAT ARE THEY GOING TO DO TO HAVE A SUCCESSFUL LIFE AND TO HAVE A LIFE OF SIGNIFICANCE?'.
>
> — HOWARD SHARFMAN

As UHNWIs age, the importance of legacy only grows, whether that is maintaining family wealth (if they are second- or third-generation wealthy), or creating wealth (if they are first-generation). Either way, their wealth gives these individuals the opportunity to create a lasting impact, an increasingly attractive prospect:

> "A BIG SHIFT IN THE NEW WEALTH SPACE IS THAT A LOT OF ENTREPRENEURS, FOUNDERS AND FAMILIES SEE THEIR WEALTH NOT JUST AS AN ENGINE TO MAKE MORE WEALTH, BUT [A FORCE] TO MAKE CHANGE."
>
> — KIRBY ROSPLOCK

Those likely to pass their wealth on in the next 10 years often have children who are already leading successful lives in their own right, and not merely waiting for a large financial windfall in the future.

> "THE FEAR IS, 'MY KIDS WILL BE ENTITLED OR THEY'LL EXPECT MORE AND...THEY WON'T GO OUT THERE AND MAKE THEIR OWN FINANCIAL SUCCESS.' BUT MANY HAVE MADE THEIR OWN WAY INDEPENDENTLY OF THE FAMILY BUSINESS AND INDEPENDENT OF THE WEALTH THAT THEY INHERITED."
>
> — KIRBY ROSPLOCK

THE BURDEN OF WEALTH

Given that many children of older UHNWIs are already independently wealthy, there is naturally a broader conversation concerning how the transfer of family wealth should be managed. With financial security already assured, given prudent advice and the education of family members, the whole family can have a say in the direction in which their family wealth is pushed, and the impact that it makes.

However, this can often be a daunting task, and wealth can prove as much a hindrance as a help. Warren Buffett, currently the third-richest man in the world, has summed up the balancing act that many UHNWIs are trying to sustain: "The perfect amount [of money] to leave children is 'enough money so that they would feel they could do anything, but not so much that they could do nothing.'

> "PARENTS ARE CONCERNED ABOUT MAKING SURE THAT THE CHILDREN HAVE MEANINGFUL LIVES, LIVES OF SIGNIFICANCE, AND THEY DON'T WANT THEIR FINANCIAL FORTUNES TO HURT THAT. THEY WANT TO HELP, AND THAT'S A VERY HARD BALANCING ACT."
>
> — HOWARD SHARFMAN

Given the importance of wealth transfer, as well as the issues that it can create, not all families are putting in adequate planning to complete the process with success.

> "IF AN UHNW INDIVIDUAL HAS NOT YET MADE PLANS FOR THEIR WEALTH TRANSFER, THEN THE NEXT BEST TIME IS NOW."
>
> — KRIS STEGALL

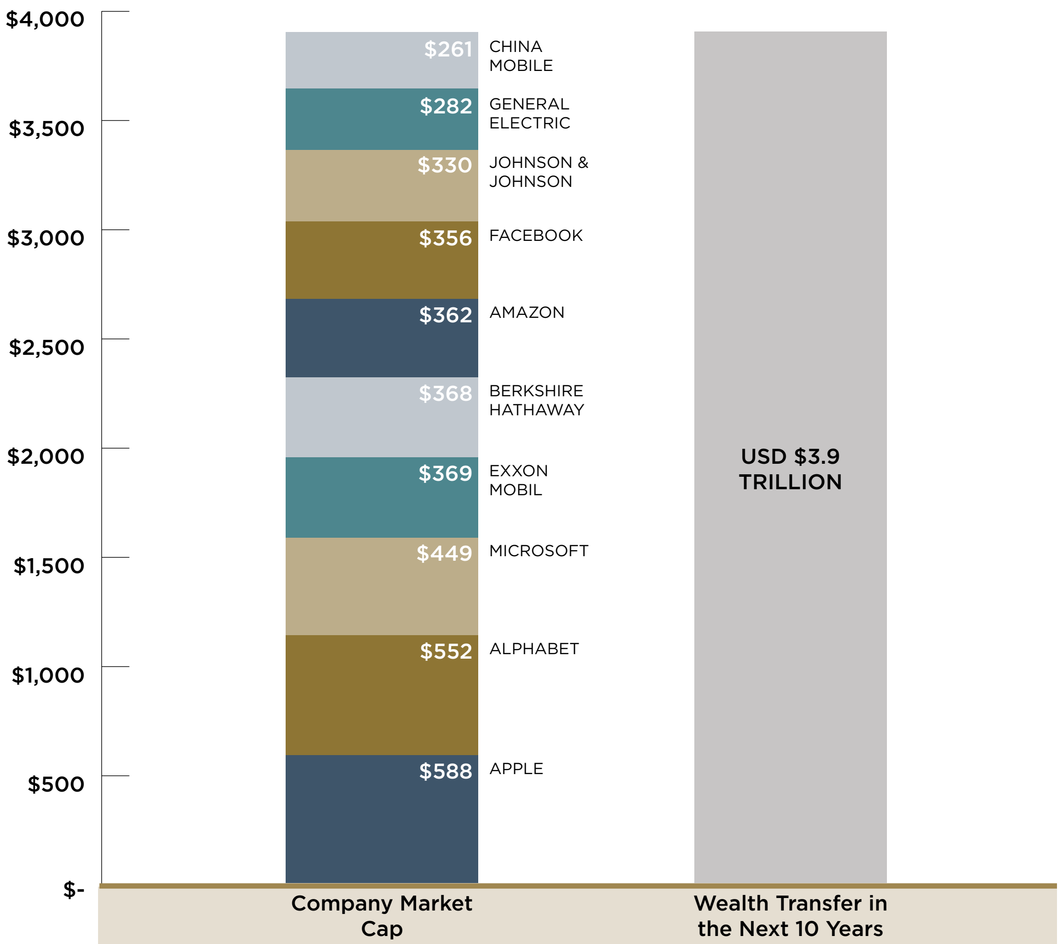
WEALTH TRANSFERS IN THE NEXT DECADE

With the world's UHNW population at an all-time high, and with a slowly increasing average age, a very large proportion of the US$30trn expected to be passed over to the next generation will occur in the next decade.

Using the Wealth-X proprietary Family Wealth Transfer Model, in the next decade we expect UHNWIs to transfer US$3.9trn to the next generation. This reflects a 5% decline from our 2014 estimate of US$4.1trn, which is largely due to wealth being transferred earlier than originally anticipated by existing UHNWIs.

This US$3.9trn expected to be transferred is equal to 13% of all UHNW assets, enough to purchase the ten largest companies in the world – Apple, Alphabet (Google), Microsoft, ExxonMobil, Berkshire Hathaway, Amazon, Facebook, Johnson & Johnson, General Electric and China Mobile – outright.

LARGEST COMPANIES IN THE WORLD AND WEALTH TRANSFER (US$ BN)

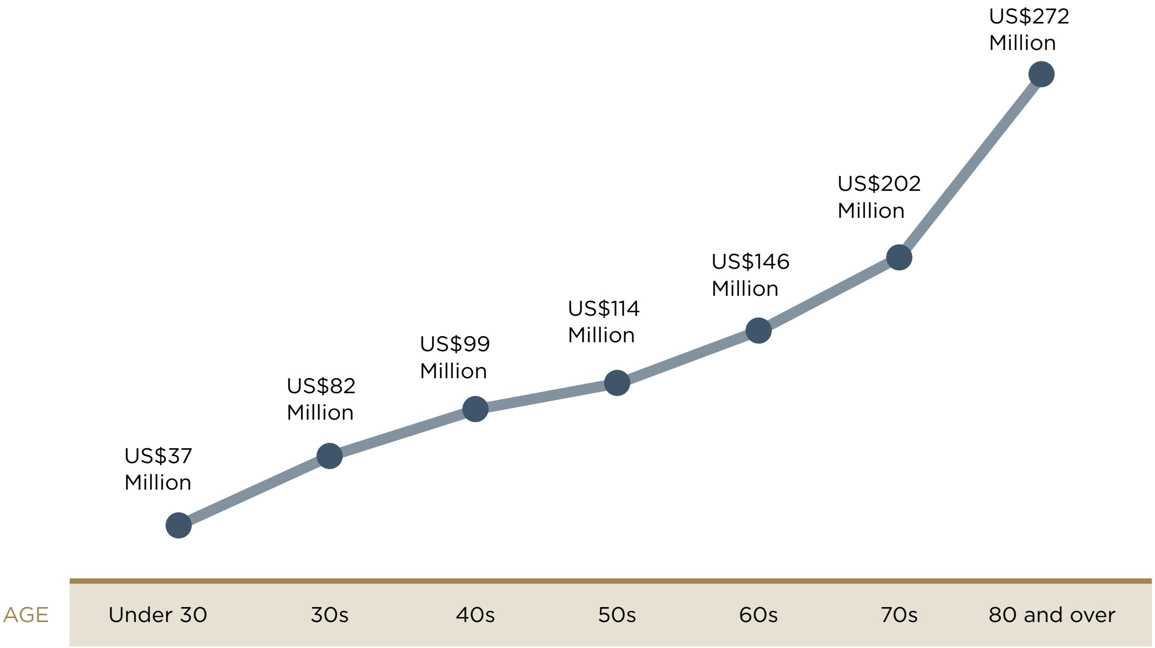


Source: Wealth-X and company analysis

UHNW WEALTH TRANSFER AVERAGE PROFILE

As for the general population, net worth also differs by age at the UHNW level. UHNWIs who are most likely to pass their wealth on in the next 10 years are defined as those aged 80 and above. We find that individuals in this age bracket are significantly wealthier than the average UHNWI, with an average wealth of US$272m compared to US$141m. Owing to the efforts of their advisors and wealth managers, it appears that, even when UHNWIs step back from running their primary companies, their wealth continues to increase as they age.

AVERAGE NET WORTH BY AGE GROUP



Source: Wealth-X

In 2015, UHNWIs aged 80 or over were, on average, seven times wealthier than UNHWIs under 30 years old. The total number of UHNWIs aged 80 and over is also, coincidentally, seven times larger than the youngest group (under 30s), who account for only 1% of all UHNWIs. Despite the higher media profiles given to teenage Silicon Valley millionaires, there are many more UHNWIs who are significantly older.

We estimate that, in total, there are over 14,000 UHNWIs likely to transfer assets in the next 10 years. While, at first glance, this may not seem significant, this number is larger than the total UHNW population of China (12,050) or the UK (10,650).

80+		ALL UHNW
14,335	Ultra wealthy Population	212,615
US$3.9trn	Ultra wealthy Total Wealth	US$30trn
85	Average Age	59
US$272 m	Average Net Worth	US$141 m
34% (of net worth) US$92 m	Average Liquidity	21% (of net worth) US$30 m
Male 88% Female 12%	Gender	Male 87% Female 13%
Self-made 66% Self-made/Inherited 21% Inherited 13%	Source of Wealth	Self-made 64% Self-made/Inherited 19% Inherited 17%
Married 89% Widowed 7% Divorced 2% Other 2%	Marital Status - Male	Married 93% Widowed 1% Divorced 4% Other 2%
Married 40% Widowed 49% Divorced 6% Other 5%	Marital Status - Female	Married 77% Widowed 12% Divorced 7% Other 4%
The Americas 8,455 EMEA 3,415 Asia-Pacific 2,465	Region (Individuals)	The Americas 91,375 EMEA 69,725 Asia-Pacific 51,515
The Americas 59% EMEA 24% Asia-Pacific 17%	Region (%)	The Americas 43% EMEA 33% Asia-Pacific 24%

Source: Wealth-X

Self-made wealth is over-represented in the wealth-transfer group, highlighting the fact that there is already a huge wealth-transfer movement being undertaken by first-generational individuals.

SELF-MADE WEALTH

The importance of self-made wealth to today's ultra wealthy population is hugely significant – 64% are self-made, and a further 19% inherited some wealth before creating significantly more themselves.

Given the size of the self-made UHNWI population, and the opportunities that abound for the professional sectors servicing this group, an attempt to gain a deeper understanding of the various characteristics of this demographic is warranted.

The following quote from an interview participant helps to illustrate the typical persona and needs of the self-made UHNWI.

> "THE 'SELF-MADE'…ARE HARD WORKERS…NOT ONES THAT JUST GOT LUCKY AT THE ROULETTE TABLE. THEY HAVE 'SWEAT EQUITY' IN THEIR BUSINESS.
>
> THEY WANT TO EDUCATE THEIR CHILDREN. THAT'S VERY IMPORTANT TO THEM. THEY WANT TO ENSURE THEIR CHILDREN KNOW HOW TO DEAL WITH FINANCES… THEN, THERE'S PHILANTHROPY; MANY OF THEM DO GIVE BACK. EVEN THOUGH THIS IS NEW MONEY FOR THEM, THEY WANT TO DO SOMETHING WHERE THERE'S A LEGACY AND WHERE THEY'RE GOING TO MAKE AN IMPACT. THEY WANT THEIR CHILDREN TO BE INVOLVED IN THAT, LEARN FROM IT, AND CARRY IT ON."
>
> — LEIGH-ALEXANDRA BASHA

Another important aspect of this group is the higher proportion of female widows. While the majority of male UHNWIs transferring their wealth have a spouse, this is not true for their female counterparts. For female UHNWIs, the wealth transfer is most likely being directed to their children. These extremely wealthy women have a unique perspective on wealth transfer and often take a different viewpoint to their UHNW male counterparts about how to distribute assets to children and other beneficiaries.

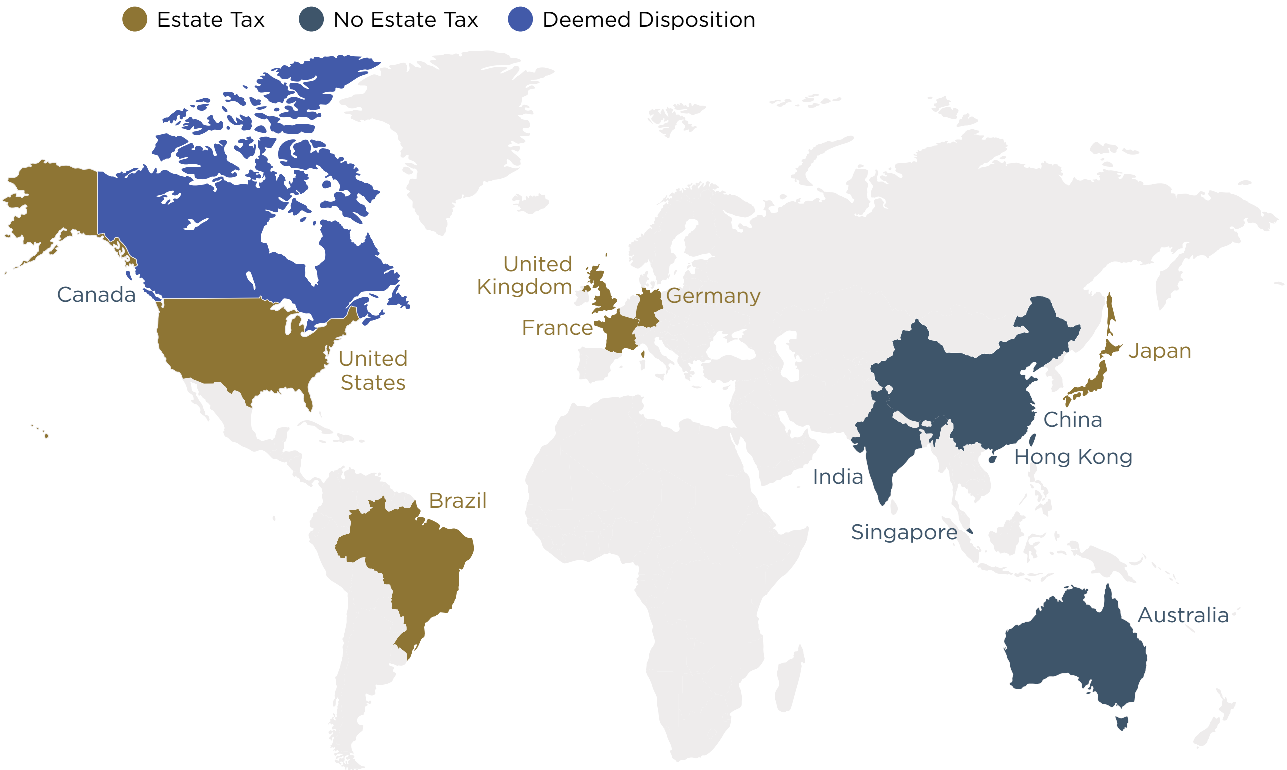
WEALTH TRANSFER AROUND THE WORLD

Despite typically being global individuals, one of the most significant differences between UHNWIs set to transfer wealth in the next decade and the rest are the regions in which they are based. For the wealth-transfer UHNWIs, the Americas are over-represented. Latin America, with its older average age (64 compared to 59 globally) is partly responsible for this, but, as it only accounts for 17% of all UHNWIs in the Americas, this does not represent the whole story. Instead, we are seeing more and more of the wealth that has been accumulated in the US moving into the segment where wealth transfers in the next 10 years are expected.

However, many of the assets of this group are held internationally and the approach of the respective jurisdictions to regulating wealth transfer is of vital importance to managing the process. Adequate knowledge and appropriate advice around these issues are key to ensuring that wealth is transferred as intended to the chosen beneficiaries.

> "IF THE REPORTING IS NOT DONE RIGHT, THE COMPLEXITY IS EVEN BIGGER."
> — MAYUR DALAL

Below is a snapshot of estate taxes in various key wealth hubs around the world, with significant variance in effective rates.



Source: Wealth-X summary of Deloitte International Tax Highlights 2016

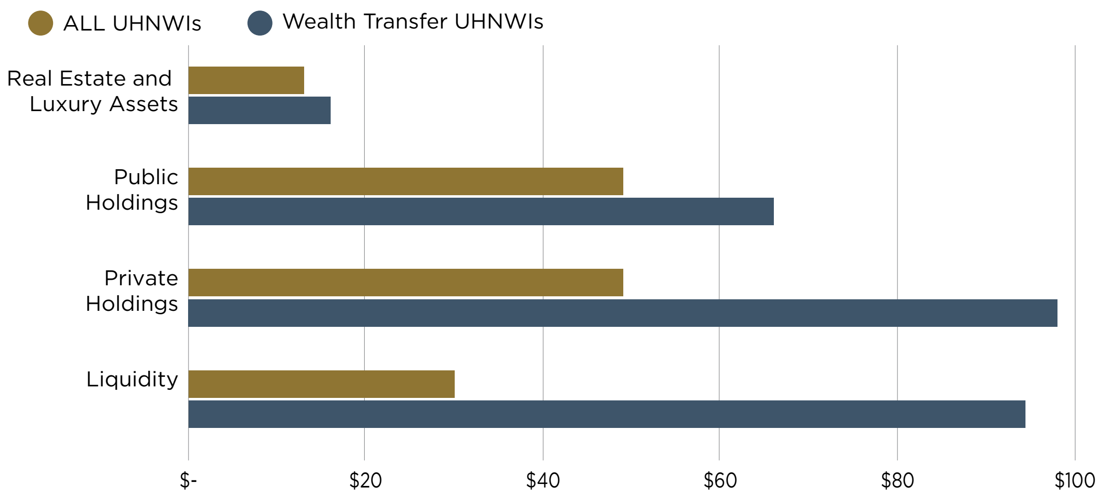
COUNTRY	UHNW POPULATION	ESTATE TAX SUMMARY
United States	69,350	For US citizens and residents, a unified estate and gift tax is imposed, based on the net value of the transferred assets of the donor in excess of US$5.45m. For non-resident non-citizens, estate taxes are imposed only on property situated in the US with a value in excess of US$60,000. The top rate for estate and gift tax is 40%. The states also impose various estate, gift and/or inheritance taxes.
Germany	19,375	Inheritance and gift-tax rates range from 7% to 50%, with exemptions available.
Japan	15,450	Progressive rates up to 55% apply for estate tax.
China	12,050	No estate tax in China
United Kingdom	10,650	Inheritance tax is charged on property transferred on death, certain gifts made within seven years of death, and some lifetime transfers. Inheritance tax is payable on assets in excess of GBP 325,000, at a rate of 40%. For non UK-domiciled individuals, only UK property is subject to inheritance tax, although long-term residence (17 out of the last 20 tax years), can result in deemed UK domicile (for inheritance-tax purposes only).
India	8,850	No estate tax in India.
Canada	6,175	No formal inheritance or estate tax in Canada. However, a deceased taxpayer is deemed to have disposed of all property owned immediately before the time of death at fair market value.
France	4,900	Transfers between close relatives are subject to tax at rates ranging from 5% to 45%, with a rebate of up to EUR 100,000 per child.
Brazil	4,775	States are authorized to tax inheritances at rates of up to 8%.
Hong Kong	3,800	No estate tax in Hong Kong.
Australia	2,475	No estate tax in Australia.
Singapore	1,350	No estate tax in Singapore.

Source: Wealth-X summary of Deloitte International Tax Highlights 2016

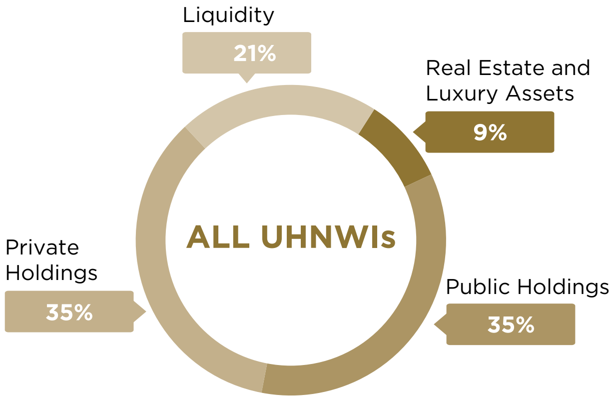
ASSET HOLDINGS OF WEALTH TRANSFER UNHWIs

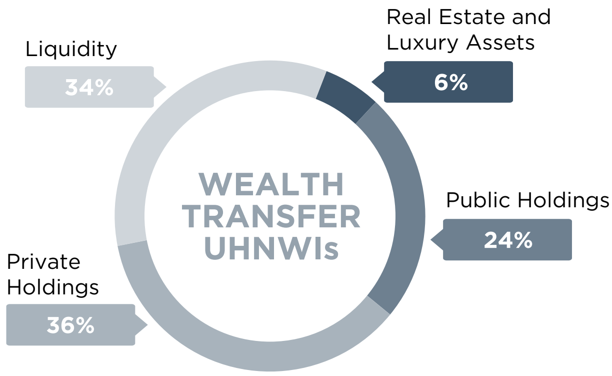
For every asset class, the average holdings of wealth-transfer individuals is higher in absolute terms than for those not undertaking wealth transfer. However, while public holdings are lower in percentage terms, the average wealth-transfer UHNWI still has US$66m invested in public securities.

AVERAGE ASSET HOLDINGS (US$ M)



AVERAGE ASSET HOLDINGS (% OF TOTAL WEALTH)





Source: Wealth-X

A notable difference between UHNWIs transferring wealth in the next 10 years and UHNWIs in general is not only the average wealth for each group, but also the average liquidity. As a proportion of total wealth, the wealth-transfer group has 34% of their assets held as cash, compared to only 21% for all UHNWIs. Coupled with the higher net worth, this equates to average liquid assets of US$92m, three times higher than the average UHNWI's US$30m held in cash.

WEALTH COMPLEXITY

As UHNWIs age, they tend to reduce their holdings in public companies, and increase their holdings in cash. As will be discussed later in the report, the illiquid nature of assets such as property and private business can complicate wealth transfers, and, by having a larger cash cushion, they have greater flexibility and diversification when preparing to transfer wealth to the next generation – in terms not only of assets, but also of geography.

This cash cushion also helps to counterbalance other assets that are less liquid. UHNWIs are global by nature, holding assets all over the world, many of which are illiquid. This adds further complexity to the transfer of wealth to the next generation.

> "IT USED TO BE THAT THE UHNW FAMILIES WOULD JUST ESTABLISH A TRUST AND A CORPORATION AND THAT WOULD SUFFICE. THAT'S NOT THE SOLUTION ANY MORE. NOW, THEY REALLY NEED TO THINK SERIOUSLY ABOUT MAKING A THOROUGH PLAN IN TERMS OF SUCCESSION, THE ESTATE AND TAXES."
>
> — FRANK GARCIA

The dual importance of cash and private holdings, and the paring down of other assets, may suggest older UHNWIs are trying to have it both ways – wanting to hold cash to give flexibility, but remaining heavily invested in their primary business, of which they are reluctant to give up control. They also think about who will be inheriting their wealth and what effect the passing on of different assets to different inheritors will have.

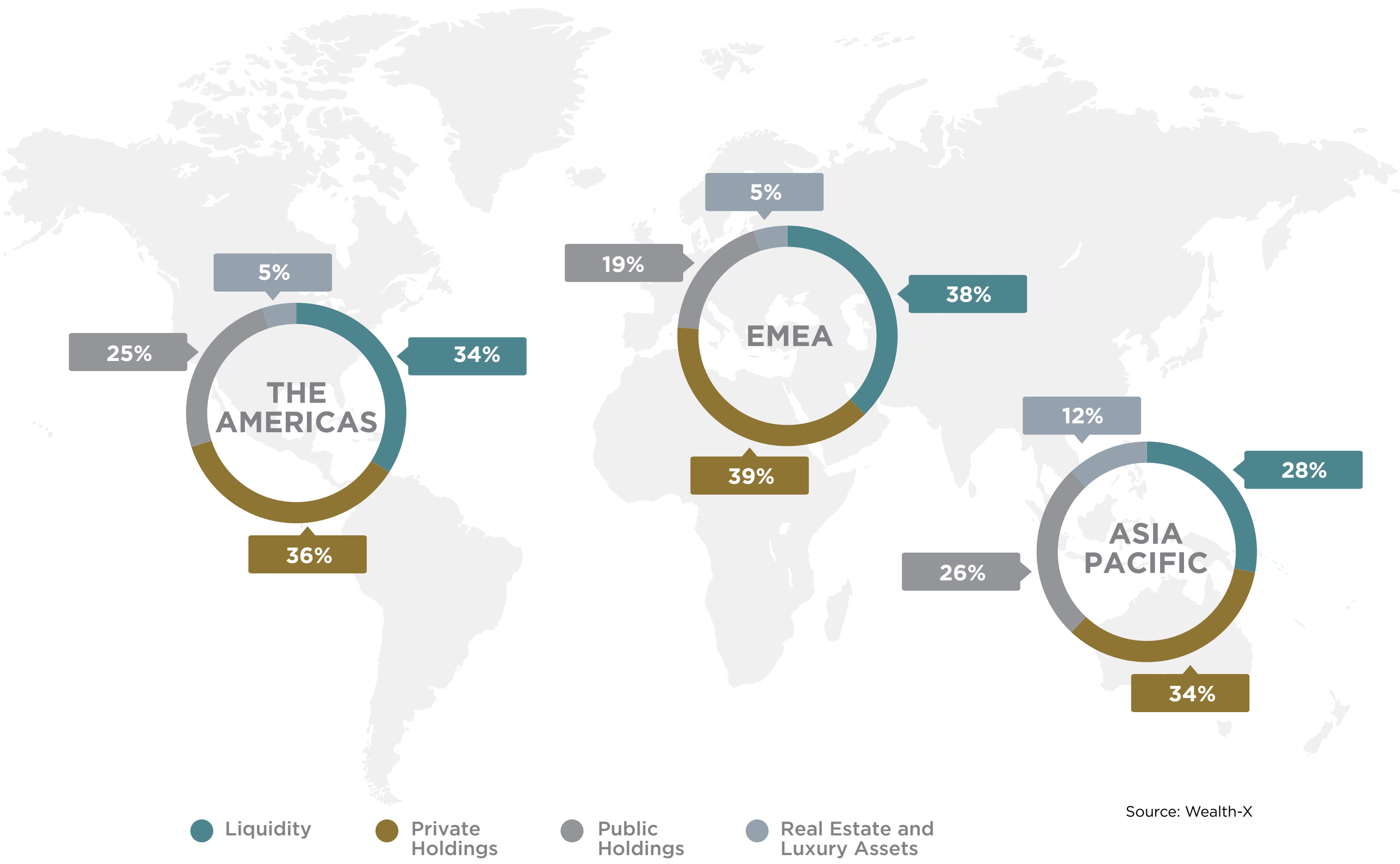
> "[UHNWIs] ARE LESS AND LESS WILLING TO COMPLETELY GIVE UP CONTROL, WHICH IS SOMETIMES NECESSARY TO DO SOPHISTICATED ESTATE PLANNING. AND, AS A RESULT, THEY HAVE RESORTED MORE TOWARDS LIQUIDITY PLANNING WITH THINGS LIKE INSURANCE."
>
> — JOSHUA COLEMAN

> "UHNWIs ARE PLANNING FOR HARMONY – GIVE ONE CHILD THE BUSINESS, AND THE OTHER CHILD THE OTHER ASSETS TO EQUALISE IT."
>
> — KRIS STEGALL

The high proportion of wealth held in private companies may also reflect a certain level of denial about the future.

> "A LOT OF FAMILIES STRUGGLE. THIS IS ONE OF THE BIGGEST CHALLENGES THAT FAMILIES HAVE ABOUT PREPARING THEIR HEIRS AND PREPARING NEXT-GENERATION OWNERS FOR WHAT IS TO COME. 'IF WE DON'T TALK ABOUT IT, IT'S NOT COMING YET, IT'S NOT HAPPENING YET.' SO, IN SOME WAYS, FAMILIES LIVE A LITTLE BIT IN DENIAL. THEY DON'T WANT TO MAKE IT REAL UNTIL THEY HAVE TO MAKE IT REAL."
>
> — KIRBY ROSPLOCK

AVERAGE HOLDINGS BY REGION



Source: Wealth-X

Private holdings are the largest asset for UHNWIs set to transfer their wealth in all three regions, narrowly ahead of cash.

Asia-Pacific has the highest proportion of wealth in real estate and luxury assets for older UHNWIs, in line with a general regional preference for more tangible investments.

> "YES, I THINK CHINESE INVESTORS ARE... JUST BUYING AN APARTMENT OR THREE APARTMENTS, AND THEY'RE NOT EVEN SEEKING TO GET A RETURN. IT'S SIMPLY A WAY FOR THEM TO TRANSFER ASSETS OUT OF THE JURISDICTION AND THEY BUY THEM FOR THEIR CHILDREN, AND SO ON."
>
> — JON MEADMORE

BUSINESS TRANSITIONS

As shown in the asset-holdings overview, the largest holdings category for UHNWIs set to transfer their wealth in the next decade is private investments, accounting for 36% of their net worth, equal to nearly US$100m per person on average. Most of these private holdings are in a single company, either the family business, which was inherited, or, more likely, a company that is still run by the first-generation founder.

Handling wealth transfer when most of the wealth is in a single, private, illiquid asset can get very complicated due to the wide array of different issues this involves; for example:

- Should the business be kept private, go public or be sold completely?
- Should the business be run by professional managers or led by a family member?
- If professional managers are running it on a day-to-day basis, how active should the family be?
- If there are multiple children, which role should each play in the business?
- How can the value of an illiquid asset be divided between different family members?

Transferring family businesses can be very problematic, because all of these factors get bundled together. For example, addressing the above questions one by one, and separating the decision of whether to keep the business private from the decision of whether to allow heirs to run it, will allow for a clearer wealth-succession plan, regardless of the final decision.

> "THEY'RE SEPARATING OWNERSHIP, THEY'RE SEPARATING WORKING ON A DAILY BASIS, AND GETTING PAID FOR THAT WORK, WITH THE MANAGEMENT AND OWNERSHIP OF THE COMPANY, AND WE HAVE MANY FAMILIES RIGHT NOW THAT MAYBE GENERATION ONE AND TWO OWN THE BUSINESS AND RAN THE BUSINESS. GENERATION THREE NOW ALL SIT ON THE BOARD AND THEY'VE GONE OUT AND HIRED THE BEST PROFESSIONAL MANAGEMENT THEY COULD POSSIBLY HIRE. GENERATION THREE IS ENGAGED IN DOING OTHER PROFESSIONS THAT THEY LOVE AND WANT TO DO, AND LETTING PROFESSIONALS RUN THE COMPANY."
>
> — HOWARD SHARFMAN

Another important step is to create a plan as early as possible, setting expectations for all family members and to help prevent unwanted surprises.

> "MORE AND MORE, IT'S GETTING TO BE SOMETHING THAT THEY NEED TO DO SOMETHING ABOUT. THEY CAN'T JUST THINK 'OH, I'LL TAKE CARE OF THAT LATER'."
>
> — FRANK GARCIA

> "IF AN UHNWI DOESN'T CREATE A PLAN FOR THEIR WEALTH TRANSFER, THEN THERE IS THE RISK THAT THE BUSINESS COULD GO TO THE 'WRONG' CHILD; FOR EXAMPLE, ONE WHO HAS NO INTEREST IN RUNNING IT."
>
> — KRIS STEGALL

For some families, the success of the business is so tied up with the personality, drive and skill set of the founder, that its continued success is never even a possibility:

> "[THE FAMILY] WANTED TO MAKE SURE THAT THEY WERE STARTING TO DIVERSIFY MORE. THE FOUNDER HAD MADE SUCH SIGNIFICANT WEALTH IN ABOUT A 25-YEAR PERIOD, AND SO THEY REALISED THAT THE LEADERSHIP THEY HAD TO HELP BUILD [THE WEALTH] UP WASN'T GOING TO BE THE ONE TO HELP SUSTAIN IT AND PERPETUATE IT."
>
> — KIRBY ROSPLOCK

Another important aspect surrounding private businesses is diversification. From a purely financial standpoint, having the majority of your wealth tied up in a single investment is not advisable, and the retirement or passing away of the founder can present the opportunity to consider selling the business.

> "WITH SELLING [THE BUSINESS], MORE PEOPLE ARE OPEN TO THE IDEA OF RESTRUCTURING IT IN A SUCCESSIONAL, OPEN AND TRANSPARENT WAY. A WAY THAT'S DOCUMENTED, WHERE PEOPLE ARE FEELING COMFORTABLE WITH THE DECISIONS."
>
> — JON MEADMORE

FAMILY DISPUTES

But, for every financial aspect to be considered, there are also personal interests as well. Some children will have different interests to their parents, and, for nearly all families, it remains difficult to please all parties at once.

> "OFTENTIMES, THE MATRIARCH OR PATRIARCH, WHO BUILT THE FAMILY BUSINESS, WILL HAVE SEVERAL CHILDREN. SOME CHILDREN WANT TO MARCH TO A DIFFERENT DRUMMER; THEY DON'T WANT TO BE INVOLVED IN THE BUSINESS. OR THE ONES THAT ARE INVOLVED IN THE BUSINESS MAY BE GETTING EXTRA PERKS AND THE CHILDREN NOT INVOLVED IN THE BUSINESS FEEL A BIT OF ANIMOSITY. THERE IS MUCH TENSION AMONG FAMILY MEMBERS AND THAT TENSION EXISTS NINE TIMES OUT OF TEN."
>
> — LEIGH-ALEXANDRA BASHA

Family disputes for control of the primary business can become publicly acrimonious all too quickly, potentially leading to the dissolution of wealth. For example, Summer Redstone, the 93-year-old founder of Viacom, has only recently laid out how he intends to transfer his wealth and control of the business (*"Try discussing succession plans, and he'll tell you he plans to live forever"*[1]), and, as a consequence, there has been a multi-billion-dollar lawsuit between family members and executives fighting for control of his empire.

At the opposite end of the spectrum is Mark Zuckerberg of Facebook, who, at 32, is more than 60 years younger than Mr Redstone, but has already created a succession plan. The Facebook Board has proposed that, should Mr Zuckerberg ever leave the company, the majority voting control he currently enjoys should not be passed on to his heirs. *"We will not remain a founder-controlled company after we cease to be a founder-led company,"* the Board stated in a proxy filing with the Securities and Exchange Commission in June 2016[2]. While it can be debated whether this is the correct strategy, having a clear plan set up early is definitely advisable.

[1] The Boston Globe: https://www.bostonglobe.com/business/2016/05/26/sumner-redstone-lawsuit-may-this-summer-best-beach-read/n4WWgccAwBxQkP87yBkzhl/story.html May 2016

[2] The Street: https://www.thestreet.com/story/13596003/1/facebook-continues-to-think-decades-ahead-this-time-with-its-succession-plans.html June 2016

PROPERTY TRANSFERS

Real-estate and luxury assets may not be the financial asset class that makes up the largest share of the portfolios of UHNWIs who are transferring their wealth in the next ten years, but it remains significant, with average holdings of US$16m.

At 12% of average wealth, Asia-Pacific has the highest proportion of wealth in real-estate and luxury assets for older UHNWIs, in line with a general regional preference for more tangible investments.

> "IN AUSTRALIA, [PROPERTY] IS TOO IMPORTANT. IT'S CONSIDERED A PRETTY SAFE PLACE TO PUT MONEY. IT'S DEFENSIVE AND ALSO A MAJOR GROWTH ASSET."
>
> — JON MEADMORE

Much like private businesses, the complexity of transferring property to the next generation comes from the illiquidity and indivisibility of this asset class, as well as the associated potential tax liabilities. For this reason, the role of advisors, be they independent financial advisors, family officers or lawyers, is crucial in helping families, and, as with other aspects of wealth transfer, in avoiding any surprises.

> "IN MY EXPERIENCE, SUCCESSION PLANNING IS BECOMING MORE SOPHISTICATED, PEOPLE ARE SEEKING ADVICE FROM PEOPLE THAT ARE EXPERT IN THE AREA...ADVISORS ARE BECOMING MORE EXPERT AND MORE SPECIALISED."
>
> — JON MEADMORE

This is especially true for international properties, where both the local and foreign laws can impact investments, and the full implications of this are not always considered.

> "FOR EXAMPLE, A SINGAPOREAN FAMILY COULD INVEST IN US ASSETS, WHETHER IT IS THE PRIME MID-TOWN MADISON AVENUE PROPERTIES OR THE VERY BEAUTIFUL MANSIONS IN THE HAMPTONS, BECAUSE THEY HAVE THE MONEY. THE DILEMMA NOW IS THAT THEY ARE GOVERNED BY THE US TAX LAWS IN THE EVENT OF SOMETHING HAPPENING TO THEM. VERY FEW PEOPLE FROM OVERSEAS, WHETHER IT IS ASIA OR EUROPE, UNDERSTAND HOW THE US TAX REGIME WORKS. AND THE MAJORITY OF THE CHILDREN OF THESE WEALTHY FAMILIES ARE NOW SETTLING DOWN IN THE US. NINETY PERCENT OF THEM DO NOT HAVE A STRUCTURE IN PLACE THAT CAN ALLOW THEM TO PREPARE FOR UNFORESEEN CIRCUMSTANCES."
>
> — MAYUR DALAL

PROPERTY IS MULTI-FUNCTIONAL

Property as an asset class is uniquely multi-functional: it can be an investment bought solely as a financial asset, or to help children or grandchildren to live in a new city, for example if they are about to begin university. For other UHNWIs, property can be a means to securing foreign citizenship or meeting residency requirements. Even when property is bought as an investment, it is nearly always an "emotional" investment, where aspects such as location, amenities and building style influence the purchasing decision heavily. For this reason, it can be difficult for either generation to sell a property with an emotional connection.

> "UHNWIS ARE PRIMARILY BUYING FOR INVESTMENT, ALTHOUGH, ON OCCASION, THEY ARE BUYING ADDITIONAL PERSONAL PROPERTIES IN MULTIPLE JURISDICTIONS. OBVIOUSLY, THEY HAVE THE ABILITY TO TRAVEL, AS MOST UHNWIS ARE TRULY GLOBAL."
>
> — PHILIP ANDERSON

> "WITH FAMILY PORTFOLIOS, THEY TAKE A MUCH LONGER-TERM VIEW, LIKE 20, 30 YEARS, OR THEY EVEN HAVE NO INTENTION OF SELLING. SO, THE GENERAL PORTFOLIO IS HELD ONTO FOR MUCH LONGER. THERE'S FURTHER CONSIDERATION ON LEGACY."
>
> — SIMON KHALIL

This lack of liquidity can be both a blessing and a curse. For some, it helps prevent panic selling if prices decline, but sharing an illiquid asset can, in itself, be problematic.

> "WITH THE FUNDS BEING FACTIONALISED ACROSS OWNERS AND BENEFICIARIES, PROPERTY IS REALLY HARD TO MAKE DIVISIBLE AND, IN SOME CASES, THERE MAY NOT BE A HUGE MARKET FOR IT. IF IT'S HELD IN THEIR PORTFOLIO FOR MANY, MANY, MANY YEARS, SOMETIMES THERE ISN'T A CLEAR EXIT STRATEGY."
>
> — KIRBY ROSPLOCK

Once again, UHNWIs should prepare as early as possible for transfers regarding their property holdings, and make clear what they intend to do with their multiple homes when it is time to transfer their wealth. Given that so many of these assets are held onto for decades, it is vital that they do not become a burden to the inheritors, who may feel too guilty to sell a home, while having little desire to make it their own residence. Transparent and honest conversations with all parties, and the consideration of any tax liabilities, are vital in ensuring a successful wealth transfer to the next generation.

GLOBAL EXTERNAL CHALLENGES

The difficulties of successfully transferring private businesses and property to the next generation are largely internal affairs; for example, keeping all members of the family happy at the same time, and transmitting family legacies and values. And, even if the wealth transfer is prepared for, with early planning and consistent updates of the plan as the family wealth evolves, sometimes the UHNWI themselves can be a barrier to the preparation by not accepting their own mortality.

If a plan is not created, the UHNWI loses control of how their wealth will be managed. There may be intended charitable donations that are not made, and, additionally, without proper planning, significant tax liabilities could accrue, impacting the next generation. Furthermore, forced heirship can occur, against the will of all parties:

> "I THINK, IN FAMILIES WHERE THERE ISN'T A LOT OF TRANSPARENCY AND MAYBE THERE ISN'T CLARITY ABOUT ROLES AND RESPONSIBILITIES, THEN FORCED HEIRSHIP CAN BE OF EXTREME CONCERN. WITH FORCED HEIRSHIP YOU DON'T HAVE A CHOICE, YOU ARE BEING ENDOWED. YOU DO HAVE THE RESPONSIBILITIES, TITLE, AND OWNERSHIP BEING TRANSFERRED."
>
> — KIRBY ROSPLOCK

Once a wealth plan is created and maintained, and all family members are educated and prepared to ease the transition, there are also numerous external challenges to overcome.

As previously shown, regulations vary extensively around the world. Moreover, there are new regulations and compliance laws being developed globally that impact on family wealth. There is more scrutiny than ever before on the 1%, and, with a general continued uncertainty, both politically and financially, these external factors all contribute to making UHNWI wealth transfers more difficult for all parties involved.

> "I THINK THEY'RE JUST CONCERNED WITH WHAT THEY DON'T KNOW. I THINK THEY JUST DON'T KNOW WHAT'S GOING TO HAPPEN."
>
> — JOSHUA COLEMAN

Two of the main external challenges that are explored more deeply in the following pages are political instability and ever-increasing global transparency, which represent two prominent and increasing challenges for UHNWIs to navigate when preparing to transfer their wealth.

POLITICAL INSTABILITY

Across emerging markets, and, increasingly, developed markets, political instability is likely to remain a challenge. This uncertainty makes it harder for UHNWIs to plan their wealth transfer, particularly, as we have noted, with illiquid assets, when holding periods can stretch into decades.

For UHNWIs, the priority often shifts from creating wealth to preserving wealth, and avoiding political instability can be key to this change. For example, there have been years of uncertainty regarding Greece's status in the Eurozone, which has threatened the future of the entire single-currency movement, and this has impacted families not only in Greece, but across the rest of the continent and beyond.

Sanctions in Russia, coupled with a declining oil price in 2015, has led to a decline in total UHNW wealth in the country of US$95bn, with some high-profile individuals successfully hedging their wealth by purchasing assets in other countries, and even changing citizenship. Between 2014 and 2015, the number of UHNWI Russians fell by 13%, highlighting the external risks that can impact an UHNWI.

Uncertainty surrounding the status of the second-largest economy in Europe has been created by the result of the British EU Brexit referendum in June 2016. Although the likely effects of this on UHNWs are unknown at time of publication, uncertainty tends to make wealth creation and preservation more difficult.

> "ANY POLITICAL INSTABILITY IS SOMETHING THAT CREATES THE UNKNOWN, AND THE UNKNOWN IS WHAT OUR CLIENTS ARE CONCERNED ABOUT. SOME OF THEM LOOK FURTHER THAN THAT AND SAY, 'THE UNKNOWN IS WHERE THE OPPORTUNITY IS,' BUT THE BULK OF THEM WOULD SAY, 'THE UNKNOWN IS SCARY.'"
>
> — HOWARD SHARFMAN

DIVERSIFICATION IS KEY

One of the best ways to tackle any form of uncertainty is through diversification, ensuring one is never overly exposed to a single country, currency, asset or industry.

> "FOR THE WEALTHY IN THOSE POLITICALLY UNSTABLE GEOGRAPHIES, I THINK WHAT IT ENCOURAGES ONE TO DO IS IT ACTUALLY MAKES YOU WANT TO GET MORE DIVERSIFIED."
>
> — KIRBY ROSPLOCK

> "THE MORE UNSTABLE THE COUNTRY IS, POLITICALLY AND ECONOMICALLY, THE MORE THE UHNW WANT TO DO SOMETHING AND PROTECT THROUGH ESTATE PLANNING AND SUCCESSION PLANNING. IN MY CASE, PLANNING IS VERY IMPORTANT, BUT, WHEN THE COUNTRY'S DOING WELL AND EVERYTHING IS GREAT, THEY DON'T SEE AN URGENCY IN DOING THAT."
>
> — FRANK GARCIA

With UHNWIs being true global citizens, with multiple properties and investments all around the world, any change in foreign exchange rates can impact their wealth dramatically. While this used to be more of a priority for those from emerging markets, more developed markets are also being affected, impacting UHNWIs everywhere.

In light of these global volatilities, some locations offer greater stability. The US is favoured for its strong and stable currency and the property market in major cities such as New York and San Francisco.

> "CURRENCY DEVALUATION DOES MORE TO ERODE WEALTH THAN ANY BAD INVESTMENT COULD DO. WE'VE WORKED A LOT IN LATIN AMERICA AND SEEN THAT. PEOPLE ARE VERY, VERY CONCERNED. EVEN OUR CLIENTS IN EUROPE ARE LOOKING FOR DOLLAR-DOMINATED INVESTMENTS. TYPICALLY IN EUROPE, WE HADN'T FOUND THAT BEFORE. SO, OUR CLIENTS ARE LOOKING FOR A SAFE HARBOUR, AND THAT MAY BE THE UNITED STATES. IT DOES SEEM LIKE ONE OF THE SAFEST PLACES IN THE WORLD, AND IT IS WHERE MONEY IS GOING TO, NOT AWAY FROM."
>
> — HOWARD SHARFMAN

The downside to thorough diversification of assets is the increased complexity this causes when transferring wealth to the next generation. As discussed in the property transfers section, if UHNWIs are not careful, tax liabilities can accrue for international holdings, and there are multiple laws to navigate before successfully transferring wealth. This highlights the need for expert advisors who can collaborate to help the UHNWI manage an uncertain landscape.

While protection through diversification complicates wealth transfer, the compromise is often worth making in order to navigate political instability and any other external risk factors that can seriously damage wealth.

> "THERE IS A TRADE-OFF BETWEEN ASSET PROTECTION AND WEALTH-TRANSFER COMPLEXITY. IDEALLY, UHNWIS WANT TO NOT ONLY DIVERSIFY THEIR WEALTH, BUT ALSO THE TRUSTS, HOLDING COMPANIES AND FINANCIAL INSTRUMENTS USED TO HOLD AND MANAGE THE WEALTH ITSELF."
>
> — KRIS STEGALL


50

THE MOVE TOWARDS GLOBAL TRANSPARENCY

Growing global asset disclosure and reporting requirements are key concerns of UHNW families. These worries, coupled with the implications of global socio-economic and political instability (as detailed in previous sections of this report), extend well beyond concerns around asset protection and tax liabilities, and can have a profound impact on the success of wealth transfers.

> "THIS IS WHAT KEEPS THE CENTA-MILLIONAIRES AND BILLIONAIRES AWAKE AT NIGHT, BECAUSE THERE IS NO SAFE HAVEN WITH WHAT IS HAPPENING IN FRANCE AND BELGIUM AND LONDON. PEOPLE ARE BEGINNING TO RECONSIDER WHAT IS A SAFE HAVEN FOR FUTURE GENERATIONS, WHAT IS CONSIDERED TO BE A SAFE HAVEN FOR THE CURRENCY STABILITY AND THE WEALTH STABILITY AND WHAT IS CONSIDERED TO BE A SAFE HAVEN IN TERMS OF WHERE THEY CAN SLEEP FULLY AT NIGHT."
>
> — MAYUR DALAL

> "I WOULD SAY THAT, NOW, WHERE ALL THESE REGULATORS ARE GETTING TOGETHER AND SIGNING THESE TREATIES BETWEEN THE COUNTRIES, THESE FAMILIES ARE STARTING TO SERIOUSLY PLAN THEIR FUTURES."
>
> — FRANK GARCIA

The implications of compromised privacy for safety are of paramount concern to UHNW families.

> "IT'S THE PRIVACY AND CONFIDENTIALITY-RELATED ISSUE THAT REALLY CONCERN CLIENTS, BECAUSE, IN SOME JURISDICTIONS, PERSONAL SAFETY AND SECURITY, OF NOT ONLY THEM, BUT OF THEIR FAMILIES, REALLY WEIGHS HEAVILY ON THEIR MINDS. THE LACK OF PRIVACY CONSTRAINTS AND CONFIDENTIALITY FOR SOMEONE'S NET WORTH AND ACCESS TO IT ARE NOW PUT ON THE PUBLIC STAGE. WE KNOW WHAT HAPPENED WITH THE PANAMA PAPERS; MANY JOURNALISTS JUMPED ALL OVER THAT AND SAID, 'OH, MY GOODNESS, THIS PARTICULAR FAMOUS PERSON HAPPENS TO HAVE A COMPANY IN PANAMA…', WHEN IT WAS PERFECTLY VALID. I DON'T THINK ANY PARTICULAR JURISDICTION IS SAFE, YOU HAVE KIDNAPPINGS AND HOSTAGE SITUATIONS EVEN IN THE US."
>
> — LEIGH-ALEXANDRA BASHA

This increase in transparency raises concerns regarding safety, but the ultra wealthy, as suggested above, tend to work within the legal frameworks and, as many others do, wish their affairs to remain private within those frameworks. For complex, multinational holdings, offshore financial centres are often the most efficient, and convenient route by which to

move wealth from one jurisdiction to another. Particularly for UHNWIs from more volatile regions, the security and stability of offshore financial centres make them an attractive proposition.

> "THE PRESS WERE EXTREMELY AGGRESSIVE WITH THE PANAMA PAPERS AND SHIED AWAY FROM THE FACT THAT, OBVIOUSLY, THESE STRUCTURES ARE LEGAL. IN VERY FEW, IF ANY, CASES, WOULD THEY BE ILLEGAL STRUCTURES."
>
> — PHILIP ANDERSON

With the momentum on full disclosure and exchange of information for tax purposes through frameworks such as FATCA, CRS, CDOT, and other intergovernmental arrangements, the urgency to seek expert advice and act accordingly to ensure compliance cannot be overstated. The expert advice has been to plan in the most tax-efficient way that is legitimately available, take advantage of the various amnesty programmes in place, pay due taxes and comply with all reporting requirements.

> "WE ALWAYS ADVISE THAT THEY SHOULD GO FOR THE AMNESTIES, BECAUSE, IF YOU MISS THIS OPENING, WHEN IT'S NOT THERE ANYMORE, THAT'S GOING TO BE CONSIDERED A CRIME TO HAVE MONEY WITHOUT EVER PAYING TAXES ON IT. IT USED TO BE THAT THEY WOULD JUST ESTABLISH A TRUST AND A CORPORATION AND THAT WOULD SUFFICE. THAT'S NOT THE SOLUTION ANYMORE. NOW, THEY REALLY NEED TO PAY THEIR TAXES, AND THINK SERIOUSLY ABOUT MAKING A THOROUGH PLAN IN TERMS OF SUCCESSION, THE ESTATE AND TAXES."
>
> — FRANK GARCIA

> “THEY NO LONGER FEEL THERE ARE ANY TAX HAVENS. THEIR ASSETS ARE GOING TO BE DISCLOSED WITH THE SPEED OF INFORMATION, AND, WITH ALL OF THE NEW REGULATIONS, THERE IS NOWHERE TO HIDE AND THEY’RE NOT TRYING TO HIDE. THIS MAKES ALTERNATIVE ASSET CLASSES, LIKE STRUCTURED LIFE-INSURANCE POLICIES, MORE VALUABLE TO OUR FAMILIES.”
>
> — HOWARD SHARFMAN

Another implication of growing transparency has involved the changes in the lending environment, which is compromising the ease of doing business. For example, Basel-III compliance rules in Europe, and FBAR reporting for US citizens and residents, have led to accounts being declined or funds frozen where the beneficial owner is unknown. This includes jurisdictions such as Dubai, Hong Kong and Australia, where detailed scrutiny of an applicant for a bank account has become the operating standard.

> “THE LANDSCAPE OF THE LENDING ENVIRONMENT HAS CHANGED. ENTREPRENEURS USED TO DEPEND ON THE EUROPEAN BANKS IN THE US. A NUMBER OF THESE BANKS HAVE MADE THE DECISION TO SHUT DOWN THEIR US OPERATIONS, SO THE EASE OF DOING BUSINESS HAS CHANGED.”
>
> — MAYUR DALAL

UHNWIs are increasingly sensing that the media is skewing attention towards “secrecy” and confusing it with privacy, rather than understanding that, as a “global citizen”, the UHNWI has various reasons for holding assets in other jurisdictions.

> “THERE’S A BIG DISTINCTION BETWEEN SECRECY AND PRIVACY. PRIVACY IS A RIGHT, AND, OFTEN, THIS CAN BE MISCONSTRUED AS SECRECY, WITHOUT GOOD REASON. PRIVACY IS VERY MUCH AT THE FOREFRONT OF THE THINKING OF THE WEALTHY TO ENSURE PROTECTION OF INDIVIDUALS AND FAMILY WEALTH.”
>
> — PHILIP ANDERSON

For example, London and New York are highly desired locations for the personal privacy they offer. UHNW families are less likely to stand out, making it easier for them to go about their daily lives.

> “WE’VE BEEN MORE ACTIVE SINCE THE FINANCIAL CRASH. WE SAW THINGS REALLY BOOM, BECAUSE, WHERE A LOT OF OUR CLIENTS SEEM TO HAVE LOST MONEY ELSEWHERE IN THE MARKET, THEY SAW A BRIGHT PERFORMANCE WITH US, PARTICULARLY WITH LONDON REAL ESTATE. WE FOUND THAT, MORE AND MORE, MONEY CAME INTO LONDON AS A SAFE HAVEN.”
>
> — SIMON KHALIL

Also, the UK legal system, which is used in many offshore locations, helps to simplify global wealth transfer, which, as mentioned above, is becoming more prevalent, with UHNWIs and their families holding assets and business interests all over the world. As well as offshore financial services, many of these can now be replicated onshore, with other financial instruments, through various tax-efficient structures and insurance products.

> "...STRUCTURING IS IMPORTANT...JURISDICTION BY JURISDICTION, THERE IS THE OPPORTUNITY TO STRUCTURE IN THE MOST TAX-EFFICIENT WAY, WHILE HOLDING A STABLE INVESTMENT IN THOSE JURISDICTIONS."
>
> — PHILIP ANDERSON

It is felt among UHNW families that "safe-haven" has become a convenient media catchphrase that places unfair emphasis on secrecy as the driver of offshore activity, with the term being used interchangeably with "investor-safe jurisdictions".

> "I THINK THERE'S AN ACCEPTANCE THAT, UNLESS YOU WANT TO INVEST A LOT OF TIME AND EFFORT AND RUN IT, IT'S MUCH MORE DIFFICULT TO BE SECRETIVE ABOUT WHAT YOU'RE DOING OUTSIDE THE JURISDICTION."
>
> — JON MEADMORE

When the safety of an individual and their family is at stake, the importance of taking action early could be vital. The effect on wealth transfer among the ultra wealthy will most likely be an increased need to adapt mind-sets to the new world of openness and transparency. Children's and grand children's discovering the assets, wealth and arrangements of their ultra wealthy relations through public releases can cause extreme family friction. UHNWIs will, therefore, need to communicate and be more open with family members about their arrangements, and plan sooner in order to retain as much privacy as possible. An increasingly transparent world is forcing family members to become more transparent with each other.

CONCLUSIONS

This report highlights the importance of wealth transfers to UHNW families, and how, for many of these families, the coming years will be the first time wealth has ever been transferred to the next generation. There are multiple challenges to overcome to do this successfully, and, in doing so, prevent the dreaded "shirtsleeves to shirtsleeves in three generations" phenomenon from occurring.

We estimate that there are over 14,000 UHNWIs who are likely to pass on US$3.9trn to the next generation in the next ten years, enough wealth to purchase the ten largest companies in the world.

The report outlines some of the difficulties in UHNW wealth transfers, with both internal and external factors having the potential to impact this dramatically. Private businesses are often the single largest asset of an UHNWI, and there are many different options to consider when transferring wealth, such as the decision of whether to sell the business or to keep it within the family. Property holdings are also a valuable asset to UHNWIs, both financially and emotionally, and, particularly with international properties, potential tax liabilities are an important consideration due to the long-term nature of these assets.

Important external challenges include political instability and a move towards greater global transparency. Political instability is likely to continue in both emerging economies and developed markets, as shown by sanctions in Russia, a potential Greek exit from the Eurozone, and the British referendum to leave the European Union. These highlight the importance of diversification in order to reduce exposure to such external risks. Finally, an increasingly transparent world exposes UHNWIs to greater scrutiny than ever before, and requires family discussions surrounding wealth transfer to begin as soon as possible.

This report has highlighted a number of best practices for UHNWIs:

- Early planning is key to setting expectations for all stakeholders in the family and preventing unwanted surprises.
- Preservation of wealth through diversification – against political instability, as well as concentrated financial assets, such as primary businesses, to limit exposure to unexpected events.
- To use a full suite of expert advisors, who work collaboratively to help negotiate an increasingly complicated global landscape.

The difficulties of transferring wealth are numerous, but, through efficient, early planning, the families of UHNWIs can leave a lasting legacy.

About Wealth-X

Wealth-X is a wealth information and insight business with unique data assets and specialised skills, offering the world's largest collection of hand-curated dossiers on the ultra wealthy and the world's leading high net worth market research.

We partner with the world's leading prestige brands across the financial services, luxury, not-for-profit and higher education industries to fuel strategic decision-making in sales, marketing and compliance. We provide our clients with the data, analysis, advice and ideas to drive business success through applied wealth intelligence.

Founded in 2010 and employing more than 200 staff across North America, Europe and Asia, Wealth-X works with more than 500 clients.

Our team of experts is widely quoted as the global authority on wealth intelligence in top-tier media, including the *Financial Times*, Business Insider, CNN, *The New York Times* and the BBC.

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