FOUR PILLARS OF CAPITAL 2023

MANAGING RISK IN AN AGE OF UPHEAVAL

STONEHAGE FLEMING

NOW AND FOR FUTURE GENERATIONS

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CONTENTS

WELCOME

I am delighted to welcome you to our latest report in the *Four Pillars of Capital* thought leadership series.

Stonehage Fleming has been supporting families and wealth creators for almost five decades. Over that time, we have set great store by listening to our clients, learning what is on their minds and doing our utmost to organise ourselves to help.

We have also learned that our clients like to have insight into what their peers are thinking and how they have addressed - or are addressing - the challenges and opportunities that they have in common. Together, these imperatives have informed the approach to our ongoing *Four Pillars of Capital* research.

I hope you find the results, and our interpretation of what they might mean in practice, both stimulating and helpful.

GIUSEPPE CIUCCI
EXECUTIVE CHAIRMAN

> *"Stonehage Fleming has been supporting families and wealth creators for almost five decades."*

HISTORY

What are the *Four Pillars of Capital*?

The first report with the theme "Wealth Strategies for Intergenerational Success" was published in 2013. The subsequent research paper 'Four Pillars of Capital for the 21st Century' was published in 2015. Drawing on insights and data gathered from clients and friends of our firm, it proposed that a family's social, intellectual and cultural capital were as important to its long-term, intergenerational health as its financial capital.

Our third paper, published in 2018, highlighted practical considerations from further research within the *Four Pillars* framework, including the challenges of leadership and succession, the importance of a considered approach to risk identification and mitigation, the increasing desire of families to demonstrate their values through their financial decisions, and the invaluable nature of a family's brand and reputation.

'Four Pillars of Capital: a time for reflection', published in 2020, was a shorter paper which sought to show if and how the pandemic had affected family attitudes and priorities, and whether the extraordinary events of 2020 would have a longer-term impact on how families go about securing intergenerational success.

Our 2023 report is the fifth in the thought leadership series on intergenerational success.

REPORTS IN THE SERIES

2013

The world in 2043: wealth strategies for intergenerational success

2015

Wealth strategies for intergenerational success

2018

Practical wisdom and leadership for changing times

2020

A time for reflection

2023

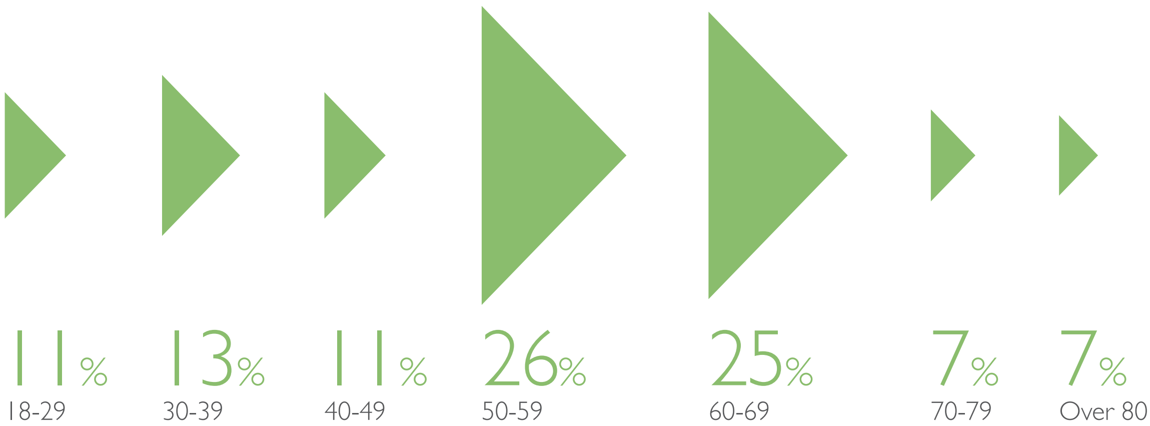
Managing risk in an age of upheaval

METHODOLOGY

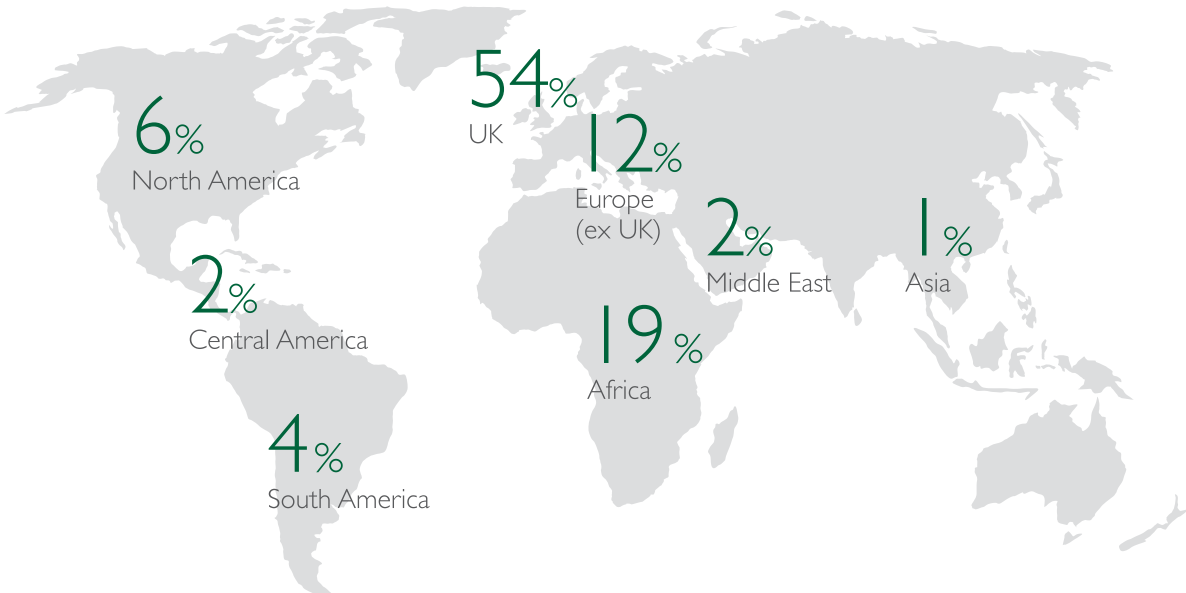
OVERVIEW FOR 2023

- Wide-ranging face-to-face interviews with circa 15 Ultra High Net Worth (UHNW) families and advisers, discussing their long-term plans, attitudes and concerns.
- A 34-question survey, completed by nearly 300 contributors from families and advisers.

AGE OF RESPONDENTS



LOCATION OF RESPONDENTS

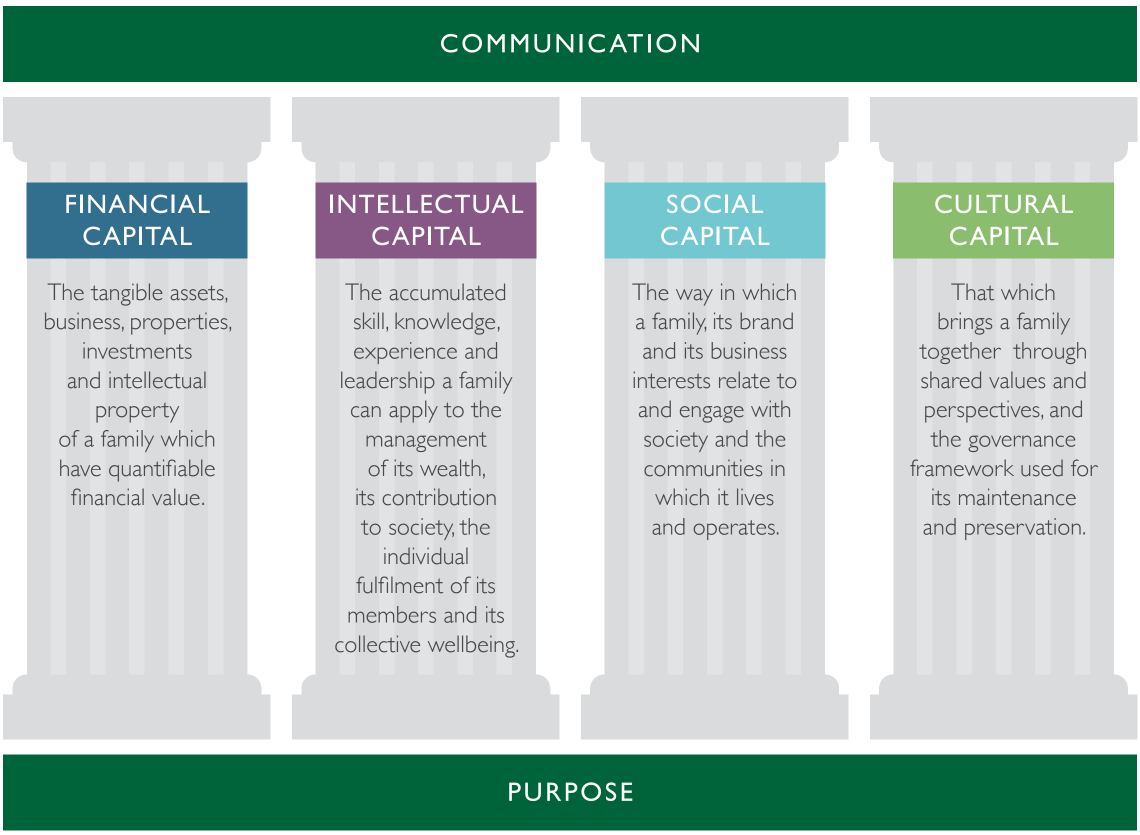


FOREWORD

We are delighted to present the fifth thought leadership report Stonehage Fleming has produced since 2013, with the overarching theme of *Wealth Strategies for Intergenerational Success*. Each one has generated valuable insights and practical wisdom from families, wealth creators, and their trusted advisers, highlighting the challenges of sustaining wealth across generations.

Based on these insights, we constructed the following simple premise. Families and wealth creators should focus on the stewardship of not only their financial capital but also of their social, cultural, and intellectual capital, underpinned by a collective purpose – together: the *Four Pillars of Capital*. Each pillar is equally important to the successful transition of wealth and reputation, and the creation of an impactful legacy.

THE FOUR PILLARS OF CAPITAL - DEFINITIONS



> *One focal point that remains unchanged ... is the importance of preparing the Next Generation to assume the responsibilities of wealth.*

The years since our last full report in 2018 have seen some major global events including the Covid pandemic, outbreak of war in Ukraine, slowing economic growth and accelerating inflation, all of which remain present threats. 2023 seemed an appropriate moment to revisit the *Four Pillars of Capital* framework and assess how our clients and friends of the firm are reacting to the impact of sequential crises. Have recent events had an impact on their approach to identifying what they stand for as a family, for instance, or on how they manage risk or elect their leaders?

In this latest report, we have significantly expanded the number of areas we explore, reflecting the increasing number of considerations that families and wealth creators balance today. However, one focal point that remains unchanged, both in the report and in our daily role as advisers, is the importance of preparing the Next Generation to assume the responsibilities of wealth, as owners, managers or both. To compound what is already a challenge of extreme complexity and sensitivity, we note the growing public statistical evidence that the current Next Generation is facing a wave of mental health issues, worsened by the social dislocation caused by Covid and amplified by social media. The consequences could have a profound effect on intergenerational planning. Although we concluded this to be too personal and sensitive an issue to be addressed specifically in our survey, we have considered the topic broadly in this report.

As a family office, we view our role as adviser to families and wealth creators as going beyond the legal and technical aspects of wealth planning, structuring and investment management, essential though these are. Conducting research like the *Four Pillars of Capital* is vital in helping us listen to our clients and understand their concerns and aspirations around their wealth and their families.

Our methodology is consistent with previous reports. We have derived our findings from an online survey, complemented by wide ranging in-person interviews on its themes. Quotations from interviews can be found throughout the report. However, reflecting the growth in the number of our clients and in the footprint of the firm, the breadth of the survey has increased dramatically, with almost 300 respondents more than doubling the number in previous reports. In terms of geographic reach, we received significant input from Europe, the Middle East and Africa, and the Americas in addition to the solid base of participants in the UK and its sovereign territories. A demographic summary of the respondents can be found in the Methodology.

We have divided the report into six chapters, reflecting six major themes in the management of family wealth today. In each chapter, we first analyse the responses before offering some reflections of our own drawn from our practical experience of advising a wide spectrum of families and wealth creators. With a significant proportion of responses coming from those who are either not formally clients of the firm, or who may be engaging with us for specific services rather than across the full breadth of our capabilities, these insights are particularly valuable in helping us identify how best we can help.

Our thanks to those clients and friends of the firm who contributed to the survey as respondents and interviewees, as well as our colleagues who have engaged enthusiastically with the process and helped bring the report to fruition. We are also very grateful to author and economist, Felix Martin, who has written the report and articulated the findings so clearly.

GUY HUDSON
HEAD OF GROUP MARKETING AND COMMUNICATIONS

MATTHEW FLEMING
HEAD OF GOVERNANCE AND SUCCESSION

EXECUTIVE SUMMARY

INTRODUCTION

AN AGE OF UPHEAVAL

- The half-decade since the last *Four Pillars of Capital* report has seen a dramatic acceleration in the pace of economic, political and technological change globally.
- Investment and political risks have surged back to prominence as a result, and public concerns over social inequality, cultural diversity and environmental sustainability have soared.
- This Age of Upheaval has transformed the challenge of using wealth and influence responsibly from a luxury to a necessity.
- The 2023 *Four Pillars of Capital* survey provides a wealth of new insights into how families are seeking to meet that challenge and identify best practices.

CHAPTER 1

THE NEW RISK ENVIRONMENT

Survey highlights

- For the first time in a decade, respondents identify poor investment outcomes and political risk as two of the top three challenges to sustaining family wealth.
- Failure to engage the Next Generation appropriately – a perennial concern – completes the trio.
- A majority of respondents do not trust the political and institutional leadership in their jurisdictions.
- Only 20% of respondents have a formal process for identifying and mitigating risks.

The Stonehage Fleming view

- A renewed focus on financial capital is not surprising given the resurgence in economic and political volatility.
- A sustainable strategy should not neglect the social, intellectual and cultural pillars, however, since these are equally critical to long-term success.
- Deploying a simple but rigorous process for risk appraisal is more important than ever in today's Age of Upheaval.

CHAPTER 2

INVESTMENT: INTEGRATING NEW VALUES, NAVIGATING NEW RISKS

Survey highlights

- Despite volatility in financial markets, respondents' views on asset allocation have remained stable, with public and private equities and real estate the most popular asset classes.
- The number of respondents adopting values-driven investing in response to concerns about the changing climate, social inequality and poor corporate governance continues to grow.
- Less than half of respondents have an agreed set of non-financial values, however – making implementing a more proactive values-based approach a challenge.

The Stonehage Fleming view

- A patient approach that complements exposure to mainstream public markets with private market instruments makes sense across the investment cycle.
- Defining and agreeing families' non-financial values is an essential first step in adopting values-based investing.
- Aligning portfolios with those values is then achievable: 95% of Stonehage Fleming's third party managers, for example, are signatories to the UN Principles for Responsible Investment (UNPRI).

CHAPTER 3

REPUTATION MANAGEMENT IN THE DIGITAL AGE

Survey highlights

- Increased political pressure for transparency and the new dominance of social media are making the management of reputational risk more challenging than ever.
- Very few respondents take a formal approach to reputation management: nearly 90% do not keep track of their digital footprint.
- Nearly two thirds of respondents do not proactively communicate their contributions to the community out of a desire to remain discreet.

The Stonehage Fleming view

- Proactive reputation management can combine communicating a family's positive contributions with fulfilling its desire for privacy.
- Understanding your digital profile is crucial in today's world: a digital health check is a sensible element of a comprehensive risk management strategy.
- Preparing and educating the Next Generation is essential: what you say when young and inexperienced can haunt you and impact those around you for years to come.

CHAPTER 4

PHILANTHROPY: THE POWER OF PARTNERSHIP

Survey highlights

- More than 85% of respondents consider philanthropy a central part of their purpose and values.
- Most have no pre-determined budget, however, and simply make regular donations based on an informal process.
- Only 7% of respondents have a formal process for appraising the impact of their philanthropic activities.
- The Next Generation has no substantial role in the family's philanthropic activities in more than half of cases.

The Stonehage Fleming view

- Thinking through the family's motivation and objectives is the foundation of successful philanthropy: involving the Next Generation in this can be hugely rewarding.
- Understanding and monitoring impact is another key to conducting a successful and sustainable philanthropic strategy over time.
- Fostering long-term, constructive partnerships with chosen charities produces the best results.

CHAPTER 5

GOVERNANCE, LEADERSHIP, AND THE NEXT GENERATION

Survey highlights

- Nearly half of participating families have no formal leadership structure, and two fifths do not hold regular, in-person meetings.
- Involving professionals in leadership roles is growing in popularity, especially in the Americas.
- Most respondents rely on a purely informal approach to equipping the Next Generation for the responsibilities of wealth.
- Young people currently face an especially challenging environment for anxiety, stress and overall mental health.

The Stonehage Fleming view

- There are many successful models of family leadership to choose from: sharing leadership between family members is not uncommon.
- One feature of all successful family governance is clear and effective communication between family members.
- A thoughtful approach to supporting the Next Generation – through mentoring, coaching and just being there to listen and understand – will pay rich dividends.

CHAPTER 6

PURPOSE: THE FOUNDATION OF SUCCESSFUL FAMILY STRATEGY

Survey highlights

- The recent acceleration of political and economic volatility has crystalised for many respondents the importance of having a clear sense of the purpose of their wealth.
- Two thirds of respondents have not however discussed and agreed the purpose of their wealth within their family.
- Maintenance of the family legacy, care of family members, achieving philanthropic goals and fulfilling religious responsibilities are four common themes in respondents' philosophies.

The Stonehage Fleming view

- A clear sense of purpose is the foundation that underpins all four pillars of capital – the challenge is ensuring that this purpose is articulated, shared and understood.
- The more the Next Generation can be included in discussions of the family's shared purpose, the better.
- Conversations around purpose are not always easy; external support from advisers with practical wisdom can be a huge help.

INTRODUCTION

AN AGE OF UPHEAVAL

"There are decades when nothing happens; and there are weeks when decades happen."
Vladimir Ilyich Lenin

It might seem brave to begin a report on the challenge of preserving wealth across generations with a quotation from the 20th century's most famous Communist revolutionary. Yet, Lenin's observation on the disconcerting speed with which long periods of social and economic stability can transform into moments of dramatic change can hardly fail to ring true to anyone who has lived through the five years since the last full *Four Pillars of Capital* report was published in 2018.

It would be a stretch to call the preceding ten years "a decade when nothing happened." There was no shortage of surprises in the international political sphere, for example – from the Arab Spring of 2011, through Russia's occupation of Crimea in 2014, to Britain's vote to leave the EU and Donald Trump's winning the US presidential race in 2016. Yet the apocalyptic predictions many pundits made in the immediate aftermath of the 2008 Global Financial Crisis did not materialise. None of these shocks derailed the steady progress of global economic output and trade and the upward march of financial markets. Public concern over economic inequality, social justice and environmental sustainability was accumulating steadily throughout the period. But across the globe, societies, economies and politics were transforming at an evolutionary, rather than a revolutionary, pace. Not for nothing did economists dub the defining dynamic of the post-2008 decade "secular stagnation".

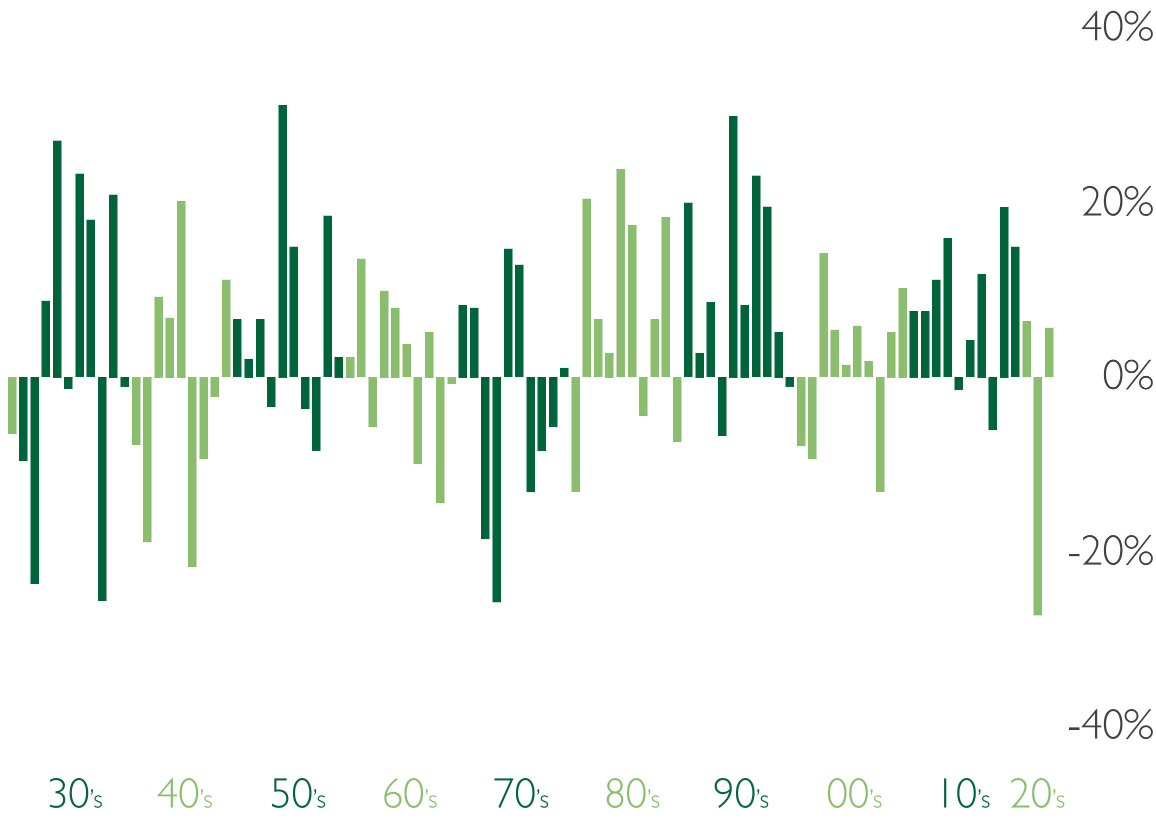
The last five years, by contrast, have witnessed a decisive transition from that era of relative stability to an accelerating Age of Upheaval. In the realm of economics, inflation has returned to ravage the world's advanced economies after a 30-year absence, plunging country after country into cost-of-living crises. In finance, the 15-year interlude of zero interest rates and Quantitative Easing has come to an abrupt end, with the world's leading central banks forced into some of the sharpest rate hiking cycles in their histories. In geopolitics, the long march of free trade has gone into sudden reverse as relations between the US and China have soured, and a full-scale war has erupted in Europe with Russia's invasion of Ukraine. In the middle of the five-year period – and at the centre of many of these upheavals – came the nightmare of the Covid pandemic: by many measures, the most disruptive single global event since the Second World War.

The upending of long-established trends has gone well beyond economics and politics. In the energy sector, decarbonisation has undergone a significant change of gear, as the price of renewables has fallen and the supply of Russian natural gas to Europe has come to a sudden halt. In technology, AI has graduated from board games to biology, with Google DeepMind's Alphafold initiating a new era in drug discovery. In the world of culture too, the transformation of attitudes has been dramatic and widespread. In 2018, for instance, cancel culture was in its infancy and 'deplatforming' people because of their political views was not widespread.

Nowhere has the change of regime manifested more clearly than in the financial markets. The sudden reversal of global monetary policy over the last 18 months has wreaked havoc on business models and balance sheets adapted to the era of ultra-low interest rates and, in 2022, resulted in an exceptionally challenging year for conventional investment strategies.

Traditional hedges broke down, and resurgent inflation left almost every asset class exposed. The classic 60:40 portfolio of financial assets – 60% in equities, 40% in government bonds – delivered its worst performance since the 1930s, as both equity and bond markets fell. Adjusting for the effect of inflation, it delivered its worst annual, real-terms performance ever.

60/40 PORTFOLIO RETURNS



*2022 annualized

Bloomberg & Stonehage Fleming

The new and more complex global risk environment ushered in by this multi-faceted Age of Upheaval constitutes the essential backdrop to the 2023 *Four Pillars of Capital* report. As **Chapter 1** describes, its emergence has not been lost on families, wealth creators, and their advisers. Since the last full report in 2018, there has been a major shift in the principal challenges that respondents identify to the preservation of prosperity across generations. For the first time in the near-decade long history of the *Four Pillars of Capital* surveys, the volatility of the investment environment and increased political and regulatory risks have entered the top three challenges that families see ahead.

How should families and wealth creators react to this changed economic and political landscape – and how can they most effectively manage these newly resurgent financial and political risks? With starkly increased uncertainty in global financial markets, many families and their advisers are focusing more tightly on financial capital. That is a perfectly logical response – and **Chapter 2** discusses how it is indeed essential to review carefully portfolio allocations and investment strategies given the significant changes to the economic landscape over the past 18 months. Yet the 2023 survey also

“Since the last full report in 2018, there has been a major shift in the principal challenges that respondents identify to the preservation of prosperity across generations.”

reaffirms that families understand that the origins of these shifts go much deeper than economics alone. A major innovation of the past decade has been the development of investment strategies that enable families to incorporate non-financial values into the management of their wealth more effectively – as a means both of fulfilling the social responsibilities of wealth, and of mitigating political and regulatory risks. Most families recognise that retreating to an exclusive focus on financial returns would be a mistake. Now is the time to double down on ensuring that their financial wealth protects and cultivates their cultural, social and intellectual capital as well.

The need for a broad-spectrum strategy for managing investment risk is a microcosm of what will be required in managing families' conduct and affairs more broadly. **Chapter 3** turns to the protection of perhaps the most important intangible asset any family has: its reputation. In an era when the smart phone, social media and AI-generated deepfakes are colliding with an increasing demand for transparency by regulation and public dissatisfaction with stagnating living standards, reputational perils abound. For most families and wealth creators, privacy and discretion are high priorities, however. Chapter 3 explores how it is possible to square this circle.

Chapter 4 addresses philanthropy – which the 2023 survey reveals remains one of the most important themes for respondents outside of their own business and investment activities. The last decade has seen changes in thinking about the best ways to structure philanthropic efforts equally as dramatic as the changes in the global risk environment. Chapter 4 reports on where families see room to respond and improve the effectiveness of their charitable efforts.

Managing the imposing external risks posed by the new economic and political environment will be impossible without a clear, stable and well-led structure within the family itself – one that gets the best out of all generations. **Chapter 5** therefore discusses what the 2023 survey tells us about governance, leadership and succession. It explores respondents' views on the degree of formal structure a family needs, how professionalised the selection and execution of leadership functions should be, and the special challenges that the Next Generation face as they assume greater responsibility for family wealth.

> *"Purpose without implementation is the slowest way to victory: implementation without purpose is the quickest way to defeat."*

None of the four pillars of capital – financial, social, intellectual, or cultural – can prosper without the foundation of a clearly defined and broadly agreed family purpose. **Chapter 6** concludes with an update on families' views and strategies on this most important of topics. A clear sense of purpose will not deliver the successful preservation of family wealth through the generations on its own – the practical matters discussed in the foregoing chapters are critical too. But, without a clear purpose, it will be easier than ever for families to be overwhelmed by external and internal risks in the Age of Upheaval. To paraphrase the most famous epigram from Sun Tzu's classic military textbook, *The Art of War*: Purpose without implementation is the slowest way to victory; implementation without purpose is the quickest way to defeat.

In our 2020 Insight *Embracing the Responsibilities of Family Wealth*, we set out how we believe families can use the influence that wealth confers to convert growing public concerns over economic inequality, cultural diversity, and environmental sustainability from threats to families' reputations and fortunes into engines of future prosperity for all. Over the last five years, those public concerns have reached new heights – and with them, public expectation that families should use their wealth and influence responsibly. The Age of Upheaval has transformed meeting the challenge of responsibility from a luxury to a necessity.

The key to doing so, we argued, was the clear definition of an agreed purpose for families' wealth – a pole star that can guide everything they do, and which also serves as a clear public indication of their ethical values and commitment to their community. The best way of doing that, in turn, is by considering all four pillars of capital in a systematic way, often in concert with experienced advisers.

The results of the 2023 *Four Pillars of Capital* survey provide a wealth of new and fascinating insights into how families are seeking to do just that, and where best practice is. In the following chapters, we explore what these insights are and explain how families can put them to practical use.

CHAPTER 1

THE NEW RISK ENVIRONMENT

The single most striking finding of the 2023 *Four Pillars of Capital* survey is the major shift in the biggest risks that families and wealth creators identify to their long-term prosperity. For the first time since we began the *Four Pillars of Capital* surveys in 2015, the investment environment and political risk make up two of the top three threats to the preservation of wealth that families see ahead.

IT'S THE ECONOMY, STUPID!: THE RETURN OF FINANCIAL AND POLITICAL RISKS

As **Table 1.1** shows, the top three risks identified by families in both the 2015 and the 2018 surveys all related to the internal governance of families' wealth. In 2015, the risk of family disputes or break-up was the most widely shared concern; followed by the lack of future family leadership and direction, and lack of planning. By 2018, lack of adequate planning had taken the top spot, with the risks of family disputes falling into second place; and failing to engage the Next Generation had become the third biggest concern. In both years, the risk of public hostility towards the rich came well down families' lists of their concerns.

> *"If you apply a normal divorce rate to those who own and operate family businesses, there will be severe disruption. It is not just the event itself – families will not function optimally in the lead-up to a split."*

TABLE 1.1

THE TOP THREE RISKS TO LONG-TERM FAMILY WEALTH

	2015	2018	2023
1	Family disputes or break-up	Lack of planning	**Poor investment outcomes**
2	Lack of future family leadership and direction	Family disputes or break-up	Failure to appropriately engage the next generation
3	Lack of planning	Failure to appropriately engage the next generation	**Political risks and increased taxation**

The 2023 survey paints a very different picture. Investment risk now takes the top spot, with many respondents immediately and directly concerned by the basic challenge of protecting the family's financial capital in the face of an exceptionally difficult year for markets in 2022 and the sudden return of high inflation, which has eroded purchasing power at a rate not seen in several decades. Financial markets have stabilised somewhat in 2023. The importance respondents place on the risk of poor investment outcomes, however, suggests they believe the new and riskier investment environment is here to stay.

This assessment is understandable. Over the past 18 months, many of the factors that underpinned the performance of financial assets in the 2010s – low and stable inflation, near-zero interest rates, and free trade based on uninterrupted global supply chains, to name three central examples – have undergone dramatic and potentially long-lasting reversals. Furthermore, these sudden shifts have come at a time when the public finances of the world's leading economies have been deteriorating for many years. From just over 80% on the eve of the 2008 Global Financial Crisis, the ratio of public debt to GDP in the G7 group of major advanced economies reached nearly 130% at the end of 2022. The interaction of such high levels of public indebtedness with sharply increased interest rates is justifiably raising fears of medium-term macroeconomic instability that would likely impair investment returns.

The widespread unsustainability of public finances likely also explains families' identification of political risk and the threat of increased taxation as the third biggest risk they face in the 2023 *Four Pillars of Capital* survey. With governments currently under intense pressure both to increase spending and reduce public debt, families are aware that higher taxation, more aggressively targeted at private wealth, is a strong possibility in many jurisdictions. The rest of the 2023 survey indicates clearly that families and their advisers are giving careful thought to the best ways to manage such political risks. In particular, the increased need for transparent dialogue between governments and wealthy taxpayers to ensure that policy levies fair contributions without jeopardising economic dynamism is widely acknowledged. As one entrepreneur put it: "There is no lobby group or advocacy for the wealthy which can help articulate to government the benefit of wealth to society and ensure that the implications of taxation are properly considered."

How exactly these macroeconomic risks and their impact on investment returns and fiscal policy across the world will play out over coming years is presently far from clear. Respondents clearly recognise, however, that the investment and political playbooks, which have worked for the past three decades need a comprehensive rewriting in the current Age of Upheaval.

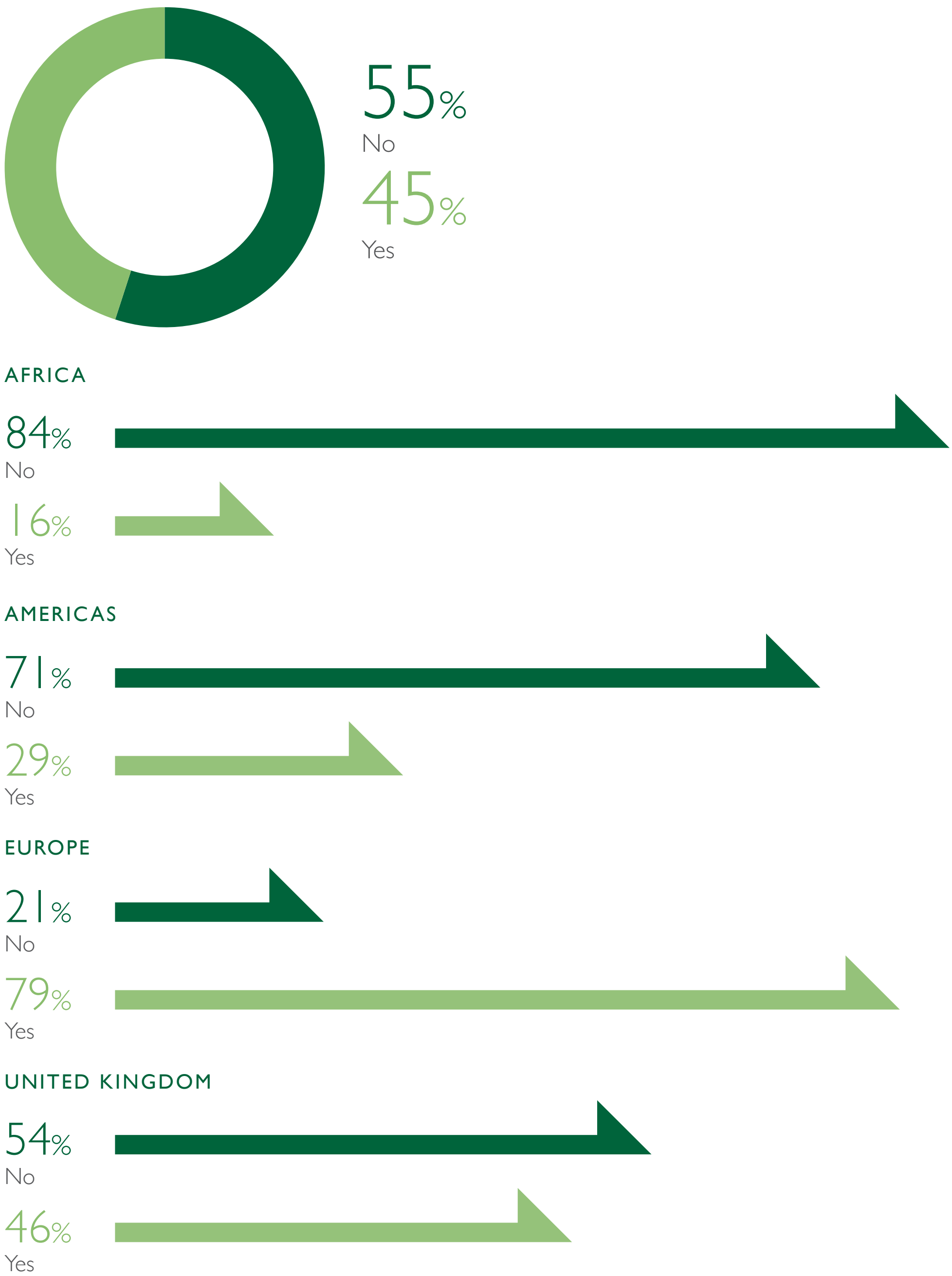
TRUST IN GOVERNMENT: A COMMODITY IN SHORT SUPPLY

A new question, posed for the first time in the 2023 survey, illustrates just how profoundly perceptions of the political environment have shifted. Asked whether they trust the political and institutional leadership in their jurisdiction, a majority of respondents (55%) answered that they do not, as illustrated in **Figure 1.1**. Overall, that majority is a narrow one – but in several jurisdictions, lack of trust is more widespread. Some – such as Africa (84%) and South America (63%) – may be less surprising. More unexpected, perhaps, is that 75% of North American respondents reported a lack of trust in political and institutional leadership. It would be wrong to draw too strong a conclusion from what, in the context of the survey, are relatively small sample sizes. Nevertheless, these responses do constitute evidence that increasing polarisation of North American politics is taking its toll, despite the fact that the United States and Canada continue to lead the world in many aspects of economic dynamism and quality of life.

These statistics on trust in political and institutional leadership are important to most families' ongoing operations – but are particularly relevant if families are considering the relocation or internationalisation of their activities. In a new question for the 2023 survey, respondents indicate that political stability and the tax regime are the two leading considerations in choosing a jurisdiction

FIGURE 1.1

DO YOU TRUST THE POLITICAL AND INSTITUTIONAL LEADERSHIP IN YOUR JURISDICTION?



for relocation (closely followed by lifestyle factors and the educational offering for children). Against this background, the UK continues to score highly with respondents – despite the political convulsions of the past decade. Although a majority of UK-based respondents also say they do not trust the political and institutional leadership, it is much narrower than in the US at only 54% – perhaps reflecting a less polarised political environment – and the UK remains the jurisdiction which the largest number of respondents trust as a centre of administration for their affairs.

GENERATIONAL CHALLENGES REQUIRE GENERATIONAL SOLIDARITY

The 2023 survey's more granular design also enables us to categorise responses by age. That provides a further, important insight.

As illustrated in **Figure 1.2**, it is older respondents who are the most concerned by the new investment environment and the resurgence in political risks. That makes sense – since many younger family members will simply not have experienced many of today's economic upheavals in their lifetimes. An investor would have to be at least 40 years old, for example, even to have witnessed US inflation at the level it reached in 2022 before – and probably more than 60 to have managed family wealth in such an environment. Likewise, the fundamental shifts in economic policy outlined in the Introduction represent a reversal of an orthodoxy in place since the early 1980s throughout much of the world.

Yet, **Figure 1.2** also shows that the second highest risk identified by respondents – the failure to engage the Next Generation appropriately – also has a strong skew by age. This time, however, it is the younger respondents who drive the overall result. Once again, there is perhaps nothing too surprising about that: it is entirely healthy that younger generations should seek involvement and responsibility in the management of their family wealth.

These two insights combine to suggest a simple, but powerful, conclusion. Today's Age of Upheaval is posing fundamental challenges to models of preserving family prosperity that have worked for the past four decades. Older family members are often most alert to the associated threats because they can recall the last time such conditions prevailed either from first-hand experience or from stories passed down by their parents. Younger generations, meanwhile, may be less attuned to these risks but are more acutely aware that they lack preparation for the responsibility of managing their family wealth. Together, these facts suggest that devising better ways for older family members to pass on their experience to the Next Generation represents an exciting win-win opportunity to meet the aspirations of youth while conserving the wisdom of experience.

FIGURE 1.2

RISKS TO LONG-TERM FAMILY WEALTH BY AGE

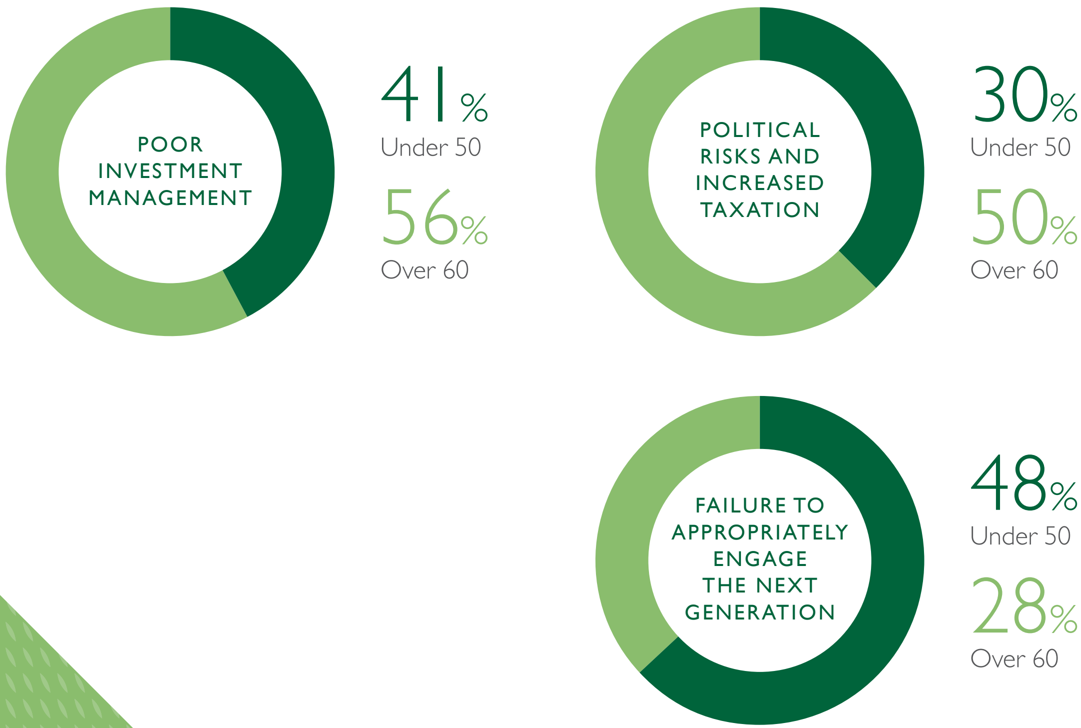
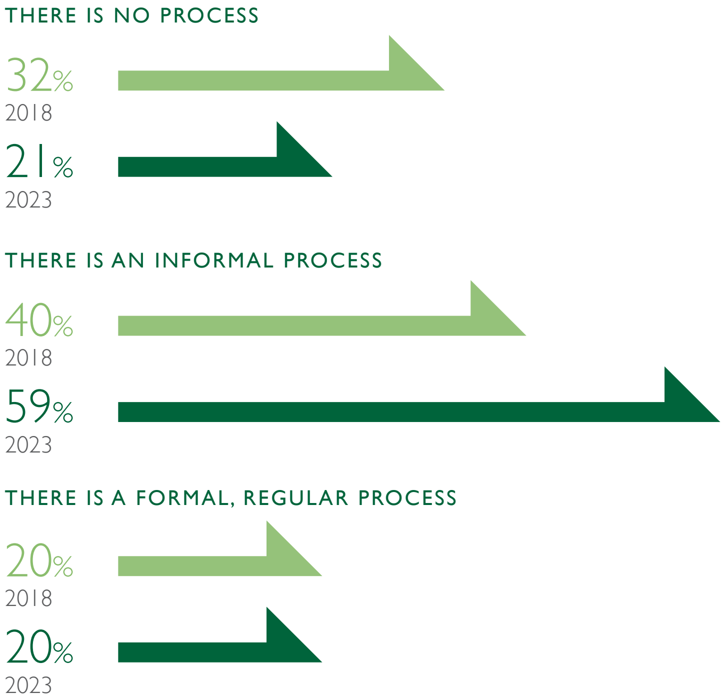


FIGURE 1.3

DO YOU HAVE A PROCESS FOR IDENTIFYING AND MITIGATING RISKS?

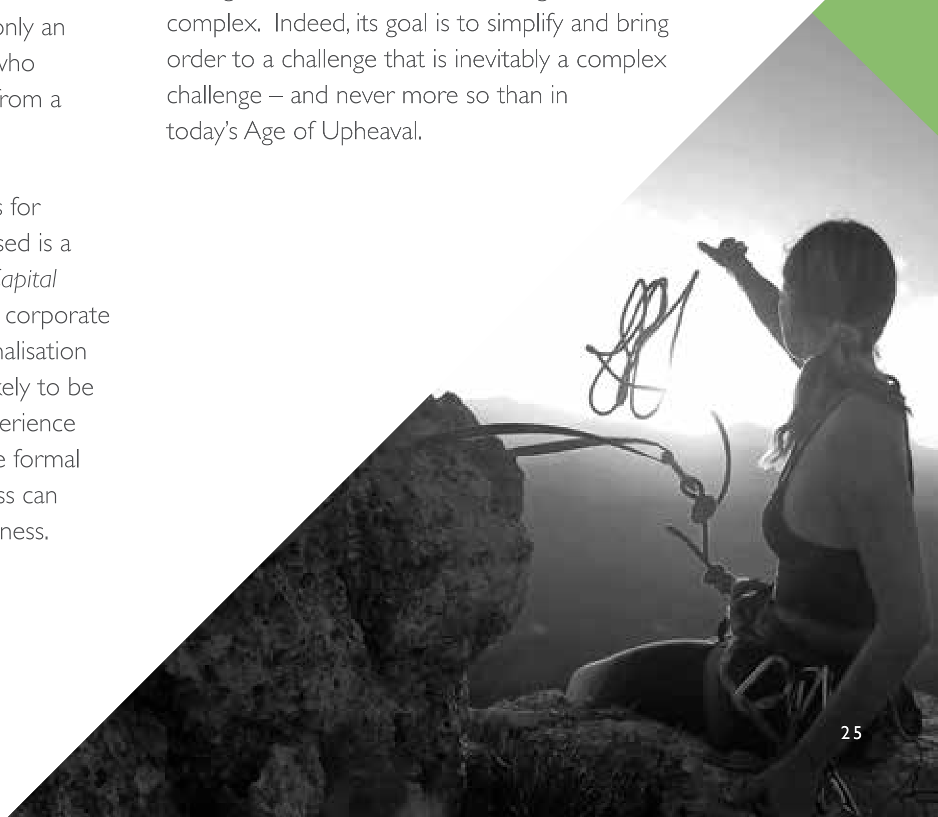


THE CHECKLIST MANIFESTO: ONLY IDENTIFIED RISKS CAN BE MANAGED

A final important finding of the 2023 *Four Pillars of Capital* survey relates to how families identify emerging risks to their long-term prosperity and goals. As **Figure 1.3** shows, although the proportion of respondents who report that they have no process for identifying and mitigating risks has fallen from nearly a third in 2018 to around a fifth in 2023, the majority still employ only an informal process. Only 20% of families who participated in the 2023 survey benefit from a formal, regular process.

The extent to which families' procedures for managing their wealth should be formalised is a recurrent question in the *Four Pillars of Capital* surveys. Families are not professional or corporate institutions – so the degree of professionalisation that works well in those contexts is unlikely to be appropriate. Nevertheless, practical experience suggests that introducing just a few, more formal elements to the risk management process can make a substantial difference to effectiveness.

Adopting a clearly articulated and rigorous process for evaluating prospective risks – even a process as simple as maintaining and regularly discussing a formal risk register – is one. Involving objective, external input into that process is another. The sharing of experience across families and learning from best practices, suitably adapted to families' specific circumstances, is a third. Perhaps the most important message is that formalising risk management does not mean making it more complex. Indeed, its goal is to simplify and bring order to a challenge that is inevitably a complex challenge – and never more so than in today's Age of Upheaval.



"The trick is to adopt simple and robust procedures, even if they can seem frustrating."

ATUL GAWANDE ON WHY PROCESS IS ESSENTIAL IN A COMPLEX WORLD

Atul Gawande is an American surgeon, public health expert, and government official. He is most famous as the author of the 2009 bestseller *The Checklist Manifesto*, which begins with a disarmingly simple question: why do we fail in our objectives? It used to be the case, Gawande argues, that failure typically resulted from ignorance. In fields as varied as surgery, weather forecasting, and civil engineering, practitioners just didn't know enough about what causes disease, why storms occur, or which building materials can withstand what kinds of forces. But after the huge scientific advances of the past century, Gawande says, ignorance is no longer the most common reason that things go wrong. Humanity's number one enemy today is instead complexity. Technical knowledge has become so specialised and so comprehensive that it is often hard even for experts – in fact, especially for experts – to see the wood for the trees. Fortunately, Gawande explains, professions such as surgery and airplane piloting, which deal in life-or-death decisions on a daily basis, have worked out how to minimise the chance of apparently minor but potentially fatal oversights. The trick is to adopt simple and robust procedures, even if they can seem frustrating. Gawande's favourite example is using the humble checklist – one of the simplest but most powerful procedures of them all.

THE STONEHAGE FLEMING VIEW

ARI TATOS – MANAGING PARTNER, SWITZERLAND

"It is entirely unsurprising that the 2023 *Four Pillars of Capital* survey finds our respondents focused on immediate, tangible threats to financial capital in particular. Financial markets have recently delivered volatility at best and disappointment at worst, and the factors which caused such profound economic and financial uncertainty are still very much with us. And with government finances everywhere under pressure there is little evidence of fiscal sympathy for wealth creators. It therefore makes perfect sense for families to be attending more to financial and political risks. We sometimes compare the four pillars of capital to four children. When one of them is having a difficult time, it is quite right for the family to devote extra care and attention to that child. Yet none of the children should ever be neglected, even as the focus of attention may shift.

Whilst we were reassured that failure to prepare the Next Generation is still high on the risk register, we will certainly be counselling families to recognise and nurture those factors which bind them, including purpose, shared values and communication. In the main, tangible financial risks are easier to pinpoint and also lend themselves to the involvement of advisers. But family disputes, however manifested, will cause value destruction of a quantum which far exceeds a year's sub-par investment returns; damage to the family brand can be irreparable. A concept we have found useful, developed by a recent Bocconi University study of ten European families who have successfully sustained their wealth over a century or more, is 'nurturing the tree'. It is essential to maintain the fundamental financial health of the family, both through careful attention to its core business and investments and through ensuring that its governance, leadership and succession arrangements are agreed and operate smoothly.

Managing risk may not be a topic that generates excitement, but it is vital to intergenerational success. We are encouraged that the percentage of respondents appearing to pay little formal attention to risk has fallen significantly since 2018, but equally we are concerned that the needle has not moved much in terms of formal, regular risk appraisal. With a more complex landscape of threats to the preservation of long-term prosperity ahead, families and wealth creators need more than ever to employ their intellectual capital to help identify and mitigate risk; there are simply too many to process informally. The benefits of the process will outweigh the time spent."

> *"Managing risk may not be a topic that generates excitement, but it is vital to intergenerational success."*

CHAPTER 2

INVESTMENT: INTEGRATING NEW VALUES, NAVIGATING NEW RISKS

The reappearance of investment risk at the top of families' agendas has quite rightly prompted a renewed focus on financial capital. After more than a decade of generally benign markets and buoyant returns, the economic landscape has undergone a series of tectonic shifts. Are strategies which worked for the last ten years going to work for the next ten? Which asset classes stand to benefit from the new risk environment – and which will suffer? And should families pull back from incorporating non-financial values into their wealth management strategies – or does the resurgence of social, political and environmental risks mean that they should be accelerating the most momentous investment management trend of the past decade?

ASSET ALLOCATION IN THE NEW RISK ENVIRONMENT

The 2023 *Four Pillars of Capital* survey reveals that families' views on high-level asset allocation remain substantially unchanged since 2018. Listed equities, private equity and real estate remain the most favoured asset classes, with all other options significantly less popular. A new question for the 2023 survey exploring respondents' forward-looking expectations revealed that at present there is likewise little appetite for radical re-engineering of portfolios over the coming five years.

This stability of investment preferences may seem surprising in the face of the dramatic changes both in economic fundamentals and in families' perceptions of the risk environment reported in the **Introduction** and in **Chapter 1**. Qualitative interviews suggest, however, that in most cases it reflects a sophisticated understanding of the challenges of asset allocation, rather than just inertia. Many families appear to have adopted the findings of modern research in behavioural finance, which cautions against market timing and excessive attempts at optimising investment allocations, recommending instead an investment process that is robust to humans' unavoidable emotional biases. It is more important, this research suggests, for investors to construct portfolios which they can realistically stick with through the inevitable gyrations of successive market cycles, than it is to aim for a theoretically perfect allocation at every point in time. This does not mean defaulting to a purely passive investment allocation which could be brutally exposed by structural economic or political changes. Rather, it argues instead for building a core asset allocation consistent with the investor's tolerance for risk, and then leaning into opportunities, and away from risks, as they arise. The 2023 *Four Pillars of Capital* survey suggests that this is the strategy that most respondents and their advisers currently adopt.

THE VALUES-DRIVEN INVESTING REVOLUTION

For most families, raw investment returns are today only one factor in their financial decision-making, however. Over the last decade there has been nothing short of a revolution in the integration of values beyond financial return alone into the design and implementation of investment strategies. At the highest level, this transformation can be summarised as the adoption of sustainability as an explicit objective, alongside the more traditional goals of preserving and growing capital. The incorporation of environmental, social, and governance (ESG) values into decision-making, and the augmentation of traditional financial analysis by considering the social impact of investments, are the most common ways in which sustainability is operationalised.

This mainstreaming of values-based investing has come about in response to broader societal reactions to the stresses and crises of the last two decades. It is no surprise, therefore, that in the current Age of Upheaval, interest in it has only intensified. Public awareness of the changing climate, stagnating living standards and social inequality, and scandals resulting from poor corporate governance have increased – while public tolerance for discrimination based on race, health, and gender has fallen. Investors and regulators alike have therefore increasingly recognised that to qualify as genuinely sustainable, the management of intergenerational family wealth should be guided by a broader set of values which aim at a better world for all.

The *Four Pillars of Capital* surveys have tracked the importance of non-financial values to families for nearly a decade, providing a unique perspective on how attitudes and practices have developed over time. Two important trends have emerged.

The first is an increasing desire amongst families to define explicitly what their non-financial values are, and to integrate them not only into the management of their wealth, but into their businesses, philanthropic activities, and general conduct. In the first *Four Pillars of Capital* survey in 2015, a majority of respondents reported that non-financial values were one factor in their overall strategy for preserving and managing their family wealth. For most, however, what these non-financial values were was not formally defined. Perhaps as a result, there were notable differences between the generations, with more than half of all Next Generation respondents saying that they thought their families had no defined set of values at all.

Three years later, things had begun to change. In the 2018 survey, only a fifth of respondents said that financial returns alone drove their investment choices; while around 70% said they incorporated non-financial values in the management of their family wealth. Between 2018 and 2023, families' commitment to a more values-based approach has grown still stronger. In the 2023 survey, the proportion of respondents who orient their investment strategy using financial returns alone has fallen again to only 16%; while the share of those who say that they deliberately invest their entire portfolio in order to reflect their non-financial values has nearly tripled from 5 to 13%.

70%

said they incorporated non-financial values in the management of their family wealth

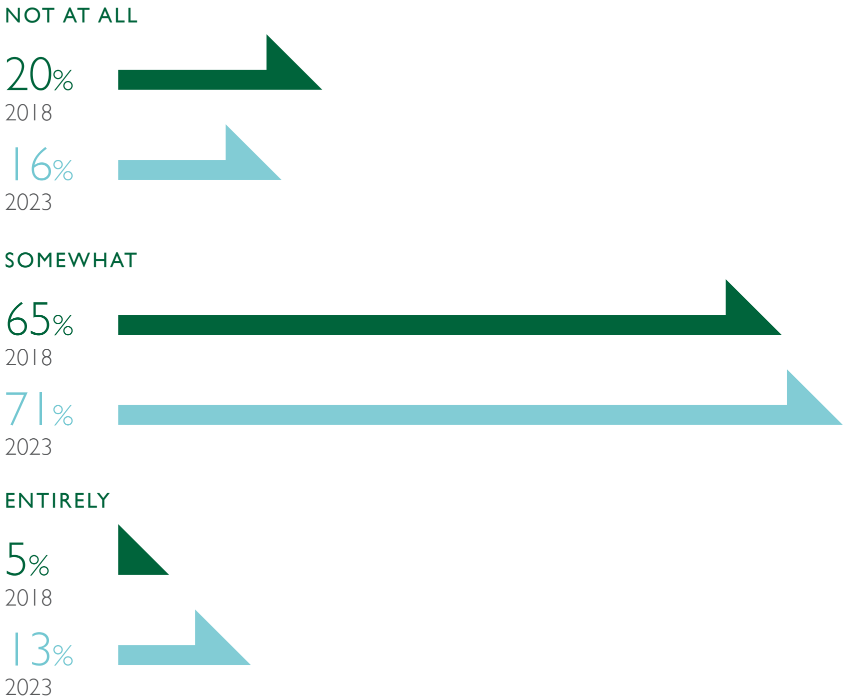
DAVID TUCKETT ON THE NEED TO OVERCOME EMOTIONS IN INVESTING

David Tuckett is a renowned psychoanalyst and professor at University College London, best known as the co-inventor of 'Emotional Finance' – an approach which applies insights from psychology and psychoanalysis to the challenge of investing. Traditional models of financial markets and portfolio management relied on a simplistic view of investors as hyper-rational agents capable of instantaneous optimisation. The Behavioural Economics revolution summarised by Nobel Prize-winner Daniel Kahneman in his worldwide bestseller *Thinking, Fast and Slow* pointed out that these assumptions are not just wrong, but unhelpful. In reality, investors are subject to numerous systematic psychological biases such as loss aversion and overconfidence – biases which portfolio management can usefully take into account. Tuckett and his collaborators have gone one step further – mining modern psychoanalytic research to construct an even more comprehensive account of the psychological basis for the dynamics of financial markets. One of their most important insights is an account of how the unconscious attachment of individual investors to compelling narratives can cumulate to produce financial manias and panics in a process not just of 'groupthink', but 'groupfeel'. To avoid being burned by these booms and busts, they conclude, it is more important for investors to identify portfolio allocations that their own psychology will allow them to stick with throughout such bouts of emotional contagion, rather than focusing excessively on trying to maximise returns in real time.

> *"In reality, investors are subject to numerous systematic psychological biases such as loss aversion and overconfidence."*

FIGURE 2.1

HOW MUCH DO YOUR VALUES INFLUENCE YOUR INVESTMENT CHOICES?



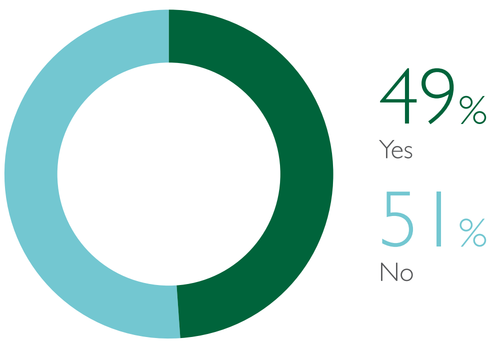
THE GAP BETWEEN AMBITION AND IMPLEMENTATION

These striking headline trends mask some less clear-cut details. In both the 2018 and 2023 surveys, the manner in which non-financial values are incorporated into the management of their family wealth remains relatively unstructured for the majority of respondents. Respondents report that it is done in a discretionary manner, rather than there being any firm restrictions – let alone proactive monitoring of investment impact or engagement with portfolio companies. "I do not invest in countries whose politics do not suit my personal values and beliefs" is a typical description of the process from one family head.

One important reason for this disconnect between ambition and implementation is that an obstacle, first identified in the 2015 survey, remains true today: many families have not explicitly decided which non-financial values they wish to target. As a new set of questions on this topic in the 2023 survey reveals, less than half of all families actually have an explicit, agreed set of values – making it intrinsically difficult to implement a rigorous values-based strategy. Interestingly, a notably higher proportion of younger respondents – around 60% – say their family does have an agreed set of values. The Next Generation, it seems, is more sympathetic to the idea that agreeing a family's values is necessary if they are to be a sound basis for sustainable wealth management.

FIGURE 2.2

DOES YOUR FAMILY HAVE AN AGREED SET OF VALUES?



THE LIMITATIONS OF MAINSTREAM PRODUCTS

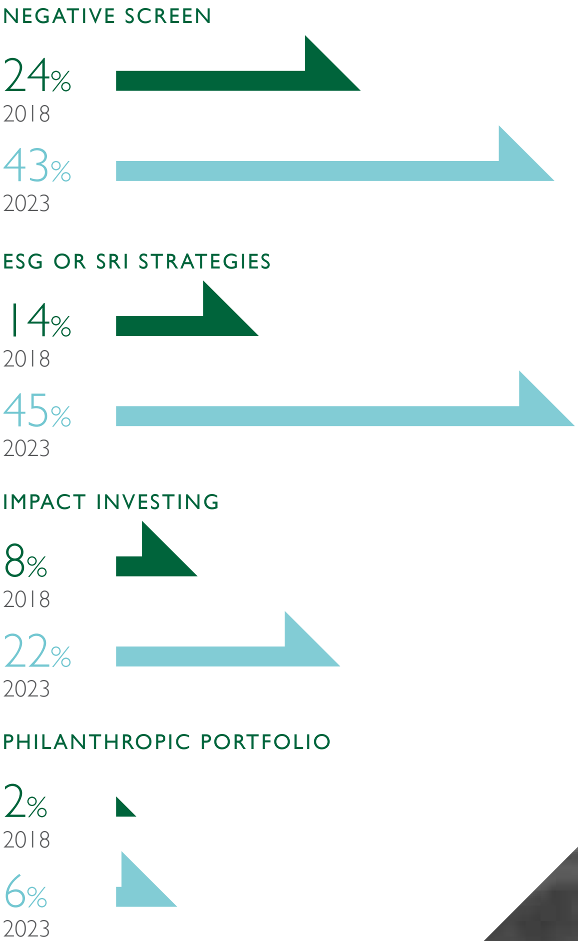
The disconnect between ambition and implementation is not just down to families themselves, however. The second trend that has emerged over the past decade is towards an increased commoditisation of sustainable investment offerings from the investment management industry.

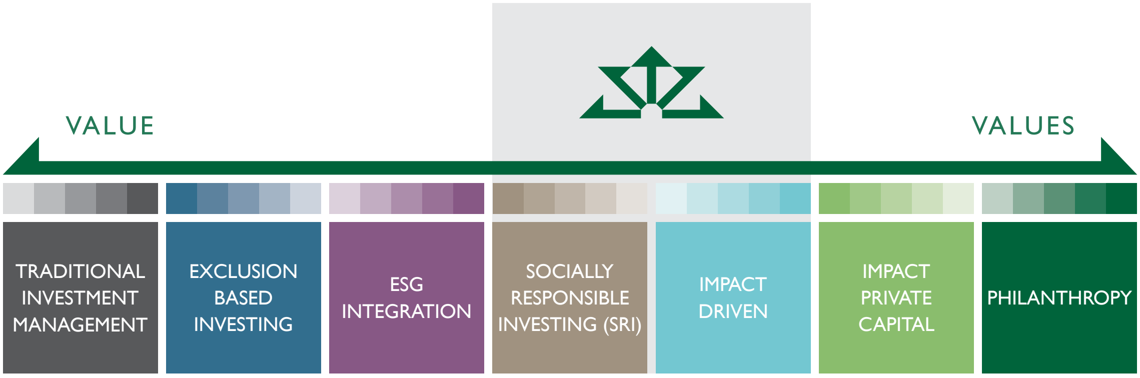
In one respect, this has been a welcome development, providing more options for families who wish to invest in this way. It has also had drawbacks, however. There are concerns that some investment managers have been more interested in supplying products than following principles, and that 'greenwashing' – the practice of spinning investments to qualify as sustainable when in reality they are not – has proliferated. Regulators have responded by raising the bar for managers to show active stewardship via initiatives such as the UNPRI and the Stewardship Code. This well-intentioned reaction has in turn encouraged some managers simply to settle for a compliance-driven investment culture, rather than a more ambitious and innovative product offering. One example has been the trend to implement sustainable investment strategies on a purely exclusionary basis, rather than undertaking the difficult and costly, but much more impactful, task of proactive engagement with investee companies. As one survey respondent commented: "engagement is more important than exclusions: escalation of issues is what effects change."

These developments in the investment management industry have quite understandably made some families sceptical of sustainable investing products available from mainstream managers.

FIGURE 2.3

WHAT APPROACH TO VALUES-DRIVEN INVESTING DO YOU ADOPT?





One respondent put it bluntly. "I do not believe investment returns and ESG issues are strictly separable, if by ESG we mean real consequential moral choices, rather than fashionable causes," they commented. "I believe much ESG talk fits into the latter category and provides white collar university graduates with jobs."

For most families, however, the shortcomings of the investment management industry have merely constrained how they have implemented values-based investing, rather than preventing them from doing it. As **Figure 2.3** shows, excluding investments deemed unsustainable from families' portfolios via negative screening has become more popular since 2018. At the same time, there has been a significant increase in the proportion of families who choose strategies involving a more active approach to stock-picking or management engagement. In 2018, only 14% of respondents said they invested in explicitly ESG or Socially Responsible Investment (SRI) products. In 2023, the proportion has more than tripled to 45%. Impact investing too has grown rapidly in popularity. Less than 10% of families engaged in it in 2018; nearly a quarter do in 2023 – and a full third of families based in Europe.

A BLUEPRINT FOR GENUINE VALUES-BASED INVESTING

Bridging the gap between families' ambitions to increase their values-based investing and the often commoditised offerings available from mainstream asset managers is a challenge – but experience suggests a simple three-step framework as best practice:

1. **Define and agree what the family's non-financial values are.**
   Existing commercial or regulatory categories such as ESG and SRI can be important aids in this process, but may not capture the family's particular beliefs and ideals. There is no substitute for working with advisers to agree within the family exactly which non-financial values it wishes to prioritise.

2. **Choose how to incorporate these values into the family's wealth management strategy.**
   Even within the investment sphere alone there is a broad spectrum of options available. No family is alike: each is likely to pick a different point on this spectrum. At the same time the landscape of environmental, social, and corporate governance risks continues to evolve rapidly. The role of investment advisers is to help families negotiate this fluid terrain to ensure that their particular values are reflected in a suitably bespoke strategy.

3. **Ensure that impact is measured and outcomes monitored.**
   It is relatively easy to measure the financial performance of investment portfolios. Gauging their environmental, social, and governance impact, and reporting it in a transparent manner, are much more complex tasks – but ones that are essential if values-based investing is to generate the benefits it promises for families, their communities and the planet.

THE STONEHAGE FLEMING VIEW

GRAHAM WAINER – PARTNER AND CEO OF INVESTMENT MANAGEMENT

"Our investment offerings are underpinned by the conviction that responsibly managed businesses, evidencing strong ESG credentials, are likely to be valued more highly by investors. The launch of our Global Sustainable Investment Portfolio, inspired by the findings of the 2018 *Four Pillars of Capital* report, provided the platform to help educate clients and staff on the importance of responsible investment, the benefits to the wider community, and crucially the idea that positive impact and competitive investment returns need not be mutually exclusive. For clients, this helps them become even better stewards of their family capital. Notwithstanding this increasing preference to put responsible investment criteria at the heart of their investment strategy, there remain a number of obstacles to transitioning clients' portfolios, including taxation, limited liquidity of investments in private companies and transaction costs. Meaningful progress can, however, be achieved by ensuring we incorporate best practices of stewardship in all our main client investment strategies, whether investing in publicly quoted businesses of high quality or selecting third party managers whose values and approach to proactive engagement with companies reflect our own. This progress is evident in that 95% of the third party managers we hold for clients now are signatories to the UNPRI, as opposed to less than 50% in 2018.

More broadly, we are encouraged that the 2023 survey finds that there are no sizeable swings in preferred asset classes. We certainly see the benefits for investors of patient capital in holding less liquid positions in private market investments to complement exposure to mainstream public markets. It may be no coincidence that in 2023 our most recent annual private capital programme attracted the highest level of support we have seen in more than half a decade. We have also long emphasised the importance of viewing investment returns over a cycle; this is acutely relevant in an environment where evaluating performance on a CPI+ basis has been disappointing in the recent past. Despite the challenge in a period of higher inflation, we believe that targeting real capital growth is the correct strategy for investors new to investment markets as well as those with multi-generational characteristics."

> *"...our annual private capital fund attracted the highest level of support we have seen in more than half a decade of managing this programme..."*

CHAPTER 3

REPUTATION MANAGEMENT IN THE DIGITAL AGE

"I have many millions – but only one name." This astute observation from an old friend of the firm captures succinctly why managing reputational risks has always been a primary concern of families and wealth creators. "It takes twenty years to build a reputation, and five minutes to lose it." This famous warning from legendary investor Warren Buffett, meanwhile, captures why doing so has always been such a difficult task.

The challenge has only increased over the past decade, for two reasons. The first is increased social and political pressure for transparency in wealthy families' financial affairs – which has often translated into much more stringent regulatory requirements for disclosure and client due diligence. The second is the new dominance of social media as the terrain on which the reputation of individuals, families and institutions is built, evaluated – and occasionally destroyed. The combination of these two factors has made the management of reputational risk much more challenging. In the age of increased transparency, it is harder than ever to pass under the radar. In the age of social media, it is harder than ever to control the narrative.

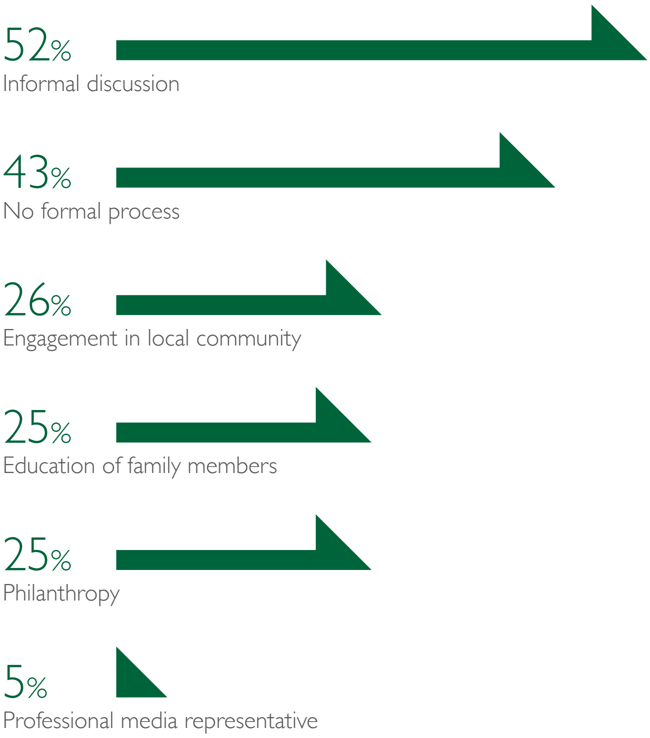
All evidence suggests that managing reputational risk is about to get even more difficult in the coming years. 2022 saw the public launches of a host of AI-enabled text, audio and image generation services capable of producing highly realistic "deepfakes" with minimal effort. The potential for such technologies to play havoc with traditional public relations strategies is obvious – and daunting.

MEETING FIRE WITH FIRE: PROFESSIONALISING REPUTATION MANAGEMENT

Despite this increasing level of reputational risk, and the increasing complexity of managing it, the 2023 *Four Pillars of Capital* survey reveals that most families still approach reputation management in a quite informal manner. As illustrated in **Figure 3.1**, around two fifths of respondents say that they have no formal process for managing the reputation of their family or its members (and only 5% employ a professional media representative). Around half of all respondents, meanwhile, say that they conduct reputation management informally and indirectly, via philanthropic activities (around a quarter of respondents) or engagement in the local community (again, around a quarter). These proportions are little changed from the last time this question was asked in the 2018 survey.

FIGURE 3.1

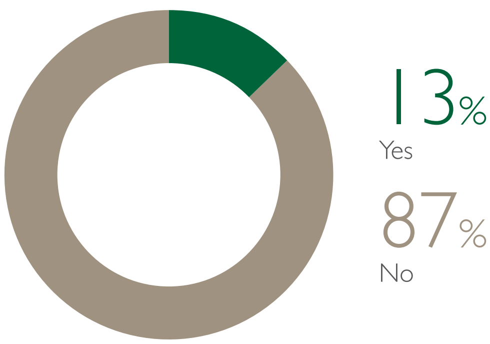
HOW DO YOU MANAGE YOUR FAMILY'S REPUTATION? (TOP THREE)



One area where families do seem to be adapting more proactively is in their approach to social media. Around a quarter of respondents in the 2023 survey indicated that they are educating family members in the use of social media as a means of reputation management – up from only around 14% in 2018. Yet ultimately, the level of attention given to reputation in the digital sphere is surprisingly low. As **Figure 3.2** reports, nearly 90% of respondents say they do not actively keep track of their family's digital footprint, for example.

FIGURE 3.2

DO YOU KEEP TRACK OF YOUR FAMILY'S DIGITAL FOOTPRINT?



> The general public is now able both to consume and to produce information for themselves without limit or sanction...

MARTI GURRI ON NAVIGATING DIGITAL DEMOCRACY

Martin Gurri is an ex-CIA analyst and media expert whose 2014 book *The Revolt of the Public* is called by Silicon Valley's top venture capitalist Marc Andreessen "my No. 1 handout to anyone seeking to understand the unfolding shift in power in the age of the internet". Gurri categorises the history of communications into five 'waves'. The First and Second Waves, millennia ago, were marked by the invention of hieroglyphic and alphabetic writing, which was deployed by priestly or aristocratic castes to control tightly the flow of information and so sustain strict hierarchies of power. The invention of the printing press in the fourteenth century heralded a Third Wave, in which the democratisation of communication eventually led to world-changing events such as the Protestant reformation and the French and American revolutions. The Industrial Revolution of the nineteenth century brought a Fourth Wave characterised by the first true mass media – newspapers, radio, and television – but also by gigantic corporations with near-monopolies as the authoritative sources of information. Today's digital age, Gurri argues, constitutes a Fifth Wave, in which the internet, social media, and mobile telephony have dramatically turned the tables on all forms of authority. The general public is now able both to consume and to produce information for themselves without limit or sanction, and it is impossible for individuals, companies, and even governments to control communications as they once did. Instead, they must learn to navigate the resulting 'revolt of the public' by managing a two-way conversation with the newly-empowered digital democracy.

THE PRIVACY PARADOX

This disconnect between the increasing importance of reputational risk on the one hand, and the seriousness with which families take it on the other, has a simple explanation. A great majority of families and wealth creators prize privacy and discretion. Qualitative comments offered as part of the 2023 Four Pillars of Capital survey consistently convey the priority families attach to keeping out of the public eye. One respondent described their family philosophy as living by the saying "Vivons heureux, vivons cachés" ("Live happy, live hidden"); another as "not to have all our goods in the shop window". "Our goal," said a third even more succinctly, "is to keep discreet".

As illustrated in **Figure 3.3**, these views are widely shared. Two thirds of all respondents in the 2023 *Four Pillars of Capital* survey say they choose not to communicate even their positive contributions to their local community and to wider society, in order to preserve privacy and discretion.

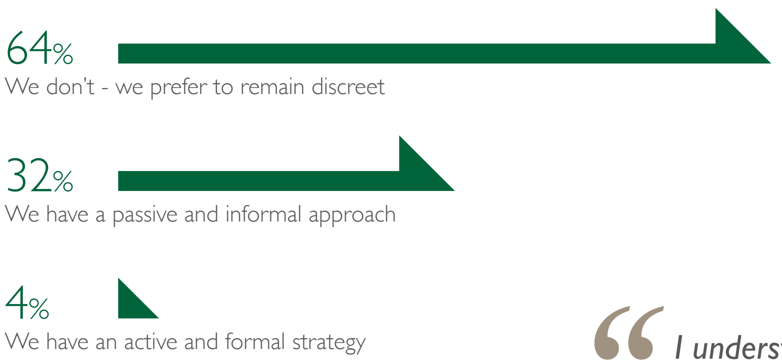
This preference is understandable. A key lesson of contemporary reputational scandals, however, is that in the digital age, doing nothing is not a realistic strategy when it comes to reputation management – even if the aim is to keep out of the public eye. In the digital age, it is impossible to avoid regulatory, social and political scrutiny. It is therefore necessary to have a strategy to manage it.

Rather than the key dilemma being between privacy and discretion on the one hand, and publicity and self-promotion on the other, the real choice families must make is between being proactive or reactive in the face of the 24-hour-a-day court of public opinion that is modern social media. There is a popular misconception that reputation management is solely concerned with raising individuals' or institutions public profile. It can just as easily be concerned with keeping that profile low.

Several survey respondents also emphasise how important well-designed communications strategies are to the realisation of families' philanthropic aims. "I understand why families wish to remain discreet," said one, "but you have responsibility to articulate your contribution in order to help society move in the right direction. Families with a social purpose can have a greater positive impact than governments."

FIGURE 3.3

HOW DOES YOUR FAMILY COMMUNICATE YOUR CONTRIBUTION TO THE COMMUNITY AND WIDER SOCIETY?



> *I understand why families wish to remain discreet but you have responsibility to articulate your contribution in order to help society move in the right direction.*

THE STONEHAGE FLEMING VIEW

JACQUI CHESHIRE – PARTNER AND HEAD OF FAMILY OFFICE, SWITZERLAND

"No one is immune to public opinion and its consequences. Fortunately, there are concrete steps you can take to protect the family and its members from reputational damage.

- Be responsible as employers and investors: your communities will judge you by your behaviours
- Avoid aggressive tax planning
- Be conscious of how your business interests and activities could be interpreted and be diligent in your selection of business partners
- Beware the speed and violence of social media: develop a strategy, including monitoring and education
- Put reputation on the agenda for regular family meetings
- "You never regret what you don't say" - you never know who is watching, listening or recording
- Prepare and educate the Next Generation. In the era of social media, what you say when young and inexperienced can haunt you and impact those around you for years to come.
- Respect your customers and cherish your brand

If there are circumstances where remedial action is required, we can help by assessing the situation and then recommending which specialists in a crowded field are best to assist – whether media agencies, lawyers or cyber specialists. As importantly, we believe that families should be proactive in understanding their digital profiles. Inaccurate information can generate and accelerate fake news or misinterpretation, endangering legitimate business activities and the family brand. Digital carelessness can expose family members to fraud and extortion – and even place them in physical danger.

We are slightly surprised by the data showing how few families are conscious of digital risk. A digital health check is a sensible element of a comprehensive risk management strategy and is not expensive for the peace of mind it provides. An agreed, proactive and publicly available narrative is also a sensible strategy to exhibit social capital thoughtfully and positively."

"Digital carelessness can expose family members to fraud and extortion – and even place them in physical danger."

CHAPTER 4

PHILANTHROPY: THE POWER OF PARTNERSHIP

Philanthropy occupies a special place in the *Four Pillars of Capital* framework. For the great majority of families, it is simply an end in itself: an expression of the family's values, and a way it can give back to its community, its country, or even the world, without expectation of financial or even reputational return.

In this respect, it is the emphasis that the *Four Pillars of Capital* framework places on process, evaluation, learning from best practice, and the power of genuine partnership between donors and recipients that is typically most useful for families in defining their philanthropic vision. The framework can also be useful in thinking through the interaction between philanthropy and reputation. That relationship is often misunderstood. Many families choose not to take credit for their philanthropic achievements out of modesty or a desire for discretion. Yet a greater willingness to publicise their fulfilment of the social responsibilities of wealth can be a powerful tool in helping build social capital for all.

PHILANTHROPIC RIGOUR: NOT A CONTRADICTION IN TERMS

Philanthropy is a focus for a large number of wealthy families. Yet despite its importance, respondents' approaches to philanthropy appear to have become less, rather than more, organised since the last *Four Pillars of Capital* survey. Outside of families with formal, grant-making trusts or foundations, it remains the case that most respondents do not deploy any formal process to organise their philanthropic activities. Although 86% of families consider philanthropy a central part of their purpose and values, almost two thirds of this group have no pre-determined budget and simply make regular donations based on an informal process, as shown in **Figure 4.1**.

FIGURE 4.1

WHICH BEST DESCRIBES YOUR APPROACH TO PHILANTHROPY?

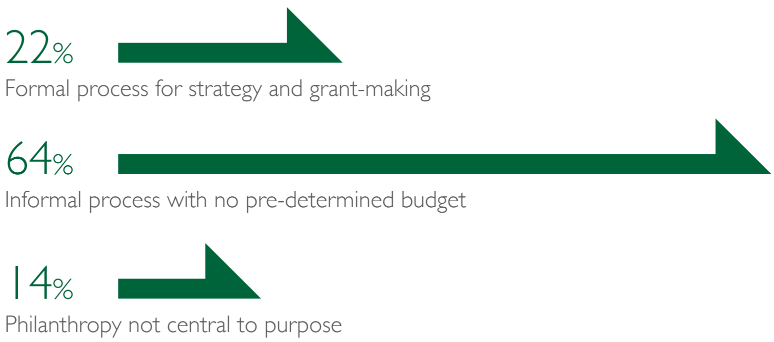
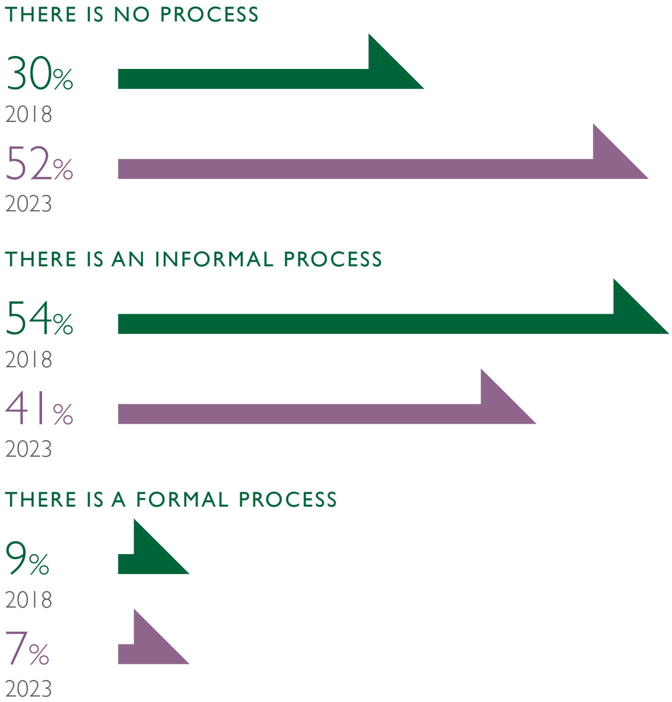


FIGURE 4.2

HOW DO YOU APPRAISE THE CONTRIBUTION YOUR PHILANTHROPY MAKES TO THE COMMUNITY AND WIDER SOCIETY?



There is no single blueprint for the optimal size or type of philanthropic activity. Yet, learning from best practice and putting in place a framework for giving can greatly improve results – both for the families themselves and for their chosen charities. Our conversations indicated that one reason for the informal approach that currently dominates is that many families do not see their philanthropic activity as being significant enough to require any form of strategy. Experience suggests, however, that many of the best practices pioneered by the largest and most professional philanthropic foundations, such as the Bill and Melinda Gates Foundation in global public health, the Open Society Foundation in education, and the Bezos Earth Fund in climate change, are replicable on a smaller scale for families with more targeted and local charitable objectives. Even modest programmes can benefit significantly from well-organised internal discussions, initial investment in agreeing strategic objectives and a more thoughtful approach to defining and monitoring impact.

The 2023 *Four Pillars of Capital* survey reveals two concrete examples of areas where these benefits might be felt.

WHAT ISN'T COUNTED, DOESN'T COUNT

The first is understanding, monitoring and evaluating the impact that the family would like to make with its philanthropy. Without at least a high-level articulation of what impact families would like to achieve at outset, it is very difficult for them to know whether their charitable endeavours are being effective and whether the charities they've chosen to work with are benefiting from their support – financial and otherwise.

The 2023 *Four Pillars of Capital* survey suggests there is more unrealised potential than ever in this area. As illustrated in **Figure 4.2**, only 7% of 2023 respondents reported that they have a formal process for agreeing and appraising the contribution they make to their community and wider society. That actually represents a small decline from 2018, when 9% responded positively. Meanwhile, the proportion of families saying they have no process has increased from around a third in 2018 to more than half in 2023.

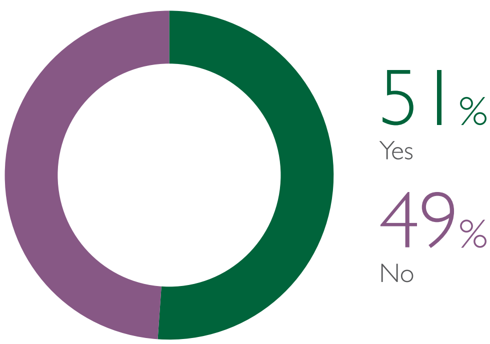
THE RECOGNITION DILEMMA

The second question of the extent to which philanthropic activities should be publicised is one that divides families. Most believe strongly that they make a positive contribution to society – whether via specific philanthropic or charitable initiatives, or by virtue of being wealth creators who provide employment and investment. Yet as **Figure 4.3** shows, respondents are much less unanimous when asked whether they are concerned that these contributions go unrecognised. Just under half of all families are untroubled by the question of recognition. Some prefer discretion as a matter of principle. Others simply see public understanding as a second order consideration compared to the charitable activity itself. A little over half however do express concern at the lack of public knowledge of the social contributions made by wealthy families – and believe that such misunderstandings are unhelpful in an increasingly polarised political environment. Against the backdrop of a growing trend towards collective philanthropy, there is also a sense from some respondents that publicising their contributions was helpful in encouraging peers to give.

One source of this split has already been discussed in **Chapter 3**, in the context of the broader issue of reputation management: a majority of families shun publicity in general. Another is specific to philanthropy, however. For many families, the idea of publicising their charitable activity smacks of self-promotion. That, they feel, might distract from or even actively frustrate the goal of giving back to the community itself.

FIGURE 4.3

WILL A LACK OF KNOWLEDGE OF THE SOCIETAL CONTRIBUTION MADE BY FAMILIES AND WEALTH CREATORS POSE A THREAT TO WEALTH?



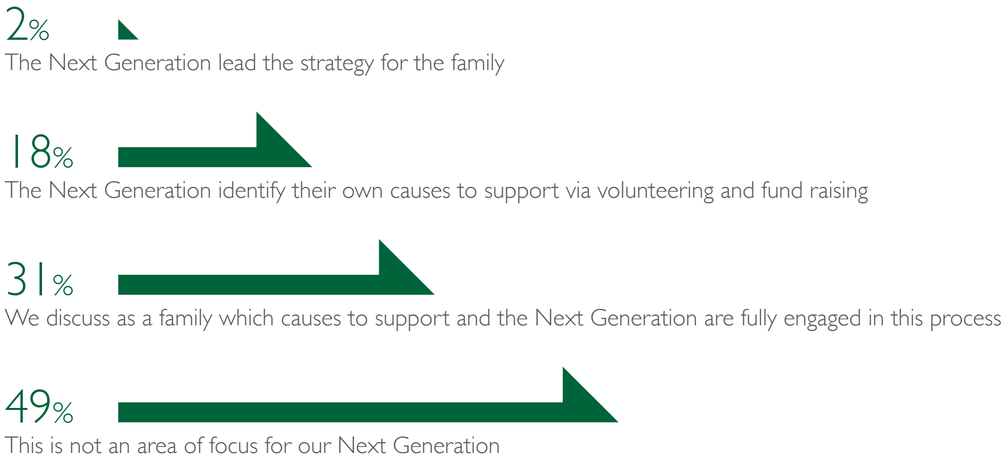
> *"Respondents are much less unanimous when asked whether they are concerned that these contributions go unrecognised."*

It is worth questioning this assumption. A central principle of the *Four Pillars of Capital* framework is that with wealth comes responsibility – to the community, to one's country and to the world. Fulfilling this responsibility through philanthropy is a key means of building social capital – not just for the philanthropist, but for society as a whole. Yet to have its full effect, the responsibilities of wealth must be seen to be fulfilled. That argues in favour of a well-designed communications strategy to supplement philanthropic activities themselves.

One useful way forward lies in learning from and adapting the best practices of the largest and most sophisticated philanthropic foundations. Many of them have confronted the same dilemmas, and devised communications strategies, which combine the aims of discretion on the one hand and communication to build social capital on the other.

FIGURE 4.4

IF YOU ARE ACTIVE IN PHILANTHROPY, HOW IS THE NEXT GENERATION ENGAGED IN YOUR ACTIVITIES?



INVOLVING THE NEXT GENERATION

The 2023 *Four Pillars of Capital* also reveals a second area in which a more formal approach to their philanthropic activities may benefit families. This is the respect in which philanthropy seems to be for many families a fundamental area of disconnect between younger and older family members. For the first time, the 2023 survey asked specifically about the involvement of the Next Generation in families' philanthropic activities. The results, illustrated in **Figure 4.4**, are striking. In nearly half of all respondents' families, the Next Generation are not substantially involved – and lead the strategy in less than 2% of cases.

There is no indication that older family members are intentionally excluding younger ones from decision-making. In fact, respondents under 30 years old were more likely to respond that philanthropy is not an area of focus for them than were those over 50. It is more likely that these responses simply reflect a combination of the natural position of the older generation at the head of families' activities and the nature of their philanthropic initiatives. Experience tells us that even where the Next Generation is proactively interested in philanthropy, they find it harder to start conversations with charities about how they might be able to support them. Often, this can be driven by a form of 'imposter syndrome', in that they don't feel that it is their right to lead the strategy around the giving of family money because they are not the ones who have generated the wealth. Yet especially in light of the rapidly changing risk environment described in **Chapter 1** – an environment in which younger people may be equally, or even better placed to identify some of the new social and cultural risks to family wealth – as well as the challenges of reputation management in the digital age discussed in **Chapter 3**, giving the Next Generation the opportunity to participate more in philanthropic activities may make good sense in many cases. Once again, the simplest way of doing so is through the adoption of more formal processes – and best practice from the largest and more professional family philanthropic initiatives can be helpful to show the way.

GIVING WHILE LIVING, EARNING TO GIVE, AND SUPPORTING SOCIAL ENTREPRENEURSHIP

What kinds of strategic discussions concerning families' philanthropic activities might stimulate greater involvement of the Next Generation? The 2023 *Four Pillars of Capital* survey reveals three high-level questions with which families, and especially their younger members, are grappling today.

WILLIAM MACASKILL ON EARNING TO GIVE

William MacAskill is an associate professor of philosophy at Oxford University, the founder of the Effective Altruism (EA) movement, the author of Doing Good Better, and according to Bill Gates "a data nerd after my own heart". MacAskill advocates using rigorous comparisons of alternatives to help people prioritise how much of their income or wealth they should give away, and what they themselves should spend their time doing, to meet their philanthropic goals. Practical outputs of his worldwide EA movement include the non-profit organisations GiveWell and Giving What We Can – which provide regularly updated evaluations of the most effective charities in different fields – and 80,000 Hours – a web-based framework to help young people choose the career which will best satisfy their ethical ambitions. Probably the most famous recommendation that MacAskill and his collaborators make is that for many people the way to maximise their moral impact may not be to do good works themselves, but instead to dedicate themselves to "earning to give" – making as much money as they can, and then donating a high proportion of that to effective charities. Some find the idea counterintuitive – and the popularity of EA with controversial Silicon Valley figures has put off others. But Professor MacAskill's logical and practical approach to ethical living and giving has proved remarkably popular, especially amongst the young.

> *"Professor MacAskill's logical and practical approach to ethical living and giving has proved remarkably popular, especially amongst the young."*

The first is how much of their wealth families should aim to give away. Recent decades have seen a number of very prominent public figures promise to give away more than half of their fortunes, including Bill Gates, Warren Buffett and Richard Branson. Facebook (now Meta) founder Mark Zuckerberg has gone even further – announcing plans to give 99% of his shares in the company to charity over his lifetime. Chuck Feeney, the founder of Duty Free Shoppers Group, earned the nickname "the James Bond of philanthropy" by distributing almost the entirety of his US$ 8 billion fortune to charitable causes anonymously before he was 60 years old.

Feeney is an extreme example; but the motivation he famously gave for his strategy – "it's a lot more fun to give while you live than to give when you are dead" – applies broadly. Certainly, the question of how much of one's wealth one should pass on to one's children, and how much one should give to charitable causes in one's own lifetime, is a perennial one – especially for entrepreneurs who built their own fortunes. Each family will make their own choice, and not all will adopt the target set out by one 2023 survey respondent: "to give the majority of the wealth away during our lifetime to causes which will improve society and the planet". It is however unquestionably useful to consider and discuss within the family the fundamental question of how much wealth should be retained and how much given away – not least to avoid disruptive intergenerational misunderstandings.

That comment also touches on another question frequently posed by respondents to the 2023 survey: how families should divide their own efforts between preserving and increasing their own fortune, and determining how to give it away. "Make money, give it to charity" was one respondent's succinct description of their philosophy. "Generate more wealth to support philanthropy" was another's. Particularly amongst the younger and more entrepreneurial demographic, there is sympathy for the ethos of "earning to give", which has become better known through its association with the "Effective Altruism" movement.

> *"For families and wealth creators who themselves built their fortunes in an entrepreneurial environment, supporting social entrepreneurship instead of or alongside traditional charities is often particularly attractive."*

The basic thesis of the "earning to give" philosophy is that it may be morally better for those who are capable of making money to focus on doing so, in order to be able to donate more over time to individuals or institutions which specialize in putting it to the best use. Like Chuck Feeney's maximalist approach to giving itself, this approach of completely divorcing the generation of wealth from its deployment to philanthropic causes will likely be too extreme for most. But the responses to the 2023 survey show that the underlying question of where family members' skills and efforts can make the biggest contribution to the family's ultimate purpose is worthy of transparent and open discussion.

A final important question that is growing in importance is what type of partners are best positioned to help families achieve their philanthropic goals. In traditional philanthropic models, the spectrum of recipients or partner institutions was typically limited to grant-making organisations. The rise of social entrepreneurship – the establishment of companies, which apply commercial principles of innovation, risk-taking, and customer focus to philanthropic objectives – has, however, greatly expanded the range of options available. We observe that establishing for families and wealth creators who themselves built their fortunes in an entrepreneurial environment, supporting social entrepreneurship instead of or alongside traditional charities is often particularly attractive. For social entrepreneurs themselves, meanwhile, building partnerships with families or philanthropic foundations is often critical to the success of their vision – access to mainstream finance is often limited for these individuals and enterprises. For the Next Generation in particular, supporting social entrepreneurs whose values and goals they share can be an exciting and innovative way of extending families' philanthropic reach.

THE STONEHAGE FLEMING VIEW

KATE BOSWELL – PARTNER, FAMILY OFFICE, UK

"Philanthropy holds a central place in the philosophy of many of the families with whom we work. Many are motivated by a desire to give back to their communities in which they live – understanding the importance of social capital in communities, particularly given the well-documented reduction in state support in many key areas. Others are motivated by the desire to make a difference in the world more broadly – whether by tackling ingrained social problems or focusing on long-term environmental challenges. All are aware of the fact that wealth, often combined with specific family expertise, has the ability to effect significant change.

Taking time to understand and properly define each family's motivation is essential to ensuring that committing capital – whether financial or intellectual – to a philanthropic cause is fulfilling and impactful for both the family and charity alike. Going through the process of understanding individual motivations can help families achieve a deeper understanding of their individual and collective identity, purpose, and values more broadly, contributing to more profound discussions about their overall mission.

Involving the Next Generation in charitable decision-making can be particularly rewarding for the whole family. Philanthropy has the power to foster more effective communication and demonstrate family values 'in action', both beneficial to a family more broadly and the Next Generation in particular.

In our experience, a solid philanthropic strategy typically includes a number of elements:

- **A well-defined and shared family purpose**. A durable philanthropic strategy hinges on a shared understanding of a family's wealth and its purpose. This doesn't mean that there isn't room for a divergence of views – rather that these differences are identified and discussed opening and sensibly in order for a shared set of principles to emerge.
- **A broad understanding of what philanthropy involves.** For many families, philanthropy involves not only contributing financial resources, but time, knowledge, and experience – sharing the family's intellectual as well as its financial capital.
- **Clarity on philanthropic objectives.** Understanding the impact a family wants to make with their philanthropy and ensuring that they are able to measure this in partnership with the charities that they choose to support
- **Fostering long-term, constructive relationships with chosen charities.** Research shows that working in genuine partnership with charitable partners produces better long-term results. It's important for philanthropists to remember that the charity, as an expert in its field, is often best placed to advise how resources (both financial and non-financial) are utilised.
- **Not being afraid to fail.** The worst outcomes in philanthropy can often be not to do anything for fear of getting it wrong. Being brave enough to try is a hugely important part of the journey.
- **Ongoing governance, measurement and communications.** We observe that establishing a framework, understanding impact, and continuous and transparent communication, are the pillars that lead to a successful and sustainable philanthropic strategy."

CHAPTER 5

GOVERNANCE, LEADERSHIP, AND THE NEXT GENERATION

In Chapter 1, we saw how external risks relating to the investment and political environment have displaced the internal risks relating to family governance and planning which dominated responses in 2015 and 2018. There is an exception to this sharp shift, however. Failure to engage the Next Generation appropriately has consistently featured in families' top risks since the *Four Pillars of Capital* surveys began – and it remained in second place in 2023.

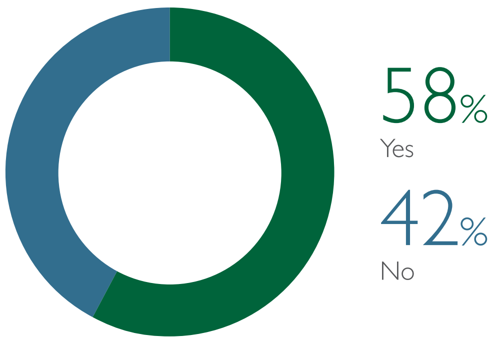
This should not come as a surprise. Despite the dramatic changes in the risk environment, sound internal family governance, leadership, and preparation for succession will always – almost by definition – remain critical prerequisites for the preservation of family wealth through the generations.

SUCCESSFUL LEADERSHIP: SUCCESSION, RATHER THAN *SUCCESSION*

Every family is different. There is no boilerplate best practice for family governance. A majority of families who participated in the 2023 *Four Pillars of Capital* survey for example, hold regular, in-person meetings as part of their family governance. But more than 40% do not – and there are often very sound reasons for this relating to the nature of the family's businesses, the ages of its members, its wide geographic dispersal, or simply a governance model in which decision-making is vested in a single individual.

FIGURE 5.1

DOES YOUR FAMILY HAVE REGULAR IN-PERSON MEETINGS?



All families require leadership, however, and here the 2023 survey provides useful insights into how families currently confront this challenge. As was the case in 2018, only around 10% of participating families have a formal leadership structure with a designated 'official' family leader. As **Figure 5.2** shows, nearly half report that they have no formal leadership structure at all – while the remainder have either a single, informal leader (about a quarter of respondents) or multiple family members jointly in charge (around 15%).

The ways in which families select their leaders, meanwhile, remain diverse. Just as in 2018, selection by the previous leader, selection by committee or by the wider family and self-selection all remain common methods. The one clear trend is a decline in preference for primogeniture. Only 5% of families – and none at all in the US or Europe – now believe this traditional method of succession to be a good fit with the demands of modern intergenerational wealth management, compared with nearly 20% in 2018.

As for the criteria families report that they look for in choosing who will lead decision-making, these tend to be very general – perhaps unsurprisingly, given the complex nature of the challenge. "Competency" and "ability" are the qualities most often mentioned in interviews; "natural selection by personality" is how another respondent put it. Yet one respondent sounded a warning from experience that informal selection processes can risk choosing leaders "by circumstance" rather than by deliberate choice. Another described how they "decided to sell a majority stake [in the family business] for exactly this reason." The hit HBO drama *Succession* is a work of fiction. The intrinsic complexity of choosing new leaders from amongst family members, however, is a very real challenge that all families have to face eventually.

PROFESSIONALISING LEADERSHIP: TWO OPTIONS

One potential option, explored for the first time in the 2023 survey, is the employment of leaders from outside the family. As **Figure 5.3** shows, in most regions, a substantial minority of families do this – typically for specific technical roles, such as that of Chief Investment Officer or Land Agent – while in the Americas, a majority take this route. US families also tend to look more favourably on external leaders in more general roles – as one respondent described it, "a quarterback overlooking all aspects and helping communicate steps needed to move forward." It would be wrong to draw too strong a conclusion from the statistically small sample sizes involved. Nevertheless, it is interesting to speculate whether this might be a trend that will spread to other jurisdictions soon.

FIGURE 5.2

DOES YOUR FAMILY HAVE A FORMAL LEADERSHIP STRUCTURE?

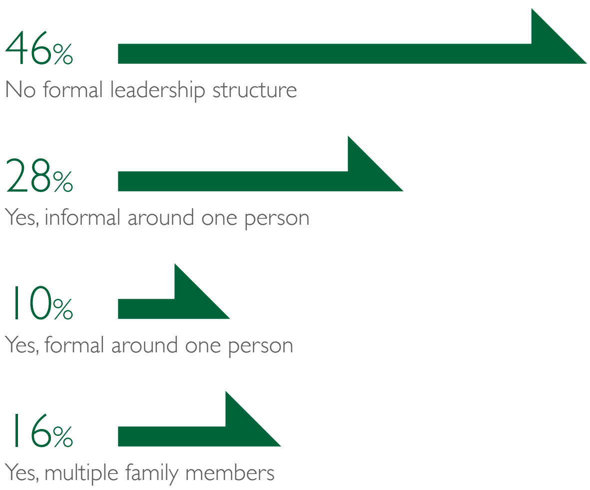
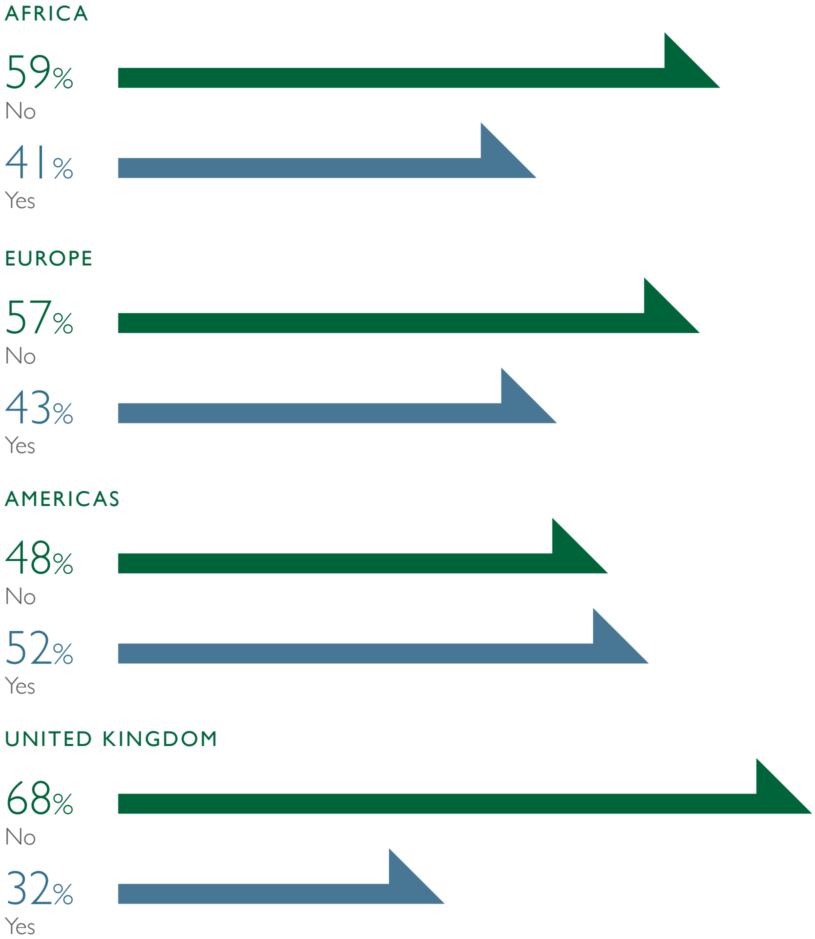


FIGURE 5.3

DO YOU EMPLOY AN EXTERNAL LEADER FOR SPECIFIC ROLES?



For many families, regardless of jurisdiction, professional leadership is unlikely to be appropriate. The practical question for them therefore remains how to ensure that the best leadership emerges from within the family itself. To investigate attitudes to this question, the *Four Pillars of Capital* survey also asks families how they believe leaders should be selected in the future. On this front – no doubt reflecting the challenges noted by several respondents above – the clearest preferences are to move away from self-selection and towards selection by committee. In the 2023 survey, over 40% of respondents indicated that they thought leaders should be selected either by committee, or the wider family – up from around a quarter in 2018. Around 10% of respondents also believe it would be helpful for external parties to facilitate leadership selection – five times the number who actually employ such outside help at present. Emphasizing once again the tentative nature of conclusions drawn from relatively small samples, the Americas appear to be in the vanguard of this type of professionalisation: nearly 30% of participating families based in the US, Canada and Latin America already opt for such external advice and facilitation of the succession process.

NURTURING THE NEXT GENERATION: PREPARATION, RESPONSIBILITY AND CARE

The link between leadership and succession leads naturally to the question of how families' preparation and involvement of the Next Generation continues to evolve. One respondent to the 2023 survey summed up how closely the two topics are connected succinctly: "The [leadership] selection process should involve multiple aspects, but most importantly around the next generation – whether they want to take on the role."

The 2023 survey reports that more than two thirds of families are already taking proactive steps to give the Next Generation a more prominent role in the family. The broader geographical scope of the 2023 survey also reveals that this trend is more advanced in Africa and the Americas than in the UK and Europe. In the Americas, for example, more than four fifths of respondents report that the Next Generation is being given more responsibility.

A similar cultural difference is evident when it comes to the preparation of the Next Generation for taking on and discharging these expanded responsibilities. As illustrated in **Figure 5.4**, nearly half of all participating families report that such preparation is wholly informal – they rely on the family environment and the conventional academic education they provide to prepare the Next Generation. One risk with such informal approaches is that despite the best efforts of families, they are not always successful in engaging younger family members. One family leader gave an example: "I draft a quarterly newsletter which is shared with all family shareholders. I know they read it but would prefer for them to engage with it more. Why not make more work for me by showing an interest and asking more questions?" When it comes to training and education, meanwhile, only around 16% of families encourage their children to attend bespoke programmes designed to help them take on more of the burden of managing the family wealth.

Yet once these headline numbers are broken down by region, there is a significant difference between the approaches of families in the Americas and elsewhere. In the Americas, there is a much greater acceptance of the value of bespoke, formal education – as well as of regular internal discussions of families' wealth and the responsibilities associated with it: In that region, these strategies are more popular than simply trusting in the informal family environment to prepare the Next Generation. As in the case of the professionalisation of the choice, and even the composition, of family leadership, it is worth asking whether these American practices simply reflect cultural differences – or represent a better approach to preparing the Next Generation that might be appropriate in other jurisdictions as well. Certainly, the reasoning of one respondent who advocates a more formal and bespoke approach is compelling: "Without proper preparation and education, the Next Generation can find themselves out of their depth and, with excess capital, they get into areas they don't properly understand."

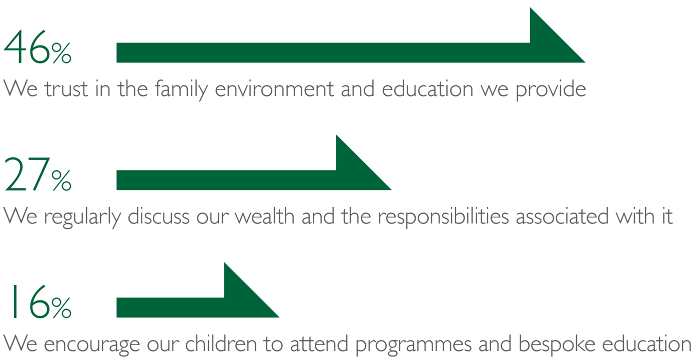
MENTAL HEALTH, ANXIETY, AND STRESS

The increased responsibility that succession entails inevitably brings with it increased stress. A final important aspect of planning for succession is that strategies to prepare the Next Generation should involve not only education and training, but care and attention to mental health.

Youth mental health is a sensitive and often very private matter. As such, the *Four Pillars of Capital* survey does not include questions directly related to the topic. Nevertheless, a large and growing body of international evidence strongly suggests that

FIGURE 5.4

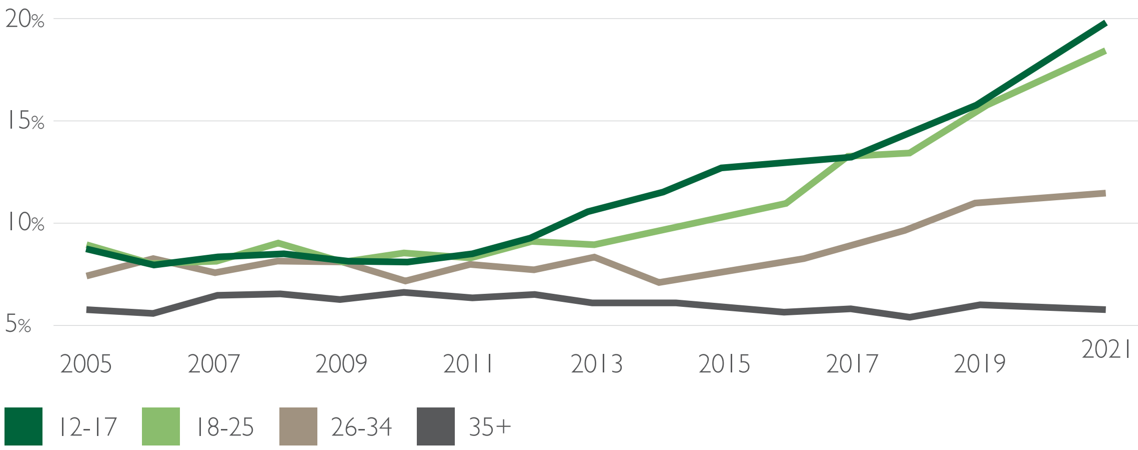
HOW DO YOU EQUIP THE NEXT GENERATION TO UNDERSTAND THE BROAD RESPONSIBILITIES OF WEALTH? (TOP THREE)



"If you do not invest in building emotional intelligence in the family it will cause profound issues."

FIGURE 5.5

PERCENTAGE OF US ADOLESCENTS AND ADULTS EXPERIENCING A MAJOR DEPRESSIVE EPISODE IN THE LAST YEAR



Source: US National Survey on Drug Use and Health, cited by Professor Jean M. Twenge.

the mental health of young people has been on a deteriorating trend over the past decade. In the US, for example, the proportion of young people experiencing a major depressive episode more than doubled between 2011 and 2021, from under one in ten to nearly one in five, as illustrated in **Figure 5.5**.

The incidence of other mental health problems is even higher. One recent national poll found that 90% of those born between the late 1990s and 2010 report experiencing psychological ailments on a regular basis – with anxiety and stress the most commonly cited issues. Similar trends have been recorded in Europe. In the UK, for example, the NHS estimated in 2023 that more than a quarter of all young people aged 17 to 19 were suffering from some form of mental health disorder. Wealth, meanwhile, is no guarantee of the mental health of young people. As one 2023 respondent put it: "Neglect is most common amongst the very poor and the very rich."

These trends almost certainly have multiple causes. Both the reality and the reporting of contemporary socio-political issues seem to be playing a role. The climate crisis is often cited by young people themselves, for example; and in the US, nearly 70% say they are concerned about school shootings. There is strong evidence that social media and the use of smartphones acted as a powerful accelerant – so much so that in China, for example, the government has imposed restrictions on the time under-18s can spend on social media and online gaming for on these grounds, dubbing them "spiritual opium". The widespread closure of schools and the associated shift to online learning and socialising during the Covid pandemic are other probable factors.

Tackling the youth mental health crisis will require efforts from many sides: governments and regulators, companies, families – and the Next Generation itself. One positive development is that young people are increasingly comfortable with talking about and seeking help with their mental health. In the US, for example, the poll cited above also found that nearly 80% of young people had talked to others about their mental health over the preceding year. There are, however, promising and hopeful strategies available with which families can nurture the Next Generation and ensure that they are emotionally and intellectually ready to assume the responsibilities of managing intergenerational wealth. The importance of doing so cannot be overstated. One respondent eloquently summed up the challenge: "If you do not invest in building emotional intelligence in the family it will cause profound issues. Relationships make families strong but are also the greatest risk. Communication is of inestimable importance. If you get this wrong, all else fails."

> *...the more hours a teenager spends on social media, the more likely he or she is to be depressed...*

JEAN M. TWENGE ON SMARTPHONES AND YOUTH ANXIETY

Jean M. Twenge is Professor of Psychology at San Diego State University, and a leading voice in the growing debate about the causes of the global youth mental health crisis. In the US, it has been clear for some years that depression amongst teenagers began to rise in around 2012 – just when smartphones became widely adopted. It is also well established that the more hours a teenager spends on social media, the more likely he or she is to be depressed – with girls especially affected. Professor Twenge's research, showcased in popular books such as her 2023 bestseller Generations, argues compellingly that these relationships are not just correlations, but causal. In a landmark study published in 2023, tracking nearly 700 thousand teenagers in 43 countries over 16 years, she and her colleagues demonstrated that increasing anxiety amongst young people is a global phenomenon strongly associated with increased time spent online. The mechanism at work, Twenge argues, is as much the opportunity cost of time spent on smartphones – the in-person socialising and sport missed out on – as it is the psychological effects of social media itself. She advocates for legal, age-related restrictions on social media use, similar to those already in place for tobacco and alcohol.

THE STONEHAGE FLEMING VIEW

LUCY BIRTWISTLE – DIRECTOR,
FAMILY OFFICE, UK

"There is much to be said for the 'benevolent dictatorship' model of family leadership. However, the demands it places on both the leader and on those being led, are significant. In many cases, that can undermine the chances of family values, family relationships and family wealth being successfully transferred between generations.

Fortunately, there are many alternative models of family governance available – and much experience to learn from. Whilst no two families are the same, we have found that families who identify the need for leadership in all four pillars of capital, as well as understanding the benefits of a shared purpose and effective communication, have the best chance of preserving prosperity through the generations. Our experience also tells us that a single person is unlikely to be the most appropriate leader in all these areas and that engaging the most appropriate family members, or indeed non-family members where there is a need, can play a crucial role in a successful family governance. Having multiple family leaders also reduces the pressure that one person may feel and is often a useful way of engaging the Next Generation.

Being a successful entrepreneur or born into a successful family can compound the already complex issues around family leadership, especially in a world where success is almost always viewed through the lens of financial capital. Leadership can be challenging and lonely. Yet, ironically, being led also brings tests of expectation and perception: it too can be challenging and lonely.

Defining success as a family is therefore an important conversation to have and will encourage the family to discuss the relevance of each of the four pillars of capital. To some, success may indeed be measured in terms of financial outcomes, but for others it may be what you are known for as a family, your contributions to the wider society, or being the 'glue' hosting family gatherings and keeping the family unit together.

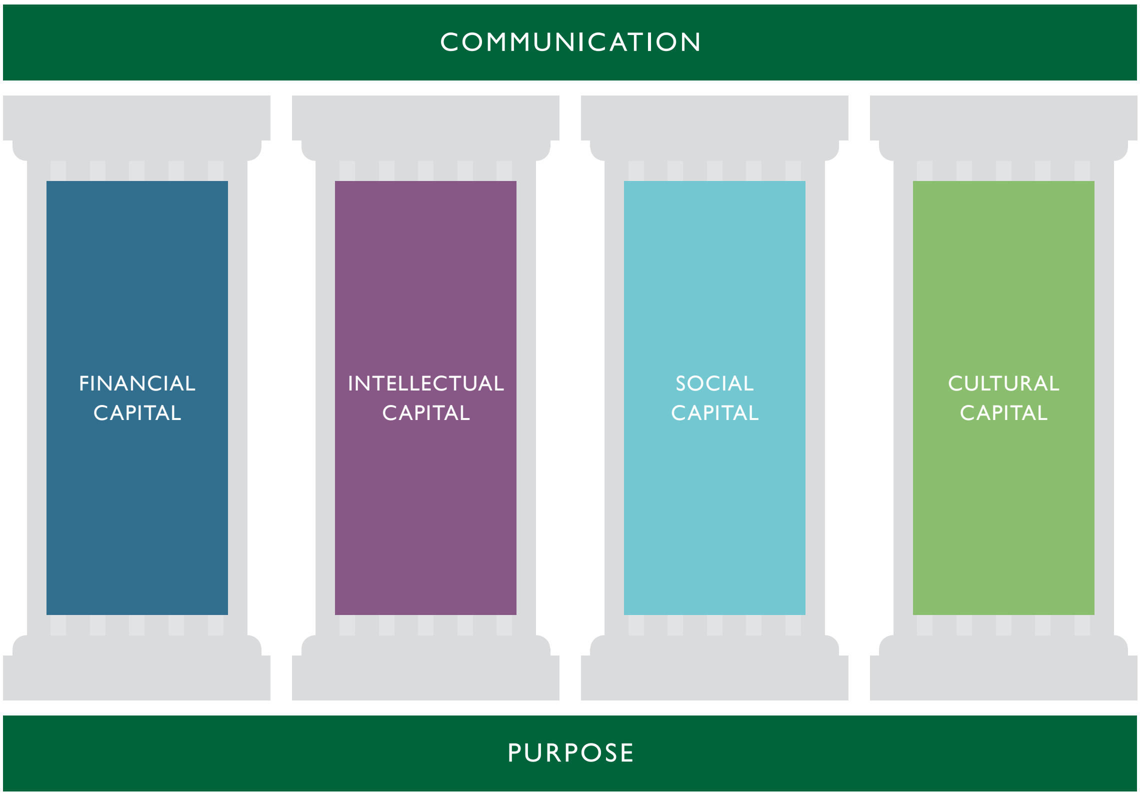
We believe passionately in supporting families as they define what success and legacy mean to them, search for the most appropriate models of decision-making and leadership for their circumstances, and seek to foster successful generational transitions. We deliver that support both collectively – by facilitating family meetings, challenging the status quo, and sharing experiences of what has and has not worked for other families in similar circumstances – and individually, particularly for the Next Generation – mentoring, coaching, and just being there to listen and understand."

> *"We believe passionately in supporting families as they define what success and legacy mean to them."*

CHAPTER 6

PURPOSE: THE FOUNDATION OF A SUCCESSFUL FAMILY STRATEGY

The discussion and agreement of an ultimate purpose of a family's wealth is the single most important prerequisite for its successful protection and preservation through the generations. This conviction has been at the centre of our *Four Pillars of Capital* reports since their inception. Purpose is the foundation on which all four of the pillars of capital are built. In the management of intergenerational wealth – just as in business – clarity of purpose is all-important if ambitions are to be realised and objectives achieved.



THE NEW RISK ENVIRONMENT: CONCENTRATING MINDS

As **Figure 6.1** illustrates, the 2023 *Four Pillars of Capital* survey reports that just over a third of families currently have an agreed purpose for their wealth – almost the identical proportion as in 2018.

For many families, it is simply the changing stages of life and the need to consider succession which prompt a focus on defining an underlying philosophy and set of objectives. "Due to reaching age 60 … I am starting to consider the purpose of our wealth and how it should relate to the Next Generation", is how one participant in the 2023 survey put it. These motivations apply whether wealth is inherited – so that families are already familiar with the way in which an agreed philosophy can help unite family members around the common project of preserving wealth – or acquired in the current generation as the result of more recent success – so that there is a desire to encourage "the younger ones … to remember what we stood for before we got wealthy", as one entrepreneur put it in the 2023 survey.

FIGURE 6.1

DOES YOUR FAMILY HAVE AN AGREED PURPOSE OR PHILOSOPHY FOR ITS WEALTH?

> *"For a significant number of respondents, it is the acceleration of political and economic volatility ... which has crystalised their thinking."*

For a significant number of respondents, however, it is the acceleration of political and economic volatility since the last *Four Pillars of Capital* report that has crystalised their thinking. As one UK-based respondent to the 2023 survey put it: "The tumult of the post-Brexit environment and the perma-crisis since have concentrated attention on how to preserve wealth for the Next Generation, and how we can contribute more fully in the meantime." The particular disruptions that motivate families will vary across jurisdictions. In this year's survey, though, many respondents echo this conclusion that in the current Age of Upheaval a clear sense of purpose is more important than ever before. Of the nearly two thirds of families who do not currently have an agreed purpose or philosophy, around a third cite the Covid pandemic and the challenges the world has encountered since as triggers for them to think more carefully about the question of purpose.

Most also understand that the big questions are how to define that purpose; how to agree on it; and how to ensure that it remains fresh, compelling and relevant in a rapidly changing world. There is no universal answer to the question of what a family's purpose should be – and the 2023 *Four Pillars of Capital* survey showcases the sheer variety of philosophies that successful families live by. In the qualitative interviews in particular, however, four major themes stand out and provide useful food for thought.

FOUR THEMES IN THE PURPOSE OF FAMILY WEALTH

Unsurprisingly, a simple focus on successfully preserving and growing the financial pillar is considered by most families to be a vital component of their underlying philosophy. There is a "responsibility of each generation to hand on the financial 'baton' in good shape to the next generation", as one 2023 respondent puts it. The ultimate purpose of the family fortune is to "assure the means for living with dignity", says another. For a significant number of respondents, it is those whose wealth is inherited, and whose families have accumulated significant real assets over several generations, the fiduciary responsibility of family wealth is obvious as a guiding principle. For such families, "to pass the estate on to the next generation in a better condition" or "maintenance of the art collection" are compelling objectives in themselves. One respondent explains that the family's purpose is simply "the same it has been for five centuries – to service the needs of the current generation while providing for the heir to take over the estate and to provide for his siblings." Another puts it even more succinctly: "Our family purpose is simple: continuity in the family enterprise."

A second, and related, theme commonly identified in family definitions of purpose is to provide security and opportunity for the wider family and for future descendants. "To nurture and take care of the next generation to provide the best opportunities and good life quality" is how one respondent describes how they see the purpose of their family wealth. "To provide choices that allow each family member to flourish following their particular passions and skillsets", is how another puts theirs. The provision of education is one specific purpose often mentioned – both for family members and for the broader community. One family, for example, defines the purpose of their wealth simply but clearly as being "to provide tertiary education to all eight grandchildren and a select group of eight other young people."

The broadening of the beneficiaries of purpose beyond the family alone leads on to a third popular theme in its definition: that of giving back to the local, national, or even global community

> *"For those whose wealth is inherited, and whose families have accumulated significant real assets over several generations, the fiduciary responsibility of family wealth is obvious as a guiding principle."*

which respondents credit as the context for their wealth-creating activities. So, one family defines the purpose of their wealth as being "to help the economy around us and support local businesses"; another, "to support charitable priorities"; a third, with admirable ambition, says "our mission as a family is the social, cultural, and spiritual renewal of our nation".

The mention of spiritual renewal is also an example of a fourth theme running through several accounts of families' purposes and philosophies in the 2023 survey: the role for some families of religious faith and ethics in shaping their management and disposal of their wealth. "Tikkun olam: make a positive impact in the world" is how one respondent succinctly described their philosophy – referring to the ancient Jewish concept of individual responsibility to improve the world in line with God's wishes. "Our decisions and actions are based on humanistic values … provided to us by our education and belonging to the Catholic faith" is how another respondent explained the purpose they see for the management of their family wealth and for their conduct more broadly.

These four themes are clearly not mutually exclusive, and indeed many families include all four as components of their family philosophy. Each gives a powerful sense, however, of the immense value that a commonly agreed and clearly articulated sense of purpose can have in uniting and motivating families as they strive to preserve, grow, and put to their best use all four pillars of capital.

THE STONEHAGE FLEMING VIEW

MATTHEW FLEMING – PARTNER AND
HEAD OF GOVERNANCE AND SUCCESSION

"We are frequently challenged as to why there are not more pillars of capital. What about one for philanthropy or faith, for instance? These are fair questions and we would never stand in the way of a family deciding that an additional 'pillar' is relevant for them. For us, however, philanthropy and faith are consequences of the way all four pillars work together to deliver a family's purpose. Rather than dwell on the number of pillars, we would prefer to encourage families to focus on their purpose. This is the foundation of a family's decision-making framework and in turn underpins the *Four Pillars of Capital*, or indeed, however many pillars a family identifies.

A family's purpose might be the reason for keeping their wealth together as a group, or it might be the objectives that they want to achieve together. The real challenge is communication: ensuring that purpose is articulated, shared and understood – first and foremost within the family itself. We believe passionately that families who take the time to reflect on their purpose and engage the Next Generation in both defining and living it, give themselves the best chance of intergenerational success.

As family discussions evolve around the shared purpose, the definition of success, leadership and family communication, the more the Next Generation can be included, the better. Put simply, when the older generations are no longer around, the transition of wealth and leadership is more likely to be successful if the Next Generation were included in conversations, had their voices heard and understand the logic behind decisions made.

Many Next Generation members we talk to experience feelings of guilt, expectation and being burdened by responsibility. In some cases, they are also embarrassed to express their wish to get involved due to respect for their elders and a perceived taboo on discussing wealth or change in leadership. We work closely with Next Generation family members in cousin groups, sibling groups, and one-to-one meetings, to help educate them about presentation skills, leadership styles, communication and working together as a team, as well as more formal teachings around financial training, investments, property etc. Some prefer ad hoc mentoring and coaching conversations, whilst others prefer to create a defined Next Generation programme.

It was the original *Four Pillars of Capital* research that led us to formalise the Stonehage Fleming Family Governance and Succession team and offering. The offering has broadened to include mentoring, Next Generation support and education and coaching. However, its core focus remains supporting families to communicate effectively, reach an agreed purpose and then establish a governance structure that identifies and mitigates the risks associated with achieving that purpose.

Family disagreements, unexpected events and the need to make significant decisions are inevitable realities for the families we support. Their governance structure should provide a roadmap for addressing and minimising the associated risks. Families who talk about these issues give themselves the best chance of dealing with them successfully. Such conversations are not always easy, however – and, ironically, are often resisted by strong leadership. It is for this reason that we recommend external support. Where better to get that support than from a Family Office for whom so much of this is a lived experience?"

AUTHOR

His twenty-five year career in international finance has ranged from sovereign lending and post-conflict reconstruction at the World Bank to designing, launching, and managing a sequence of global investment funds at publicly-listed asset managers, leading private firms, and his own independent boutique.

Today, he advises global investors, governments, and corporate leaders on how to navigate complex financial and political risks, with an approach that makes economics engaging and digestible.

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