FLEMING FAMILY AND PARTNERS

THE WORLD IN 2043: WEALTH STRATEGIES FOR INTERGENERATIONAL SUCCESS

AN FF&P RESEARCH PAPER

A proprietary review and commentary based on consultation with 90 UHNWs and advisers representing £100 billion

TRUST SERVICES | WEALTH PLANNING | ASSET MANAGEMENT | CORPORATE FINANCE | PRIVATE EQUITY

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CONTENTS

EXECUTIVE SUMMARY

FF&P specialises in the management of long-term family wealth. With as much as £5 trillion expected to be passed down to the next generation in the UK alone, helping our clients successfully navigate the next 30 years is our primary focus. Our paper, The World in 2043, sets out to harness the collective wisdom of our network, clients, advisers and the team here at FF&P to aid us on that journey.

Our proprietary research comprised a survey, interviews and discussion events with 90 Ultra High Net Worths and advisers, collectively representing over £100 billion of net assets. The principal findings were:

- 71% of respondents identified real capital preservation as their greatest challenge.
- Six threats to wealth were consistently named:
  - Lack of strategic planning
  - Fragmentation on inheritance
  - Excessive risk taking
  - Dispute and family breakdown
  - Inflation
  - Taxation
- Family constitutions, trusts and family limited partnerships are increasingly essential to address many of these threats.
- 46% of respondents chose 10 years plus as the most suitable investment horizon for wealthy families; a further 21% chose 30 years plus; and 69% named inflation as the most appropriate benchmark.
- Despite many of our respondents anticipating a recurrence of a major financial crisis within the next decade, a significant majority selected equities, led by today's emerging markets, as one of the few sources of real returns and the likely best performing asset class to 2043.
- Cash and government bonds were nominated by a significant majority of our survey as likely to be among the worst performing asset classes over the next 30 years.
- Two common themes from the survey were diversification and the search for growth in a low yield environment. In this context, real estate was considered the most suitable alternative asset class.
- There was confidence in the Euro's survival, 63% expecting it to endure beyond 2043, albeit with caveats; and 80% believe that the US Dollar will remain the global reserve currency in 30 years, notwithstanding the US's anticipated loss of economic pre-eminence to China.
- London is expected to remain a leading financial centre for wealthy families, with 93% of the sample believing that it will continue to be one of the top three globally in 2043.

We are extremely grateful to all contributors to this paper for the time and insight they have given us.

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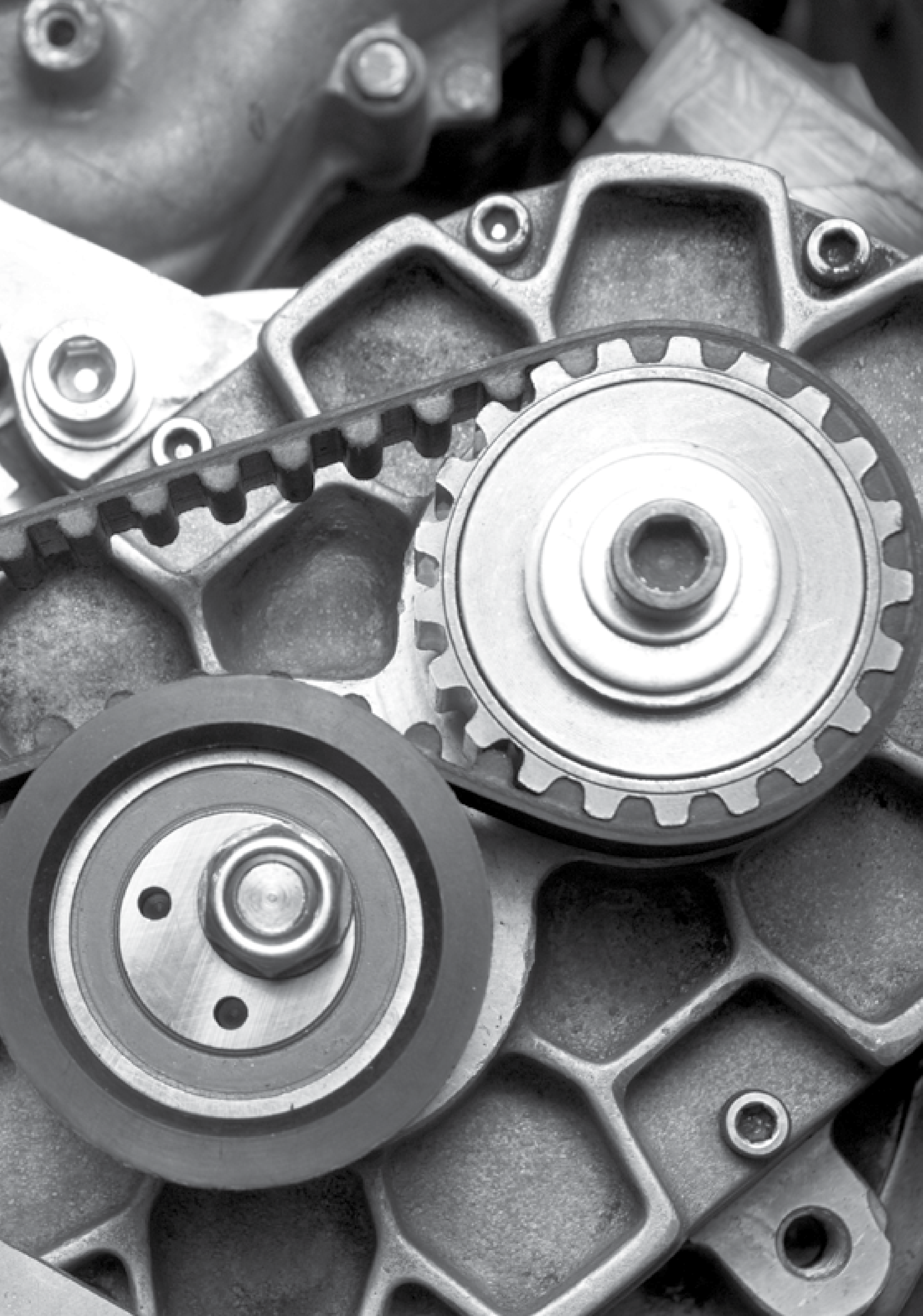
CEO, FF&P Asset Management



FOREWORD

We expect that for UHNWs the road from today to 2043 will be changeable and difficult to navigate, but with rewards for those that do so successfully.

Over that 30 year period most UHNWs will also face the challenge of intergenerational wealth transfer; according to HSBC, the current generation of British adults is set to inherit £1.2 trillion of net assets and will hand down in turn £5.4 trillion[1]. This potential wealth will be subject to attack by factors, many out of our control, including shifts in geopolitical and economic power and demography as significant as any since the emergence of the United States as the pre-eminent power in the early Twentieth Century. Alongside the maturation of hitherto 'emerging' markets, by mid-century we anticipate tectonic shifts, such as the US's share of global economic output shrinking significantly, the population of Japan falling by almost 20%, while that of Nigeria will more than double[2]. Meanwhile, lower growth and falling populations across Europe contrast with Britain's buoyant demographics and economic expansion, meaning the UK is likely to emerge as the largest economy in Europe.

With these trials and opportunities in mind, we have decided to leverage our most important asset, the knowledge of our extensive network including our clients, advisers, and the team here at FF&P.

We have worked with over 90 principals and directors of some of Europe's wealthiest families, together accounting for more than £100 billion of net assets under management and advice; one of the most comprehensive surveys of its kind.

While the focus of the paper is on wealth strategies for UHNWs, there is much here for the merely rich and even the aspirational. Most of us would hope to own a property and leave something for our children. "The rich are different. They have more money." (F. Scott Fitzgerald, 1926)

Despite the exceptional quality of our sample base and our depth of experience, we are conscious that significant courage is needed to make long-term forecasts. In 2043 will we be travelling by flying car, or jet pack, or even HS2? We suspect not - but we also suspect that other technologies will have meaningfully changed travel and connectivity. Will Scotland remain part of the Union or become New Caledonia? We think the former is more likely. And will holidaymakers be stocking up on Francs, Marks and Drachma each summer? Who knows - but we wouldn't be spending our last Euros just yet.

What we can be confident about is the need for a thoughtful approach to the challenge, a healthy dose of discipline and just the right level of adaptability as the future starts to show its intentions.

Overwhelmingly, our sample regards capital preservation as their primary objective. To achieve this, the importance of long-term forward planning and trusted, independent advice is paramount.

[1] Source: HSBC, The Age of Inheritance 2011
[2] Source: UN Population Projection 2012

METHODOLOGY

This paper has been developed from the following three data sets:

- A 30-item questionnaire was completed by over 90 Ultra High Net Worth ('UHNW') clients and advisers, 25 of whom were interviewed personally. Together, they account for over £100 billion of net assets directly managed or under advice. The results are reflected in datasheets in the Appendix, and represented graphically where appropriate within the text.
- Two discussion events with groups of 30 UHNWs and advisers on each occasion, at which the concepts and findings of the paper were further developed. Some of the verbatim remarks herein arose from these meetings.
- Extensive analysis of third party research, fully attributed and footnoted throughout where we have relied upon this.

In the interests of openness we offered that all remarks would be non-attributable unless otherwise agreed.

We have structured the document into four main parts: examination of the scale of wealth which may be at risk between generations; the six factors that typically cause wealth erosion and/or destruction together with discussion regarding their mitigation; the macroeconomic, geopolitical and economic context in 2043; and the investment strategies that may help one to address this changing landscape.

Our thanks to Cubitt Consulting, a research and communications consultancy, for their support with various aspects of the project.


PULL
TO ZERO
ZERO
OUT
OUT
MODE 1
IFF
MODE 2

THE CHALLENGE OF WEALTH PRESERVATION

"Seldom three descents continue well."
John Dryden, Fables Ancient and Modern (1700)

Wealth has a tendency to dissipate from its creation, and successful generational transition is often the biggest challenge. It is no coincidence that many cultures have a phrase captured by local proverbs: in the US 'sleeves to sleeves'; in the UK 'clogs to clogs'; and in Asia 'thimble to thimble'. All refer to three generations, the first wealth-creating, the second investing and living well, and the third facing choices of ever-diminishing living standards or commercial re-invention.

Almost three quarters of respondents report that capital preservation is their greatest concern when preparing financially for the future (see figure 1).

Just staying rich within one's peer group is a challenge which on some measures has been managed only by a remarkable minority. The Sunday Times Rich List is a recognised attempt to map wealth in the UK over the last 24 years. The top 200 of the 2013 list contains just 17% of 1989's original 200-strong list. Just under half of 1989's entrants make it into the wider top 1,000 list in 2013 (accepting that some prominent families have made proportionately large donations to good works).

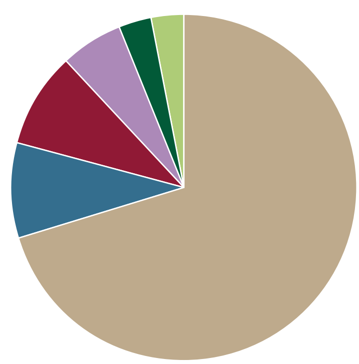
Maintaining a place in the top 200 today would require net assets of £467 million compared with £30 million in 1989, a fifteenfold increase that far outstrips inflation during this period, when prices roughly doubled. Six out of the 35 families who remained in the top 200 failed to keep pace with inflation, (i.e. their wealth increased by less than 100%). In short, while they may have managed to preserve their wealth in nominal terms, they failed to do so in real terms.

"In the US sleeves to sleeves; in the UK clogs to clogs; and in Asia thimble to thimble"

The latest Rich List also reflects a strong drift to first generation immigrants (90% of the top 10) and to first generation wealth, which is now 70% of the list compared with 38% in 1989.

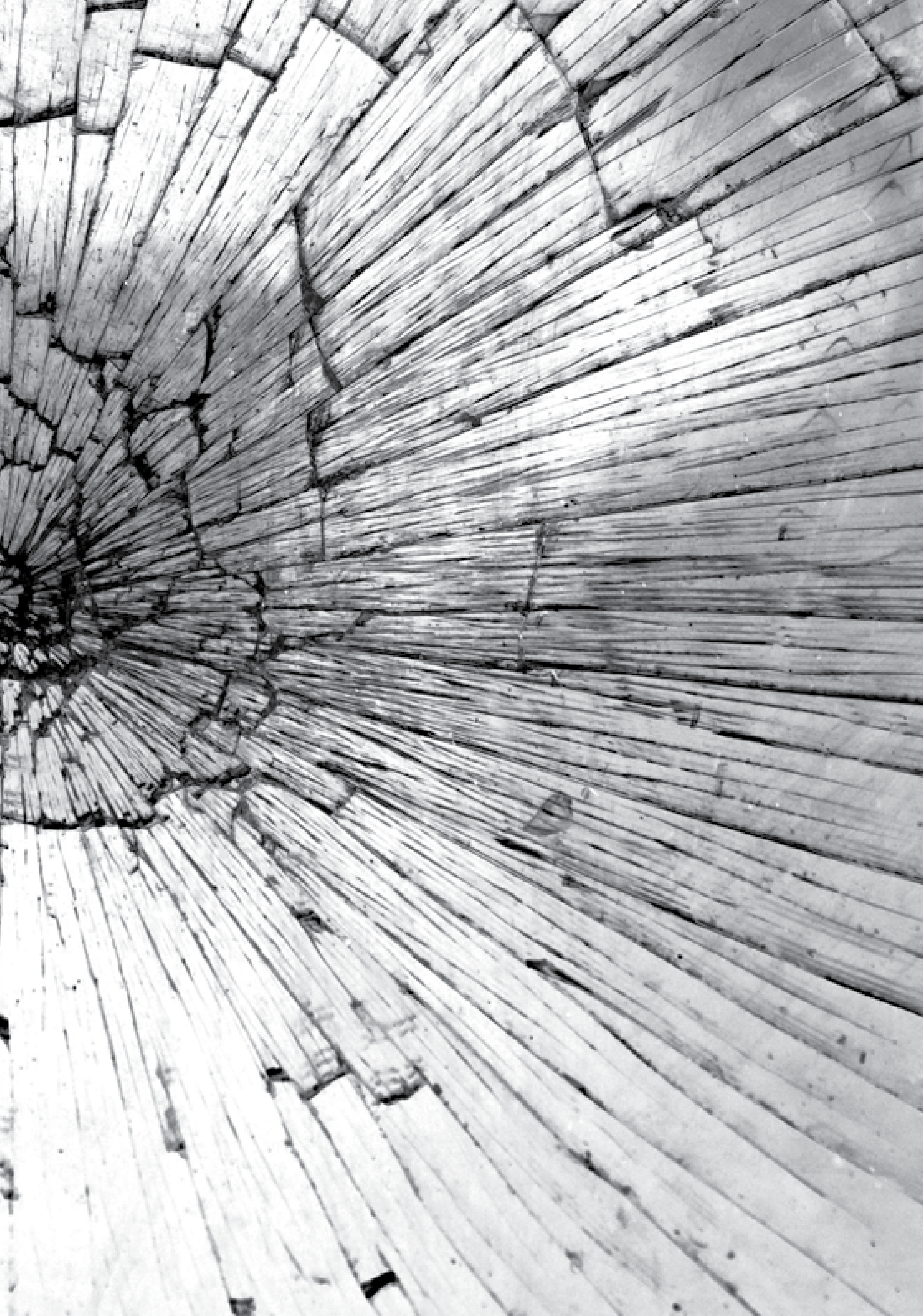
This rich influx can make it even harder to preserve wealth on a relative basis, as competition increases for access to the best (and most expensive) properties, schools and other services.

Figure 1 GREATEST CONCERNS FOR UHNW FAMILIES



Capital preservation	71%
Succession planning	9%
Capital appreciation	9%
Income	6%
Tax planning	3%
Other	3%

Source: FF&P



THE THREATS TO WEALTH, AND MITIGATING SOLUTIONS

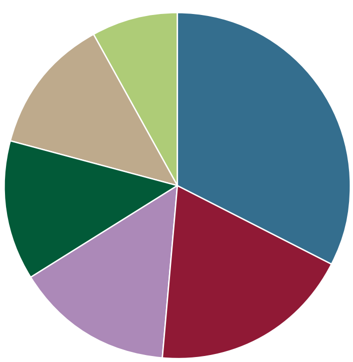
"The Horsemen are drawing nearer. On the leather steeds they ride. They have come to take your life. On through the dead of night. With the four Horsemen ride or choose your fate and die."
Metallica, 'The Four Horsemen' (1983)

Our primary research has identified no fewer than six horsemen of the wealth apocalypse:

- Lack of strategic planning
- Fragmentation on inheritance
- Excessive risk taking
- Dispute and family breakdown, including divorce
- Inflation
- Taxation

"One of our clients is almost resigned to the fact that wealth is dissipated in the next generation or after that one, through bad decisions or through divorce, 'its clogs to clogs'." (UHNW adviser).

Figure 2
GREATEST DESTROYERS OF WEALTH



Lack of strategic planning	33%
Disputes	19%
Excessive risk taking	15%
Fragmentation on inheritance	13%
Inflation	13%
Taxation	8%

Source: FF&P

1. LACK OF STRATEGIC PLANNING

"Strategic planning is worthless - unless there is first a strategic vision."
John Naisbitt, American businessman

Our primary research is unequivocal that lack of strategic planning consistently contributes to the erosion of wealth and opportunity for UHNWs (see figure 2).

More than two thirds (67%) cited it as one of the top three destroyers of wealth.

Strategic planning can mean anticipating change in the needs and size of a family. One adviser pointed out that investors need to study their family tree to identify where future issues are likely to arise: "You can plan ahead and extrapolate kids and grandkids, and work out the returns you need. Families need to know their family tree is the most valuable tool that they have."

A suitable, disciplined investment horizon is also key: two thirds of UHNWs and advisers assert that a long investment horizon is the most suitable for wealthy families (see figure 6, page 25). However, many also acknowledged that families often reverted to a shorter horizon of 4-9 years.

Much of our sample base found that the 2008 financial crisis had tested their commitment to long term investment strategies.

"Market volatility being such, people in a family can make the wrong decisions at the wrong time. They are not disciplined enough and don't stick to the longer investment horizon e.g. they get panicked by three years of bad returns. If your investment strategy is 10 years, stick to it." (UHNW fund manager)

The need for a steady income stream in a low yield environment can hinder long-term strategic planning, influencing asset choice and, crucially, often resulting in families missing out on the potential superior returns that more 'illiquid' asset classes such as private equity or real estate can generate.

"Lack of strategic planning consistently contributes to the erosion of wealth"

At FF&P we believe that families must focus on long-term, strategic investment planning if they are to succeed in preserving their wealth. This requires looking at a portfolio's total return over an extended period of time, rather than focusing on short-term yield. It also requires allocating some capital to longer-term investments. We assess strategic investment planning on page 21.

We also advocate a flexible investment approach, drawing on independent counsel from third party advisers. It is a strategy that is endorsed by the UHNWs and advisers we surveyed: a majority, 57%, advocate a hybrid approach to family discretionary investment, using in-house expertise to directly manage investments, whilst also drawing on outside expertise from third-party asset managers.

2. FRAGMENTATION ON INHERITANCE

"A son can bear with equanimity the loss of his father, but the loss of his inheritance may drive him to despair." Niccolo Machiavelli, Italian philosopher (1469-1527)

Families can often expand at a faster pace than the rate of wealth creation, with consequences for family prosperity. Many respondents recognise the impact of fragmentation of wealth on inheritance, with almost half (42%) identifying it as a top three cause of wealth destruction.

Matthew Fleming notes: "By 2043, at our current rates of procreation and on a standard average life expectancy of 85, the Fleming family could have an additional net 200 members."

Another adviser to UHNWs said that the next generation might have to accept a lower standard of living.

"Families can expand at a faster pace than the rate of wealth creation, with consequences for family prosperity"

"For the current generation enjoying the fruits - they have to think about at what stage do their children and grandchildren accept they will have a lower quality of life. The current generation may have to accept taking less out of the pot." (UHNW adviser)

The historic answer to this challenge was primogeniture, which many landed families we spoke to said was still crucial to preserving the integrity of their estates. However, respondents were unanimous that the practice is becoming ever harder to justify, that issues of gender equality now run to the highest family in the land, and that it can be a primary source of family conflict.

'It's the concept of fairness - primogeniture is an outmoded practice.' (FF&P Trust Services)

Family constitutions and shareholder agreements within family-owned (and sometimes managed) companies are a practical and sometimes fairer solution to the dilemma of wealth fragmentation. We assess how they work in practice on page 12.

3. EXCESSIVE RISK TAKING

"An English traveller relates how he lived upon intimate terms with a tiger; he had reared it and used to play with it, but always kept a loaded pistol on the table."
Stendhal, The Red and the Black (1830)

A genetic buccaneering spirit, or more likely a wish to revive the fortunes of a family in economic decline can often emerge in the younger ranks of second or third generation families. This can be a mixed blessing. In some cases it results in a new energy and entrepreneurial spirit that generates new wealth creation (e.g. the Wolfson family). However, it can often lead to hubristic, imprudent empire-building investment tendencies that can bring disastrous consequences to families (e.g. as in the case of Australia's Fairfax family, where a failure to anticipate the impact of the internet on traditional media and an ill-fated merger led to a substantial diminution in the family's wealth). Our survey respondents clearly agree: more than half (61%) identified excessive risk taking as a top three cause of wealth destruction (14% said it was the biggest cause).

"As trustees, we are the guardians of our family clients' wealth; so when beneficiaries come to us pitching their business ideas and asking for money, we have to exercise extreme caution." (Family trust adviser)

Trustees play a vital role in tempering excessive risk-taking, but effective communication is also crucial to ensure the younger members of a wealthy family do not feel excluded from the decision-making process. Once again, communications supported by written constitutions and structures can be an effective way of guiding and influencing the behaviour of family members.

4. DISPUTES AND FAMILY STRUCTURES

"Happy families are all alike; every unhappy family is unhappy in its own way"
Leo Tolstoy, Russian novelist (1828-1910)

One in six survey respondents identified disputes, including divorce, as the most significant cause of wealth destruction. Matching the national average, almost half of UHNWs are likely to experience marital breakup.

Furthermore, there is the threat of ruptures between parents and children, often exacerbated by rivalry between offspring of a first and second marriage, sibling rivalry, and much else.

Solutions come in the soft forms of communication: "I'm a big fan of education and of getting the younger generation to embrace the principles whether enshrined in a family constitution or bible, or whether it's grandfather taking you into the library and giving you a lecture on your 18th birthday - the last is just as powerful and effective, indeed perhaps more so." (David Edwards, Lewis Golden & Co.)

Nor is it ever too early to begin the process of communication with the next generation. Indeed, modern technology may have rendered this a necessity, as one UHNW investor told us: "Even six year olds can Google Daddy and find out how rich he is."

"Even six year olds can Google Daddy and find out how rich he is"

One adviser we spoke to also highlighted how philanthropy can stimulate better communication between generations; he has used his client's passion for wildlife preservation to bring their family together, establishing a philanthropic programme that has encouraged the different generations to communicate and work with each other.

FAMILY CONSTITUTIONS: A SOLUTION TO DISPUTES, WEALTH FRAGMENTATION AND EXCESSIVE RISK TAKING

"Make your main meal
boiled rice and barley
and one bowl of miso soup."
17th C. Mogi family creed

Japan's Mogi family, owners of the world-famous soy sauce brand Kikkoman, are reported to adhere to the same family creed dating back to the 1630's, highlighting the enduring nature of some family constitutions. As well as advocating a frugal diet, the creed includes other points that are perhaps more relevant for the modern wealthy family, such as communication:

"Have a family reunion twice a year. At these reunions, don't judge your family members based on their income, but rather on their character."

UHNWs and advisers attribute great importance to devices and mechanisms that improve communication and foster trust and transparency between family members as a means of ensuring long-term security.

Family constitutions typically focus on establishing a core vision and set of values, often based on the views and examples of the initial wealth generator, introducing independent conflict resolution measures, improving dialogue and communication between family members, and stating defined objectives. They can also stipulate investment goals, investment periods, types of permissible investments, family values, governance, and even the family's approach to primogeniture.

This is usually laid out in a written document that is debated, reviewed, agreed and signed by all family members.

"Galvanizing family constitutions is usually an anchor statement highlighting the important and consensual objectives and vision felt by families. These focus on the need for capital preservation and business priorities and can serve to reduce incidence of disputes and provide protocol for agreeing business strategy. Most families like the notion of an umbrella family structure, below which individual family members have agreed latitude to operate." (FF&P Trust Services)

Although many mechanisms are not directly enforceable, legally solid structures can be created which impose duties on trustees and also beneficiaries in particular circumstances.

The constitution can refer to other legally binding documents, such as a shareholder agreement for a family business, or a requirement that family members enter into pre-nuptial agreements (which ultimately can be incentivised by access to capital for both parties).

"As incidence of divorce has risen, there has also been a rise in the number of pre- and post-nuptial agreements as mechanisms for families and family trusts to ring-fence family assets. These agreements can be a pre-condition for external investors investing in family businesses and increasingly trustees insist on beneficiaries entering these agreements to preserve integrity of estates." (Shona Alexander, Forsters LLP)

The process of agreeing a constitution can be just as important as the document itself:

"It is the very process of writing up and agreeing a constitution, and the open and honest communication this entails, that effectively binds family members together. The work that is done to achieve it is more important than writing it. If you don't have the engagement of the family it doesn't work: everyone has to be involved. Agreement is key to the constitution's success." (Consultant on family constitutions)

"Japan's Mogi family adhere to the same family creed dating back to the 1630's"

Bringing family members together to have an honest debate about their guiding values and objectives, and to agree a shared vision, can be an arduous process that can sometimes take years. It can be helpful to use an outside, objective adviser to guide the discussion, act as referee, and help craft the final agreement.

Flexibility and evolution are also crucial if the agreement is to survive more than one generation:

"The process of agreeing a constitution can be just as important as the document itself"

"Nothing is written in a tablet of stone. You also have to get subsequent generations on board." (Consultant on family constitutions)

The actual constitution itself can be hundreds - or just a few - pages long. Less, it seems, can be more. One adviser we spoke to highlights the case of an Asian family with whom he works that has observed the same constitution since the 1960s: it comprises 16 principles written down on a document the size of a business card.

Of course, the complexity of the document depends on the needs of the family and their situation. Constitutions can include provisions that reflect a family's specific circumstances: for instance, where a family business is involved, it may address issues such as remuneration (whether family members are paid above or below market rates); the level of education or work experience expected at any level in the firm irrespective of blood relationship; leadership and succession plans; how the company board is composed; and the rights and obligations of shareholders.

In addition to measures relating to dispute resolution or to pre-nups, a more generic constitution may include other provisions such as those governing the establishment, governance and composition of the family's decision-making body e.g. a family council, and even provisions for the amendment of the family constitution itself.

However, family constitutions are no panacea:

"They can be inflexible and can reflect the views of a small number of family members - so there are inherent limitations. Documenting and establishing principles is important, but when enshrining principles, be careful how it's done." (Andrew Hutton, A J Hutton Ltd)

Traditionally, trusts have been used extensively by families as vehicles of estate control (and tax planning). However, the desire for a stronger legal framework has also supported the growth of Family Limited Partnerships (FLPs) as an estate planning vehicle. The parents, as 'senior partners', bring in their children as 'junior partners' transferring a stake in the family business or estate to their capital accounts. The parents retain control until they feel it can safely be passed on. As with any partnership agreement, this structure is legally enforceable and under the control of the asset owning generation in a way which trusts increasingly are not. In the words of Patrick Harney of law firm Forsters LLP, "FLPs are not the holy grail of family investment vehicles. However, for 'big ticket' collective family investment, they provide a tax-efficient method of getting ownership into the hands of the younger generation while keeping control in the older generation's hands."

5. INFLATION

"Inflation is the one form of taxation that can be imposed without legislation."
Milton Friedman, American economist (1912-2006)

Inflation is perhaps the most obvious destroyer of wealth, and also the hardest to beat, especially in the current low-yield environment. As discussed earlier in the report, our Sunday Times Rich List analysis shows just how few families managed to keep pace with inflation.

UHNWs and advisers rightly focus much of their planning on mitigating this threat, even in these times of relatively benign headline inflation. 19% of respondents in our survey said they were more worried about 'inflation rising steeply' than they were five years ago.

"Despite what the central bankers and politicians are telling us, inflation remains the least politically painful way out of the current debt problems for governments of the developed world. It is not certain that they will collectively succeed in bringing higher inflation, but we can clearly see that they are trying very hard. When combined with the threat of higher taxes, UHNWs might find themselves in a very uncomfortable situation in the future." (FF&P Asset Management)

The US Federal Reserve kept interest rates below the inflation rate for an unprecedented 19 years from 1935-1954. Although history does not necessarily repeat itself, the appointment of the dovish Janet Yellen as the next Chairman of the Fed suggests that interest rates could remain low for some time yet. In the UK the picture is less certain as unemployment levels are closing on the stated (7%) target for a re-evaluation of interest rate policy.

"Inflation for the super-rich runs consistently at twice the Retail Price Index"

Furthermore, UHNWs may need to consider an altogether different inflation benchmark:

"Even if headline inflation remains subdued in the future, independent research shows that inflation for the super-rich runs consistently at twice the Retail Price Index. Our research shows that the inflation of the 'generic' UK UHNW client had been approximately 2% above the stated Consumer Price Index in the past 10-20 years." (FF&P Asset Management)

We assess what this means for UHNWs and their investment strategy on page 26.

6. TAXATION

"The way to crush the bourgeoisie is to grind them between the millstones of taxation and inflation."
Vladimir Lenin, Russian communist revolutionary (1870-1924)

Inflation's great ally is taxation. The financial crisis and ensuing weaker economic conditions have left Western governments with little prospect of rapidly reducing the general burden of taxation.

UHNW families and advisers recognise taxation's significance (42% cited it as a top three cause of wealth destruction), and they are specifically concerned about reductions to or the abolition of certain UK Reliefs, including those for Inheritance Tax ('IHT'), Agricultural and Business Property. Nearly two thirds (62%) of respondents anticipate that the UK will become a less favourable jurisdiction for IHT Relief in 30 years' time.

As one UHNW adviser put it: "There is growing awareness that it's open season on the rich. Politicians are not elected by the very wealthy."

There is also increasing recognition amongst UHNWs and advisers that they must remain onside with tax authorities:

"The tax landscape in the UK has changed enormously in recent years. A few years ago clients were focused on simply shrinking their tax bills. Now they say: 'We want to pay the right amount of tax'; your job as tax adviser is to make sure the client remains on good relations with the tax authorities." (UHNW tax adviser)

Nevertheless, legitimate tax planning remains an important factor in successful wealth preservation, and its existence is an incentive to entrepreneurialism, creation of first generation wealth and the associated economic growth from which all benefit.

The international tax landscape is becoming ever-more complex, with a number of countries having introduced anti-avoidance provisions designed to deter UHNWs from entering into tax planning strategies. The topic has been a lead agenda item at international meetings, including the G20 in St Petersburg in 2013.

In the UK, the new general anti-abuse rule (GAAR) may be one of the more far-reaching consequences of this trend. In addition to GAAR, the UK has introduced an annual property tax levied on certain corporate vehicles owning UK residential real estate valued in excess of £2 million, and Stamp Duty Land Tax has been increased consistently. For UK-based residents, the scope of tax planning possibilities available is typically determined by the individual's domicile status. Other countries are replicating the British regime and many go even further, offering effectively zero-tax environments.

Despite this, London still remains the jurisdiction of choice for wealthy foreigners who wish to take advantage of the UK's political and (relative) economic stability, supported by a global language and abundance of relevant advisory skills and trusted institutions.

"I would rather pay taxes in Britain than have to endure living in Monaco." (UHNW investor)

The current UK Resident Non-Domiciled ('Res Non-Dom') tax regime is likely to come under increased scrutiny in future years, although should it be abolished there are a number of alternative jurisdictions in which UHNWs may choose to base themselves and their families. For example, Singapore and Hong Kong operate territorial tax regimes which allow residents to keep their foreign income and gains offshore, free of tax.

"Your job as tax adviser is to make sure the client remains on good relations with the tax authorities"

"It's hard to make predictions - especially about the future."
Robert Storm Petersen, Danish humourist (1882-1949)

It is not just the 'six horsemen' we have identified that threaten wealth preservation. UHNW families and advisers must also consider the profound geopolitical changes taking place, including the shift in the axis of global wealth and economic growth from West to East, and the ageing demographics of the developed world, with all that this entails for strategic planning, tax planning and investment strategy.

THE UK CONTEXT

The UK's own economy is smaller today than in 2007, having endured a recovery period twice as long as that following the Great Depression. However, with recovery now appearing underway, by 2043 it could become the largest economy in Europe, as slower growth rates and shrinking populations in other EU countries hinder their economic expansion.

Almost a third of the UK population will be 60 or older by mid-century, up from a fifth today, as lifespans increase and birth rates fall. That, coupled with a steady fertility rate and the UK's status as a destination of choice for immigration, means that its population will swell to over 70 million, and could become the biggest in Western Europe[3].

The UK economy will have more than doubled in size by the mid-century, and could be the largest in Europe, richer than France, Germany and Japan.

The UK as a whole, our sample confirms, continues to enjoy international leadership in secondary (via the private sector) and tertiary education, with a still world-class cultural life, falling crime, amongst the safest roads in Europe, and a multitude of other soft benefits.

A bigger population will boost demand for housing, putting further pressure on the South East. London's population alone is set to swell, and a recent study by London Councils claims that the Capital needs almost a million new homes over the next eight years[4].

UHNWs and advisers we surveyed agree that the UK broadly - and London specifically - will likely continue its pre-eminence as a centre for international families of wealth.

"People like London because of the Residential Non-Domicile legislation and the quality of life, the fantastic legal system, the fact that our property rights are unbelievably strong." (UHNW adviser)

One respondent highlighted the importance of maintaining Britain's Res Non-Dom tax benefits, foreseeing a radical change in the global fiscal landscape, which could further strengthen London's position:

"There will be no offshore centres in the future, because there are so many information exchange agreements between territories. These offshore centres will then become satellites of London, providing services much as Leeds and other regional cities provide professional services for London firms and clients, so London's importance will only grow." (UHNW adviser)

"Almost a third of the UK population will be 60 or older by mid-century, up from a fifth today"

[3] Source: ONS Population Projections 2012
[4] Source: London Councils 2013

"Global population is forecast to grow to 9.6 billion by 2050, a 33% increase from today"

An overwhelming 93% believe the UK capital will remain a top three financial centre for UHNWs in 2043; over half (59%) of respondents say that London would remain the leading global jurisdiction. In terms of London's rivals, 59% of respondents place Singapore in their top three financial centres in the future, with 58% ranking Switzerland in their top three, and 28% ranking Hong Kong in their top three.

"Singapore will get better and better, while Switzerland will ultimately be absorbed into the EU. In Hong Kong there will always be a question hanging over China's intentions." (UHNW adviser)

An overwhelming majority of our sample, 91%, believes Central London property will remain a suitable asset class for UHNWs over the next three decades. They estimate that the average value of a Prime Central London residential property will have risen from £1.5 million today to more than £6 million by 2043. That follows a doubling in the average value over the past eight years, according to research by Savills[5].

THE WORLD

Global population is forecast to grow to 9.6 billion by 2050, a 33% increase from today[6], boosting demand for food, shelter and services such as education and healthcare, and putting stress on existing resources.

The OECD, for instance, projects that global water demand will increase 55% by 2050, with growing demand from manufacturing, electricity and domestic use. Thus, the proportion of the global population under severe water stress will rise from the current 1.6 billion people to almost half of the projected 2050 population. Most of this increase is expected to occur in the 'BRIICS' (Brazil, Russia, India, Indonesia, China and South Africa)[7].

Various economic reports highlight that fast growing emerging markets will be the biggest contributors to global growth, averaging almost 5% per annum until 2030, then almost 4% p.a. thereafter. The developed world will fall below post war trend growth rates of 2% p.a. Some countries will fare worse than others and, once again, demographics are crucial to understanding why.

[5] Source: Savills, Spotlight on Prime London, 2013
[6] Source: UN Population Projection 2012
[7] Source: OECD 2011 Water, The Outlook to 2050

So while some estimates show that Nigeria's population is set to more than double by 2050[8], Japan's will shrink by around 20% over the same period. The US Department of Commerce Census Bureau forecasts that almost 45% of Japanese will be 60 or older by 2050. Japan is not alone; Germany, Spain and Italy likely will also suffer shrinking populations as their work forces age and fertility rates worsen, with serious implications for their dependency ratios, and pension and care provision bills.

FROM WEST TO EAST

'Catch-up growth' in the emerging markets, as well as improvements in productivity and human capital, is already shifting the world's economic balance from West to East, a trend which will continue over the coming decades.

Whereas some projections have the original BRIC nations (Brazil, Russia, India and China) moving from around a quarter of global GDP currently, by 2050 they could account for almost 50%.

Our own survey indicates that UHNWs and advisors are anticipating this trend; they ranked emerging market equities first in a list of assets likely to perform well over the next 30 years.

TECHNOLOGY IN 2043

The move from West to East is also reflected in spending on research and development ('R&D'), with China set to overtake the US as the World's biggest investor by 2023, possibly reaching $650 billion a year by 2025[9]. R&D spending, by whichever nation, will fund new technological developments that will transform people's lives and economic efficiencies, and therefore the opportunity for investment returns.

"Technological developments will transform people's lives and economic efficiencies, and therefore the opportunity for investment returns"

Some of those transformations are happening already: cheaper semi-conductor chips which will help develop 'the internet of things', allowing appliances to communicate with each other, permitting consumers to remotely monitor and control households using smartphones; self-driving electric cars; 3D printing technology which Rolls Royce reports can make jet engine parts; the development of graphene, the new carbon material, with the myriad uses it could entail (graphene paint that powers the home of the future, cheaper components for turbine blades and aircraft, cheaper water desalination systems - a useful development to help tackle the severe water shortages predicted earlier on page 18). All of which will provide enormous opportunities for investors, and for companies looking to cut costs and develop new products.

So while it is impossible to predict with any certainty all the changes that will affect our lives over the next 30 years, we have identified some of the themes and trends that investors and advisors need to think about.

[8] Source: UN Population Projection 2012
[9] Source: R&D 2011

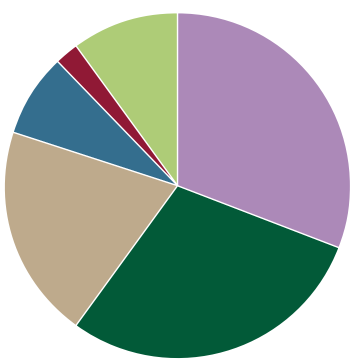
"The future belongs to those who prepare for it today."
Malcolm X, (1925-1965)

Preserving capital in real terms is currently the foremost concern for UHNW families preparing financially for the future, ranking ahead of the next two factors by a wide margin.

The focus on capital preservation reflects respondents' concerns about a recurrence of a major financial crisis, high inflation and asset correlation, the latter two consequences of Quantitative Easing ('QE'), where policymakers have directed liquidity at markets via central bank purchases of sovereign bonds.

At FF&P we believe that this asset correlation, particularly between equity and bond performance, has reduced the natural diversification properties of conventional multi-asset portfolios. This trend is likely to persist for some time, certainly until QE policies have been withdrawn altogether, with the consequence that the close relationship between equities and bonds will continue.

Figure 3 ASSETS RANKED AMONG THE BOTTOM THREE PERFORMERS TO 2043



Government bonds	31%
Cash	29%
Corporate bonds	20%
High yield bonds	8%
Hedge funds	2%
Other	10%

Source: FF&P

SAFETY AND STABILISERS IN A PORTFOLIO: WHERE HAVE ALL THE RISK-FREE ASSETS GONE?

The 2008 financial crisis initially threatened a prolonged deflationary slump through deleveraging, and the prompting of ultra-cautious spending tendencies, but respondents to our survey now cite a clear bias in expectation towards inflation (71% cited 'inflation rising steeply' as one issue they are more concerned about compared to five years ago).

UHNWs and advisors expect that politicians and central bankers will adopt the easier 'inflationary default' approach to reducing outstanding debt and public spending obligations. The implication for all investors, including UHNW families, will be that investing in government and high quality corporate bonds and cash will be hazardous, as yields will be maintained below inflation and capital will lose value in real terms.

Of course, it is not just this inflationary default that has made fixed income assets less appealing to investors: the very real spectre of actual sovereign default across peripheral Europe has also dented investors' faith in government bonds as a risk-free asset.

This creates a challenge for UHNWs and advisers: government bonds can no longer be considered a 'risk free' asset; they are expensive in historical terms, and they generate negative real returns. It is no surprise that our survey showed that respondents overwhelmingly ranked bonds, both sovereign and corporate, towards the bottom of a list of likely performers over the next 30 years (see figure 3); only 4% identified corporate bonds as one of their top three choices, and just 2% included government bonds.

So where can they find safety, while earning a real return? Ultimately, investors may have to forgo one of these goals, embracing assets such as gold and cash.

Gold's perceived attractions as an alternative proxy to mainstream currencies and also as a hedge against inflationary debasement policies and financial crisis have grown in recent years.

UHNWs and advisers clearly see it as a suitable asset class; almost 90% of respondents said so, even though the precious metal has slumped in the last 12 months by as much as a third.

Our sample ranked cash as the likely worst performing asset over the next 30 years, as inflation erodes its value. Nevertheless, many respondents would rather hold cash if the alternative might include incurring hefty losses in other asset classes.

Our survey also identified a pronounced bias towards physical assets, including property, as a reliable store of value and as haven investments. We assess the attraction of physical assets in more detail on page 23.

THE SEARCH FOR REAL RETURNS

Since 2011, when traditionally safe investment classes such as bonds began to underperform inflation consistently, investors have sought to allocate to other assets to sustain performance. This has driven up the valuation of traditional risk assets, such as equities, to levels that are now at historically high levels. At the time of this paper, the S&P500 index, for instance, was trading on a P/E ratio of around 18, close to the peaks of 2007. 2012-13 returns posted from risk assets will in retrospect probably represent the equivalent of 3-4 'normal' years, meaning the prospect for short-term returns is likely to be flat or lower.

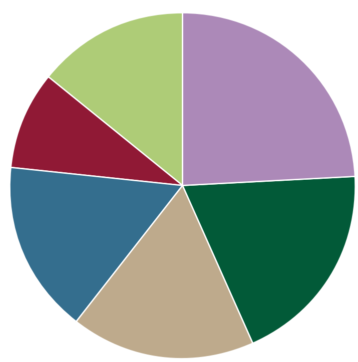
Over the longer term however, UHNWs and advisers clearly anticipate that equities will provide superior returns, led by emerging market stocks (see figure 4). Respondents to our survey ranked them top, followed by developed world equities, agricultural land, and private equity.

Research by investment firm Taube Hodson Stonex shows how US equities have consistently delivered investors an internal rate of return of over 9% p.a. since 1900. The key, they argue, is to re-invest dividends, and to remain invested for the long term:

"The only way to access long term returns from volatile assets such as equities is genuinely to invest for the long term. Perhaps one could say that longer term investment neutralises volatility and allows the yield to come through." (Mark Evans, Taube Hodson Stonex)

Looking out over the 30 year horizon of our survey, we also expect to see further progress in an asset allocation trend that has already started termed the 'great rotation', a wide-scale switch in institutional and retail allocations from bonds to equities, fuelled by disappointment with the return prospects of government bonds and renewed confidence in the earnings and dividend potential of equities.

Figure 4 ASSET RANKED TOP PERFORMER TO 2043



Emerging market equity	24%
Developed world equity	19%
Agricultural land	17%
Private equity	16%
Art/Collectables	9%
Other	14%

Source: FF&P

THE EMERGING MARKETS STORY

UHNWs and advisers expect that emerging market (EM) equities will likely post the best returns over the next three decades. As discussed earlier in the paper, EM is expected to remain the biggest contributor to global growth for at least the next 30 years, as their working populations grow and middle classes expand.

The implications for companies looking to sell their services and products on the global market are enormous, particularly for Western companies battling slower growth in their home markets.

This suggests investors should look for equities most exposed to this 'demographic dividend' and very often these will be EM companies with dominant positions in their domestic markets, or a better understanding of local trends. Equally, there will be many European and US companies with significant exposure to fast growing nations in Asia, Africa and South America, and these stocks may be more suitable for more risk-averse investors who demand higher levels of shareholder protection, transparency and liquidity.

Nevertheless, macro-economic data show that Western nations will still enjoy a much higher per capita income than EM counterparts. At FF&P, we believe that the West will remain important for companies selling high-end goods and services. Furthermore, abundant, cheap energy in the US could also give companies there a competitive advantage over lower-cost rivals in the developing world: the shale revolution promises a nascent industrial recovery in America. Investors can still find decent returns, if targeted, in the established economies, but not at the same levels they can expect in emerging markets over the next generation.

BEYOND EQUITIES: PHYSICAL ASSETS

The surveyed UHNWs and advisers ranked physical assets, including agricultural land and collectables as likely performers to 2043 (see figure 4), partly because they endure (equities and corporate bonds by contrast can become worthless if a company goes bankrupt), partly because they are a good store of value, partly because they are a finite resource: no-one is painting Picassos anymore.

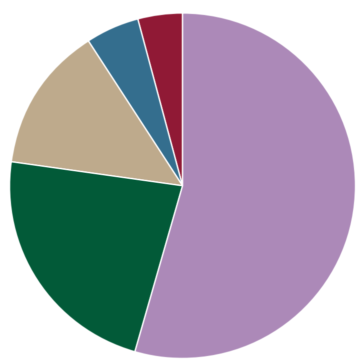
Mark Zapletal, adviser at the Wartenberg Trust, says: "Quite simply, our clients favour assets they can touch."

Some physical assets also afford their owners specific tax reliefs: professional forest management, combined with sensible tax planning, can provide a highly tax efficient investment. Agricultural Property Relief can help to preserve the integrity of farms.

Real estate is considered a suitable asset class for UHNWs largely on account of its inflation-hedging potential, given that capital and rental values tend to keep pace with rising prices (see figure 5).

In the case of agricultural property, many UHNWs and advisers point to the link with food prices, which have remained strong due to rising global demand and are likely to continue to be underpinned by demographic and economic factors.

Figure 5 ALTERNATIVE ASSETS MOST SUITED TO UHNWS



Real estate	55%
Private equity	23%
Agriculture	14%
Hedge funds	5%
Other	4%

Source: FF&P

"I like real assets, not assets that will be eroded by inflation. Agricultural land is a finite resource - and a very necessary resource. Those two factors alone suggest it will defy gravity. Populations are growing everywhere and you get a secure yield." (David Benson, Benson family)

Residential real estate, particularly in London, has performed well given the UK's attractive tax residency status, London's cosmopolitan credentials and scarcity of supply in prime postcodes. These attractions are highlighted by expectations that London prices will continue to appreciate above growth and inflation over the next 30 years. An overwhelming 91% of our sample believe that Central London real estate will remain a suitable asset class for wealthy families and institutions to invest in over the next 30 years.

UHNWs and advisers rank art and collectables highly as an alternative asset class; respondents to our survey cite reasons such as rarity, portability, performance track record over the past decade, trophy status, and the ability to view and enjoy one's investments. There is also the tax benefit: vintage cars and wine, for example, still enjoy attractive tax treatment in the UK, being exempt from Capital Gains Tax.

"As the globalisation of wealth continues, there will be more and more UHNWs in Asia and other regions who will want to buy art and collectables. These are a finite resource and demand will continue to be there, so prices will go up." (UHNW adviser)

However, some respondents believe that, while values have risen appreciably, they should not be part of the addressable universe of assets managed by generalist asset managers, as their attractions are largely subjective. Values can ebb and flow subject to taste, and there are security and provenance issues that require specialist advice.

The UHNWs and advisers we surveyed also valued the broader commodities universe, beyond gold:

"Commodities are a diversifying asset class that provides opportunities for interesting alpha." (UHNW adviser)

Specifically, many highlighted that demand for certain commodities, including foodstuffs and base metals, would only grow, reflecting demographic trends in emerging markets. Populations in countries such as Nigeria, the Philippines and Pakistan, will increase tremendously over the next few decades, boosting demand for food but also for infrastructure, housing and household goods.

Not everyone believes, however, that UHNWs should invest in commodities:

"Non-gold commodities offer leverage to higher prices at times due to supply-demand dynamics. However, the markets are often opaque and can be manipulated, which renders them less attractive for high net worth families." (Jan Pethick, Troy Asset Management)

One UHNW adviser also points out that the three distinct classes of commodities - agriculture, energy and metals - have different market drivers and therefore require different investment strategies. Investors in soft commodities must also contend with two potential unknowns - the weather and government incentives.

And of course, as with many asset classes, timing is everything:

"Commodities are a little volatile. You need luck to time the cycle correctly over the next 30 years. The commodity story is also very dependent on China, and commodities are sensitive to political disputes. Also, you have to consider the impact of fracking on the price of oil. So, all in all, there are just too many unknowns." (UHNW adviser)

On this last point, we asked respondents what they thought a barrel of oil would cost in 30 years' time. Answers ranged from $60 to $1,000, reflecting both anticipated inflation rates, global growth rates but also the deflationary impact of alternative sources of energy such as shale.

ALTERNATIVE ASSETS AND THE ILLIQUIDITY PREMIUM

Two common themes emerging from the survey are diversification and the search for growth in a low-yield environment. Many respondents look to so-called alternative assets to achieve both aims, including hedge funds and private equity, which respondents ranked 4th in a list of 12 asset classes likely to perform best over the next 30 years.

Indeed, most of the advisers and UHNWs we spoke to would allocate a surprisingly high proportion of their portfolios, 25% on average, to alternative assets, highlighting their potential investment returns and diversification attractions.

Of course, investing in illiquid asset classes such as private equity requires patience and discipline as the investment cycle can last as long as 10-15 years, though this fits the investment horizon over which many UHNWs should plan.

Convincing clients to maintain the necessary long-term investment horizon can be a major stumbling block for independent advisers; many we spoke to highlighted this as a significant opportunity cost.

"In my experience, families find it difficult to have the patience to look beyond three years. You have to work out how much illiquidity you can have in your portfolio, especially if you need income." (UHNW adviser)

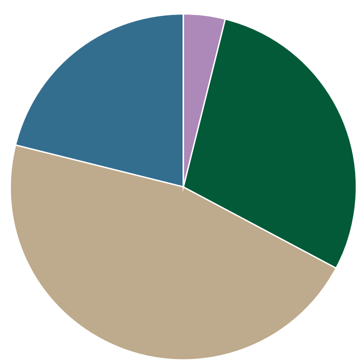
At first sight, our survey revealed a remarkable far-sightedness amongst UHNWs and advisers: more than two thirds said that 10 years or more was the ideal investment horizon for wealthy families (see figure 6). Nevertheless, the 2008 financial crisis and volatility in asset prices spooked many families and this horizon often reverted to a much shorter one in practice, which precludes investment in some illiquid assets. This means missing out on the 'illiquidity premium', the potential superior returns that investors can earn from relinquishing access to their capital for prolonged periods.

A significant minority of respondents rated hedge funds highly; 43% ranking them amongst the top three alternative assets most suited to UHNW families despite their many perceived disadvantages: recent low returns, high perceived costs, well publicised incidence of fraud, their inability to protect capital in a severe downturn, the practice of managers 'gating' investors seeking to redeem assets, or of managers withholding assets through so called 'side-pockets'.

As Jan Pethick, Chairman at Troy Asset Management, says: "The requirement for due diligence is very high and this disparate asset class [hedge funds] is not for the unwary traveller."

At FF&P, part of our strategy for coping with relatively expensive conventional assets (as well as ensuring diversification in our portfolios) has been to allocate more capital to niche alternative sub-asset classes. Assets such as catastrophe insurance bonds and emerging market local currency debt can offer attractive returns with adequate levels of investor protection and liquidity.

Figure 6
MOST SUITABLE INVESTMENT HORIZON



Short term (1-3 years)	4%
Medium term (4-9 years)	29%
Long term (10 years plus)	46%
Intergenerational (30 years plus)	21%

Source: FF&P

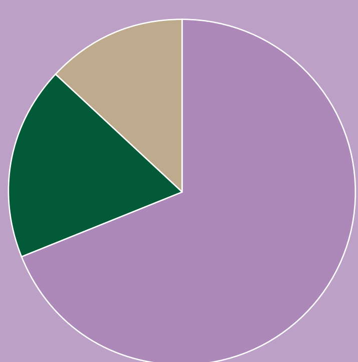
MEASURING INFLATION, INCOME AND INVESTMENT RETURNS: WHAT ARE THE SUITABLE BENCHMARKS?

The current low yield environment, coupled with accelerating inflation, can make it harder for UHNW families to generate enough income to cover costs and build up their wealth for the next generation.

Just under half of respondents to our survey said 4% or above was the most applicable long-term inflation rate for UHNW families for intergenerational wealth planning. Two thirds of respondents chose ‘inflation plus’ as the most appropriate investment benchmark for the next 30 years (see figure 7). Several respondents said they used a range of methods to measure performance, including market indices, such as the MSCI World Index, and wealth management industry peer groups.

UHNW adviser Andrew Hutton suggests that “No single benchmark works”. He monitors portfolio performance against long-term objectives such as CPI; shorter-term investment index composites; similar portfolios with similar objectives; the cost of the portfolio (total fees); and volatility.

Figure 7
APPROPRIATE INVESTMENT BENCHMARK



Inflation plus	69%
Bespoke composite investment index	18%
Industry peer group	13%

Source: FF&P

MANAGING CURRENCY RISK

Currencies have had a major influence on investment returns and yet are an asset category that many investors do not fully consider. Behind investors’ reservations about currencies lies the enormous uncertainty about their drivers. Purchasing power, relative interest rates and policy, current and trading accounts, and speculative interest all affect currencies which can move sharply and deviate from their perceived fair value.

“The increasing influence of currencies on returns makes active management very important.” (Jan Pethick, Troy Asset Management).

UHNWs and advisers are, on balance, slightly less inclined to pursue active currency management (53% vs. 47% of respondents to our survey). Nevertheless, currencies can provide an attractive component of returns: we asked respondents to pick the currencies they felt would perform best over the next three decades, and also to identify which they thought would be the World’s reserve currency or currencies 30 years from now.

Amongst our respondents, there is a strong bias in favour of the US dollar; 80% expect it will remain the global reserve currency in 2043, notwithstanding the expected loss of economic pre-eminence and high historic debt levels in the US (see figure 8).

Countervailing factors include that the US is experiencing a revival in consumption and manufacturing, and the prospect of shale gas-fuelled energy self-sufficiency within 10 years, both of which underpin positive views of the currency.

Although China's economy is set to overtake that of the US prior to 2043, many respondents questioned the likely development trajectory in the country's capital markets and rule of law. These factors inhibit the Renminbi's status as a competitor reserve currency to the US Dollar.

Our research also identified strong confidence in the Euro's survival, despite the impact on confidence that the sovereign debt crisis has wrought. 63% thought the single currency would endure beyond 2043 (see figure 9), with support from richer, northern states, but with caveats.

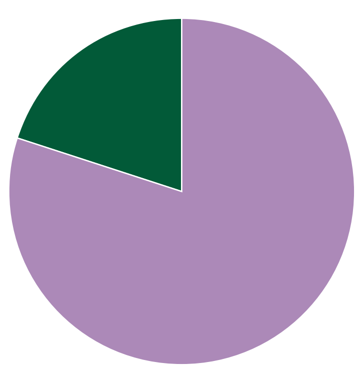
"The question should be: will it [the Euro] exist in its current form? It will be stronger than today, as a condensed, northern version. Richer states will not want to continue subsidising southern, poorer countries. But there's enough political support to make it work. China also supports it, mainly because it wants to ensure Europe remains a decent export market for them." (UHNW adviser)

One respondent predicted that the Eurozone will survive and, perhaps surprisingly, that with depreciation, it will eventually become attractive enough for the UK to join the Euro.

Paper currencies are not the only form of monetary exchange available: Bitcoin, for instance, works as a peer-to-peer digital currency that exists outside the control of any central bank, and has performed spectacularly for some high risk investors.

Policymakers' concerns around such alternatives, however, mean investors will mainly prefer more traditional currencies or gold.

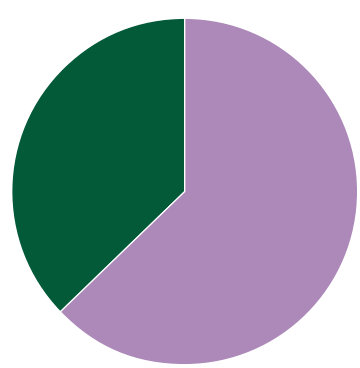
Figure 8
USD RESERVE CURRENCY IN 2043?



Yes	80%
No	20%

Source: FF&P

Figure 9
WILL THE EURO EXIST IN 2043?



Yes	63%
No	37%

Source: FF&P

CONCLUSION

In tackling this topic of successful intergenerational wealth transfer we have deliberately avoided sensational forecasts. Instead we have tried to capture the principal concerns of those we surveyed, to provide some answers, and give some guidance by analysing feedback from the numerous in-depth interviews we conducted.

The overriding conclusion is that families who do not plan strategically for the future will very likely not preserve wealth over the next 30 years. Planning can take many forms, from a material document, which all family members adopt, to a much looser, unwritten agreement regarding a common family culture and direction.

The most successful families are often those that encourage the next generation to adopt independence - "go out into the world and make a difference" - while harnessing the experience and advantages of their forebears. Nothing is more likely to support and enhance the fortunes of family wealth than creating new entrepreneurs with access to capital, expertise and wisdom.

Diversification of assets has a critical role to play when planning for the future. This will require advisers to look widely for sufficient breadth of investments and for UHNWs to select carefully the advisers with requisite expertise, independence, and length of view.

We have discussed in this report those asset classes that our surveyed audience thought would be most suitable over a 30 year period.

In the meetings we held with our contributors we had stimulating discussion as to which particular equity markets would perform best - emerging, developed or private - but the conclusion was clear: own equities and hold them long term through periods of volatility.

When trying to identify asset classes that could perform as well over the next 30 years as bonds have done over the previous 30, our view is that nothing will simultaneously offer the prospect of return and risk at those levels. The investment job for all just got harder. Some highlighted borrowing as the 'cheap asset'. Leverage could be as attractive today as it will be over any of the next 30 years.

Most readers will not be surprised that there was overwhelming confidence that London would remain the first world city for the wealthy in terms of its stability and attractions for daily living. London's continuing attractions to the successful and aspirational across the globe will continue to support property values for the foreseeable future.

This has been a fascinating project for us at FF&P. We have very much enjoyed the numerous discussions and meetings we have had with our clients and their advisers. We could not have completed this work without them and are extremely grateful for the interest they have taken as well as the time and insight they have contributed.

APPENDIX

What do you consider to be the greatest concern
for UHNW families preparing financially for the future?

RANK	1	2	3	TOTAL (1-3)
Capital preservation	71%	12%	8%	31%
Income	6%	18%	17%	13%
Succession planning	9%	32%	21%	20%
Capital appreciation	9%	15%	12%	12%
Tax planning	3%	17%	24%	14%
Inflation	0%	5%	15%	6%
Other	3%	2%	3%	2%

What describes the investment
horizon most suited to UHNW families?

	%
Short term (1-3 years)	4%
Medium term (4-9 years)	29%
Long term (10 years plus)	46%
Intergenerational (30 years plus)	21%

In your experience, what is the greatest
destroyer of wealth for UHNW families?

RANK	1	2	3	TOTAL (1-3)
Lack of strategic planning	32%	22%	12%	67%
Excessive risk taking	14%	28%	19%	61%
Fragmentation of wealth on inheritance	12%	7%	23%	42%
Inflation	12%	12%	9%	33%
Taxation	8%	19%	16%	42%
Disputes	18%	12%	16%	46%
Other	5%	0%	5%	10%

Do you believe primogeniture as a practice
will become more or less common amongst UHNW families?

	%
More	0%
Less	100%

Which of the following jurisdictions do you believe
will prove the most attractive over the next 30 years for UHNW families?

RANK	1	2	3	TOTAL (1-3)
London	56%	24%	7%	30%
Switzerland	4%	22%	27%	17%
Hong Kong	4%	8%	14%	8%
Singapore	10%	24%	20%	18%
Multi-centre	25%	20%	18%	21%
Other	2%	2%	14%	5%

Source: FF&P

APPENDIX

How concerned are you about the impact on UHNW family capital of the following issues compared to 5 years ago, i.e. pre-financial crisis?

RANK	1	2	3	4	5	TOTAL (1-5)
Inflation rising steeply	19%	16%	12%	11%	13%	71%
Deflation	1%	4%	8%	4%	5%	23%
Systemic financial crisis	31%	12%	11%	18%	9%	80%
Income tax rising	3%	6%	9%	7%	7%	32%
Inheritance tax	9%	7%	8%	4%	7%	35%
High market volatility	9%	9%	8%	14%	9%	49%
High asset performance correlation	6%	12%	12%	4%	4%	37%
Domicile and residency rule changes	3%	4%	3%	9%	4%	23%
Providing greater disclosure of affairs	6%	6%	6%	7%	5%	30%
Political risks	12%	18%	17%	14%	15%	75%
Illiquid assets	1%	3%	5%	9%	11%	29%
Climate change	0%	1%	2%	2%	11%	16%

Do you anticipate the UK will remain as favourable a jurisdiction for Inheritance Tax Relief in 30 years time as it has in the past?

	%
Yes	38%
No	62%

What long-term inflation rate do you consider to be most applicable to UHNW families for inter-generational planning?

	%
RPI/CPI	12%
3%	42%
4%	28%
5%	17%
6% and above	2%

What proportion of their wealth do you think UHNW families will allocate to philantrophic causes in the future?

	%
Less than 5%	39%
5-10%	49%
More than 10%	12%

What is your expectation of UHNW real investment returns in 3,10 and 30 years time compared with 2013?

	TO BE HIGHER	TO BE THE SAME	TO BE LOWER	NOT SURE
In 3 years	35%	44%	18%	3%
In 10 years	32%	38%	22%	7%
In 30 years	24%	24%	26%	26%

Source: FF&P

APPENDIX

Which of these asset classes do you expect
to perform the best/worst over the next 30 years?

RANK (1 BEST - 12 WORST)	1	2	3	4	5	6	7	8	9	10	11	12	TOP(1-3)
Emerging market equity	27%	28%	16%	11%	5%	5%	3%	5%	0%	2%	0%	0%	70%
Developed world equity	21%	19%	18%	11%	10%	6%	8%	2%	5%	0%	0%	0%	58%
Agricultural land	19%	9%	17%	17%	9%	8%	11%	3%	3%	3%	0%	0%	45%
Private equity	18%	16%	18%	11%	11%	10%	7%	3%	3%	2%	0%	0%	52%
Art/Collectables	10%	15%	5%	15%	13%	11%	6%	6%	10%	3%	6%	0%	29%
UK non-agricultural real estate	7%	7%	10%	13%	11%	15%	11%	13%	8%	2%	3%	0%	23%
Commodities	5%	5%	12%	12%	15%	15%	12%	10%	8%	3%	0%	2%	22%
Hedge funds	2%	4%	5%	11%	18%	14%	16%	23%	4%	2%	2%	2%	11%
Cash	2%	0%	0%	0%	3%	2%	3%	0%	2%	3%	10%	74%	2%
Government bonds	0%	2%	0%	2%	0%	2%	2%	0%	3%	14%	62%	14%	2%
High yield bonds	0%	0%	2%	3%	7%	9%	5%	21%	29%	12%	9%	3%	4%
Corporate bonds	0%	2%	2%	0%	5%	4%	5%	5%	19%	51%	5%	2%	2%

How preferable is it for
foreign currency exposure to be actively managed?

	%
Passive/Agnostic	53%
Active	47%

Please rank the following
eight currencies in the order of strength you consider likely over the next 30 years?

RANK (1 STRONGEST - 8 WEAKEST)	1	2	3	4	5	6	7	8	TOP 3
US Dollar	38%	25%	20%	8%	8%	0%	0%	2%	83%
Sterling	2%	6%	20%	34%	14%	15%	6%	3%	28%
Euro	2%	5%	11%	13%	21%	17%	13%	19%	17%
Yen	3%	6%	8%	15%	18%	27%	11%	11%	18%
Renminbi	31%	27%	11%	8%	14%	6%	0%	3%	69%
Swiss Franc	24%	32%	22%	13%	5%	3%	2%	0%	78%
Brazilian Real	2%	3%	2%	7%	15%	15%	42%	15%	7%
Russian Rouble	0%	0%	3%	7%	8%	13%	25%	44%	3%

Please rank the suitability of the following
eight alternative asset classes for UHNW families.

RANK (1 MOST - 8 LEAST)	1	2	3	4	5	6	7	8	TOP 3
Hedge funds	5%	19%	19%	11%	10%	14%	6%	16%	43%
Real estate	55%	26%	8%	5%	5%	2%	2%	0%	88%
Agriculture	14%	27%	16%	13%	16%	13%	2%	2%	56%
Forestry	0%	5%	15%	13%	13%	15%	16%	24%	19%
Infrastructure	3%	3%	13%	23%	19%	18%	18%	3%	19%
Art/Collectables	2%	5%	8%	17%	17%	10%	16%	25%	14%
Renewables	2%	2%	3%	15%	7%	18%	33%	21%	7%
Private equity	23%	18%	23%	6%	12%	8%	5%	5%	65%

With a 30 year investment horizon in mind,
how much wealth should be invested in illiquid assets?

RANGE	10-100%
Median	25%
Mean	34%

Source: FF&P

APPENDIX

Has your view on
the merits of hedge funds altered since 2008?

	%
No change of view	35%
Less attractive	65%

Do you consider commodities
to be an appropriate asset class for UHNW families?

	%
Yes	86%
No	14%

Is gold an appropriate asset class
for UHNW families?

	%
Yes	87%
No	13%

Are there any other alternative assets you particularly
see merits in, e.g. catastrophe bonds, airline leasing, leveraged loans?

	%
Yes	18%
No	67%
Other	15%

In UHNW family discretionary investment, do you favour
an open architecture, in-house directly-invested or hybrid approach?

	%
Open architecture	37%
In-house directly invested	7%
Hybrid	56%

What do you consider the most appropriate
investment benchmark for UHNW families?

	%
Family peer group median	13%
Inflation plus	69%
Bespoke combined investment index	18%

Do you expect socially responsible
investing to become more important?

	%
Yes	56%
No	44%

How concerned do you believe UHNW families are about
climate change and its impact on economic prospects and investment returns?

	%
Very	11%
Quite	59%
Not at all	30%

Source: FF&P

APPENDIX

Do you expect the oil price to rise above,
below or in line with global growth over the next 30 years?

	%
Above	42%
Below	26%
In line	32%

How much do you think
a barrel will cost in 30 years time?

RANGE	$10-1000
Median	$250
Mean	$282

Do you regard Central London property
a suitable asset class to invest in over 30 years?

	%
Yes	91%
No	9%

What do you think will be the average price
of a home in 'Prime Central London' 30 years from now?

RANGE	£1-100MN
Median	£4mn
Mean	£6.45mn

Do you think
the Euro will exist in 2043?

	%
Yes	63%
No	37%

Do you believe
the UK will be in the EU in 2043?

	%
Yes	67%
No	33%

Do you expect a further
2008-like financial crisis in the next 10 years?

	%
Yes	49%
No	51%

Do you expect the US Dollar to
still be the Global Reserve Currency in 2043?

	%
Yes	80%
No	20%

Source: FF&P

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