FOUR PILLARS OF CAPITAL: THE NEXT CHAPTER

PRACTICAL WISDOM AND LEADERSHIP FOR CHANGING TIMES

STONEHAGE FLEMING

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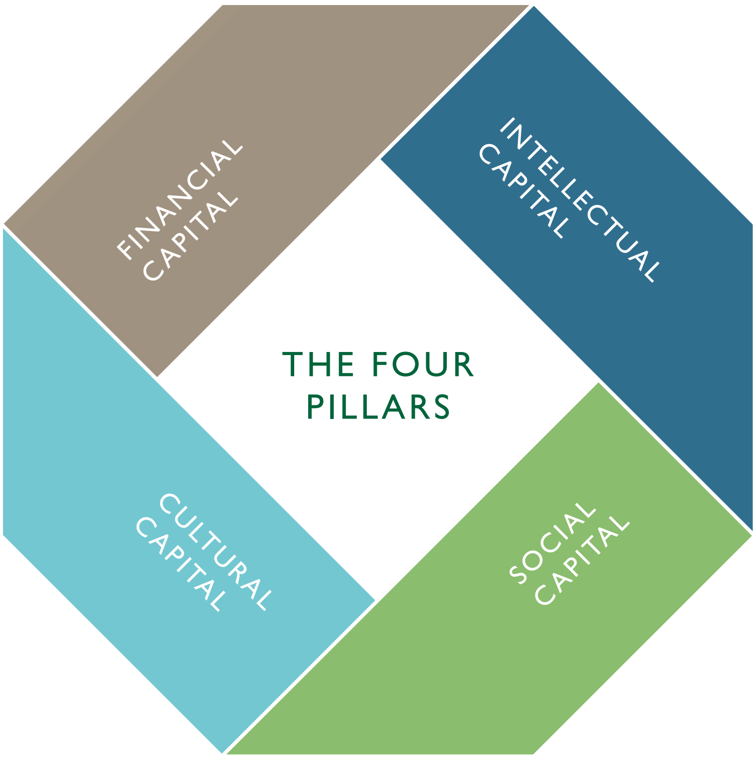
EXECUTIVE SUMMARY

This research report, our third paper in the Stonehage Fleming series on Wealth Strategies for Intergenerational Success, follows 'Four Pillars of Capital for the Twenty First Century' (2015). It contains information gathered from a survey, interviews and workshops conducted during 2018 with some 150 multigenerational members of different families and their trusted advisers.

FOUR PILLARS

Our previous report found that most families saw their tangible assets as only one part of a broader family legacy. Indeed, most felt that the financial legacy could not survive through generations without addressing other key issues around the family culture, values and the purpose of wealth. We identified four pillars of capital ('Four Pillars') that are key to the long-term sustainability of family wealth.



The Four Pillars of Capital

FINANCIAL CAPITAL

The tangible assets, business, properties, investments and intellectual property of a family that have quantifiable financial value.

CULTURAL CAPITAL

That which brings a family together by identifying shared perspectives and themes in the way its members conduct their lives. This includes their approach to business, treatment of others, contribution to society, attitude to wealth and their values.

INTELLECTUAL CAPITAL

The accumulated skill, knowledge, experience and wisdom a family can apply to the management of its wealth, its contribution to society, the individual fulfilment of its members and its collective wellbeing.

SOCIAL CAPITAL

The way in which a family relates to and engages with society and the communities in which it lives and operates. This includes the network of contacts which help a family to use its wealth and other assets to the benefit of society and/or the good of the family.

OUR OBJECTIVES

1. To identify any significant changes in findings from our 2015 report.
2. To draw out any practical strategies that have emerged around the Four Pillars concept.
3. To analyse how the rapid pace of change, driven by a combination of technology and the social and political environment, is affecting the way families prepare for the future.

OUR FINDINGS

EXTRAORDINARY RATE OF CHANGE

- The rate of technological, social and political change is probably greater today than it has been for any generation in living memory. Nearly all respondents agree that its impact on a family and family wealth must be reflected in the way they prepare for the future.
- One leading academic tells us that families have historically addressed generational change every 25 years. Now there is evidence of significant shifts every seven.
- The gulf in perceptions and values between the generations is significantly greater than in the past, which has an impact on long-term planning objectives. Intergenerational relationships, however, are often less hierarchical than before, facilitating the discussion and resolution of any issues.
- Traditional means of succession planning continue to be challenged. While there is evidence to say some families still favour more informal and traditional approaches to passing on their legacy, it seems likely that more sophisticated governance and communications will become the norm.

LEADERSHIP, GOVERNANCE AND COMMUNICATION

- Perhaps most important of all, families are concerned about having leaders in place who will see the family through the uncertainties of a changing environment. There is a growing understanding that it is essential to identify leadership in each pillar to deal with internal and external risks. This often means restructuring, selection on merit and by consultation, and a more visionary approach to training.
- Since our last report more families are considering formal family governance: some sort of written constitution, better family communications and training for the next generation.
- There is a strong trend against primogeniture towards gender equality, growing the available talent pool.
- A minority of families has already made significant progress in implementing these ideas and using technology to develop innovative approaches to communication.

PRACTICAL DEVELOPMENTS SINCE 2015

- Marked progress is being made in the development of practical strategies to address the key issues in passing on the family legacy, especially in the areas of leadership, risk management (including reputation management), communication, training, and contribution to the community. Ideas are being turned into actions.
- Most families today are much more focused on developing a structured approach to the non-financial aspects of their legacy. The more proactive have already implemented processes which seem to be delivering results. It is likely others will follow.

RISK MANAGEMENT

- Succession planning has overtaken capital preservation as the number one concern for the future. Rather than the purely financial, the top five risks relate to family issues like intergenerational planning, family leadership and engaging the next generation.
- Many are acutely aware of the apparent contradiction of investing a great deal of resource into the professional management of financial risks in their businesses, investment portfolios and other assets, while adopting a less methodical approach to the management of family risks.
- Alignment between generations on the purpose and use of family wealth is essential and requires more communication and greater transparency.
- There is a growing belief that wealth can only be created and preserved through generations if it is used to make a positive contribution to the community, as well as providing for a family's financial needs.
- Families are far more concerned about political risks and increasing taxation than they were three years ago, although these do not rank in the top five.

REPUTATION AND CONTRIBUTION TO THE COMMUNITY

- Most families believe they have contributed substantially to their communities in the past through various activities, including the deployment of their wealth.
- Some believe any contribution to society should be the natural outcome of their activities, and cannot be quantified. However, there is a growing recognition this subject needs more thought and in some cases requires a clear strategy, objectives and a process for measuring outcomes.
- There is recognition across the board of increasing risks to reputation, particularly from social media and an expectation of transparency. The potential threats to business and social relationships are clear, but only a small number (15%) have implemented reputation management processes. Those that have tend to be the higher profile families, but this should be on everyone's agenda.
- Some believe that they should actively publicise or, at a minimum, quantify, their contribution. Most however, believe philanthropy should not be used for the purposes of public relations (PR) which may in any event prove counter-productive.

VALUE VS. VALUES – SOCIALLY RESPONSIBLE INVESTMENT (SRI)

- In common with the last report most families surveyed - particularly the younger generation - expressed a view that that their investments should be more socially responsible. Defining this strategy is a key component of effective family leadership for the 21st Century.
- Despite, or perhaps because of, the large number of new offerings in this area, the research indicates that there is confusion about how best to invest responsibly.
- 51% of respondents say they actively undertake investments which are in keeping with their values.
- Of those, 25% employ an SRI strategy, actively seeking out investments that reduce environmental impacts or demonstrate employment best practice. 15% engage in 'impact investing', either directly, in partnership with other families or through funds.
- Very few have clear criteria yet to demonstrate how much investment return they are prepared to forego to invest responsibly.

ASSET CLASSES

- Real estate remains the favoured asset class, with equities close behind.
- Private equity remains popular and there has been a significant increase in those prepared to consider alternative investments.
- There was a notably limited interest in cryptocurrency.

METHODOLOGY

This paper has drawn on the following sources of evidence:

- Wide-ranging face-to-face interviews with circa 30 Ultra High Net Worth (UHNW) families and advisers, discussing their long-term plans, attitudes and concerns.
- Three workshops with 38 participants to discuss and debate the themes raised in this paper.
- A 16-question survey, completed by over 140 contributors from families and advisers. 25% of responses came from next generation contributors (under 30 years old).

The results are set out in datasheets in the Appendix, and are represented graphically where appropriate within the text.

In the interests of openness we guaranteed to our contributors that all remarks would be non-attributable unless otherwise agreed.

We have structured the document into four sections, examining the risks posed to family wealth and family businesses and areas where mitigation strategies should be focused.

25%

of responses came from Next Generation contributors

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RISK

IDENTIFYING THE RISKS TO LONG-TERM SUCCESS

Since our last report in 2015, there have been some interesting changes both in the ratings of the key risks faced by families and in their approach to managing those risks. Some of these represent the continuation of previous trends identified around internal risks and others are a clear response to changes in the external environment.

While most families only have formal risk management processes for business and financial assets (external risks), there is increasing recognition that the biggest risks lie in family issues such as disputes, inadequate planning, failure to engage the next generation and a lack of leadership (internal risks). One respondent remarks: "I speak to a lot of people in similar circumstances and I think most are now realising the importance of addressing 'non-financial' risks."

35% of families regularly review risk across the whole spectrum of their affairs, while 20% have a formal process. These percentages, though, are increasing.

The risk of inadequate or ill-prepared family leadership is exacerbated by a fast-changing environment, where businesses and financial assets can quickly become vulnerable to new developments. This requires astute leaders, able to adapt and sometimes reinvent the core drivers of family wealth. "The demands of family leadership are becoming greater as rapid change creates so many unknowns," comments one survey respondent.

"The risk of inadequate or ill-prepared family leadership is exacerbated by a fast changing environment."

Some argue that the rate of change is widening the gulf between the generations. The research shows that changes in values (36%) and technology (33%) are cited as putting a distance between the generations. "The values of the young and their politics reflect the times in which they grew up - much greater concern about the environment and social inequality, for example," says one interviewee.

"The demands of family leadership are becoming greater as rapid change creates so many unknowns."

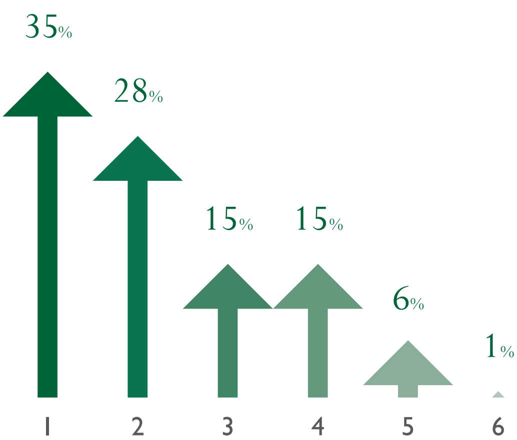
This gulf contributes to the risk that the strategies developed by one generation may not be fully accepted by next. The good news, though, is that communication between generations is improving. "As the existing family leader, I think and hope my grandchildren are more confident in discussing such matters with their grandfather than previous generations would have been," comments one interviewee. "They have the great advantage of having so much to teach their elders, mainly because of technology."

The number of respondents citing investment management risk among the top five has reduced. "It is not that the investment risks are lower than in the past," says one respondent. "It is just that we are becoming more focused on some of the more intangible risks, which are unmeasurable and for which there are no readily available risk management tools."

The risk of increasing taxation is only seventh in the rankings, but is, nevertheless, very real. Governments in nearly all countries face substantial budget deficits, and macro-economic conditions have led to rising inequalities in societies across the world. Taxes are being raised for those most able to pay. Opinions vary, but preparing for likely changes to the tax regime is high on the agenda for many. "We are willing to pay our share," says one survey respondent, "but we obviously resent taxes which are more political than revenue-raising."

The families interviewed are much more concerned by political risks than they were three years ago. This is inevitable given the uncertain geopolitical landscape, the rise of extremism at both ends of the political spectrum and Brexit. Says one interviewee of their feelings, "I think we have all been surprised by the rising possibility of relatively extreme governments which are hostile to business and to many of our traditional values."

DOES YOUR FAMILY HAVE A STRUCTURED PROCESS FOR IDENTIFYING AND MITIGATING RISKS?



1 There is no formal or structured process
2 There is no formal process but we discuss risk as a family
3 We have an informal or irregular process of review
4 There is a regular review and output of risk
5 There is a formal risk register
6 Other

According to the research, the top ten risks to long-term family wealth are:

- Family disputes or break-up
- Lack of planning
- Failure to appropriately engage the next generation
- Lack of future family leadership and direction
- Failure to provide the next generation with appropriate training
- Ill-advised entrepreneurial investment
- Poor investment management
- Increase in taxation
- Political risks
- Failure of family business

None of the top five risks is in itself 'financial', but each has potentially severe financial consequences. Curious, therefore, that the amount of time, money and effort spent monitoring and addressing financial risks vastly exceeds the commitment to managing non-financial risks, even though the latter are seen as substantially more important.

RISK MANAGEMENT TOOLS

The main reason for this contradiction is that financial risks are far more easily quantified. Tools for managing financial risk are readily available and actively marketed by asset managers and other professional advisers. "We all have processes for monitoring financial risks and discuss them with our advisers on a regular basis," says one respondent.

What is less clear is how to address the risk management of family issues. It is a far more complex and sensitive process, for which there are few ready-made solutions. Increasing numbers of families, however, are making significant efforts in this direction, addressing the need for the management of risks across the whole spectrum of their affairs. "I think most of us want to do something – it is a question of how and whether it will achieve the desired result," comments one interviewee.

Some families have developed formal risk management tools to suit their own specific circumstances which ensure all key risks are discussed on a regular basis. Significantly, since our 2015 report, several families have invested considerable resource into converting some of the ideas around the Four Pillars concept into a practical management tool.

WHAT ARE YOUR FAMILY'S KEY RISK AREAS?
WHAT KEEPS YOU UP AT NIGHT?

The Stonehage Fleming risk mapping tool, for example, can be used as a basis for discussion at family strategy and review meetings.

HOW WOULD YOU CLASSIFY YOUR KEY RISK AREAS?

Family succession
Lawsuits
Taxation
Reputation/confidentiality
Family health
Family dispute/disconnect
Too busy
Family governance
Family values

Structuring/planning
Divorce
Family legacy/image
Death/injury/illness
Family business
Expenditure/liquidity
Investments
Philanthropic disconnect
Cultural/religious

Political/economic/geographic
Travel
Terrorism/crime/identity theft
Kidnap/ransom
Reporting
Personal assets/collections
Properties
Banking
Relevant leadership

Most families recognise the need to spread responsibility across several leadership roles, which complement each other.

The research shows that over 20% of the families surveyed currently conduct regular, comprehensive risk reviews, including 6% who maintain a formal risk register. In most cases, this is implementing the models which many of the wealthiest international families have used for some time, but adding enhancements as new ideas are trialled and developed. "Getting started was the hard part," comments one respondent, "but, now we have a process, it is much easier to add new ideas or different approaches, especially with all the opportunities arising from new technology."

FAMILY CONSTITUTION AND GOVERNANCE

Depending on individual circumstances and preference, a family constitution ranges from a short, informal statement of purpose and principles, to a detailed legal document. Nearly all those who have taken this route agree that an inclusive approach to developing the constitution helps build common understanding within the family, which improves decision-making and reduces the likelihood of dispute. "The process of developing and agreeing the 'constitution' was a superb, if sometimes difficult exercise in really understanding each other's point of view," explains one family member.

Today, changing values and a demand for transparency mean there are significant risks in decisions being taken by family leaders who don't properly consult their relations. As leadership is transferred from the founder, families increasingly acknowledge the need for a well-documented decision-making process, formal communications and open debate of major issues. As one respondent notes: "There is much less likelihood of the dreaded family dispute if everyone knows how and why decisions are made, and how to ensure their views are properly considered."

LEADERSHIP STRUCTURES AND SELECTION PROCESS

In a fast-changing world, excessively conservative leadership can itself be a risk. A more entrepreneurial approach is widely accepted to be desirable, but with it must come more checks and balances. Most families recognise the need for several leadership roles, which complement each other, rather than concentrating leadership in a single person as has often happened in the past. "We need to be more entrepreneurial, but we must avoid too much resting on the judgment of a single individual. This means several leadership roles of equal standing," says one interviewee.

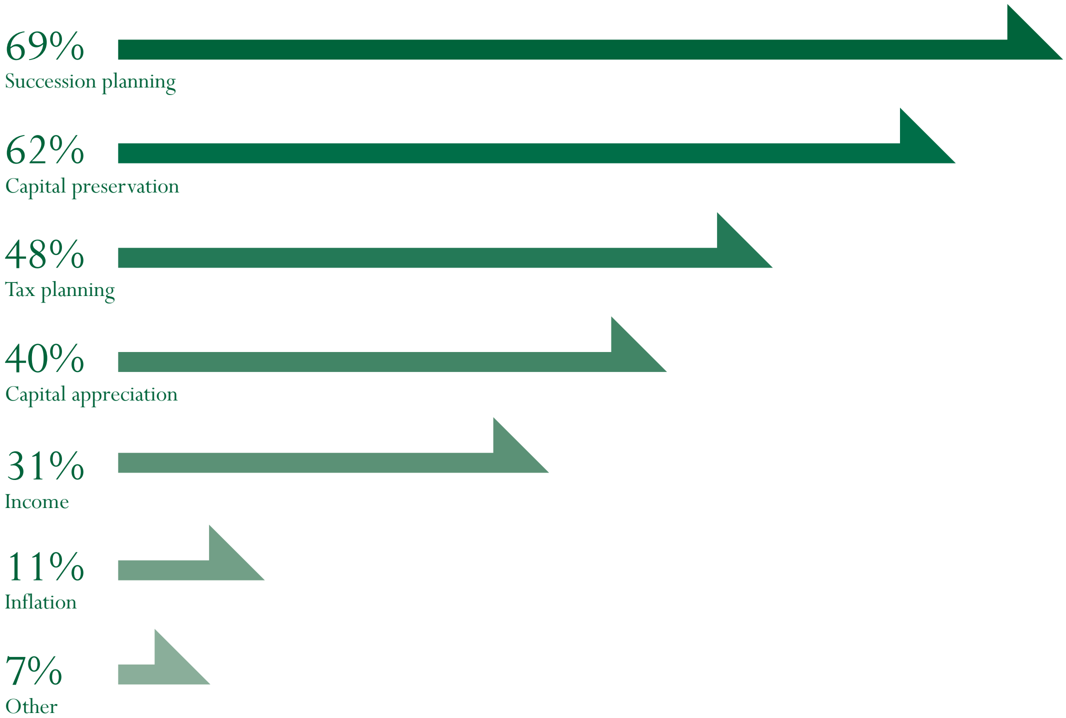
While primogeniture endures in some families, the survey suggests that it will reduce from 28% to 10% of families within a generation. This reflects the increasing emphasis on selecting leaders on merit, matching the skills of individuals to different leadership roles. There is also a growing belief that leaders should be chosen by family consensus, rather than appointed by the leaders of the previous generation. As one survey respondent says: "The next generation will be far more democratic than has been the case previously."

The expectation of gender equality is becoming increasingly normal in the majority of families, growing the available talent pool. This is reflected by a strong trend away from primogeniture.

FAMILY COMMUNICATION, TRAINING AND DEVELOPMENT

Some families have made huge progress in developing well-structured lines of communication designed to ensure all members understand the past, buy into the family values and objectives and are kept informed of developments. These include family meetings and seminars and, increasingly, family publications, videos and the use of social media. One survey participant comments: "Having started regular meetings, it is clear we were not, in the past, communicating with the next generation as well as we thought we were."

WHICH OF THE FOLLOWING WOULD YOU INCLUDE IN THE TOP THREE CONCERNS FOR UHNW FAMILIES PREPARING FINANCIALLY FOR THE FUTURE?



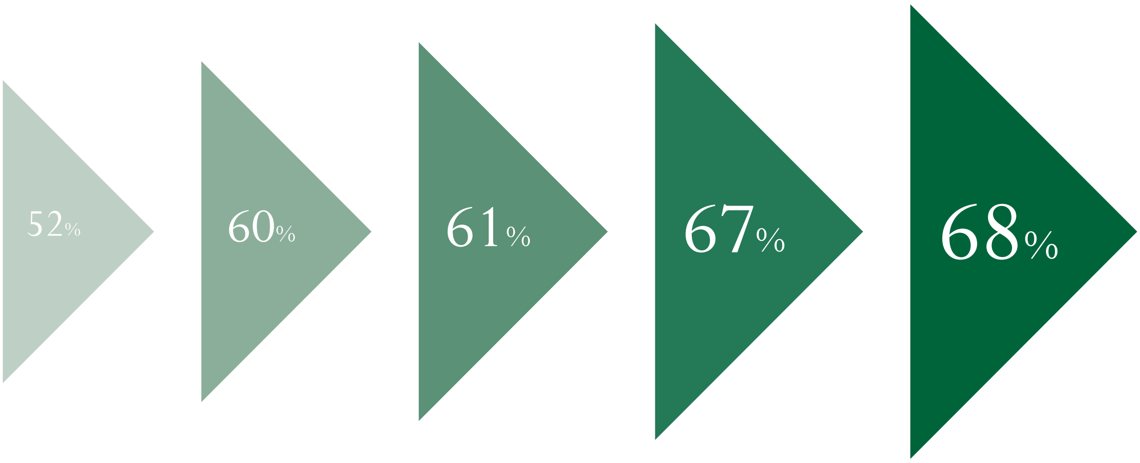
Families are placing a growing emphasis on training and development for all members, often using their own infrastructure and network of contacts. This is particularly important for the development of future leaders, who need to acquire broader experience, to develop and fulfil their own ambitions before taking up leadership roles within the family. Most agree that those who are individually fulfilled and comfortable in their own skin usually make the best leaders.

"We do not make the presumption that the prior generations are or were smarter than us, though that is not to say we have not learnt from them. I don't know if this is arrogant or realistic."

Of a family's future leaders, one respondent points out: "They need a broader experience of the world which equips them for future responsibilities, but they must decide for themselves and have the opportunity to pursue their own ambitions."

"The process of developing and agreeing the 'constitution' was a superb, if sometimes difficult exercise in really understanding each other's point of view."

WHICH OF THE FOLLOWING DO YOU BELIEVE ARE THE TOP RISKS TO LONG-TERM FAMILY WEALTH?



5
Lack of appropriate training for the next generation

4
Lack of future family leadership and direction

3
Failure to appropriately engage the next generation

2
Lack of planning

1
Family disputes or break-up

Within the context of these evolving risk management tools, two business-owning families concerned that economic headwinds might spell difficulties for their businesses, are addressing similar risks with diametrically opposite solutions.

The first family is considering taking in an outside investor to release some of the family capital, so that the family has a more diversified asset base in the event that the business profitability declines. The second family takes the opposite view that they should cut the dividend to strengthen the company's capital base for difficult times ahead.

In the first case, while the business is important to the family's future, it should be weighed against the risk of a downturn impacting too heavily on the living standards of family members. In the second case, the family purpose clearly prioritises the passing down of a thriving business from one generation to the next so the temporary needs of the business take precedence over the finances of individual family members.

Either family could take the reverse view, which illustrates the importance of agreeing the purpose of the family wealth and, where relevant, the importance of the business within that purpose. Such discussions can be controversial. A common understanding of the purpose of family wealth - usually included in a constitution - is immensely helpful and embedded by effective leadership.

The fact that investment risk and tax risk do not feature in the top five is partly because they are often already managed and controlled, as far as they can be, with the help of expert professional advisers. Excessive reliance on advisers, however, is itself seen as a risk and families are keen to better understand and control directly these risks themselves. In particular, families are very conscious of the potential damage arising from aggressive tax avoidance strategies which have been recommended by some professionals previously.

The risks of loss from family businesses and other directly controlled ventures are tenth and sixth respectively, in the rankings. This may reflect confidence in respondents' own judgment or a current lack of exposure to such investments. Experience suggests that the risk of losses in this area is high and sometimes comes with repercussions for the family.

LEADERSHIP

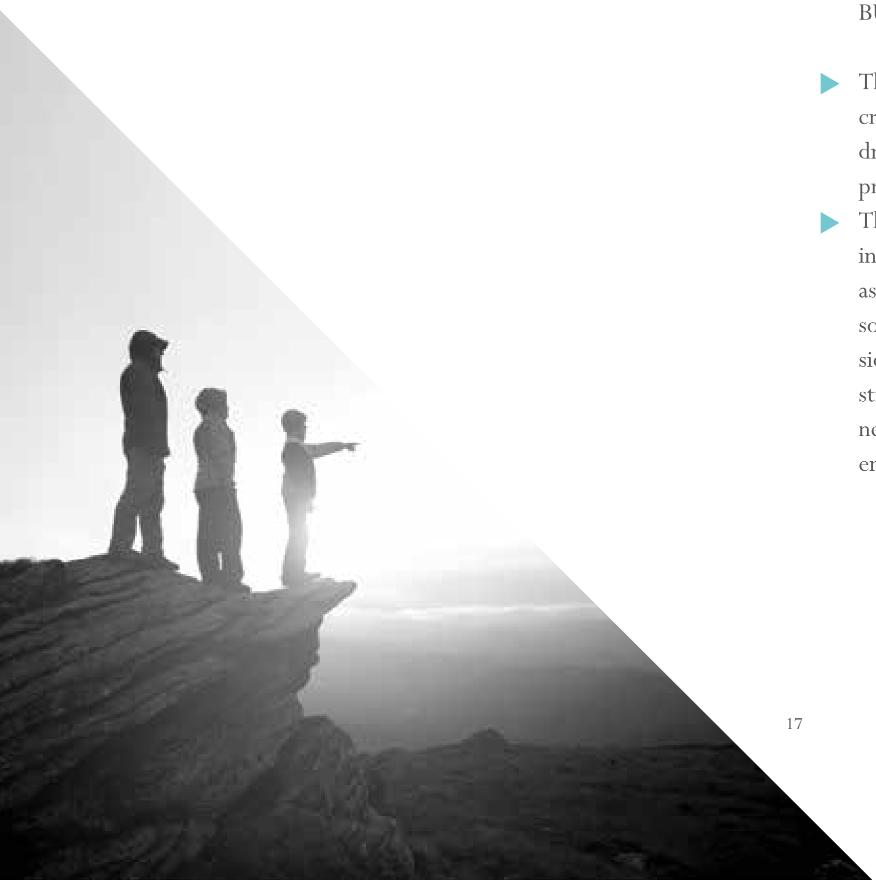
ENSURING THE RIGHT MODEL NOW AND FOR FUTURE GENERATIONS

One of the prime concerns emerging from the survey results is ensuring the right leadership is in place for the next generation. The right leadership, they believe, will provide the best chance of managing unforeseen risks - both internal and external - pursuing opportunities and ensuring that the family prospers.

The interviews suggest there is a great deal of work to be done in this area. 34% of those surveyed have no formal structure in place, while another 34% have an 'unofficial' leader. There are sharply increasing numbers favouring a proper democratic process. Although the trend depends on circumstances, it seems significant.

There are several reasons for concern. Many people believe the rate of change is almost unprecedented, driven by technology and by developments in the social, political and economic environment with one commenting: "The pace of change is unprecedented, save in war time."

Keeping pace with the evolving drivers of commerce and investment is a real challenge. "I increasingly need input from the young, because some of the business principles I took for granted no longer hold," says one respondent.



Indeed conventional management can in itself become a risk. "Fewer and fewer businesses can be considered low risk, because there are so many unknown unknowns," says one survey respondent. When it comes to family wealth, traditional 'stewardship' of family wealth "is no longer enough", according to one person interviewed. Indeed, it may no longer be an option.

THE REQUIREMENTS OF LEADERSHIP

- More entrepreneurial than in the past with more broadly based experience, a deeper understanding of the world, social trends and how technology is changing business.
- Better able to anticipate problems and opportunities, greater receptivity to new ideas, with the competence, courage and credibility to drive them through. "We need to anticipate threats to our wealth and take decisive action early enough to counter them," highlights a family member.
- Freedom to give rein to these entrepreneurial skills without being unduly constrained by cumbersome decision-making processes.

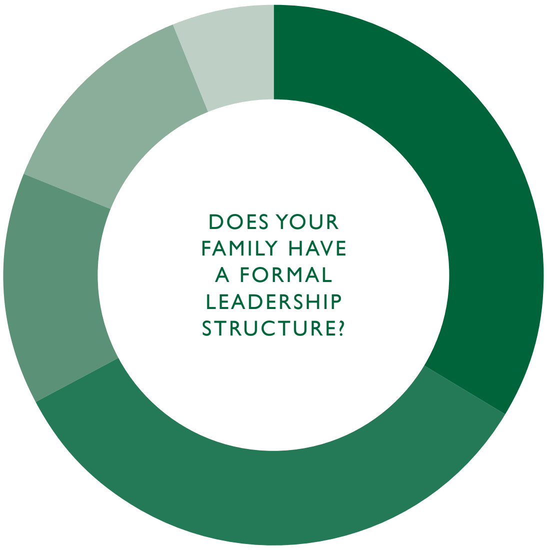
BUT

- The need for a more entrepreneurial approach creates a need for better governance where the drive to innovate is balanced by the obligation to protect the assets and interests of family members.
- This means the involvement of respected and influential family leaders (or outsiders such as trustees) who have the knowledge and sophistication to understand and influence both sides of the debate. "There is a fine balance to be struck", says one survey respondent, "to ensure the necessary controls are in place, without killing the entrepreneurial instincts we need to survive."

LEADERSHIP STRUCTURE

Ideally, a family will have several different, high quality leaders in every generation, each filling a role that befits their skills. Such leadership roles might include:

- CEO or chairman of the family business
- Chairman of the family council
- Head of wealth management
- Head of direct investments
- Head of philanthropy
- Head of family culture and development
- Head of next generation



34%
No formal leadership structure

34%
Unofficial family leader

14%
'Official' family leader

13%
Multiple leaders for different aspects of the family (eg financial assets; social; philanthropy)

5%
Other

In some cases, the leadership structure may need to be altered and roles filled by independent, non-family members.

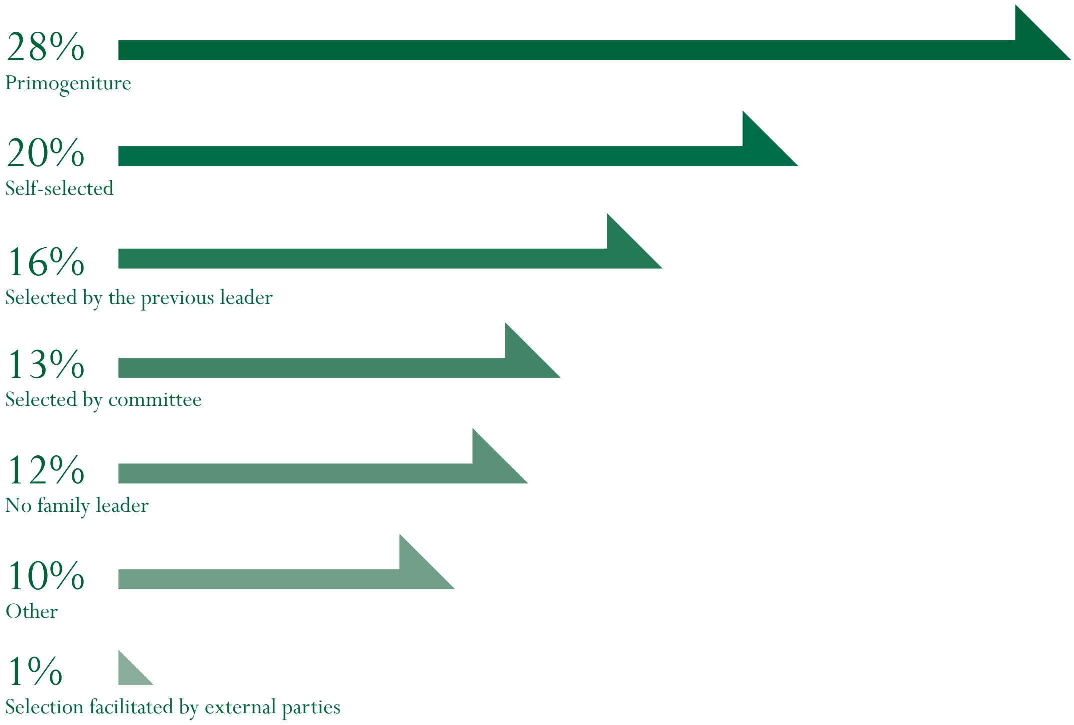
Recognition of what might be called the 'softer' skills is growing, as more families recognise the benefits of a better structured approach to the development and communication of a family's culture. In the past, this has predominantly been an informal process, taken on by those - historically often women - helping to keep the family together around a shared set of values.

Most families we work with are able to identify such individuals, but their role has often been underestimated. As one survey respondent says: "I gradually came to recognise the enormous benefit of having someone in the family with massive principles. She was willing to put them on the table and fight her corner."

Philanthropy and Impact Investing frequently play a role in connecting family values with investment in the community. There is much more to philanthropy than simply giving money to charity: it requires skilled leadership. "We now put a great deal of effort into making sure our philanthropy is well managed, aligned with our values and objectives," says one family member.

Where families do not have enough people with the required attributes to fill all the roles identified, adaptations may need to be made. The leadership structure may need to be altered and roles filled by independent, non-family members.

HOW ARE LEADERS IN YOUR FAMILY/FAMILY BUSINESS SELECTED?



THE FOUR PILLARS AND LEADERSHIP

We asked families how they have selected their leaders in the past and how they think this should change in the future. One of the most interesting results of the survey is that 28% of families interviewed still currently operate on the basis of primogeniture. When asked about their intentions for the future, however, the figure is around a third of that, at 10%. This is a marked prospective change and it will be interesting to see what happens in practice.

There is a general move towards selection on merit, but this doesn't answer the question of who makes that selection and on what basis. Some families appoint external advisers to help understand leadership requirements and identify the most appropriate leaders internally. Looking forward, there is a growing preference for wider consultation in the family for the selection of new leaders, possibly including a formal process. Selection by committee is up from 13% to 32%. "I definitely envisage a proper process for selecting leaders, against well-defined criteria," says one respondent.

The criteria for selection depends on each role but more importance is now being attached to bringing together several individuals of equal standing in the organisation and with different qualities and experience - a team made up of "high cards of different suits," as one interviewee puts it.

TRAINING AND DEVELOPMENT OF LEADERS

The changing environment has prompted a marked shift in the training and development of future leaders. In the past, individuals were 'groomed' by working in the family business or estate, getting external experience with a competitor, professional training as a lawyer, accountant or land agent and, for many, a period in the armed forces.

While all of these remain valid, the emphasis has shifted towards a preference for future leaders to gain a broader experience of the world. This not only helps develop a better understanding of the current operating environment, but also helps leaders become more receptive to new ideas and better able to evaluate and implement them.

The Four Pillars of Capital: The broad requirements of leadership

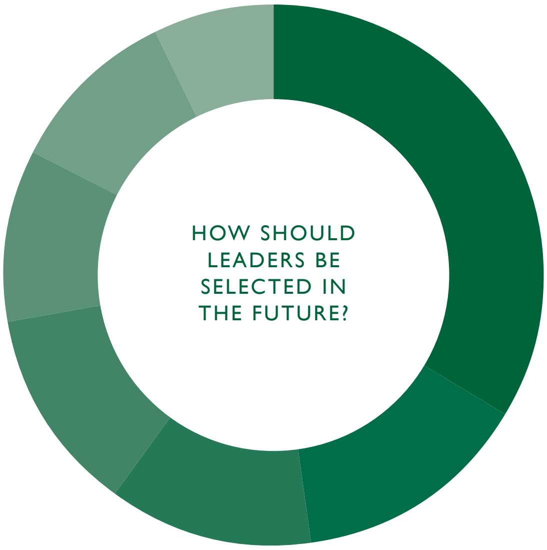
TOP FIVE RISKS	FINANCIAL	CULTURAL	SOCIAL	INTELLECTUAL
FAMILY DISPUTES/BREAK-UPS	▲	▲	▲	
LACK OF PLANNING	▲	▲		▲
FAILURE TO APPROPRIATELY ENGAGE THE NEXT GENERATION		▲	▲	▲
LACK OF LEADERSHIP & DIRECTION		▲	▲	▲
LACK OF APPROPRIATE TRAINING FOR THE NEXT GENERATION		▲	▲	▲

Today large family estates are treated as businesses rather than landholdings. Many heirs to such estates are, for example, preparing themselves for leadership by working in a private equity environment, often focused on new technologies or emerging markets. "You don't really need to learn about land management, for which endless advice is available. You need to learn how to run a business and manage capital and people in a changing world," observes one interviewee.

It is important for any training and development to suit both the aspirations of the individual and the leadership role for which they are destined. Individuals, it is felt, should have the opportunity to shape and pursue their own ambitions and to prove themselves outside the family environment. On the whole, those who are personally fulfilled make the best leaders. "I want the opportunity to prove to myself what I can do without the backing and influence of my family," says one.

Most families believe prospective leaders should become involved in family matters at an early age so as to learn the ropes and become familiar with the issues involved. One respondent points out the need for the next generation to be given the space they need to grow into their new leadership roles. "We want to give all the advice we can and provide all the opportunities we can without crossing the line and becoming excessively influential. We must leave them the space to decide for themselves."

> *"You don't really need to learn about land management you need to learn how to run a business and the management of capital and people in a changing world."*



33% Selected by committee

12% Selected by the previous leader

12% Self-selected

10% Primogeniture

10% Selection facilitated by external parties

7% No family leader

16% Other

REPUTATION AND CONTRIBUTION

DEPLOYING SOCIAL AND CULTURAL CAPITAL

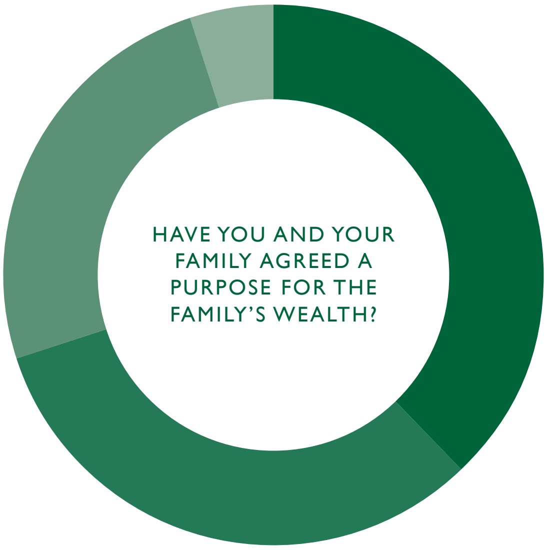
The research shows that a large majority of respondents strongly believes their families have contributed substantially to their communities in the past from creating jobs via their businesses, through public service, philanthropic foundations and paying substantial taxes.

Today, families are making this a priority. A small number have begun to develop tangible processes for setting objectives and monitoring performance in this area. 10% currently have put in place a formal process while 13% have implemented an informal one.

The reasons for this increased focus on a family's contribution to society are driven by three main factors:

1. A collective moral conscience (especially among the younger generation) driven by increased awareness of social inequality and the need for environmental sustainability.
2. A growing sense of society's creeping antipathy towards the rich, particularly in regard to tax mitigation strategies.
3. The wish of families to create a broader legacy for future generations, often based on the Four Pillars, including a family culture and value set.

For some, their main contribution is through the businesses they own and invest in. Many of the families we interviewed aspire to the highest standard in all their business dealings, particularly as employers. They often support a range of community and philanthropic projects and can be quite creative in the way they do this. "We always give back to our communities, but not on a purely philanthropic basis - always with a view to creating wealth," says one survey respondent. "My father paid for the education of the two children of a household employee. One of them is now doing an amazing job for us in our business."

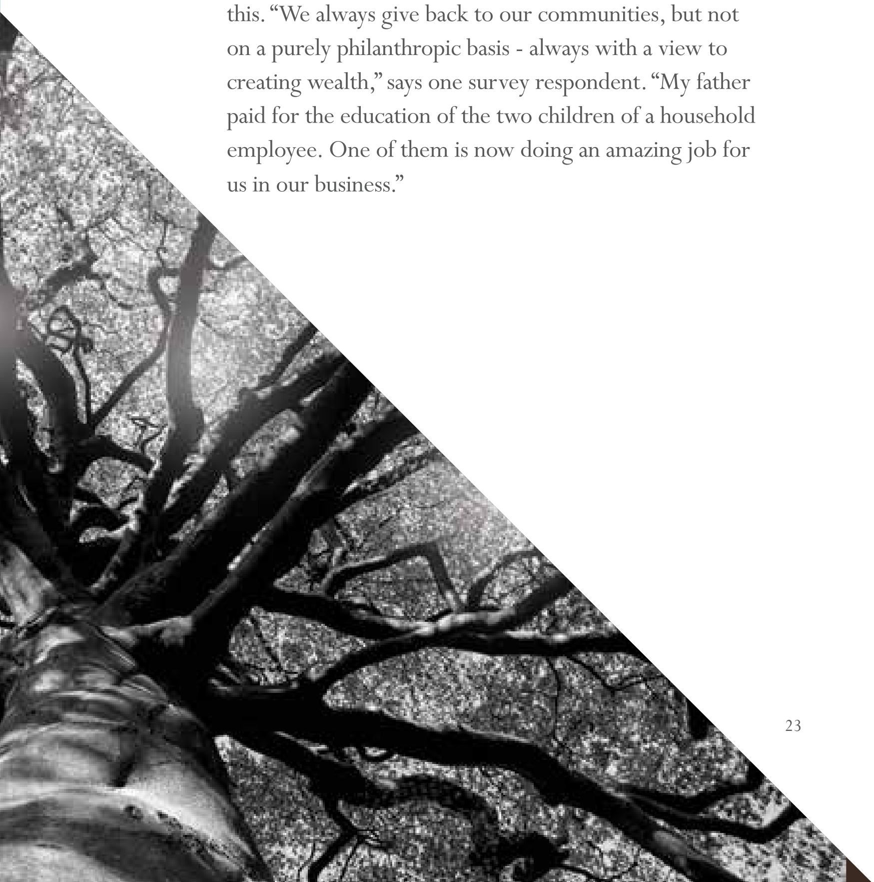


38%
Yes, our family has a shared agreement for the purpose of our wealth

32%
Our family has no agreement on the purpose of wealth

25%
No, this is not necessary for our family

5%
Other



"Contribution to the community is made through the business with clear guidelines and processes."

57% of respondents state that they are, at a minimum, mindful of the need to agree and appraise their contribution to society. During the last three years there has been an increase in the proportion of families who have a defined strategy in this field, set objectives and monitor progress. This trend looks set to continue, but not all are convinced it can be measured. "We think about it and talk about it, but do not measure it," says one contributor. "If you embrace social and cultural capital, your contributions should be a natural by-product… We absolutely should understand and be able to articulate our contribution," they add.

44%
There is no formal process but we are mindful of it as a family

32%
There is no formal or informal process

13%
We have an informal process

10%
We have a formal process

1%
Other

A family's ability to do business is directly linked to its reputation which, in turn, is inextricably tied to its contribution to society. For some, mainly those whose family name has become a well-known brand, "reputation is everything." In these cases, reputation management is becoming a formal discipline and is reported on and discussed at regular family meetings.

Risks to reputation have increased over the last three years for a number of reasons:

Increasing transparency means the affairs of the rich are increasingly open to scrutiny: "Even the most innocuous transactions can be subject to negative spin and have to be examined for their potential to create reputational damage," states one survey respondent.

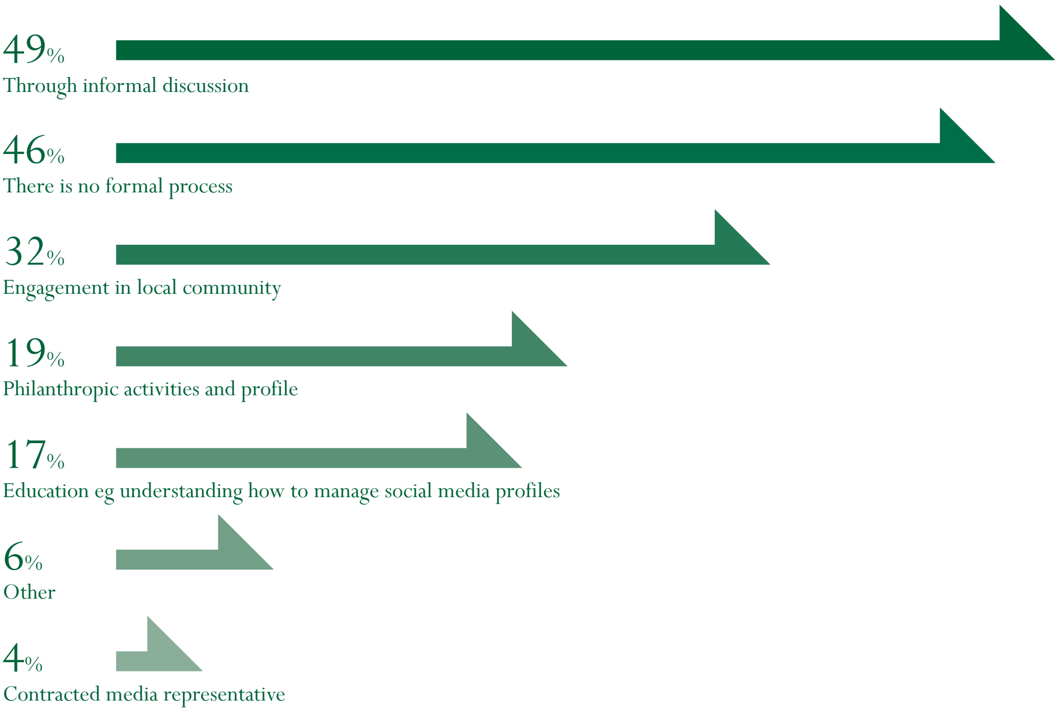
Social Media "has changed everything" and has increased the possibility of any indiscretions by family members becoming widely known, discussed and criticised publicly.

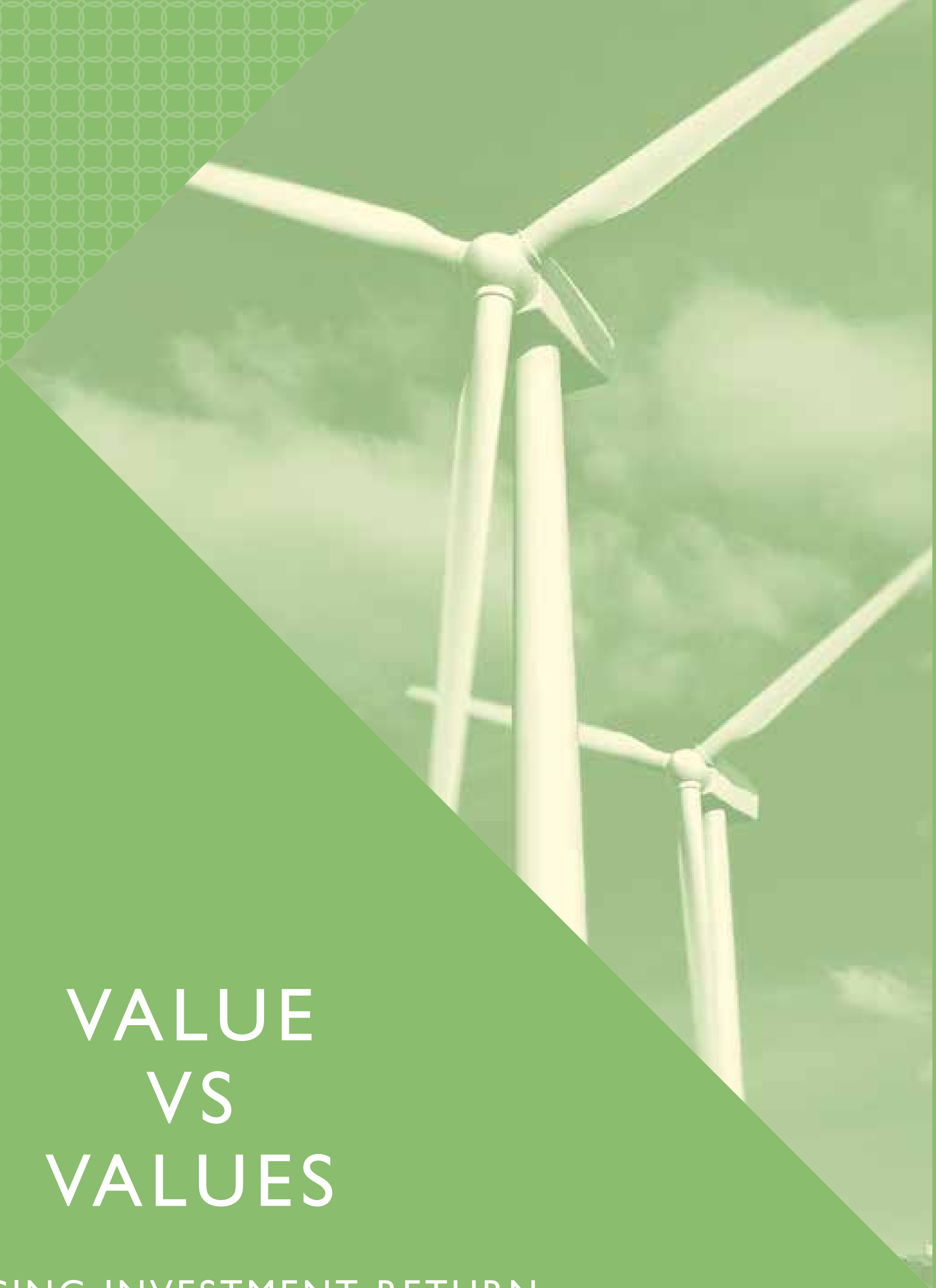
Continuing austerity and budget shortfalls, together with publicity around high profile tax evasion cases, have put tax planning under increasing scrutiny from the press.

There are several approaches to reputation management which are usually underpinned by family values and culture:

- **Be responsible** both as employers and as investors.
- **Have a clear strategy for philanthropy**, ensuring it is subject to proper family governance and is a true reflection of a family's values. "Philanthropy should not be a PR exercise," warns one respondent. Care should be taken when speaking publicly about good works.
- **Avoid aggressive tax planning.**
- **Be conscious of the possible negative perceptions of business ventures.** "We only associate ourselves with reputable partners within a relatively small ecosystem," says one family member. "I have always stressed the importance of our family moral code being carried through to our business dealings," adds another.
- **Avoid insensitive displays of wealth.**
- **Develop a social media strategy.** This includes monitoring and reviewing the family social media profile and training younger generations in the use of social media.
- **Put reputation on the agenda for regular family meetings.**

HOW, IF AT ALL, DO YOU MANAGE YOUR FAMILY'S REPUTATION AND THE REPUTATION OF ITS MEMBERS?





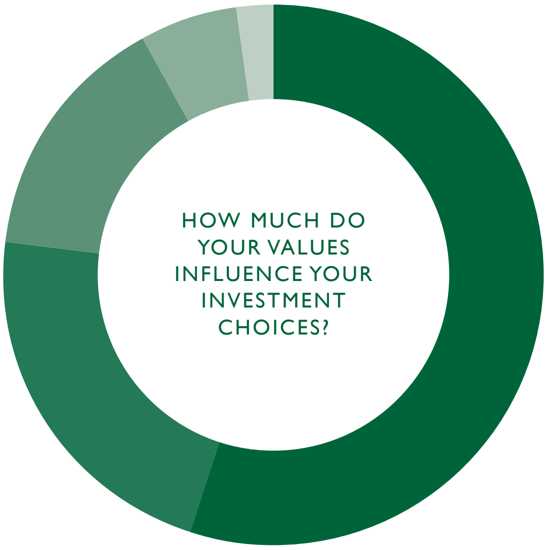
VALUE
VS
VALUES

BALANCING INVESTMENT RETURN WITH SOCIAL RESPONSIBILITY

Our questions on the way values are influencing investment choices reveal a contrast between mind-set and implementation. Over 75% of respondents acknowledge a preference for responsible investment in its broadest sense, though only 21% are actively incorporating a values-based approach in investment portfolios.

Historically, investors have been primarily concerned with the end rather than the means, with portfolio performance the primary focus. This is changing. The distance between investor and investment is reducing, driven in part by the influence of 'millennials' (people born between the early 1980s and the mid-1990s) and 'Generation Z' (people born between 1995 and the early 2000s) who are generally considered to have a more acute social conscience than previous generations. As one interviewee notes: "We always apply a double bottom line to our investments: 1. Financial return. 2. Alignment with values and purpose. Both of these are necessary, and only together are they sufficient."

In many of the intergenerational families surveyed, the next generation is already playing leadership roles. There is increasing interest in SRI which aims to generate specific social or environmental benefits in addition to financial returns. This could well be linked to stronger conviction among younger investors seeking to make a positive difference to the world with their investment choices. When asked about incorporating their own values into investing, one millennial respondent says: "When it is applicable to me, my whole investment portfolio will reflect my values. This is very important to me." Another adds: "When I control my own portfolio, it will reflect my values."



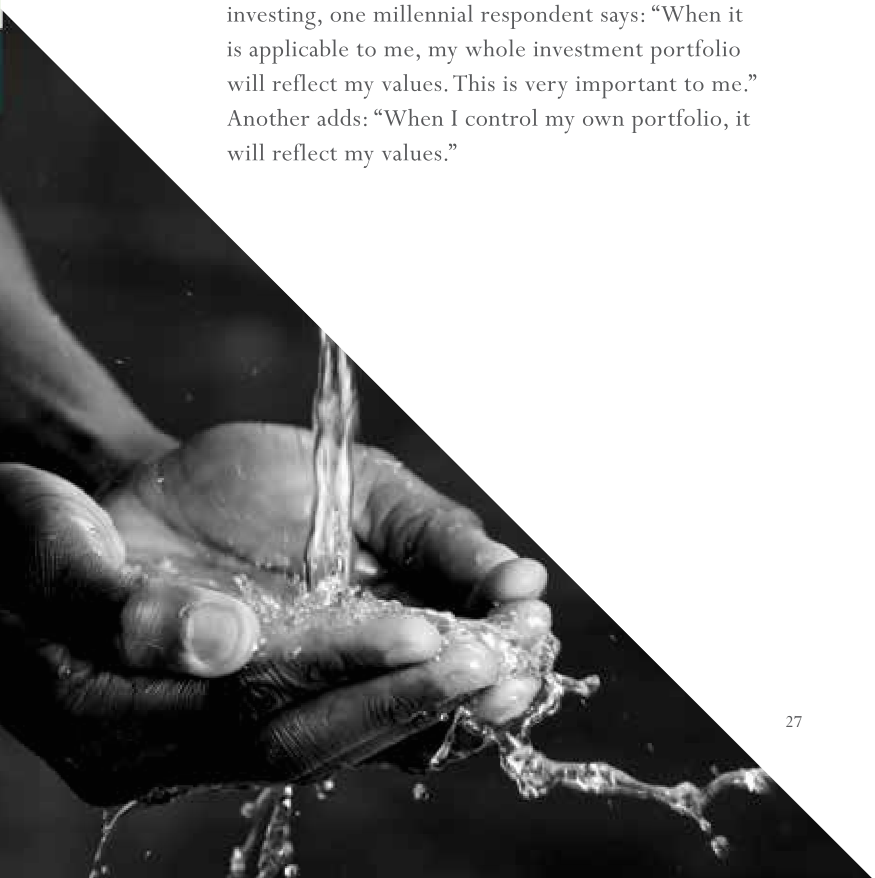
55%
There are certain things I would rather not invest in but they are not firm restrictions

22%
Investment return is what drives my investment choices, my values don't come into it

15%
Part of my investment portfolio is invested with a view to reflecting my values

6%
My whole investment portfolio reflects my values

2%
Other



As future generations assume positions of influence both in business and politics, prioritising social as well as financial returns will continue. Survey respondents confirm that as corporate social responsibility is increasingly important to the running of their own businesses, it will inevitably affect their investment decisions. "They recognise that this is crucial not just to their contribution to society, but to the future of the business - it has increasingly to be leading edge in environmental and social issues to get the contracts", says one adviser.

THE CHALLENGE OF DEFINITION

In recent years we have seen an increasing focus on responsible investment, underpinned by the incorporation of environmental, social and governance (ESG) factors by investment managers, financial regulators and governments alike. While performance is (and must) still be important to investors, there is a belief that environmental, social or governance aims need not compromise financial returns. This unsurprisingly has led to a rapid expansion in offerings from the investment community.

Herein lies the challenge. While, as evidenced by the research, respondents are generally in favour of their investment management taking account of ethical and social considerations, many express confusion about today's wide range of SRI products on offer by asset managers. "Clearly we would all rather that we do 'good' rather than harm with our investments, but practically this is not easy to do in the normal investment world," says one.

The high percentage of non-applicable (N/As) in response to the question about the type of investments or approach being used is worthy of further investigation. Our interpretation is that it is partly a function of millennials not yet being in control of investment policy and partly that interpretations differ as to the range and definition of options available.

Our own brief definitions of the various points on the spectrum from performance to philanthropic focus are as follows:

Traditional investment management seeks to construct portfolios with optimal risk adjusted rewards. Typically, the investment process will not have an embedded values-based criteria.

Exclusion-based investing is a traditional investment management model where certain investments - like tobacco or arms - are screened out of a portfolio should they not meet with an investor's values.

ESG investment goes a step further than screening. Environmental, social and governance criteria are embedded into the investment process from beginning to end. Companies that score badly are excluded and capital is allocated to those that score well.

SRI acknowledges the limitations in ESG integration and goes further, investing in companies actively engaged in social justice or alternative energy, engaging with companies to help them improve their governance and mitigate their environmental impact, for instance.

Impact Investing has a defined positive societal or environmental outcome which is given equal significance to the expected financial returns. Often this 'profit with purpose' will be implemented through direct investments or microfinance.

Philanthropy is the act of donating money to promote the welfare of others, where no financial reward is expected.

Members of the next generation are often given their own charitable projects on which to hone their investment skills and demonstrate an ability to take over more senior decision-making roles within the family. In addition, we increasingly see the next generation venturing into impact investing before exploring other direct investment opportunities.

ESG investing marries well with a traditional investment management approach. Returns are a key focus but there is an expectation that companies adopting ESG practices may perform better over the long term and are better positioned for the future.

They may include risk controls such as whether the company has an aggressive tax policy; how financial incentives for staff are structured; or employee relations indicators, such as staff turnover rates.

Such an investment approach also chimes with the long-term investment approach of many UHNW families. The use of ESG investment strategies offers the opportunity to back companies that are better positioned for the future and that also align with their own values.

"We feel that some of the areas in which we would rather not be invested, such as the entire coal value chain, nuclear power, agrichemicals and the factory farming of animals, are all industries which will become stranded in any case due to economic factors", says one interviewee. "So it makes sense from an investment and a values perspective not to invest in them."

Despite the well documented enthusiasm of the younger generation, some are not prepared to give them all the credit. One survey respondent says: "The older I get, the more my values are reflected in the investment and day-to-day business."

VALUE

Focuses entirely on generating returns

Traditional Investment Management

Exclusion-based Investing

ESG

SRI

Impact Investing

Philanthropy

Social impact trumps any financial returns

VALUES

CONCLUSION

At Stonehage Fleming we talk about 'practical wisdom' - sharing the knowledge we have acquired by working with a diverse group of families over several generations and using this to address the many and varied challenges and opportunities that families may encounter. Our research projects reflect this.

Approaches to the management of a family's wealth and legacy have evolved over centuries. Our view is that the pace of change is accelerating and some of the ideas and concerns highlighted in our previous report are already forming the basis of practical strategies.

A rapidly changing society too has increased the awareness of a need for a more structured approach to managing intergenerational risk and the use of methodologies which are relatively straightforward to grasp and implement.

The Four Pillars form a practical framework which may be helpful to families in identifying and managing all aspects of its legacy, rather than focusing purely on financial wealth.

Nearly all those interviewed agree that financial wealth cannot be sustained if you focus on this aspect alone.

Some still favour a less formal, traditional approach to the establishment of legacy, where the process is driven primarily if not exclusively by the founder or current head of the family. However, where family assets are collectively managed - particularly heritage assets such as an estate or family business - there are clearer parallels with the commercial world. You would not expect a business to survive long if it concentrated only on financial management, without paying proper attention to succession, culture and corporate social responsibility.

Indeed, a family is more complicated in many respects. Its members are not selected on the basis of their CVs, neither are they paid in accordance with performance nor laid off if they fail to deliver, do not fit in or are difficult to manage.

In this report we focus on the management of long-term risk and the provision of stability across a family's Four Pillars. Despite political and economic uncertainty, it is striking that the top five risks still relate to the management of the family legacy including planning for the long term, engaging the next generation and establishing a strong leadership structure. More formality in the process of risk identification and mitigation can only be a positive.

We are not convinced that family values themselves have changed but that the means of expressing values proactively through investment choices has expanded exponentially such that positive investment performance and societal contribution are not mutually exclusive. The influence of millennials too will mean that values-based investing is likely to become more rather than less institutionalised as a practice.

This is particularly important when reputations are under scrutiny as never before. While few families overtly articulate their contribution to society, increased understanding within the family will help safeguard cultural capital and may increase the ties and understanding between the generations.

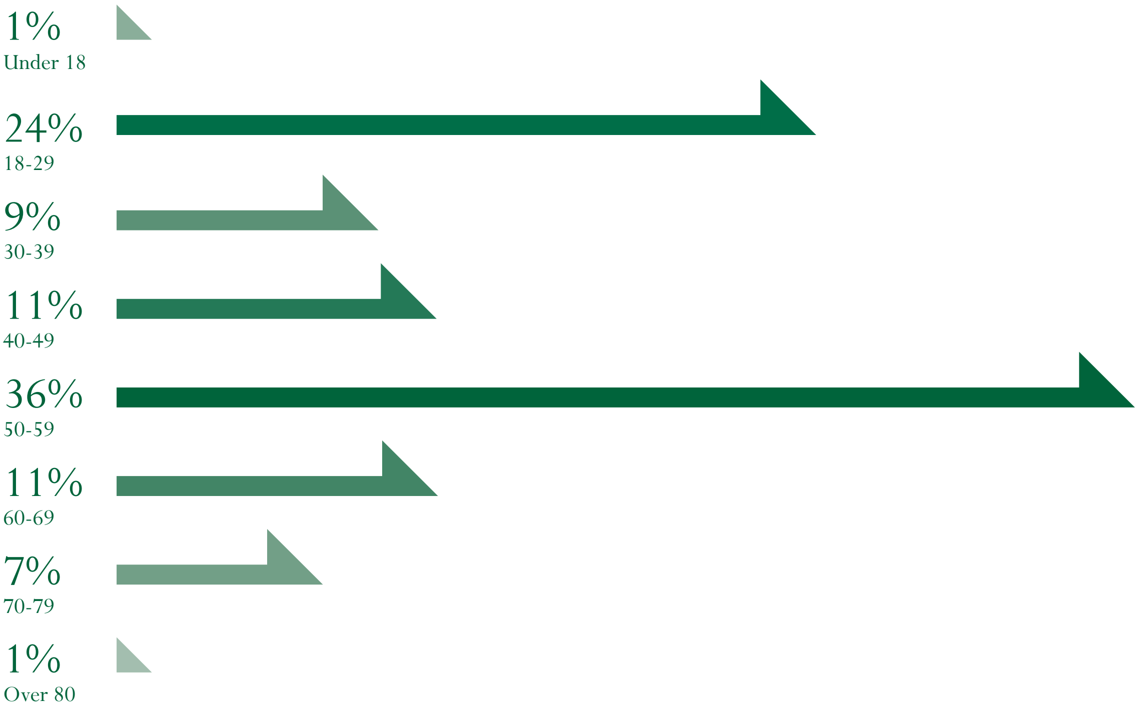
The right leadership structure is viewed as the best - and perhaps the only - reliable protection against unforeseeable threats. Traditional approaches to appointing a family leader are being overtaken by more democratic processes, sometimes facilitated by external parties. A clear trend leans away from leadership by the individual towards a structure of better defined and developed leadership roles, with the requisite skills to protect all Four Pillars of Capital.

Practical wisdom abounds in many families. This is a precious resource which will need to be nurtured and deployed carefully to weather a changing environment.

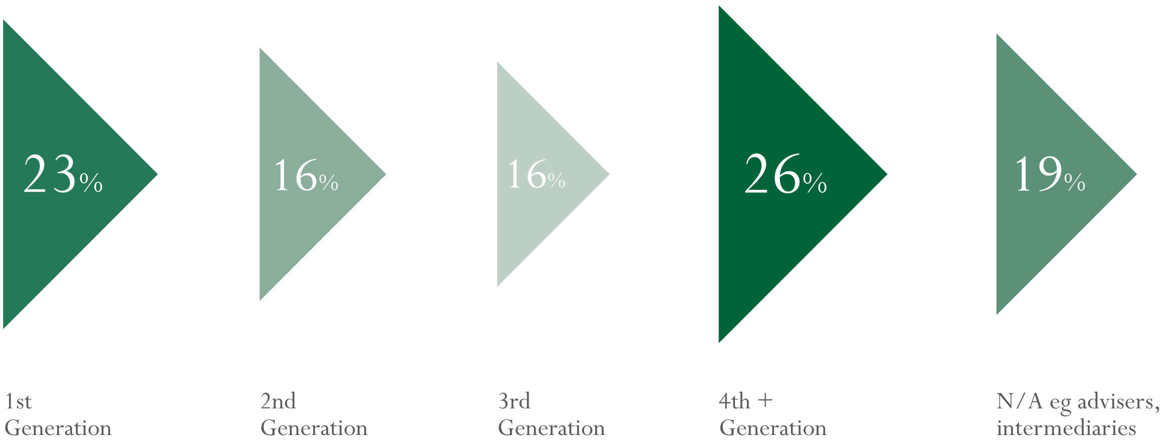
APPENDIX

A 16-question survey was developed for families and advisers.

AGE OF RESPONDENTS:



GENERATION OF WEALTH



AR All Respondents | **NG** Next Generation Respondents | **MR** Main Questionnaire Respondents

1 WHAT DO YOU THINK IS THE BIGGEST DRIVER OF CHANGE BETWEEN THE GENERATIONS?

	AR	NG	MR
Changes in values	36%	33%	37%
Technology	33%	31%	33%
Political changes	10%	3%	13%
Education	10%	14%	9%
Other	6%	14%	3%
Gender roles	5%	6%	5%

2 HOW SIMILAR DO YOU BELIEVE YOUR VALUES ARE TO THOSE OF YOUR PARENTS AND CHILDREN? (WEIGHTED AVERAGE, RANKED 1-5)

	AR	NG	MR
Similarity to previous generation	2.01	1.68	2.11
Similarity to next generation	2.24	2.12	2.27

3 HOW SIMILAR DO YOU BELIEVE YOUR POLITICAL VIEWS ARE TO THOSE OF YOUR PARENTS AND CHILDREN? (WEIGHTED AVERAGE, RANKED 1-5)

	AR	NG	MR
Similarity to previous generation	2.10	1.75	2.05
Similarity to next generation	2.27	2.29	2.27

4 HOW MUCH DO YOUR VALUES INFLUENCE YOUR INVESTMENT CHOICES?

	AR	NG	MR
There are certain things I would rather not invest in but they are not firm restrictions	55%	40%	59%
Investment return is what drives my investment choices, my values don't come into it	22%	25%	21%
Part of my investment portfolio is invested with a view to reflecting my values	15%	20%	14%
My whole investment portfolio reflects my values	6%	10%	5%
Other	2%	5%	1%

5 IF YOU ACTIVELY UNDERTAKE INVESTMENTS WHICH ARE IN KEEPING WITH YOUR VALUES, WHAT TYPE OF INVESTMENTS OR APPROACH DO YOU ADOPT?

	AR	NG	MR
N/A	49%	69%	43%
Negative screen in my portfolio for certain types of investment eg no tobacco	24%	10%	28%
SRI portfolio/ESG portfolio	13%	10%	14%
Impact Investing	8%	10%	7%
Other	3%	0%	4%
Portfolio dedicated to philanthropy	2%	0%	3%
Microfinancing	0%	0%	0%

6 HAVE YOU AND YOUR FAMILY AGREED A PURPOSE FOR THE FAMILY'S WEALTH?

	AR	NG	MR
Yes, our family has a shared agreement for the purpose of our wealth	38%	52%	33%
Our family has no agreement on the purpose of the wealth	32%	28%	33%
No, this is not necessary for our family	25%	12%	29%
Other	5%	8%	5%

7 DOES YOUR FAMILY HAVE ANY FORMAL PROCESSES FOR AGREEING AND APPRAISING THE CONTRIBUTION TO THE COMMUNITY AND WIDER SOCIETY?

	AR	NG	MR
There is no formal process but we are mindful of it as a family	44%	46%	43%
There is no formal or informal process	32%	23%	35%
We have an informal process	13%	15%	12%
We have a formal process	10%	15%	9%
Other	1%	0%	1%

8 DOES YOUR FAMILY HAVE A STRUCTURED PROCESS FOR IDENTIFYING AND MITIGATING RISKS?

	AR	NG	MR
There is no formal or structured process	35%	22%	39%
There is no formal process but we discuss risk as a family	28%	43%	25%
We have an informal or irregular process of review	15%	17%	14%
There is a regular review and output of risk	15%	9%	16%
There is a formal risk register	6%	4%	6%
Other	1%	4%	0%

9 HOW, IF AT ALL, DO YOU MANAGE YOUR FAMILY'S REPUTATION AND THE REPUTATION OF ITS MEMBERS?

	AR	NG	MR
Through informal discussion	49%	34%	27%
There is no formal process	46%	23%	28%
Engagement in local community	32%	18%	19%
Philanthropic activities and profile	19%	9%	11%
Education eg understanding how to manage social media profiles	17%	14%	9%
Other	6%	2%	4%
Contracted media representative	4%	0%	3%

10 DOES YOUR FAMILY HAVE A FORMAL LEADERSHIP STRUCTURE?

	AR	NG	MR
No formal leadership structure	34%	40%	32%
Unofficial family leader	34%	32%	35%
'Official' family leader	14%	4%	17%
Multiple leaders for different aspects of the family (eg financial assets; social; philanthropy)	13%	20%	11%
Other	5%	4%	6%

11 HOW ARE LEADERS IN YOUR FAMILY/FAMILY BUSINESS SELECTED?

	AR	NG	MR
Primogeniture	28%	25%	29%
Self-selected	20%	6%	23%
Selected by the previous leader	16%	6%	19%
Selected by committee	13%	13%	13%
No family leader	12%	31%	7%
Other	10%	19%	9%
Selection facilitated by external parties	1%	0%	1%

12 HOW SHOULD LEADERS BE SELECTED IN THE FUTURE?

	AR	NG	MR
Selected by committee	33%	39%	38%
Other	16%	0%	0%
Self-selected	12%	9%	17%
Selected by the previous leader	12%	17%	13%
Selection facilitated by external parties	10%	17%	10%
Primogeniture	10%	4%	15%
No family leader	7%	13%	7%

13 WHICH OF THE FOLLOWING WOULD YOU INCLUDE IN THE TOP THREE CONCERNS FOR UHNW FAMILIES PREPARING FINANCIALLY FOR THE FUTURE?

	AR 2018	NG	MR	AR 2015
Succession planning	69%	17%	75%	59%
Capital preservation	62%	17%	73%	71%
Tax planning	48%	13%	73%	59%
Capital appreciation	40%	7%	83%	48%
Income	31%	8%	75%	38%
Inflation	11%	3%	69%	11%
Other	7%	2%	75%	4%

14 WHICH OF THE FOLLOWING DO YOU BELIEVE ARE THE TOP RISKS TO LONG-TERM FAMILY WEALTH? (RANKED 1-15, 1 BEING THE GREATEST RISK)

	2018	2015
Family disputes or break-up	1	1
Lack of planning	2	2
Failure to appropriately engage the next generation	3	N/A
Lack of future family leadership and direction	4	3
Lack of appropriate training for the next generation	5	
Unwise entrepreneurial investment	=6	8
Poor investment management	=6	4
Increased taxation	7	5
Political risks	8	9
Failure of family business	9	6
Economic environment	10	7
Lack of common set of values	11	
Public hostility to the rich	12	10
Lack of an agreed purpose for the family wealth	13	
Damage to reputation and personal brand	14	

15 TODAY'S MACROECONOMIC ENVIRONMENT IS MORE DIFFICULT TO READ THAN EVER. GIVEN YOUR PERCEPTION OF THE CURRENT ECONOMIC CLIMATE, WHICH OF THESE ASSET CLASSES WOULD YOU CHOOSE TO HOLD?

	AR 2018	NG	MR	AR 2015
Real estate or agricultural land	85%	20%	65%	80%
Equities	79%	10%	69%	62%
Private Equity	61%	9%	52%	43%
Cash	49%	2%	47%	34%
Fixed Income	43%	20%	33%	30%
Alternatives and hedge funds	39%	5%	34%	30%
Art/Collectables	39%	6%	33%	29%
Gold	28%	3%	25%	27%
Crypto	4%	2%	2%	
Other	2%	0%	2%	4%

16 WE SEE FAMILIES BECOMING EVER MORE INTERNATIONAL/MULTIJURISDICTIONAL, FOR MANY REASONS INCLUDING POLITICAL UNCERTAINTY WHICH OF THE FOLLOWING GEOGRAPHIES DO YOU BELIEVE WILL PROVE THE MOST ATTRACTIVE FOR ESTABLISHING A PRIMARY 'TRUST RELATIONSHIP' OVER THE NEXT 30 YEARS FOR UHNW FAMILIES?

	AR 2018	NG	MR
London	46%	10%	36%
Switzerland	33%	8%	25%
Multi-centre	26%	8%	18%
New York	20%	6%	14%
Singapore	16%	2%	14%
Channel Islands	15%	2%	13%
Other	15%	3%	12%
Hong Kong	10%	4%	6%
South Africa	5%	1%	4%

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