



The four pillars of wealth

WEALTHY families are reviewing their approaches to the preservation and transfer of wealth across generations. We detect a subtle change to clients' perspectives and philosophical outlook to wealth and even the ways in which they define capital. This is in part a response to the way that affluence is viewed in the media and the public domain and the increased levels of scrutiny clients now face.

In light of this prevailing and challenging public and political sentiment, we consulted 78 families and advisers, representing wealth of £120 billion, to understand how they view their responsibilities as stewards of capital.

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Mark Lewis, partner of Stonehage Fleming Group, examines the growing importance of stewardship and social responsibility

We subsequently published the report 'Four Pillars of Capital for the Twenty First Century', the second of a series 'Wealth Strategies for Intergenerational Success', outlining the challenges in the transfer of wealth across generations. The report identifies four 'pillars of capital' which provide a framework through which families can view and manage their wealth. The report also highlighted some important attitudinal trends which are impacting family wealth.

The four pillars support a family's success and its legacy; reliance on any one, or a reluctance to embrace the benefits of all four could conversely be detrimental to a family's long-term interests.

- Financial Capital – the tangible assets, business and intellectual property of the family which have quantifiable financial value;
- Intellectual Capital – the accumulated skill, knowledge, experience and wisdom, which it can apply to the management of its wealth and its contribution to society;
- Social Capital – how the family engages with the communities in which it lives and operates and how it use its wealth and other assets to the benefit of society;
- Cultural Capital – the common values and themes in the way family members conduct their lives, their approach to business, their attitude to wealth and the things they value.

We were able to detect a subtle but significant shift in attitude by clients in the long-term management of their wealth and their legacies. As one family said, 'it's important that families have the human capital and entrepreneurial skills to withstand the choices they make'. Many believe that great wealth can only be preserved across generations if it benefits not just those who are inheriting, but society and the community too. And this is a view held even more strongly by the 'Next Generation', suggesting that as they take over the reins, this will be applied more visibly.

Families are now more focused on growing their wealth rather than just on preserving it. As families grow, and the demands on their assets increase, UHNW families are becoming more entrepreneurial and are increasingly willing to shoulder a greater degree of risk in order to access this elusive growth. In addition to the principal assets of their family businesses, families are turning to alternatives, notably real estate, agricultural land and private equity, as well as publically listed equities. Direct investments in private enterprises, potentially alongside other UHNWs, were also cited as having appeal, suggesting that family offices will compete in the space in the domain of sovereign wealth funds and institutions.

Family businesses were a unifying theme across all four pillars of capital. They are likely to remain a very

significant part of the engine of growth for the real economy and in the UK alone there are three million family businesses, employing nine million people and contributing 25% of total GDP.

What the report revealed, however, was how important Cultural Capital was – a heartening response given that a lack of common mind-set or shared values bridging the generations are perhaps the most common reasons for UHNW families to 'fail'. 41% had, within their family, agreed a purpose for the family's wealth, and many of those who had not done so felt that defining such a purpose would be a useful exercise.

To achieve their goals, it is also important that UHNWs impose a disciplined, strategic approach to support a wealth strategy for intergenerational success. Stonehage Fleming's experience is that those UHNWs who only focus on Financial Capital, and do not develop a holistic long-term strategy that encompasses the other pillars of capital, will struggle to break free from the mould of 'clogs-to-clogs in three generations'. An understanding of their Intellectual, Social and Cultural Capital, and planning for its transfer to the next generation, is key to a family's intergenerational success.

We believe passionately that helping families develop and execute these strategies should be at the core of what we do and that assisting families in identifying and articulating the purpose of their wealth is as important as its management. Our heritage and experience, together with a compelling range of specialist advisory, fiduciary and investment capabilities offered here in Jersey and across our business, means we are well placed to help families protect their legacy.