Nº 03

Wealth & Family

LUXEMBOURG

HIGH NET WORTH INDIVIDUALS: WHY NOT LUXEMBOURG ?

INTERVIEW

FAMILY OFFICES IN A CHANGING LANDSCAPE

SUMMARY

www.luxembourgforfamilyoffice.lu/

Editor : Jérôme Bloch I **Chief Editorial Officer :** Diana Diels I **Editorial Team :** Allen & Overy I Diana Diels | Vincent Donnen I ECP I Virginie Issumo I Robert Kennedy I Nadège Mougel I NN Investment Partners & ECCE I Adeline Pilon I Thomas Steige I Scotch Whisky International I Grégoire Tézé I Guido Veul I 360Crossmedia I **Artistic Director :** 360Crossmedia/J.G **Cover Photo :** DR I **Print run :** 500 copies

EDITORIAL


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Dear Readers,

No one really knows what is happening and the collective imagination seems to lead us to dark places... Financial markets continue to live in uncertainty and the recent Brexit vote has even raised the prospect of sustained anxiety in the global economy as investors struggle to surmise what is happening. For this reason Luxembourg for family office and ACI Luxembourg, has brought together a group of experts to give their views and experience on how to find a fulfilling path in today's markets of the zero economy.
Luxembourg For Family Office holds annual event in partnership with ACI Luxembourg entitled "Climate change & Uncorrelated investments" at Hotel Place d'Armes and Château de Septfontaines.

"The audience was started by Carl Weinberg who delivers research to 350 institutions in 35 countries worldwide. The Wall Street Journal described Weinberg as choosing "perhaps the riskiest route" , becoming an "entrepreneurial economist".
Daniel Gupta of Anafin explained why in his opinion the UK made such an economical disastrous decision to leave the EU. He said "it is lovely to be back in Luxembourg to see you again – at least whist I can still travel here without a VISA!
Guido Veul of NN Investment Partners exposed that more and more people want to invest their assets in a sustainable way, to ensure their money takes into account environmental, social and governance (ESG) factors, next to achieving a financial return. Important ESG factors include a company's carbon footprint, recycling, health and safety measures and respect of shareholders rights.
Other interesting panels were opportunities for Family Offices in today's markets by Laurent Roussel; the Luxembourg Art Hub and Auctioneer by Luc Mazet, Adriano Picinati di Torcello and Aude Lemogne; The Climate changes and sustainable development : changes or opportunities for Social and Economic Development by Guido Veul, Virginie Issumo and Jean Philippe de Schrevel and the New Face of European Philanthropy by Tonika Hirdman Fondation de Luxembourg" and Family offices at the Digital Frontier by Peter Schramme : Tools to fully capture the benefits of technology. Within 30 years the biggest transmission of wealth will be transferred to a younger generation, this generation will be « digitally savvy ». Family members are better connected and will be OMNI-DEVICE & OMNI-CHANNEL & REAL-TIME!"

Luxembourg For Family Office contributed also to the International Family Office Round Table of AIFO in Milan at the Palazzo Clerici on the 28th of January 2016.

Luxembourg For Family Office launched in March 2016 the European Family Office Alliance with Families For Families. An annual event will be organised every year in March. Another upcoming event is in Slazburg in October together with the Mozart Foundation.

We hope you enjoy the reading and my sincere gratitude goes to all persons who contributed to the redaction and the organisation of the events.

Yours sincerely,

Diana Diels

For further details please contact:
Diana Diels, President, Luxembourg for Family Office
Mobile : +352 691 911 916
Email: diana.diels@luxembourgforfamilyoffice.lu
www.luxembourgforfamilyoffice.lu

CECI N'EST PAS AN ART MAGAZINE.

IT'S H A P P E N I N G !

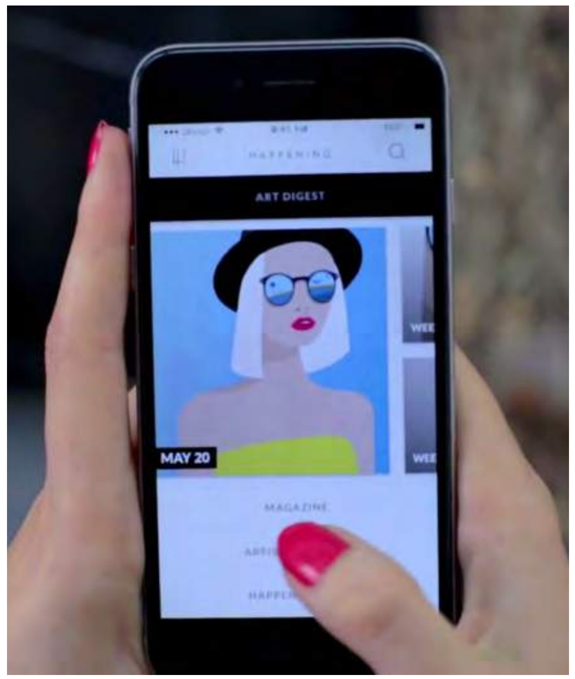
HAPPENING TECHNOLOGIES, A NEW LUXEMBOURG-BASED COMPANY, BRINGS TRANSPARENCY TO THE ART MARKET. OUR EQUATION FOR PROVIDING USERS WITH A CLEAR INSIGHT INTO THE ART MARKET IS SIMPLE: KNOWLEDGE OF THE ART MARKET + FINANCIAL RATIONALITY + ADAPTABLE TECHNOLOGY = FULL TRANSPARENCY.

THE ART MARKET, A DIVINE RIGHT TO SECRECY?

In the art market, countless factors —financial, cultural or social — can impede entry to what is an exclusive club. But even for the insiders, the circulation of information is often opaque and heavily guarded. In what is one of the world's largest markets, access to free and exhaustive quality information is yet to be achieved.

A GROWTH LED BY PASSION AND RATIONALITY

Never before has the art market involved so many people or attracted so much attention and money. In 2015, more than 2.9 million people were employed in over 310,400 businesses operating in the $51 billion art market. Could this be a passing trend? We don't think so. Collectors, growing in number, are inspired by their passion, and investors by their search for new, collectible assets. The art market is expanding and access to information will shape its growth.



H A P P E N I N G : RELIABLE & TIMELY INFORMATION

H A P P E N I N G is the new media that responds to the needs of artworld professionals, collectors and those who want to be in the know. With an established network across the global art capitals; the H A P P E N E R S unearth, unravel and analyze the news, seeking out the people who are keeping the art market moving. **HAPPENING** offers its readers three types of content depending on their interests : a daily digest provides an exhaustive snippet overview of the most important art news; articles are longer form and dedicated to specific issues, addressed with in-depth analysis, while series develop a long term discourse on a vast issue. We would like to go a step further.

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NEXT FALL, H A P P E N I N G WILL BE THE SMARTEST APP FOR TAILORED INFORMATION ON ART, AVAILABLE ON THE APP STORE AND ON GOOGLE PLAY.

WHAT ABOUT THE APP?

Users will get information according to their centers of interest and based on their location, to keep up to date with what's **HAPPENING** in their proximity. A personalized art advisor, providing timely and fresh information, always on the lookout for the hottest tips in the art market, will keep users posted about the events, the institutions and the personalities they are most interested in.

WHAT ABOUT TOMORROW?

HAPPENING will give users a perfect understanding of an artist's position in the market at all times. All the key variables professionals use to market an artwork or to leverage its value will be clearly explained and quantified. **HAPPENING** will allow users to look up any artist's track record in the art market (at auctions, galleries and fairs). With access to their past, present and forecasted activity (exhibitions, media coverage…), users will have a clear picture of an artist's position in the market at the tip of their fingers.

ADELINE PILON

A PROFESSION, EXPERT-CONSULTANT IN ARTWORK

ART IS AN AREA THAT WE LIKE TO SHARE. IT IS ALSO A LINK BETWEEN GENERATIONS AND A PRIVILEGED MODE OF TRANSMISSION.

Between investment logic, passionate collections, insatiable demand of big names for the new museums of the world, the sales revenue of the global art market shows a very healthy, despite the deterioration in the global economy.
In recent years, art is become a form of alternative investment which is different from other financial assets and the return on investment in art surpasses traditional investments.

In this contexte, MoNa Art Consulting society dispenses her advices through tailor-made deliveries responding to an enlightened customer base specific needs who chose art as source of diversification of investment.
MoNa Art Consulting puts her know-how in the service of important collectors, asset managers, museums and foundations.
Advices as part of the enrichment of a collection, an assistance for a transaction with a dealer or a rise in price for a customer during an auction; her services cover any specific and personalized search in the field of the Decorative Arts of the 20th century and Great Masters paintings of the 19th and 20th centuries..

The art market is in a perpetual transformation, often considered as opaque, so you should seek advices from an qualified and graduated expert to buy, sell, make assure, share or constitute a collection. The main quality of the expert is not only the extent of his knowledge but also the exact notion of what he knows and what he does not know. This is where lies his impartiality and his professional integrity. The expert must also implement a code of conduct and transparent practices on the basis of safe and high quality contacts.
With her strong network of international contacts, the real expert directs her customers, by her precise estimates resulting from quality research on the origin, the authenticity, the state of preservation and the quality of the works of art. These data allow her, then, to establish the value of the artworks on the market while determining their performance in term of profitability, main guarantees of a successful investment.

© Chambre de Commerce, Gaël Lesure

The return on investment in art surpasses traditional investments.

Nadège Mougel

© Chambre de Commerce, Gaël Lesure

NADÈGE MOUGEL,
CEO and Founder of MoNa Art Consulting
Contact:
21 A, rue du Général Patton / L-2317 Howald
Tél. 00352 20 40 93 40
nadege.mougel@monaartconsulting.eu
www.monaartconsulting.eu

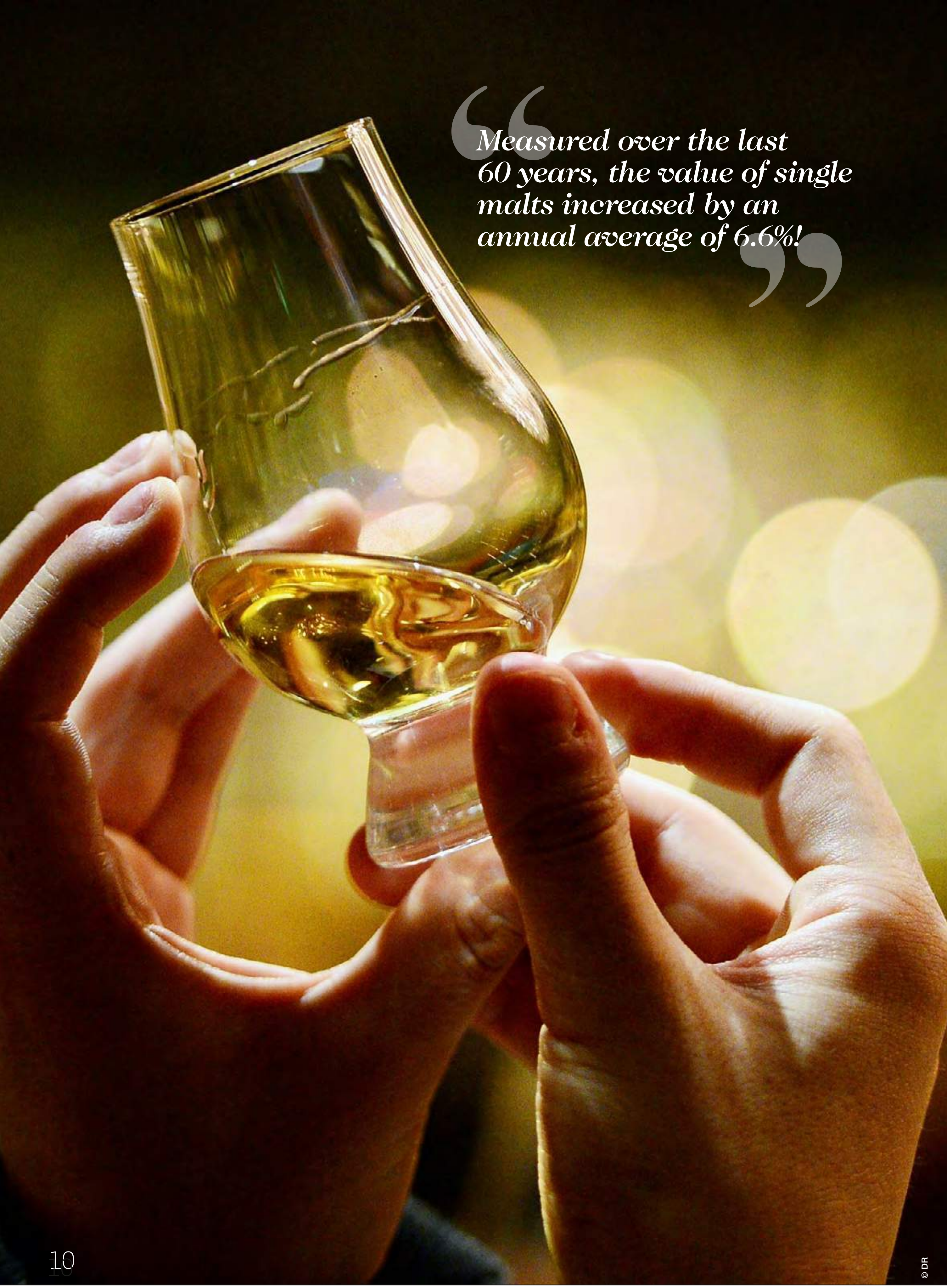
Nadège Mougel, CEO and Founder of MoNa Art Consulting society.

After an experience as director in the French institutional museum sector, several collaborations with prestigious auctions houses and an important Parisian art dealer (François Laffanour-Galerie Downtown), Nadège Mougel, graduated in contempory history but also in the art market, puts her know-how today as consultant in the service of important collectors, asset managers, museums and foundations.

Her services cover any specific and personalized search in the field of the Decorative Arts of the 20th century (Art Nouveau, Art Deco, Design) and Great Masters paintings of the 19th and 20th centuries.

The Ministry of the Economy attributed to Nadège Mougel an authorization of establishment as « Advice in artwork » recognizing officially her activity on the Luxemburg place, the proof of a high-quality support and an infinite transparency.

www.monaartconsulting.eu



> *Measured over the last 60 years, the value of single malts increased by an annual average of 6.6%!*

© DR

SHARING THE "TASTE" OF PROFIT : SINGLE SCOTCH MALT WHISKY

Michel Kappen, born in 1968 in the Netherlands, combined his passion for sports with being a convinced total abstainer. However, after one glass of Single Malt Whisky, he was totally captivated by the rich flavor and complexity of Scotch whiskies. Smelling, tasting, reading and traveling, he steadily developed his skills as a connoisseur. In addition, he got more and more aware of changes in the market value of rare and old single malt whiskies. In 2002 he resigned from the investment department of the RABO bank and he started his first own company, The Whisky Talker. His enthusiasm for authentic whiskies did not only attract a captive audience in the Netherlands, but he also could count on the respect of Scottish producers.

The demand for Single Scotch Malt Whisky grows extremely hard. The price evolution of Single Malt starts with an intrinsic scarcity. The whisky has to come from a Scottish distillery and their capacity is limited. The maturation process can take decades and results in average evaporation of 20%. There is a limited supply of quality casks. Casks of closed distilleries are rarely available. There are 104 distilleries active and 28 closed.

Most producers didn't expect that the demand for older whiskies (20+ years) would grow so explosively. An example of sold whiskies on the World Whisky Index : Dallas Dhu 1975 bought in 2009 for 110 EUR sold in 2014 at 215 EUR, this is an annual benefit of 19.8 %. Another example is Glenfarclas 36 years old, bought for 338 EUR in June 2014 and sold for 423 EUR in September 2014; this is an annual benefit of 76.3%.

Quality and rareness are the main price generators. There are no costs to keep the product in shape and it is easy to trade over the world.

The "World Whisky Index"® is an independent trading platform which brings buyers and sellers together in full transparency for both bottles and casks. The platform closely ensures that business dealings comply legitimate expectations as accredited by the Dutch Financial Authorities (AMF).

Scotch Whisky International manages for investors their registered bottles and casks. You even can buy a cask and bottle it for a personal use. **Single Scotch Malt Whisky is an authentic product with an intrinsic shortage, it is a better bet than stocks (*) !**

(*) Source Reuters 2007

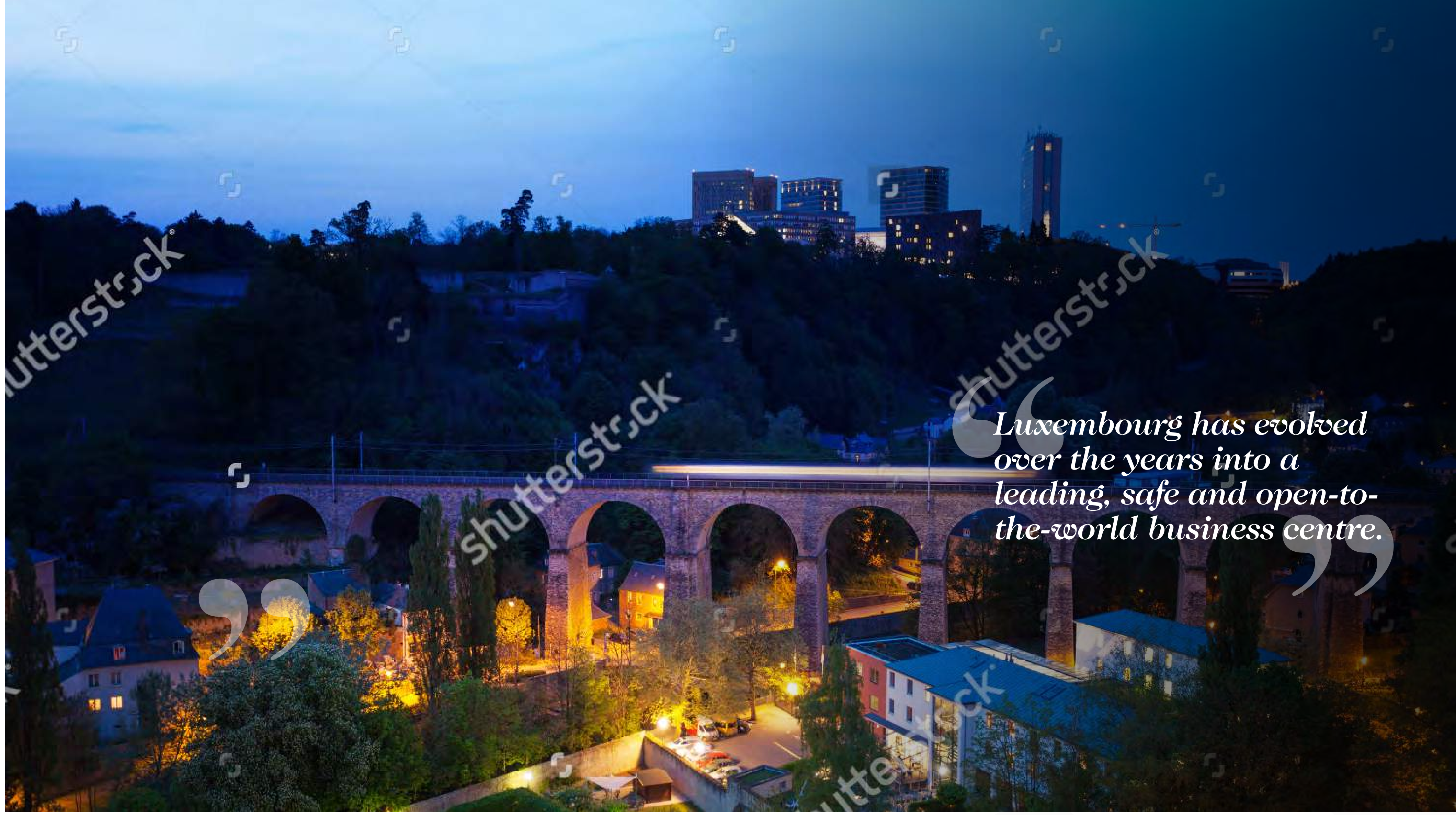
SCOTCH WHISKY INTERNATIONAL

Contact dd@swi1.com
www.scotchwhiskyinternational.com
www.worldwhiskyindex.com

LUXEMBOURG

HIGH NET WORTH INDIVIDUALS: WHY NOT LUXEMBOURG?

WELL-KNOWN FOR ITS BUSINESS FRIENDLY, ECONOMICALLY AND POLITICALLY STABLE ENVIRONMENT, LUXEMBOURG HAS EVOLVED OVER THE YEARS INTO A LEADING, SAFE AND OPEN-TO-THE-WORLD BUSINESS CENTRE.
IT OFFERS A FULL RANGE OF INVESTMENT VEHICLES AND STRUCTURING ALTERNATIVES TO INVESTORS, ASSET MANAGERS, FAMILY OFFICES AND HIGH NET WORTH INDIVIDUALS (**HNWIs**).
THE GRAND DUCHY BENEFITS FROM LENGTHY EXPERIENCE OF PRIVATE WEALTH MANAGEMENT, COMBINED WITH INTERNATIONAL RECOGNITION IN THIS FIELD AND HAS ENJOYED GREAT SUCCESS IN ATTRACTING FOREIGN HNWIs.



1. LUXEMBOURG AS A DESTINATION FOR REDOMICILIATION

SETTLING IN LUXEMBOURG: STEP-UP IN BASIS

Until recently, non-resident individuals settling in Luxembourg could not benefit from a step-up in basis on assets. Therefore, upon subsequent sale of these assets, the capital gain realised from a Luxembourg stand point was determined based on the historic acquisition cost of the assets in the jurisdiction of acquisition.
In a worst-case scenario, this could lead to double taxation: the individual could be taxed first in his/her home country on latent gains accrued up to the date of transfer (e.g. under an exit tax), and then subsequently in Luxembourg upon sale of the assets.
To avoid double taxation in respect of substantial participations, a law voted in December 2015 now allows non-resident individuals to value substantial participations (i.e., participations of more than 10% in Luxembourg or non-Luxembourg resident collective entities) at their fair market value.
Sale of a participation representing less than 10% is in practice not really a concern, as it is not a taxable event if the shares have been held for more than six months.
The introduction of a step-up in basis clause into Luxembourg legislation surely removes a significant obstacle to HNWIs relocating to Luxembourg.

BEING A LUXEMBOURG RESIDENT: INDIVIDUALS' TAXATION

Luxembourg is traditionally viewed as an attractive jurisdiction for HNWIs, established as a European jurisdiction with one of the lowest tax burdens for individuals.
The highest income tax rate currently amounts to just 40% (increased by a solidarity surcharge). Luxembourg further combines many appealing features:

- no wealth tax;
- limited taxation on dividends (as a 50% exemption is granted when the entity distributing the dividends is a fully taxable company);
- no taxation on capital gains after a six-month holding period (except where the seller holds a substantial participation);
- a 10% final withholding tax on certain interests paid by a Luxembourg paying agent;
- no taxation on capital received under a life insurance contract; and
- an exemption from inheritance tax on transfers to children and grandchildren.

A law voted at the end of 2015 further introduces a temporary tax amnesty regime for 2016 and 2017 under which Luxembourg tax residents would be able to voluntarily disclose undeclared assets and income without risk of being pursued for criminal tax penalties (tax fraud and tax evasion). Taxpayers would just be subject to a penalty of 10% of the eluded taxes if they regularise their situation in 2016 or 20% if they do so in 2017.

Although not specifically mentioned in the commentary to the bill, it is clear that the introduction of the temporary tax amnesty regime must be read in the context of the upcoming automatic exchange of financial account information under the so-called Common Reporting Standard developed by the OECD as well as under EU Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Directive 2014/107/EU). In this context, Luxembourg will receive, starting in 2017, information pertaining to financial accounts in existence as of 31 December 2015 and maintained for Luxembourg tax residents by any financial institution located in an EU Member State or a jurisdiction participating in the OECD Common Reporting

© DR

Standard.

2. LUXEMBOURG AS HUB FOR PORTFOLIO MANAGEMENT AND ESTATE PLANNING

Luxembourg is also a very attractive jurisdiction when it comes to the set-up of a holding or institutional vehicle for, among others, wealth management purposes.

THE LUXEMBOURG TOOLBOX

Luxembourg may grant the benefit of a wide range of corporate and contractual estate arrangements.
HNWIs may choose to structure their investment portfolio or structure their estate through, among others:

- a fully taxable company such as the Soparfi (société de participations financières), an unregulated commercial company that is fully taxable but which benefits from the so-called participation exemption regime on dividend income as well as on capital gains;
- a tax transparent limited partnership that may be set-up as a regulated or unregulated entity. The key driver of the regime applicable to limited partnerships is flexibility, as major features of such an entity may be determined freely in the limited partnership agreement, such as the entitlement of partners to the profits and losses of the vehicle, the rules governing transfers of partnership interest or the voting rights of partners;
- a family estate management company aiming at combining an attractive tax regime (exemption from corporate income tax, municipal business tax and wealth tax, submission only to an annual subscription tax capped at EUR125,000) and the security of having a company to manage private wealth;
- a specialised investment fund responding to demands for a lightly regulated onshore vehicle for alternative products;
- a fiduciary contract, which can be compared to a trust; or
- a life-insurance policy.

THE PRIVATE WEALTH FOUNDATION

In addition to this already wide range of structuring opportunities, Luxembourg is about to create a new vehicle specially tailored for the needs of HNWIs: the private wealth foundation.

Legal framework

The private wealth foundation will be an orphan entity having neither shareholders nor members. Basically, the foundation, having its own legal personality, will manage the assets allocated to it by a founder to pursue a particular goal (such as the development of an investment portfolio or the management of a business) or for the benefit of one or more beneficiaries. The founder will thus lose control over the contributed assets, as they will become the property of the foundation, but will have great latitude to determine in advance how the foundation will have to operate them.
The formal requirements to set up a foundation have been kept to a minimum, and, in terms of governance, the private wealth foundation offers great flexibility as, for example, the appointment modalities as well as the powers and duties of the directors may be freely determined in the founding deed of the foundation or, as the case may be, in extra-statutory documents.
The foundation may further invest without restriction into any type of assets from securities to real estate or works of art.
On top of that, the foundation may issue certificates linked to any asset held by it to any individual or entity acting in the course of the management of the estate of individuals, enabling it to allocate to the holder of certificates the return derived from the certified assets. This innovative tool, inspired by existing Belgian or Dutch comparable mechanisms (stichting administratiekantoor), has here a broader scope and more flexible features than in any other country, as any kind of assets (and not only shares) may be certified.

Tax features

From a tax perspective, the foundation, as opposed to trusts or fiduciary arrangements, will be an opaque entity, which means that it will itself be a taxpayer, independent from its founders or beneficiaries. As such, it will be fully subject to income tax at the standard corporate income tax rates, as well as to municipal business tax, but will benefit from an exemption for investment income derived from securities, such as shares, profit sharing bonds or loans, for capital gains derived from the disposal of the assets generating such exempt income, as well as for the payment of the capital or the surrender value in relation to a life, death or disability insurance policy.
The private wealth foundation will also be exempt from net wealth tax, exactly like Luxembourg resident individuals.
Income distributions by the foundation to its beneficiaries or founders are exempt from withholding tax. In the case of a payment in kind to a beneficiary or to the founder, the transfer of assets is meant to be tax neutral: indeed, the assets are transferred at book value. As a result, potential latent capital gains will not be taxed upon the transfer of an asset from the foundation to its beneficiary, but will be disclosed upon a later disposal of the asset by the beneficiary.
With regard to indirect taxation, the law on private wealth foundation has also been drafted to ensure neutrality. Contributions to the foundation (either upon set up or subsequently) are subject to a flat registration duty of EUR12. Transfers of real estate property located in Luxembourg or transfers of property subject to registration during the lifetime of the founder are subject to standard gift tax, calculated on the basis of the family relationship between the founder and the beneficiary. The same rules apply in case of dissolution of the foundation during the lifetime of the founder.
Upon death of the founder, inheritance taxes will only apply on transfer of assets to his/her heirs if the deceased was a Luxembourg resident or, alternatively, if real estate located in Luxembourg is transferred. Inheritance taxes will be levied at fixed rates based on the family relationship between the founder and the transferee. It will amount to 0% to a spouse or a direct ascendant or descendant, 12% if the transfer is made to the benefit of any other relatives and 40% in any other cases.

The private wealth foundation will thus constitute a particularly flexible vehicle, adaptable to almost any need of HNWIs. It will surely become an alternative to foundations already available in other jurisdictions and may further be a perfect solution for entrepreneurs willing to resolve potential conflicts between their heirs with respect to the future management of their business.

ALLEN & OVERY
www.allenovery.com

FAMILY OFFICES IN A CHANGING LANDSCAPE

> *Wealth preservation is the key objective of Family Offices and also the most obvious outcome of risk management practices.*
>
> *Thomas Steiger*

AS FAR AS FAMILY OFFICES ARE CONCERNED, WHAT IS YOUR VIEW ON THE EVOLVING LANDSCAPE?

Family Office models are too often defined as either single or multi-family entities, family relationships being the main delineator. At VP Bank we have a different way of looking at Family Office models as we consider them to be mainly an outcome of different goals and expectations of the family members served and – in fine – their investment appetite and tolerance for risks. In our view, the closer the Family Office is to the Founder or at least the first generation, the more entrepreneurial it is. Family Office members will be more likely to co-invest or invest directly in private equity for instance.

HOW CAN A NICHE PLAYER LIKE VP BANK HELP FAMILY OFFICES ACHIEVING GREATER FUNCTIONAL EFFECTIVENESS?

VP Bank group was founded in 1956. Right from the start Family Offices have been strategically important and have enabled us to build established partnerships. VP Bank can support these Family Offices by providing tailored Depositary and Investment Management or Advisory solutions, taking away the burden of regulatory compliance. The larger the Family Office is, or the greater the generational distance from the Founder is, the more will the Family Office require mechanisms in place for capital preservation, control and oversight over its value chain. VP Bank provides transparency over the whole operational process. Its integrated model encompasses Wealth Management, Depositary functions, Fund Administration and Management Company or AIFM services. It has proven over the past six decades to be efficient in providing relevant, timely, reliable and secured information in a connected fashion. Therefore, the VP Bank integrated service model for Family Offices supports their decision making process, providing a robust oversight over the entire value chain and compliance with the regulatory framework.

HOW WOULD YOU ASSESS THE LONG-TERM SUSTAINABILITY OF THE FAMILY OFFICES BUSINESS?

Wealth preservation is the key objective of Family Offices and also the most obvious outcome of risk management practices. Among the Family Office business, this is often achieved within a legal structure, together with adequate governance and alignment of interests. VP Fund Solutions – the Management Company of VP Bank group – offers investment, administration and risk management services to regulated and unregulated investment vehicles, and legal or partnership structures that are used by Family Offices for investments pooling. To create value for its Family Office clients, VP Fund Solutions is applying best practices in key areas such as risk management – in particular related to fiduciary duties, investment, legal and compliance – to identify risks and put in place mitigating, forward-looking plans and transparent reporting.

HOW IS VP BANK ADDRESSING THIS CHALLENGE?

Excellence in servicing Family Offices fund business and mitigating their risks can only be achieved with a robust governance framework involving VP Bank acting as depositary for assets managed or administered by VP Fund Solutions. This integrated framework ensures a dual oversight over the Family Office investments, with VP Bank reconciling cash-flows and performing ownership verification for instance. This definitely helps advisors, investment managers and Family Office principals to make informed and effective decisions to meet the family's long-term investment objectives in a trustful, efficiently governed and secured environment.

WHAT ELSE DO YOU OFFER YOUR CLIENTS?

The fund business is of central importance to VP Bank. Alongside the private banking and brokerage activities, it significantly enhances the bank's core competencies. VP Bank's fund business includes the activity with third-party funds as well as in-house funds, all under the single "VP Fund Solutions" roof. With VP Fund Solutions, VP Bank Group has an international funds competency centre offering a one-stop shop for all of the services making up the fund business. VP Bank Luxembourg, as one of the leading service providers to funds with between €20m and €500m in assets, is uniquely positioned to become a trusted partner. VP Fund Solutions offers a one-stop shop Management Company service. With the Liechtenstein fund centre providing a stable financial market with attractive conditions, and with the Luxembourg fund centre ranked number one in Europe and number two worldwide, VP Fund Solutions can deploy its core competencies in the professional environment. On the banking side, we provide custody and execute the transactions on a global basis for UCITS as well as private equity and real estate funds. To ensure the best possible service to the end-client, we offer an extended e-banking platform specifically developed for their needs, as well as providing training, research, cross-border and compliance expertise as well as investment oversight. Our medium size, excellent rating, stable core shareholders and strong balance sheet enable us to attract clients looking for a reliable long-term partner. We also consider possible acquisitions: for example, our absorption of the private banking and funds businesses of HSBC Trinkaus & Burkhardt (International) strengthened us considerably and also added a team serving Asian clients.

HOW DO YOU BENEFIT FROM VP BANK GROUP?

With roughly 800 employees, VP Bank Group has the right size to offer top-notch solutions with a personal touch. Clients enjoy the individualised advice of a private bank while simultaneously gaining access to a worldwide network of specialists. Together with our partners throughout the world, we recommend either the best traditional investment instruments to our clients or develop proprietary, innovative solutions. The global presence of VP Bank Group means that we can draw on a vast pool of expertise, so that country-specific circumstances can be taken into account when necessary.

THOMAS STEIGER
CEO VP Bank (Luxembourg) SA

SHOULD YOU INVEST IN DIAMONDS?

DIAMONDS TRULY ARE A BEAUTIFUL THING. THEY ARE CALLED A WOMAN'S BEST FRIEND, A DIAMOND IS FOREVER, A DIAMOND IS THE CHOICE OF ROYALTY, THEY HAVE THE HIGHEST HARDNESS AND THERMAL CONDUCTIVITY OF ANY BULK MATERIAL, BUT SHOULD YOU BE INVESTING IN DIAMONDS? ARE DIAMONDS AN ASSET CLASS? ARE DIAMONDS A COMMODITY? WHAT IS AN INVESTMENT GRADE DIAMOND? THESE ARE ALL QUESTIONS THAT MOST HAVE HEARD OR ASKED RECENTLY. THESE ARE QUESTIONS THAT HAVE BEEN FUELED BY THE UNCERTAINTY IN THE INVESTMENT WORLD, THERE IS VERY LITTLE CONFIDENCE BEING PROVIDED FROM THE WORLD ECONOMIC LEADERS. WILL THERE BE INFLATION? WHERE SHOULD WE BE INVESTING FOR FUTURE GENERATIONS?

© DR

We are seeing the surge in alternative investments; anything that is a tangible asset is highly desirable. Assets that are not managed by large financial institutions and those not regulated by governments are becoming ever more attractive.

So, back to the question, should you invest in diamonds? Well, the answer is yes and no. Diamonds are a fantastic investment for the right investor. They are also the wrong choice for another. First the reasons you should not invest in diamonds.

5 REASONS YOU SHOULD NOT INVEST IN DIAMONDS;

1. Price transparency
2. Liquidity
3. Market access
4. Lack of expertise
5. Verification

© DR

INVESTMENT

Let's be honest, most people cannot tell the difference between a diamond and a cubic zirconia. This has to be of concern for someone investing large amounts in diamonds. We are also dealing with a market that is closed to the general population. Market access is critical to ensuring the buy and ask prices will be at a wholesale level. Diamonds are not liquid. They are bought and sold every day, but the seller must wait until the market demands the sellers' particular item. Sizes, colors, clarity and shapes are cyclical and come and go in trends. It is in the sellers best interest to wait for a positive trend. To properly grade and value a diamond, you have to be an expert. There are up to 16'000 combinations of factors influencing the price of any particular stone, appraisals can differ by as much as 30%.

NOW THE 5 REASONS YOU SHOULD INVEST IN DIAMONDS;

1. Diamonds have no correlation to stock markets
2. Diamonds are not regulated by government agencies
3. Diamonds are one of the highest concentrations of wealth that exist
4. Extremely rare diamonds have been experiencing incredible returns
5. Wealth preservation against currency devaluation and Inflation

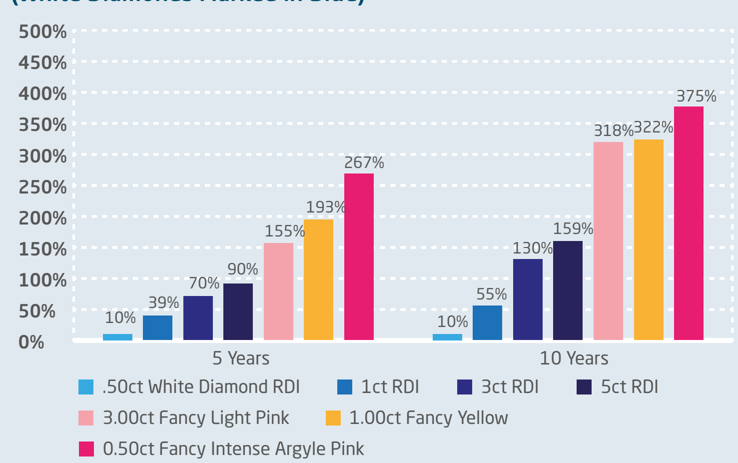
The main driver of diamond prices (Investment Grade) are supply and demand, world economies and the financial state of the wealthy. World economies will drive buyers and sellers based on the economy, currency stability, taxation, inflation, etc. The wealthy affect prices based on the cash position of their portfolios. They will be net buyers or sellers. Supply will not keep up with demand long term. This means the price of diamonds has increased steadily from 1960 until present day.

HOW DID DIAMONDS PERFORM IN THE 21ST CENTURY?

- 2003 - Fancy Intense Pink 3.58 Ct. sold for $115'000.-/Ct.
- 2006 - Fancy Intense Blue 3.17 Ct. sold for $319'243.-/Ct.
- 2007 – Fancy Intense Pink 3.86 Ct. sold for $390'000.-/Ct.
- 2010 – Fancy Intense Pink 4.59 Ct. sold for $625'000.-/Ct.
- 2011 – Fancy Intense Blue 3.17 Ct. sold for $755'482.-/Ct.
- (SAME STONE AS IN 2006!)
- 2015 – Fancy Vivid Pink 16.08 Ct. sold for $1'773'875.-/Ct.
- 2015 – Fancy Vivid Blue 12.03 Ct. sold for $4'028'941.-/Ct.

Below is a chart of various diamond performances for 5 and 10 years.

5 & 10 Year Rapaport Price Performance - Compared with Fancy Colored Diamonds (White Diamonds Marked in Blue)



Diamonds are not traded on any global market index. This completely divorces them from market panic. Diamonds cannot be printed or over produced and are priced based on a true supply and demand market. Just about any value can be worn on a finger or around a neck and can be transported or stored with complete privacy. The value is not geographic in nature; they are traded in all major centers around the world. As a privately held asset, you are not required to report ownership to any government.

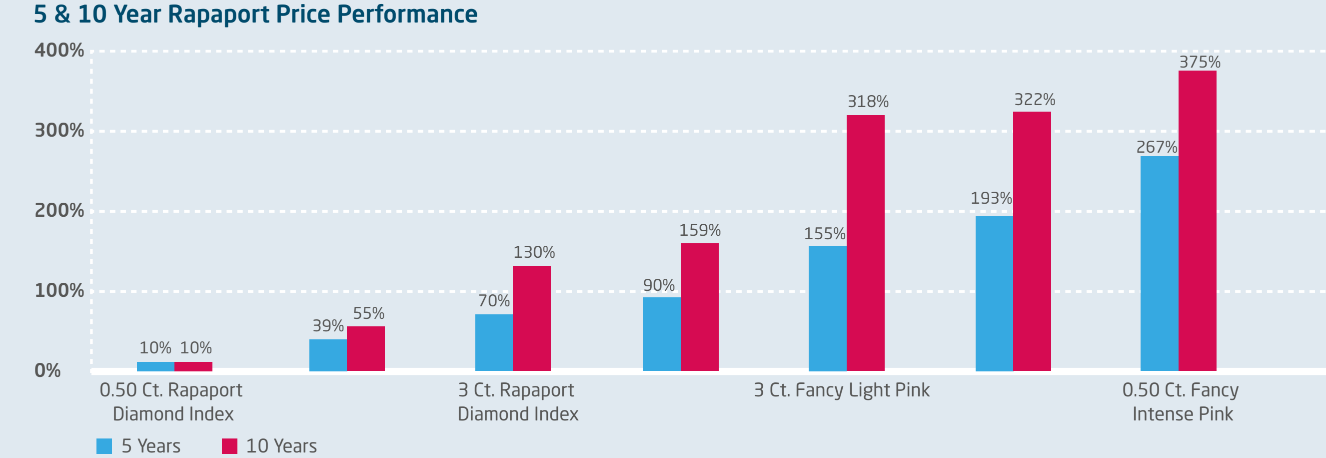
Should you invest in diamonds? The answer is yes if you have the means to purchase a very rare diamond at a fair wholesale price from a trustworthy dealer who is willing to make a market available to you for selling the diamond in the future. You will require patience for the investment to pay off and the ability (Or someone with the ability) to verify the stone is what you have paid for.

It is also possible to have a diamond portfolio managed in a similar fashion as one would manage any investment portfolio. The manager would be responsible for advising on buying and selling, along with providing a market and valuing the portfolio.

For the right investor a diamond and even a portfolio of diamonds is a very good investment. As with any alternative investment, caution must be exercised and experts must be utilized.

ROBERT KENNEDY
Managing Director
Swiss Diamond Collection
kennedy@swissdiamondcollection.ch
Mobile +41 78 662 4757

5 & 10 Year Rapaport Price Performance



INVESTING IN RARE METALS

UNTIL THE EARLY SEVENTEENTH CENTURY, MANKIND ONLY KNEW AND USED NINE METALS. SINCE THEN, SCIENTIFIC DISCOVERIES HAVE SIGNIFICANTLY INCREASED THE NUMBER OF ELEMENTS AT OUR DISPOSAL. THIS REVOLUTION HAS AFFECTED ALL ASPECTS OF OUR LIVES. STAINLESS ALLOYS, GLASSES, PIGMENTS, PHARMACY, ELECTONICS, TRANSPORTATION... VERY FEW OBJECTS, IF ANY, WOULD EXIST WITHOUT THESE RECENTLY (IN HUMAN HISTORY TERMS), DISCOVERED METALS.

The occurrence of these elements in the earth’s crust is yet extremely heterogeneous. There is thus 120 million times more aluminum (by mass) in the earth’s crust than Rhenium. Their annual production levels also vary significantly: from more than one billion tons of iron to less than one ton of osmium...

If precious metals (gold, silver, platinum and palladium) and industrial metals (iron, copper, lead, nickel, zinc, chromium...) are well known and their markets well documented, it is not the same for rare metals, whose usefulness is inversely proportional to their media exposure. As we shall see, these uncharted financial territories conceal a material interest, combining protection and potential.

PROTECTING ASSETS

Unlike industrial and precious metals, rare metals are not listed on the financial markets (except molybdenum). Furthermore, they are mainly obtained as by-products of base or precious metals. For this reason, investing in these metals through derivatives or mining company stocks is not possible.
Hence, these metals need to be physically purchased and stored. If this process is logistically more constraining than a traditional investment, its liquidity reduced, its leverage inexistent and its cost higher, it offers a maximum guarantee as for the tangibility of its assets that do not have to bear any of the financial products’ classical risks.

LIQUIDITY VS. PROTECTION ARBITRAGE IN TAKING INTO ACCOUNT THE TIME HORIZON

An investment in a financial product, even in a tangible asset, involves a number of risks that are sometimes underestimated. Buying an ETF on a metal is not the same as physically buying the same metal. If the investment is intended only for the short-term performance, the financial product is more interesting. On the other hand, if the investment is intended to provide protection on the downside especially to systemic risks, the physical product is preferred. The graph below clearly shows, using

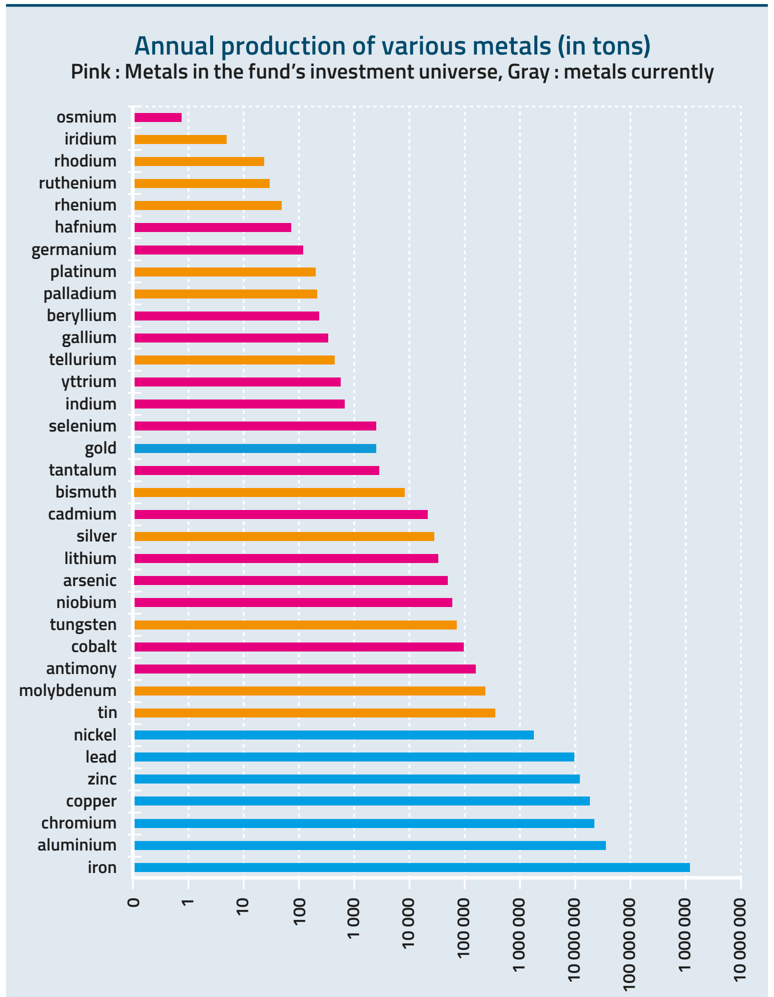
the example of silver, that in case of rising instability, the premium between the physical metal and the financial product increases substantially.
For a family office whose objective is the preservation of its capital, it is very important to take into account the existing significant difference between paper and physical metals.

GROWING ECONOMIC INTENSITY IN RARE METALS

In a context of sluggish global growth and bleak remaining outlook, one should look for assets that are uncorrelated to the economic activity. Unlike base metals whose consumption is highly correlated to the latter or precious metals whose value is dependent on the degree of confidence in the fiduciary system, we believe that rare metals offer this decorrelation in the medium term. In fact, the intensity of rare metals in our economy continues to grow. At constant GDP, our World needs more of these elements than before in order to accompany the evolution of technology for more power, efficiency and new uses.
It is a fundamental rule: the more the technology of our society progresses, the more we need to use the specific elements at our disposal. The new fields of research and development in all areas will extend this trend: we will need more rare and exotic metals in order to produce tomorrow's objects of everyday life. The consequence of this is that, following the optimization of the components used in the objects and technologies that we use every day, we are reducing the substitutability of these metals and thus diminishing the price elasticity of demand in those elements.

DECORRELATION WITH GOLD AND OTHER ASSETS

Gold, which is an extremely rare metal and which has very attractive features, remains apart. Indeed, this metal is seldom used for industrial purposes, and due to the large ratio of gold stored vs. mined, its price is more dependent on external factors (confidence in



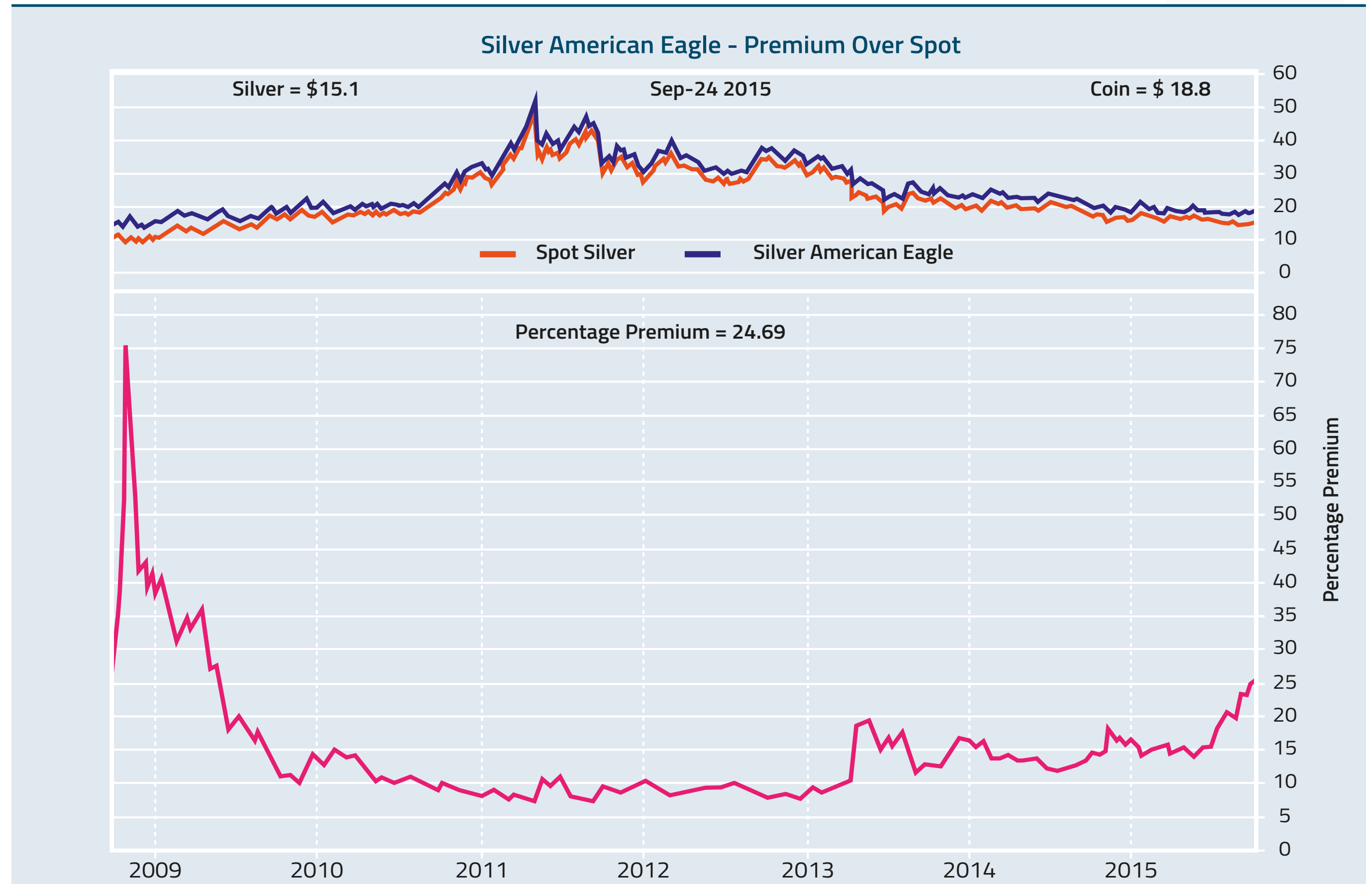
the economy) than the marginal cost of production. Moreover, the great majority of gold extracted in the World is mined by pure players (gold mining companies), which induce a high price elasticity of the production.

BENEFITING FROM THE PRICE INELASTICITY

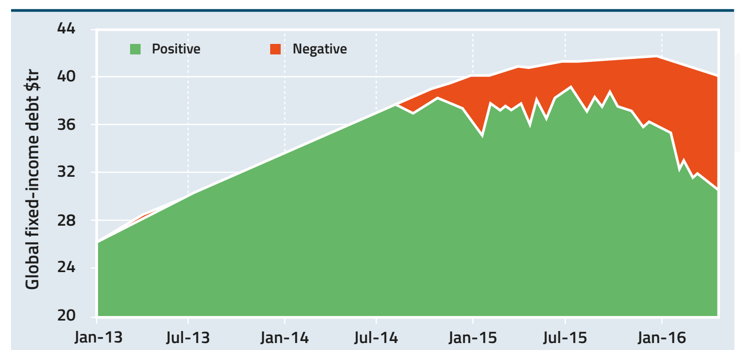
Rare metals are mainly by-products resulting from the extraction of basic- or precious metals, and inventories are low. Consequently, the price elasticity of supply is low. In case of a sharp increase in demand, it will be indeed very complicated for the miners and refiners to increase their production.

PERFORMANCE POTENTIAL AND ASSET PROTECTION

Having significantly suffered since 2011, rare metals are today extremely interesting for medium term diversification purposes. The raw materials industry is in a phase of realignment of supply and demand, and is now going through a



Source: www.goldchartsrus.com



Source: BofA Merrill Lynch Global Research; Using the BofA ML global fixed income index GFIM.
We also include bonds that mature in the following 12 months.

major restructuring phase. Most rare metals are being sold at prices below their costs of production and this situation cannot be sustainable (as we noticed with many players currently struggling to survive). As complex as the commodity market seems today, it makes sense for the long term, to demonstrate foresight and have the courage to swim against the markets torn between economic disappointments and expectations from Central Banks' interventions.

The Central Banks' interventionist policies have indeed gone through a shift since 2008. What is going on today is unprecedented in our economic system, especially the increasing share of negative yielding sovereign debt, and therefore none of the risk management models or economic forecasting can perceive what will be the impact of these policies or how the risks can be managed. The Quantitative Easings have short-term effects on equity valuations but do not have any impact on the real economy. The backlash of these interventionist policies will be felt in the medium and long term and the impact of these is not yet known. In the context of family offices, it is appropriate to resonate with a long term objective. In one way or another, an allowance in tangible assets appears to us today as a necessity, given the significant uncertainty of the future and any potential impact on major currencies.

VINCENT DONNEN
vdonnen@cdmrsa.com
GRÉGOIRE TÉZÉ
gteze@cdmrsa.com

BANK SECRECY AND **PROFESSIONAL SECRECY**

NOWADAYS, THE "SECRETA AURIS", THE EAR THAT RECEIVES SECRET, IS NOT RESPECTED ANYMORE WITH ALL THE LEAKS AND ALSO THE PANAMA PAPERS. WHAT HAPPENED TO THE PROTECTION OF PRIVATE LIFE THAT IS MENTIONED BY ARTICLE 8 OF THE EUROPEAN CONVENTION FOR THE PROTECTION OF HUMAN RIGHTS? WE AS INDIVIDUALS DECIDE ABOUT MATTERS THAT WE DO OR DO NOT WANT TO SHARE WITH OTHERS.

Today bank secrecy is under pressure. Banks and other credit institutions have the legal and deontological obligation of discretion and confidentiality. These professionals are more and more under pressure today due to requests of the authorities, institutions and administrations. In a certain way, the liberty of their professional activity is attacked. The banker is exposed to great risks if he has to give even the smallest information about his clients. His responsibility is engaged on civil and criminal law. The banker can be pursued by his customer in case he communicates any information that is confidential to the administration or judicial authorities. In this case his penal responsibility is engaged. The protection of privacy is very important to the law.

The first quality of the Banker or Financial intermediary was always the unconditional respect of confidentiality and discretion on the business and private affairs of the customer. Today this is totally weakened by growing requests of the Government, Financial authorities, the Administration etc.

Bank secrecy is built onto two fundamental facts: the civil and penal code. The civil code corresponds by the duty of discretion that covers contractual liability and the penal code that covers violation of professional secrecy.

The Bank secrecy is also involved when employees exchange some information. This concerns not only numerical data. The professional secrecy applies even within the bank and without making a difference between an employee of the same establishment or not. The professional secrecy is the rule. The person who received the confidence of a secret always has the duty to keep it. The revelation of this confidence makes him punishable if it is a confidence bound to the exercise of certain professions.

Let us note that the client can loosen the banker of the obligation of the secret. The secret is a simple protection of the client so that he can even freely decide to give it up. The person who is asking for the information is also an important actor. Who is a third party? For example a spouse, as well as other family members, are thirds parties to the banker. The commercial and confidential relationship between the banker and his client arose from a moral and a business contract between the banker and his client. The bank secrecy has to bring him into conflict. Even when the client dies, the heirs do not have access to any information in touch with the life of the cujus. Access to information is only about patrimonial and extra patrimonial information. In case of dispute, the judge must summon the banker to give up his professional secrecy, in order to solve the situation.

The duty of confidentiality is thus a very wide and important part. The banker has to respect professional secrecy, but also has the obligation not to get involved in the private affairs of his customer.

The non-interference is a very important subject of professional secrecy. The banker is not allowed to analyse the causes of the operations, which his customer asks him to execute, except in the case where the law foresees it within the framework of anti-money laundering.

Limitation of non-interference is the obligation of vigilance for the banker. The banker is free to accept or deny the opening of an account or the execution of a banking transaction. He is free to decide. Bankers have the duty not to supply possibilities to their clients that could damage others. The banker has to be vigilant and has to detect anomalies, whether they are material or subjective. He cannot call upon the principle of non-interference and stay passive when there are irregular transactions or movements. His responsibility is engaged as he facilitated the crime by maintaining the use of an account.

The legislator made notion of professional secrecy in the definition of bank secrecy. In

case that the professional let confidential information " leak" and made it public, criminal law will be applied.

We see that bank secrecy and all the responsibilities that go with it, is very well defined by legal texts. The offence is established when confidential information is published. This information can be clients or non-clients. In general, confidential information is information that concerns the intimacy of affairs, the fortune or private life of the client. Penalties are foreseen even when there was no intention to damage or bring personal injury. Even when there is absence of the intention to violate the professional secrecy the criminal law is very clear, it is still a crime!
Bank secrecy is limited in case of suspicion of Money laundering. The banker has to declare when he suspects such a happening and has his obligation of vigilance. Fiscal administrations have some power to retrieve some information and try sometimes to obtain more than the law authorizes them.

Another limitation of bank secrecy is in the case of divorce. The Civil code foresees that all information can be obtained in case the bank holds accounts for the spouses. In that case, professional secrecy cannot be used. Also when spouses have common stock shares in a company they own together, an expert will be designated to interrogate the banker.
Nowadays with the recent Lux Leaks and Panama papers that legislation is not respected anymore as well as International Human Rights.

Bank secrecy and professional secrecy can be considered as a guaranty for democracy *1. Others pretend that bank secrecy is a guaranty for social peace *2. Democracy likes obscure fortunes; the dream of equal rights is not disturbed if the wealth stays hidden.

DIANA DIELS

diana.diels@luxembourgforfamilyoffice.lu

ASSET MANAGEMENT "MADE IN LUXEMBOURG":

EUROPEAN CAPITAL PARTNERS (ECP) IS A NEW INVESTMENT BOUTIQUE SPECIALIZING ON "ENTREPRENEURIAL VALUE INVESTING"

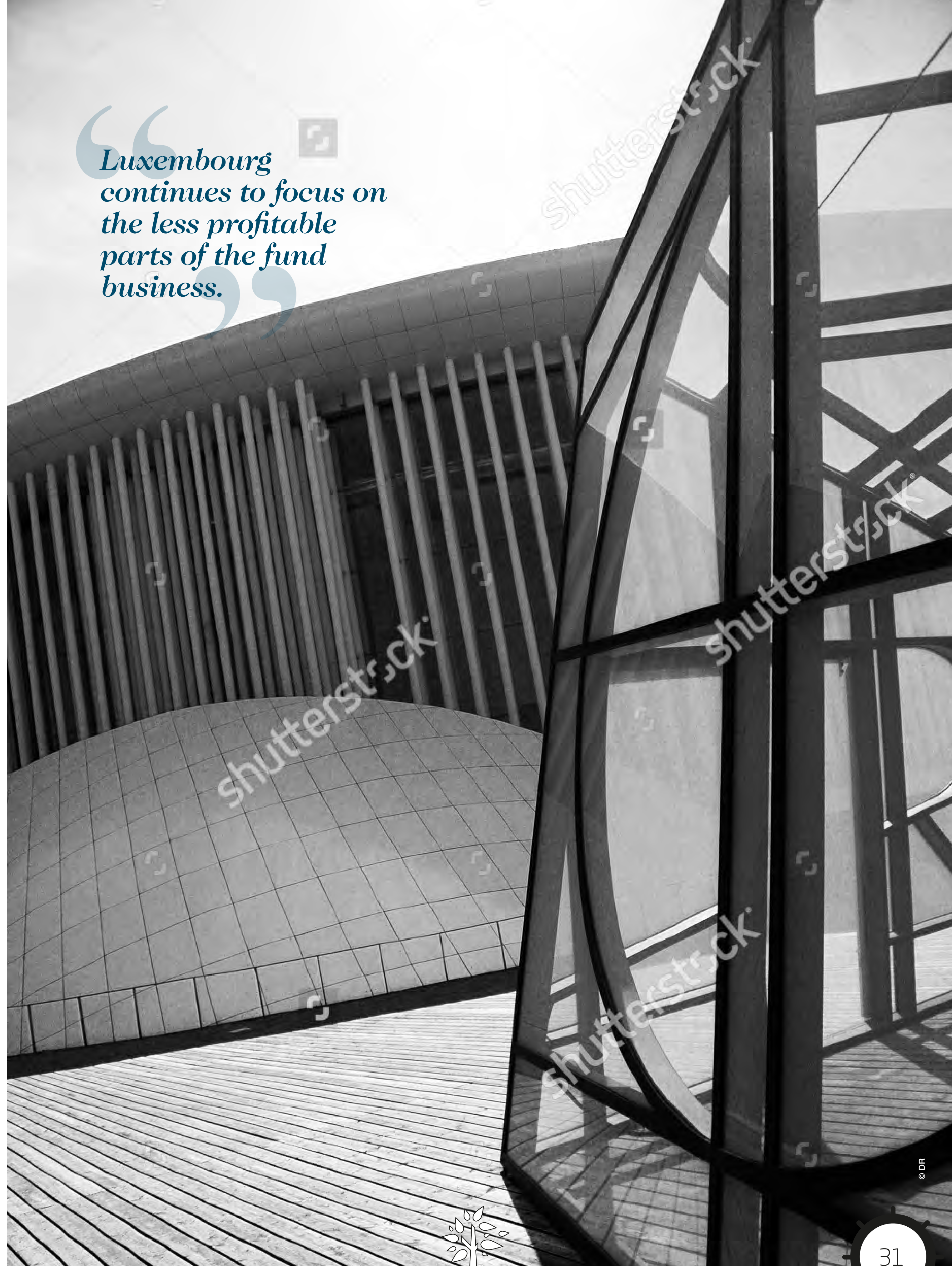
AN ODE TO LUXEMBOURG: THE GRAND-DUCHY HAS MUCH MORE TO OFFER THAN BEING THE "BACK OFFICE" OF THE EUROPEAN FUND INDUSTRY

Luxembourg has all the competencies to move further up the value chain in the financial industry by positioning itself more decisively as a good place for investment decision-making. It appears surprising to us that, despite its strong position in the fund industry, Luxembourg continues to focus on the less profitable parts of the fund business like administration and custody where margins are inherently low and pricing pressure is high.

Why is there such a lack of investment decision making in Luxembourg? Are local portfolio managers less skilled or talented than their colleagues in bigger financial centers? Is Luxembourg missing the talent pool to grow its expertise in asset management? At European Capital Partners, we do not believe this is the case: on the contrary in today's information age the geographic location where a portfolio manager actually sit is becoming less and less relevant. Of course portfolio managers need access to company management and research to perform their analytical work. Here Luxembourg has good access to infrastructure and day travels to London, Frankfurt, Paris or London are possible. After all, one of the most prestigious investment managers, Warren Buffet, operates out of Omaha which is not exactly considered the biggest financial center in the world. As long as he has access to his beloved Cherry Coke and is able to exchange views with his business partner Charlie Munger, he has been able to generate superior investment returns.

THE PRESUMED DEATH OF ACTIVE MANAGEMENT

At European Capital Partners we have been in contact with many family offices over the last months and it appears that some of them have lost confidence in their active managers. A combination of low interest rates, difficult equity markets driven mainly by macro themes and disappointing performances from many so-called absolute return managers in the hedge fund space make these investors move out of active approaches to favor more passive strategies. The emergence of lowly priced passive investment vehicles, notably under the form of ETF's, make that transition easy. So are active managers a dying species? We say no and apply to active management the famous saying by Mark Twain "all rumors of my death have been greatly exaggerated". On the contrary, active management is well alive and kicking. This view is supported by many academic studies. A recent research paper by Martijn Cremers (University of Notre-Dame) and Ankur Pareek (Rutgers University), on the subject is again making the case: US Funds with high Active Share portfolios – whose holdings differ substantially from their benchmark – and have patient investment strategies with long holding periods tend to outperform. We believe active management is well alive and continue to apply it at ECP.



"Luxembourg continues to focus on the less profitable parts of the fund business."

© DR

ENTREPRENEURIAL VALUE INVESTING: AN INVESTMENT APPROACH THAT HAS STOOD THE TEST OF TIME

At ECP we are offering true value to investors with our asset management approach based on "Entrepreneurial Value Investing". This investment approach, resulting into benchmark unconstrained stock picking with a bottom-up approach, is an integral in the DNA of the company.

– "Entrepreneurial" in the sense that every investment opportunity is analyzed in the same way that an entrepreneur would value a company if he was to acquire it. The "stock market" is the means to build our ownership in order to purchase shares of great businesses for our investors - like an entrepreneur. That means for the investment process that the risk of an investment is tied to its fundamentals not to its stock price. The portfolios are benchmark unconstrained with a high conviction, bottom-up stock picking approach and not afraid of investing outside the benchmark through different market capitalizations.

"Value"- based investing is characterized by the fact that ECP invests only in companies that are priced at a discount of at least 40% to our perception of what the fair value is. . This discount, known as the "margin of safety", is based on the principles formulated first by Benjamin Graham, the father of value investing.

"Investing", because ECP invest for the long term adopting an investment horizon of 4 to 5 years. We do not speculate in unpredictable short term market moves.

The result is a decidedly active management style and concentrated portfolios, where managers are encouraged to think outside the box and seize investment opportunities wherever they present themselves. With 30 to 40 holdings, this leads us to a low portfolio turnover of around 20%.

HOW ECP CAN HELP FAMILY OFFICES BUILD OUT BUSINESS

At European Capital Partners we share the same values as family offices: being close to clients and offer a transparent business model. Through talks with leading representatives in the wealth management sector we sense that it over time has become more and more challenging to differentiate product offering and bring unique client experiences to clients.

We believe ECP can help solve that issue by offering family offices direct access to our portfolio managers. We also stand ready to join the family office in meetings with clients or prospective clients. This kind of access is usually not found in the asset management industry, but ECP wants to change that. It is due time that the wealth management industry and the asset management industry moves closer together to be able to continue to deliver the unique client experience expected by HNW/UHNW clients.

THE CASE FOR EUROPE

ECP has recently launched its first UCITS compliant fund applying its investment philosophy to European equities. This vehicle offers daily liquidity to investors.

The current environment for European equities is mixed: risks are stills present, including uncertainties related to the Brexit but there are also positive factors such as low oil prices, an improved labor market, better than expected economic data, end of the extreme fiscal austerity in many countries including in Germany and last but not least a still very ECB 's accommodative monetary policy.

This kind of environment is ideal for long-term investors like ECP as it provides real opportunities in terms of very targeted stock selection. Furthermore, long-term key factors such as valuations and earnings power remains currently quite attractive. ECP screens a universe of more than 1500 European companies to identify and select a limited number of business franchises able to generate strong earning power in the long run while trading at a 40% discount to ECP's estimated fair value.

ECP
www.ecp.lu

NEW **PHILANTHROPY** IN AFRICA

Africa philanthropy tradition is based for instance on ***Ubuntu*** (meaning ***humanity to others***) or on religious precept and constitutes the foundations for its new philanthropy. Today philanthropy occupies a significant place in Africa. Philanthropy has significantly contributed to the growth of the African continent and offers new opportunities for impact investments. Philanthropy is indeed a true risk capital either as main funder of numerous public benefit entities or as subscriber of social bonds.

Systemic changes require indeed long term vision and appropriate allocations of human, natural and material resources and common action from the public and private sectors. To face challenges such as unemployment, water scarcity, political instability or climate change and to reach objectives such as the Sustainable Development Goals (http://www.un.org/sustainabledevelopment/sustainable-development-goals/), Africa is developing green energy infrastructures to boost industry and create jobs locally. The African Biofuel and Renewable Energy Company[1] (ABREC) is a public-private organization initiated by Mr Thierno Bocar Tall with 15 African States and 6 major banks. ABREC is based in Lomé, Togo and promotes renewable energy and energy efficient technologies in Africa from solar, wind, biomass and hydro power. ABREC brings together human skills, expertise, financial resources (through tools such as the AREF Fund, the Abrec Investment JV notably with the Oragroup, the Abrec Finance Utile crowdfunding platform and the ethiCarbon-Afrique© to support mitigation and adaptation projects). It also contributes to institutional and policy change to shift to a clean energy system. The impacts of ABREC's work in less than a decade on livelihoods improvement and energy security are substantial thanks to the implementation of innovative solutions and with a special focus on women.

1 www.saber-abrec.org

"In Africa, paradigm has definitely changed thanks to philanthropy."

Virginie Issumo

© DR

In Africa, paradigm has definitely changed thanks also to philanthropy which is has accelerated for million of people the access to education, health, social entrepreneurship and non-banking finance going from mobile payments to microinsurance.

Youth and creativity are Africa most valuable resources. Private and public initiatives tend more and more to create start-up hubs, innovation awards and knowledge centres to develop and boost these unique capacities. Thanks to new technologies it is henceforth possible to register to long distance university courses, to diagnose and cure numerous diseases and also to offer access to additional sources of funding and to the transfer of complex technologies.

African new philanthropy is therefore supporting adapted ways of producing, processing, consuming and learning and addressing population growth, humanitarian crisis and climate change issues. Philanthropy initiatives such as the African Innovation Foundation[2] (AIF) founded by the investment banker Mr Jean-Claude Bastos de Morais focus on innovation to boost efficient development. AIF acts through innovative programs in the fields of access to technologies, law and governance and social impact development. Since five years AIF promotes the Innovation Prize for Africa (IPA). "IPA encourages innovative achievements that contribute toward developing new products, increasing efficiency or saving cost in Africa. Specifically, the award targets technological breakthroughs in 5 main areas: manufacturing & service industry, health & well-being, agriculture & agribusiness, environment, energy & water and ICTs."

2 http://africaninnovation.org/

Sustainable and inclusive development also implies to integrate good governance, gender equality, global leadership and cultural factors at every level of decision and action and in the education early stage. These are sine qua non conditions to celebrate Africa's future built by responsible people and institutions amongst which philanthropy plays a key role.

VIRGINIE ISSUMO
Womenroleinphilanthropy.org

RESPONSIBLE **INVESTING**

MORE AND MORE PEOPLE WANT TO INVEST THEIR ASSETS IN A SUSTAINABLE WAY, TO ENSURE THEIR MONEY TAKES INTO ACCOUNT ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) FACTORS, NEXT TO ACHIEVING A FINANCIAL RETURN. IMPORTANT ESG FACTORS INCLUDE A COMPANY'S CARBON FOOTPRINT, RECYCLING, HEALTH AND SAFETY MEASURES AND RESPECT OF SHAREHOLDERS RIGHTS.

"Our research project aims to address existing knowledge gaps in the industry and enable important advances in ESG integration."

Guido Veul

© DR

Guido Veul
Client Portfolio Manager Sustainable Equities
at NN Investment Partners

There are various ways to invest sustainably, such as:

- exclusion of controversial activities (e.g. tobacco, weapons, alcohol),
- exclusion of controversial behaviours (breach of regulations with regards to labour rights, environmental care, corruption etc),
- but also by selecting companies with advanced ESG policies and performance relative to their competitors.

Of course the vast majority of sustainable investors do not want to give up financial returns by investing their assets in a sustainable matter. Therefore a growing body of research papers has investigated links between a sustainable investment style and investment returns. A well-known example from the past showed a negative link on performance on US equity returns when excluding so-called 'sin' stocks (tobacco, weapons, gambling, alcohol). This gave rise to the perception that taking into account sustainability might hurt investment returns. However, until now little academic research has been done on the effects of ESG factors on risk and return of global equity portfolios. Moreover, many existing research papers lack academic thoroughness. As a result, NN Investment Partners started a research in collaboration with the European Centre for Corporate Engagement (ECCE) at Maastricht University. Our multi-year research project aims to address existing knowledge gaps in the industry and enable important advances in ESG integration. Using ESG data from well-known data providers Sustainalytics and Governance Metrics International (GMI), we analysed data on more than 3,000 firms from developed markets. This study evaluated not only the performance based on absolute levels of firms' ESG scores, but also of changes or momentum in ESG scores. A key finding was that ESG ratings/scores typically used in equity selection tend to be simply higher for larger companies and vary across industries. Selecting stocks on the basis of high ESG scores may therefore lead to unintended size and industry tilts in equity portfolios. Adjusting for size and industry bias, we tested various ESG criteria, with the following main results:
Exclusion of firms with controversial ESG behaviour from the universe helped improve performance in the research period.

- Portfolios of stocks with positive ESG momentum (positive change in ESG scores) outperformed their lower-scoring counterparts in most cases. In contrast, portfolios of stocks with already high ESG scores underperformed portfolio with low ESG scores in most cases.
- Return differences between stocks with strong ESG momentum and those with weak momentum were largest among stocks with medium absolute ESG scores, suggesting that stock selection benefits from joint consideration of levels and changes in ESG scores.

For investors, the results have a number of implications. The exclusion of ESG controversies has shown to be a relatively simple way to improve portfolio performance. Contrary to popular belief, it appears that exclusion can enhance rather than harm investment performance. Furthermore, until now ESG scoring and its application have been one-dimensional, focusing on absolute scores. This study opens up a debate whether a two-dimensional approach, combining absolute scores with ESG momentum is more appropriate. These research findings reinforce our longstanding belief that an ESG score in itself is insufficient to obtain a complete understanding of a company's ESG behaviour and its consequences for risks and returns. In light of these results, we are already overweight stocks with positive ESG momentum in our sustainable equity portfolios and continue to scrutinise our portfolios on controversial behaviours. Our research project with ECCE continues as we see much scope for further research into the materiality of ESG factors and controversies. We have recently started the next phase of our research collaboration with ECCE in which we investigate the effects of certain governance factors on the performance of emerging markets portfolios.

NN INVESTMENT PARTNERS IN COLLABORATION WITH THE ECCE AT MAASTRICHT UNIVERSITY

Luxembourg For Family Office

Membership Application

"Most things in life – automobiles, mistresses, cancer – are important principally to those who have them. Money in contrast is equally important to those who have it and those who don't."

John Kenneth Galbraith (1908 – 2006)

President, American Economics Association, Professor of Economics, Harvard University, Advisor to 4 US Presidents

Name : ______________________________

Address : ______________________________

City : ______________________________

State : ______________________________

Zip Code : ______________________________

Telephone : ______________________________

Email : ______________________________

Family Office Name : ______________________________
(if applicable)

Activity in case of Partner Membership : ______________________________

☐ Please tick the box if you would like to be added to our mailing list for news and event information.

Membership Term One Year :

Premium Member (*) One Year : **€ 300**

Partner Member (**) One Year : **€ 500**

Application Terms

Application to join the association LUXEMBOURG FOR FAMILY OFFICE for one Year :
Please pay to Banque de Luxembourg, for the account of Luxembourg For Family Office a.s.b.l., account number IBAN LU 09 0080 2187 4210 2001

* Premium members are natural or legal persons who exercise a Family Office activity
**Partner members are any natural or legal person who carries out an activity that is related or complementary to that of Family Office, and in general any natural or legal person whose activity is likely to interest the Family Office (e.g. independent managers, registered address service providers , trusts, etc.).

Signature : ______________________ **Date :** ______________

Contact details
Luxembourg for Family Office asbl
Diana Diels – President
PA 5, Route d'Arlon
L-7471 Saeul
Luxembourg

Diana.diels@tango.blackberry.com

Luxembourg For Family Office
Ph : (+352) 691 911 916
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The decision to accept a premium member shall be taken by the Board of Directors by absolute majority of its members, present or represented.