To protect and preserve

IN UNCERTAIN TIMES, EFFECTIVE STEWARDSHIP OF FAMILY WEALTH IS OF KEY IMPORTANCE. A RECENT STEP JOURNAL ROUNDTABLE, SPONSORED BY HIGHVERN, DISCUSSED THE VARIOUS ELEMENTS OF HOW ADVISORS CAN IMPLEMENT SUSTAINABLE, RESPONSIBLE PRACTICES

WORDS: HELEN SWIRE

In December 2020, ten private client experts came together for a virtual STEP roundtable discussion, sponsored by Highvern, to explore the responsible stewardship of wealth: what it involves, who is responsible for it and how it has evolved over time.

‘The concept of stewardship dates back to ancient history. The Ancient Greek word for ‘steward’ (oikonomos) translates as ‘ruler of the house’. In the ancient world, stewardship was a key component of commerce, with almost every business having a steward acting as what we would now call the chief operating officer to run the daily affairs of the master of the house.

To translate this to the modern world, a steward could be described as being responsible for building a lasting financial legacy in the face of taxes, inflation, investment costs and the conflicts of interest that are endemic to the financial advisory business.

‘Discussions relating to the transfer of wealth are always at the top of the client agenda, but the COVID-19 pandemic has highlighted the need to have focused engagement around who is protecting, preserving, enhancing and managing assets,’ said Naomi Rive TEP, Group Director at Highvern and Chair of the roundtable. ‘Over the course of 2020, what has become apparent is that some families have already put in place highly professional governance structures that address this question, while others have not yet even engaged on the subject. So what is the importance of good stewardship of family wealth and our role as advisors is to support them’

Toby Crooks TEP

‘We have all seen examples of families where one generation has created wealth, the next generation has spent it and the third generation has nothing to inherit,’ commented Kelly Noel-Smith TEP, Partner at Forsters. ‘It is vital to understand at the outset the dynamics involved in each family. This comes before thinking about how to manage the assets. Once you have gained an understanding of the generations and their often differing values, that’s the point at which you can start working with them to help protect the assets: so looking at capital preservation, capital growth and income production for the longer term.’

New entrepreneurial families are examining how they can perpetuate the good examples of others to put appropriate governance and stewardship in place to ensure that the wealth that has been created is not eroded within two or three generations.

‘Many [new entrepreneurial families] haven’t necessarily taken on board that the family members need to be included in the discussions from a very early age’

Lucia Perchard TEP

‘The importance – and challenges – of stewardship

With such huge figures at stake, the challenge for many families is to put proper advice and planning in place to ensure that the wealth that has been generated is not eroded within two or three generations.

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‘It can be a challenge getting the first and second generation to understand that they are dealing with a multi-generational quantum of wealth, and what that means for them and stewards,’ agreed Rachel Harrington, Executive Director at Coutts. ‘It is easy to underestimate the difficulties around helping a family to understand what stewardship means for them and to create a more proactive vision and mission for the future.’

Attitudes to risk are also a challenge for stewards to negotiate in a multi-generational family. ‘The older generation more often focuses on the protection of the wealth they have, and the younger on generating more wealth moving forward,’ explained Philip Carlton TEP, Client Director at Highvern. ‘These different generational attitudes to risk often manifest in difficult conversations and conflicts that the steward has to manage.’

THE RIGHT PERSON(S) FOR THE JOB

In the face of these potential challenges and conflicts, Rive asked the experts at the table whom they considered best for the role of steward: an individual or a team, a family member or a professional advisor.

‘The best approach is different advisors with different skills coming together as a team with the shared goal of assisting in the stewardship of the family and the protection of their assets,’ said Noel-Smith. ‘Once the team is working for the common good, different perspectives on an issue complement each other.’

Rive agreed: ‘A collaborative team approach, with the family at the table, is an ideal way to work. Is this how family offices have become so popular in recent years?’

‘Family offices can be integral to raising and implementing discussions around responsible stewardship of wealth,’ responded Crooks. ‘We have to recognise that they are important in the management of family wealth and our role as advisors is to support them. We have all seen instances of family offices where the principal dominates proceedings and the office executives can be quite servile. As advisors, we have to take a step back and ask to what extent that is serving the family’s wider interests.’

Nick Dunnell TEP, Partner at Farrer & Co, also raised the concern that the presence of a family office can reduce direct access of advisors to clients. ‘The family office can effectively become a gatekeeper,’ he said. ‘As an advisor it can become unclear whom you are getting instructions from, and if your advice is being passed back to the client effectively.’

Rive agreed that the professionalism brought to the table by a family office is a positive, but that the potential resultant loss of connectivity with the family itself can be challenging. Turning to the role of trusted advisor, Rive asked the participants how this has evolved over time in wealth stewardship.

‘As a trusted advisor to a client, you can end up acting across numerous issues and taking on key-person risk if you are the family’s sole point of contact – so it’s important to work collaboratively with a team of advisors,’ explained Emma Heelis-Adams TEP, Partner at Burges Salmon. ‘It’s good to know your limitations, where you’re not dealing with your area of expertise, and where you need to bring in another advisor. In the long run, understanding that your client’s needs are best achieved as part of a team is the better approach to take.’

PRINCIPLES OF STEWARDSHIP

Rive then addressed the key principles that could be said to apply to stewards of family wealth, to ensure that client needs are being adequately met. She proposed the principles of ownership, the steward holding and using assets for the benefit of the wealth owner; responsibility, the care and development of the wealth entrusted to the steward;

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Naomi Rive TEP
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- Emma Heelis-Adams TEP

accountability, providing account to the wealth owner about how the steward has managed the wealth; and compensation, remuneration for effective stewardship.

In addition to these principles, Saunders highlighted the importance of communication: ‘It doesn’t matter how good you are as a steward if you’re not also good at communicating. The best stewards are those where the family has a high degree of trust, and you cannot achieve that trust without clear, strong communication.’

Carlton gave the example of a client who had stewarded a multi-family cross-jurisdictional trust: ‘That client was the only one representing the family at meetings and reporting back to them. Only recently have I met the whole family, which comprises four generations of beneficiaries: the client’s communication with them was a great example of one steward working for the benefit of the whole family’.

There was, Carlton noted, no self-profit involved in the client’s stewardship; his sole focus was protecting the wealth to pass it to the next generation and the principle of compensation was not a concept at play. The attendees therefore considered whether the theme of compensation can be a negative issue, if a steward is remunerated by, for example, percentage of asset growth.

‘It depends on the family’s framework,’ commented Dunnell. ‘If the family’s objective is simply to increase their wealth, then compensation can certainly be performance- and growth-related. If the family values have a wider remit, then this may not be appropriate.’

Perchard agreed: ‘Steward performance has to be in line with the family’s purpose: the growth of the wealth is of course important, but it has to be balanced with doing it in a manner that’s in keeping with the values and purpose that the family set out at the offset.’

SUSTAINABILITY AND SOCIAL RESPONSIBILITY

The experts at the table agreed that the values attached to the growth of family wealth are evolving, especially with the involvement of younger generations.

‘We are increasingly having conversations with our clients about the purpose of their wealth, and about their role as a wealthy family, as an employer, as an investor and about what footprint they want to have,’ said Harrington. ‘They have more of a sense of taking an approach to stewarding their wealth in a way that can have the greatest positive impact, especially in a time of growing inequality and other issues like the climate crisis.’

For stewards, she added, it is more important than ever to understand where the client sits on the impact spectrum: from ‘pure’ philanthropic giving, through impact-first social investment and financial-first impact investment, to responsible investment and wealth creation.

The different mindsets and priorities within one family around philanthropic investment provide further challenges for stewards and advisors. ‘Where the conversations about sustainability can go wrong is where there is any sense that advisors are trying to impose on the family what they ought to be doing,’ Harrington explained.

Dunnell agreed: ‘It is very dependent on the jurisdiction in which you’re operating; in some countries where the wealth is “newer” the priority is accumulation of wealth and not investing sustainably. For those clients where the conversation doesn’t yet resonate, you can risk losing the family’s confidence if you’re seen to be trying to act as their conscience.’

Similarly, the topic of gender equality and female empowerment is one that is coming to the fore in family discussions, but again must be handled with a degree of care culturally.

‘Gender equality is becoming a far more prevalent topic among high-net-worth families, not only in their own succession planning, but also in the succession planning of the advisors they are working with,’ noted Emma Furzer, Client Manager at Highvern.

This is of vital importance, felt Heelis-Adams: ‘Advisors are paid to give clients advice and although it can be right to bring new ideas to the table, advisors don’t want to alienate their clients. Positive change can be made in other ways: just by being in a room as a female advisor you are role-modelling the position a woman can take in the world.’

As philanthropy and equality become increasingly discussed issues for wealthy families, the experts focused on the need for stewards to be supported by advisors to navigate in the right direction, particularly in light of the OECD’s November 2020 report on taxation and philanthropy (see page 58).

The OECD report encouraged governments to support philanthropists through the tax system, but warned about the rising number of very large private philanthropic foundations established by ultra-high-net-worth individuals who, it noted, ‘may gain a disproportionate influence over how public resources are allocated’. This report, said Crooks, may be used by governments as a point to start the conversation about ‘repairing public balance sheets post-COVID’.

‘This only goes to show the importance of having a good steward in place,’ concluded Rice. ‘It is a pleasure to work with socially conscious families, but family members do need to be mindful that this is a fast growing area and a well-considered strategy is advisable in order to avoid pitfalls. Families must have the right people advising them, to allow them to become more socially conscious while effectively stewarding their wealth.’

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