



FOUR PILLARS OF CAPITAL 2023

MANAGING RISK IN AN AGE
OF UPHEAVAL



STONEHAGE
FLEMING

NOW AND FOR FUTURE GENERATIONS

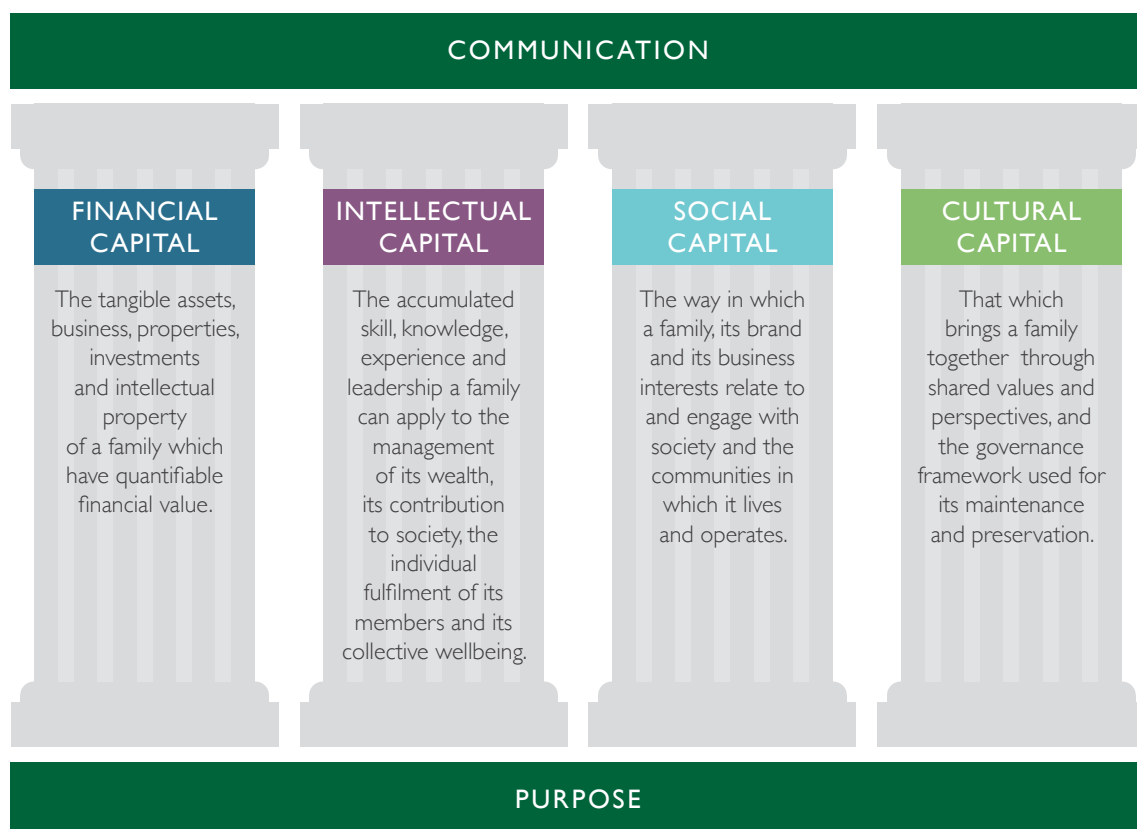
INTRODUCTION

We are delighted to present the fifth thought leadership report Stonehage Fleming has produced since 2013, with the overarching theme of *Wealth Strategies for Intergenerational Success*. Each one has generated valuable insights and practical wisdom from families, wealth creators, and their trusted advisers, highlighting the challenges of sustaining wealth across generations.

Based on these insights, we constructed the following simple premise. Families and wealth creators should focus on the stewardship of not only their financial capital but also of their social, cultural, and intellectual capital, underpinned by

a collective purpose – together: the *Four Pillars of Capital*. Each pillar is equally important to the successful transition of wealth and reputation, and the creation of an impactful legacy.

THE FOUR PILLARS OF CAPITAL - DEFINITIONS



“ **One focal point that remains unchanged ... is the importance of preparing the Next Generation to assume the responsibilities of wealth.** ”

The years since our last full report in 2018 have seen some major global events including the Covid pandemic, outbreak of war in Ukraine, slowing economic growth and accelerating inflation, all of which remain present threats. 2023 seemed an appropriate moment to revisit the *Four Pillars of Capital* framework and assess how our clients and friends of the firm are reacting to the impact of sequential crises. Have recent events had an impact on their approach to identifying what they stand for as a family, for instance, or on how they manage risk or elect their leaders?

In this latest report, we have significantly expanded the number of areas we explore, reflecting the increasing number of considerations that families and wealth creators balance today. However, one focal point that remains unchanged, both in the report and in our daily role as advisers, is the importance of preparing the Next Generation to assume the responsibilities of wealth, as owners, managers or both. To compound what is already a challenge of extreme complexity and sensitivity, we note the growing public statistical evidence that the current Next Generation is facing a wave of mental health issues, worsened by the social dislocation caused by Covid and amplified by social media. The consequences could have a profound effect on intergenerational planning. Although we concluded this to be too personal and sensitive an issue to be addressed specifically in our survey, we have considered the topic broadly in this report.

As a family office, we view our role as adviser to families and wealth creators as going beyond the legal and technical aspects of wealth planning, structuring and investment management, essential though these are. Conducting research like the *Four Pillars of Capital* is vital in helping us listen to our clients and understand their concerns and aspirations around their wealth and their families.

Our methodology is consistent with previous reports. We have derived our findings from an online survey, complemented by wide ranging in-person interviews on its themes. Quotations from interviews can be found throughout the report. However, reflecting the growth in the number of our clients and in the footprint of the firm, the breadth of the survey has increased dramatically, with almost 300 respondents more than doubling the number in previous reports. In terms of geographic reach, we received significant input from Europe, the Middle East and Africa, and the Americas in addition to the solid base of participants in the UK and its sovereign territories. A demographic summary of the respondents can be found in the Methodology.

We have divided the report into six chapters, reflecting six major themes in the management of family wealth today. In each chapter, we first analyse the responses before offering some reflections of our own drawn from our practical experience of advising a wide spectrum of families and wealth creators. With a significant proportion of responses coming from those who are either not formally clients of the firm, or who may be engaging with us for specific services rather than across the full breadth of our capabilities, these insights are particularly valuable in helping us identify how best we can help.

Our thanks to those clients and friends of the firm who contributed to the survey as respondents and interviewees, as well as our colleagues who have engaged enthusiastically with the process and helped bring the report to fruition. We are also very grateful to author and economist, Felix Martin, who has written the report and articulated the findings so clearly.



GUY HUDSON
HEAD OF GROUP
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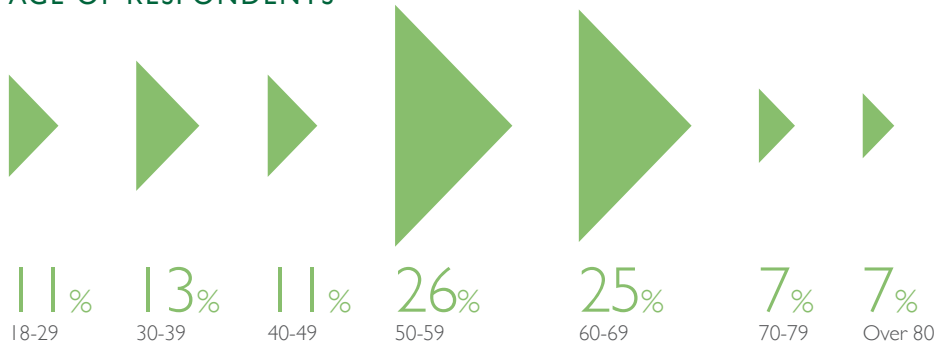
MATTHEW FLEMING
HEAD OF GOVERNANCE
AND SUCCESSION

METHODOLOGY

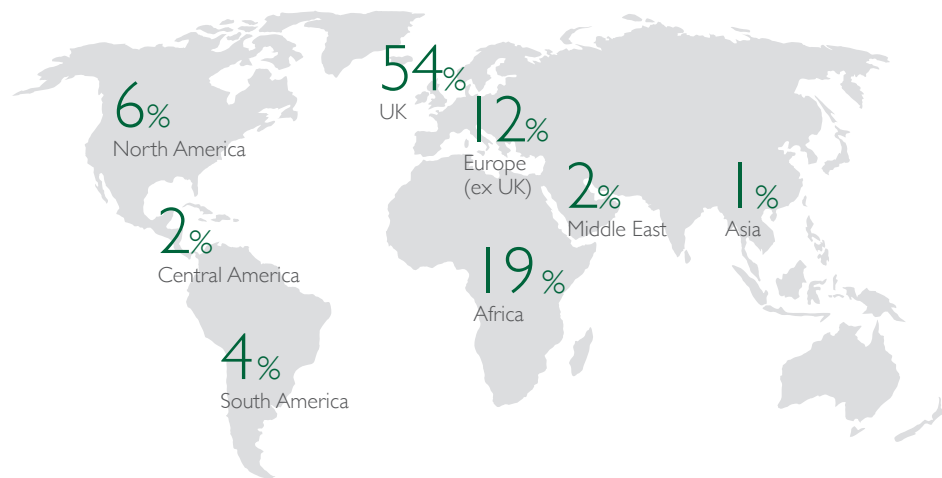
OVERVIEW FOR 2023

- ▶ Wide-ranging face-to-face interviews with circa 15 Ultra High Net Worth (UHNW) families and advisers, discussing their long-term plans, attitudes and concerns.
- ▶ A 34-question survey, completed by nearly 300 contributors from families and advisers.

AGE OF RESPONDENTS



LOCATION OF RESPONDENTS



REPORTS IN THIS SERIES



2013

Wealth strategies for intergenerational success



2015

Wealth strategies for intergenerational success



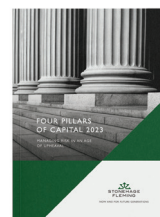
2018

Practical wisdom and leadership for changing times



2020

A time for reflection



2023

Managing risk in an age of upheaval

EXECUTIVE SUMMARY

INTRODUCTION

AN AGE OF UPHEAVAL

- ▶ The half-decade since the last *Four Pillars of Capital* report has seen a dramatic acceleration in the pace of economic, political and technological change globally.
- ▶ Investment and political risks have surged back to prominence as a result, and public concerns over social inequality, cultural diversity and environmental sustainability have soared.
- ▶ This Age of Upheaval has transformed the challenge of using wealth and influence responsibly from a luxury to a necessity.
- ▶ The 2023 *Four Pillars of Capital* survey provides a wealth of new insights into how families are seeking to meet that challenge and identify best practices.

CHAPTER I

THE NEW RISK ENVIRONMENT

Survey highlights

- ▶ For the first time in a decade, respondents identify poor investment outcomes and political risk as two of the top three challenges to sustaining family wealth.

- ▶ Failure to engage the Next Generation appropriately – a perennial concern – completes the trio.
- ▶ A majority of respondents do not trust the political and institutional leadership in their jurisdictions.
- ▶ Only 20% of respondents have a formal process for identifying and mitigating risks.

The Stonehage Fleming view

- ▶ A renewed focus on financial capital is not surprising given the resurgence in economic and political volatility.
- ▶ A sustainable strategy should not neglect the social, intellectual and cultural pillars, however, since these are equally critical to long-term success.
- ▶ Deploying a simple but rigorous process for risk appraisal is more important than ever in today's Age of Upheaval.

“The trick is to adopt simple and robust procedures, even if they can seem frustrating.”

RISKS TO LONG-TERM FAMILY WEALTH

	2015	2018	2023
1	Family disputes or break-up	Lack of planning	Poor investment outcomes
2	Lack of future family leadership and direction	Family disputes or break-up	Failure to appropriately engage the next generation
3	Lack of planning	Failure to appropriately engage the next generation	Political risks and increased taxation

CHAPTER 2

INVESTMENT: INTEGRATING NEW VALUES, NAVIGATING NEW RISKS

Survey highlights

- ▶ Despite volatility in financial markets, respondents' views on asset allocation have remained stable, with public and private equities and real estate the most popular asset classes.
- ▶ The number of respondents adopting values-driven investing in response to concerns about the changing climate, social inequality and poor corporate governance continues to grow.
- ▶ Less than half of respondents have an agreed set of non-financial values, however – making implementing a more proactive values-based approach a challenge.

The Stonehage Fleming view

- ▶ A patient approach that complements exposure to mainstream public markets with private market instruments makes sense across the investment cycle.
- ▶ Defining and agreeing families' non-financial values is an essential first step in adopting values-based investing.
- ▶ Aligning portfolios with those values is then achievable: 95% of Stonehage Fleming's third party managers, for example, are signatories to the UN Principles for Responsible Investment (UNPRI).

CHAPTER 3

REPUTATION MANAGEMENT IN THE DIGITAL AGE

Survey highlights

- ▶ Increased political pressure for transparency and the new dominance of social media are making the management of reputational risk more challenging than ever.
- ▶ Very few respondents take a formal approach to reputation management: nearly 90% do not keep track of their digital footprint.

- ▶ Nearly two thirds of respondents do not proactively communicate their contributions to the community out of a desire to remain discreet.

The Stonehage Fleming view

- ▶ Proactive reputation management can combine communicating a family's positive contributions with fulfilling its desire for privacy.
- ▶ Understanding your digital profile is crucial in today's world: a digital health check is a sensible element of a comprehensive risk management strategy.
- ▶ Preparing and educating the Next Generation is essential: what you say when young and inexperienced can haunt you and impact those around you for years to come.

CHAPTER 4

PHILANTHROPY: THE POWER OF PARTNERSHIP

Survey highlights

- ▶ More than 85% of respondents consider philanthropy a central part of their purpose and values.
- ▶ Most have no pre-determined budget, however, and simply make regular donations based on an informal process.
- ▶ Only 7% of respondents have a formal process for appraising the impact of their philanthropic activities.
- ▶ The Next Generation has no substantial role in the family's philanthropic activities in more than half of cases.

The Stonehage Fleming view

- ▶ Thinking through the family's motivation and objectives is the foundation of successful philanthropy: involving the Next Generation in this can be hugely rewarding.
- ▶ Understanding and monitoring impact is another key to conducting a successful and sustainable philanthropic strategy over time.
- ▶ Fostering long-term, constructive partnerships with chosen charities produces the best results.

CHAPTER 5 GOVERNANCE, LEADERSHIP, AND THE NEXT GENERATION

Survey highlights

- ▶ Nearly half of participating families have no formal leadership structure, and two fifths do not hold regular, in-person meetings.
- ▶ Involving professionals in leadership roles is growing in popularity, especially in the Americas.
- ▶ Most respondents rely on a purely informal approach to equipping the Next Generation for the responsibilities of wealth.
- ▶ Young people currently face an especially challenging environment for anxiety, stress and overall mental health.

The Stonehage Fleming view

- ▶ There are many successful models of family leadership to choose from: sharing leadership between family members is not uncommon.
- ▶ One feature of all successful family governance is clear and effective communication between family members.
- ▶ A thoughtful approach to supporting the Next Generation – through mentoring, coaching and just being there to listen and understand – will pay rich dividends.

“ For those whose wealth is inherited, and whose families have accumulated significant real assets over several generations, the fiduciary responsibility of family wealth is obvious as a guiding principle. ”

CHAPTER 6 PURPOSE: THE FOUNDATION OF SUCCESSFUL FAMILY STRATEGY

Survey highlights

- ▶ The recent acceleration of political and economic volatility has crystallised for many respondents the importance of having a clear sense of the purpose of their wealth.
- ▶ Two thirds of respondents have not however discussed and agreed the purpose of their wealth within their family.
- ▶ Maintenance of the family legacy, care of family members, achieving philanthropic goals and fulfilling religious responsibilities are four common themes in respondents' philosophies.

The Stonehage Fleming view

- ▶ A clear sense of purpose is the foundation that underpins all four pillars of capital – the challenge is ensuring that this purpose is articulated, shared and understood.
- ▶ The more the Next Generation can be included in discussions of the family's shared purpose, the better.
- ▶ Conversations around purpose are not always easy; external support from advisers with practical wisdom can be a huge help.





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