

# Skolkovo Moscow School of Management Wealth Knowledge Day

*Wealth and Succession. Dynasties*

25 November 2014

*Preface. Beyond Wealth: People and Relationships*

Remember those moments: what was on your mind?

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# What did life do to him and what are his goals?

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# What if wealth destroys your life-dreams?

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# Contrasting legacies

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## Cornelius Vanderbilt (1794 - 1877)

- One of the wealthiest ever Americans. Built fortune in railroads and shipping
- Funded creation of Vanderbilt University in Tennessee, with aim of healing divisions after US Civil War
- 95% of wealth left to eldest “only capable” son, William Henry, who had played active role in building the business
- Remaining 5% divided between Vanderbilt’s wife and nine surviving children
- Will contested (unsuccessfully)
- Today, wealth is greatly diminished; one descendant died in poverty



## John D. Rockefeller (1839 - 1937)

- Probably the wealthiest ever American. Built fortune through Standard Oil (broken up as illegal monopoly after 1911)
- Founded University of Chicago and Rockefeller University and funded the establishment of Central Philippine University
- Active and pioneering philanthropist; wealth passed on through family trusts
- Today, legacy continues through work of Rockefeller Foundation; fifth generation of family remains wealthy
- Descendants have flourished in range of fields from politics to conservation

*Part I: What Can Go Wrong? Some scary examples...*

# What can go wrong?

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## Doing Nothing: “No plan – is a Plan!”

- Assets frozen on death
- Dispute over devolution of estate
- Who should control business?
- Fragmentation of business ownership produces fictional management succession: *Murdoch take-over of Wall Street Journal*
- Forced heirship claims: *Lemos v Coutts & Co (Cayman) Ltd*
- Spousal claims
- Estate taxes

## Dysfunctional family issues

- Appearance of mistress and illegitimate children: *Holiday v Musa*
- Uneasy relationships between half-siblings: *Yunghanns v Candoora*
- Multiple spouses and messy divorces
- Interference from disagreeable in-laws
- Poor relationships between step-parents and step-children
- Marked divergence in talents and motivation of family members
- Unresolved differences between siblings over past events
- Hopeless sense of entitlement unmatched by requisite talent: *Kim Jong Un*



# What can go wrong?

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## Failure of family governance

- Need for clear wishes from patriarch / matriarch e.g. who should be considered as family, who should go into business and in what circumstances?
- Ethical standards of family members
- Who polices the policeman: levels of family pay v dividends: *Pritzker v Pritzker*
- Conflicts of interest and opportunity: *Waxman v Waxman*
- Agreement of common value amongst family members
- Identification of role of family members

## Inadequate Dispute Resolution Process

- Need proper mediation, conciliation and arbitration
- Importance of fair process: avoid one family member standing in judgement over another
- Involvement of third party professionals
- Danger of opposing lawyers stoking up profitable litigation
- Buying out dissenting members

# What can go wrong?

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## Failure to resolve personal problems

- Addiction problems: drugs, drinks, gambling etc.
- Behavioural issues
- Mental health problems

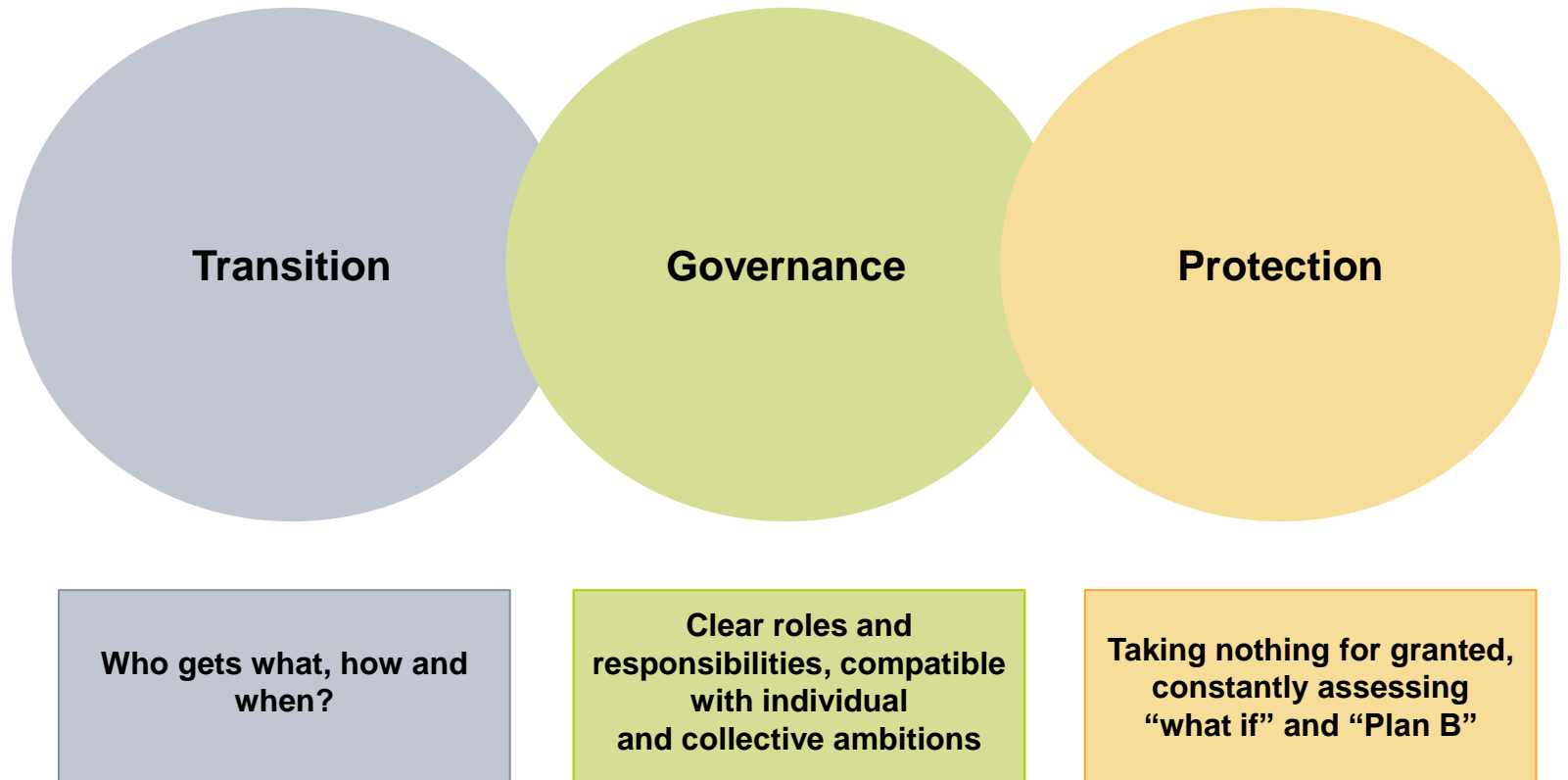
## Unscrupulous third parties

- Information leakage leading to blackmail or corrupt payments: *Wahr-Hansen v Compass Trust*
- Breach of security resulting in kidnapping: *J Paul Getty's grandchild*
- Crisis management to resolve reputational issues
- Undue influence / duress diverting estate elsewhere
- Bimboes / toy boys: *J. Howard Marshall and Nicole Smith saga*
- Potential conflict of interest of trustees, lawyers, bankers, offshore service providers, administrators and trusted individuals

*Part II:* What makes planning successful?

# A simple Framework

*All the main issues fall under three headings*



# Transition: Basic Schematics of Business Succession

*The main issues to be addressed fall under three headings*

## Rights and responsibilities

Sample questions:

- Who can take strategic decisions within the business?
- How will talent be identified, assessed and developed across generations?
- Is each family member free to define her or his own role in life? Or are there expectations relating to choice of career?
- What sort of personal achievements are incentivized, tolerated or banned?
- How much money is made available to individuals for various purposes?

## Checks and balances

Sample questions:

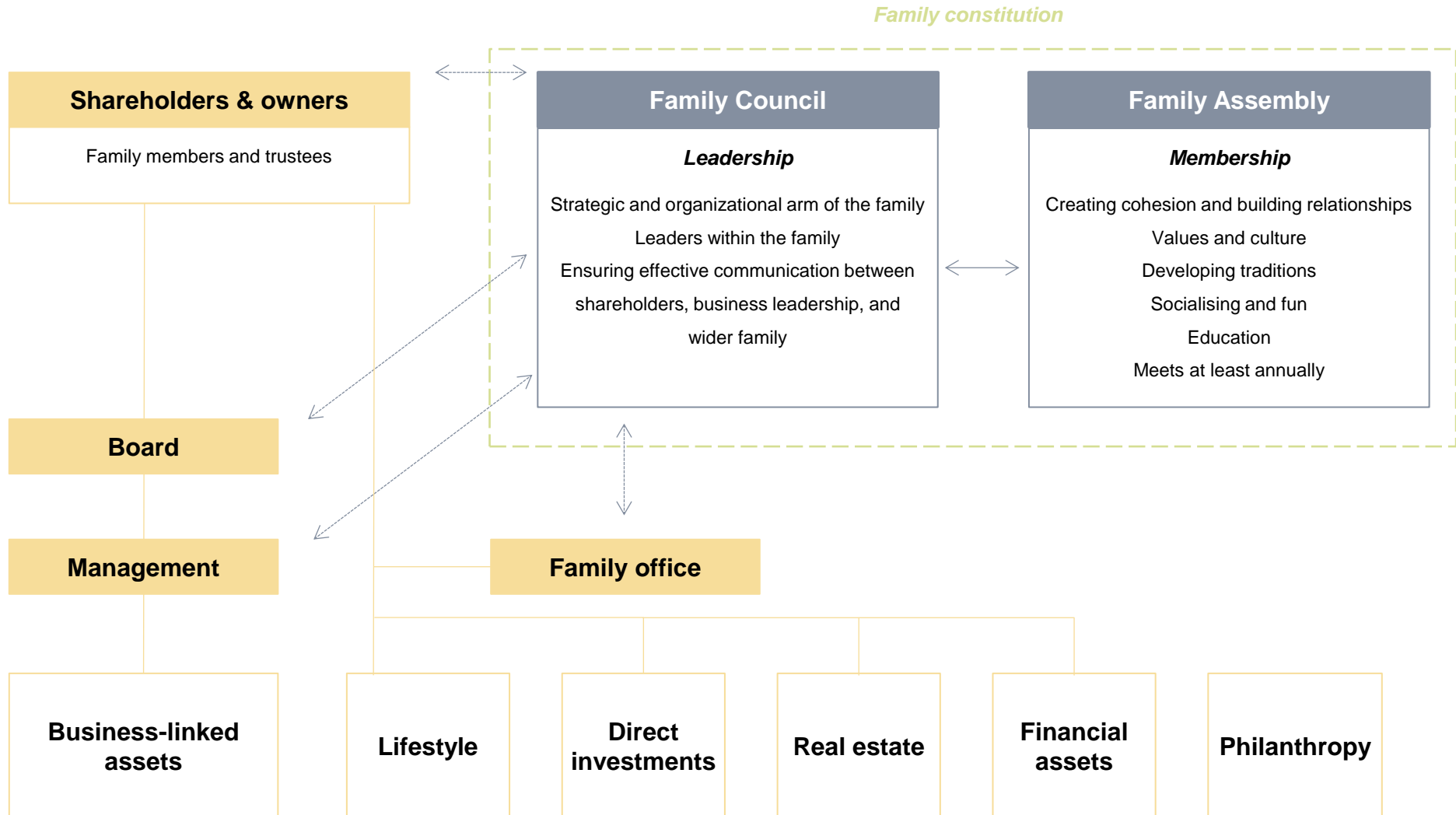
- How will perceptions of fairness be managed, particularly when different siblings play different roles?
- Should business ownership and management be addressed separately?

## Entry and exit

Sample questions:

- Who can enter the family business, and on what terms? How will entry and exit be financed?
- Who should benefit from access to ownership, and who should enjoy revenue?
- If the business needs to be valued, how will this be done?

# Governance: A Sample Structure



# Protection: Thinking about “Plan B”

*Stress-testing and considering “what if” (with a hypothetical entrepreneur)*

## Family

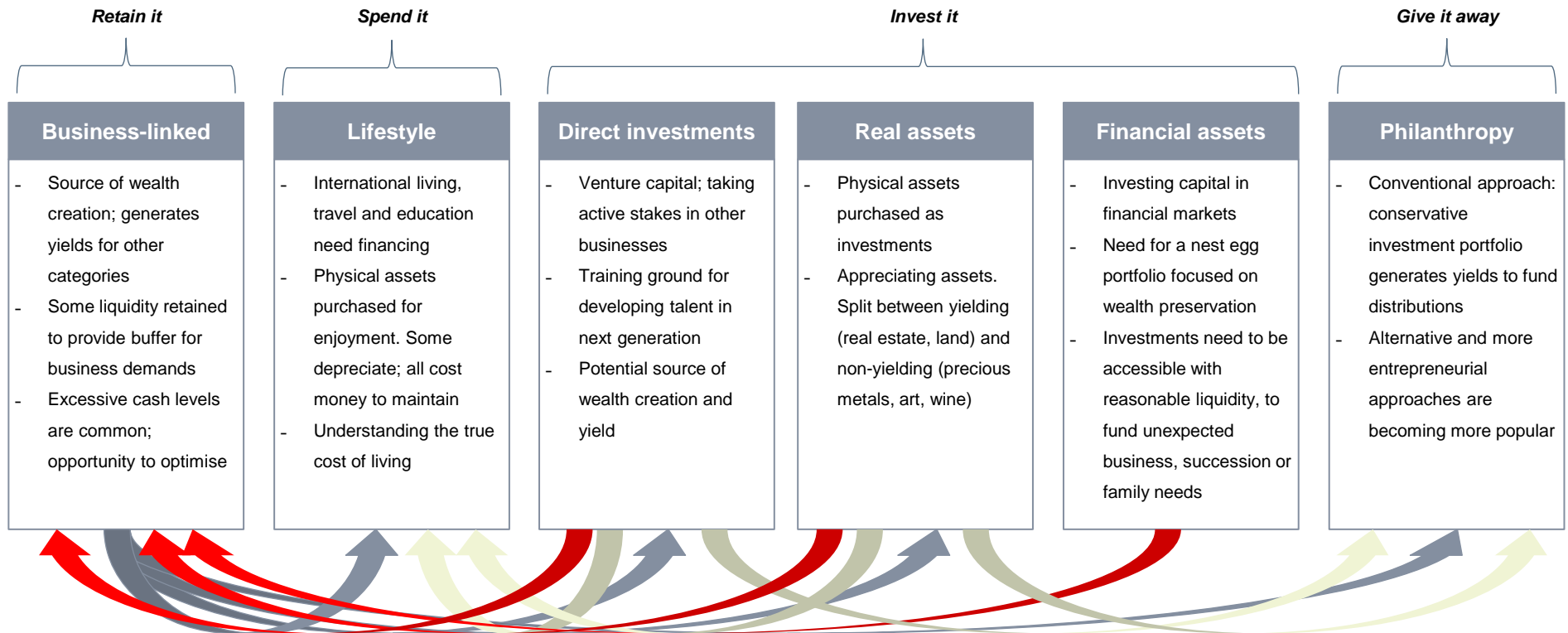
- What are your fears about the future of your family as a whole and for the individual family members? How do these fears impact on your planning?
- What would happen if you and / or principal members of the family were to pass away or become incapacitated today? What would be your main concerns in a situation like this? Could you have done anything to allay these concerns?
- Are your children and spouse financially protected?
- Would your planning cause conflict between family members?

## Business

- What risks do you consider to be the most real threats to the preservation of your wealth?
- Are the business and the private assets sufficiently ring-fenced and diversified in case of contingencies and risks on both the private side and the business side?
- Could your business survive without you running it? Could it be sold, and on what terms?
- What mechanics are in place to protect the integrity of the family wealth?
- Is the structure and management of your business attractive to potential buyers?

# Successful Planning for the Business covers all Assets

## *Categories for allocating capital and liquidity*



### Notes

- Arrows represent example distributions, highlighting interdependence. Grey = primary flows. Green = subsequent flows. Red = emergency flows



*Part III. Wealth Planning:*  
Learning from the History of the Rothschild Family

# The culture of family

## Protecting a legacy



- Some of the greatest challenges come from “within the system”
- Defining and understanding roles and responsibilities of everyone is essential
- It is about communication, preparation and training
- Anticipating and being able to deal with conflicts is key

# The culture of family

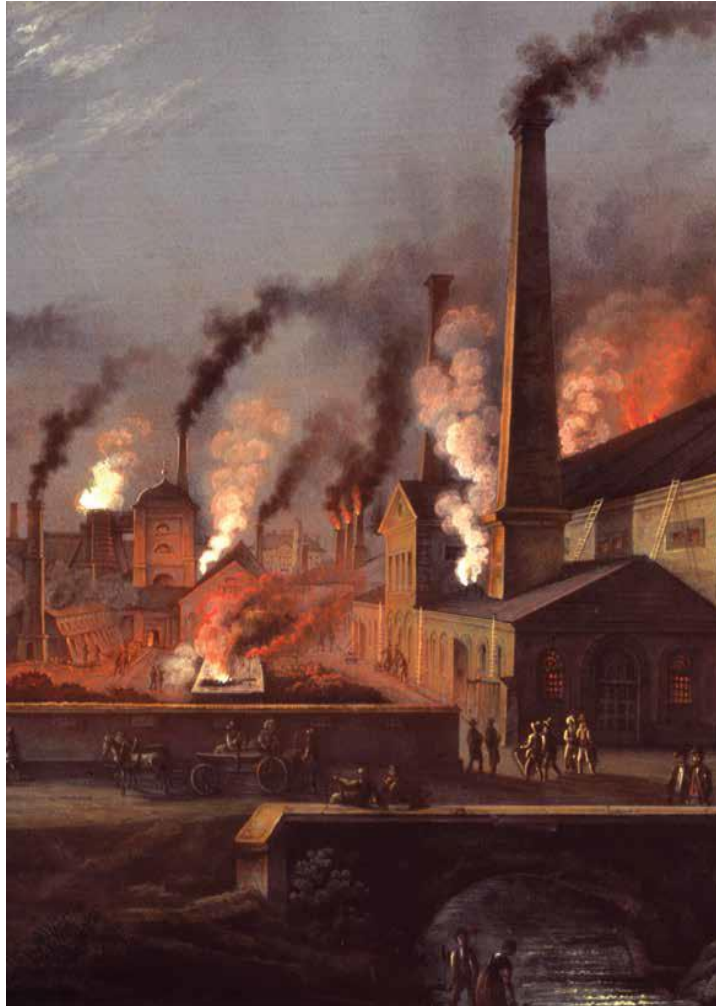
## Governance for entrepreneurs



- High-performing business assets are key to staying wealthy
- Pruning out of weak areas, constantly identify, assess and develop talent among and for the next generation
- Distinguishing between business and private assets, ring-fencing ownership
- Anticipating “Plan B” in relation to ownership, management and revenue of a business
- Mechanism for future fundraising, buy-in and buy-out of partners, M&A, sale of a firm?

# A world of (new) challenges

## Embracing change



- Wealth-owning families must be proactive, anticipating and adapting to changes in politics, financial markets and the global economy
- Nothing is for granted and changes are accelerating in every area
- Threats by public debt and monetary experiments
- Privacy and transparency revisited
- Take a global perspective

# Contact information



**Elena Andrianova**

Managing Director,  
Head of Russia & CIS

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## Biography

Elena Andrianova is Managing Director and Head of Rothschild Trust Russia & CIS. Her focus is business strategy development and key client relationships in the region

She joined Rothschild Trust in January 2012 from a leading Swiss bank, UBS (Zurich office), where she was a Client Advisor for Ultra High Net Worth clients from Russia/CIS region. Before joining UBS in 2008, Elena was a Senior Attorney at PricewaterhouseCoopers Moscow for five years

Elena has over 10 years' experience of advising wealthy families on private and corporate asset ownership structuring, complex matrimonial and succession planning, protection of assets and preservation of wealth for further generations

Elena has a PhD in international private law (Russian School of Private law, Leiden University). She is a member of the Society of Trust and Estate Practitioners (STEP) and holds a Diploma in International Trust Management (London)

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**Stefan Liniger**

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## Biography

Stefan heads the Rothschild Trust Group and is a member of the Executive Committee of Wealth Management & Trust. He focuses on business strategy development and key client relationships globally

Stefan studied law at the University of Zurich (Dr.iur.) and at Cornell Law School (LL.M.). He is a member of the Swiss Bar, of the Society of Trust and Estate Practitioners (STEP) and lectures on Trusts at the University of St. Gallen

Further to the completion of his legal studies, Stefan worked as a researcher at the University of Zurich, as a management consultant, and practiced law for over ten years, becoming a partner with Bär & Karrer, one of the leading Swiss law firms. Before joining Rothschild, Stefan created and led the global wealth planning function at Goldman Sachs' Swiss bank

He is a native Swiss German speaker, fluent in English and French

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