SALAMANCA
Group
Private Office

Private Office Newsletter

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Foreword

The start of the year has been a busy one for the firm across all our business divisions, with our team sharply focused on partnering with our clients to navigate through the market challenges and capture opportunities, cognisant of the continued volatility in the financial markets and the uncertain outlook for the global economy. On page 2, Lord David Triesman opines on the economic challenges ahead for 2016 and where the opportunities may lie.

A good demonstration of our expertise in this area was securing the investment by Big Society Capital, the leading social investment firm into Funding Affordable Homes. Housing is an attractive sector for social investors and against a background of market volatility, this investment provides stable and secure financial returns. Andrew Dawber outlines the nature of this investment in the 'In Focus' section.

Natacha Onawelho-Loren comments on the arrival and impact of the latest regulatory development in the wealth planning industry; the OECD Common Reporting Standard (CRS) – the new global information standard. She discusses the importance of preparation for clients' expanded reporting obligations.

This time of year we see a spike of client enquiries into our Private Office for Education Advisory, as education is often the top priority before a relocation decision is taken. Undoubtedly, the quality of UK education is high, especially in London where UK academic tradition and innovation is clear. Gabrielle Villani discusses the value of an international education in London.

Demand for yacht charter continues apace, and there are an increasing number of charter destinations that are contributing to the overall growth of the market. Luc Khaldoun outlines his view of the most desirable European destinations for charter this season.

We look forward to supporting you in 2016 and as always, would welcome any feedback you have.

Martin Bellamy
Chairman and CEO

The Challenges of 2016

By Lord David Triesman, Group Director

It is sometimes said, unkindly, of economists that they are very good at predicting the past. Let me take the risk of thinking about the next year.

2016 has started with mounting uncertainty. Markets are volatile. A read-off of China's economic prospects is hotly contested. Russia is subject to significant sanctions and they are likely to harden. It has responded with food import sanctions from which only New Zealand agriproducts appear exempt. Europe is faced with unresolved financial weaknesses, threats of terrorism, unmanageable refugee flows; and the threat of British exit from the EU seems certain to have a major impact on Europe's and the UK's economies. The immediate impact is seen in currency volatility but longer-term Brexit will have consequences for the economies and security of traditional allies (and some friends who were formerly enemies). Given the levels of conflict on Europe's southern and eastern borders, any disturbance of strategic alliances is not helpful.

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Taken together, these factors are not a basis for optimism. But we also need to think about deeper-lying economic issues.

Globally, many economists now predict entrenched stagnation. The IMF's World Economic Outlook (October 2015) showed global growth at 3.1% in 2015, down from 5% each year from 2009-2014. Several other indices show similar decreases in performance.
Of course, this did not lead to a passive response from central bankers.

The strongest developed economy – the USA – had the strongest momentum after 2008 although the IMF and the US Federal Reserve differ on its magnitude. The Eurozone growth has fluctuated between 0% and 1% since Q4 in 2013. Japan is in negative growth territory. Among the BRICs Brazil and Russia are in recession, almost certain to be joined soon by South Africa. Only India's trajectory looks positive.

The Central Bankers' response has been the expansion of fiscal and monetary policies to drive growth in their economies but inevitably this is a long-haul. And this is so because effective demand is inadequate. Some experts feel that it will need a new wave of technological innovation capable of boosting productivity and attracting new investment capital to change the overall economic trajectory.

China, the world's largest trading economy, will itself have to deal with a persistent undertow from the rest of the world. The debt-driven crisis of 2008, its high spending and low savings, may well have created a 'debt-supercycle' with a further dangerous round occurring around Treasury bonds (particularly in the US) impacting on the economies of nations holding sizeable quantities of these bonds.

Inevitably a thumb-nail sketch is limited, inadequate. Yet it does serve to show greater imagination is needed to find unusual positions. The hunt for value investments, especially if asset backed, will continue in the developed world.

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But it is a good time to turn the searchlight on special positions in the developing world. These are likely to be found where for one reason or another an economy has been excluded from normal economic conditions yet has the preconditions for advance – for example, a good education level and negligible corruption. In such cases almost everything is needed or needs to be renewed. These economies start from a hunger for all current technologies and are not dependent on technical innovation.

In our view, several years of work preparing for Cuba's re-emergence into more normal trading conditions and the genuine imagination of its banking leadership, provide one of the real global opportunities if structured and advised with appropriate sensitivity.

Whilst there are often unrealistic predictions about when economies will take off or move decisively to another level, the signs are good. Rapprochement with the neighbours, careful advance avoiding some of the wilder changes of other regimes, and a desire to work with people with whom deep trust has been built over years are all benchmark signals of the likelihood of success.

China will continue to generate opportunities. Attempts to exclude China through the decisions of the Trans-Pacific Partnership, the Trade in Services Agreement, and the Transatlantic Trade and Investment Partnership are unlikely to succeed. As China strives for higher quality trade and investment it surely will protect its global trading position. Much of the assessment of these opportunities will of course depend on the strength of the US dollar.

But that is another story.

Strategic Insight Events - in assocation with the European Leadership Network (ELN)

On 24th February, the ELN and Salamanca Group co-hosted a private breakfast meeting on "The Future of Russia-West Relations", attended by senior diplomats, politicians, members of the business community and leading journalists. The meeting was chaired by Lord Browne of Ladyton, former British Defence Secretary and Chair of the ELN, with the discussion focused on how the current state of relations between Russia and the West came about and concluded with the strategic rationale for cooperation.

The ELN is a group of leading foreign ministers, military chiefs and diplomats from across all major European nations. It aims to provide deep security and business strategic analysis and brings together emerging leaders who may not yet have the networks to know each other well. Lord Triesman is on its Board.

Our next event will be in March 2016 on "China's Slowdown and the Implications for Europe".

More information on these events can be accessed via our website.

In Focus: Corporate Advisory – Funding Affordable Homes, UK

By Andrew Dawber, Head of Corporate Advisory

Big Society Capital, the leading social investment firm, has invested £15million into Funding Affordable Homes

Funding Affordable Homes ("FAH"), a social impact company which enables long-term socially responsible private investment into the affordable housing sector, announced in January 2016 that it has received an investment of £15million from Big Society Capital ("BSC").

The initial funding round, including the investment by BSC allows FAH to invest up to £100 million in affordable housing projects prior to a further funding round in 2016. It aims to invest £500million during its first three years of operation and develop a large-scale freehold portfolio of homes.

FAH targets a return of 8+ per cent from interest income, rent and capital appreciation, with the intention of making regular dividend payments to shareholders. Its business model is to own the freehold interest in affordable homes and enter into long-term occupancy agreements with housing associations and local authorities, operating a risk-sharing, partnership model.

"In a volatile market, this is an investment that provides stability, with income that is secure and reliable, and delivers both a financial and social return. It's a different model for the affordable housing sector, and one which we think will become much more common in the sector – it will allow housing associations and local authorities to deliver their own homes and in part, help alleviate the housing shortage in the UK," says Andrew Dawber.

Salamanca Group led the creation of FAH and acts as Financial Adviser to the Company.

Trust & Fiduciary – Assessing the Impact of the OECD Common Reporting Standard (CRS) - the New Global Information Standard

By Natacha Onawelho-Loren, Head of Legal, Salamanca Group Trust & Fiduciary

CRS, short for The Common Reporting Standard, is an automatic exchange of information mechanism which provides an international coordinated approach to the disclosure of information on income earned by individuals and entities outside of their country of residence. The framework was developed jointly by the OECD and the G20 in their fight against tax evasion. It requires local financial institutions to collect information on all their account holders and report this information to their own tax authorities. The tax authorities will, in turn, automatically exchange this information with other participating countries on an annual basis. High net worth individuals, who, as yet, are not aware of CRS and its potential impact on their private affairs should contact their advisers immediately. These 3 seemingly innocuous letters will herald a significant change in the private client world.

The first step to CRS is a jurisdiction either signing a Multilateral Competent Authority Agreement (MCCA) or entering into a double taxation treaty or tax information exchange agreement incorporating the due diligence and reporting rules of CRS. As at 27 January 2016, 94 jurisdictions have indicated an intention to endorse CRS of which 79 jurisdictions have signed the MCCA. Committed CRS jurisdictions are currently divided into two groups: early adopter countries (which include all the EU jurisdictions, the Channel Islands and some of the British Overseas Territories such as the BVI, Cayman Islands etc.) who have committed to automatic exchange in 2017 based on data held in their records in 2016 and late adopter countries such as Switzerland and New Zealand who will automatically exchange in 2018 based on information held in 2017.

Financial institutions located in participating jurisdictions are required to adopt due diligence procedures so as to identify and automatically report annually on their account holders resident in other participating jurisdictions. By way of simple illustration, a resident in participating jurisdiction A with a bank account in participating jurisdiction B will see information on its account being exchanged annually by the tax authorities of participating country B to the tax authorities in participating country A.

Professional trust companies, such as each of the trust divisions of Salamanca Group, will be regarded as financial institutions and will therefore be subject to the CRS due diligence and reporting rules alongside banks and other financial organisations.

CRS requires all entities to be classified and this includes trusts, companies and foundations. Classification will dictate who will be reported upon. The starting point is to establish whether an entity is a Financial Institution (FI). Under CRS, the definition of a FI closely follows the definition of a financial institution under the FATCA[1] Treasury Regulations. In broad terms, this depends upon what assets are in the trust and who manages the trust but the precise definition depends upon the enacting legislation in each jurisdiction. By way of example, in Switzerland a trust will be a financial institution if (i) it is professionally managed and (ii) it derives more than 50% of its gross income from financial assets. If the trust is a FI, CRS rules (as supplemented by the commentaries thereto) require a trust's equity or debt holder to be reported. Equity interest holder in this context means the settlor, protector(s) and the beneficiaries. For irrevocable discretionary trusts, this means discretionary beneficiaries who have received a distribution during the relevant reporting period but not potential beneficiaries who have received nothing.

If the trust is not a FI then it will be a Non Financial Entity (NFE). There are two kinds of NFEs – an active NFE and a passive NFE.

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In the private client world, the most relevant category will be the Passive NFE. Passive NFEs do not have reporting obligations per se. However, if they hold a bank account (and most of them do) they will be required to provide information on their controlling persons (for more, see below) to other Reporting Financial Institutions such as banks. Thus, if a trust is a passive NFE and has a bank account, the bank will look through the trust and will require information on all the trust's controlling persons that will be potentially reportable. The term controlling persons is very wide and includes the settlor, the trustee, beneficiaries, protectors and "any other person exercising ultimate effect control over the trust". This latter category is not easy to ascertain and the commentary to CRS does not shed any definitive light as to who those persons might be. What is clear, however, is that it seeks to encompass a broad category of individuals who might be thought to be exercising control.

The impact of CRS is far reaching, with information potentially being exchanged in multiple jurisdictions. As it is already a reality in some member states, it is important that high net worth individuals seek clarification from their trustees and advisers as to how the framework will impact them and their family.

For Salamanca Group Trust & Fiduciary clients, further information can be found at http://salamanca-group.com/wp-content/uploads/2016/01/160211-CRS-FAQs.pdf

[1] FATCA (Foreign Account Tax Act), US based legislation which became effective on 1st July 2014 and which requires every non-US financial institutions to identify their US clients and send the information to the IRS.

The Yacht Industry – European Yacht Charter Destinations

By Luc Khaldoun, Head of Client Advisory, OneOcean Ventures

At this early stage of 2016, the yacht charter market indicates once again that we can expect a busy charter summer. Many yachts over 60 metres have secured early bookings; a good indicator that the bullish market of 2015 will seemingly repeat itself this year.

As usual, the mainstream of yachts (over half of the global charter fleet) will be positioned in the Western Mediterranean. From St Tropez to the South shores of Italy, the Western Mediterranean remains the unbeaten king of yachting destinations. Spain is still working on easing its legislation on charters and has seen a marked increase in charters year on year, with demand still far outweighing the supply.

Recent changes in Spanish law means greater opportunity to charter there. There are four easy steps to obtain a Spanish charter licence:

1. Import your vessel (this can be done in any country of the EU at a relatively moderate cost).

2. Obtain a Spanish VAT number as is required in every country of the EU where the yacht will conduct commercial activities.

3. Obtain a Spanish Charter license.

4. Enjoy a successful year of charter in Spain.

Barcelona, whilst one of Europe's most popular tourist destinations, still remains a hidden gem in the Mediterranean basin as far as yacht owners and charterers are concerned. It is increasingly described as one of the new 'yachting hubs' as many of the Mediterranean's most desirable coastal destinations are within a day's sail, including the Balearics and the South of France.

The Adriatic is also attracting a strong presence of yachts, due to its unspoiled coast line and protected parks. Greece and Turkey are still considered a strong magnet for yachts; considered the cradle of the Western civilization and located in an area of fantastic natural beauty. Greece and Turkey offer great food and a unique charter experience, be it the unspoiled charm of an isolated island or the vibrant night life of coastal towns.

Should you require any assistance with planning your yacht charter, please do get in touch. We would be delighted to assist you in choosing the optimal yacht charter and destination itinerary to meet your requirements.

The Value of an International Education in London

By Gabrielle Villani, Head of Education Advisory

The UK has a worldwide reputation for being at the forefront of international education, evidenced by its success as a key export. And for globally mobile families looking for the very best educational opportunities for their children, a favourable jurisdiction for business and an international city that is steeped in culture and history, it is hard to overlook London as one of the world's leading cities.

For families who are coming to the UK, the education of their children (and where to send them to school or university) is one of their main priorities, if not their foremost priority, to ensuring a successful transition. Fortunately, in a world city such as London, there are international schools that cater to children from all different parts of the world and which offer strong compatibility with their child's curriculum in their country of origin.

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There has been a noticeable increase in demand from international parents in London desiring a British or international school for their children. Among these, are schools in London that offer the International Baccalaureate, the French curriculum, The American curriculum and the British curriculum. Such schools offer families diversity and a range of options. Often the choice is driven by giving the child exposure to another culture whilst retaining some familiarity for their home market education system, particularly to give them flexibility with their future education decisions.

Coreen Hester, Head of School of one of the most renowned international schools in London, The American School in St John's Wood, comments on the benefits of an international education: "London thrives, and our students take full advantage of this wonderful city as a classroom, participating actively in its vibrant historical, artistic, and cultural venues. At the threshold of continental Europe, we introduce our students to the background and experiences that will create the international citizens of tomorrow."

The value and benefits of an international education in London are numerous: they include the opportunities for your child to belong to a community located within a diverse, world city and to engage in further study at some of the world's leading universities.

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It is also the provision of impressive as well as innovative curricular and extra-curricular opportunities on offer. Most importantly, it is the benefit of an alumni network that endures a long time after a child leaves the school which can help to open doors to their future life.

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We welcome the opportunity to discuss any questions you may have in regards to the articles in this newsletter, and to discuss your personal and/or your family's requirements. Simply contact:

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