SALAMANCA Group
Private Office

Private Office Newsletter

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Foreword

As the UK's referendum on EU membership draws near, inevitably the volume of coverage increases on the topic and the lack of visibility remains.

By all accounts, the EU vote is tight and the debate and resultant financial and economic uncertainty has subdued risk appetite and stalled investment decision-making for many.

Given it is a topic that is front of mind for so many of our clients, be it Investment, Advisory or Real Estate focused, we felt some of the associated themes merited comment in this newsletter.

i. Lord David Triesman addresses the sensitive topic of immigration and its potential consequences.
ii. He also provides his viewpoint and reflection on President Obama's April visit to the UK and why he chose to enter the Brexit debate.
iii. And given Brexit has been weighing on the Foreign Exchange market in recent months, Lee Camp considers the question "Will Sterling volatility remain post the UK's EU Referendum result?"

Our Trust & Fiduciary business has had a strong quarter in each of the jurisdictions they operate in, led by Xavier Isaac in Geneva, Paul Douglas in Jersey and Gordon Stuart in Mauritius, who joined us in May. Gordon is already making an impact driving business development initiatives into the important African market, with a strong focus on South Africa. To culminate the quarter, we were delighted that their successes have been rewarded with the recent industry accolade from ePrivateClient, who have recognised them as one of the Top 25 Trust Companies for the 5th consecutive year.

Philanthropy has been evolving in recent years in order to accommodate donor's requirements and ambitions more effectively. Xavier Isaac comments on some of the emerging trends and new approaches on offer as an alternative to the traditional creation of a family foundation.

And finally, this quarter's 'In Focus' section outlines the developing strategy for investment in superyacht berths – a topic discussed at the most recent Superyacht Owners Summit and attended by Paul Cook from OneOcean Port Vell in Barcelona, one of the Group's most significant investments.

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

Martin Bellamy
Chairman and CEO

Migration - How to read its consequences?

By Lord David Triesman, Executive Director, Salamanca Group

Few issues in modern politics are capable of raising as much passion as immigration. Of course, it is no new phenomenon. Great nations have risen on the tide of immigration, welcoming incomers and in many cases encouraging the poor but aspiring peoples of the world to their shores. Modern America was built on inward flows and subsequent movement across the continent. No economist doubts that this was the foundation of national wealth. Indeed it is wholly out of the American character to propose to build walls or ban peoples on the basis of their religions.

Yet a tangible anxiety has arisen in Europe based on ignorance of the real scale of movement and a sense it isn't possible to contain the causes. Fleeing conflict is easy to understand - nobody puts their babies in a rubber dingy on a winter swept sea unless what you leave behind frightens you more than the risks ahead. Other factors promoting movement are not as intelligible, though in fact they are hardly less real. Escaping the virtual prison camp that is Eritrea, the fear of famine and murder in Mogadishu, or the ever-encroaching deserts of North Sudan all bear in on families.

"In 2014 50,834 identified individuals came that way. In 2015 the number reached 885,386."

So what do we know about the scale of flows? People cross from the Middle East to Europe largely through Greece on the Eastern Mediterranean route. In 2014 50,834 identified individuals came that way. In 2015 the number reached 885,386. Migrants in 2015 from sub-Saharan Africa on the Central Mediterranean route across the lengthy sea routes numbered 153,956 down from over 170,000 the year before. On the smaller Western Mediterranean route to southern Spain, in 2015 there were 7,164.

It is easy to say this feels like spurious accuracy given the clandestine operations. The figures are compiled by Frontex from EU, Médecins Sans Frontières, and a host of NGO sources. Collected independently, they are remarkably consistent. Naturally, they take no account of migration within the EU where data is collected by individual nations.

The data on the economic impact of new arrivals is interesting. The fear factor is they will use a disproportionate amount of the social and health provision to which they haven't contributed. But the data suggests a different picture with taxes collected after a year in the UK exceeding the sums spent on migrants. And the jobs taken are strongly correlated with jobs British citizens are very reluctant to do. Migrants are mission critical to the care of the elderly, other parts of the Health Service, catering and leisure, agricultural work and, famously, construction. Building in Britain is heavily dependent on skilled craftsmen from Europe and increasingly on unskilled workers from everywhere. Our age-old crisis in skills training post-school is deepening.

Naturally, the myths always out-compete the facts. But a hard look shows economic advantages in several respects. It is hardly surprising that employers want the option to choose the workforce best suited to the job. This is apparent across Europe's advanced economies. I recall many discussions in Germany after re-unification where employers emerging in the East complained of the rush to live and work in the West having wanted, but been denied the opportunity for so long. It left a short-fall in professions and skills in the East. Several entrepreneurs and state officials have told me somewhat wryly, the influx of well-educated Syrians was the transfusion they had dreamed of for years. What they wanted was an orderly system to recruit and admit people.

The flows will continue. The multiple NATO and EU naval missions were designed to discourage smugglers and put them out of business. Operations Sophia and Triton have repelled almost no one and they will get no better. For a start they are ill-coordinated. Rather the missions have become necessity search and rescue missions which will land their cargoes of rescued migrants in Europe. And people will continue to make the irregular but voluntary journey to Europe's borders. If the alternatives are the barrel bombs, the perils behind will always be worse.

As the outstanding researcher Peter Roberts of the Royal United Services Institute put it twelve months ago, 'migrants in boats are symptoms, not causes, of the problem'. Whilst business cannot ignore the concerns of the old and settled populations of Europe or the opportunity for demagogues to exploit fear, there is also a clear case for the economic benefits alongside the humanitarian ones.

Will Sterling volatility remain post the UK's EU Referendum result?

By Lee Camp, Finance Director, Merchant Banking

Since the announcement that the EU Referendum will take place on 23 June, it's become increasingly apparent that investors are genuinely concerned about the future value of the Pound against other paired currencies.

Over the past six months, GBP/EUR has generally traded in tandem with the Standard & Poor's 500 index up until mid-February when it showed a noticeable divergence as the market began pricing in the risk of a Brexit. Implied volatility in Sterling has also increased considerably since the turn of the year, which is probably the most accurate reflection of uncertainty.

Both one year and six month implied volatility in GBP/USD are now higher than the same measures for EUR/USD, which had historically been lower ever since the introduction of the Euro in 1999.

Over the past month alone we have seen GBP/USD lows of 1.433 and highs of 1.475, GBP/EUR lows of 1.260 and highs of 1.3150, a level not seen since February 2016. GBP/CHF has traded between lows of 1.383 and highs of 1.449.

The pound is extremely sensitive to Brexit and the markets have seen Sterling rallies as a result of campaigning to Remain as well as falls off the back of promotions of the Leave vote.

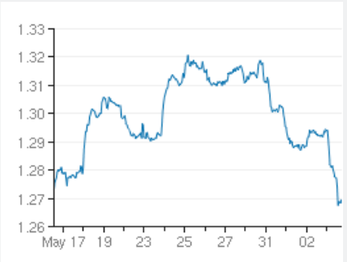
At its meeting on 11 May, the Monetary Policy Committee (MPC) voted unanimously to maintain the UK Base Rate at 0.5%. The MPC have said that the most significant risk to their forecast concerns the referendum as a vote to leave the EU could materially change the outlook for output and inflation.

Current market pricing suggests that we won't see a hike in UK interest rates until 2019, with the possibility of a rate cut over the next year.

In the event of a Leave vote, it is expected that there would be a sell-off of Sterling. The forecast volume of the sell-off is extremely difficult to predict given the lack of historical precedence. The closest event in recent memory would be when Britain was forced out of the Exchange Rate Mechanism (ERM) during 'Black Wednesday' in September 1992. Following the exit from the ERM, Sterling dropped 15% against the US Dollar in the space of just a week, ending the year on a 25% low.

GBP / USD

GBP / EUR



This would suggest that Sterling has less to fall in the event of a Brexit than it did following the withdrawal from the ERM.

In the short-term, financial markets would probably show the most vigorous reaction. There would be a further depreciation of Sterling and the City consensus is that there would be a strengthening of the USD as a flight to safety for global investors. Equities would no doubt suffer a mild contraction as they factor in risk. London-based currency traders International Foreign Exchange (IFX) believe that the accommodative monetary policy that would follow would re-strengthen these global indices.

Conversely, an 'in' vote and the resulting clearing of uncertainty is likely to bring about a Sterling rally. Recently Sterling surged over 5 cents against the Euro moving from a low of 1.2670 to hit a high of 1.3180 upon the release of two polls showing voters had swung towards remaining in the European Union.

The survey found that almost half of those questioned thought the economy would get worse over the next five years if Britain quit the EU. Over the longer term, a narrow majority - 39 per cent against 35 per cent thought Brexit would have a positive economic impact over 10-20 years. Just 18 per cent said that leaving the EU would improve their own standard of living, compared with 29 per cent who thought it would harm it.

An 'in' vote would also lead to markets quickly removing expectations for a rate cut and start pricing in the chance of a rate hike at some point. IFX's forecast is that the Bank of England will raise interest rates in the first quarter of 2017, provided the UK remains a member of the European Union.

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The evolving world of philanthropy

By Xavier Isaac, Head of Salamanca Group Trust & Fiduciary, Treasurer of the Swiss Philanthropy Foundation

There are an increasing number of wealthy families wanting to give a meaning to their wealth. They often do so by expressing an interest in philanthropy. One of the common objectives for these families is to make lasting charitable impact. Indeed the process of defining the philanthropic engagement is just the beginning. Once done, families rapidly realise that the philanthropy journey is more complex than anticipated. Issues like the selection of organisations, charity due diligence, project assessment, planning and management may take time with an uncertain outcome.

For those families who wish to structure their philanthropic activities and keep a degree of control on them, they have to navigate through various legal, fiscal, regulatory and technical hurdles. This is in particular true for those willing to create their own family charitable foundation. This may be time-consuming, costly and impose heavy operational burden on the foundation's council members.

Against that backdrop, the philanthropic sector has been evolving and professionalising over the last 10 years in order to accommodate Donors' requirements more effectively.

This trend accelerates with the arrival of new philanthropists who are often themselves entrepreneurs.

They want their charitable contributions to be managed like professional investments. They are looking for a structured, tax and cost-effective way to give to charities. Aspects like the organisation's governance credentials, rules of operational management and transparency of reporting on the grant's impact are all important.

It is in this context that alternatives to the creation of family charitable foundations have emerged. They may offer more adapted solutions to international families' requirements and can be summarised as follows:

1) The set-up of a Donor-Advised Fund: it enables Donors to structure their philanthropic activities through a segregated fund within a Philanthropy foundation. They can be personally involved and fulfil their charitable projects by participating and/or selecting a Steering Committee, the decisions of whom must be approved by the foundation's board. This ensures that decisions are meeting the goals of the fund and the foundation;

2) Participation in a Thematic Fund of an existing philanthropy foundation: Donors can contribute to thematic funds created and managed by said foundation in various categories e.g. "Youth", "Education and Employment", "Philanthropy Promotion", "Social Impact" etc. The foundation board must then allocate the fund's resources to quality projects that have been carefully selected. Each Donor is kept informed of the concrete results and impact of each project supported by the specific thematic fund;

3) Collaborative Funds: its premise is the gathering of Donors and pooling of initiatives, resources and donations with a view to consolidate their strategy through the Collaborative Fund. This approach allows for optimisation and leveraging of projects;

4) Transnational Giving: the network of Transnational Giving Europe (TGE) exists to enable Donors living abroad to support institutions in Switzerland, and vice-versa, enables Swiss residents to support European organisations to benefit from the due diligence services and tax deductions of the TGE partners' network. To date, 17 European countries are part of the TGE network via a local foundation (www.transnationalgiving.eu).

Whatever the Donor's objectives, it is hoped that one of the above solutions or a combination of them can meet their ambitions, with a view to make the greatest impact on projects whilst reducing operating costs.

Should you require more information on philanthropy in general or how we could assist you or your clients in finding the right solution for their philanthropic activities, please do get in touch.

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

On 30th March, the ELN and Salamanca Group co-hosted a private breakfast meeting on "China's Slowdown and the Implications for Europe" attended by senior diplomats, politicians and members of both the Western and Chinese business communities to debate the challenges and opportunities of China's growing role on the world stage.

The meeting was chaired by Baroness Ashton, former EU High Representative and member of the ELN's Board of Directors, with the discussion focused on the economic aspects of China's development and its relationship with Europe. Consideration was also given to broader cooperation on global issues such as climate change and the environment, research and innovation as well as trade and security.

The ELN 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 June 2016 on "Post-Brexit – analysing the result and its implications".

In Focus - Investment in superyacht berths

By Paul Cook, General Manager, OneOcean Port Vell marina in Barcelona

"With over 20 yachts over 100m currently in new build, the 'fear' factor is increasingly present in investment decisions when buying a superyacht berth. Ensuring secure space is available in a location that owners enjoy is driving demand for berth purchases."

Speaking at the Superyacht Owners Summit on 5th May in London, Paul Cook discussed his views on the evolving investment strategy for marina berth acquisitions. With each superyacht acquisition, an investment in marina berths must also be considered as the growing fleet of vessels will soon exceed the number of berths available in the Mediterranean.

Traditionally, desirable locations include proximity to summer cruising grounds as well as refit opportunities and home port benefits during the winter season. Ownership of a berth guarantees a set position for the yacht in the marina – an important factor for both the owner, his crew and their charter clients.

Many clients are also analysing the opportunity for generating a financial return from investment. Longer leases, like in real estate, are preferable for potential re-sell and ownership affords the opportunity to sub-lease the berth thus generating a rental return.

Industry projections report a shortage of berthing infrastructure over the medium term, so there is confidence in the trend towards berth ownership increasing and, with it, the investment becomes another element to an owners' overall asset portfolio.

Salamanca Group are proud sponsors of the 2016 Jersey Triathlon

JERSEY TRIATHLON 2016
Sponsored by SALAMANCA Group

The 2016 Jersey Triathlon takes place on Sunday, 10 July at the Waterfront in St Helier.

Paul Douglas, Managing Director, Salamanca Group Trust & Fiduciary Jersey commented:

"There has been significant growth in the popularity of triathlons both internationally and locally in recent years and this event is a fantastic way to showcase the island of Jersey.

We believe this dynamic event speaks to Salamanca Group's drive of being both a global and local player, being multi-disciplinary, having agility, courage and going the extra mile. We are thrilled to be associated with the event through this sponsorship and we are proud to support the continued development of such an inspiring competition."

www.jersey-triathlon.com

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Viewpoint - Why did President Obama enter the fray on Brexit?

By Lord David Triesman, Executive Director, Salamanca Group

It is increasingly difficult in a cynical age to be surprised by anything said in the heat of a political campaign. Yet the fury directed at President Obama for saying he wanted, even that he needed, the UK to remain in the EU was a jolt for three reasons.

The first, not to be underestimated, is the visceral dislike of Obama by those in the UK more naturally aligned with the Republican Party's tea-party wing in the USA who plainly hate him. Whilst it is only part of the Republican Party it is significant and the alignment is only with a smallish segment of UK political opinion, and these affinities run deep, based on long friendships.

It is not antipathy to American presidents per se but certainly to this one. It would probably be the same if a President Hillary Clinton is elected. It is likely that the views of a President Cruz would have been welcomed. Goodness knows what anyone would make of the thoughts of a President Trump.

The second reason is more prosaic. Whatever the febrile character of any referendum battle, in general we hope we will get back to something like normal afterward. Of course, the blood-letting on this occasion may make it a tall order. Nonetheless, the short-term advantages of denouncing the Commander-in-Chief of your principal ally by questioning his integrity or sanity seem woefully small compared with taking a longer-term view of the relationships damaged.

And as everyone knows, if Obama had said the opposite it would have been seized upon with relish by the politicians and media now denouncing Obama. The Special Relationship would have been on all lips. If 'special' means anything, it is surely the relationship to which you turn when you really want a friend to tell you what they think may be important for your future. The advice may be ignored but silence is not the hallmark of a special relationship.

It was a third issue that seemed most surprising because it involves such a massive loss of long-term memory about US history and strategic objectives. It is rather as though we had never heard of Roosevelt, Eisenhower or Kissinger.

Put baldly, whilst Europe has for several centuries tried unsuccessfully to rest its security architecture on a balance of power between sovereign states, with the innovation of designating some as guaranteed to be neutral, Britain had become in this scheme the balancer. The UK was effective because it had freedom to act and a proven ability to do so. It became most closely bound to the USA largely because the USA was not strategically focused on the balance of power in a blood-thirsty continent. Even in its more isolationist periods, the USA strategists saw their role as imposing world order by one means or another.

After 1945 they restructured a new economic order through the Marshall Plan and Bretton Woods. They anchored a new defensive alliance designed for a nuclear-armed world through NATO. Europe was treated as, in effect, the USA if an emergency arose.

While Europe in part designed this approach through Konrad Adenauer and Robert Schuman, and most certainly embraced it with enthusiasm, it was the Americans who organised it and paid for it. They contribute about 75 per cent of NATO's budget. But it also had the downside of distracting them from other objectives. It is a recent development for example which has allowed them to focus on the economic and strategic rise of China. To have space for these initiatives, it is necessary not to have to worry ceaselessly about Europe or the possible start of a new Cold War.

In all this, for the USA the UK was the key European ally, bound by shared history and language and a credible bridge. If this modern Europe unravels because the ally departs the scene, the USA and its President are certain to say, as a hyperpower (and we don't of course think like a hyperpower), that they lose some vital certainties. They may well have to strategise anew in Europe, may have to revisit 60 years of diplomatic work, and may have to redirect thinking to European defence for which they have substantially paid. Their and Europe's chiefs-of-staff inevitably analyse the consequences of disentangling the EU and NATO and, as the military have stressed, the interlinkage is profound.

If the special relation didn't shout loudly or at least speak up now, then that surely would be the surprise. You don't have to agree, but it is always good to hear from friends of long-standing.

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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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