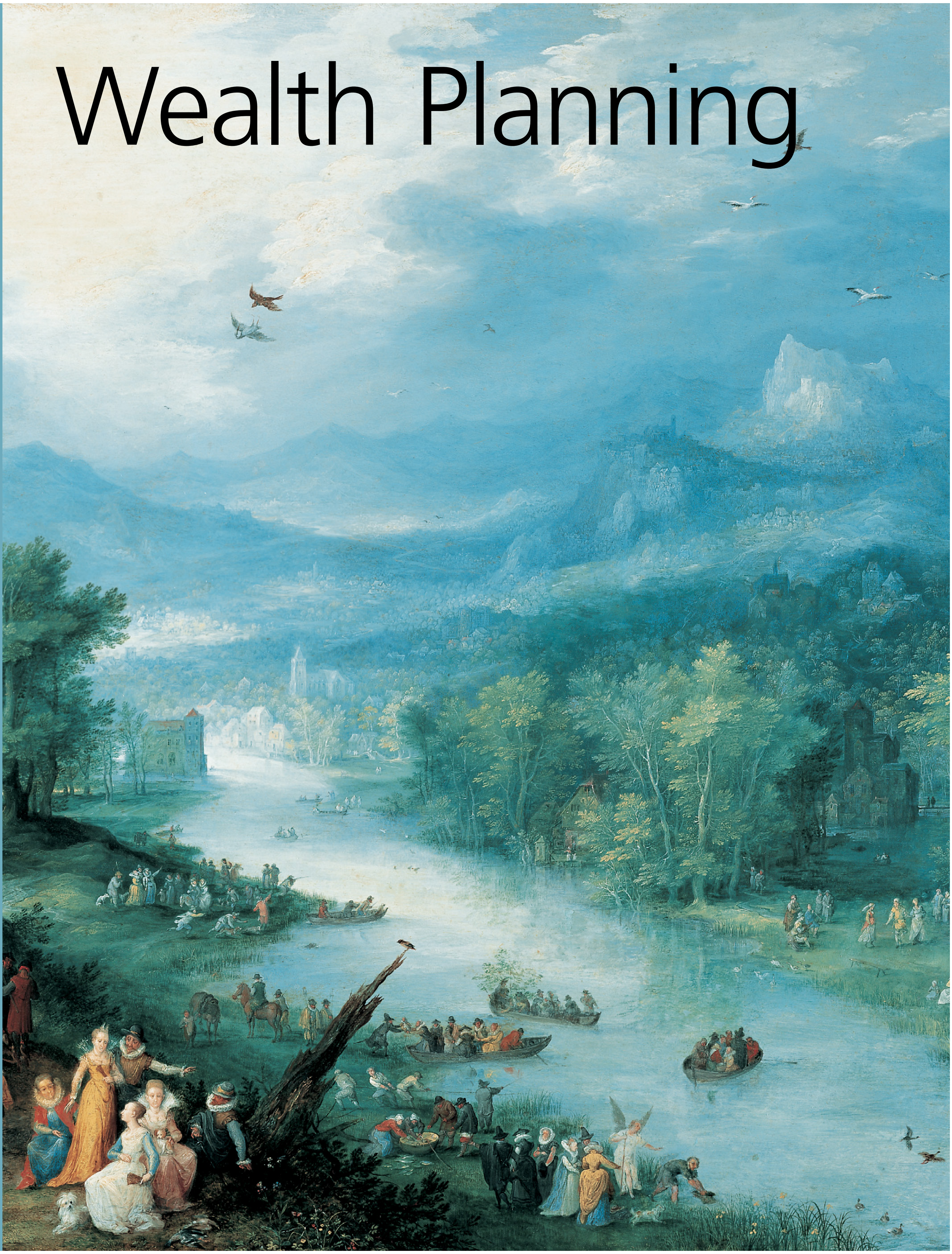
LGT Wealth Management

Wealth Planning



Jan Brueghel the Elder (1568-1625), Detail from "Landscape with the Young Tobias", 1598

Jan Brueghel the Elder's Landscape with the Young Tobias shows a merry company in an imaginary riverside setting. In its crowded midst, the religious scene can scarcely be seen: Tobias, on the advice of his companion, the Archangel Raphael, pulls a fish out of the water. He will use its gall to cure his father's blindness. The real subject here, however, is the meticulously painted landscape into whose depths the composition leads the viewer's gaze. The break in the forest and the course of the river lead one's gaze to the centre of the picture. Beyond it, reality fades into the atmospheric distance. The impression of depth is achieved by the considered use of colour: it gradually diminishes in intensity as it moves away from the colourful figures in the brown foreground via the green forested area in the middle distance to terminate in the blue haze into which the mountains disappear.

A look inside the Princely Collections

For more than 400 years, the Princes of Liechtenstein have been passionate art collectors. The Princely Collections include key works of European art stretching over five centuries and are now among the world's major private art collections. The notion of promoting fine arts for the general good enjoyed its greatest popularity during the Baroque period. The House of Liechtenstein has pursued this ideal consistently down the generations. We make deliberate use of the works of art in the Princely Collections to accompany what we do. For us, they embody those values that form the basis for a successful partnership with our clients: a long-term focus, skill and reliability.

www.liechtensteincollections.at

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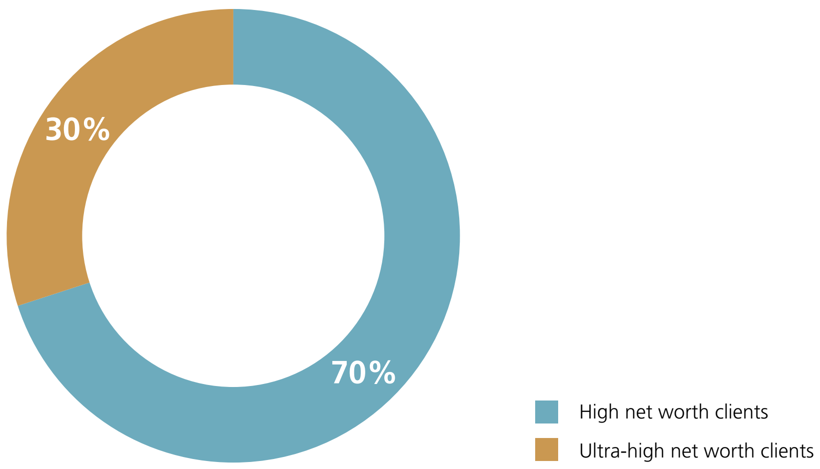
Wealth planning at LGT

Fully integrated, comprehensive financial planning service

We are an in-house team of technical specialists, including seven active practitioners – all of whom are chartered financial planners, three of whom are also qualified Trust and Estate Practitioners. We also have additional specialist qualifications in advising around UK tax for international clients, family businesses, cross-border estate planning and conflicts of law in different jurisdictions.

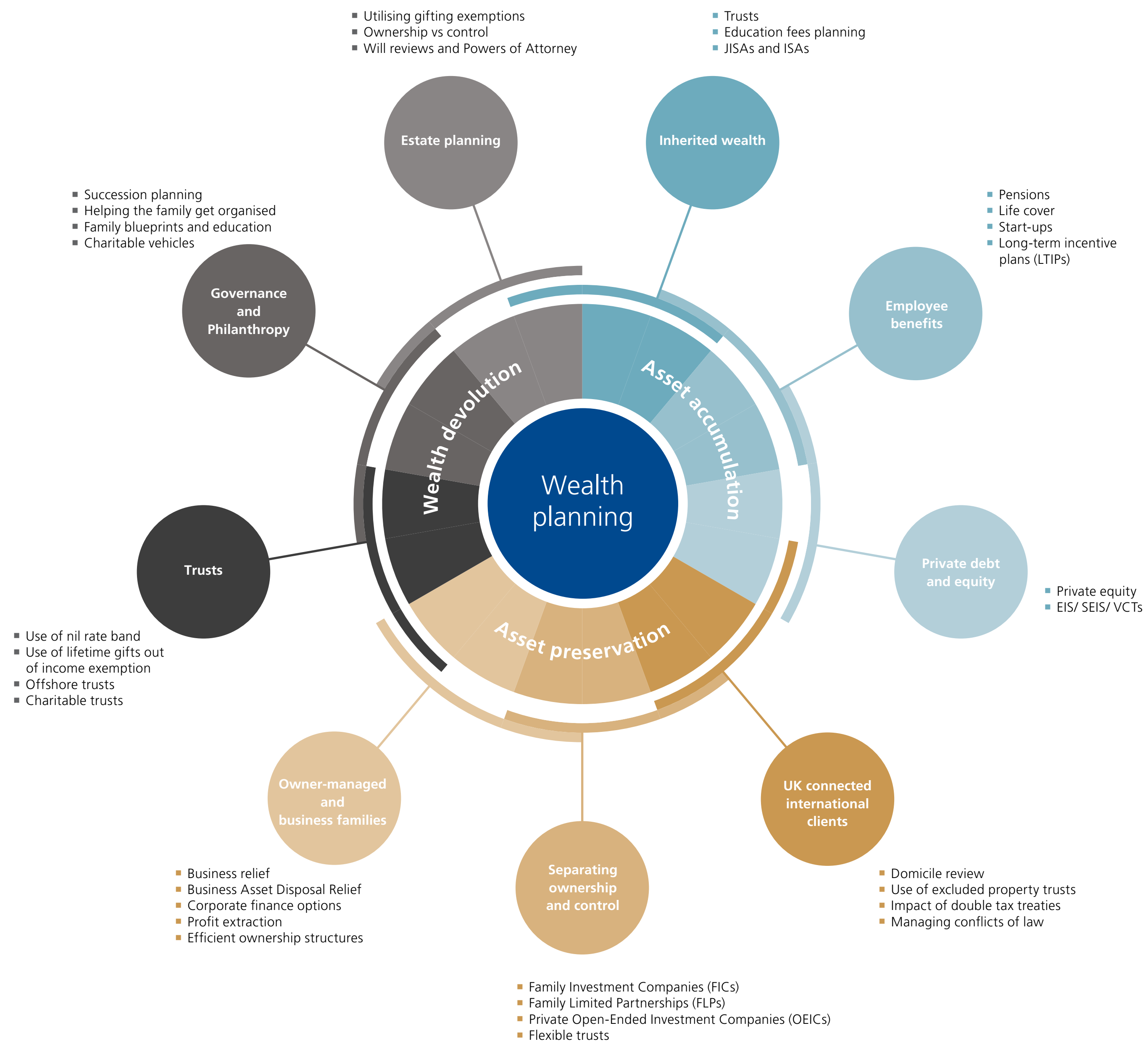
We work alongside investment managers to provide an all-encompassing wealth advisory and investment management service to LGT's existing and new clients. We provide wealth planning and structuring advice for a full spectrum of clients at all stages of life.[1]

Our client breakdown



1. High net worth: liquid wealth between £1 million to £15 million.
   Ultra-high net worth: liquid wealth in excess of £15 million.

A comprehensive wealth planning approach



Specialist services

- Provision of lending solutions, including residential mortgages. Lending solutions represent an efficient way of providing clients with liquidity for both short-term needs and also in funding asset acquisitions.
  - We provide residential mortgage loans secured against Prime Central London properties, Landed Estates, and specific high value properties in the UK and prime European areas.
  - We provide Lombard loans secured against portfolios managed by LGT Wealth Management. Our lending solutions are provided via our parent company, LGT Group.
- Wealth planning for US connected clients. We are one of a small number of wealth management firms with an offering to US nexus individuals, through our specialist subsidiary LGT Wealth Management US Limited. Our service considers the complex implications and multiple reporting requirements faced by US connected clients.
- Family governance and succession planning. We understand the complexities and sensitivities involved in managing intergenerational family wealth. A strong and dynamic family governance is often required, something our owner, the Princely Family of Liechtenstein, has applied for centuries.
- Planning for UK connected international clients. We offer a fully tailored wealth planning service for international clients, including UK resident, non-domiciled individuals, non-UK residents, and individuals moving from and to the UK. We also leverage the broader wealth planning capabilities within the group for those clients operating in multiple jurisdictions.
- Court of Protection. We have been delivering investment solutions to deputies and trustees, who are responsible for the appropriate allocation of their clients' funds.

Determining asset allocation

There are primarily three elements to determining asset allocation:

1. Attitude to risk

We individually assess each client's risk profile to determine tolerance to investment volatility. We believe that risk tolerance is a psychological trait, similar to intelligence, personality, attitude and values. There is no conventional unit of measurement, so we take the time to understand what our clients' attitudes to risk are.

2. Capacity for loss

We adopt a robust approach when assessing the client's tolerance for investment volatility and the subsequent impact that this may have on their future financial requirements. We also determine the level of experience that our clients have in investing in each asset class and their relevant experience, professional or otherwise.

3. Asset allocation

Global-level

We consider asset allocation at a global level, taking a top-down approach inclusive of property, trading entities and other investments within the overall family balance sheet. We look at this within the context of:

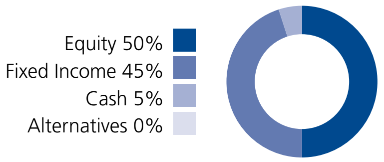
- Risk
- Liquidity
- Timeframes

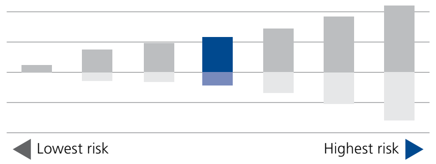
We operate a holistic approach regardless of the quantum invested through LGT.

Portfolio-level

In turn, we discuss asset allocation for different elements of an overall portfolio or for specific mandates as and when required. At both stages we discuss with the client the appropriate investment asset allocation accounting for their specific objectives, liquidity requirement, time horizons and tax considerations.

The Primary objective of the portfolio is to achieve capital growth in excess of inflation over the medium to long term. The portfolio would typically be invested in a diverse range of asset classes, with a medium allocation to equities (expected to be no greater than 70%) and other higher risk assets. We would suggest a minimum investment period of five years for this type of risk profile..





In summary, the starting position is not to take a ‘one size fits all’ approach but to have a comprehensive discussion with the client and utilise sophisticated tools at our disposal to determine the appropriate asset allocation.

J.D. Heusch, detail from "Riverine landscape with circular tower", 1698

Our methodology

We employ a five-stage methodology to provide the best advice to our clients.

All stages outlined below are interlinked and we take a holistic view to our wealth planning methodology, never looking at one step without the other.

We believe these are fundamental stages in providing a framework that everyone is comfortable with, designed around our clients' needs and objectives.

By stages three and four (if not before) we would envisage engaging with and working collaboratively alongside existing advisers as appropriate.

Five-stage methodology

Building a picture of the client's circumstances
- Establish the client's balance sheet and collate external information (where appropriate)
- Explore personal, corporate or any other family vehicles (trusts, PTCs, FICs, etc.)
- Understand the structure of any corporate entities / groups / trading / investment subsidiaries / ownership details
- Waterflow of future capital inflows, earnouts, LTIPs and inheritance
- Establish the current governance structure across family entities (where appropriate)

Establishing client objectives
- Consider the client's balance sheet and financial circumstances holistically
- Understand the bigger picture as well as compartmentalisation across the asset base

Tax analysis
- Understand the tax position of each component part of the balance sheet

Stress test (where appropriate)
- Conduct analysis to quantify the monetary value of client's asset base over the longer term, using sophisticated tools to "stress-test" portfolios within certain scenarios
- Assess implications on client's asset base using assumed growth rates (low/medium/high), accounting for volatility
- Analyse the interaction between the different scenarios to account for combinations of fluctuating performance or increased/decreased capital expenditure
- Determine present value of future capital expenditure requirements accounting for client's existing asset base
- Assess potential monetary impact of a change in tax legislation
- Look at the most tax-efficient way to structure the client's portfolio

Establish framework
- The outcome from the technical analysis and conversations with the client provide a framework to shape further discussions around actions going forward and the timescales involved
- Also review Wills and Powers of Attorney documents (if in place) to ensure they remain fit for purpose and are truly aligned to client objectives

Case study: our methodology in action

The below is an example of our work based broadly on a real-life client scenario.

Mark and Gemma started discussions with LGT Wealth Management having decided to exit their business. Discussions started when Mark and Gemma were actively engaged in the sales process with several suitors. It was discussed and agreed that Mark and Gemma should think strategically about their asset base within the context of a proposed sale before entering the due diligence phase.

Key Facts:

- Mark is 52, Gemma is 47.
- They have two financially independent children Ellie and Harry, aged 22 and 24 respectively.
- All are in good health.
- Mark is the founder of GenCaps Ltd. Both Gemma and Mark own 100% of the business.
- The structure of the deal on the table would see both leave the business immediately with no earnout.

Building a picture of the client's circumstances (phase 1 – 4)

Mark and Gemma's balance sheet is outlined in Schedule 1. The balance sheet is split into four separate components outlining the proposed phases of planning undertaken.

On advice from their accountant, Mark and Gemma had previously implemented a property company although funding currently has been minimal. Share capital is owned jointly.

Establishing client objectives

Short-term

- Find a buyer for the business.
- Set aside capital for the tax bill and mitigate where possible.
- Look to purchase a property in France (Mark and Gemma were actively looking at the current time). They have set a budget of EUR4.5 million.
- Both are keen on property. They have an existing property company and want to allocate a greater proportion to this.

Medium-term

- Wish to ensure they have sufficient capital to cover their £250,000 per year expenditure requirements.
- Whilst 'NED' roles may come along, they do not wish to plan around this.
- Mark likes the idea of purchasing a couple of "buy to hold" rental properties.
- They wish to be tax-efficient where possible.
- Make provisions for their children, with an eye on Inheritance Tax (IHT).

Priorities

- The tax money, French property purchase and expenditure requirement are non-negotiable.
- The quantum Mark allocates to further buy-to-let investment property is up for debate.
- The couple are keen to do estate planning provided it does not materially impinge on their lifestyles.

Mark and Gemma confirmed that they have a simple will in place leaving everything to each other and then the children. We discussed in the event of a "doomsday scenario" (i.e., if something happened to Mark and Gemma), that they should have provisions in place that truly reflect their wishes for Ellie and Harry. We talked about this within the context of the business sale. There are clearly taxation issues that need to be considered. Of far greater importance, however, are the non-tax issues associated with their plans for the family or the distribution of their estate.

Key questions

- How much is enough now? What feels right to you?
- Would you feel comfortable with Ellie and Harry having immediate access to significant amounts of capital unconstrained in a "doomsday scenario"?
- When would you want your children to inherit capital if something were to happen to you?
- Are there any restrictions you would wish to have in place for inheriting capital?
- Is there anyone that you do not wish to inherit?
- Are there any specific bequests you wish to make?
- Are you happy making gifts to the children? How much control would you want on how gifts are used?
- Is divorce (for the children in the future) a concern to you?
- Are there any specific values you wish to reiterate to the children if something were to happen to you?
- Are you interested in supporting any charities or leaving any charitable legacies?
- Who would you trust to look after your business interests?

Outcomes

Mark and Gemma 'feel that they have enough', however, have no idea how to approach estate planning. They are happy gifting away capital they feel is surplus to requirements, but retaining control is important. They have no desire to pass significant amounts of wealth directly to Harry and Ellie.

Divorce is a concern, having both experienced the impact on other family members although similarly they do not wish to 'control their children from the grave'. They would be interested in setting up a family charitable vehicle in due course involving the children.

They would like to take small steps to distribute some capital to the children, to start an education process of managing wealth.

Balance sheet analysis

Following this discussion, we conduct a high-level analysis of Mark and Gemma's asset position with a view to:

- Commenting on their liquidity requirements.
- Providing them with a high-level overview of the potential monetary impact on their investable assets based on various assumptions.
- Stress-testing their portfolio where necessary to address objectives and discuss any comments or concerns.

We typically model two primary investment scenarios (medium and low), based on their already established (medium) risk tolerance.[2]

Profile	Low	Medium	Plus dividend yield
Year 1	1%	3%	1%
Year 2	3%	6%	1%
Year 3	-2%	-4%	1%
Year 3	5%	9%	1%
Year 5	3%	6%	1%
Average	**2%**	**4%**	**1%**

Tax analysis

We now proceed to understanding the tax position of the different component parts of Mark and Gemma's balance sheet.

1. Pre-exit Mark and Gemma have very simple financial affairs.
2. We quantify potential capital gains on their existing assets and their respective marginal rate income tax position.
3. There is clearly substantial Capital Gains Tax due on the sale of GenCaps Ltd. This has been quantified and taken into account within the analysis.

2. We typically use low and medium return profiles in the analysis. These profiles differentiate from medium-term returns expected from our portfolios. The aim is to be as conservative as possible within our stress-testing.

Stress test

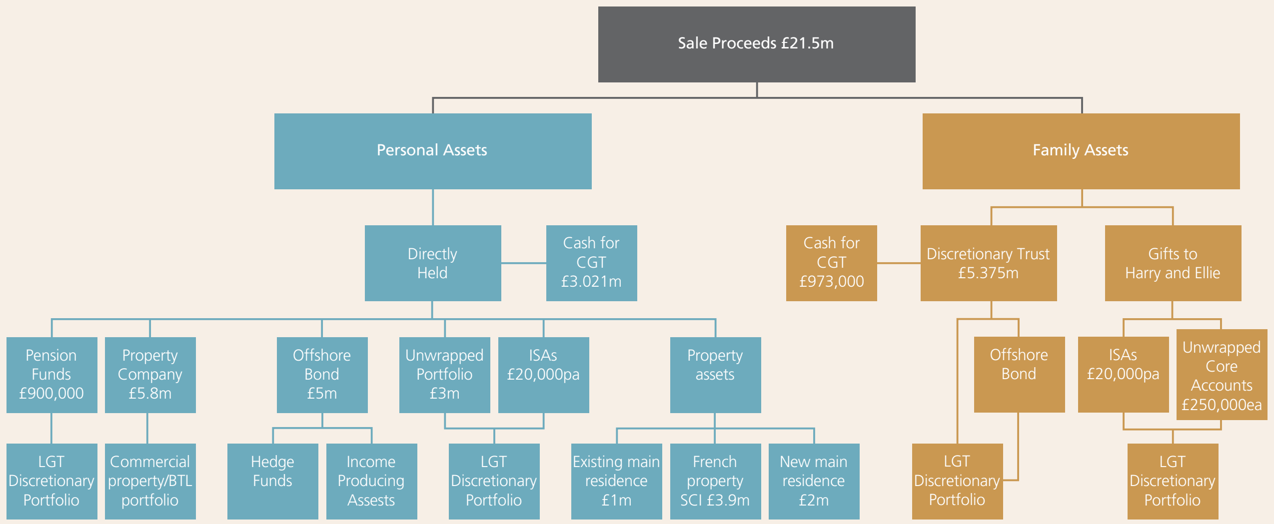
Present value of future capital expenditure

- We estimate the present value of Mark and Gemma's future capital expenditure requirements to be circa £6.7m based on conservative assumptions accounting for the existing property income and "medium" returns.
- We estimate that Mark and Gemma could satisfy their future inflation-linked capital requirement through investing £6.7m of their invested capital at that returns profile accounting for other assets on their balance sheet.
- This figure rises to circa £8.7m based on a low returns profile, again, accounting for volatility and other assets on their balance sheet.
- See Cashflow schedules for detailed cashflow analysis illustrating funding of Mark and Gemma's retirement based on differing investment returns.

Stress-testing the overall balance sheet

- Overall capital appreciation is well in excess of annualised expenditure accounting for tax leakage. In absolute terms, we envisage the value of family assets to be circa £41.1m In ten years. Discounted back to account for inflation, we envisage their asset base to be worth circa £29.7m in ten years.
- Projecting over a twenty-year basis, the family net worth rises to circa £61.5m in nominal terms, £33m in real terms.
- Using a lower returns assumption, in absolute terms, we envisage the value of family assets to be circa £38.2m in ten years. Discounted back to account for inflation, the figure equates to £27.6m in today's terms.
- Projecting over a twenty-year basis, their net worth rises to circa £52.9m in nominal terms, £28.4m in real terms.

Establish framework for Mark and Gemma



Proposed framework stress testing

- Accounting for the proposed gifting and "worst case scenario" returns, Mark and Gemma would retain £7.4m liquid funds in ten years (inclusive of their pensions). This figure reduces to £5.3m in 20 years (23% of which represents pensions).
- There is a decline in liquidity exacerbated over time in this scenario. There would be insufficient liquidity to repay outstanding debt in circa 28 years. Any early repayment of debt from liquid funds further reduces liquidity.
- Given the above, and an increasing reliance on pensions, tax efficiency would likely be compromised in this situation.
- That said, total parental assets remain at £22.5m and £23.1m in ten years and 20 years respectively.

Proposed framework: benefits (real terms analysis)

- The combined strategy could devolve circa £6m to the family in ten years, rising to £7.3m in 20 years.
- The strategy retains sufficient liquidity to cover capital requirements. Capital appreciation and income remain above the required expenditure in real terms.
- The structure broadly caters for Mark and Gemma's after-tax capital requirements whilst providing flexibility to provide for any additional future expenses from:
  - Further withdrawals from the Offshore Bond (up to £245,000 cumulative within their available allowance).
  - Withdrawal of Shareholder loan or dividend from the PIC.
  - Extracting more gains from the core portfolio.
- Importantly, Mark and Gemma believe they will sell their existing main residence (as a minimum) to reduce overall property exposure and increase liquidity in the future if needs be.
- Also importantly, Mark and Gemma retain control over much of the family assets whilst starting an education process for Ellie and Harry around managing wealth.

Find out more about the strategic direction for Mark and Gemma in the appendix: 'Next steps for Mark and Gemma'

Charging structure

Our fees are competitive, fair and transparent. We typically charge a fixed fee based on the scope of work, complexity and estimated time to completion. Fees are communicated to clients via a letter of engagement at the outset before commencement of any work.

Fees can be transactional based on specific projects or ongoing. Where we charge clients ongoing fees, our proactive and long-term approach means we periodically review the progress of recommended strategies and can discuss any changes needed as a result of legislation, or personal circumstances. The ultimate aim being to provide an all-encompassing wealth advisory and investment management service for our clients.

Further specific information on our fees is available upon request.

Appendix

Next steps for Mark and Gemma

Short-term actions	■ Getting the business ready for sale, ensuring the corporate house is in order and providing an introduction to impartial corporate finance experts. ■ Ensuring both qualify for Business Asset Disposal Relief (BADR).
Allocation of lifestyle funds	■ Based on low returns, estimation of fund required to meet future capital requirements to be £8.7m. ■ Allocated circa £10.7m across Core/Bond/Property Company to provide for future capital requirements tax-efficiently. ■ Likely supplemented from future sale of main residence or extracting more value from property company.
Allocation to property investment	■ Overall proposed property allocation (phase 3 of the proposal) equates to £12.9m, representing 40% of the balance sheet. ■ 54% (circa £7m) represents their 'investment property', which constitutes 21% of their overall balance sheet, excluding debt financing. ■ This represents a slight reduction in asset allocation from Mark's original thoughts following discussions.
Set aside money for tax bill	■ French Property purchase EUR4.5m (subject to analysis, see schedule 10). ■ Tax Bill: £3.994m. ■ 1 year fixed rate or short-term gilt investment for tax capital over first twelve months. ■ Short-term liquid "emergency" funds.
French property purchase	■ Discussions: debt vs no debt; Société Civile Immobilière (SCI) or direct; including the children to offset future wealth tax? ■ Property purchased through SCI without the children having an interest. ■ EUR4.5m (debt to offset wealth tax 50% secured / 50% Lombard overall blended euro rate 3%. ■ Projections undertaken to understand tipping point analysis of amortised debt over 20-year period. ■ Liaise with wealth planners in Geneva and French lawyers to coordinate and implement for clients.
Broader estate planning	■ We developed a gifting strategy, direct and regular for smaller amounts and circa 35% equity discretionary trust pre-exit. ■ Three-way meeting arranged with a lawyer (referred by us to provide advice and drafting around trust implementation), ourselves, Mark, Gemma, and their accountant (to ensure shares in the business qualified for Business Relief). ■ Considered optionality for distribution of share capital within the property business (alongside their tax adviser). Also considered re-structuring to consider growth shares. Agreed no action at this point with a view to revisiting. ■ Mark and Gemma's current wills are not fit for purpose. Discussed the requirement for a trust with a robust letter of wishes to compliment the PAM family trust. ■ Liaised with existing tax advisor and introduced lawyer to simultaneously re-draft the wills linking trusts and letters of wishes. Lasting Powers of Attorney also implemented for both.
Private debt and equity	■ Discussed Private Debt and Equity opportunities (EIS/ VCT/ Private Equity Funds) that may also qualify for various reliefs. ■ Mark and Gemma reviewing various EIS opportunities either self-sourced or sourced via our in-house alternatives team. Phased approach, frontloaded to maximise income tax reduction.
Housekeeping	■ Initial larger pension contribution to utilise relevant UK earnings and potential carry-forward capability. Further pension contributions to be made in the future from the investment portfolio. ■ Funding ISAs for the family. ■ Each family member has various standard allowances and reliefs available that we would look to make use of as a matter of course within the portfolios (to the extent that they are not using them elsewhere). ■ We discussed life assurance to cover Mark and Gemma's IHT Bill. Shortfall analysis conducted and Whole of Market quote obtained. ■ Next generation education programme discussed for Ellie and Harry with a view to potential implementation of a Donor Advised Fund (DAF) for the family within the next ten years. LGT has an in-house educational programme, the Next Gen Academy, which may be beneficial for Ellie and Harry to attend.

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