Issue 05

Horizons

Family Office & Investor Magazine

WHAT DOES MADONNA KNOW ABOUT HER GENES THAT YOU DON'T?

THE HIDDEN MOTIVES OF INVESTMENT TEAMS

APPLYING DESIGN THINKING IN CRISIS MANAGEMENT

STONE-WALLING EFFECTS IN FAMILY BUSINESSES

CASE STUDY: A FAMILY OFFICE GOING 100% IMPACT

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Already in 2012, one of Madonna's concert promoters, Álvaro Ramos, confessed that: "We have to take extreme care, like I have never seen for any other artist. *We cannot even look at the dressing room, after it is ready, or even open the door.* ***We can only enter after her sterilization team has left the room. There will not be any of Madonna's DNA, any hair, or anything. They will clean up everything.*** I do understand it, but it is taken to extremes."

In our cover story Ronnie S. Stangler, M.D., physician and psychiatrist who also served for over a decade as Chief Medical Officer to an international family office in London, Liechtenstein and Switzerland will be asking you: ***is Madonna paranoid - or smart?*** She also advises that families of wealth, who require safety, security and privacy at all costs, must reject direct-to-consumer gene testing products entirely, despite their "entertainment factor."

Anyone who runs, is part of, or works with investment teams is well advised to take a good look at the surprising findings Herman Brodie reveals in my interview, **"The Hidden Motives of Investment Teams".**

Corona-virus or something else, nobody wants to be thrown into an existential crisis that could see significant parts of your family wealth disappear. But should that happen, you better get really professional at managing the crisis, says Octavian Graf Pilati, who from 2015-2018 managed the crisis in his family business stemming from a failed investment. Pilati, who is also well known in Austria as one of the country's youngest palace owners (he actually owns a castle as well), highly recommends the **Design Thinking Process** and runs us through a practical case study. Graf Pilati also offers the Opalesque SKILLSLAB **COVID-19 Survival Training for Family Businesses** webinar on April 15th, register here: https://www.opalesque.com/webinar/covid_survival/

My recommendation: Even if you're not having to face an existential crisis right now, print this issue (or specifically the pages 15-21) and store it somewhere we you can retrieve it easily when needed.

In this March 2020 issue, we are looking at more **governance & succession** themes, and also feature a new Ocean Investment Fund that is doing some remarkable work around **Impact Measurement,** a crucial area that we keep focusing on.

Horizons is a free publication, please use this link to subscribe. Past issues can be downloaded here. If you are interested in actively getting involved as a contributor or sponsor of this exclusive magazine which reaches a **readership of 100,000 globally,** please email me directly. I look forward to hearing from you.

Matthias Knab
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What Does Madonna Know About Her Genes That You Don't? Genomics and Its Impact on Families of Wealth

Ronnie S. Stangler, M.D.

Ronnie S. Stangler, M.D., physician and psychiatrist, is Founder of Genome Advisory, based in New York City. Uniquely positioned at the intersection of health, wealth and science, Genome Advisory consults with individuals, global families and their advisors, using the DNA science of genomics to enhance strategic plans regarding health, risk and legacy.

Dr. Stangler served for over a decade as Chief Medical Officer to an international family office in London, Liechtenstein and Switzerland.

She is Clinical Professor of the Department of Psychiatry and Behavioral Sciences at the University of Washington, and contributed as Advisor to the Department of Genetics, Personal Genetics Education Project, Harvard Medical School.

When Madonna performs, she reportedly engages a sterilization team to sweep, mop and wipe every surface of her dressing room, so that no trace of her DNA is left for surreptitious analysis, cloning or experimentation. Hacking portends the specter of a black market which will trade in valuable genetic information about prominent individuals and families. Is Madonna paranoid? Or smart? You decide...

2020: THE AGE OF THE GENOME

The DNA science of genomics is now a critical part of strategic planning regarding health, risk and legacy for wealthy individuals, global families and their advisors.

Every living organism is made up of **cells.** Each cell contains a set of **genes** encoded with DNA which provides comprehensive instructions that constitute the master blueprint for our lives. In conjunction with environment and lifestyle, our genes are responsible for determining fundamentals of who we are: our appearance; traits; how we survive and prosper; how we age; how we decline.

Genes are our universal inheritance and legacy. They have been so since the onset of humankind. Historically they have been an invisible presence. Until now.

We have entered the **Age of the Genome,** an extraordinary era of transformative biotechnology. Today, we can not only fully see our genes - an essential building block of our humanity - but we can read them like the words of a book. And now we can edit, enhance and create genes, as well.

GENETICS vs GENOMICS

Genetics is the study of heredity and individual genes. Many of us first learned about genetics in high-school biology as we contemplated Mendel's pea plant experiments of the 1860s.

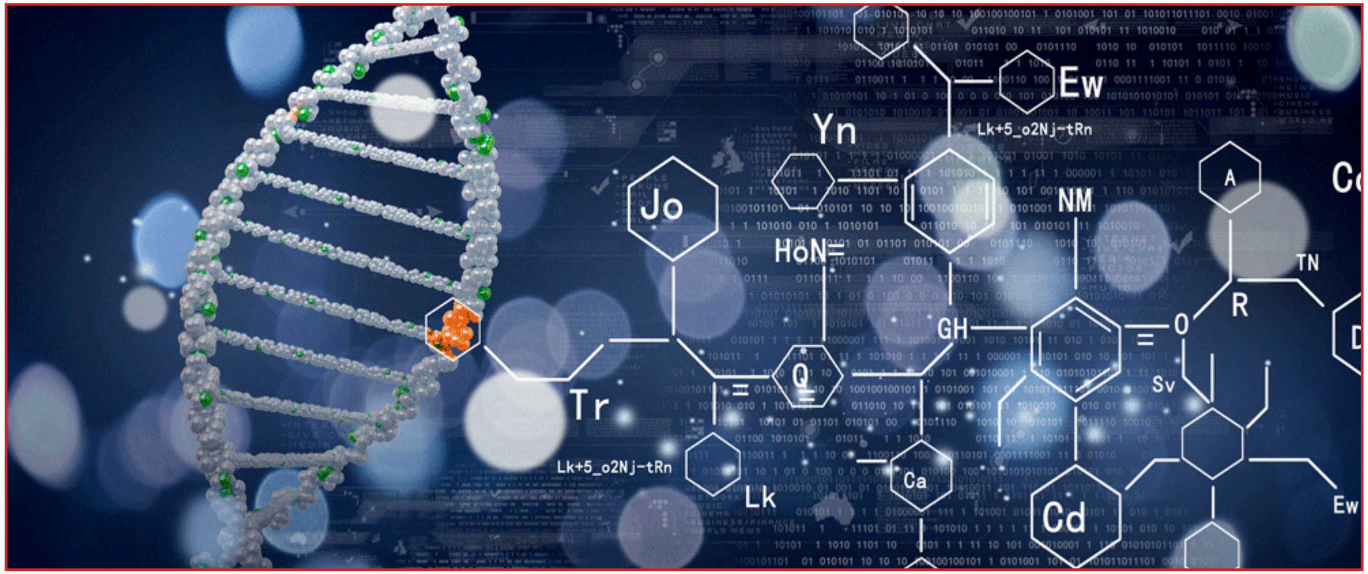
Genomics is the study of an organism's complete set of genes, called the genome, the entirety of its DNA. The genome can be analyzed through a process called **whole genome sequencing (WGS).**

The first human genome was sequenced in 2003. This fifteen year project cost over $3B. Today, we can analyze the human genome for less than $1,000 within weeks. Personal motivations for WGS currently include: accessing health information, often providing actionable insights; understanding disease risk; knowing what one will pass on to one's children; and receiving information about response to particular medications (pharmacogenomics).

GENOTYPING vs WHOLE GENOME SEQUENCING

While DNA and genes are now very much a part of public consciousness, propelled mostly by widespread adoption of direct-to-consumer (DTC) genotyping products (e.g. 23andMe, Ancestry.com, etc.), few understand the specifics of what these products offer.

The technology underlying **direct-to-consumer genetic analyses** is **genotyping,** which provides a limited picture of less than one percent of one's genes, preselected by individual companies on the basis of known associations with specific traits and diseases.



source: European Pharmaceutical Manufacturer Magazine

Alternatively, **whole genome sequencing** provides a literal snapshot of the entirety of one's genes. Some have compared the difference between genotyping and WGS to the difference between a tricycle and a race car.

GENOMICS AND WEALTH

The wealthy represent a population with the same concerns about health and genes as all others. However, factors in their environment generate unique concerns. The very terms "family enterprise", "family office" and "family legacy" convey their requisite focus on all that is family. And **genes permeate all aspects of family.**

Traditionally the wealthy have focused on financial well-being, preservation and growth of capital. New knowledge of family genes will progressively influence all aspects of health, physical and emotional well-being; reproduction and family relationships; as well as the most traditional domains of family advising and operation of family enterprise. And the wealthy are already amongst the earliest adopters of cutting-edge DNA science.

Genomic information is already being used to inform best decisions around health, risk and legacy. Thus, **knowledge of genomics and its impact on wealthy families is now part of an essential toolkit for the family advisory.** Preeminent families have already embraced planning of genomics strategy.

VIEWING THE FAMILY OFFICE THROUGH THE LENS OF GENOMICS

Genomics has moved from an abstract quantitative entry in investment portfolios to a vital living tool for creating healthier, longer, disease-free lives.

How can we consider <u>succession</u> without considering genes?
Heredity is succession. It is the succession of genes. How will succession planning be affected by knowledge of health futures of family members?

How can we consider <u>trusts</u> without considering genes?
As we learn more about health risks, there are profound financial and social implications. If a family member has significant likelihood of imminent disease, appropriate planning is critical. What family resources should be allocated to access new mitigating interventions? Early gene-editing therapies are extremely costly, and no matter how wealthy a family, resources are finite.

How can we consider <u>estate planning</u> without considering genes?
Radical longevity and the genetic means to achieve it will alter financial requirements. New financial instruments must be developed to accommodate increased lifespan.

How can we consider <u>fiduciary responsibility</u> without considering genes?
Trustees and advisors will be challenged by new medical information that is difficult to interpret. Deciding how to utilize this information creates unprecedented ethical dilemmas. Families must align on an ethical framework to guide such decisions.

How can we consider <u>governance</u> without considering genes?
Governance must reflect a common family vision with the understanding that **genetics is not a solo sport.** Every biologically related family member is literally tied to every other by the life thread of shared DNA.

And perhaps, most of all, as families plan for the future...

How can we consider <u>next-gen</u> without considering genes?
Next-gen have access to rapidly evolving radical reproductive technologies. They must also navigate new relationships with parents who may be physically and mentally vital well into their nineties and beyond. Parents may wish to continue their tenure within the family enterprise. This will create new frictions. *Parents may also choose to create genetically enhanced new children, perhaps younger by an entire generation than their older siblings.*

DEVELOPING A GENOMICS STRATEGY FOR YOUR FAMILY AND FAMILY OFFICE

Family offices are as unique as the families they serve. Genomics strategy must be developed to support families as they navigate the complex field of genomics and engage with the science directly.

Human and behavioral perspectives cannot be ignored. Genomic information will have an impact on family dynamics; family identity; and the psyches of individuals who learn about new health risks, vulnerabilities and opportunities for enhancement.

Wealthy families are already formalizing **family genomics charters** to guide ethical decision making, now and through the future.

Genes are rarely absolute destiny. Our environment and life experiences profoundly alter the expression of genes. Will knowledge of genes spur us to better life choices? Change is challenging. Family members require high-touch support to alter behavior in positive ways.

There is dire need, as well, for trustees and advisors to understand the complex nature of systems of wealth and to integrate rapidly evolving biological considerations through processes when appropriate and beneficial to do so. Trustees and advisors will help determine how decisions are made; where sensitive data is saved; who has the right to access such data and when; and how resources will be allocated.

Families of wealth have the financial means to direct education and funding of medical initiatives of unique concern, as well as the potential to fund more generative, legacy and aspirational projects.

For example, when Sergei Brin, Co-Founder of Google, learned about his genetic vulnerability to Parkinson's Disease, he radically altered his philanthropic strategy to support basic science research in the field. After changing the way the world searches for information on the web, he has now revolutionized how scientists approach Parkinson's Disease.

Genomics will inevitably become an essential component of the family philanthropy portfolio in highly personal ways.

RISK MITIGATION FOR UHNW FAMILIES

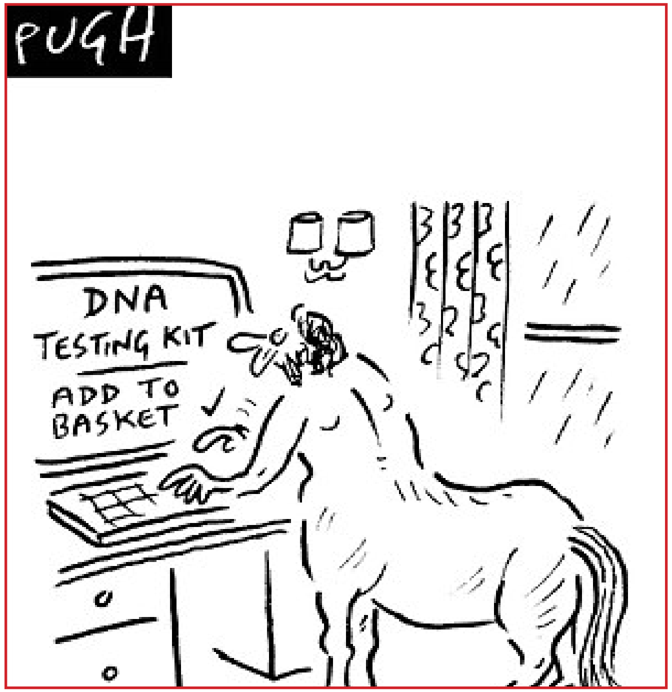
Risk mitigation is a core responsibility in management of UHNW families and wealth. Direct-to-consumer genetic testing products present risks that must be contained immediately.

In December 2019, the United States Pentagon provided strong caution about the use of consumer genetic products by the military ("Pentagon Warns Military Personnel Against At-Home DNA Tests", The New York Times, 24 December 2019).

Legal professionals have spoken out as well: "Collecting [genetic] data could have unintended consequences. It can be lost to hackers, spies, others who might steal it... or exposed in government investigations through subpoenas... So people planning to plaster their deepest internal and family secrets into private company databases should consider the risks that the private DNA mills don't want you to think about." ("The Shell Game Played with Your DNA, or 23 and Screwing Me", The National Law Review, 23 January 2020).

These groups represent a mere handful of increasingly concerned entities who detail gross compromise of privacy, security and accuracy. **And Madonna saw it coming!**

As a predominantly unregulated industry, DTC genetic testing entities often provide misleading information based on pseudoscience, making undeliverable promises. At times they offer false and dangerous reassurance about lack of medical vulnerability. For example, 23andMe only tests for three variants of BRCA genes responsible for breast and ovarian cancer, although more than 1,000 BRCA variants are known to increase cancer risk. 90% of participants who carry a BRCA mutation would be missed by today's 23andMe test.



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Families of wealth, who require safety, security and privacy at all costs, must reject these at-home testing products entirely. The infotainment they provide is not an acceptable trade-off for the risks they impose, especially compromised safety.

By contrast, the whole genome sequencing industry is strictly regulated, governed by law and operates with the highest evidence-based technical medical standards and protection requirements for those whom they serve. **Whole genome sequencing presents a far superior alternative for families of wealth.**

Sequencing itself is but the first step of a life-long genomics journey. Once you have been sequenced, interpretation of your raw genomic data is a dynamic process, constantly evolving. New and increasingly complex insights will become available at exponential speed. Professional guidance is an absolute requirement to optimize translation and enhance health.

Imagine the following scenario:

A highly educated, vital, healthy 35 year-old family member is appointed CEO of the core global family enterprise. He dies at his desk from an unanticipated cardiac event on the second day of his tenure.

Consider the profound emotional and social impact of such an event on his family, the family office and the larger family organization. And consider the economic risk of not anticipating such an event, especially as this silent medical condition might have been understood using currently available DNA medical science through whole genome sequencing ("Predicting Sudden Cardiac Death", The Harvard Gazette, 16 November 2019).

THE FUTURE

Families of wealth, family offices and family enterprise will ultimately be enriched by the gifts of genomics. This disruptive, deeply intimate human science bodes an extraordinary future with elimination of malignant disease, enhanced well-being and healthy longevity.

With new knowledge and agency comes new fiduciary responsibility to protect the lives of those we serve. We must all wrestle with its challenges, especially its ethics. Arming families with a working knowledge of genomics and a formal blueprint for its ethical application allows them to shape their most powerful legacy and future.

Herman Brodie: The Hidden Motives of Investment Teams

Herman Brodie

Herman Brodie is a specialist in behavioral economics, author, international speaker, and founder of Prospecta, a consultancy firm that advises businesses on the use of behavioral sciences research. Many of the hurdles we, or our businesses, face are behavioral. So, over the past 20 years or so, he has helped to find solutions to challenges relating to complex decision making, change management, client relationships, team dynamics, ethics and trust, and has advised hundreds of firms in his primary domain, the financial services industry.

This article is a Q&A following a presentation by Herman Brodie at Club b's family office conference in Monaco.

Matthias Knab: Herman, I know that over the last several years you have spent an enormous amount of time with investment teams around the world helping them to optimize their decision processes.

What have you seen, and what are your recommendations for teams to optimize their decision process?

Herman Brodie: One of the things that has really struck me in my many conversations with investment professionals is how often they **speak disparagingly about working in teams.** That relates not just to the quality of the decisions those teams make, but also the activities of the team itself, so principally the meeting.

This is puzzling because as soon as organizations are faced with a complex decision task, whether it is in investment management, politics, industry or the military, the first thing they do is to put a team together.

Matthias Knab: So, teams are like Churchill's description of democracy: the worst way of government, except from all the others?

Herman Brodie: It certainly seemed that way.

Why create teams if we are unhappy with them? Philosophers say that frustration like this arises when there is a gap between our expectations and our reality. So, I started my search for an answer there, in people's expectations.

We asked scores of investment managers and analysts what they expected from their group activities. The results made the source of the frustration abundantly clear: none of the most popular expectations occur automatically when people come together in decision-making groups.

Matthias Knab: Can you give examples of the most common expectations?

Herman Brodie: Sure. People quite reasonably expect more heads to be better than one. The group's combined knowledge, experience, expertise should be greater than any individual's. So, group members are collectively expected to provide more information, to be able to correct each other's errors, and to come up with more ideas. But these things do not always happen. This is because group members have an even more important objective, namely, *to simply belong to the group.*

You see, human beings are intensely social animals. As soon as we come together in a group, we instinctively seek the recognition of other group members. We crave their approval. We want power, status and influence within those groups. We will also seek to avoid being marginalized, sanctioned or to be ejected from those groups. We found that this social imperative really drives everything that is said and done within those groups as well as everything that is not said and not done.

Matthias Knab: Do we do this in all our groups?

Herman Brodie: To some extent, yes. Sometimes we seek the approval of people *we do not even like* just to be part of a group. Of course, we are all attached to many different groups simultaneously, like at work, with friends or with family. So, membership of one group might conflict with membership of another, and we must withdraw. But this is not something we do readily.

Social scientists describe belonging as a core social motive. Neuropsychologists, like Matthew Lieberman, have done brain scans of people threatened with physical pain (e.g., a punch in the mouth) and those threatened with social pain (e.g., social exclusion), and have discovered that the same area of the brain becomes active. This means that, for the brain, these two threats are indistinguishable one from the other – **social pain *literally hurts*.** Yet, the desire to belong was not frequently cited as an expectation among the investment professionals in our sample.

Matthias Knab: This means that team members are pursing one thing, to belong, but then expecting another?

Herman Brodie: Precisely. **But the pursuit of belonging is non-conscious. It constantly gets in the way, but we are unaware of it. As a result, we are frustrated when our efforts at robust decision making are compromised.**

Matthias Knab: Tell us about the ways this social imperative gets in the way of good decisions.

Herman Brodie: Because we want to achieve social status, recognition and approval, we start thinking about it even before opening our mouths in a group situation. How will the information or opinion I am about to share be received by the others? Will they approve? Will I accrue status and influence? Will I be liked?

If the answer to these unspoken questions is 'yes', then I will be motivated to share. If, on the other hand, I believe my contribution might prove unpopular, controversial, or disruptive, I might think slightly differently about sharing. I might even self-censor.

This tendency gives rise to what is known as the **Common Knowledge Effect,** whereby people in groups tend to spend more time talking about things that everybody already knows – and approves of – than about things that perhaps only one person knows, or that might prove to be controversial.

Let's look at an example of a three-person investment team that must choose between investing in stock A or in stock B. Imagine that each individual has two good reasons for buying stock A, call them arguments #1 and #2, and they all have one good argument for buying stock B, but each a different argument. Collectively, therefore, this team has two arguments for stock A but three for stock B. On the face of it we have a winner, B, but very often it's A that is chosen. Why?

There are three psychological mechanisms that play a role. The first one is simple recall.

Remember, each team member has two good arguments for A, and only one good argument for B. If they can remember any argument at all when the meeting starts, it's more likely to be an argument for stock A because there are twice as many of them.

The second mechanism occurs because every team member goes into the meeting with the individual conviction that stock A is the better choice – two arguments versus just one for stock B. If you go around the table and ask what everyone thinks, the group will quickly settle on stock A and wrap up the meeting. *This is why you should never ask what people think at the outset of a meeting.*

The third mechanism results from the dynamics of the group's conversation. In our example, those dynamics might unfold like this: The first person to speak shares a positive argument for stock A. Not surprisingly, the other two members endorse this argument because they share the same belief. The group then spends some time discussing argument #1 for stock A, even though they all knew it beforehand.

Then one of them will mention argument #2 for stock A. Once again, there is a round of endorsements and more time spent in supportive conversation. Now you can imagine the mood is starting to warm, and group members are starting to feel more confident, because they saw their own beliefs reflected in the opinions of other people. Indeed, we can get a dopamine rush when people reflect our ideas and beliefs back at us.

At some point, it might occur to one team member that he/she also has a good buying argument for stock B. Against such a backdrop, though, this argument is often withheld because:

- it's only one argument, while there are already two for stock A;
- the person believes nobody wants to hear information that contradicts current thinking;
- the person fears being perceived as disruptive and troublesome;
- it's getting late and they have already been sitting here for quite a while.

As a result, none of the arguments for stock B are ever shared, even though they would have proved decisive.

Matthias Knab: You mentioned that asking people what they think at the start of a group meeting is not a good idea. Do you have any other cautionary messages?

Herman Brodie: Often decision makers see their job as providing solutions. But this point of view is counterproductive when we work in teams.

Team members often adhere to their pre-prepared solutions and are reluctant to change their minds, even in the face of contrary evidence. They then waste time pointlessly defending their original ideas.

The goal of a group meeting must be about getting all the relevant knowledge, experience, and expertise out into the open where *everybody can see it.* Next, they can evaluate it, as a team, and reach a decision.

There is almost always some unshared information in groups. This is information that team members have deliberately withheld because it conflicts with their social imperative to belong. If that information is critical to their mission, the team with underperform, while thoroughly enjoying their time together.

To encourage the sharing of this unshared information you must be explicit about it, you must say the words. **'Does anybody have any unshared information?'** And when people do share this information – which, after all, is what the group wants – *they need to be rewarded for it socially*. They must be given the recognition, the status, the applause from the boss or from other high-status group members. The 'social reward' is incredibly powerful as a motivator, and it is free.

Another technique which works well is to assign the informal role of **'information expert'** to team members. In these roles, each is responsible for the information pertaining to one key aspect of the decision. For example, as we are talking about stocks A and B, we might make one person the information expert for the firms' competitive and regulatory environment. We make another person the balance-sheet expert, and the other the expert on the management teams of those two firms.

How does one gain social recognition in the role of information expert? One must simply be very good that role. One must be on top of that brief, one must become the go-to person for all relevant information in that domain. Not only are information experts motivated to uncover the information pertinent to their role, they are also motivated to share it in order to demonstrate to others how good they are.

There are numerous other methods organizations can use to encourage more information sharing in their groups. As this is the primary obstacle to robust decision making, I do spend much of my time with investment decision teams working on precisely this issue.

Matthias Knab: You say that an investment manager should not be expected a provide answers, just knowledge, experience and expertise. To many, that might sound counter-intuitive; some would say that providing answers is precisely the reason they were hired.

Herman Brodie: For complex tasks, intellectual tasks, where there can be no demonstrably correct answer at the moment we must choose a course of action, no individual is likely to have all the answers all the time. Therefore, we create teams in order to increase the pool of resources and to increase the chances of finding the right answers. To take advantage of those resources, we need mechanisms to encourage behaviors like information sharing, and organizational cultures to allow expertise and experience to flow into the decision.

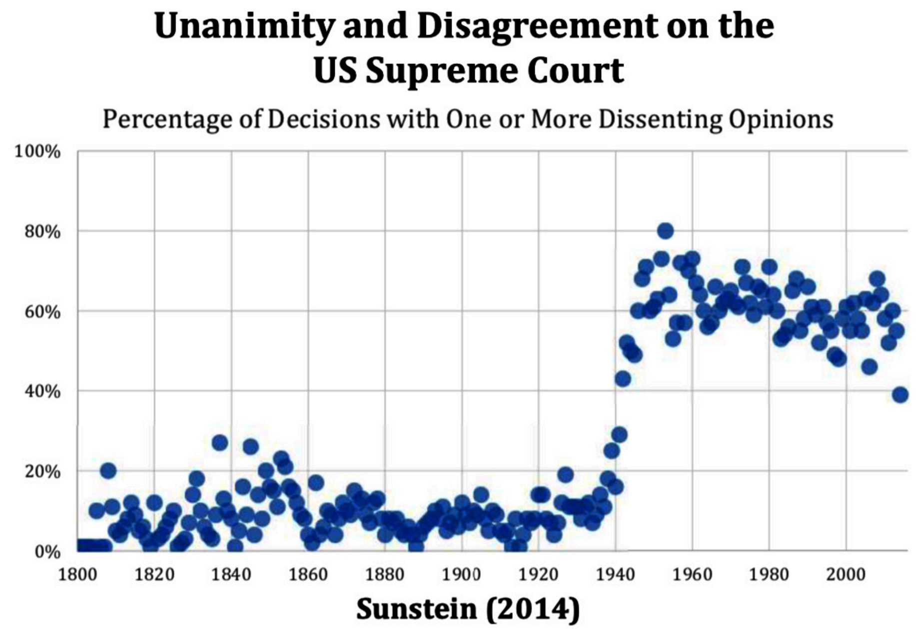
Matthias Knab: Allow? Can cultures impede the flow of expertise?

Herman Brodie: Absolutely. Imagine an organizational culture where no one dares disagree with the boss for fear of losing his/her job. If your experience and training convince you that the boss's preferred course of action is wrong then that wisdom will not be part of the decision, at least, not if you want to keep your job.

An organizational culture is the sum of all its group norms. These are the unspoken, unwritten rules that dictate conduct and behavior within those groups. So, having the permission to disagree with the boss is an example of a group norm. Group members quickly learn where the group norms are, either by overstepping the boundaries and being punished, or by seeing others do the same. This leads to c**onformity through self-censorship and to uniformity.**

Matthias Knab: Where do the norms come from?

Herman Brodie: It's the high-status members of the group who set the norms because they are the ones who have the power to reward and to sanction.



Typically, the norm-setters are the leaders. This also means that we cannot talk about norms without also talking about leadership.

Let me share with you a case study about leadership, and about norms and norm change. On this graphic are 200 years of decisions of the US Supreme Court. Each of those blue dots represent the proportion of judgments each year where there were one or more dissenting votes. In the first 140 years or so, you will notice that dissent was quite rare. In approximately nine decisions in ten, the judgement handed down was unanimous. In fact, it was commonly believed at the time that to have a unanimous opinion gave the judgment of the court more gravitas, so the norm was to strive for consensus.

After 1940, though, dissent skyrocketed to about 60% and it has largely stayed there ever since. Why did this happen? One study by Cass Sunstein concluded that this was due to the actions of just one individual, Harlan Fiske Stone, who was promoted from Supreme Court Justice to Chief Justice in 1941 and remained there until his death in 1946. Yet, **Chief Justice Stone did not change the existence of dissent on the bench, argued Sunstein, he only changed their *willingness* to express it.**

Stone disagreed with the prevailing norm that a consensus opinion necessarily reflected a good decision. He believed that dissent revealed the nuances of the debate and permitted a clearer understanding of the issues for observers.

Stone was himself a serial dissenter, so some of those blue dots before 1940 were also due to him. After he became the Chief Justice in 1941, you can imagine that he used his position to promote this viewpoint among the other justices. If they wanted to impress their 'boss', an obvious way to do it would be to publicly dissent if they had a dissenting opinion.

A second change that Stone made was to give all justices individual responsibility. Until 1941, the opinions of the US Supreme Court were handed down in a single document, called the Opinions of the Court, which was usually written by the Chief Justice himself. If there were some dissenting opinions during the deliberations, the Chief Justice would very likely smooth over those voices in the final text, or just ignore them altogether. Against a backdrop of a consensus-is-good norm, the motivation to share a dissenting opinion would not be very high.

Stone changed this practice. Under his leadership, he insisted that each justice write his (there were no women at the Supreme Court in the 1940s) own opinion. That opinion would be etched in black and white for legal scholars to pore over for all eternity. So, they had an interest to write what they genuinely believed.

A third change he made was to allow time for longer discussions. If one is facing a complex decision task, and one wants to encourage dissent, discussions are going to last longer. Stone decided that the Court should hear fewer cases (an option that was open to it since 1925, but never used) but discuss them longer in order to air the dissent.

I must add that I am not claiming that Supreme Court decisions are better now than they were in the past, although there is a lot of evidence to suggest that groups with dissenters make more robust decisions and are more innovative. The reason I am showing you this case study is that when I speak to investment professionals, they often tell me that the way they make decisions is 'their way'. It's comfortable, inevitable, immutable.

I want to tell you that every norm feels comfortable, inevitable, immutable. **It's just the shift from one norm to another that's uncomfortable.** Once you get to the new one, it feels just as comfortable as the one that you had before. This means that if you believe that a different norm would suit your decision making purposes better, or suit your organizational goals better, it is possible to change.

Look at Stone: he took a norm that had been in place for 140 years, changed it over the space of five and it's still there 70 years after his death. If he can do that at the US Supreme Court, arguably, the most schooled and experienced group of experts in the country, then, in our humble groups, I am sure that we are also able to achieve it.

Matthias Knab: Is it possible to simply abandon this social motive?

Herman Brodie: I doubt it. It is an integral part of what makes us human and is the source of other traits, like loyalty, that we find desirable.

The solution to improving group activity, therefore, is to organize the decision process in such a way that the attainment to the group's objectives becomes precisely the route by which one achieves social rewards.

This means that when people do the things that the organization wants, they must be rewarded for it socially. This is achieved through recognition and leadership from the high-status members of those groups.

Octavian Graf Pilati: Applying Design Thinking in Crisis Management

Octavian Graf Pilati

Octavian Graf Pilati comes from a family (Khevenhüller) whose history dates back to before the year 1000. He studied mechanical engineering at the TU Vienna. In the years 2015-2018 he managed the crisis in the family business stemming from a failed investment.

Graf Pilati also offers the Opalesque SKILLSLAB **COVID-19 Survival Training for Family Businesses** webinar on April 15th, register here: https://www.opalesque.com/webinar/covid_survival/

Coming from an engineering background, I principally use the Design Thinking Process when solving problems. Thus, when I had the privilege of managing a major crisis in our family business (forestry), I went about the management of the crisis in this manner. After much reflection, I have noticed that the way designers and product developers think is not used a lot in management. However, Design Thinking has become more of a topic in the last few years. So, how does one apply each of these steps in a crisis?

First, let's look at how a crisis is defined by looking into the Cambridge Dictionary and at the Business English definition:

- A situation that is extremely difficult or dangerous, when there are many problems.

This is of course a very broad definition. Drawing from my own experiences, let me add a few key things to be aware of in a crisis:

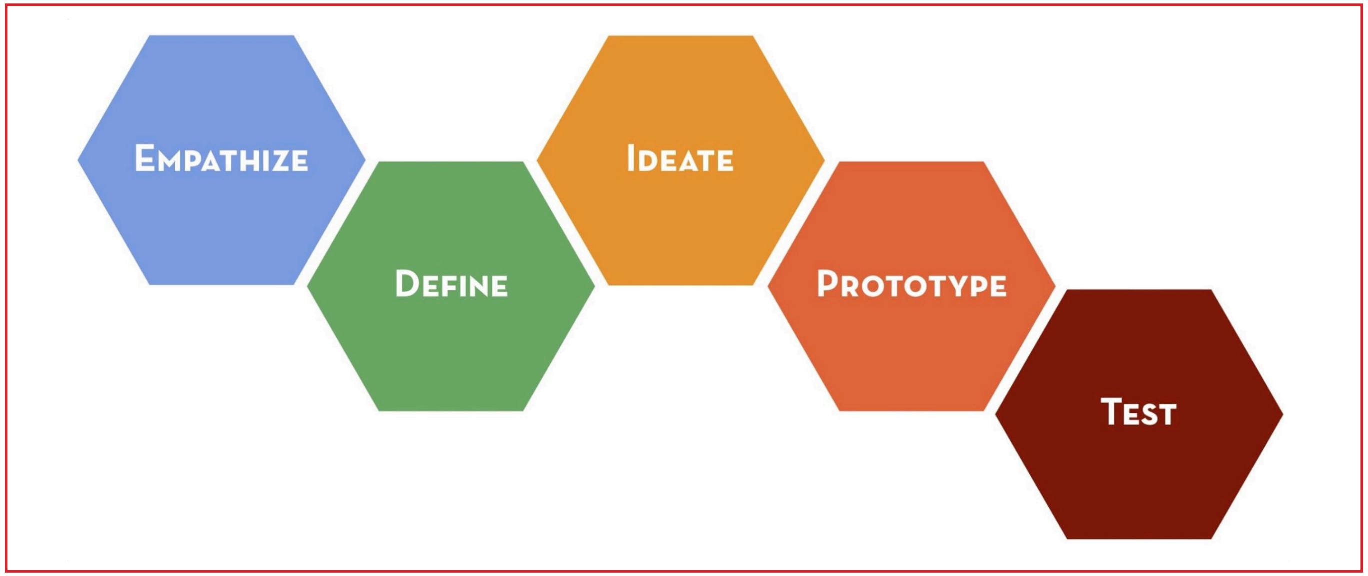
- The pressure for a fast solution is immense. Most stakeholders are worried and stressed and push for a fast (not well thought out) solution.
- Often the reasons that led to the crisis are unknown.
- Stakeholders, shareholders and advisors/third parties often have their own agendas in a crisis.
- The room for mistakes is often very slim.
- People in a crisis tend to seek isolation.
- Beware of the negativity bias: Losses and problems are psychologically given twice as much value as gains are.

Now, what is Design Thinking? There are many different definitions and many different processes out there. Essentially, Design Thinking describes nothing more than the thought process a designer goes through when he is trying to design a product. From a management perspective, we can view a crisis as a problem that needs solving.

One of the most widely used processes is the **Stanford Design Thinking Model,** which splits the process into 5 steps:

1. Empathize: To gain an emphatic understanding of the problem you are trying to solve.

2. Define: To analyse the previously gathered observations and synthesise them in order to



define the core problems that needs to be solved. Typically, a design specification is created.

3. Ideate: By looking at the defined problem from different angles and reframing the problem several times, the aim is to create many different solutions.

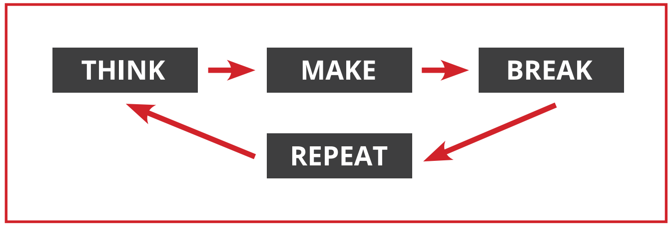
4. Prototype: The aim of prototyping is to create inexpensive and scaled down versions of the generated ideas, which seem to have the most potential.

5. Test: The prototypes are tested against the specification and with the users, to evaluate how well they solve the problem.

Note: The Design Thinking Process is an iterative and non-linear process, meaning that at any stage you may go back to the beginning or just a stage earlier. Each step will increase your understanding of the problem and may send you back to the drawing board. This is an important fact.

THINK – MAKE – BREAK – REPEAT

Given the points from above we will now apply the Design Thinking Process to a crisis. For better clarity we will introduce a generic crisis as example which is purely illustrative and kept very simple.



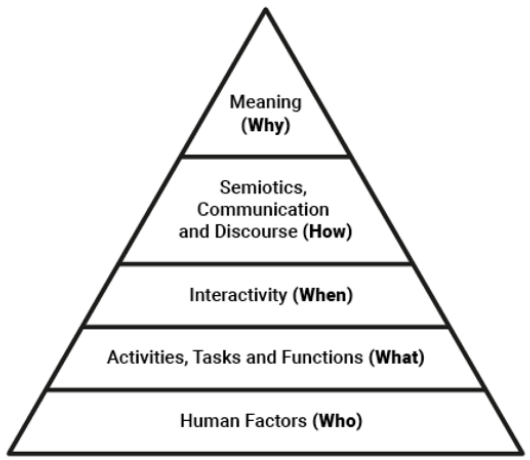
A company founder with 75 years of age is still the CEO while his son, 35, is head of sales. The mother has previously retired from her law firm and now indulges in philanthropy. The company is in financial troubles as performance has been dropping. The company sells machinery in the foods industry.

Empathise

In a crisis there are often several stakeholders, opponents and shareholders. As stated above everyone has their own reasons and agendas for how they act. When you are given the task to resolve a crisis it is of paramount importance to **Empathize with everyone involved** and try to understand their agendas. Only then you can plan for things ahead and take them into account. At this initial stage it is important to find the underlying reasons for the crisis. Is it a lack of innovation in the last years? Is it fraud? Is it bad decision making? Etc.

More often then not it is a combination of several problems (as the definition of a crisis suggests). **Given the complexity of a crisis this step takes time and short cuts should <u>not</u> be taken.** From a management perspective it is vital to stabilise the situation first and to work to gain time. **Everything in life is full of paradoxes and one of the biggest paradoxes in a crisis is the need for speed, while not having much room for error.** A personal tip from my side, when you are pressured to act fast by others: If the navy seals take their time in a combat situation to think before they act, so can you.

Below you see the "Human-centred design pyramid". This is a short overview of how to go about emphasising and which questions you want to ask yourself. Asking why, how, when, what or who will help you identify all the factors involved in the problem.



To keep things simple again we will now only Emphasise with the 3 family members.

The CEO has built up the business from scratch being an engineer by training and identifies himself with the business – he is the business. The son has studied economics to take over the business from his father. Straight after university he went into the family business, having to work his way up till he got the position of Sales Manager. The mother has stood by the father's side for 45 years now and has gone through thick and thin with her husband.

In a real setting you are either the family office manager, who takes care of the financial aspects, or you come in to manage the crisis. Either way, you would start with interviewing the family members. Here you try to apply emphatic listening (on a more detailed explanation I can suggest the book "7 Habits of highly effective people" by Stephen Covey). The outcome is that the father has no plans to hand over the CEO before he dies and doesn't really see the urgency in the crisis, ups and downs are normal in the business. The son never wanted to study economics, he felt it was expected of him and would rather start something of his own. The wife feels that it is time to transition into a next phase in live, she is somewhat fed up of her husband going to the office six to seven days a week. She spends most her time in philanthropy and wants to enjoy the rest of her life.

Looking at the business you see that costs have gone up, sales have slumped and in comparison to competitors processes and machinery are outdated. Analysing stakeholders and employees has brought no concerning insights.

Define

Now, after gathering up all the information you can in the Empathise stage, it is time to use this information to define the problem. **From personal experience in a crisis, the problem is often wrongly defined to begin with**. Most people will focus at the obvious problem at hand. For example, that the business is running low on liquidity and is heading for bankruptcy. Of course, it is important to avoid going into bankruptcy and to sort out the liquidity problem, but in order to solve the crisis one needs to look deeper. I call this the "complete the puzzle" stage. Any piece of information is a puzzle piece that will help you build the whole picture (caveat: be careful as sometimes you can have more than one picture).

To put some examples out there that could be the deeper reasons for a crisis:

- It might be dysfunction in the family, which leads to family members pushing their own agendas.
- Incompetence or fraud is often the case. Key employees or members in the family may not be made for the job, or worse, are actively stealing.
- Lack of innovation. For example, the product offered is outdated, your manufacturing line is old or you have not adapted to changes in markets and economics.
- In a production context it can be a lack of maintenance or poor maintenance, which leads to machinery breaking down.

In the Define phase it is also quite important to be certain about at what level the problems lie. **In a family context, I believe firmly that a crisis will mostly come down to dysfunction in the family.** This is the deepest level you can go. Dysfunction can mean anything from the patriarch staying in the position of CEO for too long, next generation taking over, but not having been prepared for it, fighting between family members, etc. For more on this topic I suggest reading about behavioural risk, which has been written about in the Horizons issue number 4.

Looking beyond the emotional expressions of family members in a crisis, the actual reasons for the crisis could be a level above, for example fraud, incompetence of employees or wrong decisions in the past.

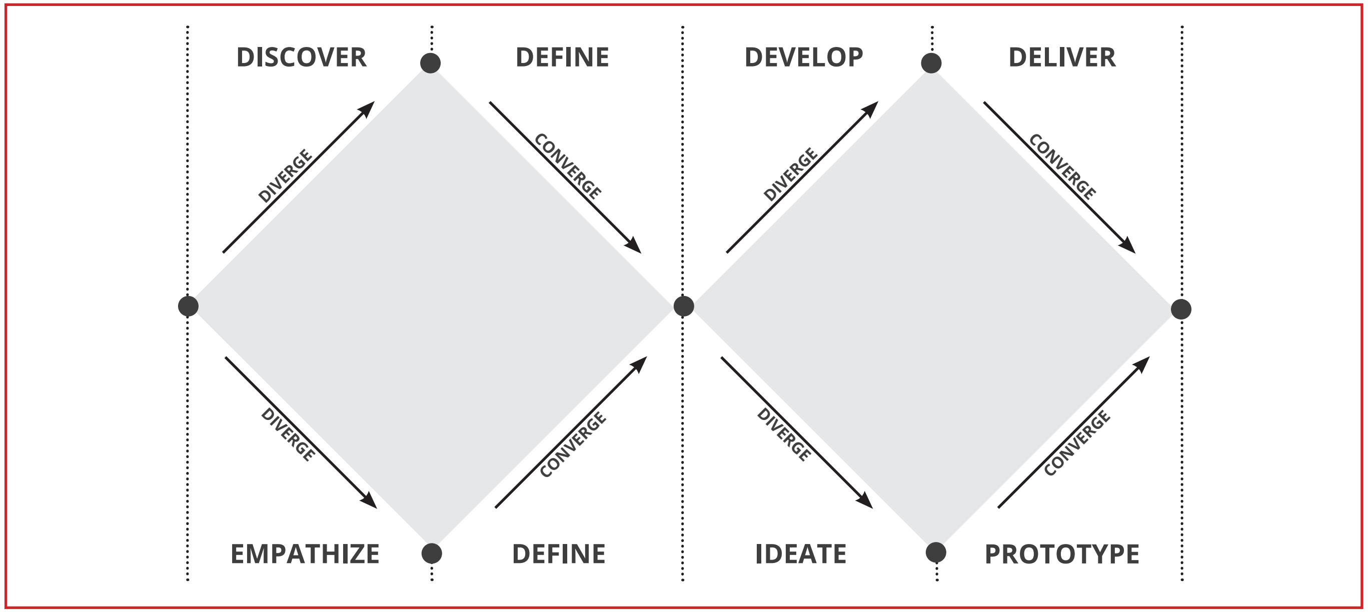
In product development or design, the product specification would be completed after formulating a problem statement. A product specification is a list of requirements or smaller problems to solve. **I highly suggest writing a crisis specification** in which you collect all the problems and requirements. In a crisis these may be legal regulations, employee wellbeing, partner requirements, shareholder and family needs, financial goals etc. These specification points should be written pretty detailed; thus, they need to consist of a condition, a requirement, a subject, an object and an action. Remember, a crisis is full of paradoxes and this will reflect in your specification and it is perfectly fine to have points that are opposed to each other. In the end you will have to either choose a point over another, settle for a compromise or find a win-win solution that somehow satisfies both the points. So from your problem statement you will have specification points with specification sub-points. Often the specification points are also called key insights.

The father is making bad decisions due to his age. The son doesn't want to be in the business and is either performing badly on purpose or is just not in the right position. The wife is putting private pressure on both to get a move on, wanting the son to take over and the father to move out, or to just sell the company.

Ideate

The basis for Ideation is your problem statement and the specification points. Later you will assess your ideas against the specification.

One of the most common terms known for Ideation is "brain storming", thus we will assume that our readers have been exposed to some method of ideation in the past. To level the playing field: Brain storming does not equal to Ideation; many different methods can be used. Another thing up front: in the Ideation stage you will have many seemingly genius ideas right off the bat, but they won't be the best. Take your time and go deep, talk to many people, some of the best ideas may come from the most unseeming people. It is also important that at the beginning of the Ideation phase you go for quantity and not quality, don't get bogged down by details. In most cases the solution for your problem is a combination of several initial ideas and is put together through iteration and refined in the following stages.



Most managers tend to be very analytical and want to evaluate ideas immediately. It is very important to keep this for the next stage. In the Ideation stage it is of utmost importance to not evaluate any ideas. It is scientifically proven that in a creative phase of Ideation, immediate negative feedback will inhibit the Ideation process. Positive feedback on the other hand can enhance the process, so it is perfectly fine to build upon each other's ideas and to develop them.

Some Ideation tools and methods I personally suggest are brainstorming and brainwriting, the seven thinking hats, brain dumping, worst possible idea, acting/story telling.

After having gone through the Ideation process, some ideas for solving the crisis (or parts of it) may include:

- Finding a Co-CEO to make decisions together with the father.
- Finding a new Sales Manager and helping the son transition into a career he wants to do.
- Helping the father discover a new purpose for the next phase of his life, for example an incubator for young entrepreneurs in the foods industry.
- Installing a president function or a board of directors, so the father can still stay active in the business, but reduce his time spent.
- Selling the business and installing a family office
- Finding a new position for the son within the company (e.g Head of Innovation)

Prototype

At the start of the Prototype phase, the best ideas from the Ideation phase are chosen to be developed further. To choose the ideas, you turn to your previously defined specification and check the ideas against the points. It can be very helpful to weigh the specification points. I suggest giving them a score from 1-5 (5 being the highest). The amount of ideas you decide to make a Prototype for will depend on the quality of your ideas and the resources you have at your disposal.

Once you have decided which ideas to develop further, you can now formulate them in more detail. Personally, I find the Prototype stage to be the most challenging in a crisis scenario. When developing a product, it is quite straight forward. You head to the drawing board make some rough designs and head to the workshop to produce your prototype. But how does this translate to a management scenario?

Depending on your problem that you are solving and how deep it runs (remember the levels earlier), the Prototype can vary. It can be several rough restructuring plans (if its financial), new organisational charts (if it's an HR issue), an strategic manifesto (if you need to readjust on a meta level), or a new structure of the holdings (if it's a family issue, say the solution is to incorporate a trust). A Prototype may be as simple as an excel calculation, crunching some numbers. If it's a legal issue you may need to look at several legal angles with your lawyer and have different strategic papers.

There are a few unusual tools that I personally prefer to use in the Prototype stage, as they will set you up well for the Testing phase (remember time is mostly a scarce resource in crisis). Foremost, as a crisis is often a very complex situation and the solution is a combination of the above listed "plans", it helps to use storytelling to write up your Prototype. Try to formulate your solution as a story in third person, where you write it from an eagle's view. To graphically depict the story, a decision tree or decision table is very helpful. I personally like this combination as it is faster and easier to do than financial planning, etc. This way you can already go into Testing the idea before experts or employees have finished the number crunching or legal assessment. In my experience, the most crucial part in a crisis is negotiating. A lot is possible if you have the right mindset and a good plan. Tax authorities, banks, policy makers, etc., are most of the time not in favour of a crisis in your business unfolding, and thus rules become dynamic. And with a promising idea you can at least buy yourself time.

In our case a Prototype would be the new company structures and rough legal requirements a short story that may be presented to the family and the stakeholders.

Test

In the Testing phase you actively try to break your solution. In this phase you can invite lawyers, policy makers, employees, stakeholders, etc., to challenge your Prototypes. Here you want people to be as critical and honest as possible. A crisis is not a time where you are concerned of people's feelings. It's time to act and find a solution, the same will apply for the managing team of the crisis. But keep in mind that feelings are an essential part of a crisis. Communication is key.

Some methods and tools that I find helpful in the Testing phase are:

- Game Theory: If you wrote up a decision table/tree earlier you can try to use game theory to see how successful your plan might be.
- Role playing: Get your team together and maybe some outsiders and try to play through the story you wrote earlier. Try to get into character and see what you would do if you were on the other side, to see if your plan is realistic.
- Discussion workshop: Try to get some outsiders like policy makers, stakeholders or other experts, mentors together and ask them to actively break your plan. Very important here: record the session, otherwise lots of valuable input is lost.

As mentioned earlier the Design Thinking process is an iterative process, following the principle of think – make – break – repeat. Don't get disheartened if you "fail" at the Test phase several times. Every time you get here you are getting closer to a solution.

In our crisis case I would suggest for Testing to play through the roles and looking at the family dynamics it may also be possible to include the mother in this part, as she will be able to eye up how her husband and son would react to the suggestions. Alternatively involving family friends or consultants who know the participants very well.

Final Words

Allow me to wrap up with some last words from my personal experience. When you are in a crisis don't lose hope. Each crisis is a great opportunity and as the stoics say: "the obstacle is the way". Crisis is very dynamic, so remain flexible in your actions and thinking, and do not be afraid to change your plans quickly and regularly. Ask for help, be open about the problem, get a crisis task force together, which will own the problem. People who got the company/family into the crisis will not be adept at solving it, as often they don't see the problem. Studies show that our brains cannot learn from mistakes immediately,

it takes time, which in a crisis is a very scarce resource. The people solving the crisis need to be aligned and form a task force, so that they are also not bogged down by daily operations.

I hope this article will be of help to you, when you are in need of solving a problem. If there are any questions about this, please do not hesitate to get in touch with me by emailing office@sub-umbra.com.

Max Gottschalk: Early Days for Ocean Investments & Impact Measurement

Max Gottschalk

Matthias Knab: Max, when I look into our online news archive on Opalesque, the first time we wrote about your firm was 15 years ago, in February 2005, so we go back a long time.

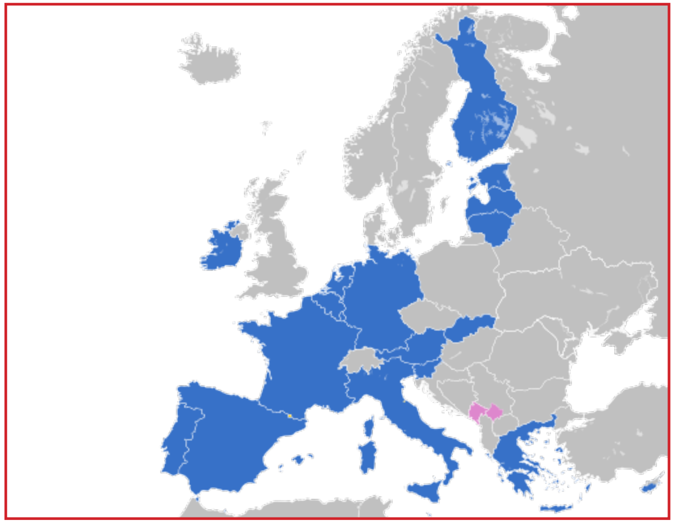
It's 2020 now and we're all living in a different world and having been in touch with you throughout these years I see you have created a number of highly interesting companies and investment opportunities.

But let's look back for a moment to fully understand where you're coming from and the level of your and your team's expertise. Tell me, how did you and your father start out?

Max Gottschalk: Gottex Brokers was founded in 1986 by my father Joachim Gottschalk as an inter-dealer broking company. In 1991 my father setup Gottex Fund Management to manage a fixed income hedge fund to taking advantage of the Euro convergence trade for a number of institutional investors and sovereign wealth funds.

It was one of the first fixed income arbitrage hedge fund and was set up very specifically to take advantage of the convergence of European currencies to the Euro. As European yield curves converged together for the introduction of the Euro currency in 1998, it created a number of arbitrage opportunities in fixed income instruments. These trades were very lucrative in the nineties, but such arbitrage disappeared in 1998 with the virtual introduction of the Euro in 1999 which was then followed by the issue of the Euro notes and coins in 2002. As the opportunity played out he returned the capital to investors but was left with an infrastructure. At that time, the hedge fund industry was emerging and he approached me, and my business partner, John Paul Bailey, to help him and the remaining team to create a fund of hedge fund product.

Eurozone as of 2020:



After thorough research we launched the Gottex Market Mutual Fund in June of 1999 with about 3 million of seed capital, mainly coming from my father and Pierre Mirabaud, and we grew the fund to 16 billion by 2007. End of 2007, we took the company public. We were in good company, as at the same time Blackstone and Och Ziff went public, an interesting time to be floating. It was a big success; we were the largest IPO in Switzerland in 2007 and in fact the only fund of hedge funds to ever go public.

2008 came along and the financial crisis hit all asset classes, including hedge funds. The liquidity crisis affected a number of strategies, and while our funds faired extremely well relative to our competitors, the financial crisis changed the industry overnight. Investors changed their approach to investing in hedge funds. Hedge funds of funds started to lose out to consultants and private banks who set up their own hedge fund advisory arm.

As a public company, Gottex was active in using our public stock to acquire other funds of funds, so we did several mergers and acquisitions. And in 2015, both my father and I exited the fund of funds business, after a merger with EIM. Subsequently we set up Vedra Partners Ltd., our own family office. Today, Vedra Partners Ltd. is a multifamily office based between London and Switzerland that looks after nine families.

Matthias Knab: I understand that Vedra Partners isn't the typical multifamily office but more an investment partnership, could you tell us more about your concept?

Max Gottschalk: Correct, Vedra Partners is a multifamily office where all families are shareholders proportional to their assets, so it's a very fair proposition. This is about sharing infrastructure and leveraging the infrastructure we have built for the benefits of all our families.

We don't manage public fund products, however, each of the families can use the infrastructure benefit from the pooled assets and fees that were negotiated with third parties to manage their assets in the most efficient way possible. We don't look to make money from our families and so the fees that the families pay to the family office covers expenses, and any profits then gets distributed back to the families, proportionally based on their contributions.

We want to run this business as efficiently and as profitable as possible; there is a pure alignment of interests between everyone. We are very cost conscious and fee sensitive. We are set up as an institutional platform therefore get institutional pricing. We get covered by the banks as an institutional investor, so we get great execution, great research, great access to good ideas and so we are almost set up as a hedge fund.

We advise the various families as to the allocation of their portfolios and managed accounts, applying a multi asset approach aiming for a 60/40 equity bond allocation by using mainly ETFs for the equity allocation and direct corporate and emerging market bond investments for the fixed income part..

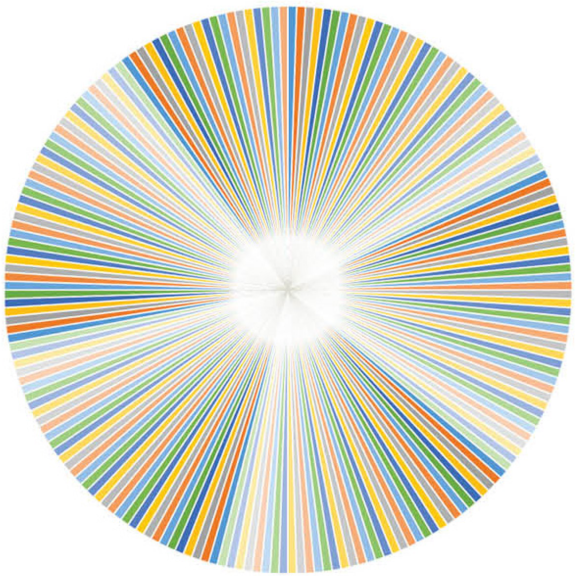
We are long-term investors and typically end up with generating performance that is better than what a traditional private bank or even family office would offer.

Matthias Knab: Why do you think Vedra Partners can offer better performance than private banks or even family offices?

Max Gottschalk: What we have come to realize over the decades in working in asset management industry is that it's very easy to pay fees out to managers, which ultimately reduces the overall return of a portfolio, hence our strong focus to reduce the overall cost associated with running the money.

When clients, investors work with asset managers and wealth managers, they would normally allocate capital to different asset classes through a selection of third party fund managers. When you analyze portfolios by private banks or of the wealth managers, you end up with a diversified portfolio of managers, or, for lack of a better word, fund of funds. When you then look at the underlying positions, you end up over-diversified with thousands of underlying holdings across assets – equities, fixed income, hedge funds and other asset classes – and ultimately you end up dumbing down the return to the benchmark but minus all the layered fees, so fund manager fees, the fees paid to the wealth managers of the private bank, and the transaction costs associated with regular rebalancing of the portfolio.

Over-Diversification



... is costly and ineffective.

I would say it's typical that an investor would pay 2-3% a year as the total expense ratio in these types of programs. Consequently, we typically begin any year with a head start of about 200-300 basis points over traditional offerings. If you can save a family just 1% a year in fees or in performance, you can suddenly see the benefit, particularly when that accumulates through compounding over 5, 10, 20-year periods.

Matthias Knab: Max, I have followed some of your investments when you were living in Hong Kong, so I know you are very experienced and active in venture and private markets as well. Can you tell us more about your work here and your most recent projects?

Max Gottschalk: Throughout my career, I have always been investing in, starting or managing private companies, in startups and venture companies, and so I have always been very active in the private space. I always liked meeting entrepreneurs and backing growth companies and new technologies.

In the last few years, I have also made several private investments within Vedra in different industries, which has been extremely rewarding.

A while ago, I decided to dedicate a considerable amount of time and effort working in philanthropy, and as I always had a passion for oceans and for the environment, I joined an ocean charity in the UK. Obviously, we are in a point in time where climate change is becoming a real issue and the environment is high on the agenda of people's mind. Working for an or an environmental charity is challenging as you become acutely aware of the issues and it gets clear that one needs to do something about it. We can't just continue to destroy and abuse our planet for economic benefit but need to be a lot more responsible in the way we look after it.

I also realized that philanthropy has serious limitations. For each dollar that gets given to charities, 5% goes towards the environment and only 0.5% goes towards the oceans. Very little amount of money ends up where it should be. Of course, there are plenty of other agendas and good causes to give money to, but the broader realization is that in order to fix the environmental issues humanity is facing, we need large amount of capital to be invested in new technologies and new companies.

As I got more familiar with these issues and the limitation of philanthropy, I came across Chris Gorell Barnes and George Duffield, two of the co-founders of the UK's **Blue Marine Foundation.** They have been active for ten years in ocean conservation and are one of the more successful charitable foundations in Europe and the Middle East, having raised millions and played a pivotal role in the protection of nearly 4 million sq kms of ocean. They have also developed and introduced sustainable fishing practices that are being used all around the world, and so they are a very successful and influential charity. These co-founders approached me because they felt there was an opportunity to create an investment vehicle out of some of the opportunities they were seeing coming through their scientific and academic network and ecosystem. That's when I started the journey to research more closely the investment opportunity in that sector.

BLUE MARINE FOUNDATION

At the same time, I also started to look at impact investing and the investor appetite for it, and that made me even more convinced of the investment case. I think there are great opportunities coming out of the ocean economy and the blue economy, but then I also feel that there is a very large appetite for fund investors to allocate capital in this space.

When I researched what is currently available in terms of supply of products, I was also surprised by how few authentic products are currently available. Despite the clear momentum towards ESG and sustainable investing, I found that so many of the products out there are not true to the cause. There is a lot of greenwashing and blue washing taking place, where people claim to be ethical or sustainable or impact investment funds, but, are not.

The more I looked into it, I felt that there was an opportunity to create a fund or a structure that was very true and authentic in the way it approached impact, and so with my team, we started from a blank sheet of paper and built a process around impact that is transparent and also would enable institutional investors to invest in.

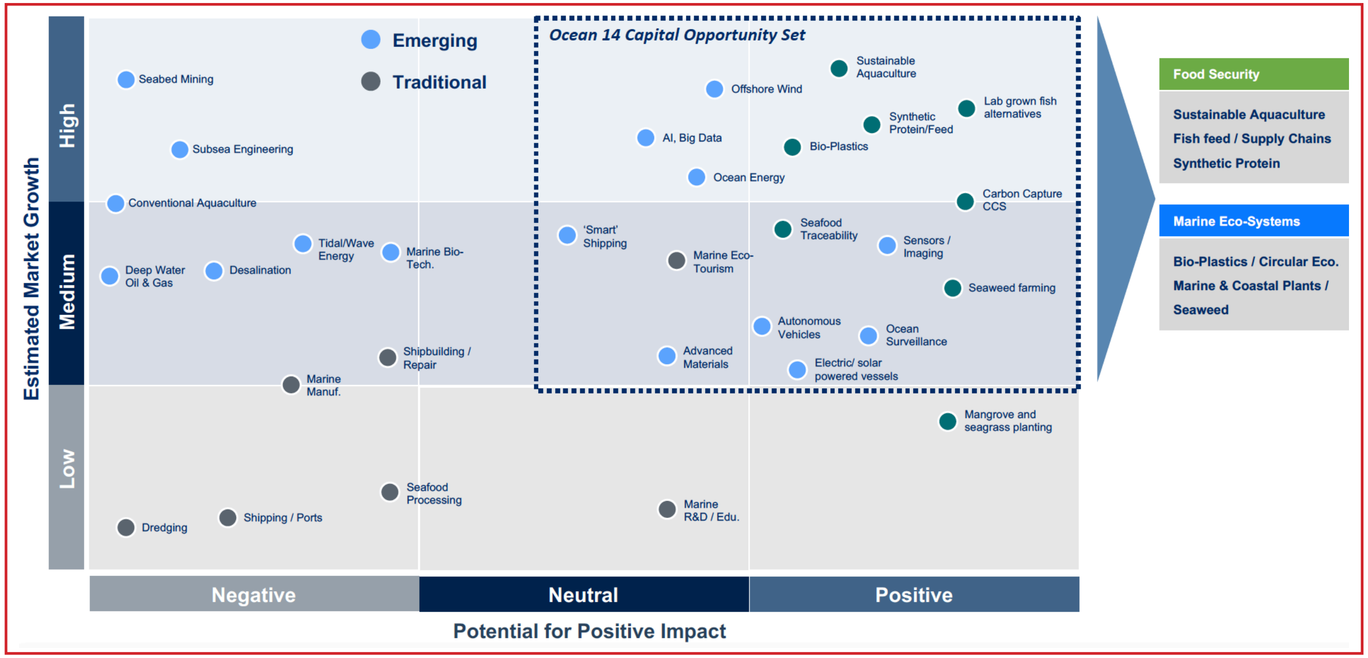
In 2019 we spent a lot of time setting up Ocean 14 Capital, a fund vehicle that invests in private companies, emerging technologies and companies coming out of the ocean economy. We are looking to raise $200 million for our first fund and are very excited by the opportunities we are seeing.

Matthias Knab: Can you tell us more about the deal pipeline land the type of investments you are targeting?

Max Gottschalk: We have so far identified close to **300 companies and potential investments** for the fund. This is already very encouraging and given that it's still early days for the whole sector there will be a lot more.

We have also come across incubators or seed fund managers that are focused on the oceans, probably about 10 or so funds have been set up in the last couple of years. These are an excellent source of investment ideas as they continue to develop, incubate and seed companies that we can take on in our portfolio and prepare them for exit. We have also seen some of the larger groups like Partners Group, KKR, TPG, Bain, and others all launching impact investment funds which are $1-2 billion in size. With our $200 million fund, we strategically sit very well between the smaller funds and the larger funds by taking companies with an enterprise value of 30 to 50 million, investing $10 to $15 million in these companies and prepare them for exit in three to five years' time.

I mentioned that from a timing perspective, we feel it's **early days for ocean investments,** and are extremely encouraged by the quality of the investment opportunities that we come across. The business case is very strong, and we feel very confident to generate a target return of 15% plus net to our investors in our first fund. Looking at the exit side, we also feel we are early enough to see a lot more capital coming in this direction in the next five years or so. This means that we are still able to invest in these companies at attractive valuation today and benefit from the flow of capital as more money comes in towards impact in oceans.



Matthias Knab: Can you also share with us more details on the team you have assembled for Ocean 14 Capital and how exactly it interfaces with or is supported by your multifamily office Vedra Partners?

Max Gottschalk: We are very fortunate having been able to partner with two of the co-founders of Blue Marine Foundation and implementing this very unique partnership between truly impactful individuals and Vedra Partners as the investment group. This allows us to combine a deeply rooted, impact-focused group of individuals and network of scientists with the investment acumen coming from Vedra and the people in that team.

The founders of Ocean 14 are the two founders of Blue Marine Foundation, Chris Gorell Barnes and George Duffield and me. We have built a strong team around us to support our activities. Mary Minnick has joined us as a Partner, she comes from Lion Capital where she has had 12 years of experience in private equity as a partner. Before that, she spent 23 years with The Coca-Cola Company where she ran sustainability development; she was also COO of Coca-Cola Asia and Chief Marketing Officer for Coke globally. So, you can see she's someone with great C-level corporate and private equity experience; she is chairing our investment team. Sriram Natarajan joined us from Deutsche Bank to be our COO, and then we have one analyst on the impact and one on the venture capital side as well as a data quant helping us to capture and work with the data from our underlying investment. That part is very important as well because we are also committed to measure and document our impact objectively, something I am sure we will talk about later as well.

This Ocean 14 Capital team is then supported by 12 people and the entire institutional infrastructure of Vedra Partners.

Through connection to Blue Marine Foundation, we have put together a Board of Advisors to help us source and validate investments and create value for our investment portfolio. It's quite a large and influential body, so as of today we have 25 advisors signed up with a contractual agreement to Ocean 14 Capital where they provide us consultancy service, finding deals and then also introduce us to investors that want to actively engage with the fund.

These advisors are some of the world's best scientists from marine science, marine biology, we have experts on aquaculture, on coral reef management, on biodiversity, so we have probably put together one of the most comprehensive Board of Advisors in the world to help us source deals and making sure that our investments are good investments and help us create value. We have been very careful in crafting this Board and provided our advisors with a carry in the fund, so they are totally aligned with the success of the organization and in providing us with value.

Apart from these relationships with scientists, we have also connections with governments, other businesspeople and teams from the impact sphere – people who have been instrumental in the last 5-10 years developing impact measurement tools and impact reporting methodologies. For Ocean 14, impact must be at the heart of what we do. While we are an investment company and need to deliver strong performance to attract capital and so are driven by financial return, we have an equal focus on achieving a positive, measurable impact that we can then report back to investors.

The way we do this and provide transparency for investors is by breaking down the return of an investment in two components. One is the financial return that will give investors a Net Asset Value at the end of the investment and giving them an internal rate of return. But then with our impact team, we are also looking at measuring impact by providing a dollar value to the impact. The aim here is to provide a direct relationship between financial investment and impact return in dollar terms, giving investors a Net Impact Value (NIV) and impact internal rate of return together with impact value and impact ratios.

So what we are looking to do is providing a simple and transparent methodology so that investors at the end of each year nominally have a return on their investments together with the impact return that's measured, audited and reported back to them.

We decided from the start to have a very solid approach towards impact investment measurements. That is important because as investors are going to require the transparency as to the impact of each investment. They want to know the impact of their investment in order to report it back to their respective stakeholders. We are working with auditors and impact experts to develop and introduce a methodology to do that and plan to publish a white paper on impact measurement or impact management tool paper sometime in Q1 or Q2 this year. We are quite excited about this part of our work. We think of impact measurement as a really important step one has to take, and we are committed to lead the way in developing such tools.

Matthias Knab: And how are you expressing or implementing the impact measurement in your investment processes?

Max Gottschalk: We have set up separate investment and impact due diligence processes. Our impact process runs in parallel to the investment process and the impact committee has veto rights on any investments we do.

Portfolio Fit | ESG Score | Scientific Sign-Off | **Company Impact Values**

- Monetary values of impact metrics are derived from numeric inputs that are reviewed and vetted by the Impact Committee and Advisory Board.
- A Company Impact Value (linked to value of impact generated relative to enterprise value) is estimated for each company.

Company Data

1. Operations
2. Office Space
3. Transport/Travel
4. Raw Materials
5. Energy Consumption
6. Carbon Emissions
7. Product Benefits
8. Value to location/region
9. Water Management
10. Waste Management
11. Information Transparency
12. Other SGD goals
13. Qualitative criteria
14. Portfolio network effects

+

$ Value of Metrics

kWh of energy used/saved
CO2-E from factories
CO2-E from transport
Tons of less raw material used
Tons of less produce wasted
Tons of less pollutants
Sq.Km of ocean preserved
Sq.Km. of coastline affected
Litres of water less used
Tons of material recycled
Tons of CO2 captured/stored
Sq.Km. of oceans mapped
Tons of fish substituted
Tons of fish-feed substituted
Tons of fish less infected
kWh produced by tides/waves

Company Impact Value

Company Metric	Positive Impact ($)	Negative Impact ($)
Energy Consumed	$	$
CO2-E consumption/emission	$	$
Wastage Reduced	$	$
Water Recycled	$	$
Total	+/- $	
Company Total Revenues ($)	$	
Impact Adjustments ($)	+/- $	
Company Impact Value ($)	+/- $	

Unless the impact committee feels that the investment has impact merit and meet our impact KPIs, the committee has the right to stop the investment committee making an investment into a company irrespective of the quality of the transaction. We are setting impact objectives and KPIs that each investment must meet in order to be eligible. The impact team will be responsible for defining those KPIs and then also making sure that they are comfortable that the company can meet them. They will then also be working with the companies in measuring, auditing and reporting the impact.

Matthias Knab: Can you also give us some examples of companies and opportunities that you see in the maritime space that excite you?

Max Gottschalk: Let's start by looking at the ocean or the blue economy which is a fairly large economy in itself. It is a three trillion dollars a year economy. It feeds about one-third of the planet, so 3 billion people rely off the ocean for protein daily. Oceans are not only a very important food source of protein for humans but it also employs more than 200 million people. There is a tremendously buzzing economic activity that goes around the oceans and with about 16-17 underlying industries very diverse, spanning from transport, tourism, renewable power, mining, fishing and so forth.

We are focusing on those sectors that are both fast growing but also have a positive impact. A number of industries, like deep sea mining, can offer high growth but clearly is bad for the environment, so we will avoid such areas.

We are using the sustainable development goals (SDG) set by the United Nations – SDG 14 is "Life under Water" – hence our name Ocean 14 Capital. We have broken down SDG 14 into two areas. First, food security, like sustainable fishing where we will focus around the aquaculture and the fishing industry which today is a $250 billion market and growing at about 7% per annum.

Half of the fish we eat today is produced by aquaculture and aquafarming, and that industry is growing around 10% per annum for the next foreseeable future. Most of the growth and demand will be met by aquaculture and so that sector offers some interesting opportunities and even some disruption opportunities through technology that are interesting. We also research new technologies and practices in the fishing industry which is a field we are excited about.

There is also the sub-sector of fish food we are also looking at very closely. We see an opportunity in insect protein as a fish food ingredient, this is also a high growth business as demand for insect protein far outstrips supply. It is estimated the supply won't be able to meet the demand for at least the next five years. It's a high margin business, so typically around 80+% growth profit with a 30% EBITDA margin.

Secondly, we will look for Marine Ecosystem investment opportunities and the large CO_2 sequestration possibilities. The ocean is at the heart of the solution for climate change and there are plenty of ways in which the ocean can capture the carbon that we are emitting each year. Currently, 25% of the carbon that's emitted is captured by the ocean each year. For example, seaweed plantations will benefit from increased investments because of their ability to capture a lot more carbon and more rapidly than trees, while also providing a source of food. That alone is an area that offers strong investment opportunities.

As we all know, way too much plastic ends up in the ocean, and so waste management and bio-plastics are other areas with great investment return potentials.

Case Study: A Family Office Going 100% Impact

Dr. Johannes Knorz

Dr. Johannes Knorz, LL.M. (Sydney) CEO/CIO of Germany based family office 4L Vision GmbH. He has been working as a legal consultant in all areas of corporate finance and M&A for more than twenty years. 4L Vision is highly committed to impact investing; not only as an investor itself in all asset classes, but also on an intermediary level such as the German *Federal Initiative for Impact Investing (Bundesinitivative Impact Investing) and the international impact investment network Toniic.* Currently, 4L Vision is about to establish a Multi Family Office together with other families.

Peter Brock

Peter Brock was Executive Director and Leader Family Office Services in Europe at EY (Ernst & Young). Since 2018 he is active as a self-employed family officer / strategic adviser and investment committee Chairman, tasked with setting-up and managing a family office and the family governance for entrepreneurial families. He is one of the founders of the "Bundesinitiative Impact Investing".

Dr. Johannes Knorz: We started as a normal family office investing in various asset classes. We then moved into "green" investments and ESG integration where we then realized that ESG is actually only half way. In the ESG investment paradigm, sustainability is like a side effect: You don't want to do any harm, but the business itself is not necessarily focused on impact, whereas an impact investor also wants that the business itself is trying to make the world a little bit better ecologically, socially or from a governance point of view. At the moment, we are doing more and more pure or deep impact investments and aim to reach 100% impact investments in all asset classes. This is our approach.

We are also active on the primary market in direct investments, actually financing companies and businesses, both start-ups and later stage. While it's quite easy or possible to buy shares in listed companies in all industrial sectors, regions and currencies to build an impact portfolio, you are then, however, actually just swapping your money on the secondary market, and that does not really create impact. In our view, the real impact is if you invest fresh money into an impact venture as a direct investment. This additionality and intentionality of specifically targeted impact investments are a key principle for us and other 100% impact investors.

Peter Brock: As you can imagine, a transition to 100% impact is a process over time. As a first step the 4L Vision family office has decided to develop a portfolio of listed stocks from the MSCI World Index that have been specifically selected to be highly impactful based on their own research, while also doing direct investment in private equity and startups.

Dr. Johannes Knorz: Right now, we have about 25% of our assets in seventeen direct shareholdings in companies. Here we have a European focus. Another roughly 25% is in private debt, 25% in real estate and the remaining 25% in listed stocks. In real estate we also follow impact investing principles, focusing both on green buildings that are mainly used for socially responsible applications.

Matthias Knab: Is there a big momentum towards impact in Europe?

Peter Brock: Johannes and I actually met at the foundation workshop of the **German Federal Initiative for Impact Investing** (Bundesinitiative Impact Investing) which is currently being set up in Germany to organize and grow the community of impact investors. We have worked together on various projects since then. Germany is probably lagging behind the Anglo-American world, but this is partly due to our different and very well establish social welfare system. Currently, however, there is a very good momentum in the German market overall and the impact investing ecosystem is slowly improving. We are also working on offering impact advisory services combined with the specific equity portfolio approach based on 4L Vision's screening process to other investors and family offices that want to go the same route.

Matthias Knab: You said you want to go 100% impact investing in all asset classes. When you do your new asset allocation, do you have a target return and how do you select your investments?

Dr. Johannes Knorz: The **benchmarking** is pretty straightforward. There are a lot of publications and discussions about benchmarking and performance measurement in impact investing, but 4L Vision really keep this simple. As a long term investor we are following the principle that truly sustainable business models will also produce higher financial returns over time. So the benchmarks are the respective standard stock market benchmarks.

Peter Brock: The family office has developed its own analytical stock picking process to choose impactful companies over and above normal ESG criteria. The basis is an analysis of fundamental company data, in combination with micro and macro economic data and chart analysis. On top of that their own impact selection process starts with a negative and positive screening along the 17 SDGs (sustainable development goals by the United Nations) supported by Ökom Research, Sustainalytics or other tools. A sustainability committee then selects the current stock allocation on a 4 week rolling basis.

Dr. Johannes Knorz: Actually, the impact portfolio performed much better than the benchmark in 2019 – we were up 16% in the equity portfolio.

Matthias Knab: What is your selection process on the impact projects or venture capital side?

Dr. Johannes Knorz: Basically it's a deal-by-deal decision. It's solely due diligence to look at the business model, it's supporting certain impact entrepreneurs, and it's deciding what kind of theme, what impact do we want to achieve along the lines of the SDGs, the United Nations' Sustainable Development Goals. For example, 4L Vision is invested in a company that does sustainable insulation work for housing. Clearly, impactful corporate ventures and 4L Vision definitely want to support those. So, for us it is a normal direct investing due diligence process. And I would say - in my history as a corporate financier – it is traditional entrepreneurial venture capital investing - but with a very, very clear impact focus.

We are also investing in a company for cancer medication. Another example is the food company Veganz, a very well-known case in Germany, several impact investors have invested here.

Veganz is developing quite well, we invested there in a very early stage. That´s quite a typical example for our direct investment, which is of course a bit risky sometimes. At the moment, it's simply our money so we are free to take a bit of a higher entrepreneurial risk.

Together with another entrepreneurial family we are currently planning to set up an impact multi family office with the intention to assist other families in setting up and executing their impact investment strategies. In that case, surely, we will only enter into direct investments and venture capital investing, if they expressly desire this and if it fits their risk appetite.

Peter Brock: You asked about the momentum in Germany – for now, 4L Vision is one of some 20 or so single-family offices here that seriously approach impact investing. But, as Johannes explained, having gone through various iterations of specialization in ESG and impact, the aim is to help making this approach more common by building up a multi-family office which invites other families, other family offices and additional private capital to the impact investing market and share those investment deals, be they direct, liquid or illiquid.

Matthias Knab: For a lot of impact investors, the impact measurement is quite important as well. That may be easier in some industries or in some companies and more of a challenge in others. How do you go about that?

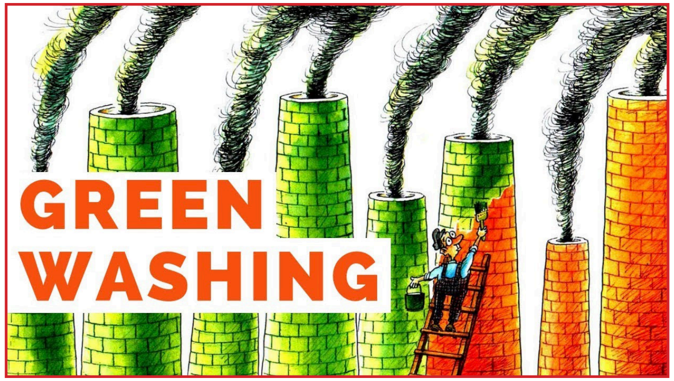
Peter Brock: We are very closely following the market for **impact measurement,** but as of now, there is still no standardized measurement process for impact investments, so impact is often measured and monitored on a case-by-case basis in relatively simple terms. 4L Vision has a clear view what impact they want to achieve, and so they will analyze and control each specific company's impact accordingly: *How much CO2 was saved? How many patients survived because of our medical innovations, etc.* But increasingly there will be more providers with various impact measurement tools, so the solution offering will develop very quickly now.

Matthias Knab: You mentioned the UN Social Development Goals, and indeed, many impact investors use them as guidelines or a compass for their impact investments. Do you focus on a certain SDGs or across the board?

Dr. Johannes Knorz: That's a good question. At the moment, we do not select or limit our investments through a focus on specific SDGs. Instead, we are rather looking if the specific offers or impact investment opportunities that are presented to us are really deep impact from our point of view or not. We also make a distinction if the company is really an impact company – are they really committed to solving a fundamental social, governance or ecological problem? – or is it only an ESG oriented company? We will then also look if there is a realistic chance to get a certain financial return, so it has to be a good investment for economic reasons as well.

Matthias Knab: You said you met at the German Federal Initiative for Impact Investing. Can you give us an update on the current state and momentum in impact investing in Germany and Europe?

Dr. Johannes Knorz: I think we are at the beginning, but impact in Germany and Europe is on a growth trajectory, there is a clear trend and it will become more relevant over time. However, we also believe that, at the moment, most of the offerings of investment products are not really impact, they are maybe ESG, or sometimes in the worst case just greenwashing.



Source

Peter Brock: That's correct. Everybody says they now do impact, but if you look closely, the offering is often not real impact, which makes it difficult to find investment opportunities that comply with our strict criteria.

Dr. Johannes Knorz: Right. Some investment funds for example may still invest in mining and such things. Impact has become the next big thing, so it is en vogue and chic, but to our minds, the real and deep impact investment approach is still at the very beginning if you like to execute it seriously.

Peter Brock: We have already organized some family office roundtables under the umbrella of the German "Bundesinitiative" where we have been proven that there is a huge interest by family offices in Germany to attend and to learn more about real impact investing. Organisations like the impact investment network Toniic are also increasingly looking towards Europe and Germany to further expand their networks.

Matthias Knab: In this switch now to 100% impact, do you have any recommendations for family offices that are considering doing the same, no matter where they are based?

Dr. Johannes Knorz: It's a journey for entrepreneurial families to start from their family values to their concrete investment principles. It certainly is helpful to find and team up with other similar minded investors that are aligned with the same interest, or groups and platforms like Toniic. The market is not totally ready yet and the banks are reluctant to integrate impact investing in their product offering.

But there are players like us and a few others, very often NextGens, that push the matter. We are actually hopeful that this will succeed even in the short term, at least the mid-term, and that much more capital will be allocated to impact investment. After all sustainable impact investments actually produce a higher return over the long term than traditional investments. That's how it should be and that can be proven in some markets already.

The Startup Board Member: Key Characteristics & Situation Behavior

SC Moatti

SC Moatti is the managing partner of Mighty Capital, a Silicon Valley venture capital firm, and Products That Count, one of the largest and undoubtedly the most influential network of product managers in the world. Previously, she built products that billions of people use at Facebook, Nokia and Electronic Arts. Andrew Chen, General Partner at Andreessen Horowitz, called SC "a genius at making mobile products people love."

Governance for Early Stage Companies

Early stage company founders and their investors rely heavily on their Board of Directors. A capable board member can, and should, be a huge asset to any organization. Directors provide wisdom of experience, unique insight, and guidance in maximizing shareholder value. As the founder and managing partner of a Silicon Valley VC firm (Mighty Capital), I've witnessed and participated in the formation of dozens of boards over the years. I also serve on the Board of Directors for both public and private companies. Personally, governance is a topic I care a whole lot about, so much so that I teach it at Stanford University.

So what's my vision of the ideal board member? What does it take to be a true value adding player, specifically at an early-stage company? Plus, what's required of board members during deciding moments, such as fundraising, CEO transition, insolvency, and exits? Allow me to share my insight and observations here.

Accountability Vs. Responsibility

I can't stress enough that the basic principles of board responsibility shouldn't be glossed over lightly. Everything else must build upon these core concepts:

- **Boards** manage the business and affairs of a corporation.
- **Boards** represent the shareholders and are involved in issues affecting shareholder value.

Now while it may seem obvious, a loyal board member must never lose sight of these. That's especially important because board members are accountable for the affairs of a corporation even though they may not be responsible. Let's contrast responsibility vs. accountability.

A product manager may be responsible for a product launch. She runs the show and is in charge of execution. She may also be held accountable if the launch goes bad. **So accountability runs deeper than responsibility.** It's more personal, and, therefore, it tends to be more individual. Board members don't have hands on, day-to-day control over operations. Instead, they offer high level guidance and make sure things move forward as planned. When major problems arise, they remain informed and help provide perspectives and alternatives.

The distinction between responsibility and accountability demonstrates a key characteristic of a great board member: they

are accountable. They must answer for outcomes and guide the organization at the highest level despite not having direct control over operations.

Duty of Care & Duty of Loyalty

The Duties of Care and Duties of Loyalty are foundations upon which board service is built upon. These duties reflect accountability in action.

Duties of Care means that you exercise reasonable care in the decisions you make for the company. The board must act in good faith for the benefit of the company, and the actions they take should be in the company's best interest based on a reasonable investigation of the options available. It means that board members should attend meetings and participate in a meaningful way. As I like to say, "show up, suit up & speak up!" It's also important that the minutes reflect adequate consideration and deliberation.

Duty of Loyalty means that the Board of Directors must be loyal to the company and its shareholders and act in their best interest. Under no circumstances can board members act in their own interest or engage in self-dealing while making decisions or taking actions on the company's behalf.

Does that sound obvious? Well, in the real world, that's not always so simple. For example, consider some of these sensitive situations:

- Conflicts of interests in transactions: you work for a large corporation and serve on a promising startup board that's considering being acquired by one of your competitors.
- Involvement with a competing business: you work for a design consulting firm and serve on the board of a startup that wants to hire your firm and is asking you to negotiate a special deal/ discount.
- Redirecting corporate opportunities: you work for a design consulting firm and serve on the board of a fast-growing startup that wants to hire your competitors and hasn't considered your own firm.
- Trading on material non-public information: you serve on the board of a pre-IPO company and your daughter, who's writing an editorial on IPO trends for the NY Times, is pressing you for some exclusive nuggets.
- Disclosures to your investment partners: you are a partner at a venture firm and your partners are asking for an update on the pre-IPO company you serve on the board of, who just announced a confidential CEO replacement search.

Board members are frequently involved in intricate financial and business decisions, where the priorities may occasionally collide and the "Business Judgement" rule isn't clear cut. Unless sufficient care is taken, **even unintentional breaches can have significant consequences.** Words like Duty, Care, and Loyalty are serious.

Designing A Board & Integrating New Members

Technically, the board hires the CEO, president, and other officers to run the day-to-day operations of the company. However, in startups, what typically occurs is that the lead investor takes a board seat and populates the board.

If you're building a board, it's important to consider its composition as a whole. For example, if your board already has a strong technical makeup, then it might make sense to bring on someone with HR, financial, or governance skills to round out the dynamics. Communication styles, risk profiles, and time availability should also be considered. Whatever you decide is the right composition, make sure to keep your startup board as lean a possible. Also, keep an odd number of directors so that votes always yield a majority.

When adding a board member, it's important to clearly define the role beforehand. Specifically, what is the current board composition, and what are the gaps? What are the expectations, and what level of compensation will be offered? Will payment be made on a retainer basis, per meeting, or in shares? The next step is to generate a list of candidates and start with the initial screening and candidate qualification. Remember, *adding a new member challenges the board culture, so it makes sense to integrate during the selection process.*

The process is inevitably a two way street. Candidates are interviewing the company/board as well, so don't try to sell them anything. Instead, see if a relationship develops. Spend personal time together, and take them out to dinner with other existing board members if possible (you pay!). Only by seeing them with their guard down, so to speak, can you begin to understand their true personality and motivations.

How do you know someone might be a good board candidate? In the startup universe, I refer to this as being board ready, and much of it has to do with visibility. What do you see them doing? You can look at it in three phases. First, does the candidate *join* relevant conversations? This might involve curating views, hosting interactions and debates, and retweeting something that strikes them as important. Second, does the candidate *shape* conversations? They should be making insightful comments, moderating discussions, and generating original perspectives that carry weight. Finally, your potential board member should be *driving* conversations. This means taking a stand, writing longer content on pertinent issues, and giving talks about what matters.

source

Key Scenarios & Right Response

A well functioning board will follow a structured agenda for every meeting to ensure that sensitive topics aren't planted by surprise. When designing a board agenda, I recommend following **Roberts Rules of Order.** Ask board members to be prepared, study the board package ahead of time, and show up in person and on time. Attitude during the meeting should be of the utmost respect and seeking to resolve conflicts, that is, provide and find solutions. Everyone should be polite, use politically correct speech, and only interrupt with agreement. This is especially important during some of the key scenarios described below:

Fundraising - Startups are always fundraising, and *fundraising should start immediately after closing the last round. Board members need to build and nurture a list of potential investors ("I'm not fundraising right now, I just want your feedback.").*

Identify milestones to funding as well as any concerns and roadblocks that may come up. Get to know potential investors and understand the value they might add beyond money. Finally, the board must keep the startup's investors informed on company progress.

Board / CEO Relationships - A key board responsibility is to ensure successful CEO onboarding/transition. Some of the tough questions related to CEO succession must be asked (in private) which is why board relationships must be built on honesty, trust, respect, and transparency. *When integrating a new CEO, boards should define success in measurable terms. Communicate the process, ask for feedback, measure progress, and adjust as needed.*

Firing a CEO must be based on failures in performance and/or failure to implement succession plans, and all non-management directors must be aligned. It's critical to establish a plan for the entire transition process, end-to-end. This means engaging lawyers and determining timing, delivery, interim plan, communication to stakeholders, etc. Ideally, a replacement CEO candidate has already been identified.

Insolvency - Most startups fail, that's the reality. To save the ship, a startup needs 9+ months of runway. The board may seek new investors, management change, a company location move, banking solutions, or even a turnaround / insolvency specialist. Anything less than 6 months likely involves planning for a controlled landing or crash. Remember, **how you handle the wind down helps define your reputation.** Own your mistakes and learn from them. The "why" isn't as important as the lessons learned. Dealing with failure is the board's responsibility, and here are some key warning signs to watch out for (from bad to worse):

- Company starts missing goals & deadlines
- Customers stop using/paying
- Company can't hire new people
- Key people start leaving
- Company has <1yr of cash and a no-changing downward direction
- Company entered the Zone of Insolvency

Exit Strategy - Just like they're always fundraising, startups should always be looking for an exit. Exit or sale should be formulated periodically from building a list of potential buyers to interviewing investment bankers as needed.

Here again, starting early maximizes outcomes: the optimum exit time is 3 years from the first institutional check.

Remember that most CEOs want to keep running their company forever. To solve this, get the management team pumped about life post-exit. What will they be able to do with their newly acquired wealth? This often means involving families and wealth management professionals.

Conclusion

Governance involves dealing with multiple stakeholders and highly complex issues all for the benefit of the company. However, despite the complexity, good governance is founded upon relationships and basic principles. Startups may have their nuances, but the same rules apply. If honesty, trust, respect, good communication, and transparency are your priorities, many problems will easily be avoided. So if you get the chance, get out there. Govern well. And make a positive impact on the world!

Creating a Multigenerational Legacy of Harmony and Purpose

Lonnie Gienger

Lonnie Gienger is CEO of Wilkinson Corporation, a national real estate investment and operations platform that has transacted on over $2.2 billion of real estate creating strong impact results and investment returns, with a focus on turning apartments into centers for human flourishing. Lonnie's passion is developing companies and families that create lasting positive impact on society. He's been married for 36 years to his childhood sweetheart and their four adult children and spouses enjoy building various businesses together.

The most commonly understood definition of legacy is the amount of money left to heirs, however, few leaders would be satisfied with that definition alone. In our most honest moments, the legacy we really care about is less about the size of our great grandkids' portfolios and more about the soundness of the principles by which they live their lives. It's more about the level of harmony and shared purpose we pass down to our future generations. What's more, we know that if these things are in place, the money is more likely to stay in the family and grow.

Some families create significant wealth but do not share much harmony, clarity of vision, or purpose. Others create all that in one generation only to lose it in the next. How do we create a legacy that will last through generations? I'm not the world's greatest expert on this subject, however, I have diligently pursued this cause in my own family for many years. Although our family is far from perfect, we are regularly asked to share our journey on this subject at gatherings of family office leaders who are focused on creating enduring legacies.

In this article I will introduce a process we've learned and implemented for discovering and passing on values that will promote and buttress success in a multigenerational way. I will demonstrate how to discern and develop treasured ideals to form a living, lasting legacy.

Creating a legacy based on enduring values is a concept that has been foundational to many of the highest impact families throughout history. British noble families had coats of arms embellished with their family values. Sir Ernest Shackleton (1874-1922) is an example of this. The Shackleton family motto was "Endurance." Ernest, the polar explorer, named his ship Endurance when he set out to lead a group of men across Antarctica.

Shackleton's endurance was tested, but not by the cross-continental trek. His ship got stuck in pack ice near Antarctica and slowly broke into pieces with oceanic shifts. For more than a year, Shackleton modeled endurance as he and his men camped on an island of ice. Then they endured seven days in the icy sea in small boats as they sought land. They persevered for an additional four months in an uninhabited, polar wilderness.

Ultimately, Shackleton set out in a lifeboat, steering through a hurricane and scaling snowy mountains by foot to find rescue. Shackleton delivered every last one of his twenty-eight men to safety after more than 400 days of exposure, isolation, and dwindling supplies. At one point, the men resorted to eating penguins to survive.

Without the Shackleton family value of endurance, great tragedy might have resulted. As it is, Shackleton stands tall as a great example of leadership under fire—or ice.

Family values are not just admired virtues. They are virtues that family members live out because it is who they are. As the next generation observes prior generations of the family doing this, it's likely they will live out similar values.

My own grandfather was an exemplar of integrity. There's a story about this everyone in our family knows. He returned home after buying a brand new, bright green 1959 Ford Fairlane 500. He closed the transaction after banking hours on a Friday evening and gave the dealer the check, expecting to pick up the car on Monday after the check was cashed.

The car dealer immediately handed over the keys. Grandpa said, "Aren't you concerned about signing over the title before you cash my check?" The dealer pulled out two other, much smaller checks from his desk drawer and said, "These two I worry about, but your check I would never worry about because I know I can always trust you and your family!"

If you ask my many cousins what the best part of this story is, they'll tell you it is that when Grandpa came home with this beautiful new car, the first thing he told Grandma was what the dealer said about his check and the trustworthiness of their family. It was an example for all of us that spoke loud and clear: "In our family, integrity is important. My word is good. Everyone knows when I say I will do something, I do it." The wealth of that value of integrity still lives in our family. Example is powerful!

Yet, example alone can be a hit-or-miss proposition. What if no one had ever shared that story for the next generations to hear? I might have missed a life-changing lesson. That's why we shouldn't leave values to chance. It is always more powerful when the values are consciously arrived at, discussed as a family, and incorporated into family life so that they are referred to often as the basis for decisions and actions. In this way, values become more than words on a screen; they become part of the family tradition.

The very definition of tradition is that it is "consciously transmitted beliefs and practices expressing identification with a shared past."1" The idea of consciously developing and transmitting a family legacy of values became important to me during a life-changing moment. That epiphany was a game-changer for me.

An Epiphany: A Family Legacy on Purpose

Allow me to give you a little background to help you understand how this topic became so important to me. I have started and led a number of companies and provided strategy coaching to dozens of C-suite executives. For several years I've been CEO of Wilkinson Corporation, a vertically integrated real estate investment and management platform driven by clear values and a quadruple bottom line strategy. We've done over $2.2 billion in total real estate transactions and have had over 2,000 employees in eighteen states. I share this simply to let you know that I love developing teams that work together based on shared values and strategies to do great things. But for many years, I never thought about applying this same intentional approach to leading my family. It's no wonder that early in my career, my businesses thrived more than my family.

Eighteen years ago, I had a conversation that dramatically changed my paradigm about how to transfer values and purpose to the next generation. I was presenting at a leadership conference, and during the first break, an affluent gentleman walked up and said, "Lonnie, I need your advice. I've got a thousand employees. We go out and do businesses, but they're driving me crazy because as soon as I leave for conferences like this, I just know they aren't making the right decisions—they are not doing what they should be doing."

And I asked him the question that I always ask in similar conversations: "Well, for starters, do you at least have clear, written mission, vision, values, and strategies for your company so your people know how to act when you aren't around?"

He said, "Well, I don't have them written down, but my team knows what we stand for and where we're going." I replied, "Greg, if you don't have a clear written direction and strategy, your company probably won't create a legacy of success."

Then, almost indignantly, he said, "Well, do you have clear, written mission, vision, values, and strategies for your family?"

I bit right into it and said, "Well, Greg, I do for my business, but I don't have them written down for my family. But it's my family. They know what we stand for and where we're going."

Then Greg said, "Lonnie, if you don't have a clear, written direction and strategy for your family, your family won't create a multigenerational legacy of success. What you're telling me is that you care more about your business success than you care about your family legacy." Ouch!

That conversation changed the trajectory of my family! For the last eighteen years, Greg has mentored me on how to lead more strategically in my family and I have mentored him a bit on how to lead more strategically in his businesses.

If the goal is to create a multigenerational legacy of success in our families, it makes sense to lead them as intentionally as we do our businesses.

Developing a Family Compass

My father gave me a compass when I was a boy. I was fascinated by the fact that wherever I stood, the needle always pointed north. I could always figure out the direction I was facing as long as I had the compass. Similarly, the development of a family compass helps everyone to go in the same direction. It points the way.

Having a clear family compass includes three elements: family values, the family's mission or reason for existence, and a compelling vision of what the family looks like when it is accomplishing its mission. Your family compass will help you weather the storms of life and business; it will steer you into safe and lush harbors. Your family compass will keep showing you the direction in which to go.

Then you can pass that family compass down to the next generation, and it will direct them to endure and prosper as well. It will help you create a lasting legacy of unsurpassed value. Let's take a look at how to develop the first all-important compass component of family values.

Family values are the uncompromising, non-negotiable principles that define and guide a family. They are what a family wants to stand for in this world. They are the basis for decision-making, setting priorities, allocating resources, planning, and execution. They also set the tone and standards for how people are treated.

Shared family values foster high levels of loyalty, harmony, and empowerment. Business principles of productivity tell us that high levels of these qualities will propel any group toward success.

Here is a strategy to discover your family values, broken down into five activities. These are brainstorming sessions: just write down whatever comes to mind.

Activity 1.

- What did you love or hate about your family growing up?
- What makes you really happy or sad?
- Whom do you admire and why?
- What does it mean for you to be a good person?
- After you die, what do you want people to say about who you were (not what you accomplished)?
- What character traits do you want to see in your children and grandchildren?

Activity 2.

Look through all your answers and identify principle-based words and phrases that are the most common themes. The list of sample values below might help you brainstorm your values.

SAMPLE ONE-WORD VALUES:

Accountability, Authenticity, Boldness, Community, Compassion, Confidence, Courage, Creativity, Dedication, Devotion, Education, Efficiency, Endurance, Enthusiasm, Excellence, Faith, Friendship, Generosity, Goodness, Grace, Gratefulness, Growth, Honesty, Honor, Hope, Humility, Humor, Ingenuity, Joy, Justice, Kindness, Leadership, Learning, Loyalty, Mercy, Openness, Passion, Patience, Peace, Perseverance, Respect, Sacrifice, Self-discipline, Serving, Steadfastness, Stewardship, Teamwork, Transparency, Trustworthiness, Wisdom, Zeal

Activity 3.

From the concepts you have brainstormed in this exercise and from your review of the sample values, make a list of all the values that are important to you.

Activity 4.

Prioritize the 10–20 values that represent the guiding principles that you consider most important for your current and future generations.

Activity 5.

Have your spouse and older children go through the same process as the above. Then, use the following process to synthesize what's most important to all of you.

- List all the values that are similar.

- Which values are people most passionate about? Discuss why certain values are most important.

- Of the values that are unique and different, do any stand out as something you could all easily and quickly agree as being important to the future of your entire family? List those values.

- List the top 10–20 values that you most desire to be the non-negotiable, guiding principles in your current and future generations.

These brainstorming, idea-generating, and codifying activities should give you and your family a strong framework of the things you treasure most and want to pass down generation upon generation.

The Tradition/Innovation Paradox: The Best of the Old and New

What if our next generation's values differ from our own? The process above should help to find agreement and incorporate differences. It is well to keep in mind, however, that every multigenerational family enterprise has faced this issue. It is so well known, it is called the Tradition/Innovation Paradox.

Family enterprises have their traditions, which they want to preserve; at the same time, they must be open to innovation or they will not be able to compete. They must manage the paradox of tradition and innovation well to sustain success throughout time.

How do successful family businesses do this? For one thing, they look at differences as opportunities. The tradition/innovation paradox is not only the greatest challenge of family businesses, it may be seen as their greatest opportunity, too.[2]

Such a perspective is very wise as one article notes, stating **"Innovation requires breaking with continuity to develop new competence and skills."** [3] In fact, "Family business prosperity across generations *depends* on innovation" [emphasis added]. [4]

The health and wealth of our families over generations will depend on innovation, as well. We can see any differences as presenting not only challenges but opportunities to do things in a new way.

Managing the paradox between your tradition and your heirs' divergences means embracing the best of the old and the new, yet seeing significant alignment between the two. This alignment is like a river of shared culture that flows through many generations.

We are now on the second generation of implementing our family compass. We taught our kids to look for potential spouses who had values that already aligned with our Gienger family values and, fortunately, they have chosen wisely. Now our three married children are establishing their own family compasses in the second generation that align with and build on the first generation family compass. Their values reflect my wife's and mine, yet they are crafting their statements of non-negotiable guiding principles in ways that are uniquely important and meaningful to their family.

We are not in any way trying to force our future generations to be clones of us. We never told our kids that their families had to have the same exact values as ours or use the same words. Yet because our family values are so ingrained in our kids, they attracted and chose spouses with similar values, and their purpose and principles resonate deeply with ours, even as they forge new pathways.

Even though the words aren't exactly the same, if you look closely, you'll see significant alignment between the values my wife and I established and the values our married kids are establishing for their families. For example, one of our first-generation family values is "Continual Life-Long Learning and Adventure." Similarly, one of the family values of our daughter and her husband is "Growth: Continual Life-Long Learning and Mastery."

What if every next generation of your family develops and lives out values that are in alignment with and build on the best of the prior generation's values tradition? Imagine the potential of your legacy if each iteration of your family built on the strengths of the prior generation while still being fully empowered to be architects of their own destinies. Your family could have a profound impact on this world!

Every leader wants to bequeath intact all that he or she built and sacrificed for over many years. That's the heart of a parent and founder. At the same time, the next generation needs to forge a future that, by definition, will be different from—and hopefully better than—the past. Defining and synthesizing the values of each generation assures that a legacy will not only thrive in one generation, but that it will be vibrant for generations to come.

[1]Dacin, M.T., Dacin, P.A., & Kent, D. (2019). Tradition in organizations: A custodianship framework. Academy of Management Annals, 13(1), 342-373, p. 356, as quoted in Erdogan I., Rondi E., De Massis A. (2019). Managing the tradition and innovation paradox in family firms: A family imprinting perspective. *Entrepreneurship Theory & Practice,* In press.

[2]Schuman, A., Stutz, S., and Ward J.L. (2010). *Family Business as Paradox.* Palgrave MacMillan, 2010, New York: a division of St. Martin's Press.

[3]Erdogan I., Rondi E., De Massis A. (2019). Managing the tradition and innovation paradox in family firms: A family imprinting perspective. *Entrepreneurship Theory & Practice,* In press, p. 3.

[4]Jaskiewicz, Combs, and Rau (2015) Jaskiewicz, P., Combs, J.G., & Rau, S.B. (2015). Entrepreneurial legacy: Toward a theory of how some family firms nurture transgenerational entrepreneurship. *Journal of Business Venturing, 30*(1), 29–49, as paraphrased in Erdogan I., Rondi E., De Massis A. (2019). Managing the tradition and innovation paradox in family firms: A family imprinting perspective. *Entrepreneurship Theory & Practice*, In press, p. 3.

Dominik von Eynern: Stone-Walling Effects in Family Businesses

Dominik von Eynern

Dominik von Eynern comes from a business family now in the 5th generation and is a Partner of Blu Family Office. He holds a BA in Economics from the University of Augsburg and a Masters in Financial Engineering from the Goethe University in Frankfurt and has over 20 years of experience in principal investment and business development.

Abstract

Stonewalling is one of the four horse men in relationships indicating the beginning of the end. Stonewallers don't share much about their world with others, a behaviour the agent is not necessarily aware of. This can have severe implications on successions, especially when all wisdom about wealth-creation and wealth-preservation is concentrated in one person. This constitutes *Key-Man Risk!*

In this article, we highlight possible reasons for stonewalling with insights from neuroscience about our decision making and results from studies in behavioural economics. We look at key drivers of decision making in situations of change and think of possible implications and solutions in a succession-context.

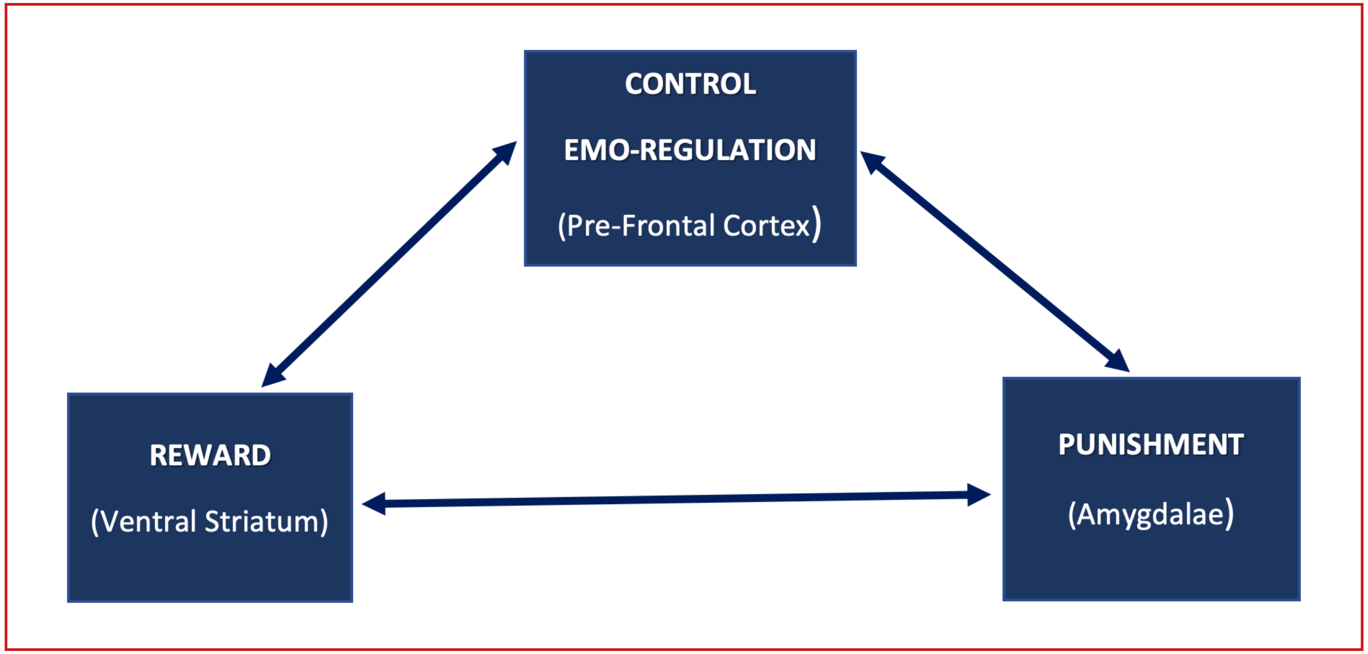
Decision Making – Main Features

All behaviours are outcomes of conscious and unconscious decisions that arise out of an interaction of environmental influences and influences related to the motivations and goals of a person. **Emotions** are an integral part of the decision-making processes. They can be defined as complex affective states in which cognitions are intrinsically embedded and they can lead to decisions, we later regret.

Decisions are context-dependent and based on our individual mental model of the world, which is constructed from representations of our past experiences. Building blocks of the mental model include attitudes, values and beliefs about self respectively others. It guides emotions and cognitions, which are at the core of decision-making processes.

Our mental model of the world creates meanings of experiences derived from received signals, it governs the content of our conscious mind, determines the signals we send and biases decisions. Mostly, we aren't aware of our decision-making processes as very little brain activity reaches consciousness. Cognitive scientists maintain, that 95% - 99% of our decisions are driven by the involuntary parts of our decision-making system and gazillions of unconscious processes underscore whatever is in our awareness. Thus, the conscious and 'rational' part of our decision-making process is reportedly only between 1% and 5%.

This leads to biased decisions. Decision-making processes are predictive and anticipatory. Our brain seeks to identify and match detected patterns based on information extracted from our mental map of the world. However, the information about the present situation are incomplete and uncertain, plus the retrieved patterns tend to be incomplete, as they are derived from neurally and somatically *reconstructed* memories. To make sense of it all, we create 'meaning' and fill information-gaps according to the prevailing context by making inferences, applying heuristics as well as intuitions to complete patterns in an attempt to fit them to our personal mental model of the world. This affects outcomes of social processes, where two or more individuals cognitively and emotionally, create *different* meanings in response to the same signal. Combined with poor communication, this results in fear driven, premature conclusions, misunderstandings and destructive conflict.



The Triadic Model of Decision-Making

To simplify things, neuroscientists created the triadic model of decision-making. The model postulates, that decisions are motivated by rewards and by the fear of punishment, balanced by the CONTROL CENTRE.

The CONTROL CENTER (Prefrontal Cortex) performs executive functions: it neutrally calculates, estimates, predicts, anticipates, reasons, makes inferences and is connected to many parts of the brain. It is responsible for performance optimization and emotional regulation.

The CONTROL CENTER is linked to emotive brain regions, namely the REWARD CENTRE (Ventral Striatum) and the FEAR CENTRE (Amygdala). The REWARD CENTRE is stimulated by the *anticipation* of reward, the FEAR CENTRE is stimulated by the anticipation of punishment, which elicits survival strategies like freeze, fight and flight. The FEAR CENTRE impairs the CONTROL CENTRE, because this brain region absorbs the energy required to enact survival strategies. An impaired CONTROL CENTRE increases our propensity to behave 'irrationally', which behavioural economists call 'behavioural biases'. This insight is essential to understand decisions in social-change processes!

The (Behavioural) Economy of Social Change

Any change can be interpreted as trade-off between meanings: we lose one thing and gain another. We ask ourselves: What does 'lose' mean to me in terms of my current 'being'? And, what does 'win' mean in terms of 'becoming'?

The CONTROL CENTRE predicts outcomes by conducting neural calculations of expectation values in terms of what we probably lose and win in the change process. The emotional system evaluates what it *means* to us and biases expectation values, driven by the FEAR and REWARD CENTRE.

Nobel price-winner Prof. Daniel Kahneman researched how we respond when we stand to win or lose money and found, that we are risk averse and we exhibit loss-aversion. From a set a reference point R = 0, imagine you win $100 (R+$100). Now imagine you lose $100 from the same reference point R (R-$100). The study revealed, that R+$100 gives us 1 unit of reward, but R-$100 means 2 units of punishment to us! Both outcomes are symmetrical, but we *create meaning of outcomes asymmetrically.* We bias the outcomes with different emotional weightings: **we hate to lose way more than we appreciate to win!**

Decisions about how to deal with proposed change are based on the same principal of risk- and loss aversion: is the expectation value of losing (the meaning of punishment) greater than the expectation value of winning (the meaning of reward) with higher 'emotional bias-weightings' attached to the expectation value of punishment, we tend to resist the proposed change!

Decision-Making Biases in Situations of Change

It has been researched how we deal with proposed change in a corporate 'change-management' context. Four biases have been identified and show, that we **resist change systematically:**

1. Negativity Bias: the brain's main function is to keep us alive, so we assume the worst (anticipation of punishment), prepare for the worst and may seek protection from change-impacts.

2. Availability Effect: to make decisions, we prioritize the easiest available representation of information in our brains, often derived from emotionally salient events in the past. This makes us think fast, which is lifesaving in threatening situations, but it also prevents us from considering additional information that would enable us to make better decisions.

3. Attribution Bias: we need to find the meaning of cause, the source and reason for change. We are looking for accountability in the form of real or imaginary persons or, moral frameworks for our decisions. So, we need someone or something to blame. For (anticipated) negative outcomes, we tend to blame everyone and everything else, positive outcomes we tend to attribute to 'self'.

4. Confirmation Bias: once we made a decision, we prefer to process information that confirm our decision as we want to find evidence that we are right! Thus, we tend to ignore information that challenge our decision. It gives us a sense of self, especially when we feel vindicated. But it limits our options and encourages self-fulfilling prophecies. If we take a negative stand towards the proposed change, benefits are hard to imagine. Hence, we resist change to avoid PUNISHMENT and seek REWARD for being 'right'.

Proposed change in a social context with individuals who lack psychological safety do not openly communicate! Thus, mutual trust cannot arise! Transparency and visibility of what's going on is poor. This creates an ambiguous, socio-emotional environment, in which possible change-outcomes are highly uncertain. That makes it difficult to predict 'reward' with sufficient confidence and the anticipated meaning of change-outcomes is biased to 'punishment', which we fear! Fear responses initiate and increase the biases described above. We can also apply this insight analogous to a succession context.

'Change' in a Succession-Context

Imagine, the next generation stands before the patriarch, suddenly asking critical questions, wanting to know more about the business and they may even aspire to take over one day.
His decision-making system predicts 'change'. Confronted with uncertainty, he feels threatened to lose his rewarding status-quo. That elicits a feeling of fear: **the fear of *'losing control,* the fear of *losing* the comfort zone, the fear of losing social status, significance and purpose.**

An entrepreneur often identifies with the business, the status-quo and the associated social emotions described above. Thus, he fears to lose his identity! This is a severe attack at a very deep, neurological level and triggers an *extremely strong* fear response. The FEAR CENTER takes over, the proposed change is resisted and the patriarch seeks protection.

Stonewalling

The fear of change elicits defense strategies like stonewalling to protect the status quo by not sharing material information, as transparency may accelerate the change he fears. However, stonewalling creates the *illusion of safety,* which can be dangerous for the stonewaller as well as for the wealth-succession. The stonewaller invests a great deal of mental and emotional energy to keep the wall up in an attempt to avoid all problems and stresses related to change.

Consistency Bias

The next generation could challenge the stonewalling-behaviour of the patriarch and he may become stubborn over this. Robert Cialdini found, that humans want to be consistent with their self-image, habits and identity. We fear to encounter sunk costs after all the efforts we invested into self-image and habits.

The next generation may be frustrated and respond with stubborn behaviours, even if the patriarch changes his behaviour towards disclosure. This non-cooperative behaviour of both parties inhibits generative collaboration, consumes a lot of socio-emotional energy and creates stress for everyone.

Implications of Fighting Change: Stress

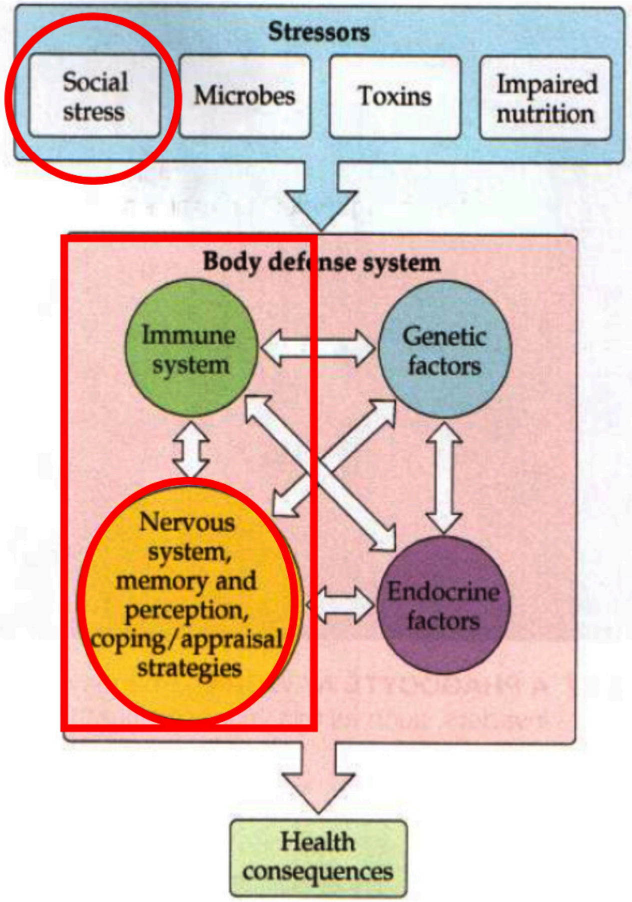
The patriarch is endowed to his legacy, which he values higher than any impartial 3rd party would do (endowment effect). Hence, he cannot simply dissociate to let go. He's forced to stay associated and manage his resistance by keeping up that stonewall. Resisting change is an immensely draining strategy which ends in ego-depletion. This can create *chronic* stress.

Normally, stress is a short-term response to internal or external stimuli which helps us to overcome obstacles and it *temporarily* disrupts our homeostasis (i.e. the way our body remains on an even keel). It originates in the FEAR CENTRE (Amygdala) as a response to signals we perceive as threat to our autonomy. Stress responses are driven by actual, historical respectively imagined social processes that leave us with unresolved conflicts or, when we are emotionally constipated and deny ourselves the completion of emotional cycles. Other socio-emotional stressor-examples are the fear of social rejection, fear of being judged by others, the fear of failure and the fear of losing. In general, stress increases biases (irrationality) in decision-making-processes, reduces our capacity for patience, narrows our mind, makes us more selfish, reduces empathy and our ability to trust our self as well as others. This downregulation of the social engagement system inhibits cooperative behaviour.

We are often not aware of stresses as they linger on for a long time *after* the first stress-initiation. That can be perilous, as stress compounds and becomes chronic. Chronically high stress levels make us susceptible to minor stressors and over a period of time, this can lead to the collapse of the inner-self and permanent states of social anxiety, a hapless feeling of being out of control creating excessive fears, worry, panic, dread, terror and depression, a pathological sense of *loss* of control.

Sustained stress levels inhibit the return to a homeostatic state, which creates even more stress. Toxic stress inhibits regenerative processes and it impairs the immune system, which increases the risk of illnesses. High body tension changes the posture sub-optimally, which can affect joints. Elevated heartrates and increased blood-pressure puts the cardio-vascular system under strain. Heart diseases, heart attacks, strokes, inflammations, cancer and auto-immune diseases become more likely to occur. Driven by an unresourceful mental state, the unresourceful physical state exacerbates the unresourceful mental state, and this negative feed-back loop morphs into a destructive downward spiral, likely to end in pre-mature death.

Combine this with *Key-Man Risk* in conjunction with the lack of governance structures and any wealth-succession is at serious risk.



Behavioural Neuroscience, S. Mark Breedlove, Neil V. Watson, International Eighth Edition, Sinauer Oxford

The End of Wealth is Neigh

The patriarch is alone at the top and has no one to share the emotional burden with. Ego-depleted and chronically stressed, he has a higher likelihood of falling ill and dying quicker than expected. All happens very sudden, nothing is prepared, no one has a clue what to do or where things are.

The succession is in limbo and creates a power vacuum that can be exploited by so called 'trusted' advisers. The created vacuum of power also gives rise to destructive family conflicts. Thus, the legacy of decades of hard work respectively previous generations can be destroyed in a couple of weeks – a stunning asymmetry in time with high financial and 'socio-emotional' costs for all stakeholders.

The fear of change is a behavioural risk that often flies under the radar. At the core of the problem is the asymmetrical distribution of information, driven by the lack of psychological safety of all involved individuals. Hence, the patriarch and family members fail to communicate openly and trust one another plus, efficient governance structures that reduce ambiguity are not established. A perilous strategy to play.

A True Story

One of the business families we work with offers a typical case of what we mean with stonewalling. The grandfather started the family business. The firstborn male took over after the death of the founder and managed to scale up the business.

In the meanwhile, the 3rd generation was growing up in a bubble, leading an exuberant lifestyle beyond their means. The patriarch was absorbed with creating financial wealth, ignoring the elephant in the room: the hidden risk of wealth succession. Attempts of the next generation to get information about the business or even to get involved was walled-off by the patriarch. He was successful, did not want to invite challenge and this is how he has always done it. Thus, he ignored succession-planning of any sort. In response to the behaviour of the patriarch, the members of the 3rd generation turned their back on the family-business and pursued other interests.

During the financial crisis, the succession-risk materialized: the patriarch passed away, taking all his secrets and knowledge into his grave. He left behind a pampered next generation which was suddenly mandated with the daunting task to navigate the family business out of crises. The business was in deep trouble, the successors had no knowledge of the matters at hand, no formal training and no structure in place that could give orientation. It was an unplanned succession no one was prepared for.

Advisors were quick to offer advice to the next generation: "Sell everything and live happily ever after" whereby they minded only their own interests. The advisers just added to the confusion of the next generation who deep inside, wanted to keep the business. They felt like a 'talented pianists owning a piano but not able to play it'.

This image triggered in them a strong sense of gratitude and belonging to family values, so they decided to keep the business and turn it around during the crises. Not an easy decision, because this implied changing advisors and remaining accountable for their own decisions. After all, it was the right thing to do, because the family managed to turnaround the business successfully and now, it is back on track again. The successors created a new business model, based the business on a solid ground and now, they have the intention to introduce the next generation to the family business early on. They also want to put in place a well-structured succession plan. But they face challenges, because the next generation has a very different set of values and totally different interests, which makes the communication between the current generation and the next generation difficult.

This family successfully managed the business turn around with the support of appropriate advisors, who were willing to consider the purpose of the family above mere numbers of excel spreadsheets and their own business interests. The sale of the business during the crises could have been detrimental for family wealth not, only in economic terms but also in the sense of relationships among family members and individual life perspectives.

More and more, we come across similar cases. They are symptomatic for the lack of 'hidden succession-risk-awareness' in business families. Key risk-driver is the lack of open communication and the stonewalling between family-members.

Hidden succession risks are real and must be managed to preserve socio-emotional as well as financial wealth of families for generations to come. Ideally, *all* individuals (including the patriarch) are coached for psychological safety, which is the prerequisite for open communication, mutual trust and cooperation. This must be followed by the creation and ratification of a constitutional family & business-governance, which reduces ambiguity. It enhances transparency, increases mutual trust and that nurtures psychological safety in turn. This enables generative cooperation for successful, intergenerational wealth-transitions and mitigates hidden risks in wealth-successions.

1. Thinking, Fast and Slow, Daniel Kahneman, Penguin

2. The Neuroscience of Leadership Coaching: Why the Tools and Techniques of Leadership Coaching Work, Patricia Bossons, Patricia Riddell, et al., Bloomsbury Information Ltd

3. Influence: The Psychology of Persuasion, Robert Cialdini PhD, Harper Business

4. Behave, Robert Sapolsky

Singaporean FinTech disruption helps closing $1.5tn trade finance gap and enabling trade for SMEs globally

Matthias Knab interviewed TradeFlow founders Tom James and John Collis in Singapore for Opalesque.TV

It is well known that the trade finance asset class offers strong portfolio diversification away from financial markets and it is offering investors strong yields. Investors like Trade Finance, but are unable to get enough of it as scalability of trade finance strategies has been a major challenge. Until now.

Conservatively, commodity trade represents around 25% of world trade, or around US$4.5 trillion per year. Commodities are the essentials of not just our lives, but the life of anyone around the world.

However, the trade finance gap this sector needs to cope with is estimated to be $1.5 trillion. Most commodity trade finance transactions are below $15m, which is exactly the chronically underfunded transaction size that is underserved by the traditional banking sector.

Already in 2016, the founders of TradeFlow Capital Management realised that trade finance was **ripe for a FinTech disruption** and designed a solution in collaboration with global banks as partners to solve their challenge to effectively support the trade finance needs of SME firms in the bulk physical commodity markets whose transaction sizes were below US$15m.

TradeFlow's holistic digital solution enables a non-credit / non-lending approach which is key to being able to support SME firms without taking credit risk directly on them but instead investing in and taking full ownership and logistical control of the Commodity in their underlying transactions.

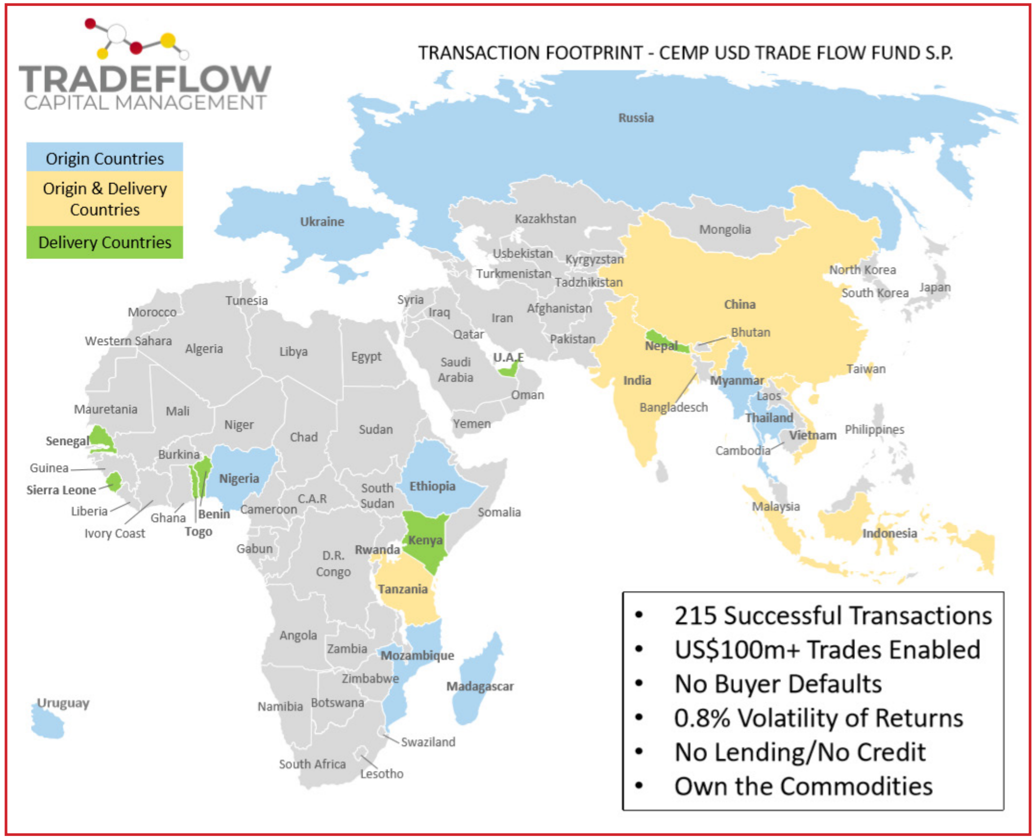
It steps in between suppliers and buyers with a Master Agreement, becoming the Principal and owner of the goods, instead of a lender. Thus, they have created a trade finance fund that doesn't lend out money, eliminates a lot of the traditional challenges in trade finance, digitises the entire trade finance workflow, utilises technology to enhance security, increase operational efficiency, and reduce risks and costs. Its digital platform can handle and scale large numbers of transactions including Electronic Bills of Lading, and Documentation processing and offers automated Insurance services for cargo risk, and other standard shipping / storage risk cover. It offers scalable and secure access for investors to trade finance, bulk commodities, SMEs - but not through credit but by investing in and taking full ownership of the underlying commodity transaction.

The CEMP - U.S. Dollar Trade Flow Fund SP was launched in April 2018 and takes a principal position and direct ownership of the commodities during shipment or during a pre-agreed storage period. This platform has already put its mark on international trade by allowing the opening of new trade routes between countries that never exported to each other, making "material differences" to farmers in Africa. Another major achievement has been technology and big-data enabled automation to solve the **KYC bottleneck** which often was the key operational hurdle for trade finance, **bringing down processing time from 6 months to just 3 hours.**

As the Fund does not lend money nor give credit it offer a truly asset backed strategy and one which does not compete with banks and traditional trade finance lending sources. As a result, banks work with the Fund and introduce SME clients who they are unable to effectively support; usually due to the fact their transaction sizes are too small and their annual turnover below US$300m.

Swapping pure credit risk for real-world insurable physical risk

This non-credit approach to enabling physical commodity import/export transactions, which is unique in the trade finance hedge fund world, swaps pure credit risk faced by investors in other trade finance funds for real-world insurable physical risks.



The fund does this by simultaneously entering in to a purchase contract for the commodity from the supplier at a fixed price and an onward sales contract to the end buyer at a fixed price, the Fund is not exposed to price risk per se, only if the end buyer were to default by not paying the full value of the cargo upon delivery could the Fund be potentially exposed to the commodity asset price falling.

This statistically low risk event is mitigated by the risk management methodology employed by the Fund, which has been tested and proved robust in this first quarter. The Fund uses fees from end buyers to ensure the Fund has a price risk buffer that in the very unlikely event the end buyer does not pay the balance due payable for the commodity upon delivery, the Fund has some price buffer and cash available to cover potential costs of selling the commodity to another buyer and recovering the original investment made by the Fund. It is quite possible that the end buyer defaults but prices of the commodity has increased, in which case there is the potential for the Fund to make a higher profit on the transaction.

TradeFlow has also developed bespoke scorecards in cooperation with Lloyds of London underwriters for scoring Counterpart Risk, and a world's first unique scorecard approach to rate the risk level on each and every individual transaction it invests in.

The Fund offers 90 day liquidity to investors and as a result is often referred to as a fixed income alternative and even used as a cash management tool.

Watch the Opalesque.TV video here:
https://www.opalesque.tv/hedge-fund-videos/tradeflow-capital-management/1

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How TradeFlow Capital’s FinTech disruption helps closing $1.5tn trade finance gap and enabling trade for SMEs globally

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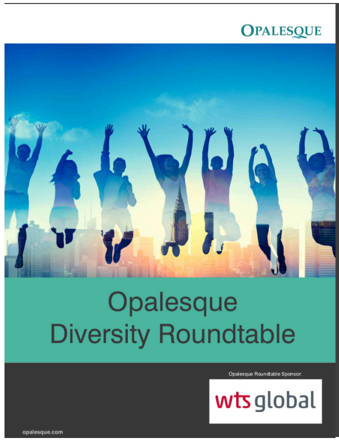
Opalesque 2019 Miami Roundtable

SOVEREIGNTY, THE END GAME OF GLOBAL CURRENCIES, AND WILL THERE BE 20,000 NATIONS? - MIAMI ROUNDTABLE

In the future, every stock, every bond, every currency, every commodity and more assets will be digitized and cryptographically secured on a blockchain. But, not only that: whoever is first to issue the digital currency has the chance to usurp the dollar as the global World Reserve Currency.

At the moment, only 8% of global trade is United States based, but a staggering 60% of global trade is priced in dollars. This touches the question of sovereignty and global dominance. The US may therefore have a digital currency quicker than we think.

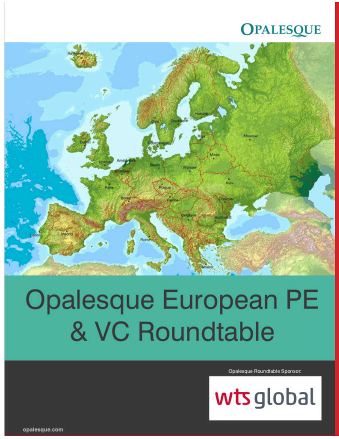


2

Opalesque 2019 DIVERSITY Roundtable

WHY ONLY HARD RULES SEEM TO UNLOCK DIVERSITY BENEFITS LIKE BETTER RETURNS & BUSINESSES: ROUNDTABLE

*It's all about the data! But when it comes to diversity, the data is all there, but nobody acts on it. The asset management industry purports to be a meritocracy where companies, founders and investment managers that produce strong returns would (easily) attract additional capital, but the reality looks different. Despite an ever increasing pile of data and studies on overperformance of diverse teams and founders - the VC industry has had the numbers for 20 years, HBR has a large collection of studies and the Nordic banks have done a study of thousands of female CEOs - **people are not changing their behavior.***



3

Opalesque 2019 European Private Equity & Venture Capital Roundtable

IS PE RIPE FOR VANGUARD-STYLE DISRUPTION? IN VC, THE GAME IS ALREADY CHANGING - ROUNDTABLE

Venture capital has enjoyed a compound annual growth rate of 17% for the past five years and is projected to reach $1 trillion, making up then about one-third the combined PE and VC assets globally.

However, this type of growth is not coming without challenges and disruptions as the startup ecosystem has changed significantly in recent years, with a lot more financing available. For several reasons, **many incubators and accelerators are losing access to a good deal-flow.**

Document Disclosure

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