Clavis Family Office: What do 'direct investments' and real estate have to offer to a family office and its clients?

An interview with Michiel Dill and Paul van Hastenberg.

Clavis is an independent family office based in 's-Hertogenbosch that started operating in 2008. Clavis has 17 employees and works for an increasing number of wealthy clients/ families. Clavis plans to open an office in Amsterdam later in 2014 or early in 2015. Clavis has three lines of business: wealth structuring, trust services and asset management. Clavis' claim to fame is that it combines these three lines under one roof (see picture), which enables the office to assist their clients in the whole value chain of wealth management. That means that Clavis is very different from many other advisors that only deal with one discipline. Clavis is growing substantially and won the prestigious Financieel Dagblad Gazelle prize in 2012 and 2013. They have already met the criteria for the 2014 award. Michiel Dill and Paul van Hastenberg joined us for an interview.

Why did you start Clavis in 2008 and was that a good time to start a new business?

Michiel Dill

Michiel Dill: In 2007 I became the single family officer for a wealthy Dutch entrepreneur who had just sold his company in return for cash. I was subsequently approached by the entire investment world who all wanted a piece of the pie. My background is in tax and the investment world was relatively new to me. What struck me was that everybody at the table started discussing asset management, whereas my perception was that they should have started by discussing how to structure the assets and determine a strategy. That was when I realised there was a world to win.

What is the most important difference between Clavis and private banks or other family offices?

Dill: Most other family offices are in essence wealth or asset managers in my opinion. There are none or only very few who combine wealth structuring, trust services and wealth management as equal businesses within the same company. Our main difference is that we only act on or build the client-owned infrastructure. This ensures that the client has control and continuity is safeguarded. Families need to be truly independent. And yes, this means that "the show must go on without Clavis". This is exactly the type of relationship we are aiming for since we firmly believe in our motto "zonder wrijving geen glans" or no pain no gain.

In what sense is the institutional investment world that you used to work for different from your current working environment?

Paul van Hastenberg

Paul van Hastenberg: In the institutional world there is typically a gap between the asset manager and the ultimate beneficiaries (e.g. pensioners). That gap is non-existent in the private investor world as we are in direct contact with the wealth owner. That is of great added value to me. At Unilever pension fund, I used to focus on the relative return of the investment portfolio measured against a benchmark. My main concern now is capital preservation for our clients, since first and foremost they want to stay wealthy. Absolute return, in other words. Our clients are not satisfied if the market declines by 10% and their assets only decline in value by 5%, which means that the bar is set really high for us.

Clavis recently received approval from the AFM to start offering wealth management services. How important is that to Clavis?

Van Hastenberg: We applied for the AFM license to avoid entering dangerous territory with our fiduciary services. Other advantages for existing and prospective clients are that the license means we are now supervised by the AFM on a firm-wide basis and we need to meet strict capital requirements. In addition, backed by our license, we feel we are better equipped to perform our other asset management services: fiduciary management, wealth management coordination and direct investments.

Clavis specialises in 'direct investments'. What does that mean?

Van Hastenberg: To us, direct investments mean all investments outside the traditional financial markets. We are most active in direct real estate, private equity and in financing both of these. We typically advise our clients to invest through best-in-class funds managed by third party managers. The reasons for this are threefold: achieve sufficient diversification, limit personal handling by our clients and be assured of professional management.

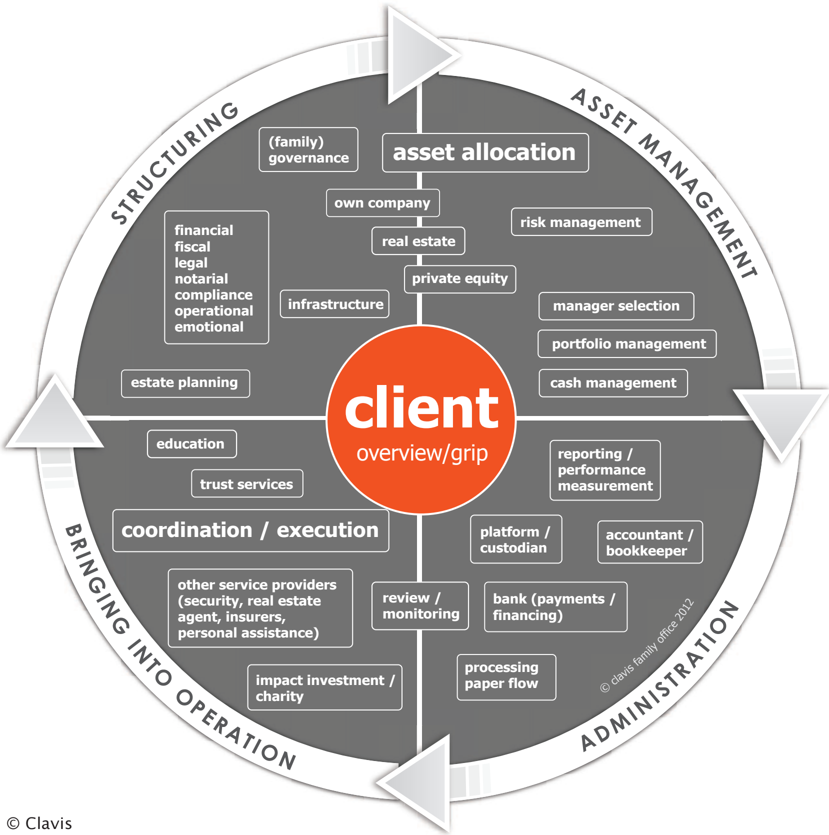
What do you see with regard to real estate in your clients' portfolios?

Dill: Most clients own direct real estate themselves, often in connection with their family businesses. That means that their real estate holdings are dependent on their own personal management and success, which is a large continuity risk. Typically, these real estate investments lack diversification across sectors and geographies (they are often local or regional investments). They often lack sufficient scale as well.

When you say financing, do you also mean real estate financing?

Van Hastenberg: Definitely, in multiple forms. This includes development financing, bridge financing, mortgage financing and old school real estate financing. For example, we have recently provided construction financing to a Dutch developer for a German development project in which IBUS will oversee the developer during the construction phase.

Diagram Asset Management 2.1



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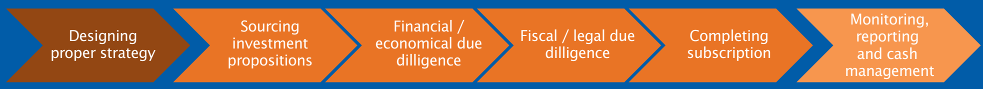
What are the main drivers for your clients to invest in real estate?

Van Hastenberg: Given their entrepreneurial history, most have experience with real estate. Real estate investments increase the recognisability of the portfolio which is often an important element. Apart from that, real estate is tangible, it lowers the risk profile of the total portfolio, generates an annual cash return and provides inflation protection to some extent. All this makes it a sector our clients feel comfortable with.

Is the current period a good time to invest in real estate?

Van Hastenberg: Yes, we think it is. Obviously, it differs per country, project and partner, which means that we need to be very selective. However, we believe that real estate equities have seen most of their performance, just like bonds. In a gradually improving economic environment, real estate as a late cyclical sector is a good choice. This is further underpinned by the fact that there is less institutional money available for many interesting projects. This obviously

Investment process



benefits those investors with cash to invest. Finally, large financial institutions want to sell their real estate due to new regulations (Basel III for banks, Solvency 2 for insurers) and this creates interesting secondary opportunities.

What needs to be done before an actual investment is made and what needs to be done after the investment?

Dill: A number of our clients built their portfolio by buying buildings and/or participations without having a clear sense of direction at the start. After a few years they realised that their portfolio is a chain of opportunistic investments that lacks diversification and requires too much of their time. An essential first step, therefore, is to start by determining a proper strategy that provides focus and direction. Later steps include sourcing the right funds, financial/economic and legal/fiscal due diligence. Once the right investment has been identified, we assess structuring and subscribe. After the investment has been made, depending on the client's preferences, we may be engaged to perform review & control and cash management (managing capital calls and distributions). Finally, we typically provide our clients with integrated reporting across their direct investments. As a result of this approach, clients have much more of a grip on and control over their portfolio. And they can choose to what extent they want to be involved themselves, which can range from very hands-on to completely hands-off.

What is your best practice advice with regard to structuring?

Dill: We always try to arrange that all investments are governed through one entity which gives the family control and continuity (*familiestichting* in Dutch). This proves to be a very efficient way for a family to arrange its affairs and it helps when communicating with and involving the next generation. Moreover, it ensures that family wealth can be managed strategically and in its entirety. We believe a VBI *(Vrijgestelde Beleggingsinstelling)* is a good entity to allocate assets to as it has an advantageous tax regime and offers more flexibility than many people think.

That is an interesting statement because what we hear is that the VBI does not allow real estate investments.

Dill: We have structured both listed and private (national and international) real estate investments through a VBI so we can confirm that it works. The main criterion for a VBI is that the investments are classified as a financial instrument and most of the real estate investments that we make on behalf of our clients are. One of the few investments that cannot be structured through a VBI is direct real estate in the Netherlands. Those investments need to be structured outside a VBI.

What do you consider your biggest challenge going forward?

Dill: One of the biggest challenges when building a high-quality portfolio of direct investments is sourcing the right counterparties. We spend considerable time selecting parties to work with. This goes for all segments within direct investments, including direct real estate.

Thank you for the interview!

Organizational chart Clavis