FT wealth

CLASS ACTIVIST

MAMPHELA RAMPHELE, FORMER WORLD BANK HIGH FLYER, ON HER NEW POLITICAL PARTY'S PLANS TO INSPIRE A RISING GENERATION OF SOUTH AFRICANS

MARGARET O'CONNOR REPORTS

THE ACCIDENTAL PHILANTHROPIST | MEDELLIN: TECH CITY | RACING ON ICE

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MARCH 2013

> “MAMPHELA RAMPHELE AIMS TO TRANSFORM SOUTH AFRICA. IT IS A BOLD ASPIRATION”

COVER PHOTOGRAPH BY SAMANTHA REINDERS

Transforming lives

The theme of transformation runs through the spring edition of FT Wealth. Mamphela Ramphele, former anti-apartheid activist and World Bank high flyer, has announced her intention to form a new “political party platform” with the aim, no less, of transforming South Africa. It is a bold aspiration, but in keeping with her background as one of the founders of the Black Consciousness Movement along with her former lover, activist Steve Biko.

Diana Harrison found she had become a philanthropist following the death of a friend. The unexpected £2.5m windfall, now underpinning the work of her charity, has changed her life in many ways. As she writes, the plan is simple: “To spend the money and leave no loose ends.”

Medellín has reinvented itself since the lows of the murderous drug wars of the 1980s. Famed for being the centre of the narcotics trade – and the excesses of narco-lord Pablo Escobar – many thought Colombia’s second city would never recover, not least because of the civil war raging within the country. But now, as Nick Foster reports, the city lays claim to being the tech hub of Latin America.

Reinvention, transformation and change: as always we welcome your comments on these and other stories. Please get in touch.

Hugo Greenhalgh, *Editor*
hugo.greenhalgh@ft.com

Special reports editor Michael Skapinker
Editor Hugo Greenhalgh
Deputy editor Rohit Jaggi
Production editor George Kyriakos
Art director Sheila Jack
Picture editor Michael Crabtree
Sub-editor Philip Parrish
Illustrator Nick Lowndes
Commercial director, EMEA Dominic Good
Advertising Ceri Williams, Rachel Padhiar
Publishing systems manager Andrea Frias-Andrade
Advertising production Daniel Lesar

CONTRIBUTORS

Daniel Ben-Ami is an author and journalist
Nick Foster is a freelance journalist
Diana Harrison is a freelance journalist
Andrew Jack is the FT’s pharmaceuticals correspondent
Rohit Jaggi is the FT’s aircraft, car and motorcycle columnist
James Mackintosh is the FT’s investment editor
Virginia Marsh is a freelance journalist
Jonathan Moules is the FT’s enterprise correspondent
Sarah Murray is a freelance journalist
Margaret O’Connor is a freelance journalist
Helen Power is a freelance journalist
Matthew Vincent is the FT’s personal finance editor
Lucy Warwick-Ching is the FT’s online Money editor
Stephen Wilmot is property writer at Investors Chronicle
Hesham Zakai is a freelance journalist

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INSIGHT

PHOTOS: CHARLIE BIBBY, GETTY

INVESTMENT FOCUS
LUCY WARWICK-CHING

Projects to bridge the income gap

From São Paulo to London, the construction of bridges and toll roads backed by public-private partnerships is attracting income investors seeking high yields.

Infrastructure projects offer predictable returns with low volatility over the long term. When a company agrees to build a project in partnership with the public sector, the government agrees to pay an inflation-linked income to "lease" the facilities over the term of the contract. Funds that invest in the projects can, therefore, pay steady dividends.

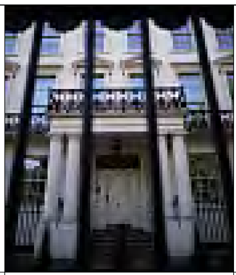
Traditionally, these schemes have been aimed at institutions, but financial services companies have launched vehicles that target private individuals.

The rewards can be high. Over the past year, share prices of infrastructure funds have not suffered the turbulence in the wider stock market and dividends have risen, with some funds yielding more than 5 per cent.

Opportunities range beyond the UK, especially in emerging economies. Risks remain, however, with dividends still dependent on factors such as inflation, deflation and foreign exchange rates.

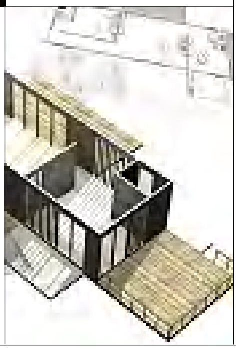
3-FOLD THE RISE IN INQUIRIES IN 2012 FROM CLIENTS LOOKING TO BUILD THEIR OWN HOMES

SOURCE: NEDBANK PRIVATE WEALTH



10-fold
The increase in sales in 2012 of UK property worth more than £10m compared with the year before

SOURCE: UK LAND REGISTRY



THE ROAD AHEAD
DANIEL WONG

Infrastructure is everywhere. It is the backbone of everyday life, underpinning economic progress, yet we only notice it when something goes wrong – the lights go out or a bridge collapses. Advanced economies worry about ageing infrastructure, while emerging economies rapidly develop theirs.

Should we be concerned at this attention on infrastructure? Not at all. The spotlight on this asset class is entirely welcome, especially as it has captured the interest of some of the world's wealthiest investors.

Infrastructure covers essential services such as highways, railways and energy distribution. Without robust, well-maintained infrastructure, the private sector cannot flourish, growth is constrained and enterprise inhibited. Developing infrastructure often requires large up-front investment, but economies of scale tend to be significant, resulting in businesses with high barriers to entry, relatively inelastic demand and robust, stable cash flows.

The Channel Tunnel Rail Link is a high-profile example of the sort of British infrastructure projects that are now substantially owned by pension funds, sovereign wealth funds and wealthy private investors. The same goes for gas transmission networks in Germany or electricity distribution in Finland.

Only 1 per cent of investment portfolios in the UK is invested in infrastructure, but this is growing fast. So while infrastructure is essential to everyday life, it is not yet so for investors. Ⓦ

The writer is head of infrastructure, Macquarie Capital Europe

10%-60% THE PREMIUM SHOPPERS IN THE US WILL PAY FOR THE 'MADE IN USA' LABEL ACROSS A BROAD RANGE OF PRODUCT CATEGORIES

SOURCE: BOSTON CONSULTING GROUP

Investing in... infrastructure

5 hours people worth $4m spend a week using instant messaging versus 1.6 for those worth $0.5m

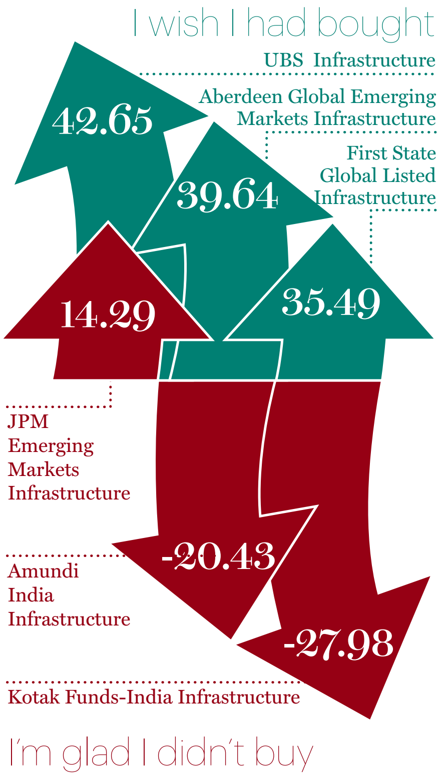
SOURCE: SCORPIO PARTNERSHIP

What is the fund?
First State Global Listed Infrastructure Fund, managed by Peter Meany, is a unit trust invested in about 40 stocks. Its top 10 holdings include National Grid and Crown Castle International.

Why should I buy it?
With all-time low interest rates limiting cash and bond returns, and the global economic environment remaining uncertain, this fund could help investors make the transition to equities. It aims to deliver strong capital growth and inflation-protected income by investing in essential services, such as toll roads, railways, energy pipelines and ports.

Why shouldn't I buy it?
The fund invests in assets that are denominated in other currencies, so exchange rate changes will affect the value of the investment. Infrastructure companies are also subject to environmental considerations, regulation, price and supply factors, and competition that may adversely affect their business.

Performance over the past three years
(Infrastructure funds, total return basis, % to start of February 2013)



SOURCE: LIPPER

HONG KONG, JAKARTA AND BEIJING ARE THE ONLY MAJOR GLOBAL CITIES TO HAVE OUTPERFORMED LONDON IN TERMS OF RESIDENTIAL PROPERTY PRICE GROWTH SINCE THE FINANCIAL CRISIS

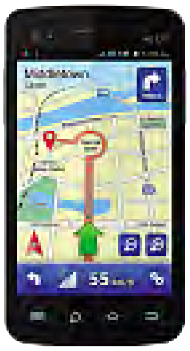
SOURCE KNIGHT FRANK

PHOTOS: CHARLIE BIBBY, DREAMSTIME

THE IDEAS COLUMN
JAMES MACKINTOSH

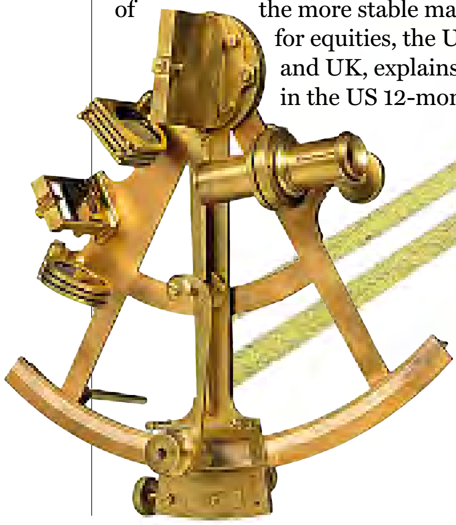
Where we're heading

The old skills of navigation have long since vanished. Sextants and folded charts are things of the past, with ships now guided by satellite and a stroll round an unknown city now as likely to follow a route on a smartphone as on a paper map.



But when it comes to investing, many seem to be lost at sea without even a compass. Accurate forecasts of returns on assets are essential, not just so investors can decide where to put their money, but also for planning savings and corporate investment projects. Get it wrong on a large scale and the economy as a whole may suffer, as workers put away too little for retirement, corporate profits swell while pension funds develop unseen holes, and companies invest in doomed projects. Too much spending and misdirected corporate investment followed by too much saving makes for a boom-bust cycle on steroids – and part of the blame has to be put on inaccurate forecasting.

Even the most optimistic investor puts little faith in short-term forecasts. Investment banks predict where the S&P 500 index will be at the end of the year, but their record is atrocious. A glance at the range of returns from two of the more stable markets for equities, the US and UK, explains why: in the US 12-month returns range from a 124 per cent gain (in 1933) to a loss of 65 per cent (1930). The UK's FTSE All-Share index's best 12-month rise was 159 per cent in 1975 – the biggest-ever dead cat bounce (after a 61 per cent loss to November 1974).



Unfortunately, throwing up one's hands in horror is no help. Forecasts are essential to planning. That leaves three approaches. Unusually right now, all three agree future returns look dismal.

First, look at the long run. Across 20 countries since 1900, shares have beaten short-term government paper by about an average 4.1 per cent a year – including total losses from revolutions in Russia and China. Strip out increased valuations and other factors unlikely to be repeated consistently, and annual gains are just 3.2 per cent, say Elroy Dimson, Paul Marsh and Mike Staunton, authors of the *Credit Suisse Global Investment Returns Yearbook*. Compare that with expected bill yields in 20 years, and they come up with an expected return of 3-3.5 per cent after inflation.

Second, look at valuation. The cyclically adjusted price-earnings ratio offers a handy guide to value by comparing price with 10 years of earnings, to smooth out the economic cycle. It worked beautifully at predicting returns over the coming decade in the US – until the early 1990s. Since then it has always suggested markets are overvalued, apart from a brief period around March 2009, when markets bottomed out. Just a few months later it began warning that the market was overvalued again, and continues to do so today.

Economist Andrew Smithers thinks their overvaluation means equities should return a measly average 1.9-2.5 per cent above inflation over the next 15 years.

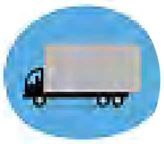
One final method is to look at dividends: returns should be equal to dividends plus dividend growth. Jamil Baz at GLG Partners, the London hedge fund, puts that at about 3.5 per cent for the US (although others doubt whether real dividend growth can be sustained).

None of these methods amounts to a satellite navigation system for the markets. Most investors, for example, would probably be happy to dismiss the idea of a world war or communist revolution destroying their investments in coming decades, so a global historical average may be far lower than they would be ready to assume. Yet, a focus on US history is dangerous too: in other countries shares failed to keep up with inflation for long periods (almost a century in the case of Austria, ravaged by the loss of empire and hyperinflation, but a third of a century even in neutral Sweden).

Using dividends does not really help either, as one has to guess future dividends, which is barely an advance on simply guessing future equity returns.

Despite their drawbacks, these offer some sort of guide. Sadly, all three agree the future looks miserable for shares. With interest rates at historic lows for safer government bonds, cash and corporate issues, this should perhaps not be a surprise, given rates balance the supply and demand of capital. Rates tell us there is too much capital chasing too few opportunities. That is a recipe for poor returns on all assets in future.

> "NO FORECAST METHOD AMOUNTS TO A SAT-NAV SYSTEM FOR MARKETS"



WHAT JAMES IS THINKING...

Signs of a pick-up in takeovers suggest private equity is keen to deploy its cash. If companies start deploying their cash in capital spending and takeovers it will offer better prospects for recovery.

PHOTOS: GETTY

Emerging markets: Are you following the myths or the *facts?*

100 seconds on investing in emerging markets, by Jorge Mariscal, Regional Chief Investment Officer Emerging Markets, UBS Wealth Management.
Go to www.ubs.com/market-insights-emea or scan the QR code with your smartphone

Risk factors can vary widely between different emerging markets. The price and value of investments and income derived from them can go down as well as up. You may not get back the amount you originally invested. Past performance is not a reliable indicator of future results. In the UK, UBS AG is authorised and regulated by the Financial Services Authority.

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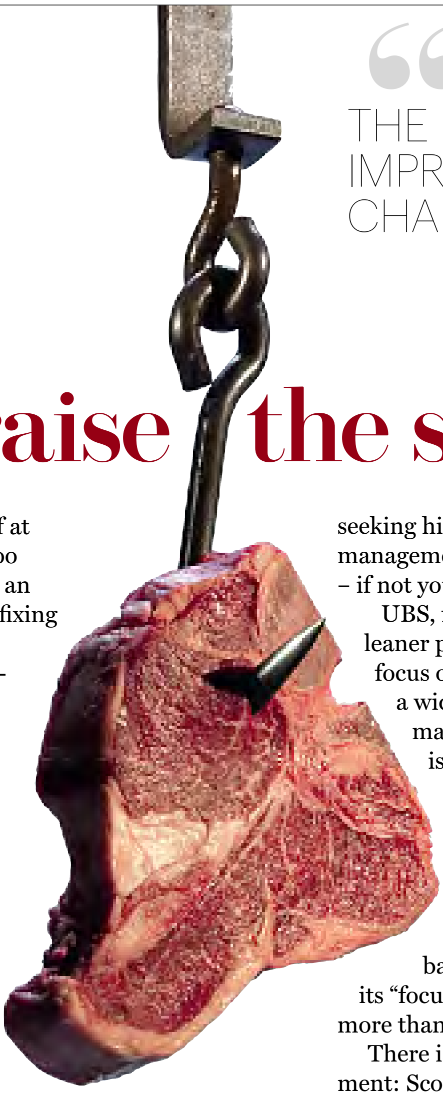
THE RICH COLUMN

MATTHEW VINCENT



“THE EASIEST WAY TO IMPROVE MARGIN IS TO CHARGE YOU MORE”

Banks raise the steaks

If you’ve ever worried that staff at your bank might be making too much money at your expense, an anecdote from the Libor rate-fixing scandal offers reassurance.

According to one of my colleagues, investigators at the US Commodity Futures Trading Commission (CFTC) became convinced that a spelling mistake in a message to a Royal Bank of Scotland (RBS) employee had exposed an illicit profit-sharing scheme. It appeared to show that bankers were given stakes in a secret fund, holding gains from rigged derivative trades:

Trader: u see 3m jpy libor going anywhere? we hve a mutual friend who’d love to see it go down…

RBS rate submitter: haha [former UBS trader] by chance?

Trader: shhh

RBS rate submitter: hehehe… always suits me if anything to go lower as i rcve funds

Trader: gotcha, thanks, and, if u cud see ur way to a small drop there might be a steak in it for ya…

Further investigation revealed the more prosaic truth: there was no typo in that last line. Clearly, RBS staff were not earning so much that a $50 T-bone couldn’t buy their collusion. In fact, some appeared so impoverished that day-old fish was enough win them over. “What’s it worth?” asked one rate submitter. “I’ve got some sushi rolls from yesterday,” a trader offered.

However, if you are comforted to read of their frugal fare, the regulatory fines – and bank restructurings – resulting from these scandals might give you cause for indigestion.

While RBS, UBS and others didn’t expect those text-speak messages to achieve a wider readership, they have spelt out a message of intent more publicly. In recent months, the FT has reported that many banks are seeking higher margins from wealth management to restore their fortunes – if not yours.

UBS, for example, indicated its leaner post-Libor regime with a focus on wealth management – and a widening of the division’s gross margin, of just 89 basis points, is on the menu.

For banks, this makes sense. If they can retain, and gain, wealthier clients, a small improvement in margin quickly translates into greater profit. RBS’s private bank, Coutts, has already said its “focus for growth is clients with more than £1m”.

There is certainly room for improvement: Scorpio, the consultancy, says the cost-to-income ratios of banks’ wealth management arms – the inverse of their margins – have risen from 62.8 per cent to 80.6 per cent in Europe over the past five years, and from 66.6 per cent to 77.2 per cent in the US.

And it doesn’t take a CFTC investigator to realise that the easiest way to improve margin is to charge you more.

Ian Marsh, group head of asset management at Fleming Family & Partners, the wealth manager, says: “Banks are going to have to put up prices… clients are used to getting a lot of different services – and a lot of service – because private banks made margin from high-margin products.” He suggests that wealthy clients wary of becoming margin fodder might feel more comfortable with managers that do not sell their own products.

Those who stick with their existing managers should watch out for “any increased use of in-house products”, suggests Nick Hungerford, co-founder of online discretionary investment manager Nutmeg.com. He cites additional commission or “administration” charges on transactions, and the use of structured products, as tell-tale signs of margin creep.

Is a better margin necessarily a bad thing, though? Not if it strengthens your bank and gives you more confidence in the safety of your assets, says Kate Leppard, head of private clients at Schroders Private Banking. “You want your private bank to make a decent return so it can invest in the people, systems and research,” she says.

Nor is it detrimental if the investment is in communication and customer service. Seb Dovey, managing partner at Scorpio, says: “For big banks to get margin, things need to change. There needs to be a recalibration of what the relationship model is. Spending on other things can make it more efficient – the internet is a big part of it. It’s about service, access and communication.”

Still, as any Libor rate submitter knows, communication is a two-way process – and a chance to negotiate. “For many clients of private banks, this is an opportunity to define the arrangements with their bank far more clearly,” suggests Andrew Nolan, family office division head at Stonehage, the wealth manager. “The request for such a review will almost inevitably bring forth some concession from the bank in terms of pricing.”

Negotiate well and you could be celebrating. Documents from Barclays’ Libor-rigging settlement show that some bankers wangled themselves a bit more than leftover sushi:

“Dude, I owe you big time! Come over one day after work and I’m opening a bottle of Bollinger.”

WHAT MATTHEW IS READING…

Microsoft’s guide to yet another completely different version of Windows on Mrs Vincent’s new laptop… while wondering why it is Apple shareholders who are apparently so angry at their treatment by a global technology giant.

PHOTO: GETTY, CHARLIE BIBBY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SCHOOL OF THOUGHT

SOUTH AFRICAN ACTIVIST MAMPHELA RAMPHELE FEARS FOR HER COUNTRY'S FUTURE IF IT FAILS TO FIX ITS NEGLECTED EDUCATION SYSTEM

BY MARGARET O'CONNOR
PHOTOGRAPHS BY SAMANTHA REINDERS

After a lifetime spent in business, academia and social activism, Mamphela Ramphele is ready for her fourth act. Mainstream politics is calling. The former managing director for human development for the World Bank – and the former lover of activist Steve Biko – has just announced the formation of South Africa's newest "political party platform", Agang (Sesotho for "to build") ahead of the 2014 presidential elections.

"We need to hold elected officials to account just like corporate managers. If you don't perform, you're out of a job," Ramphele says when we meet at her modest home in the affluent Cape Town neighbourhood of Camps Bay.

Such talk about consequences comes naturally to a woman who spent the past decade serving on the boards of South African business icons such as Anglo American, the mining group, and investment company Remgro. Ramphele, who made Forbes' list of "Africa's nine richest women" in 2011 with an estimated fortune topping $50m, has paved the way for talented black women to set the agenda at these and other historically male-dominated institutions.

She has just stepped down as chairwoman of Gold Fields, a global mining company, where she championed plans for the development of South Deep, a model for the highly skilled and mechanised mines that she believes should represent the future of mining in South Africa. As she moves into politics the 65-year-old – also first black vice-chancellor of the University of Cape Town – plans to criss-cross the country to engage in a discussion with voters about how South Africa should use its abundant natural resources to resolve the complex problems caused by decades of underinvestment in its poor black population.

Trading her uniform of pearls, a dark suit and bright lipstick for traditional African robes and a beaded headdress, Ramphele is seeking to broaden her appeal beyond her natural constituency of black and white middle and upper-class South Africans. This group has grown weary of the violent labour and youth movement protests, systemic corruption and failing schools that have combined to constrain economic growth and recently come to characterise African National Congress (ANC) rule as the party enters its 19th consecutive year in power.

The party's initial successes fanned widespread optimism as it forged inclusive partnerships and adopted stable macroeconomic policies while extending electricity, housing, jobs and welfare grants to the poor. Yet this optimism faded as factionalism in the ANC, a highly politicised public sector and a dismal education system served to damp the economy. The public has become disillusioned with the government as the quality of life has diminished and personal security risks have increased.

Conceiving a bold plan to fix South Africa's dysfunctional state schools is one way Ramphele expects to restore hope in the country – and win supporters. "The alarming collapse of education represents a grave danger to our economy," she says. "We inherited a dysfunctional system, and we have made it worse." ➤

Profiting from the private sector: Ramphele and her team are looking for further innovation promotion from organisations such as the Adopt-a-School Foundation, whose resources have been employed at schools, right and below

Ramphele is well known in South Africa for her social activism, particularly in education. When we meet at her house, she speaks at length about overcoming the legacy of apartheid in South Africa's troubled state schools. "Three of my brothers were teachers – and alcoholics," she says as she sips her coffee and glances at the old family photographs displayed in the sitting room. "It was one of the few white-collar professions open to black people of my generation. For many blacks, teaching was an expedient career choice, rather than a vocational calling."

South Africa's first democratic government made a mistake, Ramphele argues, in failing to make a clean sweep of those black teachers who wished to take advantage of new economic opportunities, and failing to train those who were interested in staying in the profession. The South African Democratic Teachers Union (SADTU) "remains a refuge for broken teachers", she says. "Many don't possess the subject knowledge to teach with conviction. Absenteeism persists because teachers can't face a classroom full of eager learners."

In keeping with her message about the need for South Africans to become "active citizens" instead of "passive subjects", Ramphele urges parents to become involved in the schools that educate their children and community members to ensure that school authorities are responsible and accountable in how they spend taxpayers' hard-earned money. The government allocated R210bn ($24bn) for education in 2012, about 7 per cent of gross domestic product.

Ramphele recruited Eugene Daniels, a respected

PHOTOS: ADOPT-A-SCHOOL FOUNDATION, POLARIS / EYEVINE

Meeting of minds: Mamphela Ramphele, above right, with Michelle Obama, US First Lady, at the University of Cape Town in 2011. Hlumelo Biko, Ramphele's son, right, is urging a greater role for the private sector in education

educator from the Western Cape and founding member of SADTU, to forge alliances with business, civil society, and progressive thinkers in government and the unions in his role as an "education connector" for the Citizens Movement for Social Change, a platform for social activism Ramphele established last year. Together with Jonathan Jansen, vice-chancellor of the University of the Free State, and reform-minded insiders, they are mapping out best practices that can be rolled out in targeted school districts countrywide.

"There are lots of non-governmental organisations doing wonderful work," Ramphele says. "We're looking for ways to translate effort into impact."

She and her team are looking to the country's leading private foundations to help promote innovation in education. Through their funding of the Oppenheimer Memorial Trust, the Allan Gray Orbis Foundation and the Adopt-a-School Foundation, wealthy individuals, including retired mining executive Nicky Oppenheimer, financier Alan Gray and business tycoon and ANC deputy president Cyril Ramaphosa, stand as significant contributors to the private sector's total spend of R6.5bn on education.

South African corporations also have a long history of funding bursaries for disadvantaged children and developing pilot programmes in South Africa's state schools. The declining quality of the country's high school, university and technical school graduates has meant that businesses have been forced to increase their training budgets and invest more time in developing relevant skills.

Ramphele's 35-year-old son, Hlumelo Biko, with whom she ran a successful venture capital company called Circle Capital Ventures, would like to see the private sector play an even greater role. Biko has just published a book, *The Great African Society: Plans for a Nation Gone Astray*, that contains a blueprint for overhauling the government's black economic empowerment (BEE) policy to promote direct corporate investment and involvement in charter schools.

"We can't waste another R500bn enriching a handful of people through our current system of BEE. Education is a much more effective way to redistribute wealth and to stimulate hope," says Biko.

The businessman, whose early primary school education in a township school was interrupted by teacher strikes and neighbourhood violence, knows from first-hand experience how "structural unemployment problems are rooted in a vicious circle of incompetence, in which largely underqualified teachers working in schools that have deplorable teaching infrastructure produce poorly equipped students who leave school unemployable". Seventy-five per cent of South Africans aged 18-34 are unemployed; many have had no paid work experience in the formal economy.

South Africa's 3.6m unemployed, undereducated young people represent a massive potentially destabilising force. Ramphele is consciously trying to shift the lens through which South Africans look at this "ticking time bomb" by steering them into civic activism. Such idealism appears rooted in her experience as a leader in the Black Consciousness Movement, a radical black nationalist political movement that fought apartheid.

Ramphele underscored her anti-apartheid struggle credentials by launching Agang in the Women's Gaol, a museum on Johannesburg's Constitution Hill. In 1976,

'STRUCTURAL UNEMPLOYMENT PROBLEMS ARE ROOTED IN A VICIOUS CIRCLE OF INCOMPETENCE'

the University of Natal-trained medical doctor, who won widespread respect for establishing one of the country's first community healthcare centres, was detained in an Eastern Cape prison and then forcibly moved by the Nationalist-led government more than 1,000km to her ancestral homeland in northern Limpopo. During her period of enforced exile, the South African police killed Ramphele's lover, the Black Consciousness Movement founder Steve Biko while he was in police detention.

Helen Zille, now leader of South Africa's main opposition party, the Democratic Alliance (DA), and the premier of the Western Cape province, was then an investigative journalist who broke the story about how Biko died. Although Zille shares Ramphele's background in social activism and can claim a track record for excellent public administration, the DA leader has not yet convinced her old friend to join forces in a united opposition. The DA possesses a solid national infrastructure that Agang lacks. Ramphele claimed to have just five professional staff on the day she launched. "Thank God for IT," she tells me. "It can multiply and amplify the voices of concerned citizens through social media." ➤

Ramphele, who has never been a member of any political party, does not rule out the formation of alliances in the future

'ONCE THE ANC FALLS BELOW 55 PER CENT OF THE VOTE, WE FACE THE REAL THREAT OF HUGELY DESTABILISING OUTBURSTS'

Electoral reform is the cornerstone of Ramphele's campaign. She is leading a crusade to introduce constituency-based representation so that elected leaders are more accountable to voters than to political parties. Agang hopes to collect at least 1m signatories to a petition urging parliament to review South Africa's voting system straight after the presidential elections. Factions in the ANC are also agitating to change a system in which a few powerful provincial party leaders control policy decisions, nominations and the deployment of party members to key state jobs.

Marc van Olst, a former McKinsey consultant who worked for Letsema Circle, a social and economic development enterprise Ramphele established in the rural Eastern Cape, underscored the economic value the ANC has derived from controlling 60 per cent of the national vote. The majority party exerts incredible influence in the allocation of public sector jobs and the awarding of private sector contracts. "Once the ANC falls below 55 per cent of the vote, we face the real threat of hugely destabilising outbursts," says van Olst, who is also a business partner of Hlumelo Biko.

The absence of independent polling data complicates political forecasting in South Africa. Many commentators speculate that Agang will split the opposition vote rather than eat into the ANC majority. The DA won 24 per cent of the municipal election votes in 2011, up from 16 per cent of the national vote in the 2009 presidential elections. Some of the DA's momentum came from recruiting candidates who are more representative of the South African population. But many black South Africans maintain an emotional antipathy to a party founded by white liberals. Race still matters at the ballot box.

Ramphele, who has never been a member of any political party, does not rule out alliances in the future. Her priority, as it has always been whether in business, academia or activism, is her country. She says: "We will continue to have conversations with all political parties who want to develop solutions that put South Africa first."

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THE ACCIDENTAL PHILANTHROPIST

BEING A TRUSTEE OF A £2.5M FOUNDATION HAS MEANT SOME DAUNTING DECISIONS BUT HAS ALSO PROVIDED THE CHANCE TO MAKE A DIFFERENCE

BY DIANA HARRISON

Valuable lessons: a £180,000 Build Africa project is aimed at increasing opportunities for pupils at, among others, Mumbuni B school, Machakos, top left and left, and Kwandoo school, Mwala, top right, in Kenya

In the long, single-storey, sturdily built classroom block, the children wear immaculate, bright green and yellow uniforms and sport closely cropped hair. The day begins and ends with prayers and the pupils address their visitors with respect, courtesy and some shy giggles.

It is a scene reminiscent of my childhood in the 1950s, but I am in Africa, rather than the UK. I am visiting primary schools in a remote and very poor part of Kenya, not as a prospective teacher but in my new role as a philanthropist.

It all happened rather suddenly. In July 2011, a close friend died and left me and another trustee £2.5m to give to any charity of our choosing. Years ago, I had agreed to be an executor to his will and had forgotten all about it – until now.

At the time I was working as a freelance sub-editor [including for the Financial Times] and my only experience of wealth had been editing the profiles of rich industrialists.

FOR YOUNG PEOPLE AGED 13-25, EDUCATION AND TRAINING OFFER A MEANS TO A BETTER LIFE, BOTH MATERIALLY AND CULTURALLY

Our first reaction was to search the will for what my friend wanted us to do with the money. But there was no clue, apart from simply to give it away. We tried to imagine what he would have spent the money on or would have liked us to spend it on, but then I realised I was approaching this from the wrong direction. We were free to spend all the money on anything we chose on condition that the recipients were based in England or Wales – but could be active anywhere in the world – and registered with the Charity Commission, the regulator for charities.

The first step was to register as a foundation with the Commission, for which you must specify your "charitable objects". First, I chose countries where my friend had worked during his 30-year career in banking – Iraq, Pakistan, Africa, South and Central America, the Caribbean, Indonesia and Russia, as well as the UK.

My particular interest is young people aged 13-25, because I feel that for people of this age, education and training offer a means to a better life, both materially and culturally. Social exclusion, the arts and health issues also get a mention in the foundation's objects, as do charities that ease the lives of working dogs and horses, as these animals were important to my friend.

The charity has been given a lifespan of 15 years as both of us, the trustees, are in our late 50s, and we have undertaken not to expand or extend the fund apart from through judicious investments. Quite simply, we plan to spend all the money and leave no loose ends. ➤


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Over a two-week period at the end of last year, I visited primary schools in Kenya, attended a dinner in the Apothecaries' Hall in London where I chatted to the actor Rowan Atkinson, and sat in on a class being taught by one of the leading lights of the Royal Ballet School at its London headquarters.

In Kenya, as a guest of Tunbridge Wells-based charity Build Africa, I observed a meeting of the Kamuya loans group, through which 17 women and seven men save and make loans to each other. One of Build Africa's aims is to give families access to capital through such schemes and provide training in business development skills.

The Kamuya group has saved 682,376 Kenyan shillings (£5,100) so far during its current year-long cycle. During the last cycle it bought seating, tents and a public-address system that it rents out for events in the area. The profit distributed at the end of the first cycle was 111,000 shillings and each member was given a chicken and a goat.

One member, Annastasia Munyao, has set up a business growing tiny cucumbers, smaller than my thumb, with a loan from the group. "Since joining the loans group I have started a business growing cucumbers," she tells me. "I sell 1kg for 100 shillings and am selling 50kg a week to a broker for export. It is hard work, but it is going well." Elizabeth Nduku takes out loans to buy wood to be carved by her husband, Steven Mbiti. Before the loans group started, once Mbiti had run out of wood to carve, he could not buy more until the middleman who sells the carvings to tourists had paid him. "We have had more money since I joined the loans group and got a loan to buy wood for my husband to carve," Nduku says. "We spend the money on school fees and school uniforms for our children."

Another member buys and sells scrap metal, and has been able to expand his business with a loan. Build Africa trains each group how to operate a savings society, but all the money comes from the members. Most, like Nduku, use the extra income to pay for school fees and uniforms.

I also attended a *shule yetu* (Swahili for "our school") at Kwandoo primary school in Mwala, Kenya. This is an exercise Build Africa carries out when it puts a development programme in place at a primary school. Groups of pupils, parents, teachers and the management committee spend several hours answering multiple-choice questions on issues such as the curriculum, bullying, resources and the management of the school.

On the way back to the hotel in Machakos, the 4x4 halted to allow a deadly black mamba snake to cross the road. I felt I had stepped through a looking glass.

I have supported Build Africa in a small way for 15 years. Gavin Salmon, head of major gifts, suggested a research project – at a cost of £180,000 over more than two years – to find out what is needed to help primary school pupils in Kenya move on to secondary education, which, like primary education, is now free. Secondary school does, however, entail costs – such as transport, boarding fees in rural areas, uniforms and the price of losing a teenager's labour – that mean take-up, particularly among girls, is low. A poor understanding of the benefits of secondary education is another reason for low take-up.

SECONDARY SCHOOL ENTAILS COSTS, SUCH AS THE PRICE OF LOSING A TEENAGER'S LABOUR, THAT MEAN TAKE-UP IS LOW

PHOTOS: CHARLIE BIBBY

“The project will increase the chances of 4,810 rural primary school children in Machakos and Mwala continuing their education at secondary school,” explains Salmon. The results of the project, which concludes in mid-2015, will be made available to others, throughout Africa and elsewhere, who need evidence on which to base requests for funding as well as a lead for development plans. The potential for good from the money we have spent is enormous.

Among the schools I visited in Kenya, Mumbuni A is part-way through its Build Africa development programme. The old classrooms have no glass in the windows; there are holes in the corrugated iron roof and dirt floors. Teaching during the rainy season is hard. The walls are so rough that nothing can be pinned to them – there is no children’s artwork, no educational posters, no timetables. We have given £28,000 to this school, to pay for two classrooms and four latrines, 50 desks, 80 textbooks and 500 sanitary towels, as well as training for teachers and the school’s management committee covering every area to do with running the school. The sanitary towels allow girls to attend school while they have their period, otherwise losing four days a month would leave them with gaps and disengagement from schooling.

The dinner at Apothecaries’ Hall was given by the British HIV Association. Speakers included a patient, a consultant and a Nobel prize winner – all women, who made a good case for the possibility of finding a cure for HIV in the foreseeable future, if research is funded.

An additional £28,000 went to pay for a student at the Royal Ballet’s senior school for a year. The students come from all over the world and most have no access to funds themselves. This donation brings additional benefits for the trustees as we can visit school productions, sit in on classes occasionally and are offered seats for dress rehearsals in the opera house.

Another charity we have approached is I Can, which provides primary and secondary education for children with language difficulties. One in 10 children in the UK has a communication disability, often with no identifiable cause. They are often locked out of life through their inability to process language. At Meath primary school, near Woking in Surrey – where the signs and notices use imagery and graphics rather than text – 42 children, many of whom have been disruptive and unhappy at mainstream schools, have a chance to thrive.

Nine years ago, the school had 60 pupils, but now it is difficult for additional students to gain funding from their local authority. I Can has suggested our newly fledged charity could fund a family support worker – at a cost of £60,000 for the year – for the primary school or a play and drama therapist for I Can’s secondary school, Dawn House, near Mansfield in Nottinghamshire.

For Janet Dunn, headteacher of Meath, the importance of family support workers is self-evident. “Some couples have not been out together on their own since their child was born,” she says. “If we can offer them one night’s boarding a week for their child it can make a world of difference to the whole family, not just the pupil.”

That, surely, is the point of philanthropy: to make a difference. As yet, a few months into this life as an unexpected philanthropist, we have spent around £300,000 and there is more than £2m to go. I am sure my friend would approve.

Diana Harrison is a pseudonym

THE ROYAL BALLET’S STUDENTS COME FROM ALL OVER THE WORLD AND MOST HAVE NO ACCESS TO FUNDS THEMSELVES

Just the ticket: a £28,000 donation to fund a student at the Royal Ballet’s senior school for a year means Diana Harrison, far left, can sit in on classes and watch dress rehearsals

FORTUNES AFIELD

BUFFETED BY THE HIGH PRICE AND SCARCITY OF LAND AT HOME, WESTERN EUROPEAN FARMERS ARE FINDING RICHER PICKINGS FURTHER EAST

BY VIRGINIA MARSH
PHOTOGRAPHS BY MIRCEA GHERASE

Schloss Kornberg can trace its roots back to the 13th century. A former home of the princes of Liechtenstein, the castle sits near the Raab river among the forests and mountains of Austria's eastern Styria.

It has been owned by the counts of Bardeau for nearly 150 years, and, as in previous generations, Andreas, the current head of the family, might have expected his son to spend his life at the castle.

Instead, he says, the future of his son and grandchildren lies some 600km to the east on the fertile plains of Romania.

"We started to visit Romania in 1999," the 56-year-old count says. "It was clear to me straight away that we should go there."

Today, the family farms some 26,000 hectares in southwest Romania, having invested more than €30m over the past decade.

The Bardeaus are among a group of western farmers who have established successful farming businesses in the former eastern bloc, transforming their fortunes in the process.

Many, like the Bardeaus, have grown out of family-owned concerns. Others have returned to their roots.

New openings in the old bloc: Andreas Bardeau felt instantly that Romania was the future when he first visited it in 1999

To pastures new: Andreas Bardeau, above, says his son's and grand-children's future lies away from Schloss Korn-berg, top left, which has been owned by his family for nearly 150 years

For some, going east was the only way to stay in farming because of land squeezes elsewhere.

"The people I work with say: 'We want to be farmers,'" says Joe Nagel, a former Deutsche Bank executive who advises investors in agriculture. "They don't want to be gardeners for tourists. They love driving tractors and want to be food producers. But in many cases they can't buy more land in their own country."

In much of eastern Europe, farmland is readily available, often in large tracts. The largest field leased in Ukraine by the Dutch Theeuwes Group, for example, is more than 250ha – 10 times the size of the average farm in the Netherlands – which lowers production costs considerably.

Most lease, rather than own, their farms because of continuing restrictions on land ownership by foreigners in much of the region. Leases are usually between five and 15 years; a few have secured 30.

There are two main entry points: first, acquiring management rights or ownership of former state farms, and second, taking over the usually tiny parcels of land returned directly to former owners.

'THE PEOPLE I WORK WITH WANT TO BE FARMERS. THEY DON'T WANT TO BE GARDENERS FOR TOURISTS. THEY WANT TO BE FOOD PRODUCERS'

US-born Kristof Szabadhegy fell into farming after a decade working for Deloitte, the business advisory group, in Hungary, the homeland of his emigré parents. In 2005, with his brother, he took over the failing former state farm next door to his manor house, itself acquired through bankruptcy proceedings. Many such farms struggled after the collapse of communism after being transformed into co-operatives run by inexperienced villagers who lacked capital. "It was a question of being here and seeing the opportunity," he says.

As Hungarian citizens, the brothers are allowed to own land. Prices are significantly lower than in western Europe, at around €4,000 per ha, against €30,000 in parts of the Benelux countries, says Szabadhegy.

He was fazed initially by the difficulties of formulating business plans in a capital-intensive sector that is vulnerable to price and weather volatility and therefore requires a long-term view.

Now, the father of five appreciates the improvement in his quality of life, as well as the sector's stronger outlook. He points to the increasing use of farming commodities for fuel and changing eating habits in the rising economies of China and India.

Nick Tapp, a partner at Bidwells, a UK property consultancy, co-invested in another former Hungarian state farm, in 1998 – the day before it went into receivership. "The land was lovely but startlingly unproductive and Hungary was getting on track to join the European Union," he says.

The investors were able to buy the farm's buildings, machinery and other assets, as the restrictions on foreigners relate only to direct ownership of farmland.

In theory, under the terms of Hungary's EU accession, such restrictions are on the way to being phased out. As in several countries in the region, however, the government is putting up new obstacles amid concerns of so-called land-grabbing by wealthier neighbours.

"Land rights are very sensitive in countries whose borders have changed," Tapp says. "Hungary's borders shrank very significantly in 1919."

Tapp cautions that investing in agriculture is unlike other sectors where there are often significant cross-border similarities. "Every country's agriculture is different, sometimes remarkably so," he says.

A key difference for investors in Serbia and Romania is that foreigners are permitted to own land. This was important for Austria's Bardeau family, which targeted the Banat area, on Romania's borders with Serbia and Hungary, because it has good land records, a legacy of its past within the Austro-Hungarian empire. "We know who the owners of the land were," Bardeau says. "No one can come forward in the future and say it is theirs."

This approach has involved a massive mopping-up operation. The family has acquired land from some 14,500 smallholders and rents from a further 1,500, requiring a team of seven to manage its purchases and leases.

Unlike some, Tom Green, chief executive of Spearhead International, one of the region's biggest farmers, with more than 70,000ha, prefers to lease land, freeing capital for investment. The new investors have had to pour money into infrastructure and machinery: Spearhead spent €4m on storage and irrigation last year alone. "Security of tenure at the lowest cost is our guiding philosophy," he says.

Like others, Green has benefited from long-standing relationships back home with multinationals such as PepsiCo, the drinks company, and Tesco, the supermarket chain, which in turn have welcomed reliable suppliers in the region.

Spearhead grew, in part, out of Greens of Soham, Tom Green's family business, a leading UK vegetable grower, based in East Anglia. Its operations now stretch to Poland, the Czech Republic, Slovakia and Romania.

"Geographical spread is crucial. Climate can be a big killer," says Green. "We operate from Scotland down to the Danube in Romania, giving us a diversity of production, which smoothes out the swings and troughs."

Several countries in the region describe themselves as Europe's bread basket. Ukraine has more claim than most. Rich in prized chernozem soil, or black earth, it is in the world's top 10 exporters of wheat, also accounting for about half of the global sunflower market.

'THERE ARE LARGE TRACTS OF VERY HIGH-QUALITY LAND [IN EASTERN EUROPE], CHARACTERISED BY NEGLECT AND UNDERINVESTMENT'

The Theeuwes family, a fourth-generation milling business, went into Ukraine as traders and processors in the early 1990s, before adding farming in 2006. Ukraine's potential reminded Victor Theeuwes' father of Holland in the 1950s.

Theeuwes, chief executive of the Dutch group, lived in Ukraine for four years and says it has taken longer than expected to get the land into good shape. Growth has also been restricted by the difficult business environment, such as the troublesome local tax authorities and shifting legislation.

But farming in Ukraine has provided opportunities for vertical integration that are impossible in Holland with its tight land market. The company is also positioning itself for when restrictions on land ownership are eased. "I am interested in arable land as a pure investment," the 42-year-old says. "It will happen one day and I will be ready."

The group has lifted yields 50-100 per cent, producing about seven tonnes of wheat a hectare – an improvement similar to that achieved elsewhere in the region, says Christoph Hartig, an Austrian farming consultant.

While EU-financed infrastructure improvements have helped significantly, its subsidies have had an inflationary effect on land prices. Farmers are also running into competition from financial investors who see land as an asset class, in contrast to a decade ago, he says.

Nevertheless, land remains inexpensive by western European standards and, crucially, available. In parts of EU member Romania, land can still be purchased for as little as €300 a hectare; in central Ukraine a hectare can be leased for €70 a year.

Like others, Hartig says eastern Europe's competitive edge lies in agriculture. Spearhead's Green says: "One has a huge, overwhelming sense of agricultural opportunity. There are large tracts of very high-quality land, characterised by neglect and underinvestment."

EARLY PIONEERS REAP THE REWARDS

In mid-1990, Mark Laird, then aged 18, set off on a journey that would change his life – a seven-week trip across the newly reunited European continent. He returned to the UK, taking a degree at the Royal Agricultural College, but "couldn't get eastern Europe out of [his] head".

Four years later, he and his older brother Simon persuaded the Polish authorities to lease them a former state farm close to the Baltic coast. The pair spent their first fortnight driving around in a beaten-up Golf trying to find enough weed killer to rid the 500ha property of prolific couch grass.

Today, Mark Laird is chief executive of Continental Farmers Group, listed in London's junior market, that manages some 36,000ha in Poland and Ukraine and has a market capitalisation of about £40m. Like other investors, the brothers had to wrestle with the bloc's formidable bureaucracy. "We used to curse it, but in hindsight it did us good, having to provide frequent and detailed information," he says.

Laird, who lived in Poland for a decade, praises the work ethic and creativity of his Polish workforce. His British and Polish management team was key to a successful move over the border into Ukraine's Lviv region in 2006. Land prices in Poland had risen sharply following EU membership in 2004, while Ukraine eased some land restrictions for foreigners in 2005.

Daily battle: Yohei Sasakawa, opposite bottom, continues the fight against leprosy, which is still prevalent in places such as China's Guangdong province, above and opposite top

A CURE FOR STIGMA

FEW DISEASES ATTRACT SUCH DISCRIMINATION AS LEPROSY, WHICH IS WHY JAPAN'S BIGGEST PHILANTHROPIST IS ON A MISSION TO CHANGE ATTITUDES

BY ANDREW JACK

Yohei Sasakawa smiles as he explains why he is still in his thick outer coat as he sits in the main hall of the Law Society building in London. "The only thing you can't trust in this country is the weather." As Japan's biggest philanthropist, disbursing $300m a year through the Nippon Foundation, he can afford to dress as he pleases and travel where he chooses. But he has long focused on the fight against one of the world's most stigmatised diseases, and this has brought him to London to recruit lawyers for his latest tactic on his favourite cause.

For half a century, he has pursued the priority set by his father, Ryoichi: to fight leprosy. He has helped via programmes to distribute medicines to treat the disease (which infects 200,000 people a year and is entirely curable), but has also tackled the heavier burden of discrimination for those affected.

PHOTOS: NIPPON.COM, EPA

Appointed as the World Health Organisation Goodwill Ambassador for Leprosy Elimination a decade ago, Sasakawa has called for a ban on the use of the word "leper" and dislikes it being considered one of a number of "neglected tropical diseases", so-called because of the lack of attention they receive. "The disease is far from neglected for patients – they see it every day," he says.

"Elimination is like a bicycle: the front wheel is the cure and the back wheel is stigma. Many focus on the front, but once people are cured they should be reintegrated into society." That explains Sasakawa's latest effort to marshal the International Bar Association and other groups of lawyers to target archaic legislation in many parts of the world. "The laws are forgotten but still applied."

In some states in India, for example, leprosy can be grounds for divorce, and those with the infection are barred from election, begging or travelling in trains. Elsewhere – including the UK until last year and still in countries from the US to Sri Lanka – the disease can be used by immigration officials as grounds to refuse entry. Sasakawa even wrote to the Chinese authorities in the run-up to the Beijing Olympics in 2008 to protest an entry ban, which was temporarily lifted.

As a boy, Sasakawa's father's attention was first drawn to the disease when a neighbour in his village disappeared after being diagnosed with leprosy and was put in isolation. "He started questioning the need to be secluded. He was a man with a sense of justice. He wanted to work on the issue," says Sasakawa.

Sasakawa himself recalls his determination to take on the programme in the 1970s after visiting a leprosy hospital in South Korea that his father had helped fund. "I had such a great shock seeing people who were hidden from society. They had no smiles – they were just lying on their beds and had lost all hope. It was a great shock seeing people who were 'non-existent'. I realised there are shades and lightness in society, and people who live in darkness."

Some critics have raised concerns over the source of his funding, channelled via the Nippon Foundation from its six-storey office in Tokyo to domestic and foreign causes alike. It was established by his father, an influential nationalist who was imprisoned – though never convicted – after the second world war, and devised an unusual way to help rebuild the country's devastated shipbuilding industry and support charitable causes.

Partly inspired by the example of horseracing in the UK, Sasakawa says his father lobbied hard to create a national gambling system by constructing a series of lakes around Japan and launching regular motorboat racing competitions. Ever since, and despite periodic political scrutiny and calls for the state to handle the money directly, a proportion of the bets – now 2.6 per cent – is paid to the foundation each year for disbursement. In a recent move towards greater transparency, it now publishes accounts in English.

Sasakawa argues that his father was not involved in right-wing politics after the war, and that "seven books written about him by scholars" have upheld his reputation. "He had an idea that was close to genius. He didn't take a cent for himself. It is a private organisation unique in our very bureaucratic society. There were a lot of opinions at the start and it went through difficult times. But it is using the money in very innovative ways, and society accepts that we are contributing effectively."

Alongside its own income, the Nippon Foundation has helped to raise matching funds from others during special appeals, such as following the earthquake in Japan in 2011; worked alongside Japanese companies to boost support for charitable causes; and even launched a campaign with the country's dentists to sell gold tooth fillings.

The foundation works to promote the use of sign language, and to support sport, children's cancer hospitals, and a variety of aid projects in Asia and Africa. It runs a programme to lend to talented musicians around the world its collection of Stradivarius violins and other historic instruments in its collection.

Yet Sasakawa says most of his time and effort remains focused on leprosy. "The fight will be long term because the whole idea of discrimination is really knitted into our DNA. There are several thousand diseases in the world, but leprosy is perhaps the only one that carries such discrimination. Unless you keep working on it, people tend to forget about it. If it takes another 100 years, I'd like to live another 100 years."

DOWN THE LIST OF PUBLIC HEALTH PRIORITIES

Leprosy – or Hansen's disease – is a bacteria-caused disease that causes nerve damage and disability. It affects an estimated 250,000 people globally. Around 200,000 new cases are diagnosed each year, most in Brazil and India. Despite the long-standing stigma surrounding the disease, it is not highly infectious and is entirely treatable with three drugs, provided free of charge since the start of the millennium by Novartis, the Swiss drug company that originally developed two of them. Yet efforts to eradicate the condition since the start of the 1990s have had limited success, reflecting insufficient co-ordination between governments and charities involved, the extreme poverty and isolation of those who contract leprosy, and the low profile and priority given to the disease among the public and doctors.

Klaus Leisinger, chairman of the Novartis Foundation, says: "We have a unique historical window to eradicate this disease, but the last mile seems the most difficult. It is not a public health priority any more."

GOODBYE GANGLAND

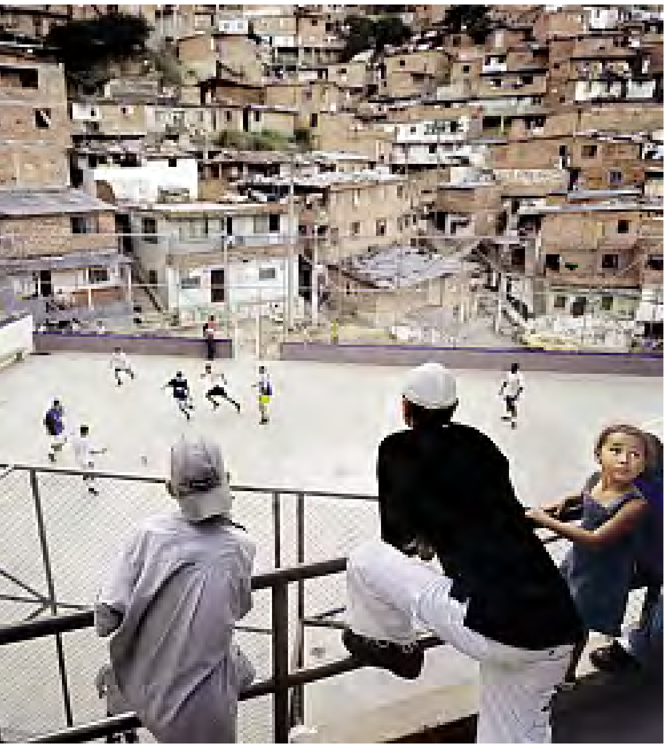
AFTER DECADES OF NOTORIETY AS A HOTBED OF DRUG CRIME, COLOMBIAN CITY MEDELLIN IS REINVENTING ITSELF AS AN ENTREPRENEURIAL HUB

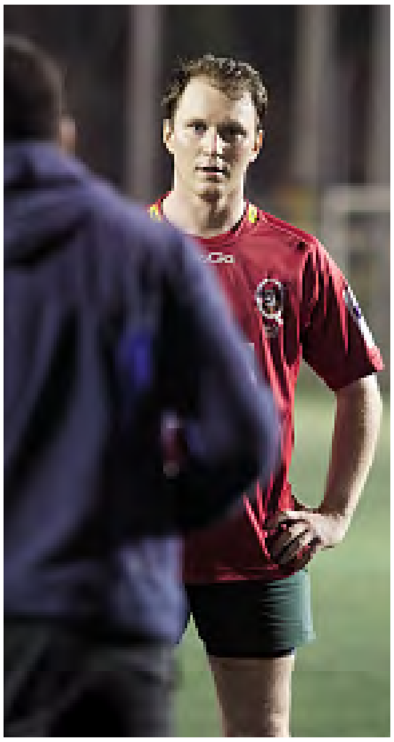
BY NICK FOSTER
PHOTOGRAPHS BY PAUL SMITH

When Conrad Egusa, a 25-year-old entrepreneur from New York, arrived in Medellín early in 2012, he knew "pretty much straight away" that he had found what he was looking for.

Since graduating, Egusa had spent a couple of years helping tech start-ups in California and New York with their marketing. Medellín, Colombia's second city and home to some 3.5m people, had appeared on his radar as a rather unlikely Latin American start-up hub – unlikely because in the 1980s and early 1990s the city was a virtual byword for lawlessness and violence. What had it done to reinvent itself? And how had Medellín managed to attract a critical mass of young foreign entrepreneurs?

"Medellín reminds me so much of Silicon Valley," Egusa tells me over a late-morning coffee on a terrace in the city's upmarket Parque Lleras district. "On a superficial level the warm, sunny climate is similar but, more importantly, in both places there is a real feeling of opportunity in the air."





New outlook: Medellín, above and previous page, is attracting investors from home and overseas, such as Ian McComiskie, right

Parque Lleras is where many of the city's expatriate start-up community meet to share ideas, find business partners and look for funding. Egusa estimates that about 200 entrepreneurs, mainly from the US and almost all men, have settled in Medellín and set up businesses in the past two years. Still more are in the city taking the temperature of the business environment. Online retailing, medical tourism – particularly cosmetic surgery – and software apps are growth sectors. Only a handful of these businessmen have turned 35. Facebook, predictably, has played a key role in bringing the entrepreneurs together.

At night Parque Lleras turns into a high-octane party zone for Medellín's wealthy young, but by day the streets are so peaceful you can hear birds chirping in the trees that line its well-swept pavements. For Egusa, this felt like home. "Just as Silicon Valley is continually reinventing itself, so is Medellín," he says. "The city always had a reputation in Colombia for its work ethic and entrepreneurship. Now, overseas entrepreneurs have also become part of Medellín's business ecosystem."

Egusa's own venture is Espacio, a shared workspace that operates as a kind of incubator for young entrepreneurs, giving them a place to work and help with bookkeeping and legal matters. "It's challenging to find office space in Colombia," says Egusa. "You invariably need to pay a large deposit or, if you have arrived from overseas, find a local person to guarantee a lease."

Espacio has around 30 members, split neatly between expats and Colombians. Samuel Michelot, 30, from Lyon in France is developing MosaLingua, an app to help people learn foreign languages based on a curve that predicts the rate at which learners forget new vocabulary. "There is still a lot to be done here, but Colombia has huge potential. Medellín is a dynamic city and the pioneer culture is an inspiration," says Michelot. ➤

AROUND 200 ENTREPRENEURS, MAINLY FROM THE US AND ALMOST ALL MEN, HAVE SETTLED IN MEDELLIN

All aboard: Ian McComiskie teamed up with a Colombian partner to form his bus reservation venture

‘OUR DARK PAST, ALL THE NARCO VIOLENCE, IN A WAY HAS HELPED BECAUSE IT HAS MADE US EVEN HUNGRIER TO SUCCEED’

Of course, it was an entrepreneurship of kinds – together with a breathtaking ruthlessness and contempt for human life – that prompted a number of gangsters from Medellín and the surrounding province of Antioquia to devise ever more elaborate ways of transporting cocaine from the coca fields of Colombia to lucrative markets in North America and Europe.

In 1993, Pablo Escobar, Medellín’s drugs kingpin, was tracked down and killed. The tide was finally turning against Colombia’s drug traffickers. But for years Medellín would struggle to become a “normal” city, given the vast number of illegal firearms in circulation and the military’s struggle to eradicate the Farc and other left-wing guerrillas (the presence of right-wing paramilitaries only adds to this explosive mix). Colombia’s civil war has mostly been fought in the surrounding countryside, but also sometimes in the city itself: in 2001, for instance, a car bomb in Parque Lleras killed eight people.

The people of Medellín, long a centre for textiles and manufacturing and a contrast with the capital Bogotá which within Colombia is often stereotyped as a comfortable city awash with government jobs, responded with hard work as the violence finally died down.

According to figures from Medellín’s Agency of Cooperation and Investment, the city averaged 10 per cent growth for each of the 10 years between 2002 and 2011. “Those are Asian Tiger numbers,” says Juan Sierra, an investment consultant with the agency, adding that Medellín’s growth would be close to 10 per cent again in 2012 (Colombia’s central bank estimates that the equivalent figure for the country as a whole was 3.3-3.9 per cent). For the moment, says Egusa, “there’s more funding than capable entrepreneurs – it’s a great situation”.

“There is a perception abroad that the growth of the city is all about call centres and the like,” says Michael Puscar, a serial entrepreneur from Philadelphia. “Medellín is about cutting-edge stuff. The universities produce excellent graduates, but entry-level salaries for programmers are around a quarter of the equivalent in the US.” Puscar employs 65 people in Medellín and a further 80 in Shanghai. LexParadigm, his latest venture, devises innovative tools for the publishing industry.

At a networking dinner hosted by Egusa at a fashionable Italian restaurant in Parque Lleras, I mention Sierra’s growth figures to a local businessman. “Our dark past, all the *narco* violence, in a way has helped start-ups in Medellín because it made us even hungrier to succeed,” he says.

Profits from a state-owned regional utility company have helped to fund Ruta N, a campus-like research and innovation district that, since September last year, has also been home to a Hewlett-Packard global services centre – a significant boost for the city. Ruta N has pledged $3m to Velum, a new venture capital fund. Esteban Velasco, Velum’s director, is confident of raising a further $12m from investors by September. Velum’s seed funding will, he hopes, “reap rewards on a 10- or 15-year perspective”.

Aníbal Gaviria is the Liberal party mayor of Medellín. A youthful 47, he has been touched personally by Colombia’s violence: his elder brother Guillermo, also a Liberal politician, was murdered by Farc rebels in 2003. Gaviria’s office in City Hall is sparse, manifestly a working space, with a large map of the city and its *comunas* (boroughs) pinned to a wall next to a conference table.

Gaviria pauses when I tell him about my conversations with the expat entrepreneurs. "Let's say there is a stimulus knowing where we come from. We have known some difficult moments, but we are moving forward. We have to disarm people physically, but also in their minds."

Nowhere was the challenge of disarmament – real and metaphorical – more acute than in Medellín's notorious Comuna 1, a slum of brick and corrugated iron shacks high on a hillside in the north of the city. On these narrow, pitted streets gangs recruited many of their hitmen.

A cable car connecting with the city's metro system in the valley now takes residents up the hillside (elsewhere in the city, escalators do the same job). Comuna 1 is still a rough place, but the cars are immaculate and there is not a spot of graffiti or rubbish. Next to a cable-car station is the dark, angular Biblioteca España – one of several innovative public libraries in deprived neighbourhoods – this one designed by Colombian architect Giancarlo Mazzanti and built for $4m. Gaviria hands me a graph showing the city's murder figures since 1990. It looks a bit like a ski slope, with a broadly uninterrupted descent from 6,349 killings in 1991 to 1,249 in 2012. Score-settling between rival gangs is still a problem and accounts for many fatalities.

The 1991 figure, equating to 381 lives lost per 100,000 residents, prompted much debate at the time. Gaviria, understandably, prefers to concentrate on the present: a philosophy of innovation in public life that finds new uses for technologies (cable cars, for example) that are not new in themselves, together with earmarking cash for projects such Ruta N to attract international companies to the city.

But Medellín, like much of Latin America, is a still a place of rigid social divisions. The cliché that the only routes out of poverty are to become a famous musician or a professional footballer ring true here. Surely the most valuable achievement would be for a poor youngster at a *biblioteca* workstation to make it rich with a ground-breaking new business venture? "I'm sure a lot of hidden talent will come to the surface," says Mayor Gaviria. "I wouldn't be at all surprised if the *bibliotecas* produced successful entrepreneurs down the line."

Back in Parque Lleras I meet Ian McComiskie, an Australian who worked for five years at Macquarie Bank's New York office before setting off on a trip around Latin America on the intercity bus network.

"Bus timetables would chop and change and, frustratingly, the only place to buy tickets was the bus station itself," he says. Having seen there were many neighbourhood lottery outlets in Colombia and elsewhere on the continent, McComiskie came up with Ruta Estrella, a real-time reservation system for bus companies. Colombia's dense and relatively well-organised bus system was a plus and the fact that "you could drink the tap water" sealed it for McComiskie and Medellín.

But he discovered a Colombian had had pretty much the same idea, so he called him. The pair are now business partners, and Ruta Estrella has sold its first tickets – one of many recent start-ups that suggest Colombia's second city is emerging from decades of darkness.

"We have come out of the shadows," says Mayor Gaviria. "We're showing a real vitality to people from overseas who want to set up in business."

Start-up champions: New York entrepreneur Conrad Egusa, opposite left with Nick Foster, and Medellín mayor Aníbal Gaviria, this page

'WE ARE MOVING FORWARD. WE HAVE TO DISARM PEOPLE PHYSICALLY, BUT ALSO IN THEIR MINDS'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INSIGHT

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Rohit Jaggi dances on ice with the aid of Bentley, page 56

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INVESTING
EQUITIES

"'GREAT ROTATIONS' UNFOLD OVER MANY YEARS AND SO ARE TYPICALLY ONLY CONFIRMED WITH HINDSIGHT"

This is not a wind-up

BY MATTHEW VINCENT

In the pantheon of investment insights, "What goes around, comes around" is arguably as helpful as "You win some, you lose some" and "It all comes out in the wash".

No self-respecting portfolio manager would dare base an asset allocation decision – let alone a fee of 2 per cent of assets – on such a statement of the bleeding obvious. Would they?

Well... while the roulette table and the non-colourfast cycle have yet to be cited in serious theories of investing, something sounding suspiciously like a "wheel of fortune" hypothesis appears to be gaining credence. Of course, no wealth management company could ever put it in those words – which is why we've all been hearing about "the great rotation" instead.

Using the term "rotation" has two advantages. One, it makes a simple idea sound scientific. Two, it implies that you've read research by Merrill Lynch, Citi and Fidelity, and/or a newspaper article from 1937 (even if you haven't).

That idea is to move out of bonds and into equities ahead of economic recovery. The research simply describes the economic cycle, and the best-performing asset classes, in terms of a clock face.

On most versions of this "investment clock", for example, weakening growth and falling inflation occur at around 6pm, when you should be holding bonds. Recovery begins between 8pm and 9pm, which is the ideal time to buy shares. Inflation is rising by midnight, so commodities offer the highest returns. But a few hours later, the economy is overheating and recession looms. As Trevor Greetham, assistant allocation director at Fidelity, the fund manager, puts it: "Cash comes into its own in the inevitable hangover after the party."

"GETTING FROM 6PM TO 8PM SEEMS TO HAVE TAKEN THE BEST PART OF 30 YEARS"

As the hands on this investment clock rotate, so too should your portfolio holdings.

All of which begs the question: what time is it now? Judging by some portfolio managers' recent actions, their Rolexes are saying 7.45pm.

In the first four weeks of 2013, US equity funds attracted $21bn, according to data provider Lipper – the largest inflow to equities for any four-week period since the peak of the dotcom boom in April 2000.

Johan Jooste, chief market strategist for Europe, the Middle East and Africa at Merrill Lynch Wealth Management, believes there has been a clear shift in attitudes. "The 'great rotation' is the market beginning to digest the fact that market risks are not just to the downside, but to the upside too," he says.

"As global growth shows signs of firming, investors are realising better growth may lead to higher interest rates. As such, investors have started a gradual move away from core government bonds, and are turning towards selected equity markets."

Fortunately, equity valuations are a bit behind the clock, argues Willem Sels, UK head of investment strategy at HSBC Private Bank. Although stock markets have already rallied as tail risks have receded – "no eurozone breakup, the fiscal cliff being managed, no hard landing in China" – he insists "equities are still attractively valued... both compared to historical valuations and to other asset classes".

In Asian emerging markets, for example, Jooste points out that equities are trading at a 10 per cent discount to the region's seven-year average price/earnings ratio.

For investors, then, there is still time to rotate. Alan Higgins, UK chief investment officer at Coutts, says: "We are seeing early tentative signs – for example, selling out of fixed-income exchange traded funds and purchases of equity funds – of what we think will develop into a more significant rotation. We believe it's only just begun. We don't think this is a false start and think the rotation will continue."

But while these arguments are easy to follow, the hands of the investment clock can be less so.

In fact, they can appear to have been drawn by Dali or wound up by Einstein. Getting from 6pm to 8pm, for example, seems to have taken the best part of 30 years.

"We look to spot asset class rotations, but 'great rotations' unfold over many years and so are typically only confirmed with hindsight," admits Mouhammed Choukeir, chief investment officer at Kleinwort Benson. "Government bonds are a great example – they've been rallying since the 1980s."

There is every possibility that the next few hours will drag a little, too. Or, in the more scientific terms used by Signia Wealth's chief investment officer Gautam Batra: "Any rotation from bonds into equities is likely to be an incremental process, which will require evidence of an extended period of economic rehabilitation prior to gaining meaningful traction."

So, if your wealth manager tries to argue it is time you sold all your bond holdings and bought into equities – paying lots of commissions and initial charges on the way – be wary.

The trouble with a "great rotation" is that it sounds a lot like spin.

PHOTO: DREAMSTIME

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Pain in Spain: Spanish banks were bailed out by taxpayers last September

A taste of the toxic

BY HELEN POWER

To many investors, the EU looks like an economic basket-case – a low-growth wasteland hemmed in by Greek rioters, incomprehensible politics and pointless austerity. But the contrarian voices of private equity managers betting on a once-in-a-lifetime distressed debt opportunity are growing louder.

Top of their shopping lists are €3trn of toxic corporate and real-estate loans that Europe's ailing banks, facing tighter regulations, need to sell off at a cut-price rate.

Investors are increasingly convinced by private equity's story. Five big-name managers – Blackstone, Oaktree, Oak Hill, Avenue and Pamplona – raised €9bn for European distressed funds last year, about eight times as much as in 2011; five more managers are on the road this year seeking a further €5.5bn.

PHOTO: REUTERS

> EXPERTS BELIEVE THIS YEAR THE TRICKLE OF ASSET SALES COULD BECOME A STREAM

"When you consider the sheer size of the opportunity and that the number of the people who have the right platform is limited, you have a lot of supply and not a lot of demand," says Mubashir Mukadam, a director of KKR Asset Management, the private equity group.

"Special situations" has historically been one of private equity's best-performing strategies. Figures from Preqin, the data provider, show that the median return for distressed debt funds invested in the wake of the dotcom bust was nearly 25 per cent, while the best returned between three and four times their money to investors over five to seven years.

In the early 2000s, even the wealthiest private investors had to compete with financial institutions to access the top distressed funds. But as private equity managers fight for cash, the market has opened up, making it much easier for investors to fit a distressed strategy into their portfolio.

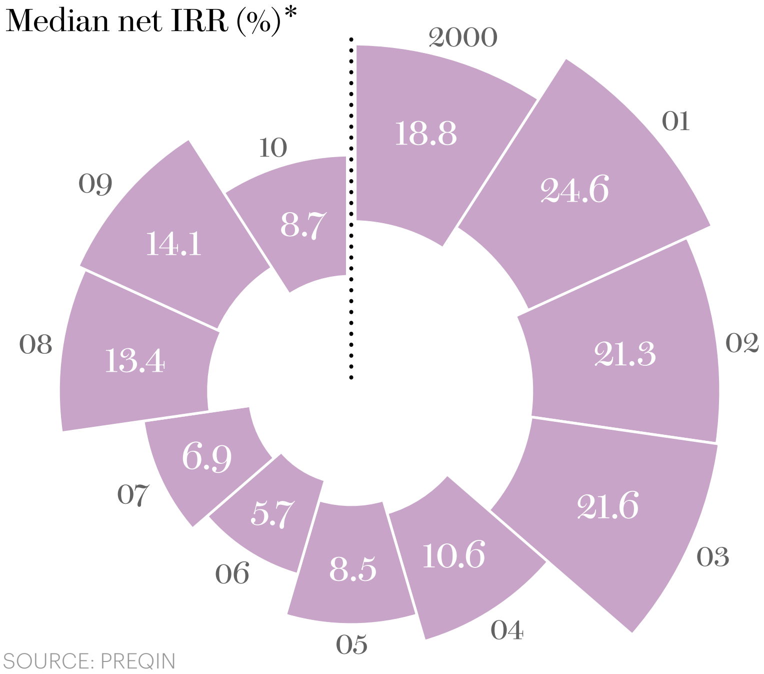
A key innovation has been at KKR. Last November, the original "Barbarians at the Gate" launched its first retail offering, with a distressed debt fund one of two options. With KKR founder Henry Kravis highlighting opportunities to profit from European bank deleveraging, investors can now access a more liquid version of the manager's global distressed fund for just $25,000.

The retail distressed fund, which gives investors access to most of the same underlying deals as its private fund, is distributed by Charles Schwab, the financial services provider, and will operate like a hedge fund, allowing investors to redeem some shares on a quarterly basis.

This fund – and a parallel high-yield retail offering – is currently restricted to US citizens, but KKR is expected to roll them out to European and Asian investors this year, provided there is sufficient appetite.

For investors who prefer a traditional five-to-seven-year private equity lock-up, access is getting easier. Several large funds, including KKR, are using private banks to create feeder funds, reducing the entry ticket to their strategies from, in some cases, $5m to $1m. Private equity funds raising Europe-focused distressed funds – including Apollo, Ares, ESO and Cardinal – offer wealthy investors a range of strategies. An indirect way to gain exposure to Europe's big loan-sell off could be through the shares of two New York-listed distressed specialists – Oaktree Capital Management and Kennedy Wilson. Both have already been heavy buyers in the European debt and both are tipped by analysts.

PRIVATE EQUITY RETURNS FROM DISTRESSED DEBT ACQUISITION, BY YEAR OF FUND



SOURCE: PREQIN

* IRR: internal rate of return

**Returns are from the date of the inception of the fund. Most funds run for around seven years

But just how good is this European opportunity? Experts believe this year, with the eurozone crisis hopefully in remission, the trickle of asset sales could become a stream, giving distressed investors pickings for the next five years. PwC, the advisory firm, predicts European banks will sell off loans with a face value of €60bn, nearly double the 2011 total.

"We are already starting to see banks begin to pay back the European Central Bank, so there will have to be movement on disposals," adds Steven Lewis, lead global banking analyst at Ernst & Young, the business advisers.

An improving economy has given banks the stability and confidence to cut deals with private equity on debt sales. Mukadam points to last September, when Spain's banks were bailed out by taxpayers and the ECB stepped in to support the euro, as a key turning point. "KKR has never been busier," he says.

Now he must convince Europe's banks to sell. Derek Sach, head of global restructuring at Royal Bank of Scotland, believes the two sides will draw closer to an agreement on price this year. "You get a lot of talk from funds that want to buy distressed debt at knockdown prices, but it is fair to say what has happened in Spain will encourage activity there this year," he says.

So would the gamekeeper gamble on private equity? "It's a high-risk opportunity, but the good funds are very good at selecting the right assets and should do well."

> THE BEAUTY OF PUERH IS A TREMENDOUS RANGE OF FLAVOURS AND CHARACTERS

China's special brews

BY HESHAM ZAKAI

For hundreds of years, the historic Tea Horse Road between China and Tibet was one of the region's most important thoroughfares. The route is still in use – a testament to China's traditional trading past and the strength of its rapidly developing market.

One of the products to make its way along the arduous trail 1,000 years ago was puerh, a dark, earthy tea from the mountainous southwestern province of Yunnan. But for collectors and connoisseurs, puerh is no ordinary beverage.

"It is truly the most fascinating and complex category of tea. The beauty of puerh is in its ability to offer a tremendous range of flavours and characters during its natural ageing process," says Bill Lee, executive director of the Institute of Masters of Tea Arts, a certified education provider that focuses on Chinese tea.

This means it also offers investment opportunities, as, like fine wine or certain cigars, well-produced puerh tea increases in quality and value as it ages.

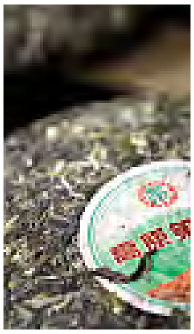
To make it easier to transport the tea, it is first compressed into "cakes". Collectors own examples of cakes ranging back to the early 1900s, a boom time for puerh tea production, and they can fetch hundreds of thousands of pounds at auction.

One of the largest sales recorded took place in China in December 2010, when a 2.1kg stack of seven Fu Yuan Chang cakes was sold for Rmb5,040,000 ($865,000).

The west is also waking up to the potential returns from investing in tea. David Collen, co-founder of tea supplier The Essence of Tea, believes he has one of the largest collections of puerh in Europe.

Collen was inspired by a Buddhist monk living in Scotland who first introduced him to puerh, before he decided

PHOTOS: EYEVINE, DREAMSTIME, CORBIS



to travel to China to learn more about the tea and the market.

"I had access to large stocks of aged puerh tea from the early 1900s onwards," he says.

"I sold what investments I had in the poorly performing western stock market and bought as much aged puerh as I could, both for personal investment and also as stock for The Essence of Tea."

Collen has seen the sales of puerh increase year on year by 300 per cent since 2009 as the tea's popularity continues to increase in the west, buoyed by its perceived benefits in an increasingly health-conscious market, as well as its association with slimming celebrities such as fashion designer and former pop star Victoria Beckham.

"Our customers are more and more interested in puerh tea and we've seen a significant increase in sales in recent years," says David Hepburn, marketing director at Jing, a tea supplier.

Jing's business portfolio includes servicing some of the world's finest Michelin-starred restaurants and five-star hotels, including the Landmark Mandarin Oriental in Hong Kong and Heston Blumenthal's Fat Duck and Dinner restaurants in the UK.

"We have introduced diners to some of our rare and treasured stocks from the 1950s and 1970s," says Hepburn.

Tea time, clockwise from far left: tea-picking in Yunnan province, crop grading, a cake of tea, a cake and leaves, the Tea Horse Road

The growth in the puerh tea market has prompted the Chinese government to try to increase its regulation of the beverage, including a specific definition to prevent counterfeit products from entering the market.

Puerh market prices have been regulated to a certain degree over the decades. The premier Red Mark strand from the 1950s – regarded by many as the golden era of puerh tea production – serves as a price benchmark for the market. However, even much younger teas can command a high price.

"There are rare cakes crafted from an ancient puerh tea tree that is more than 3,500 years old. These cakes have an auction price of Rmb140,000 even when young," Lee says. It is easy to see how these teas can be profitable when they come in large amounts.

Red Mark featured prominently in the teahouses of Hong Kong while it was under British rule. When the colony was restored to the Chinese in 1997, panic broke out among investors who had bought large quantities of aged puerh, prompting the sale to Taiwan of much of the stock held in the territory.

"RED MARK, FROM THE 1950S, THE GOLDEN ERA OF PUERH, IS A PRICE BENCHMARK"

Today, many of these investors are attempting to buy back the same stock of mature tea, recognising its value as an increasingly lucrative commodity, particularly among China's growing bourgeois community as well as in the west.

Yet despite its popularity in certain circles, this type of investment remains far from mainstream.

"Even in China, which has the highest level of tea connoisseurs in the world, puerh is for a niche of aficionados and collectors," says Hepburn.

‘SOME OF THE BASIC BUILDING BLOCKS FOR DATA EXCHANGE ARE SIMPLY MISSING’

PHOTOS: EYEVINE, DENNIS VAN TYNE/LFI

Measures of change

BY SARAH MURRAY

Investors seeking a safe home for their money often turn to stock market indices such as the S&P 500 when conducting research. Now, philanthropists can turn to something similar. The Social Impact 100 index rates non-profit-making organisations based on third-party evaluations of their social impact and their ability to grow to serve more people.

The S&I 100 was launched in November by the Social Impact Exchange, a US membership organisation of philanthropists, funders, companies, non-profits and research firms. It is the latest addition to a number of online services that help donors to make more informed giving decisions.

GuideStar International – created in 2007 through the merger of two UK-based charities, GuideStar UK and Civil Society Systems – has websites in the UK, Belgium, India, Israel and the US that provide information collectively on millions of non-profits.

Other online evaluators include Charity Navigator, which assesses the financial health, accountability and transparency of some 6,000 US charities. Meanwhile, Philanthropedia says it has more than 3,000 experts who have reviewed 560 US non-profits across 36 causes, and Give Well works to assess the impact of non-profit programmes and organisations’ fundraising and administrative costs.

Even so, the philanthropic sector remains underserved when it comes to the availability of uniform data to help donors pick philanthropic investments.

“Some of the basic building blocks

Key indicators, clockwise from far left: causes covered by the S&I 100 include nursing, health, education and food distribution for low-income residents of New York

for data exchange are simply missing or not widely adopted," says Darin McKeever, a deputy director and member of the policy and government affairs team at the Bill & Melinda Gates Foundation, which is developing Markets for Good, an initiative to promote non-profit data sharing.

He points to unique identifiers such as ISBN (International Standard Book Numbers) or bar codes, which allow the exchange of all kinds of information about consumer products but have no equivalent in the non-profit sector.

"Because of all these bespoke classification systems, it is incredibly costly to pull together information," he says. "And what limited money there is often goes into assembling basic data, not more in-depth analysis."

Alex Rossides, Social Impact Exchange president, says the S&I 100 represents a big step forward. "Now, donors can feel confident they are not putting their money into organisations that are not effective," he says.

"It is difficult in this sector to really know that an organisation is having an impact – the S&I 100 changes that whole dynamic."

To be listed, organisations must meet strict criteria, including third-party assessments. "It is not enough to have conducted 10,000 hours of tutoring time," explains Rossides. "You have to show improved literacy rates."

Non-profits must also demonstrate financial sustainability, what they have achieved and a plan showing how they will expand their services. Data are reviewed by outside experts for statistical soundness.

Of course, measuring the impact of non-profits is far tougher than analysing corporate performance. Take a cause such as world hunger, for example. Famine relief agencies might count the number of people receiving food supplies, yet a non-profit working to raise awareness of hunger among policy makers would find it harder to measure its impact.

This is perhaps why online evaluators use so many different approaches. "There is a real range in what the services offer," says Jane Wales, president and chief executive of Global Philanthropy Forum and vice-president of philanthropy and society at the Aspen Institute. "Some provide the kind of data that [are] in an organisation's tax returns, while others attempt to rate charities, but using very different standards across organisations."

Moreover, in the past, some measurement tools have been relatively blunt instruments. Many focused on the percentage of the budget spent on fundraising or overheads, even though investment in training or information technology systems might improve operational efficiency, leaving more cash for mission-driven activities.

Signs are emerging that the sector is developing more sophisticated assessment tools. For example, GuideStar USA has joined forces with the Better Business Bureau's Wise Giving Alliance and the Independent Sector network to launch Charting Impact, through which non-profits create an impact report based on questions about their goals, strategies, capabilities and ability to measure results.

> 'THERE IS A REAL RANGE IN WHAT THE ONLINE EVALUATION SERVICES OFFER'

Melissa Berman, president and chief executive of Rockefeller Philanthropy Advisors, approves of the increased focus on effectiveness but says: "The challenge is that we are not quite as good yet at measuring effectiveness as we are at measuring efficiency."

For this reason, Patrick Rooney, executive director of Indiana University Center on Philanthropy, says charity evaluators are only a starting point for donors. "They help define and identify the types of organisations whose mission aligns with their goals, but donors making a significant gift should not rely on them alone."

PHILANTHROPY
RELUCTANT DONORS

How the other half gives

BY SARAH MURRAY

In a laboratory game to assess how income levels affect charitable giving, participants are handed $10 in dollar bills and told that, if they like, they can put some in an envelope and give them to an anonymous partner. Psychologist Paul Piff has found that people making $150,000 or more a year give on average $2-$3, while lower earners give $6-$7.

"That's an incredible difference," says Piff, a social psychologist at the University of California, Berkeley. "You would think that the person who doesn't have much money would really value those few dollars, but we find the reverse."

Yet, when unpicking such findings, variations in giving levels cannot be explained simply by concluding that the rich are stingier than others. Moreover, some argue that the problem is not a lack of generosity among the wealthy but the inability of non-profit-making organisations to find new ways to engage the rich in problem solving.

Piff's findings certainly mirror the results of other studies. In a Stanford University paper, authors Claude Rosenberg and Tim Stone calculated that in 2003, if 1m affluent US taxpayers aged between 36 and 50 had donated the same proportion of their assets as their less wealthy peers, they would have added a collective $12bn to their gifts that year.

ILLUSTRATIONS: TOM DUXBURY

> BEING INSULATED FROM THE LIVES OF THE POOR APPEARS TO DAMP THE URGE TO GIVE

In Piff's research, similar results emerge when it comes to the giving of time. In another test, participants are asked how much time they would be prepared to give to help someone who rushes in late, appears very distressed and who will, participants are told, need to remain behind to complete the test.

"We measure the minutes they're prepared to give," says Piff. "Wealthier participants give way less time."

When it comes to financial donations, the rich may give a lower proportion of their income away in part because of the disproportionate thanks they receive for what they do give.

"Humans have a hard time understanding big numbers, so we celebrate large gifts in an absolute way," says Jason Franklin, executive director of Bolder Giving, a US non-profit. "That lets wealthy people off the hook culturally, because they're described as generous for making a big gift regardless of their capacity to give."

Like the Giving Pledge – launched in 2010 by Bill and Melinda Gates and Warren Buffett to persuade wealthy individuals and families to give most of their assets to charity – Bolder Giving has a mission to inspire individual donors to give away more of their wealth.

Franklin believes wealthy individuals often have a poor understanding of how much they can donate without undermining their financial position. "People don't have a good sense of their own capacity to give," he says, adding that their wealth managers tend to focus on keeping or building their clients' financial assets.

The external environment also appears to influence giving. Piff argues that because those with few financial resources rely more on other people in their community and in turn help them out, they tend to develop higher levels of empathy.

Yet it takes relatively little exposure to others' misfortunes to cause wealthier people to gain that empathy and give more. When the time test was run on participants after they had watched a brief video about child poverty, no differences emerged between rich and poor in the time they offered to help the late-arriving participant.

For non-profits hoping to secure more funding from the wealthy, this suggests that exposing donors to the issues – whether through videos, images or even trips that give them first-hand experience of the effects of poverty or malnutrition – could yield positive results.

By contrast, being insulated from the lives of poorer people appears to damp the urge to give. By examining tax records in different US neighbourhoods, the Chronicle of Philanthropy newspaper found that in districts dominated by wealthy people, giving dropped below average rates.

Yet perhaps it is overly simplistic to rely on tax returns as a measure of generosity. "The financial complexity of the incomes and assets of high net worth individuals is very different from other people," says Susan Raymond, head of research and policy at Changing our World, a fundraising consultancy.

"By looking at household income and giving as [they are] itemised on a tax form as a percentage of annual income, you don't know what… they're doing with the rest," says Raymond.

Regardless, she says, in efforts to get the wealthy to give more, the onus is on non-profits to do a better job of understanding what motivates donors. "Non-profits have to understand that, increasingly, wealth is held by a diverse set of people with a diverse set of backgrounds," she says.

This means rich individuals are less likely to want simply to write a cheque to a charity or shell out large sums for a gala dinner. With more philanthropists having amassed their wealth in the private sector, rather than inheriting it, many are looking for entrepreneurial solutions to social problems.

This might mean seed-funding social entrepreneurs, engaging in social impact investing (which seeks social or environmental impact as well as financial returns) or buying social impact bonds that yield a return only when an

> PEOPLE DON'T HAVE A GOOD SENSE OF THEIR OWN CAPACITY TO GIVE

objective, such as housing more homeless people, has been met.

Raymond believes non-profits need to move away from traditional fundraising methods to provide more creative financing options for the wealthy. "People of high net worth don't want to give money to problems. They want to invest in solutions," she says. "That's how you get wealth to become more engaged – not by simply showing more sad faces."

Aristocratic anomalies

BY STEPHEN WILMOT

PEOPLE GET EXCITED ABOUT TITLES, BUT IT'S THE ESTATES THAT MATTER

Even as the UK's coalition politics have become increasingly fractious, one issue has united parliamentarians: the royal baby. Very few found objection with the Succession to the Crown bill, which had its first reading in the House of Commons on December 13, shortly after the Duchess of Cambridge was forced by acute morning sickness to reveal her pregnancy.

The bill changes the existing royal succession law – which stipulates that sons take priority over daughters – so that the duchess's first child will inherit the crown irrespective of gender. But male primogeniture remains standard for the country's nobility. Women are not eligible to inherit most titles, and, in those cases in which they are, male heirs take precedence. The Succession to the Crown bill will not change that, says Julian Washington, a private client director at RBC Wealth Management. "If you're any kind of peer with a hereditary title, boys trump girls – deeply sexist as that is."

Sexism is one problem, affecting individuals such as Emma Kitchener, a descendent of Field Marshal Herbert Kitchener, the face of the "Your Country Needs You" first world war recruitment poster. The peerage created for him died with the unmarried third Earl Kitchener in 2011 instead of passing to the latter's niece, Emma. After lobbying by her high-profile husband, Julian Fellowes (Baron Fellowes of West Stafford and creator of hit television series *Downton Abbey*) the Queen was last year moved to grant her the "same title, rank, place, pre-eminence and precedence as a daughter of an earl" via a royal warrant of precedence.

Julian Fellowes and Emma Kitchener, below, and the House of Lords, opposite

IF YOU'RE ANY KIND OF PEER WITH A HEREDITARY TITLE, BOYS TRUMP GIRLS

Yet this persistence of male primogeniture is also a wider problem for Westminster. Most UK peers ceased to have official privileges when the Labour government reformed the House of Lords in 1999. But some exceptions were made, so that 92 seats in the upper chamber of parliament are still reserved for holders of hereditary titles. Of these, only two are occupied by women. "While the holders of hereditary peerages continue to be eligible for membership of the House of Lords, the way in which their titles are inherited, and its effect on the gender balance in parliament, remain matters of public interest," concluded a 2011 House of Commons report.

Extending the Succession to the Crown bill to the wider aristocracy is difficult because succession in this case is dictated not by parliament but by special deeds called letters patent. These vary from family to family. "Amending all the letters patent over hundreds of years would be exceptionally complicated," says Rupert Mead, a specialist in landed estates at law firm Forsters. On this basis Lord Strathclyde, former government leader in the House of Lords, ruled out reform.

This puts Britain in line with other European monarchies such as Belgium, the Netherlands and Sweden, where male preference persists in aristocratic succession though not in the monarchy. (The exception is Spain: King Juan Carlos decreed in 2006 that succession to noble titles would be gender-blind.) One reason these have not bothered to reform the nobility is its political irrelevance – the old feudal titles that once conferred tremendous wealth and power across the continent now carry no rights.

Even in the UK, with its only partially reformed House of Lords, titles are increasingly being separated from landed estates. Mead says his clients often ask about the "cousin Matthew issue" – a reference to *Downton Abbey*, in which the earldom of Grantham is due to pass not to the current earl's three daughters, but to a male cousin. "People get excited about titles, but it's the estates that matter. People used to slavishly pass estates down to the eldest son with the title, but now they're much more inclined to choose whoever is most suitable," he explains.

Breaking with the tradition of primogeniture does raise other questions, the most contentious being whether one child, male or female, should inherit everything. A poll of 2,000 wealthy individuals by Ledbury Research for Barclays Wealth suggested 70 per cent planned to split their assets equally between their children. But this is problematic in the case of aristocratic estates, which require vast capital to maintain.

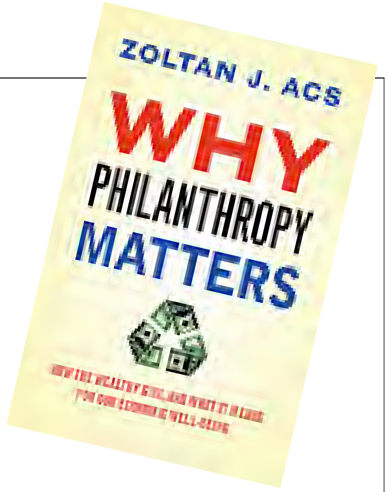
This problem is compounded in countries that oblige individuals to bequeath their assets in specific ways – so-called "forced heirship". French law requires all children to be treated equally, while Shariah law imposes strict but unequal shares: wives typically receive an eighth of the estate and the children take the rest, with sons due twice the share of daughters. Muslims who want more flexibility have to rely on offshore trusts.

Whether the high-profile example of the British royal family will encourage the global jet-set to iron out the vestiges of male primogeniture in its succession planning may depend on the sex of the royal baby due in July. "We're all hoping it will be a girl, so the rule can be tested," says RBC's Washington. "Otherwise it will be a bit of an anticlimax."

PHOTOS: GETTY

BOOKS
AMERICAN PHILANTHROPY

> IN AMERICAN CULTURE THE WEALTHY SHOULD CREATE OPPORTUNITIES FOR THE NEXT GENERATION



Capitalism's giving side

BY DANIEL BEN-AMI

Why do those Americans who succeed in accumulating vast fortunes often end up giving away so much of their hard-earned money? The question is posed sharply by such initiatives as the Giving Pledge, launched by Warren Buffett and Bill Gates in 2010. Since then more than 100 billionaires, mainly American, have pledged to give away most of their wealth. To sceptics and economists the rich would only divest themselves of so much wealth for reasons of self-interest, such as tax benefits or even the positive emotional pay-off.

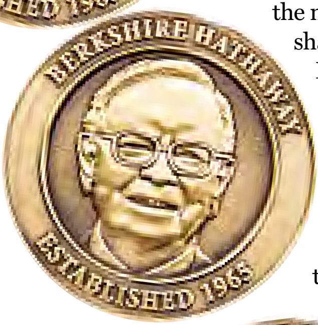
But it is hard to believe hard-edged entrepreneurs are all suddenly overwhelmed by pure altruism. The above reasons do not seem sufficient to explain the central role philanthropy has come to play in American life.

Zoltan Acs, an economics professor at George Mason University in the US, sets out to examine this phenomenon. The book's title is significant. His subject is not so much philanthropy itself but how it fits into the American model of capitalism. This broader perspective makes the book particularly interesting. His argument rests on a vital distinction between charity and philanthropy. For Acs, philanthropy involves a reciprocal relationship between donor and recipients.

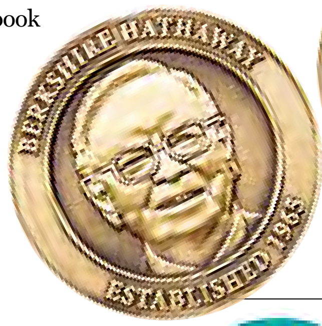
For instance, when Leland Stanford donated money to found a university in his dead son's name he expected future students to expend their time and effort. Both sides in such deals make a form of investment. In that sense, Acs favours much more philanthropy but much less charity given away.

This implicit social contract is, Acs argues, essential to understanding the US model of capitalism. Americans are free to accumulate vast wealth, but it is embedded in American culture that the wealthy should help create opportunities for the next generation.

In that respect philanthropy has played a central role in America's long-term economic success. The US has generated enormous wealth by giving free rein to the forces of entrepreneurship and "creative destruction". It has let the market economy rejuvenate itself by shaking out less efficient businesses. But philanthropy has allowed it to eschew a rigid social hierarchy while at the same time creating world-class universities and research institutions.



Unfortunately, this book sometimes reads too much like a paean to American capitalism, rather than a critically detached study. It tends to overestimate the differences between the US and other models of capitalism while underestimating the problems facing America.



Acs describes the US as having a weak state compared with European and southeast Asian capitalism. But once state and local spending are taken into account the share of government activity in gross domestic product is not that different from other countries – the International Monetary Fund estimates total government expenditure in the US accounted for 40.6 per cent of GDP in 2012, against 44.9 per cent for Germany. This is a difference of magnitude but less substantial than Acs suggests.

Similarly, the US is more hesitant about embracing creative destruction than it was in the past. It has acted to constrain market restructuring, rather than welcoming it. Whether the bailouts of 2008 were wise is arguable, but they certainly represented a limitation on the operation of the free market.

There are also serious studies showing that, by some measures, contemporary America is less mobile than many other developed countries. Such results will always depend on the measures chosen, but American mobility is not as manifestly superior as Acs suggests.

None of this is meant to deny that the US has succeeded in generating enormous wealth, nor to contend that the American model is more or less identical to European capitalism. But it is not necessary to hinge a genuine insight into the nature of American philanthropy – its central role in the ideal of equality of opportunity – on a one-sided account of the US model of capitalism.

One authority quoted by Acs captures elegantly a central paradox of US capitalism: Americans tend to see "economic freedom as an equal chance to become unequal".

Why Philanthropy Matters, Zoltan J Acs (Princeton University Press, 2013, £19.95)

THE QUOTE

"The American tradition has welcomed entrepreneurial activity and encouraged vast amounts of wealth creation, but it has tended to avoid the establishment of a ruling class."

PHOTO: BLOOMBERG

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> BMW HAS MINED THE MINI'S RICH HERITAGE TO GOOD EFFECT

Blast from the past

BY ROHIT JAGGI
PHOTOGRAPHS BY CHARLIE BIBBY

Accelerating out of a tight corner, the power of the Mini John Cooper Works GP makes the steering wheel writhe in my hands. I am in the fastest of the reborn Mini range made by BMW and on today's increasingly crowded roads, where tolerance of speed and fun is continually being eroded, it is a reminder that opportunities to exploit the power are limited.

Like many of the best cars, the JCW GP shines a light on the spirit of its age. The original Mini, built from 1959 by the British Motor Corporation, showed how rules could be broken, repackaged and resized.

BMW has mined that rich past to good effect with its version of the Mini. The latest JCW GP displays the sporting heritage of a car that was transformed from an affordable, utility vehicle into a motoring legend.

One of my own first cars reflected the aspirations if not the successes of that age – it was a souped-up Mini that had been tastelessly reconfigured into a boy-racer's delight with super-wide front wheels and a dashboard full of unnecessary instruments and switches.

In unmodified form, the Mini was well placed to influence and reflect the zeitgeist of the 1960s – innovative, accessible to all and sporting, it was an automotive revolution. But by the time production ended in 2000 with about 5.4m made, it was a – diminutive – dinosaur.

By then Rover, as BMC had become, was owned by BMW and the new Mini the German carmaker brought out in 2001 was, while faithful to many of the styling cues of the original, a grown-up version. Far bigger, with the hatchback my father longed for in his own Minis, and with infinitely better crash protection, it still replicated the original's kart-like driving feel.

Since then BMW's Mini has been through one big update, and is due another this year. The original hatchback has been joined by no fewer than six other bodyshell types. This spreading into new areas, particularly with the bloated four-door and four-wheel-drive versions, does rather make it look as if the brand's fashionable retro appeal is being shamelessly plundered.

Such suspicions are inflamed by the free-and-easy use of original names in ways that fail to keep faith with their original use. For example, Clubman in the original Minis denoted a restyled front end; in the BMW Minis it means the one closest to what was formerly called the Traveller or Countryman.

BMC itself was far from blameless. Its Riley Elf and Wolseley Hornet versions of the Mini were fractionally upmarket, with extra but largely useless bodywork and styling flourishes to justify a higher price tag.

As a last gasp of the current Minis, however, the limited edition JCW GP – just 2,000 will be made – has a greater logic. Sportiness is in the original Mini's DNA, and replacing the rear seat with a brace for the rear suspension is more than a nod in that direction.

While it is no stripped-out racer, it has enough raw feedback from the hard suspension, better brakes and nicely weighted steering to give some of the feel of a track star – including the torque-steer that helps make it feel pleasingly overpowered. And the excess of power, along with that nippy handling, can at least put some fun back into navigating urban traffic snarl-ups.

Overall, BMW's Mini recreation has proved more successful than Volkswagen's Beetle or the cartoon-like American homages to past muscle cars. Among the current crop of retromobiles, only the Fiat 500 comes close.

While BMW has pushed beyond the edges of the Mini concept by extending the model range, the JCW GP is more in keeping with the original Mini.

The speediest Mini is also rather more expensive than a minimalist ethos would imply, but what is most striking is that buyers continue to snap up cars that seem a long way from the Mini brief. More than 2m examples of the reborn Mini have been sold so far, and the number is rising rapidly.

That illustrates how much buyers of tangible items that are paraded in public love to associate themselves with cool brands. As a spotlight on one of the most striking spirits of this consumerist age, that is hard to beat.

STATS

PETROL ENGINE: **Turbocharged 1598cc four-cylinder, 218hp, 260Nm of torque**
FUEL CONSUMPTION: **39.8mpg (combined cycle)**
TOP SPEED: **150mph; 0-62mph in 6.3 seconds**
PRICE: **from £28,790**

Watch a video of Rohit Jaggi reviewing this car at www.ft.com/minigp and a slideshow at www.ft.com/wealth

"THE JCW GP OFFERS ENOUGH RAW FEEDBACK TO GIVE SOME OF THE FEEL OF A TRACK STAR"

“I GROW USED TO LOOKING OUT OF THE SIDE WINDOW TO SEE WHERE I AM GOING”

Sideways on ice

PHOTOGRAPHS BY MARK FAGELSON

Chatting casually, four-times world rally champion Juha Kankkunen sends the car swinging sideways by more than 90 degrees, ice and snow spitting from all four wheels as the spike-studded tyres scrabble for grip on a frozen Finnish lake.

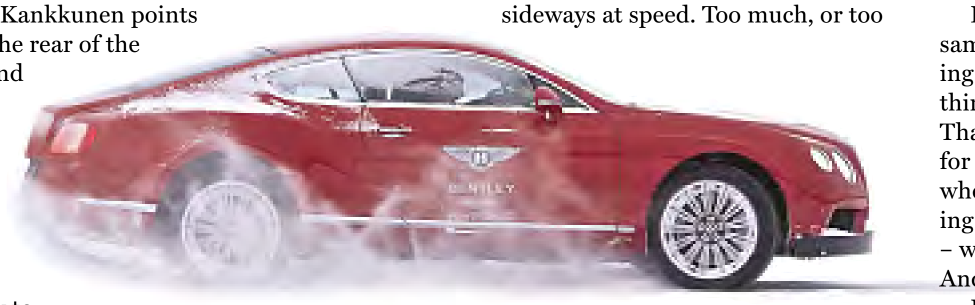
I am just 60km south of the Arctic circle in Finland learning how to slide a high-performance vehicle sideways at speed. Powersliding on ice is not only easier than doing it on the road, it is also – as Kankkunen points out while flicking the rear of the car left and right and left again – the fastest way of getting round slippery bends.

A number of makers of performance cars run courses on how to drive safely and speedily on ice. This one, based near Kuusamo, is laid on by Bentley, fittingly, as a souped-up version of one of its cars holds the world ice speed record – with Kankkunen at the wheel.

I reckon I should be OK at this. I can make the rear of a motorcycle drift sideways under power, and I have vivid memories of saving a huge rear-wheel slide on a 1000cc Kawasaki supersports bike at Brands Hatch race track not so long ago.

Climbing first into a Continental saloon, the Flying Spur Speed, an instructor shows me how it is done. With four-wheel drive, the car turns into bends surprisingly well. If one is carrying enough speed, the back of the car swings out wide and the trick then is to apply enough of the 600 horse-power that the 12-cylinder engine puts out to keep the slide going, while pointing the front wheels in the desired direction of travel.

Simple. But once I jump behind the wheel, it is surprisingly difficult to master. For one thing, the ice track is white, the snow banks also white, and the sky and most of the rest of the landscape are white. Only the vertical black slashes of tree trunks in the distance give any visual relief. That makes it desolately beautiful – but also difficult to see where the circuit goes. Second, it is difficult to have faith in piling on more power while a 2.5 tonne car is careering sideways at speed. Too much, or too



“ONLY THE BLACK SLASHES OF TREE TRUNKS IN THE DISTANCE GIVE ANY VISUAL RELIEF”

little, and the car all too readily spins off the track.

Switching to the two-door Continental GT, the similar power and drive in a shorter body make the timing of each input more crucial as everything happens faster. Most of the ice tracks are arranged with a succession of S-turns so that I can use the pendulum effect of changes of direction to initiate a slide – the alternative is the “Scandinavian flick”, which is to twitch the steering left going into a right-hand curve, overcorrect the slide by the rear of the car to the right so that it starts to slide to the left, and then feed in power to keep it sliding all the way round to the end of the bend.

That sounds more difficult. And it is. I can do it most of the time, but my lack of instant mastery is frustrating. Kris Meeke, a hugely skilled rally driver, reminds me of my initial training to fly a helicopter when he says: “Some people have this bubble of balance built in, and they get power-sliding instantly. Others have to learn. You can’t think it – you have to feel it.”

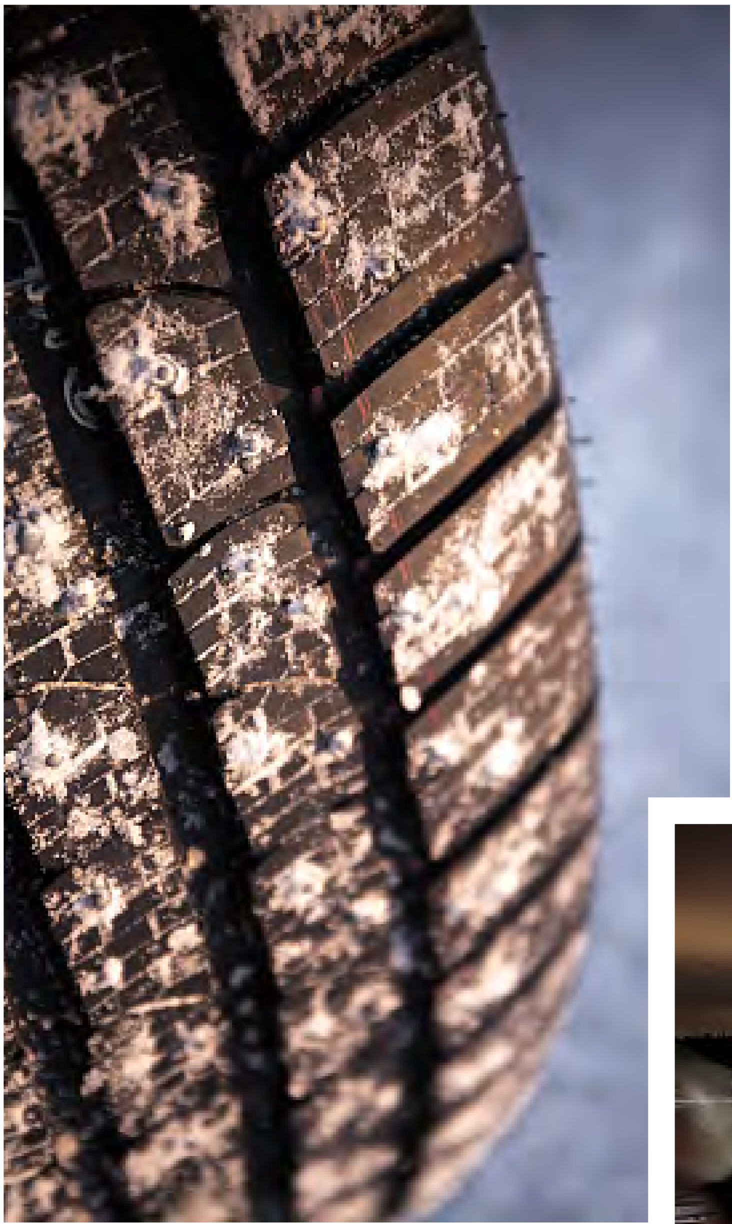
Hovering a helicopter demands the same sort of discipline – surrendering yourself to your senses rather than thinking through every control input. That is too slow. It is what I was doing for the first few hours of hovering but, when my body did take over, hovering over a spot on the ground became – well, not easy, but at least possible. And then it became easy.

By the end of the short winter day. I have grown used to looking out of the side window to see where I am going, and have relaxed enough to be able to apply the right amount of power, at the right time, to keep a slide going.

The Bentley Power on Ice training programme includes another day for its €9,990 base price to consolidate that blend of learning, feel and fun.

The car-control skills that I have so enjoyed absorbing will be useful after I leave the stark, minus-20C beauty of northern Finland. By helping not just to understand the dynamics of weight transfer, but also to feel them in action, my driving has gained extra margins of safety. But I’ll need a few more sessions before I can match Kankkunen’s nonchalant skill.

View a video of Rohit Jaggi driving on ice at www.ft.com/iceracing and a slide-show at www.ft.com/wealth



Cold comfort: the Bentley Continental GT, opposite and this page, with its studded tyres, above left, offers a ride across the ice as thrilling as more traditional, animal-based modes, above

LIQUIDITY MOMENT
PHILIP BLACKWELL

> IT HAS BEEN FANTASTIC TO HAVE AN OPPORTUNITY TO REINVENT ONESELF

Start of a new chapter

BY JONATHAN MOULES
PHOTOGRAPH BY CHARLIE BIBBY

Philip Blackwell's liquidity moment was a longer time coming than it is for most business owners. The Blackwell Group, the publishing and bookshop business, had been owned and run by family members since it was founded in 1879 by Benjamin Henry Blackwell, son of Oxford's first city librarian.

But by the early part of this century it had become obvious to many family members that it was time for the publishing business to buy another company or be taken over itself.

At the time, the publishing arm, Blackwell Publishing, was sitting on a cash pile of £70m, which it was prepared to use for acquisitions, Blackwell notes. However, all the target companies were looking to be bought at much higher multiples than the board thought reasonable.

"We were finding it increasingly difficult to utilise this building mountain of cash," he recalls.

"At the same time there were enormous economies of scale to be gained by leveraging the platform to enable the delivery of electronic content. We either had to eat others for lunch or be lunch ourselves."

Eventually, the Blackwell Publishing board chose to sell in a deal with John Wiley & Sons in 2006. It was then that Philip Blackwell left the business. "For me, it was a perfect storm," he says.

"Sometimes things can look good on paper and it can be the wrong time for shareholders. But we were ready to sell."

Although his head knew it was the right idea, it was still extremely hard to do, Blackwell admits.

"It was a bit like a death in the family. From my perspective, I don't recall a single moment of elation. It was a very rational decision."

Many of Blackwell's cousins were in their 60s and were pleased to have realised the wealth from the business for their retirement. However, Blackwell, 55, looked into creating his own venture. "Call it the Calvinist work ethic," he says. "It has been fantastic to have an opportunity to reinvent oneself."

Blackwell, along with other family members who worked outside the core business, had already acted as angel investors in some private equity deals. The extra wealth they gained from the Blackwell Publishing sale meant they could increase this work.

Philip created Blackwell Ventures to invest in other companies, but he was also keen to keep one foot in the book trade. In 2008, he created The Ultimate Library, which supplies luxury libraries for private clients. But for each of these, the company will supply a community library to promote literacy.

To date, The Ultimate Library has built libraries for about 60 clients worldwide, including private homes in London, a Kenyan game reserve and a luxury hotel in North Korea.

"In these markets, there is often tension between the hotel coming in and the local community, so the owners set up an outreach programme," Blackwell says. "If you can support that by providing a library, it is really a win-win."

It is a niche market, Blackwell admits, with revenues for The Ultimate Library in the hundreds of thousands. The Ultimate Library is now a part of an expanded business, set up by Blackwell, called Bookbank, which includes online book selling and whose revenues are running at about £5.5m.

Blackwell shows no intention of giving up entrepreneurship. "I am very much driven by the need for security. I might be alive for another 40 or 50 years, so it is inconceivable that I could stop working at this stage."

It is also clearly something in the Blackwell genes. "My grandfather died at the age of 94, still working four days a week in the office. My father is 84 and still goes to his office two or three times a week, so I don't think there is a snowball's chance in hell that I will retire."

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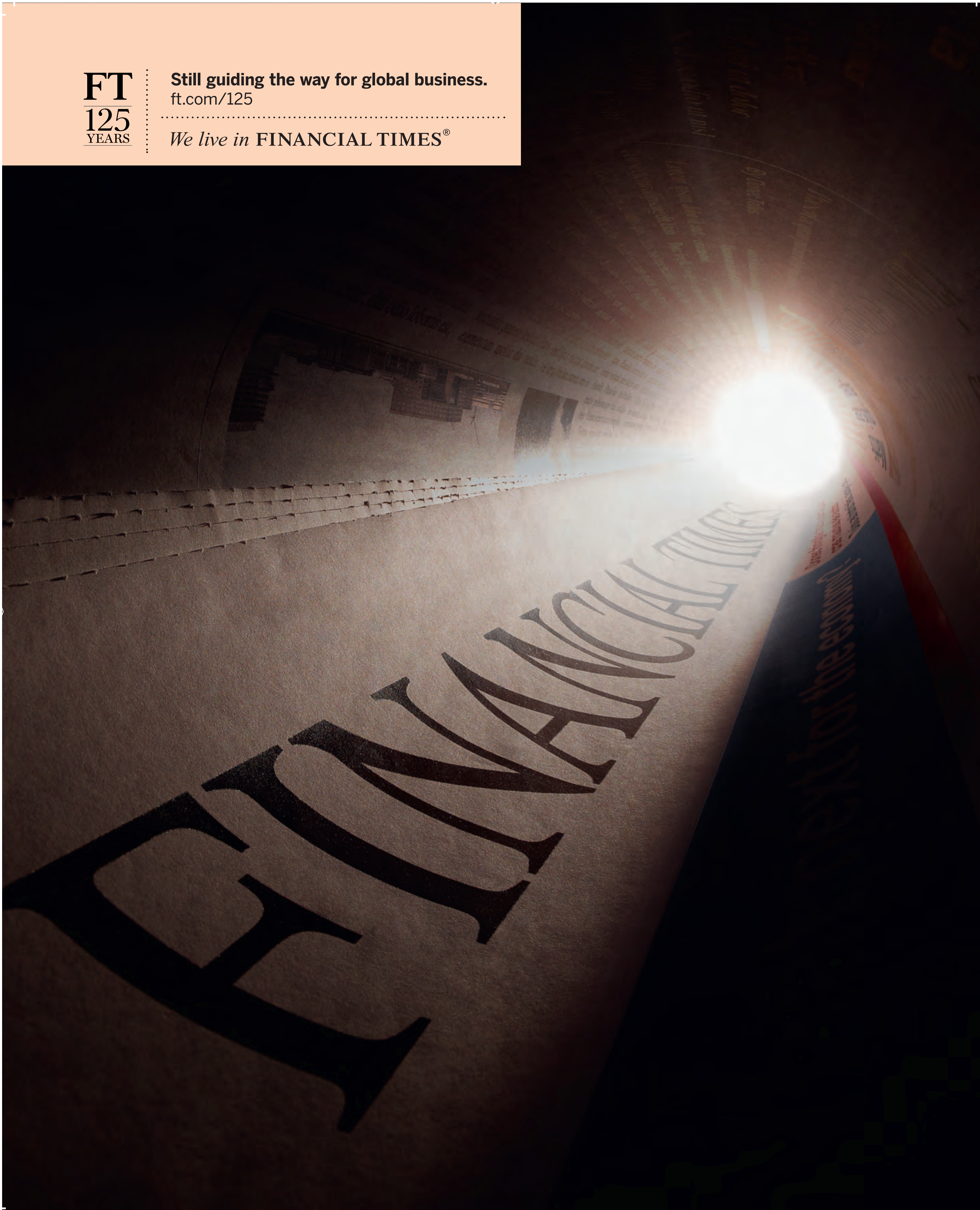

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