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Passion assets: Challenges, structures and trends

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Passion assets, including art, classic cars, jewellery and watches, fine wine, yachts, and aircraft, represent a unique segment of private wealth.

Despite the diversity of these asset types, the challenges associated with their ownership are often similar. For clients, these assets are not purely about financial return; they can embody personal interest, heritage, and lifestyle, cultural identity and family legacy. Yet, for professional intermediaries in Guernsey advising on these assets, the complexity arises in balancing passion with prudence, and enjoyment with preservation.

Key challenges

Certain passion assets have highly specific storage requirements. Yachts and aircraft require appropriate berths or hangers, with location considerations that may also trigger tax implications. Art and wine demand precise environmental conditions, including regulated temperature and humidity, to prevent deterioration. Proper storage and handling are therefore critical not only for asset preservation but also to ensure their insurability and long-term value retention.

Insurance for passion assets often necessitates bespoke policies. Standard asset coverage rarely accommodates the idiosyncratic risks associated with yachts, aircraft, or rare collectibles. Trustees and clients must work with insurers familiar with the sector to ensure appropriate coverage for damage, theft, or loss, including considerations for temporary exhibitions, charter arrangements or international transit.

Movement of these assets often involves cross-border considerations. VAT, import/export costs, and ensuring the receipt of ‘good title’ are key concerns. Specialist logistics, from secure transport of artwork to the delivery of vintage wines, are integral to mitigating operational and regulatory risk.

Owning passion assets frequently requires expert operators. Yachts and aircraft need qualified crew and maintenance teams. Art collections may need curators, conservators, or climate controlled storage facilities. Without the right expertise, the risk of asset depreciation, underinsurance and operational inefficiency increases.

A clear understanding of usage is also critical. If assets are used privately, there may be tax implications, such as the provision of a benefit in kind. If the asset generates income, whether through chartering, exhibitions, or licensing, appropriate contracts and documentation are essential. Effective structuring can also help reconcile personal passion with fiduciary obligations, particularly for assets held within trusts or family offices.

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Passion assets can serve as alternative investments that offer diversification benefits. They often demonstrate lower correlation with traditional markets, providing a potential hedge against inflation and currency fluctuations, and acting as a store of value during periods of geopolitical instability.

However, some asset classes can show high volatility in value and can be extremely illiquid. Whilst lending against these assets can provide liquidity or an additional revenue stream, professional advice is essential to balance risk and reward. For art and collectibles, motivations may extend beyond financial gain. Clients may seek to reflect heritage or support cultural initiatives, facilitate museum loans or sponsor emerging artists. These objectives can influence ownership structures and philanthropic strategies, enhancing the social and cultural impact of the assets.

As families, assets and advisers become increasingly international, the planning context also becomes more complex. Tax planning, regulatory compliance, and logistics for international collections require sophisticated planning. Ownership structures can provide a centralised platform for administration, compliance, and strategic oversight, helping to reduce fragmentation and operational risk.

Structuring ownership: Mitigating challenges

Given the complexities outlined, ownership through appropriate structures can help to address administrative, succession, and protection challenges. In established fiduciary centres such as Guernsey, the value often lies not in the structure alone, but in the quality of governance, administration and specialist oversight that sits around it.

Structures such as trusts, foundations, or special purpose vehicles (SPVs) allow professional management of operational responsibilities. They can assist with insurance, logistics, and compliance, freeing the ultimate beneficial owner from day-to-day administrative burdens.

Passion assets often carry emotional and cultural significance. A well-drafted structure can help ensure continuity across generations, even when heirs may not share the same enthusiasm. Trusts or foundations can maintain collections intact, formalise exhibition agreements, and codify cultural or philanthropic objectives, reducing the risk of fragmentation or mismanagement.

Ownership structures may also offer protection against external risks, such as political instability. Assets held within a trust or foundation can be ring-fenced, securing their preservation for future generations. This approach also enables trustees or directors to appoint curators, advisors, and other specialists, formalising management and safeguarding value.

Trustees face particular challenges when investing in luxury assets. Depending on the specifics of the governing law of the trust and the nature of the fiduciary duties involved, trustees may need to consider the implications of whether they can preserve the asset value, and/or generate a financial return. For example, wine or art may appreciate over time, while yachts typically depreciate. Including specific provisions in trust instruments or obtaining indemnities from settlors or adult beneficiaries can provide clarity and legal protection.

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Purpose trusts or foundations are increasingly preferred vehicles for high-value, non traditional assets, particularly where trustees might otherwise be hesitant to hold passion assets in a standard discretionary trust. SPVs also offer a flexible alternative for direct ownership. For International Finance Centres, like Guernsey, their strengths and excellent reputation come from their expert professional service providers, offering a range of flexible structures.

For any structure, the key is to consider the requirements of each specific scenario and reflect this in the governance framework. Tax-related considerations, operational requirements, financing arrangements, asset management, succession planning and personal objectives should all be addressed. Proper drafting of constitutive documents ensures that social, cultural, or financial objectives are respected, regardless of the underlying asset class.

For international families, jurisdictions with a mature private wealth sector and an established professional services ecosystem, like Guernsey, can provide a useful platform for coordinating trustees, directors, insurers, tax advisers, logistics providers and asset specialists. This is particularly important where assets, beneficiaries and advisers are located across multiple jurisdictions.

Emerging trends

The widely discussed 'great wealth transfer,' projected at over US$100 trillion (although estimates vary!) largely from Baby Boomers to Millennials, raises questions about the future role of passion assets. Emotional attachment, divergent tastes, and differing priorities among heirs can create challenges for the continuity and stewardship of collections. Structures can mediate these risks, allowing assets to be preserved or managed in line with the original intent, while providing mechanisms for balancing enjoyment, investment, and social impact.

Increasingly, the next generation of high-net-worth clients evaluate passion assets through the lens of responsible stewardship and impact. Collectibles, art, or investments may be assessed not only for financial performance but also for their cultural or social contribution. Structures can codify these objectives, ensuring that collections and investments reflect broader family values.

Digital adoption is also reshaping luxury asset investment. Tokenisation can offer an alternative route for investment, allowing fractional ownership where this may be useful, but also utilising the advantages of blockchain technology to record ownership and transaction history.

While still in its nascent stage from a trust and private client perspective, this trend is expected to grow rapidly. Proper legal and operational frameworks are essential to manage rights, valuation, and succession, particularly as regulatory clarity evolves.

Passion assets present both challenges and opportunities. Ownership structures such as trusts, foundations, and SPVs offer practical solutions to these challenges, enabling efficient administration, succession planning, and asset protection.

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Emerging trends, including generational wealth transfer, tokenisation, values-focused investment, and cross-border complexities, are shaping the landscape for the next generation of investors. By leveraging appropriate structures and staying attuned to these trends, intermediaries can help clients achieve both passion and prudence, ensuring that these unique assets are preserved and enjoyed.

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