

# The Global Family Office Report

2018



Campden

Research

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# Forewords

Dear reader,

At UBS, we recognise the value of providing thought leadership to our clients and the market. To stay ahead, we monitor emerging and sustained trends in wealth management. As the family office sector continues to evolve, we examine the operations and strategic issues pertaining to single and multi-family offices. We are pleased to present the **Global Family Office Report 2018**, the fifth of its kind since our inaugural report in 2014.

Among several interesting data, this year there are three stand-out findings:

## **Strongest investment return in five years**

The average investment performance increased nearly twofold in 2017. Surpassing returns for five years straight, family offices' investment portfolios generated a total average return of 15.5% in 2017. This is more than twice the 7.0% average in 2016, and a dramatic improvement on the 0.3% average in 2015.

## **Equities fuel the investment drive**

This performance was driven by family offices shifting further into equities, both public and private. Real estate direct investments remain the third most popular asset class, while hedge fund allocations have fallen once again. The benefit of a global report is also to be able to highlight regional differences. Not surprisingly, North American family offices have a more evident preference for investing in equities, particularly developed market equities (27% versus an average of 22%), while Asian family offices invest more in developing market equities (14% versus a 6% average). Emerging Markets family offices show a relative preference for bonds (24% of the portfolio compared to an average of 16%). The North American market also favours hedge funds (7.4%) significantly more than Asia (1.7%), which instead shows the highest allocation to cash across the regions.

## **Next generation invest with a purpose**

Purpose-driven wealth is also on a steady rise. With nearly two-thirds of next generation heirs expected to take over within the next 10-15 years, the future of how wealth is managed is becoming increasingly intertwined with purpose. More than one-third of family offices already invest in impact investing, and 39% expect that the next generation will increase their allocations to impact and / or environmental, social and governance (ESG) investing.

This report series remains the most extensive study of its kind for beneficial owners, family office professionals and service providers. We trust that providing thought leadership in this space will continue to be useful to our clients.

We would like to thank all the families, executives and advisers who contributed their insights.

Yours faithfully,



**Sara Ferrari**  
Head UBS Global Family Office Group

Dear reader,

2018 marks the fifth year of the annual **Global Family Office Report** and I am delighted that the report grows from strength-to-strength with a record number of 311 family offices from around the world participating in the research this year. Aligned with the rise in participants, the value of the data and insights for benchmarking and planning purposes increases markedly.

Over time we have witnessed the family office community evolve. With a notable jump in the number of new family offices being established after the millennium, one-third of all family offices responding now have secondary branches, successfully expanding their global footprint. Half of family offices report that their assets under management (AUM) have increased over the year, while three-quarters remarked that the wealth of the families they serve has been on the rise.

Interestingly, it can also be revealed that the older family offices that participated in this research, which originated before the 1970s, hold a third more AUM on average than those founded after this period, USD \$992 million versus \$632 million.

But, what is probably the most remarkable point to highlight this year, is the fact that family offices' total average investment portfolio return reached 15.5% in 2017. This is up from 7.0% in 2016 and a complete revival from 0.3% in 2015.

Recognising the importance of succession planning with regard to the smooth transition of business ownership and wealth inheritance from one generation to the next, and the accepted wisdom that it traditionally takes up to 10 years to effectively arrange and implement a succession plan, I would strongly encourage families and family offices to remain focused on this important governance priority.

My thanks go out to all the family offices and the advisory panel who so kindly supported the creation of this report. We greatly appreciate the trust and commitment you give to our research each year, and look forward to your continued engagement in 2019.

I would also like to thank our partner, UBS, for their unstinting commitment and wise counsel, and the team at Campden Wealth for all their contributions to the report each year.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'DS', with a long horizontal flourish extending to the right.

**Dominic Samuelson**  
Chief Executive Officer, Campden Wealth

# Executive Summary

## GROWTH

Accelerated rapidly since the millennium



Two-thirds of responding family offices were established in 2000 or later, while a third now have two or more branches globally. Over half of family offices reported that their assets under management are growing, as is the wealth of the families they serve.

## PERFORMANCE

A record breaking year



Family offices' investment performance experienced a remarkable year, with the average portfolio return hitting 15.5% in 2017 - up from 7.0% in 2016 and 0.3% in 2015.

## PRIVATE EQUITY

Continues to climb

Heralding a significant average return of 18% in 2017, allocations to private equity continue to climb and now account for 22% of the average family office portfolio globally.



## IMPACT INVESTING

Heating up

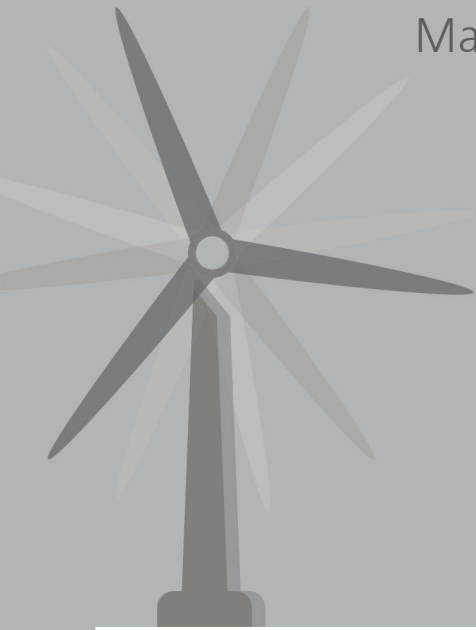
A third of family offices are now engaged in impact investing – a rise of 4.2 percentage points over the year – with the most common vehicle for investing being via private equity.





## SUSTAINABLE INVESTING

### Managing wealth with purpose



38% of family offices are involved in sustainable investing, with the most commonly invested in areas being clean energy, water, gender equality and healthcare. Nearly half plan to increase their sustainable investments over the next 12 months.

## ASSET ALLOCATION

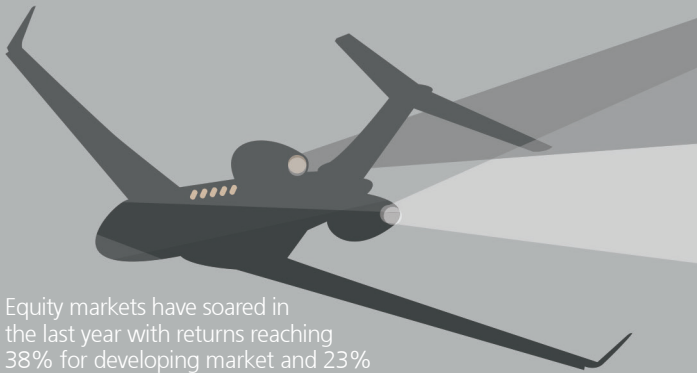
### Unique profiles across all regions



Family offices in North America tend to favour investment into developed market equities (27% vs. 22% globally) and private equity funds (9.9% vs. 7.6% globally). Those in Europe opt most often for alternatives which account for 50% of their average portfolio. Asia-Pacific based family offices favour developing market equities (14% vs. 6.0% globally), while those in the Emerging Markets prefer bonds (24% vs. 16% globally).

## EQUITIES

### Markets flying high

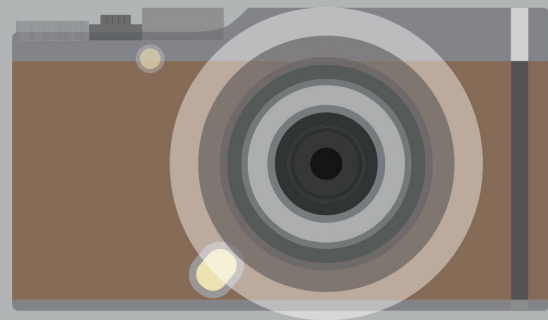


Equity markets have soared in the last year with returns reaching 38% for developing market and 23% for developed market equities. Allocations to this asset class jumped 4.8 percentage points over the year, driven by a 3.8 percent point rise in developed market equity investment.

## REAL ESTATE

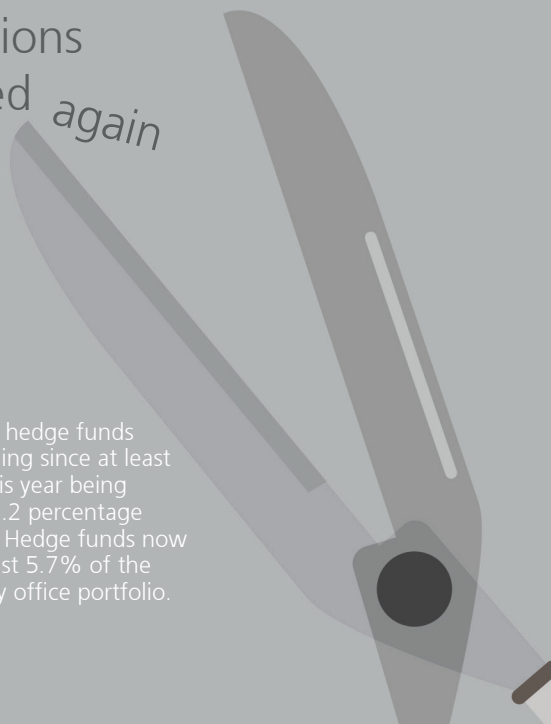
### Increased exposure

Family offices have increased their exposure to real estate direct investments by 2.3 percentage points over the year to total 17% of the average family office portfolio. This is aided by a preference across Europe for real estate investments, which account for 23% of their average family office portfolio.



## HEDGE FUNDS

### Allocations trimmed again



Allocations to hedge funds have been falling since at least 2015, with this year being witness to a 3.2 percentage point decline. Hedge funds now account for just 5.7% of the average family office portfolio.

## SUCCESSION

### Next Generation begins to come on board

Nearly a third (29%) of respondents reported that the next generation already hold management or executive positions in the family office, while a quarter (23%) reported that they sit on the board.



# Introduction

This edition marks the fifth year of the annual Global Family Office Report series. Since its inception in 2014, this report has bridged a gap by providing powerful insights about family offices to the private wealth community at large. From its analysis of family offices' investment practices, to their operational costs, philanthropic giving and plans for succession, this series has become the 'go-to source' for effectively tracking the evolution of the family office space and for benchmarking family offices' performance. And this year is no different –

## **Family office growth has accelerated rapidly since 2000**

The expansion of the family office sector has accelerated rapidly since the millennium. In fact, two-thirds of the family offices that participated in this research were established in 2000 or later, while only a tenth were founded before the 1970s. Moreover, a third (33%) of family offices now have two or more branches globally.

In other signs of more immediate growth, roughly half (48%) of family office executives have reported that their assets under management (AUM) have increased over the year, while over three-quarters (77%) noted that the wealth of the families they serve is on the rise, along with the revenue of their operating businesses (55%). Another quarter (23%) pointed to an increase in the number of family office branches they have or the size of their staff.

## **Family offices' average portfolio return hits 15.5%**

In another sign of economic growth, family offices' global average total investment portfolio performance hit a significant 15.5% in 2017. Outstripping returns for at least the last five years straight, this is more than double the 7.0% average return in 2016, and a complete revival from the 0.3% average in 2015.

From a regional perspective, for the first time since this data was reported in 2016, family offices in Asia-Pacific overtook all others to record the highest average performance, reaching 16.4%. This can be attributed to a strong year in developing market equities and private equity investments - both areas where Asian family offices are heavily invested.

Asia-Pacific's ranking does not, however, take away from the performance of other regions. Similarly basking in a year of fruitful gains, North America took in an average return

of 15.9% in 2017, followed by Europe at 15.0% and the Emerging Markets at 14.7%.

## **Equities' performance steals the show...**

Continuing on from a trend reported last year, family offices are favouring higher risk, more illiquid investments in the pursuit of alpha. And, with developing market equities grabbing an average return of 38% and developed market equities 23%, this asset class deserves the spotlight.

2017 saw the best global economic performance since 2011, with growth accelerating in the United States, the Eurozone, China, Japan, Russia and Brazil, pushing GDP worldwide up to 3.9% from 3.2% in 2016 (International Monetary Fund 2018). Furthermore, every economy in the G20 grew. With this only having happened six other times in the past 30 years, it is no wonder family offices have recalculated their portfolios to increase their exposure to this asset class.

In fact, allocations to equities rose 4.8 percentage points over the year, primarily off the back of a 3.8 percentage point rise in investment in developed markets equities, which was particularly favoured in North American portfolios.\*And, while equities have stood as the largest asset class for at least five years running, it now makes up a significant 28% of the average global family office portfolio.

## **...but private equity gives another strong performance**

Family offices' upward investment returns can also be attributed in part to a climb in performance in the private equity space, as returns jumped from 13% to 18% over the year. This asset class - which has maintained a strong hold on family offices' portfolios for a number of years now – currently represents a 22% share of the average portfolio, up 3.8 percentage points from 2017.

\*Percentage point changes in allocation levels are based on data from 100 multi-year participants (MYPs) who completed the GFO survey in both 2017 and 2018. They do not directly correlate with the larger sample of participants who responded to total allocations questions. Therefore, year-on-year, or MYP, data throughout this report should be taken as indicative of annual shifts and not directly associated with total allocations or total sample figures.

This shift is namely driven by a 2.8 percentage point increase in allocations to private equity funds – an unsurprising rise given that 2017 marked a global record for private market fundraising. In the words of Bryce Klemptner, a partner at McKinsey, “Over \$750 billion was raised, up more than \$30 billion from the year before, capping an epic run that stretches back to 2009. What’s fascinating about this number is that it’s driven entirely by one sub-asset class. Megafunds now account for 15 percent of all funds raised within private equity.”\* Generally known for their strong performance, and ability to flexibly and successfully scale-up one’s investment, these funds are bolstering an already buoyant private equity market.

### **Real estate regains momentum**

In another favourable turn, after a moderate decline in allocations in 2016, family offices increased their exposure to real estate direct investments by 2.3 percentage points over the year. Real estates now accounts for 17% of the average portfolio allocation.

With an ongoing call for multi-family housing in North America, a generally buoyant global hotel market aided by continuing economic growth, and a robust demand for logistics and commercial office space, real estate performed well in 2017. Maintaining its standing as the third largest asset class, with a particularly high prevalence among family office portfolios in Europe and Asia-Pacific, global returns averaged 12%.

### **Hedge fund allocations continue to fall**

Elsewhere, amid concerns over weak performance and relatively high fees, allocations to hedge funds declined for at least the fourth consecutive year. Whilst allocations last year dropped a moderate 0.9 percentage point, this year they sped up, declining 3.2 percentage points to bring the average hedge fund portfolio allocation to just 5.7%.

Despite this decline in allocation, hedge funds have produced their best performance since 2013, with an average return of 7.3%. Whilst all hedge fund strategies did relatively well over the year, the returns from equities hedge funds, including growth and value funds, long-short funds and sector-specific strategies, did particularly well, as did activist funds.

### **The next generation is set to lead the way on impact investing**

In the arena of ‘social good’, not only have family offices given an average of USD \$5 million to philanthropic causes in the last year – with nearly 70% now running their own foundations – but their interest in sustainable and impact investing has also been heating up.

One-third (32%) of family offices are now involved in impact investing – an increase of 4.2 percentage points over the year. In what may propel this form of ‘social good’ investing forward, a notable 39% of respondents also reported that once the next generation assumes control, they will likely increase their allocation to impact investing (or environmental, social and governance (ESG) investing); therefore this will be an interesting space to watch in the coming years.

### **Succession planning needs greater focus**

In preparation for this generation to take over, 43% of family offices now have a ‘succession plan’ in place. In 2016, we asked respondents when they expect the next generation to take control and nearly 70% said within the next 10 – 15 years. The same year, family offices ranked succession planning as their number one governance priority.

Despite this, over the last year there has been a rise of just 1 percentage point in those with plans now intact. As the next generational transition nears, which will spur a seismic shift in wealth globally, it is important to maintain a keen focus on planning for the future, to help ensure a smooth and successful transition. The need here is particularly great in Asia-Pacific, where only 39% of family offices have a succession plan in place – the lowest proportion of any region.

### **Communication tops families’ governance priorities**

Another interesting development is that families’ number one reported governance priority for the coming 12 months is to ensure good communication between the family and their family office executives. This will in part aid with mitigating relevant risks, as over two-thirds (69%) of family offices reported that ‘family data, confidentiality and identity theft’ are currently a key risk to them, as are risks associated with managing the family’s reputation (49%).

### **Diversity targets are starting to be adopted but women still hold few C-suite roles**

14% of family offices now have diversity targets in place – and this relatively new focus may bring a helpful hand, as the majority of C-suite positions continue to be held by males. Women hold just 9.1% of the top Chief Executive Officer (CEO) roles, 8.6% of Chief Investment Officer (CIO), 39% of Chief Operating Officer (COO) and 38% of Chief Financial Officer (CFO) positions. Outside of the C-suite level, females hold 13% of trader and 14% of portfolio manager posts.

### **Total family office spend on services, USD \$11.4m**

The average family office spent a total of USD \$11.4 million on services over the last year. This includes \$6.7 million in operational costs, and \$4.7 million in external investment management performance and administration fees.

\* Source: McKinsey, 2018, ‘How private equity fared in 2017, and what’s ahead’

## Global Overview of the 2018 Participants

The following provides a breakdown of the characteristics of the family offices that participated in the research this year, as a precursor for understanding the results in the forthcoming chapters.

In the **2018 Global Family Office Report** we conducted online surveys with 311 family offices from across the world between February and May 2018. In turn, the feedback denoted in this report reflects family office executives' positions during that time. Companies' performance data was collected for the full 2017 calendar year. We additionally conducted qualitative interviews with 25 family office principals, executives and advisers to better understand the shifts occurring within the family office community.

### Year-on-year result variations explained

There will be some variation between the results in this report and last year's 2017 report which had 262 survey participants. This is because every year, as the popularity of this report grows, additional family offices contribute to the survey. This year there was nearly a 20% rise in participation since 2017.

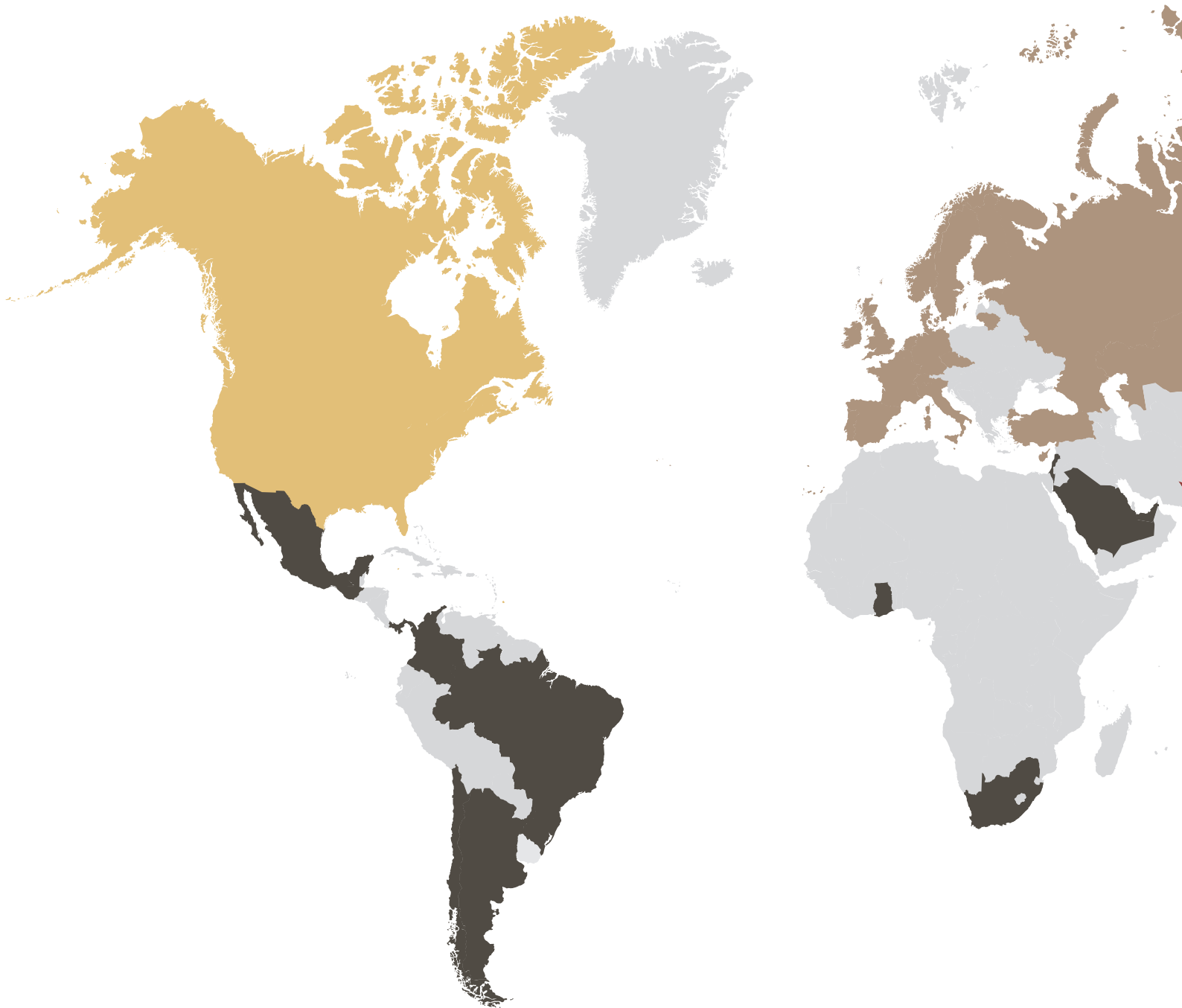
As many of the larger and more established family offices have been ongoing contributors to the report for years, this jump consisted of more small to mid-sized offices, particularly from Asia-Pacific and the United States. Due to this, the averages will statistically vary year-on-year. This is why, in addition to the results generated from the full sample of participants, we also include data from 'multi-year participants' to ensure accurate like-for-like comparisons.

### 'Multi-year participants' (MYPs) explained

The findings within this report are displayed in two ways: For a larger picture of what is happening in the market at the moment, statistics are included which are based on our entire sample of 311 family office participants. However, in order to provide an accurate reflection of year-on-year shifts, we analyse data from the smaller number of 100 family offices which completed the Global Family Office Report survey in both 2017 and 2018. We refer to this cohort as 'multi-year participants' (MYPs). This difference may account for annual variations in the results between these sample groups.



# Key Characteristics



Source: The UBS / Campden Wealth Global Family Office Report 2018

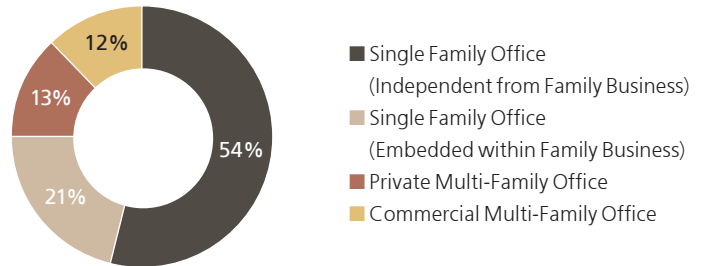
Note: Figures may not total 100% due to rounding

## PROFILE OF THE FAMILY OFFICES

The following denotes a profile of the family offices which participated in this research:

Of the 311 family offices that completed the Global Family Office Report 2018 survey, 75% are from single family offices, with 54% being independent of the family business and 21% being embedded in the family business. The remaining 25% are from either private (13%) or commercial (12%) multi-family offices.

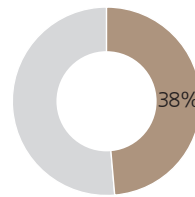
### Type of family offices



Source: The UBS / Campden Wealth Global Family Office Report 2018

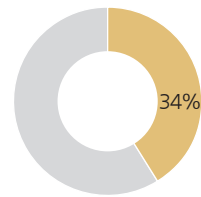
In terms of where the family offices are headquartered, 38% are based in Europe, 34% in North America, 17% in Asia-Pacific and 10% in the Emerging Markets (South America, Africa and the Middle East).

### Regional breakdown of the core family office



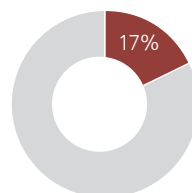
#### Europe

United Kingdom, Switzerland, Germany, Belgium, France, Spain, Italy, Luxembourg, Monaco, Czech Republic, Finland, Netherlands, Norway, Portugal, Turkey, Jersey, Cyprus, Lithuania, Denmark, Ireland, Malta, Sweden, Gibraltar, Kazakhstan, Estonia, Russia



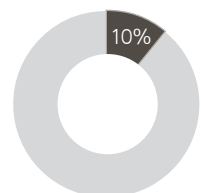
#### North America

United States, Canada, Cayman Islands, Bermuda, Barbados



#### Asia-Pacific

India, Singapore, Australia, Hong Kong, New Zealand, Malaysia, Pakistan, Philippines, South Korea, Thailand

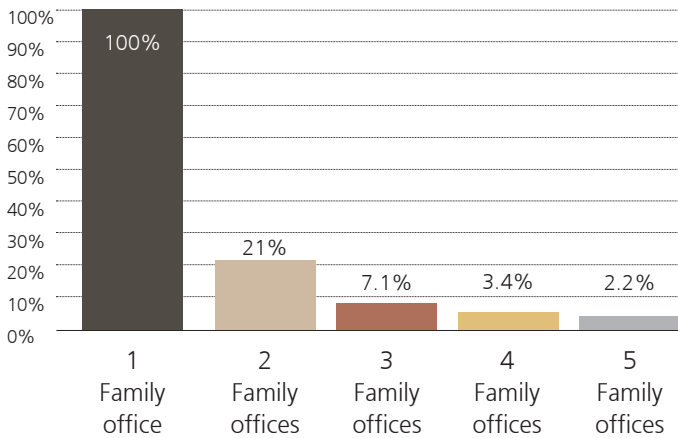


#### Emerging Markets

South Africa, Ghana, United Arab Emirates, Brazil, Lebanon, Saudi Arabia, Colombia, Mexico, Chile, Israel, Panama, Guatemala, Argentina

As the family office space matures, setting up additional family office branches is becoming increasingly common. At present, 21% of respondents have two family office sites, 7.1% have three, 3.4% have four and 2.2% have five.

### Number of family office branches globally



Source: The UBS / Campden Wealth Global Family Office Report 2018

Despite the growth in the number of family office branches, families are choosing to expand more locally than one might expect. For those whose original family office is housed in Europe, the tendency is for them to also open their second family office in Europe. The same is true in North America, Asia-Pacific and, to a somewhat lesser extent, the Emerging Markets.

### Location of additional family offices

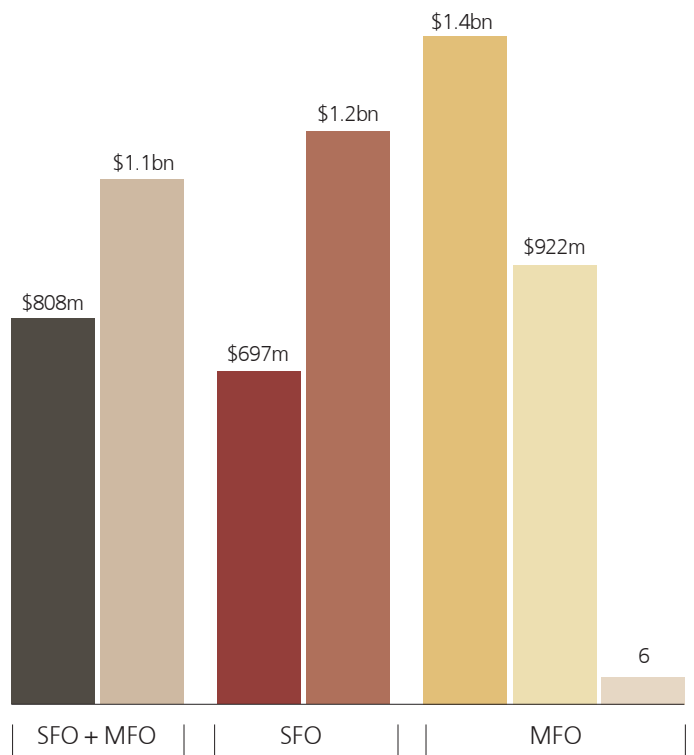
Location of primary family office	Location of second family office			
	Europe	North America	Asia-Pacific	Emerging Markets
Europe	77%	13%	7.6%	3.3%
North America	22%	72%	5.6%	0%
Asia-Pacific	20%	20%	40%	20%
Emerging Markets	40%	20%	0%	40%

Source: The UBS / Campden Wealth Global Family Office Report 2018

The average family office, including both single and multi-family enterprises, has assets under management (AUM) of USD \$808 million. This includes an average of \$697 million for single family offices and \$1.4 billion for multi-family offices. It should also be noted that multi-family offices serve an average of six families, whereas single family offices naturally serve one.

The total average worth of all the families examined within this survey is \$1.1 billion. This includes an average wealth of \$1.2 billion for those with single family offices and \$922 million for those who represent the founding families of multi-family offices.

### Total family office, SFO and MFO average AUM and average family wealth (USD \$), 2018



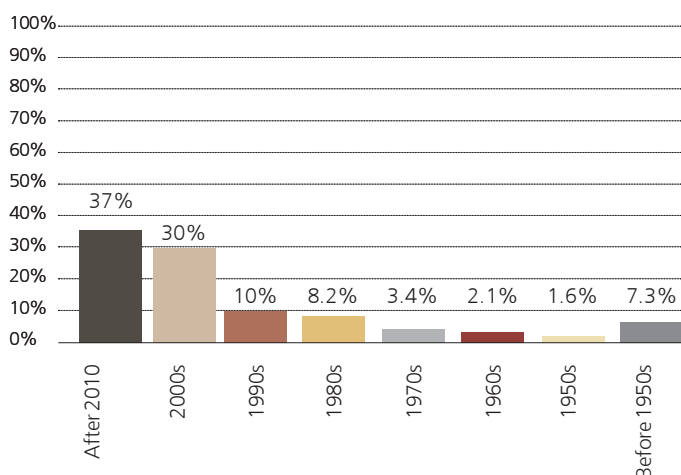
- Total family office AUM (SFOs + MFOs)
- Total average family net worth (SFOs + MFOs)
- SFO average AUM
- SFO average family net worth
- MFO average AUM
- MFO average net worth of founding family
- Average number of families served by an MFO

Source: The UBS / Campden Wealth Global Family Office Report 2018  
 Note: Figures can vary each year as the participant sample varies.

Revealing a more recent expansion, over two-thirds (67%) of the family offices surveyed were founded in 2000 or later. Just over 10% were founded before the 1970s. This indicates that the expansion of the family office space has been accelerating relatively rapidly since the millennium.



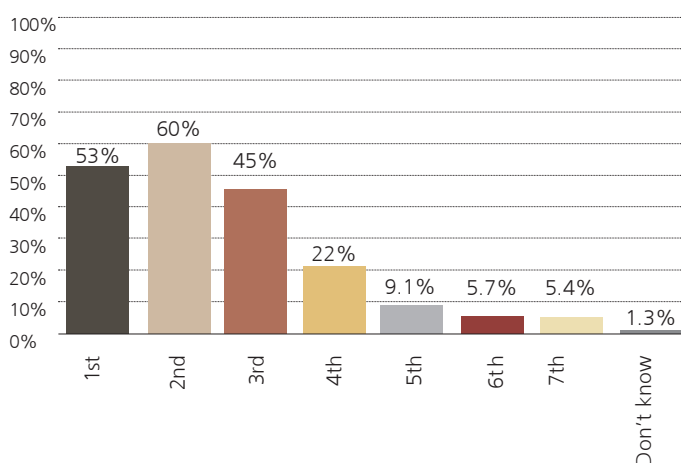
## Decade the family office was founded



Source: The UBS / Campden Wealth Global Family Office Report 2018

53% of the family offices surveyed serve the first generation, 60% have served the second and 45% have served the third. 22% or less have served the fourth generation or the generations before them – a fact that reflects the more recent settlement of many family offices.

## Generations the family office has served (now or in the past)



Source: The UBS / Campden Wealth Global Family Office Report 2018

The average single family office has 11 full-time and four part-time members of staff, while the average multi-family office has 12 full-time and four part-time staff.

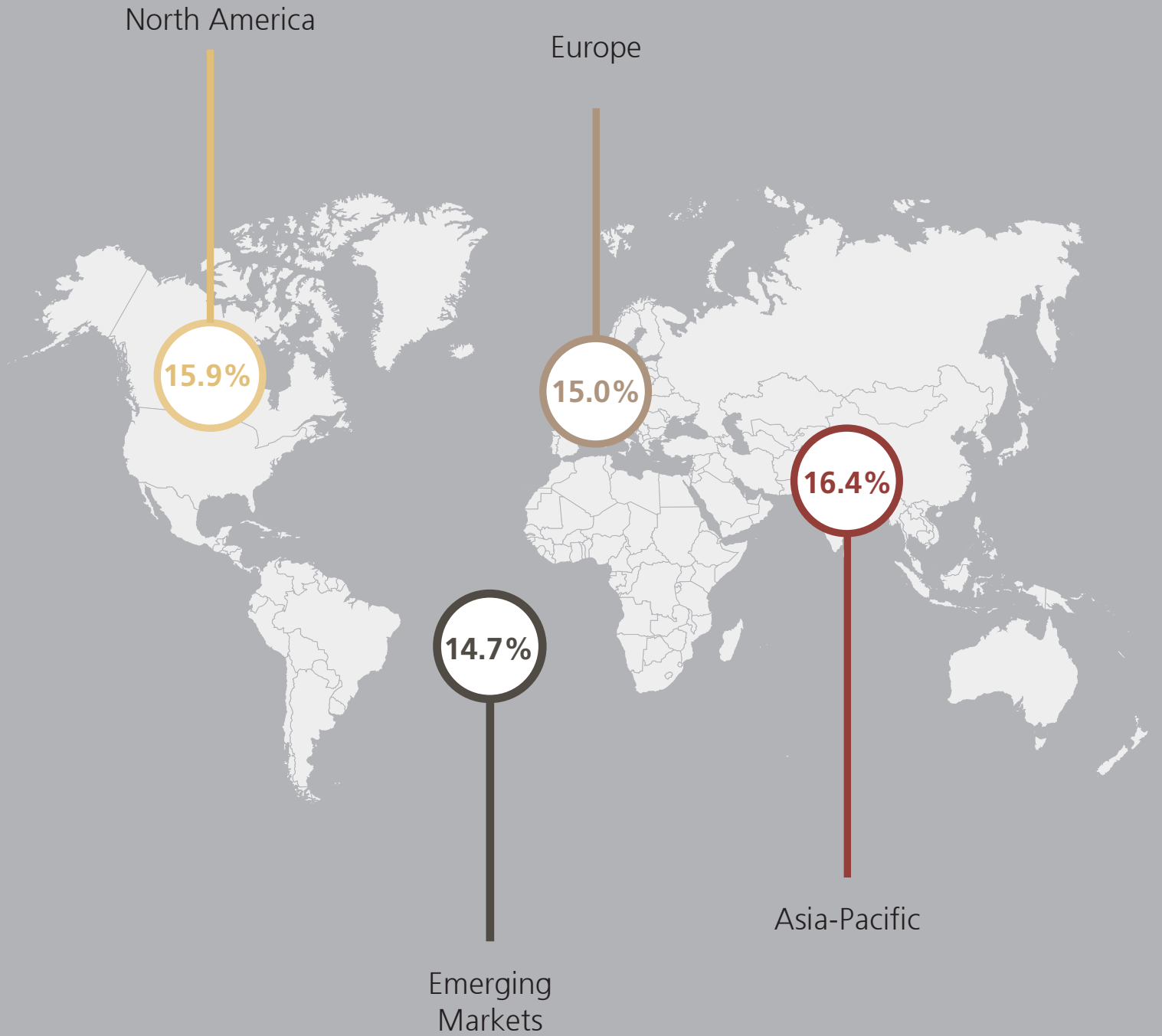
## Average number of family office staff

	SFO	MFO	SFO + MFO
Full-time staff	11	12	11
Part-time staff	4	4	4

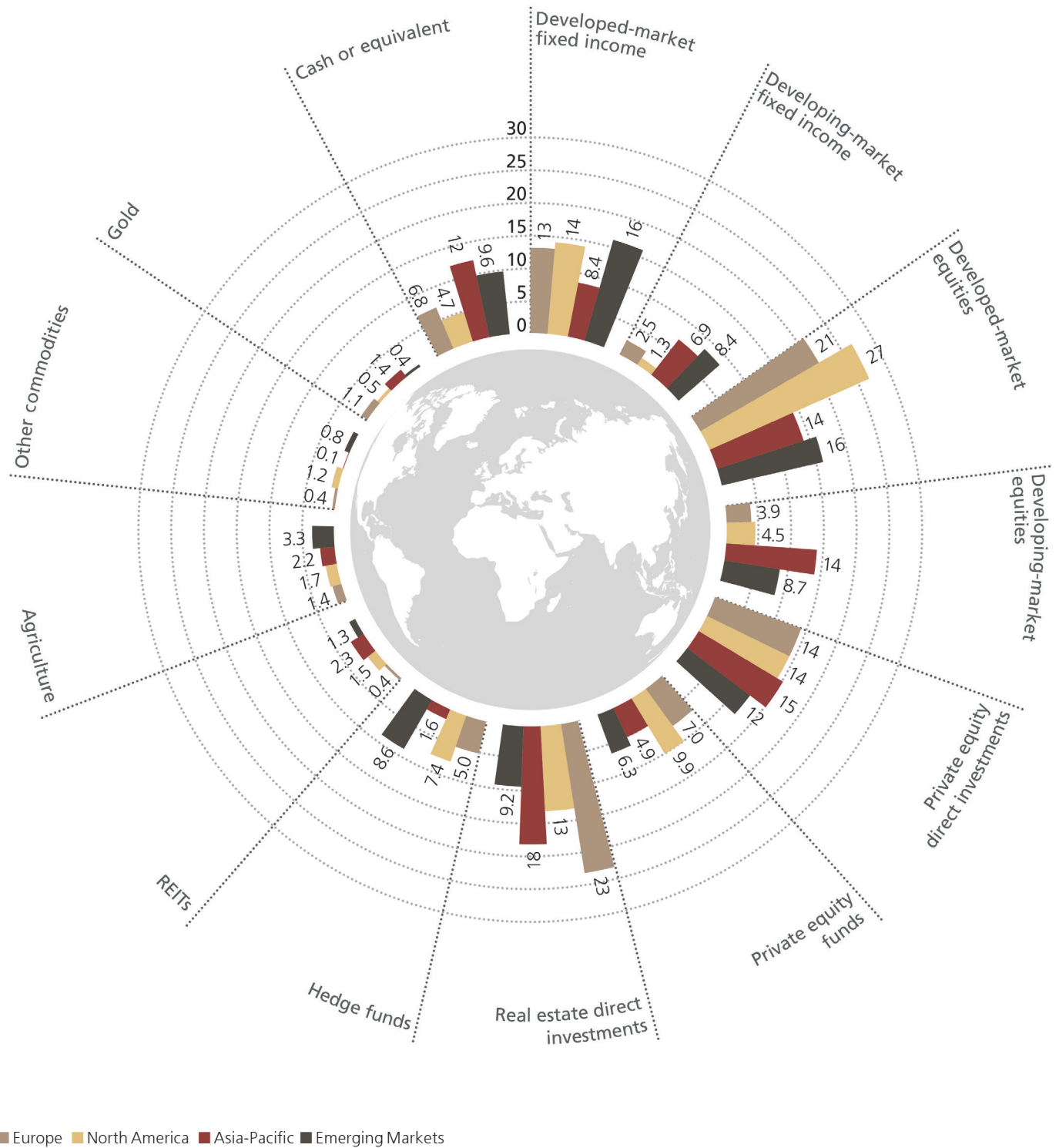
Source: The UBS / Campden Wealth Global Family Office Report 2018

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2017 estimated benchmark performance of global composite portfolio, by region



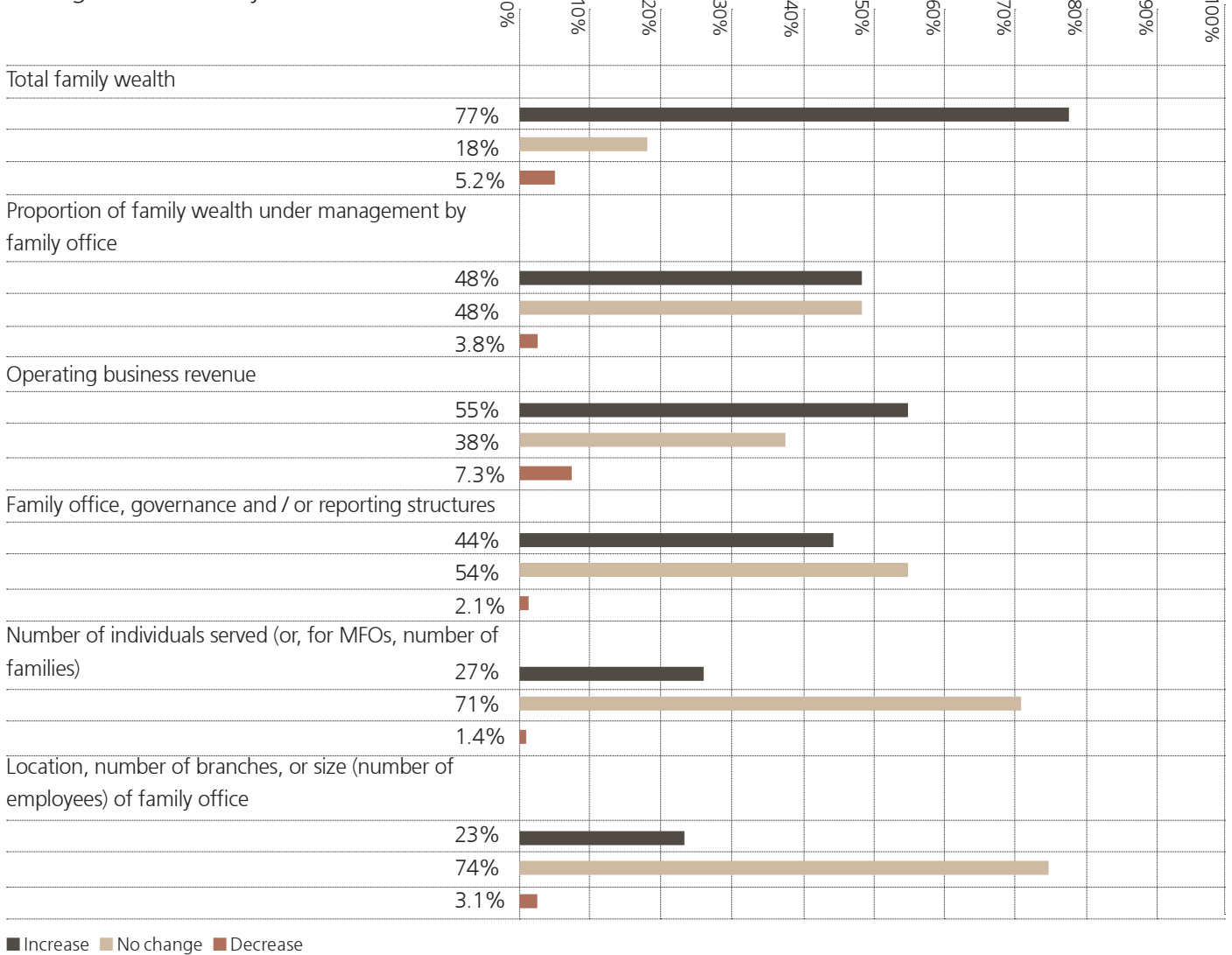
Composition of average family office portfolio by region (in percent)



Source: The UBS/Campden Wealth Global Family Office Report 2018  
 Note: Figures may not add up to 100% due to rounding.

In keeping with the findings from last year, 77% of the family offices surveyed reported that the overall wealth of the families they serve has increased over the last 12 months, along with the family offices' AUM (48%) and the families' operating business revenue (55%). These results reflect not only the ongoing maturity of the family office space but also other macro-level factors, such as relatively strong economic growth and positive returns.

### Changes in the family office since 2017



Source: The UBS / Campden Wealth Global Family Office Report 2018  
 Note: Figures may not total 100% due to rounding

67% of the families represented within this study have retained control of their operating businesses; 27% have not.

### Family has control of the operating business



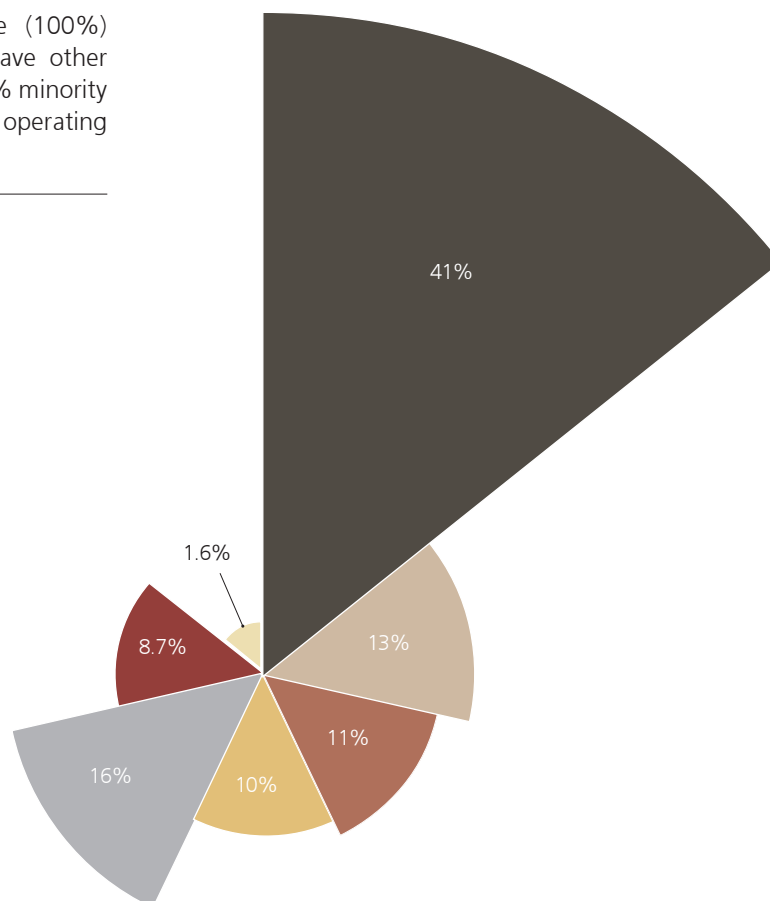
Source: The UBS / Campden Wealth Global Family Office Report 2018  
 Note: Figures may not total 100% due to rounding

41% of the families have retained a complete (100%) majority share of the operating business, 13% have other majority rights, 11% minority rights with control, 10% minority rights without control and 16% have sold the operating business altogether.

### Level of control of the operating business

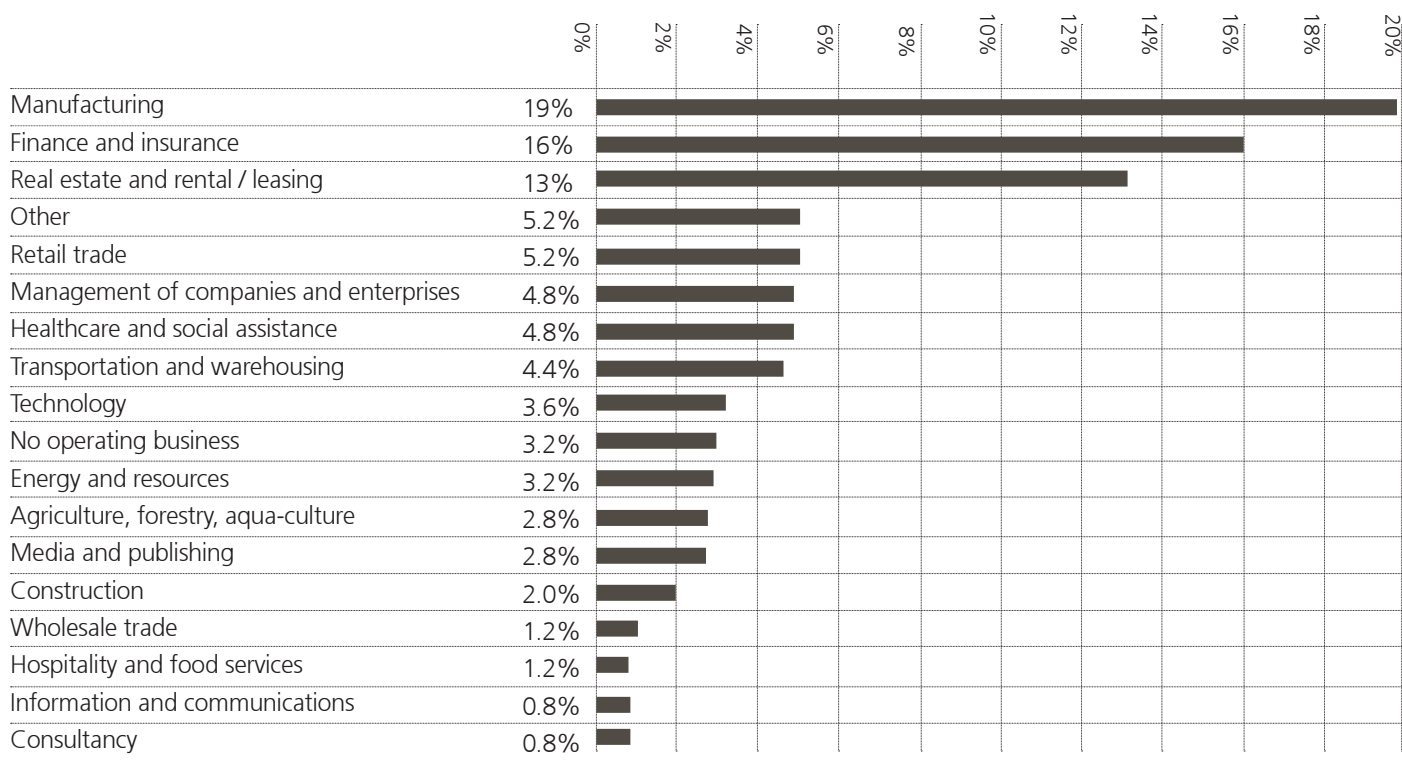
- Complete (100%) majority
- Majority
- Minority with control rights
- Minority without control rights
- No ownership interest following sale
- Chose not to answer
- Don't know

Source: The UBS / Campden Wealth Global Family Office Report 2018  
 Note: Figures may not total 100% due to rounding



Manufacturing (19%) is the most common industry the operating businesses reside in, followed by finance and insurance (16%) and real estate (13%).

### Industry of the operating business



Source: The UBS / Campden Wealth Global Family Office Report 2018. Note: Figures may not total 100% due to rounding

# 1. Investments

## 1.1 Allocations

- Investment Strategy

- Asset Allocations

## 1.2 Private Equity, Real Estate, Hedge Funds, and Sustainable and Impact Investing

- Private Equity

- Co-Investing

- Real Estate

- Hedge Funds

- Sustainable Investing

- Impact Investing

## 1.3 Performance

# 1.1 Allocations

- In what is broadly consistent with last year, nearly half of family offices (45%) are embracing a balanced preservation plus growth-oriented strategy, while a third (32%) are focusing more purely on preservation and a quarter (23%) on growth. From a regional perspective, whilst all regions tend to favour a balanced approach, those in Europe tend to be more preservation-oriented than the other regions, while those in North America and Asia-Pacific claim relatively more often that a growth-focused approach appeals to them.
- Since this report's inception in 2014, equities have maintained a key position within the average family office investment portfolio. This year, equities represent 28% of the average portfolio, with 22% being invested in developed markets and 6.0% in developing markets. Reflecting a rapidly growing appetite for this asset class, allocations to equities climbed 4.8 percentage points over the year among multi-year participants. This was namely driven by a 3.8 percentage point rise in developed markets equities; but it was also aided by a 1.0 percentage point bump in developing markets equities.
- As reported for the fifth year in a row, private equity continues to maintain a strong position in the average family office portfolio. This year, the asset class was bolstered by a 2.8 percentage point increase in allocations to private equity funds from 7.0% in 2017 to 9.8% in 2018.
- After a slim 0.7 percentage point decline in allocations in 2017, family offices have increased their exposure to real estate direct investments this year by 2.3 percentage points to now total 17% of the average family office portfolio. This ensures that real estate maintains its long-standing position as the third largest asset class.
- Reflecting an ongoing trend, there has been a drop in allocations to hedge funds since 2015. Amid concerns over ongoing weak returns, allocations to this asset class fell 3.2 percentage points over the year. Hedge funds now account for just 5.7% of the average family office portfolio.

## Investment Strategy

Data analysis presented in this section of the report was based on a total sample of 311 family offices which took part in this year's research. It summarises their portfolio allocations and investment strategies at the time of the data collection period between February and May 2018.

### Family offices are pursuing similar investment strategies to the year prior

In 2018, family offices are predominantly in keeping with the same investment strategy they held in 2017. Continued growth in private wealth globally, especially from the Asia-Pacific region, is helping to fuel the lean towards growth over preservation. When it comes to the preservation model, one chief investment officer explains the importance of alignment and endurance:

*'It comes down to alignment - alignment and time. We are long-term - we are there for the families to generate multi-generational wealth preservation. Our investment horizons span three-to-five years. That's with a view that this is how long it takes for us to bring a project to profitability.'*  
**– CIO, Single Family Office, Europe**

Another executive makes a point about balancing risk across both the family business and family office:

*'More often than not it's an operating business that's been sold or recapitalised and either the family is continuing to operate the business in a minority perspective or majority perspective. There's a lot more comfort from what we found with families in taking risk in operating businesses and some venture capital private equity. But the rest of the portfolio is really meant to hit the target for being able to maintain liquidity and to achieve the highest return factor at the least amount of risk.'*  
**– Executive Vice President, Multi-Family Office, North America**

Figure 1.1 Global investment strategy, by year

Strategy	Total sample 2018	2017 Multi-year participants	2018 Multi-year participants	MYP Change (pp)
Growth	23%	32%	31%	▼ -0.3 pp
Balanced	45%	47%	46%	▼ -0.8 pp
Preservation	32%	22%	23%	▲ 1.0 pp

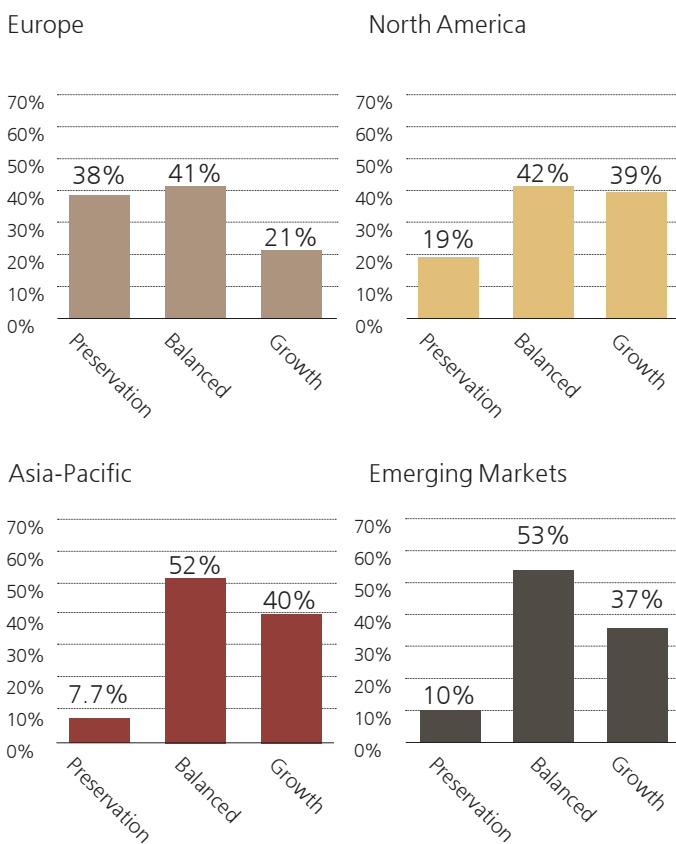
Source: The UBS / Campden Wealth Global Family Office Report 2018  
 Note: Figures may not total 100% due to rounding

**There are notable differences in investment strategies across regions**

Cross-regional analysis shows notable variations amongst portfolio management strategies pursued by family offices across the world. Investors in Asia-Pacific and North America claim to be most receptive to carrying out growth-focused strategies, whilst nearly eight out of 10 (79%) of European family offices report to opt for a preservation or balanced approach (figure 1.2).

Regardless of the region, the forthcoming intergenerational transfer of wealth will no doubt have an impact on family offices in the future as the new stewards of wealth assume control and make their mark on investment patterns.

**Figure 1.2** Global investment strategy, by region



Source: The UBS / Campden Wealth Global Family Office Report 2018

**Three-quarters want a diverse portfolio with liquid, traditional assets**

In relation to family offices' strategic asset allocations, three-quarters (72%) agree or strongly agree that they focus on a diversified portfolio with liquid, traditional assets. Over half (56%) also agree / strongly agree that they focus on the full spectrum of risk premia (including hedge funds, liquidity, etc.) to enhance their diversification. A slightly higher proportion, 61%, support a tailored approach built around a core strategic holding (figure 1.3).

**Figure 1.3** Level of agreement with strategic asset allocations

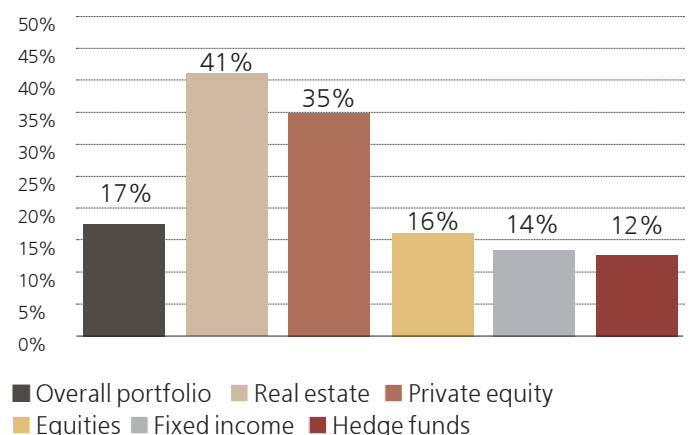
	Agree / strongly agree	Neither agree nor disagree	Disagree / strongly disagree
Focus on a tailored approach built around a core strategic holding	61%	19%	20%
Focus on higher income	43%	32%	25%
Focus on a diversified portfolio with liquid, traditional asset classes	72%	14%	15%
Focus on full spectrum of risk premia (including hedge funds, liquidity, etc.) to enhance diversification	56%	20%	24%
Focus on asymmetric solutions that provide convex return profile	30%	43%	26%

Source: The UBS / Campden Wealth Global Family Office Report 2018

**The average portfolio is 17% leveraged**

In relation to the leverage employed across different investments, real estate encompasses the most highly leveraged asset class across the portfolio at 41%, followed by private equity at 35%. The overall leverage applied to the total average family office portfolio is 17% (figure 1.4).

**Figure 1.4** Leverage applied to asset classes



Source: The UBS / Campden Wealth Global Family Office Report 2018



## Asset Allocation 2018

The following notes family offices' annual asset allocations from the time the surveys were collected between February to May 2018.

### There are regional differences in investment portfolios

Family offices operating across the regions favour different asset classes. Those in North America invest more in developed market equities and private equity funds than those in any other region, as they constitute 27% and 9.9% of their average portfolio, respectively. Family offices in Europe opt most often for alternatives (50%) and real estate in particular (23%), while those in Asia-Pacific have a preference for equities (28%), real estate (18%) and private equities direct investments (15%). In the Emerging Markets, outside of alternatives as a whole (37%), equities (25%) and bonds (24%) prove most popular (figure 1.6).

### Alternatives equal 46% of the average family office portfolio

Globally speaking, in 2018 alternative investments continue to feature prominently, with nearly half (46%) of the average family office portfolio dedicated to investments including private equity, hedge funds and real estate (figure 1.5). With investors in North America deploying some of the highest amounts of capital seen over the past decade to private equity, this asset class continues to capture the attention of investors as they eye-up mid-sized, high-potential companies across the region.

### Investment in equities maintains a strong position...

Equities account for a significant 28% of the average family office portfolio, a slightly higher proportion than last year. It is unsurprising

that a greater shift towards equities has taken place in light of a growing middle class. This, coupled with technological innovations and a greater ratio of the working population to dependents, means that economic growth may continue to be supported by these markets. That being said, those in North America, who tend to embrace a more growth-oriented strategy, are the biggest investors into equities as a whole and developed market equities as a sub-asset class (figure 1.6). Conversely, family offices in Asia-Pacific invested the least of any region in developed markets equities in 2018, but the most in developing markets.

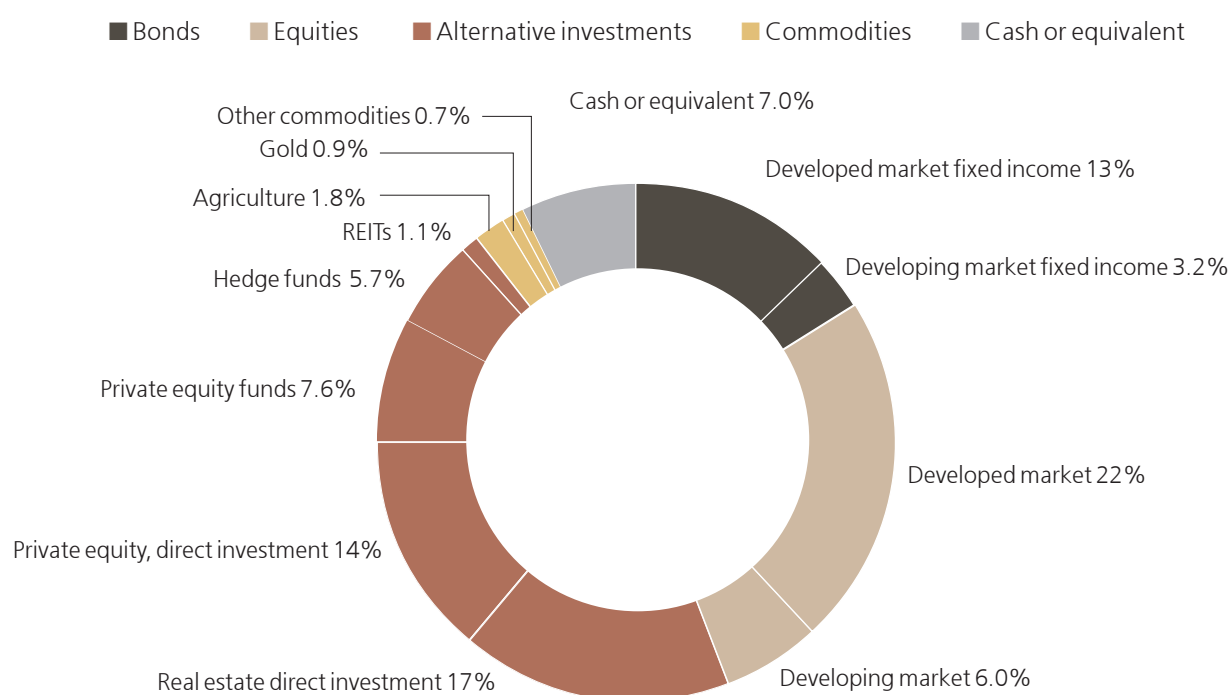
### ...and so does real estate

Investors' appetite for real assets need not look further than real estate direct investments. With a low correlation to public equity, they are well-suited for diversifying a portfolio of stocks, bonds and other alternatives. In 2018, real estate direct investments constituted 17% of the average family office portfolio, maintaining its long held position as the third largest asset class. Family offices in Europe invested the most in this asset class, with it accounting for 23% of their average portfolio, with those in Asia-Pacific following in second at 18%. With North America embracing a more growth-oriented strategy, they invested the least (13%).

### ...and bonds

The average family office dedicated 16% of their portfolio to bonds. Whilst family offices in the Emerging Markets of South America, Africa and the Middle East hold a much larger proportion of wealth in bonds than in other regions (24%), this has dropped from 29% in 2017. Given that bonds in the Emerging Markets have been delivering higher yields than those in developed markets, fixed income may continue to play a prominent role in Emerging Market portfolios.

Figure 1.5 Average family office portfolio



Source: The UBS / Campden Wealth Global Family Office Report 2018  
Note: Figures may not total 100% due to rounding

Figure 1.6 Family office investment portfolio by region, strategy and AUM

Asset class	Total	Region				Strategy			AUM \$ USD		
		Europe	N. America	APAC	EM	Growth	Balanced	Preservation	<250m	251m-1bn	>1bn
<b>Bonds</b>	<b>16%</b>	<b>16%</b>	<b>15%</b>	<b>15%</b>	<b>24%</b>	<b>13%</b>	<b>15%</b>	<b>23%</b>	<b>12%</b>	<b>18%</b>	<b>15%</b>
Developed-market fixed income	13%	13%	14%	8.4%	16%	10%	11%	19%	8.1%	15%	13%
Developing-market fixed income	3.2%	2.5%	1.3%	6.9%	8.4%	3.3%	3.1%	3.3%	3.8%	2.6%	1.9%
<b>Equities</b>	<b>28%</b>	<b>25%</b>	<b>31%</b>	<b>28%</b>	<b>25%</b>	<b>25%</b>	<b>31%</b>	<b>27%</b>	<b>24%</b>	<b>28%</b>	<b>29%</b>
Developed-market	22%	21%	27%	14%	16%	18%	24%	22%	16%	24%	22%
Developing-market	6.0%	3.9%	4.5%	14%	8.7%	6.6%	6.6%	4.5%	8.0%	4.4%	6.4%
<b>Alternative investments</b>	<b>46%</b>	<b>50%</b>	<b>46%</b>	<b>41%</b>	<b>37%</b>	<b>54%</b>	<b>43%</b>	<b>41%</b>	<b>53%</b>	<b>43%</b>	<b>49%</b>
Private equity, direct investments	14%	14%	14%	15%	12%	19%	14%	6.6%	16%	14%	17%
Private equity funds	7.6%	7.0%	9.9%	4.9%	6.3%	9.1%	8.0%	5.3%	7.9%	7.2%	11%
Real estate direct investment	17%	23%	13%	18%	9.2%	19%	14%	20%	23%	15%	11%
Hedge funds	5.7%	5.0%	7.4%	1.6%	8.6%	5.4%	5.1%	7.0%	5.3%	5.2%	8.0%
REITs	1.1%	0.4%	1.5%	2.3%	1.3%	1.2%	1.0%	1.4%	0.8%	1.1%	1.7%
<b>Commodities</b>	<b>3.3%</b>	<b>2.9%</b>	<b>3.4%</b>	<b>3.7%</b>	<b>4.5%</b>	<b>2.4%</b>	<b>3.2%</b>	<b>4.6%</b>	<b>2.6%</b>	<b>4.1%</b>	<b>1.3%</b>
Agriculture	1.8%	1.4%	1.7%	2.2%	3.3%	1.2%	1.9%	2.2%	1.4%	3.0%	0.5%
Other commodities	0.7%	0.4%	1.2%	0.1%	0.8%	0.4%	0.6%	1.1%	0.7%	0.5%	0.5%
Gold	0.9%	1.1%	0.5%	1.4%	0.4%	0.8%	0.7%	1.3%	0.6%	0.6%	0.3%
<b>Cash or equivalent</b>	<b>7.0%</b>	<b>6.8%</b>	<b>4.7%</b>	<b>12%</b>	<b>9.6%</b>	<b>5.1%</b>	<b>9.1%</b>	<b>5.5%</b>	<b>9.0%</b>	<b>7.0%</b>	<b>5.4%</b>

Source: The UBS / Campden Wealth Global Family Office Report 2018.  
Note: Figures may not total 100% due to rounding. EM = Emerging Markets

## Year-on-Year Changes in Asset Allocations

In order to obtain the most accurate measurement of year-on-year changes, we examined the responses from multi-year participants – family office executives who completed our **Global Family Office Report** survey in both 2017 and 2018 (see the Introduction section for explanation). Whilst the results from this cohort of multi-year participants are important for understanding annual changes, the previous two charts (Figures 1.5 and 1.6) provide the most robust understanding of the broad family office landscape. Therefore, the proportionate changes in asset allocations noted below are simply indicative of annual changes and should not be directly correlated with the allocation figures noted previously, as multi-year participant tables are based on a sample of 100 family offices, while the allocations tables noted before are based on the full sample of 311 family offices.

### Equities grow year-on-year...

Reflecting a strong interest in equities, a 4.8 percentage point increase across developed and developing-markets as a whole was reported, though this was namely driven by a 3.8 percentage point increase in developed markets allocations. This represents an ongoing shift driven by fruitful gains, as last year's report announced a similar 2.6 percentage point increase in developed markets equities allocations (figure 1.7).

### ...as do private equity funds

Private equity has not only maintained its strong position in the portfolios of family offices this year, but also gained ground. Data from 2017 showed a moderate increase in allocations to private equity funds. This year, such allocations have climbed an average of 2.8 percentage points, bolstering an otherwise relatively flat 0.1 percentage point increase in private equity direct investments.

In terms of the different types of private equity funds, 84% of family offices with private equity holdings invest in standard funds, 61% in direct and 26% in fund of funds. The CEO of a single family office in North America explained his preference for private equity funds, noting benefits surrounding investment variety and solid management:

*'I personally like private equity funds. You get a lot greater variety and I think you get better management in a lot of cases. We want a fund that maybe has 10 or 15 investments in a specific area.'* – **CEO, Single Family Office, North America**

### Real estate is also on the rise...

Bucking a slight dip in allocations to real estate direct investments in 2017, allocations to this asset class rose 2.3 percentage points over the year. After an ongoing period of limited growth, this rise in allocations will be an interesting one to watch, particularly given real estate's prominent role in family offices' investment portfolios.

### ...however investors continue to lose their appetite for hedge funds

With the exception of hedge funds, alternative asset classes constitute a greater proportion of the portfolios of multi-year participants in 2018 than in 2017. Less-than-desirable returns over the past several years, amplified by market volatility, has not played in the favour of hedge funds. Having been outperformed by private equity and equities investments, investors continue to avoid extensively diversifying through hedge funds, as is seen by a 3.2 percentage point drop in allocations to this asset class over the year (figure 1.7). As one single family office CEO put it:

*'If you look at hedge funds over the last five to eight years, they offer much lower returns than the rest of the market. The purpose of a hedge fund is to limit your downside risk, but you're not going to get the upside as well.'* – **CEO, Single Family Office, North America**

**Figure 1.7** Percentage change in asset allocations between 2017 and 2018, among multi-year participants

	Year-on-year change (pp)
<b>Bonds</b>	<b>▲ 3.1 pp</b>
Fixed income, developed	▲ 2.3 pp
Fixed income, developing	▲ 0.8 pp
<b>Equities</b>	<b>▲ 4.8 pp</b>
Equities, developed	▲ 3.8 pp
Equities, developing	▲ 1.0 pp
<b>Alternative investments</b>	<b>▲ 2.9 pp</b>
Private equity, direct investments	▲ 0.1 pp
Private equity funds	▲ 2.8 pp
Real estate direct investments	▲ 2.3 pp
REITS	▲ 0.9 pp
Hedge funds	▼ -3.2 pp
<b>Commodities</b>	<b>▼ -0.1 pp</b>
Other commodities	▲ 0.5 pp
Agriculture (e.g. forest, farmland)	▼ -0.6 pp
Gold / precious metals	-
<b>Cash or cash equivalent</b>	<b>▼ -3.9 pp</b>

Source: The UBS / Campden Wealth Global Family Office Report 2018  
Note: Where data is unavailable, this is indicated by '-'

### Half plan to invest more in direct private equity deals

In terms of future allocations, a significant half (50%) of family offices reported that they intend to invest more in private equity direct investments over the coming 12 months. Over a third also noted that they plan to increase their allocations to developing market equities, private equity funds and real estate direct investments.

Despite investors' gradual shift away from hedge funds, allocations levels should remain somewhat consistent next year. While 15% of those surveyed said that they will decrease their investments into hedge funds, a slightly larger proportion, 21%, said that they will increase them. It is a similar case for developed markets equities, as 27% said that their allocations will decline, while 23% said that they will increase (figure 1.8).

Figure 1.8 Future allocation over the next 12 months

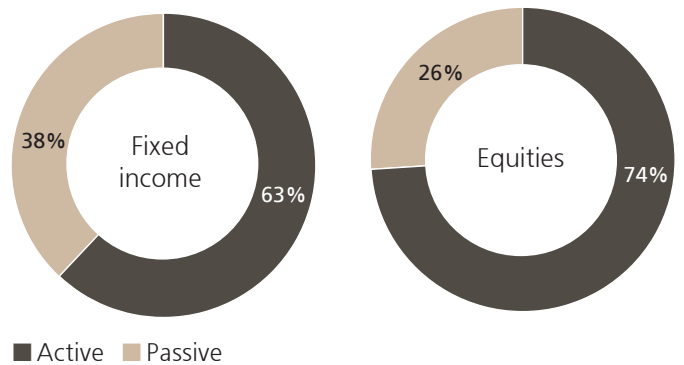
	Increase	Decrease	Remain the same
<b>Bonds</b>			
Fixed income – developed markets	▲ 19%	▼ 21%	60%
Fixed income – developing markets	▲ 19%	▼ 12%	69%
<b>Equities</b>			
Developed markets	▲ 23%	▼ 27%	50%
Developing markets	▲ 37%	▼ 8.3%	55%
<b>Alternative investments</b>			
Private equity – direct investments	▲ 50%	▼ 6.0%	44%
Private equity funds	▲ 37%	▼ 15%	48%
Real estate – direct investments	▲ 33%	▼ 13%	54%
REITS	▲ 16%	▼ 7.8%	77%
Hedge funds	▲ 21%	▼ 15%	64%
<b>Commodities</b>			
Agriculture (e.g. forest, farmland)	▲ 17%	▼ 6.7%	77%
Other commodities	▲ 15%	▼ 3.4%	82%
Gold / precious metals	▲ 16%	▼ 4.5%	80%
<b>Cash or cash equivalent</b>			
Cash or cash equivalent	▲ 29%	▼ 22%	49%

Source: The UBS / Campden Wealth Global Family Office Report 2018

### Three-quarters also use an active management approach to equities investing

In terms of management style, 63% of family offices are opting for an active and 38% passive approach in relation to their fixed income investments, while 74% are employing an active and 26% passive approach to their equities investments (figure 1.9).

Figure 1.9 Active and passive management for fixed income and equities



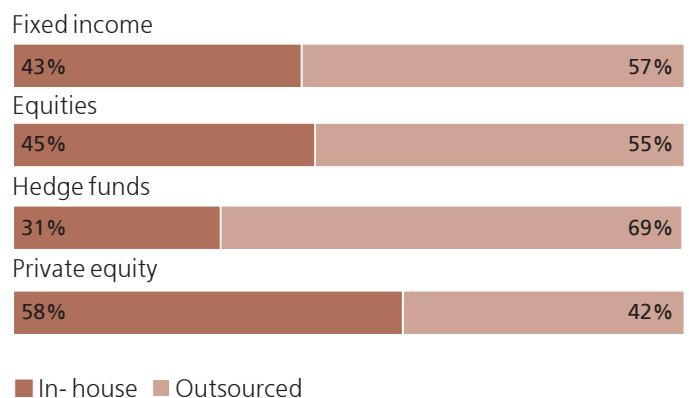
Source: The UBS / Campden Wealth Global Family Office Report 2018

Note: Figures may not total 100% due to rounding. EM = Emerging Markets

### Equities, fixed income and hedge fund management are often outsourced

By the very nature of these different asset classes and the skill-sets family offices bring, they tend to outsource the management of their hedge fund investments most, followed by their fixed income and equities investments. Conversely, they tend to manage their private equity investments in-house (figure 1.10).

Figure 1.10 Management of asset classes



Source: The UBS / Campden Wealth Global Family Office Report 2018

# 1.2 Private Equity, Real Estate, Hedge Funds, and Sustainable and Impact Investing

- The private equity market continues to grow and is quickly becoming a go-to for investors. A well-established private equity market in Europe and North America makes for an ample supply of opportunities and a dynamic playing field. Private equity (direct and fund investing) represented a 22% share of the average family office portfolio in 2018 – and nearly 80% of these investments either met or exceeded their performance expectations.
- Accounting for 17% of all family office investments, real estate direct investments are almost equally split between residential and commercial holdings. In 2018, over half of all real estate investments were directed towards local investments.
- Hedge funds remained in lower demand through 2018, driven by their under-performance stemming from the low volatility regime in recent years. This has seen private equity and equities investments outperform hedge funds and maintain their higher allocations in family office portfolios.
- About one-in-three family offices are involved in impact investing. And whilst this is becoming a more prominent initiative, difficulty in measuring the level of impact and with conducting due diligence still looms.

## Private Equity

Private equity continues to attract substantial investment from family offices. In line with this trend, this year’s aggregate allocations to private equity represented a 22% share of the average family office portfolio, as discussed in the Allocations section of this report.

### Private equity performed as or better than expected

In 2018, 80% of the private equity holdings of family offices performed in-line with or better than expected (figure 1.11). However, results vary across regions. Those in Europe reportedly generated the most satisfying returns relative to their expectations, followed by those in North America, Asia-Pacific and the Emerging Markets.

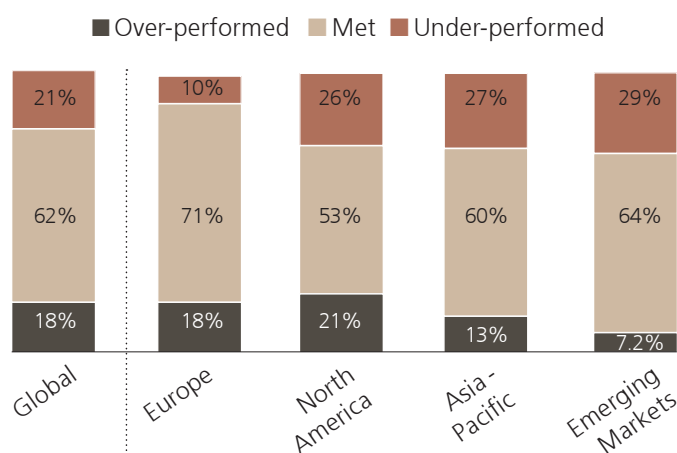
This can be partly attributed to the well-established private equity markets that exist in Europe and North America. With extensive competition and an ample supply of opportunities, this makes for a more dynamic playing field. In addition, the private equity secondary market continues to grow rapidly and is quickly becoming a go-to for investors who wish to build and manage their portfolios on a more proactive basis.

High expectations as a result of previous rates of return could also partly contribute to private equity holdings in Asia-Pacific and the

Emerging Markets underperforming more than in other regions. When asked about his future investment intentions, one North America-based family office executive claimed:

*‘I think we’ll be staying in private equity - I think that’s where we see the most growth.’ – CEO, Multi-Family Office, North America*

Figure 1.11 Private equity holdings’ performance based on expectations



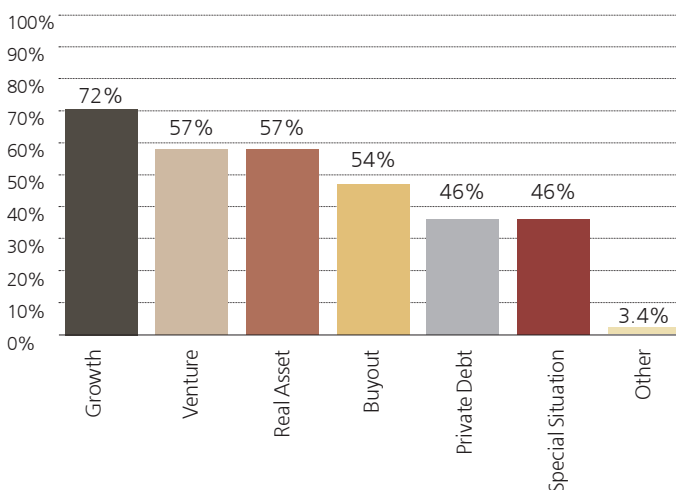
Source: The UBS / Campden Wealth Global Family Office Report 2018  
 Note: Figures may not total 100% due to rounding

**Growth opportunities prove most attractive**

Looking at family offices' private equity investments in isolation from other asset classes, some opportunities are more attractive than others. Family offices display a strong appetite for growth-oriented opportunities (72% of respondents) followed by venture and real assets (57% each) (figure 1.12). As one single family office executive, who remarked on the benefits of venture capital, noted:

*'We are sometimes not too sure how the market is going to behave on the equities and bond side, but on the venture capital side, we can control to a certain extent how the business performs.'* – **Head of Strategy and Business Development, Single Family Office, Europe**

**Figure 1.12** Proportion of family offices that are invested in the following types of private equity funds and direct investments



Source: The UBS / Campden Wealth Global Family Office Report 2018  
 Note: Respondents were able to select multiple options. Figures are based on the sample of respondents who invest in private equity.

Cross-regional analysis indicates that growth is more favoured by family offices in the Emerging Markets (80%) compared to Europe (65%) (figure 1.13). This disparity is likely to be in part due to market maturity, as well as the availability of investment options across each region. Interest in private debt and special situations remain more modest. With many investors now looking towards Europe as the next market in which to carry out these opportunities, it is expected that more opportunities for private debt in Europe will be created in the future.

**Figure 1.13** Proportion of family offices that are invested in different private equity assets, by region

	Total	Europe	North America	APAC	EM
Growth	72%	65%	77%	72%	80%
Venture	57%	58%	53%	72%	53%
Real Asset (e.g. land, real estate)	57%	49%	63%	39%	80%
Buyout	54%	55%	56%	39%	60%
Private Debt	46%	38%	58%	33%	47%
Special Situation	46%	45%	51%	33%	40%
Other	3.4%	3.6%	2.1%	6.4%	7.2%

Source: The UBS / Campden Wealth Global Family Office Report 2018  
 Note: Respondents were able to select multiple options. Figures are based on the sample of respondents who invest in private equity.

**Figure 1.14** The types of private equity investments family offices are involved in

Funds	84%
Direct	61%
Fund of funds	26%

Source: The UBS / Campden Wealth Global Family Office Report 2018

In an interview with a CEO of a single family office in North America, which largely focuses on growth and venture, he described the family's targeted focus on private equity direct investing and its strategy for investment:

*'The family primarily focuses on direct investment. They have a golden touch, a knack for finding successful opportunities. They would rather be the main investor than have money invested in a fund. In the past 17 years that I've known them, I can't think of a single investment opportunity that has disappointed. Sometimes they make a little bit less than they thought, but they've never really gone into a situation where it was a bad thing.'*

*And I think that part of this is because they are really smart. I think the rest of it is because they have such deep pockets that once they're committed to something, they go deep to see it through to the end – and they have the wherewithal to do that. A lot of times, investments go bad only because people run out of road – they don't have enough capital. These guys don't have that issue. They'll never run out of capital.*

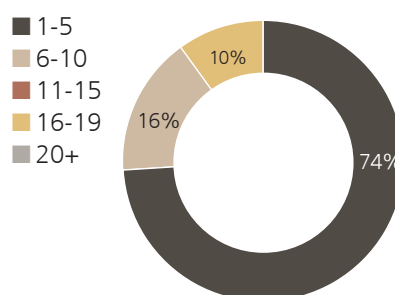
*But they have incredible instincts. They understand business exceptionally well. The first generation is completely self-made; they moved to America and one of them spent his first night in the United States sleeping on the subway and then he opened a couple of retail stores. He used to sleep in his truck and drive merchandise around from store-to-store. Because they've seen the full gambit up from small business to huge business, I think they've seen all the mistakes that you can make. And they have a good sense of what works and what doesn't. They also have so much opportunity with direct investments that they can be very selective. So they only pick things that they truly believe in and they only focus on industries that they have an understanding of.'* – **CEO, Single Family Office, North America**

**Real estate is most favoured for direct and co-investments**

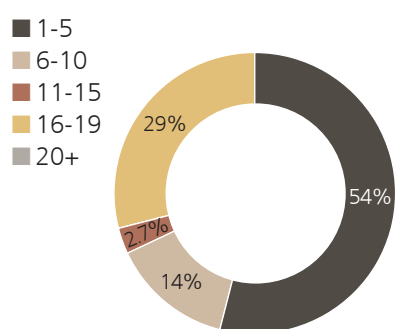
While most family offices do between just one to five direct or co-investment deals a year, the majority of these (60%) are within real estate (figures 1.15 and 1.16). Other popular industries to invest in are technology (46%), healthcare / social assistance (34%), and finance and insurance (34%).

**Figure 1.15** Number of direct investment and co-investment deals

**Number of direct investment deals**

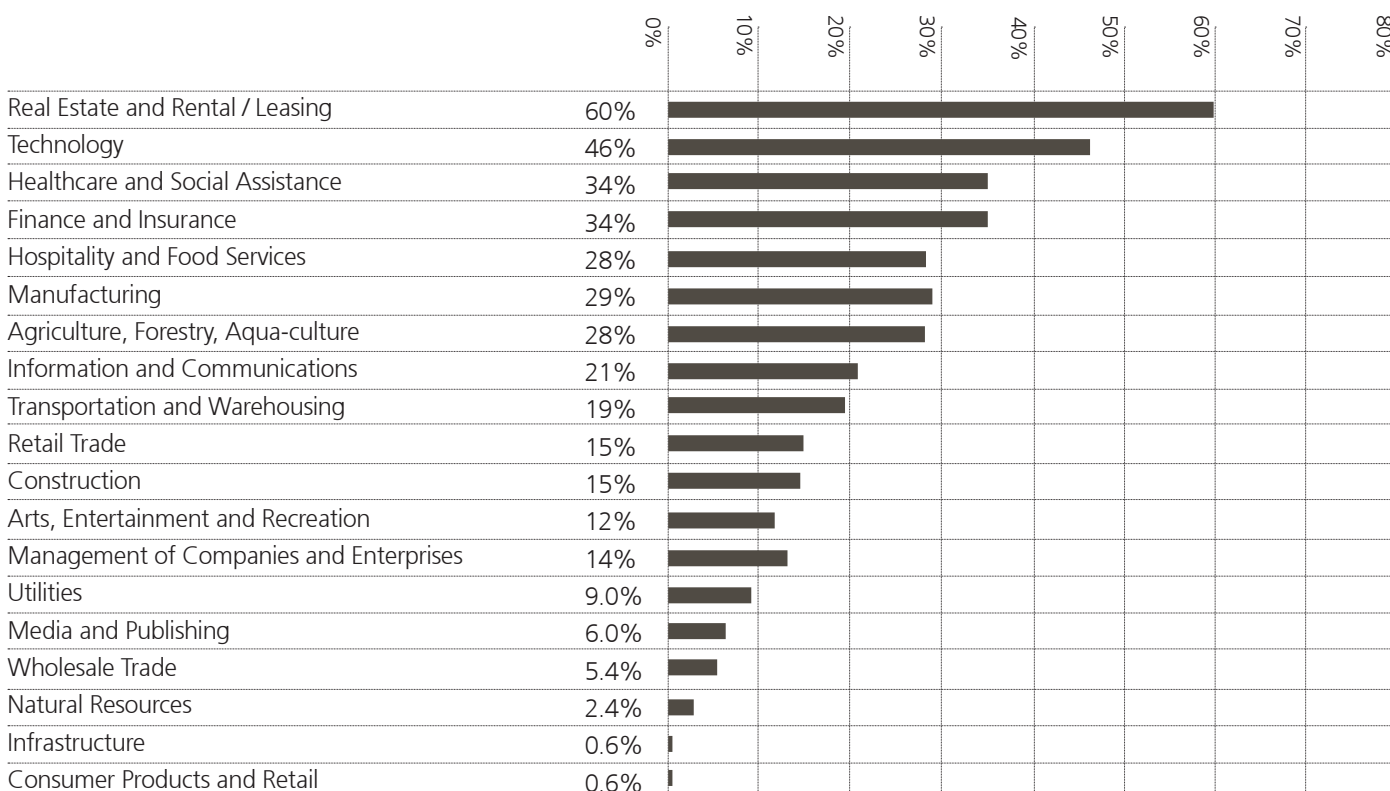


**Number of co-investment deals**



Source: The UBS / Campden Wealth Global Family Office Report 2018

**Figure 1.16** Industry of direct investments



Source: The UBS / Campden Wealth Global Family Office Report 2018

**92% co-investments met or exceeded expectations**

Within the category of direct investments, 92% of co-investment deals met or exceeded their performance expectations. This was also the case for 87% of club deals, 86% of deals where the family office owned a majority stake in the business and 81% where they owned a minority stake (figure 1.17).

**Figure 1.17** Breakdown of direct investments' 2017 performance

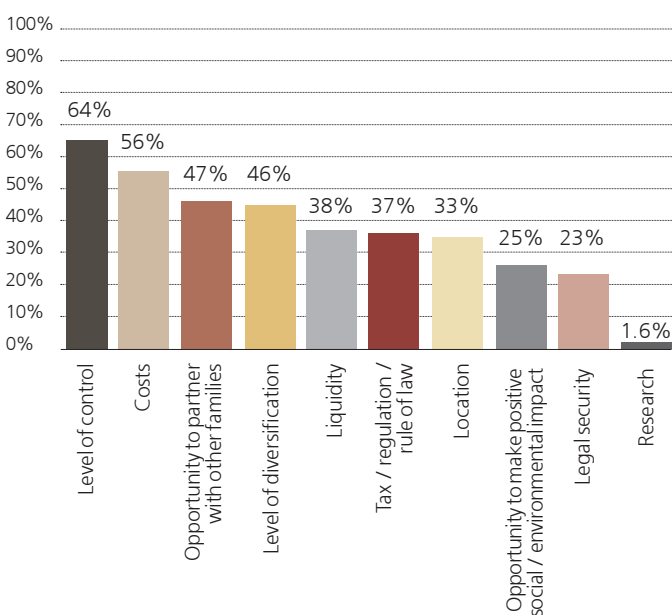
	Percentage breakdown	Over-performed	Met	Under-performed	Annual return expectation
Co-investments	23%	29%	63%	9%	31%
Club deals	13%	22%	65%	14%	18%
Majority stake	34%	28%	58%	13%	24%
Minority stake	30%	22%	59%	19%	27%

Source: The UBS / Campden Wealth Global Family Office Report 2018

**Level of control, a key factor in direct investment deals**

The most important factors family offices consider when deciding whether or not to make a new direct investment pertain to their level of control over a deal, its costs, the potential opportunity to partner with another family and the level of diversification the deal provides (figure 1.18).

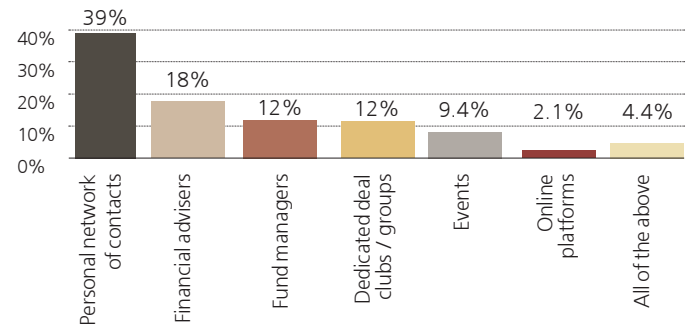
**Figure 1.18** Factors considered most important when making decisions about new direct investments



Source: The UBS / Campden Wealth Global Family Office Report 2018

In terms of where deals are sourced, two-fifths (39%) come via family offices' personal networks of contacts, 18% via financial advisers and 12% via fund managers or dedicated deal clubs / groups (figure 1.19).

**Figure 1.19** Pathways to finding new direct investment opportunities



Source: The UBS / Campden Wealth Global Family Office Report 2018

## Co-Investing

**There are multiple reasons to co-invest**

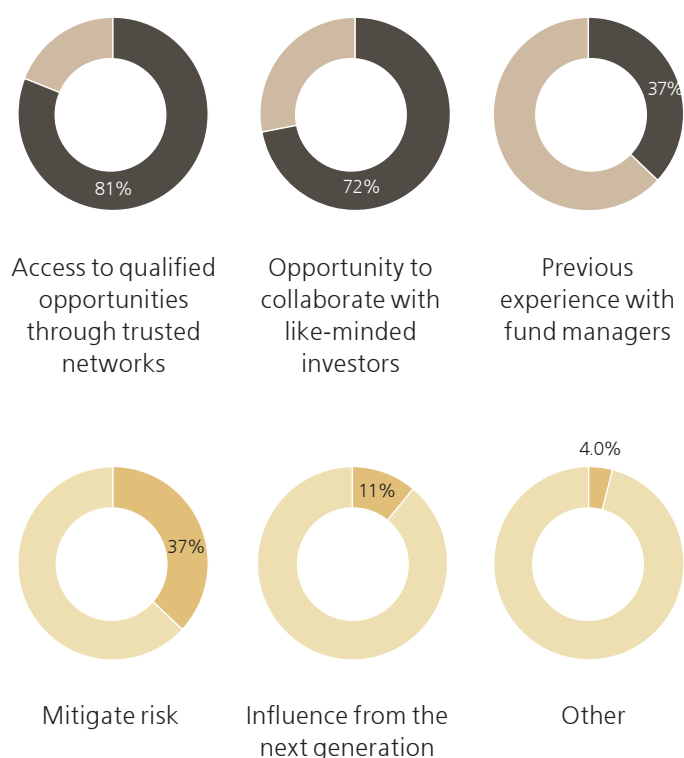
Co-investing as a limited partner (LP) presents a number of challenges for family offices. Those new to co-investing may decide to take a passive approach, whereby a general partner (GP) offers the LP the opportunity to fund the co-investment once the deal has been signed. Whilst this enables the family office to dip its toe into a co-investment opportunity, it will have virtually no role in governance or due diligence.

When making decisions about co-investments, it is often the ability to source deals through a trusted network that carries the greatest weight. Indeed, 81% of survey respondents believe that having access to quality opportunities through their trusted networks is the most important factor when considering deals (figure 1.20). As one investor proclaimed, "The first hurdle is trust. If the family doesn't trust the partner, you can forget about getting a dollar from them."

Followed closely behind this factor is the importance of collaborating with like-minded investors, which is highlighted by 72% of respondents. This is unsurprising, given the common objective across family offices to ensure that values and strategies align. It is due to benefits such as these that co-investing has gained considerable popularity within the family office space. As one CEO of a single family office in North America put it, "Co-investing seems to be one of the big fashions of the family office world at the moment."



Figure 1.20 Motivations to co-invest



Source: The UBS / Campden Wealth Global Family Office Report 2018

Another single family office CEO went on to describe the co-investing approach that works for the family he assists:

*‘Almost every direct investment they make, they offer to their friends in the co-investment business. And the way they do this is to say, ‘listen we came across this building or this property or this company and we need USD \$25 million - and we’re going to put the money in. If you want to come in with us, we’ll be more than happy for you to do that.’ So they offer up opportunities to co-investors and they also get back a lot of opportunities to co-invest in return. And in the social / investment circle that they’re in, people like going to them with deals because they know if this family invests in it, it’s a good deal.’ – CEO, Single Family Office, North America*

### Due diligence – the leading challenge

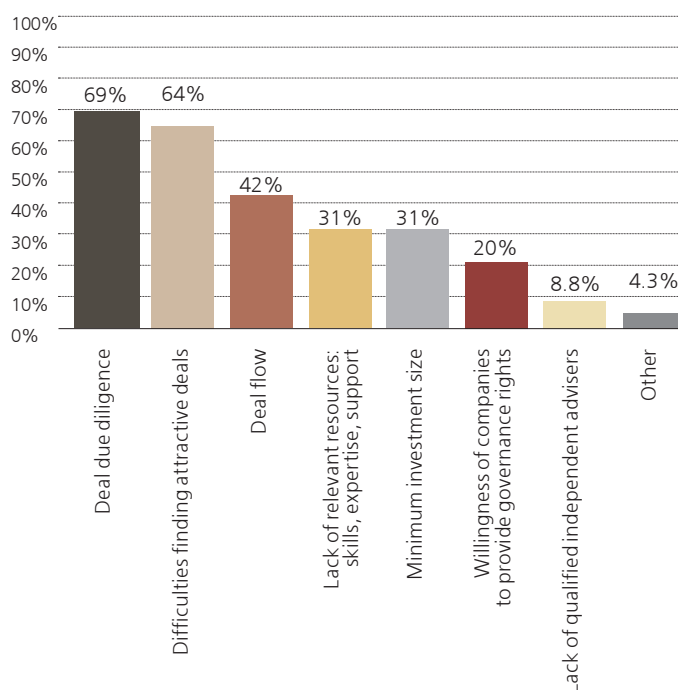
In 2018, survey respondents shed light on the challenges they face when co-investing. Nearly 70% of family offices pointed to deal due diligence as a central issue. Hence, family offices have more recently started to take an active approach to co-investing. By working alongside GPs, these family office executives can commit equity ahead of the deal’s completion, observe the co-investment at a more granular level and apply takeaways to future co-investment deals (figure 1.21).

Following closely behind deal due diligence, family offices also pointed to the hardships that relate to sourcing attractive deals

(64%) and obtaining sufficient deal flow (42%) (figure 1.21). As with any private equity investment, sourcing deals is a major component of an opportunity’s life cycle. And then once deals are established, maintaining momentum to ensure an ongoing pipeline of deals is equally challenging. In the words of one family office executive:

*‘We like to co-invest with other families which have a particular knowledge about a certain sector, however, the difficulty we have today is finding a good deal.’ – Partner, Private Multi-Family Office, Asia-Pacific*

Figure 1.21 Challenges related to co-investing deals



Source: The UBS / Campden Wealth Global Family Office Report 2018.

Note: Respondents were able to select multiple options. Figures are based on the sample of respondents who are involved with co-investing.

### Lack of qualified independent advisers is most common in Asia

Regardless of region, due diligence, along with the ability to find attractive deals and create sufficient deal flow, are the most prominent challenges family offices face when engaging in co-investing. However, the willingness of companies to provide governance rights (44%) is a challenge that family offices are more likely to face in Asia-Pacific than in the other regions (figure 1.22).

Family offices in Asia-Pacific also reported being more likely to experience a lack of qualified independent advisers (13%) relative to other regions. This might be, in part, a consequence of the relative newness of the family office space in Asia-Pacific compared to the more mature markets within Europe and the United States. Furthermore, minimum investment size is more likely to be a challenge in the Emerging Markets than in other regions, though this is unsurprising.

**Figure 1.22** Challenges related to co-investing, by region

Challenges	Europe	North America	APAC	Emerging Markets
Deal due diligence	65%	74%	70%	82%
Difficulties finding attractive deals	60%	72%	70%	64%
Deal flow	40%	48%	44%	36%
Lack of relevant resources: skills, expertise, support	25%	36%	30%	27%
Minimum investment size	28%	26%	39%	55%
Willingness of companies to provide governance rights	19%	16%	44%	9.1%
Lack of qualified independent advisers	5.3%	6.0%	13%	9.1%
Other	1.8%	6.0%	9.3%	0.0%

Source: The UBS / Campden Wealth Global Family Office Report 2018

## Real Estate

### Real estate maintains its strong position

The long-term strength of the real estate market allows this asset class to maintain its robust position within the average family office portfolio. Accounting for 17% of all family office investments, real estate direct investment maintains its position as the third largest asset class in 2018, after equities and private equity.

### Local real estate is preferred

Taking a closer look at real estate investments, commercial real estate, which makes up 59% of the average real estate portfolio, has been favoured slightly over residential real estate, which accounts for the remaining 41% (figure 1.23). One family office executive in North America who has moved towards investing in large commercial multi-family housing schemes helps to explain why his preference is for commercial, noting the impact of the millennial / X generations:

*‘A lot of our direct deals right now are commercial real estate focused. This is because of the growing need for multi-family housing here in the United States – there has been an undersupply over the last ten years. The millennial / X generations are still struggling to come up with down payments; they are still renting. And also, in some of the high tax states, given tax reforms, it makes sense for families to sell their homes and use the property tax savings to invest in multi-family homes.’*  
**– Vice President, Multi-Family Office, North America**

Analysing the data from a geographic perspective reveals that 55% of all investments were directed towards local markets, compared with 25% towards regional and 21% international (figure 1.23). With the ability for an investor to have a stronger grasp of backyard opportunities than overseas prospects, local real estate investments continue to constitute the largest share of both residential and commercial investments.

That being said, most respondents with real estate investments hold a proportion in both private and commercial properties at regional and international levels. As one executive mentioned:

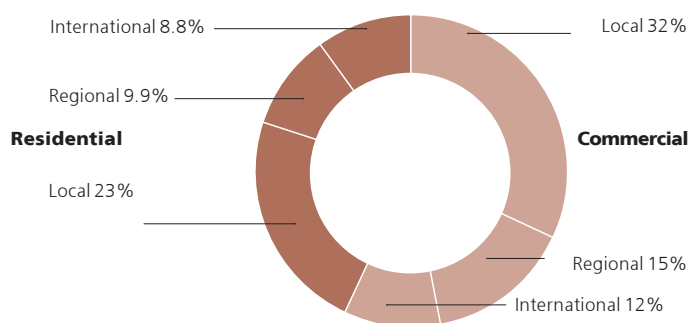
*‘We know families which have bought residential and commercial buildings all over... buildings in Paris, London, New York and things like that... an investment of typically seven to nine years.’*  
**– Partner, Single Family Office, Europe**

This increase in real estate investment is, however, not the case for everyone, as two family office executives remarked:

*‘There is no such trend reported in India. On the contrary, investments in real estate have declined. Only commercial office space real estate has done well.’*  
**– Managing Director, Single Family Office, North America**

*‘Real estate investing is a bit too mainstream for us, whatever we have we keep, we are not in the mode of let's sell it all off and not have any real estate. But we are not big enough, if we had USD \$2 billion under management then we would have real estate.’*  
**– Principal, Private Multi-Family Office, Asia-Pacific**

**Figure 1.23** Real estate allocations



Source: The UBS / Campden Wealth Global Family Office Report 2018  
 Note: Percent of portfolio share, real estate holdings only

### Location and costs are driving new investments

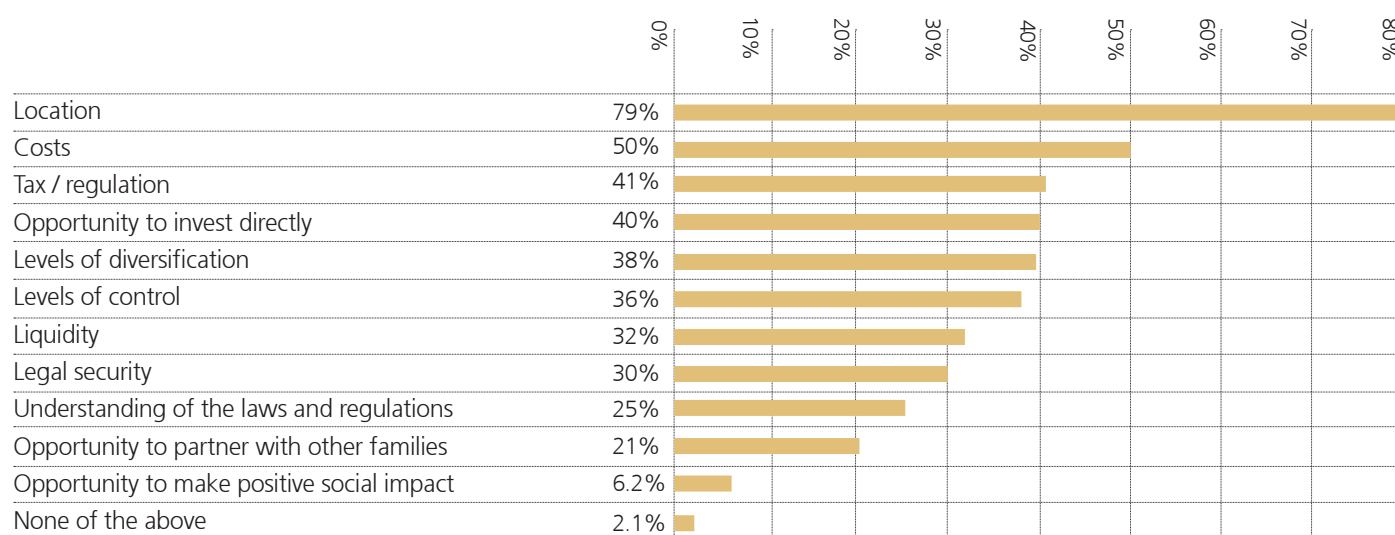
Asked about the factors that influence family office executives' decisions when they consider new real estate direct investments, unsurprisingly most pointed to location (79%) and costs (50%) (figure 1.24).

Regulatory factors also continue to feature in 2018 as they did in last year's report. In fact, the category 'tax and regulation' has increased by 5.2 percentage points over the year, whilst understanding laws and regulations maintains its position.

When one investor talked about his general philosophy towards investing he remarked:

*'I do believe very strongly that a family office should fish in water where it may do well and avoid fishing in water that everybody else is fishing in. So in property for example, it's not our area of expertise, so we have to think about what our strengths and weaknesses are. One of our strengths is that we're prepared to take a long-term view. And we're not developers, so we'll look for things that fit our criteria - so we're very different from someone else who may be looking.'* – **CEO, Single Family Office, Asia-Pacific**

Figure 1.24 Motivations to invest in real estate, beyond returns



Source: The UBS / Campden Wealth Global Family Office Report 2018

## Hedge Funds

Allocations to hedge funds represent 5.7% of the average family office portfolio. As mentioned in the previous chapter, assets such as bonds and equities continue to outperform hedge funds, and less-than-desirable returns over the past several years have discouraged investors from allocating a greater proportion of wealth to this asset class.

Taking a closer look, long/short strategies account for the highest proportion of hedge fund investments, followed by global macro, credit and event driven. Those in North America are the most likely to take a long / short (equity) or event driven approach, whereas those in Europe tend to favour global macro or relative value arbitrage positions (figure 1.25).

One CIO from a single family office in North America expressed his opinions about the disadvantages of hedge funds:

*'Intrinsically, we don't like hedge funds. But we have some exposure where we think we are particularly clever. However, I think hedge funds are expensive. I think they're illiquid. I think they're lacking in transparency. It's funny, in the long equity world, fees have come down quite significantly over a period. Hedge funds have come down a bit, but they're still kicking and shouting about the fees. And if you're making 20%, I'm quite*

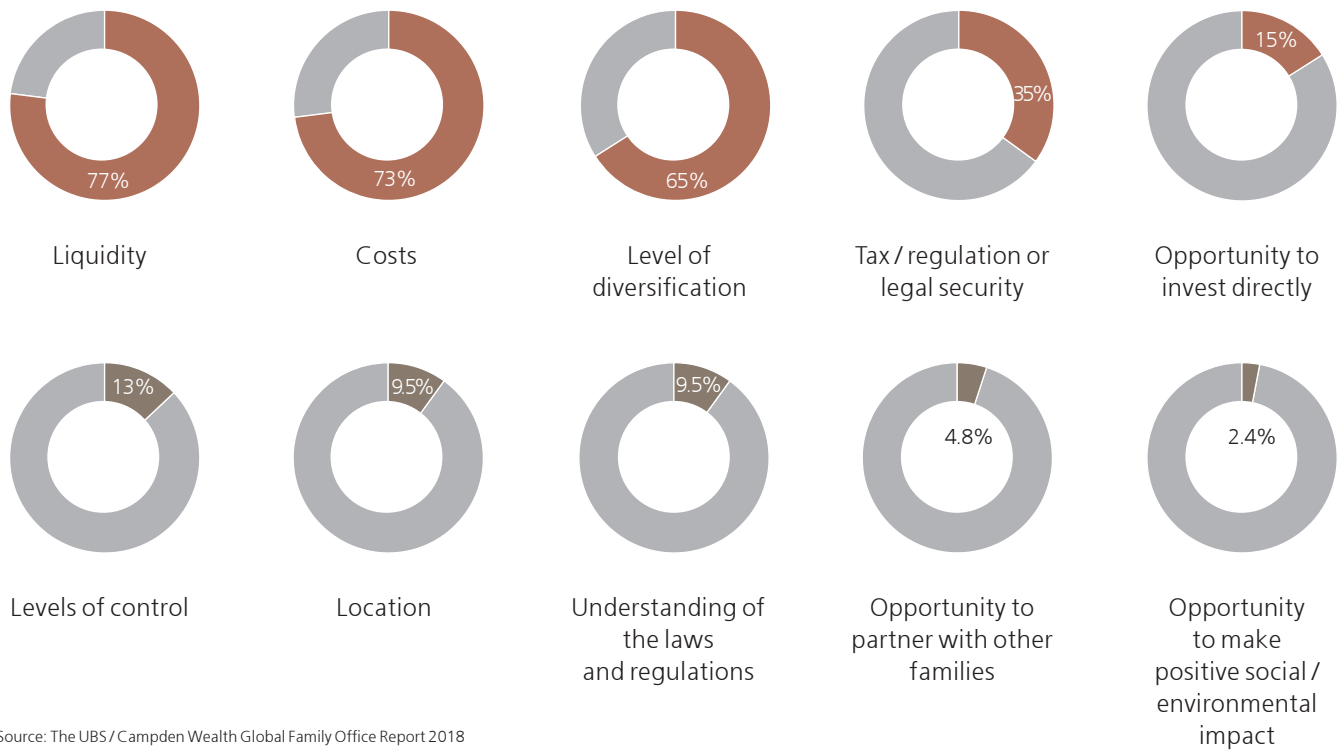
*happy for you to have a lovely big fee. But I know most of the hedge funds haven't been making 20% - and frankly I'm not that happy with the fees that are paid and everything else.'* – **CIO, Single Family Office, North America**

Figure 1.25 Hedge fund allocations, by region

	Global	Europe	North America	APAC	Emerging Markets
Long / short (equity)	19%	18%	20%	15%	16%
Global macro	13%	15%	10%	13%	16%
Credit	13%	13%	13%	13%	14%
Event driven	13%	9.4%	16%	6.3%	12%
Distressed	9.7%	8.3%	11%	6.3%	10%
Quantitative	9.4%	13%	7.8%	13%	6.1%
Market neutral	9.4%	9.4%	9.5%	6.3%	10%
Relative value arbitrage	9.4%	12%	7.8%	6.3%	10%
Short only	4.3%	4.2%	4.3%	6.3%	4.1%

Source: The UBS / Campden Wealth Global Family Office Report 2018

Figure 1.26 Motivations to invest in hedge funds, beyond returns



Source: The UBS / Campden Wealth Global Family Office Report 2018  
 Note: Respondents were able to select multiple options

## Sustainable Investing

### DEFINING 'SUSTAINABLE INVESTING'

'A broad set of investment strategies that incorporate environmental, social or governance (ESG) considerations into the investment process. Sustainable investing consists of three distinct approaches that can be used individually or in combination: Exclusion, ESG-Integration and Impact Investing.'

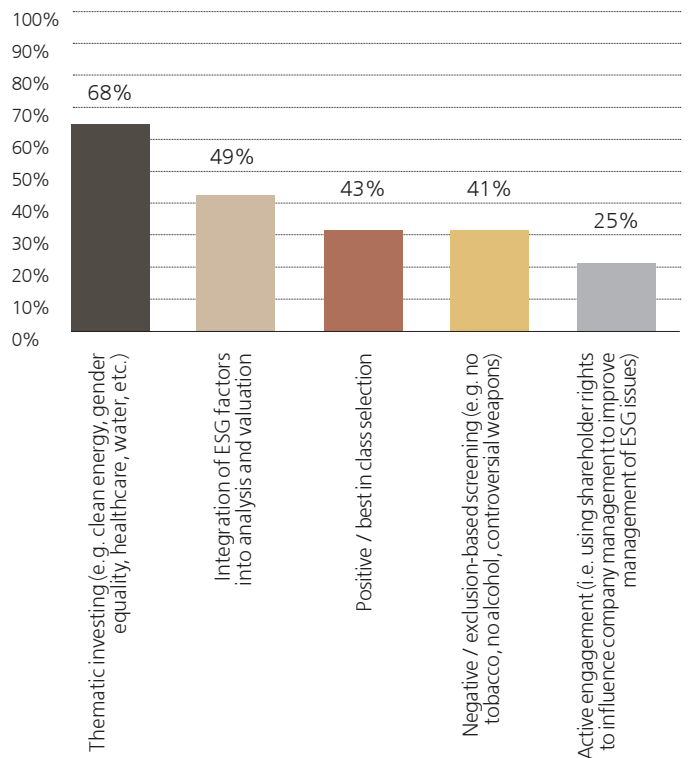
### Over 1 in 3 family offices are involved in sustainable investing

"Globally, there are now \$22.89 trillion of assets being professionally managed under responsible investment strategies, an increase of 25% since 2014", according to the Global Sustainable Investment Review, 2016.

As of 2018, 38% of family offices are involved in sustainable investing, with the most commonly invested in areas being: 'thematic investing' (e.g. clean energy, water, gender equality and healthcare) (68%); integration of ESG (environmental, social and governance) factors into analysis and valuation (49%); positive or best in class selection (43%); and negative or exclusion based screening such as anti-smoking or no alcohol investment opportunities (41%) (figure 1.27).

Nearly half (45%) of respondents also reported that they plan to increase their sustainable investments over the next 12 months, 23% said they would not and 33% said they were undecided.

Figure 1.27 Areas of sustainable investment



Source: The UBS / Campden Wealth Global Family Office Report 2018  
 Note: Respondents were able to select multiple options.

Despite an increasing interest in sustainable investing, one family office executive noted that there is still not enough information in the marketplace about it to enable family offices and family members to either understand it or pursue it fully:

*'The majority of what we're seeing is a portion of the investable portfolio going into socially responsible investing. It's not something that I would call extremely formalised and not one family that we work with looks at us and says we want the entire portfolio to be socially responsible or sustainable...'*

*I think it is about the flow of information. I just don't think people are informed enough yet about it – that's including advisers. I think there's just not enough quality due diligence, there's not enough bandwidth within shops to be experts yet on what a quality sustainable investment is and what the actual characteristics are. The definition is so broad that it makes it very difficult for the advisers and the family office, as well as the families, to really understand what about the investment is sustainable. I think that it is a lot easier to differentiate in a private investment. If you know you're building a water access project in Sub-Saharan Africa, you know that it is a socially responsible investment - versus what the internal governance and practices actually are of a public company that is issuing a bond or an equity.'* – **Executive Vice President, Multi-Family Office, North America**

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## Impact Investing

### DEFINING 'IMPACT INVESTING'

'Generating a measurable social and environmental impact alongside a financial return.'

Impact investing, which is broadly defined as investing for the purpose of both a financial return and measurable social and/or environmental impact, is becoming increasingly popular within the family office space. Similar to sustainable investing, about one-in-three (32%) of the family offices surveyed now report to be involved in impact investing. Looking purely at multi-year participants (those who completed the survey in both 2017 and 2018), reveals that there has also been a notable 4.2 percentage point jump in family offices' participation into impact over the year. In the words of one such investor:

*'We've been involved in impact investing for some time. We just invested in the climate. We invested in energy funds. We've got one investment in a fund that looks at how technology can improve the environment. But what we don't do is make an investment purely for a sustainable impact. If we can make an investment that holds itself on investment grounds and has a good impact on the environment, then we're interested.'* – **CEO, Multi-Family Office, Europe**

For others, namely the 68% of respondents who are not currently engaged in impact investing, it might be that: they prefer to 'do good' socially via philanthropic means; impact investing is not yet on their radar or fully understood given its relative newness as a concept; they believe that it will not produce returns that are as strong as classic investments, etc. In the words of several family office executives:

*'I think right now we're still seeing impact investing in its infancy... I still think there's a stigma around returns and that the research isn't there yet to be able to build a full portfolio of sustainable investments. At the end of the day, you want to do good, but you also want to perform. The families need to know that their investments are performing in order to provide for the longevity of the family wealth.'* – **Executive Vice President, Multi-Family Office, North America**

*'We have done two impact investments so far. Although they are 'impact', they are impact for profit.'* – **Principal, Private Multi-Family Office, Asia-Pacific**

*'The family does not have much interest in impact investing as they accomplish many of the charitable themes they are interested in via their private family foundation.'* – **President, Single Family Office, North America**

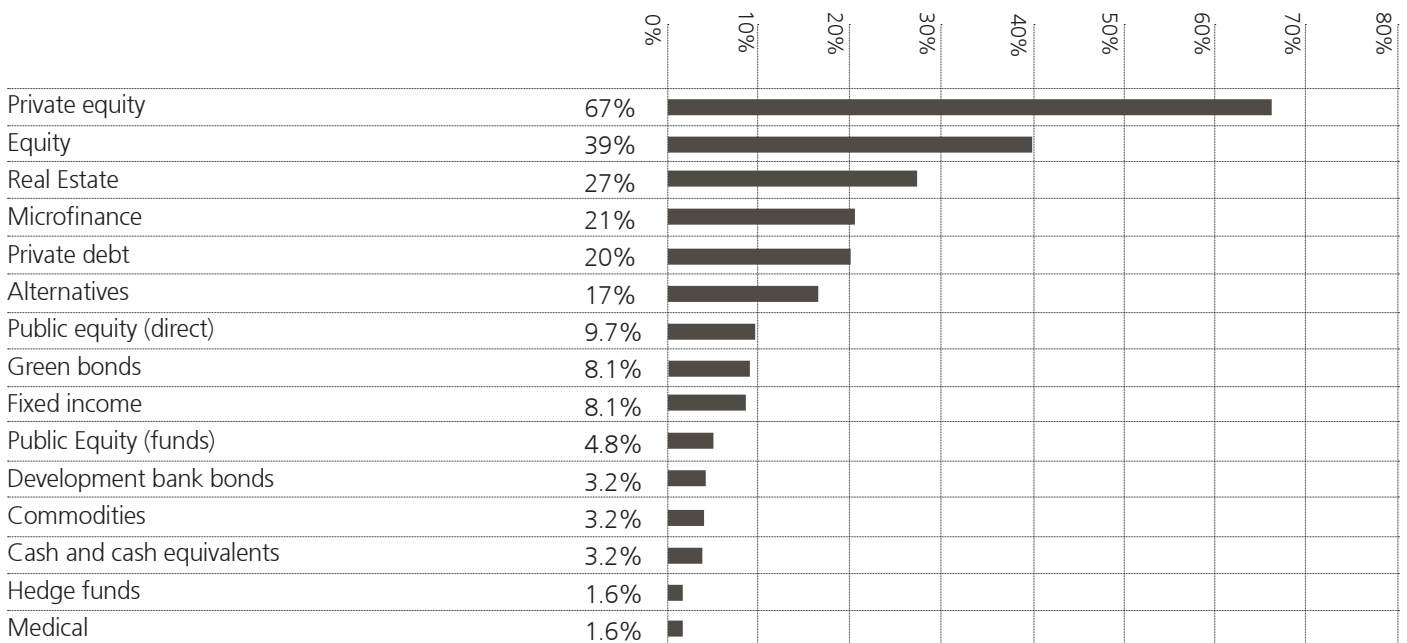
*'Frankly we do not understand impact investing.'* – **Managing Director, Single Family Office, Asia-Pacific**

Over half, 54%, of respondents, also reported that they plan to increase their allocation to impact investing over the next 12 months, while 18% said they will not and 28% claimed to be undecided. Looking to the future, 39% of respondents also projected that when the next generation takes on control of their families' wealth, they will increase their allocation to impact / ESG investing – something to look for in the future (see section on the next generation).

### Private equity is the most common route for impact investing

At present, private equity (67%) and equity (39%) are the most common vehicles to impact invest in, with real estate (27%), microfinance (21%), private debt (20%) and alternatives (17%) also being notable areas (figure 1.28).

Figure 1.28 Most common asset classes for impact investing

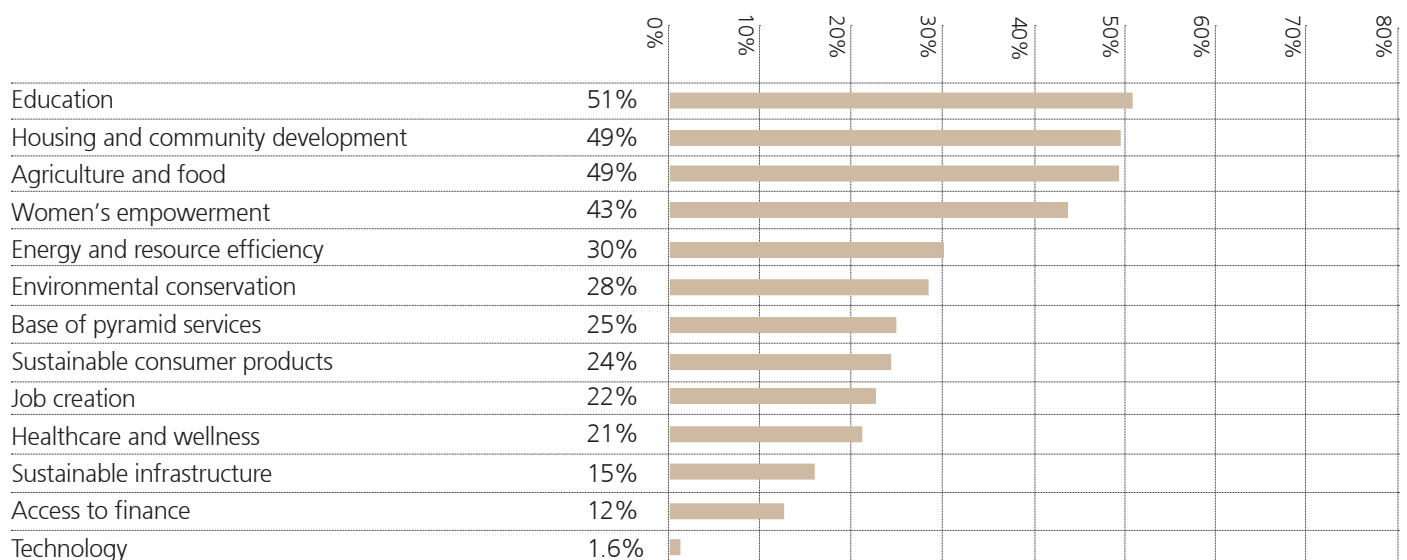


Source: The UBS / Campden Wealth Global Family Office Report 2018  
 Note: Respondents were able to select multiple options

Once again this year, education remains the number one area to invest in, with over half (51%) of impact investors targeting this cause. Housing and community development became a greater focal point, as it shifted from ranking in ninth place

last year to second place this year, with 49% of investors now concentrating on this area. Women’s empowerment also garnered greater attention this year, moving from seventh place to fourth (or to 43%) (figure 1.29).

Figure 1.29 Most common areas of impact investments



Source: The UBS / Campden Wealth Global Family Office Report 2018  
 Note: Respondents were able to select multiple options

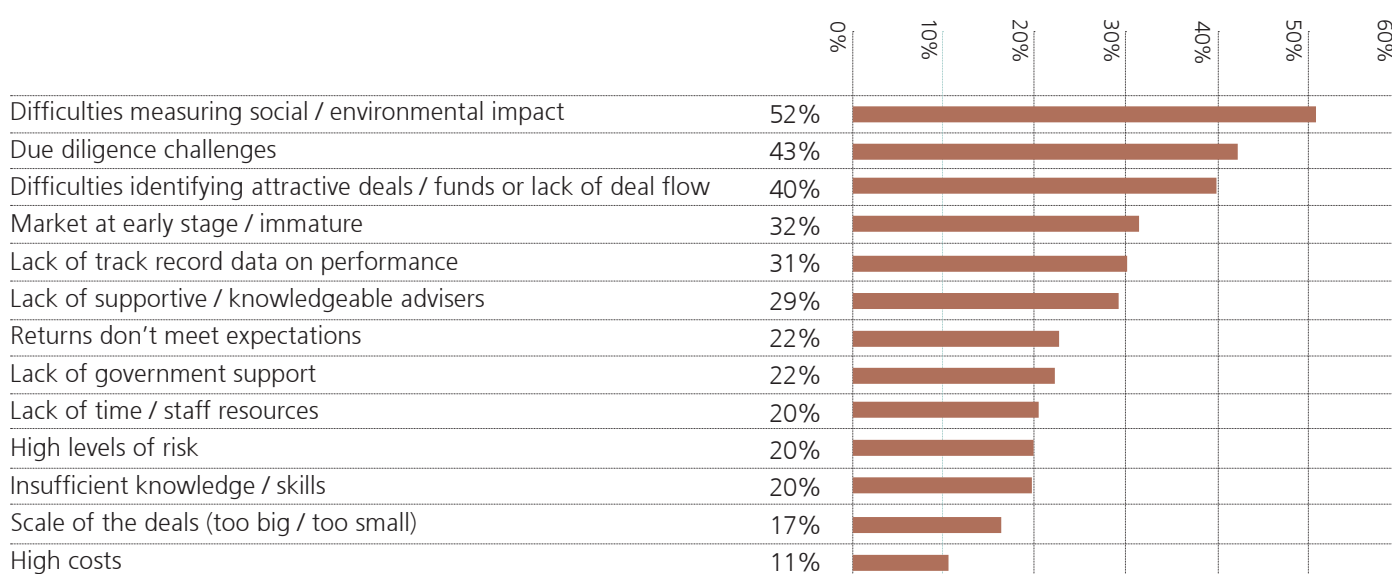
### Measurement is the most common challenge

The greatest challenges for impact investing include difficulties in measuring the level of impact, as reported by over half of respondents (52%), due diligence (43%), difficulties identifying attractive deals / funds or lack of deal flow (40%) and market immaturity (32%) (figure 1.30).

In relation to supporting the measurement of impact investments, whilst it is relatively straight forward to ascertain profit margins on investment returns, calculating the extent of social or environmental impact can however be trickier.

To aid investors, the Stanford Social Innovation Review (2016) broadly outlines four measurements which are often used – ‘expected return’, ‘theory of change’, ‘mission alignment’, and ‘experimental and quasi-experimental’ methods\*. While it is noted that these processes all carry their advantages and disadvantages, each reportedly accomplishes their objective to aid in the calculation of social investment returns. It may therefore be fruitful for those involved in impact investing to explore these and other such methods used, such as the Bridges Impact Management Framework, to ensure that they have a robust process for measuring success.

Figure 1.30 Most common challenges faced in impact investing



Source: The UBS / Campden Wealth Global Family Office Report 2018

Note: Respondents were able to select multiple options

\*McCreless, Michael. 'Toward the Efficient Impact Frontier', Stanford Social Innovation Review. Winter 2017, Volume 15, Number 1.

# Impact Investing

## **‘Our duty is to leave something good behind’**

*Interview with a next generation family member and partner from a European single family office*

Impact investing is arguably one of the fastest growing areas in the average family office investment portfolio, with the 2018 GIIN Annual Impact Investor Survey estimating that 229 of the world’s leading impact investor organisations collectively manage over USD \$228 billion in impact assets across the globe.

Despite this impressive figure, there continues to be an air of uncertainty for many interested in impact investing, with few expert advisers compared to more traditional asset classes. A partner, involved in a European single family office set up in the last 10 years, discussed his ambitions for impact investing and some of the challenges he faces.

### **What motivates you to venture into impact investing and how does this differ to the generations before you?**

“Human beings have an obligation, if they can, to make the lives of others better” explained that interviewee. Whilst he acknowledged that the family’s financial position made it easier for them to help than others, they definitely felt a deep seated social and moral responsibility about wanting to make the world a better place. This, in turn, led them to invest in the areas of education, environmental conservation and women’s empowerment.

This mindset differed to previous generations which were typically more concerned with wealth generation than wealth donation. This change in mindset, he continued to explain, is due to technological developments that better connect the global community, making everyone more aware of the issues that need addressing. He was also very keen to point out his belief that “our generation is more open to making less profit if there is a purpose”.

### **What do you see as the greatest challenges to impact investing and how will you overcome them?**

There are two clear challenges to impact investing. Firstly, it is currently difficult to measure the actual impact that impact assets are having. For example, how do you measure the benefit of impact investments made to education in the developing world? It is challenging to know if the standard of education being delivered is good enough, if it is being delivered to the intended recipients or to know how the children use their education to better themselves in the future. Secondly, there is an issue with deal flow in the impact investment sector. Compared to asset classes such as private equity, real estate and hedge funds, there are comparatively few deals that attract investors to get involved, and even fewer deals that make financial sense. Overcoming these challenges will be tough, he explained, but due diligence, identifying expert advisers and understanding what sort of impact you want to see is key.

### **What do you think the future holds for impact investing?**

Impact investing has a bright future as the current generation definitely possesses a great sense of social responsibility. Moreover, they feel that companies will start to introduce reporting standards on impact investing similar to that of Corporate Social Responsibility, a move that should help to make impact investing more mainstream. On a more fundamental level of human nature, however, there is a definite sense that wealth holders “should use some of their wealth to make a lasting mark and to leave something positive behind”.



# 1.3 Performance

- Family offices performed very well this year, with a significant 95% of all portfolio investments having met or exceeded their estimated benchmarks. Recording an average total portfolio return of 15.5% in 2017, this is more than double the 7.0% average in 2016, and a complete revival from the 0.3% average in 2015.
- From a regional perspective, Asia-Pacific recorded the highest average return (16.4%), followed by North America (15.9%), Europe (15.0%) and the Emerging Markets (14.7%).
- Both developed market and developing market equities saw a sizeable return on investment at 23% and 38%, respectively - both significantly outperforming expectations.
- Private equity also saw a rich 18% average return, beating its return from the previous year by circa 5 percentage points.

2017 saw the best global economic performance since 2011, with growth accelerating in the United States, the Eurozone, China, Japan, Russia and Brazil, pushing GDP worldwide up to 3.9% from 3.2% in 2016 (International Monetary Fund, 2018). Every economy in the G20 grew, which has only happened six other times in the past 30 years.

## 95% of the average family office portfolio met or out-performed benchmarks

As a result of this economic surge, a remarkable 95% of the overall family office investment portfolio either met or out-performed set benchmarks (figure 1.34).

## Returns up significantly from 0.3% in 2015 to 15.5% in 2017

And, the total average portfolio return for family offices hit a high of 15.5% (2017) (figure 1.31). This came after a disappointing year in 2015, by which the average global family office portfolio return stood at just 0.3%, and a welcome revival to returns in 2016, with the average coming in at 7.0%.

## Equities' performance steals the show...

This upward drive is primarily down to a very impressive performance from developed, and particularly developing, markets equities with significant average returns of 23% and 38% respectively – a clear outstripping of the benchmarks (figure 1.35).

Developing market equities also remarkably experienced the greatest year-on-year hike, rising an impressive 26 percentage points from 2016, after benefiting from currency appreciation and a narrowing spread on sovereign bonds. In the words of one president from a single family office in North America, "equities has been the best performing asset class over the long-term".

## ...but private equity gives another strong performance

Private equity, which represents the second largest asset class behind equities, also outstripped market expectations and

generated an impressive 18% return in 2017, up circa 5 percentage points from 12 months prior (figure 1.35).

Aiding this growth was the fact that 2017 marked a record for private market fundraising, with over USD \$750 billion being raised globally – up over \$30 billion from the year prior. As witness to the increasing shift towards private equity funds in the family office space, this climb comes squarely off the back of increased investment into megafunds (funds that exceed \$5 billion), which now account for 15% of all private equity funds (McKinsey, 2018).\*

With the largest of these funds having on average delivered the highest returns over the past decade, investors have benefited from the fact that their increased scale has not negatively impacted their performance.

## Real estate, gold and bonds get other notable mentions

Notable mention should also be given to real estate direct investment, which came in with an impressive average return of 12%, and developing and developed bonds – both of which achieved a double digit return of circa 10% (figure 1.35).

## Asia-Pacific produced the strongest overall performance

Whilst all of the regions saw healthy returns compared to 2016, family offices in Asia-Pacific recorded the highest average return in 2017 at 16.4% (figure 1.32). This was a significant uptick of 9.7 percentage points from the year prior, as the region benefited from a particularly strong year for Asian emerging market equity funds and private equity, with private equity deal value reaching its highest level in Asia-Pacific.

Those in Asia-Pacific also invested more into developing market equities than any other region, and as this sub-asset class produced a steep average return of 38%, this helped to edge the region ahead of others performance-wise.

\*McKinsey, February 2018: 'The rise and rise of private equity'

Following closely behind Asia-Pacific was North America with an average return of 15.9%. This region's performance was similarly propelled forward off the back of heavy investment into equities, however, investors in this region prefer developed market, rather

than developing market, equities. In fact, in 2017 just over a quarter of the average family office portfolio was dedicated to developed markets. With returns for this sub-asset class mounting up to an average of 23% in 2017, the heavy investment into this area paid off.

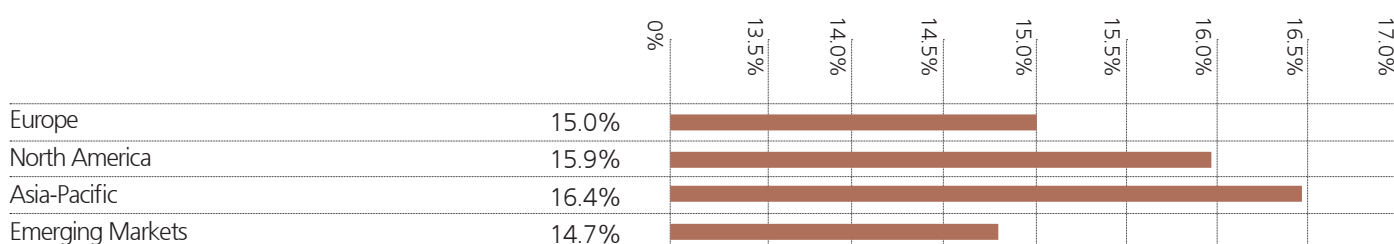
Figure 1.31 Estimated benchmark performance of global composite portfolio, by asset class

Asset Class	Benchmarking Performance Index	2015		2016		2017	
		Return	Allocation	Return	Allocation	Return	Allocation
Developed-market fixed income	BCOR	-4.2%	4.7%	4.4%	5.8%	9.1%	6.5%
	BHYC	-4.7%	4.7%	15%	5.8%	10%	6.5%
Developing-market fixed income	BLCSV	-2.0%	3.4%	0.6%	3.4%	10%	3.2%
Developed-market equities	MXWO	-2.7%	19%	8.2%	22%	23%	22%
Developing-market equities	MXEF	-17%	7.1%	12%	7.3%	38%	6.0%
Private equity	Cambridge Associates US PE Indices	5.9%	22%	13%	20%	18%	22%
Hedge funds	HFRXGL	-3.6%	2.7%	2.5%	2.1%	6.0%	5.7%
	HFRXMMS	-1.8%	2.7%	-0.3%	2.1%		
	HFRXEH	-2.3%	2.7%	0.1%	2.1%		
Real estate direct	EPRA EUROPE	15%	9.2%	-4.8%	9.6%	13%	8.7%
	DJUSRE	2.1%	9.2%	7.6%	9.6%	9.9%	8.7%
REITS	FTSE ENXG Index (Bloomberg)	0.8%	0.9%	6.5%	0.8%	8.0%	1.1%
Agriculture	DJUSRE	2.1%	0.9%	7.6%	1.7%	9.9%	1.8%
Other commodities	CRY	-22%	1.6%	9.3%	1.2%	0.7%	0.7%
Gold	Gold Index					13%	0.9%
Cash	USDRC CMPL	0.3%	8.4%	0.8%	6.6%	1.3%	7.0%
<b>Total</b>		<b>0.3%</b>		<b>7.0%</b>		<b>15.5%</b>	

Source: The UBS / Campden Wealth Global Family Office Report 2018

Note: Some of the indices referenced have changed since the 2017 Global Family Office Report. For a full list of the current sources please see the 'Index Definitions' page at the back of the report.

Figure 1.32 Estimated benchmark performance of global composite portfolio, by region



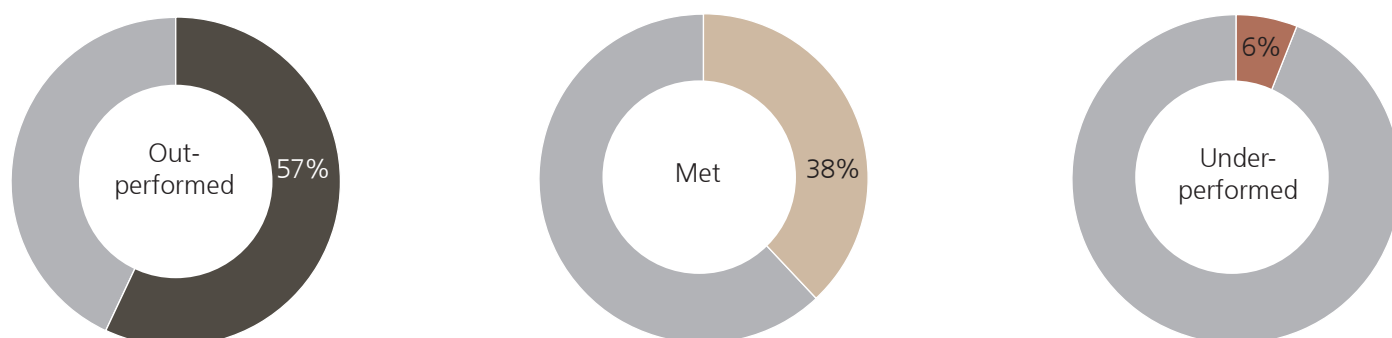
Source: The UBS / Campden Wealth Global Family Office Report 2018

Figure 1.33 Market expectations of performance by asset class, 2014 - 2018 (in percentage return)

	2014	2015	2016	2017	2018
<b>Bonds</b>					
Developed market - fixed income	3.5%	3.1%	2.6%	2.7%	3.9%
Developing market - fixed income	5.8%	5.7%	5.5%	4.2%	5.2%
<b>Equities</b>					
Developed market	7.8%	7.9%	5.0%	5.9%	6.8%
Developing market	10%	10%	7.7%	7.6%	8.8%
<b>Alternative investments</b>					
Private equity: includes direct, venture, funds, co-investing and investment, bank syndication	16%	16%	-	-	-
Direct venture capital / private equity	-	-	13%	14%	13%
Private equity funds	-	-	8.9%	10%	11%
Co-investing	-	-	14%	12%	-
Hedge funds	7.3%	7.8%	5.0%	5.5%	6.7%
Real estate direct investments	11%	11%	8.6%	7.8%	8.4%
REITs	7.2%	7.3%	5.8%	4.0%	4.3%
ETFs	7.6%	6.9%	4.3%	4.7%	-
Tangibles	13%	13%	8.3%	4.0%	-
Other assets (e.g. art)	13%	13%	6.8%	4.0%	-
<b>Commodities</b>					
Agriculture	9.3%	9.3%	7.4%	5.9%	4.9%
Commodities	8.1%	8.3%	8.1%	4.3%	4.2%
<b>Cash or equivalent</b>					
	2.2%	1.9%	0.9%	1.2%	2.3%

Source: The UBS / Campden Wealth Global Family Office Report 2018

Figure 1.34 Overall portfolio investment performance compared to the benchmark, 2017 (in percent)



Source: The UBS / Campden Wealth Global Family Office Report 2018

Figure 1.35 Actualised return versus expected return, 2017

	Benchmark return 2017	Expected return 2017	Overall under / over performance against expectations (in percentage points)
<b>Bonds</b>			
Developed market - fixed income	9.1%	2.7%	7.0 pp
Developing market - fixed income	10%	4.2%	5.8 pp
<b>Equities</b>			
Developed market	23%	5.9%	17 pp
Developing market	38%	7.6%	30 pp
<b>Alternative investments</b>			
Private equity: includes direct, venture, funds, co-investing and investment, bank syndication	-	-	-
Direct venture capital / private equity	18%	14%	4.0 pp
Private equity funds	18%	10%	8.0 pp
Co-investing	-	12%	-
Hedge funds	6.0%	5.5%	1.8 pp
Real estate direct investments	13%	7.8%	4.2 pp
REITs	8.0%	4.0%	4.0 pp
<b>Commodities</b>			
Agriculture	9.9%	5.9%	3.7 pp
Gold / precious metals	13%	3.2%	9.8 pp
Other commodities	0.7%	4.3%	-3.6 pp
<b>Cash or equivalent</b>			
	1.3%	1.2%	0.1 pp

Source: The UBS / Campden Wealth Global Family Office Report 2018



# 2. Structures

2.1 Costs

2.2 Human Capital

## 2.1 Costs

- Family offices' total average spend on services stood at USD \$11.4 million in 2018. This includes \$6.7 million in operational costs, and \$4.7 million in external investment management performance and administration fees.
- Family offices in North America spend a combined average of 113 basis points of AUM on their overall operating costs (67 basis points) and external investment management fees (46 basis points). Europe's average total spend stands at 124 basis points, which equates to 74 basis points in operating costs and 50 basis points in external investment management fees. Asia-Pacific's total spend sits at 126 basis points, which includes 84 basis points for operating costs and 42 basis points for external investment management fees.
- In last year's report, we highlighted that 'family governance and succession planning' rose to become the largest of all family professional services costs. As the family office community continues to prepare for the next generation to assume control, this is still the case, with the average family office having spent USD \$203,000 on succession planning within the 'family professional services' category in the year leading up to this report. This sum is, however, likely not holistic of all succession-related spend, as there are other costs within 'general advisory services', such as trust management, which can aid in planning.

*'We have two main objectives – firstly, on the operational side, if we manage things internally we can do the same kind of job at a little less cost versus if we outsourced our work. The second objective is to try to embrace automation wherever we can to reduce costs and increase efficiency, such as within reporting and performance management.'* – **CFO, Single Family Office, Asia-Pacific**

This report continues to outline family offices' operating costs, and their external investment management performance and administration fees. Values are expressed in both US dollars and basis points of AUM so as to display both 'real' and 'relative' values.

To understand how costs have shifted over the last 12 months, year-on-year data from the family office participants who completed the GFO survey in both 2017 and 2018 is also used, so that an accurate, like-for-like comparison can be made between the annual figures. The remaining statistics within this 'Costs' section are generated from the full body of family office participants.

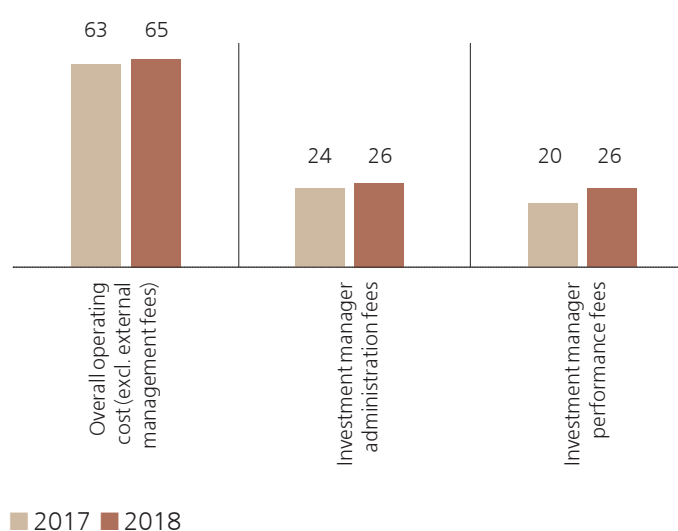
### Family offices' average spend on service totals \$11.4 million

For the fifth year in a row, we continue to outline the average costs associated with running a family office. This year, family offices' total average spend on services stood at USD \$11.4 million, with \$6.7 million of this stemming from operational costs, and \$4.7 million coming from external investment management performance (\$2.8 million) and administration (\$1.9 million) fees.

### Operating costs remain stable between 2017 and 2018

Amongst the cohort of 2017 and 2018 Global Family Office Report multi-year participants, operating costs rose slightly from 63 to 65 basis points. Meanwhile, investment manager administration and performance fees rose from 24 to 26 and 20 to 26 basis points, respectively (figure 2.1).

**Figure 2.1** Family offices' overall operating costs in basis points, multi-year participants (SFO + MFO)



Source: The UBS / Campden Wealth Global Family Office Report 2018

**Asia-Pacific and Europe have the highest average operating costs**

When breaking costs down by region, and in basis points of AUM for purposes of relativity, it becomes evident that family offices in North America incurred a total average operating and external investment management spend of 113 basis points.

Europe’s average cost stands at 124 basis points, while Asia-Pacific’s sits at 126 basis points. Due to economies of scale, family offices with assets under management over USD \$1 billion report to operate most cost effectively, averaging 85 basis points in 2018 (figure 2.2).

**Figure 2.2** Average operating and external investment management costs by region and AUM (in basis points of AUM) (SFOs + MFOs)

	Region				AUM (USD)		
	Europe	North America	Asia-Pacific	Emerging Markets	<250m	251m-1bn	>1bn
Average							
Overall operating cost (excl. management fees)	74	67	84	51	60	80	39
External investment management administration fees	26	23	19	23	25	25	25
External investment management performance fees	24	23	23	23	25	21	21
<b>Total cost</b>	<b>124</b>	<b>113</b>	<b>126</b>	<b>97</b>	<b>110</b>	<b>126</b>	<b>85</b>

Source: The UBS / Campden Wealth Global Family Office Report 2018

**GENERAL DESCRIPTION OF SERVICE CATEGORIES**

**Family professional services** – Family governance and succession planning; support for new family business and other projects; concierge services and security; family counselling / relationship management; management of high-value physical assets (e.g. property, yachts, art, aircrafts); entrepreneurial projects; education planning; next generation mentoring; entrepreneurship; communication between generations

**Administrative services** – Accounting; bookkeeping; mail sorting; office overheads; IT costs; management of contracts

**General advisory services** – Financial planning; tax planning; trust management; legal services; estate planning; insurance planning

**Investment related activities** – Asset allocation; traditional investments; manager selection / oversight; real estate direct investment; financial accounting / reporting; alternative investments; investment banking functions; risk management; global custody and integrated investment reporting; private banking; foreign exchange management; philanthropy

**Succession planning is still a key spending area**

In last year’s report, we highlighted that family governance and succession planning rose to become the largest of all family professional services costs. As the family office community continues to prepare for the next generation to assume control,

this is still the case, with the average family office having spent USD \$203,000 on succession planning in the year leading up to this report (figure 2.3). This amount is likely higher, however, when factoring in other related costs, such as trust management, which sits under the ‘general advisory services’ category.



Figure 2.3 SFO and MFO costs of individual services from main service categories

	TOTAL SFO + MFO			SFO			MFO		
	Proportion of operating costs in %	Operating cost of each service (BP)*	Operating cost for the average FO (USD \$)*	Proportion of operating costs in %	Operating cost of each service (BP)*	Operating cost for the average FO (USD \$)*	Proportion of operating costs in %	Operating cost of each service (BP)*	Operating cost for the average FO (USD \$)*
<b>General advisory services</b>	<b>20</b>	<b>16</b>	<b>\$1,414,000</b>	<b>20</b>	<b>15</b>	<b>\$1,051,000</b>	<b>21</b>	<b>17</b>	<b>\$2,491,000</b>
Financial planning		3.8	388,000		4.4	315,200		5.2	749,000
Tax planning		3.5	364,000		3.2	228,900		4.6	662,000
Estate planning		2.2	178,000		1.7	122,800		2.5	360,000
Legal services		3.0	242,000		2.8	198,800		2.3	331,000
Insurance planning		1.2	97,000		0.8	55,400		1.2	173,000
Trust management		1.8	145,000		1.8	129,200		1.5	216,000
<b>Investment related services</b>	<b>44</b>	<b>30</b>	<b>\$2,931,000</b>	<b>38</b>	<b>28</b>	<b>\$1,952,000</b>	<b>48</b>	<b>32</b>	<b>\$4,631,000</b>
Asset allocation		5.3	501,000		3.8	270,000		6.2	893,000
Risk management		2.8	242,000		1.8	124,200		3.0	437,000
Manager selection / oversight		3.8	315,000		4.0	287,100		3.8	547,000
Private banking		1.2	105,000		1.4	98,690		1.1	158,000
Traditional investment		2.9	234,000		2.9	207,600		4.2	605,000
Alternative investment		2.7	323,000		2.7	193,400		4.0	576,000
Real estate		3.5	412,000		3.5	249,200		3.6	518,000
Investment banking functions		1.4	121,000		1.4	95,850		1.4	207,000
Financial accounting / reporting		3.2	339,000		3.1	221,500		2.1	302,000
Global custody and integrated investment reporting		1.5	121,000		1.1	80,230		1.5	216,000
FX management		0.7	137,000		0.7	51,800		0.6	86,000
Philanthropy		1.0	81,000		1.0	72,420		0.6	86,000
<b>Family professional services</b>	<b>14</b>	<b>10</b>	<b>\$784,000</b>	<b>14</b>	<b>10</b>	<b>\$710,000</b>	<b>14</b>	<b>9.2</b>	<b>\$1,383,000</b>
Concierge services and security		1.4	113,000		1.4	101,500		1.3	187,000
Family counselling / relationship management		1.2	97,000		1.1	75,550		1.3	202,000
Family governance and succession planning		2.5	203,000		2.7	192,000		2.4	360,000
Management of high-value physical assets (e.g. property, art, yachts)		2.1	170,000		2.2	154,100		2.0	288,000
Support for new family business		2.5	202,000		2.7	186,700		2.4	346,000
<b>Administrative services</b>	<b>23</b>	<b>16</b>	<b>\$1,640,000</b>	<b>29</b>	<b>21</b>	<b>\$1,492,000</b>	<b>18</b>	<b>12</b>	<b>\$1,929,000</b>
IT costs		2.8	226,000		2.8	201,600		1.6	230,000
Office overheads		6.3	654,000		8.5	604,900		5.5	792,000
Accounting		4.9	501,000		6.5	459,400		3.5	648,000
Other office services		2.4	259,000		3.2	225,100		1.8	259,000
<b>TOTAL:</b>		<b>72</b>	<b>USD \$6,769,000</b>		<b>74</b>	<b>USD \$5,205,000</b>		<b>70</b>	<b>USD \$10,434,000</b>
<b>Administration / management</b>		<b>26</b>	<b>USD \$2,806,000</b>		<b>19</b>	<b>USD \$1,335,000</b>		<b>27</b>	<b>USD \$3,917,000</b>
<b>Performance</b>		<b>23</b>	<b>USD \$1,875,000</b>		<b>16</b>	<b>USD \$1,143,000</b>		<b>24</b>	<b>USD \$3,456,000</b>

Source: The UBS / Campden Wealth Global Family Office Report 2018

Note: Due to a small sample size, numbers should be treated with caution

*'Our number one cost is the investment manager fees. Number two is headcount and overhead.'* – **Managing Partner and Family Member, Multi-Family Office, North America**

*'The biggest cost for us for sure is external service providers like custodians, banks, portfolio managers, tax advisers and legal advisers. So, advisory services in a more general description, not direct costs within the family.'* – **Managing Director, Multi-Family Office, Europe**

*'The investment management and accounting fees are the main costs to us. They are also probably my salary and our CEO's salary.'* – **Senior Adviser, Multi-Family Office, North America**

### **Family offices seek the right outsourcing balance**

As family offices are often small outfits, with the average employing just 11 members of staff, their senior management often needs to consider whether it is more logistically pragmatic and cost effective to provide the services they require in-house, whether to outsource them, or a mixture of both.

In an attempt to strike the right balance, family offices are currently most likely to outsource their legal (70%), private banking (67%), insurance planning (56%), global custody and integrated investment reporting (55%) and IT services (54%).

Naturally, the costs associated with office overheads are in-house, however, a number of services are also often held in-house, such as philanthropy (73%), support for new family businesses (72%), other general office services (68%), concierge services and security (67%), and family counselling and relationship management (66%) (figure 2.4).

### **Outsourcing investment activities when added expertise is needed**

In direct relation to investment activities, family offices often want to diversify their portfolios as a means to mitigate against unforeseen risks which may affect one or more asset class. They may also want to diversify in order to balance out their higher risk less liquid investments, with lower risk more liquid investments. Given the complexity involved in investing across the different asset classes, it is common for family offices to use outside facilities when they do not have the needed expertise in-house.

Looking at the entire sample of family offices which participated in this research, as noted, 67% and 55% outsource their private banking, and global custody and integrated investment reporting functions, respectively. However, in addition to this, 14% outsource their asset allocation, 23% their traditional investment, 28% their alternative investment and 14% their risk management functions. As two executives remarked:

*'Our relationships with managers outside the family office are good. We use third-party managers for areas where we don't necessarily have the expertise in-house. They manage those investments and we do better with their help.'* – **Senior Adviser, Multi-Family Office, North America**

*'Family offices are able to manage their situation in a better way through a combination of both internal and external management of their investable assets.'* – **CFO, Single Family Office, North America**

**Figure 2.4** Family offices' management of services – in-house, outsource or both  
(% of total cost per service) (SFOs + MFOs)

	In-house	Outsourced	Both
<b>Family professional services</b>			
Concierge services and security	67%	17%	17%
Family counselling / relationship management	66%	16%	18%
Family governance and succession planning	58%	7.1%	35%
Management of high value physical assets (e.g. property, art, yachts)	59%	14%	27%
Support for new family business and other projects	72%	5.4%	23%
<b>Administrative services</b>			
IT costs	24%	54%	22%
Office overheads	85%	9.5%	6.7%
Accounting	54%	21%	25%
Other office services	68%	11%	21%
<b>General advisory</b>			
Financial planning	60%	9%	31%
Tax planning	11%	43%	46%
Estate planning	18%	33%	49%
Legal services	4.2%	70%	26%
Insurance planning	16%	56%	28%
Trust management	31%	31%	38%
<b>Investment related activities</b>			
Asset allocation	66%	14%	21%
Risk management	60%	14%	26%
Manager selection / oversight	66%	15%	19%
Private banking	20%	67%	14%
Traditional investment	49%	23%	28%
Alternative investment	36%	28%	36%
Real estate	64%	12%	24%
Investment banking functions (deal sourcing, due diligence, capital structuring, exits)	38%	24%	38%
Financial accounting / reporting	51%	14%	35%
Global custody and integrated investment reporting	22%	55%	23%
FX management	46%	41%	13%
Philanthropy	73%	7.8%	20%

Source: The UBS / Campden Wealth Global Family Office Report 2018  
Note: Values may not total 100% due to rounding.

## 2.2 Human Capital

- The average base salary of a family office CEO currently stands at USD \$333,000, CIO \$312,000, COO \$211,000 and CFO \$200,000. Between 2017 and 2018, CEOs' average base salary rose by 11%, CIOs' 14%, CFOs' 2.5% and COOs' 0.9%.
- 14% of family offices now have diversity targets in place. Despite this, the majority of C-suite positions are still held by males. Women hold just 9.1% of the top CEO roles, 8.6% of CIO, 39% of COO and 38% of CFO positions. Outside of the C-suite level, females hold 13% of trader and 14% of portfolio manager posts.

### CEOs' average base salary, USD \$333,000

This report has traced the salaries and make-up of family office staff for the last five years to help understand this rapidly maturing wealth management space. Reflecting prosperous investment returns in both 2016 and 2017, CEOs' average base salary rose 11% over the year. CIOs' rose 14%, while

CFOs' and COOs' went up 2.5% and 0.9% respectively. In turn, the average salary of a family office CEO now stands at USD \$333,000. CIOs' average salary currently resides at USD \$312,000, COOs' \$211,000, CFOs' \$200,000, traders' \$194,000 and portfolio managers' \$202,000 (figure 2.5).

Figure 2.5 The average base salary of C-suite personnel, multi-year participants

	Average base salary 2017	Average base salary 2018	Percentage change
Chief Executive Officer	\$299,000	\$333,000	11%
Chief Investment Officer	\$275,000	\$312,000	14%
Chief Financial Officer	\$195,000	\$200,000	2.5%
Chief Operations Officer	\$209,000	\$211,000	0.9%
Traders	No data	\$194,000	-
Portfolio Managers	No data	\$202,000	-

Source: The UBS / Campden Wealth Global Family Office Report 2018  
 Note: Due to a small sample size, numbers should be treated with caution

### CEOs in Europe have the highest salaries

From a regional perspective, CEOs in Europe made the highest total average salary, USD \$469,000. North American-based

CEOs followed at \$414,000, Asia-Pacific at \$389,000 and Emerging Markets at \$312,000 (figure 2.6).

Figure 2.6 Average salary of CEOs, by region

	Europe	North America	Asia-Pacific	Emerging Markets
CEO base salary	\$309,000	\$337,000	\$352,000	\$272,000
CEO bonus as percent of salary	52%	23%	11%	15%
Total average CEO salary	\$469,000	\$414,000	\$389,000	\$312,000
Average family office AUM	\$1.0bn	\$898m	\$400m	\$624m
CEO base salary in USD per million of AUM	\$304,000	\$375,000	\$880,000	\$436,000

Source: The UBS / Campden Wealth Global Family Office Report 2018  
 Note: Due to a small sample size, numbers should be treated with caution

### CEOs and CIOs receive the highest bonuses

CEOs received the highest proportionate bonuses over the last year, averaging 29%, followed by CIOs at 24%, portfolios managers (15%), CFOs (14%), COOs (13%) and traders (8.5%) (figure 2.7).

### Bonuses are most often discretionary

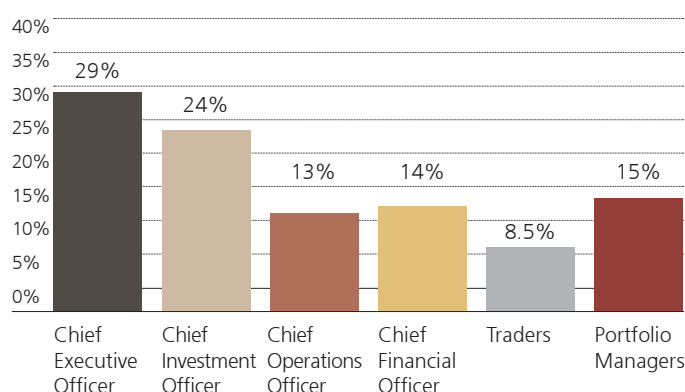
In addition to the base salaries, the majority of professionals received bonuses. The types of bonuses that were paid out were either discretionary, formulaic or a mixture of the two.

Most notably, CEOs tended to receive either a discretionary bonus (32%) or a mixed discretionary and formulaic one (26%). COOs' bonuses were most often discretionary (48%), while CIOs' (33%) and traders' (34%) bonuses tended to be formulaic (figure 2.8).

### All regions rely heavily on discretionary bonuses, except Asia

Comparing bonuses from a regional perspective reveals that professionals in Europe (36%), North America (30%) and the Emerging Markets (41%) most often receive a discretionary bonus, while those in Asia-Pacific most often use a mixed discretionary plus formulaic bonus structure (47%) (figure 2.9).

Figure 2.7 Bonus paid out



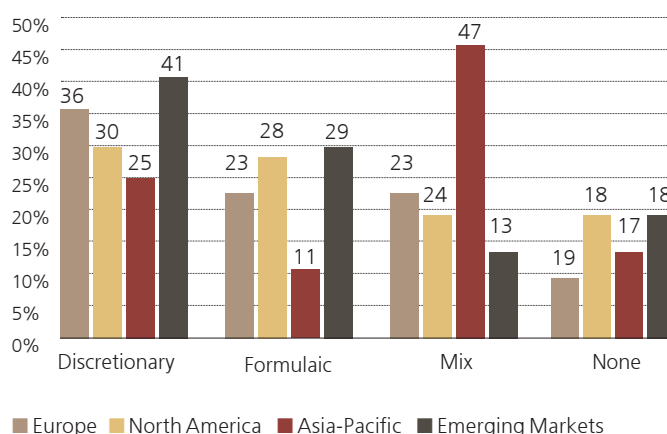
Source: The UBS / Campden Wealth Global Family Office Report 2018

Figure 2.8 Type of bonus

	Discretionary	Formulaic	Mix of the two	None
Chief Executive Officer	32%	17%	26%	25%
Chief Investment Officer	20%	33%	35%	12%
Chief Operations Officer	48%	19%	24%	9.5%
Chief Financial Officer	37%	18%	21%	24%
Traders	29%	34%	8.6%	29%
Portfolio Managers	33%	33%	19%	15%

Source: The UBS / Campden Wealth Global Family Office Report 2018  
Note: Figures may not total 100% due to rounding

Figure 2.9 Type of bonus, by region



Source: The UBS / Campden Wealth Global Family Office Report 2018

**35% received additional non-cash benefits**

Outside of base salaries and bonuses, professionals also sometimes received additional incentives. 35% of respondents noted getting non-cash benefits, 30% had participation and entrepreneurial structures put in place, 21% got deferred compensation and 14% received 'other' forms of compensation (figure 2.10).

**14% of family offices have diversity targets**

Diversity targets are becoming increasingly popular among businesses – and the trend is appearing to be taking root in the family office community. At present, 14% of family offices have diversity targets in place; 78% do not (figure 2.11).

In the words of several family office executives from Europe and North America:

*'We have focused on gender since the 1950s, before anybody was thinking about that sort of thing. Our mix is about 50/50. If not, it's more leaning towards women. Our mother became the CEO and the Chair of the family company. She is a very strong woman. She is also very competent and a very good business person. And so when you have that, it bleeds down to the rest of the organisation. But we also focus on trying to have diversity in sexual orientation. That's been important since the 1970s actually – to make sure that we don't hide those members of society.'* – **CFO and Family Member, Single Family Office, North America**

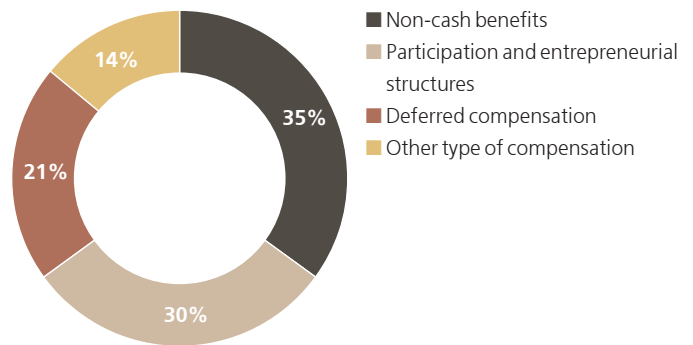
*'Coming from one of the most equal countries in the world [Finland], the second country to accept women to vote in elections in 1906, I think that diversity hiring is very important. It's self-evident that we have a very gender neutral recruitment process.'* – **Managing Director, Single Family Office, Europe**

*'We want our staff to be half male and half female. We want a diverse fleet, so we're becoming much more mindful of having a diverse workforce. We feel it's important that we lead by example.'* – **Managing Partner and 7th Generation Family Member, Multi-Family Office, North America**

**Women hold just 9% of CEO roles**

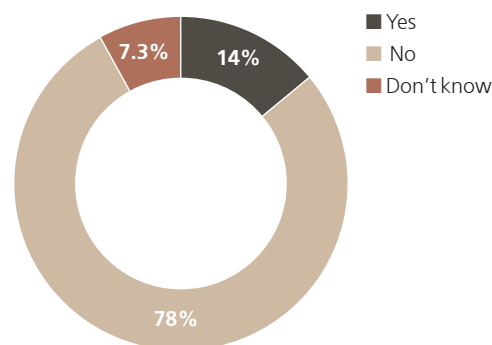
The majority of C-suite positions are currently filled by men. Women hold just 9.1% of the top CEO roles, 8.6% of CIO, 39% of COO and 38% of CFO positions. Outside of the C-suite level, females hold 13% of current trader and 14% of portfolio manager posts (figure 2.12).

Figure 2.10 Additional bonuses paid out (in percent)



Source: The UBS / Campden Wealth Global Family Office Report 2018

Figure 2.11 Percent of diversity targets in place



Source: The UBS / Campden Wealth Global Family Office Report 2018  
Note: Figures may not total 100% due to rounding

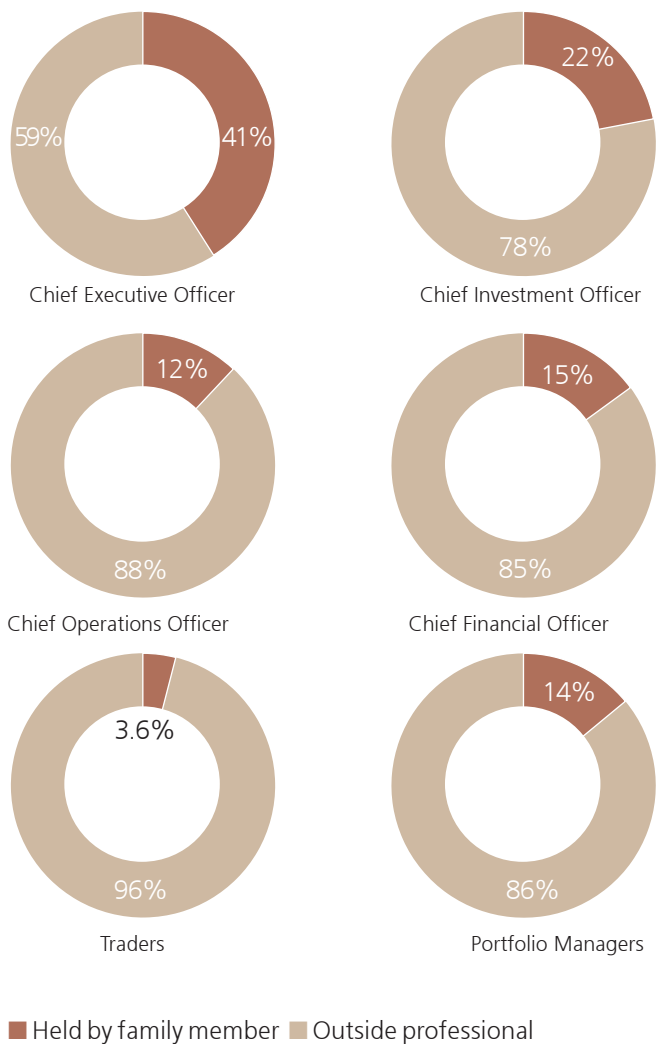
Figure 2.12 Gender of family office employees

	Male	Female
Chief Executive Officer	91%	9.1%
Chief Investment Officer	92%	8.6%
Chief Operations Officer	61%	39%
Chief Financial Officer	62%	38%
Traders	87%	13%
Portfolio Managers	86%	14%

Source: The UBS / Campden Wealth Global Family Office Report 2018

In relation to familial ties, 41% of family office CEO positions were held by family members, along with 22% of CIO, 15% CFO, 12% COO, 14% portfolio manager and 3.6% of trader posts (figure 2.13).

**Figure 2.13** Family office employment roles held by family members



Source: The UBS / Campden Wealth Global Family Office Report 2018

# Setting up a family office in Asia

## Interviews with two family office executives

Singapore has seen a real growth in the number of family offices in recent years, with an increasing number of wealthy families understanding the benefits of having a family office.

Singapore has seen a real growth in the number of family offices in recent years, with an increasing number of wealthy families understanding the benefits of having a family office. This is largely driven by the growing desire for family offices to serve as a focal point to navigate and coordinate investments for the family, to manage wealth, and to tend to family matters in a more centralised manner.

Interviews were conducted with two family office professionals, who shared their experience in setting up a family office there and the challenges they faced.

### **How many family offices have you helped to set up in Asia-Pacific?**

Together, the family office professionals have played a central role in setting up three family offices in Singapore, as well as having a wealth of additional experience in setting up family offices in a more peripheral capacity.

### **What were the main reasons for setting up a family office in Singapore and what role did you play?**

Singapore was chosen for two reasons - firstly, it was where the family members wanted to be domiciled and secondly, the jurisdiction was described by both interviewees as being very amenable to setting up new family offices. One explained, "Singapore is a very easy place to set up a family office. It has access to specialists and service providers, a clear rule of law, an open environment and a favourable regulatory and tax environment". One interviewee explained that they were responsible for completely designing what the family office would look like, the roles it would perform and how it would evolve. The second family office professional was integral to

identifying the physical premises of the family office and to understanding the legal and structural considerations, such as the legal agreements, filings and the various vehicles for fund managers.

### **What were the main challenges you faced when setting up the family offices?**

Both family office professionals were very clear that "each family office is so different and unique that the challenges are very much particular to the situation." For example, one of the professionals who helped to set up a family office more than twenty years ago explained that the concept of a 'family office' was fairly unknown, particularly among relevant regulatory agencies. Consequently, there was very little understanding from external service providers, banks and investment firms on how to deal with family offices. The second interviewee pointed out that family offices are not homogeneous entities where the same legal and regulatory frameworks apply. Understanding which laws and regulatory considerations apply to each family is a common hurdle that needs to be overcome.

### **How did you overcome the challenges and what did you learn?**

Overcoming the challenges takes time and patience. Today, the 'family office space' in Singapore has evolved with different business professionals better understanding how they operate. This, however, is not a substitute for learning and understanding the relevant regulatory frameworks, engaging the right professionals and having a strong digital platform for information flow and sharing.





# 3. Purpose

3.1 Objectives and Governance

3.2 Risk Management

3.3 Succession Planning and the Next Generation

3.4 Philanthropy

## 3.1 Objectives and Governance

- The family office space is maturing governance-wise; nearly two-thirds (63%) now have mission statements in place. Only about half of these (32%) are however fully documented. The other 31% have been merely verbalised. The remainder of family offices are without statements, suggesting that the formalised approach to governance within the private sector is still taking root within the family office community.
- The most important governance priorities for families themselves this year are: 1) maintaining communication between family members and family offices (61%); 2) educating family members about the family offices' activities (50%); and 3) educating family members about how to become responsible shareholders (44%).
- The top three governance priorities for family offices over the coming 12 months are: managing risk (69%); developing and implementing appropriate investment guidelines (65%); and human capital oversight (34%).
- A quarter (24%) of family offices also highlighted the importance of protecting against cyber-attacks, echoing a protectionist trend that is emerging more globally. In 2017, a third (32%) of family offices reported to have suffered from one or more cyber-attacks – yet only 52% had cyber security plans in place – thus the additional emphasis family offices intend to place on security measures this year should prove beneficial.

### 32% of family offices have mission statements

Family offices are established for a host of reasons. They might be created to further professionalise a family's investment structure, and to bring in additional wealth for the family or preserve the wealth currently held. This may be particularly needed after the sale of a core operating business. They may be opened as a response to a generation stepping down and the next generation needing additional support in managing the family's affairs. They might also be established for reasons such as identifying fruitful co-investing opportunities for the family.

Despite the myriad of reasons why family offices are set up, it is evident that this space is not only growing in terms of the number of family offices in existence, but that it is also maturing in relation to the formalisation of the governance structures in place. For instance, mission statements, which originated in the for-profit sector, are now often adopted by family office executives to clearly define and express their aims, values and objectives.

By tracing the evolution of family offices, as this report does year-on-year, it can be seen that two-thirds of family offices now have some form of mission statement in place, whether that be written and fully documented (32%) or merely verbalised (31%). In the words of two family office executives who described their mission statements:

*'Broadly speaking, our mission statement says that the wealth of the founder should be carried forward to the next generation. So it's really about keeping the family business healthy and alive.'*  
– **Managing Director, Single Family Office, Europe**

*'The mission statement is about philanthropy, long-term growth, stability and maintaining a family focus.'* – **CFO and Family Member, Single Family Office, North America**

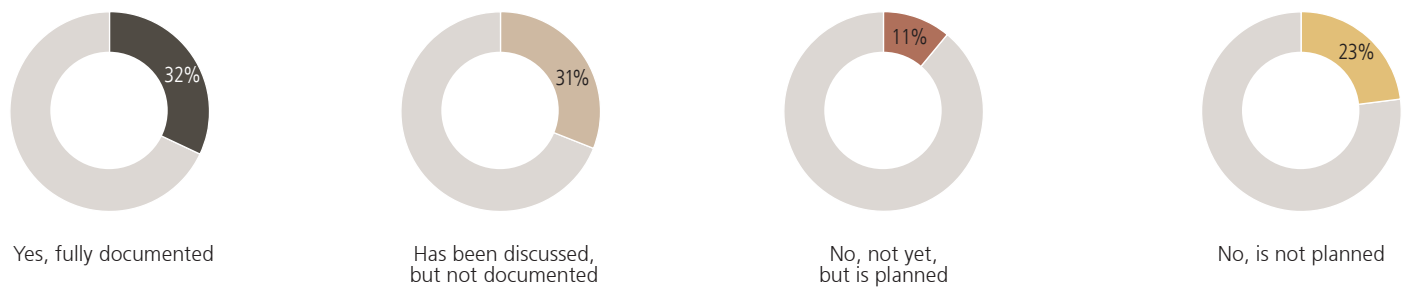
Another third (34%) of family offices, however, do not have mission statements. This proportion will likely decrease over the coming years though, as 11% reported that they intend to develop statements in time (figure 3.1). As one single family office executive put it:

*'We're still trying to work out what kind of mission statement the owner wants. Preserving the assets of the owner is the primary objective.'* – **Head of Strategy and Business Development, Single Family Office, Europe**

Other family office executives appear to recognise the importance of mission statements, however, they have struggled to effectively convey their importance to the family or to get the family to agree on the terms of their mission statements. When a senior member of a multi-family office was asked if the families he serves have mission statements in place, his response was:

*'No, they're awful at it. I would say that this is just a function of a generational mind-set of the silent generation. When you look at 90% of our families, they're still headed by family members that grew up in the depression or slightly thereafter – and they are still the main decision-makers. Even if they're not running the family money, they're still behind the scenes being the dictators. Money is the last bastion of taboo, nothing anymore in society is off limits except for that. The conversation is very hard to have with families. A lack of communication tends to be the biggest issue, so that's why I am a huge believer in family mission statements and value statements.'* – **Executive Vice President, Commercial Multi-Family Office, North America**

Figure 3.1 Family offices in possession of a mission statement



Source: The UBS / Campden Wealth Global Family Office Report 2018  
 Note: Figures may not total 100% due to rounding. 2.4% of respondents said, 'don't know'

**Intergenerational wealth management is key**

In relation to the importance of different governance matters, the top three issues family offices highlighted as 'very important' were intergenerational wealth management (63%), centralised control and risk management (30%) and consolidating information and reporting (29%).

Conversely, very few people considered concierge services to be a high value consideration, with 38% of the sample describing these services as 'not important' (figure 3.2).

Figure 3.2 Issues for the family office by degree of importance

	Very important	Important	Moderately important	Of little importance	Not important	Don't know
Intergenerational wealth management	63%	24%	8.7%	1.2%	3.5%	1.6%
Centralised control and risk management	30%	43%	21%	4.4%	4.3%	1.7%
Consolidating information and reporting	29%	49%	14%	5.2%	3.8%	0%
Family governance	28%	36%	18%	8%	9%	1.0%
Family administration and professional services	24%	38%	21%	10%	5.2%	1.4%
Real asset management	20%	31%	24%	16%	9%	1.6%
Philanthropy	13%	28%	28%	19%	12%	2.8%
Concierge services	3.2%	13%	21%	23%	38%	2.4%

Source: The UBS / Campden Wealth Global Family Office Report 2018  
 Note: Figures may not total 100% due to rounding

*'Our main objective is to preserve the family wealth as much as possible - and the business. We think it's very important to have family governance, because it has an impact on the preservation of the company.'* – Partner, Multi-Family Office, Europe

**Protecting against cyber crime, a key priority**

The top three governance priorities for family offices over the coming 12 months are: managing risk (69%); developing and implementing appropriate investment guidelines (65%); and human capital oversight (34%) (figure 3.3).

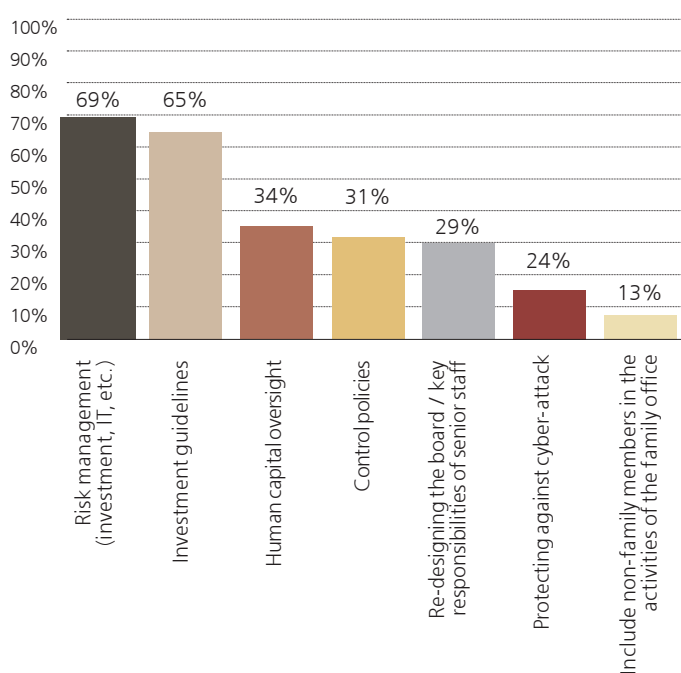
Interestingly, perhaps in part as a product of the recent rise in news reports about cyber-attacks against companies, nearly a quarter (24%) of all family offices also noted that cyber security protection is a key priority this year.

In 2017, Campden Wealth reported in its **Private & Confidential – The Cyber Security Report** that 32% of family offices have experienced one or more cyber-attacks, with a significant proportion resulting in some form of loss, such as a loss in revenue (26%) or private and confidential information (19%). At the time, despite this, only half (52%) of family offices had a cyber security plan in place.

As family offices are increasingly flagging cyber security as a priority - again reciting the 24% which want to focus on enhanced cyber controls this year - it will be insightful to track family offices' progress over time as they become more aware of, and responsive to, the cyber threats around them. In the words of one family office executive:

*'We do worry a little bit about identity theft in general and cyber attackers trying to get into the accounts, or trying to get unauthorised access to move money.'* – **CFO, Single Family Office, North America**

Figure 3.3 Governance priorities for the family office



Source: The UBS / Campden Wealth Global Family Office Report 2018

### Communication tops families' governance priorities

The most important governance priorities for families themselves are: 1) maintaining good communication between family members and family offices (61%); 2) educating family members about the family offices' activities (50%); and 3) educating family members about how to become responsible shareholders (44%) (figure 3.4). This reflects the importance of family cohesiveness and responsibility – key ingredients to a successful generational succession.

Communication, the top priority, can however be difficult for families. This can be particularly the case for families of multi-generational wealth, as they can expand widely both in terms of the number of family members / units present and their international spread of living arrangements.

Despite this, if families are going to effectively safeguard their wealth through the hurdles that generational transitions can

present, it would be fruitful for the current generation to ensure that their business knowledge and wealth management skill-set, along with a clear strategy for the next generation's management of the wealth, is present and properly communicated. This lends to the importance of governance practices, mission statements, family constitutions and other clarifying measures. In the words of one family office executive:

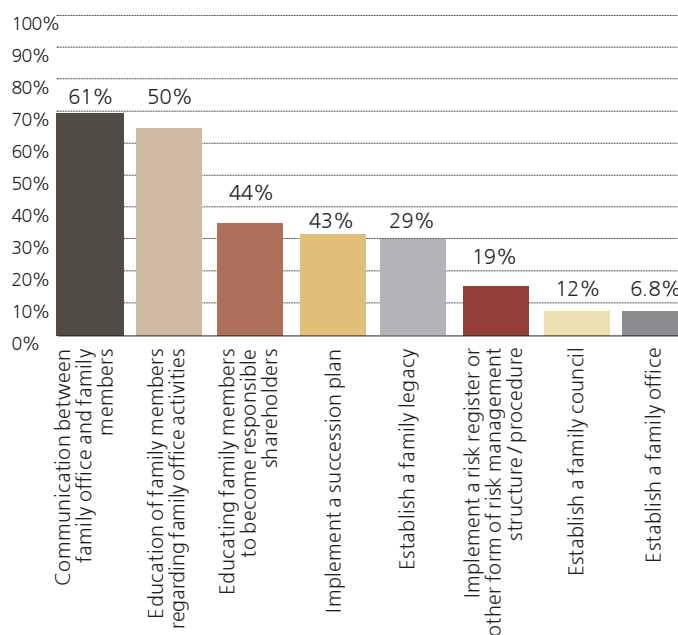
*'Opulence is right in your face on a daily basis. But I think that when it comes to managing it, and having conversations about the complexity of it, I think that families struggle. As much as I hate to say this, there can be favouritism between certain family members and generations, there might be a problem family member. And those issues and situations just make it very difficult to actually talk about the money.'*

*I think there's starting to become a better process around it than there was in the past. I think practitioners are getting better at pushing the conversation.*

*I think the biggest issue that we have is the ability of the matriarch and patriarch to relieve control. It's important to show them that it's best to have conversations about succession planning and to involve the next generation deeply in those conversations, even if their plans don't get implemented until they die. This way the next generation can understand how to manage the wealth, manage the operating business and everything else.*

*It all goes back to governance, goals, values and a mission. If there's a common mission and common values, share it with the next generation. To me it's a better way to preserve the wealth for all future generations.'* – **Executive Vice President, Multi-Family Office, North America**

Figure 3.4 Governance priorities for the family



Source: The UBS / Campden Wealth Global Family Office Report 2018

## 3.2 Risk Management

- Family offices perceived their most significant risks to be: investment risk at 75%; family data, confidential information and identity theft at 69%; and the protection of the family's reputation at 49%.
- As a means to manage and help mitigate these risks, most family offices have opted for 'internal oversight', particularly of: investment risk (63%); the family's reputation (63%); family data, confidentiality and identity theft (61%); and banking / custody risk (51%). However, roughly a third of family offices opted for external oversight in relation to the management of information architecture (aka cyber security) (32%) and banking / custody risk (31%).
- Nearly a third of respondents, 29%, also highlighted cyber security as a key risk factor, with 41% claiming to manage this risk internally, 32% externally and 17% noting that no such protectionist measures are currently in place.

*'One of the challenges is our low capital – just being very cash poor right now. That's huge. That's our biggest issue right there. We're good on stability and growth and all that, but jeez, if something big were to happen, we're in big trouble! And we're just trying to get past that point right now. That's the focus... I mean we probably lost 75% of our value overnight [from the recession hitting real estate].'* – **CFO and Family Member, Single Family Office, Europe**

### Investment risk remains a core concern

Managing risk is a core necessity at any family office. When family offices were asked to rank the most important risks they face, it was unsurprising given these executives' investment responsibilities, that the number one reported risk they face again this year (which was denoted by 75% of respondents) is investment risk (figure 3.5).

This is particularly relevant at this time, as there has been a shift by which family offices are embracing more higher risk, illiquid investment strategies in the pursuit of alpha – a tactic that was employed after a year of weak portfolio performance in 2015. Echoing the risk associated with this approach are two family office executives who commented:

*'Venture capital is obviously quite risky and that might be 5% or 6% of a family's portfolio – maybe 10% at the top. That provides that inflation adjusted growth, but it also has very long block ups and the returns are sporadic.'* – **CEO, Multi-Family Office, North America**

*'There is always investment risk – a risk that we end up being exposed to because we take high-risks. And, we're just going to have to appreciate that some of these investments have a one-in-ten chance of being successful. So there are huge risks there.'* – **CEO, Multi-Family Office, North America**

### Data theft, personal security and cyber risks are other key concerns...

The second largest risk, as ranked by 69% of family offices, pertains to family data, confidentiality and identity theft. In a similar vein, 'cyber' and 'personal security' were mentioned by 29% and 25% of respondents respectively as top risks to the family office, its staff or the associated family.

*'Risk wise, our agenda is actually to keep the businesses, because here it's a lot about the family businesses' relevance for the future. But, things like cyber security are also very high on the agenda.'* – **Managing Director, Single Family Office, Europe**

### ...as is reputational risk

The third highest ranking risk related to protecting the family's reputation, as expressed by nearly half (49%) of those surveyed (figure 3.5). As one executive remarked:

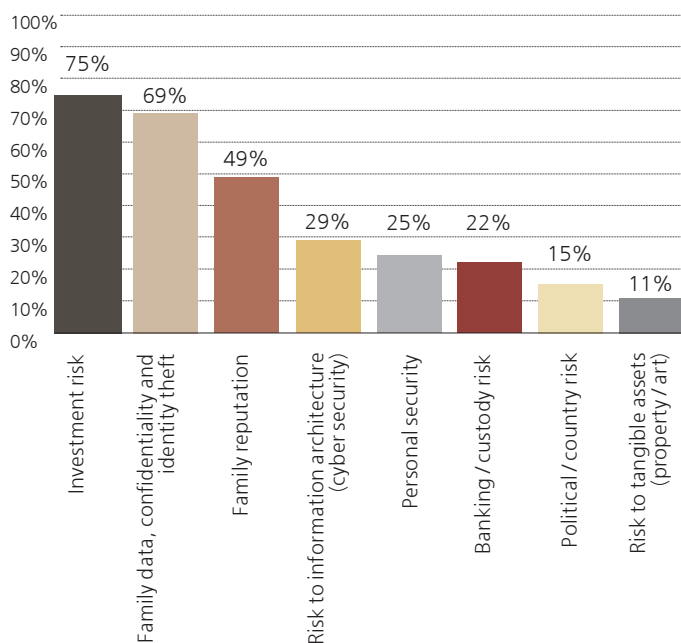
*'The second biggest risk to us is reputational risk. So, indiscretion, rumours about the family and its business... what you lose in reputation takes a long time to gain back.'* – **Partner, Private Multi-Family Office, Europe**

### ...and political risk

Political / country-related risks were another area highlighted by 15% of respondents and by some of those who were interviewed. For instance, a CIO from Brazil, noted:

*'I think the macro-political risk is certainly there. Being caught up in the whole corruption scandal and everything that occurred in Brazil inadvertently was an issue. I think now it has peaked and is abating as an issue, but generally speaking I think that those are the main elements of risk for us.'* – **CIO, Single Family Office, Emerging Markets**

Figure 3.5 Risk factors



Source: The UBS / Campden Wealth Global Family Office Report 2018

**Most risks are managed in-house**

As a means to manage and help mitigate these risks, most family offices have opted for ‘internal oversight’, particularly of: investment risk (63%); the family’s reputation (63%); family data, confidentiality and identity theft (61%); and banking / custody risk (51%).

However, roughly a third of family offices opted for external oversight in relation to the management of information architecture (aka cyber security) (32%) and banking / custody risk (31%) (figure 3.6).

In relation to investment risk, families can plan ahead and try to mitigate this risk in a variety of ways, such as balancing high risk investments, perhaps in venture capital, with low risk ones, such as savings or insured municipal bonds, treasury securities, or fixed and indexed annuities. They can heighten their due diligence efforts through either internal or external sources. They can ensure that a pool of cash / funding is readily available should a particular investment or whole market hit a downturn. They can also use lines of communication as a means to spot risk early and pre-empt any negative consequences. As one family office executive remarked:

*‘Our biggest risk would be unforeseen huge market downturns, where we would need a large amount of cash to fall back on. That is something that we’re always trying to manage against. [I think that we’re now in a good position to do that.] I think that helps with the communication we have. There is so much communication that we have a good idea of what’s coming down the pipeline, so people know what to expect. So if there is going to be a large expenditure, we can plan for that well in advance.’ – Senior Wealth Adviser, Commercial Multi-Family Office, North America*

Figure 3.6 Risk management practices

	Internal oversight	External oversight	Other written risk management procedures, policies and guidelines	None
Personal security	34%	15%	4.0%	46%
Family data, confidentiality and identity theft	61%	16%	12%	11%
Family reputation	63%	10%	6.2%	21%
Political / country risk	50%	8.8%	6.3%	35%
Investment risk	63%	18%	14%	5.6%
Banking / custody risk	51%	31%	7.6%	9.5%
Risk to tangible assets (property / art)	50%	19%	10%	20%
Risk to information architecture (cyber security)	41%	32%	10%	17%

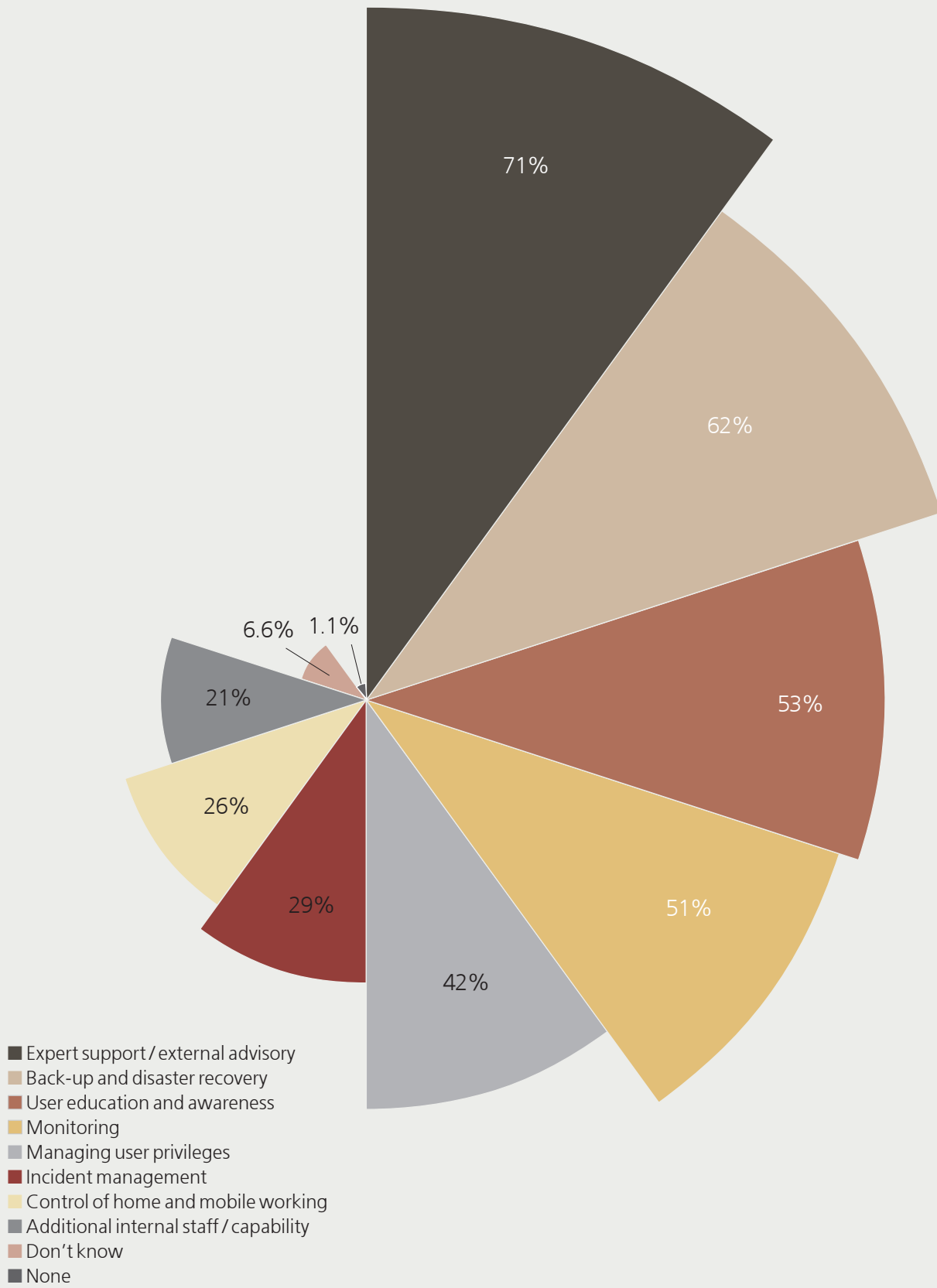
Source: The UBS / Campden Wealth Global Family Office Report 2018

**Cyber security often requires staff training and external support**

When asked specifically about how family offices are mitigating cyber security-related risks, expert support / external advisory services were the most commonly reported approach (71%), followed by back-up disaster and recovery protocols (62%), and user education and awareness training (53%) (figure 3.7). One family office executive relayed his efforts to train his staff about cyber risks:

*‘Cyber risk and cyber-security are tremendously important, and something that worries me a great deal. A lot of family offices don’t have a proper investment system. And they’ve been fine, but as the next generation gets involved, I think the demand by millennials for access to information will be very, very different from the demand of this generation and the previous generation. We’ve put our staff through lots of training on cybercrime and cyber risks. And we’re constantly trying to understand best practice there, and constantly trying to set the bar as high as possible in order for us not to do something silly frankly.’ – CEO, Single Family Office, Europe*

Figure 3.7 Mitigating cyber risk



Source: The UBS / Campden Wealth Global Family Office Report 2018



# Reputation management – is it important?

## **An interview with a North American family office executive**

Whether they like it or not, families with vast sums of money are often afforded greater media and regulatory scrutiny. Their money, personal lives and business empires are three of the most emotive topics, and any negative press coverage can have serious consequences for their reputation. Whilst many families are very conscious of their public image, there are some who take a less cautious approach to maintaining a positive reputation.

One family office executive discussed some of the reputation-related issues and consequences his family office is facing.

### **What is causing the reputational damage?**

“Where do I start?” said the family office executive. It became clear that there were three driving factors that were contributing to a damaged family reputation. Firstly, a member of the current generation is in the middle of an acrimonious and fairly public divorce, precipitated by an extra-martial affair. Due to the sums of money involved, it is proving to be a protracted process with multiple family members being drawn in.

Secondly, the current generation does not seem to value their employees in either the family office or the family business. Employees do not receive bonuses for hard work, despite the family business continuing to be profitable, they do not pay healthcare insurance “which is a big thing in the United States”, and they do not invest in any programmes that could develop their workforce. The reason for this “is because it is just not important to the family”. They feel a sense of entitlement to the money they have inherited.

Finally, and perhaps most controversially, the current generation are very open about their “very aggressive tax avoidance schemes”. They have expatriated most of their assets from the United States, hold dual citizenship passports with known tax havens, and employ accountants who utilise very aggressive

forms of tax filing. When asked how much they have avoided in paying tax, the respondent said “in the order of millions.”

### **What are the consequences of these issues?**

The greatest problem they have is high staff turnover in the family office and the family business. In addition, they have difficulties in recruiting high quality professionals to either the family office or the family business because of their reputation as bad employers in the local community.

Whilst the divorce and their aggressive approach to tax avoidance is more private, it is clear that within certain circles, these issues are having detrimental effects on their business reputation, which worryingly, the current generation reportedly ignore because they are still profitable.

### **How is the damage being addressed?**

A proactive approach is being taken. Working in collaboration with two trained consultants, they are trying to address the issues associated with the family office and the family. Moreover, key conversations are ongoing with certain members of the current generation to try to get them to understand that their behaviour may lead to further reputational damage. Unfortunately, the interviewee explained that a self-entitled sense of importance and arrogance means that thus far they are failing to heed the warnings.

# 3.3 Succession Planning and the Next Generation

- At present, 43% of family offices have a succession plan in place. Of these, one-quarter (24%) have a formally agreed written plan, 9.4% have an informally agreed written plan and 10% have a verbally agreed plan. 17% of family offices have no plans whatsoever.
- Suggesting that preparation for succession is underway for a number of family offices, nearly a third (29%) reported that the next generation of family members currently hold management or executive roles within the family office, while 23% remarked that they sit on the board. Merely 26% reported that they have no involvement in the family office whatsoever.
- In terms of how the next generation will influence family offices' investment strategies once they assume control, 39% of respondents reported that Next Gens will likely increase their allocation to impact and / or environmental, social and governance (ESG) investing. 22% also expected them to embrace a more illiquid investment strategy, favouring asset classes like private equity.

*'The risk is what happens in the next 10 - 15 years when the patriarch decides not to be that involved in the business. How do you educate the kids when all of a sudden you leave these kids each with a lot of money and they have no idea how to manage it.'* – CFO Single Family Office, North America

## Succession planning

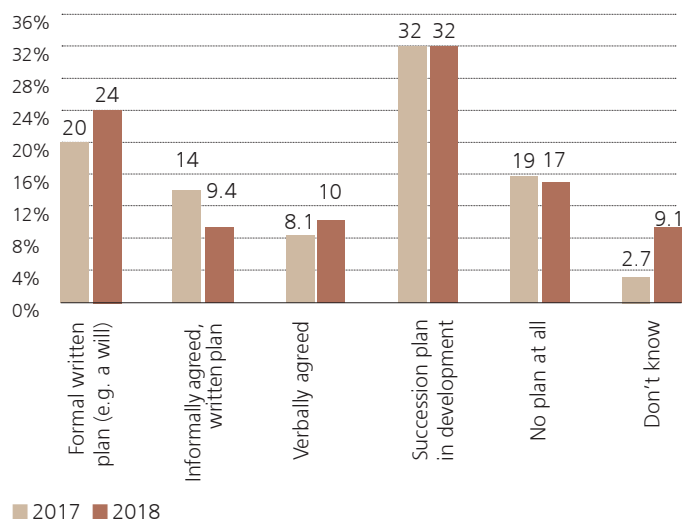
### Succession planning should stay in focus

In the **Global Family Office Report 2016**, Campden Wealth asked family offices when they expected to undergo the next generational transition, and roughly 70% said within the next 10 – 15 years. This indicates that family offices are on the precipice of a very substantial transfer of wealth.

In support of this feedback, family offices also reported at the time that their number one governance priority for the year was to prepare for succession.

Checking back on the progress of this preparatory work, two years later it can be reported that 43% of family offices now have a succession plan in place, up from 42% in 2017. This, however, leaves roughly half (49%) of family offices currently without plans. Of those who do have plans, whilst 24% are written and formally agreed (such as with a 'will'), 9.4% are merely informally agreed written plans and 10% are solely verbally agreed, suggesting limited formalisation. Of those without plans, 32% declared that their plans are currently in development, while 17% noted that they have yet to begin any planning and 9.1% simply did not know their family office's status on succession planning (figure 3.8).

Figure 3.8 Succession plan status (multi-year participants)



Source: The UBS / Campden Wealth Global Family Office Report 2018

From a regional perspective, mimicking the region's somewhat resistant approach to engage with generational transitions, those in Asia-Pacific are (again this year) the least likely to have a succession plan in place (39%), which may pose challenges in the future. Those in North America followed at 42% - a somewhat surprising result given the sophisticated legalistic nature of the region, but likely one that has resulted from a greater proportion of smaller, less established family offices partaking in the research this year versus last. Residents of Europe (47%) are conversely the most likely to have a plan, whether that be formally or informally written, or verbally agreed (figure 3.9).

When we analyse which family offices have plans in place relative to their year of origin, it becomes evident that the older family offices (those established before 2000), are more likely to have their plans in place than the newer family offices, which are more likely to be currently in the midst of shaping their plans.

Despite this, given the large proportion of family offices without plans, relative to the looming nature of the next generational transition, it is important that succession planning remains in sharp focus for families and family offices over the coming years.

**Figure 3.9** Succession plans in place, by region

	Succession plan in place	Succession plan in development	No plan	Don't know
Asia-Pacific	39%	32%	21%	7.1%
Europe	47%	24%	14%	15%
Emerging Markets	43%	50%	7.1%	0.0%
North America	42%	32%	21.7%	4.3%

Source: The UBS / Campden Wealth Global Family Office Report 2018

When asked about the factors that prompted the development of family offices' succession plans, the majority of respondents (60%) noted that it was done as part-and-parcel of their 'normal planning' work. 8.0%, however, detailed that it was spurred by the retirement of the current generation or a family crisis (4.7%), suggesting that those who do have plans in place largely prefer to be prepared and mitigate risks before problems occur. This can be a fruitful approach, particularly in the event of unforeseen occurrences (figure 3.10).

**Figure 3.10** Factors contributing to the development of a succession plan

Normal planning	60%
Retirement	8.0%
Family crisis	4.7%
Changes to tax regulation	3.7%
Unexpected illness / death	1.5%
Liquidity event (e.g. business sale)	1.0%
Other	21%

Source: The UBS / Campden Wealth Global Family Office Report 2018

# Succession planning – breaking the rule of 92

## An interview with a North American family office executive

Planning for the future is a key part of life. This is especially true when vast sums of wealth, business empires and multiple generations of family members are involved. However, despite many ultra-high net worth individuals recognising the importance of a succession plan, there are families which continue to operate without a clear plan for the future. This, one family office executive explained, is short-sighted and potentially disastrous for wealth transition between generations.

### **Why do you have a succession plan?**

The unexpected death of a senior family member, and the ongoing health problems of another heavily involved in the family business, were the catalysts to developing a fully functional and detailed succession plan. Whilst the succession plan was already in development the direct impact of these life events definitely solidified the need to have a clear and concise plan for the future. Importantly, a succession plan was also introduced to ensure that the family breaks the 'rule of 92'.

### **What is the 'rule of 92'?**

The 'rule of 92' states that 92% of a family's wealth is lost by the third generation. The reason for this is because families tend to focus solely on 'hard needs' (for example, asset allocations) at the expense of recognising the importance of 'soft needs' such as succession planning. In their experience, not having a succession plan, having a poorly implemented succession plan, or just having a poorly designed succession plan, can contribute significantly to families losing almost all of their wealth by the third generation. To combat this, the family office "has an unrelenting focus on proving that rule wrong!"

### **What does your succession plan look like?**

The succession plan consists of four parts. There is a private family trust company set up as the trustee for all the family members, within which there is an investment committee staffed by external

investment professionals, and a distribution committee staffed by family members to oversee any distributions requested by family members who are beneficiaries of the trusts. Furthermore, there is a family council that rotates on an annual basis so that all family members get involved with decision-making.

Educating the younger generations and giving them experience is also a key part of the succession plan. It encourages them to learn about so-called 'hard needs' such as business operations, investment strategy and asset allocations, as well as 'soft needs' such as succession planning, philanthropy and the responsibilities associated with having access to such vast sums of wealth.

### **Is the succession plan working?**

There definitely seems to be an air of confidence about the succession plan the family has in place. Its structure allows for a much smoother transition between generations and avoids any issues created by the death of key family members, such as the patriarch or matriarch.

While "there are still elements where I am orchestrating multiple pieces in terms of how they come together", the succession plan has better prepared future generations for wealth transition, and whilst only time will tell, there is a sense of confidence that they will continue to break the 'rule of 92'.

# The Next Generation

*'I would say the next generation is going to be a lot more ready than my generation was. And this journey is ongoing, so we spend a lot of time with these kids in group settings with the family; but we spend a lot of time with the kids in individual one-on-one settings as well.'* – **CIO, Single Family Office, Asia-Pacific**

## 44% of Next Gens train in the family office

In terms of how the next generation is being prepared for their forthcoming careers, the most common forms of training are work experience at external firms (45%) (e.g. investment banks) or in family offices (44%), or participation in educational projects (44%).

Involving Next Gens in philanthropic or impact investing projects is also common amongst a third of respondents (32%) (figure 3.11). Hailing the benefits of this approach, one family office executive remarked:

*'The biggest thing that I try to push for from a governor's perspective is to use the philanthropic structures as a way to engage the next generation, to help educate them on investment opportunities, allocation building, how to actually vet a charity, how to actually make a grant. It's a way to bring the next generation up to speed.'* – **Executive Vice President, Multi-Family Office, North America**

When a partner of a single family office in Europe was asked if the next generation of family members he works with are prepared to manage the family's wealth when the time comes he said:

*'In this case, only one member is capable of doing that. This creates frustration for the other members of the family. This is why having a charter and discussing all of these kinds of topics, and why we need to prepare is very important.'* – **Partner, Single Family Office, Europe**

By heeding this advice, other families can benefit from taking a precautionary and preparatory approach to ensure that the next generation is sufficiently equipped to assume the large responsibility of being good stewards of wealth.

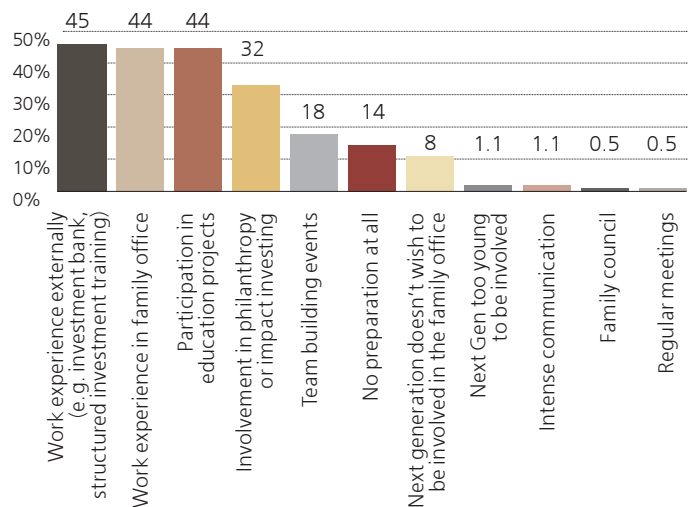
## 23% of Next Gens sit on the board

In terms of the professional roles Next Gens play within the family office, nearly a third (29%) of respondents noted that they hold management or executive positions, while a quarter (23%) reported that they sit on the board. Only 26% of respondents noted that they have no involvement in the family office whatsoever (figure 3.12).

This suggests that many families are focused on absorbing their children in the investment practices and other responsibilities that come under the family office remit as a means to prepare them for the future. One executive from North America remarked:

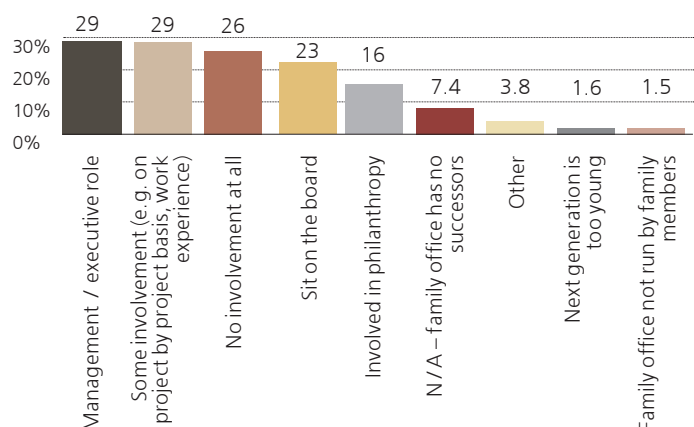
*'We have a private family trust company, and so that is the trustee for all of our family trusts. There is an investment committee, a distribution committee and a family council. And the family council has representation from all three of the current generations: G6, G7, G8. And so there's a rotating basis where everyone participates, so they get directly involved in the decisions with the family.'* – **Managing Director, Multi-Family Office, North America**

Figure 3.11 Next generation training / work experience



Source: The UBS / Campden Wealth Global Family Office Report 2018

Figure 3.12 Next generation involvement in the operations of the family office



Source: The UBS / Campden Wealth Global Family Office Report 2018

**Next Gen influence long-term investment objectives**

Of the Next Gens who are involved in the family office, their biggest influence is over their long-term investment objectives, followed by their structures, and approach to governance and operations. Fewer Next Gens are involved in the day-to-day investment decisions or the staffing of the family office (figure 3.13).

**Figure 3.13** Next generation influence on the family office

	Strong influence	Some influence	Little influence	No influence
Operations of the family office	38%	41%	14%	6.1%
Family office structure and governance	43%	38%	14%	5.7%
Family office staffing	30%	39%	22%	9.3%
Long-term investment objectives of the family office	51%	31%	13%	5.4%
Day-to-day investment decisions	23%	30%	33%	14%

Source: The UBS / Campden Wealth Global Family Office Report 2018

**40% of Next Gens will take over the family office**

When asked about what will happen once the current generation steps down, 40% of respondents noted that the next generation will take over the running of the family office, while 36% reported that it will be run by external professionals with the support of the next generation. Another 16% do not yet know what will happen; a sign that additional planning is still needed (figure 3.14).

**Figure 3.14** What will happen when the next generation takes over

The next generation will take hands-on control over the family office	40%
Family office will be run by non-family members with oversight from the next generation	36%
Don't know	16%
The family office will dissolve	3.1%
Wealth will be donated to charity	2.6%
The family will establish or join a multi-family office	2.5%
Wealth will convert to a private foundation	1.2%

Source: The UBS / Campden Wealth Global Family Office Report 2018

**Impact investing / ESG allocations will rise**

In terms of how the next generation will influence family offices' investment strategies once they assume control, 39% of respondents reported that they will likely increase their allocation to impact and / or environment, social and governance (ESG) investing – an unsurprising, yet potentially influential finding.

Another 15% reported that they will likely increase the family offices' return targets, while 22% noted that they will also likely embrace a more illiquid investment strategy, favouring asset classes like private equity (figure 3.15).

**Figure 3.15** The influence of the next generation on the investment strategy

	Increase	Remain the same	Decrease	Don't know	N / A
Allocation to illiquid investment strategies (e.g. private equity, hedge funds)	22%	40%	8.0%	18%	12%
Allocation to more liquid strategies (e.g. cash, fixed income)	12%	45%	13%	18%	12%
Allocation to impact / environment, social and governance investments	39%	29%	2.3%	16%	14%
Return targets	15%	49%	6.5%	17%	12%
Investment manager expectations	21%	46%	3.0%	18%	13%

Source: The UBS / Campden Wealth Global Family Office Report 2018

A few of the comments from family office executives about these areas follow:

*'There will be a willingness of the next generation to let professionals run the family office, and a willingness to look at funds that are bigger and in areas still unknown.'* – **Managing Director, Single Family Office, Asia-Pacific**

*'I think what you are starting to see with generational shifts is the concept of what I call 'not a family bank' - a term that has been thrown around for a long time. Almost like a family venture group, families are trying to foster the growth of the entrepreneurial mind-set within the next generation, so as to try and continue to grow the capital base of the family.'* – **Executive Vice President, Multi-Family Office, North America**

*'I think the next generation son will take a bit more risk when he takes over. For example, he is trying to work younger people into the board, because they are currently 60 plus years old. They can't follow things anymore because everything is going so fast, so he wants to put younger people on the board who have new ideas.'* – **Partner, Multi-Family Office, Europe**

*'I think the next generation is now beginning to influence our thinking as we move forward. And it's going to be their money eventually so I want them to make informed decisions. [Our interest in impact investing] really started to evolve maybe ten years ago. And I think in the last five years it's intensified. In the last year it's really become a central investment tenant for our family... This is because of dissatisfaction with the current presidential administration.'* – **Family Member and CEO, Multi-Family Office, North America**

*'Establishing a foundation when you have become rich is quite a tradition here in Germany - and that's philanthropy. But, it's something that is changing with the younger generation. The younger generation is much more into impact investing, rather than establishing a foundation.'* – **COO and Managing Partner, Multi-Family Office, Europe**

# 3.4 Philanthropy

- Globally, the average family gave USD \$5.0 million via the family office to philanthropic causes over the last 12 months. European-based family offices gave an average of \$6.4 million, North America \$6.1 million, Asia-Pacific \$1.3 million and the Emerging Markets \$1.6 million. \*The vast majority, 95%, also noted that they will increase (52%) or maintain (44%) their giving over the next 12 months.
- The majority, 69%, of respondents reported that the families they serve have their own foundations as a means of giving, while around 40% give to causes or charities directly and a fifth (19%) contribute to donor advised funds.
- The most favoured causes to support are 'education and health', 'economic and social impact', and 'the environment'.
- Highlighting areas that might be fruitful to focus on in the future – identifying good organisations to support and measuring the impact of social efforts were noted as key challenges to giving, as expressed by 67% and 64% of respondents, respectively.

### Family offices' average giving - \$5.0m

The act of charitable giving – either via time, resources or monetary means - is prominent among families of wealth, for many believe that with great privilege comes great responsibility. With that said, the average family represented within this research contributed USD \$5.0 million to philanthropic causes over the last year.

### Europe gave the most philanthropically

Regionally speaking, Europe gave an average of USD \$6.4 million and North America \$6.1 million (figure 3.16). \*\* This places Europe ahead of North America in its giving this year, a reversal from last. The family offices in Asia-Pacific and the Emerging Markets gave far less than those in Europe and North America, however, this might simply be because they chose to give via a route other than the family office.

Figure 3.16 Average philanthropic donations made by family offices in the last 12 months, by region

	Average donation in millions USD
Europe	\$6.4
North America	\$6.1
Asia-Pacific	\$1.3
Emerging Markets	\$1.6

Source: The UBS / Campden Wealth Global Family Office Report 2018  
 Note: As the sample of GFO survey participants differs each year, the regional averages from 2017 cannot be directly compared to 2018.

### 38% have a clear strategy for giving

Over a third of family offices (38%) give philanthropically using a clear strategy. Another third (33%) noted that the families have established outlets to give outside of the family office (figure 3.17).

Figure 3.17 Whether the family office manages the family's philanthropic activities

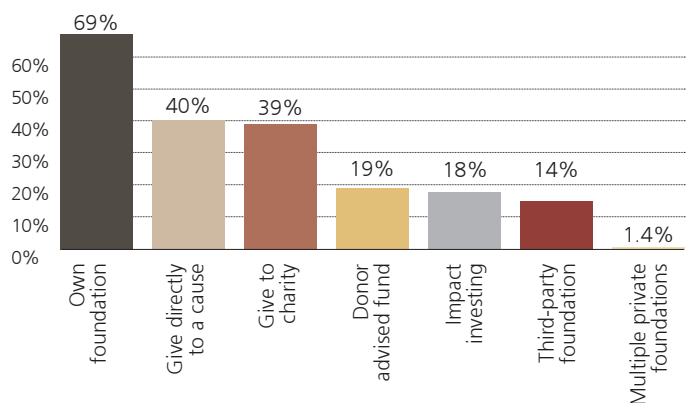
Yes, with a clear strategy and focus	38%
Yes, but no clear strategy or focus	16%
Planning to within the next 18 months	4.8%
No, the family has established outlets for giving outside of the family office (including, but not limited to, a charity)	33%
No, the family does not contribute to philanthropy	10%

Source: The UBS / Campden Wealth Global Family Office Report 2018

### 69% of families have their own foundation

Many have also set up their own foundations to support the causes they care about most (69%). But, it is also common for families to give to causes or charities directly, as expressed by roughly 40% of respondents or to participate in donor advised funds, as expressed by 19% (figure 3.18).

Figure 3.18 Vehicles employed to achieve impact (multiple options permitted)



Source: The UBS / Campden Wealth Global Family Office Report 2018

\* Note: The sample sizes for Asia-Pacific and the Emerging Markets are smaller than those of Europe and North America. In turn, the USD \$5 million average level of giving takes account of the different population proportions.

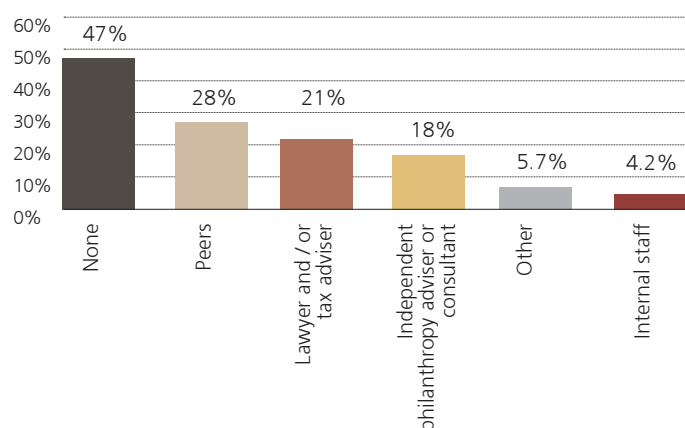
\*\* Note: These figures differ from last year as the samples of family offices which participate in this research are different each year. There were also a higher proportion of smaller family offices in the 2018 study than in the 2017 research, thus drops in philanthropic levels do not necessarily indicate a general reduction in giving.



### Some look to external partners for advice

Choosing where and how to act is, for many, a personal or family matter with 47% making their decisions about giving themselves without external advice (figure 3.19). However, 28% consult with their peers, 21% their lawyers/tax advisers and 18% a specialist philanthropy adviser.

**Figure 3.19** Third-party advisers used to help with philanthropy



Source: The UBS / Campden Wealth Global Family Office Report 2018

### 84% gave to education and health

The three most favoured philanthropic causes to support this year have been education and health, economic / social impact and the environment, as denoted by 84%, 48% and 32% of family offices respectively (figure 3.20).

**Figure 3.20** Philanthropic causes

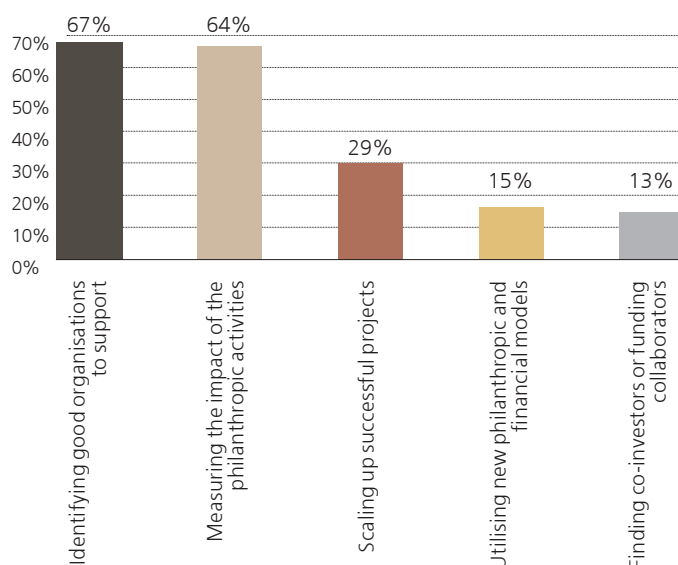


Source: The UBS / Campden Wealth Global Family Office Report 2018  
Note: Figures may not total 100% due to rounding

### Two key challenges stand out

Identifying good organisations to support and measuring the impact of social efforts have been noted as key challenges by 67% and 64% of respondents respectively (figure 3.21).

**Figure 3.21** Challenges for philanthropy

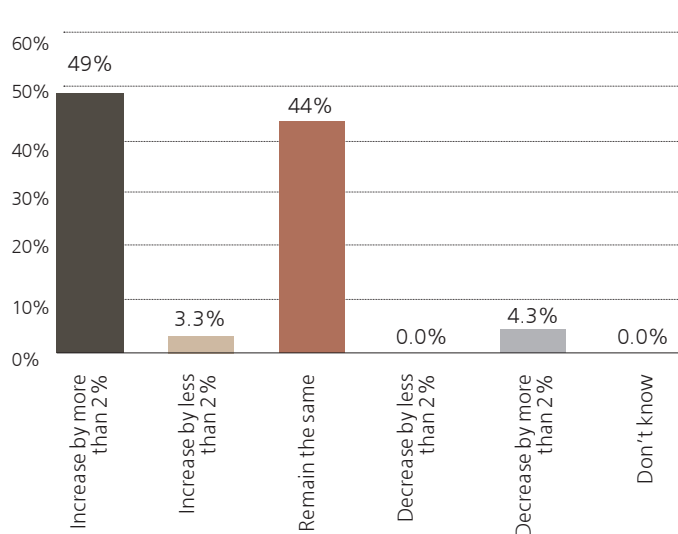


Source: The UBS / Campden Wealth Global Family Office Report 2018

### Half aim to grow their philanthropy next year

Despite these challenges, families are largely committed to increasing their donations, with over half (52%) reporting that they expect to give more over the coming 12 months. Only 4% remarked that their level of giving will decline (figure 3.22).

**Figure 3.22** Philanthropy over the next 12 months



Source: The UBS / Campden Wealth Global Family Office Report 2018

# Conclusion

Advice for the future

# Advice for the future

## Maintain focus on succession planning

It is important that families, family office executives and the service providers who support them remain focused on planning for succession. Despite the fact that nearly 70% of the family office community will soon undergo a generational transition, only 43% currently have a succession plan in place, up just 1 percentage point from last year. Given the potential risks associated with not planning for the future, families and those who support them would benefit from getting the ball rolling now.

The high rate of failure in wealth transfers reflects the difficulty of succession. Successful leadership transitions are continuous in nature and updated routinely. Many multi-generational legacy families say that they prepare for generational transitions decades in advance. The most forward thinking families have plans for both long-term (planned) succession and contingent (short-term) succession. They also address all of the relevant issues: economic, fiscal and human - and involve key advisers, influencers, family members and colleagues. Some tips for a successful transition are:

- Review the overall legacy plan and specific succession needs;
- Define the future leadership model and identify critical succession issues;
- Identify the skills and attributes needed for future leadership;
- Define and implement a fair and effective selection process for leaders;
- Educate future leaders in advance of their service;
- Develop a system for leadership performance reviews;
- Prepare for and execute a clean transfer of leadership;
- Post-succession, support the new leader and begin preparing for the next succession.

## Get educated about impact investing

Families' interest in impact investing is heating up, as one-third of all family offices are now engaged in this form of positive investing. Whilst the current generation, and many before them, have shown a commitment to philanthropy as a means to create social change, Next Gens are looking more intently to drive forward with this alternative form of social giving. It might therefore be fruitful to educate Next Gens about impact investing, create

further networking opportunities that surround the topic, help to cultivate further investment deals, and more broadly to further develop this investment area through greater definition and classification systems, along with stronger tools to analyse the effectiveness of social good outcomes. This is particularly pertinent as we are nearing the next significant generational transition.

## Prepare a cyber security plan

In 2017, Campden Wealth reported in its **Private & Confidential – The Cyber Security Report** that 32% of family offices have experienced one or more cyber-attacks, with a significant proportion resulting in some form of loss, such as a loss in revenue, or loss of private and confidential information. At the time, despite this, only half (52%) of family offices had a cyber security plan in place, leaving a large swath of the family office community exposed. In light of this, nearly a quarter (24%) of family offices reported that protecting against cyber-attacks was one of their key priorities this year. This, however, leaves a notable proportion of family offices vulnerable if an attack hits. A few steps families / family office executives can take to remedy this are to:

- Adopt a cyber security plan with oversight from the board or head of family (don't just make this an IT department responsibility);
- Provide staff with cyber security training; many incidents / attacks are easily preventable with the right guidance;
- Form an 'incident response plan' should a cyber-attack occur, as the steps one takes immediately following an attack can have a significant impact on the extent of the damage ultimately caused.

## Build a system of good communication

The number one ranked priority for families this year is to create and maintain a system of good communication. As family dynamics can be complicated and living arrangements can be internationally spread, it is important to make sure that channels of communication are open, clear and strong - both within the family and within the outside network of professionals they work with. It may also prove helpful to utilise new forms of technology and social media to facilitate this effort.

## Consider adopting a diversity policy

Diversity hiring is becoming an increasingly prominent objective for businesses. Despite this, just 14% of the family offices surveyed currently have diversity targets in place. As diversity hiring can help

ensure a wealth of original and potentially valuable perspectives – and it can be a fruitful outlet to gain or maintain a good professional reputation – you may wish to consider employing such a practice, if you have not already. To get started, a few things you might want to consider are:

- Does your office culture and the way the company is marketed externally make past, present and potentially future employees perceive that it is a good place to work? And, do the staff believe that they will be afforded equal opportunities, which are based on merit and not gender or race?
- Is the screening of professional applicants done in a fair and unbiased manner? And, do candidates believe that this is the case?
- Does the language used to advertise roles convey any bias that might keep minority applicants away? And, are recruiters with diversity hiring expertise being used?

#### **Take advantage of co-investing opportunities**

Co-investing is a very attractive concept for many families and family office executives – and there is certainly an appetite for it. Despite this, it can often be challenging to find well suited co-investing partners or attractive and rewarding deals. Some helpful tips for effective co-investing are to:

- Find a partner you trust - this may take time;
- Make sure that your interests are aligned;
- Use your personal network of contacts or the family office to gain adequate deal flow;
- Join membership organisations or clubs that offer support in building connections to other qualified families looking to co-invest;
- Look for deals from families which have a successful track record in the specific sector of choice;
- Understand what you want from a co-investment (e.g. capital commitment, length, exit strategy);
- Understand what resources you can bring to a deal other than just capital;
- Incorporate exit clauses into deals that can help avoid conflict;
- Make sure that you have good partnership / shareholder agreements in place;
- Be prepared to re-invest and support the deal;
- Go with what you know!

#### **Compare the benefits of different family office hubs before expanding**

As the family office community evolves, an increasing number are adding additional branches – both locally and overseas. This allows their executives to take better advantage of unique investment opportunities further afield. If you or your family office are considering opening a new office elsewhere, make sure that you thoroughly investigate everything a location has on offer – from the investment, tax, regulatory and broader lifestyle perspectives.

Many family office hubs, such as Switzerland and Singapore, are trying to attract families of wealth and their family offices to their jurisdictions; therefore it can be beneficial to compare and contrast what different offerings and incentives are available globally.

## About Family Offices

### What is a family office?

A family office is, in its simplest form, the private office for a family of significant wealth. The number of staff working in the office can vary from one or two employees, to 100 or more staff, depending on the type and number of services it provides.

The purpose of an office can range from handling key family assets and core holdings (tax and accountancy, property and estate management) to include more sophisticated wealth management structures, while often providing family members with educational, professional and lifestyle services.

Generally, family offices manage key areas of family assets, including real estate holdings and direct or indirect investments, tax consolidation and estate management.

They can serve as the central hub for a family's legacy, governance and succession. They can furthermore support the education and development of family members, facilitate family governance, coordinate communication and resolve issues within the family enterprise. A typical family office:

- Affords structure to the management of family wealth, establishing increased control and oversight of the family wealth strategy and costs of managing investments;
- Consolidates tax, accountancy and wealth management reporting execution under one roof;
- Provides a clearly-articulated, efficient governance framework for investment decision-making, as well as family legacy and succession functions (including philanthropic foundations and initiatives);
- Coordinates with service providers, achieving economies of scale (especially in the case of multi-family offices) and preferential deal access and products; and
- Ensures confidentiality and privacy for family members, liberating them from the burden of wealth.

### Who would benefit from using a family office?

Families with private wealth in excess of \$150 million are ideal candidates for establishing a single family office structure. While it is not uncommon for first generation entrepreneurs to establish a family office,

these offices often support families with greater complexity in terms of households and generations. This is a key characteristic of family office structures and one that offices must account for when designing and executing investment strategies and family governance plans.

While each household will share some similar needs, from the perspective of the family office, each household merits special consideration. Such consideration cannot always be restricted to typical generational needs (i.e. retirees require income, while younger family members can accommodate more risk and longer horizons), because households themselves have differing liquidity requirements (for example, sibling benefactors may hold quite distinct professional ambitions).

Multiple wealthy families which might not necessarily be related to each other but nonetheless share some common values or goals may opt to consolidate and leverage resources by creating a multi-family office, rather than a single family office to manage the family wealth. Such a structure provides the benefit of economies of scale and investment deal opportunities that formal collaboration and a consolidated management structure afford. Naturally, family complexity factors arise for the multi-family office, only on another level of magnitude.

Here things can get quite messy. As such, traditionally, for a multi-family office to be successful and sustainable, families should share a common purpose, interest and risk appetite or, alternatively, comparable levels of wealth.

Traditionally for multi-family offices to be sustainable over the medium to long-term, they must manage cumulative assets of more than \$3.5 billion. For the sake of clarity, a number of terms with specific meaning in this report are defined below:

**Private multi-family office** – Will all have had a founding family before widening out their offering to multiple families. These offices are owned by families and operated for their benefit.

**Commercial multi-family office** – These will look after the interests of multiple families often with wealth of less than \$150 million. Unlike private multi-family offices, they are owned by commercial third parties.

## Index Definitions

### Index Definitions

The past performance of an index is not a guarantee of future results. Each index reflects an unmanaged universe of securities without any deduction for advisory fees or other expenses that would reduce actual returns. An actual investment in the securities included in the index would require an investor to incur transaction costs, which would lower the performance results. Indices are not actively managed and investors cannot invest directly in the indices.

**Bloomberg Global Investment Grade Corporate Bond Index (BCOR)** - The Bloomberg Global Investment Grade Corporate Bond Index is a rules-based market-value-weighted index engineered to measure the investment-grade, fixed rate, global corporate bond market. Eligible denominations include: USD, GBP, CHF, EUR, NOK, SEK, AUD, CAD and JPY. To be included in the index, a security must have a minimum par amount of USD 250 million, GBP 200 million, CHF 100 million, EUR 250 million, NOK 500 million, SEK 500 million, AUD 200 million, CAD 100 million, JPY 20,000 million and have a maturity of greater than 1 year at rebalancing.

Source: Bloomberg

**The Bloomberg Emerging Market Local Currency Sovereign Bond Index (BLCSV)** - This index is a rules-based, market-value-weighted index engineered to measure the performance of local currency sovereign debt issued by emerging market countries. The components of the index are the AsiaPac Emerging Market Local Currency Sovereign Bond Index, the EMEA Emerging Market Local Currency Sovereign Bond Index and the LatAm Emerging Market Local Currency Sovereign Bond Index. Qualification as an emerging market country is based on EMWH <GO>. Additional requirements, such as availability of pricing, are also used to determine country eligibility. Historical performance and characteristics are available from January 1, 2010.

Source: Bloomberg

**The Bloomberg Global High Yield Corporate Bond Index (BHYC)** - Is a rules-based market-value-weighted index engineered to measure the below-investment-grade, fixed-rate, global corporate bond market. Eligible denominations include USD, EUR, GBP and CAD. To be included in the index, a security must have a minimum par amount of USD 250 million, EUR 200 million, GBP 200 million or CAD 100 million and have a maturity of greater than 1 year at rebalancing.

Source: Bloomberg

**MSCI WORLD INDEX (MXWO)** – The MSCI World Index captures large and mid-cap representations across 23 Developed Markets (DM) countries\*. With 1,652 constituents, the index covers approximately 85% of the free float-adjusted market capitalisation in each country. The index is based on the MSCI Global Investable Indexes (GIMI) Methodology – a comprehensive and consistent approach to index construction that allows for meaningful global views and cross-regional comparisons across all market capitalisation size, sector and style segments and combinations. This methodology aims to provide exhaustive coverage of the relevant investment opportunity set with a strong emphasis on index liquidity, investability and replicability. The index is reviewed quarterly – in February, May, August and November – with the objective of reflecting change in the underlying equity markets in a timely manner, while limiting undue index turnover. During the May and November semi-annual index reviews, the index is rebalanced and the large and mid capitalisation cutoff points are recalculated.

Source: msci.com

\*DM countries include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the UK and the US.

**Cambridge Associates 2016 US PE Indices** - The US Private Equity index and benchmark statistics are based on data compiled from more than 1,300 institutional-quality buyout, growth equity, private equity energy, and mezzanine funds formed between 1986 and 2016.

Source: Cambridgeassociates.com

**MSCI Emerging Markets Index (MXEF)** – The MSCI Emerging Markets Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Markets countries. The index covers approximately 85% of the free float-adjusted market capitalisation in each country.

Source: Bloomberg

**EPRA index** – The FTSE / NAREIT Developed Europe Index, is a market capitalisation-weighted Index consisting of the most heavily traded real estate stocks in Europe. It is designed to reflect the stock performance of companies engaged in specific aspects of the European Real Estate Business as perceived by institutional investors.

Source: Bloomberg

**DJUSRE Index** – The DJ US Real Estate Index represents REITS and other companies that invest directly or indirectly in real estate through development, management or ownership, including property agencies. The index is a subset of the Dow Jones US Index, which covers 95% of US securities based on float-adjusted market capitalisation.

Source: Bloomberg

**HFRXGL Global HF Index** - The HFRX Global Hedge Fund JPY Index is denominated in JPY and is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry. Hedge Fund Research, Inc. (HFR) utilises a UCITS compliant methodology to construct the HFRX Hedge Fund Indices. The methodology is based on defined and predetermined rules and objective criteria to select and rebalance components to maximise representation of the Hedge Fund Universe. HFRX Indices utilise state-of-the-art quantitative techniques and analysis; multi-level screening, cluster analysis, Monte Carlo simulations and optimisation techniques ensure that each Index is a pure representation of its corresponding investment focus.

Source: [hfrx.com/hedgefundresearch.com](http://hfrx.com/hedgefundresearch.com)

**HFRXMMS multi-strat index macro (monthly)** – Macro: Multi-Strategy Strategies which employ components of both Discretionary and Systematic Macro strategies, but neither exclusively both. Strategies frequently contain proprietary trading influences, and in some cases contain distinct, identifiable sub-strategies, such as equity hedge or equity market neutral, or in some cases a number of sub-strategies are blended together without the capacity for portfolio level disaggregation. Strategies employ an investment process is predicated on a systematic, quantitative evaluation of macroeconomic variables in which the portfolio positioning is predicated on convergence of differentials between markets, not necessarily highly correlated with each other, but currently diverging from their historical levels of correlation. Strategies focus on fundamental relationships across geographic areas of focus both inter and intra-asset classes, and typical holding periods are longer than trend following or discretionary strategies. Hedge Fund Research, Inc. (HFR) utilises a UCITSIII compliant methodology to construct the HFRX Hedge Fund Indices. The methodology is based on defined and predetermined rules and objective criteria to select and rebalance components to maximise representation of the Hedge Fund Universe. HFRX Indices utilise state-of-the-art quantitative techniques and analysis; multi-level screening, cluster analysis, Monte-Carlo simulations and optimisation techniques ensure that each Index is a pure representation of its corresponding investment focus.

Source: [hfrx.com/hedgefundresearch.com](http://hfrx.com/hedgefundresearch.com)

**HFRXEH Equity hedged - Equity Hedge: Multi-Strategy Investment Managers** maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalisations and valuation ranges of typical portfolios. EH Multi-Strategy managers typically do not maintain more than 50% exposure in any one Equity Hedge sub-strategy Hedge Fund Research, Inc. (HFR) utilises a UCITSIII compliant methodology to construct the HFRX Hedge Fund Indices. The methodology is based on defined and predetermined rules and objective criteria to select and rebalance components to maximise representation of the Hedge Fund Universe. HFRX Indices utilise state-of-the-art quantitative techniques and analysis; multi-level screening, cluster analysis, Monte Carlo simulations and optimisation techniques ensure that each Index is a pure representation of its corresponding investment focus.

Source: [hfrx.com/hedgefundresearch.com](http://hfrx.com/hedgefundresearch.com)

**FTSE ENXG Index (Bloomberg)** – The FTSE EPRA / NAREIT Global REIT Index measures the total return, stated in USD terms, of the size- and liquidity-screened stocks in both developed and emerging markets of the publicly traded real estate companies which qualify for REITS status under the law in the country of domicile.

Source: Bloomberg

**CRY Bloomberg commodity** - Thomson Reuters Commodity Indices track baskets of commodities to reflect price movements and are recognised as a major barometer of commodity prices and markets. Designed to provide exposure to the global commodities industry, all indices have a strong connection to the Commodity Research Bureau (CRB) name, and many are tracked by Exchange Traded Funds and other derivatives. Comprising a basket of 19 commodities, with 39% allocated to energy contracts, 41% to agriculture, 7% to precious metals and 13% to industrial metals. The Index acts as a representative indicator of today's global commodity markets.  
Thomson Reuters

**3 months deposit rate** – London Interbank Offered Rate – ICE Benchmark Administration Fixing for US Dollar. The rate is an average derived from the quotations provided by the banks determined by the ICE Benchmark Administration.

Source: Bloomberg

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# About

## About UBS

UBS provides financial advice and solutions to wealthy, institutional and corporate clients worldwide, as well as private clients in Switzerland. UBS' strategy is centered on our leading global wealth management business and our premier universal bank in Switzerland, enhanced by Asset Management and the Investment Bank. The bank focuses on businesses that have a strong competitive position in their targeted markets, are capital efficient, and have an attractive long-term structural growth or profitability outlook.

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