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Family Offices Market Intelligence 2017

Developments in Family Offices—Q3

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1. General

Where the Ultra Wealth Are Putting Their Money

The ultra-wealthy are allocating more of their money to equities and less to hedge funds and real estate this year, a survey of family offices published on Wednesday found. Equities accounted for 27.1 percent of the average family office portfolio, the survey from UBS Wealth Management and Campden Research said. Equities allocation rose about 1.6 percentage points against the prior annual report for the global composite assembled from multi-year respondents. Alternative investments, meanwhile, saw an overall 3.7 percentage point decrease. That category includes direct real estate purchases and hedge funds. The survey included 262 online surveys with family offices globally, conducted between February and May, with the average office managing around $921 million.

The ultra-wealthy may put more money into equities ahead, the survey found, with around a fifth saying they plan to increase their developed-market equity exposure and nearly 44 percent planning to invest more into developing-market equities, the survey found. One of the takeaways from the report is that the rich remained in love with private equity, with around a fifth of the average portfolio in segments including venture capital and co-investments, or collaborating with partners for direct investments into companies. But family offices weren't entirely starry-eyed about the segment.

CNBC - Sep 20, 2017

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1. General *(continued)*

Family Offices Anticipate Change

UBS' recently released 2017 Global Family Office Report, which surveyed 262 family offices of various types worldwide on an exhaustive variety of subjects, reveals that family offices are increasingly engaged in philanthropy and social and environmental impact endeavors.

Overall, some 60 percent of surveyed family offices either currently manage families' philanthropic activities or plan to do so within the next 18 months. Of those, almost 95 percent plan to either maintain or increase their current philanthropic commitments within the next year.
Wealth Management - Sep 15, 2017

Family Offices 2017: the quest for yield pays off

Global Family Office Report 2017 Key findings:

- Significant bounce back in performance driven by continued trend towards illiquid and higher risk investments in the hunt for yield
- Nearly half are not yet prepared for looming generational wealth transfer
- Significant growth in sustainable and impact investing expected
- Nearly 95 percent of family offices plan to maintain or increase their commitments to philanthropic causes

UBS Media Releases Switzerland - Sep 12, 2017

2. Regulatory

Department of Labor Fiduciary Rule (DOL Fiduciary Rule or Best Interests Rule)

This rule went into partial effect on June 9th after President Trump signed a Presidential Memorandum delaying implementation. Full implementation is set for January1, 2018 but this is subject to change. The rule expands the "investment advice fiduciary" definition under the Employee Retirement Income Security Act of 1974 (ERISA). It will automatically elevate all financial professionals who work with retirement plans or provide retirement planning advice to the level of a fiduciary, bound legally and ethically to meet the standards of that status.
Department Of Labor

IPO Allocation Rule 5131(b)

INRA (the Financial Industry Regulatory Authority, Inc.) issued an interpretive letter regarding its IPO allocation rule 5131(b) and its exception 5131.02(b) A "family office," as defined in the Advisers Act, may be considered an "investment adviser" for purposes of meeting the limited exception of FINRA Rule 5131.02.
FINRA - May 9, 2017

3. Trends

Family Office Series, Part IV: Family Office Trends

Instead of investing through private equity funds, family offices are making direct investments in deals (either alone or in combination with private equity funds or other family offices) with increasing frequency.

Family offices are teaming up with other family offices to buy entire companies with the intent to hold and operate them for the long term.

Family offices are engaging in impact investing—investments that are intended to make a profit and also have a positive social or environmental impact. A recent Financial Times survey indicated that family offices allocate on average 17 percent of their assets to impact investing.

Family offices are forming formal and informal networks with other family offices to share information about deal flow, pool cash for "club-deal" investments, and discuss investment strategies.

Investment banks, private equity funds and professional service firms are increasingly catering to family offices and forming dedicated teams to serve family offices.

Family offices are attracting talented executives from private equity funds, hedge funds and investment banks.

Some family offices are funding medical research and raising awareness for diseases and conditions which afflict one or more family members.
Family Business Advocates - July 27, 2017

How the great wealth shift has evolved family offices

Families of great wealth have, over generations, always faced transition and change but, as we approach the largest intergenerational wealth transfer in history, the scale and speed of these changes look set to increase. Within the next ten years, 4 trillion US dollars of UHNW wealth alone will transfer from one generation to another. Given that 70 per cent of family intergenerational wealth transitions historically fail (meaning families lose control of their assets and/or family harmony breaks down), the waters ahead look far from smooth.
Spear's Magazine - Jul 14, 2017

The Rise Of Self-Made, Super-Rich Women And Single-Family Offices

While the ranks of the super-rich, people with a net worth of $500 million or more, is dominated by men, women are joining this cohort at a proportionately greater pace. The Forbes 2017 Billionaires List, the biggest and fastest growing ranking since the initiative began three decades ago, included 227 females and 56 of them were self-made. In the past year alone, another 15 self-made women were added to the list, all from Asia.

While women still represent a fairly small part of the billionaire community, they are a continuously growing segment. Perhaps more interesting is that the percentage increase in self-made women was greater than the increase in the number of billionaires overall, which could signal a change in who will create and control wealth moving forward.
Forbes - June 5, 2017

4. Real Estate

Family Offices Want to Play it Safe When Making Real Estate Bets

Family offices have seen a slight dip in real estate allocations, but new data suggests they're still sold on the asset class as an investment target.

In a global report from UBS and Campden Research, family offices indicated they're "rather optimistic" about the future of real estate as an asset class, "despite a somewhat weaker performance in 2016." Forty-five percent of those surveyed planned to maintain real estate investments going forward, with 40 percent eyeing an increase in such investments.

Although direct investment in real estate by family offices declined by 0.7 percent from 2016 to 2017, the asset class remains the third largest in the average family office portfolio around the world, the UBS-Campden Research report says. In North America, the asset class represents 10 percent of family office portfolios.
National Real Estate Investor - Sept 28, 2017

5. Private Equity

Family offices put focus back on equities

In a survey of principles and executives among 262 family offices, the Global Family Office Report 2017 found that after a year of poor performance in 2015, family offices' average investment portfolio bounced back to a notable 7% return in 2016. Accounting for 16.2% of all family office investments, real estate was the third-largest asset class in 2017. However, there are significant differences in levels of investment to this asset class between regions, as allocations of family offices in Emerging Markets (23.7%) and Asia-Pacific (20.3%) significantly exceed those of Europe (17.7%) and nearly double those in North America (10.2%).
Financial Standard - Latest News - Sep 26, 2017

Family offices in five charts

Two-fifths of family offices are planning to increase their allocations to private equity, according to a report by UBS and Campden Wealth.
Private Equity International - Sep 20, 2017

Family Offices Look to Private Equity in the Hunt for Yield

Intense competition for deals and a record-breaking pile of uninvested capital have not reduced the appeal of private equity to the world's richest families. A survey by UBS AG and Campden Wealth Ltd. of 262 family offices across the globe found that just over 40% were looking to increase the amount of money they invested in private equity, compared with less than 12% planning to cut their allocation.
Private Equality News - Sep 12, 2017

RIAs, Family Offices A Rising Influence On Private Equity Markets

Wealth managers make up a tiny portion of the secondary private equity markets, but they're making their voices heard. Financial advisors are increasingly helping wealthy families give investments as gifts, according to NYPPEX Private Markets, a New York-based private equity transfer administrator, and the movement is having an impact on private equity secondary markets. In its 2017 midyear report, NYPPEX says that it observed more donors making non-cash gifts, and more non-profit organizations accepting such gifts and selling them via its platform. "In the past five years, there's been a trend where more gifts are being made in non-cash form, but now this is going a step further into the private equity markets," says Laurence Allen, managing member of NYPPEX. "We're seeing a lot of this behind the scenes."

Financial Advisor News - Aug 11, 2017

6. Single Family Office

Why Many Single-Family Offices And The Super-Rich Are Engaging In "False Flag" Business Dealings

Single-family offices are a very small part of the worldwide private wealth universe. However, they are proving to be exceedingly accomplished, disproportionately superior to other ways for the super-rich to manage their financial and personal affairs. A large part of their success is the way they approach business dealings.

According to Usha Bhate, executive director Institutional Investor, "Although a growing number of super-rich families are establishing single-family offices, the majority of them are taking steps to stay hard to identify. They are keeping a very low and possible non-existent profile resulting in most single-family offices just about impossible to find. This intensifies the amount of control they have over their environment including their ability to get preferential agreements with providers – a prime objective for the wealth creators who set up their own family offices."

Forbes - Entrepreneurs & Small Business News - Sep 18, 2017

Inheriting the Single-Family Office

As part of the enormous intergenerational transfer of wealth expected over the next decade, single-family offices are being passed down to the next generation. As more and more single-family offices are being established due to the boom in private wealth creation throughout the world, an increasing number of single-family offices will be going to heirs.

According to Angelo Robles, founder and CEO of the Family Office Association, "Single-family offices are in many ways a family business, where the day-to-day operations of the office are often the responsibility of hired talent. Nevertheless, like family businesses, an often-critical consideration for many of them is transferring the single-family office and the affluence of the ultra-wealthy family to the succeeding generation."

Forbes - Entrepreneurs & Small Business News - Sep 6, 2017

SFOs Evolve as the Landscape Changes

By nature, each single family office (SFO) is unique, serving a range of functions from investment strategy and implementation to family management and more. Devising the precise approach and design for each SFO is crucial to ensure its success today and for future generations.

Wealth Management - Jul 20, 2017

7. Multi-Family Office

Many Multi-Family Offices Can Be Much More Profitable

In a study of 803 financial advisors, about 17% were multi-family offices. Slightly more than five percent of these financial advisors earned $1 million or greater. At the same time, the ultra-wealthy are attracted to the multi-family office model more so than other business models such as wealth management or strictly investment advisory.

According to Rick Flynn, Co-CEO and founding partner of LVW/Flynn and author of The High-Functioning Single-Family Office, "The ability to address the diverse financial and interconnected lifestyle needs of the wealthy is the reason the multi-family office model is so appealing to them. It's all about helping make their lives run more efficiently while addressing their financial concerns including using a variety of advanced planning strategies to protect their wealth."
Forbes - Entrepreneurs & Small Business News - Sep 20, 2017

Why The Ultra-Wealthy Prefer Multi-Family Offices

The ultra-wealthy (net worth = $30 million or more) are preferred clients for investments, life insurance, bankers, and other professionals. They have the financial needs and wants coupled with the ability to pay for value. Consequently, a lot of different types of firms are competing to address the financial needs and concerns of the ultra-wealthy.

According to John Bowen, founder of CEG Advantage, "In a survey of 206 ultra-wealthy individuals, about three-quarter of them prefer to work with multi-family offices. Another 15% like wealth management firms. Less than ten percent choose investment advisors. The remaining few percent opts for planning firms. Clearly, individuals with money are strongly attracted to multi-family offices."
Forbes Personal Finance News - Aug 29, 201

8. Investments

Many Of The Super-Rich And Family Offices Are Buying "Apocalypse Insurance"

The Doomsday Clock has moved slightly forward, and many of the super-rich are taking steps to survive if global calamity strikes. Often referred to apocalypse insurance, it is actually about taking actions that will enable them to effectively deal with worldwide, society devastating disasters.

A number of factors are motivating the super-rich to acquire apocalypse insurance including:

- Tremendous political uncertainty
- Growing geopolitical conflicts and tensions
- Extreme wealth inequality potentially resulting in severe social conflicts complete with pitchforks, torches, and lots of guns
- Manmade and natural ecological disasters, but mostly manmade

Forbes Investing - Sep 26, 2017

Family offices offer promise, not salvation

Smart, less risk averse and focused on the long term, family offices have what it takes to help build agriculture into a mainstream asset class. But for it to happen, the circle needs to widen. In a recent survey of 262 family offices averaging $921 million in assets, UBS and Campden Research found that more than 90 percent of them planned to maintain or increase their allocation to the sector. The figure is encouraging, but it masks two important caveats. First, most family offices start from a rather low base: agriculture accounts for just 1.7 percent of the average portfolio covered by the report. Second, many more would rather keep their allocation as it is than boost it – just under one-fifth sit in the latter camp, compared with 70.6 percent favoring the status quo.
Agri Investor - Sep 20, 2017

UBS: Family offices to increase co-investment activity

Despite a drop in co-investing deals in 2016 due to execution challenges, global family offices continue to prefer direct investments, according to the UBS Global Family Office Report.
Private Equity International - Sep 12, 2017

Wealthy families are cooling on hedge funds except in one area

Family offices that manage estates and investments for the wealthy are backing away from hedge funds for a second year in a row, citing worries about the funds' ability to generate strong returns, according to a report by UBS and Campden Research. One exception may be for investments in so called “quant” funds that use advanced mathematics and computing to make money through trading.

Multi-year participants in the survey are allocating about 7.1% of their investments in hedge funds this year, down from 8% in 2016. Overall, about 30% of family offices expect to reduce their investments in hedge funds even further in the coming years.
Quartz Future of Finance - Sep 12, 2017

Ultra high net worth families are moving towards riskier asset classes

Family offices, the private wealth management firms which manage the fortunes of the ultra-rich, have seen a bounce-back in investment performance over the last year. The firms achieved an average return of seven per cent in 2016, a huge increase from the disappointing 0.3 per cent the previous year, according to the global research from Campden Wealth Research and UBS. This was driven by the continued trend towards more illiquid and higher risk investments, such as equities and private equity, in the hunt for yield. “The benefits of this bolder approach are clear,” said Sara Ferrari, head of UBS's global family office group. “North American family offices invested more than any other region into growth oriented strategies, and this paid off as they outperformed.”
City AM Business - Sep 12, 2017

9. Millennial Issues

Millennials are driving a shift in how the ultra-wealthy manage their money

The number of family offices interested in sustainable investing has grown substantially, according to a UBS report. A new report out Tuesday by UBS, the Switzerland-based financial services firm, and Campden Wealth Research, an information provider, shows the number of family offices interested in sustainable investing has grown substantially, with 40% set to ramp up their sustainable investments in the future.

Sustainable investment products, which aim to deliver outsize returns and remedy societal and environmental ills, have grown at a rate of more than 33% between 2014 and 2016 in the US, according to data from the US SIF Foundation cited in a report by Morgan Stanley. The market for such products, as a result, has grown from $6.57 trillion to $8.72 trillion.
Business Insider - Sep 16, 2017

Family business: How old is embracing the new

Though the backbone of many economies, family businesses have always had their unique set of challenges, which at a micro-level even differ from family to family. The core strength of any family business lies in the family and the management and, for most such businesses, the two still remain the same. Reports estimate that about 40% of family businesses worldwide will undergo a change in management in the next 5 years.

As the old yields ground to the new, the role of the next-generation in perpetuating the family business and making it future-ready cannot be undermined. The 21st century so-called next-gens are very different from their predecessors. Foreign educated, independent, innovative, hard-working, having worked outside the country, the company and at different sectors and levels, having far greater opportunities and connectivity and zealous to make their mark, they tend to have a very global outlook and fresh approach to business mechanics and patriarchy. Also, they belong to the new age of entrepreneurship, where millennials have completely changed the rules of the game.
Live Mint - June 10, 2017

10. Emerging Areas

Why Should Family Offices Invest In Emerging Asia?

Emerging market economies are growing more rapidly than those in developed nations. Given high underlying economic growth, emerging market companies can provide long-term stock investors with the potential for attractive returns.
Forbes Investing - Sep 27, 2017

Dallas banks, wealthy family offices eye small business vehicles as Congress may ease rules

Amid the drama over the Republican health care plans last month, the House of Representatives passed a pair of bills that would make easier for Small Business Investment Companies to raise money. SBICs have become a more popular place for investors to park their money in a market that bears little in interest rate income and an economy that has surged in recent years – especially in the Dallas-Fort Worth area.
Biz Journal - Banking & Financial News - Aug 7, 2017

11. Risks

What can family offices do about cyber crime? Here are some ideas

Citi Private Bank reckons cybercrime is a growing threat to family offices and they need to do more to protect themselves against the threat. In its report, entitled Family Offices and Cybersecurity, the bank says a more comprehensive approach from family offices and their staff is needed if they are to avoid being a victim of cyber crime. And much of this approach should be aimed at the family office's staff.

"People are often the weakest link in the information security system for a family office," says the report. "The level of awareness of information security threats and the proper ways to combat them has great variability. Therefore, cyber security education should be a key part of family planning and business operations meetings."

The report adds: "The best defensive technology in the world doesn't protect you from your weakest link — the people that use it. Security policies and training from the board room to the break room are imperative to any risk mitigation plan."
Family Capital - June 5, 2017

Cybersecurity for Family Offices: Q&A with the director of the Global Family Office Group at Citi Private Bank

The author of the report, Edward Marshall, director, Global Family Office Group at Citi Private Bank, said, "As seen in recent news, the number of cyberattacks perpetrated against nations, corporations and individuals are increasing at a rapid pace. One of the most pressing issues our clients face now is cybersecurity as Family Offices have more and more become targets of cyberattacks. We hope this white paper will impart actionable best practices and identify available resources in the cybersecurity space."
CSO Online - July 16, 2017

Family Offices and Cybersecurity Report [Citibank]

Citi Private Bank released a white paper focused on the growing cybersecurity threat and its relevance to Family Offices. The white paper surveyed information security experts in and outside of Citi to provide a comprehensive guide on a topic of high interest to Family Offices.
Citibank - May 31, 2017