# Global Family Office Report

2023

Content



Cover image by Kyle Vollears depicting a disused highway in the UAE covered in sand.
It follows a straight path like a family office, with obstacles to navigate along the way.



# Foreword

We are pleased to present this year's Global Family Office Report, compiled entirely in-house for the fourth year, providing the world's largest and most comprehensive study of single family offices.

The 2023 report comes at a defining moment in time, with the end of the era of low or negative nominal interest rates and the ample liquidity that followed the global financial crisis. Against that backdrop, our research shows family offices anticipating making major shifts in asset allocation.

Notably, they are looking to add to developed market fixed income holdings over the years to come and are already diversifying portfolios through high-quality short-duration fixed income. What's more, family offices are planning to raise holdings in emerging market equities, following a perceived peak in the US dollar. Allocations to hedge funds have increased in line with a greater emphasis on active management, and they are planning to further diversify their private market allocations.

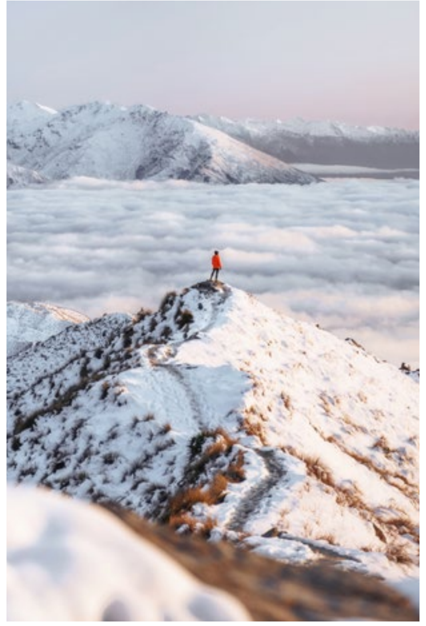
Reflecting the tense international environment, geopolitics is now the top concern for family offices. While they still have almost half of their assets in North America, they are planning to increase allocations to Western Europe for the first time in several years. Additionally, almost a third are planning to raise and broaden allocations to the wider Asia-Pacific region.

In a less certain world, there's evidence of room for greater professionalization beyond investing. For instance, although family offices consider supporting the generational transfer of wealth as their main purpose, the survey reveals that many do not have the necessary processes, governance or risk management in place.

We would like to thank the families, executives and advisors who contributed to this report. We are always trying to improve the report and would welcome your thoughts about new topics to include or how to progress our analysis. We hope you enjoy the report and its insights.

**George Athanasopoulos**
Head of Global Family and Institutional Wealth
Co-Head Global Markets

# Executive summary



## Family offices plan biggest shifts in asset allocation for several years

At a time when inflection points spanning policy rates, inflation and economic growth appear likely, family offices are planning the biggest modifications in strategic asset allocation for several years. They have already lifted allocations to hedge funds and are looking to add to developed market fixed income over the next five years. They are also planning to raise allocations to emerging markets equities, following a perceived peak in the US dollar and the reopening of the Chinese economy.

## Geopolitics replaces inflation as top concern

Thinking ahead to the next three years, family offices are most concerned about geopolitics. They appear less anxious about rising inflation, which was the top concern last year but currently ranks third, after geopolitics and recession. Behind these global averages, though, what they worry about depends on where they are based. In the US, recession is family offices' greatest concern, while in the Asia-Pacific region and Europe geopolitics is the top concern for most family offices.

## Regional investment preferences are shifting

Family offices are increasing their allocations in regions that have been less in favor for the past few years. While family offices still have almost half of their assets in North America, over a quarter are planning to increase allocations in Western Europe over the coming five years and almost a third are planning to raise and broaden their allocations in the wider Asia-Pacific region.

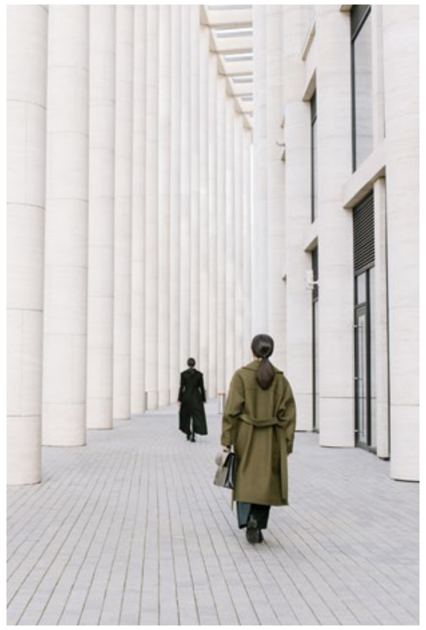


## The return of fixed income and hedge funds as diversifiers

The regime shift in the macroenvironment appears to be leading to the revival of fixed income and active management as a means of portfolio diversification. Currently, the most favored diversification strategy globally is high-quality short-duration fixed income. Family offices are also increasingly turning to active strategies: both through manager selection and/or active management within asset classes and hedge funds.

## Diversification across the full range of alternatives

When it comes to alternative asset classes, family offices intend to use their investment flexibility as a competitive advantage. One area of opportunity lies in private equity secondaries, where they are looking to overallocate as other limited partners seek liquidity amid portfolio rebalancing or forced selling. Additionally, those with hedge fund investments are planning to focus on strategies such as global macro and multi-strategy.



## Professionalization beyond investing

While family offices aim to support generational transfer of wealth as their main purpose, most have yet to develop a succession plan for family members. What's more, many fall short of best practice in managing risks beyond investing and having a governance framework. Approximately half have specialist cybersecurity controls in place, yet over a third have been the targets of cyber-attacks.





# Asset allocation and portfolio diversification

Key messages

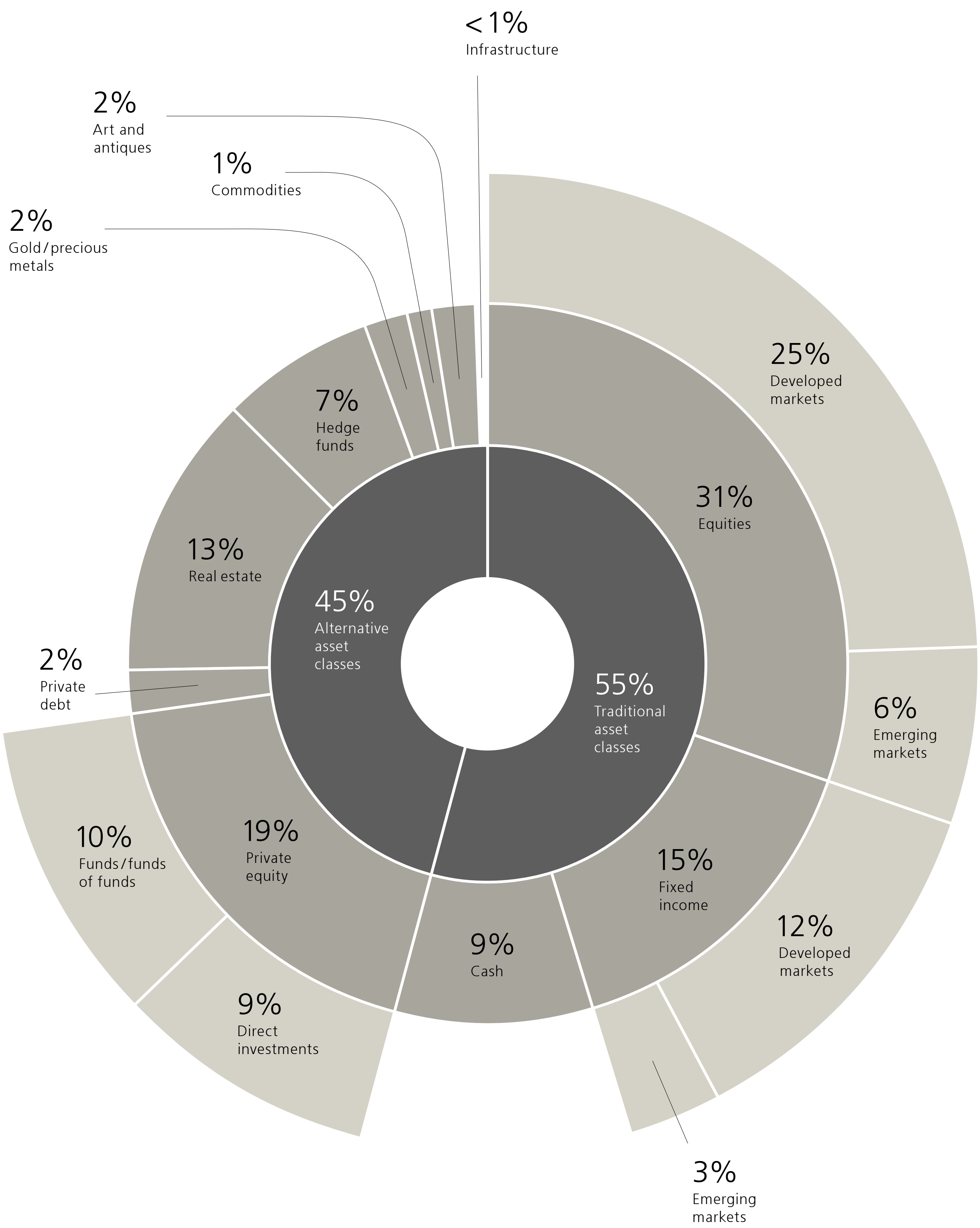
The 2023 survey reveals plans for the biggest shift in strategic asset allocation for several years, in light of potential inflection points in inflation, interest rates and economic growth.

Tense geopolitics is the biggest worry for family offices around the world, although concerns vary from region to region. Recession rather than geopolitics is the top worry in the US.

When it comes to regional allocations, preferences are shifting. As they plan for the next five years, family offices are more positive about Western Europe than they have been for some time. They also intend to broaden out allocations in the Asia-Pacific region.

Possibly reflecting the likelihood of a macroeconomic regime shift, portfolio diversification appears to be reverting to traditional practices: allocations to short duration fixed income and active management are rising.

Strategic asset allocation 2022




In some instances, the data may not look as if it adds up correctly. This is because we have added the figures together to two decimal places, which can result in slight variations to the figures when rounded.



## Strategic asset allocation varies by region

Regional breakdown of strategic asset allocation for 2022

| | Global | US | Latin America | Switzerland | Europe | Asia-Pacific |
|---|---|---|---|---|---|---|
| *Traditional asset classes* | | | | | | |
| Equities | 31% | 27% | 30% | 29% | 28% | 37% |
| Developed markets | 25% | 25% | 19% | 25% | 24% | 28% |
| Emerging markets | 6% | 2% | 11% | 4% | 4% | 9% |
| Fixed income | 15% | 8% | 30% | 9% | 18% | 15% |
| Developed markets | 12% | 8% | 19% | 9% | 14% | 11% |
| Emerging markets | 3% | 0% | 11% | 0% | 4% | 4% |
| Cash (or cash equivalent) | 9% | 7% | 9% | 13% | 10% | 9% |
| *Alternative asset classes* | | | | | | |
| Private equity | 19% | 24% | 13% | 19% | 17% | 18% |
| Direct investments | 9% | 14% | 4% | 10% | 6% | 10% |
| Funds / funds of funds | 10% | 10% | 9% | 9% | 11% | 8% |
| Real estate | 13% | 21% | 5% | 18% | 11% | 11% |
| Hedge funds | 7% | 10% | 7% | 4% | 8% | 5% |
| Private debt | 2% | 2% | 3% | 1% | 3% | 2% |
| Gold / precious metals | 2% | 0% | 0% | 3% | 2% | 1% |
| Art and antiques | 2% | 1% | 1% | 4% | 1% | 1% |
| Commodities | 1% | 1% | 1% | 0% | 1% | 1% |
| Infrastructure | 0% | 0% | 1% | 1% | 1% | 0% |

## Biggest planned shifts in strategic asset allocation for several years

The 2023 Global Family Office Report reflects the end of the era of low or negative nominal interest rates and ample liquidity that followed the financial crisis. Against that backdrop, family offices anticipate making major shifts in asset allocation.

## Family offices plan biggest shifts for several years

Strategic asset allocation year-over-year

| | 2019 (actual) | 2020 (actual) | 2021 (actual) | 2022 (actual) | 2023 (plan) |
|---|---|---|---|---|---|
| Fixed income (developed markets) | 11% | 13% | 11% | 12% | 15% |
| Fixed income (emerging markets) | 6% | 5% | 4% | 3% | 4% |
| Equities (developed markets) | 23% | 24% | 24% | 25% | 24% |
| Equities (emerging markets) | 6% | 8% | 8% | 6% | 9% |
| Private equity (direct investments) | 9% | 10% | 13% | 9% | 6% |
| Private equity (funds/funds of funds) | 7% | 8% | 8% | 10% | 10% |
| Private debt | N/A | N/A | 2% | 2% | 3% |
| Hedge funds | 5% | 6% | 4% | 7% | 6% |
| Real estate | 14% | 13% | 12% | 13% | 9% |
| Infrastructure | 0% | 0% | 0% | 0% | 1% |
| Gold/precious metals | 3% | 2% | 1% | 2% | 2% |
| Commodities | 0% | 1% | 1% | 1% | 1% |
| Cash (or cash equivalent) | 13% | 10% | 10% | 9% | 8% |
| Art and antiques | 3% | 1% | 1% | 2% | 1% |



They plan to raise developed market fixed income investments in 2023. Over a third of family offices are using high-quality, short-duration fixed income to enhance diversification, potentially for protection, yield and capital appreciation. Allocations to developed market equities are hardly changing, but there are plans to increase emerging market equity allocations, after a perceived peak in the US dollar and China's reopening.

Turning to alternatives, family offices are refocusing their allocations. There is a notable rise in hedge fund allocations, from 4% in 2021 to 7% in 2022. Half (50%) of all the family offices surveyed invested in hedge funds in 2022, up from 43% the year before. By contrast, direct private equity allocations are falling: from 13% in 2021 to a planned 6% in 2023. The proportion of family offices that invested in direct private equity in 2022 fell to 60%, down from 67%. There are also plans to reduce real estate allocations in 2023. Yet allocations to private equity funds rose in 2022, and there are plans to raise infrastructure and private debt holdings in 2023.

Broadly speaking, the family offices interviewed for the 2023 report were cautious about current markets in the face of the uncertain growth outlook in developed economies, as well as tighter lending conditions and heightened geopolitical tension. "This year we are neutral everything," explained one Singapore-based CIO. "Even with equity we are not underweight or overweight. We are not taking big bets on anything."

Similarly, one US CIO was focusing primarily on protecting capital. "Last year we probably allocated USD 30 million to USD 40 million of new capital but probably liquidated USD 180 million," he said. "Right now, we probably have about a third of our capital in cash. If I look through to the managers we invest with (who are also heavily in cash), we are probably 50% in cash."

Looking beyond 2023, over the next five years family offices anticipate making more changes to their strategic asset allocation. The biggest turnaround is in developed market fixed income, where almost four in ten (38%) are planning a significant or moderate increase in allocations, which is relevant after three years of cutting back on bonds. They foresee greater allocations to risk assets generally, with 44% planning increases in developed market equities and 34% in emerging market equities. While family offices still have ambitions to lift private equity holdings, they appear less bullish than in previous years: even so, 41% plan an increase in direct investments and 35% in funds/funds of funds. Turning to real estate, while family offices were cautiously planning to cut allocations in 2023, over five years a third (33%) of them foresee moving to higher allocations.

This fits a picture of interest rates remaining high in 2023, with some softness in real estate prices, before easier money and lower valuations start to support the asset class once again.

"We are quite excited about this environment, as we think this kind of environment is a lot more attractive," noted the CIO of a Swiss family office. "For instance, we invested in 2020 because we saw opportunities. We keep cash for situations like these. We hope over the next few years to reduce our cash balance."

Naturally, the flip side of putting money to work in risk assets is lower cash balances. Family office cash allocations averaged 9% globally in 2022: Swiss family offices were most conservative with allocations of 13%, while US family offices held almost less than half that level at 7%. Looking forward five years, though, almost a third (30%) of family offices intend to shrink cash allocations.

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## Family offices anticipate changes to asset allocation, including more fixed income

Changes in asset allocation in the next five years

| | Net* 2021 | Net* 2022 | Net* 2023 | Increase | Stay the same | Decrease | Don't plan on investing in this asset class |
|---|---|---|---|---|---|---|---|
| Fixed income (developed markets) | –18% | –4% | 22% | 38% | 37% | 16% | 8% |
| Fixed income (emerging markets) | 3% | 8% | 10% | 20% | 53% | 9% | 18% |
| Equities (developed markets) | 35% | 29% | 32% | 44% | 43% | 12% | 2% |
| Equities (emerging markets) | 56% | 28% | 18% | 34% | 42% | 16% | 8% |
| Private equity (direct investments) | 42% | 42% | 28% | 41% | 39% | 13% | 7% |
| Private equity (funds/funds of funds) | 26% | 38% | 21% | 35% | 42% | 14% | 10% |
| Private debt | N/A | 27% | 15% | 26% | 46% | 11% | 18% |
| Hedge funds | 16% | 11% | 4% | 21% | 48% | 17% | 13% |
| Real estate | 22% | 37% | 22% | 33% | 48% | 11% | 7% |
| Infrastructure | 23% | 25% | 17% | 20% | 54% | 3% | 23% |
| Gold/precious metals | 10% | 4% | 9% | 15% | 59% | 6% | 20% |
| Commodities | 9% | 10% | 12% | 19% | 54% | 7% | 20% |
| Cash (or cash equivalent) | –18% | –15% | –13% | 17% | 50% | 30% | 3% |
| Art and antiques | 8% | 10% | 12% | 14% | 57% | 2% | 28% |

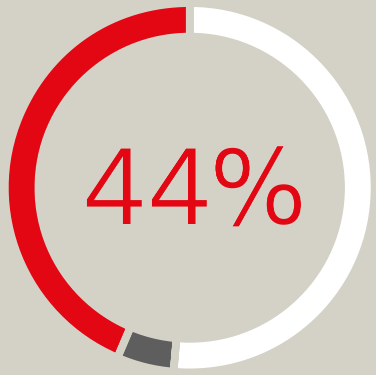
*Net equals increase minus decrease

## Marginal investments in digital assets

When it comes to investments based on blockchain technology, family offices are growing their investments in a small way. Looking at digital assets including cryptocurrencies and distributed ledger technologies, more than half (56%) of the family offices invest: yet the greatest number, 38% of family offices, invest less than 1% of portfolio assets. Looking forward to the rest of 2023, 35% of the family offices that already invest in distributed ledger technologies plan to increase investments, with 27% looking to do so in cryptocurrencies more specifically and 25% in decentralized finance.

### Forty-four percent don't invest in decentralized payments/technologies

Current investments in decentralized payments/technologies




- Up to 3%
- More than 3%
- Don't invest in decentralized payments/technologies

### 35% plan to increase investments to distributed ledger/blockchain technology

Planned investments (family offices investing in decentralized payments/technologies)

| | Increase | Stay the same | Decrease |
|---|---|---|---|
| Distributed ledger and/or blockchain technology | 35% | 60% | 5% |
| Cryptocurrencies | 27% | 68% | 5% |
| Decentralized Finance (DeFi) | 25% | 68% | 8% |
| Digital exchanges and/or tokenization platforms | 21% | 73% | 6% |
| Digital assets (e.g., photos, videos, spreadsheets, etc.) | 11% | 78% | 11% |
| Non-Fungible Tokens (NFTs) | 10% | 79% | 10% |



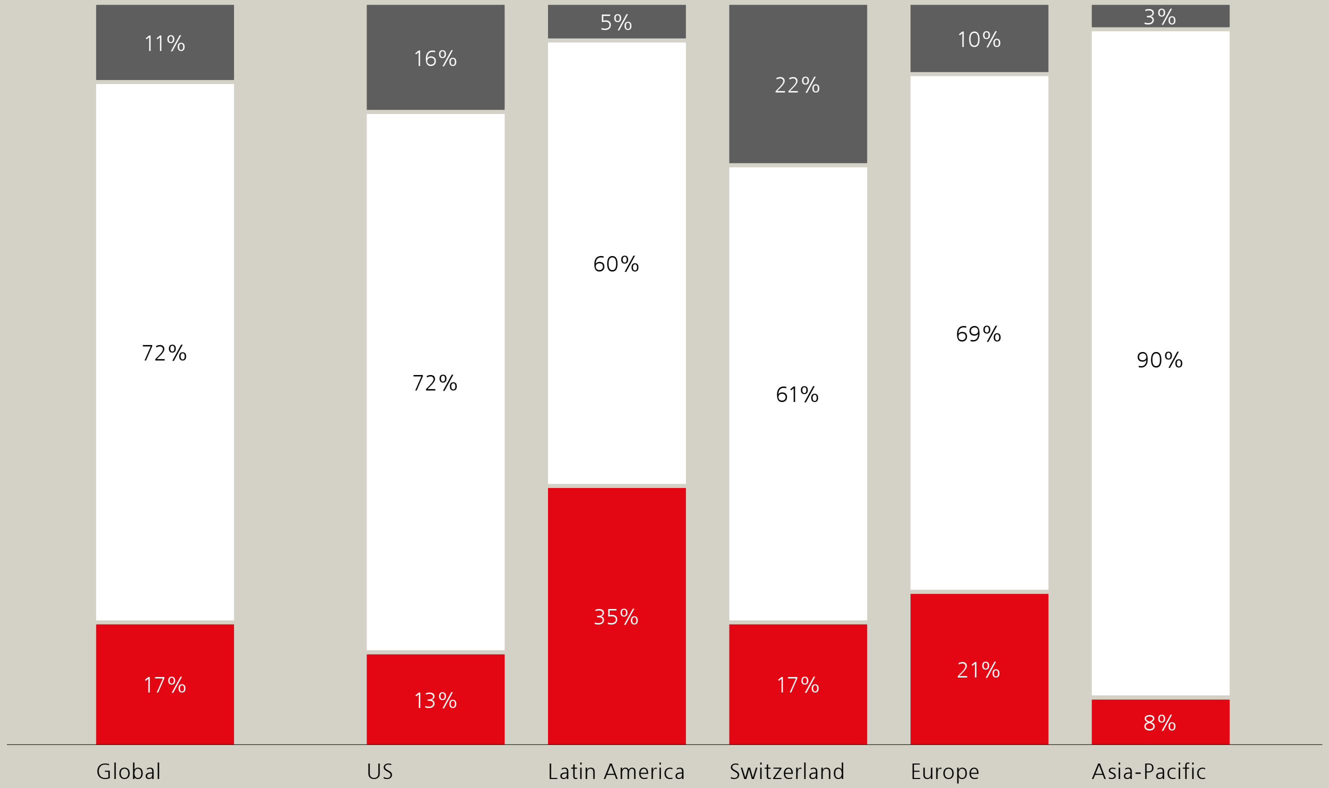
## Rebalancing at discretion

Unlike many pension funds and other institutional investors, family offices have the advantage of being able to rebalance more flexibly and frequently. Almost nine in ten (89%) state that they rebalance portfolios, with most of them doing so at their discretion rather than systematically. Yet there are striking regional variations. In Latin America, for instance, 95% of family offices rebalance, and in the Asia-Pacific region 97% do so. In Switzerland, though, more than a fifth (22%) tend not to rebalance and in the US 16% tend not to.

When it comes to the most problematic area of rebalancing – illiquid assets – family offices that have illiquid assets and rebalance their portfolios do not seem to have a common approach. Some say that they drift from neutral weights and rebalance illiquid assets irregularly; others bundle liquid and illiquid assets together (e.g., private equity and equity), only rebalancing the liquid assets.

### 89% rebalance their portfolio, mainly at their discretion

Rebalancing of portfolio




- We don't tend to rebalance our portfolio
- We rebalance our portfolio, but we do this at our discretion
- We rebalance our portfolio and we do this systematically

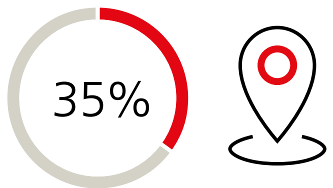
## Geopolitics trump economics as the top worry

Geopolitics take the top spot for keeping family office executives up at night in 2023. While high inflation was the main worry last year, in 2023 over a third (35%) of family offices say that geopolitics concerns them most when thinking about the next two to three years, probably reflecting the ongoing Russia/Ukraine conflict and poor relations between the US and China. After geopolitics, recession and inflation follow as the next top concerns.

What family offices worry about most depends on where they are based, however, as these numbers are global averages. Europe and the Asia-Pacific region conform to the global average, worrying most about geopolitics. But in the US the likelihood of recession is the top concern.

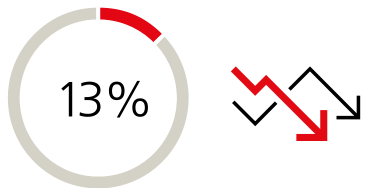
### Geopolitics has become the top concern, with regional variations

Main worries of family offices in the next two to three years



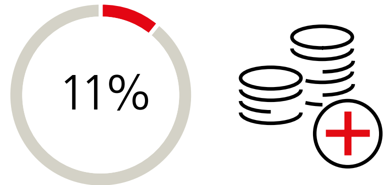

Δ 2022 +14%

Global geopolitical circumstances




Δ 2022 N/A

Recession




Δ 2022 –14%

Rise in inflation rates

| | US | Latin America | Switzerland | Europe | Asia-Pacific |
|---|---|---|---|---|---|
| Global geopolitical circumstances | 20% | 26% | 49% | 37% | 31% |
| Recession | 23% | 22% | 8% | 10% | 7% |
| Rise in inflation rates | 17% | 17% | 11% | 8% | 12% |

## Regional preferences are changing

When it comes to where they invest, family offices are reviewing their allocations. Notably, there is a broad-based increase in interest in Western Europe where more than a quarter (26%) of family offices intend to increase allocations over five years – in fact, after netting out planned increases and decreases, respondents appear to be more positive about the region than they have been for several years.

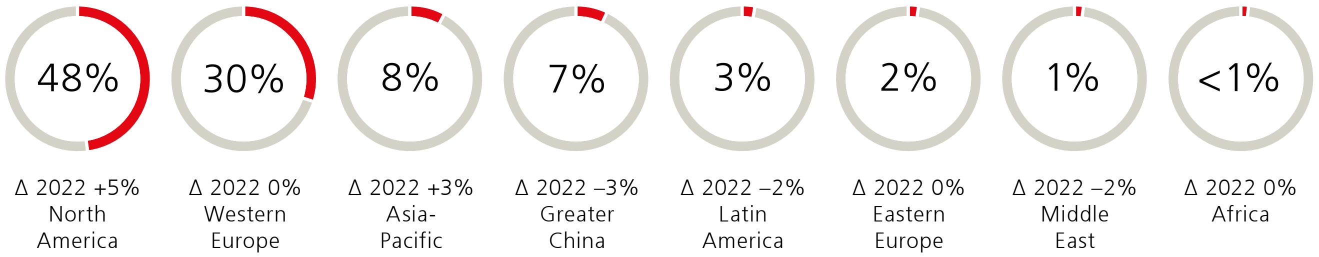
Family offices also plan to broaden out allocations in the Asia-Pacific region, with almost a third (31%) looking to raise holdings in the wider region outside Greater China. More than a fifth (22%) also plan to raise allocations in Greater China but, on balance, it appears that family offices are seeking to diversify their geographical exposure more broadly.

As home of the biggest and most liquid capital markets, as well as one of the world's most open large economies, North America holds steady as a favored geographic location. Almost a third (30%) of family offices plan to increase their allocation to the region over the next five years.

Despite this study's asset allocation data showing that family offices generally plan to raise emerging market holdings, this is not always the case. "While previously we were investing more of our liquid portfolio in emerging markets, now we see ourselves investing 80%–90% in Europe and the US," explained a Danish CIO. "That is because of the geopolitical situation."

### Assets continue to be concentrated in North America

Asset allocation by region




| Region invested in: | US | Latin America | Switzerland | Europe | Asia-Pacific |
|---|---|---|---|---|---|
| North America | 86% | 60% | 35% | 43% | 34% |
| Western Europe | 10% | 13% | 56% | 43% | 10% |
| Asia-Pacific (excl. Greater China) | 2% | 4% | 5% | 5% | 28% |
| Greater China | 2% | 2% | 2% | 4% | 23% |
| Latin America | 1% | 19% | 0% | 1% | 1% |
| Eastern Europe | 0% | 1% | 1% | 4% | 4% |
| Middle East | 0% | 0% | 1% | 0% | 0% |
| Africa | 0% | 0% | 0% | 0% | 1% |

% Home investment



## Still excited about growth investment themes

At a time when higher interest rates have curbed enthusiasm generally about growth investment themes, as they are long-duration assets discounting future cash flows, family offices say that they remain likely areas of investment. They continue to be excited about investing, if less so than in prior years.

Digital transformation remains the theme that resonates best, with three quarters (75%) of family offices stating it's a likely area of investment in the next two to three years. Medical devices/healthtech is the second most likely area of investment, followed by automation and robotics, and then green technology.

There are some distinct regional differences. For instance, medical devices/healthtech is the most popular theme among family offices based in the Asia-Pacific region, while automation and robotics is more popular in Europe than in other regions.



## Western Europe will gain importance

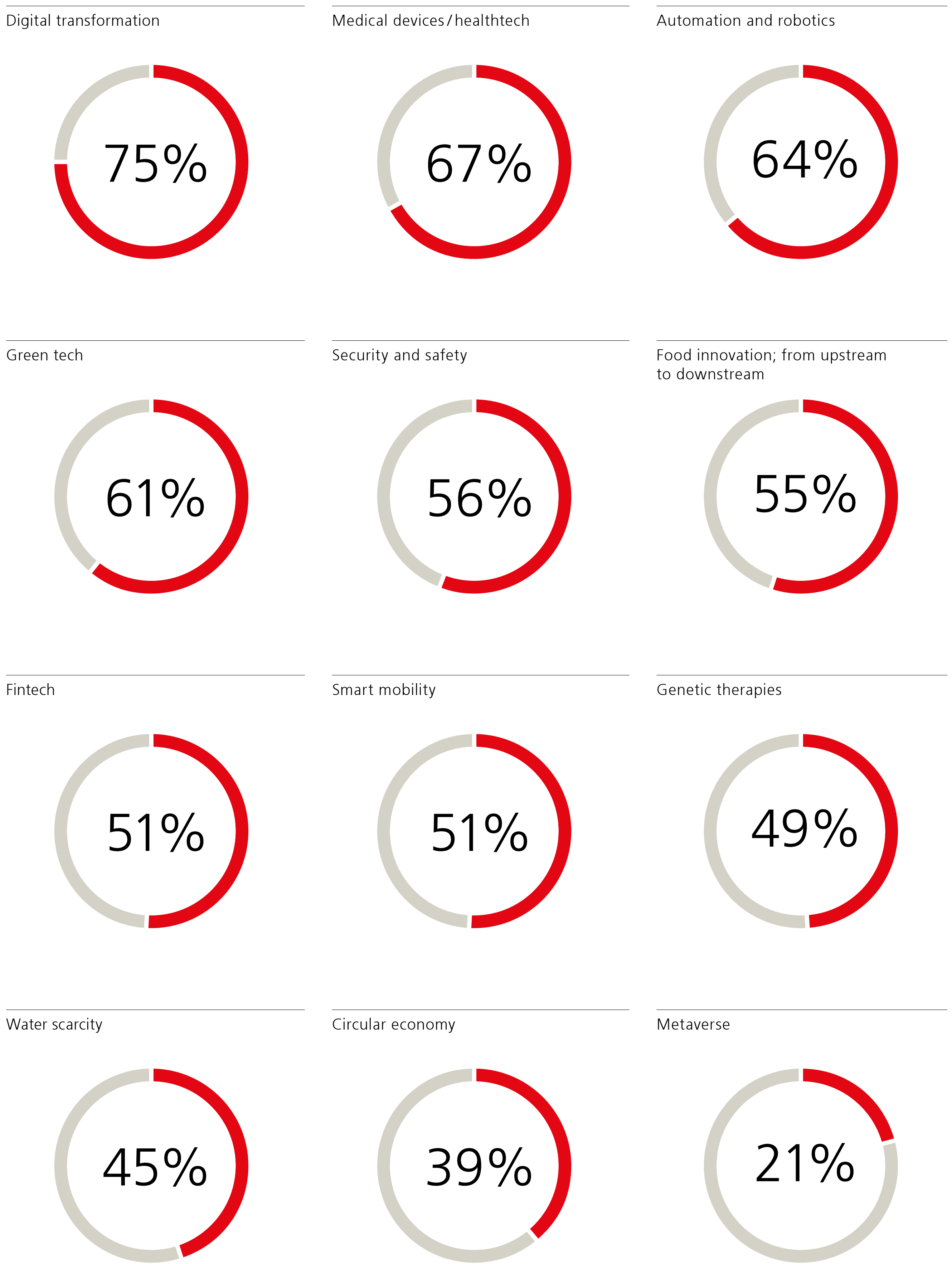
Asset allocation changes by region in the next five years

| | Net* 2021 | Net* 2022 | Net* 2023 | Increase my investments in this region | Stay the same | Decrease my investments in this region | Don't plan on investing in this region |
|---|---|---|---|---|---|---|---|
| Western Europe | 16% | 15% | 21% | 26% | 65% | 5% | 4% |
| Eastern Europe | 4% | 9% | 0% | 6% | 59% | 6% | 28% |
| Middle East | 4% | 5% | 1% | 6% | 58% | 4% | 32% |
| Africa | 10% | 14% | 5% | 9% | 55% | 4% | 33% |
| Latin America | 16% | 6% | 0% | 8% | 63% | 8% | 21% |
| North America | 23% | 23% | 21% | 30% | 59% | 9% | 2% |
| Greater China | 61% | 39% | 12% | 22% | 58% | 10% | 11% |
| Asia-Pacific (excl. Greater China) | 54% | 50% | 29% | 31% | 58% | 2% | 8% |

*Net equals increase minus decrease

Digital transformation is the investment theme that resonates most with family offices

Likelihood to invest in investment themes






> "We are doing some stuff in short duration but it is ultrashort," said one US CIO. "We are not getting paid to take long duration, so we are not going to do it."

## Portfolio diversification goes back to the future

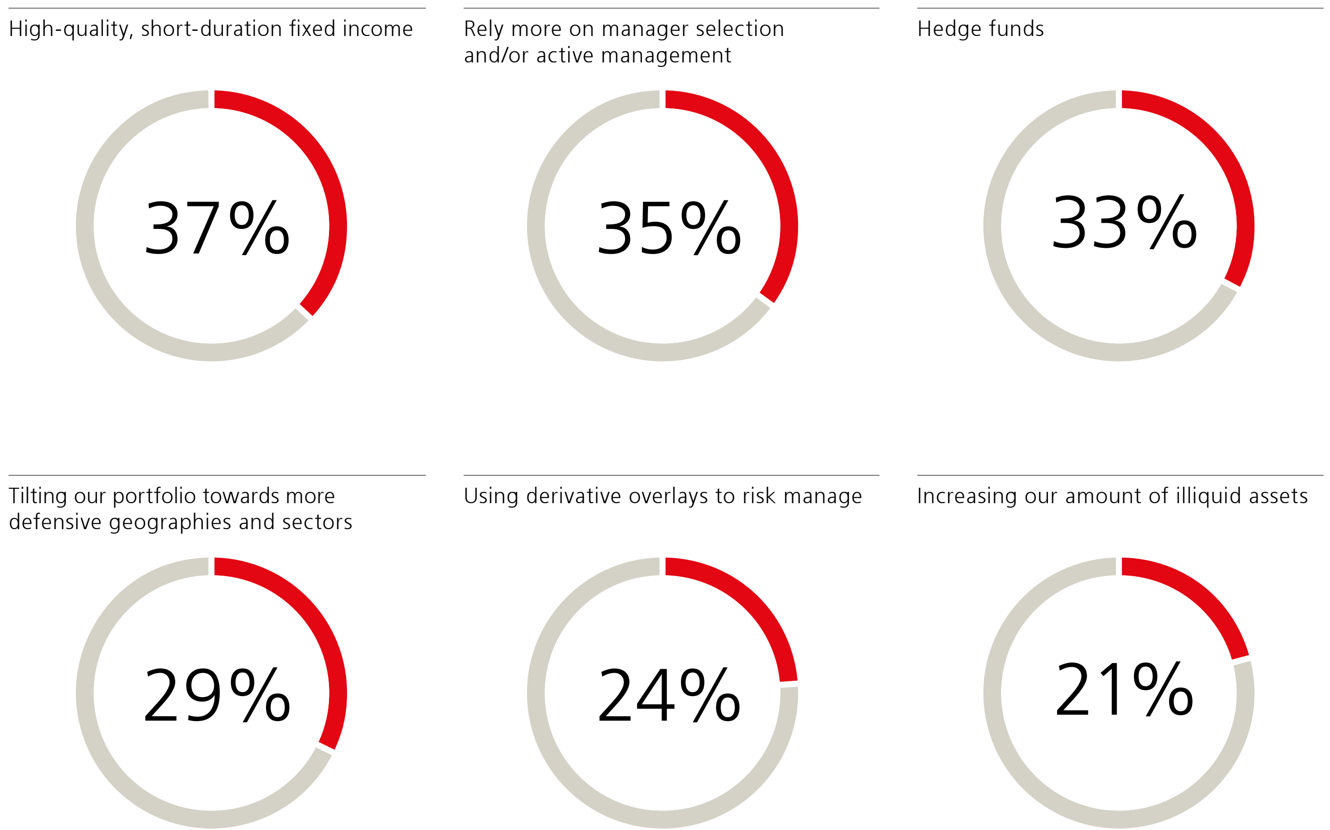
Following the end of the historic era of close-to-zero interest rates, balanced portfolios with active management are returning to favor.

Fixed income is now the most popular source of diversification, as more than a third (37%) of family offices flock to high-quality, short-duration bonds. In stark contrast, just 10% currently view long-duration as an appealing diversifier. This may reflect expectations that rates at the short end of the yield curve will soon begin to price in a return to more accommodative monetary policy, while those at the long end decline by less due to uncertainty about growth and inflation. In the US this dichotomy is still more extreme. More than half (53%) of the family offices there are investing in short-duration bonds to enhance diversification – by contrast just 9% have holdings in long-duration.

"We are doing some stuff in short duration but it is ultrashort," said one US CIO. "We are not getting paid to take long duration, so we are not going to do it."

### Family offices use a variety of strategies to diversify, including fixed income

Strategies currently used for diversification






Active asset management is also back in favor. Family offices potentially anticipate a more fruitful environment for active asset managers as risk premia return after more than a decade following the global financial crisis when central banks flooded markets with liquidity, suppressing differentiation. As a result, a third (35%) are relying more on investment manager selection and/or active management to enhance diversification and a third (33%) are using hedge funds. Again, there are wide regional differences: almost half (46%) of the Asia-Pacific family offices use hedge funds compared to just a fifth (20%) of those in Latin America.

Indicating the sophistication of family offices' investment teams, about a quarter (24%) use derivative overlays to manage risk.

## Shifting sustainable investments to more impactful strategies

Family offices appear to be re-evaluating how to invest sustainably. This pause for reflection comes at a time of debate about how to define sustainable investments, how to assess their contribution to social and environmental impact, as well as amid changing regulation. The increasing discourse and awareness of sustainable investments, as well as the growing availability of sustainability-related data could further support this reflection. What's more, it's likely that families will have more detailed discussions on sustainability with the next generation and investment advisors going forward.

In particular, looking forward five years a shift from less intentional exclusion-based strategies into ESG integration and impact investing can be observed. While family offices with sustainable investments allocate an average of 37% to exclusion-based investments today, they see that allocation dropping to 24% in five years. ESG integration investing is holding steady, with today's 22% allocation remaining roughly the same (21% in five years), and impact investing is set to grow slightly, rising from 8% to 11%.





# Private equity, private debt and hedge funds

Key messages

Faith in illiquid assets remains strong, as two thirds of family offices believe that illiquidity boosts returns.

Family offices are diversifying their private markets exposure, reducing direct private equity investments while increasing holdings in private equity funds, private debt and infrastructure.

Turning to hedge funds, they are confident that managers will meet or exceed return targets over 12 months.

## Diversifying across private markets

There's a diversification under way as family offices reduce some of the direct private equity allocations made in recent years and raise holdings in private equity funds, private debt and infrastructure. Faith in illiquid asset classes appears strong as two thirds (66%) of family offices still believe that illiquidity boosts returns. Typically, family offices also see private equity as a way of accessing growth investments in sectors like technology that are not accessible through public equity markets.

The decline in direct private equity allocations from 13% in 2021 to a planned 6% in 2023 should, however, be seen within the context of family offices' plans to resume raising allocations over five years, as 41% still intend to do so. Further, the decline in direct private equity is partially offset by a rise in allocations to private equity funds/funds of funds, from 8% in 2021 to 10% in 2023. Family offices also intend to increase their allocations to private debt and infrastructure in 2023 – from 2% to 3% and 0% to 1% respectively.

One UK-based family office CEO explains why he might invest more in private debt. "We are discussing whether the equity boom of the last 15 years where money was free has been followed by an inflection point that indicates a different environment," he said. "That's leading to conversations about increasing allocations to quality private credit."

For family offices with private equity investments, funds are the main way of investing – on average they allocate 56% to funds and a further 8% to funds of funds. Generally speaking, funds deliver diversification and the ability to enter markets where the family office does not have in-house expertise.

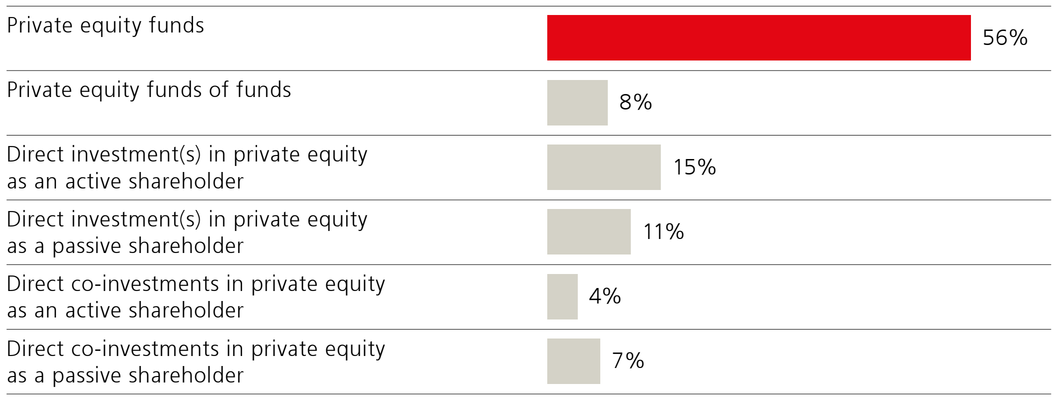
By comparison, family offices with private equity investments allocate, on average, 25% to direct investments. Breaking this down, 15% of direct private equity allocations are managed actively, while 11% are invested passively. Family offices in Asia-Pacific and the US make direct investments more than those in other regions. Similarly, first-generation family offices are most likely to make direct private equity investments, as business owners often take active stakes in companies in the sectors where they have the expertise to add value.

> "We are discussing whether the equity boom of the last 15 years where money was free has been followed by an inflection point that indicates a different environment," a UK-based family office CEO said. "That's leading to conversations about increasing allocations to quality private credit."



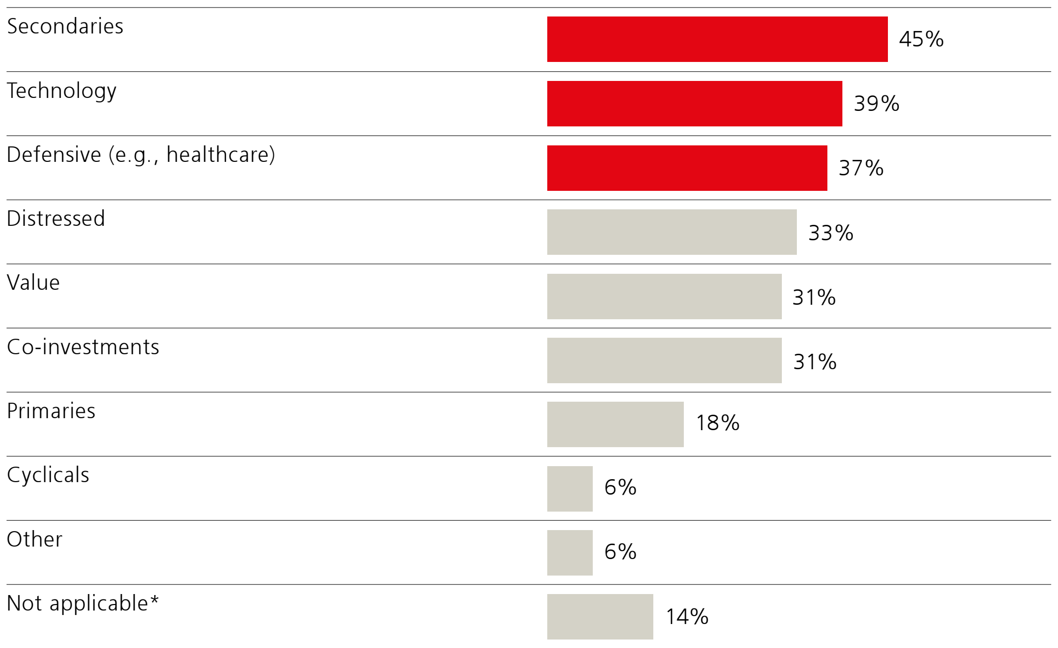
### Private equity investments are mostly allocated to funds

Type of investments (family offices with private equity investments in 2022)




### Family offices plan to overallocate secondaries, technology and defensive

Overallocation to strategies/sectors (family offices planning to invest in private equity in 2023)




* We aren't planning on overallocating or tactically tilting our portfolio over the next 12 months

The most popular sectors for private equity investment remain technology and healthcare / social assistance. But preferences vary by region. For instance, information and communications is the second most popular sector in Europe, above healthcare / social assistance.

Looking forward 12 months, family offices appear to be hoping for value opportunities. Anticipating that some institutional investors will be forced to rebalance portfolios following declines in public markets, and as exits remain difficult to achieve through IPOs, almost half (45%) of the family offices with private equity investments plan to overallocate their portfolios towards the secondary private equity market.

## Hedge funds prosper amid regime shift

There's a pronounced increase in interest in hedge funds – reflected in both current allocations and confidence in future performance. In 2022, the average allocation globally was 7%, up from 4% the previous year. Notably, in the US last year's allocation was higher still at 10%. Moreover, half (50%) of all family offices owned hedge funds in 2022, up from 43% in 2021.

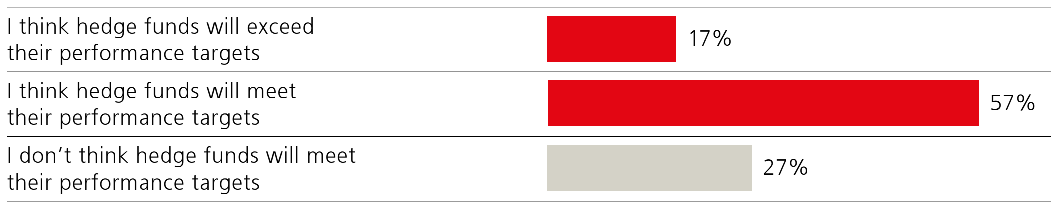
Family offices have confidence in hedge funds' ability to generate investment returns, as central banks drain excess financial liquidity from markets and macroeconomic uncertainty persists. Almost three quarters (73%) believe that hedge funds will meet or exceed their performance targets over the next 12 months.

The most popular strategies are those aiming to exploit just the type of dislocations that are arising in today's market environment. Global macro, multi-strategy and long/short equity are the top strategies that family offices with hedge fund investments are planning to invest in during 2023.

Yet some of the old skepticism about hedge funds that has endured for many years still lingers. Almost two thirds (64%) of family offices think hedge funds generally have been too expensive relative to their performance, with the Swiss most wary – 80% of Swiss family offices expressed this opinion.

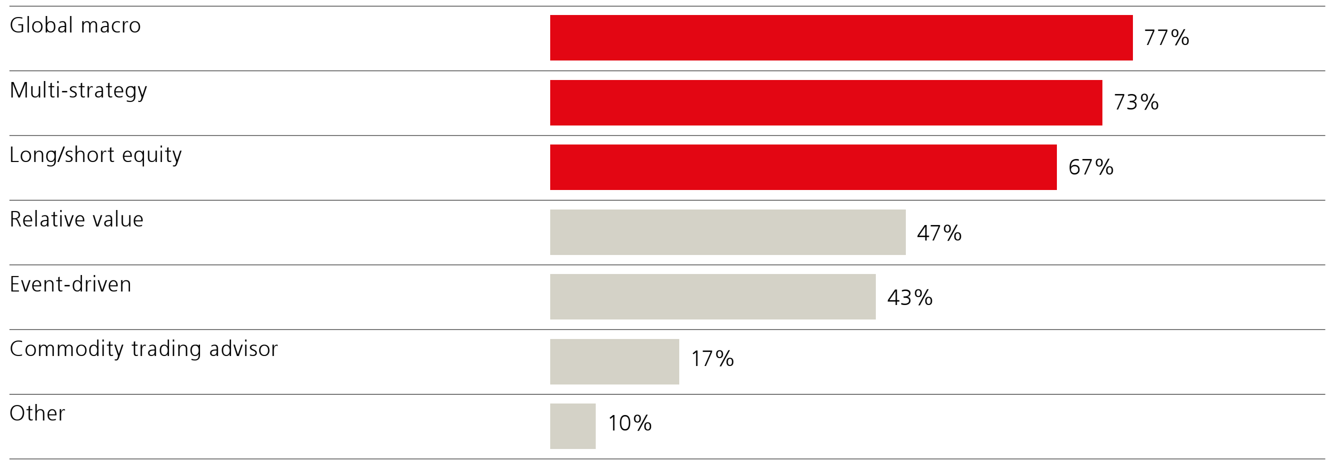
### 73% expect hedge funds to meet or exceed their performance targets

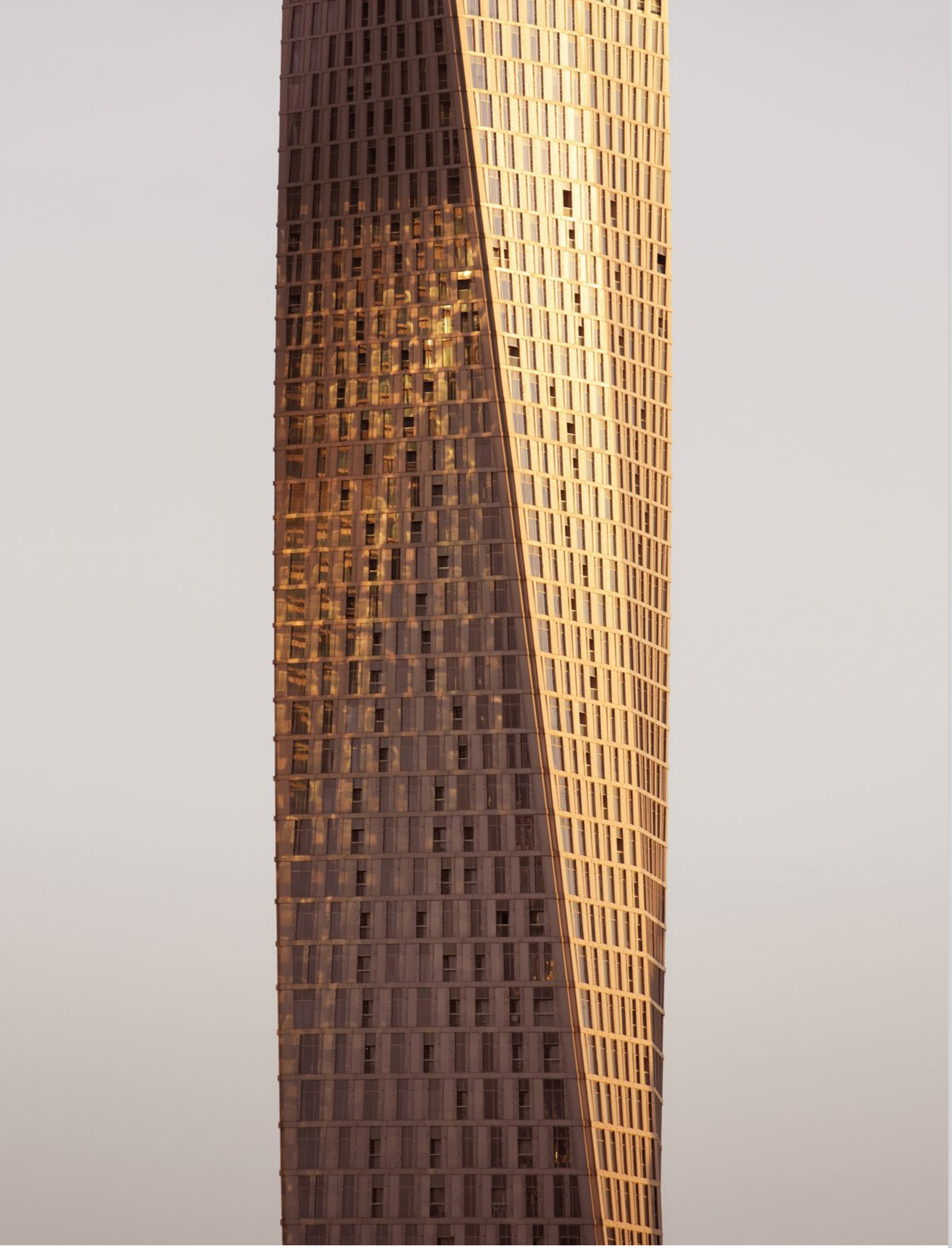
Expected performance of hedge funds in the next 12 months




### Most popular hedge fund strategies are global macro, multi-strategy and long/short equity

Plans for investing over the next 12 months (family offices planning to invest in hedge funds in 2023)





Section 3

# Real estate

Key messages

Family offices in Europe (including Switzerland), Latin America and the US plan to raise real estate asset allocations in the next five years than those in Asia-Pacific.

Broadly speaking, family offices with real estate investments prefer to invest domestically in an asset class where local knowledge is key.

The culture of real estate investing differs by region, with US family offices owning a higher share in distressed opportunities than their global peers.

> "In terms of real estate, we plan to invest more but it's hard to conclude anything at the moment because the business cases that we see do not reflect the shift in interest rates. However, I think the situation will settle in the next year or two," noted a Danish CIO.

## European, Latin American and US family offices foresee higher allocations

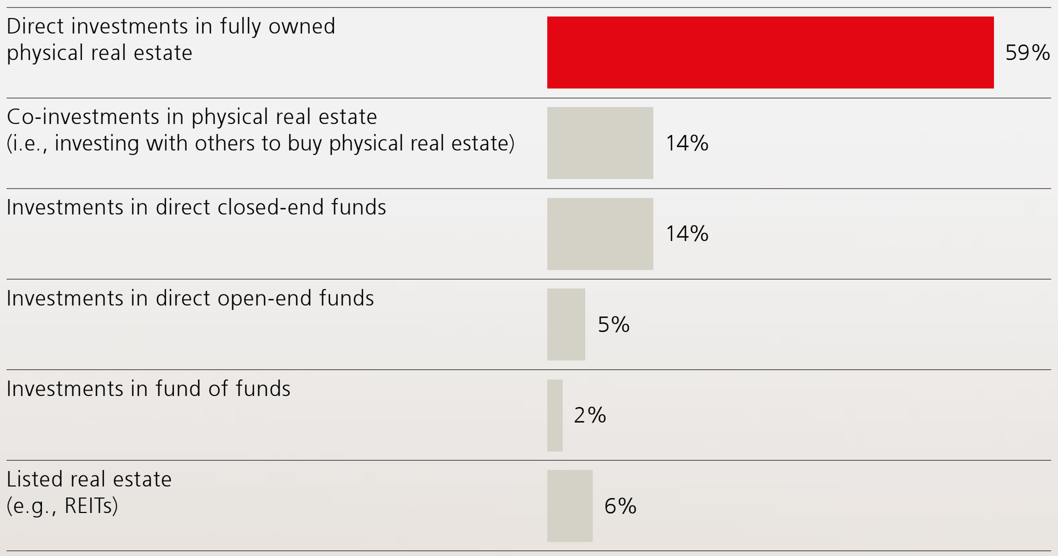
After planning to trim allocations to real estate in 2023, family offices anticipate increasing them once again over five years. But there are significant regional differences. It's mainly European (including Swiss), Latin American and US family offices that foresee bigger allocations. One reason may be that these are the regions where nominal interest rates are relatively high and have furthest to fall. By contrast, fewer Asia-Pacific investors see themselves increasing allocations.

"In terms of real estate, we plan to invest more but it's hard to conclude anything at the moment because the business cases that we see do not reflect the shift in interest rates. However, I think the situation will settle in the next year or two," noted a Danish CIO.

Naturally for a sector where location is everything, family offices tend to prefer domestic real estate. Family offices with real estate investments state that their allocations include 30% domestic residential and 32% domestic commercial, according to global average data. The balance, 38%, is allocated to international real estate.

### Family offices mostly have direct investments in fully owned physical real estate

Type of investments (family offices with real estate investments in 2022)




> The CIO of a large Chilean family office explained: "We tend to prioritize investments that do more than reduce risk; we want cash generators."

Looking once more at average global allocations, family offices with real estate investments allocate 59% of their portfolios to "core" or "core plus" bricks and mortar – that's high quality, low-risk buildings, generating steady cash flows. They allocate the remaining 41% to more opportunistic investments, developing buildings or repositioning them for capital gains, while also keeping an eye out for distressed opportunities.

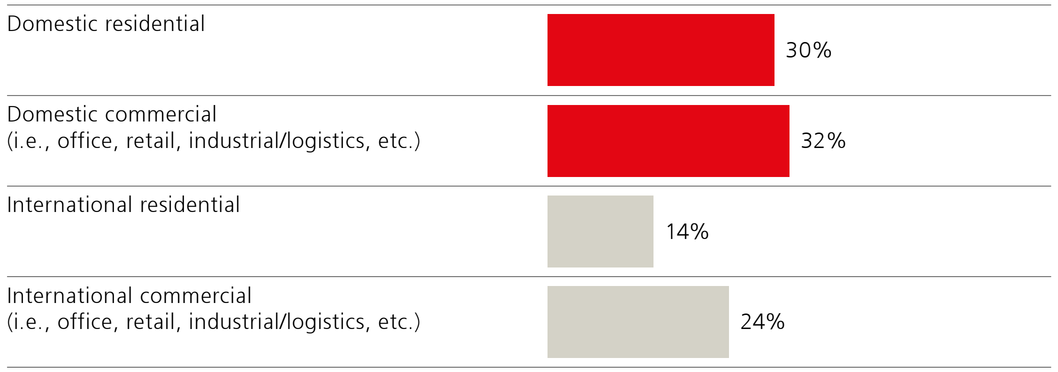
The culture of investing varies between regions. While European (especially Swiss) family offices prefer to hold core and core plus buildings for income, US family offices are most likely to seek higher risk opportunities for capital appreciation. Larger family offices with real estate investments also tend to invest actively for capital appreciation. Of those managing more than USD 1 billion, almost half (48%) of their real estate allocations go towards value-add or opportunistic investments, against just over a third (37%) with assets of USD 100 million to USD 250 million.

There are, however, exceptions to trends. The CIO of a large Chilean family office explained: "We tend to prioritize investments that do more than reduce risk; we want cash generators."



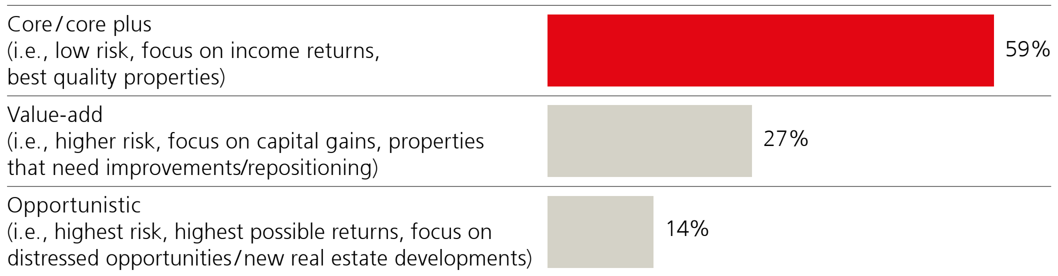
## 62% of real estate investments are allocated to domestic property

Domestic vs. international investments (family offices with real estate investments in 2022)




## 59% of real estate investments belong to the risk category core / core plus

Risk category of investments (family offices with real estate investments in 2022)





Section 4

# Professionalization

Key messages

There's a mismatch between family offices' top stated purpose of wealth transfer and the processes, governance and risk management in place to ensure that.

These gaps are especially true for smaller family offices, with assets of USD 100 million to USD 250 million.

When managing risks beyond investing, there's an evident vulnerability to cyber attacks. Almost half have specialist cyber security controls in place, yet over a third have been the targets of cyberattacks.

## A clear gap between goals and reality

There's a gap between the family offices' top stated purpose and the measures taken outside investing to help fulfil that purpose. While most (63%) say that they consider supporting the generational transfer of wealth their main purpose, the survey reveals how few have the necessary processes, governance or risk management in place.

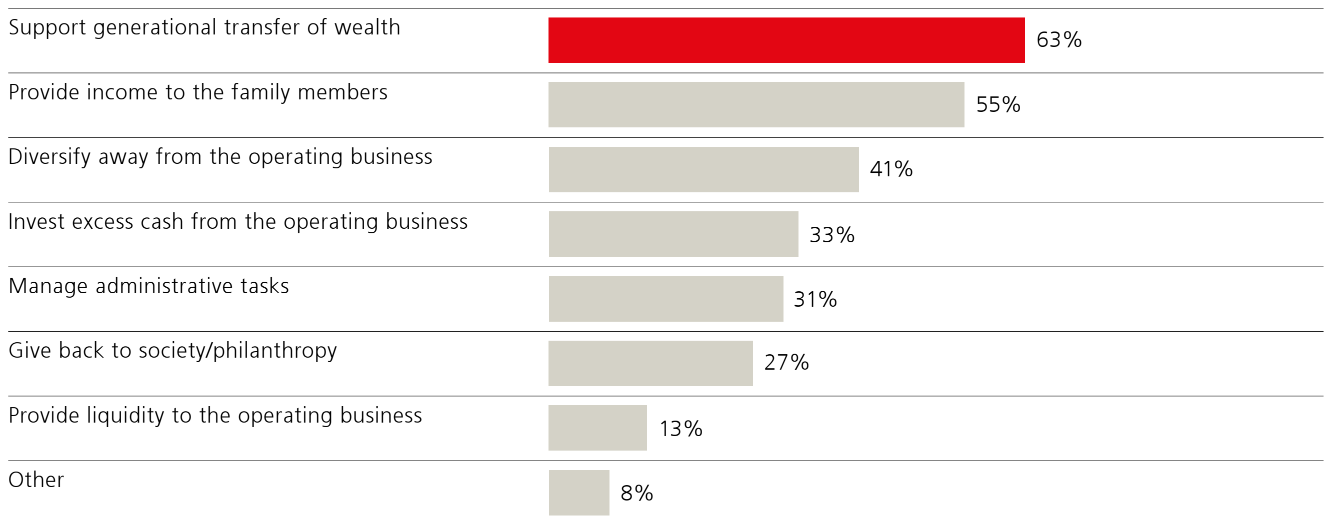
Just 42% of family offices have a wealth succession plan for family members, with only the same percentage having a governance framework. Smaller family offices with assets of USD 100 million to USD 250 million are especially likely to fall short of best practice in this way. But even in large family offices with assets exceeding USD 1 billion, only 43% have a wealth succession plan and 66% a governance framework.

Illustrating the difficulties of managing soft issues such as family governance, one London-based CEO commented: "How easily does your family talk about inheritance and hopes and dreams? These things are so personal that it's very difficult. A few years ago we had discussions with the family where we tried to articulate values. The result was something that we struggled to embed into the family. It's very difficult, and especially so for the finance professionals who are used to dealing with less emotional topics."

Cyber and information security is an example of where risk management could be strengthened. While almost half (44%) of the family offices have cyber security controls in place, over a third (37%) have been the target of attacks, some of them more than once. Of the 44% that do have controls in place, 91% use cyber security software, 76% conduct regular vulnerability assessments and 46% have set up cyber response plans. They may also have external cyber professionals on hand to support them in case of an incident (63%), or internal heads of cyber security and/or technology (45%). Only 15% of those with controls in place say these are highly advanced.

### Supporting generational wealth transfer is the family office's main purpose

Main purpose of the family office's assets and activities

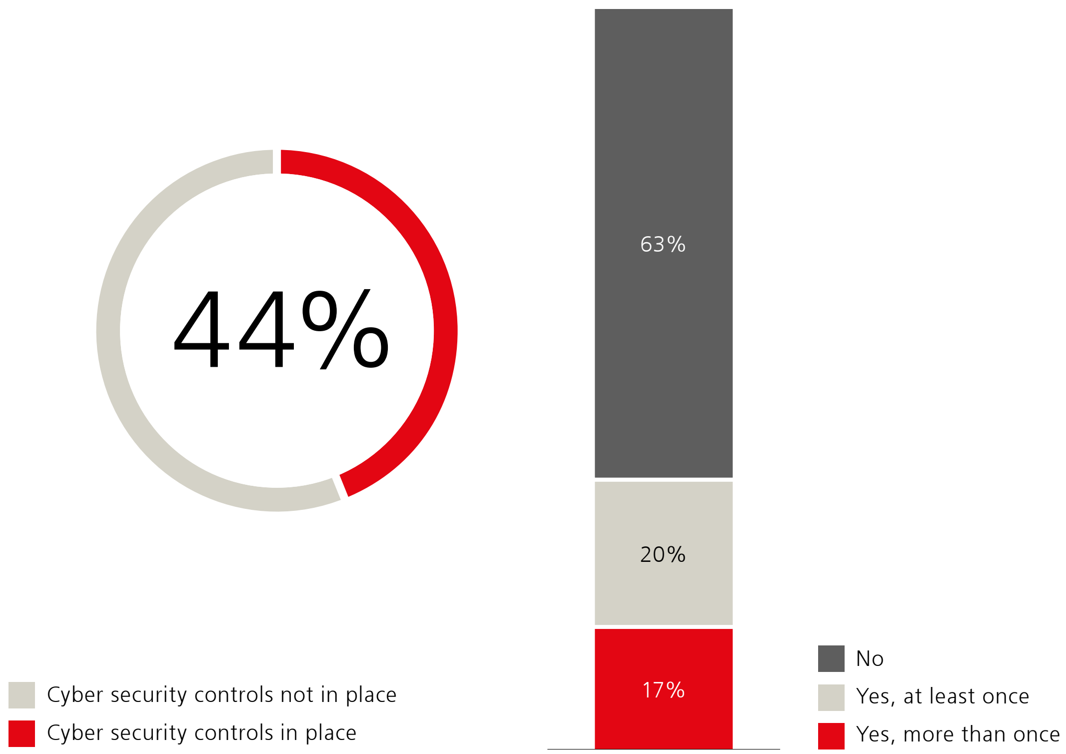





> "How easily does your family talk about inheritance and hopes and dreams? These things are so personal that it's very difficult. A few years ago we had discussions with the family where we tried to articulate values. The result was something that we struggled to embed into the family office. It's very difficult, and especially so for the finance professionals who are used to dealing with less emotional topics," a London-based CEO commented.

### Forty-four percent of family offices have cyber controls amid high threat levels

Family offices with cyber controls in place, and cyber threat levels



## Family offices lack processes around governance and risk management beyond investing

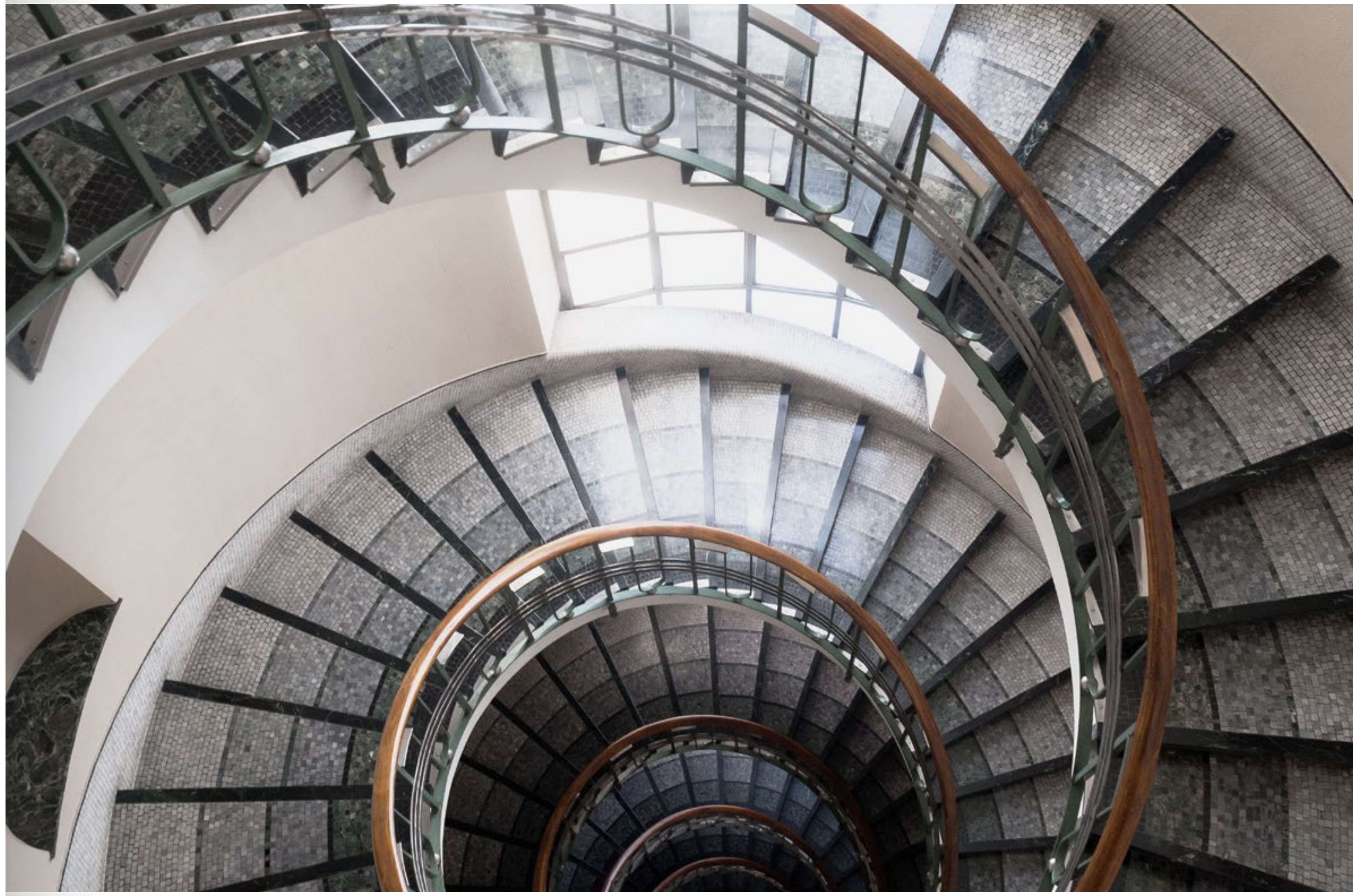
Family office processes

| | |
|---|---|
| Financial performance measurement process | 65% |
| A regular review process of all the activities/operations of the family office | 56% |
| An annual performance review process for all staff members | 54% |
| A documented investment process, including an Investment Policy Statement | 52% |
| An annual budgeting process for the family office | 51% |
| Financial reporting software from an external party | 48% |
| Job descriptions for the roles covered by the family office | 47% |
| Cybersecurity controls | 44% |
| A wealth succession plan for the family members | 42% |
| A governance framework | 42% |
| A family office strategy and/or operating manual | 33% |
| A process to select and review external parties that provide services | 33% |
| Risk management processes beyond investments | 28% |
| A succession plan for the family office (i.e., plan for continuity of staff and services) | 26% |
| Family education, development and mentoring sessions organized by the family office | 21% |
| None of these | 6% |



Yet cyber security is often outsourced to the family's operating business. "We outsource our IT support to the listed company that we are shareholders of," explained the CIO of one Singapore-based family office. "We have a service agreement with the IT department and they treat us as a client. That being said, a few months ago we were hit by an attack but it was part of our infrastructure that we were exiting anyway."

More generally, more attention could be paid to the processes that can be used to institutionalize family offices. Only just over a quarter (28%) of family offices say that they have risk management processes beyond investments, suggesting that they are overlooking other types of risks, such as broader security, staffing and reputational risks. What's more, only a third (33%) have a family office strategy and/or operating manual, and only a quarter (26%) a succession plan for the family office to ensure continuity of staff and services.



Section 5

# Costs and staffing

Key messages

Family offices foresee spending on staff, their largest cost, rising over three years. However, most expect only moderate increases.

Scale reduces costs as a percentage of assets under management. Proportionately, smaller family offices have the highest costs.

The payment of bonuses varies by region. US family offices are most likely to have a bonus system in place, as well as offering co-investment opportunities and carried interest.

> "Costs are going up driven by the fact that there are 700 new family offices in Singapore and if they all hire two to three people that's a huge part of the talent pool in a small country," explained one local CIO. "I have heard of people getting 20%–30% of their previous salary to sign on, and a guaranteed bonus."

## Staff spending to rise moderately over three years

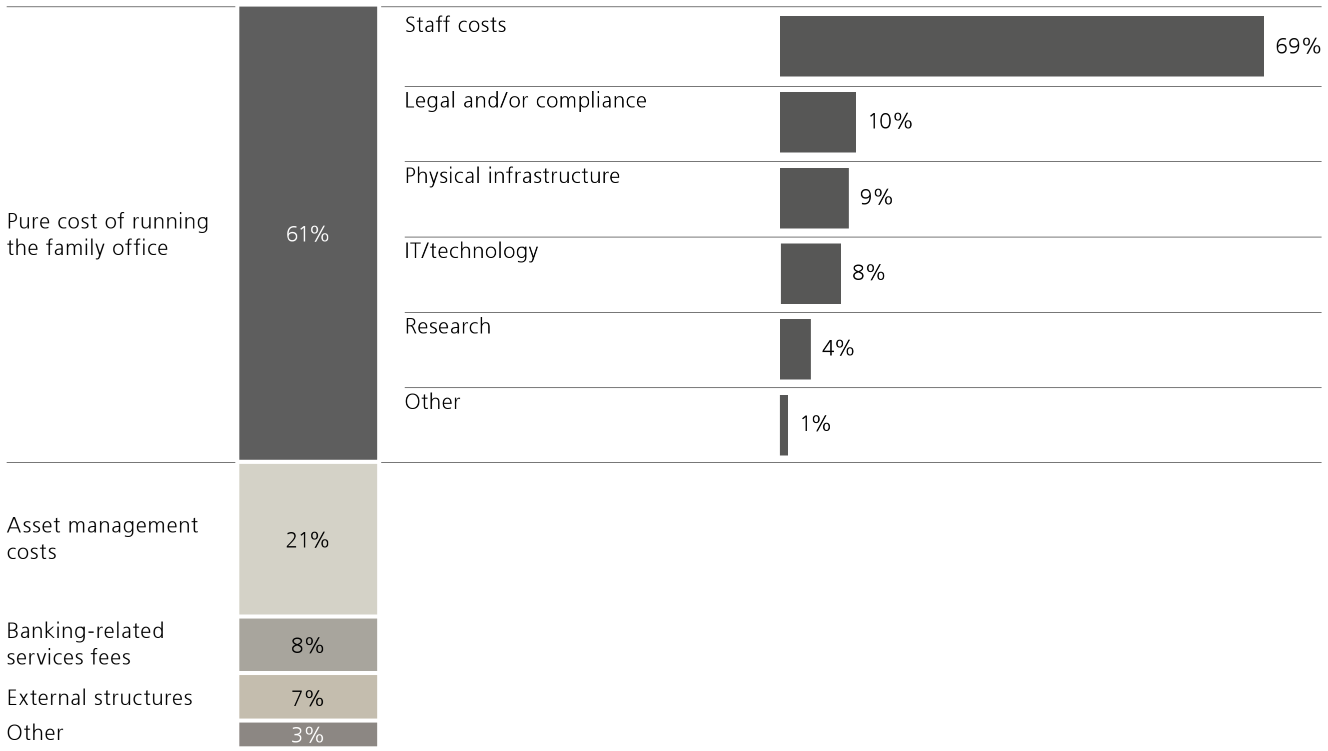
Family offices expect their spending on staff, their largest cost, to rise over the next three years. Sixty percent think staff costs will rise, although most of them only anticipate moderate rather than significant cost rises. Additionally, 49% think IT/technology costs will increase, but again most expect moderate increases.

Anecdotally, cost pressures appear extreme in Singapore. "Costs are going up driven by the fact that there are 700 new family offices in Singapore and if they all hire two to three people that's a huge part of the talent pool in a small country," explained one local CIO. "I have heard of people getting 20%–30% of their previous salary to sign on, and a guaranteed bonus."

The task most commonly performed by in-house staff is strategic asset allocation, which 85% of family offices carry out internally. Similarly, 77% perform portfolio risk management in house and 73% financial reporting. However, family offices mainly outsource legal services (64%), tax planning (58%) and cyber security (53%).

## Pure family office spending remains the driver of overall cost

Overall cost of operating the family office in 2023




## Strategic asset allocation is managed in-house by most family offices

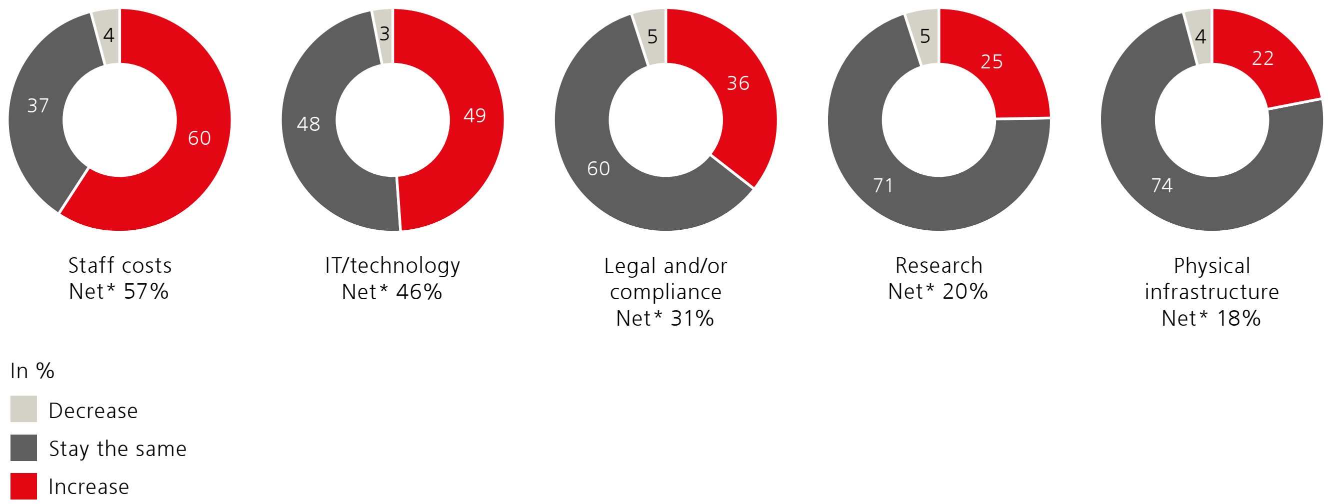
Management of services

In this year's survey, the pure cost of operating a family office in 2022 was 38.1 basis points (bps) of asset under management. For the rest of 2023, it is expected to remain roughly the same at 38.5 bps. This total includes the direct costs of operating an office, such as personnel, infrastructure, technology and so on – yet excludes external costs for services such as asset management and banking.

There is a scale of variations in cost, depending on the size of assets under management (AUM). Smaller family offices managing USD 100 million to USD 250 million cost proportionately more to run in 2023 at 46.6 bps of AUM. Mid-sized and large family offices cost proportionately less, with offices managing USD 251 million to USD 1 billion costing 36.3 bps and those managing more than USD 1 billion about the same at 36.7 bps, according to the survey data.

## Staff and IT/technology spending is expected to increase

Changes to spending over the next three years




*Net equals increase minus decrease

## 60% of family offices offer a discretionary bonus

Compensation offered to employees over and above a base salary

Most family offices pay staff bonuses, although this varies by region. Sixty percent of family offices pay a discretionary bonus and 47% a performance-linked bonus. In the US, where there is more of a bonus culture, 76% of family offices pay a discretionary bonus and 69% a performance-linked bonus. In Switzerland, by contrast, just 47% and 50% respectively do so. US family offices are also most likely to pay other types of incentive. For instance, almost half (48%) of the US family offices offer co-investment opportunities and 31% carried interest. This compares with global averages of 23% and 11% respectively.

| | |
|---|---|
| Discretionary bonus | 60% |
| Performance-linked bonus | 47% |
| Co-investment opportunity | 23% |
| Indirect financial benefits (i.e., quality pensions, medical coverage, company cars, etc.) | 20% |
| Carried interest | 11% |
| Guaranteed bonus | 8% |
| Phantom equity (i.e., a contractual agreement to pay cash in the future tied to the market value of shares) | 6% |
| Leverage through (non-)recourse loans | 5% |
| Operating company equity | 4% |
| Other | 4% |
| Not applicable – we don't offer any types of compensation over and above a base salary | 12% |



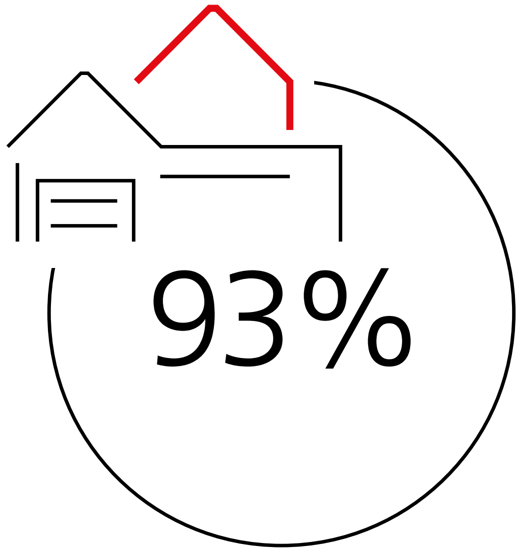




# United States

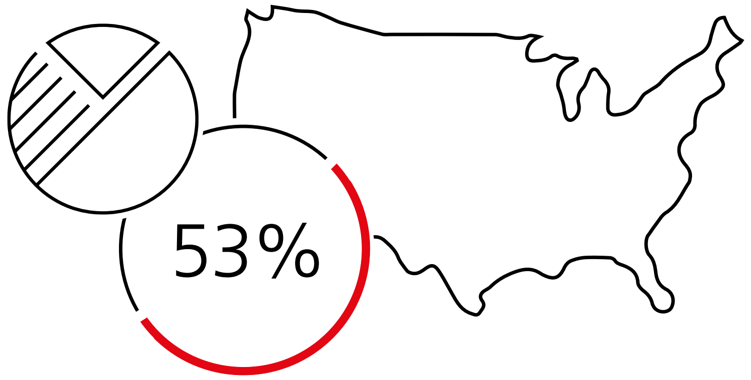
## Real estate investments

93% of real estate investments are domestic residential/commercial



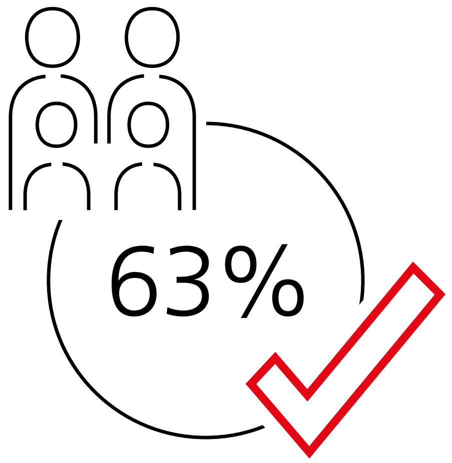

## Top strategy to enhance portfolio diversification

53% use high-quality short-duration fixed income



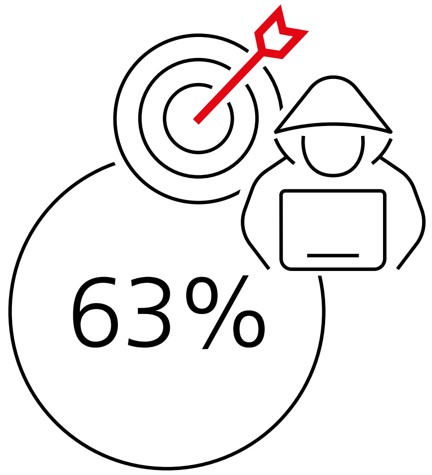

## Family office processes

63% have a wealth succession plan for the family members in place



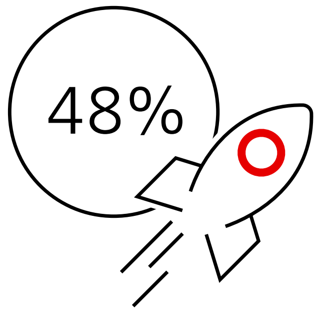

## Cyber security

63% have already been targeted by cyber threat actors




## Compensation

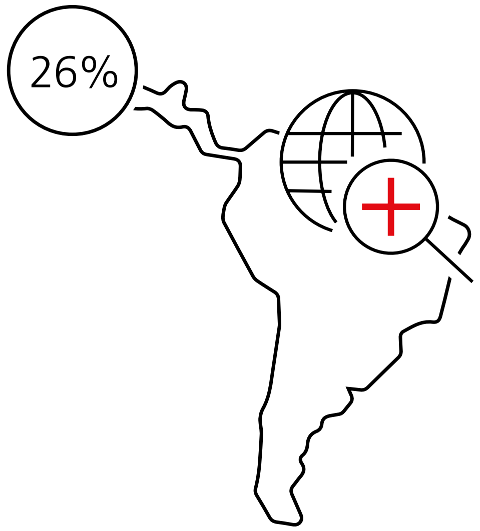
48% offer a co-investment opportunity



# Latin America

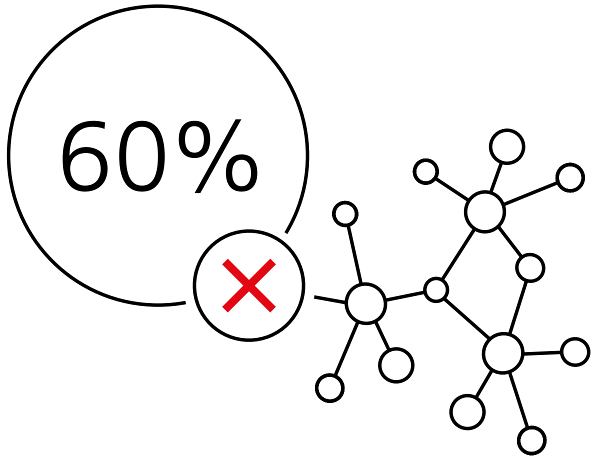
## Top concern

26% say geopolitics



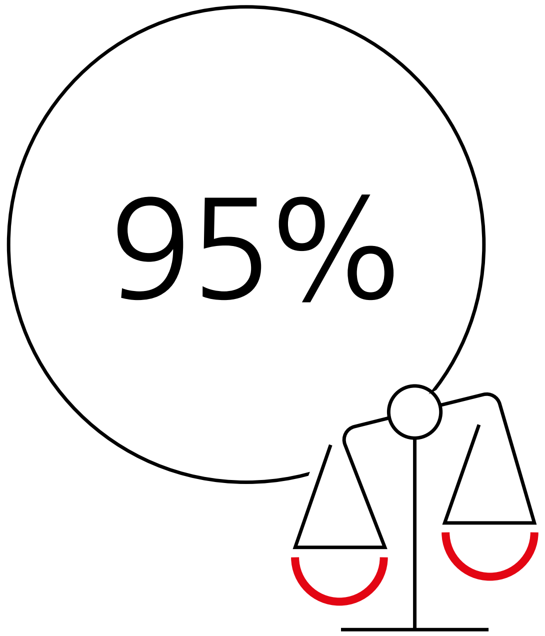

## Decentralized payments/technologies

60% don’t invest in decentralized payments/technologies



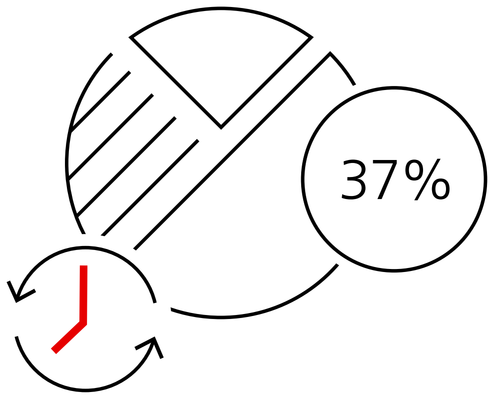

## Rebalancing of portfolio

95% rebalance their portfolio




## Top strategy to enhance portfolio diversification

37% use high-quality short-duration fixed income




## Fixed income

In 2022, average allocation to fixed income was at 30%

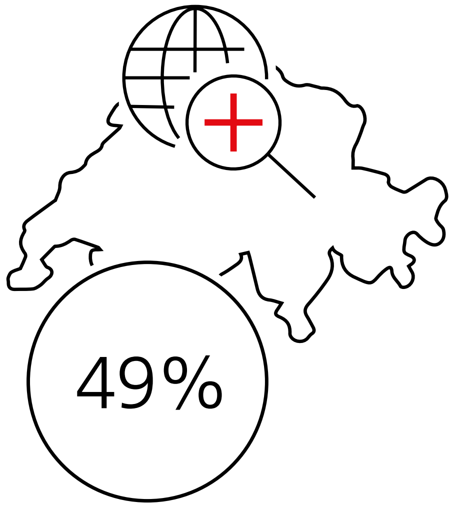





# Switzerland

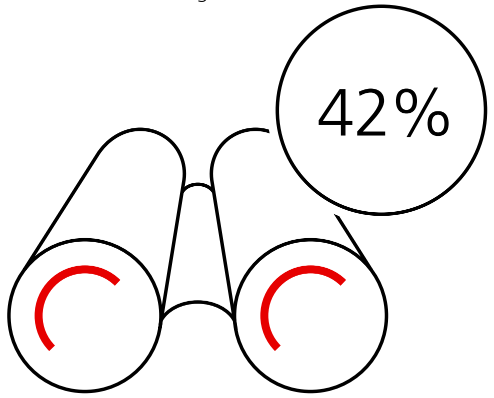
## Top concern

49% say geopolitics



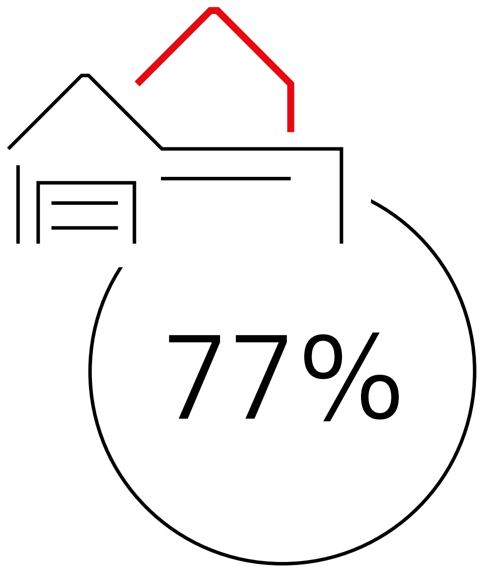

## Top strategy to enhance portfolio diversification

42% rely more on manager selection and/or active management



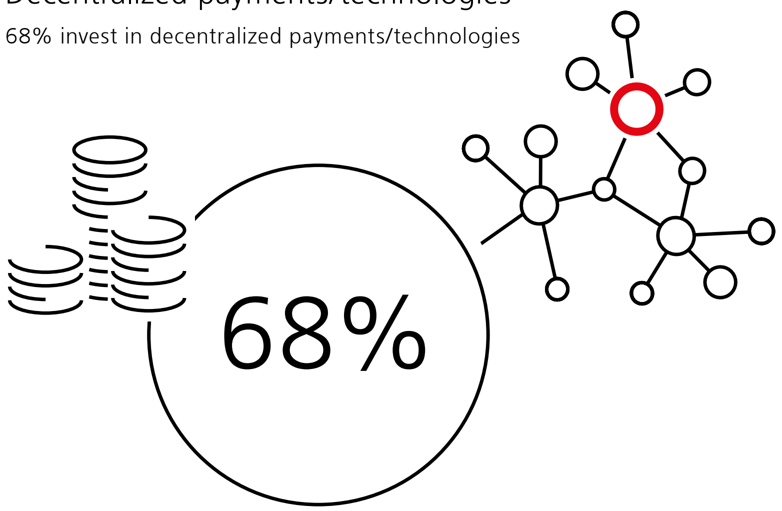

## Real estate

77% of real estate investments are direct investments in fully owned physical real estate




## Decentralized payments/technologies

68% invest in decentralized payments/technologies



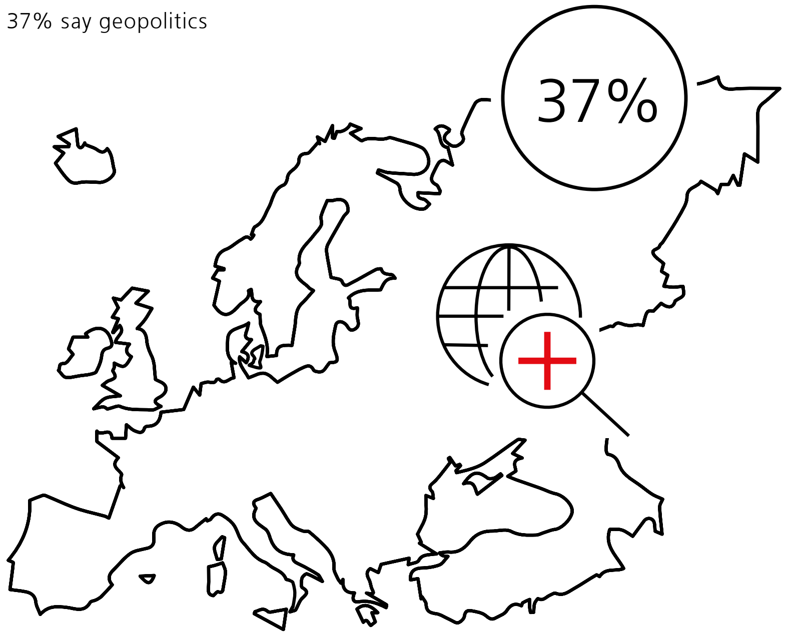

## Compensation

50% offer a performance-linked bonus

# Europe

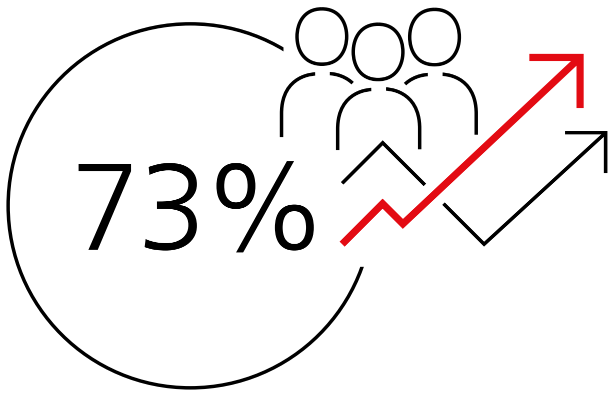
## Top concern

37% say geopolitics



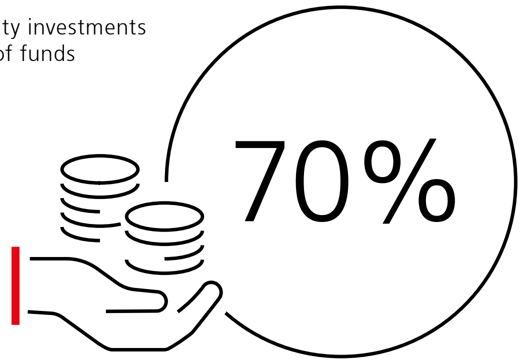

## Cost development

73% expect a net increase of staff costs over the next 3 years



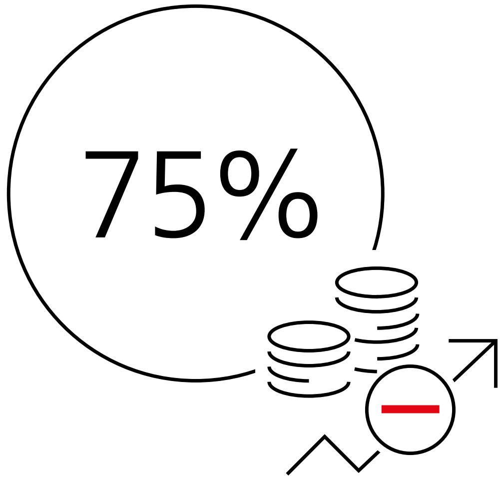

## Private equity

70% of private equity investments
are funds or funds of funds



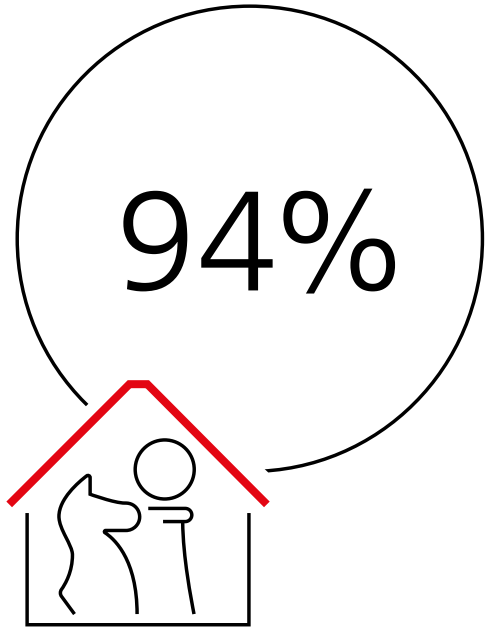

## Portfolio diversification

75% say illiquidity increases returns




## Management of services

94% manage strategic asset allocation in-house



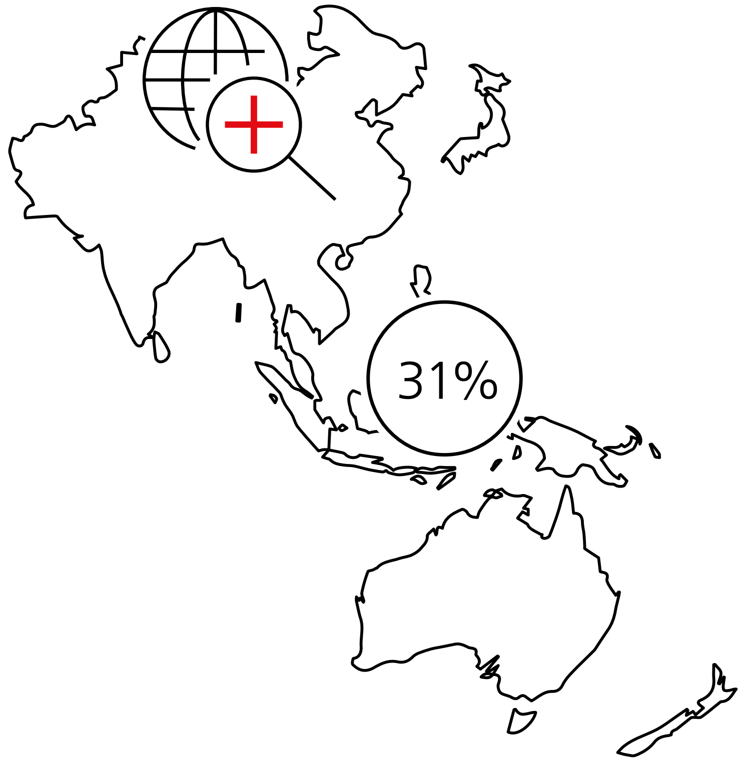





# Asia-Pacific

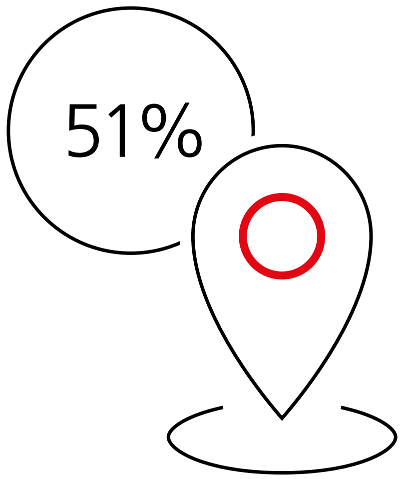
## Top concern

31% say geopolitics



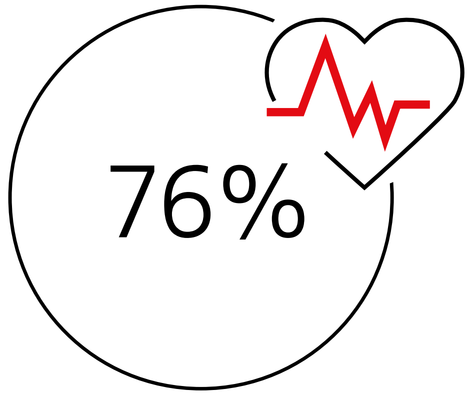

## Home bias

51% of assets are invested in Asia-Pacific
(incl. Greater China)



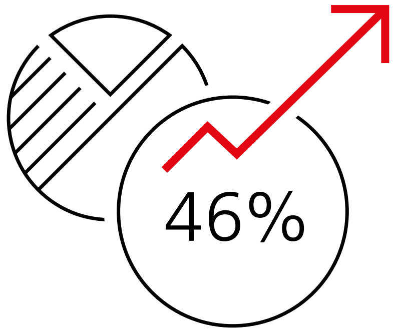

## Top investment theme

76% are likely to invest in medical
devices/healthtech



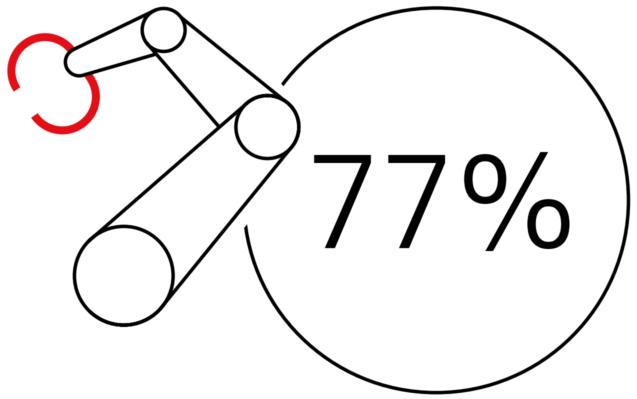

## Top strategy to enhance portfolio diversification

46% choose hedge funds




## Private equity

77% of private equity investments are invested in technology



# Some facts about our report

## Net worth averaging USD 2.2 billion

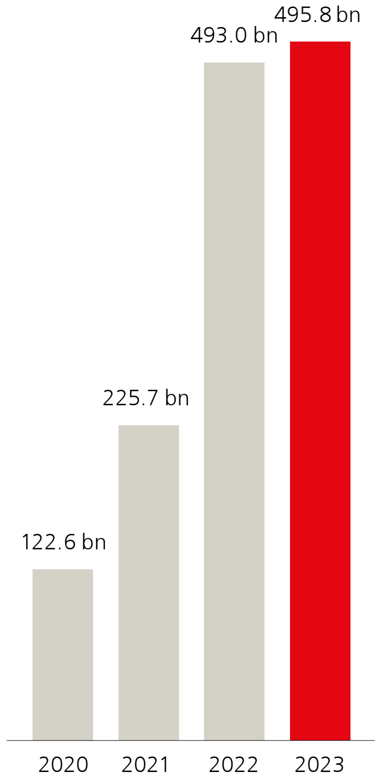
The Global Family Office Report 2023 is the fourth of our annual surveys on the activities of family offices researched and written in-house. The number of family offices responding to our survey has increased slightly to 230, up from 221 last year.

The average net worth of participating families is USD 2.2 billion. On average, their family offices manage USD 0.9 billion.

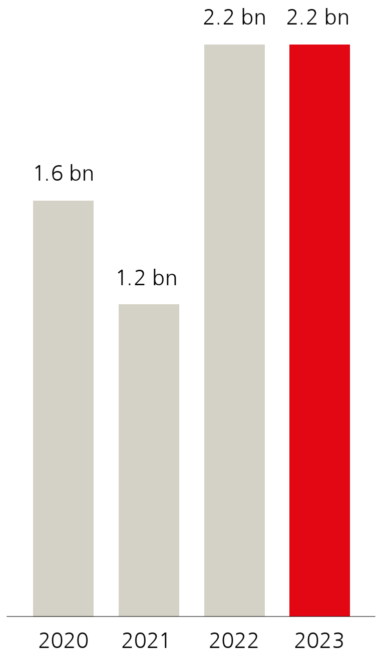
## Total net worth is slightly up

Total net worth of founding family

Total wealth in survey reaches USD 495.8 bn

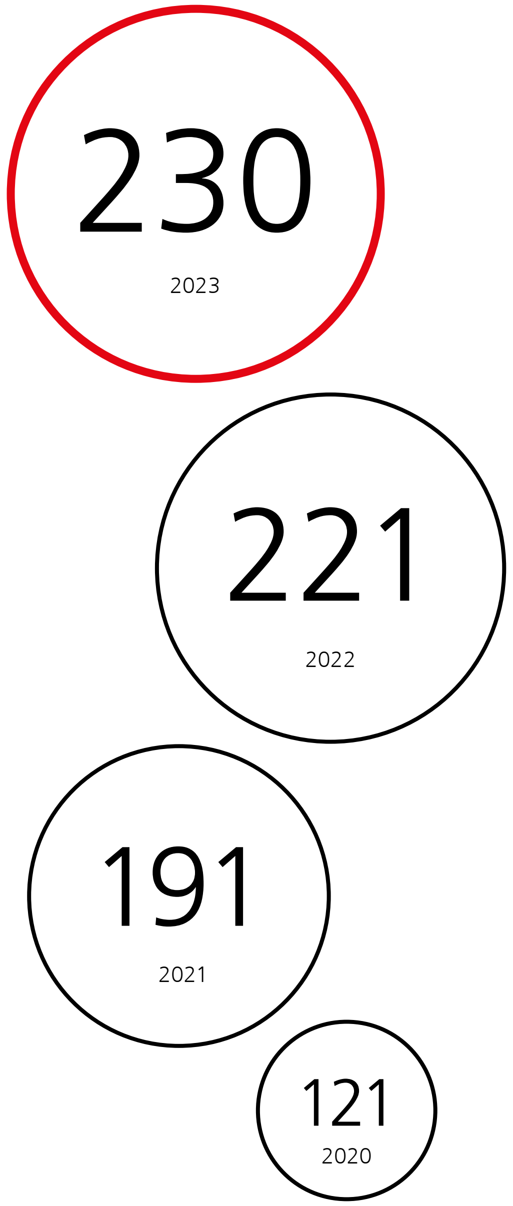



Average total worth reaches USD 2.2 bn




## 230 family offices participated globally

Sample size year-over-year



## Generational split

Most of the family offices serve the first and second generation. Fifty-one percent serve the first generation and 55% the second, with 31% serving the third. Unsurprisingly, the longer-developed markets such as the US and Switzerland tend to have more multi-generational family offices than their peers in fast-emerging regions like the Asia-Pacific.

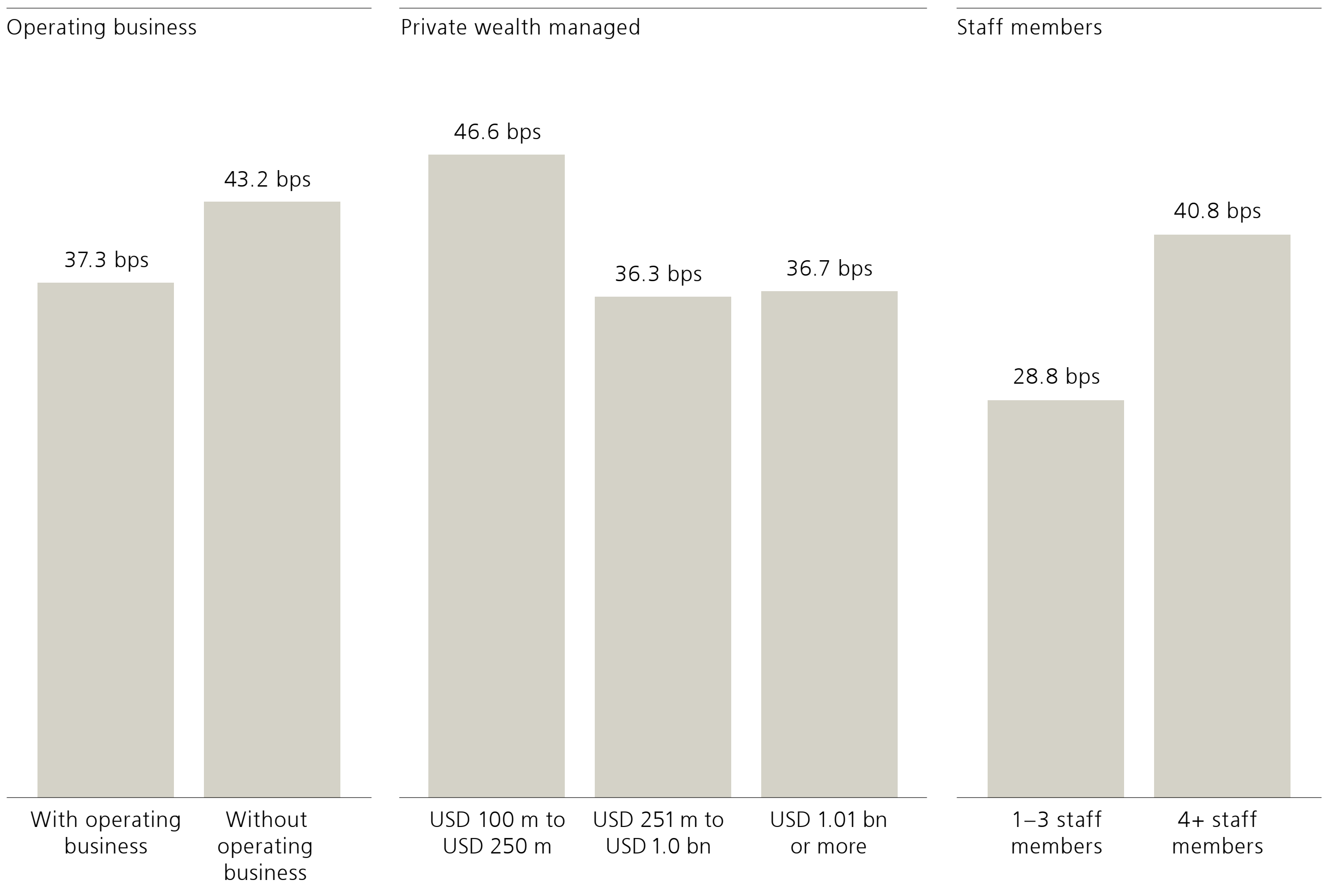
## Operating businesses

Almost four fifths of family offices (79%) still have operating businesses. The most popular sector is real estate (38%), although in reality the border between real estate operating and investment businesses is often blurred. The second most common sector is industrials (21%), closely followed by financials (20%) and consumer discretionary (19%).

More than a third (37%) of family businesses pay cash flows to family offices for ongoing investment. However, almost half (48%) of family offices are entirely separate from the family's business. In 8% of cases, the family office pays cash into the family business.

### Operating business, private wealth managed and staff members have an impact on costs

Pure cost of operating the family office in 2023






## Methodology

This marks the fourth iteration of the Global Family Office survey. UBS surveyed 230 of its clients between 19 January and 5 March 2023. Participants from across more than 30 countries worldwide were invited using an online methodology. The sample is slightly higher than in prior years. We surveyed 221, 191 and 121 UBS clients for the 2022, 2021 and 2020 editions of the report respectively.

The regional distribution of the 2023 sample is as follows:
– Europe 29%
– Asia-Pacific 20%
– Switzerland 17%
– US 14%
– Latin America 13%
– Middle East and Africa 7%.

In some instances, the data may not look as if they add up correctly. This is because we have added the figures together to two decimal places, which can result in slight variations to the figures when rounded.

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