# Wharton Global Family Alliance

## 2018 Family Office Benchmarking Report

*Executive Summary*

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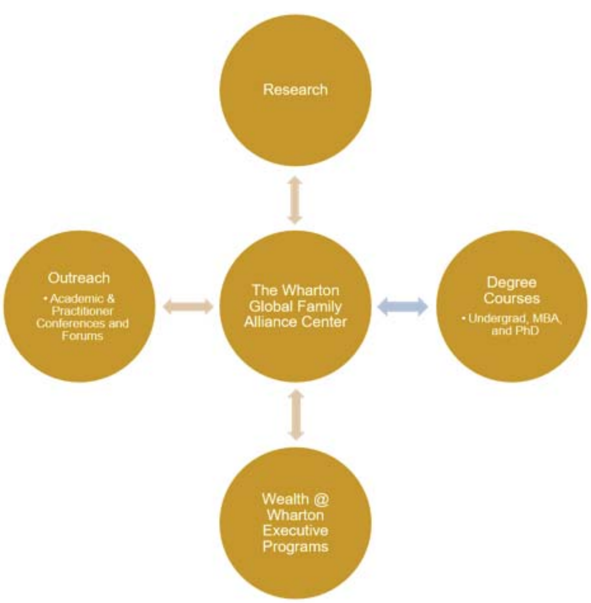
# Executive Summary

## *Introduction*

*The Wharton Global Family Alliance 2018 Family Office Benchmarking Report* is one in a series of reports from the Wharton Global Family Alliance. The detailed 2018 report regarding the findings of the 2017 survey is distributed exclusively to Family Offices that completed the survey. This summary of the 2018 Benchmarking Report is presented to share more widely some of the insights gained on current practices of Family Offices around the world. This is the fourth detailed benchmarking survey undertaken by the Wharton Global Family Alliance in order to develop a better understanding of the performance drivers of Family Offices, and to share that emerging knowledge with participating families in a manner that preserves anonymity and confidentiality.




## *The Wharton Global Family Alliance*

Established in 2004, the Wharton Global Family Alliance (WGFA) is a unique academic-family business partnership established to create and disseminate actionable knowledge that is helpful, timely, and important to substantial families and to their businesses through:

- Knowledge creation and thought leadership through research (creating cutting edge research and publishing it in academic and practitioner journals).
- Knowledge dissemination and transfer through teaching (to convey knowledge across generations through a range of degree and non-degree customized executive programs).
- Outreach to bring influential global families together to discuss mutual interests and problems as well as share best practices. To this end, The Family Office Round Table (FORT) forum meets annually in different locations around the world.

The WGFA provides a forum for global families that control substantial enterprises and resources to engage with leading faculty researchers at the Wharton School at the University of Pennsylvania. WGFA researchers focus on key issues affecting substantial families, their family businesses, and their related entities such as the family office and the family foundation, combining two highly credible and complementary sources of insight – the practical expertise of highly successful global families and rigorous scholarly analysis from Wharton researchers.

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## *The 2017 Benchmarking Survey*

The online survey instrument was developed and tested in Q1 2017. It was distributed in the spring and early summer 2017 both directly to Family Offices and through a select number of firms who have Family Office clients.

The survey includes the following ten sections:

A. Family Office Detailed Background Data

B. Family Office Investment Objectives and Asset Management

C. Family Office Risk and Return Measurements

D. Family Office Governance

E. Family Office Documentation

F. Family Office Processes

G. Family Office Communications

H. Family Office Human Resources Practices

I. Family Office Education and Succession Planning

J. Family Office Information Technology

Each section contains a set of detailed questions on issues that are of concern to principals and managers of Family Offices. The survey was designed with a view to maintaining a balance between obtaining a high level of detailed information and ensuring that the survey's overall length was manageable.

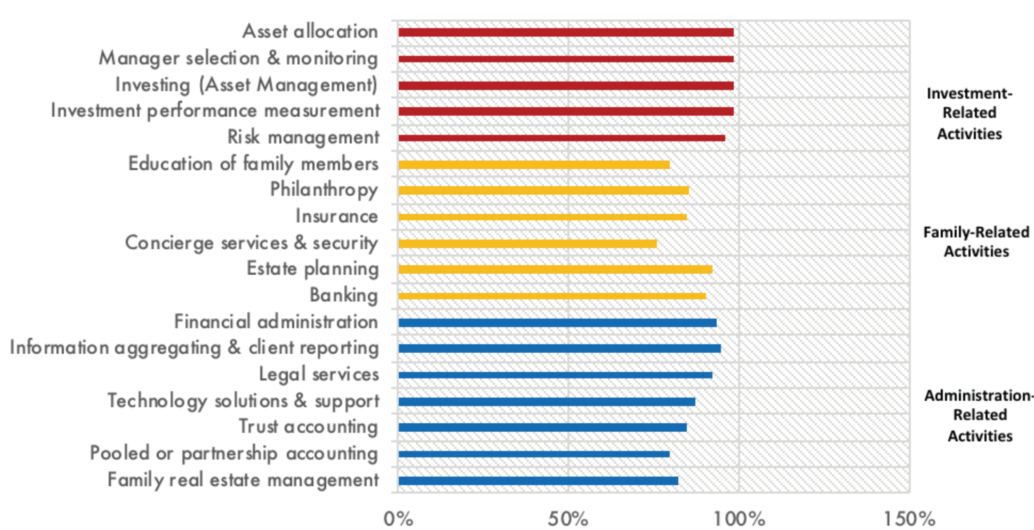
## *Descriptive Analysis of the 2017 Family Office Sample*

While the 2017 sample of Family Offices that are examined in this report covers 17 countries, the majority (63.2%) are headquartered in the Americas region which includes North, Central, and South America; 15.1% are in Europe; 8.5% in the rest of the world (RoW); and 13.2% did not respond regarding their location. A more even geographic distribution of Family Offices respondents would have enabled a meaningful regional comparison, which cannot be done in light of this year's sample.

With respect to the Assets Under Management (AUM) that are managed by the Family Offices in our sample, 34% have greater than $1 billion, while 18.9% have between $500 million to $1 billion; 21.7% have AUM between $100 million and $500 million. Regretfully, close to 22% of respondents did not address this question, a fact that is reflected in the analysis that follows.

Approximately half of the 2017 sample families own, manage, and/or control one or more businesses in addition to the wealth that is managed by their Family Office. This represents a slight decrease as compared to 2011 survey respondents (57.5%).

Percent of Family Offices that have the Activity



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## Key 2017 Observations

### *Family Office activities*

While Family Offices are anchored in investment management activities, integrating family-related and administrative activities into a holistic family wealth management service is critical. Our correlation analysis points to the strong association between the financial performance of the AUM and the range of supplemental services provided by the Family Office, highlighting the relative importance of non-investment management activities.

On average, Family Offices in our sample serve between 4-6 households and are staffed with 8-11 professionals. This represents an increase in professional staff members over previous years, which reflects the trend to internalize such activities as asset allocation, risk management, and estate planning that previously have been outsourced.

### *Asset allocation trends*

Wealth preservation is the single most important investment objective of Family Offices. Public equity and private equity are the top two assets classes that account for the majority of asset allocation in our sample.

### *Cost breakdown*

Expense distribution is weighted towards investments, with 73% of Family Office expenses allocated in investment related activities. About half of the investment related expenses and two-thirds of non-investment related expenses are incurred in-house.

### *Financial performance*

The most prevalent measure that Family Offices tend to refer to is actual three-year average annual net returns after fees and taxes. Expectations with respect to future returns indicate confidence and optimism: 45% of respondents expect to realize 4-6% net returns on their investment portfolios, 30% of Family Offices expect returns to be in the range of 7-9%, and 10% expect to realize returns in excess of 10%.

### *Fintech*

Ease of use and adaptability to the customer's context and confidentiality are the primary criteria used when selecting a technology platform. Recent Financial Technology (FinTech) developments are finding their way into Family Offices through a range of applications, some of which are cloud-based, that enhance capabilities and reduce costs in accounting management, tailored report composition, and handheld display capabilities.

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## *Trend Analysis, 2011-2017*

By comparing the 2017 survey to past surveys, we note that Family Offices carried out both more investment related and more family related activities, in particular the education of family members. While the median Family Office grew in the number of professionals employed and the number of households served relative to past surveys, the penetration of FinTech applications appear to have enabled productivity enhancements in the Family Office. Family Offices also use more custodians than in the past.

Asset allocation trends point to a growth in allocation to private equity and principal direct investment and a continuing decline in allocation to hedge funds, which in general have not met performance expectations.

The 2017 survey indicates a substantial increase in the share of in-house investment related expenses out of total expenses, while the share of non-investment related expenses of Family Offices declined. Investment related expenses grew faster than non-investment related expenses as a result of the increase in the number of households served by Family Offices and the increase in investment related activities of Family Offices.

There appears to be a major shift in the sources of recruiting Family Office professionals relative to past surveys. Traditional sources of recruiting such as vendors, the family's operating companies, headhunters, and industry organizations have declined in importance, while other recruiting sources such as word of mouth and personal referrals from within the Family Office have increased. Family Offices view performance-based incentive schemes as more important incentive tools than in previous years, and non-monetary incentives have become an increasingly important retention tool for professional staff.

Family Office owners have been paying substantial attention to leadership and management succession. The 2017 survey reveals that capabilities and merit based factors, such as industry experience and knowledge and expertise in managing family dynamics, are dominant in making succession decisions.

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## *Performance Drivers*

This year's study categorizes Family Offices based on their actual 5-year average annual net return. Family Offices with 5-year actual average annual net return greater than 10% are categorized as **high-performers** (against which we benchmark other Family Offices), while Family Offices with 5-year actual average annual net return less than or equal to 10% are defined as **low-performers**.

High-performers have a higher quality index compared to low-performers, where quality is defined as the completeness and comprehensiveness a wide range of operational aspects of a Family Office.

While there are some differences in the relative importance of investment, family, and administrative activities between low- and high-performing Family Offices, high-performers pay more attention to quantitatively measured performance, family education, and estate planning.

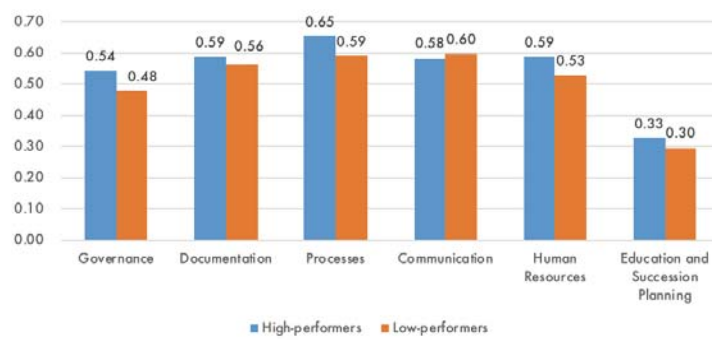
High-performers served more households with more professional employees and more often performed investment activities in-house, while low-performers outsourced investment activities more frequently. They also allocate a greater fraction of their investment related and non-investment related expenses to in-house expenses, as compared to low-performers.

High-performers have more governance institutions and governance policies than low-performers, with more than 80% of high-performers having investment and management committees in place. AUM size and scope of activities are among the main drivers of Family Office governance architecture.

High-performers in our 2017 survey had major exposure to public equity markets and made fewer commitments to private equity and hedge funds. They were also less diversified across asset classes and geographical regions, and they made asset allocation decisions in-house rather than outsourcing them.

With respect to future expectations about portfolio returns, high-performers are more optimistic about 1, 3, 5 and 10-year net portfolio returns, expecting average annual returns of 7-9% net after taxes and fees over a 5-year period.

Quality Index (Mean Comparison)



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