Wharton Global Family Alliance

2020 Family Office Benchmarking Report

Executive Summary

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Acknowledgments

We thank the team at the Wharton Global Family Alliance, particularly Amy Weiss and Chaim Fishman for their outstanding support. We are indebted to Laird Pendleton, our partner at the CCC Alliance, for his insights and support throughout this project.

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Introduction

The Wharton Global Family Alliance 2020 Family Office Benchmarking Report is one in a series of reports from the Wharton Global Family Alliance. The detailed 2020 report regarding the findings of the survey is distributed exclusively to Family Offices that completed the survey. This summary of the 2020 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 fifth 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.

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 2020 Benchmarking Survey

The online survey instrument was developed and tested in Q2 2020. It was distributed in Q3 2020 both directly to Family Offices and through a select number of firms who have Family Office clients.

The survey includes the following 10 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 2020 Family Office Sample

While the 2020 sample of Family Offices that are examined in this report covers 18 countries, the majority (70%) are headquartered in the Americas region which includes North, Central, and South America; 19% are in EMEA; and 11% are spread across the Rest of the World (RoW). A more even geographic distribution of Family Office 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, 42% have greater than $1 billion, while 20% have between $500 million to $1 billion; and 34% have AUM between $100 million and $500 million. Regretfully, 3% of respondents are smaller or did not address this question, a fact that is reflected in the analysis that follows.

62% of the 2020 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 an increase as compared to 2018 survey respondents.

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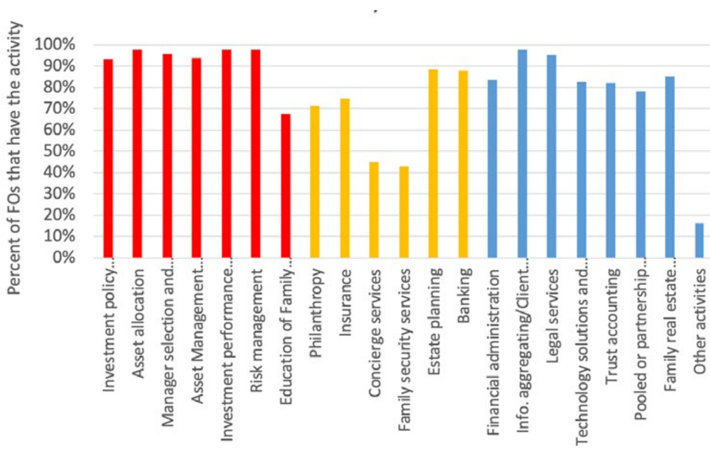
Key Observations

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 importance of non-investment management activities such as estate planning and education.

About half of the Family Offices in our sample serve between 1-3 households, about a quarter serve 4-6 households, and the balance of Family Offices in our sample serve more than 7 households. About a third of the sample Family Offices have 4-7 professionals while about 42% employ more than 8 professionals. Comparing these results to past surveys, we note that 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.

Activity Prevalence



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. Interestingly, we note that COVID-19 did not bring about a material change in asset allocation despite substantial uncertainty caused by the pandemic.

Cost breakdown

Expense distribution is weighted towards investments, with 67% of Family Office expenses allocated in investment related activities. About half of the investment related expenses and close to two-thirds of non-investment related expenses are incurred in-house. We note that when comparing these results to past surveys, the share of investment related expenses out of total expense has declined indicating greater attention by Family Offices to non-investment related activities.

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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. Post COVID-19 expectations with respect to future returns based on average annual net return over three years indicate substantial confidence and optimism: 44% of respondents expect to realize 4-6% net returns on their investment portfolios, 32% of Family Offices expect returns to be in the range of 7-9%, and 18% expect to realize returns in excess of 10%.[1] These return expectations are substantially higher than expectations we recorded in past surveys.

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. While 60% of Family Offices in our sample have some in-house IT capabilities, over 90% outsource to vendors for help with managing IT and cybersecurity protocols which cover every aspect of the operations of the Family Office. While close to 100% of Family Offices report that their enterprise data cybersecurity is outsourced to vendors, only 20% report that they believe that their cybersecurity systems are resilient.

1 The balance of firms expect less than 6% average three-year nominal net portfolio return.

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Performance Drivers

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

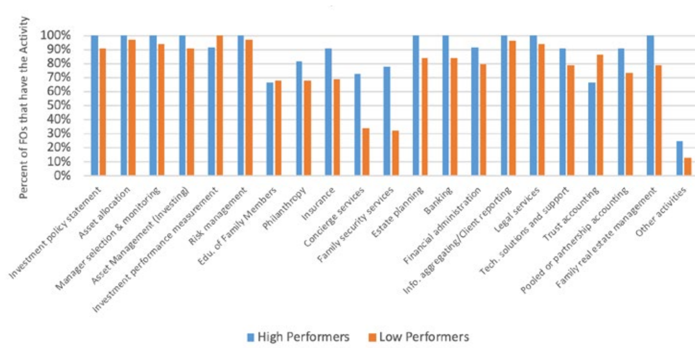
First, we observe that high-performers are Family Offices that are engaged in a broader range of activities than low-performers as depicted in the figure below. This observation highlights the important complementarity among investment management and non-investment management activities of Family Offices.

With respect to regional distribution of assets, we note that relative to low-performers, high-performing Family Offices in our sample invest more in BRIC and other emerging markets as well as in opportunity zones or other tax deferred strategies. High-performing Family Offices in collaboration with other Family Offices make direct private equity investments more frequently than low-performers, but they also staff up with PE professionals more frequently than low-performers. These observations are consistent with past survey results.

High-performers have internalized Family Office activities to a greater extent than low-performers. They also allocate a greater fraction of their investment related and non-investment related expenses to in-house expenses, as compared to low-performers. Low-performers outsourced investment activities more frequently and spent a greater fraction of their expenses on investment management relative to high-performers. Again, these observations are consistent with past surveys and are indicative of a trend that characterizes high-performers.

While there are some differences in the relative importance of investment, family, and administrative activities between low- and high-performing Family Offices, high-performers review asset allocation more frequently, monitor external managers more frequently, have more comprehensive governance mechanisms and related policies, keep family members informed about investment performance and other activities more frequently and in greater detail, pay more attention to quantitatively measured performance, and use hedging strategies designed to mitigate perceived capital market risks more frequently than low-performing Family Offices. Importantly, high-performing Family Offices engage family members in educational activities much more frequently than low-performing Family Offices in our sample.

ACTIVITY PREVALENCE



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