INSIGHTS

SUPPORTED BY: SS&C

MARCH 2024

HEDGEWEEK

FAMILY OFFICES: A NEW ERA OF GROWTH

THE OPPORTUNITY AND OPERATIONAL LANDSCAPE IN 2024

EXECUTIVE SUMMARY

The family office industry is riding a wave of growth. New sources of wealth and growing business fortunes have driven an unprecedented expansion in adoption of the family office model, with one leading data provider saying their numbers increased threefold between 2019 and 2023. This growth has been accompanied by challenges as wealthy individuals and families encounter the world of investment management, some for the first time. How should they invest their wealth? What are best practices in the middle and back-office? Which functions can/should be outsourced and what role can technology play? How can differing generational priorities be handled?

This data-driven Hedgeweek report, sponsored by SS&C, will address these pressing questions, providing valuable intelligence and context to the family office market. Using data sourced from our survey of over 50 global family offices, the report will provide insights into the key debates and help practitioners stay on trend when it comes to best practices and latest trends in this dynamic space. Part I will focus on the outlook, giving a sense of asset allocation trends and the implications of the “great wealth transfer” underway across the globe. Part II will focus on the operational nuts and bolts in this space, from outsourcing to technology and the key challenges faced by family offices. We hope you find the insights in this report valuable.

WILL WAINEWRIGHT
HEAD OF HEDGE FUND RESEARCH

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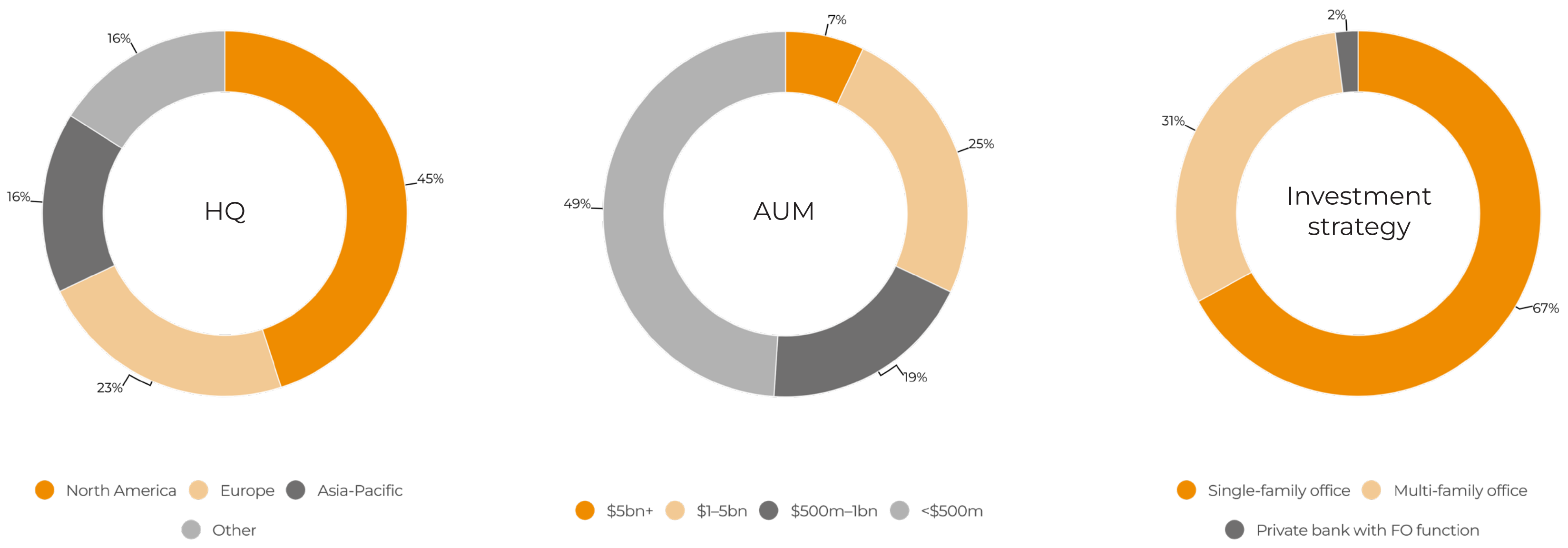
Breakdown of respondents to Hedgeweek's Family Office Insight Survey by firm headquarters, AUM and investment strategy.



METHODOLOGY

A key source of data in this report is the results of Hedgeweek's Family Office Insight Survey conducted in Q1 2024. Further insights in this report were gathered during interviews in February and March 2024 with named and unnamed industry sources, and additional third-party research and intel.

KEY FINDINGS

1

Family offices hunt private credit

Private credit is the most in-demand asset class among family office investors, with 61% looking to increase exposure and just 7% a cut. Its diversification benefits and promise of returns in a higher-rate environment, beating traditional fixed income yields, are behind this increase. Alternatives are high on the agenda for families building and protecting wealth in the new market environment.

2

Hedge fund comeback on cards

Though private market strategies topped family office wish lists in the Hedgeweek survey, interviews picked up increasing interest in hedge funds after their lean post-2008 period of performance. The new era of volatility and higher rates could help them deliver strong returns once more, and many advisers are seeing increased family office interest.

3

Outsourcing is common practice for FOs

Just 11% of family offices surveyed by Hedgeweek don't outsource any key function, meaning the vast majority are already familiar with the practice. Almost three-quarters of family offices globally outsource their legal function, more than any other part of the business, followed by technology/IT infrastructure (61%) and accounting (48%).

4

Higher tech adoption led by multi-FOs

More than half (58%) of family offices say they "value technology and are pressing to increase use across the family office to improve efficiency and drive growth". Technology adoption is furthest along for multi-family offices. Increasing family office sophistication in the middle and back-office will increase in the years ahead as complexity increases.

FAMILY OFFICE TRENDS IN 2024 AND BEYOND

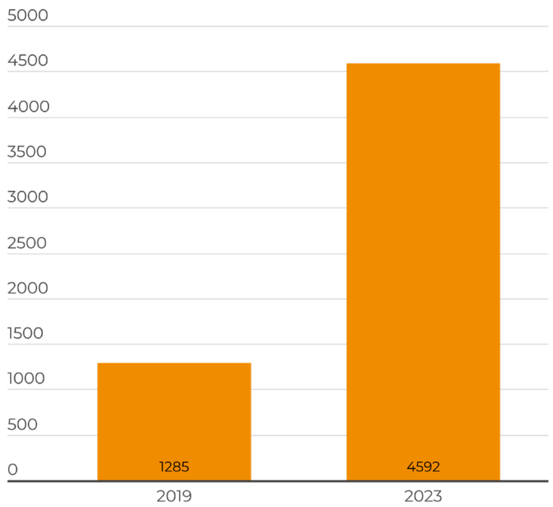
How are family offices allocating capital following their recent expansion, driven by the "great wealth transfer" – and how do generational priorities differ?

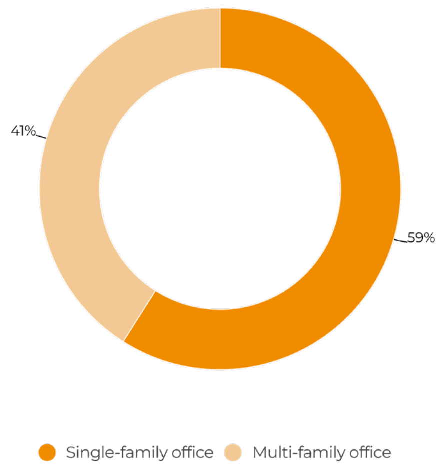
The huge expansion in the family office market has been one of the financial sector's most significant trends in recent years. The number of family offices increased threefold between 2019 and 2023, to almost 5,000, according to Preqin (see Fig. 1.1). Of these, 59% are single-family offices and the remainder, multi-family office groups running money for more than one family.

Meanwhile, EY puts the number even higher, at more than 10,000, most of which were created in the past 15 years. Though estimates vary, all agree on the large scale and recent nature of the family office market's rapid expansion.

What has driven this? In short, an unprecedented increase in personal wealth. The number of ultra high net worth individuals (UHNWI) with $30m or more in personal wealth rose 4.2% between 2022 and last year, to more than 626,000 globally, according to Knight Frank data. And that number is due to increase 28% in the next five years, driven most by growing wealth in Asia (see Fig. 1.2).

Fig. 1.1 Number of family offices globally, 2019 vs. 2023





Source: Preqin, Fundraising from family offices – a guide to raising capital, 2024

The "great wealth transfer" from the post-war generation to millennials, the group of individuals born between 1981 and 1996, is changing the shape of family office investing, with the next generation having more input into decision-making over everything from asset allocation to technology, which this report will explore.

And global regional shifts are at play. There is a big increase in domestic wealth in Asian countries like China and Singapore, while other places, notably Middle Eastern hubs like Dubai and Abu Dhabi, have attracted family office wealth by creating a welcoming corporate and regulatory regime from which to manage money.

ASSET ALLOCATION

What are these family offices investing in? It will depend on a range of factors, including expertise and interest, political beliefs, investment priorities and risk appetite. Is it about increasing fortunes quickly or preserving wealth for future generations?

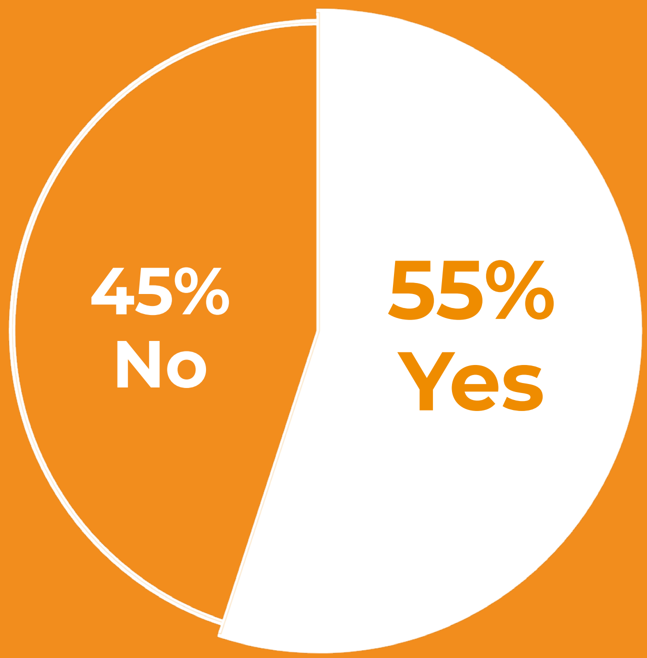
Some of these family offices will be set up by entrepreneurs who generated their wealth in financial services, for instance hedge fund managers who may have fixed ideas about asset allocation and are happy taking calculated risks, while others will have more traditional wealth backgrounds.

What is clear is that family offices are investing more in alternatives after the pandemic. Private credit is the most in-demand asset class with family offices (see Fig. 1.3a). Bruno Schneller, managing director at INVICO Asset Management, a family office and wealth manager in Zurich, explains their increased interest in private credit at a time of higher interest rates.

KEY FINDING

Private credit is the most popular strategy for family offices currently, with 11 out of every 20 FOs planning to increase exposure…

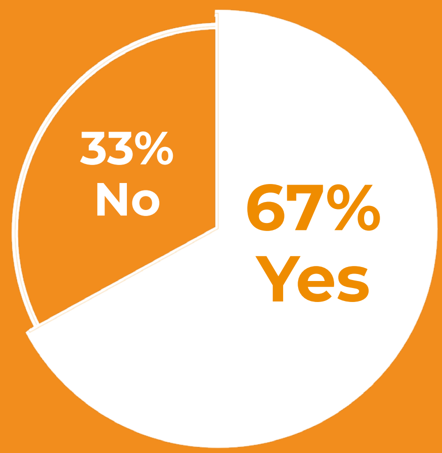
Proportion of family offices signalling higher exposure to private credit:



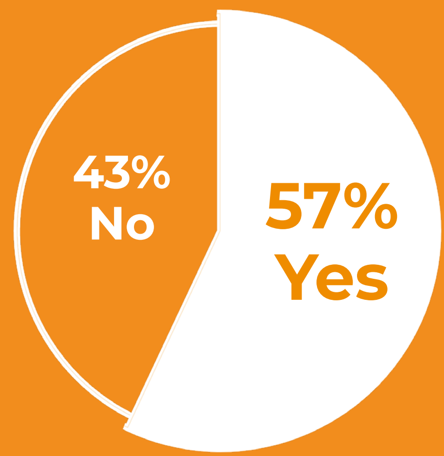
… And smaller family offices were more likely than larger ($500m+ AuM) to be increasing exposure to the asset class.

Do you plan to increase exposure?
(with non-applicable stripped out)

Sub-$500m

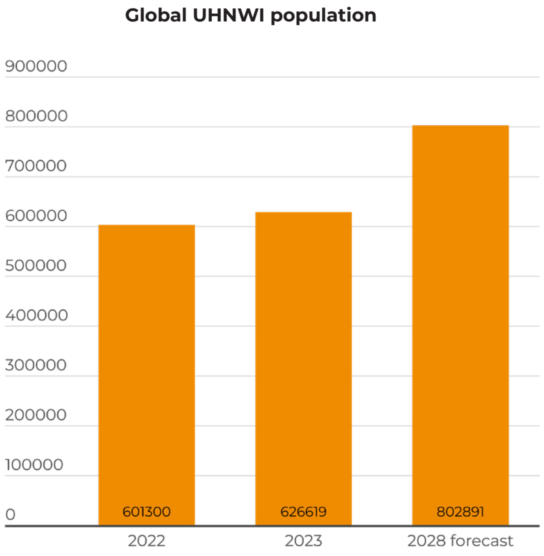


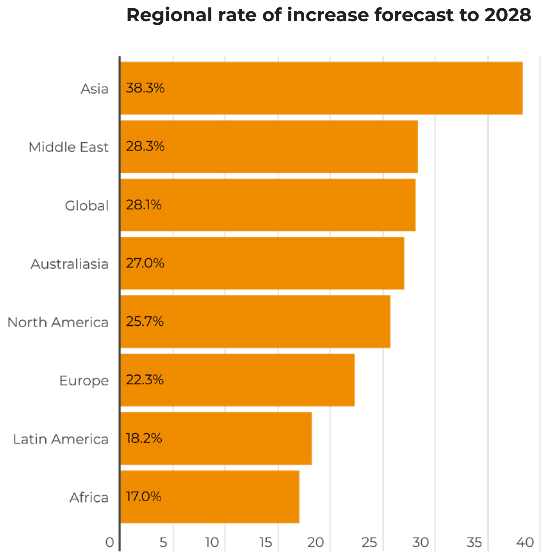
$500m+



INSIGHTS

Fig. 1.2 Global Ultra high-net-worth individual population, 2022 to 2028 projected





Analyst note: *Ultra high-net-worth individual = $30m+ wealth*

Source: Knight Frank wealth survey, 2023

"The rising interest in private credit within our asset allocation strategy is driven by several factors. Firstly, private credit offers attractive risk-adjusted returns, especially in an environment where traditional fixed income yields may be low," he says.

"Additionally, private credit provides diversification benefits and can offer a hedge against market volatility. The ability to structure bespoke financing solutions also allows for better alignment with our investment objectives and risk appetite."

The interest in private credit is emblematic of the interest family offices had historically and increasingly still do in alternatives. A high proportion of family offices globally already have exposure to alternatives – 57% in North America, 69% in Europe and 74% in Asia, according to Preqin, and that proportion is expected to increase.

Last year research by RBC Wealth Management and Campden Wealth found that North American family offices have continued to increase private market exposure to the point that it had displaced public equities as the more sought-after.

"We are certainly seeing more flows from private wealth channels into the private markets world," says David Helgerson, head of impact investments at Hamilton Lane. "Most notably through some of the semi liquid alternatives like our evergreen funds. Portfolio construction

Fig. 1.3a Family office allocation plans for 2024

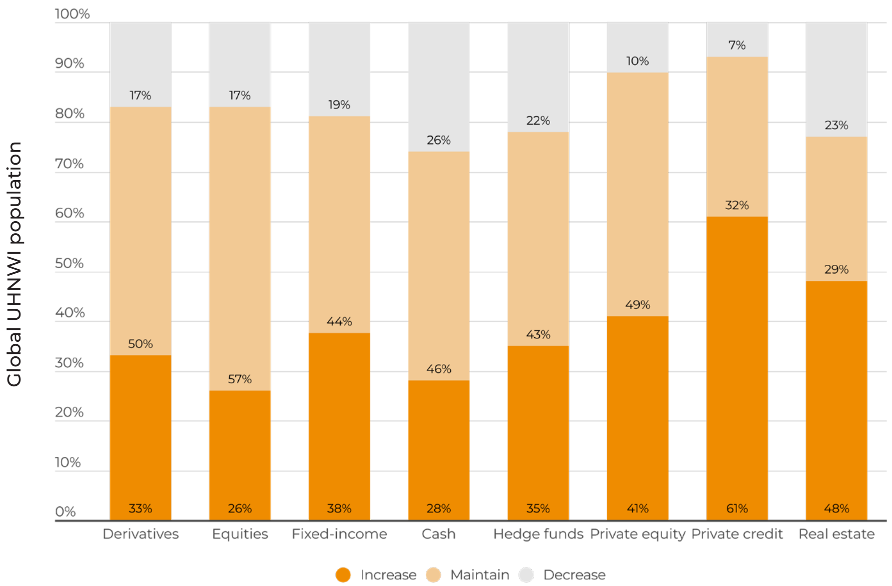
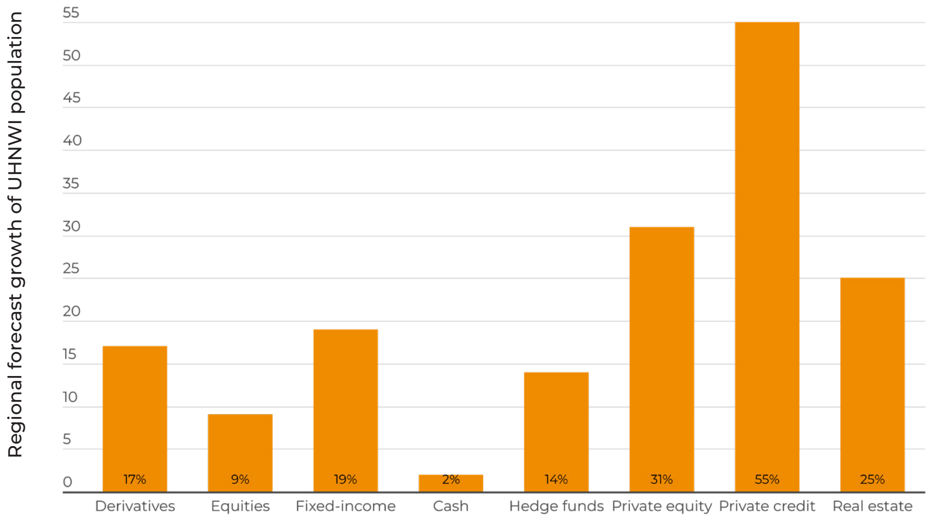


Fig. 1.3b Family office allocation plans for 2024 – net increase



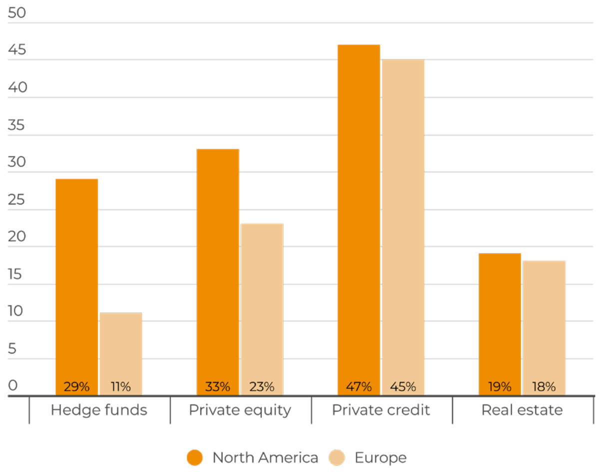
Analyst note: *Survey respondents were asked in March 2024, 'Do you plan to increase, maintain, or decrease exposure to the following asset classes in 2024: Please answer for each asset class. If not currently invested, please select n/a for asset class.'*

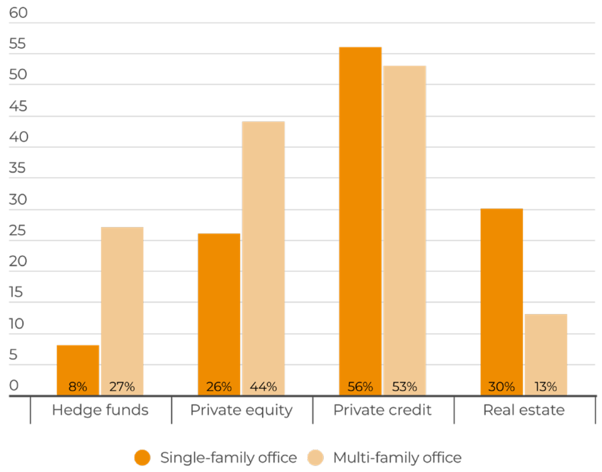
Source: Hedgeweek Family Office Survey 2024

> “We are certainly seeing more flows from private wealth channels into the private markets world

David Helgerson
Head of Impact Investments at Hamilton Lane

Fig. 1.4 Family office allocation plans for 2024 – net increase by region and type





Analyst note: *Survey respondents were asked in March 2024, 'Do you plan to increase, maintain, or decrease exposure to the following asset classes in 2024: Please answer for each asset class. If not currently invested, please select n/a for asset class.'*

Source: Hedgeweek Family Office Survey 2024

is probably a longer discussion and more contextual and situation specific. But broader access to private markets from credit to equity to secondaries is definitely picking up."

Comparing asset allocation intent on a net basis supports this seeming move towards private market strategies (see Fig. 1.3b). Private credit (a net 55% want to increase exposure), private equity (35%) and real estate (25%) are the top three on this metric.

For some family offices, the focus is on building up capital to prepare for the future. Jose Andino, director of real estate and alternative investments with Frind Properties, a single-family office in Canada, says they are reducing real estate exposure following a distribution of funds from those investments in order to "build reserves in cash for future investments in [their] own companies."

Preqin has noted that family offices have a "consistently high allocation to hedge funds despite strategy shifts" over recent years and the survey found solid if not exceptional interest in the asset class. Single-family offices are much keener on hedge funds than multi-family offices, as are European family offices compared to US – two of several interesting findings when you compare preference between the two types and regions (see Fig. 1.4).

But advisers in the space see more interest coming through as a result of post-pandemic market trends (see box out). Hedge fund managers are keen to secure more inflows from family offices, with private wealth a key growing channel of allocations as interest from pension funds – still the biggest source of allocations – levels off.

"Hedge funds could add more value to family offices by providing strong risk adjusted returns

> “
> **Private credit provides diversification benefits and can offer a hedge against market volatility**

that a family office may not be able to realize otherwise,” says Paul Gray of Ironhold Capital, a hedge fund in New York. “One example of this could be a fund which performs a certain unique strategy or executes investments in a certain area of the world that may not readily be available to a family office otherwise.”

He adds that the operational sophistication of hedge funds may be helpful to family offices, which may still be developing in that area, as the next part of this report will explore.

GENERATIONAL CHANGE

A key recurring theme in the family office sector relates to generational change and the impact of differing priorities among different age groups. For more than half of family offices it was identified as an issue, with only 43% saying their generational priorities were roughly aligned.

Technology is the biggest generational dividing line, with 37% of family offices saying younger family offices are encouraging increased adoption of new tech (see Fig. 1.5). Asset

A hedge fund comeback?

“We have observed the strong comeback of hedge funds,” says Fella Khelifi-Arnulphy, who established the investment advisory arm of EFG Private Bank in the UK and now serves as EFG International’s head of advisory solutions for the Middle East and Monaco.

“The opportunities for arbitrage had mostly disappeared in the post-08 era of low rates and QE. From macro to long/short equity, performance in the sector was some way short of gains achieved in the pre-crisis years. Things have shifted in the past couple of years and there is more interest in the hedge fund space from family offices and HNWI, fuelled by better performance and a new market outlook with more opportunities for various strategies.”

Peter Albinsson, CEO at UCAP Wealth Management Switzerland Ltd, sees strong interest in hedge funds, both from private as well as institutional clients. “Diversification benefits are again top of mind [for investors]. This is particularly relevant in light of the current market outlook, with heightened geopolitical tensions, macroeconomic uncertainty and financial volatility,” he says.

He believes returns stand to benefit hedge funds given increased market volatility and higher yields in the coming era of volatility.

“When it comes to our approach towards hedge fund allocation, our fundamental principle is to focus on managers that generate low volatility returns through multiple uncorrelated performance sources, within a stringent risk management overlay.” The core of their allocation is towards “all-weather” strategies, with the goal of offering wealth protection during market drawdowns.

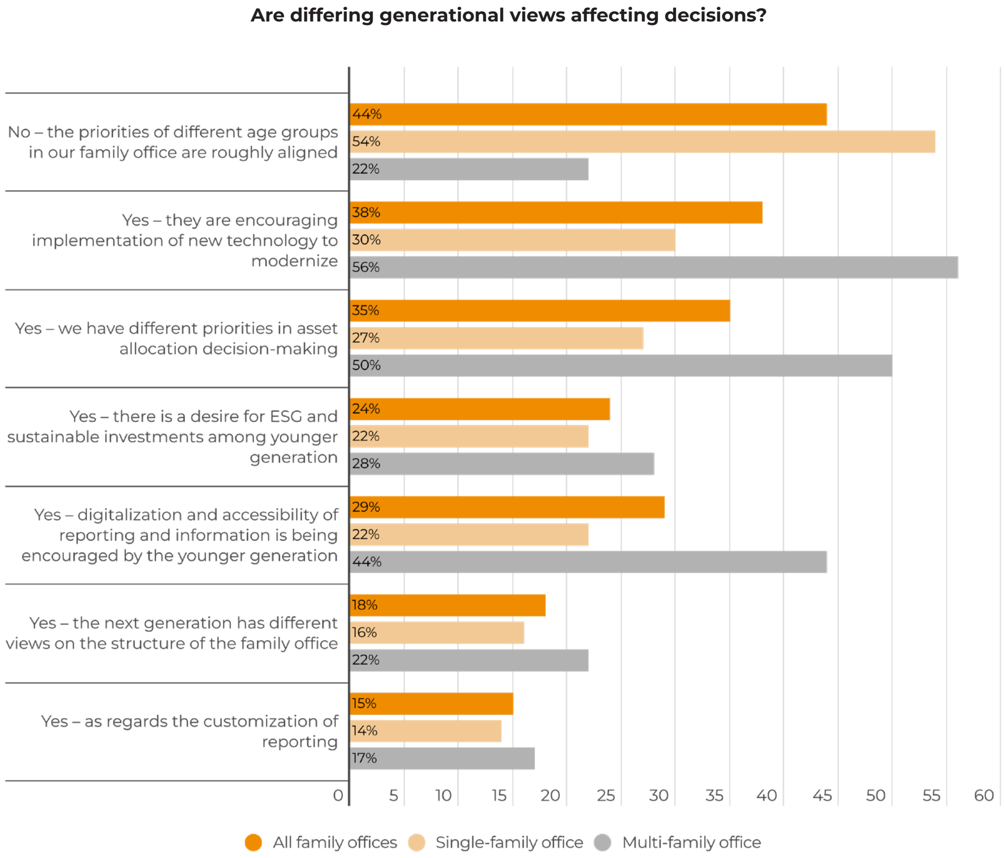
allocation was next, a source of tension for 33% — related to this was the point that for 24% of family offices there was tension on environmental issues, with a desire for ESG and sustainable investments among the younger generation.

Part II will explore which other challenges are topping the family office agenda. To put the generational change challenge in context, it is the second biggest challenge on their radar, with a greater focus only on the data aggregation burden.

"We see a lot of wealth maturing in the Middle East and Asia and family offices are developing rapidly there," adds Alan Baron, managing director at SS&C GlobeOp.

"The impact of generational change, will only grow as the enormous wealth transfer continues in the coming years. The younger generation also impacts asset allocation, often steering groups towards more sustainable investment options in areas like ESG."

Fig. 1.5 Impact of generational differences on family office priorities



Analyst note: *Survey respondents were asked in March 2024, 'Are differing views within the next/younger generation affecting your family office? (Please select all that apply)'*

Source: Hedgeweek Family Office Survey 2024

THE NUTS AND BOLTS OF RUNNING A FAMILY OFFICE

How can the increasing numbers of family offices stay on trend and deploy best practices across middle and back-office operations? This section explores outsourcing, technology and key challenges

For some entrepreneurs, making money is the easy bit. Organising wealth into a successful and efficiently structured family office that builds wealth for you and generations to come, can be a complex and unfamiliar challenge.

The key, according to Hedgeweek interviewees and survey respondents, lies in a strong middle and back-office – the part of the business that handles everything except investment and asset allocation decisions.

And often the key to a strong middle and back-office lies in outsourcing – bringing in specialist providers to perform functions in which the HNWI or other wealth-holder does not have expertise. Given the prominence of asset allocation decisions, outsourcing or hiring in-house investment staff is often the first key question for family offices to consider – but can be just as important an issue across the rest of the business operation.

OUTSOURCING

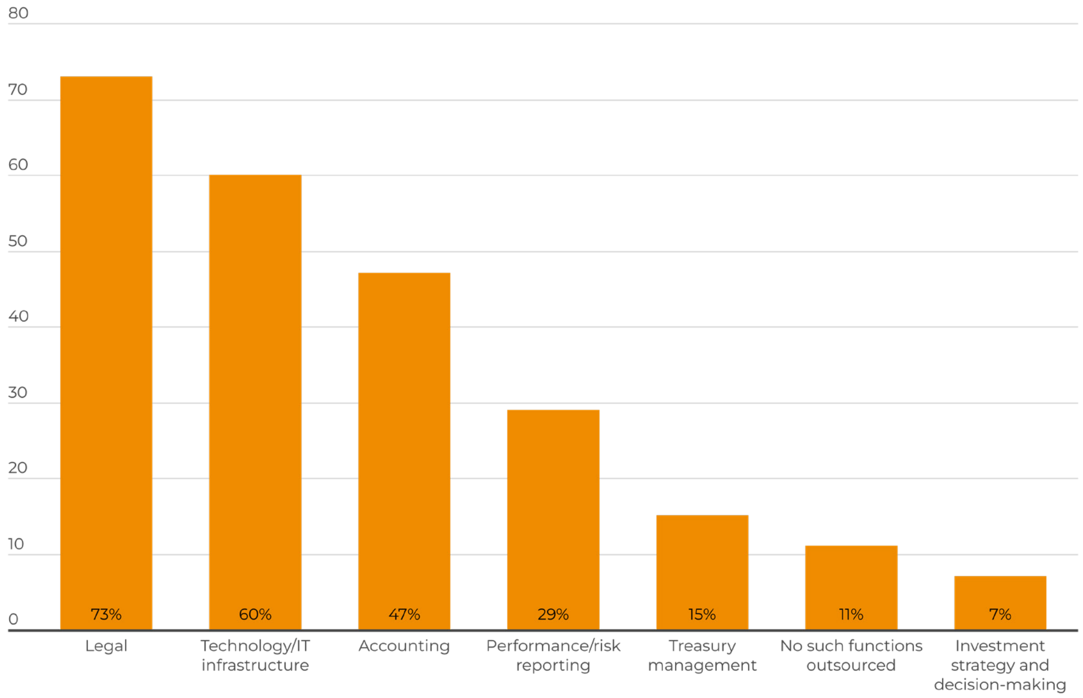
Many family offices are already familiar with the practice. Almost three-quarters (73%) of family offices globally outsource their legal function (see Fig. 2.1), more than any other part of the business, followed by technology/IT infrastructure (60%) and accounting (47%). Just 11% do not outsource these functions (or any of the other options: investment strategy, reporting or treasury management).

Bruno Schneller, managing director at INVICO Asset Management, says the family office makes outsourcing decisions based on three metrics – can it provide a benefit in terms of efficiency, cost or expertise that cannot be matched internally?

“Typically, we outsource specialised services where external firms bring a level of expertise and efficiency that is challenging to develop in-house. This includes areas such as accounting, payroll services and certain IT services. Outsourcing allows us to focus on our core competencies while leveraging the strengths of external partners.”

The representative of another family office, who declined to be quoted, says they make decisions based on continuity and cost. “As continuity is key in very decision we take, we only source in when the total costs of outsourcing (with the exception of consolidated reporting) are equal to employing two persons for the same role. This way key man risk is tackled.”

Fig. 2.1 Functions outsourced by family offices



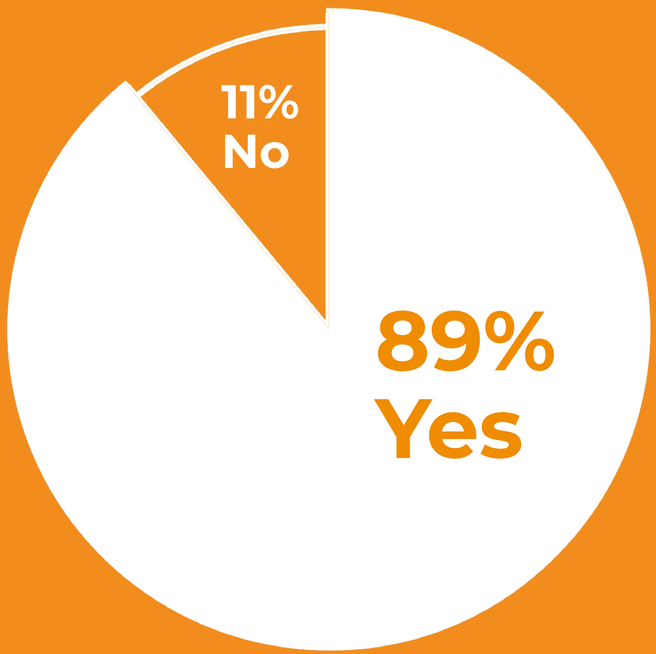
Analyst note: *Survey respondents were asked in March 2024, ‘Which functions of your family office or other investment vehicle are currently outsourced? (Please select all that apply)’*

Source: Hedgeweek Family Office Survey 2024

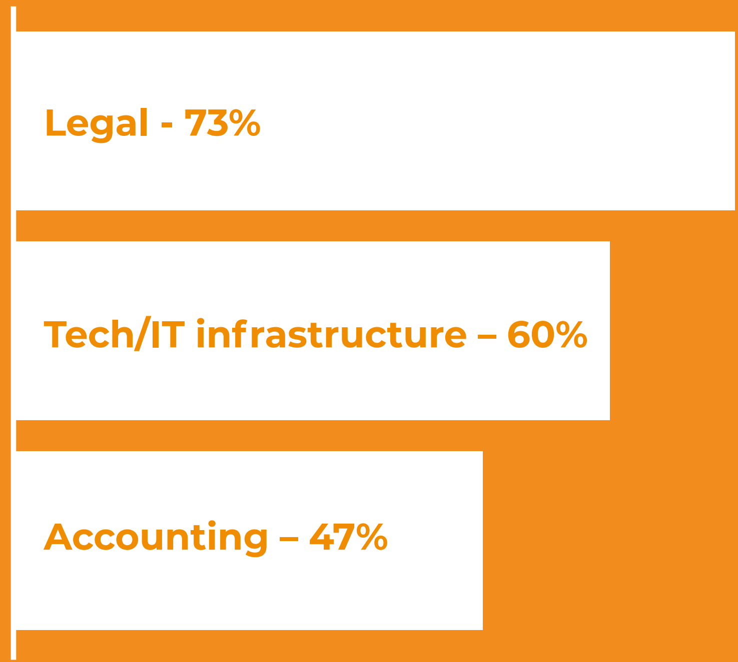
KEY FINDING

Outsourcing is now common practice among family offices, with nine-tenths of FOs employing a specialist provider to perform at least one key function.

Survey respondents were asked if they outsourced key functions:

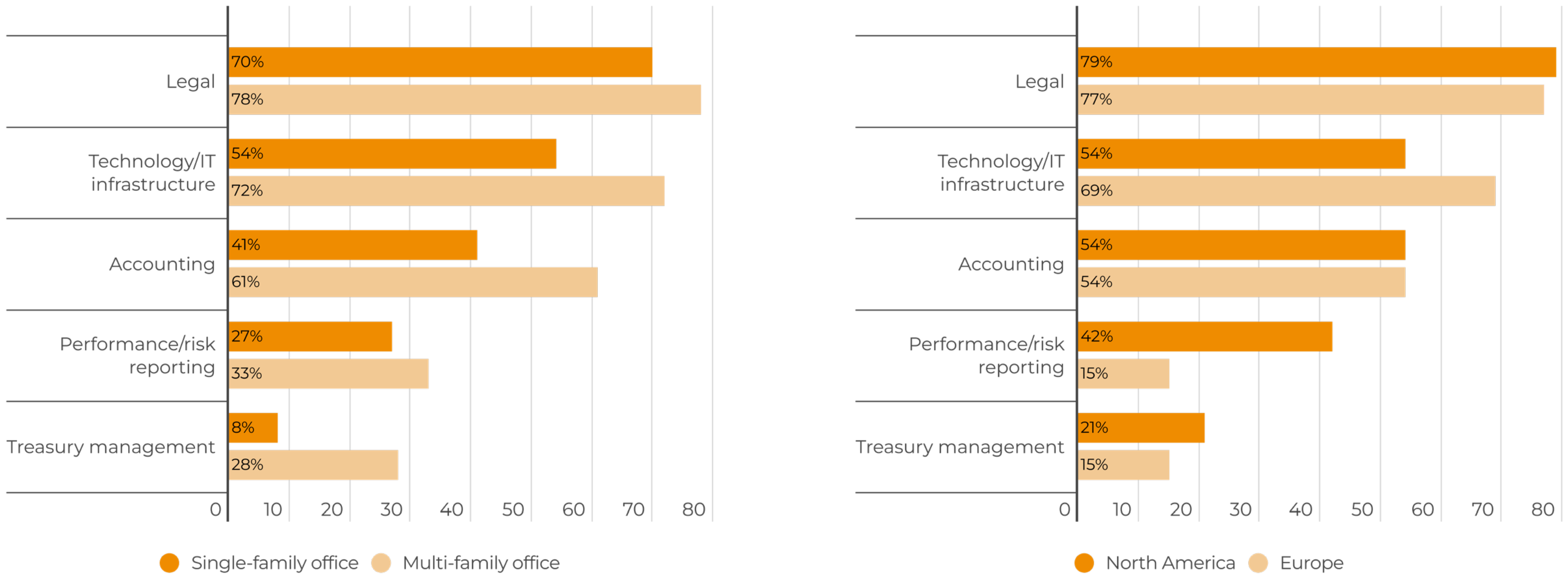


Top three outsourced functions:



INSIGHTS

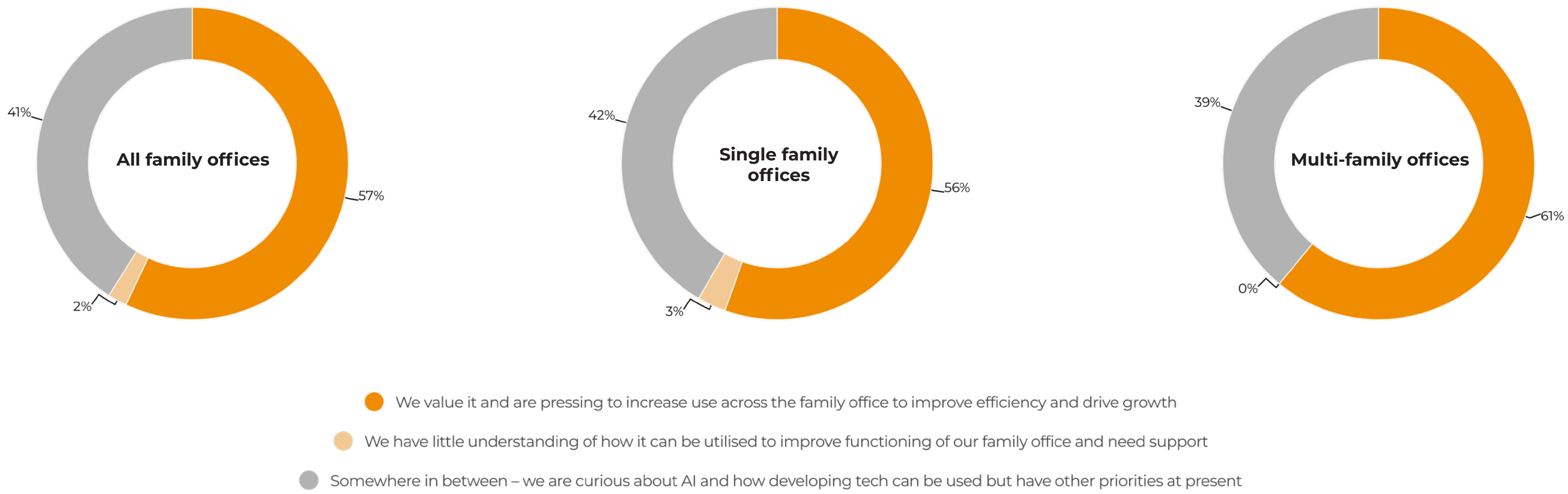
Fig. 2.2 Functions outsourced by family offices – net increase by region and type



Analyst note: *Survey respondents were asked in March 2024, 'Which functions of your family office or other investment vehicle are currently outsourced? (Please select all that apply)'*

Source: Hedgeweek Family Office Survey 2024

Fig. 2.3 Family offices' attitudes to technology



Analyst note: *Survey respondents were asked in March 2024, 'Which of the below best represents your family office's attitude towards the implementation of new technologies?'*

Source: Hedgeweek Family Office Survey 2024

Comparing North America to Europe and single to multi-family offices in terms of outsourcing practice yields some interesting findings (see Fig. 2.2). Outsourcing in performance/risk reporting and front office investment decisions is much more common in North America – but a greater proportion outsource technology/IT infrastructure in Europe. Multi-family offices are much more likely to outsource the latter – and accounting – than their single-family office peers.

It will be interesting to see if there is an increase in outsourcing of investment decisions – over bringing the front office function in-house – in the years ahead.

Peter Albinsson, CEO at UCAP Wealth Management Switzerland Ltd, says external investment teams can help not only in selecting but providing access to top managers, with many top hedge funds hard to invest with. "Both the selection process as well as access to top talent matters."

But many family offices prefer to keep this vital function in-house. Fella Khelifi-Arnulphy, who has witnessed the rapid increase in Middle Eastern wealth first-hand, has many clients in the region. "Some are new to the investment industry, so have hired key talent from hedge funds and other finance firms to help them build their investments."

Managers have seen this trend first-hand. "I have also found that family offices are starting to hire more investment professionals in-house than they have had in the past in order to help allocate some amounts of their capital internally," adds Paul Gray, managing partner at Ironhold Capital, a hedge fund in New York.

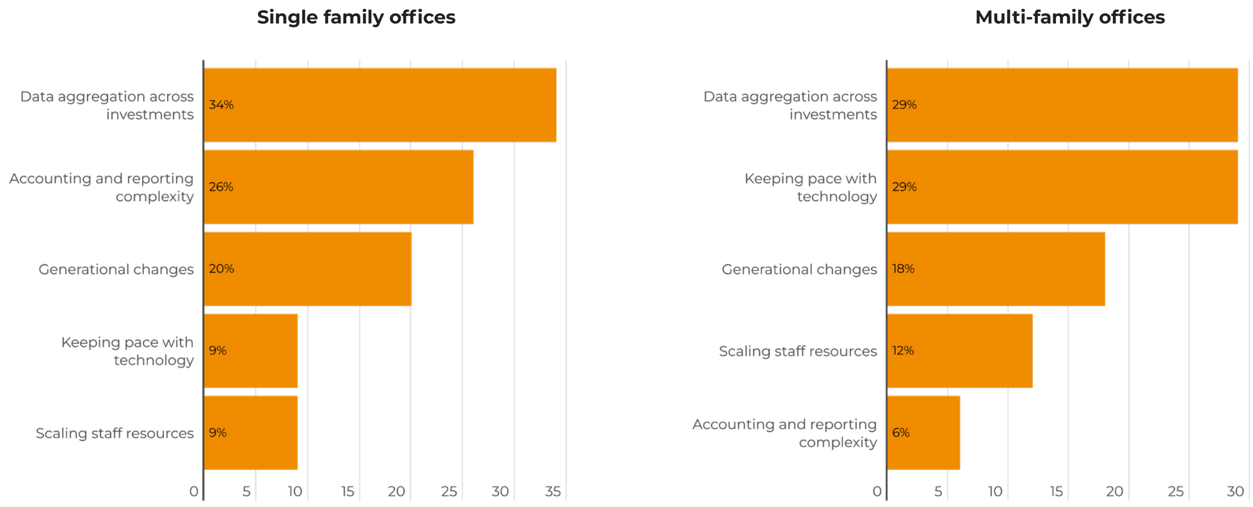
He adds that it is not just in terms of staff recruitment that hedge funds can help family offices. Their operational sophistication can add value to family offices through lessons and experience to be learned from.

“

We outsource specialised services where external firms bring a level of expertise and efficiency that is challenging to develop in-house

Bruno Schneller
Managing Director at INVICO Asset Management

Fig. 2.4 Top five challenges facing family offices – by type



Analyst note: *Survey respondents were asked in March 2024, 'Please select your family office's top challenge from the following options'. Six options were offered, the five featured here and 'Data Security'.*

Source: Hedgeweek Family Office Survey 2024

TECHNOLOGY

More than half (57%) of family offices say they "value it and are pressing to increase use across the family office to improve efficiency and drive growth" (see Fig. 2.3). Technology adoption is furthest along for multi-family compared to single offices.

"Embracing technology is at the heart of our strategy to improve efficiency and stimulate growth," says Schneller. "Beyond automating mundane tasks with AI and leveraging data analytics for investment insights, we're focused on enhancing client reporting and interaction through advanced digital platforms. These tools not only enable us to provide clients with more timely, transparent, and personalised reports but also facilitate smoother interactions that align with today's digital communication preferences.

"For our team, we are investing in technology solutions that support remote and flexible working arrangements. These investments not only cater to the evolving work environment but also help attract and retain top talent by offering the flexibility modern employees value."

Jose Andino of Frind Properties says they are making increased use of ChatGPT to drive increased efficiencies.

Data aggregation is the biggest challenge across all family offices (see Fig. 2.4). Andino identified data aggregation as their family office's top challenge. Frind Properties is focused on "in-house development for fund/investment data acquisition, extraction and reporting" at the moment.

Single and multi-family offices differ on their top challenges. While it is data aggregation for them all combined, and the clear frontrunner for single family offices, for multi-family offices it is joint top with keeping pace with technology, both attracting 29% of respondents.

ALAN BARON

Managing Director
SS&C Technologies

There has been a huge increase in the number of family offices. What should be on their radar when setting up an investment unit?

At SS&C, we've seen families setting up from many different backgrounds – some from investment management backgrounds, but others from manufacturing, retail and other industries. Families without expertise in investment management need to consider where to find front-office expertise. Do you bring in-house or use external advisers like wealth advisers to make asset allocation decisions for them? Even those with an investment background may need support if they want to allocate to strategies and asset classes different from those used to grow their wealth.

What about middle and back-office considerations?

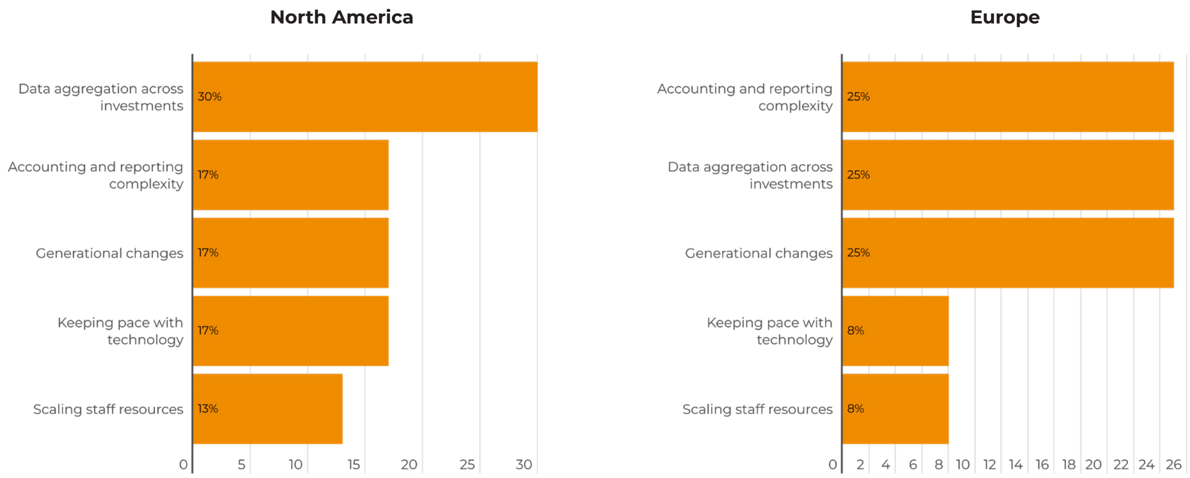
The same decisions must be made, although outsourcing is a much more common practice in these areas. At SS&C, we're seeing family offices mature operationally. Historically, FOs may have just outsourced technology and legal services, but now outsourcing is used for accounting, reporting and more middle and back-office considerations, including tax and regulation. As family offices mature and multi-family offices grow in popularity, we are also seeing an increase in their complexity, structure and investment strategies. Outsourcing can be a solution for expertise and scalability at cost savings rather than ramping up with in-house staff and infrastructure. We have also seen clients with extensive in-house expertise and infrastructure using our technology platforms to achieve their goals.

Has the newer generation impacted the move to outsourcing?

Yes, newer generations are getting more involved in the business. They often want to see more technology use, pushing for digitalisation, accessibility and greater transparency in the family office's investments. As they get more involved in decision-making, we see increased complexity in reporting needs. This push for transparency has increased demands on the family office's operational teams. At SS&C, we aim to solve that with our technology and AI solutions, boosting efficiencies and transparency and being a strong partner for our clients.

> “Newer generations often want to see more technology use, pushing for digitalisation, accessibility and greater transparency

Fig. 2.5 Top five challenges facing family offices – by region



Analyst note: *Survey respondents were asked in March 2024, 'Please select your family office's top challenge from the following options'. Six options were offered, the five featured here and 'Data Security'.*

Source: Hedgeweek Family Office Survey 2024

Among single-family offices, 34% name data aggregation as a top challenge, ahead of keeping up on tech, highlighted by 28%, indicating that single family groups have more intense issues in this area.

Data aggregation was also the leading challenge for North American family offices, highlighted by 30% and well ahead of the next option, accounting and reporting complexity, on 17% (see Fig. 2.5). In Europe, accounting and reporting complexity is jointly lead at 25% with data aggregation and generational challenges.

These findings point to a notable divide between regions and between types of family office in terms of their middle and back-office development and priorities, which could be of note to service providers. ■

CONCLUSION

Family office numbers have boomed in recent years. Preserving and growing a store of wealth has never been more important for families, but the task comes with an array of challenges attached which may be unfamiliar to wealth-holders.

This Hedgeweek report, however, has revealed a level of middle and back-office sophistication which may surprise some, with outsourcing widespread across key functions and a notably high level of tech adoption and intent displayed among survey respondents.

Investment gains have always been regarded as important, but middle and back-office efficiency are also rising up the agenda. That appetite to embrace change and new practices will be invaluable given the increasing complexity likely in the years ahead. Bringing in outside expertise to perform key functions is becoming as important as hiring investment staff in-house, which was already quite common in the front-office.

Asset allocation trends increasingly match those among more – on paper – sophisticated institutional investors, with family offices realising the diversification benefits of high allocations to alternatives, particularly private credit, in the years to come. But those institutions do not have the difficulties some family offices face with inter-generational disagreement, which also came up in this report.

The overall direction of travel, however, is clear – family offices are increasing in number and their sophistication, in all areas from technology to investment decision-making, is on a similar trajectory. The era of growth is set to continue.

HEDGEWEEK

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