GUEST ARTICLES (cont.)

PRIVATE OFFICE, PRIVATE INVESTMENTS? THE FUTURE OF FAMILY OFFICE ASSET ALLOCATION

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Over the last few years, there has been a slow but noticeable shift in how family offices invest. Although the structural variety within the space means making such a broad claim is risky, the definitive rise in popularity of private investments makes this a trend worth examining in the context of the family office arena.

Although there is no strict 'beginning' to this phenomenon, it is worth emphasising that it is not a trend unique to 2023. Fidelity Investments noted in 2019 that 59% of family offices surveyed would choose to hire their next investment professional from an illiquid asset investment background.

Whilst clearly not only representative of private investments, this figure suggests that the initial push for more diversified asset allocation was not the product of the pandemic's economic pressures as might be assumed. Instead, it is part of a broader change whose future is similarly boundless; Campden Wealth's 2022 Family Office Survey indicated that nearly half (45%) of all European family offices investing in private assets wanted to increase their exposure to the asset class.

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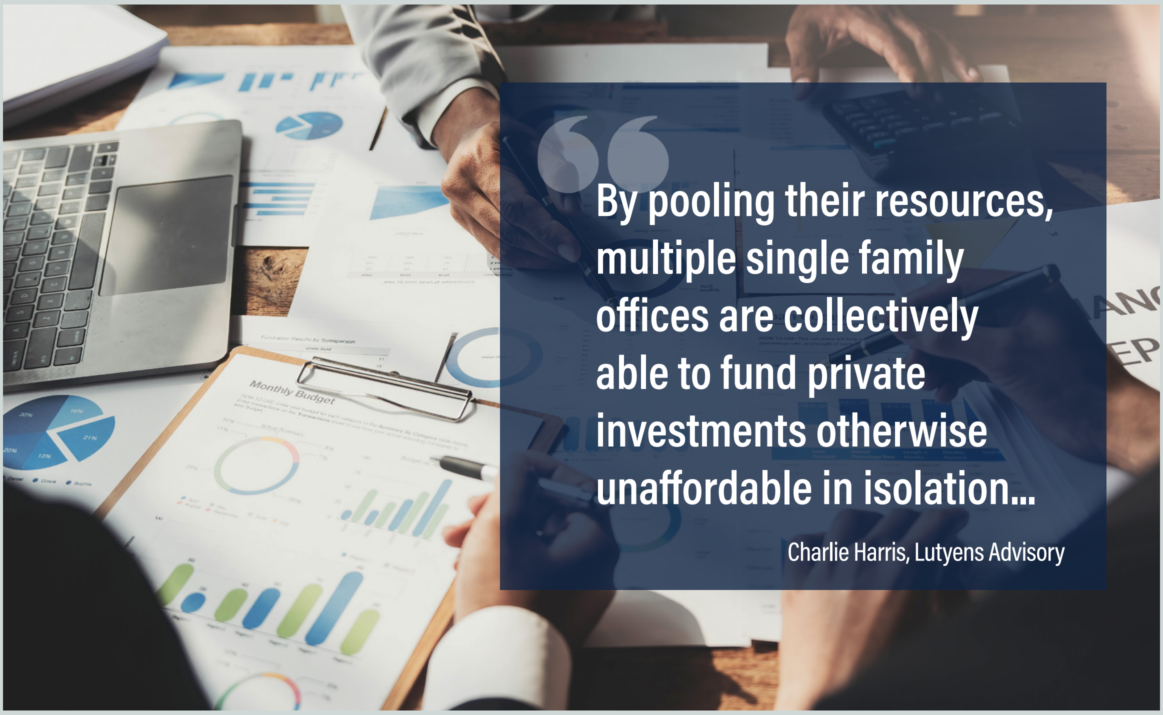
However, the specific form these future investments will take is less easy to express through statistics. The enormous diversity in size and budget across the family office space means that direct private equity investments can be highly cost inefficient, or indeed unaffordable, for many family-funded portfolios. They require high volumes of capital not only to fund the investments themselves but also to build in-house teams of sufficient scale and capability to generate returns.

As such, many younger (or smaller) offices are turning to private investments via institutional managers or co-investments. Choosing investment partners in this respect can often prove simpler than selecting the investments themselves. Despite its expansion over the last 10 years, the HNWI circle is still tight knit, and the relationships forged

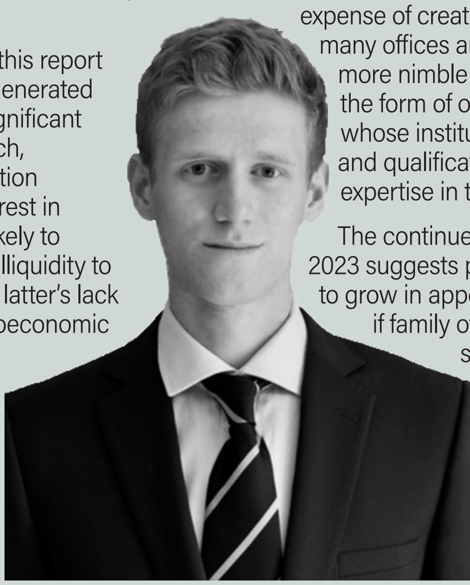
GUEST ARTICLES (cont.)



during wealth creation often pave the way for future partnerships between Principals and their offices. This has been seen in the increased prevalence of 'club' deals. By pooling their resources, multiple single family offices are collectively able to fund private investments otherwise unaffordable in isolation, granting them greater access to the private equity market.

Regardless of these variations in form, the widespread increased interest in private investments as a whole begs an obvious question – why this particular asset class? The answer is a composite one. A strong driver is the promise of attractive returns; the 2022 Campden Wealth Survey revealed that on a global basis private investments produced an average net return of c.20% across venture capital, private funds and private equity.

It is worth emphasising that this report was produced from results generated before the onset of 2022's significant inflationary pressures. As such, the continuation of high inflation throughout 2023 means interest in private investments is only likely to increase. Their comparative illiquidity to fixed income means that the latter's lack of appeal in periods of macroeconomic uncertainty will drive higher allocations to private investments as family offices seek to offset risk through portfolio diversification.



Private equity's illiquidity is also attractive given that it offers both a long-term investment option as well as a more tangible one. Whilst at first these may appear to be secondary influences on the investment process, for family offices they represent important considerations. Time horizons for family office investments must cope with a generational outlook rather than the traditional institutional long-term view of 5-10 years. Moreover, the tangible nature of private equity offers an easier introduction to investing for the office's next generation, as close interactions with acquired businesses allow for a more 'hands-on approach'.

The consequence of these incentives is that family offices are now structuring themselves to facilitate this shift in asset allocation. As previously noted, the expense of creating a full investment team means many offices are now choosing to create leaner, more nimble investment functions. This often takes the form of only a few investment professionals whose institutional and cross-asset backgrounds and qualifications give them a quantifiable expertise in the space.

The continued economic uncertainty promised by 2023 suggests private investments will only continue to grow in appeal for investors. Don't be surprised if family offices, with their lean organisational structures and capacity for swift capital reallocation, take note of the advantages on offer.

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