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THE EUROPEAN FAMILY OFFICE REPORT 2022

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A number of sources were utilised to research and profile the characteristics of family offices. These were blended into a mosaic analytical framework from which Campden Wealth Limited conducted extensive modelling and analysis. This information and data is part of data and analytics structures that Campden Wealth Limited is authorised to publish and are non-commercial in nature, and specifically non-attributable regarding the identity of any underlying family offices and individuals.

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Foreword

Dear reader,

To cite 2022 as a difficult year is probably something of an understatement. A pandemic, war in Europe, an energy crisis, run-away inflation, and volatile stockmarkets are just some of issues with which businesses and investors have had to contend.

How have European family offices navigated this difficult environment? They are certainly aware of the difficulties. Nearly 80% of respondents cite inflation as a significant risk to financial markets, with increasing geopolitical tensions coming in a close second. It's no surprise that respondents view investment risk as their principal concern. Our survey provides evidence that family offices have been prescient, adjusting the mix of their portfolios to deal with a more difficult environment. Sixty eight percent now operate conservative investment strategies focusing on balance and wealth preservation, rather than growth. Although 2022 has been a difficult year, hopefully, through professionalised investment management, the worst outcomes will be avoided. Further, unlike investment managers, family offices do not have to worry about outperforming benchmarks or fund redemptions; in short, they can afford to take a long-term view.

Other concerns of family offices focus on data security and succession planning. Here, unlike financial markets, they are to a considerable extent, masters of their own destiny and progress is being made. Over 60% of European family offices have a cybersecurity plan in place, and two-thirds have a succession plan. Last year the figures stood at 56% and 52% respectively. As ever, more could be done, but it's apparent that family offices have not been standing still.

The picture of European family offices presented here reveals solid and resilient organisations, many of which have managed family wealth through several generations. They are sophisticated participants in global financial markets, but nonetheless driven by values encouraging them to embrace social, environmental, and philanthropic goals to "make the world a better place". Their principals and leaders are high achievers who have built companies from scratch, undertaken leadership roles in business, managed complex investments, and overseen family-related responsibilities. Officers are experienced professionals, undertaking a diverse range of activities. The next generation are well-educated with an entrepreneurial spirit. Hopefully, all three groups will find something of interest in this report, which is intended to be the most extensive study of family offices yet undertaken.

As we charter our path through difficult times, what will help the family office community is the ability to share information and learn from one another. I would like to extend my deep gratitude to all of those who participated in this research.

Dominic Samuelson
Chief Executive Officer
Campden Wealth

Executive summary

This report is based on statistical analysis of 382 surveys of family offices worldwide, with 103 (27%) coming from Europe. The average family represented from Europe has wealth of USD $1.9 billion, while the estimated wealth of all participants stands at USD $193 billion (total global wealth across the report series is estimated at USD $699 billion). The average European family office has assets under management (AUM) of USD $1.4 billion, while estimated AUM across all participants is USD $147 billion (total global AUM across the report series is estimated at USD $390 billion).

The following denotes the key takeaways:

Inflation: risk number one

Inflation is the most commonly cited risk for financial markets, according to 78% of respondents. This is closely followed by geopolitical risk (61%) and rising interest rates (54%). A consequence of higher risk is that the percentage of offices operating a growth strategy has declined from 36% to 32% since 2021, in favour of wealth preservation (22% up from 20%) and balanced strategies (46% up from 44%).

Proactive mitigation

Family offices have been proactive in attempting to mitigate the adverse impact of inflation on investment performance. Popular strategies include increasing exposure to equities (49%), real estate (33%), and commodities (33%), and reducing the duration of bond portfolios (28%). Going forward, these measures may provide some insulation for family offices from difficult conditions in financial markets.

Private equity, still in demand

Exposure to private equity markets stands at 27% of AUM, making this the second largest asset class. Forty-five percent of respondents are looking to increase their allocation to direct private equity, setting it apart as the most popular asset class for new investment. Forty-one percent of European family offices intend to increase their exposure to private equity funds, and 39% to venture capital.

Family offices are avid tech investors

Technology sectors marked out for future investment are green tech (53% of family offices already invested are looking to increase their allocation), healthcare tech (46%), digital transformation (42%), fintech (39%), water tech (39%), and artificial intelligence (37%). In regards to emerging technologies, 30%, 22%, and 19% of European family offices believe cryptocurrency, non-fungible tokens (NFTs), and the metaverse, respectively, represent promising investment opportunities.

78%

of European family offices cited inflation as a significant risk to financial markets

45%

of European family offices intend to increase their exposure to direct private equity

13%

average 2021 portfolio return for European family offices

Cryptocurrency concerns

Common concerns surrounding cryptocurrency include a lack of regulation (61%), market immaturity (52%), and excessive volatility (46%). European family offices invested in cryptocurrency have had to reassure themselves on these issues and contend with a rapidly deflating price bubble. Nonetheless, the percentage of family offices already invested has remained constant at 28% over the past year, and of these 27% are looking to increase their investment.

Cybersecurity: time to build defences

A sizeable 40% of European family offices do not have a cybersecurity plan in place although 24% claim to be in the process of acquiring one. What makes the complacency around cyber-attacks concerning is that almost 40% of European offices have experienced at least one attack in the last twelve months, and 16% have experienced repeated (three or more) attacks.

Sustainable investing, up and away

Two-thirds of European family offices engage in sustainable investing. On average, among these investors, sustainable investments account for 36% of their portfolios. This proportion is expected to grow to 43% within the next five years. The comparable figures for family offices globally are 27% and 38%, respectively.

Succession planning: always a challenge

Sixty-seven percent of European family offices have a succession plan in place. But around half of these plans are relatively casual, being only informally agreed (19%), unwritten (21%), or still in the process of development (14%), raising a question mark regarding implementation. Even where plans are in place, there are still challenges. Significant numbers of European family offices report that the next generation is too young (36%) or inadequately qualified to take over (34%). Succession planning is important because 36% of European family offices expect their Next Gens to assume control over the next decade.

1. The family office landscape

1. The family office landscape

1.1 Introduction

"If past history was all that is needed to play the game of money, the richest people would be librarians."

Warren Buffett

Europe has been a laggard in terms of economic performance. According to the World Bank[1], the gross domestic product (GDP) of the European Union grew just 6% over the five years to 2021, while the global economy expanded 13%. More pertinently, although European economies enjoyed a strong rebound in 2021 after the dislocation caused by the pandemic, GDP still fell short of its 2019 level, whereas the global economy was 3% bigger.

But despite a relatively anaemic economy, Europe is home to 23% of the billionaires listed in the Forbes World Billionaires List 2022[2]. Furthermore, the number of billionaires has increased by 80% since 2016, so irrespective of the shortcomings of its economy, there is plenty of wealth creation going on in the region.

This growth is also picked up in our survey. It's certainly true that Europe has a disproportionate share of older, long-established family offices, but two-thirds of all family offices were founded post-millennium. Of these, slightly more than half were established after 2010. The popularity of family offices is driven by many factors, but principal among them is the desire to manage wealth collectively with other family members, to control its passing through the generations, and deal with the complexity arising from specific situations such as liquidity events, inheritance, and estate planning.

2021 was a strong year for European family offices, with 60% outperforming their investment benchmarks. Their average total portfolio investment return, estimated at 13%, benefitted from strong stock market gains, economies recovering from the pandemic, and a positive environment for private equity realisations. Unfortunately, 2022 is providing the exact opposite; the first six months saw Wall Street's worst performance in 50 years[3], inflation is forcing interest rates higher, and U.S. and European economies are on the cusp of recession. Seventy-five percent of senior family office executives have a negative economic outlook for 2022/2023.

In last year's survey, more family offices cited inflation as a risk to financial markets than any other factor. This year's survey indicates that, as this risk crystallised early in 2022, many family offices were ahead of the game, preparing for the worsening environment through increasing their equity and real estate exposures, selling bonds, and shortening the duration of fixed-rate portfolios. Although overall investment returns in 2022 will almost certainly be lower than the double-digit gains of the last two years, it is likely that professional investment management will mitigate severe outcomes.

Unlike investment managers, family offices do not have to worry about outperforming benchmarks or fund redemptions; in short, they can afford to take a long-term view. Turbulent times often throw up the best investment opportunities and with liquid, diversified portfolios many will be well placed to take advantage. Highlighting this trend, 48% of European family offices are still on the lookout for investment opportunities.

Public equity is the largest asset class, constituting, on average, 31% of European family offices' average AUM, but private equity (27%) is catching up. Forty-five percent of family offices intend to increase their allocation to direct investment, private equity funds (41%), and venture capital (39%). Approximately 80% of respondents have investments in healthcare tech, fintech (70%), digital transformation (66%), and biotech (66%). Involvement with nascent, newer technologies is necessarily more limited than to those which have been long established, but significant percentages of European family offices have exposure to web 3.0 (35%),the metaverse (20%), and NFTs (13%).

The top governance priority for European family offices over the next 12-to-24 months, cited by 68% of respondents, is risk management. This echoes the 75% of family offices which cite investment risk as their primary concern. Political and country risk is an increasing concern (from 25% last year to 39% today) as is the risk to information architecture (from 22% to 27%). The top governance priority for families is improving communication between the family office and family members (64%). Implementation of a succession plan (34%) and the education of family members (46%) are also priorities.

These are just a few of the findings from this report, which is accompanied by North American and European editions, and all of which offer a robust global overlay. The report series aims to be the most in-depth available on family offices. It covers topics such as investing, performance, operational costs, technology, cybersecurity, governance, risk, succession planning, the next generation, philanthropy, and more. With a robust sample of 382 participants, this report provides a detailed picture of the family office landscape so that family offices can benchmark themselves to their peers.

Methodology

This research is both quantitative and qualitative. The survey was undertaken between March and June 2022 and a total of 382 surveys worldwide were selected for statistical use, with 103 of these coming from Europe. In addition, in-depth interviews were conducted with 32 family office executives worldwide, with 10 being from Europe. Only single and private (non commercial) multi-family offices were included in the analysis. We define private multi-family offices as entities that serve no more than eight families and the core family must hold at least 50% of the family office's total AUM. For the purposes of comparing European findings, reference is made in the text to comparable findings from North American and Asia-Pacific family offices, along with global averages. These references relate to the 2022 North American and Asia-Pacific editions of this regional series.

[1] https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=Z4
[2] https://www.forbes.com/billionaires/
[3] https://www.cnbc.com/2022/06/30/the-markets-worst-first-half-in-50-years-has-all-come-down-to-one-thing.html

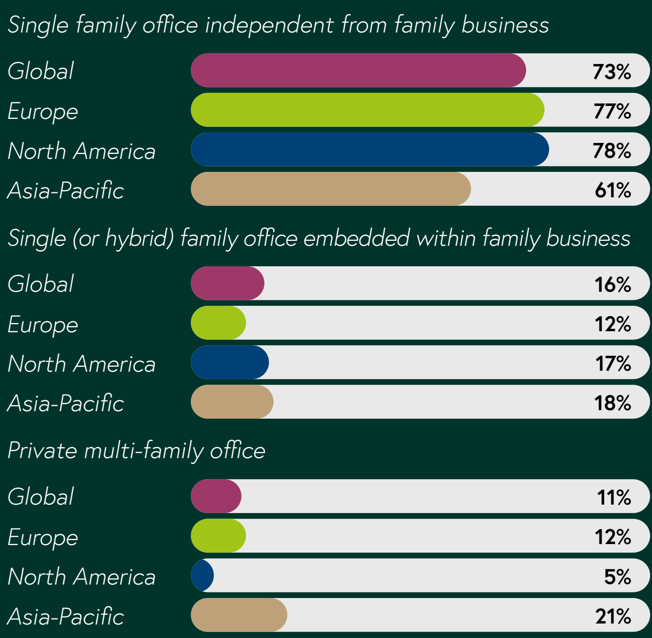
1.2 Overview of participants

The following provides a profile of the family offices which participated in this research.

Eighty-nine percent of respondents are European single family offices

Of the family offices participating, 89% are single family offices, with 77% being independent from the family business and 12% being embedded in the family business. The remaining 11% are private multi-family offices, which are defined as entities that serve no more than eight families and the core family must hold, at least, 50% of the family office's total AUM (**Figure 1.1**).

Figure 1.1: *Family office by type*



Note: Figures may not sum to 100% due to rounding.
Campden Wealth, The European Family Office Report, 2022

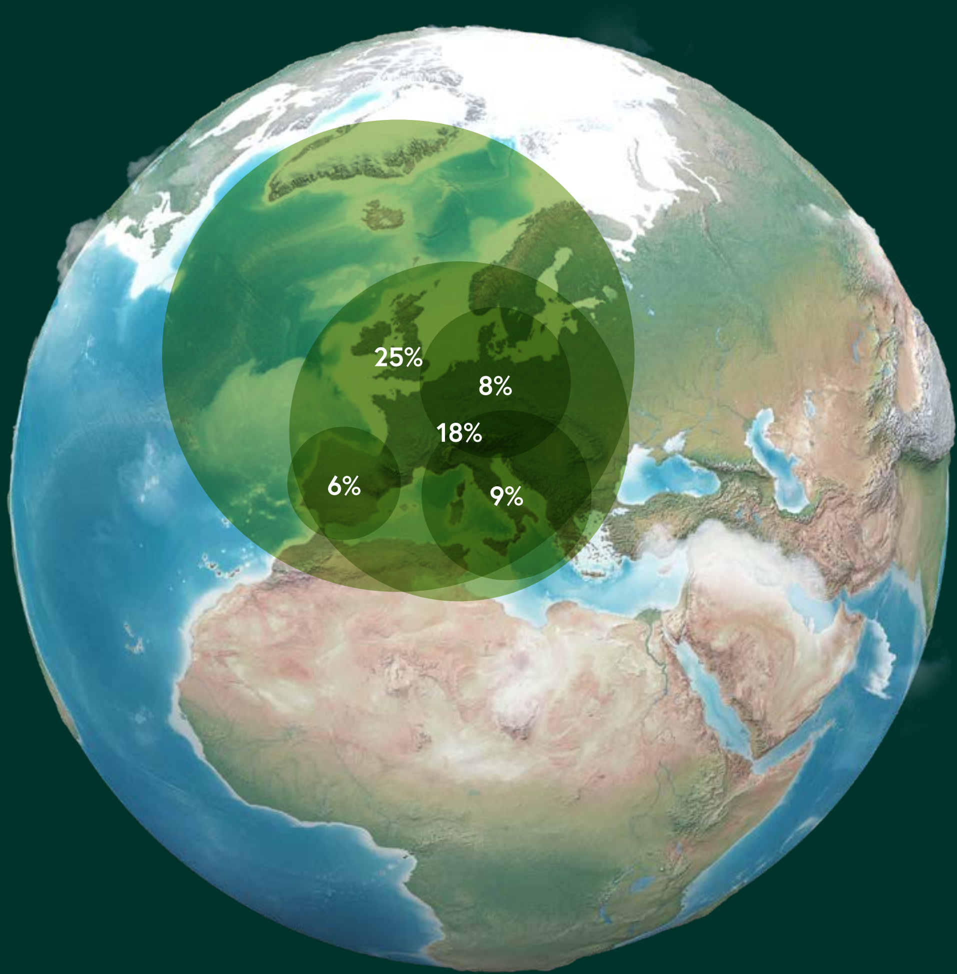
103 European family offices participated

Executives from 103 family offices, headquartered across 23 European countries, participated in the survey which forms the basis of this report. A quarter of these family offices were located in the United Kingdom, 18% in Switzerland, 9% in Italy, and 8% in Germany. The residual 40% are located in the countries listed in **Figure 1.2**.

Figure 1.2: *Europe: location of family offices*

United Kingdom	25%
Switzerland	18%
Italy	9%
Germany	8%
Spain	6%
Belgium	5%
Monaco	5%
Liechtenstein	3%
Norway	3%
Czech Republic	2%
Ireland	2%
Luxembourg	2%
Netherlands	2%
Turkey	2%
Andorra	1%
Austria	1%
Cyprus	1%
Finland	1%
France	1%
Hungary	1%
Lithuania	1%
Poland	1%
Ukraine	1%

Campden Wealth, The European Family Office Report, 2022



Globally, 382 family offices responded

Forty-seven percent of participating family offices are from North America, 27% Europe, 20% Asia-Pacific, and 6% from emerging markets, which include South and Central America, Africa, and the Middle East (**Figure 1.3**).

Figure 1.3: *Global breakdown of family offices by region*

North America

47%

Canada
Cayman Islands
Mexico
United States

Asia-Pacific

20%

Australia
China
Hong Kong
India
Indonesia
Japan
Malaysia
New Zealand
Pakistan
Philippines
Singapore

Europe

27%

Andorra
Austria
Belgium
Cyprus
Czech Republic
Finland
France
Germany
Hungary
Ireland
Italy
Liechtenstein
Lithuania
Luxembourg
Monaco
Netherlands
Norway
Poland
Spain
Switzerland
Turkey
Ukraine
United Kingdom

Emerging markets

6%

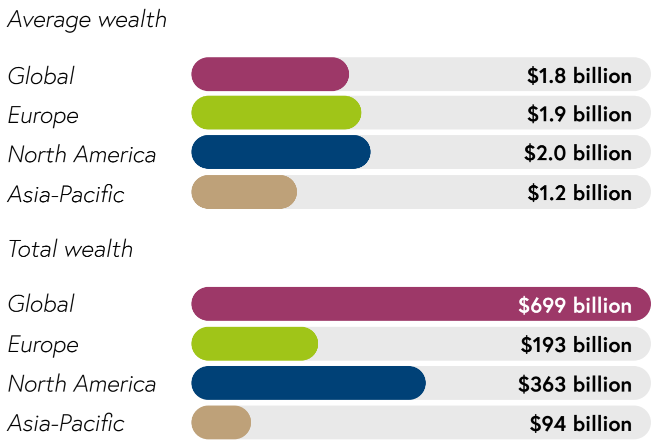
Algeria
Brazil
Chile
Colombia
Costa Rica
Israel
Kenya
Kuwait
Lebanon
Mauritius
Nigeria
Peru
Saudi Arabia
United Arab Emirates
Yemen

Source: Campden Wealth, The European Family Office Report, 2022

Average European family wealth USD $1.9 billion; total estimated wealth USD $193 billion

The average family wealth of those surveyed across Europe stands at USD $1.9 billion, while their estimated total wealth is USD $193 billion (**Figure 1.4**). The respective figures for those surveyed worldwide are USD $1.8 billion for average family wealth and USD $699 billion for estimated total wealth.

Figure 1.4: *Total wealth of participating families including operating business (USD)*

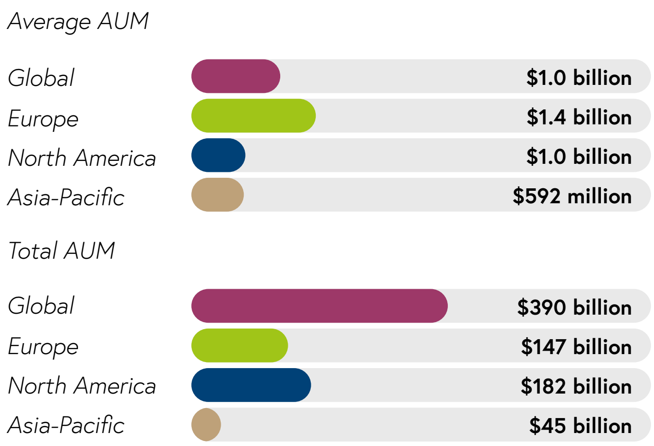


For private multi-family offices, the total net worth of all families.
Campden Wealth, The European Family Office Report, 2022

Average European family office AUM USD $1.4 billion; total estimated AUM USD $147 billion

Average assets under management (AUM) of participating European family offices is USD $1.4 billion, while their estimated total AUM is USD $147 billion (**Figure 1.5**). The respective figures for family offices worldwide are USD $1.0 billion for average AUM, and USD $390 billion for estimated total AUM.

Figure 1.5: *Family office assets under management (AUM) in USD*

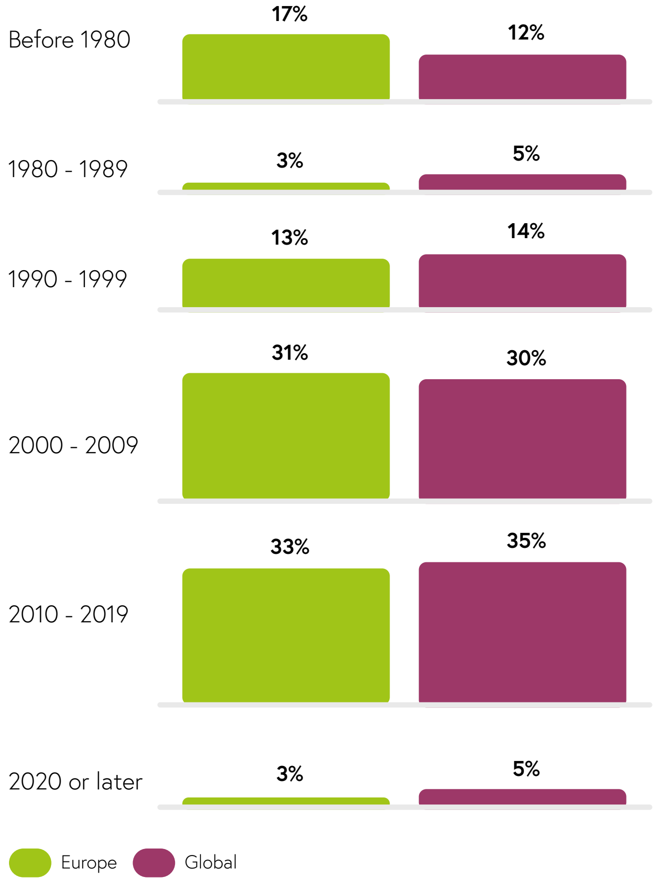


For private multi-family offices, the total net worth of all families.
Campden Wealth, The European Family Office Report, 2022

Expansion of family offices across Europe

Two-thirds (67%) of European family offices were founded after the millennium (**Figure 1.6**). Of these, slightly more than half (54%) were established over the last 12 years, confirming both a dramatic increase in family wealth across the region, and the emergence of family offices as vehicles for wealth preservation and management.

Figure 1.6: *When the family office was founded*



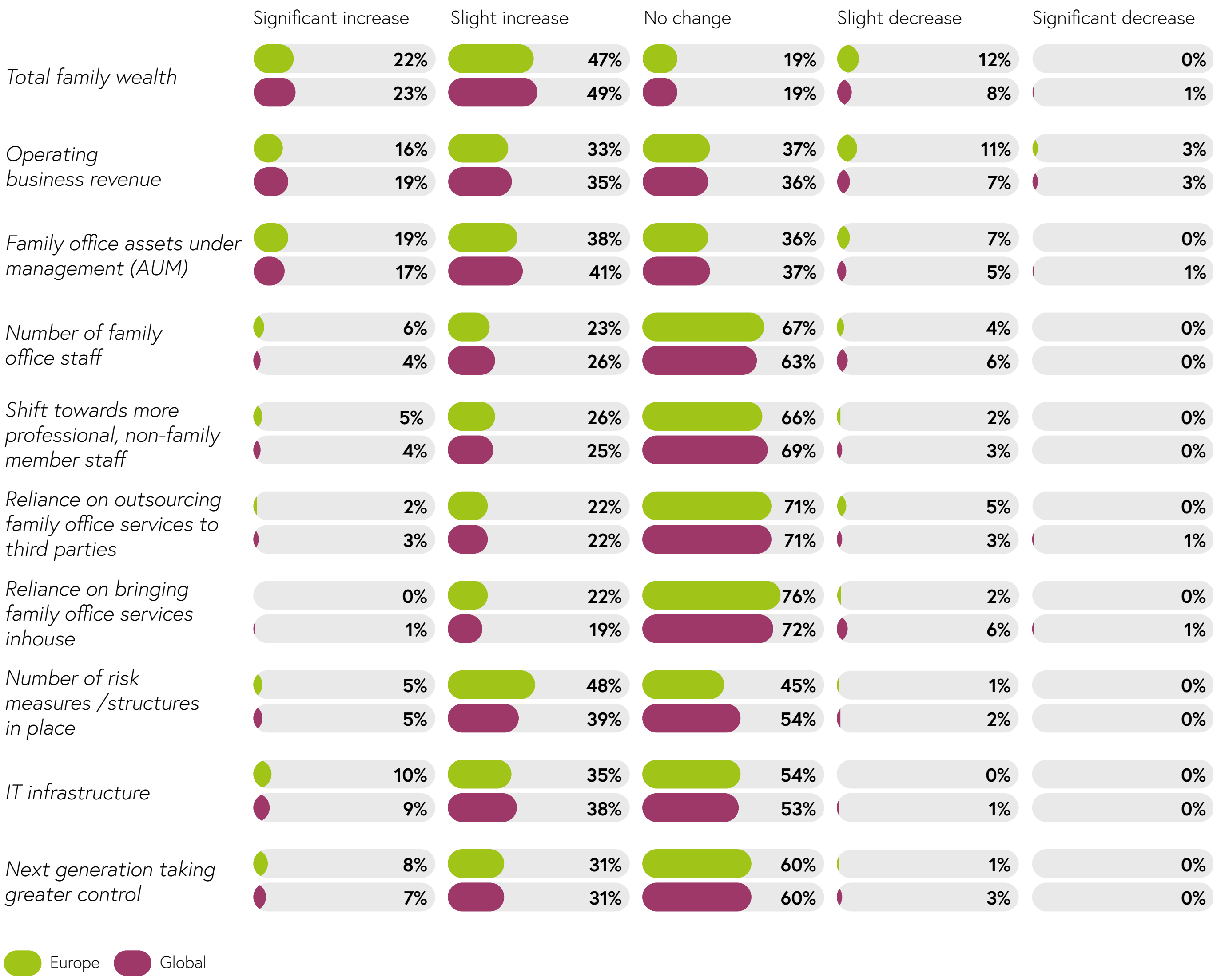
Note: Figures may not sum to 100% due to rounding.
Campden Wealth, The European Family Office Report, 2022

2021, a great year for families and family offices

Sixty-nine percent of European family offices reported an increase in family wealth over 2021, with 22% describing the increase as significant (**Figure 1.7**). This not only reflected the strength of financial markets, but also favourable conditions for families' operating businesses, with 49% reporting an increase in revenues. Family offices also prospered, with 57% increasing their AUM and around one-third seeing a rise in professional non-family staff.

Outsourcing and bringing services inhouse are two distinct business models enabling family offices to achieve operating efficiencies. Both proved popular last year, with 24% of family offices reporting an increase in outsourcing, and 22% an increase in inhouse services. Over half (53%) of European family offices reported increases in the number of risk measures and governance structures they employ. Likewise, 45% saw an increase in IT infrastructure (with 10% citing the increase as significant), highlighting the importance of upgrading systems and cybersecurity measures. Finally, 39% of family offices report that their Next Gens are taking steps towards greater control.

Figure 1.7: *Percentage of family offices reporting changes over the last 12 months (Tick all that apply)*



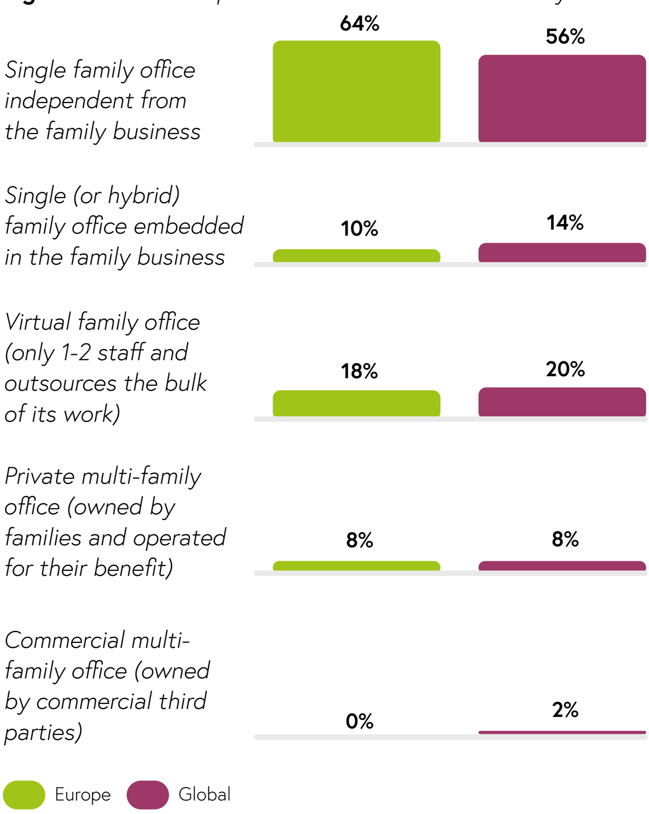
Campden Wealth, The European Family Office Report, 2022

1.3 Legal structures

Best structure for startups

Although 77% of respondents are independent single family offices, only 64% thought this the best structure for a new family office startup (**Figure 1.8**). Rather, 18% believe that a virtual family office, with only one to two staff and almost all services outsourced, might be more appropriate. The percentages favouring hybrid and private multi-family offices are similar to the percentage of each type participating in the survey.

Figure 1.8: *The best perceived structure for new family offices*

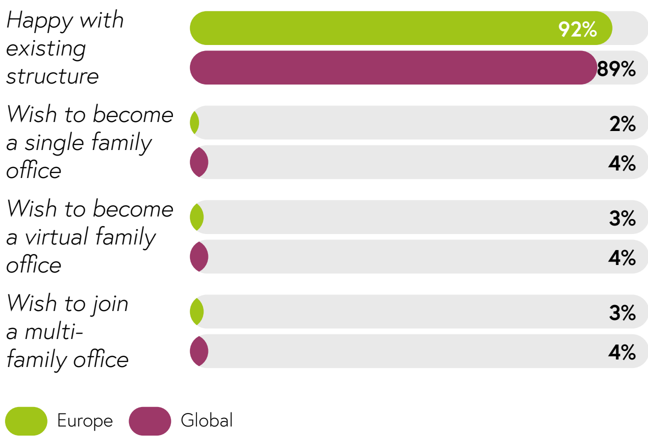


Note: Figures may not sum to 100% due to rounding.
Campden Wealth, The European Family Office Report, 2022

Most family offices are happy with their existing structure

Respondents' satisfaction with their existing family office structure is at 92% (**Figure 1.9**).

Figure 1.9: *Percentage of families happy with the existing structure of its family office and those seeking an alternative*



Note: Figures may not sum to 100% due to rounding.
Campden Wealth, The European Family Office Report, 2022

"My job is just to make sure that the family, which now numbers over 100, understands the 'power of together' as opposed to being apart, and the advantages of maintaining a single family office."

Chief Executive Officer, single family office, United Kingdom

"The advantage of a multi-family office is that we learn through experience. The mistakes we make for one family will not be repeated for another. We can also apply the solutions we found for one family to another. Many families often ask the same questions, and the solutions are often the same."

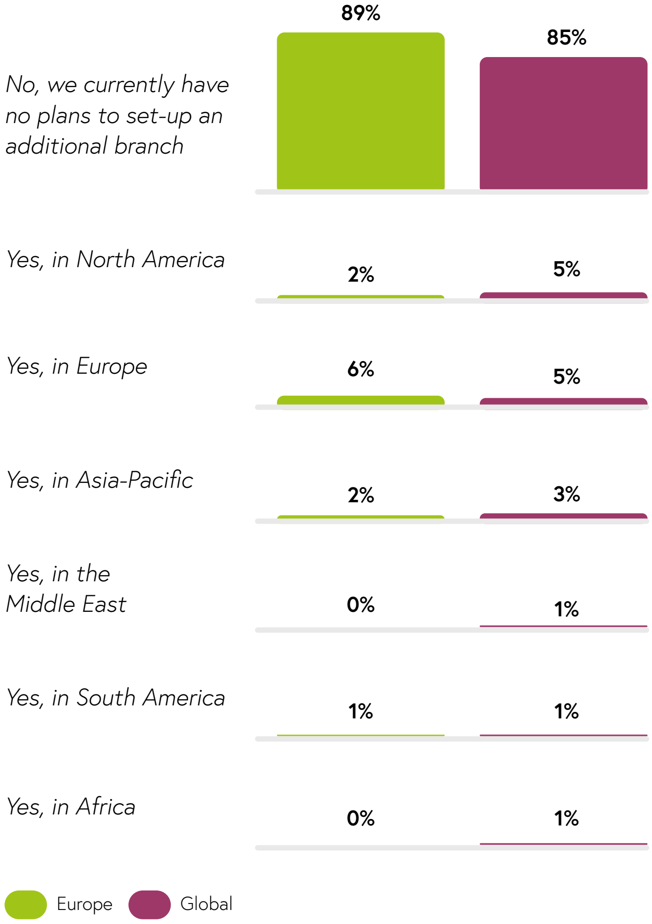
Co-founder, multi-family office, Belgium

Little appetite for additional branches

Almost a third of European family offices have more than one branch[4]. But nine in 10 family offices (89%) have no interest in establishing any further branches. Of those which do have plans, they are looking to set them up in Europe (6%), North America (2%), and Asia-Pacific (2%) (**Figure 1.10**).

[4] Camden Wealth/Deloitte Private. The European Family Office Report 2021

Figure 1.10: *Family offices intending to establish an additional branch(es) and intended location*



Note: Figures may not sum to 100% due to rounding.
Campden Wealth, The European Family Office Report, 2022

2. Investments

2. Investments

- After recent turmoil in financial markets, European family offices have become more risk-averse. Over the past year, the percentage pursuing a growth-oriented investment strategy has declined from 36% to 32%, while 46% are focusing on a more conservative, balanced approach, up from 44%.

- Public equity is the largest asset class, constituting on average 31% of European family offices' AUM. But in terms of new investment, the most popular asset class is private equity, with around 40% of family offices intending to increase their allocation to direct private equity investment (45%), private equity funds (41%), and venture capital (39%) over the coming year.

- In our 2021 survey, more family offices (70%) cited inflation as a risk to financial markets than any other factor. Unfortunately, the worst fears of this group were realised in Q1 of 2022 when U.S. inflation rose to high single digits. But this year's survey reveals family offices were ahead of the game adopting strategies to tackle inflation, such as increasing exposure to public equities (49%) and real estate (33%), and shortening the duration of bond portfolios (28%). Inflation, however, is still the most commonly cited risk to financial markets (78%).

- Two-thirds of European family offices include sustainability considerations in their investment process, and the percentage of sustainable investments within their portfolios, at 36%, is nine percentage points higher than the global average and is expected to increase to over 43% over the next five years.

- The most popular technologies for investment are healthcare tech (81%), fintech (70%), and digital transformation (66%). Involvement with nascent newer technologies is necessarily lower but significant percentages of family offices have exposure to the metaverse (20%) and NFTs (13%).

- Despite insufficient regulation and a deflating price bubble, 28% of European family offices are invested in cryptocurrency, unchanged from a year ago. Of these family offices, 27% are looking to increase their allocation to this asset class.

78%

of European family offices cited inflation as a significant risk to financial markets

13%

is European family offices' average investment return in 2021

66%

of European family offices engage in sustainable investing

2.1 Asset allocation

Investment strategy

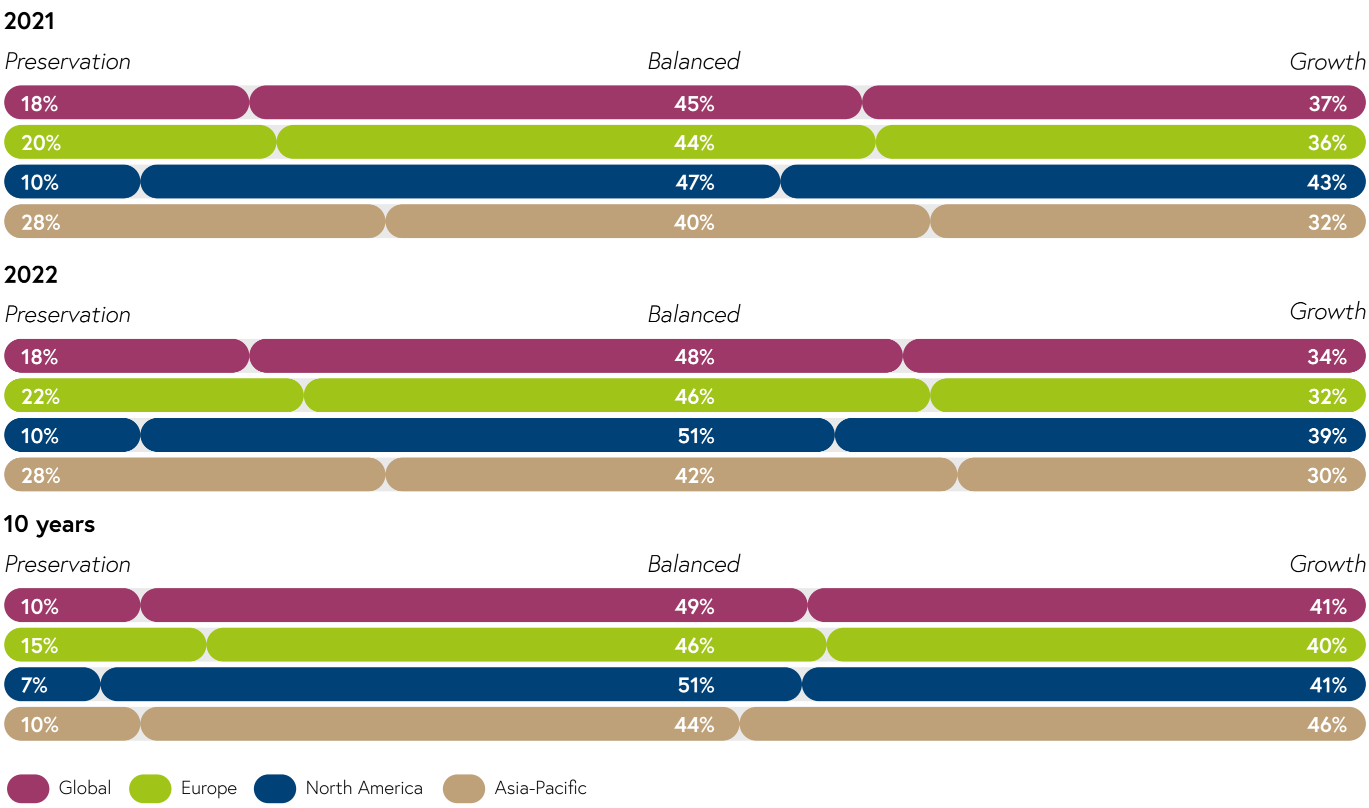
Moving down the risk curve

Traditionally, family offices have favoured a conservative approach to investing, maintaining a balance between the need to preserve capital and the desire to grow wealth. But, in recent years, the strong performance of financial markets has prompted the pendulum to swing towards the latter, and in 2021 36% of European family offices were pursuing a growth strategy, compared with just 20% which view their core objective as wealth preservation. In terms of their global positioning, European family offices are more conservative than their North American peers, but less conservative than those in Asia-Pacific (**Figure 2.1**).

2022 has been the worst year on record for stock markets since 1970.[5] Our survey, which was undertaken during the second quarter of the year when the bulk of the market reversal took place, reveals a change in the attitudes of family office investors. Specifically, the proportion of European offices now following a growth strategy has fallen by four percentage points, with switchers favouring balanced or wealth preservation strategies. The same trend is evident amongst family offices in North America, and to a lesser extent in Asia-Pacific.

Looking beyond the immediate present, European family offices are upbeat about the long term. Forty percent believe that in 10 years' time they will be employing a growth strategy, a much higher percentage than in recent years, and the percentage targeting wealth preservation will be down to 15%.

Figure 2.1: *The main investment objective of the family office for 2021, 2022 and in 10 years' time*



Note: Figures may not sum to 100% due to rounding.
Campden Wealth, The European Family Office Report, 2022

[5] https://www.marketwatch.com/story/2022-has-been-the-worst-year-for-markets-so-far-in-at-least-50-years-11661887865

Inflation: the biggest risk

The conventional wisdom at the end of 2021 was that inflation was the product of transport dislocation and supply chain constraints and would therefore prove no more than a temporary blip, set to disappear as the impact of the pandemic faded. Many European family offices were sceptical; in last year's survey, more family offices cited inflation as a risk to financial markets than any other factor. Unfortunately, the worst fears of this group were realised in Q1 2022 when U.S. inflation obstinately settled in high single digits. Currently, inflation is ranked as the most significant risk to financial markets by 78% of respondents (**Figure 2.2**). Additionally, recognising that the authorities would deal with inflation through tighter monetary policy, rising interest rates ranks third in the list of European family offices' concerns (54%), with geopolitical risks coming in second (61%). Naturally, a European energy crisis is a particular concern for this group (37%). But noticeably, they see less risk of a major stock market decline (23%) and currency devaluation (11%) than their global peers (36% and 17%, respectively).

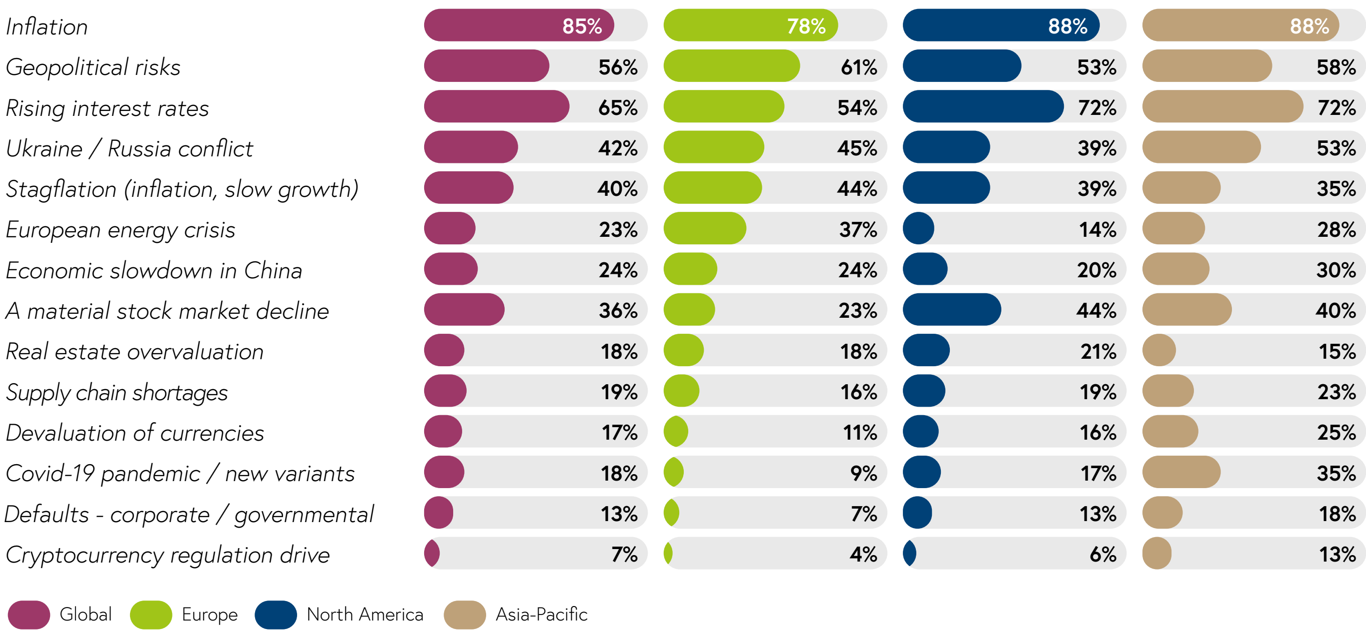
"We are really looking forward to this inflation-driven, rising interest rate cycle, because we think it'll sort out a lot of structures that have too much leverage. Leverage works magnificently in low interest rate or falling interest rate environments, but you get the reverse effect with rising rates, even if the assets are of high quality. Some good opportunities will be thrown up."

Chief Executive Officer, single family office, United Kingdom

"Inflation has two effects. First, when I think of our families, the luxury goods they are interested in are rising in price much faster than baseline inflation. Second, when it comes to investment strategy, certain assets, particularly in the real estate sector, are simply too expensive to get involved in."

Co-founder, multi-family office, Belgium

Figure 2.2: *Most significant market risks perceived by family offices over the coming 12 months (Tick all that apply)*



Campden Wealth, The European Family Office Report, 2022

Inflation hedge

Increasing exposure to real estate, equities, and commodities are textbook investment strategies for dealing with a high-inflation environment. The logic is simple. Landlords can raise rents, companies can raise the price of finished goods, and the supply/demand imbalance will cause commodities to re-price. **Figure 2.3** shows that 49% of European family offices are relying on increasing their equity exposure to tackle inflationary risk, while 33% are focusing on increasing their exposure to real estate and commodities. Additionally, 28% have shortened the duration of their bond portfolios to reduce sensitivity to adverse interest rate movements. Strategies such as increasing exposure to inflation-protected securities, floating-rate bonds or diversifying into cryptocurrency are not regarded as viable solutions. While the inflation hedges listed above will be advantageous for family offices in the long run, timing is critical. Prices of bonds and equities have both fallen in parallel through the year, so a switch from the former to the latter would not necessarily have been beneficial.

"We didn't know how to invest for inflation or rising interest rates. Do we look for the best managers or companies, companies with big moats, companies that can pass on higher input costs into output prices? We hoped for the best but didn't really know what to do. So, we took money out of the market last December because we were worried by the macroeconomic and geopolitical outlook."

Chief Executive Officer, private multi-family office, United Kingdom

"On the face of it, having 10% of the portfolio in fixed income looks like negligence, but the portfolio is very short duration, so it's more like a pool of cash we are managing, not real long-term investments."

Co-founder, multi-family office, Belgium

"I don't hold any bonds. Holding zero coupon bonds doesn't make any sense. Interest rates are rising, and people who have got bonds are losing a lot of money. So, from that point of view, I'm happy I've got no exposure whatsoever, which is quite unique amongst the family offices I know."

Principal, single family office, Belgium

"The majority of our holdings are in the U.S. because we're dollar-based. We like the U.S. from a macro perspective and from an individual stock perspective. In January every year, for the last 20 years, I've been told that Europe has underperformed the U.S., but this year will be different, and Europe will outperform. This never happens."

Chief Financial Officer, single family office, United Kingdom

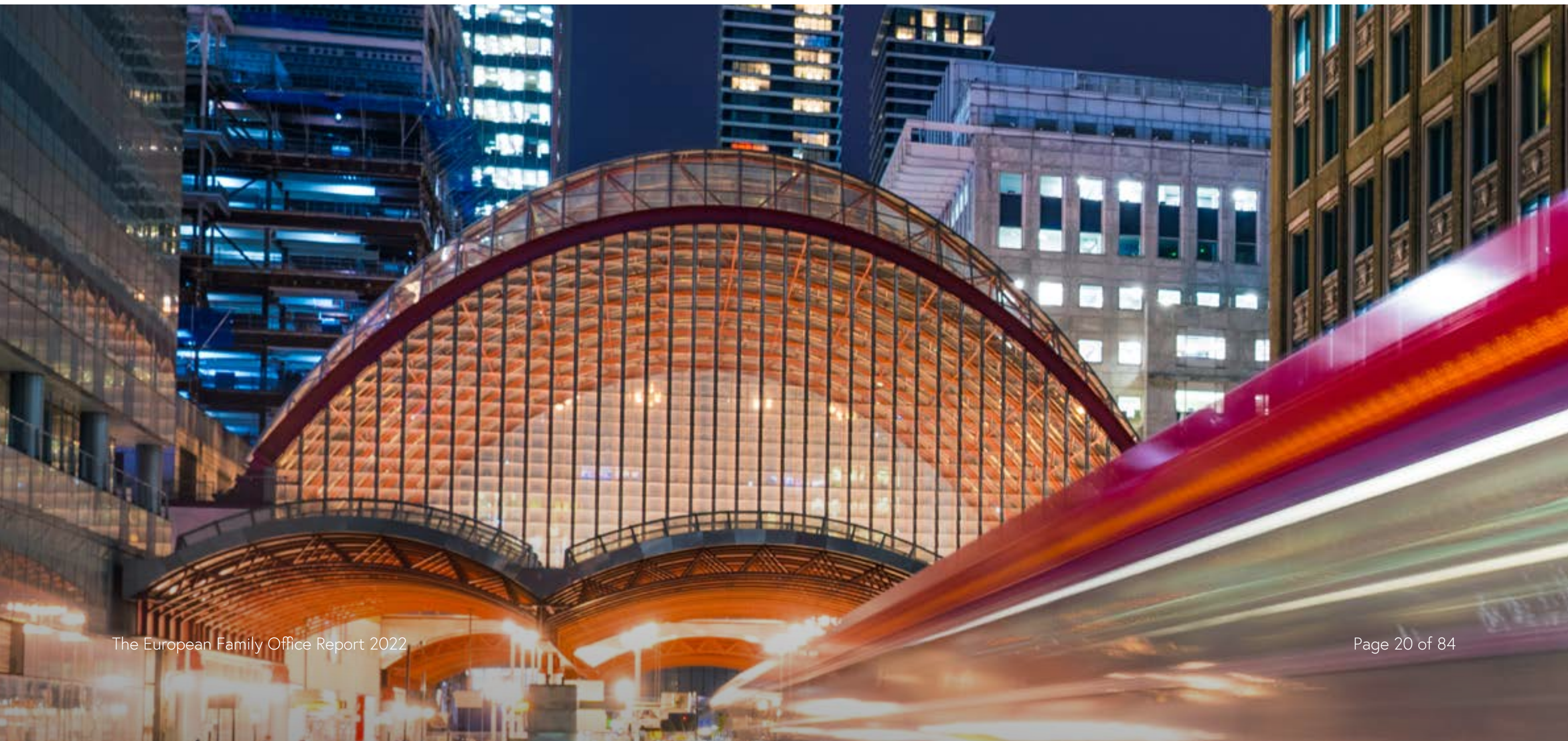


Figure 2.3: *How the family office is tackling inflation risk (Tick all that apply)*

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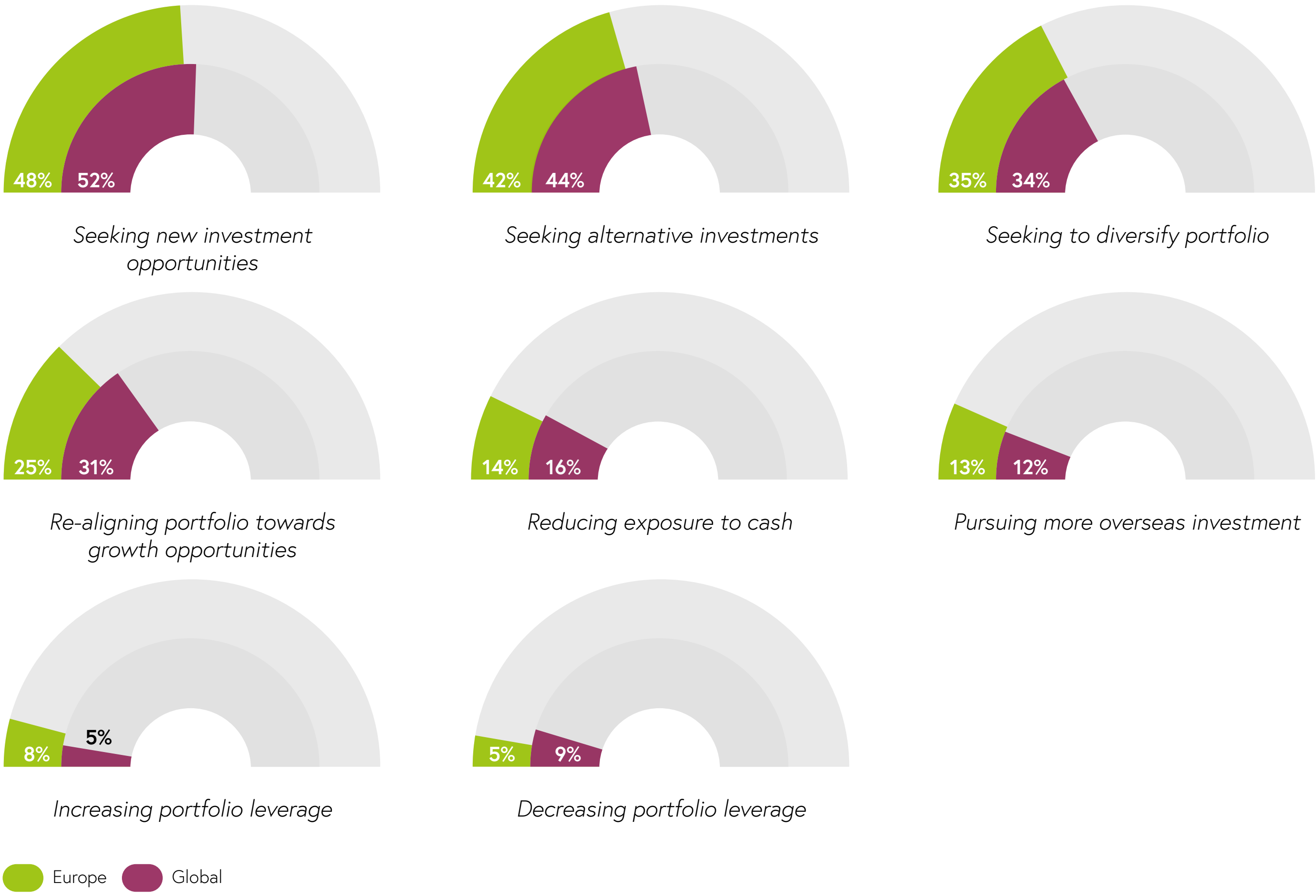
The hunt for new opportunities

Despite difficult macroeconomic fundamentals, 48% of European family offices are still on the lookout for new investment opportunities (**Figure 2.4**), particularly those which add diversification to portfolios (35%). A preference for alternative investments (42%) also highlights the importance of diversification. Fewer offices (25%) are currently realigning their investment portfolios towards growth than last year (35%).

Figure 2.4: *Family offices' top investment priorities for 2022 (Tick all that apply)*



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Portfolio

Public equity, the biggest asset class

As previously indicated, in terms of investment strategy, European family offices are more conservative than those in North America, but less conservative than those in Asia-Pacific (**Figure 2.1**). **Figure 2.5** reveals how this shows through in their strategic asset allocation. Holdings of fixed-income bonds at 11% of average AUM are much lower than in Asia-Pacific (16%), but higher than North America (9%). Their equity allocation, at 31%, is lower than the 35% recorded by North American offices. In terms of real estate, alternatives, and cash, European family offices are not dissimilar to their North American counterparts; the key differentiating feature is their larger holding of private equity at 27% of AUM, compared to 24% for North American family offices and 23% for those in Asia-Pacific.

Figure 2.5: *Family offices' average strategic asset allocation 2022*

	Global	Europe	North America	Asia-Pacific
Bonds				
Fixed income – developed markets	9%	8%	8%	8%
Fixed income – developing markets	3%	3%	1%	8%
Equities				
Equities – developed markets	27%	26%	31%	22%
Equities – developing markets	5%	5%	4%	10%
Private equity and debt				
Private equity – direct investments	10%	14%	9%	10%
Private equity – funds	8%	8%	9%	7%
Venture capital	6%	5%	6%	6%
Private debt / direct lending	3%	2%	3%	3%
Real estate				
Real estate – direct investments	13%	15%	14%	10%
REITs	1%	0%	1%	1%
Alternatives				
Hedge funds	4%	2%	6%	3%
Agriculture (forest, farmland, etc.)	2%	2%	1%	1%
Commodities	1%	2%	1%	1%
Gold / precious metals	1%	2%	1%	2%
Other				
Cash or cash equivalent	5%	5%	5%	7%
Cryptocurrency	1%	1%	1%	0%
SPACs (special purpose acquisition company)	0%	0%	0%	0%
Total	100%	100%	100%	100%

Global Europe North America Asia-Pacific

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Fixed income/equity switch

Globally, family offices are looking to reduce their asset allocation to fixed income and increase their exposure to equities over the next 12 months (**Figure 2.6**). This is the inevitable consequence of a high inflation and rising interest rate environment. European family offices are participating in this trend, with 25% intending to reduce their allocation to developed market fixed income (22% for family offices globally) and 36% intending to increase their exposure to developed market equities (36% for family offices globally).

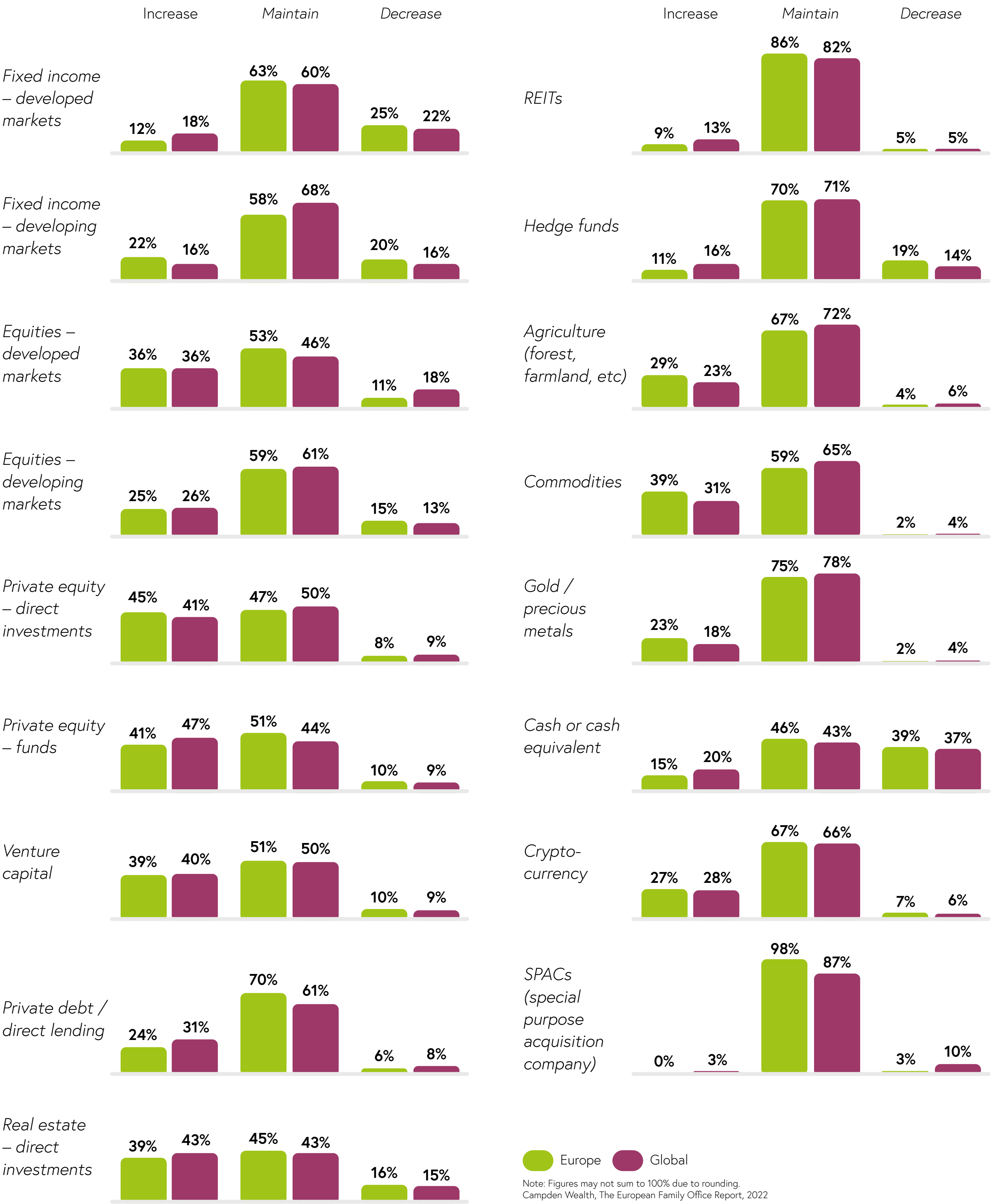
Private equity allocation set to increase

Private equity remains the most sought-after asset class among European family offices. When asked whether the family has a growing interest in private markets, 87% replied affirmatively. Forty-five percent, 41%, and 39%, respectively, intend to increase their allocation to direct private equity, private equity funds, and venture capital.

Alternatives in demand

Real estate and alternative investment classes such as commodities, which can act as inflation hedges, are attracting considerable interest from European family offices (39% are looking to increase their exposure to each asset category). However, this enthusiasm does not extend to cash and cash equivalents (15%) or hedge funds (11%). Neither asset class has offered outstanding returns (**Figure 2.12**).

Figure 2.6: *Family offices' intention to increase, maintain, or decrease allocation to the following asset classes:*



Note: Figures may not sum to 100% due to rounding.
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"We have been a bit bearish about public markets coming into the new year. We thought that interest rates were going to kick up. We saw that inflation was not a temporary factor as the Central Banks were telling us. What caught us out was the speed with which attitudes changed, particularly at the Federal Reserve."

Chief Financial Officer, single family office, United Kingdom

"My investment portfolio is very simple; one-third property, two-thirds equities. Most of the equities are holdings in quoted companies owned by families where the family retain a significant shareholding. I know the families, the company strategy, and its philosophy. I have doubled or tripled my money over the past five years; that's private equity performance, not equity performance."

Principal, single family office, Belgium

"We never do anything quickly, never do anything in size. So, if something goes wrong, which it will, it's not going to break us. We stick with people we respect and trust, and who have had success in various investment vehicles. We don't see the necessity of investing around the world, just stick with what you know. Finally, don't be tempted by something that looks unbelievably eye-wateringly attractive."

Chief Executive Officer, private multi-family office, United Kingdom

Allocations to emerging technology

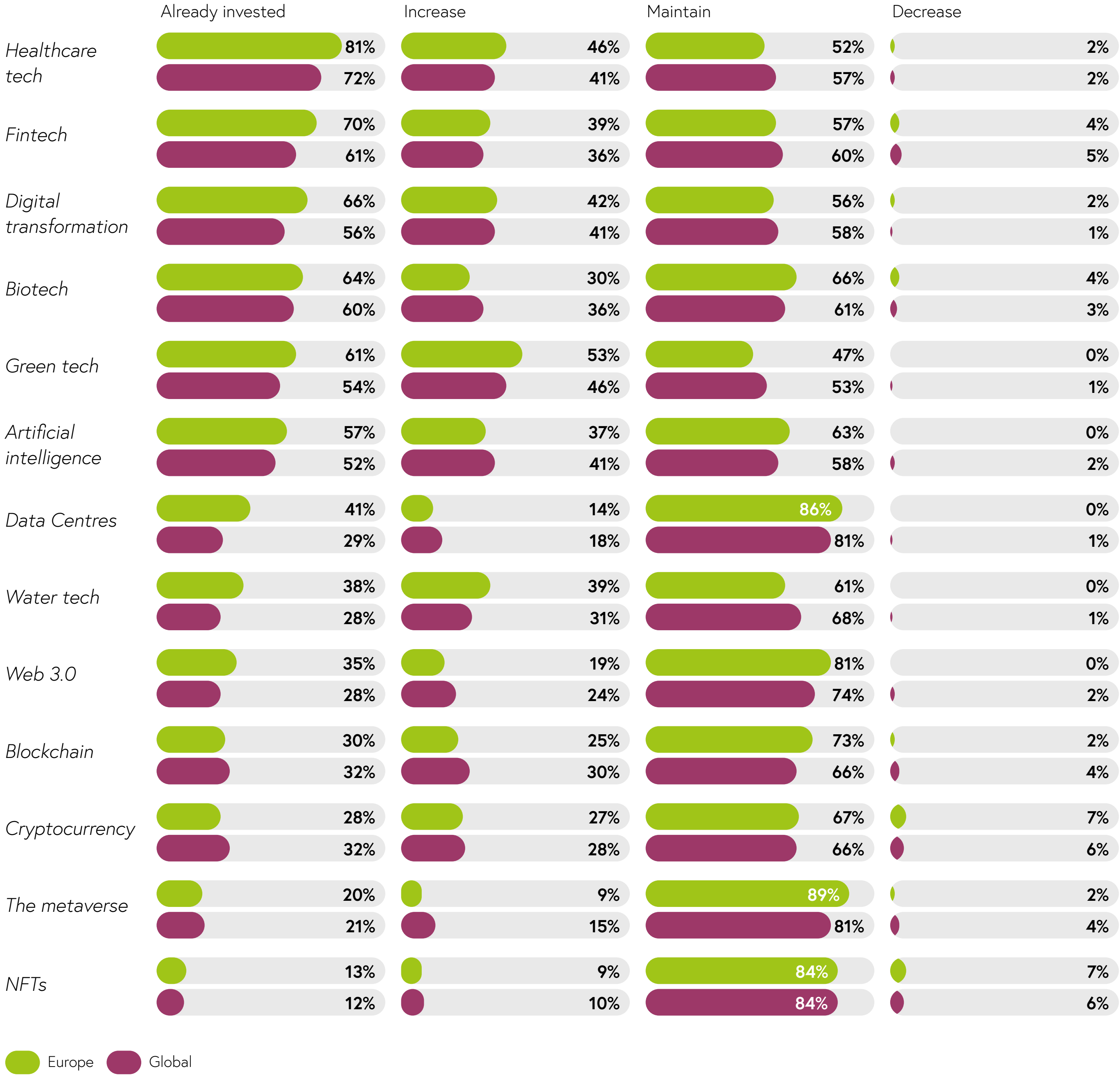
Popular sectors

The six most popular technologies in which European family offices are invested are healthcare tech (81% of respondents), fintech (70%), digital transformation (66%,) biotech (64%), green tech (61%), and artificial intelligence (57%) (**Figure 2.7**). This closely matches the preferences of family offices globally. Involvement with nascent technologies is lower than with those which have been long established, but significant percentages of European family offices have exposure to web 3.0 (35%), the metaverse (20%), and NFTs (13%). Separately, when asked whether cryptocurrency, NFTs, and the metaverse are promising investments, 30%, 22%, and 19%, respectively, of European family offices agreed.

Future allocations

European family offices view green tech as the most promising technology for future investment. Of those currently invested, 53% are looking to increase their allocation. On this measure, other promising sectors are healthcare tech (46%), digital transformation (42%), fintech (39%), water tech (39%), and artificial intelligence (37%). There is necessarily a strong overlap between technologies in which family offices are already invested and those deemed promising for future investment. This is because when family offices invest they are usually cautious, taking small positions to test the water and gain experience before making more significant investments.

Figure 2.7: *Family offices with investments in identified technologies and their intention to increase, maintain, or decrease asset allocation over next 12 months*



Note: Figures may not sum to 100% due to rounding.
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Cryptocurrency

Aside from the deflating price bubble, there have been other impediments which have prevented European family offices from investing in cryptocurrency. These include lack of regulation (61% of respondents), market immaturity (52%), and excessive volatility (46%). Twenty-two percent were concerned by the energy consumption necessary for crypto mining and its consequences for climate change (**Figure 2.8**). Despite the impediments, the percentage of European family offices invested in cryptocurrency has remained constant at 28% over the past year, and of these 27% are looking to increase their investment.

"I have personally invested in Bitcoin and Ethereum. I think there is the potential for good growth there. But I want to understand this asset class better before committing the family office."

Principal, single family office, Belgium

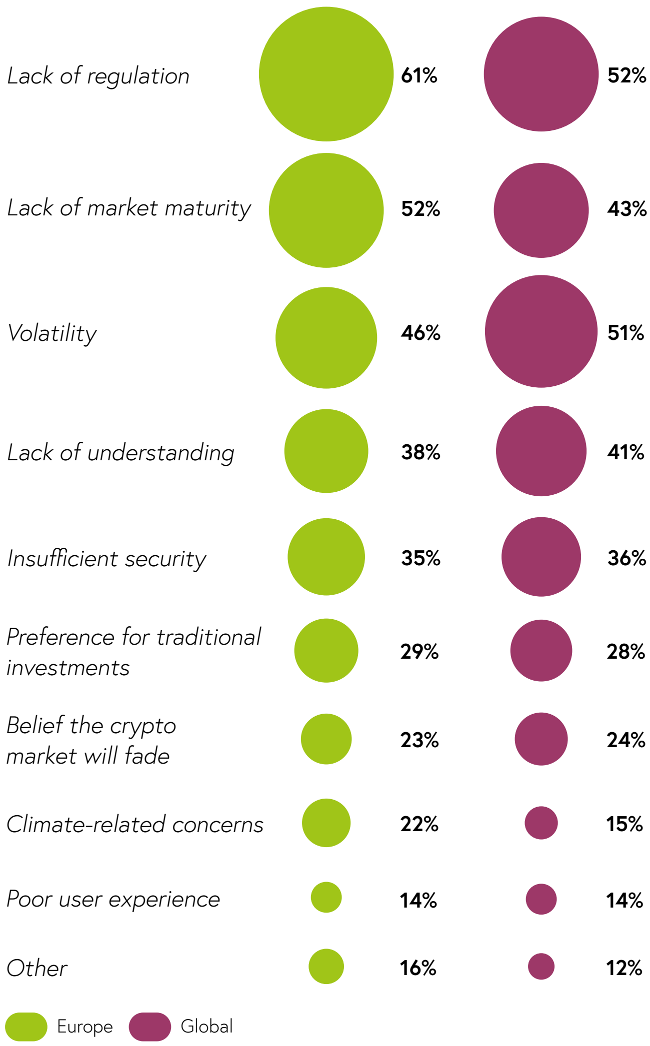
"A lot has been written about cryptocurrency not being a proper store of value. But there's increasing use of cryptocurrency to settle cross-border transactions. Banks can take weeks to transfer funds, but digital currencies can do it in an instant."

Chief Executive Officer, private multi-family office, United Kingdom

"I can't understand how it can be legal to use so much energy on something like crypto mining, which creates so little value for society as a whole."

Chief Executive Officer and family member, single family office, Norway

Figure 2.8: *Impediments to investing in cryptocurrency (Tick all that apply)*



Note: Figures may not sum to 100% due to rounding.
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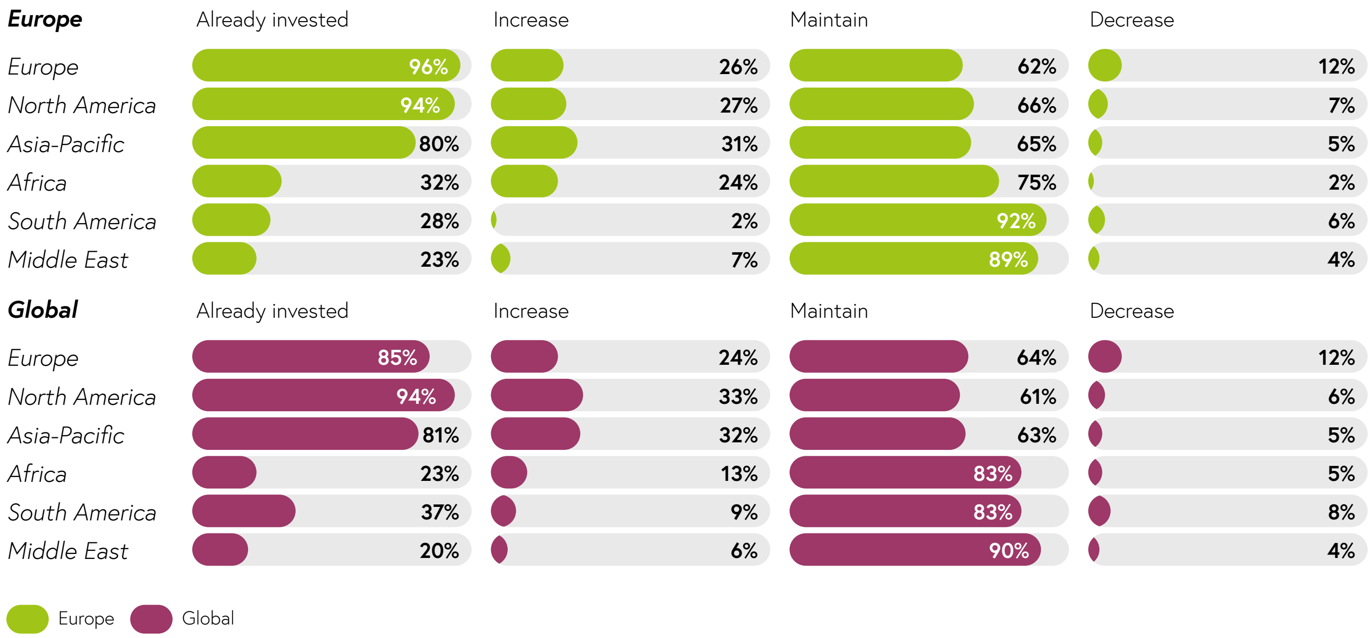
Geographic diversification

Taking advantage of North American opportunities

The U.S. is home to the world's two largest stock markets, NYSE and NASDAQ, which have a combined market capitalisation of USD $45 trillion. This compares to approximately USD $15 trillion for major European exchanges[6]. The range of attractive investment opportunities available in North America, and the necessity of diversifying assets explains why as many European family offices hold North American investments (94%) as European investments (96%) (**Figure 2.9**). Eighty percent of family offices have exposure to the fast-growing Asia-Pacific region, and this is viewed as the most favoured region for new investment by 31% of the European family offices already invested there. There appears little appetite for increased investment in more esoteric markets in the Middle East and South America.

Figure 2.9: *Percentage of family offices with investment in different geographic regions and their intention to increase, maintain or decrease their investment*



Note: Figures may not sum to 100% due to rounding.
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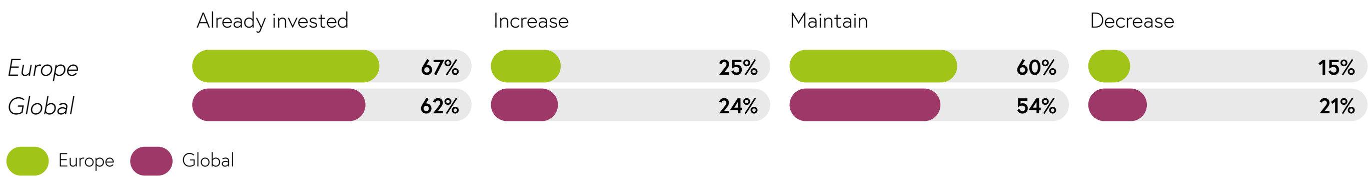
Two-thirds of European offices invest in China

Sixty-seven percent of European family offices invest in China, which is marginally higher than the global average of 62% (**Figure 2.10**). Of those that are already invested, one in four intend to increase their investment.

Figure 2.10: *Percentage of family offices with investment(s) in China and their intention to increase, maintain or decrease their investment(s)*



Note: Figures may not sum to 100% due to rounding.
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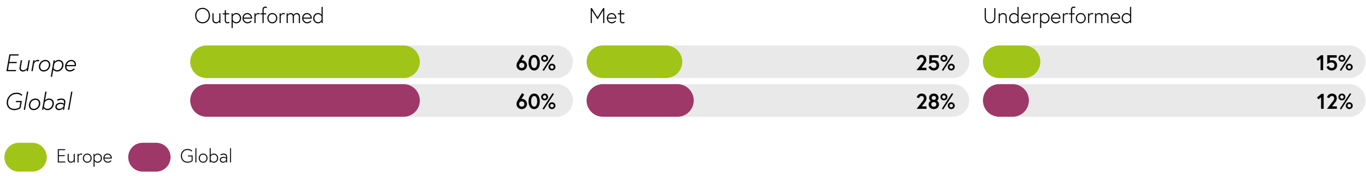
[6] statista.com/statistics/270126/largest-stock-exchange-operators-by-market-capitalization-of-listed-companies/

2.2 Performance

2021, an exceptional outcome

Sixty percent of European family offices outperformed their benchmark in 2021 and only 15% underperformed; an exceptional outcome (**Figure 2.11**).

Figure 2.11: *Percentage of family offices where investments outperformed, met or underperformed their overall benchmark in 2021*



Note: Figures may not sum to 100% due to rounding.
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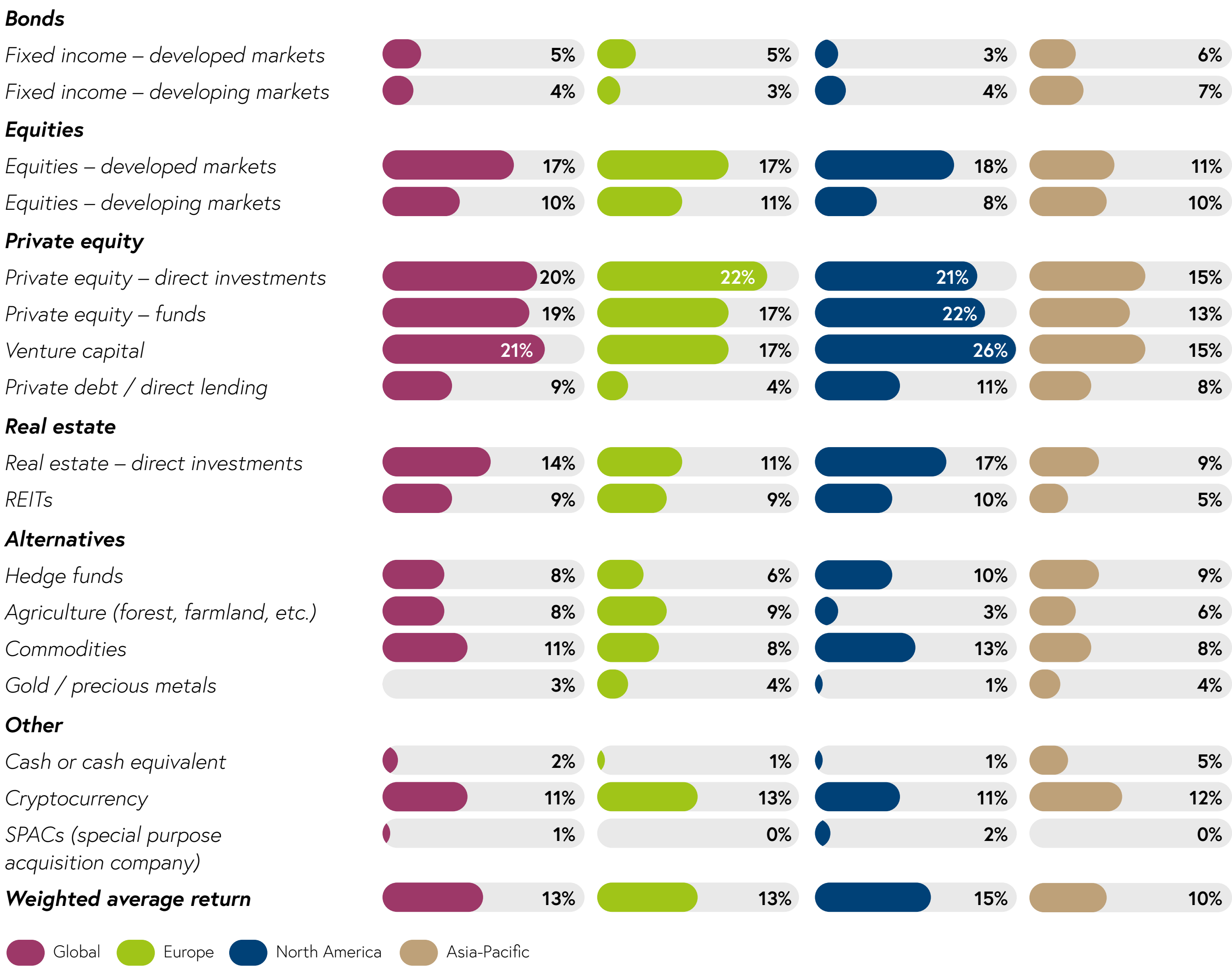
Returns: a detailed look

Looking at 2021 returns in more detail in **Figure 2.12**, there was a standout performance from direct private equity (22%), and 17% from both funds and venture capital. This favourable outcome can be attributed to buoyant stock markets, particularly in the U.S., economies recovering from the pandemic, and interest rates remaining at ultra-low levels which created a propitious environment for private equity realisations. The multi-year outperformance of private equity returns explains why this is such a sought-after asset class. With a 17% tailwind from developed market equities (the largest portfolio segment), the average overall portfolio return for European family offices is estimated at 13%, two percentage points less than the average for North America (15%), but three percentage points higher than Asia-Pacific (10%).

Figure 2.12: *Average net return by asset class generated by family office in 2021*



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Outlook

Going forward, given the year-to-date performance of public markets, and recognition that what happens in public markets filters through to private market valuations, there is a clear perception that the 2022 outcome won't match that of the last two years. When asked whether the economic outlook for 2022/2023 was positive, 75% of European family office executives disagreed.

"We've got a fairly big private equity portfolio, which is predominantly funds and co-investments. We were bearish about markets at the start of the year and so we put a basket of our funds together and offered it to a secondary buyer. That disposal gives us excess cash from illiquid funds that we had been sitting on for five years, and which we can now deploy into the market."

Chief Executive Officer, single family office, United Kingdom

"The super returns we enjoyed in 2020 and 2021 were, in my view, an anomaly. Now we're reverting back to the mean. There have been tectonic shifts in the venture capital world because people finally figured out what an extraordinarily great business it is. The problem is that we've had too many tourist investors, and so I'm really happy that the tourists are leaving. Hedge funds are leaving because they are solely driven by returns and corporates are leaving because their own share prices have been decimated. It will be very difficult to achieve exits, but this is a fantastic time to make new investments."

Managing director, private multi-family office, Switzerland

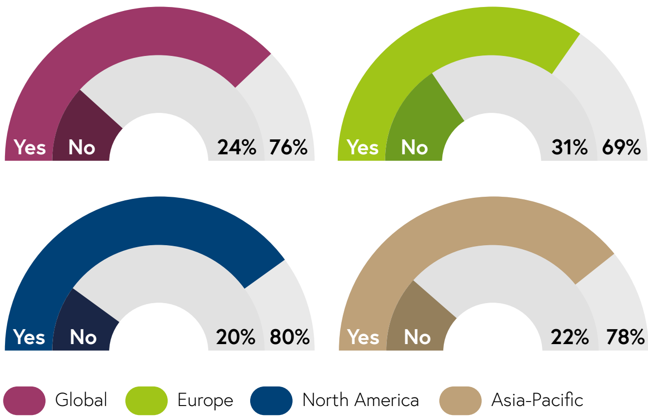
2.3 Asset class focus

Real Estate

Staying close to home

Direct investment in real estate is only 15% of the aggregate AUM of European family offices, but 69% own a property portfolio (**Figure 2.13**).

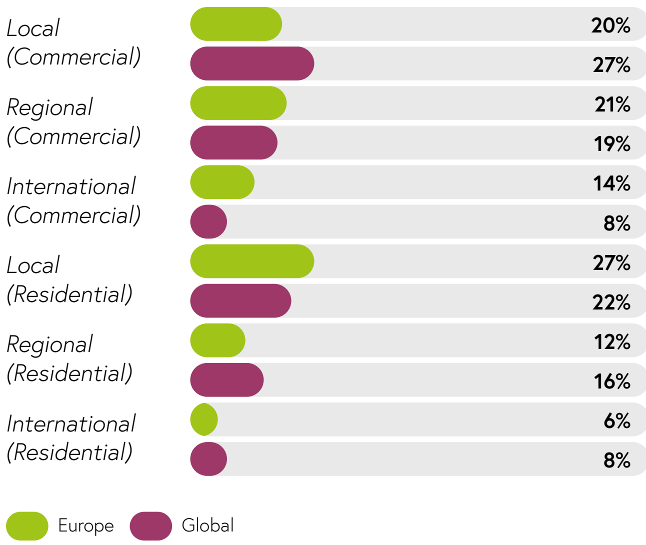
Figure 2.13: *Whether the family office invests in real estate*



Note: Figures may not sum to 100% due to rounding.
Campden Wealth, The European Family Office Report, 2022

Both European family offices and those globally have a bias towards commercial property (55% and 54%, respectively). Forty-seven percent of the average European portfolio, and 49% of the global portfolio consists of properties, both commercial and residential, which are in close geographic proximity to the family office. This would appear to demonstrate the importance of local market knowledge (**Figure 2.14**). European family offices have proportionately more international investment (20%) than their global peers (16%), whilst the latter have more exposure to regional markets (35% compared to 33%).

Figure 2.14: *Composition of family offices' real estate portfolios*



Note: Figures may not sum to 100% due to rounding.
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2021 real estate returns prove somewhat flat

Last year's European real estate returns look rather flat alongside the global averages (**Figure 2.15**). For example, residential returns averaged 6% across European portfolios compared to 13% for offices globally. This was the product of exceptional capital appreciation in the U.S.; nationally residential home prices rose 19%[7], making European markets look lacklustre in comparison. Some respondents expressed concern with the U.S. property market, the perception is that valuations are too high and will be undermined by rising interest rates.

"I'm concerned about a bubble in the U.S. property market. The family built multi-family properties in Florida. They are now in the process of selling them with a 50% gain. Favourable demographics drove a 30% to 40% increase in rents, but I wonder how people can afford this given their disposable income is only increasing 6% to 7%."

Chief Investment Officer, single family office, Monaco

"Investment in retail property is now making a bit more sense. Yields have risen to 4%, which is about twice what is available elsewhere. Even though financing costs are set to rise, there is still a positive margin. Residential property makes no sense because the yield is below the cost of money, although I have to admit that residential is probably the least risky asset class; people always need somewhere to live."

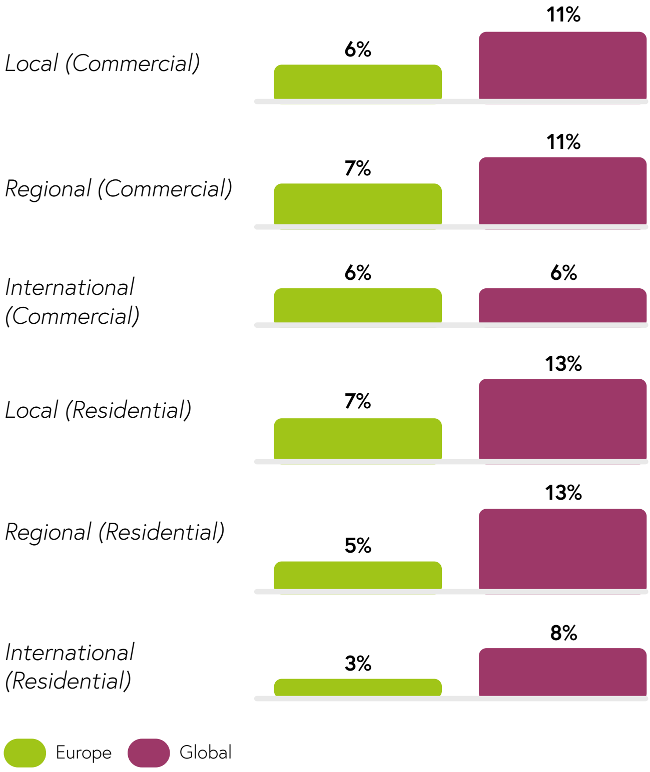
Principal, single family office, Belgium

[7] US National Home Price YoY change% US Bureau of Labor Statistics https://www.bls.gov/

"Our real estate interest is largely in the West End of London. London has attracted a lot of foreign capital which has driven up prices and driven down yields dramatically in the areas we would traditionally have looked at, leaving little opportunity for us to invest. We will have to look at other property classes, not necessarily in the UK."

Chief Financial Officer, single family office, United Kingdom

Figure 2.15: *Family offices' average 2021 return from real estate investments by asset class*

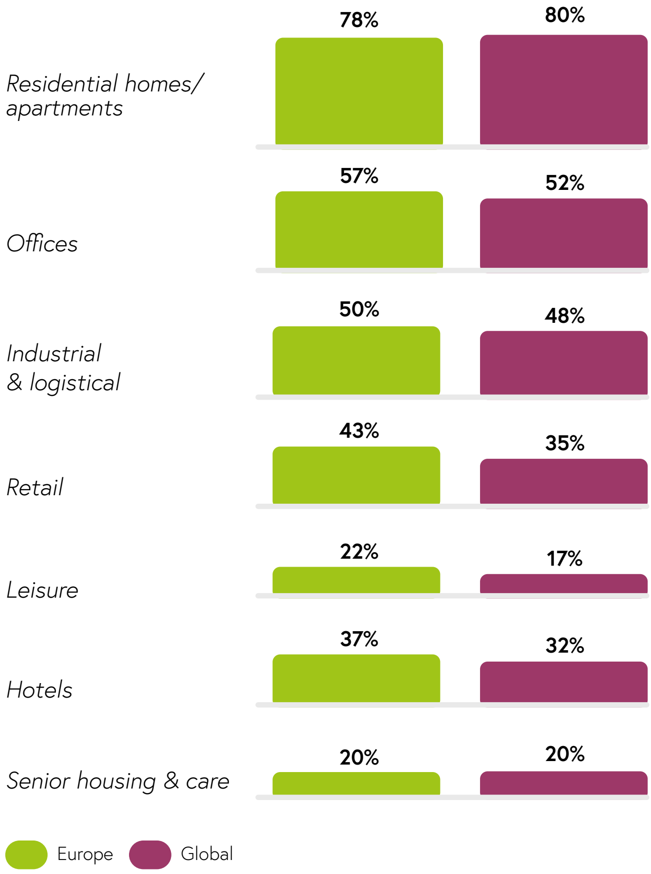


Campden Wealth, The European Family Office Report, 2022

Residential property most popular

Although residential assets are only 45% of real estate AUM, 78% of European offices which have real estate exposure have residential homes/apartments within their portfolios (**Figure 2.16**). The proportion of offices which own commercial assets is lower, but European offices are more involved with some of the more esoteric sectors of the commercial property market such as retail (43%), leisure (22%), and hotels (37%), than their global counterparts.

Figure 2.16: *Percentage of family offices with real estate investments by sector (Tick all that apply)*



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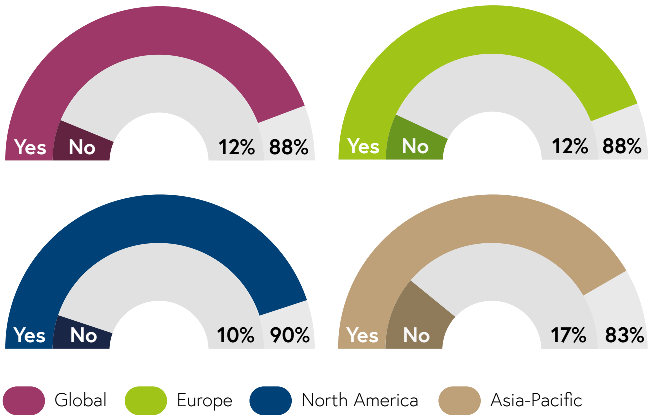
Private Equity

Direct active approach works best

Private equity is the second largest asset class in the average European family office portfolio (27% of AUM, **Figure 2.5**), and 88% of family offices have an allocation (**Figure 2.17**).

Figure 2.17: *Whether the family office invests in private equity*

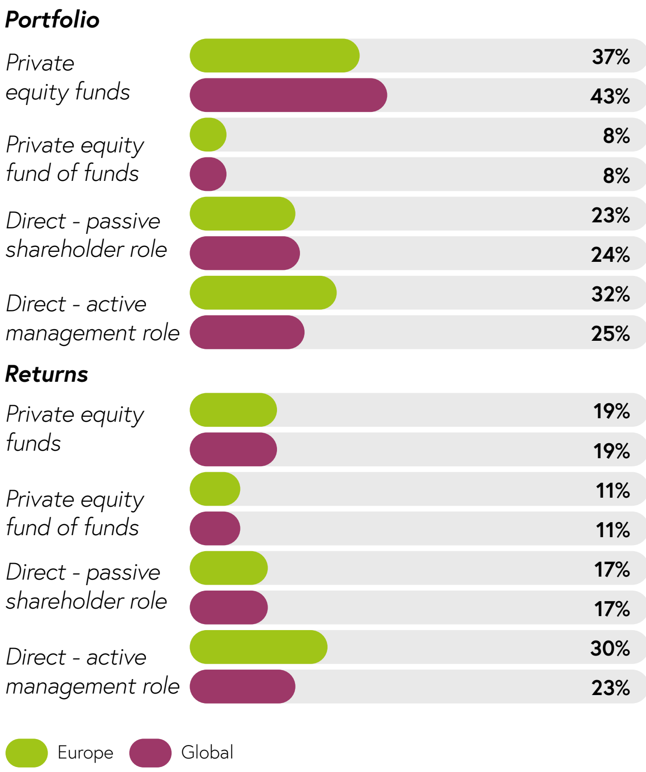


Note: Figures may not sum to 100% due to rounding.
Campden Wealth, The European Family Office Report, 2022

Active investment brings rewards

There is a preference for direct investment (55% of portfolios), which is higher than the global average of 49% (**Figure 2.18**), but private equity funds and fund of funds are also popular (45%). The table also shows that with the majority of their direct investments, European family offices are prepared to take an active role. This may entail anything from advising and mentoring management to giving them access to the family network. The reward for active management is often better investment returns, and this was the case for both European family offices (30%) and family offices globally (23%) in 2021. However, returns from passive direct investment (17%) and private equity funds (19%) were still very healthy (**Figure 2.18**).

Figure 2.18: *Family offices' average private equity portfolio and 2021 returns by asset category*



Note: Figures may not sum to 100% due to rounding.
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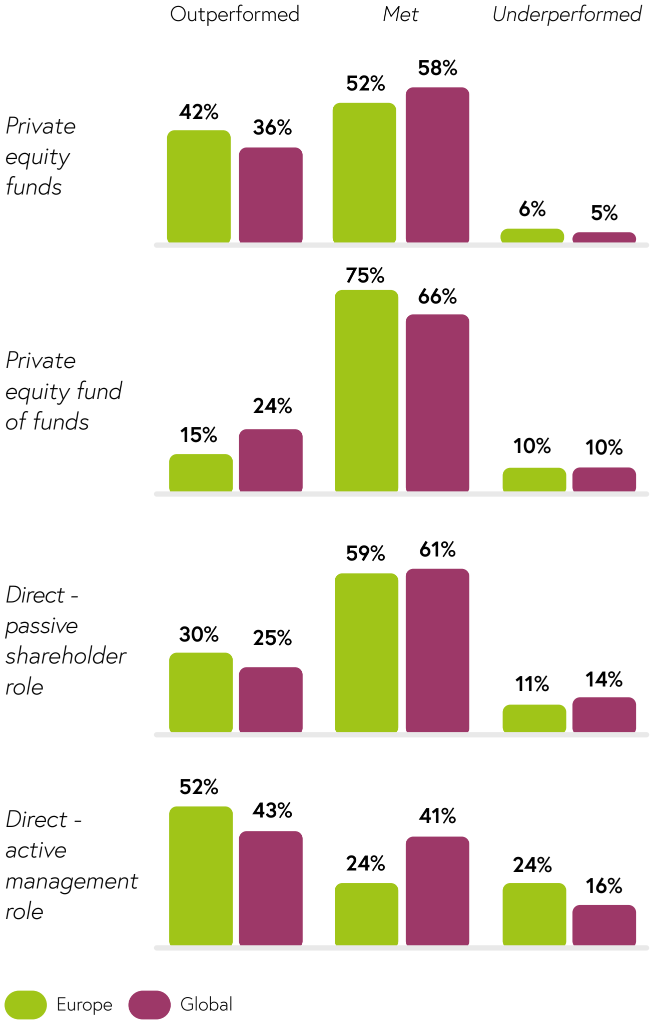
Fifty-two percent of the European family offices engaged in direct active investment, and 42% of those investing in funds reported returns in excess of expectations (**Figure 2.19**), a better outcome than the global average (43% and 36%, respectively).

Figure 2.19: *Percentage of family offices reporting 2021 private equity performance outperforming, meeting, or underperforming expectations*



Note: Figures may not sum to 100% due to rounding.
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"The family has a long history with private equity. The principal knows the founders of some of the top firms in the United States. In the late 1990s, he was one of the early adopters of private equity. He was, at the beginning, a big fish in a small pond. Now, it's a very big pond, and he is the small fish. But it's something that he's really stuck with for the last 25 years."

Chief Investment Officer, single family office, Monaco

"We invest in private equity funds when we have no specialist knowledge or lack the opportunity to undertake direct investments. For example, it's difficult to find investment opportunities in mittelstand companies in Germany. But we found an investment manager very active in that area, and we pooled capital from a number of families to access their fund."

Co-founder, private multi-family office, Belgium

"If we were taking proprietary positions ourselves then we would need to bring in someone who knows about aircraft financing or timber. But we don't have to do that. That's why I'm happy with the two and twenty model we pay general partners. It means that we can have a competent person working for us in that space."

Chief Executive Officer, private multi-family office, United Kingdom

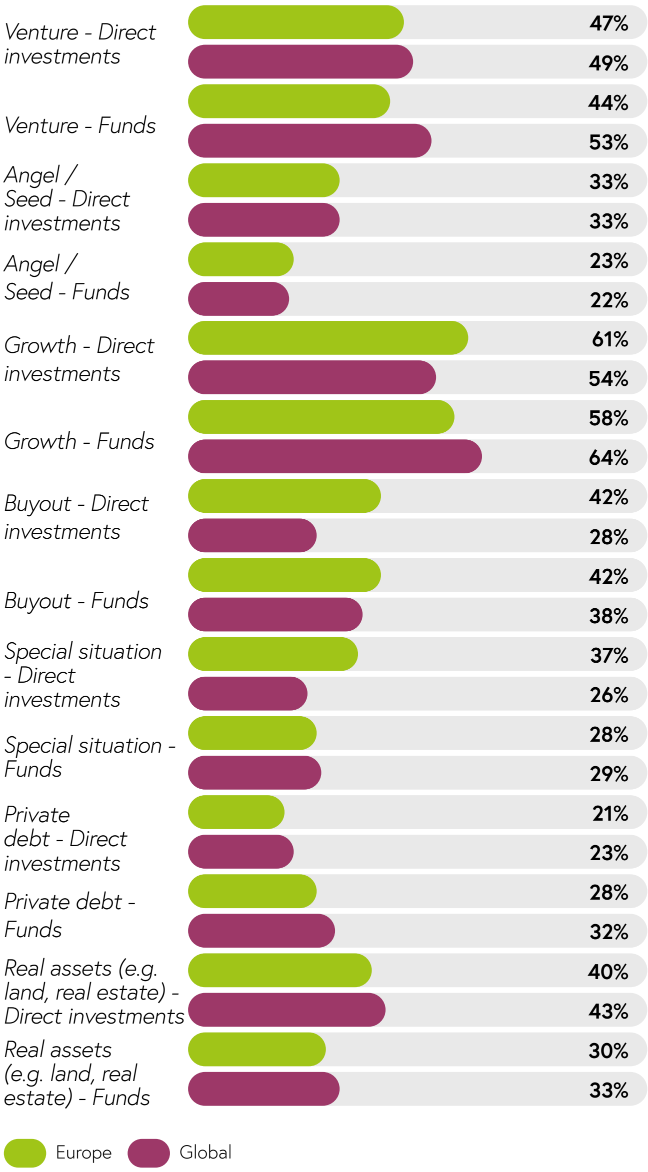
"If you compare capital markets now to what they looked like just nine months ago, family offices should conclude that it is absolutely essential to have a disciplined approach and robust risk management process in place that can withstand both overzealous markets and panic markets. If you don't have discipline and a process, so that you can understand the large standard deviations between peaks and troughs, then you'll find direct investing very challenging."

Managing director, private multi-family office, Switzerland

European family offices favour growth and venture capital

The most attractive category when selecting private equity investments is growth, either direct (61%) or through funds (58%) (**Figure 2.20**). Venture capital investment in early-stage innovative businesses, typically although not exclusively technology-based, is also popular (47%), as are buyouts (42%) and direct real estate investment (40%). Angel /seed investing in startups (33%) and private debt are (21%) less favoured.

Figure 2.20: *Percentage of family offices with exposure to private equity investing directly or through funds in the relevant categories*



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"We hold so many funds, we are effectively invested in every conceivable technology. But rather than investing in particular technologies, it's more about finding a quality investment manager. Then, it's up to the manager to decide what they want to invest in."

Chief Investment Officer, single family office, Monaco

"We're not particularly keen on industry specific funds. We prefer funds that invest across different sectors so that we don't get caught in a sector that ends up having a few difficult years. But if a general partner came to us saying they're going to invest in healthcare tech, fintech and biotech, then that diversified mix would be attractive to us."

Chief Executive Officer, private multi-family office, United Kingdom

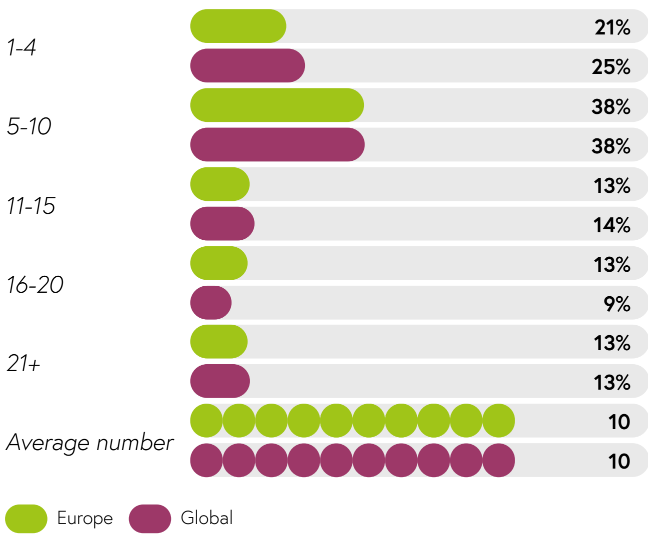
"Private debt is really just a diversification for us on the private market side. The bulk of our private investing is equity based. Occasionally, we come across pieces of debt that we find interesting, particularly at the mezzanine level with warrants attached. My problem is that although they offer returns of 8% to 10% if all goes well, if there's a default on just one debt security the entire return is wiped out."

Chief Executive Officer, single family office, United Kingdom

Number of private equity deals

Most European family offices engaged in private equity run between five and 10 deals in parallel, with the average being 10 (**Figure 2.21**).

Figure 2.21: *Number of private equity deals run in parallel by family offices*



Note: Figures may not sum to 100% due to rounding.
Campden Wealth, The European Family Office Report, 2022

"We are quite big in private equity. We have 15 to 20 investments running in parallel, which is twice as large as the average family office. We have about 20 staff, 10 of whom are back office and 10 investment managers. All our investment managers are involved in private equity, regardless of what other asset classes they work in."

Chief Executive Officer, private multi-family office, United Kingdom

"My rule of thumb is that with 20 or so direct investments, we should have a team of five people. However, we are short-staffed at the moment. The more family offices venture into private equity, the more they will need expensive specialists with a background in banking or fund management."

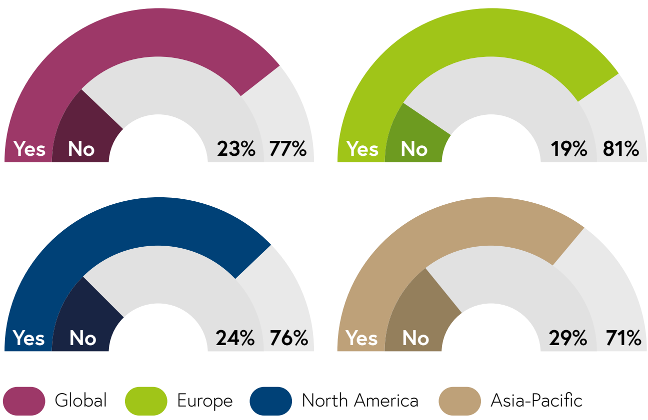
Investment Director, single family office, Germany

Direct Investment

Family offices still enthusiastic but caution required

Just over 80% of European family offices are engaged in direct investing (or over 90% of those with private equity investments) and our survey reveals that interest in this asset class is increasing both in Europe (56%) and globally (49%). A key factor here is undoubtedly the double-digit returns that have been achieved over the last two years (**Figures 2.18, 2.22, 2.23**).

Figure 2.22: *Whether the family office makes direct investments*



Note: Figures may not sum to 100% due to rounding.
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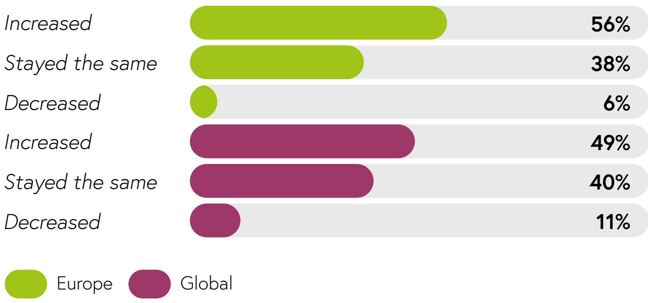
But stock markets have rolled over and major developed economies are on the cusp of a recession. What happens in public markets will eventually impact private market valuations and with a more difficult environment in prospect, it remains to be seen whether this enthusiasm will persist. Characteristically, direct private equity can provide very high returns, but at the risk of having to hold relatively illiquid investments for an extended period.

Figure 2.23: *Whether the family's interest in direct investment has increased, stayed the same or decreased over the last 12 months*



Note: Figures may not sum to 100% due to rounding.
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Advantages of co-investment

Technically, an equity co-investment is a minority interest acquired by an investor in conjunction with a private equity fund manager and funded through an independent co-investment vehicle.[8] However, in this report the term is also used more broadly to refer to family offices which invest alongside other family offices. The advantage of both types of co-investment structure is that it enables a family office to obtain a larger share of a desirable investment with less due diligence.

Despite the advantages set out above, co-investments are a lower percentage of European family office portfolios (27%) than those globally (37%) and lower than the 33% recorded last year (**Figure 2.24**).

"The advantage of co-investment is that it's quite hands-off. Obviously, we're processing capital calls, distributions, checking the investment, updating the principal, and making sure the cash flow is fine, but in terms of the day-to-day, the general partner is doing almost everything."

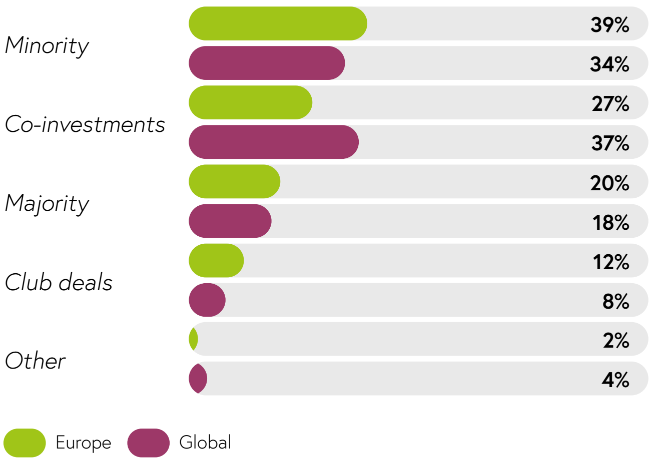
Chief Investment Officer, single family office, Monaco

"Our direct investments are all co-investments. We tend to invest in a private equity fund, and when there are some positions in the fund that need extra capital, we co-invest with the general manager. This is done on the basis that we've already done due diligence on the manager and the deal makes sense to us."

Chief Executive Officer, private multi-family office, United Kingdom

[8] https://www.investopedia.com/terms/e/equity-coinvestment.asp

Figure 2.24: *Breakdown of family offices' average direct investment portfolio by type of investment*



Note: Figures may not sum to 100% due to rounding.
Campden Wealth, The European Family Office Report, 2022

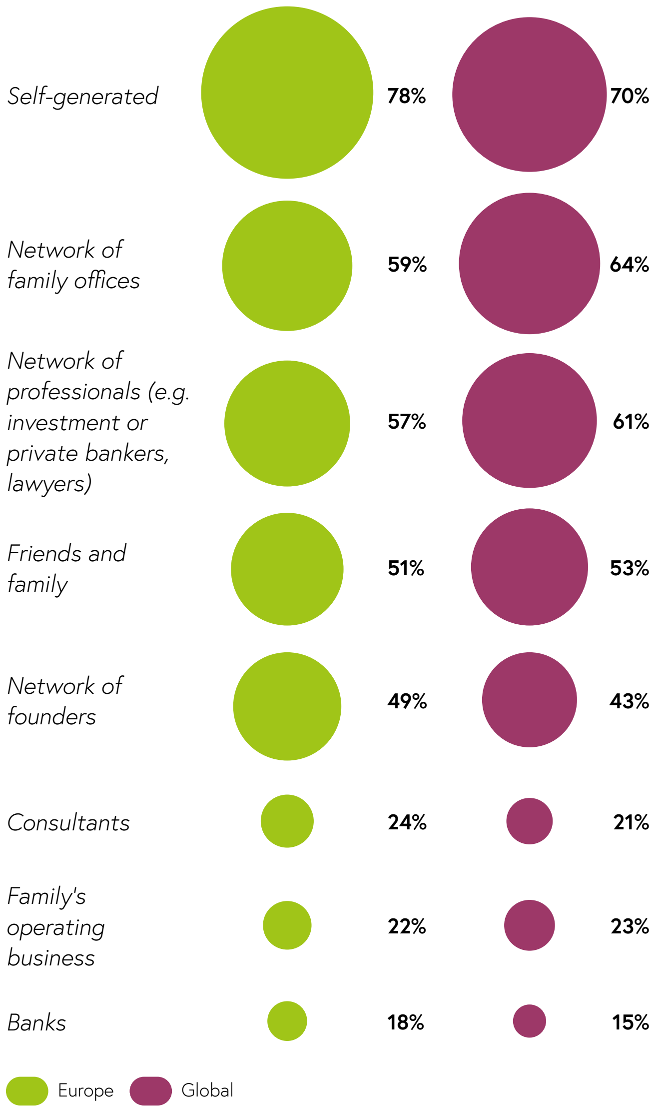
Importance of family networks

Family offices that have established themselves as major private equity investors act as magnets, attracting aspiring entrepreneurs. The vast majority (78%) of European family offices rely on their own family networks to self-generate new private equity investment (**Figure 2.25**). Networks of family offices (59%) and professional advisors (57%) are also important sources of new deals, far more than banks (18%).

"We typically source deals via our network of families. Of course, we meet a lot of entrepreneurs. From the moment they know we are involved in private equity, they seek you out and present you with a deal. Then, we do a lot of analysis to determine whether to fund their proposition or not."

Principal, single family office, Belgium

Figure 2.25: *Where direct investments are sourced (Tick all that apply)*



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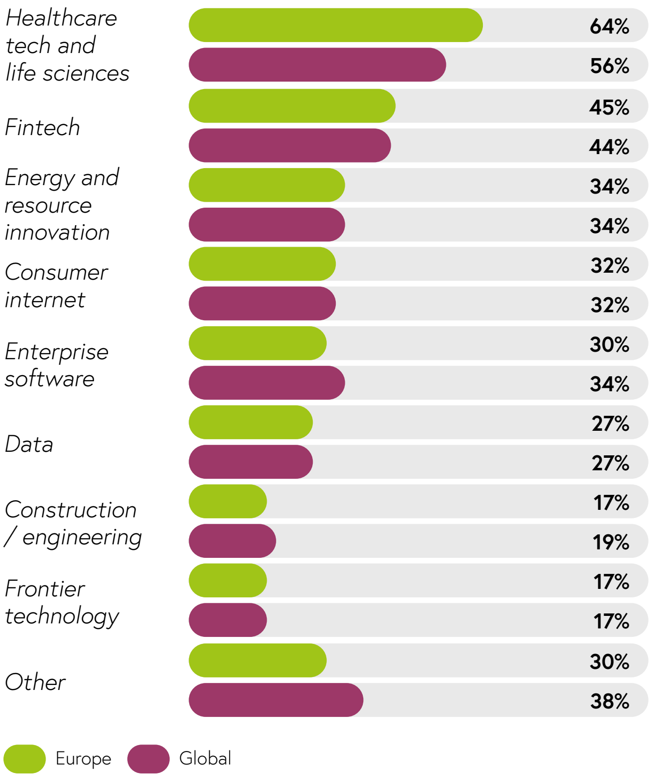
Direct investment in new technologies

The most popular industries for direct investment are healthcare tech and life sciences, with 64% of family offices with direct investments allocating here, followed by fintech (45%), and energy and resource innovation (34%) (**Figure 2.26**). With the exception of healthcare and life sciences, there is little difference between the preferences of European offices and those based globally.

Figure 2.26: *Percentage of family offices having direct investment in the following industries (Tick all that apply)*



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"A professional venture investor has a defined target ownership percentage which he establishes with the first cheque and then defends in subsequent funding rounds up to a point where he is happy to accept dilution. We typically target initial ownership of between 5% and 10%. Suppose a venture company, where we initially invested USD $1 million for a 5% stake, is now valued at USD $400 million and wishes to raise a further USD $100 million. We'd be quite happy to see our stake diluted down to 4%. Why? Because at that valuation the company has proof of concept and probably revenues. We wouldn't be promoting its technology or its development. We would rather take a higher risk when a company is unproven on the expectation that the rewards will be higher. There are plenty of private equity firms who would be happy to put in the USD $100 million on the basis that the company is now relatively low risk, and they could make three or four times the capital over a decade. But that's not our business."

Managing director, private multi-family office, Switzerland

Sustainable Investing

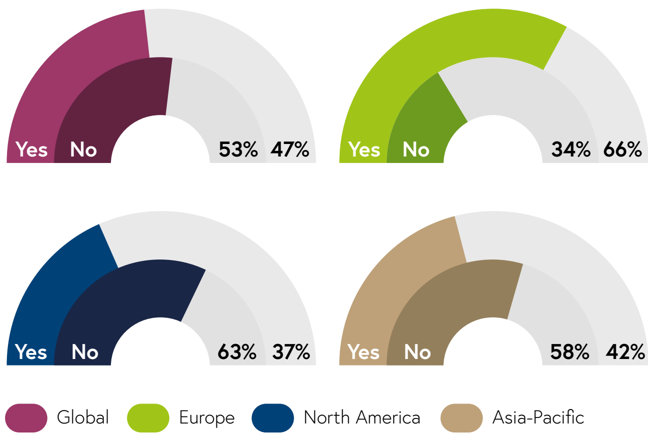
ESG embedded in the investment process

Sustainable investing involves the consideration of environmental, social, and governance (ESG) factors in the investment process. There are three distinct approaches which can be used individually or in combination; 1) exclusion – excluding investments that are not aligned with the investor's values; 2) integration – incorporating ESG factors into traditional investment processes; and 3) impact investing – investing with the intention of generating a measurable environmental or social impact. All three approaches should nonetheless provide a competitive financial return.

Two-thirds of European family offices onboard

According to Bloomberg Intelligence, total ESG assets are expected to exceed USD $41 trillion during 2022, or roughly one-third of all AUM[9]. Approximately a third of ESG assets are in Europe[10]. These statistics apply to the entirety of the investment universe, not just to family offices, but they provide a useful indication of how significant sustainable investing has become. European family offices have fully participated in this trend. Two-thirds are engaged in sustainable investing (**Figure 2.27**) which represents a significant advance on last year's 45%, and is higher than family offices in North America (37%) and Asia-Pacific (42%).

Figure 2.27: *Whether the family office is engaged in sustainable investing*

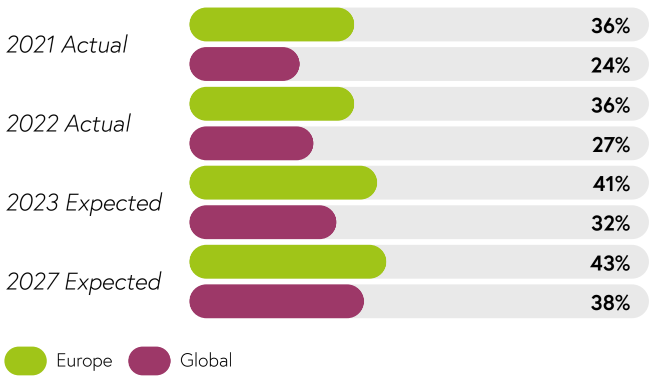


Note: Figures may not sum to 100% due to rounding.
Campden Wealth, The European Family Office Report, 2022

[9] Bloomberg Intelligence, https://www.bloomberg.com/company/press/esg-may-surpass-41-trillion-assets-in-2022-but-not-without-challenges-finds-bloomberg-intelligence/
[10] Global Sustainable Investment Alliance fifth Global Sustainable Investment Review, http://www.gsi-alliance.org/wp-content/uploads/2021/08/GSIR-20201.pdf

Approximately 36% of European family office portfolios are allocated to sustainable investments, which is nine percentage points higher than the global average, and again represents an advance on last year's 29%. Participants expect their allocation to increase over the next five years to 43% (**Figure 2.28**), maintaining a healthy lead over family offices globally (38%).

Figure 2.28: *Approximate percentage of investment portfolio allocated to sustainable investments in 2021 and 2022, and expected allocation in 12 months and in 5 years*



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Although sustainable investments will continue to increase as a percentage of portfolios, 79% of European family offices believe they have invested enough in sustainable investments (**Figure 2.29**).

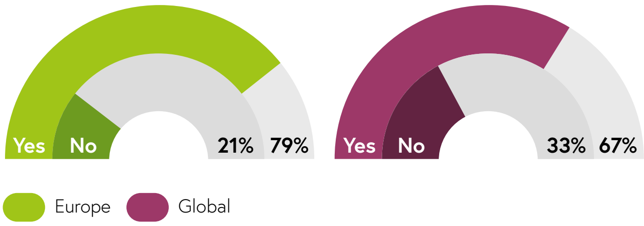
"Sustainable investing in the public markets has matured. There are investments that make sense, and levels of disclosure by public companies have improved immeasurably. Even on the private side, investment managers give presentations on how their companies are tackling sustainability. It's become a big talking point, although some people just talk and don't do much. But gradually sustainability is becoming a part of every investment that's being made."

Chief Financial Officer, single family office, United Kingdom

"I believe all this sustainability stuff is hype. Number one, it restricts your investment universe. Number two, it's completely wrong in a moral or ethical sense if U.S. weapon manufacturers can claim to conform with ESG principles. Sustainability to me is a forest with all its associated biodiversity but where, every year, you can extract 70 trees out of every hectare. That is sustainable. If you allow animals to graze it or if you cut down 100% of the trees, you are not left with anything that's sustainable."

Principal, single family office, Switzerland

Figure 2.29: *Whether the family believes it has invested enough in sustainable investments*



Note: Figures may not sum to 100% due to rounding.
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Average return on sustainable investments

Sustainable investing should provide a competitive financial return, but this need not necessarily be the optimal financial return. For European family offices, the average 2021 return from sustainable investments was 10%. This is three percentage points below their average overall portfolio return (**Figures 2.12, 2.30**). But aside from financial returns, sustainable investing produces social / environmental outcomes which families also value.

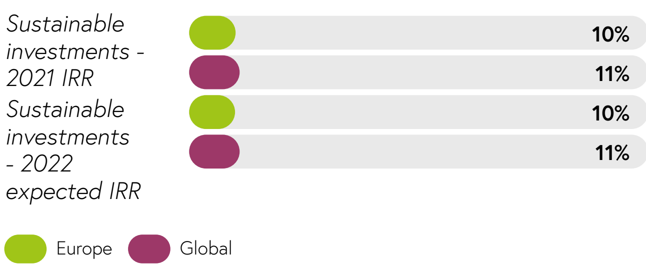
"From time to time we sacrifice on returns when we invest sustainably. Also, we're investing in new technologies, and these are more risky than established technologies. For example, we don't know if the EV batteries company we've invested in will be a winner or not, it's very high risk. But if it does end up a winner, it will be a real winner financially!"

Co-founder, private multi-family office, Belgium

"It can be difficult to measure the impact of sustainable investments. We don't really know how much carbon a company is producing. At the moment you simply have to trust that the information the company is giving you is correct."

Investment director, single family office, Germany

Figure 2.30: *Family offices' average annual return on sustainable investments in 2021 and expected return in 2022*



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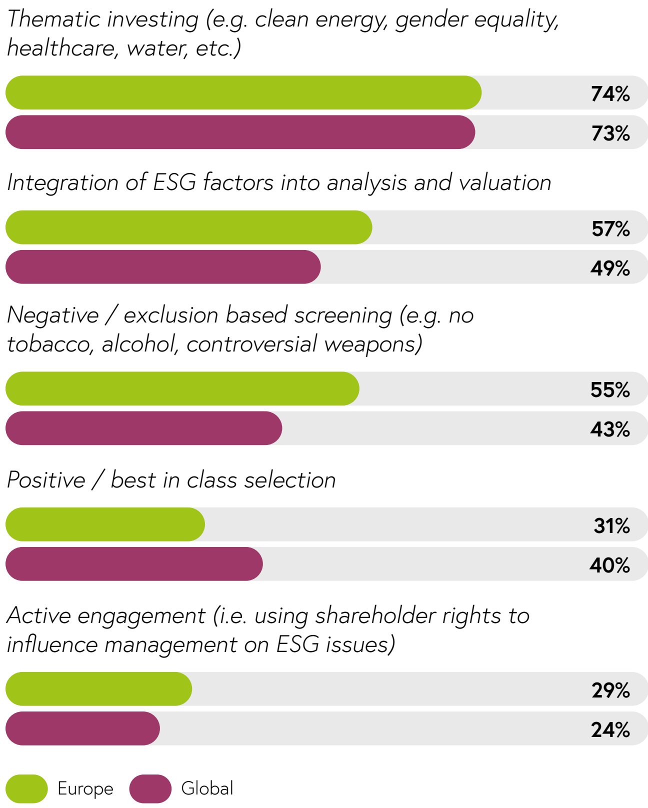
Thematic investing is most popular

There are a number of different approaches to sustainable investing. Thematic investing is the most popular and has been adopted by 74% of European family offices who have committed to sustainability (**Figure 2.31**). The approach seeks to identify and invest in new technologies capable of delivering positive environmental and / or social benefits relevant to a theme selected by the family office, and then secure a financial return when these are realised. Integration of ESG factors into the investment process (57%), and negative /exclusion-based screening (55%) are also popular approaches, both employed more extensively in Europe than elsewhere.

"We don't have a defined exclusion policy at present, but we're having a discussion on the subject at the moment. The list of exclusions is likely to include fast fashion, tobacco, coal, and banks that offer buy-now-pay-later consumer loans. The administrator is suggesting a ban on fossil fuel companies as well. But this will be a difficult discussion because our businesses interests include shipping which is heavily reliant on fossil fuel. Now, I appreciate the argument that fossil fuels will be necessary until alternatives are widely available, but that doesn't mean we have to own shares in fossil fuel companies."

Chief Executive Officer and family member, single family office, Norway

Figure 2.31: *Sustainable investment approaches used by family office (Tick all that apply)*



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Climate change, the number one target

Climate change (67%) is the most commonly targeted theme adopted by European family offices engaged in sustainable investing, followed by health and social care (64%) and water management (62%) (**Figure 2.32**). Noticeably, European family offices appear more concerned about water (62%) and pollution/waste (62%) than family offices globally, which in turn are more concerned with people-related issues such as working conditions and employment rights (35%).

Figure 2.32: *Main focus of family's sustainable investments (Tick all that apply)*

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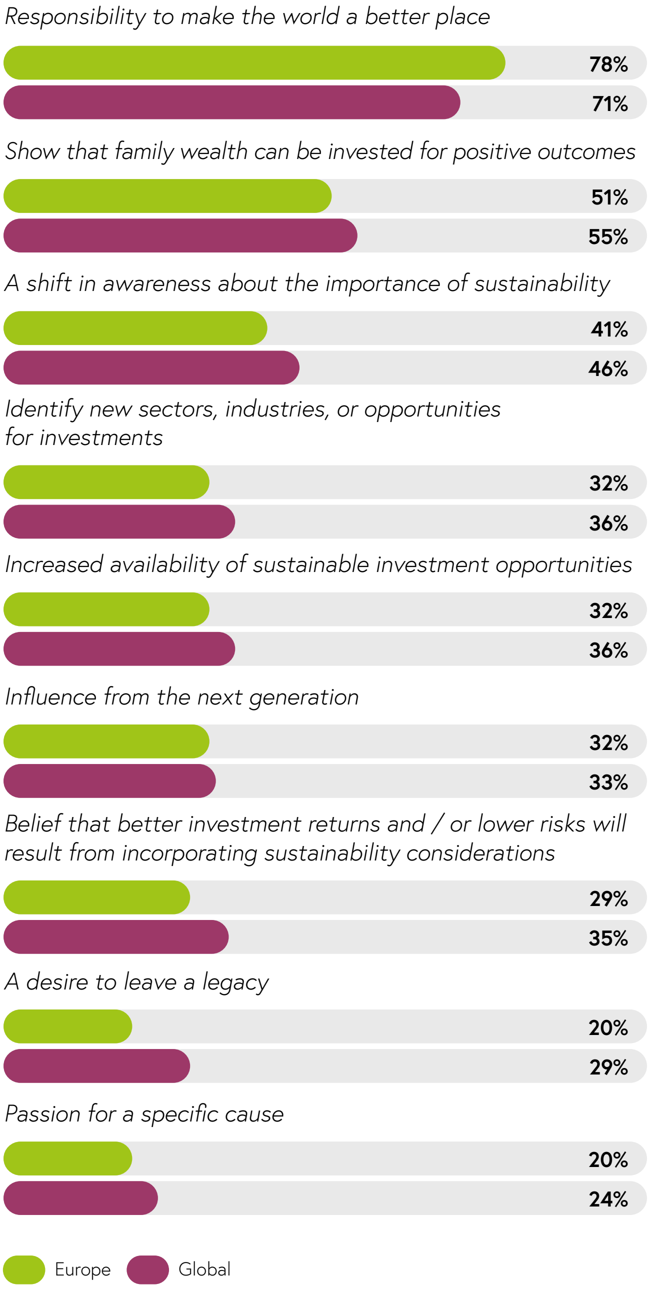
It's not all altruism

Both European family offices (78% of respondents) and family offices globally (71%) recognise families' responsibility to make the world a better place; it's their primary motivation for investing sustainably (**Figure 2.33**). Both groups are keen to demonstrate that their wealth can be used to create positive outcomes (51% and 55%, respectively), and this is perceived as a more compelling reason to embrace sustainability than next generation influence (32% and 33%, respectively). But for 32% of European family offices, engagement with sustainability also provides an opportunity to investigate new sectors, industries, and technologies which could be the source of future attractive investment.

Figure 2.33: *The family's motivations for investing sustainability (Tick all that apply)*



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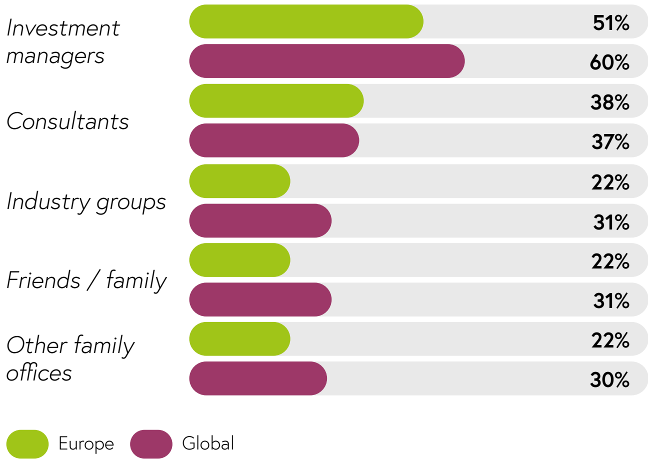
Investment managers are the primary source of information on sustainable investing for both European family offices (51%) and family offices globally (60%). Other important sources are consultants (38%), industry groups, friends / family, and other family offices (each 22%) (**Figure 2.34**).

Figure 2.34: *Sources of advice on sustainable investing (Tick all that apply)*



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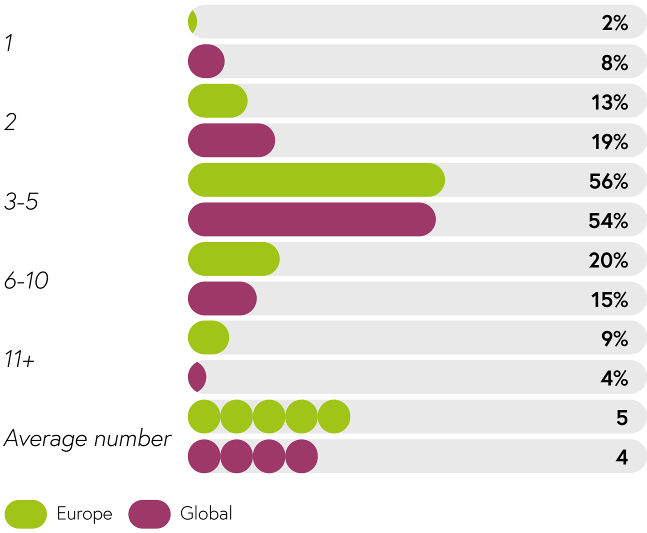
2.4 Service provision

Between three and five banking relationships is the norm

Most (56%) European family offices, and indeed family offices generally (54%), operate with between three and five banking relationships (**Figure 2.35**). However there are proportionately more European offices with more than five.

Figure 2.35: *Number of banks the family office works with*



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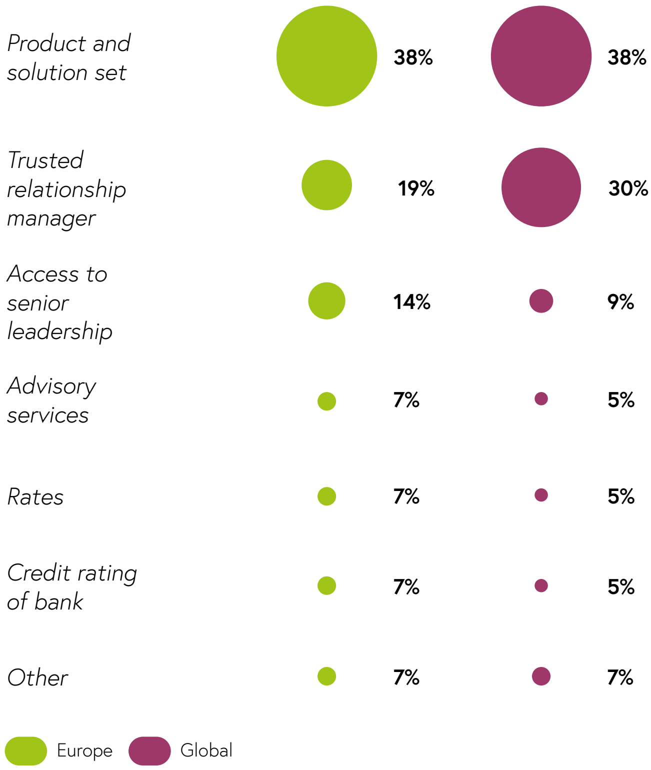
Trust and product / solution sets are prized most

The primary reason for selecting and working with a particular bank is the quality and breadth of solutions offered (38%) and to a much lesser extent the quality of the relationship manager (19%). This latter factor holds much more important for family offices globally (30%). (**Figure 2.36**).

Figure 2.36: *The family's primary reason for selecting / working with a bank*



Note: Figures may not sum to 100% due to rounding.
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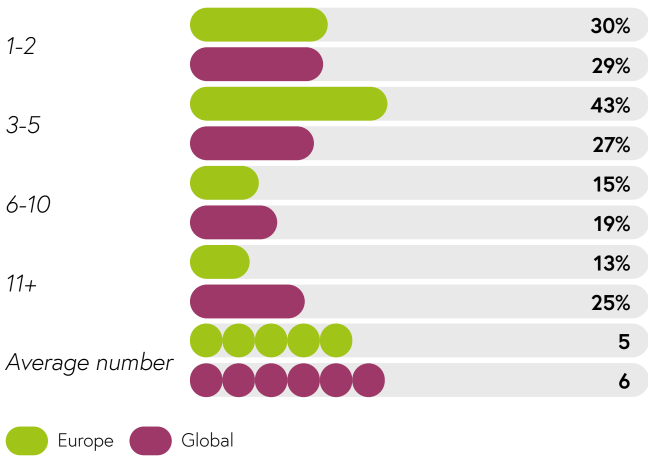
Family offices use an average of five investment managers

Most commonly, European family offices have relationships with between three and five investment managers, but around one-third use significantly more (**Figure 2.37**).

Figure 2.37: *Number of investment managers the family invests with*



Note: Figures may not sum to 100% due to rounding.
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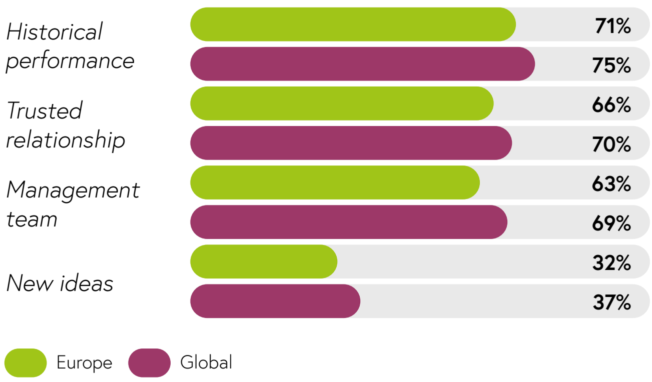
Historic performance is key

When selecting investment managers, the most important factor for European family offices is their historic performance, as cited by 71% of respondents. Also important is how trustful they deem the relationship to be (66%) and the quality of the management team (63%). Less importance is given to managers' new investment ideas (32%) (**Figure 2.38**).

"For the selection of our investment managers we use an external company which has a very large database of all the managers in the world, and even though I've been in the business 30 years, I still see some names pop up that I've never heard of. Anyway, we give the external company a mandate to find an investment manager covering a specific asset class or market and they will search and then present to us managers who best fit that mandate."

Co-founder, private multi-family office, Belgium

Figure 2.38: *Criteria used by the family in selection of their investment managers (Tick all that apply)*



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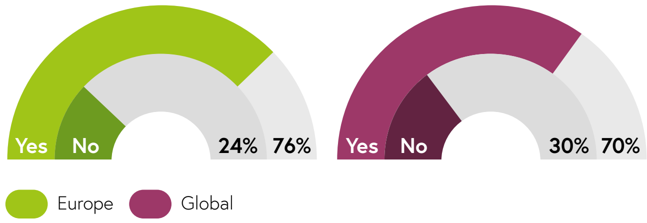
Policy statements guide investment managers

In their relationship with investment managers, around three-quarters of European family offices provide an investment policy statement, setting out the guidelines and strategies the manager should utilise to meet the family's objectives (**Figure 2.39**).

Figure 2.39: *Whether the family office has an investment policy statement*



Note: Figures may not sum to 100% due to rounding.
Campden Wealth, The European Family Office Report, 2022

Generating impact in all asset classes

The case for impact investing

Impact investing is a subset of sustainable investing which focuses on generating a positive quantifiable societal / environmental impact, as well as an economic return. This Investment Director of a multi-family office based in Germany is passionately committed to impact investing, both personally and professionally. He argues that if the investment community channels capital in the right direction, then large companies, governments, and startups will also respond with measures to effect positive social change.

You described your portfolio as balanced rather than growth-orientated. Has that always been the case or are you just concerned about where markets are at the moment?

"No, it's not driven by current market conditions. It's because the wealth holder is an entrepreneur and has a significant entrepreneurial portfolio through his direct investments. We are making an effort to balance out this high-risk and essentially illiquid portfolio with more liquid global market equities."

How do you do impact investing within public markets?

"Our definition of impact investing is investing for profit, but also with the intention of producing a social, ecological, or real value-added change in the world. Something has to change with impact investing, rather than just ESG investing, where you are just comparing two states. This is true for both the liquid and illiquid investments. It is certainly true that in secondary equity markets, the impact is less visible than in direct investments, but we still believe that by operating a really strict stock selection process, exercising our shareholder rights, and allocating our capital to sound, undervalued but sustainable companies intent on delivering positive social outcomes, we are creating real impact, particularly in the long term."

If your screening works on the principle of exclusion, does that mean that you've never invested in an oil and gas company?

"Exactly, and we are very different to some ESG screeners, we are much stricter in applying our criteria. We would not invest in a company with any coal mining interests, whereas some ESG screens would accept a company with up to 10% or even 20% of its turnover coming from coal. We have some 20 criteria in our negative list that we apply very strictly."

So, you are unlikely to change your view about nuclear energy despite recent developments?

"No, we won't, in Germany, the nuclear debate was settled a long time ago. But we do see the problem that the German government has created for itself by not catering for sensible

alternatives. Nuclear power is an interesting way to produce energy, but the danger that comes with it is the reason we don't invest in it."

You mentioned your intention to increase your exposure to China. So presumably, you're happy with companies in China, even if you have concerns with the regime?

"We have found some interesting companies in Asia that can create meaningful positive impact. For instance, we have a shareholding in a large bicycle production company. We are structurally underweight in this important region and therefore we are looking to increase our exposure over time. The general point here is that impact investing means you necessarily cut a lot of possibilities out of your portfolio. We need to make sure that we are still sufficiently diversified, both geographically and by industry sector."

How large is your private equity portfolio?

"We have some 20 direct investments which are mainly in venture capital. One of our most successful is a vegan food company which began life as a startup but is now listed on the stock exchange. As impact investors, we are not necessarily looking for unicorns, but for zebras. Zebras are both black and white, and zebra companies alleviate social, environmental, or medical challenges, but also secure a reasonable level of profitability. So, we are not looking for the ultimate financial return from a zebra, but we are looking for impactful companies in combination with a market rate of return in each specific asset class."

To what extent are you involved in playing an advisory position to the 20 companies you invest directly in?

"We are a small team, but we do take quite an entrepreneurial approach and get involved. We go to board meetings and attend supervisory meetings. We shoot lots of ideas and contacts to them. We don't want to be in the management function, but we are doing more than simply being passive investors."

Is it difficult to measure the social or environmental impact companies are having?

"This is always a criticism. The traditional ESG community criticises impact investors for not always being able to measure their impact. My answer to the ESG community is that if I take the same portfolio of stocks to different banks, I will get three different ESG measurements. So, they can't measure perfectly either. Often impact can be measured, and we do measure it with, for example, IMP Metrix methodology. If we have a direct investment, then we would agree with management the impact they want to achieve. Then we establish a plan with key performance indicators (KPIs) and use them to track management's progress. The KPIs are very simple, this is generally a very efficient management approach.

For example, we have an investment in a company which is producing an app that teaches children to learn music. So, we would simply monitor how many kids are using the app. It's a simple KPI. We can make it more sophisticated by monitoring how many kids are musicians 10 years later, but our aim is to bring music to children immediately, so we just measure today's KPI. And we set ourselves targets. If the management exceed or fail to reach the KPI then this may affect their remuneration bonus in the same way as if they exceeded or failed to hit financial targets."

Do you have any final words of advice?

"Every family office should think more about impact investing. It's time to invest money wisely and sustainably. People used to say, in Europe at least, there is not enough deal flow, there are not enough advisers, and you can't measure impact. But there's so much you can do by looking at the world through an impact lens. There are lots of vehicles such as green bonds and tech-for-impact funds. Channelling capital into the right places influences large companies and governments, so my plea to everybody is to get involved in impact investing, and get started now."

3. Structures

3. Structures

- This year operating costs of the average European family office will be in the order of USD $9.6 million, excluding investment management fees. This is around 20% higher than the average for family offices globally, but in terms of AUM, European family offices are larger than their global peers, with the result that internal costs, at 67 basis points (bps), are lower than the global average of 77 bps.
- European family offices spend on average: USD $1.8 million (13 bps) on general advisory services; USD $3.9 million (27 bps) on investment-related activities; USD $1.4 million (10 bps) on family professional services; and USD $2.5 million (17 bps) on administration activities.
- The average cost ratio for European family offices with more than USD $500 million of AUM was marginally higher than for family offices below that size. This indicates that economies of scale in the operation of larger family offices are hard to find. Part of the explanation may stem from the ability of family offices of all sizes to either inhouse or outsource services, with the optimum strategy dependent on their distinct business mix.
- The average remuneration for European Chief Executive Officers is a base salary of USD $353,000, with an average annual bonus of 31%. Both components are lower than the average for family offices globally (USD $413,000 and 36%, respectively). This disparity extends across all senior executive positions. Nonetheless, demand for professional staff is likely to keep remuneration on an upward trajectory.
- More than a quarter of European family offices have diversity policies in place, and are actively promoting diversity, equity, and inclusion.

$9.6m

(USD) Average operating costs of European family offices

$353k

(USD) Average base salary of European family office CEOs

28%

of European family offices have diversity policies in place

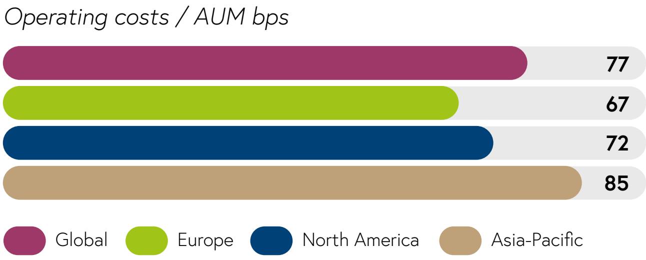
3.1 Family office costs

Counting the cost

This section of the report highlights the costs incurred running a family office.

This year, expenses of the average European family office are expected to absorb 133 bps of AUM, comprising 67 bps of internal operating costs and 66 bps of investment management fees payable to external providers (**Figures 3.1** and **3.2**). Both figures are lower than their respective global averages.

Figure 3.1: *Average 2022 family office internal operating costs (excluding external investment management fees) as basis points of AUM*



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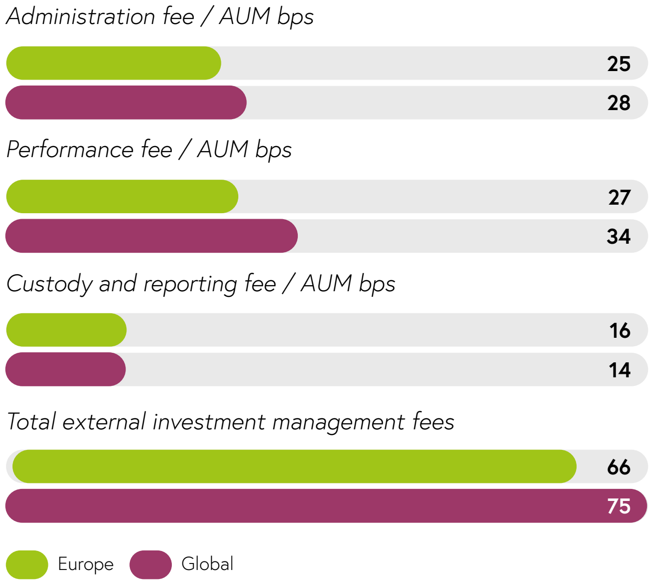
Scale economies

It might be expected that smaller European family offices, with less AUM over which to spread internal operating costs, would have an operating cost/AUM ratio higher than 67 bps. Splitting our respondents into two groups with AUM under and over USD $500 million, we found average costs ratios to be marginally higher for larger family offices, indicating that scale economies are hard to find. In both size categories there are a significant percentage of family offices with costs less than 70 bps, suggesting that running a virtual office, with functions outsourced and a handful of employees, is a viable strategy for both large and small family offices.

External costs paid to investment managers totalled 66 bps due to a relatively high level of performance fees.

Figure 3.2: *External investment management fees as basis points of AUM*



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"The family office costs are 60 to 80 bps of AUM, excluding fund management fees. Fund management fees is around 50 bps for quoted investments and 200 bps on private equity, plus whatever the carry is."

Chief Financial Officer, single family office, United Kingdom

"The family needs to find an equilibrium between what they need to maintain their lifestyle and what the family office generates after allowing for re-investment to maintain the family's wealth in real terms. Otherwise, because of inflation, the value of family wealth is permanently eroding."

Principal, single family office, Belgium

Costs by activity

Operating costs break down into four broad categories: advisory (19%), investment-related services (40%), professional services (15%), and administration (26%). An estimated breakdown of these costs is given in **Figure 3.3**. In terms of their expense profile, European family offices spend proportionately more on investment-related services and less on family professional services than the global averages. However, in absolute terms, their average operating costs at USD $9.6 million per family office are 21% higher than the global average of USD $7.9 million. This differential may reflect the larger average AUM of European family offices (USD $1.4 billion) compared to their global peers (USD $1.0 billion).

Including external investment management costs, total costs for the average European office totalled USD $19.1 million compared to USD $15.7 million globally.

Figure 3.3: *Breakdown of European family office operating costs 2022 and comparison with global average*

	Percent average family office operating costs (Europe)	Basis points (Europe)	Operating cost for average family office (Europe)	Percent average family office operating costs (Global)	Basis points (Global)	Operating cost for average family office (Global)
Advisory services	**19%**	**13**	**$1,855,000**	**20%**	**16**	**$1,609,000**
Financial planning	5%	3	$434,000	4%	3	$341,000
Tax planning	3%	2	$286,000	3%	3	$272,000
Tax compliance	3%	2	$309,000	4%	3	$280,000
Estate planning	2%	1	$170,000	2%	2	$165,000
Legal services	3%	2	$333,000	3%	2	$238,000
Insurance planning	1%	1	$94,000	1%	1	$103,000
Trust management	2%	2	$229,000	3%	2	$210,000
Investment activities	**40%**	**27**	**$3,901,000**	**35%**	**27**	**$2,743,000**
Asset allocation	6%	4	$569,000	4%	3	$333,000
Risk management	3%	2	$311,000	3%	2	$204,000
Management selection	5%	3	$450,000	3%	2	$256,000
Private banking	1%	1	$127,000	2%	1	$121,000
Traditional investment	4%	3	$361,000	3%	3	$259,000
Alternative investment	5%	3	$467,000	4%	3	$299,000
Real estate	3%	2	$318,000	3%	2	$231,000
Deal sourcing, due diligence	2%	2	$232,000	2%	2	$196,000
Investment strategy	2%	1	$212,000	3%	2	$216,000
Financial accounting	3%	2	$287,000	3%	3	$259,000
Custody / reporting	2%	1	$212,000	2%	2	$181,000
FX management	2%	1	$212,000	1%	1	$55,000
Philanthropy	1%	1	$142,000	2%	1	$134,000
Professional services	**15%**	**10**	**$1,406,000**	**22%**	**17**	**$1,738,000**
Concierge, security	2%	2	$224,000	4%	3	$299,000
Family counselling	3%	2	$285,000	4%	3	$306,000
Family governance	3%	2	$287,000	4%	3	$343,000
High-value assets	3%	2	$255,000	4%	3	$282,000
New family business projects	2%	1	$182,000	3%	3	$259,000
Educating Next Gen	2%	1	$172,000	3%	2	$249,000
Administrative activities	**26%**	**17**	**$2,473,000**	**23%**	**18**	**$1,836,000**
IT costs	6%	4	$573,000	5%	4	$403,000
Office overheads	10%	7	$984,000	9%	7	$720,000
Cybersecurity	3%	2	$286,000	3%	2	$233,000
Other	7%	4	$630,000	6%	5	$480,000
Total operating costs	**100%**	**67**	**$9,635,000**	**100%**	**77**	**$7,926,000**
Investment management administration fee		25	$3,647,000		28	$2,896,000
Investment management performance fee		27	$3,841,000		34	$3,434,000
Investment management custody fee		14	$2,022,000		14	$1,417,000
Total investment management fees		**67**	**$9,510,000**		**76**	**$7,747,000**
Total expenses *(operating costs plus investment management fees)*		**133**	**$19,145,000**		**153**	**$15,673,000**

Europe Global

Note: Figures may not sum to 100% due to rounding.
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In-housing versus outsourcing

Family offices rely on a mix of inhouse and outsourced services as detailed in **Figure 3.4**. The investment-related activities most likely to be undertaken inhouse are the selection of investment managers (80% of respondents), real estate management (79%), and investment strategy (77%). Activities most likely to be outsourced are private banking (80%), FX management (75%), and custody (42%). Many activities are provided through a mix of inhouse and outsourced resources, including management of traditional (33%) and alternative investments (33%), and risk management (32%).

Compared to family offices globally, European offices are more likely to keep real estate management, deal sourcing, and due diligence inhouse. They are more likely to outsource private banking, and management of FX and traditional investments, and adopt a hybrid approach to philanthropy, risk management, and alternative investments.

Nearly a quarter (24%) of European family offices reported an increase in outsourcing to third parties and 22% recorded an increase in utilising inhouse services, confirming that both are viable strategies (**Figure 1.7**). The optimum strategy depends on the distinct business and portfolio mix of each individual office. In theory, inhouse operations should be confined to activities where the family office has specific expertise and consistent workflow. This would point to outsourcing being more popular with smaller family offices than larger ones. However, splitting our respondents into two groups with AUM under and over USD $500 million, we found that smaller family offices preferred outsourcing for only two of the 13 categories in **Figure 3.4**, namely asset allocation and risk management.

Figure 3.4: *Investment-related services provided by the family office (inhouse, outsourced, or both)*

Note: Figures may not sum to 100% due to rounding.
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3.2 Human capital

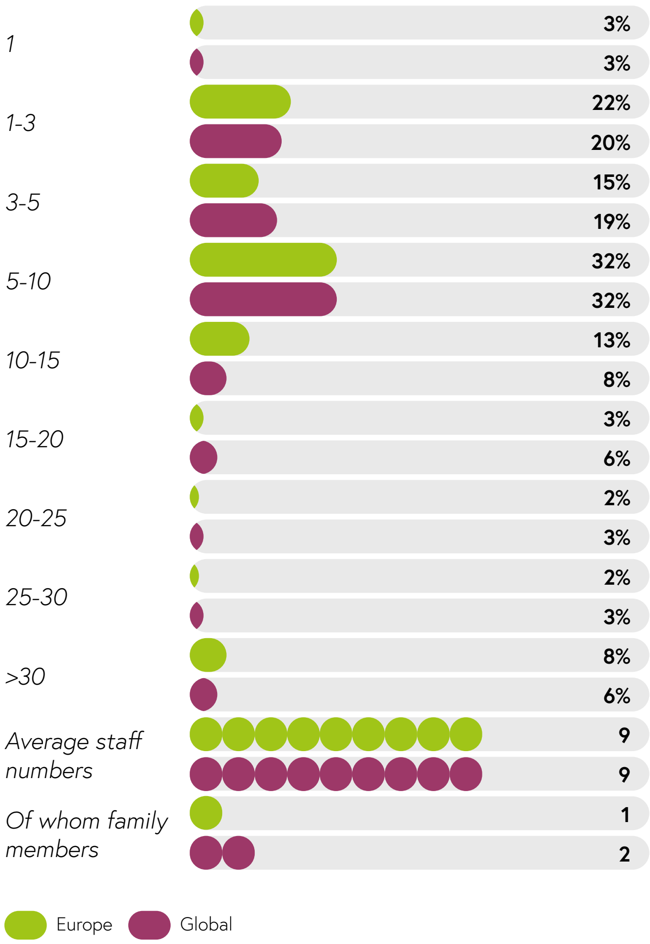
The average family office has nine members of staff

The average European family office has nine employees of whom one will be a family member. Nonetheless, as **Figure 3.5** illustrates, there is a considerable divergence; 40% of family offices have five or fewer employees and 28% have more than 10.

"The most important thing for anyone considering setting up a family office or in the early stages of running a family office is good quality staff. It's the key to success."

Chief Executive Officer, single family office, United Kingdom

Figure 3.5: *Family office staff numbers and family members*



Note: Figures may not sum to 100% due to rounding.
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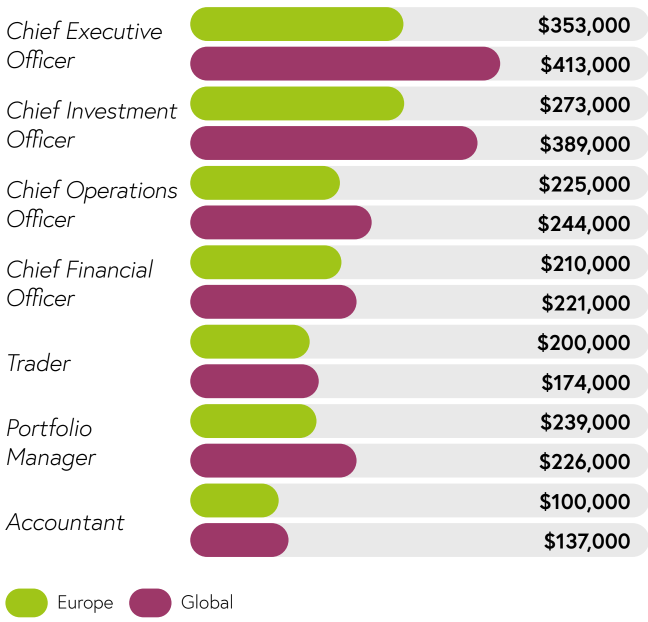
European remuneration is lower

The average base salary for CEOs of European family offices is USD $353,000 (**Figure 3.6**). This is 15% less than their global counterparts, owing to higher salary levels in North America. With the exception of Chief Investment Officers, the remuneration disparity is somewhat lower for other executive positions. Over the last year, salaries have increased by low single-digit percentages even though 80% of European family offices report that competition for professional staff has increased.

"It is difficult to recruit the correct staff for family offices, and there is a reason for this. You want people who are technically competent, and there are a lot of competent people out there. But above and beyond that, the family has to both like them and trust them implicitly, particularly if they're managing hundreds of millions or billions of the family's wealth. Finding all three characteristics in one individual doesn't happen that often."

Chief Financial Officer, single family office, United Kingdom

Figure 3.6: *Base salaries of senior family office executives (USD$ 2022)*



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Bonuses commonplace

Bonuses are an integral part of the remuneration structure although, surprisingly, a third of European Chief Executive Officers claim not to have received one last year (**Figure 3.7**).

For the most part, these bonuses are discretionary or at least have a discretionary, as well as a formulaic element. Discretionary bonuses provide greater flexibility when it comes to controlling costs.

Figure 3.7: *Bonus structures for senior family office executives*

		Discretionary	Formulaic	Mix of two	None
Chief Executive Officer	Europe	27%	20%	20%	33%
	Global	28%	17%	28%	26%
Chief Investment Officer	Europe	25%	31%	31%	13%
	Global	25%	25%	33%	17%
Chief Operations Officer	Europe	53%	13%	27%	7%
	Global	46%	12%	29%	14%
Chief Financial Officer	Europe	46%	23%	15%	15%
	Global	48%	14%	26%	12%
Trader	Europe	33%	17%	50%	0%
	Global	32%	24%	24%	20%
Portfolio Manager	Europe	23%	38%	31%	8%
	Global	34%	21%	32%	13%
Accountant	Europe	50%	25%	0%	25%
	Global	49%	14%	13%	24%

Europe Global

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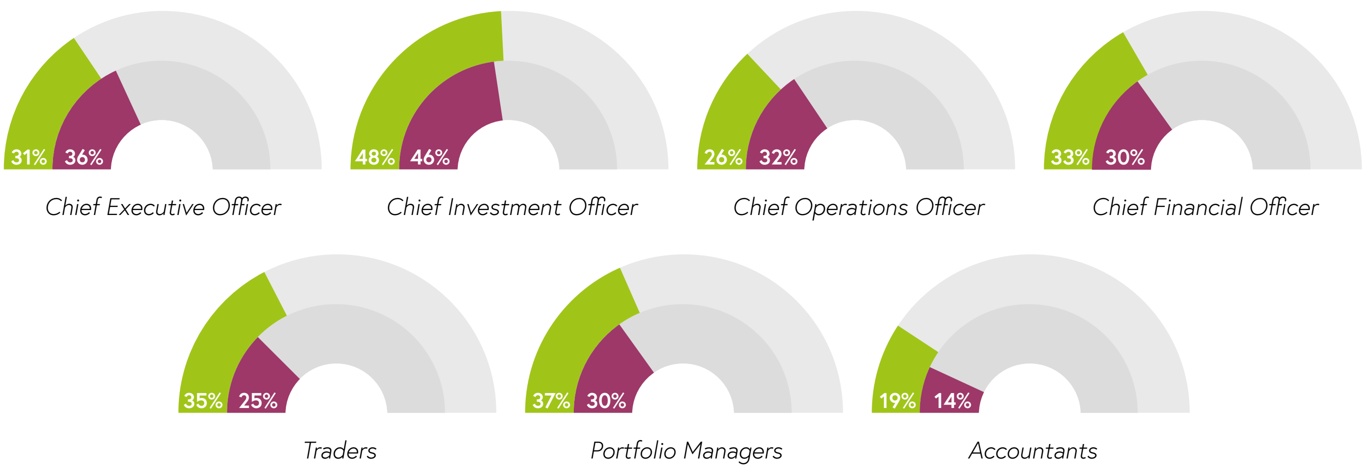
Although average base salaries of senior European executives are lower than their global peers, the magnitude of bonuses, as a percentage of salaries, are roughly comparable (**Figure 3.8**). However, for traders, portfolio managers, and accountants, they are noticeably higher. In most instances bonuses paid in respect of 2021 represented a material improvement on the prior year.

Figure 3.8: *Value of bonus paid as percentage of base salary*



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Moving in the right direction

More than a quarter of European family offices have diversity policies in place (28%), in line with the global average (27%) (**Figure 3.9**). Separately, 69% agree with the statement that they are moving towards greater diversity and expect their external providers to do the same.

"The office doesn't have a diversity policy itself, but if we walked into a room of investment managers and they were all pale, male, and stale, then they certainly wouldn't end up with any of our assets."

Chief Executive Officer, private multi-family office, United Kingdom

Figure 3.9: *Awareness and proactivity of family office to issues of diversity / equity / inclusion (DEI)*

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From private banker to trusted adviser

Always acting in the family's interest

The CEO of this UK single family office is not a family member. He has been in his post for more than a decade, following on from a successful career as a private banker. He describes the operations of the family office, the factors influencing the outsourcing versus inhouse debate, the skill-set required for family office professionals, and the worries that keep him up at night.

Did your career as a private banker help prepare you for your current role?

"I was familiar with the key concepts of investment but working in a family office is much broader. A family office does much more than investment management. I deal with anything from succession planning to property matters, accountancy, taxation, personnel, legal, and trust issues – basically everything. I'm also involved in the investment side where I work with an investment committee as opposed to managing money directly. We don't operate an outsourcing model. Rather, we choose the asset allocation and selection of managers, but effectively outsource individual stock selection. Overall, there's a whole host of things that are involved in the operation of a family office, and that's the joy of running one. You come in every day and never know exactly what you are going to be doing.

I have been described as an expert generalist. I need to be able to go to a meeting with a bunch of lawyers, be able to understand what they're talking about, and challenge them. The same for accountants and investment managers. An inquisitive mind and the ability to look at situations holistically are important skill-sets for the role."

Within the family office, how do you decide what to do inhouse and what to outsource?

"This is one of the biggest decisions a family office will make. If you can do something well and cost effectively inhouse, there are a lot of advantages. But if you can't do it cost-effectively, then you should be outsourcing the work. If the family office needs a lawyer, they can shop around and find someone externally who is an authority in the area required. If they don't do a good job, they won't be employed again. By contrast, an inhouse lawyer has to be an expert on private client law, corporate law, human resources, and private equity. It's pretty difficult to find all that in one individual, so quite a sizeable team may be required. In this family office, we have no inhouse lawyers or tax planners, but we keep bookkeeping, accounting, investment reporting, and concierge payments inhouse."

What is the optimum size at which a family office should start doing the bulk of its work inhouse rather than through outsourcing?

"It's about both size and complexity. Take private equity as an example. Direct investment requires due diligence on all private equity documentation. The more investments you make, the more legal fees you pay, so it could make sense to employ someone inhouse. We've taken the decision, rightly or wrongly, to invest in private equity funds. If you make direct investments, you need to be more involved. It could be the case that a fraction of one percent of your assets are in a particular private equity investment, but you can spend significant time trying to help the company fix one particular problem. So, we've taken the position that we prefer to pay a general partner to manage the situation. They are certainly going to be more skilled at it than we are."

What does it take to be successful professionally in a family office?

"To be successful you need three essential things. First, you need to have some core competence in accounting, law, or investment. Second, you have to be the sort of person who is happy in a small organisation. Finally, and most importantly, you have to become a trusted adviser to the family. The word "trust" is very over-used these days. But actually, in a family office, trust between the officers and the family is extremely important, it takes a long time to build, and is fragile and easily destroyed. The role of the trusted adviser is complex, because on the one hand, you want to support the family that you work for, but simultaneously, your role is to challenge them and make sure they're making the best decisions. Sometimes in these discussions I'm the one who turns around and asks the uncomfortable questions. Instead of being negative, I try to do it in a way that is positive and leads to a better decision being made. I think this requires a particular skill-set and personality. Finding people who have the core competence, the desire to work in a relatively small organisation, and the skill-set to support the family whilst asking difficult questions is a rarity.

Of course, there are frustrations. I participate in decisions at board meetings, but I'm not a family member and some decisions are taken by the family outside that formal structure. Perhaps if I was a family member, my life might well be a lot more stressful because apart from running the family office, I would be walking the family's political tightrope."

Do you get job satisfaction from being a trusted family adviser?

"Yes, an immense amount of satisfaction. I'm doing the job 24/7. I hope I'm empowering them to get on and do what they do, because I'm taking all the things they don't want to be thinking about away from them. I get a huge amount of satisfaction from that."

What keeps you up at night?

"It's not investment risk. We all have a background in investment, we know that markets go up and down, and the family is in a comfortable position. If the market goes down 10% it's not going to change the way the family live their lives. Whereas, in this day and age, reputational risk has a massive impact. The family has an enviable reputation for doing incredibly good philanthropic work and it tries to keep a low profile. It would be a great shame to tarnish that reputation.

Cybersecurity is something else which worries me. We haven't been subject to a ransomware attack, but there have been a number of phishing attempts and some individual family members have lost money. I think it's an arms race and we need to be constantly upping our game to stay protected."

Any words of advice to someone thinking of starting their own family office?

"I think the critical thing for anyone starting a family office is to determine exactly what the office is going to do and not do. Then get the right people to do it. That's the real challenge. A lot of families end up employing someone they know to run their family office, because the level of trust is already there. But this isn't necessarily the right thing to do if the skill-set isn't there. In my experience, if you start off with trust and hope the skill-set materialises, that doesn't tend to work. The other practice I strongly recommend is to have external members on the investment committee. I believe it's a really good discipline for the family to make sure that decisions are being considered by people outside the family group and outside the family office."

4. Purpose

4. Purpose

- The top governance priority for European family offices over the next 12 to 24 months is risk management, and correspondingly 75% of family offices cite investment risk as their biggest concern. The war in Ukraine, and tensions over Taiwan, have pushed political and country risk up from 25% to 39%, while risks to information architecture (27%) and data / identity theft (23%) are also widespread concerns. The top governance priority for families is improving communication between the family office and family members. Implementation of a succession plan and education of family members are also priorities.
- Despite almost 40% of European family offices experiencing a cyber-attack over the past 12 months, 40% of family offices do not have a cybersecurity plan in place. This may explain why 27% feel insufficiently prepared to safeguard themselves from an attack.
- Two-thirds of European family offices have a succession plan in place. But around half these plans are relatively casual, being only informally agreed, unwritten, or still in the process of development, raising a question mark over implementation.
- More than a third of European family offices expect to see their Next Gen assume control over the coming decade, so succession planning remains a very important issue. However, a number of family offices face challenges relating to not having a next-generation member old enough (36%) or sufficiently qualified (34%) to take over.
- Three-quarters of European families made philanthropic donations over the last 12 months. The average donation was USD $9.5 million, predominantly to causes linked to education and healthcare.

68%

of European family offices cite risk management as governance priority

67%

of European families have a succession plan in place

76%

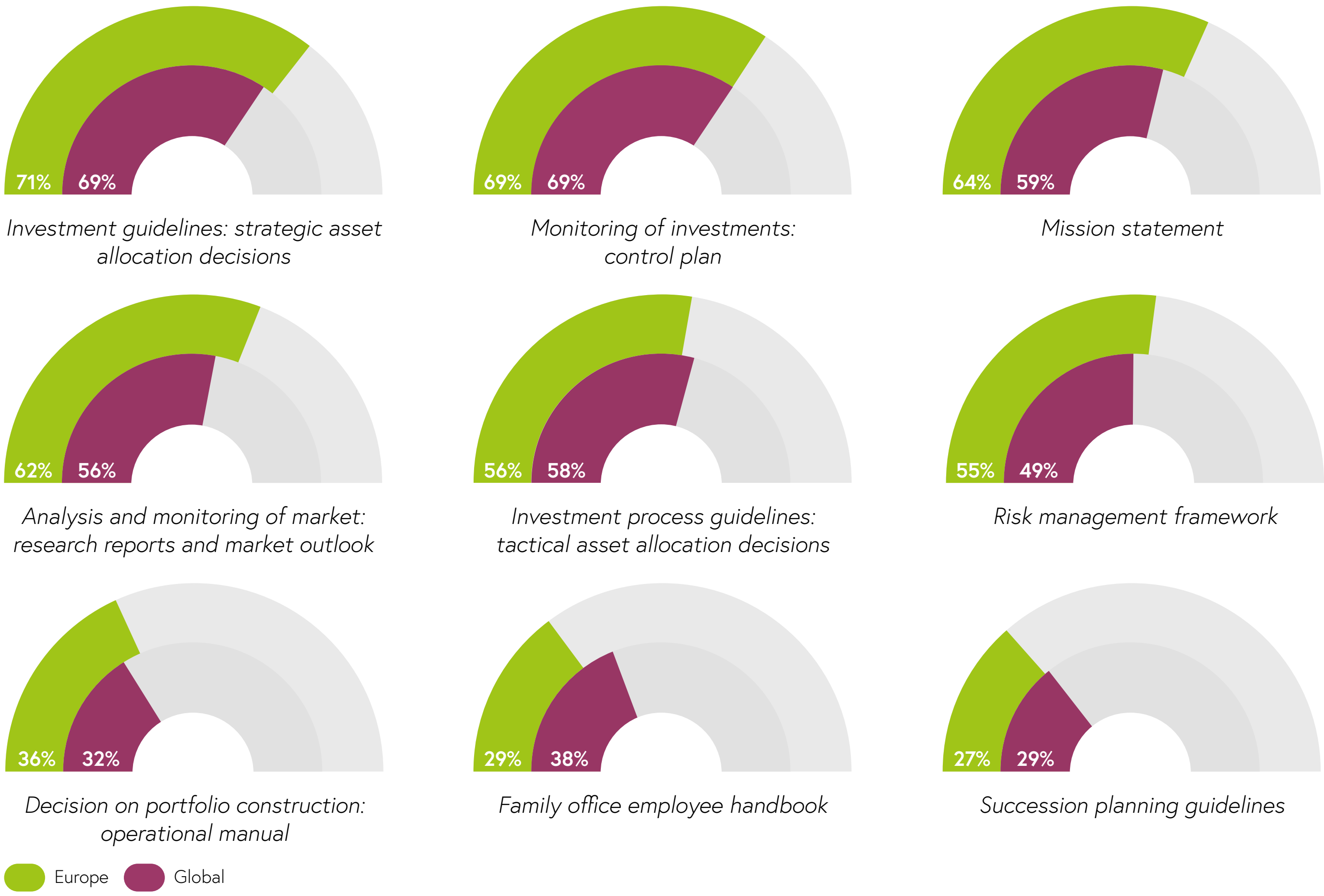
percent of European family offices make philanthropic donations

4.1 Family office governance

Governance framework focused on investments

The purpose of governance is to align the interests of family members in an agreed and well-documented structure. This should help unify the family, preserve its wealth, and as a result extend the life of the family office. **Figure 4.1** shows the structures European family offices commonly employ in their governance frameworks; those relating to strategic asset allocation (71%) and monitoring of investments (69%) are the most popular. But surprisingly, only around two-thirds of family offices have a mission statement (64%), and less than one-third an employee handbook (29%). Everything else being equal, the former has the potential to unify the family round a sense of purpose, while the latter might limit the scope for fraud or damage to the family's reputation.

Figure 4.1: *Governance structures in family offices (Tick all that apply)*



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Improving communication between the family and family office

Sixty-four percent of European families cite improving communication with the family office as their top priority over the next 12 to 24 months (**Figure 4.2**). Educating family members about the activities of the family office (46%) and their responsibilities as shareholders (43%) appear, respectively, in second and third positions. Establishing both a family legacy (23%) and family council (14%) are not seen as immediate priorities, presumably because these governance structures are already in place.

"The governance structures for the families we look after generally include a family council and an investment committee. The family office communicates with the family through both these structures; this is very important. The structure is analogous to what you see in a public company; the family council represents the owners or shareholders, the investment committee is like the board of directors and the family office is the executive management."

Co-founder, private multi-family office, Belgium

"We facilitate communication between the family office and the family through regular meetings, so that family members stay involved in their wealth. The investment committee includes family members, but they do not handle the day-to-day administration of investments. This is left to the family office. They are happy to leave it to the professionals, but if the family doesn't agree with the professionals, they can replace them. It's very important that they retain the ability to do so."

Chief Investment Officer, single family office, Monaco

Figure 4.2: *Top three governance priorities for the family in the next 12-24 months*

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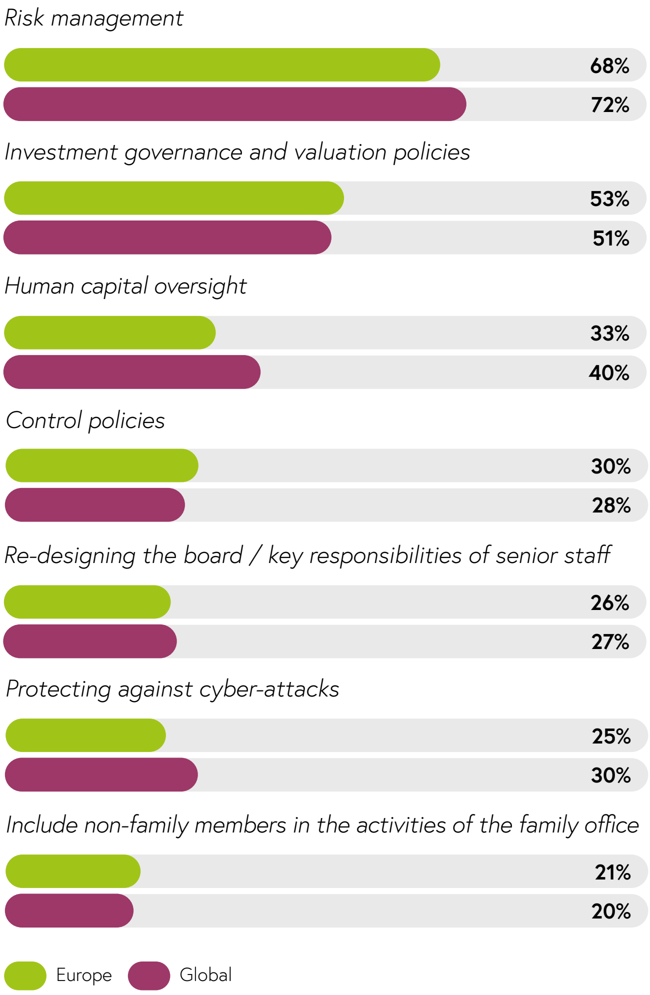
Risk management

The top governance priority for both European family offices (68%) and those globally (72%) is risk management, which is unsurprising given the recent performance of financial markets (**Figure 4.3**). Coming in second, the emphasis on investment governance (53%) is the counterpart of the importance attached to the investment guidelines that form an integral part of the overall governance framework (**Figure 4.1**). The third priority, oversight of human capital, is essential for any successful organisation.

Figure 4.3: *Top three governance priorities for the family office in the next 12-24 months*



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4.2 Family office risk and cybersecurity

Risks

Investment risk tops the list

Roughly three-quarters of respondents in both Europe (75%) and globally (77%) deem investment risk to be the number one threat facing family offices over the coming three to five years (**Figure 4.4**). The war in Ukraine and tensions over Taiwan have pushed political and country risk (39%) into second place, demoting unpreparedness for next generation succession to sixth.

Interestingly, the retirement of family office leaders is viewed as a concern by more European family offices (36%) than their global counterparts (27%). Risks to information architecture (27%) and data and identity theft (23%) are creating widespread unease. Family reputation (23%) and banking / custody risk (14%) are realistic concerns, but not immediate ones.

"If you own a coffee plantation in Africa the returns are whatever you want them to be and the risks are not quantifiable. There is confiscation risk, management risk, weather risk, and risk from fluctuation in the coffee price. You may be able to quantify the weather risk from historic rainfall data but if the only bridge out of the valley collapses, then it really doesn't matter."

Principal, single family office, Switzerland

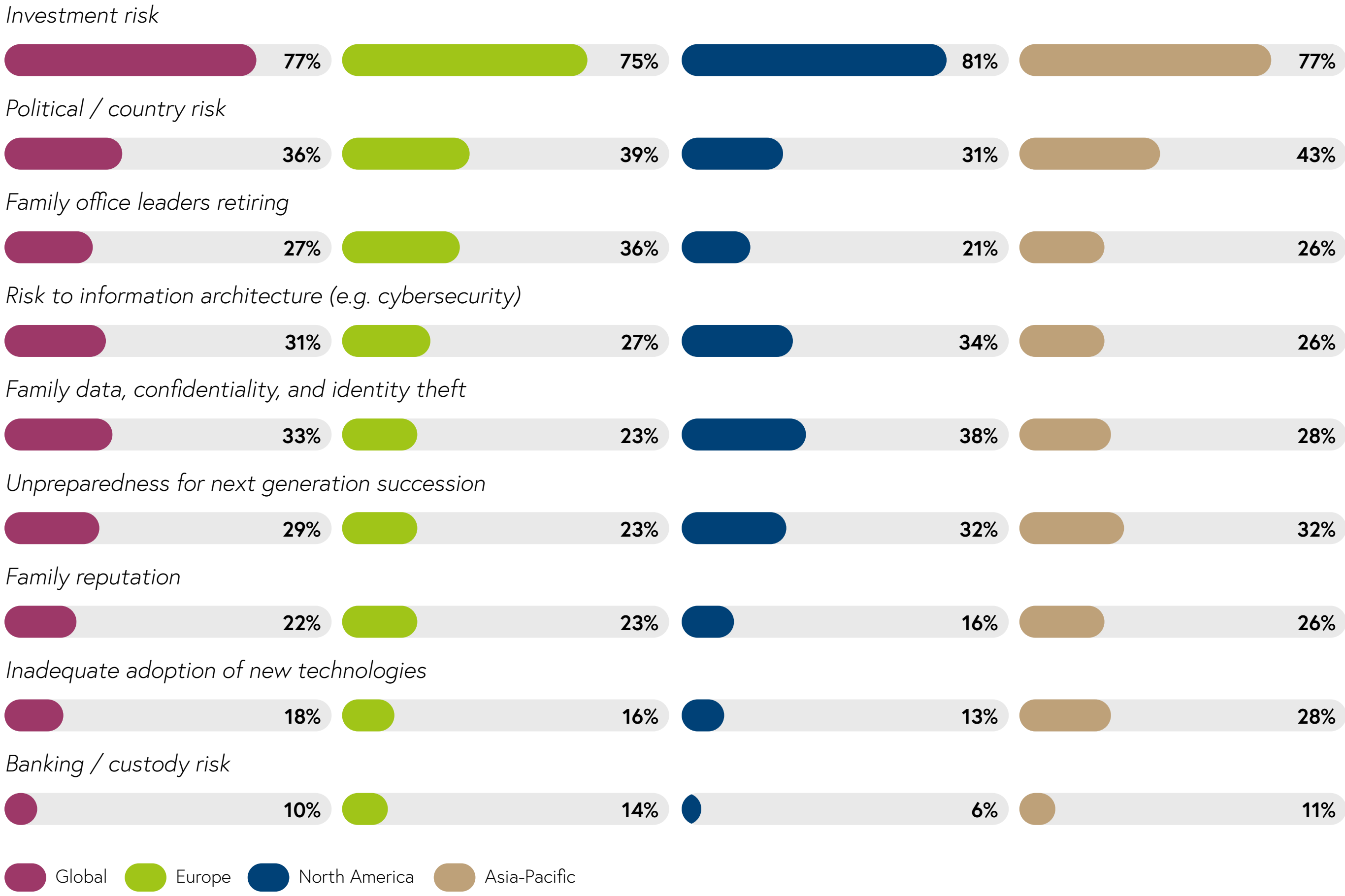
"A family office I advised had over 90% of their assets in a company they had founded in the 1950s. I explained to them that what they were doing was incredibly risky. I couldn't believe that they were willing to tolerate this kind of risk. I've had that conversation with business owners many times, and they recognise that they have all their eggs in one basket, but they know that basket. You have to take huge risks to make a fortune, but to keep it you need to diversify."

Managing director, private multi-family office, Switzerland

"Political risk is going to be much more important going forward. If we had invested in Ukraine or in Russia we might have lost everything the moment the war broke out. Who would have predicted that? We have to be very careful on that front."

Investment director, single family office, Germany

Figure 4.4: *Biggest risk factors identified by family offices over the next 3-5 years (Tick all that apply)*



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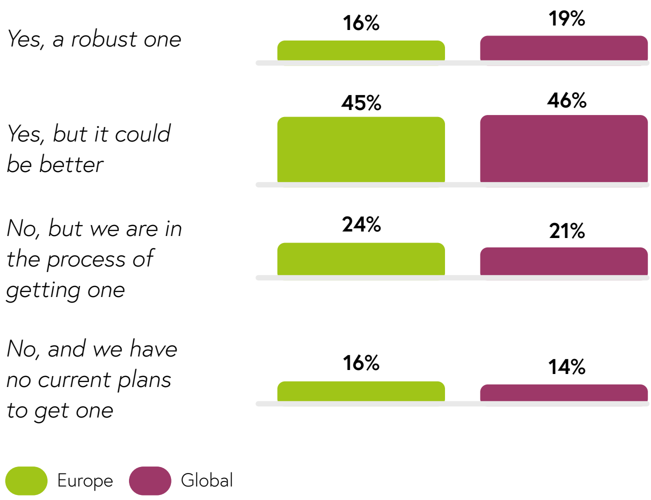
Cybersecurity

A quarter have no plan

It is estimated that, on average, 30,000 websites are hacked every day, a company falls victim to a cyber-attack every 39 seconds, and more than 60% of organisations globally have experienced at least one of the five forms of cyber-attack (phishing, ransomware, malware, data breach, and denial of service)[11]. Despite the above, 40% of European family offices do not have a cybersecurity plan in place although, in fairness, 24% are in the process of getting one (**Figure 4.5**).

Figure 4.5: *Whether the family office has a cybersecurity plan in place*



Note: Figures may not sum to 100% due to rounding.
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[11] Check Point Research https://research.checkpoint.com

Four in 10 family offices have experienced an attack

What makes the complacency around cyber-attacks so alarming is that almost 40% of European offices have experienced at least one over the past 12 months and 16% have experienced repeated (three or more) attacks (**Figure 4.6**).

"This is a real concern of the family and the principals. We have had cyber-assessments and cyber-audits and implemented pretty much every recommendation. I spent probably an extra USD $200,000 on the technology budget, just to get different systems in place, and to refresh all the equipment and make sure everything is clean."

Chief Investment Officer, single family office, Monaco

"We get phishing emails every so often, but we've also had a ransomware attack which could have destroyed the business. Someone opened an email, which allowed the software to come in and it immediately blocked everything. We couldn't access any files. Fortunately, we do back up our systems every night and so we restored the files and only lost a small amount of data. There was an attempt to extract money from us, but because we were able to reinstate our systems pretty easily, we didn't pay anything."

Chief Financial Officer, single family office, United Kingdom

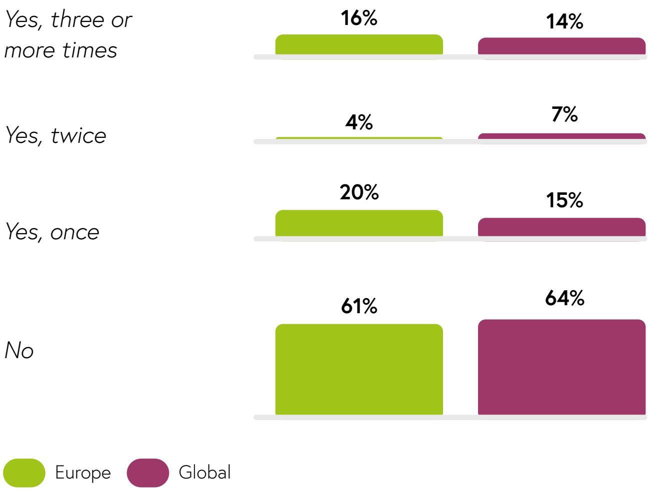
"After a cyber-attack initiated through malware on an email, we felt the need to build in extra measures of protection and to change inhouse procedures. We also had a phishing email purporting to come from one of our families asking us to transfer money. The email looked very authentic, appearing to come directly from the family's email account. We have to take into account that cyber-attacks are possible, and we have to keep our visibility low to minimise the risk of attack."

Co-founder, private multi-family office, Belgium

"We're well protected from a cybersecurity perspective. But what about the banks which hold our accounts? Or custodians that hold our shares? There are very big systems that are dependent on the reliable handling of data and either a technology failure or theft could cause a complete blackout. Okay, maybe I'm very pessimistic, but I don't think it's unreasonable to think this might happen."

Chief Executive Officer and family member, single family office, Norway

Figure 4.6: *Number of cyber-attacks experienced by family offices over the past 12 months (e.g. phishing emails, identity theft, hacking, etc.)*

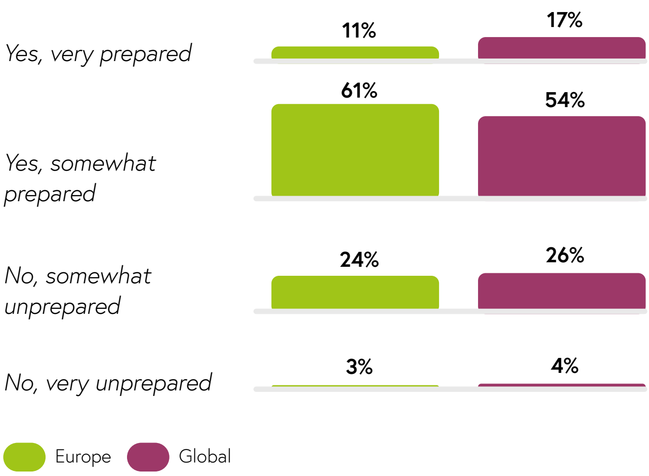


Note: Figures may not sum to 100% due to rounding.
Campden Wealth, The European Family Office Report, 2022

How well prepared?

Around 70% of European family offices feel prepared for a cyber-attack (**Figure 4.7**). However, only 11% feel very prepared, a significantly lower percentage than offices globally (17%).

Figure 4.7: *Whether the family office is adequately prepared / educated to safeguard itself from cyber-attacks*



Note: Figures may not sum to 100% due to rounding.
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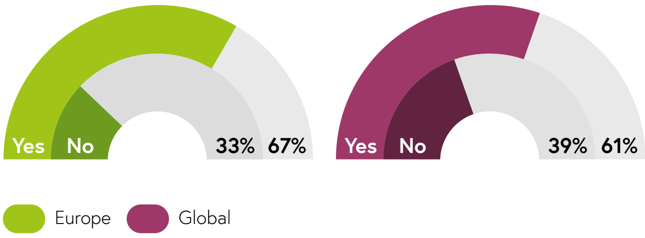
4.3 Succession planning and the next generation

Succession planning

At 67%, the percentage of European family offices with a succession plan in place is higher than the global average of 61% (**Figure 4.8**). Just as important, 47% of these plans are formal written plans (**Figure 4.9**), which likely have a greater probability of being implemented than informal or verbal plans, or those still under development.

Figure 4.8: *Whether the family has a succession plan in place*



Note: Figures may not sum to 100% due to rounding.
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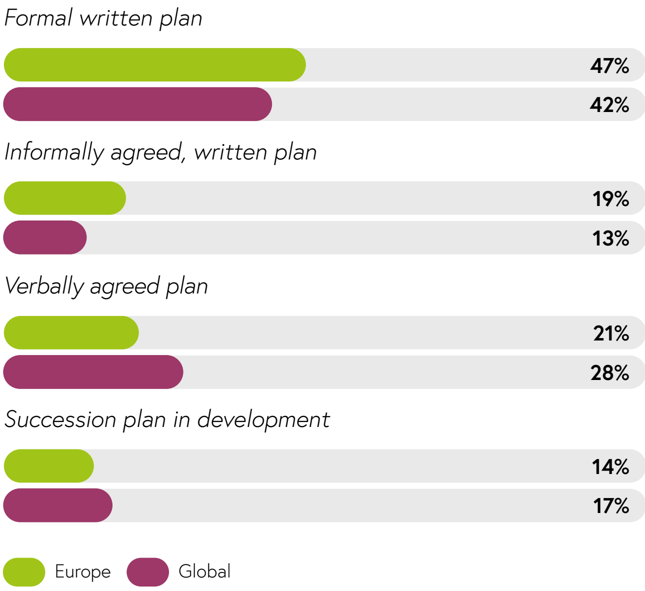
Figure 4.9: *Type of succession plan*



Note: Figures may not sum to 100% due to rounding.
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Succession challenges faced

Where succession plans are under development, or even in place, there are still challenges. Roughly a third of family offices report that the next generation is too young or inadequately qualified to take over (**Figure 4.10**). Discomfort discussing sensitive matters, highlighted by 15% of respondents, would naturally lead to an inability to engage with family principals on the subject of succession planning. Similarly, there is sensitivity around succession when engaging with a patriarch or matriarch who is reluctant to relinquish control (13%). But noticeably, these appear to be much bigger issues for family offices in Asia-Pacific, which points to some interesting cultural differences.

"The next generation are in their 40s and engaged in their own professions. They are lawyers and doctors, not fully conversant with all aspects of finance. So, that is an issue and some of them are too relaxed about it. They probably hope I live until I'm 95 so that they don't have to deal with any finances."

Principal, single family office, Switzerland

"We started 20 years ago with the first generation, but now their children are coming of age. We need to engage with them, so we have more younger people in the family office team. We encourage the children to get involved in the investment committee, to actively participate, and give us their ideas."

Co-founder, private multi-family office, Belgium

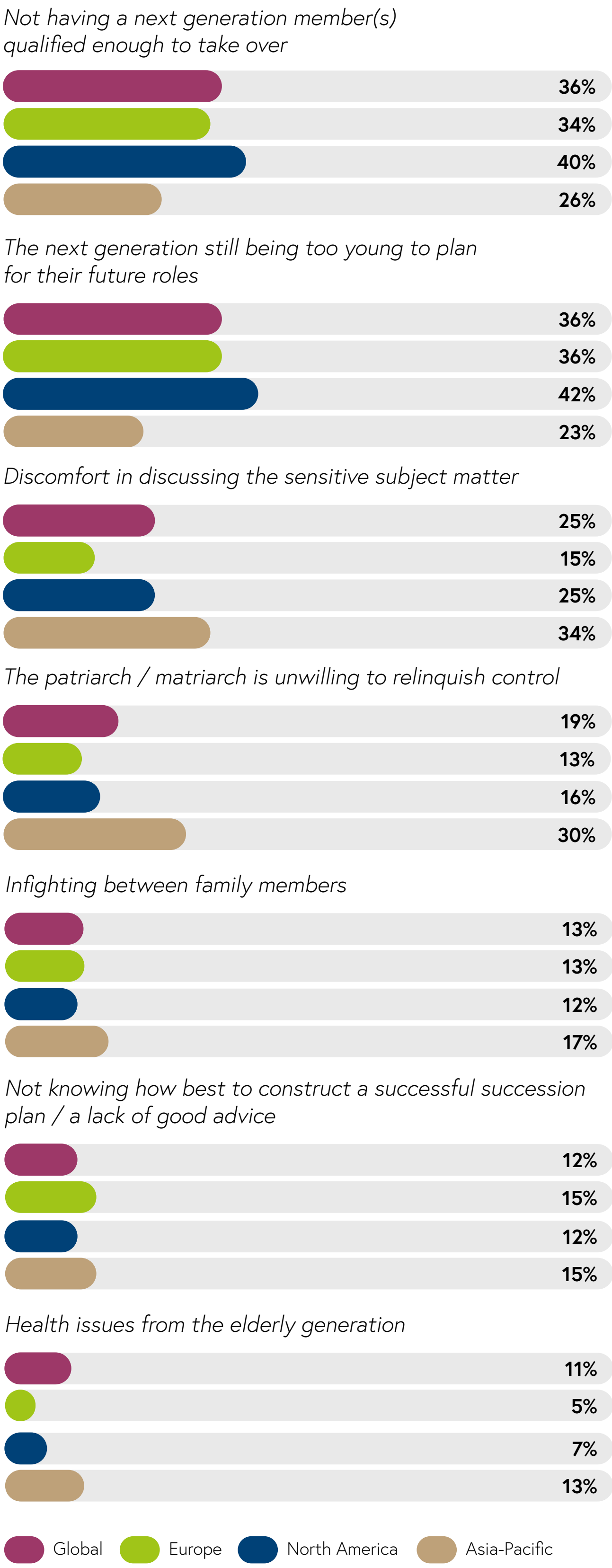
"The family office arranges events offsite to discuss investments, philanthropy, and the family mission. Next generation members may be directors of family businesses and attend board meetings. This is the best form of financial education we can offer."

Chief Executive Officer and family member,
single family office, Norway

"Managing the family office for the future, it will be for my children to decide but it won't be too complicated. They could move to a more convenient location, staff it with their own professionals, or delegate its activities to a commercial office. It's their decision at the end of the day, I won't be there anymore."

Principal, single family office, Belgium

Figure 4.10: *Greatest challenges the family face with regard to succession planning (Tick all that apply)*



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Succession planning should consider retiring family office executives too

Some family offices need to consider the succession of senior family office leaders, whether they are family members or otherwise. At present, 40% of European family offices have plans in place to deal with this contingency; 20% are training family members to take over, 13% are training other internal staff, and 7% are relying on outside professionals to step in (**Figure 4.11**). But 25% of European offices are still developing plans, while 22% have no plans at all. This is a deficiency which may need to be addressed before the next transition occurs.

Figure 4.11: *Preparations for the retirement of family office leaders*

Note: Figures may not sum to 100% due to rounding.
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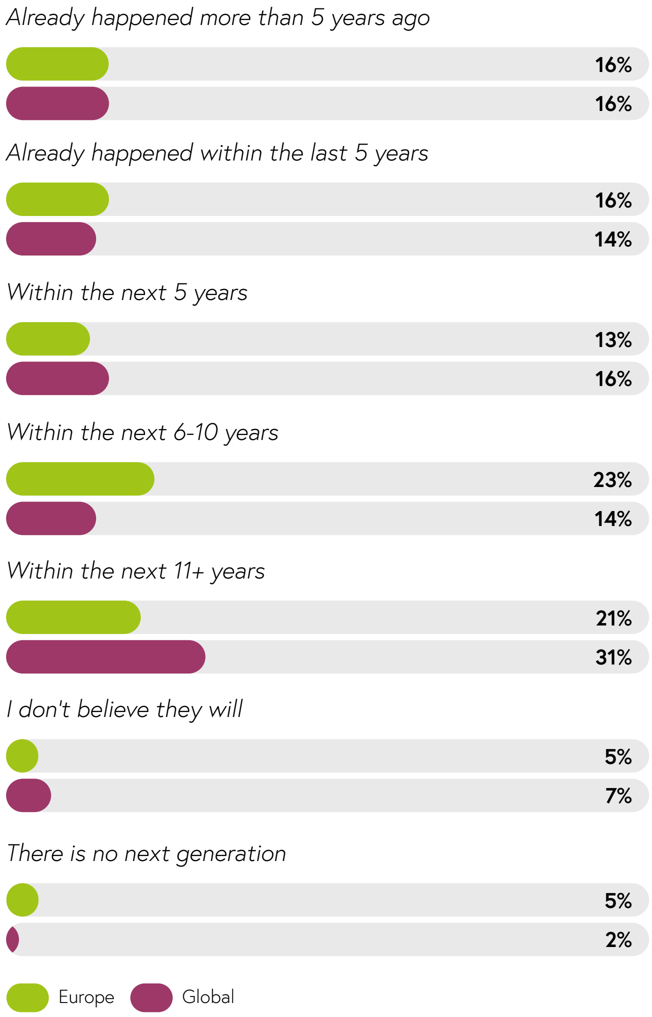
The next generation

The next generation is coming

The huge intergenerational wealth transfer within European family offices, which has been taking place over the past 10 years, is set to continue at an even faster pace (**Figure 4.12**). Over the coming decade, 36% of European family offices and 30% of family offices globally expect to see their Next Gen assume control. This outcome may reflect the sharp acceleration of family office formation in the first decade after the millennium (**Figure 1.6**). In any event, it confirms the importance of succession planning.

Figure 4.12: *Timescale over which next generation will assume control*

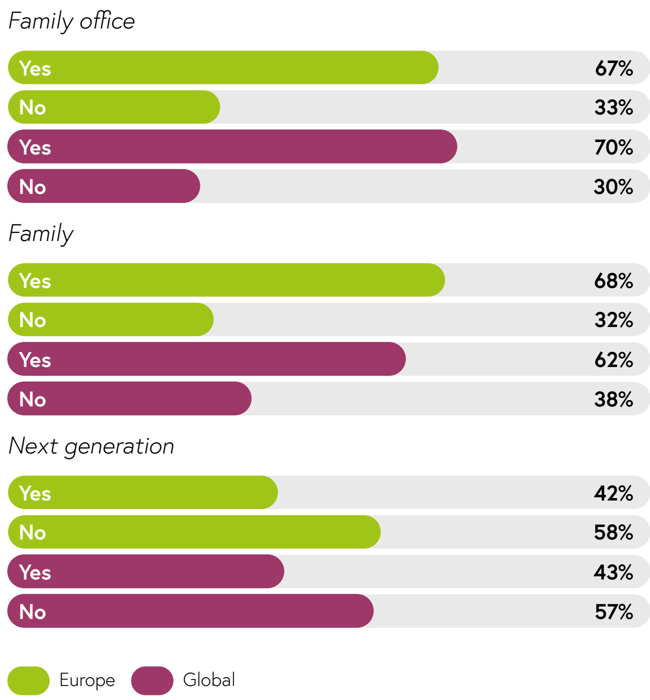


Note: Figures may not sum to 100% due to rounding.
Campden Wealth, The European Family Office Report, 2022

Next Gens are deemed unprepared

There are three protagonists in any succession: the family, the family office, and the next generation. Generally more family offices believe themselves sufficiently prepared for succession than their respective families, and more families are prepared than the next generation. In a break with this mindset, 67% of European family offices view themselves as sufficiently prepared and recognise 68% of families as also sufficiently prepared (**Figure 4.13**). But unfortunately, only 42% of Next Gens are considered prepared.

Figure 4.13: *Whether the family / next generation / family office is sufficiently prepared for succession*



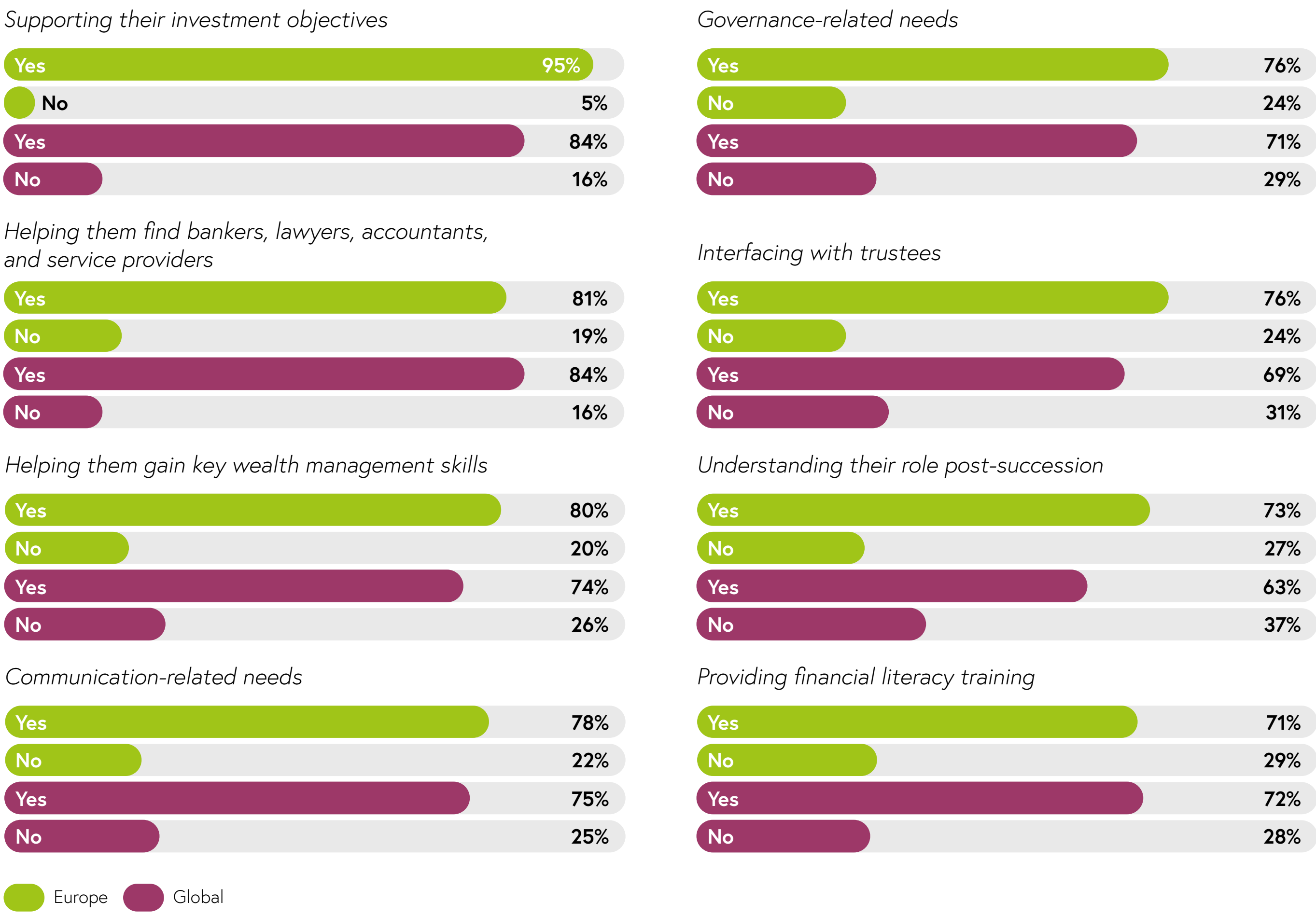
Note: Figures may not sum to 100% due to rounding.
Campden Wealth, The European Family Office Report, 2022

[10] UBS/Campden Wealth, The Global Family Office Report 2019

Some aspects of preparation not addressed

Preparing the next generation for their post-succession role is an important part of family offices' responsibilities, and they do this through a variety of activities (**Figure 4.14**). Most European offices believe they are well-prepared to support Next Gens' investment objectives (95%) and help them find bankers, lawyers, and other service providers (81%). But when it comes to more important functions, such as helping Next Gens understand their post-succession roles or interfacing with trustees, a much lower percentage (73% and 76%, respectively) believe they are prepared. These educational issues can be addressed by the office arranging work experience at family businesses and service providers, or through workshops and conferences. In their own subjective assessment of their capacity to meet Next Gens' needs, European offices score themselves more highly than family offices globally.

Figure 4.14: *Whether the family office is sufficiently prepared to meet the Next Generation's needs in relation to succession*



Note: Figures may not sum to 100% due to rounding.
Campden Wealth, The European Family Office Report, 2022

Most family offices employ Next Gens

At present, two-thirds of European family offices have a next generation member working in them (**Figure 4.15**). But as one respondent pointed out this can cause problems:

"We never employ family members in the family office. The reason is that if you are not happy with the work of one member of the team, you can say goodbye. But if it is a family member, it is much more difficult."

Co-founder, private multi-family office, Belgium

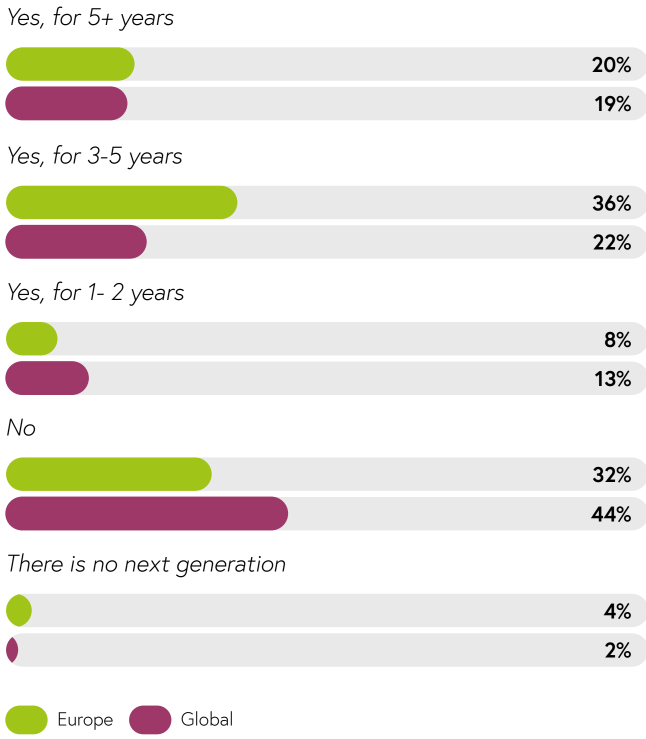
Figure 4.15: *Percentage of family offices employing Next Gens*

Campden Wealth, The European Family Office Report, 2022

Next Gens expected to gain external work experience

While family offices and family businesses can be a useful training ground for Next Gens' educational development, 64% of European families expect them to gain work experience elsewhere, such as at a bank or hedge fund, before joining the family firm (**Figure 4.16**). Most commonly this would extend for three to five years. This provides Next Gens with additional external experience which may prove beneficial to the family office / business itself.

Figure 4.16: *Whether Next Generation members are required to work elsewhere (e.g. investment bank, hedge fund) before joining the family office / family business*

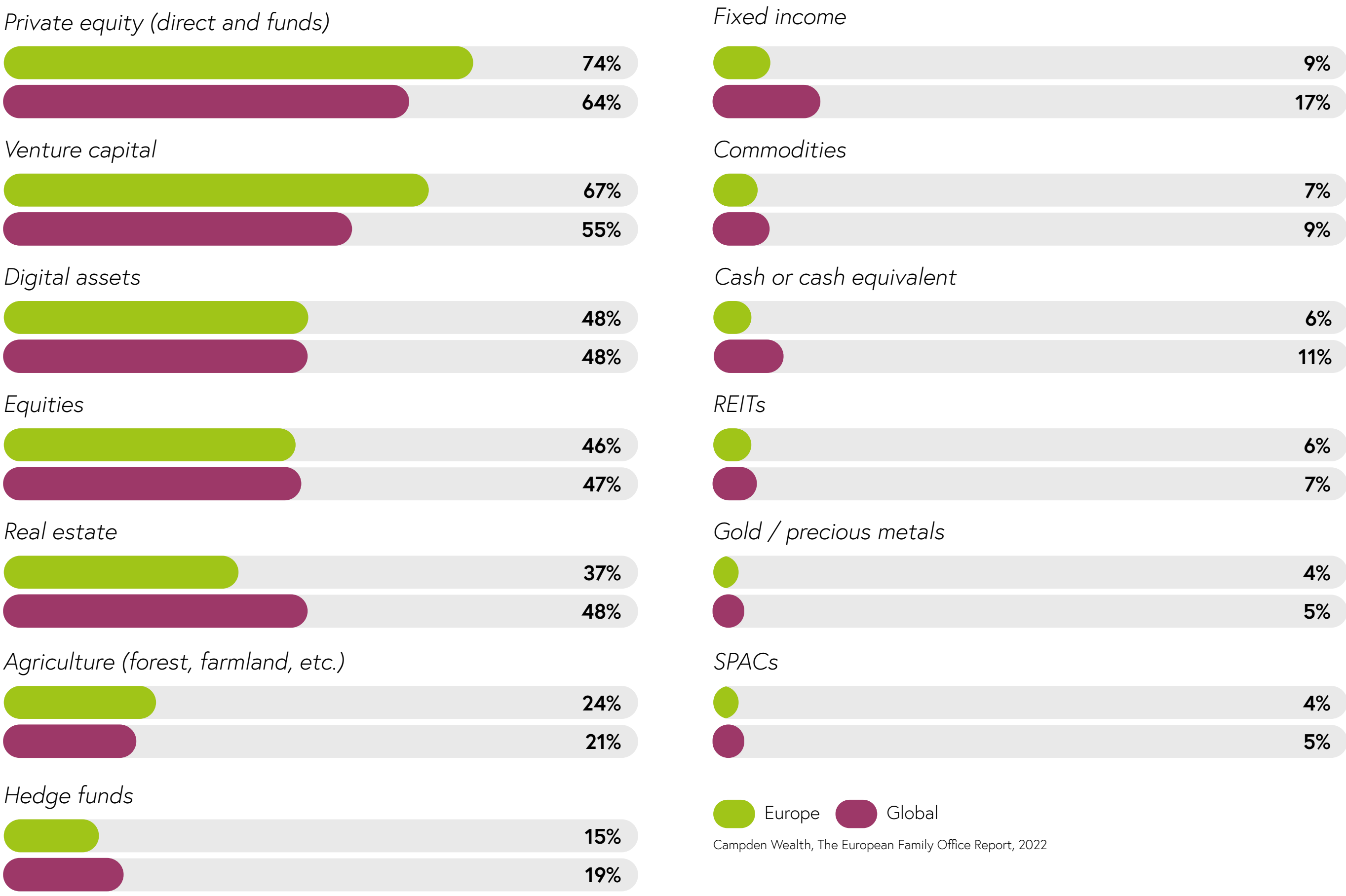


Note: Figures may not sum to 100% due to rounding.
Campden Wealth, The European Family Office Report, 2022

Next Gens' investment preferences

The most popular asset classes amongst European Next Gens are private equity, venture capital, digital assets, and equities (**Figure 4.17**). This selection closely mirrors the current preferences of family offices, as shown in **Figure 2.6**, except that cryptocurrency, which is the major sub-group within digital assets, is not favoured. It appears that Next Gens are more positive than family offices on cryptocurrency and indeed that's how family offices themselves perceive the situation. Separately, when asked whether they believe Next Gens are driving cryptocurrency investment, 56% replied affirmatively.

Figure 4.17: *Next Gens' interest in the following asset classes (Tick all that apply)*

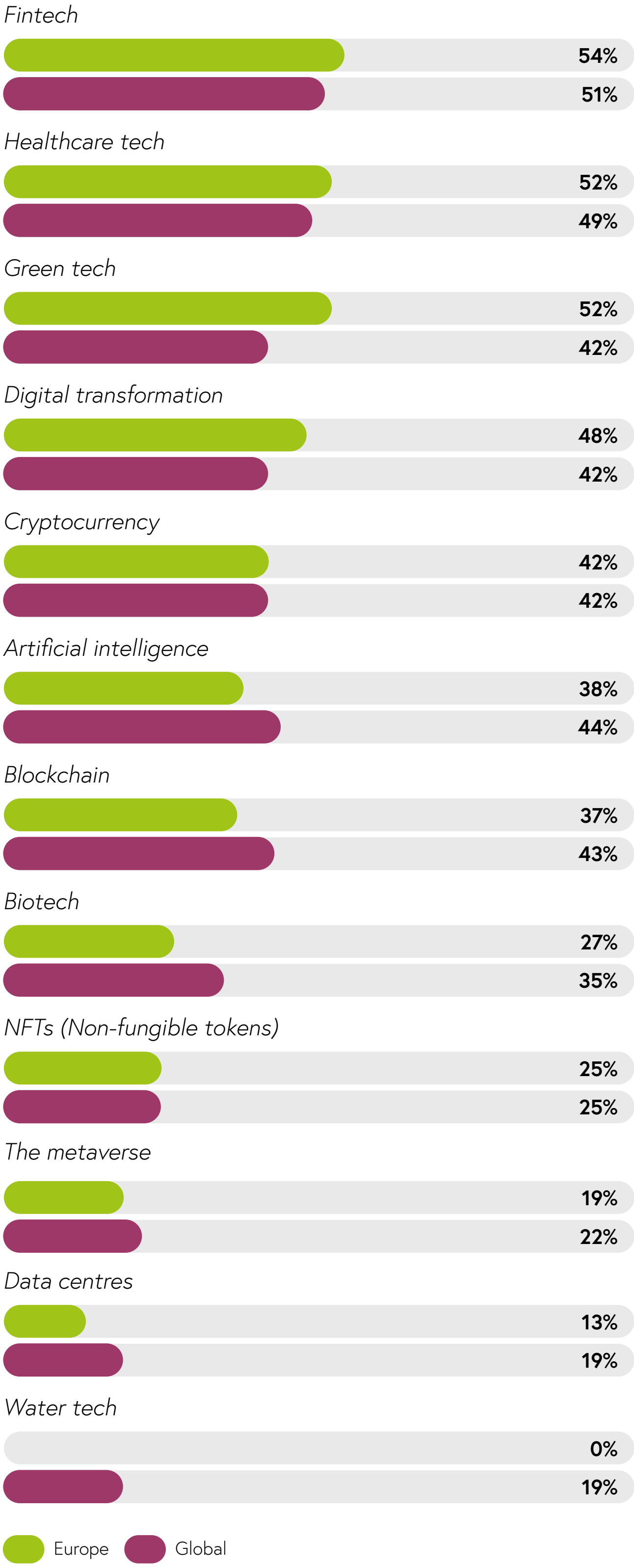


Campden Wealth, The European Family Office Report, 2022

Next Gens have an avid interest in technology

European Next Gens rank fintech, healthcare tech, green tech, digital transformation, cryptocurrency, and artificial intelligence as the technologies in which they have most interest (**Figure 4.18**). Five of these six are the technologies in which the largest percentages of European family offices intend to increase their investments (**Figure 2.7**). Again, the exception is cryptocurrency. But noticeably, Next Gens' enthusiasm for cryptocurrency doesn't extend as significantly to NFTs and the metaverse.

Figure 4.18: *Next Gens' interest in the following technologies (Tick all that apply)*



Campden Wealth, The European Family Office Report, 2022

"We are involved with the metaverse through a private equity investment. But just to show how ridiculous it is, we came across someone who paid thousands of pounds for a virtual shop in a virtual Bond Street. I think eventually there will be some use for the metaverse, but we're only interested in providing the pipework and the infrastructure, rather than actually investing in it directly."

Chief Executive Officer, private multi-family office, United Kingdom

"We believe in the underlying technology which is blockchain, because this technology can be applied to literally millions of individual processes. But it's harder to believe that cryptocurrency will replace fiat money given central banks' stranglehold in that area."

Chief Financial Officer, single family office, United Kingdom

"We gave one of the young family members EUR €10,000 to invest in NFTs. He was already trading them, and I understand we now own a few, although whether they're worth anything I'm unsure. He's reporting to the investment committee shortly. It's just so that we, the older generation, can learn something about this asset class."

Chief Investment Officer, single family office, Monaco

Lessons on how to retain long-term generational wealth

The importance of good governance and tactical wealth transference

The CEO and family member of a UK family office describes the governance mechanisms which have kept the family together for five generations. A family council and family constitution, which recognises that the current generation is only a steward of wealth for subsequent generations, are essentials. There is a psychological element too; keep expectations relatively low so that no one feels entitled. In the UK, intergenerational wealth transfer is facilitated by a rule which exempts gifts from inheritance tax after seven years, and the ability to create companies with restricted shares.

You represent the fifth generation of your family; that is a big feat in itself. As most wealth-holding families don't survive more than three generations, can you explain how the family has made it so far?

"Firstly, we're very governance heavy. There are 18 shareholders, and we have a family constitution and a family council. The constitution is six pages long and is a living document rather than a legal one. It sets out a mission statement, duties, and expectations of shareholders who can work in the company, along with their remuneration, and the general principles and aspirations of the family. It's the responsibility of the family directors to implement the constitution and we review it every four years.

Alongside the constitution are two organs we've created. There's a family forum, which includes all 18 shareholders, and meets every two years at a nice venue over the course of a long weekend. It's always very busy and there's a free flow of ideas. We go through every line on the balance sheet, discuss philanthropy, and do team building exercises, so there's a lot of fun things going on.

The second organ is a family council. It meets every three months after the meeting of the executive board, which now coincidentally includes non-family members. It is the family council which makes the most important decisions. It includes two family directors and two other shareholders. We sit down and talk about running the company, our strategy, audits, and if there are any conflicts of interest they would be discussed there. So, being very governance heavy is the first thing.

The second thing I'd say about making it to the fifth generation relates to the line in the constitution that we are a family and we always intend to pass the wealth down to the next generation. We cascade the wealth down. Our mechanism is very transparent. There will never be a moment where a patriarch or matriarch is on their deathbed, and you've got family running around wondering what's in the will. Rather, by that point, the shareholding of the patriarch or matriarch will be reduced to a nominal level, and all the other shareholders will know exactly where they stand.

Also, we are a very modest family. The members realise they have "safety net" wealth, so they can buy a small house or get hospital treatment, but they don't consider themselves to be really wealthy. No one feels entitled. Part of the reason for this is that we pay out a very small dividend on shares, perhaps about 1% of our net assets. So, family members don't have great expectations. Aside from the dividend, we all reinvest everything we earn through the same money managers, lawyers, and accountants. It's a very stable eco-system. If I fell under a bus tomorrow, the family office would definitely keep going."

You said that the patriarch or matriarch's shares are transferred. Can you tell me how this is structured?

"There are two distinct and beneficial options for transferring wealth in the UK. First, this country has a seven year exemption rule. Gifts given seven years before death can be exempted from inheritance tax. Our older generation takes advantage of that. Of course, this can be problematic because one never knows when anyone is going to shuffle off this mortal coil.

Second, one can place shares in a discretionary trust. The assets in the trust are assessed for inheritance tax every 10 years but HMRC (the UK tax authority) allows us two discounts to minimise the inheritance tax liability. First there's no internal market for the shares, so HMRC allows us a liquidity discount. Second, the only return on the shares is the dividend, and if we keep the payout low this keeps the tax valuation low. The two discounts reduces the inheritance tax liability.

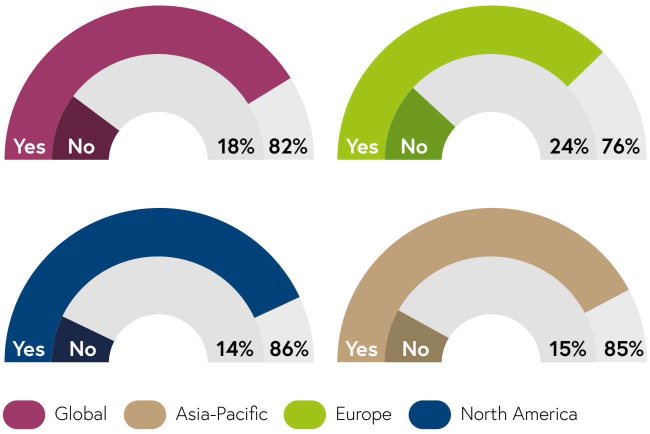
There are other interesting strategies too, such as skipping a generation and passing shares directly to the grandchildren."

4.4 Philanthropy

Three-quarters of European family offices are active philanthropically

Slightly fewer (76%) family offices in Europe make charitable donations than offices globally (82%) (**Figure 4.19**).

Figure 4.19: *Whether the family is involved in philanthropic giving*



Note: Figures may not sum to 100% due to rounding.
Campden Wealth, The European Family Office Report, 2022

Average family donation, USD $1.8 million

In addition, the size of the average European Family Office donation at USD $9.5 million is somewhat smaller than the USD $11 million global average (**Figure 4.20**).

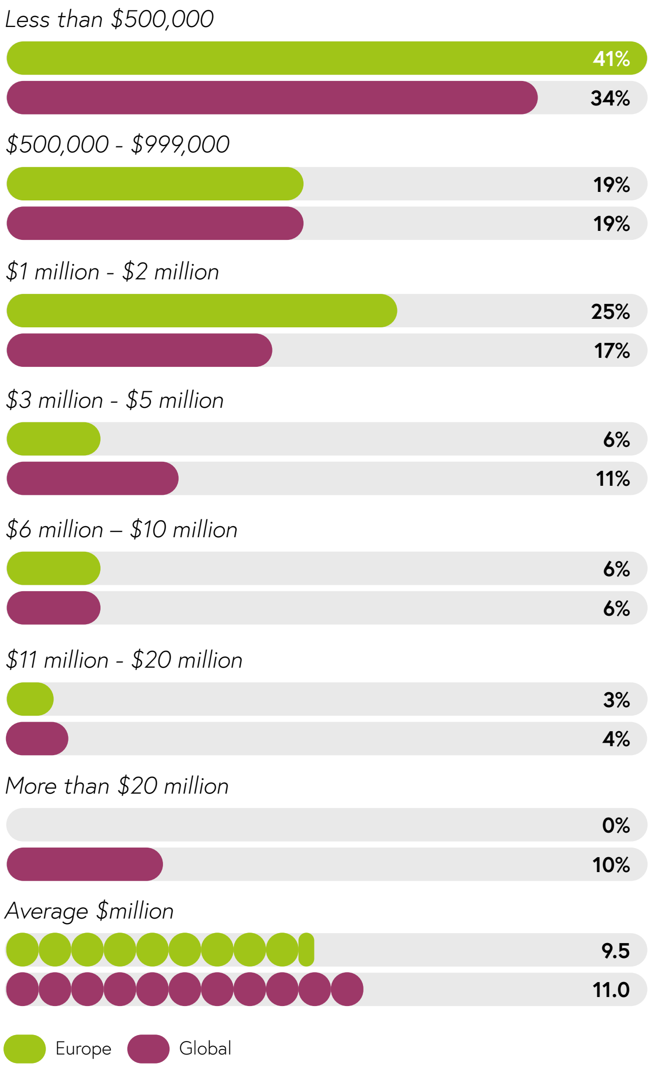
"We operate a charity voucher system so all of our family shareholders will get GBP £7,500 a year to give to a charity of their choice. The only criterion is that they have to visit the charity and then stand up at the family forum and explain what it does and why they are going to donate to it. The list of charities they visit is fantastic, from the local cricket ground to Médecins Sans Frontières (Doctors Without Borders) operating in a refugee camp on the Turkish-Syrian border. The shareholder came back, gave us a half day seminar, and the rest of the family agreed to match his contribution. This voucher system is like a little drop of glue that helps keep the family together even after five generations."

Chief Executive Officer, single family office, United Kingdom

"The family foundation supports entrepreneurs building more sustainability into their businesses and through this we support the impact investing ecosystem. We donate in some instances, but in contrast to many long-established families, we honestly believe in impact investing in contrast to simply donating, because donating makes the recipient dependent on the donor. Unlike a donation, an impact investment can create a financial return which can be re-invested in other projects, so the whole process becomes self-sustaining."

Investment Director, single family office, Germany

Figure 4.20: *Family donations in the last 12 months*

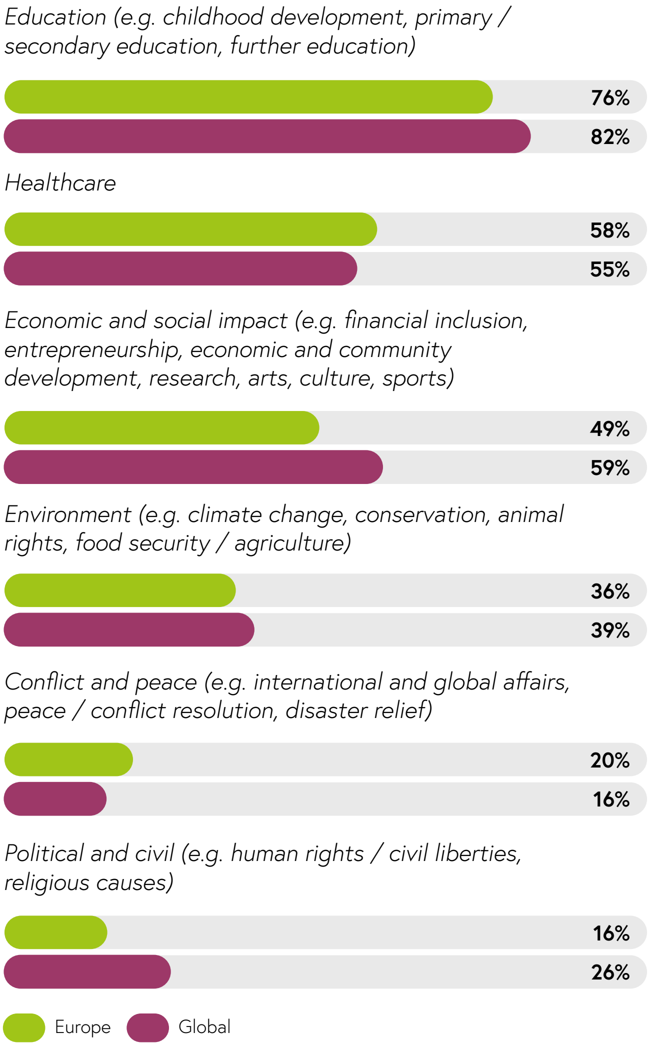


Campden Wealth, The European Family Office Report, 2022

Education, the top cause supported

Education tops the list of causes (**Figure 4.21**) supported by European families (76%), followed by healthcare (58%). The causes supported by European family offices are similar to those supported by global offices except that proportionately fewer European family offices support those promoting economic and social impact (49%), and political and civil rights (16%).

Figure 4.21: *Philanthropic causes supported by the family (Tick all that apply)*



Campden Wealth, The European Family Office Report, 2022

Playing their part

Proportionately fewer European families establish foundations or donor advised funds than their North American and Asia-Pacific counterparts. In the UK, this may be because charitable donations from any taxpayers attract tax-relief under the Gift Aid scheme and there is a cost to establishing a foundation (**Figure 4.22**).

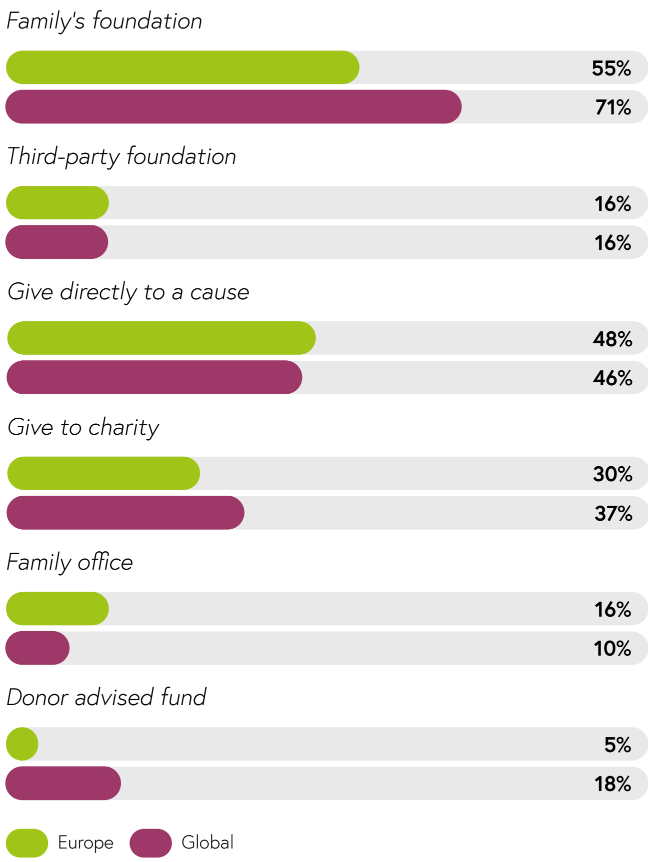
"In the UK, a private family foundation must have a specific charitable mission. The foundation is given tax-exempt status, like a public charity, and contributions to the foundation by family members are tax deductible under the Gift Aid scheme. Donations by corporate entities can be set against profits for corporation tax purposes."

Chief Executive Officer, private multi-family office, United Kingdom

"Donor advised funds are a simple, tax-effective way to manage charitable giving in the UK. Cash donations attract charitable tax relief, or Gift Aid. Effectively all the administration and liaising with the charities commission is outsourced to a third party, so you don't have the overhead of establishing a charitable foundation."

Chief Executive Officer, single family office United Kingdom

Figure 4.22: *Vehicles used by the family in support of philanthropic giving (Tick all that apply)*



Campden Wealth, The European Family Office Report, 2022

5. Conclusion

5. Conclusion

5.1 Looking ahead

Risk management to underwrite consistent investment performance

Risk management is cited by 68% of European family offices as the top governance priority for the next 12 to 24 months. This is hardly surprising given the setback to financial markets in the early part of the year. However, while there's no room for complacency, there is evidence that sound risk management systems are making a difference. In our 2021 survey, inflation was the most frequently cited risk to financial markets (70% of respondents). Unfortunately, that risk crystallised in the first quarter of 2022, but this year's survey reveals that many family offices were ahead of the game, taking steps to mitigate inflation and rising interest rates by increasing equity and real estate exposure, while shortening the duration of bond portfolios. Although overall investment returns in 2022 will almost certainly be lower than the 13% achieved in the prior year, or the 12% in 2020, it is likely that professional investment management, along with diversification, will mitigate the worst outcomes.

Portfolio diversification is crucial for long-term wealth preservation

Long-term wealth preservation often relies on having a diverse portfolio of investments. This diversification should be in terms of asset classes, sectors, currencies, and geographies. A portfolio of diverse investments can mitigate the risk of "black swan" outcomes. For example, according to last year's survey, 33% of European family offices agreed with the statement that cryptocurrency is a promising investment. At the time the cryptocurrency market was valued at almost USD $3 trillion[12] though currently it is down to a little less than USD $1 trillion. Despite their enthusiasm for the asset class, holdings were, on average, no more than 1% of AUM, so damage to overall wealth was limited. Diversification by its very nature means that returns will not be maximised, but extreme losses can be avoided which is important because wealth preservation is a marathon, not a sprint.

Strengthening governance through investment monitoring and mission statements

Family offices rely on a variety of structures within their governance frameworks. But most commonly these relate to the monitoring of investments, and strategic and tactical asset allocations. Surprisingly, only around two-thirds of European family offices have a mission statement and less than one-third an employee handbook. Sixteen percent have no cybersecurity plan in place or even the intention to acquire one. These would all be useful adjuncts to existing governance structures and protocols mitigating investment risk and fraud, and binding the family with a common purpose. Improving the robustness of systems and business processing is an important way to futureproof family offices.

The next generation is only a heartbeat away

Effective succession planning is critical to ensuring the longevity of the family office and family legacy. This makes developing succession plans a key priority. Most family offices in Europe were set up within the last two decades, and therefore many have not experienced a transition to the next generation. It's true that two-thirds of family offices have a succession plan in place, but there are potential problems; 36% of family offices believe their Next Gens are too young to take over, while 34% see their Next Gens as not qualified enough.

Family offices also need to consider the succession of senior management, irrespective of whether they are family members or not. At present, only 40% of European family offices have plans to deal with this contingency. Failure to have plans in place at the point of a critical transition could lead to the dissolution of the family office.

Understand and address the needs of the next generation

Overall, a high percentage of European family offices believe they adequately address the needs of the next generation when it comes to supporting their investment objectives (95%), helping them select bankers and lawyers (81%), and gain wealth management skills (80%). But importantly, 27% admit they don't feel sufficiently prepared to help Next Gens understand their post-succession roles. Unsurprisingly, only 42% of family offices believe their Next Gens are sufficiently prepared for succession. The necessity of the educational role undertaken by family offices is well understood but, as ever, more needs to be done. Possible strategies include arranging work experience in family businesses or outside organisations, organising workshops, and sponsoring higher education courses.

Nepotism may not be the best solution

Although family-owned businesses are built on the expectation that the management of the business will pass onto the next generation, this is not always the best outcome. What may be good for the individual may not be good for the family long-term. Families need to give adequate attention to successor selection and to create an environment where important conversations can take place around whether next generation family members are suited to, and have the appropriate skill-set to, run the family office or family business.

Don't skimp on talent

Families are comfortable working with known and trusted individuals. But periodically it's important to bring in new recruits to bring in fresh ideas and skill-sets. This explains why many family offices have looked to hire top professionals from investment banks, private equity houses, and hedge funds to support their evolution. It also explains why competition to attract top leadership professionals has been, and will remain, intense.

[12] https://coinmarketcap.com/charts/

About family offices

What is a family office?

A family office is, in its simplest form, the private office for a family of significant wealth. The number of staff working in the office can vary from one or two employees, to 100 or more staff, depending on the type and number of services it provides.

The purpose of an office can range from handling key family assets and core holdings (tax and accountancy, property and estate management) to include more sophisticated wealth management structures, while often providing family members with educational, professional and lifestyle services.

Generally, family offices manage key areas of family assets, including real estate holdings and direct or indirect investments, tax consolidation and estate management.

They can serve as the central hub for a family's legacy, governance and succession. Furthermore, they can support the education and development of family members, facilitate family governance, coordinate communication and resolve issues within the family enterprise. A typical family office:

- Affords structure to the management of family wealth, establishing increased control and oversight of the family wealth strategy and costs of managing investments;
- Consolidates tax, accountancy and wealth management reporting execution under one roof;
- Provides a clearly-articulated, efficient governance framework for investment decision-making, as well as family legacy and succession functions (including philanthropic foundations and initiatives);
- Coordinates with service providers, achieving economies of scale (especially in the case of multi-family offices) and preferential deal access and products;
- Ensures confidentiality and privacy for family members, liberating them from the burden of wealth.

Who would benefit from using a family office?

Families with private wealth in excess of USD $150 million are ideal candidates for establishing a single family office structure. While it is not uncommon for first generation entrepreneurs to establish a family office, these offices often support families with greater complexity in terms of households and generations. This is a key characteristic of family office structures and one that offices must account for when designing and executing investment strategies and family governance plans.

While each household may share some similar needs, from the perspective of the family office, each household merits special consideration. Such consideration cannot always be restricted to typical generational needs (i.e. retirees require income, while younger family members can accommodate more risk and longer horizons), because households themselves have differing liquidity requirements (for example, sibling benefactors may hold quite distinct professional ambitions).

Multiple wealthy families which might not necessarily be related to each other but nonetheless share some common values or goals may opt to consolidate and leverage resources by creating a multi-family office, rather than a single family office to manage the family wealth. Such a structure provides the benefit of economies of scale and investment deal opportunities that formal collaboration and a consolidated management structure afford. Naturally, family complexity factors arise for the multi-family office, only on another level of magnitude.

Here things can get quite messy. As such, traditionally, for a multi-family office to be successful and sustainable, families should share a common purpose, interest and risk appetite or, alternatively, comparable levels of wealth.

Traditionally for multi-family offices to be sustainable over the medium to long-term, they must manage cumulative assets of more than USD $3.5 billion. For the sake of clarity, a number of terms with specific meaning in this report are defined below:

Private multi-family office: Will all have had a founding family before widening out their offering to multiple families. These offices are owned by families and operated for their benefit.

Commercial multi-family office: These will look after the interests of multiple families often with wealth of less than USD $150 million. Unlike private multi-family offices, they are owned by commercial third parties.

List of figures

About Campden Wealth

About Campden Wealth

Campden Wealth is a family-owned, global membership organisation providing education, research, and networking opportunities to families of significant wealth, supporting their critical decisions, helping to achieve enduring success for their enterprises, family offices and safeguarding their family legacy.

The Campden Club is a private, qualified, invitation only Members club. Representing 1,400 multi-generational business owning families, family offices and private investors across 39 countries. The Club delivers peer networking, bespoke connections, shared knowledge and best practices. Campden Club members also enjoy privileged access to generational education programmes held in collaboration with leading global universities.

Campden Research supplies market insight on key sector issues for its client community and their advisers and suppliers. Through in-depth studies and comprehensive methodologies, Campden Research provides unique proprietary data and analysis based on primary sources.

Campden Education delivers a virtual training platform empowering families with practical knowledge and the tools to make informed decisions. Drawing on deep expertise and real-world experiences, our programmes are designed to guide the whole family through all stages of ownership and growth.

Campden Wealth owns the Institute for Private Investors (IPI), the pre-eminent membership network for private investors in the United States founded in 1991. In 2015 Campden Wealth further enhanced its international reach with the establishment of Campden Family Connect PVT. Ltd., a joint venture with the Patni family in Mumbai.

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