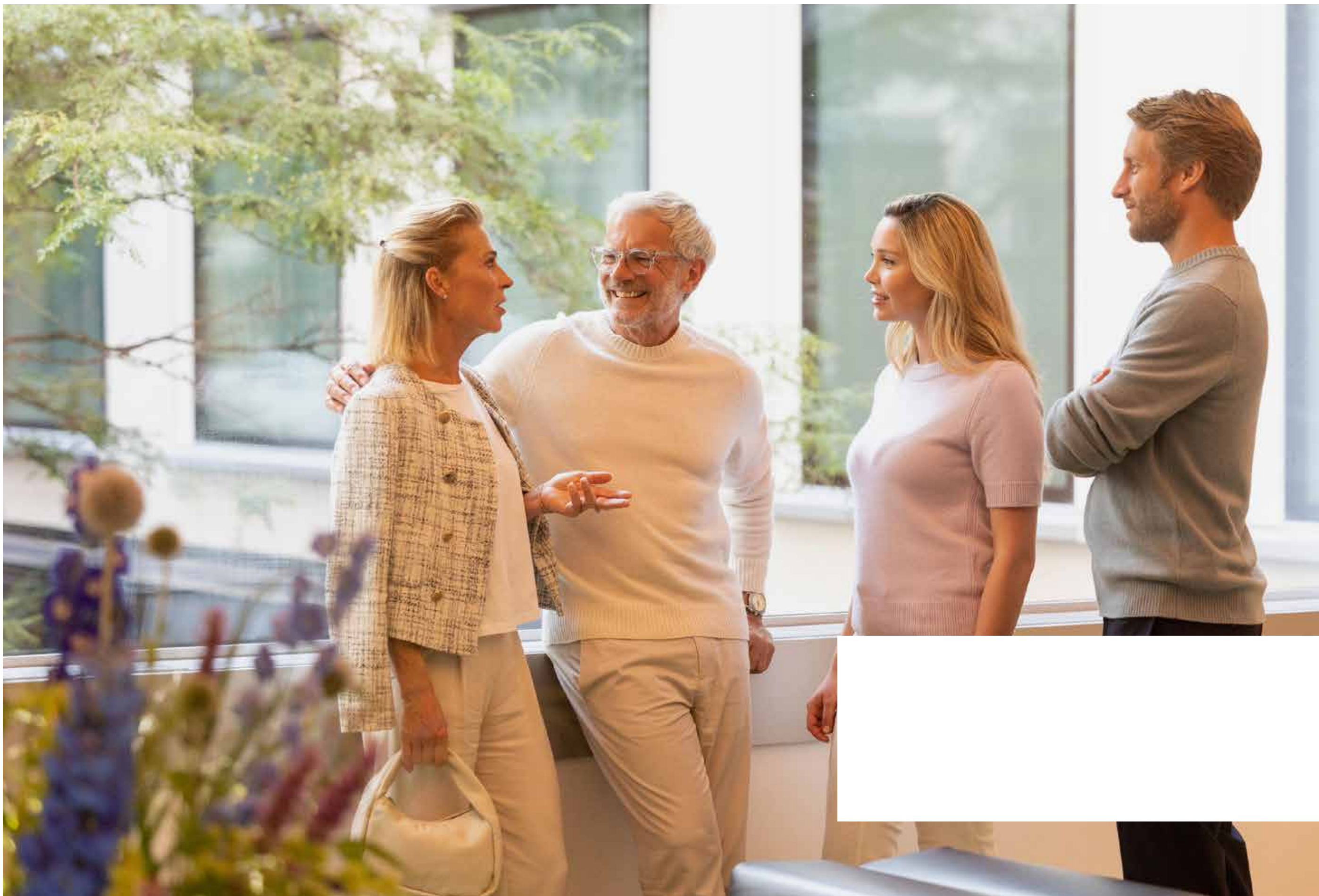
For educational purposes

Investing together

Family investment strategy compass



Where to find what?

How to use this compass

Successful families work well together. They unite around shared values and goals. They make time for each other, collaborating, supporting, and deciding on important matters. Their collective actions become the ties that bind the family together for generations.

Sooner or later, this will also be true for their investment decisions. But how can the family invest and thrive collectively? And to get there, what do family members need to discuss and agree?

Investing isn't always straightforward. It can be exciting but also daunting, rewarding yet complex. It's a discipline where understanding markets, risks and trends influences outcomes as much as personal goals, preferences and biases.

Knowledge and confidence are key. We want to help you and your family understand the core aspects to consider when investing together. This will also help you feel more confident about discussing the topic with your family and trusted advisors.

Naturally, we also want to help you and your family work out how you want to invest. That's where this compass comes in, guiding you to a family investment strategy that's right for your family:

1. Understand – Foundations of family investing
2. Define – Core elements of your family investment strategy
3. Establish – Implementing your family investment strategy
4. Govern and evolve – Managing, structuring, and fine-tuning your family investment strategy

A quick note before we begin. This compass is not designed as a textbook. If you find that you need more details around things like specific asset classes, family governance and decision making, or asset structures, we recommend speaking to a specialist for any additional resources.

We're always here to help. If you have any questions as you work through the compass, please get in touch. This is a journey we can take together.

Part 1

Understand

Foundations of family investing

Understanding the context

Why do families decide to invest together?

Families that invest together have one thing in common: wealth – or the ability to acquire it – that exceeds their immediate spending needs. This might be based on successful entrepreneurial or professional activities, inheritance, or other sources. Often, one family member starts with investment activities. But over time, investment types and family needs and interests can become too varied and complex to manage alone.

That's when family members should consider coming together to create a family investment strategy that satisfies their combined needs, willingness to take risk and expected returns.

"Culture eats strategy for breakfast", consultant and educator Peter Drucker famously said. But this doesn't mean strategies are worthless. It means that, even if you have the world's greatest strategy, it is likely to fail if your family's culture (such as its shared values, beliefs and communication) isn't allowing for it to be implemented. Sometimes, family cultures are so ingrained and powerful that they overthrow strategies entirely.

By understanding the reasons for the process of establishing a family investment strategy, families are more able to take a step back, acknowledge their preferences, behaviors and biases, and approach things in a more structured and disciplined way.

That's the first, and arguably most important, step.

The family enterprise

The "family enterprise" encompasses every aspect of your family's wealth, including an operating business (if you have one) and other assets. These assets will influence your family's decisions, from how it manages its wealth to where and what the next generation chooses to study. They will also determine your flexibility and capacity to invest.

The family enterprise often emerges following years of a family business generating profits. Over time, the family develops new sources of income, and expands into different activities, interests and assets beyond the original company. Each of these elements shapes the family's identity.

To provide a big-picture view of your wealth, the illustration shows the family enterprise as petals of a flower. You might not recognize every petal in your own family enterprise. And some petals may be of greater or lesser significance for your family. For example, a family's operating business might represent the largest share of the family enterprise's assets. But if the family has sold the business (either partly or entirely), the petal shrinks or disappears, and financial assets becomes the main petal.

Each petal can live on, grow, shrink or even disappear from one generation to the next. To ensure the family enterprise continues to thrive, the family must:
– create a family vision and mission for all parts of the family enterprise
– clarify goals, roles and responsibilities for each area
– properly manage and govern each petal in the family enterprise.

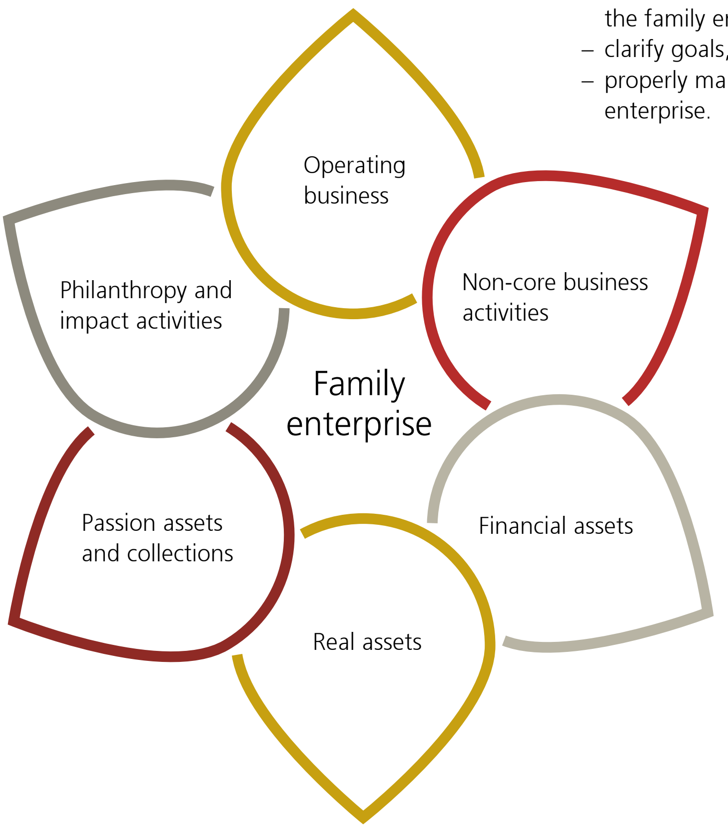


Fig 1: The family enterprise flower – elements of family wealth, UBS Global Wealth Management – Family Advisory, 2021. Model adapted based on John A. Davis 2013.

Operating business

This is your family-owned and controlled business. It's likely to be the main (or at least the original) source of your family's financial wealth. Families are often linked to their business(es) for decades and even centuries. So family members are usually emotionally connected to their business(es), which, in turn, shapes the family's identity.

Non-core business activities

Your family may have invested in other businesses over the years. They may not be the biggest sources of your family's private wealth. But they still play an important role in shaping your family's wealth and identity. That's because such activities often still involve family members, for example, who might be sitting on the board, helping to shape these businesses.

Financial assets

These are typically your family's liquid assets (assets that are readily available as cash or easily converted into it), but also longer-term investments in, for instance, real estate or private equity investments that form your investment portfolio. Families sometimes set up an investment or family office to manage these assets. Younger family members may take roles in the office, acquiring the skills they need to be future leaders.

Real assets

These are usually valuable assets like family houses, cars, yachts and jewelry.

Passion assets and collections

As families become wealthier, they often acquire objects of passion. These items may grow into collections in areas such as art, vintage cars or wine.

Philanthropy and impact activities

Families often put their finances and efforts to work in supporting communities and the planet. This can benefit families in many ways. For example, different generations collaborating on projects can unite everyone around shared values. And to improve their leadership skills, the next generation can get involved in project management and decision-making.

Focusing on financial assets

This compass mainly considers families' financial assets. That's because other assets are so diverse and unique to every family. However, if you asked UBS to help set up your family investment strategy, we would consider all your assets to make sure you receive a balanced solution that avoids unnecessary risks. For instance, if your family-owned a business in a particular sector, we would assess your exposure to possible risks and opportunities in that sector and reflect that in your strategy.

How the business influences wealth

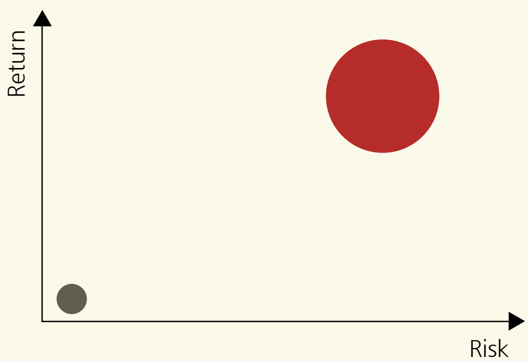
A family business profoundly influences the overall family enterprise. That's because it's usually the engine that drives wealth. But businesses evolve over time. And at every stage, the business will need a different investment strategy.

1

Start-up stage – emerging entrepreneur
The entrepreneur typically launches the family business using personal funds and, potentially, money from friends, family or seed investors. Most of the wealth focuses on developing the business. This can shrink other petals in the family enterprise, such as financial assets or real assets. Here liquid assets usually focus on stabilizing the business and reducing risk.

2

Growth stage – successful entrepreneur
The entrepreneur has grown the family business into a big player in its market. The family starts to gradually move assets from the business into its private wealth context. This grows other petals in the family enterprise flower, such as financial, or real and passion assets. Families often use financial assets as a safety net, to generate additional wealth by investing in the markets, or the assets might act as a strategic holding for the family.



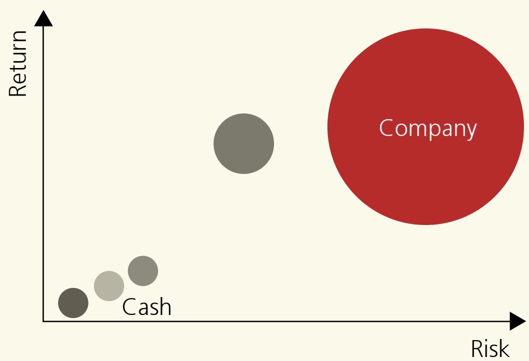
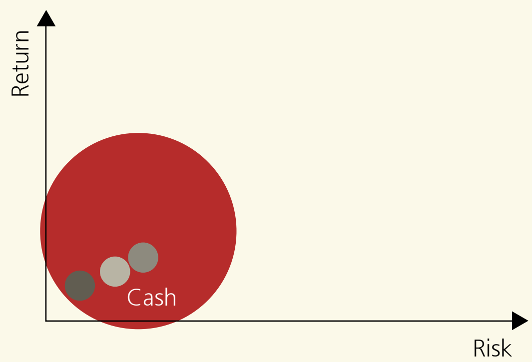


Fig 2: UBS Global Wealth Management, Chief Investment Office 2024

3

Succession stage – exiting entrepreneur
The family business has matured, and the founder is focusing on personal needs. Over the years, other family members might have taken management roles in the business. Alternatively, professional management may run the company. The founder generation and descendants may sell some or all their shares in the business at one point. We notice that the descendants are more likely to sell if they are two or three generations removed from the founder since they are often more removed from the business as well.

Such a "liquidity event" will affect the size and contents of the family enterprise flower. Unless the family engages in another business, its status will usually evolve from "entrepreneur" to "investor". At this point the family will usually need a new investment strategy to meet its long-term goals.



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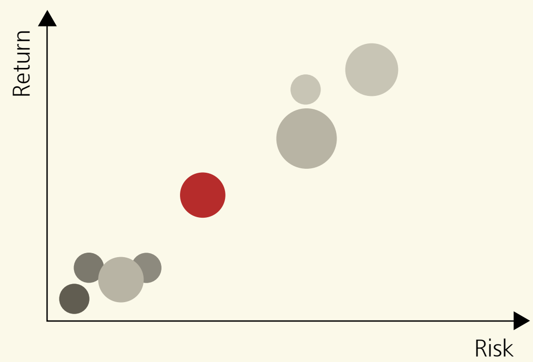
New business ventures or investments
Selling a business can significantly impact how a family views and manages its wealth. The sale typically changes the balance of wealth in favor of financial assets for the first time. The family moves from holding "paper wealth" (wealth that's not readily available as cash) to owning substantial liquid wealth (like cash and certain investments that can convert easily into cash). In short, the family's wealth rapidly evolves to embrace a diverse range of assets.

As the family keeps growing further and faster across generations, it may need to cover spending through cash-based assets and investment portfolios. However, there's a challenge when families want the assets to both cover spending and retain their value. To achieve this, the family may need to consider riskier investments that aim for higher returns.



Documenting your family's values

Your family's values will run like a thread through everything you do, including how you interact with others, run your businesses and choose to invest. To maximize the chance of creating the best-possible family investment policy, your family should come together to discuss and document those values. Your values will be a guiding light on your path to the right family investment strategy. It will also help steer your discussions with specialists, like wealth managers and the family office, if you have one.

Put simply, defining the family values is vital. Why? Because it puts into writing the values that have been imbued in you since birth. With the definition in hand, family members' feelings and attitudes suddenly become more tangible and expressible.

They provide the foundation for the family to define their overall purpose and ultimately their specific goals – including their financial goals.

Consequently, you won't just **feel** an investment approach is right or wrong for your family. You'll **know** and be able to say **why** – because you can derive the reasoning from your family values. Something that will also help your family office and investment specialists at your bank.

Here's an example of a family's documented values

We are grounded. We will never forget or take for granted that we are financially blessed. We will always focus on exploring new opportunities, and supporting our customers and local communities, while not taking excessive risks.

We work hard. Our family was built on years of hard work and dedication. To keep progressing, we take a long-term view on all our endeavors.

We make a difference. There's more to life than money and possessions. True wealth comes from recognizing that we're part of a global community. So we do all we can to support people and the planet.

Family purpose, vision, and mission

Your family's purpose, vision and mission define everything your family stands for and aims to achieve. Alongside your values, they will guide you to the right investment strategy.

Purpose

Your family's purpose comes from its values. It's the spark that ignites your family's drive to do what it does and be the best it can be. In short, it's why your family exists and why it is successful.

To make your purpose meaningful and useful, write it as a full and honest statement, not a catchy slogan. And don't worry if your family wrestles over the words for a while. That's good. Because it means everyone's engaged and passionate about the family's success.

Vision

Your vision is your family's view of where it wants to be in, say, five or fifteen years' time. Your vision might cover your family's:

goals – what goals do you want to reach together, and by when do you want to achieve them?

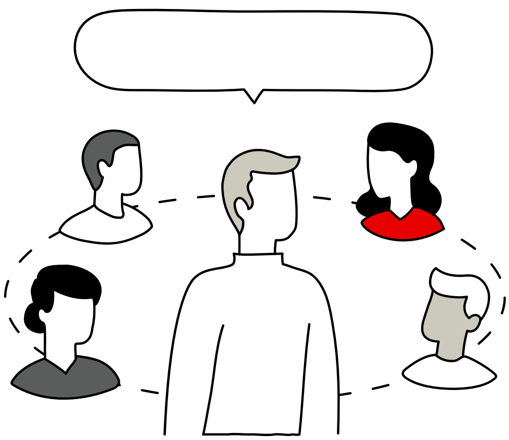
impact – how does your family want to use its wealth, and what goals does it hope to accomplish with it?

priorities – will your family prioritize business needs or family needs, or will it balance both?

legacy – what legacy does your family wish to leave to future family generations, employees and the world?

Mission

Your family's mission defines what your family must do to achieve its vision. You'll express it as three to five sentences within a "mission statement", covering key steps (or milestones), resources and priorities.



For more information on family purpose, vision and mission, please see our **Family Strategy Compass.**

What you need to know

Investing comes with various risks for individuals and families. Some risks are more obvious than others. Some relate to your family's assets. Other risks relate to who's involved with the asset and how they manage it.

Understanding these risks will help you protect your family's wealth. You'll also be more able to avoid sudden and unexpected problems – and the accompanying stress and turmoil.

Investing fundamentals

Most people discussing investments for the first time feel a little out of their depth. There are countless words and phrases for solutions and situations. Some are technical (NAV, ESG, P/B ratios). Some are strangely animal-based (bull and bear markets, unicorn companies). And very often, different expressions are used interchangeably to describe the same topic (equities/stocks). Little wonder many feel uncertain about which path to follow and where to start the journey together. At any rate, we're here to help you.

Knowing the fundamentals of investing will help ensure you're better placed to make good investment decisions – and feel comfortable with the advice you receive. But the best way to make sure you're investing in the right way is to sit down with your investment advisor and discuss the opportunities and risks.

Your advisor might recommend courses and books to build your knowledge. It's also wise to dedicate some time to studying financial markets and national and global economic events.

Can I ever understand this?

A successful private equity investor realized that if something should happen to him, his family would be in dire straits, especially from a financial and investment perspective. His spouse who had primarily spent her time looking after the children, the house and the horses meanwhile feared that she would be left having to trust "the bankers" with everything investment-related.
Through a series of educational sessions on financial markets, asset classes and portfolio construction, she concluded: "I know now that I can understand this, that I can learn and work my way into this field. I actually find it highly interesting. I feel so much more empowered to face these questions."

Financial personality

There's more to choosing an investment than understanding all the technicalities. You and your family's preferences, feelings and attitudes – in other words, your "financial personality" – also come into play.

For example, some people are financial daredevils, willing and able to risk losing money for the chance of high returns. Others struggle to sleep, worrying about risking their hard-earned finances.

It will therefore be helpful for you to better understand not only your own personality traits, but also those of your family members. Because they are the ones with whom you might have to agree on your overall family investment strategy. Knowing how they tick and why – financially speaking – will be helpful to understand why they appear hesitant or "aggressive" in some instances.

Here are three of the traits that determine your financial personality. How do they fit with your view on investing?

Loss aversion

How willing and able are you to lose money in exchange for the chance of growing it? Someone with a high loss aversion would rather avoid investments that could lose modest amounts of money – even if those investments might deliver big returns. They may also avoid investments that tend to fluctuate wildly. At the other end of the spectrum are those with a low loss aversion. They're keen to receive big returns and don't worry about market rises and falls.

Common bias: Losses hurt about twice as much as gains.

Uncertainty aversion

Are you willing to take plenty of risk when you're certain about your chances of losing or gaining money? That's low uncertainty aversion. Or are you less comfortable choosing investments with an uncertain outcome? Then your uncertainty aversion is at the higher end of the scale.

Common bias: People tend to prefer a certain outcome over an uncertain one.

Investment temperament

Some investors are happy to jump on an investment roller coaster. Others prefer a smoother ride. How willing are you to choose investments with widely varying returns? How would you react to an investment losing more money than you're comfortable with? Would you panic? Or ride it out, hoping it regains its losses in time?

Note: everyone's different. Some are "players". Others are "protectors".

What's your financial personality?

To find out more about your financial personality, speak with your financial or investment advisor. You can also explore our assessment tool at **ubs.com/financial-confidence**.

Additionally, **behavioral biases** can influence your financial decisions. They give you short cuts to quick conclusions in complex situations. But those quick conclusions might also be leading you away from your goals. Your advisor can guide you on these.

Risk profile

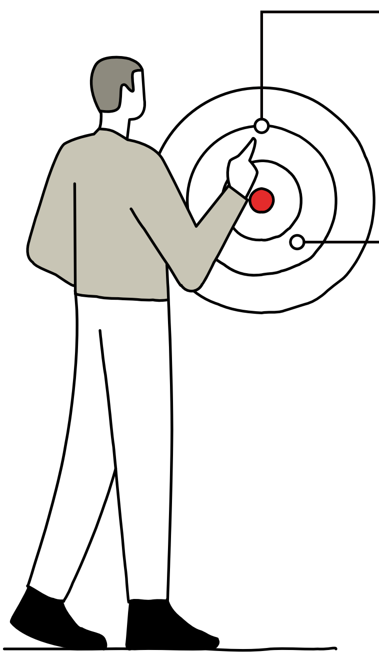
Like everything in life, investing is risky. Whatever your goals, you'll need to accept a certain amount of risk to achieve them. Understanding your attitude to risk is important, because it will influence the level of risk you're prepared to take. But it's possible to manage those risks. The first step is for you and other family members to understand your "risk profile".

Consider these three aspects
Risk capacity – Your capacity to take risk is linked with your ability to absorb any financial harm resulting from your family's investment activities. Losing 100,000 US dollars in an investment might be harmless for some but devastating for others.

Risk tolerance – Your financial personality will influence how much you're willing to tolerate risks without getting uncomfortable.

Need for risk – Even if you're cautious, you might still need to take appropriate risks to give your portfolio the chance to reach its objectives – and therefore your family's goals. But what if those risks exceed your risk appetite. Should you raise your "risk budget" to reach your goals? Should you resign yourself to the possibility you won't reach them? Or should you accept the risk and try to stay calm?

Consider these options:



Option 1– Adjust risks

- Go beyond your normal risk tolerance – and feel somewhat uncomfortable
- Stay within your normal risk tolerance – and stay comfortable

Option 2 – Adjust goals

- Aim for different types of goals
- Reduce the timeframe for achieving your goals

You and your family will need to discuss and agree on the right approach, otherwise tensions may build over time. Remember, if markets get choppy, some family members might become more than a little nervous.

Thinking about such situations, guided by investment specialists, can help your family find its "sweet spot": a goal-focused and risk-balanced portfolio that everyone's comfortable with.

Losing one's head – and a lot of money

A successful entrepreneurial family decided to sell a large part of their family business. The family agreed to give the now liquid assets to a multi-family office for investing. Unfortunately, the family neither considered their overall long-term financial goals nor how different the family members were regarding their knowledge of investment topics and their financial personalities.

This resulted in the family giving only very high-level guidance with regards to expected performance goals. When the global financial crisis eventually hit in 2008 the family was in turmoil over the markets crashing, fearing the worst for their family's wealth. Given how different the family members were looking at the situation, some of them insisted on selling everything as quickly as possible to save what was still there, while others were in favor of staying invested and weather the storm.

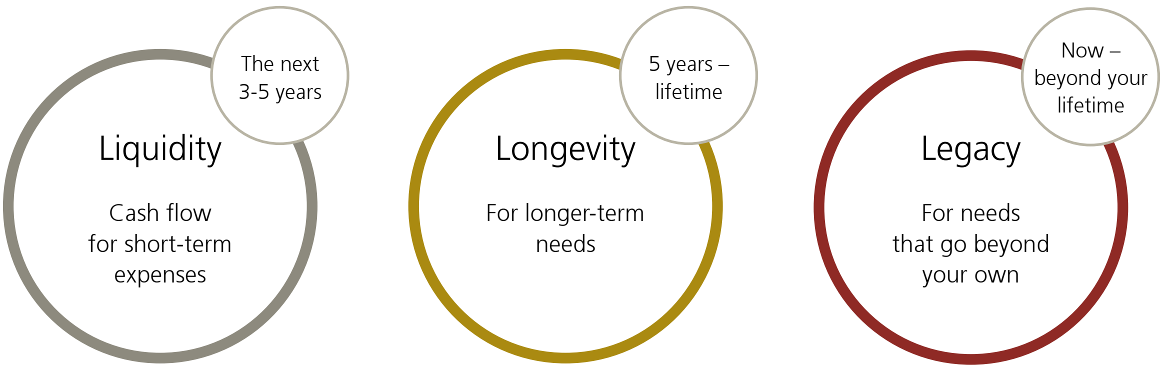
Under the pressure of the situation the family eventually sold off parts of the portfolio. As a result, they lost a substantial part of their wealth and damaged their family relations. Through this experience the family realized that they need a solid family investment strategy including a proper investment governance structure that interlinks with their overall and longer-term family goals and family governance.

The family eventually opened their own family office and – having learned this bitter lesson – took the time to develop a thorough investment strategy and policy allowing them to stay in control of their assets and emotions as markets go through their cycles.

Investment time spans

Investing can enable you and your family to achieve your ambitions in life. At UBS, we look at financial goals from the perspective of covering short-term expenses, meeting lifetime goals, and achieving objectives across generations. The length of time your family is prepared to stay invested plays a big part in determining your goals and how long it will take to achieve them.

To help families stay on track for reaching their goals, we consider three distinct but connected strategies: Liquidity, Longevity and Legacy. We call this approach the "UBS Wealth Way". Combining these strategies with your overall family investment strategy will help to ensure that your investments achieve everyone's goals at the right time.



Liquidity

Helping you and your family cover short-term expenses and liabilities by providing steady cash flows over the next three to five years. Covers essentials, leisure, education, incidentals and beyond. Preserving capital is paramount.

Longevity

Helping your family members achieve goals during their respective lifetimes by balancing and diversifying portfolios to generate consistent growth and income. Investment choices will depend on your situation, goals and values. For example, do you want to secure a comfortable retirement for family members? Or fund the next generation's education and business ventures?

Legacy

Planning for assets that remain beyond achieving particular goals. For example, maximizing the wealth transferred to the next generation, or working on solving social and environmental problems through philanthropy.

Fig 3: UBS Wealth Way is an approach incorporating liquidity, longevity, and legacy strategies. Timeframes may vary. Strategies are subject to individual client goals, objectives, and suitability. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.

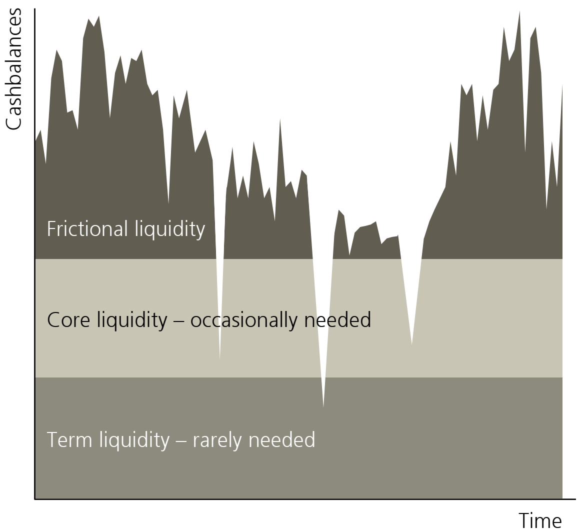
Liquidity needs

Many people don't consider how much liquidity they might need, for example, to pay for something unexpected like an expensive medical treatment or to cover planned purchases such as buying a property or business. Families also tend to hold more liquidity than they need. This means they can miss out on the opportunity of growing that money by investing it.

Ask yourself: how much (or little) money do you actually need to access quickly? Could you put your money to work in longer-term investments? One of the benefits of locking your cash away for longer is that you have the opportunity to earn an "illiquidity premium" (extra returns that compensate you for investing in a product that, compared to holding money, can't be quickly or easily converted into cash).

Designing a liquidity strategy
Families can meet their cash management needs with a liquidity strategy. Such a strategy would give the family enough money to cover around three to five years of expenses that they can't meet through regular income or borrowing. The goal is to give you assurance by separating your cash needs from your investments in financial markets.

When creating your family's liquidity strategy, it's important to:
– work out how much liquidity your family needs to meet future expenses and financial commitments
– consider the current rates of return available from liquidity products
– diversify risk by choosing a mix of liquidity products, for example, solutions from different providers that run for different lengths of time.



0–1 month	These are liquidity positions that are expected to be deployed frequently with varying degrees of notice. Flexibility is more important than returns.
1–6 months	Core liquidity holdings that are expected to be tapped infrequently. For example, in the case of unexpected investment opportunities or financial-market-related events. Flexibility and returns are equally important.
6–12 months	Liquidity holdings that are unlikely to be needed. Could be considered 'iron reserve'. Returns become more important than flexibility, as the potential opportunity loss becomes relevant.

Fig 4: UBS Global Wealth Management, Chief Investment Office 2024

Borrowing liquidity

Investing can provide another way to access liquidity: borrowing. For example, you might use your investment portfolio (including illiquid assets, like property), or even passion assets, as collateral. But bear in mind that when times are tough and markets are down, you may face limits on the amounts you can borrow. Plus, the value of loans taken in the past may also be reduced.

Family goals

What are your family's goals? Yes, it's a tricky question. To help you narrow things down, here are some common examples. Remember, these are just thought starters. Your goals might be very different. But it's important to work out what they are. That's because your goals will dictate the investments you choose and how long you invest for. Consider these examples:

Living well today and for generations
Families often want to make sure family members have enough money to live comfortably their entire lives. The challenge lies in defining what "enough" means – and deciding whether you should use your current wealth for that goal or preserve it for future generations.

Supporting a generation of entrepreneurs
Families often want to support, fund, and ultimately benefit from the entrepreneurialism of family members. New wealth-generating businesses can help sustain the family as it grows. Family entrepreneurs can benefit from things like potentially cheaper funding from dedicated funds, as well as valuable insights and guidance from family members.

Helping others live well
Families often want to build or allocate money for giving back to the world, such as engaging in philanthropy activities. Philanthropy can link to the core of a family's values and give the whole family the opportunity to put those values into practice.

Transferring wealth
Investing together with the next generation provides the opportunity to pass on the values and financial knowledge they will need when running the family. Therefore, gradually introducing them to the family's wealth context as part of a structured learning journey helps prepare each individual and the overall wealth transition process. It also brings the different generations closer together as parents can use this process to gradually transition more into the role of a mentor. The outcome is a well-prepared next generation and a smooth(er) transfer of wealth.

Are your goals too vague?

As you work towards your family investment strategy, it will become increasingly important to ensure your goals are clear and specific. If they're too vague and wide-ranging, investment specialists will struggle to turn your goals into reality.
But working out specific goals can be challenging. In our 2023 Global Family Office Report, a London-based family office CEO said "How easily does your family talk about inheritance, hopes and dreams? These things are so personal, it's very difficult. A few years ago, we had discussions with the family where we tried to articulate values. The result was something that we struggled to embed into the family office. It's very difficult, especially for the finance professionals who are used to dealing with less emotional topics."

Resolving conflicting goals

Some of your goals might conflict with other goals. For example, relocating to another country will potentially affect plans for passing on your wealth, due to different tax laws and other regulations on your investments. Here's what you can do:

Rank your goals
Write them down in order of importance. Say, for example, your number-one goal is to pass on as much wealth as possible to the next generation. If that's the case, you may need to look carefully at your family's short-term spending plans.

Stay flexible
Try not to be too rigid about every aspect of your finances. It pays to be flexible about when you want to achieve your goals, especially if your investments go through a rough patch early on.

For example, a family plans to spend around 5% of its assets every year, but the investment portfolio's value drops 15% already in the first year.

The family will need to revisit its situation:

- How flexible can we be on spending?
- Is preserving money more important to us than spending it?
- How long will we need to wait for the investment portfolio to recover before we can return to our original spending patterns?
- Can we use funds elsewhere, for example, selling some assets or borrowing against them?

Consider the risks
The risk in the example is that the family's spending harms the lifestyles of future generations. So the family will need to agree on a spending policy that reduces this risk. The policy could also determine the surplus amounts available to invest to help preserve and grow the family's wealth. It will also help the family decide how much money they can allocate to less "liquid" investments, like real estate.

Key principle

To give yourself the best chance of achieving your goals, it's important to consider every element of your family enterprise.

Family wealth circumstances

It's important to understand your family's wealth circumstances and the risks you might face. To help you do that, map out your family's total wealth (such as business investments, financial assets like stocks, real assets, collectibles and philanthropic activities) on the family enterprise flower (page 10).

Creating transparency around your family's wealth circumstances will highlight how they affect your capacity to take risk. They will also influence the optimal places to invest (for example, by avoiding concentrating assets in one area). Whatever your circumstances, managing each element as part of the bigger picture will help you focus your total wealth on achieving your goals – and improve the chances of reaching them.

Think of your family as a business and ask yourself some questions related to things like revenues, cashflow, profits and losses. For example:
- What risks are associated with the family's assets?
- How reliable are the family's revenue streams?
- Could the family reduce its expenses if it had to?
- How does the family's actual cashflow compare to its income situation on paper?

Then ask some questions about different situations your family could face. For example:
- If the family's revenue fell, how quickly could your family's costs and spending be adjusted?
- How might the family's costs rise over the next five to ten years?

Next, think of the human side of your family, as if it were a business.
- Do we have a plan for passing on the wealth?
- Can our advisors help the family with current and future issues?
- How will a growing family impact the needs related to consumption and investments?

Family wealth risks

Consider if your family faces any of the below risks and if so, describe them for your specific circumstances and how you might be able to mitigate them.

Concentration / bulk risk. Individuals or families may focus on assets from a sector or country they know well because for instance that's where their business operates. This can lead to underestimating the risks and investing too much money in the same or similar assets. A crisis in that sector or country could seriously endanger the family's finances.

Key-person risk. The family relies too heavily on one person or a few people to drive its success – for example, family leaders in the business or family office. The family will face serious issues should those people resign, retire, fall ill or pass away unexpectedly. Is there anyone in the family with the right skills to step in? It's important to have a succession plan that deals with identifying, appointing and developing people within or outside the family.

Key-person risk is not only a problem in families, however. The UBS Global Family Office Report 2024 outlines that almost four in ten (39%) of established single family offices say that they are currently exposed to key-person risk. Despite this, only around a quarter (26%) have a succession plan in place for the family office to deal with risks such as continuity of staff and services.

Overspending. Like any well-managed company, the family should properly oversee, manage and anticipate its cashflows (income and spending). As family members spend money, you'll need to regularly review the sources of this cash and how it's spent.
Examples of events that can affect your family's income:

– The family business performing poorly over a certain period
– High inflation eating into your money's spending power
– Changes to tax law and other regulatory factors relating to the assets generating income

A growing family will have increasing spending needs. But even if the family doesn't grow, spiraling spending habits can quickly exceed income and erode assets. A clear longevity strategy can help counter this and ensure your family achieves its goals. A good wealth plan can also help your family understand how much they can spend.

Eroding wealth. Inflation is a measure of the changing costs of goods and services across an economy. Or to put it another way, it's about rising prices that erode the spending power of your family's wealth. Over the years and across generations, that spending power can diminish dramatically.

Inflation rates can help you forecast your future spending. But bear in mind that the services and goods wealthy families purchase are probably different from the goods and services economists use to calculate inflation. So don't just look at inflation. Consider how every family member's spending might rise. This will give you a better idea of the returns you'll need from your investments.

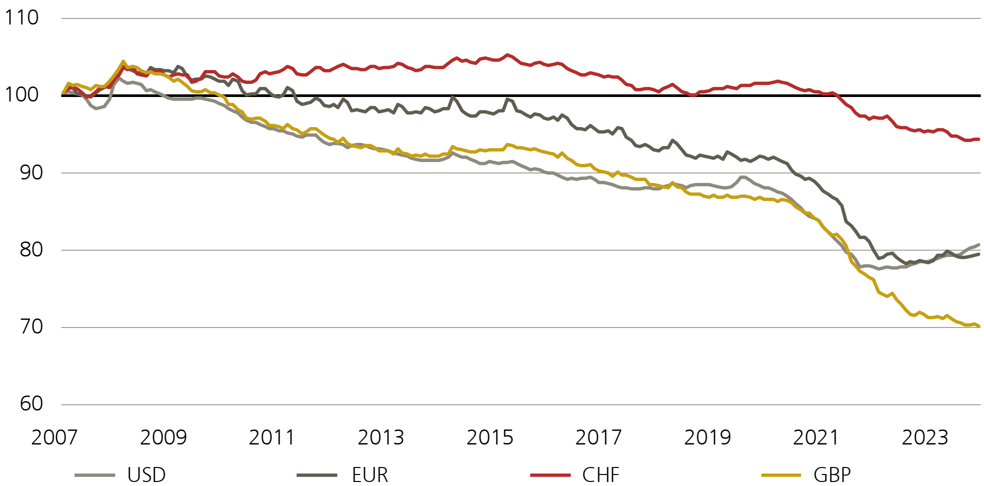


Fig 5: Purchasing power of money. Value of 100 adjusted for inflation (USD, EUR and CHF) since 2007
Source: Bloomberg, UBS, as of Oct 2024.

Investing approaches

It's a good idea to invest for your family. And there can be good reasons to invest with your family, as it grows from one generation to the next. You might even decide to invest separately from your family. Each approach comes with different pros and cons, which you'll need to weigh up. To help, here are some viewpoints to consider and discuss with your family members, financial advisors, and wealth planners.

Investing with your family

Economic and financial variables like inflation, devaluation, tax, and market performance can hit your family's finances hard. To make sure your growing family has the finances to sustain itself and maintain everyone's lifestyle, you may need to put your money to work by investing together for the long-term. Potential benefits include:

Accessing investment opportunities
When family members combine their capital, they create a larger pot of money that allows them to collectively access investment opportunities normally only available to institutions. This is especially true for alternative investments like private equity, which often require a minimum investment of at least USD 10 million. It's also true for venture capital, real estate, and hedge funds investment opportunities.

Diversifying more widely to spread risk
Investing collectively can give families more money to diversify their investments (and spread risk) across markets, industries and sectors – and often without needing to meet minimum investment levels. Generally speaking, diversifying helps ensure that if one investment devalues, others can maintain or grow their values, and hopefully cushion the impact.

Reducing costs
Investment companies typically charge lower fees on larger pools of money, which can make investing cheaper overall.

Investing alone

Again, you'll need to consider variables like inflation, devaluation, tax and market performance. These are the potential advantages of investing alone:

Tailoring investments exactly to your needs
When you're only investing for yourself, you only have yourself to consider (plus maybe your immediate family). So you can build a portfolio focused exactly and entirely on your needs, goals, preferences and timespans – relating to your "liquidity", "longevity" and "legacy" considerations (see page 20).

Making things simpler
There's no need to go through the time and possible stress of discussing processes, agreeing decisions, evolving your strategy, and managing expectations with your family or a family investment committee. If you're comfortable with everything, it's all systems go.

Combining both approaches

In some cases, families might want the best of both worlds, by keeping the wealth together but allowing individuals or groups to invest in their own way. This can be useful when family members have incompatible investing attitudes and goals. Here are two typical approaches.

A "family treasury"
The family agrees to put most of its financial assets into a long-term and low-risk investment portfolio. Typically, the money invested stays intact and only rises or falls in exceptional situations. Any growth is reinvested into the portfolio, either partially or fully, depending on the design of the portfolio and investment structure.

A "war chest"
Families may want access to funds to explore opportunities in short-term and high-risk investments. Such investments may focus on a particular sector or market, based on the family's expertise and experience in that area. The risks involved usually require close attention, e.g. strict due-diligence and frequent investment meetings.

A good family investment strategy and governance

To ensure that the family can achieve both long-term financial goals, while allowing for enough flexibility to seize opportunities, some families establish a "family fund" that includes a set of sub-funds. These are then dedicated for pre-defined purposes such as investing in higher-risk sectors or industries without jeopardizing the overall family investment strategy in case these investments turn sour.

Whatever approach your family chooses, you'll need a solid investment strategy to achieve your goals and quality governance to manage everything correctly. To avoid negative situations, wealth-owning family members (or the family office if there is one) should keep everyone up-to-date on the investments. In the above example of specialized sub-funds, it might be a good idea to report more frequently (e.g. quarterly) on how these investments develop to have a higher level of control and monitoring.

Additionally, good strategy and governance will help the family react calmly and thoughtfully should the investments not perform as expected.

For more on this, please see part 4 on page 74.

Your investment policy statement

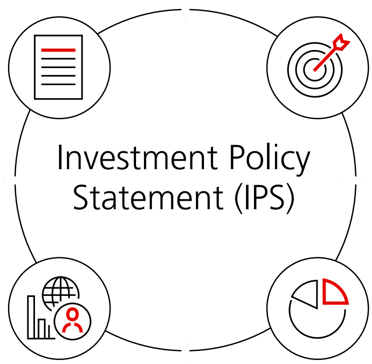
Once you and your family have considered the points covered so far, you'll need to create a document called an "investment policy statement" (IPS) sometime also referred to as the investment guidelines. This will be the foundation of your family investment strategy. The IPS should state your family's goals, financial situation, investment preferences and values.

Once in place, it will help:
– provide the basis for the reports your investment committee will use
– improve and support your investment decisions
– clarify your investment strategy for stakeholders
– increase the chances of achieving your investment goals
– Increase chances of long-term success
– improve operational transparency

Reasons for establishing an investment policy statement (IPS)

Guidelines
Providing clear guidelines for parties supporting your family (e.g. an investment committee), based on your expectations and risk profile

Focus
Focusing on your goals and ensuring access to support during changing market conditions



Goals
Defining goals to improve decisions on investment opportunities as they arise

Simplicity and structure
Organizing and clarifying even the most complex investment goals

Fig 6: Reasons for establishing an investment policy statement (IPS).

The following chapter describes the elements that would be held in an investment policy statement in more detail.

Part 2

Define

Core elements of your family investment strategy

Scope and purpose

What goes into a good investment policy statement (IPS)? The following pages provide an overview.

Context

Your IPS should start with a "context" section. This will provide a brief background on your family, for example, its origins and how it's evolved over time. It may also refer to your family's source of wealth, and events that led you to create a family investment strategy.

Example: Our family has built its wealth over three generations in the automotive industry. From humble origins, it built and expanded its business into a successful global network of companies. The fourth generation in our family decided to partially exit some of the business share ownerships and implement the financial assets within a new investment strategy.

Investors

The "investors" section clarifies the family members and legal or corporate entities that are investing. This will support stakeholders in their work, for example, knowing who to include in meetings, communications and reports, as well as decision making authorities.

Example: The stakeholders of our family investment strategy and related investment policy are all family members of the fourth generation across three branches, collectively striving to achieve long-term growth of the liquid family assets. Every branch is represented on the investment committee by one of its family members. All members of the investment committee are responsible to help balance the interests of their respective branch with those of the overall family.

Purpose and summary

The "purpose and summary" section provides an overview of the investment policy statement. It typically outlines your family's goals, investment preferences and values, and financial situation.

Example:

– Main investment goal: preserving real capital and distributing income
– Strategic asset allocation (SAA): this is expected to have the biggest impact on our investment portfolio's risks and returns
– Tactical asset allocation (TAA): this enables us to benefit from potential market dislocations (events that cause mispricing of assets) to generate additional returns and mitigate risks
– Implementation: we have an "open architecture" approach. This means we aim to have access to the widest-possible range of investment vehicles
– Investment architecture: we will rely on four financial institutions to execute the investments across the world. This will help diversify the jurisdictions where we book our assets, plus any relevant services adjunct to such locations such as legal and tax advice.
– Preferences and values: diversification is a key principle in our investment approach. We will diversify our investments in multiple ways, such as by asset class, risk levels, geographies and styles.
– Additional parameters: we may use leverage selectively to enhance returns without jeopardizing our overall risk-framework.

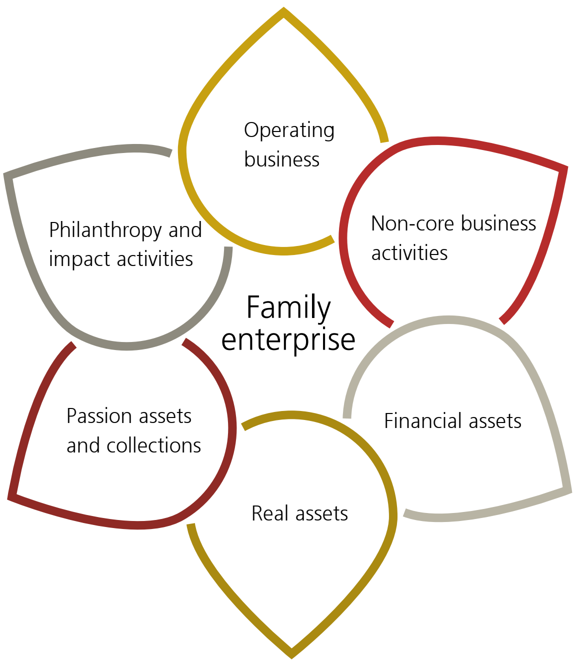
Assets overview

We recommend that families create and regularly update an "assets overview". This will feature information on everything within the family enterprise, for example, businesses, participations, financial assets, real estate, passion collections and philanthropy.

Why is an assets overview important?

- It allows you to quickly and easily remind yourself of your assets and how each contributes to achieving your goals.
- It helps you consider alternative ways to minimize risk and maximize returns. For example, you may spot that some assets are unnecessarily risky and not delivering the returns you expect. So you might seek to invest elsewhere.
- It helps you work out which assets to include in your more detailed family investment strategy and specifically your financial assets.

Untangling complex wealth



Bear in mind that your family's assets may have grown and spread out over time. For example, you might have pockets of assets in different jurisdictions worldwide. You may also find that different family members and partners manage those assets in an uncoordinated way.

It may also be difficult or complicated (and therefore costly) to track the value of certain assets where information related to them is not easily available, such as privately listed companies.

Asset review

To gain a clearer picture of your family's wealth, conduct a "transparency" exercise. For each asset, look at:

1. "quantitative" information (facts and figures) on areas such numbers/ quantities, current values etc.
2. "qualitative" information (descriptions of qualities and characteristics) such as who holds each asset, and who's responsible for decisions relating to them.

Fig 7: The family enterprise flower – elements of family wealth, UBS Global Wealth Management – Family Advisory, 2021. Model adapted based on John A. Davis 2013.

Total asset list

To make it more practical your family might first want to consolidate all their assets and their respective value in a comprehensive list. As a second step, you also might want to consider further expanding such a list in terms of specific quantities per asset type (e.g. individual pieces of the art collection) or additional information (e.g. where they are held – jurisdiction – and by whom in the family they are used – if applicable).

Having said that, you will need to consider the value add of collecting each piece of information and whether it helps you and your family to better manage the assets.

Please see the Appendix section for an example.

Financial assets list

Once you've worked out which elements of your family enterprise belong to your financial assets – the focus of this compass – (for example, equity, fixed income, hedge funds, private equity, commodities, cash and cash-based products), you'll need to capture more information on them. For example:

Your financial assets list will guide you to the investments required to achieve you family's goals. By the time you've set up your family investment strategy you'll probably find that your list is very different from the one you have initially set up.

Asset classes	**Approximate market value** (in USD)	**% of total assets**
US Equities	30,000,000	30%
European Equities	5,000,000	5%
Asian Equity	5,000,000	5%
US Fixed Income	40,000,000	40%
European Fixed Income	1,000,000	1%
Asian Fixed Income	1,000,000	1%
Hedge Funds	8,000,000	8%
Private Equity	4,000,000	4%
Commodities	1,000,000	1%
Cash and Cash Equivalents	5,000,000	5%
	100,000,000	**100%**

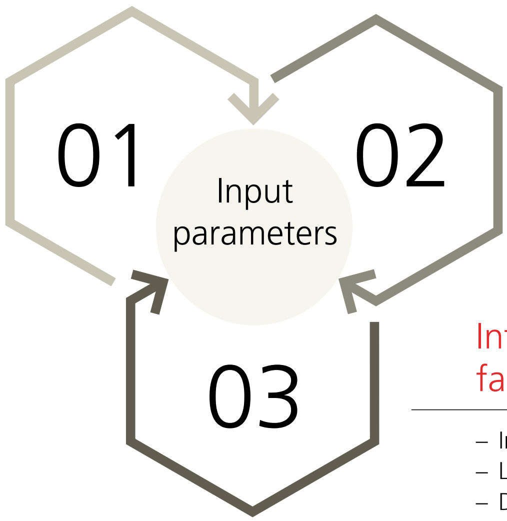
Input parameters

There are two important steps in defining the right investment policy statement and family investment strategy. The first is to define the input parameters of your planned investment portfolio. These are your preferences, investment objectives and other factors that will go into building your portfolio. The second step is to clarify the output parameters. These are the likely outcomes of your chosen input parameters.

You can list your input parameters under three headings:

Investment parameters

- Reference currency
- Portfolio objectives
- Return objectives



Time horizon and liquidity

- Time horizon
- Liquidity

Influencing factors

- Implementation
- Leverage
- Derivatives
- Tax

Fig 8: Investment policy design process – input parameters – UBS Great Wealth Advisory, 2024

Achieving the optimal portfolio

When creating any investment portfolio, there's always a need to balance risks, returns, liquidity and the portfolio's overall constraints. Here's how it works at UBS: if a family's focus is on achieving certain returns, we at UBS focus on balancing these objectives with the risks that may arise. Conversely, if the family puts risk first, we'll focus on how this perspective might influence the returns it receives.

It's vital that you define your family's goals, needs, preferences and attitudes to risk, as described in the previous chapter. When you come to defining your input and output parameters, you'll probably need to revisit your assumptions, then tweak and refine.

That's a good thing. Because families sometimes discover that the returns they expect will be almost impossible to achieve with the risks they are willing to take. Again, conversely, they may also find that their easy-going attitudes towards risk could jeopardize the likelihood of achieving their goals. So discuss and adapt as you go, and you'll be more likely to build a portfolio everyone's happy and comfortable with.

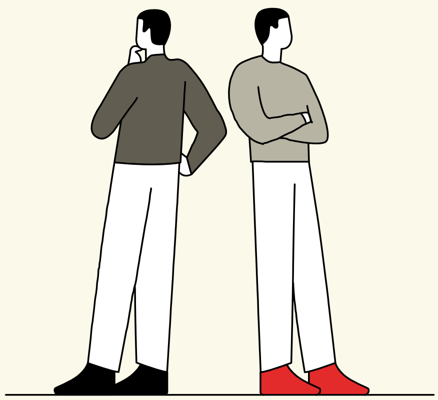
Personality influences approach

Two Swiss brothers inherited substantial assets from their parents. They agreed that keeping and managing the family wealth together would honor their parent's lifelong work and bring them various benefits.

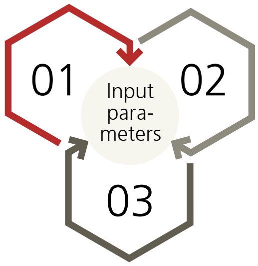
However, they struggled to agree on a unified investment approach. One brother kept insisting on a double-digit percentage return on investment. The other focused on the risks of investing, especially the time it might take for investments to recover in the event of a market-drop.

They realized how different their financial personalities were, but still, they remained determined to create a single investment strategy. They went through a series of sessions guided by UBS. In an iterative process they managed to weigh up the various parameters.

Eventually they found enough common ground to create an investment strategy with a return objective of 8%. Thanks to the reduction of risks corresponding to this objective, they were both confident that they could achieve their goal of keeping and managing the family's wealth together.



Investment parameters



This first step defines the foundations of your family investment strategy: reference currency, portfolio and return objectives.

Reference currency

The finances, businesses and liabilities of wealthy families are often spread across different countries. So you'll need to determine the best reference currency for your family's assets – plus the overall investment portfolio. This will help everyone understand and measure how their investments are performing. For example, you might choose a currency that most of your family uses when managing their money.

The following can also reveal the best reference currency for your investments:
– The currency in which most of your family's assets are denominated
– The family's main place of residence or center of living
– The currency of your main income streams
– The currency of your expenses and liabilities
– The currency of possible future investments

Points to bear in mind when working out your reference currency:
– Consider one currency in which the return of the portfolio will be measured
– You'll need a reference currency for each investment portfolio
– Some investments are only available in particular currencies, so you'll need to translate the figures into your chosen reference currency
– Additionally, consider the need to consolidate various performance reports into one. Do so by using a system that can do much of that work automatically, e.g. through automated data feeds)

Here are some common reference currencies. Which will you choose?

☐ USD
☐ EUR
☐ CHF
☐ CAN
☐ JPN

Other: ______________________

Portfolio objectives

No matter how many investment portfolios you plan to set up, you'll need to define one or more objectives for each. Your portfolio objectives might include:
- preserving the real value of the capital over multiple generations
- generating income to support the family's ongoing financial needs
- providing access to capital in case of adverse political or geopolitical risks.

Your objectives will guide investment managers when building your portfolio, helping them choose the right investments, timescales and risk parameters.
To really fine-tune your portfolio, you could also:
- separate your objectives into "primary" and "secondary" goals
- define your objectives as "short-term" or "long-term" to match your needs involving "liquidity", "longevity" and "legacy" (as described on page 20).

Planning to set up more than one investment portfolio? To reach your goals, you'll need to make sure they complement each other and work in harmony.

You should also consider how the portfolios complement your family's wider asset management (everything involved in looking after all your assets, not just the financial ones, such as real estate and passion collections).

Finally, write clear descriptions of your financial investment portfolio objectives. This will help you and your advisors know instantly what each portfolio is supposed to be doing.

What are your portfolio objectives?

Return objectives

Next, you'll need to establish your investments' return objectives – both in **relative** terms (compared to a benchmark) and **absolute** terms (the actual amount the investment has grown). These will usually be expressed as annual figures in the reference currencies of your investments.

There's a quick and easy formula for calculating the return on investments:
Current investment value minus the original investment value divided by the original investment value of the investment.

Simple enough. But to calculate more accurate return objectives, you'll also need to consider some other factors.

These include the "three Ts":
– **T**ransaction costs
– **T**ime to achieve the return objectives
– **T**axes

Plus:
– Inflation costs
– Opportunity costs (the cost of choosing an investment over another comparable option that performed better in the same timeframe)

These points are very critical, especially if you and your family need to ensure that a certain amount of liquidity is being generated out of the portfolio to cover your family's life expenses. This all aims to help you know what finances are available to you and plan your annual family budget.

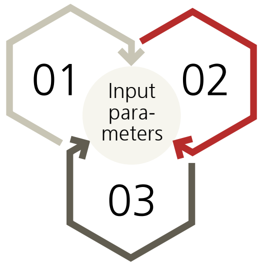
Depending on what that looks like and what other sources of liquidity are available to you, you might consider reinvesting some or all the available returns. If you find however that this calculation doesn't hold and the expected returns don't cover your liquidity needs you might have to either reconsider your spending habits and obligations, and the timeframe of your investments, or decide on riskier investments.

What are your return objectives given the investable assets available?

Total expected relative returns versus	**your family's liquidity needs**
☐ 0–2%	______________________
☐ 2–4%	______________________
☐ 4–6%	______________________
☐ 6–8%	______________________
Other: ______________	______________________

Input parameters

Time horizon and liquidity



The time horizon and liquidity are distinct parameters. But they're also linked to the time you'll need to stay invested to achieve your goals.

Time horizon

The time horizon aims at capturing the minimum time it will take to achieve the investment objectives. This will most likely go beyond the consideration of a certain percentage point, and instead aim at the overall achievement of the "why" behind the strategy.

Your investment policy statement should therefore state a time horizon. This will give you and your advisors a reminder of how long money can be "locked away" in an investment – and when it needs to be available again for other purposes.

But remember, the value of your investments will fluctuate over short periods. And you could still lose money, however long you invest.

Here are some examples of time horizon profiles:
1–5 years. This short time horizon generally subjects portfolios to volatility within one market cycle. Such portfolios should have reduced or low allocations in assets with typically high volatility (and potentially higher returns).

5–10 years. This intermediate timeframe enables investors to accept more risk and volatility. That's because such portfolios run for longer than one market cycle.

Over 10 years. This longer timeframe generally exposes the portfolio to the volatility of several market cycles. This can give investors the room to aim for higher returns by allocating more to assets with typically high volatility (and potentially higher returns).

?

What's your time horizon profile for each portfolio?

- ☐ Less than 5 years
- ☐ 5–10 years
- ☐ 10–15 years
- ☐ 25–50 years
- ☐ Several generations

Liquidity

As we've seen earlier, the term "liquidity requirements" refers to the readily available money your family will need to cover spending. For example, every year, a family might need 2% of its investable assets to meet living expenses.

In the context of the IPS, however, "liquidity" relates to how long it takes one investment (or the entire portfolio) to "liquidize" its assets (turn its assets into cash). If it takes a relatively long time, the investment is known to have a "low" liquidity profile. Or if it's a short time, it's said to have a "high" liquidity profile.

Publicly traded assets can often convert rapidly into cash, so they have a high liquidity profile. This is because they're available to many potential buyers on accessible markets.

But other assets may have a low liquidity profile. For example:
- Some assets (such as real estate) are relatively complicated to purchase, so buyers need more time to assess them.
- Shareholdings in companies not listed on public stock markets are less accessible to potential buyers. It's also trickier for investors to find information on the companies, which can delay the process.
- Complex assets (such as pre-IPO shares or patents) in various jurisdictions with different legal requirements for transferring ownership can pose a challenge with regards to liquidizing them.

It's particularly important to understand liquidity profiles if you have upcoming obligations to meet. For example, you may have to plan for the payment of the next tranche of several million USD for an existing private equity holding.

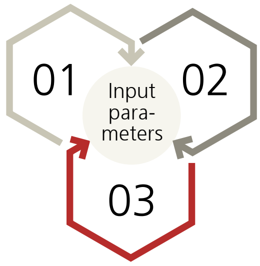
What's your liquidity profile for each investment portfolio?

☐ T+3*
☐ 3 months
☐ 6 months
☐ 1–3 years
☐ Over 3 years

* T is the date of the actual trade, plus (in this example) three working days until the money is available in your account.

Input parameters

Influencing factors



Four influencing factors will shape your family investment strategy: implementation, leverage, derivatives and tax.

Implementation

Implementation refers to the types of assets you prefer to invest in and the assets you want to exclude. Your choices will reflect the goals of your family investment strategy.

Stating these in your investment policy statement will help your family and advisors pick the right investment opportunities.

For example, you may want:
- an investment portfolio focused on delivering "alpha" (an ability to perform better than the market)
- an actively managed investment rather than a passive investment (which tend to follow the overall developments in a certain market, such as an exchange trade fund (ETF) mirroring an index like the S&P 500)
- a portfolio with assets that reflect your views. For example, based on your family's agreed values, you might wish to exclude assets from certain sectors and geographies. An example of this is excluding companies with sales of 5% or more from alcohol, weapons, tobacco and adult entertainment.
- assets that meet criteria on environmental, social, or governance (ESG) factors, often labelled as sustainable investing (SI). This involves:
  - understanding how companies handle ESG-related risks in their strategy and operations
  - assessing how a company might be changing for the better in ESG areas.

What will your implementation strategy be?

☐ Passive investments
☐ Active managers
☐ Excluding certain sectors or geographies
☐ Sustainable Investing (SI) focus

Leverage

Leverage involves obtaining a loan against an investment portfolio. Investors then invest the borrowed money in order to, for example:
– access liquidity
– enhance returns
– mitigate risk

However, there are risks, particularly when interest rates go up or the values of the assets that serve as collateral go down. And if markets fall, you might lose the money you invested.

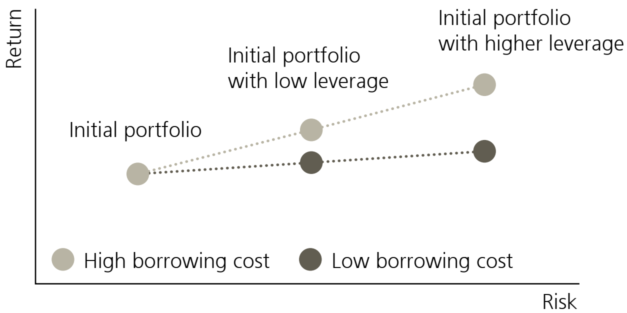


Fig 9: How leverage changes a portfolio's risk-return characteristics
Source: Investing with UBS Wealth Management, 2024, UBS Global Wealth Management, Chief Investment Office

Because leverage can be risky and complex, it's important to consult with everyone involved in your family's wealth and investments:
– Discuss and agree the reasons for taking a loan
– Consider how the loan might affect risks to your investment portfolio and the returns you expect
– Consider the potential benefits to your portfolio
– Calculate the right level of leverage in your portfolio, to ensure you borrow an appropriate amount

Will you allow the use of leverage?

☐ Yes ☐ No

If yes, for what purpose and to what extent?

Derivatives

A derivative is an investment security with a price that is dependent upon or derived from one or more underlying assets. Changes in the prices of the underlying assets determine the value of the derivative. Common underlying assets include equities, bonds, commodities, currencies, interest rates and market indexes.

Investors commonly use derivatives to:
– access opportunities in certain markets
– manage and mitigate risk (hedging)
– accept higher risks with the expectation of increased returns (speculating).

Before investing in derivatives, make sure your family understands how they work, and the risks and potential rewards involved. This will help you decide whether to use them in your family investment strategy. For more information about derivatives, please reach out to your trusted investment advisor.

Are derivatives relevant for your investment strategy?

Tax

Tax considerations can play a big role in shaping your investment decisions. For example, how and where an asset is held (its structure and jurisdiction) will affect how it's taxed. And in turn will also influence the tax positions of the beneficial owners of assets.

Tax situations are unique to every family. So we strongly recommend that families consult with their tax advisors on the implications of investing individually or collectively across portfolios.

Areas for consideration could include:
– Tax implications at the level of the structure holding the assets
– Tax implications at the level of the beneficial owner (BO), for example UK residents non-domiciled (RND) status, US persons, etc.
– Documenting any relevant information and plans to restructure your family's assets in order to help in your discussions with tax advisors.

What topics will be relevant for you?

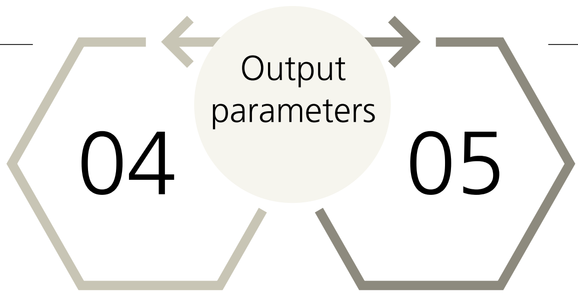
Output parameters

Your output parameters are the likely outcomes arising from your chosen input parameters. A high-level of understanding with regards to your family's return objectives, time horizon, liquidity needs and other influencing factors discussed above allows your family to consider the risk it is comfortable to take and arrive at an asset allocation that fits your family's strategy.

You can list your output parameters under two headings:

Risk considerations

- Volatility
- Drawdowns
- Time under water
- Shortfall risk



Asset allocation

Minimum and maximum allocation for each asset class

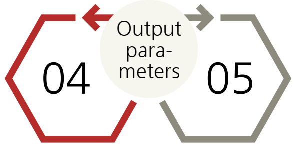
Remember …

You'll typically need to revisit your output parameters a few times to ensure everyone is happy with them. It is an iterative process. It's also a good idea to involve investment specialists to make sure you're not overlooking anything.

Fig 10: Investment policy design process – output parameters – UBS Great Wealth Advisory, 2024

Output parameters

Risk parameters



Risk parameters consider the consequences of your input parameter choices. Knowing them will help you refine your family investment strategy and ensure everyone feels comfortable with the portfolio.

Volatility

Volatility measures the variability of investment returns. Put simply, it shows how much an investment's return changes over a certain period. Investments with "low" volatility are considered less risky, and vice versa.

The measure doesn't distinguish between rises and falls in investment values and typically underestimates extreme changes in markets.

The graph shows five portfolios with a higher (red line) or lower (dark to light-gray lines) portion of equities. It illustrates that equities tend to experience higher volatility over time. So portfolios with more equities are likely to see higher volatility than those without.

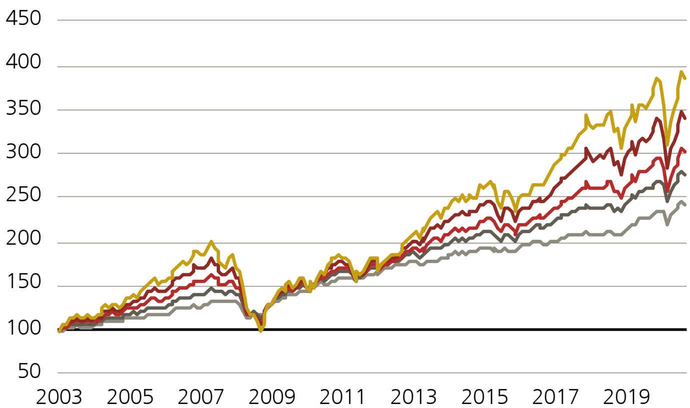


Fig 11: Source: QIS and UBS CIO GWM as of 30.07.21.
Historic data: Monthly data, 30.01.03 – 30.09.20.

How much volatility are you comfortable with in your portfolio?

Drawdowns

A drawdown refers to the biggest loss an investor would have experienced if they had invested when assets were at their most expensive – and then sold them when their value hit rock bottom. The measure often links with the "time under water" measure (see next page).

Drawdowns occur in many assets, even high quality ones. But they don't necessarily result in losing money. This will only happen if:

– you need to sell the investment during the drawdown, for example, because your family needs more spending money.
– the investment doesn't recover its value, for example, because it wasn't a great investment in the first place (bad wine doesn't improve with age).

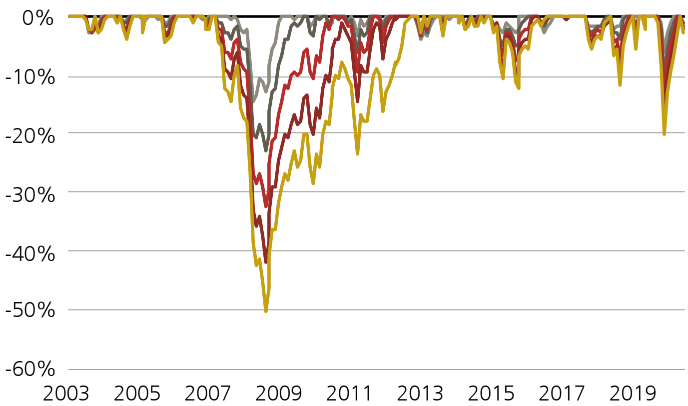


Fig 12: Simulated historical drawdowns in dependence of equity portion in portfolios. Red line has highest portion of equity in the portfolio while light grey has the lowest portion of equity in the portfolio.

Source: QIS and UBS CIO GWM as of 30.07.21.
Historic data: Monthly data, 30.01.03 – 30.09.20.

At which historical drawdown level would you still feel comfortable?

☐ Less than 5%
☐ 5–10%
☐ 10–20%
☐ 20–30%
☐ More than 30%

Time under water

"Time under water" is the time it takes a portfolio's diminished value to climb back to its previous high. The calculation is the length of time a drawdown lasted plus the time it took to return to the value just before the drawdown.

It's important to consider how comfortable you feel with certain recovery times.

For example, you might not worry if your portfolio drops up to 20% in a single year. But it might be a different story if you discovered the time under water could be anything from five to ten years.

What time under water are you comfortable with?

- ☐ Less than 3 months
- ☐ 3–6 months
- ☐ 6–12 months
- ☐ More than 12 months

Shortfall risk

This is the risk that an investment falls short of its investment goal. For example, you might fail to preserve your wealth because the returns from your investment portfolio are too low.

The shortfall risk (shown as a percentage) can help you work out whether an investment is likely to reach your goals.

It can also help ensure your wealth doesn't fall below a certain amount. This is especially relevant for families expecting to receive a regular income from their portfolios.

One downside of the measure is that it can result in investors only focusing on an investment's negatives, not its positives. For example, two investments may have a similar shortfall risk, but one might have more potential to deliver bigger returns.

What shortfall risk are you comfortable with?

- ☐ Over 90%
- ☐ 80–90%
- ☐ 75–80%
- ☐ 50–75%

Output parameters

Asset allocation

A well-designed investment portfolio will typically combine strategic asset allocation, tactical asset allocation, and your choice of individual investments.

Strategic asset allocation

The strategic asset allocation (SAA) is the translation of the various parameters discussed into an actual portfolio. It works to give your investments an optimal combination of asset classes to achieve your family's financial objectives in the long-term.

An SAA often seeks to achieve its targets within 10 to 15 years. These targets are based on your family's goals, plus the characteristics and attractiveness of major asset classes. Once your SAA is in place, you should add information on each asset class to your investment policy statement, including:
- the purpose of investing in the asset class
- specific allocations to each asset class
- any investment themes, (e.g. Bio-Tech, Artificial Intelligence) your family prefers.

Remember …

Your strategic asset allocation is the final output step in the process of defining your family's IPS. It's there to guide your long-term investment activities and should only be changed in the event that market circumstances have fundamentally changed.

At UBS, we typically follow these steps to create SAAs for families:

1. Define a group of asset classes that reflects a wide range of risk and return characteristics, the so-called investment universe. Questions we ask include: are there any restrictions we should consider? And are there any risk and return implications or specific goals for each asset class? At UBS, we only work with asset classes that offer:
   - a "risk premium" (a return that acts as a form of compensation for investors who have taken the extra risk)
   - opportunities to hedge risk (reducing risk by owning assets that aim for opposing outcomes)
2. Analyze and forecast the long-term risk and return outlook for each asset class.
3. Understand all the factors about the family that pertain to its investment choices. For example, are there restrictions on investing in certain assets? Do hedge funds and illiquid assets fit with the family's needs, goals and risk profile? Are there restrictions on investing in currencies?
4. Construct the investment portfolio that fits the family: one that's diverse and has a favorable expected return for a certain level of risk. In other words: do the portfolio's risk and return goals match its asset allocation?

Note: Asset Allocation does not guarantee a profit or protect against a loss in a declining financial market.

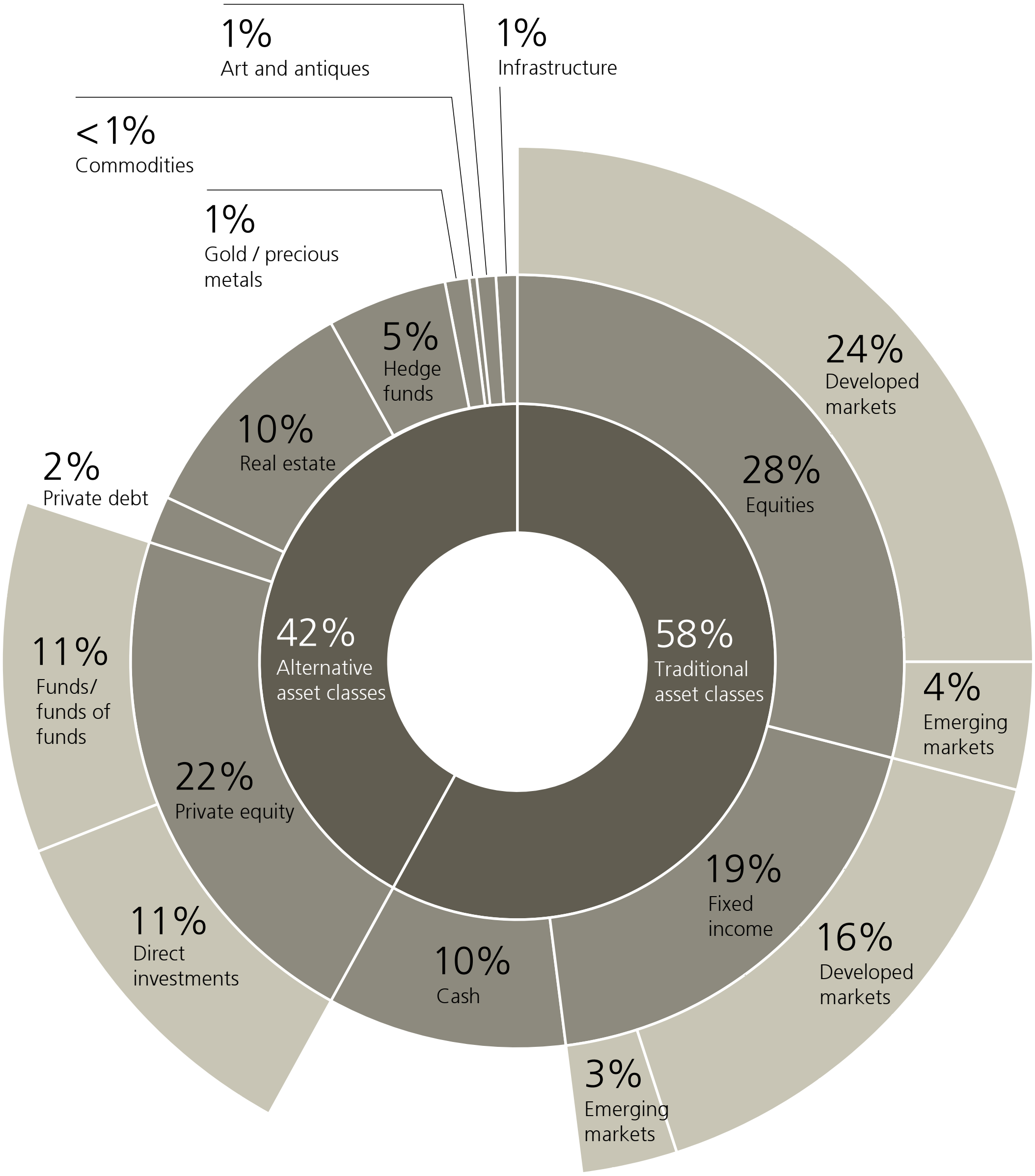
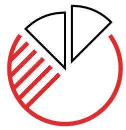
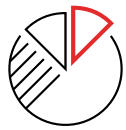
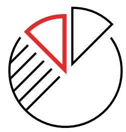


Fig 13: Example of a strategic asset allocation. For illustrative purposes only. Source: UBS GFO Report 2024, UBS Evidence Lab. based on client survey. Where the data total does not precisely match the related asset %, this is because we have added the figures together to two decimal places, which can result in slight variations to the figures when rounded. Asset Allocation does not guarantee a profit or protect against a loss in a declining financial market.

The impact of your SAA

The SAA aims to be the optimal combination of asset classes to reach your financial objectives in the long-term. It’s based on factors such as risk tolerance, time horizon, and investment objectives. The SAA therefore usually has by far the biggest impact and is the main contributor to the directional performance.

Concept	Why it matters	How that benefits you	Performance contribution
Strategic asset allocation (SAA)	Market timing Picking the best asset class every year is impossible	Focus on more reliable longer term market trends	Main 
	Emotions Emotions lead to hasty decisions	Systematic approach minimizes behavioral bias	
	Diversification Investors often focus on single asset classes only	Diversifying asset exposure improves your return outlook for a given level of risk	
Tactical asset allocation (TAA)	Market dislocation Markets have a tendency overreact to events	Ability to take advantage of short-term opportunities	Additional 
Instrument choice (Single securities, derivatives, funds, etc.)			Additional 

We will discuss the tactical asset allocation (TAA) as part of Chapter 3 ‘Establish – implementing your family investments’.

Fig 14: Contribution of a strategic asset allocation to the overall performance of an investment portfolio. Asset Allocation does not guarantee a profit or protect against a loss in a declining financial market.

Minimum and maximum allocation and benchmarks for each asset class

Bear in mind that there's no such thing as an "ideal" asset allocation. Therefore, constellation of an allocation table should be tailored according to your specific needs.

Additionally, benchmarks are useful references for checking and comparing how your investments are performing. You should choose benchmarks that relate closely to your family investment strategy. Here are some examples of benchmarks across different asset classes.

Asset class	**Proxy Benchmark**	**Neutral**	**Min**	**Max**
Liquidity		5.00%	2.00%	10.00%
Cash USD	FTSE USD Euro Deposits 3M	5.00%	2.00%	10.00%
Comment/rationale: The most liquid investments, from simple cash holdings to short-term (<12mths) loan-type instruments				
Bonds		23.00%	19.00%	27.00%
USD high grade bonds 1-5 years	Bloomberg Eurodollar AA+ 1-5y	1.60%	1.50%	1.70%
USD high grade bonds 5-10 years	Bloomberg Eurodollar AA+ 5-10y	6.40%	5.40%	7.40%
USD inflation linked bonds	Bloomberg US Govt Inflkd 1-10y	3.00%	2.60%	3.40%
USD corporate interm. bonds (IG)	Bloomberg US Intermediate Corporate	5.00%	4.30%	5.70%
USD high-yield bonds	ICE BofA US High Yield Master II Constrained	1.20%	0.80%	1.60%
EUR high-yield bonds	ICE BofA Euro HY Constrained	0.80%	0.60%	1.00%
EM sovereign bonds (USD)	JPM EMBI Global Diversified	3.00%	2.10%	3.90%
EM corporate bonds (USD)	JPM CEMBI Diversified	2.00%	1.40%	2.60%
Comment/rationale: Fixed Income investments are a form of lending characterized by periodic interest payments and the repayment of principal by a pre-defined maturity date				
Equities		32.00%	16.00%	48.00%
Equities AC World	MSCI AC World	3.00%	1.60%	4.40%
US	MSCI USA	15.00%	7.60%	22.40%
Eurozone	MSCI EMU	5.00%	2.30%	7.70%
UK	MSCI United Kingdom	3.00%	1.60%	4.40%
Switzerland	MSCI Switzerland	2.00%	1.20%	2.80%
EM	MSCI Emerging Markets	4.00%	1.60%	6.40%
Comment/rationale: By owning a stock, one has an ownership stake in a company. It is a claim on the company's assets and earnings. Generally, also confers the right to vote				

The definition of the minimum or maximum bandwidths allows you to operate without being in constant breach of your target allocation. It often also goes hand in hand with the desired activity level related to your tactical asset allocation (TAA). For example, you can set tighter ranges if more frequent rebalancing is desired to stay aligned with the defined SAA; alternatively, wider ranges are set if higher levels of TAA are desired.

Asset class	**Proxy Benchmark**	**Neutral**	**Min**	**Max**
Active Strategies		10.00%	8.00%	12.00%
Hedge Funds [ESP HF]	HFRI fund weighted composite	7.00%	5.60%	8.40%
Risk Parity	HFR Risk Parity Vol 10 Index	3.00%	2.10%	3.90%
Comment/rationale: Actively managed strategies which invest in different asset classes through different instruments with the aim of generating absolute returns.				
Private Market Income		15.00%	12.00%	18.00%
Private RE [Core]	GREFI open end	3.00%	2.50%	3.50%
Private RE [Value add/Opp]	Cambridge Real Estate	0.75%	0.50%	1.00%
Real Estate [global infrastructure]	Cambridge Infrastructure	3.75%	2.80%	4.70%
Private debt	Cliffwater Direct Lending Index	7.50%	5.90%	9.10%
Comment/rationale: – investments related to ownership of physical property and the rental income from it – Infrastructure investing provides financing to build, purchase or upgrade tangible assets – Privately traded debt investments in listed or unlisted business				
Private Market Capital Appreciation		15.00%	9.00%	21.00%
Private equity	Cambridge Global Private Equity	15.00%	9.00%	21.00%
Comment/rationale: Pooled vehicles or direct investments, targeting long-term equity investments in unlisted companies / assets.				
	Total	**100.00%**		

Stop-off

With the above we've discussed the core elements of a family's investment policy statement. As you might have seen, there is a fair amount of complexity within the design phase. Next we'll be looking into different aspects of implementing the strategy.

Part 3

Establish

Implementing your family investment strategy

Capturing opportunities – Tactical asset allocation

Your strategic asset allocation (SAA) represents the main route for reaching your financial goals. But if a handy shortcut appears along the way, a tactical asset allocation (TAA) lets you diverge from the route and take the shortcut for as long as it benefits your journey.

In other words, a TAA enables you to temporarily move away from your SAA to capitalize on market changes and, ideally, improve your risk-adjusted returns of the portfolio over time.

For example, there might be an opportunity to purchase undervalued assets or protect your portfolio from volatility. The investment portfolio manager would actively adjust a portfolio's asset allocation for a short time, such as six to twelve months. Once the TAA has done its work, the manager goes back to the SAA.

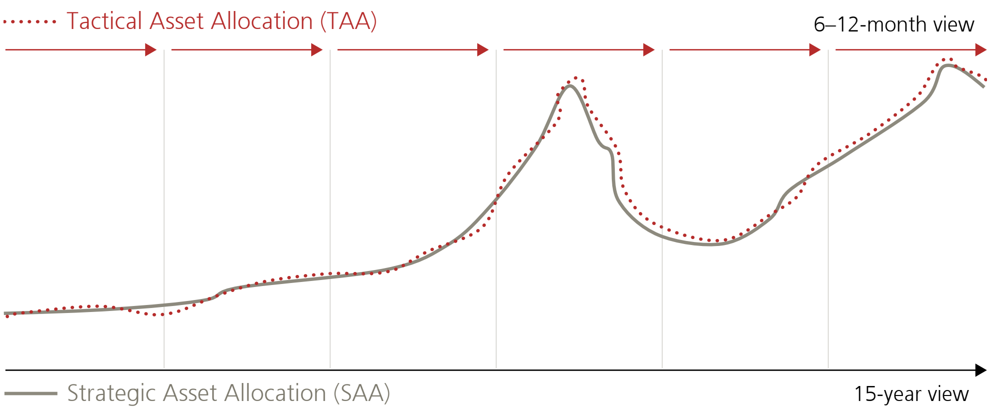


Fig 15: TAA deviation from SAA. UBS Chief Investment Office

TAA considerations

In which asset class and for how long might you implement a TAA? There are both quantitative and qualitative factors that would inform these decisions.

Analysis of quantitative and qualitative factors

Quantitative
This involves assessing past information (countable or measurable), typically by using mathematical and statistical models to better understand market and asset class behavior. It provides an unbiased assessment of where markets should be headed based on past experience.

Quantitative analysis is generally based on key drivers of short-term market dynamics such as behavioral biases (greed, fear and herding behaviors) and fundamental economic dynamics, which can be measured through business cycle indicators, market sentiment (momentum) dynamics, and, to a lesser extent, valuation.

As you can probably sense, this is not a small task. At UBS our professionals at the Chief Investment Office put in a lot of time and effort to get this as right as possible.

Qualitative
The qualitative analysis is additionally applied to create the tactical positioning. Here the aim is to capture non-quantifiable elements of the global financial environment and to define likely relative and absolute returns of individual asset classes. While quantitative modelling delivers a set of numerical scores, all results are challenged by qualitative analysis, which may overrule a quantitative assessment and provides guidance to the ultimate TAA position.

Avoiding excessive risks

In addition to quantitative and qualitative aspects, you need to ensure that the TAA won't result in your investment portfolio exceeding its agreed overall risk level. And eventually, you must come to a decision on the mix between asset classes and within asset classes.

To achieve this, investment managers consider three perspectives:

1. **Risk-on / risk-off decision:** should we increase or decrease the portfolio's overall risk?
   Example: overweight risky assets (high-yield bonds) versus less risky assets (treasury bonds)
2. **Inter-asset class decision:** what optimal mix of asset classes would allow us to capture short-term opportunities within the portfolio's overall risk level? For example, what's the optimal asset class for taking more risk – US high-yield, US equity or emerging market bonds?
3. **Intra-asset class decision:** within each asset class, which assets should we focus on? For example, within the asset class "equities", should we focus on overweight US or European assets?

Important: given the shorter-term focus and the more opportunistic nature of the TAA, an investment manager will have to monitor such positions with a higher frequency (usually monthly) compared to those related to the strategic asset allocation.

An example

An investment manager might decide to temporarily allocate more than usual (going overweight) to equities, and less (going underweight) to bonds. This means that, for a short time, the family's investment portfolio would hold more equities than the amounts prescribed in the SAA.

But this doesn't mean all equity types would be overweight. Some might have more allocation, others less. The same is true for bonds. Plus, you might need to consider allocations in different currencies. The illustration shows how diverse TAAs within assets can be.

	Attractive	Neutral	Unattractive
Equities	+		
Regions			
United States	+		
Europe		■	
Eurozone		■	
Switzerland		■	
United Kingdom		■	
Asia ex Japan	+		
Mainland China		■	
India	+		
Taiwan	+		
Japan		■	
Transformational ideas			
AI	+		
Tactical ideas			
Reshoring & infrastructure	+		
Quality	+		
Small and midcaps (EMU)	+		
Commodities		■	
Oil	+		
Gold	+		

	Attractive	Neutral	Unattractive
Sectors			
Comm Services (US)	+		
Cons Discretionary (US)	+		
Technology (US, EUR)	+		
Utilities (US, EUR)	+		
Financials (US)	+		
Consumer staples (EUR)	+		
Bonds		■	
High grade		■	
Investment grade	+		
High-yield		■	
Emerging markets		■	
Foreign exchange			
USD			–
EUR	+		
JPY		■	
GBP	+		
CHF	+		
AUD	+		
CNY			–

+ **Attractive:** We consider this asset class to be attractive. Consider opportunities in this asset class.
■ **Neutral:** We do not expect outsized returns or losses. Hold longer-term exposure.
– **Unattractive:** We consider this asset class to be unattractive. Consider alternative opportunities.

Fig 16: Illustration of a tactical asset allocation, UBS Global Wealth Management, Chief Investment Office 2024

Seek advice before you act

Making the most of short-term market changes – and managing and measuring them – requires insight and skill. Get it right, and you'll give your investment portfolio every opportunity to grow. But get it wrong, and your portfolio could drift away from your goals much faster than you'd anticipate. So before implementing a TAA, it's a good idea to discuss your ideas with investment advisors and professionals for instance from your bank's Chief Investment Office. This will help make sure you're on the right track.

Implementation strategy

Once you've defined your strategic asset allocation (SAA), you'll need to work out your "implementation strategy": the process of setting up your family's investment portfolio. A big part of this involves deciding how much you'll invest and when, meaning the time it takes to invest larger amounts of money into the market and the time it should take to shift between markets.

"Phasing in" versus "all at once"

Perhaps you're considering a strategy of regularly investing smaller amounts (phasing in). Or maybe you're considering investing a large lump sum ("all at once") – for example, because you're anticipating selling your company or a stake in a business, which would free up significant liquidity.

If you've invested, and markets are rising, that's good news. But if you're yet to invest because you're waiting for markets to fall, that can be frustrating. It can be expensive too, because you're holding on to money that could otherwise grow in investments.

Of course, no one invests expecting their money to grow in a straight line. Losses are relatively common. But equally, no one wants to invest their money only for it to be immediately hit by a drawdown (for more on drawdowns, see page 48).

It's important to find middle ground between missing out on a rising market and opening yourself to the risk of bad timing.

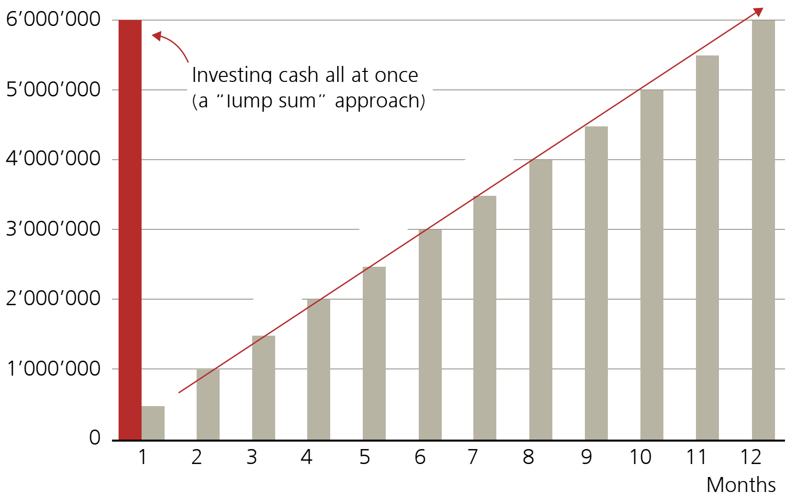


Fig 17: Investor phasing 1/12 of the cash into the market every month for 12 months

Which approach is better? Phasing in or all at once?

It depends – especially on the asset class you're investing in. All at once lump sums tend to perform better than phasing in strategies. For a 100% equity investment, an all at once approach would have outperformed a 12-month phase-in around **70%** of the time, with an average out performance of **3.7%**.

That's why we recommend an all at once approach for smaller amounts. This is especially true for more balanced and diversified portfolios, where losses are rarer and typically short-lived.

However, the risks are different for large lump sum deposits. When deposits are fewer and staggered the risk of bad timing increases.

Source: Morningstar Direct, UBS, as of 31 March 2023.

Ways to enhance the value of a phase-in strategy

1. Put bonds to work with a lump sum – only phase-in cash into equities.
2. Stick with your phase-in plan – we recommend phasing cash into the market over 12 months.
3. Accelerate your phase-in after a 5% or 10% market sell-off.
4. Consider strategies such as structured investments and options like "call buying" and "put writing", which can protect investors from the opportunity cost of phasing into the market.

Shifting focus – your investment road map

At first, the assets of family investment portfolios often focus on local markets that are familiar to the family. However, over time, the investment focus starts shifting onto global markets and families aim to adjust their allocations more in favor of international markets.

There are various reasons for this. For example, families want to diversify their portfolios because they're considering current or possible future geopolitical situations. Or the family and its business might have expanded globally, so family members feel more familiar with global markets and therefore more comfortable investing internationally.

To execute the change in allocation families typically follow an "investment road map" that gradually shifts their asset allocations from local to global. In the illustration below, the family aimed to reduce its local investments from 86% to 50%, while increasing its international investments from 14% to 50% over 10 years.

The road map provides helpful guidance on how to specifically execute the shift. It therefore allows for good monitoring, while still providing enough flexibility over a long period of time to adapt in case the underlying assumptions alter significantly. Naturally, the timescales of investment road maps depend on the family's needs and situations.

Once executed, the family will have reached the point where their final asset allocation will develop its full impact.

Alongside an investment road map, families should also have a detailed "asset class plan" – showing how the portfolio's assets will be reallocated across asset classes.

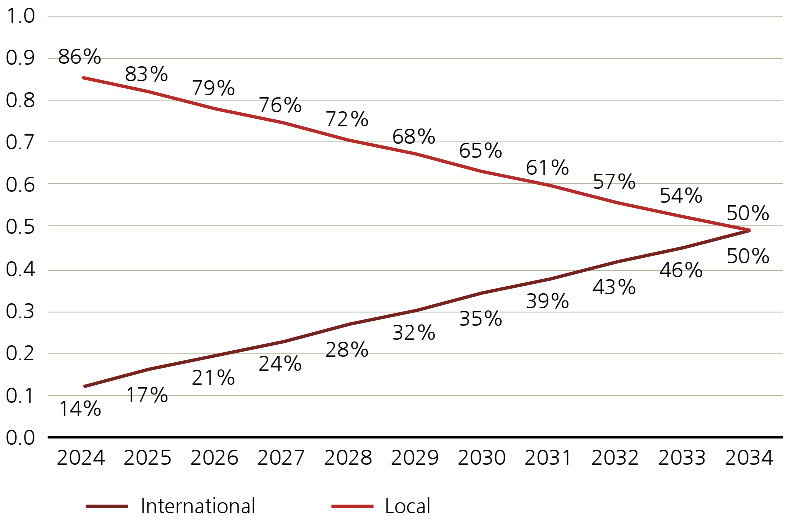


Fig 18: Example investment road map shifting from local to international markets

Selecting instruments and managers

You've planned your way to this crucial stage in the journey. And after all the strategizing and planning you eventually will have to decide which specific investment vehicles or instruments will populate your portfolio in line with the criteria you have defined in your IPS and for your strategic asset allocation (SAA).

In this section we look at investment choices but also at the inherent complexities related to the process of selecting them. Depending on your family's background, experience and skills, selecting instruments and managers and related managers might be something completely out of your comfort zone. Even with a fair amount of experience and knowledge you're well advised to involve specialists from asset managers or banks to lift some or all the burden around this.

Direct investments in equities and bonds

Single stocks attract a lot of media coverage. Investing in them can be interesting and even exciting given that we often directly relate to their products, services and brands. Single bonds are less in the media spotlight, but equally worthy of consideration.

Before investing in equities and bonds, you'll need to make sure they complement your portfolio and goals. Plus, analyzing them can be complex and time-consuming because there's a world of choices as illustrated by the steps for choosing them below. You'll find this can become quite a task, especially on an ongoing basis. So it's definitely worth seeking advice from investment specialists.

You can't know them all

The head of a family in Hong Kong was heavily invested in the local stock market. As an established entrepreneur he knew and had access to the owners of many of the businesses that were listed on the exchange. This gave him great confidence in his investment decisions.

While successful, he was challenged by his sons to overcome his home bias and consider a much more globally diversified investment strategy. His next generation wanted to benefit from opportunities in other markets, while diversifying risks.

Initially he kept refusing, arguing that he doesn't know the companies and the entrepreneurs behind the investments. Eventually, however, he changed his mind, guided by UBS market specialists providing him with the answers he needed to make investment decisions on a regular basis.

Steps for choosing direct equity investments

Filter process
- Screening of the investment universe
- Stocks with insufficient liquidity / size are filtered out
- Stocks with too much risk are excluded

Selection process
Securities with attractive valuation, positive momentum and sound corporate structure are selected

Due-diligence
Determination of fair value by
- consulting public disclosure forms
- conducting interviews with management and investor relations
- comparing them with similar companies (peer group analysis)

Portfolio engineering
- Portfolios are constructed from stocks that passed the previous steps
- During the construction process performance and risk constraints are taken into account

Thorough risk management
Risks are monitored both on a portfolio and single stock level

Your portfolio

Steps for choosing direct bond investments

Client needs | Research | Quantitative analysis | Market analysis

Portfolio engineering

Top-down	Bottom-up
Credit risk allocation	Issuer evaluation
Yield curve positioning	Diversification by market structure
Duration management	Security selection

Risk analysis and management

Your portfolio

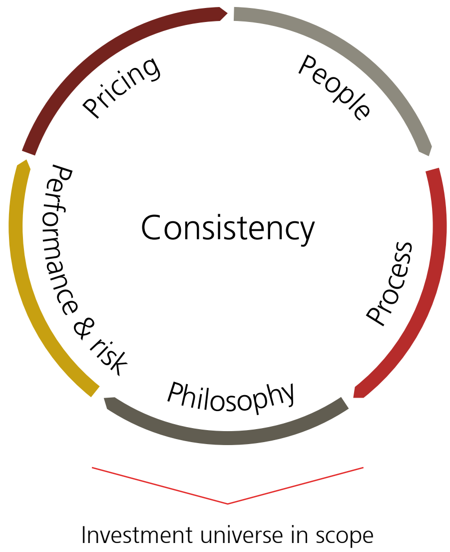
Choosing the right funds

The world of funds is equally full of choices and therefore complex. In addition to the actual investment vehicles, additional dimensions come into play that should be consistently aligned. You need to look at the people who manage the funds, the processes they apply, the philosophy they follow, to-date performance and involved risks, as well as pricing.

This requires both a quantitative and qualitative assessment – as illustrated below – to get to that part of the vast fund universe, which fits the guidelines of your SAA.

Steps for choosing funds

Quantitative assessment …
Focus on asset and performance monitoring
- Minimum size, liquidity and track record
- Return, risk and consistency analysis
- Liquidity and concentration risk
- Peer comparison
- Style analysis



Qualitative assessment …
Focus on people, investment process, philosophy
- Questionnaire, request for proposal
- Manager interviews, on-site visits
- Extensive analysis of investment process, including research, portfolio construction, trading and risk

Remember …

To maximize opportunities, investors can choose an "open architecture" approach. This provides a huge choice of over 60,000 funds and around 50 leading investment managers.

Selecting exchange-traded funds

Exchange-traded funds (ETFs) are passively managed investment funds, which are traded on an exchange like individual stocks. The key characteristic is that they are designed to track things from commodities all the way to entire indices of a global stock market, like the S&P 500. Here, too, the challenge is to select the right ones given that there are thousands of ETFs available. So, it’s easy to lose sight of the wood for the trees.

Therefore, checking whether an ETF fits your investment strategy and portfolio is critical. This however involves a different assessment approach compared to the selection of e.g. a single stock.

Below are the three main steps to take when selecting an ETF:

Step 1
Assessing attributes

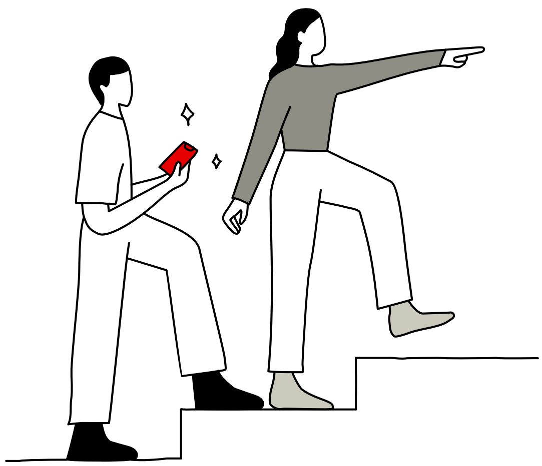
- Index constellation concentration risks and style risk (the ETF being in line with the overall strategy).
- Accuracy of index replication and tracking of the index
- Issuer or counterparty risk
- Liquidity

Step 2
Implementation

- Selection of ETFs to cover different asset classes within the portfolio

Step 3
Monitoring

- Ongoing monitoring of tracking, costs, risks, liquidity and trading aspects, including market and peer reviews, is part of the oversight



Alternatives

Alternatives are investments that are different to traditional assets like equities and bonds. They offer investors a broader range of opportunities. Alternatives are often relatively illiquid and require you to invest over longer timescales. However, they can also give you access to investment opportunities not available in public markets. This results in the opportunity to generate higher risk-adjusted returns and further diversify your investment portfolio.

Hedge funds

Hedge funds are private collective investments in global markets which aim to deliver returns that outweigh risks. They are oriented towards absolute returns and aim to achieve capital appreciation. They follow active and unconstrained strategies and are lightly regulated. To stay flexible, hedge funds also often only accept a limited number of investors.

Hedge funds can be categorized according to the asset class they invest in (for example, equities or bonds), their geographic or thematic orientation (for example, global, sustainable) or the strategies they pursue (such as arbitrage, macro, event driven, opportunistic):

- "Equity hedge" primarily invests in equities over the long and short-term and aims to enhance returns.
- "Event driven" seeks opportunities arising from corporate events such as mergers and acquisitions, buybacks, reorganizations and bankruptcies and aims to enhance returns.
- "Relative value" earns profits from exploiting price anomalies between related instruments (for example, fixed income). They also function as a hedge against inflation.
- "Macro trading" uses systematic or discretionary approaches to identify macroeconomic and price trends in equities, bonds, currencies and commodities. They also aim to hedge against inflation.

One central characteristic of hedge funds as an alternative investment is that they exhibit a higher dispersion with regards to return compared to traditional assets. Consequently, investing alongside experienced managers is key to achieve success.

The process of identifying and selecting hedge fund managers has three main components:

1. The exercise of scanning the available universe of hedge funds.
2. A quantitative analysis of the hedge fund managers' performance track record.
3. A qualitative analysis of the manager's investment process, which should include a due-diligence check of the investments as well as an operative due-diligence check.

Just like in other fields, here the selection is vast as well. On top of that, the dependence on the quality of the hedge fund manager is absolutely critical. While we can only give a basic introduction to hedge funds in this compass, we would strongly encourage you and your respective family members to study and gain a solid grasp of this field, as well as professional advice on investing into hedge funds before making any decisions.

Note: Investors should be aware that alternative investments are speculative, subject to substantial risks and may not be appropriate for all investors.

Private markets

Private markets are interesting to investing families because they offer an extra in expected returns relative to public markets. Private market investments offer families opportunities to invest in companies and strategies not accessible in public markets. Typically, they're trickier to invest in, less transparent than traditional investments, and require longer investment timescales.

Types – Common private asset classes include private equity (for example, buyout, growth or venture capital) and private debt (such as direct lending, mezzanine and distressed debt). There are also opportunities to invest in equity and debt relating to private real estate and infrastructure.

Flexibility and illiquidity – The prospect of potentially higher returns typically comes with investment risks and illiquidity, which reduces flexibility for investors. This means it's often not possible to sell such investments quickly. Investors need therefore to balance the risks and their need for flexibility with their expectations of additional returns.

Investment and divestment schedule – Some private market investments have a more complex investment and divestment schedule. Investors typically commit capital at the start, then are called on for contributions over several years. Cash is distributed to investors over the investment period.

Choosing managers – Investing in private markets requires knowledge, skill and time. And the returns generated by different managers can vary widely. So it's important to choose good managers with a successful track record and having access to those managers in order to assess their strategy and approach.

Partnership and cashflow planning – A successful partnership between an investing family and manager requires a working relationship which is focused on the most appropriate allocation of assets in private markets in the context of the investor's portfolio. For drawdown structures, plan your cash flow to ensure you can meet your commitments at the right time. This will increase the likelihood that you reach, but don't exceed, the required target allocation.

Due diligence – Once you've decided on funds and managers, you'll need to assess the paperwork. This can be complex, requiring time and legal knowledge. Investors should seek advice from specialists or their investment manager.

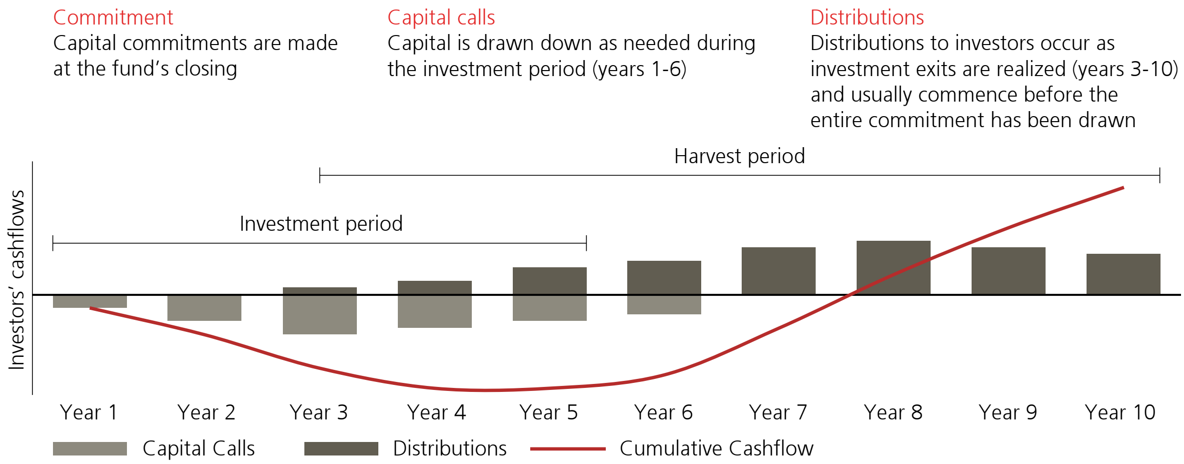


Fig 19: J-curve – Investors' net cashflow experience over time

Investing in private markets – points to consider

Feeling comfortable

The underlying investments in private markets are traditional and familiar assets like equities and bonds. But that shouldn't lull investors into a false sense of security. Private market investments tend to be more complex and less transparent than others. They also typically have different fee structures and less liquidity. It's important to feel comfortable with all this before investing.

Less flexibility

Private markets are less flexible than traditional investments. For example, it can be trickier to rebalance investments, change the strategic asset allocation, invest in other opportunities and choose different managers.

Understanding the opportunities and risks

The potential for receiving attractive returns is tied to economic factors, financial market risks and the manager's skills.

Maintaining your risk profile and seeking diversification

Your asset allocations in private markets should align with your family's overall risk profile. You should also stay focused on diversifying your investments across different categories, such as sectors and strategies.

Tolerance for illiquidity

Make sure that the potential difficulty of selling such investments doesn't leave you short of cash when you most need it. Investors should consider situations when they might need easy access to money when circumstances change, such as following a death or divorce.

Choosing good managers

Implementing private market investments requires highly skilled managers. Replacing them can be complex and difficult. That's why it's important to find good managers from the start.

Remember …

Over time, you'll find out who the truly good managers are. But they may not be available to work for you. So look out for partners who can provide you with exclusive access to leading managers.

Part 4

Govern and evolve

Managing, structuring, and fine-tuning your family investment strategy

Managing and monitoring

Family investment governance – decision making

However much or little your family is involved in its investments, every asset owner is ultimately responsible for making sure they're managed and monitored professionally.

For some families, this might involve making asset-owning family members part of a new family council or investment committee. But for many, this isn't practical. For example, family members might live in different time zones, making it difficult to set up meetings.

Some might not be interested in the topic or lack the knowledge to discuss or decide on investments.

To fulfill their duties as collective owners and stay in control of their investments, such families typically consider setting up a family office or using services from a bank or asset manager. To ensure good governance, they also define different roles and responsibilities for different parties.

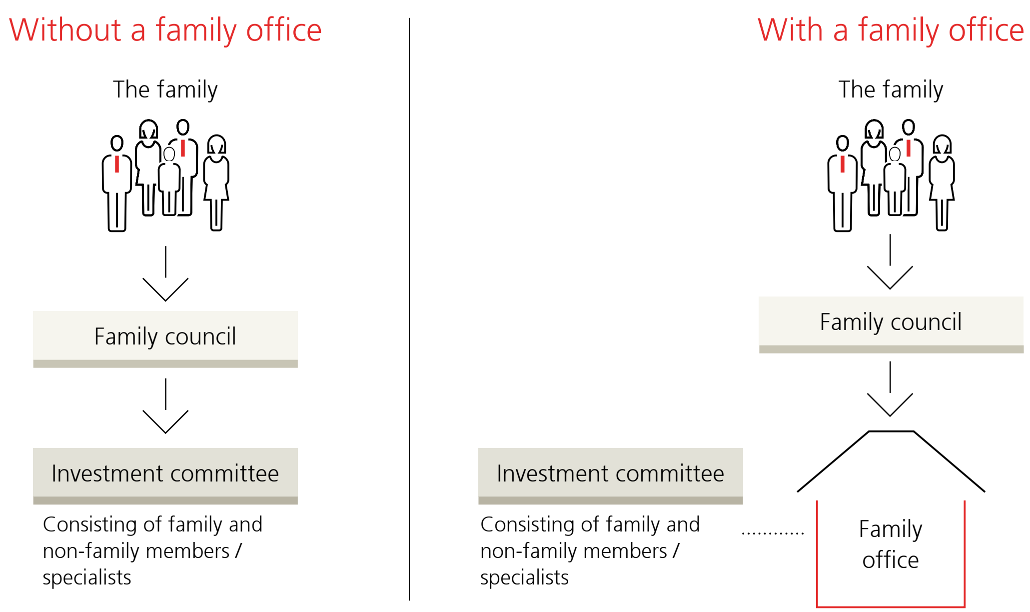


Fig 20: Family investment governance options

Staying in control – the role of a family office

Families with large and complex wealth often consider setting up a family office to manage their assets. A family office is a professional organization or private office that looks after the wealth and affairs of a family. This makes it a uniquely specialized service business, focused on managing family assets.

Family office activities usually cover three main areas:

Investment services – such as creating investment strategies and portfolios, choosing investment managers, advising on allocating assets and communicating results. Investments may include liquid assets that can convert quickly and easily into cash, or illiquid assets like real estate and businesses.

Family wealth services – for example, administering the family's wealth and business structures, tax planning, legal services, succession planning, insurance and philanthropy.

Administration and concierge – such as paying bills, accounting, managing data, managing private property and supporting lifestyle needs.

There are generally three different types of family office, each with different costs and benefits:

A single family office is a company that manages the wealth and affairs of a wealthy founder or multi-generational family. The family typically owns and runs the office for its own benefit. Two of the main advantages of a single family office are that they focus fully on the family with services tailored to meet all defined needs. As a rule of thumb, the wealthier the family, the more a single family office makes sense. Due to the costs involved, some say that for a single family office to be viable, the family's total wealth should be at least USD 500 million.

A virtual family office is an outsourced set up, were most of the services are provided by third parties, accessing people, expertise and services as and when they are needed. It's either a "light" version of a single family office or a set up that is its own legal entity. A virtual family office set up only needs minimal resources (generally one or two people) to coordinate the third parties and can be very flexible and cost-efficient. It's however less suited for highly complex or specific needs.

A multi-family office is a third-party-owned commercially operated business that manages the wealth and affairs of multiple families (usually ten to fifty or more). Families that choose this route are often most interested in investment management services. Unlike banks, multi-family offices in some countries aren't fully regulated, and only need to follow regulations on certain activities. Services are typically less tailored to the specific needs of an individual client family.

However, every family is different, and so are their family offices. To work out whether a family office is appropriate, which type might fit best, and how to set one up, it's worth speaking to an experienced family advisor.

To find out more about family offices, please see our **UBS Family Office Compass** and/or the UBS brochure Managing your wealth professionally – UBS Virtual Family Office Services, 2022.

Risk management framework

A risk management framework – typically established and executed by the investment committee – is critical to your family's portfolio's success. That's because it will help you mitigate risks as much as possible related to your family's investments.

Your risk management framework will ideally cover the following three aspects

1. a structure to comply with legal and regulatory aspects related to the markets in which you're active
2. a strategic asset allocation (SAA) simulation and analysis when establishing the portfolio
3. a structured investment process executed by a well-functioning investment committee.

So, in a little more detail, this means that your framework should provide the following:

Performance monitoring

– Regular detailed analysis of performance at the SAA level
– Clear guidelines for investment selection
– Performance compared to the investments' benchmarks

Risk management

As much as possible, you should employ sophisticated tools to manage the diverse aspects of risk, such as:

Investment risk – Ideally, your set up systematically calculates market risk limits, such as limits on net and gross positions, maximum allowable loss ("stop-loss"), value at risk limits, etc.

Portfolio risk – Managing risks at the portfolio level, but also on the level of investment modules and single security is key. After all it's all interconnected. The same goes for identifying potential concentrations, overall exposure to markets, asset classes, and issuers.

Credit risk of individual securities – Here the focus is on the management of potential counterparty risks.

Risk control

It can be very helpful to employ independent service providers (outside your family or family office set up) that regularly conduct thorough analyses of your set up and processes to ensure the family is adhering to all relevant guidelines, legal and regulatory aspects, and – above all – its overall family investment strategy. This should include the monitoring of risk and performance at portfolio, investment and single-security levels.

Make no mistake, when it comes to more complex investment strategies, managing your family's investment-related risks is no small task. You should therefore be very clear about what you can cover yourself and what you need to outsource.

Roles and responsibilities

Your family will need a professional organizational set up to manage its investments, roles and responsibilities. The design of the strategy, its execution, risk management and the monitoring of performances have many facets. Many families delegate the tasks of designing and implementing family investment strategies to different decision making bodies.

To stay in control of its investments, your family must decide on who will be responsible for key tasks, such as structuring the portfolio, monitoring performance and managing risks and costs.

We typically advise families to divide these responsibilities across different roles:

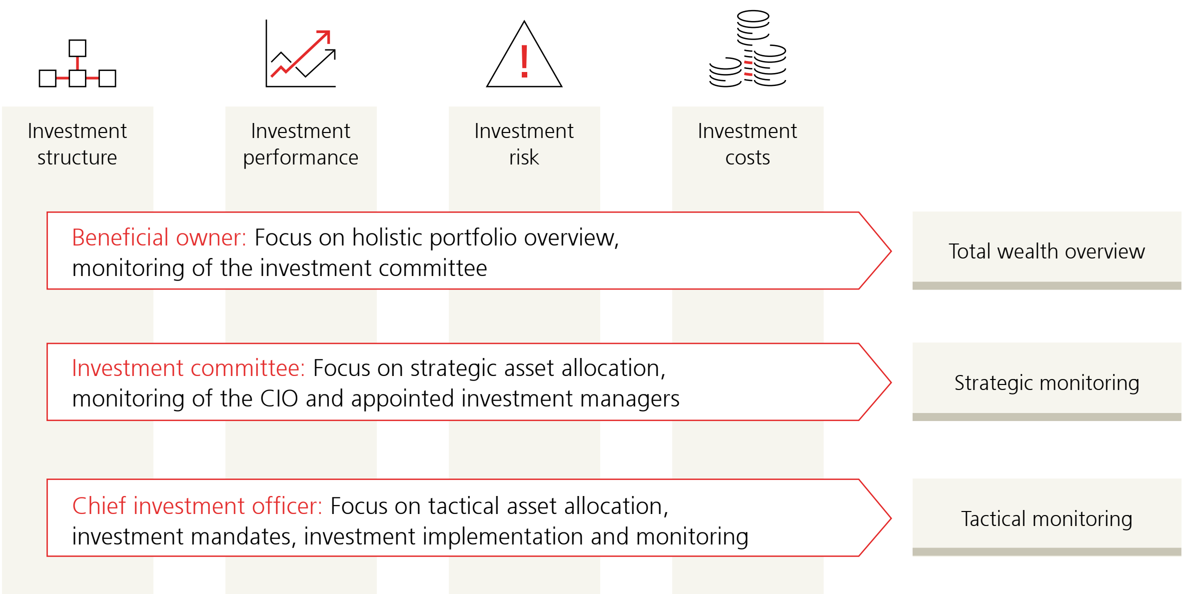


Fig 21: Every stakeholder has a different role in the investment governance, UBS Global Wealth Management – Asset Servicing, 2024.

Clarifying these roles and responsibilities is essential. It will help ensure your family is fulfilling its duties and that everyone knows who's authorized to perform certain tasks.

The table shows how a family might document the main participants in its investment process. Your choice of people and organizations is as important as your family investment strategy. So you should evaluate and monitor external providers and consultants as carefully as you would an investment manager.

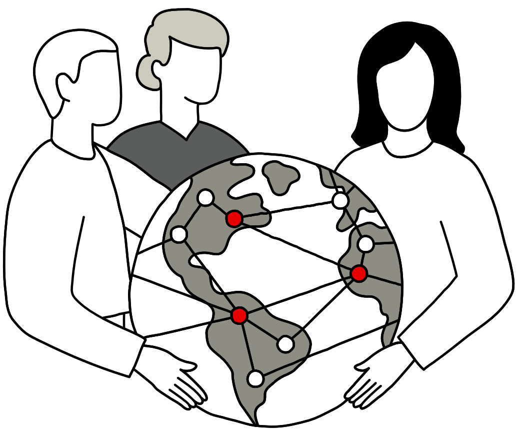
Participants	Descriptions	Composition
Advisory board	Experienced professionals with oversight responsibilities	– Trustee – External advisors (such as legal, tax and investments)
Investment committee	Professionals who understand the investment needs, issues and family circumstances	– Trustee – Family representative – Financial advisors – Investment professional of the family office
Investment team	Investment professionals, advisors and consultants	– Trustee – Family representatives – Advisors
External consultants	Organizations that help select managers, perform due-diligence and allocate assets	– Industry experts – Asset class experts (e.g. private markets) – Economists
Reporting team/service providers	Internal financial reporting specialist or external organizations supporting the reporting activities	– Reporting/accounting specialist – Custodian banks – Reporting providers (e.g. banks, software solution providers)

Investment committee

This is a governance body that is particularly important, both from a strategic perspective and regarding its influence on the executional aspects of investing.

An investment committee supervises the family's investments and establishes guidelines that will feature in the investment policy statement (IPS). The committee is the most important governance instrument for checking that your investment team and external specialists are performing as they should.

Most investment committees have at least three members. They may comprise the single family office's CEO or CIO (if you have a single family office), family members and external investment specialists. It's also common to see bankers, economists and former executives of major companies sitting on investment committees.



The committee's duties
The investment committee's main role is to rationally challenge proposals from the investment team or the family. Good committees don't take their responsibilities lightly. Their members work professionally – but never subserviently. That's because the consequences of staying silent on potential problems might destroy the family's wealth. Your investment committee should be fearless about challenging investment proposals and views. It should also recognize when a topic is beyond its expertise and seek additional expert advice.

An investment committee typically:
- designs and implements the investment strategy, based on the IPS
- defines and reviews investment benchmarks for measuring the investment portfolio's performance
- reviews investment policies and guidelines periodically and ensures the team complies with them
- monitors how investments are performing; and reports the results to the family office board, family council or family members (depending on your family governance system)
- oversees investment risk management procedures, policies and guidelines
- reviews and selects investment managers
- monitors the performance of investment advisors and retains or ends contracts where necessary
- approves leverage proposals and investments above a pre-established threshold amount, for example, USD 10 million

Well set up committees meet regularly (monthly or quarterly, depending on the complexity of the investments) and ad hoc when necessary. For example, in an emergency linked to a crisis in the financial market. To ensure your meetings are productive, define a quorum (a minimum number of people required to attend a meeting for it to proceed), set a proper agenda and write clear minutes to document the decisions.

For more information about investment committees, please see the **UBS Family Office Compass.**

Global custody

If your family keeps its assets with multiple custodian banks, it might be difficult to monitor/keep track your assets, their performance and even the risks associated with the custodian banks.

This is where a global custody solution might be beneficial. It enables your family to organize all your bankable assets, such as financial instruments, cash and cash equivalents with a single custody provider. This again may allow you to realize some economies of scale, e.g. related to custody fees. It can also allow you to integrate external assets (for example, direct real estate investments, mortgages, debt derivatives and private equity) in your investment reports, e.g. based on your asset list (see the appendix section for an example).

The best thing is that a global custody solution will consolidate complex information and therefore is likely to substantially reduce the administrative work you or your family office staff has. This means that your time can be spent more productively.

Importantly, however, you'll still have the flexibility to choose asset managers who, in turn, are free to choose their preferred brokers for trading, all ultimately settled against your global custody accounts.

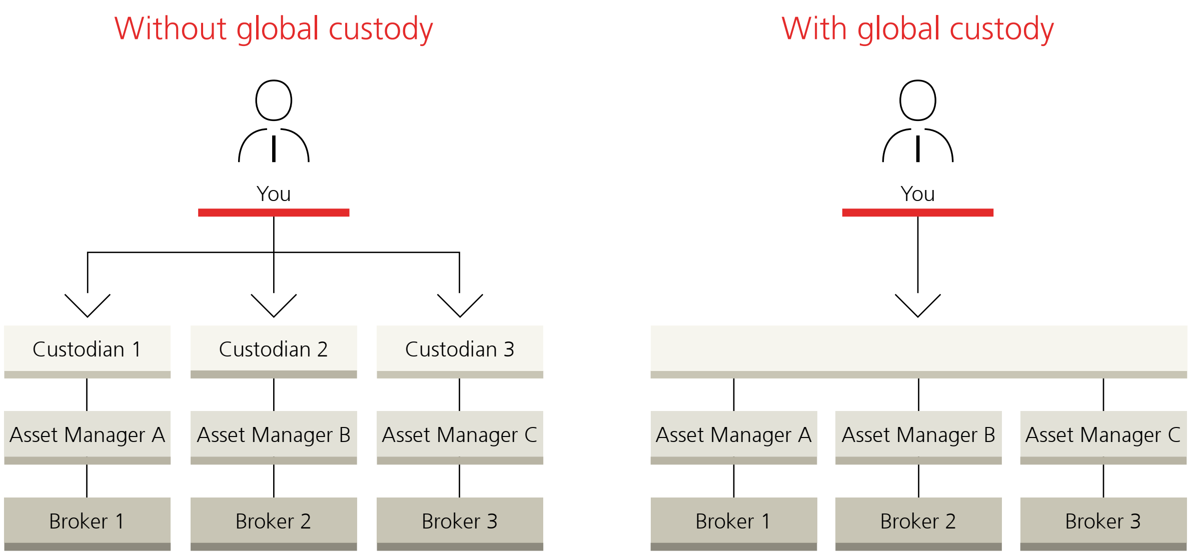


Fig 22: Managing assets with and without global custody

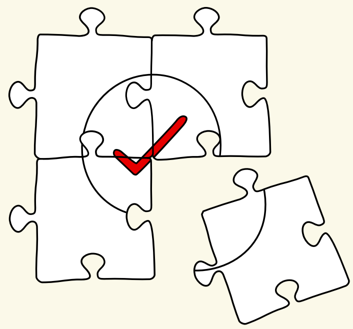
Balancing trusted relationship and efficiency

A South American client was looking to further optimize the way his family office could operate. In particular, he wanted to explore how it could become more efficient with regards to costs, administrative and performance controlling tasks related to no fewer than eight existing banking relationships.

Being asked why he maintained so many relationships rather than consolidating them to achieve higher efficiencies, he pointed to the long-term ties he had built over the years with all of these banks. Also, he aimed to achieve a best-in-class approach for the various asset classes such as bonds, alternatives etc.

After discussing the option for a global custody set up, he realized that he could maintain the relationships he valued by using a simplified custody solution for his specific needs.

He therefore happily agreed to such a set up, thereby massively simplifying the workload on the side of the client's family office staff.



Reporting

Successful investing has a lot to do with knowing how your family's assets are performing, where you're headed, whether your portfolio is on track and if you're facing imminent or future risks that might force you and your family to change your plans.

A professional reporting service will allow you to deal with these issues. Such a service consolidates the various reports you get from your various asset management partners into one overall report. This will make it easier to manage and govern your investments efficiently.

As technology advances, you and your family will discover that there are many good solutions on the market to choose from. However, your reporting service should bring you at least the following features:

Portfolio overviews – These should be available quickly and reliably at any place and time across accounts, bankable and non-bankable assets.

Fast decision making – Provide a solid and practical basis for better, faster decision-making.

Relationship manager – A specialist who can tailor solutions to your needs and provide you with advice and training.

In-depth analytics – Simple drill-down functions for in-depth analytics in a user-friendly online user interface. This should include things like risk and return analysis across your various asset managers, asset categories or investment strategies to identify deviations from your target strategic and tactical allocations. Specifically, look out for detailed contribution analysis with standard or composite benchmarks, the ability to uncover your funds' true exposure using a 'fund-look-through function', perform stress-testing or see how sustainable your portfolio is related to environmental, social, or governance (ESG) data.

Data safety – Your investment data needs to be safely stored on servers in a jurisdiction that you perceive to be safe. This aspect would normally exclude the use of any cloud technologies

Family investment governance – investment vehicles and structures

When it comes to finding a way to organize your assets within a legal structure there is no "one size fits all" solution. It's therefore important to have an ownership structure in place which fits your family's needs. There are several options and criteria to consider, which we will explore in the following pages. Given the complexities involved, this compass can only provide an introduction. You and your family should seek the advice of specialists to find the model that works best for you.

UBS does not provide tax, legal or accounting advice and nothing in this document constitutes, nor should be construed as, such. You should consult your independent advisers for specific advice before entering into, refraining from entering into or exiting any investment, product, structure or planning. The value of an investment and the income derived from it can fall as well as rise (as a result of market and currency fluctuations) and you may not get back the original amount invested.

Private label funds

Private label funds are sophisticated investment vehicles. They allow you to create and name your own fund, pool different types of assets, make investment portfolios more efficient and benefit from combining capital pooling and fund investing.

Understanding private label funds

Private label funds are collective investment vehicles for one or more investors. Their setup is typically initiated by a family, single family office, group of wealthy individuals or an independent asset manager (financial intermediary). The investors subscribe to the fund that holds the portfolio of assets and receive fund shares or other securities in return. Next to the investment manager who manages the portfolio, various service providers may be asked to provide services: the custodian, broker, fund administrator and directors.

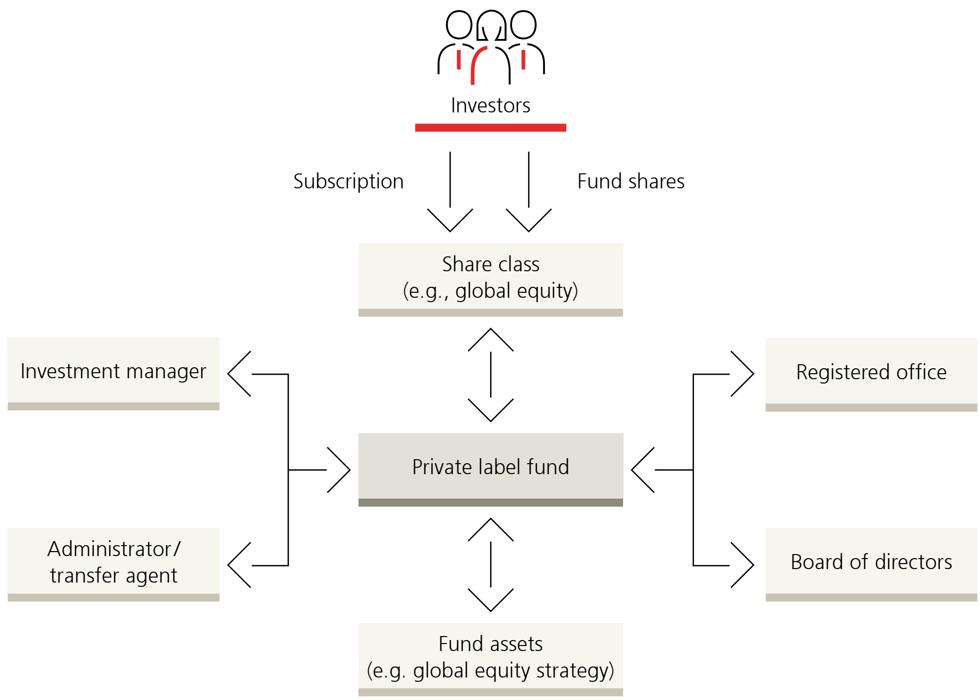


Fig 23: Basic structure of a private label fund (single class, open ended), UBS Global Wealth Management – Wealth Planning, 2024.

Setting up a private label fund

All parties must consider various aspects when setting up a private label fund, including the following:

- number and type of investors (e.g. retail, well-informed, professional, institutional)
- asset size and investable assets
- minimum economically viable size and cost impact
- investment strategy and valuation method
- licensing and / or registration requirements for the investment manager
- jurisdiction and regulatory regime
- investment and / or distribution restrictions
- legal structure (e.g. corporate or contractual, single or multi-class)
- tax domicile and implications for the investors, assets, fund and fund manager.

A typical setup can take three to six months. But this depends on the jurisdiction in which the fund is located and the regulatory regime to which the fund will adhere (e.g. Undertakings for the Collective Investment in Transferable Securities (UCITS)-exempt fund).

Considerations for choosing a location for a private label fund include:

- establishment and maintenance costs
- flexibility and level of regulations and suitability of applicable regimes
- taxation at fund, investor and asset level
- choice, quality and cost of service providers
- time zone
- licensing status of service providers and regulatory regimes, which may affect how the fund is distributed and marketed.

Key aspects and benefits

The benefits of a private label fund include:

Convenience – The assets of family members are managed on a consolidated basis. This reduces the administrative burden and enables for instance a single family office to outsource administration and asset management to best-in-class providers.

Flexibility – It's easier for the family to transfer assets between them (particularly illiquid assets), making private label funds a flexible succession planning tool.

Efficiency – Asset pools can gain the size needed to access institutional products and investment classes, while larger trades may realize economies of scale. It may also be possible to claim certain tax benefits, depending on the investors' country of residence and advice from external consultants.

Enhanced governance and reporting – Private label funds enable NAV (net asset value) calculations and tailor-made reports. This leads to enhanced governance through performance monitoring and control. Investors receive a consolidated view and analysis of the portfolio and benefit from a cost-efficient and sophisticated institutional trading platform.

Main risks and considerations

Setting up a private label fund is not risk-proof. Some of the key parameters and risks to be considered include:

- Regulatory and compliance obligations. Besides the accounting, reporting and audit obligations, licensing requirements may also apply, depending on the jurisdiction involved and assets under management.
- Changing laws and regulations.
- Conflict of interests or misalignment among family members'/investors' priorities, plans and preferences.
- Exit risks and taxation of transfer of the fund shares to new holders, e.g., through gift or by inheritance.

Corporate holding

Corporate holdings hold the controlling stock in other corporations, which are called subsidiaries. Sometimes, a holding company is also called an "umbrella" or parent company.

Understanding a corporate holding

This kind of structure is often set up to separate ownership of assets and operational activities and therefore to limit the financial and legal liability exposure of the holding company (and its subsidiaries). Although a holding company owns the shares in other companies, it often maintains only oversight capacities. So, while it may oversee the companies' management decisions, it does not actively participate in running the day-to-day operations of these subsidiaries. Holding companies may furthermore own property, such as real estate, patents, trademarks, stocks and other assets.

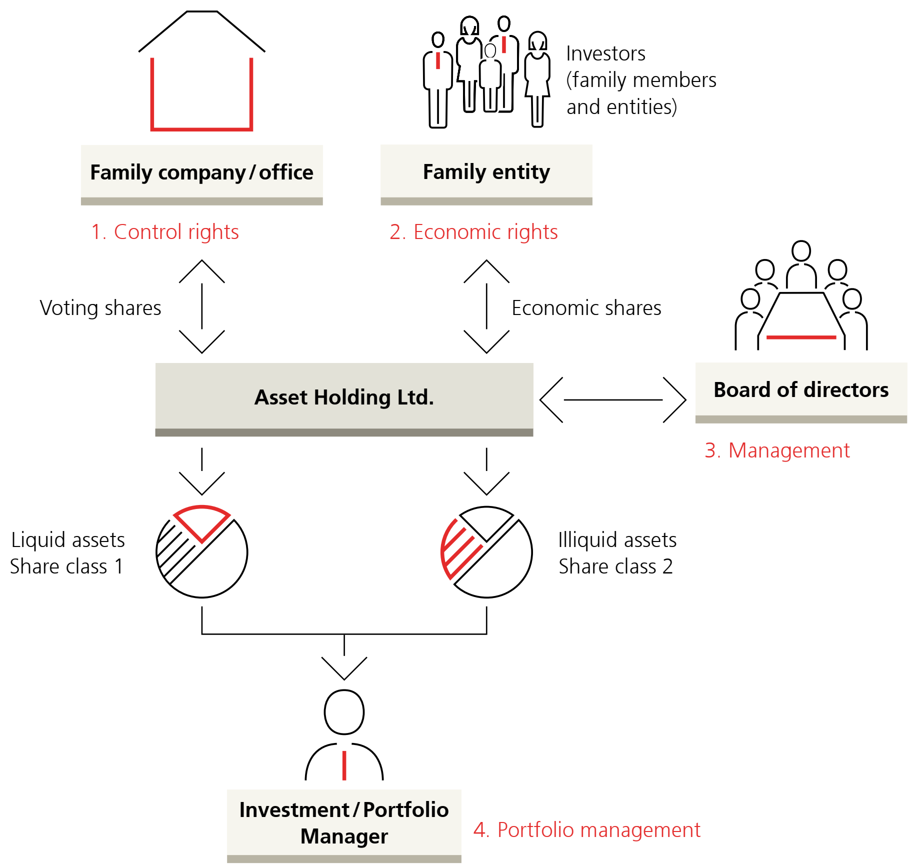


Fig 24: Basic structure of a corporate holding, UBS Global Wealth Management – Wealth Planning, 2024.

Setting up a corporate holding
The principles steps for setting up a corporate holding are:
- File the articles of incorporation in the jurisdiction where you decided to register the holding
- State the persons managing the holding

While the steps to setting up a corporate holding seem simple and straightforward, there still may be a fair degree of complexity embedded in the processes. Your family is therefore well advised to include the support of lawyers and other advisors in the process.

Key aspects and benefits
Asset protection – A corporate holding is a way for families to – at least partially – protect the value of the assets held within the structure. This is because a holding company would be shielded from any financial losses made by subsidiaries. In the event of bankruptcy of a subsidiary, despite experiencing a decline in net worth, the corporate holding would be protected as in principle creditors wouldn't be able to pursue the holding for compensation.

Tax liabilities – The holding may also rationalize a group's overall tax liability by being strategically based in jurisdictions that have, among other qualities, a business/holding-friendly tax environment.
Flexibility: Another aspect is that holdings can be set up, changed, or dissolved relatively easily. It's thereby a good tool for families to react flexibly to geopolitical, regulatory or legal changes in a jurisdiction.

Ownership and control – Corporate holdings are flexible systems that allow for good governance, execution of control, as well as an eventual separation between economic benefits and management rights. Separate classes of shares can be put in place in this framework, such as:
- Voting shares, which give control rights held by the family office or company without economic rights.
- Economic shares, which give access to the economic benefits of the shares (e.g. dividends, capital gains) without granting full control or voting rights. These are held by family members and/or family entities.

Importantly, voting shares and economic shares are transferable.

Management – There are two areas of management:
- The day-to-day management of the holding, generally carried out by the board of directors.
- Portfolio management, provided by contracted investment manager.

Limited partnership

They may be easily created and maintained given their simple structure and governance requirements. In addition, limited partners can enjoy protection from personal liability.

Understanding a limited partnership

A partnership isn't a legal entity – instead, it's a contract between parties to conduct business. The partners are usually responsible for all liabilities of the partnership – unless the partners have the legal form of a limited liability company, or if the partnership has the form of a limited partnership (LP).

A limited partnership is a business that consists of at least two partners. One of them is called the general partner who executes full management control over the business. While having a lot of power, they also have unlimited liability with regards to financial obligations.

Limited partners on the other hand have either no involvement in the management of the business or very little. Their liability is also limited to the amount of their investment in the LP. This makes LPs attractive as a setup for investment funds focusing on real estate, for instance.

Partnerships are generally "look-through" vehicles for tax purposes. This means that the partnership's income is not taxed at partnership level, but at the level of the partners, who must directly report the profits or losses of the partnership in their own income tax declarations.

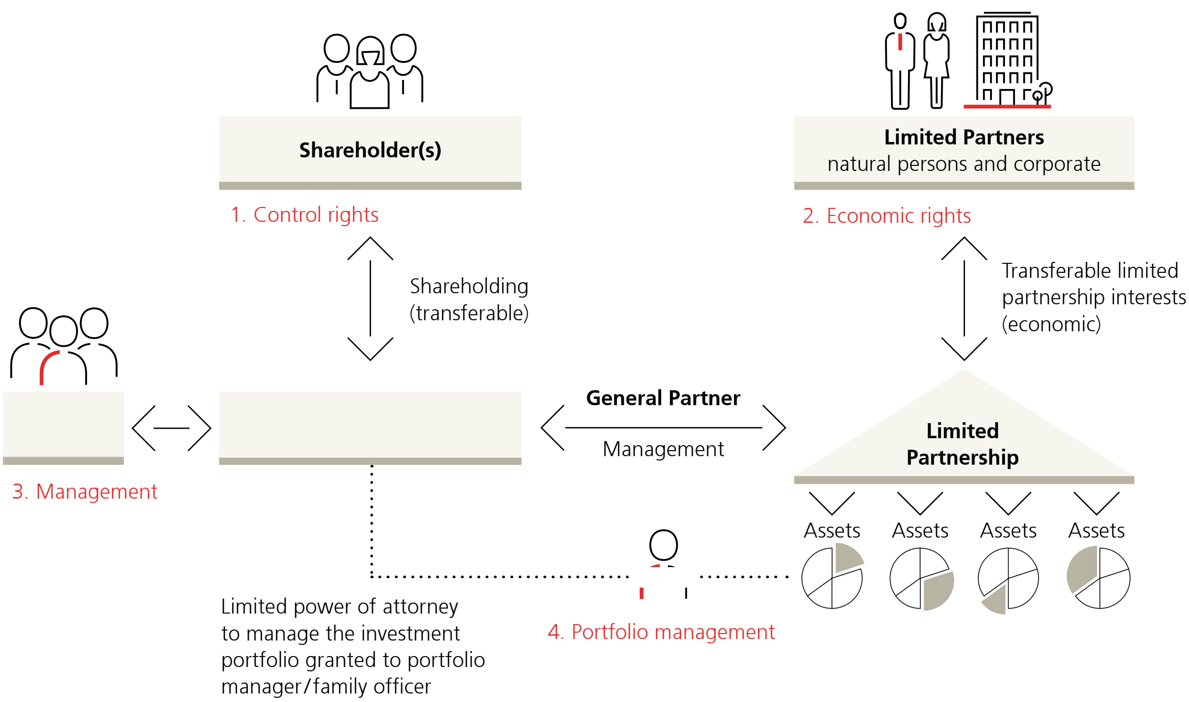


Fig 25: Example of a limited partnership, UBS Global Wealth Management – Wealth Planning, 2024.

Types of partnerships
There are different types such as general partnership, limited partnership and limited liability partnership:

A **general partnership (GP)** is a form of unincorporated arrangement between two or more parties, all of whom equally manage the business and agree to be personally responsible for its debts and obligations. Their liability is unlimited – unless a general partner adopts the legal form of a limited company. Unlimited liability means that if the partnership fails, creditors can go after a partner's personal assets and income. General partnerships are often used for small and simple businesses, where a high degree of trust among partners is present.

A **limited partnership (LP)** encompasses both general and limited liability partners. While the former are responsible for the management of the business and bear unlimited liability for its debts and obligations, a limited partner can only be held responsible up to the amount of their investment without control or voting rights over the business. Limited partnerships are frequently used where there is a need for external investors, who are not interested or willing to participate in day-to-day management.

A **limited liability partnership (LLP)** is formed by two or more parties, all of whom can participate in the management of the business (unless they agree otherwise). They all have limited liability and cannot be held personally liable for the business's debts or for the negligence of other partners. Limited liability partnerships are most commonly used in the professional services world, where protection from liability is key.

Please see next page for key differences between limited partnership and limited liability company.

Key aspects and benefits of limited partnerships
– Protection from personal liability as limited partner (amount of their investment)
– They are easily created and maintained given their simple structure and governance requirements

Main risks and considerations
As a contractual arrangement with two types of partners, a limited partnership can be prone to certain risk factors:
– Compliance with regulatory obligations and changing laws.
– Unlimited liability for the general partners and lack of involvement of the limited partners in the LP's management.
– Restrictions apply on the transfer of interest in the LP and admission of new partners, which may require new registration of the partnership or can even lead to its dissolution.
– The tax treatment of an LP and its partners can be complicated depending on the jurisdictions involved and needs to be thoroughly assessed and frequently reviewed.

Setting up a limited partnership
The principles steps for setting up a Limited Partnership are:
– Draft partnership agreement, clearly defining and allocating rights, responsibilities and roles to all partners
– Register the limited partnership with the competent authority(ies)
– Obtain licenses, where necessary depending on the nature of the partnership's activity

Please note that setting up a limited partnership, a purely contractual arrangement by nature, requires robust professional advice to ensure a rock-solid basis for your undertaking.

Key differences between limited partnership and limited liability company

Limited partnership (LP)		Limited liability company (LLC)
General partners only	**Management**	Members of the LLC or third-party manager
Personal and unlimited for general partners. Limited up to the amount they put in the business for limited partners.	**Liability**	Limited for all members up to the amount they put in the business (unless they personally guarantee business debts)
Look-through entity; profits and losses directly declared by the partners.	**Taxation**	Can be a look-through entity or taxed as a corporation. Possibility for election may be available.
Usually, admission of new partners is restricted and conditions must be met (e.g. approval of general or all partners, preference rights, prohibition of transfer). Re-registration of the LP may be required.	**Transferability of interest / shares**	Transfer of shares can be more flexible, depending on the stipulations of the Articles of Association.
High dissolution risk, especially if general partner dies and the partnership agreement does not provide otherwise.	**Impact of death**	The LLC typically continues to operate, unless otherwise provided.
Investment-heavy businesses where investors do not wish to have active management role.	**Use cases**	Operational businesses where members can all participate in (the appointment of) management.

Trusts and foundations

Trusts and foundations can be equally effective structures in terms of achieving succession planning, privacy and confidentiality, and asset protection objectives for you and your family.

The decision on which entity to use will often depend on a client's level of comfort with the legal nature of a particular structure, jurisdictional considerations and the client's tax residency. Trusts may be preferred by residents of common law countries and foundations by residents of civil law countries.

Understanding trusts

Trusts have been used for succession and estate planning for centuries and continue to offer flexible and reliable ways to help safeguard your assets and transfer them smoothly to the next generation.

A trust is established when the owner of assets, "the settlor", transfers or "settles" assets upon a trustee to hold and administer for the benefit of "beneficiaries", who may include family members, other individuals, charities and/or the settlor.

Assets held in trust are legally owned by the trustee. The trustee holds, manages and distributes the trust assets in accordance with the terms of the trust deed.

The trust relationship is therefore governed by a trust deed that binds the trustee and sets out the terms under which the trust property is held. Sometimes a "protector "is appointed also, whose role is to oversee the operations of the trust without getting involved in the daily work. They may take part, however, in situations when major decisions need to be taken. Trusts offer a wide range of options and are highly flexible, depending on the type of trust and the trust jurisdiction.

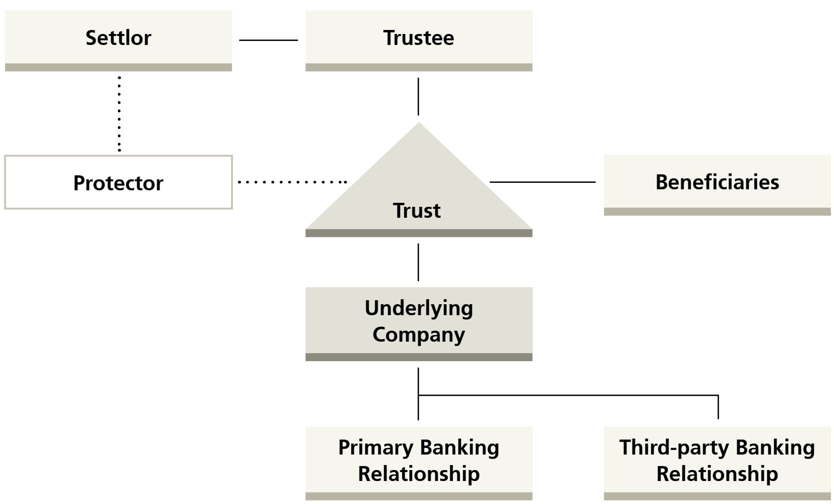


Fig 26: Typical structure of a trust, UBS Global Wealth Management – Wealth Planning, 2024.

Setting up a trust
There are many things to consider. In particular, make sure to take the following steps:
- Have an in-depth discussion with specialist wealth planners, about your specific needs
- Include legal and tax advisors to obtain good legal and tax advice
- Align within the family and decide which assets to place in the trust
- Carefully consider who or which institution should take on the role of a trustee
- The proposed solution should then be transposed into a draft of your trust deed by your specialist team
- Once confirmed, the trust deed should be formalized and the trustee will formally accept the role as trustee
- Next, your trust structure should be set up, including the incorporation of any underlying companies needed, the opening of bank accounts and acceptance of assets. Trusts can be established with an initial nominal sum and further funds can be added at any time, subject to their acceptance by the trustee.

Setting up a trust can take up months, although this depends on the jurisdiction, person or organization that constitutes the trustee.

Key aspects and benefits of trusts
Succession – Trusts may be used to transfer your assets smoothly and effectively to the next generation in line with your wishes.

Continuity – Assets are managed in line with the trust provisions set out in the trust deed, and your wishes are taken into account in the administration of the trust. Also, continuity in the administration of the trust can be achieved through the appointment of a corporate trustee.

Investment matters – Investment control over the trust assets can be structured in a number of ways. For example, if you reserve investment powers, you may appoint a bank or other party to manage the assets or, depending on your country of residence, manage the assets yourself. If you do not reserve investment powers, the trustee may appoint an investment manager.

Asset classes – Trusts have the flexibility to hold all forms of cash, securities, life insurance policies, and other bankable assets held in custody by a bank.

Taxation – depending on the jurisdictions involved, trust structures may be subject to a beneficial tax treatment.

Flexibility over time – Under certain conditions, you may be able to make amendments and, for instance, add or remove beneficiaries, write a new letter of wishes or change the investment directions.

Preservation – The interests of minors or dependents may be safeguarded, now or in the future. For instance, assets may be consolidated within the trust and shielded against political instability. Inherited wealth may also be preserved from spendthrift family members, i.e. members who have serious difficulties controlling their spending habits.

Philanthropy – Trusts may also be used to support philanthropic causes in a secure and flexible manner. Assets may therefore be held exclusively or in part for charitable purposes.

Main risks and considerations
Trusts are a sophisticated wealth and succession planning tool emanating from the Anglo Saxon culture, and a thorough understanding of the accompanying risks is necessary. Some of these include:
- Compliance with local regulatory requirements, analysis and understanding of changing laws in all jurisdictions involved.
- Depending on the place of residence(s) of the settlor(s) and beneficiary(ies), the tax liabilities arising from a trust structure can be quite significant or even penalizing.
- Conflict of interests and disputes may arise or unforeseen circumstances may come up, jeopardizing the purpose of the trust.
- Careful selection of the trustee and drafting of the trust deed.

Understanding foundations

A foundation is a separate, self-contained legal entity. Like a company, it has its own governing body (the foundation board) and rules (by-laws and possibly implementing rules). However, unlike a company, it has no owners or shareholders. The most important aspect of a foundation is that any asset transferred into the foundation ceases to be legally owned by the previous owner. Upon its establishment, the foundation is the new legal owner of the assets transferred to it.

Natural persons active within the foundation will have roles through which they administer the foundation. The foundation board must primarily exercise its powers and duties according to the law, the statutes and the by-laws.

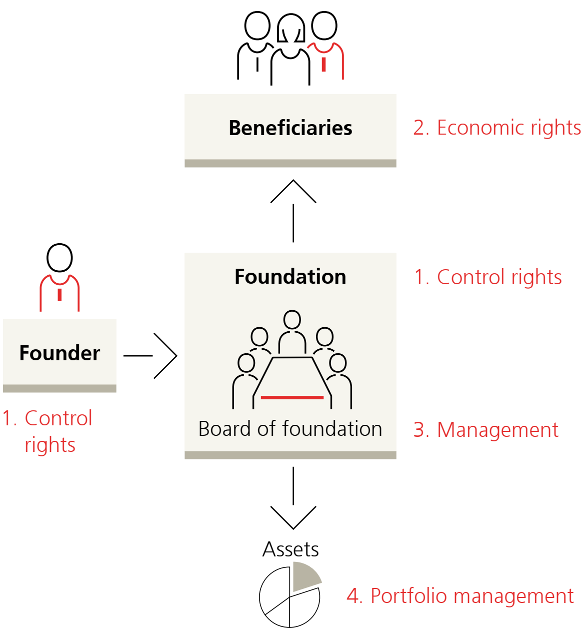


Fig 27: Typical structure of a foundation, UBS Global Wealth Management – Wealth Planning, 2024.

Types of foundations
The main types of foundations are the classic charitable foundation and the family foundation.

Charitable foundation – A type of non-profit organization, set up by a single benefactor, usually an individual, a family or a business. Its purpose is to support and promote charitable, religious, educational, cultural and other public-interest activities. It is mainly funded through an endowment and distributes grants to individuals or other charities to serve its mission. Charitable foundations generally enjoy a tax-exempt status in the jurisdiction where they are located. They are inscribed in the benefactor's legacy goals, running through and after their lifetime.

Family (private) foundation – An entity established for wealth structuring, asset protection and succession planning purposes. Family assets are transferred into a foundation to be managed, protected and distributed according to the founder's wishes. The foundation has a separate legal personality and hence is the legal owner of the assets it receives. It may or may not enjoy a tax-exempt status, and an analysis of the tax and legal parameters in the jurisdictions involved (i.e. establishment of the foundation, residence of the founder and beneficiaries) is required.

Setting up a foundation
The laws applicable to the foundation will be the primary influencing factor in terms of what is required to set up a foundation. You and your family will be well advised to seek the help of legal and wealth planning specialist to understand the respective requirements and implications. Founders need to consider several aspects when setting up a foundation:
- Required documentation: the articles of association, a list of the founders, a list of the members of the foundation board and proof of the initial capital.
- Optional documentation: letter of wishes drafted by the founder, guidelines for selecting beneficiaries and making distributions, investment policy.

Benefits of foundations – comparing trusts with foundations

Overall, the benefits of a foundation may be similar to those of a trust. Please see previous page 94. Comparing trust and foundations the following aspects are noteworthy:

	Trusts	Foundations
Law	Common law	Civil law
Legal Personality	No legal personality. The trust holds the assets in the name of the trustees	A foundation is a separate legal entity and holds assets in its own name.
Trustees/ foundation board	Trustees have a fiduciary duty to act in the best interest of all trust beneficiaries. In that regard, trustees are: – legally bound by the terms of the trust deed (and the common law) – not legally bound by the terms of a letter of wishes (if any) Trustees are responsible for the decision making and managing of the trust assets, depending on the tax residencies of the settlor and beneficiaries. In addition they hold various investment powers. The right to appoint and remove trustees and beneficiaries can be reserved to the settlor and third parties. Trustees can be a corporation or individuals.	The board of a foundation – has similar duties to the trustees – executes the founder's instructions – is legally bound by the statutes and regulations/by-laws – owes fiduciary-type duties to the foundation itself, not the foundation's beneficiaries – may delegate various powers
Revocability	Possible Upon death of settlor, structure becomes irrevocable	Possible Upon death of founder, structure becomes irrevocable
Liability	The trustee can be sued, not the trust	The foundation board is liable for damages in case of breach of contractual obligations
Creation	During lifetime or upon death of the settlor (by will or inheritance contract)	
Distributions	Can be designed as discretionary or with fixed interest	
Jurisdictions	Any common law jurisdiction	Liechtenstein, Panama, Netherlands and other civil law jurisdictions, plus certain common law jurisdictions that have enacted statutes to allow for foundations under local law (e.g. Jersey)

UBS does not provide tax, legal or accounting advice and nothing in this document constitutes, nor should be construed as, such. You should consult your independent advisers for specific advice before entering into, refraining from entering into or exiting any investment, product, structure or planning. The value of an investment and the income derived from it can fall as well as rise (as a result of market and currency fluctuations) and you may not get back the original amount invested.

Innovative new Swiss fund category

The Limited Qualified Investor Fund or L-QIF has been available exclusively to qualified investors since 1 March 2024. Its main aim is to offer a flexible collective investment scheme under Swiss law without needing FINMA (the Swiss Financial Market Supervisory Authority) approval. This follows on from other fund jurisdictions, such as Luxembourg, which have already successfully launched similar concepts.

Understanding the L-QIF

Before 1 March 2024, all Swiss fund structures needed to FINMA product approval and were subject to restrictions in terms of investment strategy design. This meant that fund launches, and life cycle management were likely to be very time-consuming and that innovative investment strategies geared towards specific institutional investors were often less viable in the form of a Swiss fund. The same was also true of alternative investments, for example.

The L-QIF concept was therefore designed to relax the above restrictions specifically for qualified investors as, unlike private investors, they’re able to understand the risks of an investment instrument in detail and independently assess its suitability.

To ensure the necessary product quality and security, the fund management company and asset manager are required by law to be an institution supervised by FINMA or its overseas equivalent. As a result, the fund management company has even greater responsibility in this regard.

Benefits

– Increased flexibility and freedom in the design of the investment strategy

– Concentrated portfolios can now be implemented in a Swiss fund

– All asset classes can be implemented in one fund structure

– Improved time to market (launch and adjustments)

– Same tax treatment as all other Swiss collective investment schemes

Evolving your family's investments

The strategies, documents and processes described in this compass will hopefully serve you a long time. But, like everything in life, the needs and circumstances of your family and its members will change. So it's important to know how and when to evolve the aspects of investing as a family, including your investment policy statement, family investment strategy, and governance.

Change is likely to arise in these areas and they will determine how often you'll need to review your strategy.

Family situations

Your family situation might change, for example with a new generation coming on board. Or some family members may want to leave the joined family investment structure, going their own way. Therefore your family's outlook, needs and dynamics may change as well, which will typically impact your family investment strategy. Try to anticipate and discuss possible changes as soon as you can.

Geopolitical situations

Not every geopolitical situation is foreseeable. On the other hand, things also don't just happen overnight. Make sure you have partners in those areas to inform you of developments and assess how they challenge or even change the assumptions of your investment strategy.

Legal and tax-related situations

Laws or regulations change from time to time. You'll need stay up-to-date and understand how they might affect your investments – especially if family members live in different jurisdictions.

Enterprise situations

Your family enterprise, or individual parts of it, might change – for example, if you sell a family business. Try to predict possible changes and plan for them. Their impact on your investments may be minor. But equally, they could be dramatic.

Market situations

Making sense of the diversity of the world's many financial markets can be difficult. No matter what, it's important to stay up-to-date and informed. But remember, not every market event that makes the media headlines will harm your investments. So try to follow the principles of investing:

- Stay calm, focused and invested
- Invest according to your family's goals
- Stick to your plan (investment strategy)
- Consider your family's risk tolerance
- Diversify your investments
- Reduce media noise by focusing on a few trusted sources only

A lot of work that is worth it

Hopefully, all these different considerations will not keep you up at night. But they will certainly keep you and your family on your toes.

We hope that addressing them helped to illustrate that your family investment strategy is not "done" by going through the process of defining and establishing it once. Instead, the real challenge lies in the ongoing review, reconfirmation or readjustment of the overall strategy – and its execution over the years.

Managing great wealth means undoubtedly a lot of work to be done by you and your family, and the advisors that support you over the years.

Where next?

Firstly, congratulations for working your way through this compass, you have covered a lot of ground. We hope it will guide you and your family on your journey to the right investment strategy.

Appendix

List of assets – example

Asset	Values in USD	Values in USD	Total Values in USD
Total, Liquidity & Money Market			**45'560'574**
Total, Liquidity & Money Market, Cash Accounts		40'282'412	
Total, Liquidity & Money Market, FX Investments		132'542	
Total, Liquidity & Money Market, Money Market		5'145'620	
Total, Loans & other Liabilities			**-12'976'576**
Total, Loans & other Liabilities, Loans, 1.50% UBS LOMBARD FIXED-TERM ADVANCE 20.01.22		-11'587'450	
Total, Loans & other Liabilities, Other Liabilities		-1'389'126	
Total, Loans & other Liabilities, Other Liabilities, BUY-TO-LET MORTGAGE	*-734'564*		
Total, Loans & other Liabilities, Other Liabilities, MORTGAGE - HOLIDAY HOME	*-654'562*		
Total, Bonds			**223'845'733**
Total, Bonds, Bonds Government		35'284'005	
Total, Bonds, Bonds Corporate		96'143'840	
Total, Bonds, Bonds Supra- / Subnational		809'960	
Total, Bonds, Bonds Municipalities		570'795	
Total, Bonds, Bonds High-Yield		5'908'930	
Total, Bonds, Bonds Others		85'128'203	
Total, Equities			**631'304'567**
Total, Equities, Equities USA		297'039'040	
Total, Equities, Equities Europe		204'304'901	
Total, Equities, Equities EM		31'930'234	
Total, Equities, Equities Global		98'030'392	
Total, Precious Metals & Commodities			**26'082'412**
Total, Precious Metals & Commodities, Precious Metals		989'009	
Total, Precious Metals & Commodities, Commodities		25'093'403	
Total, Alternatives & Private Markets			**20'596'328**
Total, Alternatives & Private Markets, Hedge Funds		9'030'032	
Total, Alternatives & Private Markets, Private Equity		11'566'296	
Total, Alternatives & Private Markets, Private Equity, Private Equity A1 2020	2'345'030		
Total, Alternatives & Private Markets, Private Equity, Private Equity B1 2020	5'139'034		
Total, Alternatives & Private Markets, Private Equity, Private Equity C1 2021	2'049'203		
Total, Alternatives & Private Markets, Private Equity, Private Equity D1 2021	2'033'029		
Total, Alternatives & Private Markets, Real Estate			**50'849'452**
Total, Alternatives & Private Markets, Real Estate, UK COMMERCIAL RE PORTFOLIO		8'930'942	
Total, Alternatives & Private Markets, Real Estate, BUY-TO-LET UK PORTFOLIO		18'029'304	
Total, Alternatives & Private Markets, Real Estate, HOLIDAY CHALET DAVOS SWITZERLAND		23'000'113	
Total, Alternatives & Private Markets, Real Estate, PORTUGAL COMMERCIAL RE PORTFOLIO		889'093	
Total, Private Investments / Other			**135'456'803**
Total, Private Investments / Other, Private Investments		133'417'783	
Total, Private Investments / Other, Private Investments, ART COLLECTION	*23'003'940*		
Total, Private Investments / Other, Private Investments, COFFEE PLANTATION BRAZIL	*21'034'930*		
Total, Private Investments / Other, Private Investments, HORSE	*290'300*		
Total, Private Investments / Other, Private Investments, VINTAGE CARS COLLECTION	*15'030'932*		
Total, Private Investments / Other, Private Investments, WATCH COLLECTION	*890'390*		
Total, Private Investments / Other, Private Investments, WHISKY DISTILLERY JAPAN	*39'022'920*		
Total, Private Investments / Other, Private Investments, WINE CELLAR - TUSCANY	*8'093'039*		
Total, Private Investments / Other, Private Investments, WINE CELLAR - OTHER	*1'029'302*		
Total, Private Investments / Other, Private Investments, YACHT	*25'022'030*		
Total, Private Investments / Other, Others		2'039'020	
Total			**1'120'719'293**

This example list constitutes a summary of asset categories and is completely fictional and not based on real assets. As a family, you might want to consider further expanding such a list in terms of specific quantities per asset type (e.g. individual pieces of the art collection) or additional information (e.g. where they are held – jurisdiction – and by whom in the family they are used – if applicable). Please note that this list is not exhaustive and does not constitute a recommendation for a holistic asset allocation of a family.

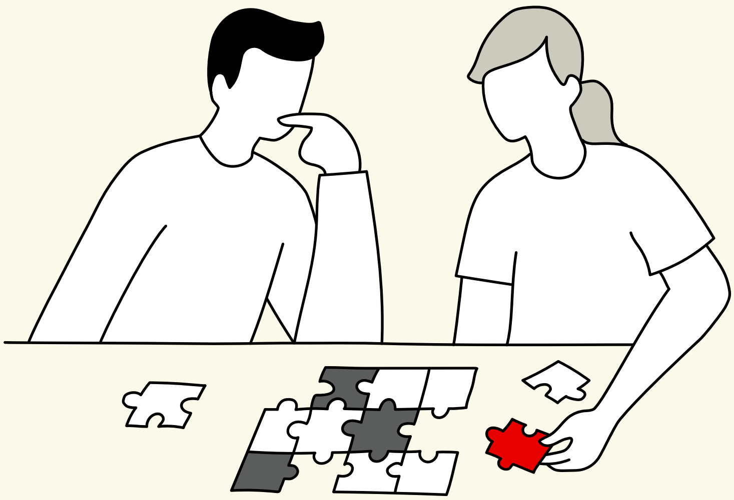
Sample investment policy statement (IPS)

The following two sample investment policy statements are for information and illustrative purposes only. They have no regard to the specific investment objectives, financial situation, or needs of any person. It is also not intended as an offer to sell; or a solicitation of an offer to buy any product or other specific service; or advice to buy any product or other specific service, or their suitability.

The purpose of this section of the compass is to provide different examples of how an investment policy statement for a family could look. Any figures, references to investment products, asset classes, and statements herein are therefore intended for illustration purposes only.

Certain services and products are subject to legal restrictions, and therefore cannot be offered worldwide on an unrestricted basis.

No investment or any other decision should be made based solely on this material. Instead these examples should be seen as first reference point for families that consider setting up their own IPS. UBS strongly recommend that each person seek legal, tax, and other professional advice. UBS does not accept any liability for any loss or damage arising directly or indirectly from using all or any part of this sample investment guideline.



Sample 1

Section 1

I. Purpose and summary

The purpose of this Investment Policy Statement (IPS) is to describe the investment philosophy and investment strategy of the [X Family], and provide investment and communication guidelines in managing the private wealth of the [X Family].

II. Goals and objectives

The investment objectives of [X Family] are to (Example):

- Preserve the portfolio's real value over a long-term investment horizon
- Seek attractive returns and achieve capital growth
- Generate X dollar in income for family liquidity needs
- […]

The asset under management, investment time horizon, possible capital in and outflows, expected loans and liabilities, and other factors affecting [X Family]'s risk tolerance has been taken into account when setting the investment objectives.

III. Asset

Managed assets as part of this IPS: [All financial assets of [X Family] under (X's individual name, X Family Trust or Holding Company)]

Non-managed assets as part of this IPS: [All shares in any of [X Family]'s listed or private companies, direct property holdings, as well as non-financial assets such as art collection, private yacht etc. under [X Family]'s (Individual name, X Family Trust or Holding Company)].

The financial assets to be included under the portfolio are listed below (Sample).

Asset Class	Holding Structure's Legal Form	Holding Structure's Jurisdiction	Custodian Bank and Booking Centre
Cash equivalents			
Fixed Income			
Equities			
Hedge Funds			
Derivatives / Structured Products			
Private Equity Funds			
Real Estate Funds			
Commodities			

Section 2

I. Investment Framework

[X Family] Investment Philosophy

Impacts

[X Family] Investment Objectives (Example)

- Preserve the portfolio's real value over a long-term investment horizon
- Seek attractive returns and achieve capital growth
- Generate X dollar in income for family lifestyle needs

Helps define

Investment Return Target

- [X%] annual return

Risk Tolerance and Guidelines

1. Acceptable Volatility Level [X% drawdown for portfolio level and X% for individual security level]
2. Portfolio Rebalancing Level [X% drawdown for portfolio level and X% for individual security level]
3. Concentration Risk Cap [X% for individual fund manager or individual security]
4. Illiquidity Risk Cap [X% of total portfolio with illiquid holdings which holding period is greater than X years]
5. Maintain a minimum liquidity margin of at least [X%] held in cash equivalents

Helps formalize

[X Family Office] Investment Process

- Portfolio Construction
- Strategic Asset Allocation
- Investment Selection
- Fund Manager Selection
- Investment Review
- Investment Reporting

Annual Review

Annual Review to ensure that investments meet objectives and purposes

II. Risk Tolerance and Guidelines

The Risk Tolerance and Guidelines should be reviewed on an [annual] basis, with any changes to be approved by the [X Family].

The below is the Risk Tolerance and Guideline:

Acceptable Volatility Level*
An acceptable volatility (unrealized drawdown) tolerance level of [X%] drawdown for a portfolio level and [X%] on an individual security level, upon which an ad hoc meeting of the investment committee should be convened to decide on appropriate next steps on a case-by-case basis.

Portfolio Rebalancing Level*
An acceptable volatility (unrealized drawdown) tolerance level of [X%] drawdown for a portfolio level and [X%] on an individual security level, upon which the portfolio requires to be rebalanced or the individual securities needs to exit as a hard stop-loss level, unless agreed otherwise by the ad hoc meeting of the investment committee.

Concentration Risk Cap
A concentration risk cap at [X%] for a single fund manager or for single securities (such as a single share)

Illiquidity Risk Cap
An illiquidity risk cap at [X%] of the total portfolio for illiquid investments that have a holding period in excess of [X] years (such as Private Equity Funds)

Liquidity Margin
The investment portfolio should maintain a minimum liquidity margin of at least [X%] held in cash equivalents for meeting short-term liquidity needs.

*Note: Monitoring is dependent on individual security's liquidity. Portfolio to be monitored on a weekly basis and limited to liquid securities only.

III. Investment Constraints

Asset Classes:	[no general restrictions]
Strategies:	[no short selling or speculation trading]
Industries:	[no tobacco, alcohol, and gaming]
Countries:	[X countries]

*Note: Investment Constraints will be reviewed on an [annual] basis. [X Family] may designate additional investment constraints on an ongoing basis through its investment committee.

IV. Strategic Asset Allocation

The Strategic Asset Allocation is based on the investment objectives set out by the [X Family] and takes into consideration the Investment Target Return, Risk Tolerance, and Investment Constraints.

The investment objectives of [X Family] is to (Example):

– Preserve the portfolio's real value over a long-term investment horizon
– Seek attractive returns and achieve capital growth
– Generate X dollar in income for family lifestyle needs
– […]

Strategic Asset Allocation

Asset Class Allocation	Target	Minimum Allocation	Maximum Allocation
Cash equivalents	x%	x%	x%
Fixed Income	x%	x%	x%
Equities	x%	x%	x%
Hedge Funds	x%	x%	x%
Derivatives and Structured Products	x%	x%	x%
Private Equity Funds	x%	x%	x%
Real Estate Funds	x%	x%	x%
Commodities	x%	x%	x%

[X Family] should rebalance the investment portfolio on an [**annual**] basis through its investment committee and investment team. This excludes portfolio adjustments that may be made from time to time.

V. Investment Selection Process

1. Strategic Asset Allocation
Investment team constructs portfolio based on Strategic Asset Allocation and views of the investment committee.

2. Investment Selection
Identify investment ideas / opportunities in accordance to the Strategic Asset Allocation for each asset class and determines the right instrument or securities to achieve intended outcome

3. Assessment
Perform due-diligence or assessment on the short-listed instruments and securities, validate against external research and establish an investment case

If investment case is rejected

4. Approval
Within approval threshold

No

Approval from investment committee

Yes

5. Execution
Order placement and settlement with the selected financial institutions

6. Review
Review and report periodically in accordance with the Strategic Asset Allocation and Investment Restrictions, while conducting annual reviews to ensure alignment with Investment Target and Family Office Objectives

For non-performing securities or investments which are no longer aligned with Investment Restriction or Strategic Asset Allocation

VI. Investment Monitoring

The [X Family] should adopt appropriate investment monitoring and reporting tools through its investment team to ensure an accurate assessment of Investment positions and Net Asset Values.

Financial Assets should be reported at mark-to-market fair value to ensure accurate assessment of the investment positions. Appropriate triggers and alert notifications should be set for volatility levels at the portfolio level and individual security level so that notifications and alerts can be sent if the acceptable drawdown level of **X% for portfolio level** or **X% at the individual security level** is exceeded.

Once the drawdown notification alert is received, an ad hoc Meeting of the investment committee should be convened to discuss on the various investment options available.

The stop-loss levels should be reviewed on a periodic basis to ensure relevancy to the market conditions of the time.

Responsible Parties: The investment team is responsible for the day- to-day investment monitoring.

VII. Investment Review

The [X Family] should conduct Investment reviews on an [annual] basis through its investment committee for the purpose of:

1. **Investment Performance:** Review if the investment performance for the year has been able to achieve the intended investment target of **X%**

2. **Investment Volatility:** Review if the maximum drawdown at the portfolio level and individual security level falls within the **X%** acceptable level. If no, how frequently did the drawdown exceed the acceptable level, and were these instances due to exceptional adverse economic situations that were unforeseeable rather than normal market conditions.

3. **Providing sufficient liquidity:** Review if the returns from the investment has been sufficient in order to meet the objectives, and whether there were sufficient liquidity to meet those objectives. If no, should a greater weight age be allocated towards fixed income/dividend strategy for more predictable cash flow with an acceptable lowering of investment return target.

Responsible Parties: The investment team with oversight provided by the [X Family].

VIII. Investment Reporting

[X Family] investment team (or outsourced reporting service provider) should prepare reports based on various pre-agreed periods.

Monthly Investment Report: The investment team (or outsourced reporting service provider) should prepare monthly reports for the investment committee, plus family representative.

Quarterly Investment Report: The investment team (or outsourced reporting service provider) should prepare quarterly financial reports for the investment committee, plus family representative, which should contain both information from the monthly reports, as well as additional comparison information including quarter-on-quarter as well as year-to-date investment performance information.

Annual Investment Report: The investment team (or outsourced reporting service provider) should prepare Annual Consolidated Investment Report and send out by the end of the first month of every new financial year for both the investment committee, plus family representative. The report should also contain any adjustments to the Investment Framework, if necessary.

Responsible Parties: [The investment team (in-house) or outsourced reporting service provider] is responsible for preparing the periodic reports.

IX. Review and Update of Investment Framework

The Investment Framework should be reviewed on an [annual] basis to ensure that:

1. The investment parameters are still in line with the family's objectives and purposes

2. The investment parameters are realistic and achievable for the current economic climate of the time and are still relevant

Ad hoc updates: In addition to the Annual Review of the Investment Framework, the investment team, or family representative may request for urgent updates to the Investment Framework on an ad hoc basis based on urgent economic or family circumstances.

Approval Procedure for changes: As the Investment Framework is a critical governing component for the family, approval is required by the family representative for any changes, either during the annual review or ad hoc changes.

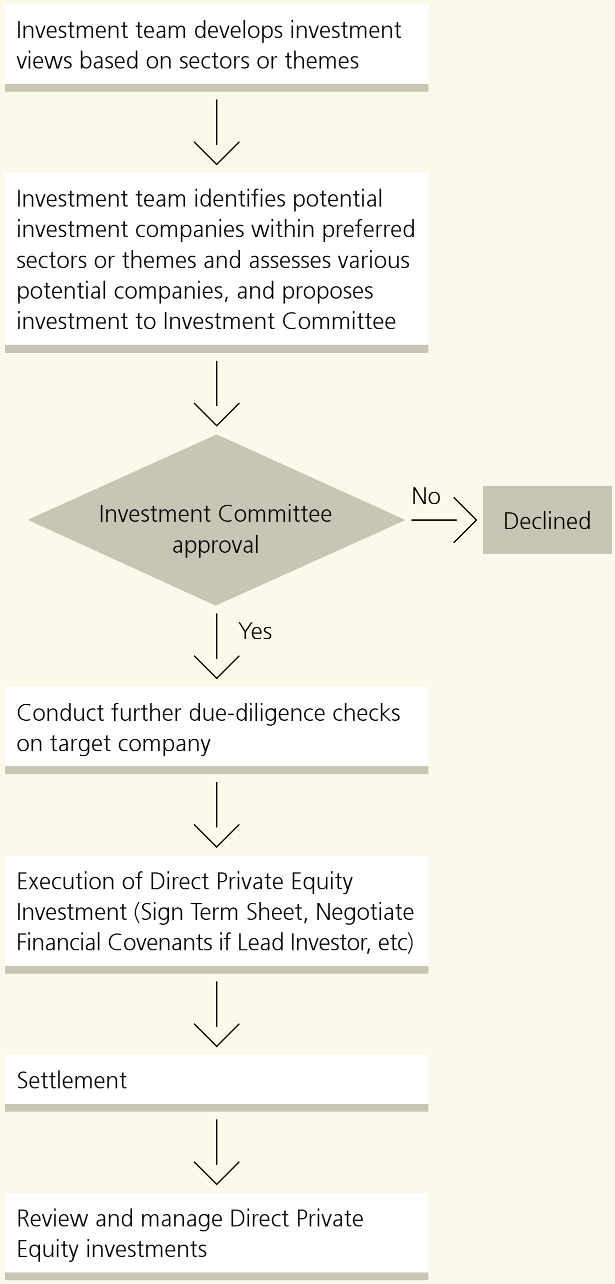
Responsible Parties: The investment team, in conjunction with the investment committee, plus family representative.

Appendix 1: Responsible Parties

	In-House	Outsourced
Investment Research		•
Investment Selection	•	•
Investment Monitoring	•	•
Investment Review	•	•
Investment Reporting		•
Investment Framework Review	•	•
Investment Framework Update	•	
Investment Policy Statement Review	•	•
Investment Policy Statement Update	•	•
Custody and administration of assets		•

Appendix 2: Investment Selection Process

(for Direct Private Equity only)



Sample 2

Section 1

I. Purpose and summary

The purpose of this Investment Policy Statement is to define and formalize the investment guidelines of the portfolio. As such this document aims to create a common understanding of the overall goals, principles, and accountability standards for all relevant stakeholders.

The following items outline the general guiding principles of our investment approach. They are likely to evolve over time.

Main investment goal: real capital preservation and income distribution.

Strategic asset allocation (SAA): this will be the most significant determinant of the risk and return of our strategy.

Tactical asset allocation (TAA): will be used to take advantage of potential market dislocations both to generate additional returns or to mitigate risks

Implementation: our philosophy is to have an open architecture

Investment architecture: we will rely on several financial institutions to provide best execution, booking center diversification or any other services we might deem appropriate.
Diversification: implemented on multiple levels, such as asset class, geography, and investment drivers.

Simplicity: keep the portfolio structure simple.

Leverage: we might use leverage or Lombard facility to provide additional returns or liquidity

II. Goals and objectives

These investment guidelines reflect our preferences and describe our goals and objectives for the assets identified below. The guidelines are based on our long-term goals, purpose of wealth, investment objectives, risk tolerance, and investment preferences.

Overall objectives

- Our investment objective is to seek the best risk-adjusted returns consistent with our objective of real capital preservation and income distribution in USD over or multi-generational investment horizon.
- We will achieve this through a carefully planned and executed long-term investment program that allocates and manages the common assets efficiently and effectively.
- The portfolio aims to generate USD 10 million in income for lifestyle needs and to finance asset management related expenses.
- Investment recommendations should have a sound rationale and be consistent with the clients' specific goals and objectives.

When establishing the investment objectives, we have accounted for the time horizon, possible inflows, expected liabilities, and other factors affecting our risk tolerance.

Investment portfolio objectives

- Invest in global financial assets with a bias to US fixed income and alternative investments.
- We prefer liquid and transparent assets outside of private equity holdings.
- Our team makes all investment decisions.
- External consultants will be actively involved in establishing and monitoring the strategic asset allocation and investment objectives of the investment.
- The long-term investment horizon is 10 to 15 years.
- There is an expected outflow of cash of USD 10 million each year.

Return expectations

Our desired long-term return expectations are as follows:

- Annualized gross return of at least 6% over a 10 to 15-year time horizon.
- Annualized return growth over inflation (CPI – consumer price index), investment management expenses, and taxes of at least 4%.
- In real terms, the investment portfolio shall generate USD 10 million per year.

Performance will be measured in USD.

Risk tolerances

Drawdowns shall not exceed 10% in any rolling two- year period.

Other constraints and implementation guidelines

- No more than 6% of the total assets with a liquidity constraint beyond 12 months.
- No more than 5% of total assets in one investment.

Section 2

Asset allocation

Strategic asset allocation exposure targets are:

	Strategic targets (10 to 15 years)		
Asset classes	**Target**	**Min**	**Max**
Developed market equities	10%	0%	12%
Emerging market equities	3%	0%	10%
High quality bonds	5%	0%	10%
Investment grade bonds	40%	35%	65%
High-yield bonds	10%	0%	25%
Emerging market bonds	2%	0%	10%
Hedge funds	12%	5%	20%
Private equity/Real estate	5%	0%	10%
Commodities	5%	0%	10%
Cash equivalents	3%	0%	20%

Each asset class must be diversified.

Strategic asset allocation targets are based on our goals and objectives, and the characteristics and attractiveness of the major asset classes. We should review strategic asset class targets yearly, or when significant events affect global capital markets. The investment target should move within a certain range. The portfolio will be rebalanced to SAA weights to correct asset class drift.

Section 3

Measuring investments

We measure the investments using these benchmarks:

Asset classes	Benchmark
Developed market equities	MSCI World
Emerging market equities	MSCI Emerging market
High quality bonds	Bloomberg Eurodollar AA+ 5-10y
Investment grade bonds	Bloomberg global aggregate corporate
High-yield bonds	ICE BofA US High Yield Master II Constrained
Emerging market bonds	JPM CEMBI Diversified
Hedge funds	HFRI fund of funds composite
Private equity/Real estate	Cambridge global private equity
Commodities	UBS Bloomberg commodity index
Cash equivalents	FTSE USD Euro Deposits 3M

Operational guidelines

- To obtain low-cost coverage, or if we cannot identify outperforming active managers, use passively managed ETFs (exchange-traded funds)/index funds or other low-cost trading alternatives across asset classes whenever available.
- Implement investments in external managers specialized in asset classes, with a preference for those with an institutional infrastructure.
- Maintain a reliable and customized investment reporting system to:
  - track the goals and objectives
  - measure performance, including benchmarks, peers, and absolute return analysis
  - monitor markets, managers, and other relevant risks including, but not limited to, consolidated exposures and liquidity

III. Organizational structure – roles and responsibilities

This section describes the desired organizational structure to manage the investments, and the roles and responsibilities.

The table describes the main participants in the investment process. Please note that our choice of people and organizations is as important as our strategy. We should analyze, evaluate and monitor any external providers and consultants as carefully as if they were investment managers.

Participants	Description	Composition
Advisory board	Professionals with oversight responsibilities and experience	– Trustee – External advisors (such as legal, tax, and investment)
Investment committee	Senior professionals with deep understanding of the investment issues and family circumstances	– Trustee – Family representative
Investment team	Investment professionals, advisors and/or consultants	– Trustee – Family representative – Advisors
External consultants	Organizations hired to help select managers, perform due-diligence, and allocate assets	– Advisors – Hedge fund consultant – We will consider additional consultants if they are determined to provide quality advice
Reporting and administration	Administrative professionals	– Internal and external professionals
Reporting providers	External organizations helping the reporting team manage information	– Custodian banks – Independent administrator – Software solution

Glossary

Alpha
A ratio that expresses the risk-adjusted performance of an investment. If the average return on a security or portfolio is larger than its expected return, the alpha is positive. If the average return is smaller than expected, the alpha is negative.

Alternative investments
Investments outside of traditional asset classes like equities and bonds.

Asset allocation
The composition of an investment portfolio by currency and asset class.

Asset class
Any collection of assets that reacts in a unique way to the fundamental drivers of the economy. The most important asset classes are equity, fixed income, money market investments, hedge funds and real estate.

Benchmark
A reference (for example, a share index or portfolio of indexes) that enables investors to compare a portfolio's performance. A benchmark that is an index is also called a reference index.

Beneficiaries (trust)
The beneficiaries are the persons who may benefit from the trust. In the case of a trust set up primarily for family succession planning, the beneficiaries will generally be the settlor and his or her family but could also include a charity or other people.

Correlation
A statistical measure of the linear relationship between two variable data points (for example, the performance of a security and of the overall market). A positive correlation means that, as one variable increases, the other also tends to increase. A negative correlation means that as one variable increases, the other tends to decrease. The scale of correlation ranges from +1 (perfectly positive) to –1 (perfectly negative). A correlation of zero indicates that there is no linear relationship between the two variables.

Derivative
A security with a price that depends on – or is derived from – one or more underlying assets. The derivative is a contract between two or more parties based on the asset/s. Fluctuations in the underlying asset/s determine the derivative's value. The most common underlying assets include equities, bonds, commodities, currencies, interest rates and market indexes.

Diversification
A strategy of spreading an investment across different assets and asset classes to reduce risk to the portfolio.

Drawdown
The peak-to-trough decline of an investment during a specific period. It is usually quoted as a percentage.

Duration
The price sensitivity of a fixed income security to an interest rate change of 1%. Duration is measured in years but should not be confused with the maturity of a bond. For all "straight bonds", the duration is shorter than maturity, apart from "zero bonds", where the duration is equal to maturity.

Hedge funds
Private collective investment vehicles that are active in global capital markets. They are oriented towards absolute returns and aim to achieve capital appreciation. Hedge funds use various investment techniques and are lightly regulated. They also often accept only a very limited number of investors, to ensure the investment strategy remains flexible. Hedge funds are categorized according to their asset classes (equities or bonds); geographic or thematic orientations; and strategies (such as arbitrage, macro, event driven or opportunistic).

High-yield bonds
Bonds rated BB+, Ba1 or below by the leading credit rating agencies, or those of comparable credit quality. Because of their inferior creditworthiness, high-yield bonds offer a higher return than bonds with better credit ratings. However, they also involve higher risks. They are mainly issued by companies and emerging market entities.

Inflation
The increase in the general level of prices and a decrease in the purchasing power of money.

Letter of wishes (trust)
In administering a discretionary trust, the trustee may receive guidance from the settlor. This usually takes the form of a letter of wishes addressed to the trustee. In this letter, settlers can set out their wishes concerning distributions to be made to beneficiaries as well as other matters. Settlers may amend the letter from time to time as their family or personal circumstances change. Although this letter does not form part of the trust deed and is not a legally binding document, it is intended to assist the trustee in the administration of the trust

Leverage
Using debt (borrowed funds) to increase returns from an investment.

Market cycle
Market cycles include four phases of growth and decline, driven by business and economic conditions. Market cycles in stock markets refer to the recurring sequences of accumulation, markup, distribution and markdown of stock prices.

Options
The buyer of an option acquires the right - but not the obligation – to buy (call option) or sell (put option) a specified amount of a certain underlying instrument at a predetermined price on or by a specified future date. The buyer pays the seller of the option a premium (option price) for this right.

Put writing
Put writing, commonly referred to as selling put options, is an options trading technique that has various advantages for both traders and investors. In this technique, put options are sold on underlying assets in the hope that they will expire worthless or may be repurchased at a discount.

Private debt
Private debt typically involves buying non traded debt from corporations below investment grade. The main strategies are direct lending (where loans are typically floating-rate and senior in the borrower's capital structure, though subordinated positions are also possible); special situations (a broad category of strategies that provide capital during market dislocations or for unique opportunities, such as rescue financing for stressed borrowers experiencing liquidity issues); distressed debt (buying debt from companies near or in bankruptcy); and specialty finance (niche opportunities in areas such as consumer loans, equipment financing and aviation financing).

Private equity
Privately negotiated transactions in public or private companies with a view to increasing their value and directly influencing the timing of the exit from the investment. Private equity firms can invest in companies at various stages of their development, from financing startups (venture capital) and providing capital to rapidly growing businesses (growth capital) or leveraged purchases of mature businesses (buyouts).

Private real estate
Private real estate investments span various core, value add and opportunistic strategies. Core real estate aims to generate recurring rental income from high quality properties and tenants in prime locations. Value add focuses on properties that require some level of lease-up, refurbishment, repositioning, or other actions to enhance the property's value. Returns are driven by a combination of income and capital gains. Opportunistic strategies target properties with high redevelopment potential. Properties range from ground-up development (greenfield and brown field) to complex turnaround situations and distressed situations. A substantial proportion of returns arises from capital gains.

Protector (trust)
Some settlors choose to appoint a protector for their trust. The protector may be a close family friend or adviser of the settlor. The protector's role is described in the trust deed and, as the term suggests, is normally to ensure that the interests of the beneficiaries are safeguarded in line with the settlor's intentions.

Risk
Exposure to damage or financial loss, for example, a fall in the price of a security, or insolvency on the part of a creditor. Financial market theory measures the risk of an investment or portfolio by the degree of expected return fluctuations.

Settler (trust)
The settlor is the person who establishes the trust by transferring assets to the trustee to hold under the terms of the trust deed.

Strategic asset allocation (SAA)
A portfolio defined at the asset class level that aims to offer the best risk-return trade-off for a given level of risk over the long-term.

Tactical asset allocation (TAA)
A temporary deviation from a long-term, strategic investment strategy to take advantage of short to medium-term market opportunities without altering the end goal.

Trust
A trust is a legal relationship between a trustee and a settlor by which the settlor transfers his or her assets to the trustee and which binds the trustee to administer these assets in the best interests of the beneficiaries of the trust.
Trustee The trustee is the legal owner of the trust assets. In many common law jurisdictions, any individual or company may act as a trustee and thereby take on the fiduciary duties and responsibilities of a trustee. The overriding duty of a trustee under the law is to take care of a trust's assets in the best interests of the beneficiaries. A failure in that duty may mean that the trustee could be liable for a breach of trust and be held responsible by the beneficiaries for any resultant loss.

Types of trust
The main form of trust found in onshore and offshore jurisdictions is a 'discretionary' trust that may be revocable or irrevocable. In its usual form, it will provide the trustee with discretion in carrying out its duties and exercising its powers to deal with changing family, business or political circumstances during the trust period. The trust concept is, of course, primarily designed to preserve assets through succeeding generations.
The other commonly encountered form is a 'fixed interest' trust that defines the interests of one or more of the beneficiaries in the trust deed. For example, a beneficiary may have a right to the income of the trust fund during his or her lifetime, i.e. a vested interest. Again, the trust may be revocable or irrevocable.
A mixture of the above is also common. For example, a trust might start out as a discretionary revocable trust but, upon the occurrence of a certain event, may become irrevocable with defined interests in income for certain beneficiaries during their lifetimes, with further discretionary trusts to follow in their demise.

Trust deed
The trust deed is a written document that sets out the powers and duties of the trustee and defines the beneficiaries and trust assets. The trust deed may contain specific provisions as to beneficiaries' entitlements or it may leave this to the trustee's discretion.

Trust property / fund
The trust property (also known as the trust fund) is the assets held by the trustee on trust for the beneficiaries to which the terms of the trust apply. This is typically an investment portfolio of bankable assets.
Underlying company (trust) The trust property is typically held through an underlying company rather than directly by the trustee. The underlying company may be wholly owned by nominees of the trustee on behalf of the particular trust.

Volatility
A measure of the fluctuations in the rate of return of a security within a specific period. Usually stated as an annualized standard deviation.

For further explanations, please visit our UBS Dictionary of Banking at **ubs.com/glossary**.

More UBS Compasses

UBS Family Strategy Compass and Toolkit

This compass is UBS's house view on family strategy and governance. It allows families to better understand and define the family's identity and strategy around its values, purpose, vision and mission. It also provides guidance for the creation of a family governance system that helps to enforce ownership and engagement principles, as well as things like family support plans and cohesion measures through effective governing bodies.

The accompanying toolkit supports clients in reflecting on key questions and develop first ideas for solutions by providing lists with various types of questions.

UBS Philanthropy Compass

Our UBS Philanthropy Compass is inspired by our interactions with families and individuals around the globe who are driven by their passion for making the world a better place. Here, we share what we've learned, over the 25+ years we've been walking clients through key questions and considerations. We relay some pitfalls and aim to inspire you to take a more radical approach to your philanthropy through an interactive workbook compass.

UBS Family Office Compass

This compass is UBS's house view on the setup of a single family office and takes wealth owners step-by-step through the design and establishment process of a single family office.

It discusses aspects around the objective of the family office, family member involvement, assets under management, in- or outsourcing of services and functions, jurisdiction and corporate structure, organizational set up and staffing, investment strategy and process, operations, infrastructure and technology, and financial reporting.

UBS Collector's Compass

This compass is a 'how-to' guide covering all the most important topics around the life cycle of a collection. Whether it be defining your purpose, developing a governance strategy, planning for the future or navigating generational transitions and cultural philanthropy, we will help you build and manage your collection with confidence.

About us

Managing wealth is our craft

Looking after wealth demands time, dedication and passion. With UBS, you'll benefit from our decades of experience helping family offices pursue what matters to them most.

We understand the unique needs of family offices and we craft personalized financial solutions that help them protect and grow their investments, powered by insights from our Chief Investment Office. As a leading and truly global wealth manager, present in every major market, we can connect our clients with their peers, and leaders and experts who can inspire and empower them to achieve their ambitions. And we're uniquely placed to draw on our knowledge and experience to give our clients unmatched intelligence to inform their financial decisions.

Helping our clients make the most of their lives by taking care of their wealth and investments. That's what wealth management means to us. Because at UBS, wealth management isn't just one thing we do. It's who we are. Find out more about our solutions for family offices at: **ubs.com/family-office-uhnw**

UBS Family Advisory

Since 2002, UBS's dedicated Family Advisory team has been advising families globally on wealth continuity with a focus on family strategy, family governance and family office setups. The bespoke consultancy services span from design to implementation, and include developing family constitutions, establishing family decision making bodies, supporting in setting up and reviewing single family office arrangements.

UBS Great Wealth Advisory

The UBS Great Wealth Advisory team consists of internationally experienced specialists who support some of the largest global Ultra High Net Worth and Family Office clients in designing or evolving their bespoke investment strategies. It guides them in all aspects related to the planning, implementation, and monitoring of their investment portfolios, by leveraging the entire solutions suite of UBS across Wealth Management, Investment Banking and Asset Management.

UBS Chief Investment Office

Established in 2011, the Chief Investment Office has been a key part of UBS GWM's aim to bring institutional quality advice to our private wealth clients. We identify and communicate investment opportunities, as well as market risks to support you in preserving and growing your wealth.

UBS Wealth Planning

UBS Wealth Planning consists of a dedicated team of legal and multi-jurisdictional tax specialists combining global expertise and premium execution capabilities to address your total wealth needs. UBS Wealth Planning works with clients and their independent legal and tax advisors to navigate this complexity, however it does not provide tax or legal advice.

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