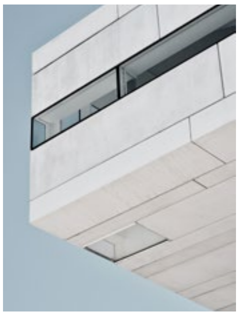
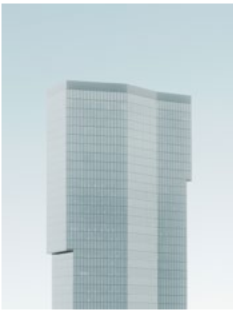
Global Family Office Report

2022

UBS

Content





Foreword

We are pleased to present this year's Global Family Office Report, as we once again share insights from our family office clients around the globe. This is the third year of compiling the report entirely in-house. Thanks to our unique client base, it provides the world's largest and most comprehensive study of single family offices. This year, we have increased our survey size to 221 single family offices that collectively oversee wealth of USD 493 billion and have average assets under management of USD 2.2 billion.

We are observing a period of substantial transformation in many areas. The COVID-19 pandemic, digital disruption and geopolitical developments are all driving profound change for global businesses and financial markets. In response to these risks and uncertainties, family offices are reviewing their options with greater urgency.

A strategic shift first observed last year is gaining pace. Amid continued inflationary pressure and low expected returns, family offices are seeking both additional sources of return and alternative diversifiers. Private equity stands out as an asset class with high expected returns and is the only asset class which has attracted higher allocations year after year. Family offices invest directly where they have an edge, often as an extension of the beneficial owner's business interests. Funds are typically used as a way of complementing these direct investments by spreading risk. However, direct investments are gaining traction, albeit from a lower base.

Alongside these established trends, there are some new developments. In an environment where macroeconomic forces such as loose central bank policies and liquidity will likely imply lower nominal returns, family offices are increasingly seeking out additional returns with active fund managers.

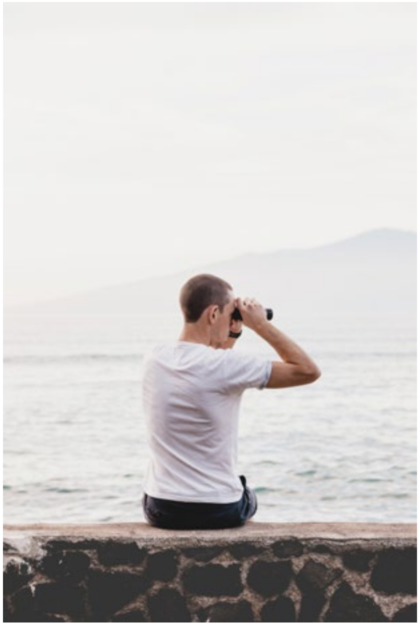
The growth of sustainable investing is on pause as family offices become more selective and increase their due diligence in order to identify greenwashing and measure their impact. Family offices are also turning their attention to digital assets, with a preference for distributed ledger technologies over cryptocurrencies. Yet these are early days for this type of investment, and we should not confuse curiosity with commitment.

Against a volatile backdrop, family offices also expect their costs to rise over the next few years. For the larger offices, however, there are economies of scale.

We should like to thank the families, executives, and advisors who contributed to this report. We have also incorporated your feedback to ensure that we cover the topics that matter most to you. If you have any views on the findings or would like to suggest topics for us to cover in the next edition, we welcome your thoughts. We hope you enjoy the report and its insights.

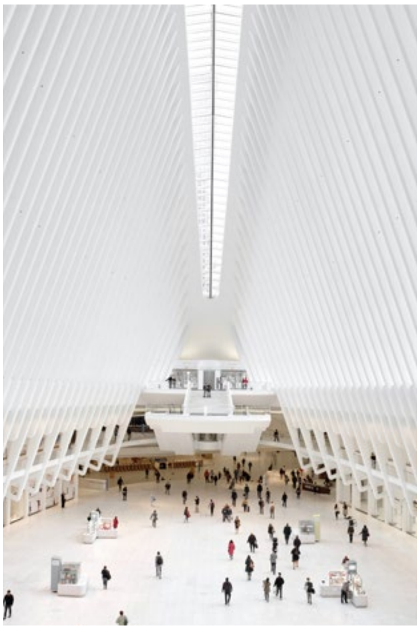
Josef Stadler
Executive Vice Chairman
UBS Global Wealth Management

Executive summary



Exploring new options in unpredictable times

In uncertain times for the economy, family offices are reviewing their options. Most believe uncorrelated returns will be hard to find, especially if high-quality fixed income no longer delivers meaningful diversification. As they reduce fixed income allocations, they're sacrificing liquidity for returns, increasing investments in private equity, real estate and private debt. In a departure from recent years, they're also seeking out more active strategies.



Inflation, global geopolitics and high valuations top concerns

With most family offices' primary objective remaining to grow wealth, the changing economic landscape is causing concern. Notably, there's anxiety about high and rising inflation at a time of unstable global geopolitics – especially as some asset valuations remain at elevated levels.

Private equity a favored source of return

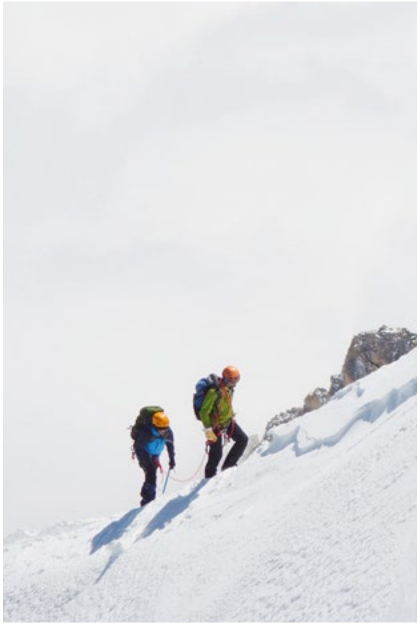
Attracted by private equity's potential for higher returns than public equity markets and a growing opportunity set, more family offices than ever are investing in the asset class. They're allocating their capital between direct investments and funds, typically making direct investments where they have expertise and using funds for diversification or to scale investments across geographies and sectors.

Taking a selective approach within sustainable investing

More than half of family offices make sustainable investments, and they're becoming more selective as they refine the purpose and objectives they want to reflect in portfolios. Due diligence is intensifying as they seek to avoid greenwashing and tackle the challenge of measuring impact.

Crypto-curious rather than crypto-committed

Many family offices are investing in distributed ledger technology to learn instead of earn. They plan to invest more in distributed ledger technology applications such as blockchain rather than cryptocurrencies like Bitcoin. Alert to the disruptive potential of blockchain, they're keen to understand the technology and its business applications.



Costs of family offices' core activities set to rise

With costs rising, family offices will continue to focus on their core activities. More than 70% conduct asset allocation, risk management and accounting and reporting in-house. Increases in costs are expected over the next three years, with the greatest rises in the area of their biggest overheads: staff. More than half expect staff costs – including salaries and bonuses – to rise.

Asset allocation and portfolio construction: exploring new options in unpredictable times

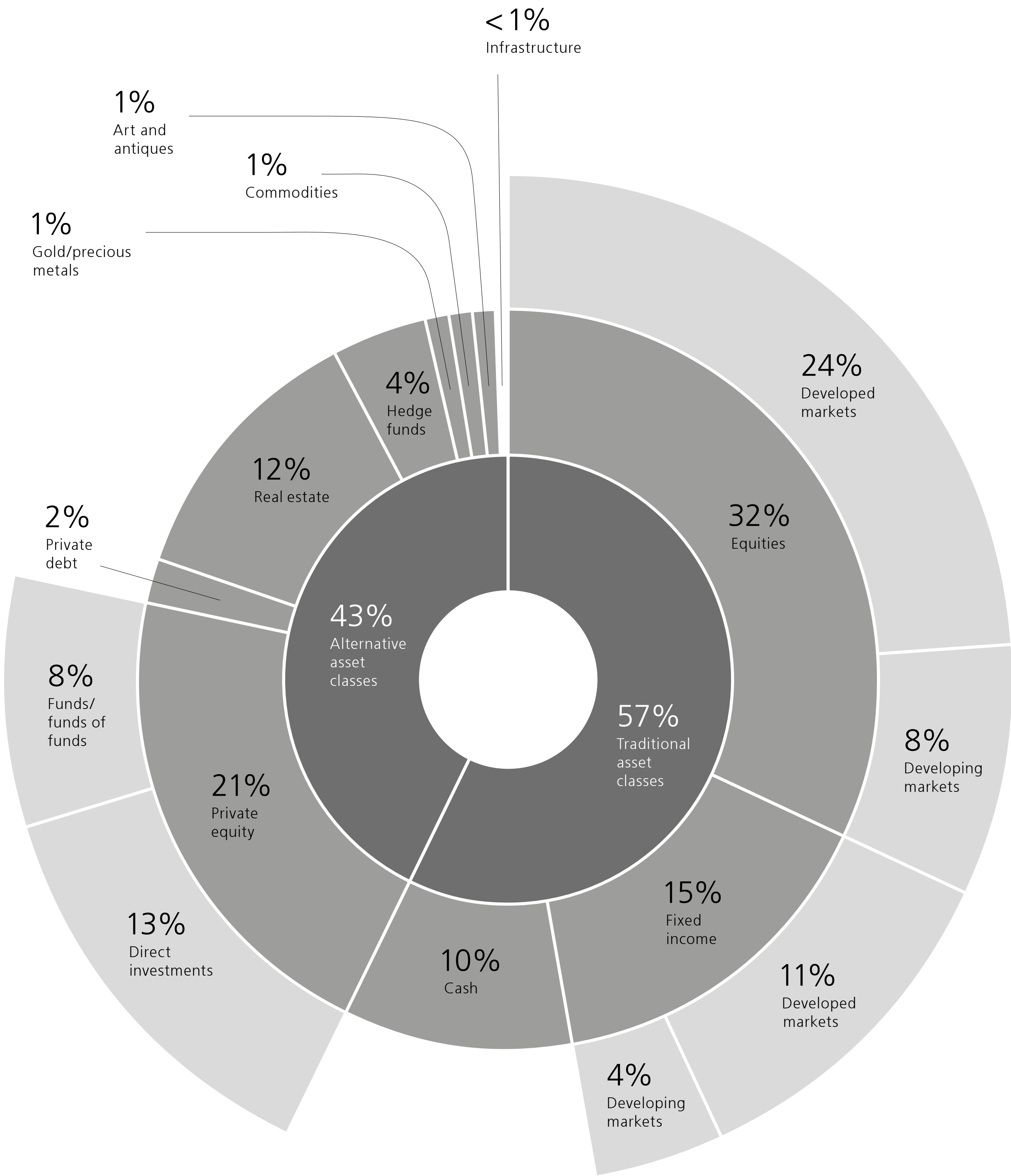
Key findings

With inflation high, central bank liquidity flagging and interest rates rising, family offices are reviewing their strategic asset allocation. They're reducing fixed income allocations and sacrificing liquidity for returns, as they increase investments in private equity, real estate and private debt.

Topping their list of concerns are high and possibly persistent inflation, alongside unstable global geopolitics – all at a time when the valuations of many financial assets remain elevated.

Against this backdrop, most believe uncorrelated returns will be harder to find. As they explore new possibilities, they're looking for alternative diversifiers including active strategies, alongside illiquid assets and derivatives.

Strategic asset allocation 2021



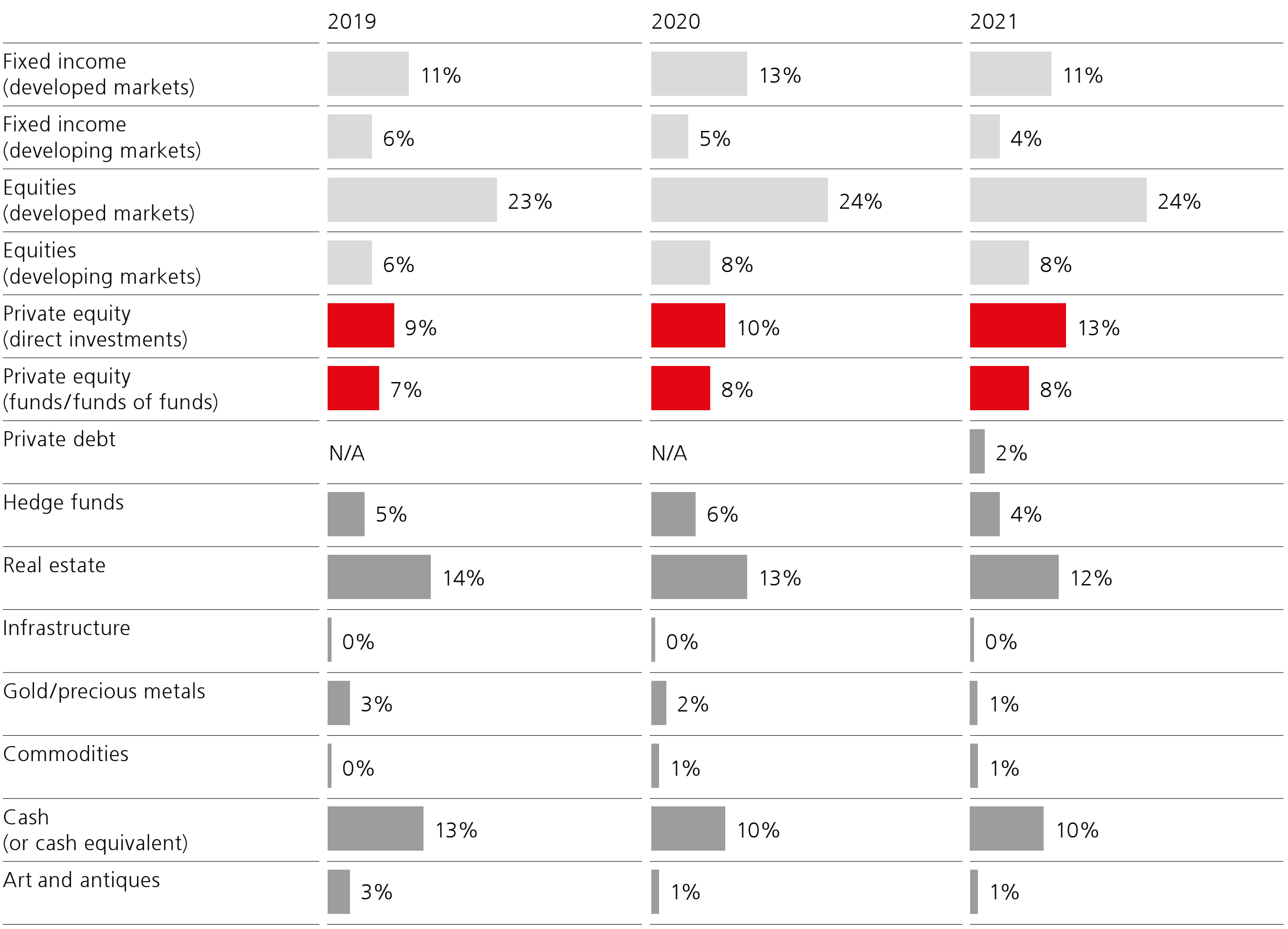
Reviewing strategic asset allocation
In one of the most uncertain periods for financial markets in several decades, family offices are reviewing their strategic asset allocation (SAA). A new era is beginning: the tail winds that supported asset prices through the pandemic are fading as central banks raise interest rates and withdraw liquidity against a backdrop of resurgent inflation.

In 2021, SAA remained stable, largely unchanged since 2019, although changes are likely in future (see below). Approximately a third (32%) of portfolios was allocated to equities, around a seventh (15%) to fixed income and 12% to real estate. Cash was 10% and hedge funds 4%, with 2% in private debt, and gold and commodities both at 1%. Private equity was an exception – continuing its steady rise from a 16% allocation in 2019 (funds and direct investments) to 21% in 2021.

Yet family offices evidently anticipate that attaining their goals will become more challenging, with over three quarters (77%) having an objective of growing overall wealth.

Strategic asset allocation has remained stable

Private equity is the exception



Regional breakdown of strategic asset allocation for 2021

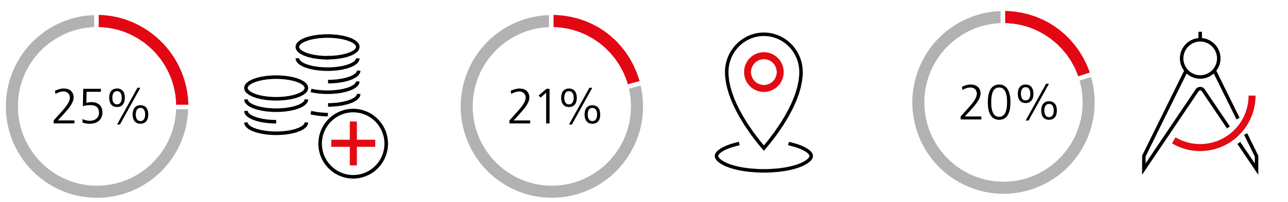
Allocation varies by region

	Global	US	Latin America	CH	Western Europe	Middle East and Africa	Asia-Pacific
Traditional asset classes							
Equities	32%	36%	39%	33%	35%	26%	33%
Developed markets	24%	33%	28%	26%	27%	19%	18%
Developing markets	8%	3%	11%	7%	8%	7%	15%
Fixed income	15%	10%	28%	8%	16%	12%	15%
Developed markets	11%	8%	21%	7%	12%	9%	9%
Developing markets	4%	2%	7%	1%	4%	3%	6%
Cash (or cash equivalent)	10%	5%	5%	11%	9%	13%	12%
Alternative asset classes							
Private equity	21%	33%	17%	24%	17%	20%	19%
Direct investments	13%	24%	10%	15%	8%	13%	14%
Funds/funds of funds	8%	9%	7%	9%	9%	7%	5%
Real estate	12%	8%	7%	15%	11%	22%	11%
Hedge funds	4%	3%	4%	3%	6%	4%	3%
Private debt	2%	2%	1%	1%	2%	2%	2%
Gold/precious metals	1%	0%	0%	3%	2%	1%	1%
Commodities	1%	1%	0%	0%	2%	0%	1%
Art and antiques	1%	0%	0%	2%	1%	0%	1%
Infrastructure	0%	0%	0%	0%	1%	0%	1%

When asked about their key concerns, three issues stand out: rising inflation (according to 25%), global geopolitics (21%) and valuations (20%). Levels of anxiety about each of these factors rise and fall depending on where a family office is based. Latin Americans are the most concerned about inflation (50%), while global geopolitics is on the minds of Swiss and Middle Eastern offices (both at 36%). In the US, high asset valuations (31%) rank a close second to inflation.

Inflation, geopolitics and valuation become key concerns

Main worries vary by region



Δ 2021 +14%

Rise in inflation rates

Δ 2021 +9%

Global geopolitical circumstances

Δ 2021 –5%

Valuations across asset classes

	US	Latin America	CH	Western Europe	Middle East and Africa	Asia-Pacific
Rise in inflation rates	35%	50%	4%	30%	16%	10%
Global geopolitical circumstances	8%	17%	36%	13%	36%	20%
Valuations across asset classes	31%	13%	18%	13%	28%	23%

Private equity allocations rise further

Changes in asset allocation in the next 5 years

	Net* 2021	Net* 2022	Increase	Stay the same	Decrease	Don't plan on investing in this asset class
Fixed income (developed markets)	–18%	–4%	25%	34%	29%	12%
Fixed income (developing markets)	3%	8%	24%	43%	16%	18%
Equities (developed markets)	35%	29%	42%	44%	13%	1%
Equities (developing markets)	56%	28%	38%	46%	10%	6%
Private equity (direct investments)	42%	42%	51%	35%	9%	5%
Private equity (funds/funds of funds)	26%	38%	44%	40%	6%	10%
Private debt	N/A	27%	30%	51%	3%	16%
Hedge funds	16%	11%	22%	53%	11%	15%
Real estate	22%	37%	45%	39%	8%	8%
Infrastructure	23%	25%	27%	48%	2%	23%
Gold/precious metals	10%	4%	11%	59%	8%	22%
Commodities	9%	10%	14%	57%	4%	24%
Cash (or cash equivalent)	–18%	–15%	18%	46%	32%	4%
Art and antiques	8%	10%	13%	52%	3%	32%

*Net equals increase minus decrease

"We're worried about the mixed signals on the economy," notes one US family office manager. "The administration is clearly overspending at the fiscal level. Are we going into recession? What's consumer spending signaling? I don't know. The data is all over the map. So, we're not making dramatic changes."

Looking to the future, some family offices are exploring incremental shifts in SAA, venturing further into the private markets they've been investing in during recent years. Notably, with inflation rising and bond yields close to record lows, they're continuing to review the role of fixed income and cash. Over five years, 19% plan to further decrease investment into cash and developed market fixed income.

Some family offices interviewed have been cutting back on fixed income for several years, reflecting a long-term approach. "Fixed income used to be a cash-generating part of our portfolio," explains a Middle Eastern family office manager. "But with yield compression it's no longer as attractive as it used to be. We stopped allocating and kept existing assets to maturity. It used to account for about 30% of the portfolio but now is less than 10%."

As family offices review their options, they're foregoing liquidity for return. Some 42% plan to increase direct private equity investments, while 38% intend to raise investments in private equity funds and funds of funds. Real estate is favored by 37%, while 27% are turning to private debt.

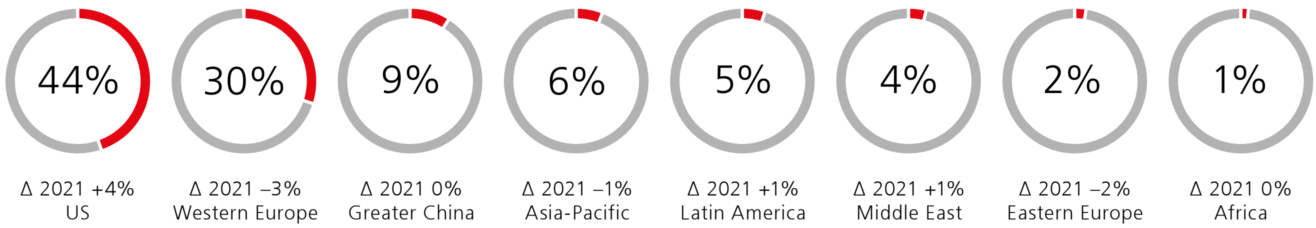
Commodities play a small part, but 10% of family offices state that they plan to raise allocations. Commodities typically offer a hedge against underlying supply/demand constraints, as well as inflation more broadly.

When adjusting to today's mercurial markets, some family offices overlay their SAA with tactical asset allocation. Approximately four out of five (79%) family offices make tactical switches, with just under half (49%) of them doing so for up to 9% of portfolios in a year and most of the rest (45%) switching up to a quarter.

Turning to Asia's growth economies, fewer family offices plan to increase their allocations to China over the next five years than before. More than a third (39%) intend to raise allocations, compared with almost two thirds (61%) in 2021: it appears that the country's regulatory measures and signs of stress in the real estate sector have blunted last year's high levels of enthusiasm.

Family offices have a strong home bias

Asset allocation by region



	US	Latin America	CH	Western Europe	Middle East and Africa	Asia-Pacific
US	79%	54%	28%	34%	37%	35%
Western Europe	8%	18%	60%	46%	23%	9%
Greater China	5%	4%	3%	5%	7%	40%
Asia-Pacific (excl. Greater China)	3%	3%	3%	7%	2%	15%
Latin America	4%	18%	2%	2%	3%	0%
Middle East	0%	0%	1%	1%	26%	0%
Eastern Europe	1%	1%	3%	3%	1%	0%
Africa	0%	0%	0%	2%	1%	0%

% Home investment


Brooklyn Interior

"In China, we're worried about the way the government has handled the technology sector and real estate," explains a Singapore-based family office manager. "Historically, the government has stepped in to help sectors that are having difficulties but there's little sign of that as yet."

For one US family office manager, there are simply too many practical difficulties. "I struggle allocating capital into China when I can't visit the managers," he explains. "So, we have stopped investing until we can physically go there."

Asia-Pacific excluding Greater China remains as attractive as ever: half (50%) plan to increase investments there, almost in line with 2021 (54%). There's a clear home bias, with Asia-Pacific family offices already allocating 40% of portfolios to Greater China and 15% in the rest of Asia. By contrast, US investors have 79% in North America, while Swiss and Western Europeans respectively allocate 60% and 46% to Western Europe.

Allocations to Greater China still rising although to a lesser degree

Asset allocation changes by region over 5 years

	Net* 2021	Net* 2022	Increase my investments in this region	Stay the same	Decrease my investments in this region	Don't plan on investing in this region
Western Europe	16%	15%	27%	58%	12%	2%
Eastern Europe	4%	9%	12%	66%	2%	20%
Middle East	4%	5%	10%	61%	5%	24%
Africa	10%	14%	16%	57%	2%	24%
Latin America	16%	6%	14%	63%	8%	16%
North America	23%	23%	32%	58%	9%	1%
Greater China	61%	39%	44%	47%	5%	5%
Asia-Pacific (excl. Greater China)	54%	50%	51%	45%	1%	4%

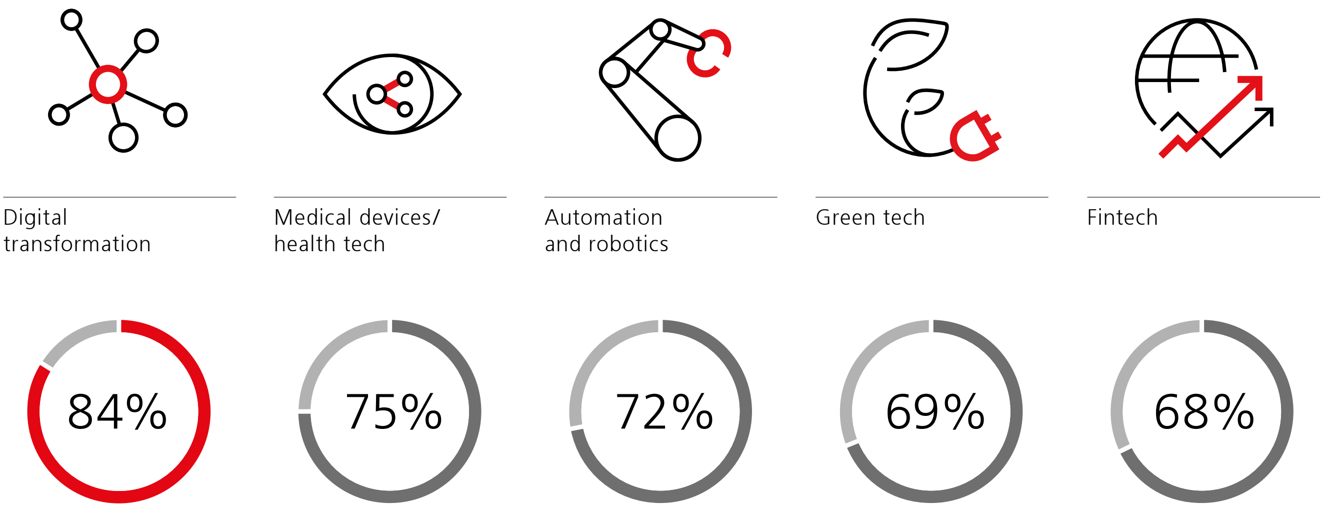
*Net equals increase minus decrease

Mindful of the disruptive power of the Fourth Industrial Revolution, family offices are investing in technology.

Digital transformation is the theme that resonates most, according to 84%. This spans e-commerce, data, AI, the cloud and block-chain. Regionally, Western European family offices favor a different theme: medical devices and health tech.

Digital transformation is the investment theme that resonates most

Popular global investment themes



Uncorrelated returns thought hard to find

With inflation shooting up, there's less reliance on traditional diversification techniques to protect portfolios. Almost three quarters (71%) of family offices say it's hard to find uncorrelated returns today.

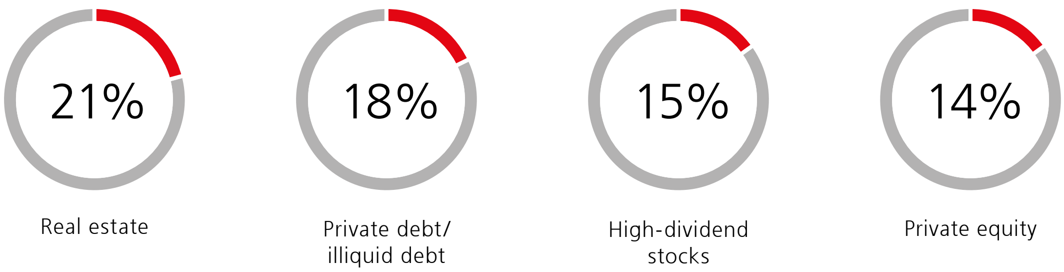
While greatest in the US and Latin America, this concern is high globally. Reflecting low bond yields, almost two thirds (63%) say they no longer think high-quality fixed income helps diversification. That helps explain some pessimism about the outlook: only a fifth (22%) think they can invest as they did in the past and expect the same returns.

Beyond diversification, family offices are also looking for fresh forms of yield. While it's illiquid, real estate is the preferred replacement, according to just over a fifth (21%) of family offices. But this varies somewhat depending on regional investment cultures. In the US and Western Europe, private debt is the most popular source of unconventional yield, as loans' relatively high floating rates and low correlations with public markets appeal in today's market environment.

Faced with the end of several decades of disinflation and the weakening of tail winds that lift all assets, there's a hunt for effective active strategies to enhance portfolio construction. In fact, half (50%) of family offices is either relying more on active strategies and manager selection or considering doing so. They're also looking to illiquid assets, according to 41%. Indeed, more US family offices are increasing illiquid assets (50%) than looking to active strategies (29%).

Real estate ranks as best replacement for fixed income

Fixed income alternatives



	US	Latin America	CH	Western Europe	Middle East and Africa	Asia-Pacific
Real estate	15%	29%	31%	6%	31%	24%
Private debt/illiquid debt	33%	14%	8%	21%	15%	7%
High-dividend stocks	11%	18%	12%	19%	19%	3%
Private equity	4%	25%	12%	13%	4%	28%

A challenging environment for portfolio construction

High-quality fixed income's role in doubt

63%

1) I no longer feel that high-quality fixed income helps me diversify my overall portfolio risk

62%

2) Illiquidity increases returns

—

3) I'm relying more on active manager selection/active strategies rather than passive exposure

54%

4) I'm managing portfolio risk more actively now in comparison to previously

37%

5) I'm willing to accept more risk in future in order to get the same returns

33%

6) I'm no longer able to build a complete portfolio with long-only investments

—

7) I'm willing to accept lower returns in the future for the same risk

22%

8) I invest as I did in the past and expect the same returns

"We believe that the growth rates we have seen in the past are not sustainable and we need to diversify a bit more with alternative type strategies," says the manager of one Swiss family office, who unlike most is seeking some diversification in hedge funds. "For the past two years we have been diversifying because we had invested a lot of our portfolio in growth investments, and we wanted to diversify into recurring income. We invested in hedge funds, sometimes funds of funds, and sometimes in arbitrage strategies and insurance-linked products, and some private debt as well. We want to do more real estate but have not so far."

A third (33%) of family offices use hedge funds to diversify or are considering doing so, arguably the most active form of active management in public markets. Again, this varies by region, with few advocates in Latin America (14%) and Switzerland (19%), but more in the Middle East (50%).

As the search for alternative diversifiers intensifies, a third (33%) of family offices think they're no longer able to build a complete portfolio with long-only investments. Finally, a small number are trading derivatives or considering it (25%), paying for downside protection (21%) and looking to quantitative strategies (18%).

Private equity: a favored source of return

Key findings

Private equity's potential for higher returns and its broad opportunity set are proving more and more popular. Eight out of ten family offices now invest in the asset class, as the number rises steadily year after year.

Typically, family offices invest across both direct investments and funds. While the former are often an extension of the beneficial owner's business activities, the latter effectively diversify risk across managers, strategies and vintages.

In the age of the Fourth Industrial Revolution, the technology sector is naturally the most common investment destination.

A favored source of return

Private equity stands out as the only asset class where the number of family offices making allocations has risen steadily year after year, as befits organizations that exist to manage entrepreneurial families' investments. In 2022's survey, 80% of family offices reported investing, up from 77% in 2021 and 75% in 2020.

Why the steady rise?

Family offices are seeking mainly to enhance returns: almost three quarters (74%) of those likely to increase their private equity investments over three to five years expect private equity to outperform public markets in the future. However, over half (52%) of them are also investing to broaden their opportunity set: to access types of investments not available in public markets.

In the US, the world's biggest and most diverse private equity market, the number of private equity backed companies has grown from 1,698 in 2000 to 8,892 in 2020. Meanwhile, opportunities have shrunk in equity markets as the number of new initial public offerings has dwindled from 380 in the year 2000 to 165 in 2020.

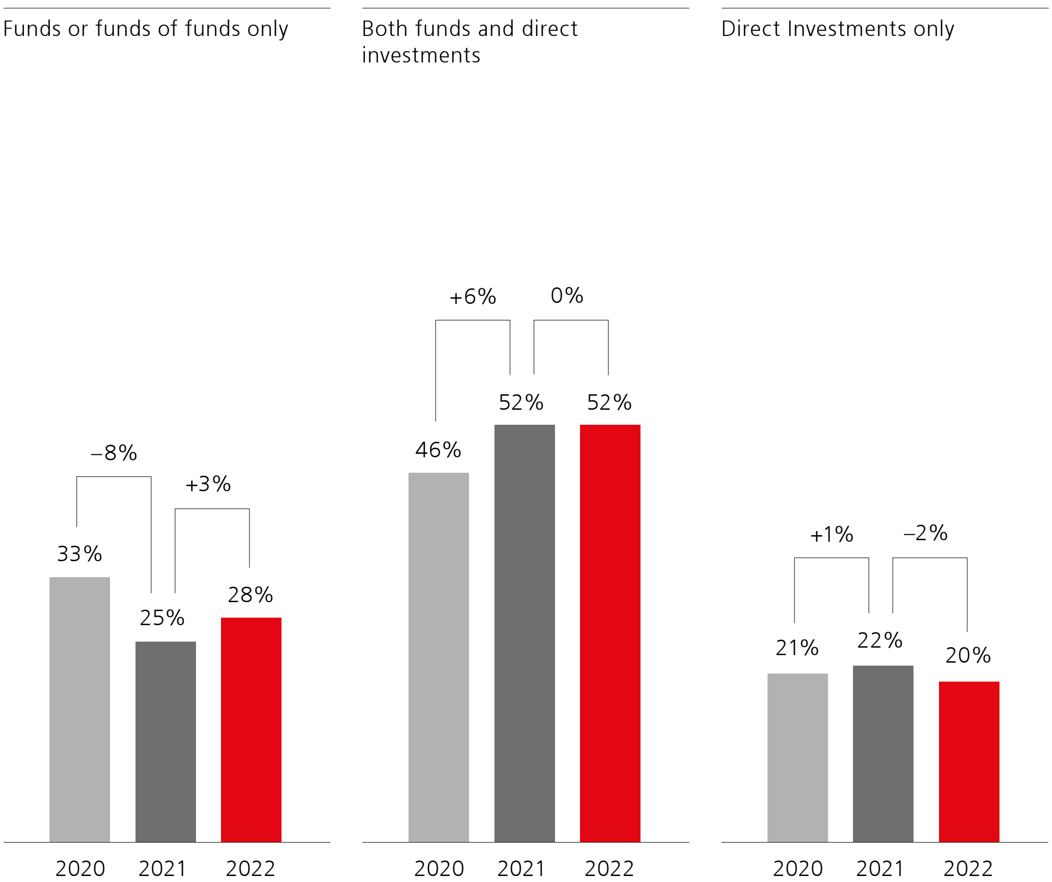
Private equity is an increasingly popular way for family offices to generate alpha, with more than a third (36%) of those likely to increase their private equity investments over three to five years noting that the beneficial owner is passionate about the asset class. Investing directly into both private businesses and funds is the favored approach among those with private equity investments, and becoming more so, as it allows entrepreneurial family offices with specialist staff to create alpha from direct investing and spread risk through funds. Some 42% of family offices with private equity investments are taking this route in 2022, compared with 41% in 2021 and 34% in 2020[1].

Private equity is a core asset class for most family offices but regional differences exist. In the US, almost all (96%) family offices invest. Swiss family offices are not far behind (89%). The Middle East (83%) and Asia-Pacific (79%) are in the middle. And while Western Europe (73%) and Latin America (76%) are the laggards, there's still a reasonably high participation.

[1] Source: UBS.

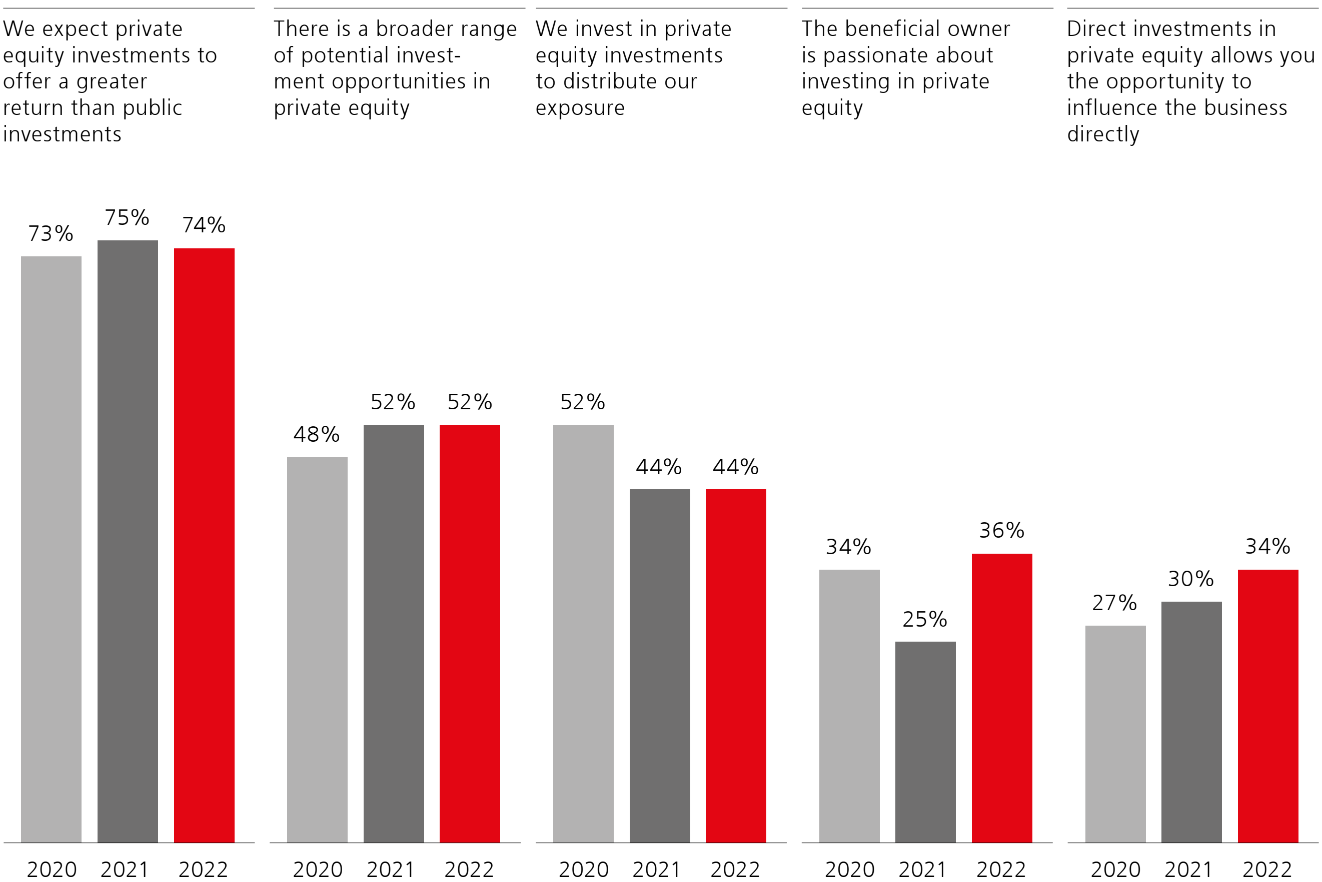
Most family offices prefer to invest in both funds and direct investments

Data only for family offices investing in private equity



Private equity still expected to outperform public markets

Views for the future



Looking to earlier-stage, less expensive assets
Family offices mainly invest in expansion or growth equity, yet they're making earlier-stage investments as equity stakes get more expensive. Three quarters (75%) of family offices with private equity invest in expansion and growth equity. But 85% declare that they're likely to invest at earlier stages of a business's lifecycle in 2022, up from 74% in 2021. This is also reflected in the increased popularity of venture capital: 63% state that they usually invest in venture capital, up from 61% in 2021 and 53% in 2020.

"In private equity the main challenge is valuation," notes a Middle Eastern family office manager. "With an abundance of funds in the last few years, valuations have increased a lot. Now that there is stress in public markets these valuations are harder to justify. We began going into earlier-stage private equity a couple of years ago because we saw that we could get better value."

US respondents with private equity investments are most likely to invest in venture capital (73%) and Asia-Pacific investors the least (46%). A reasonably high 42% of family offices invest in leveraged buyouts and 21% in distressed buyouts.

In the age of the tech economy, the deal pipeline is packed with potentially transformative innovation. Consequently, technology is the most common sector for private equity investments, with 82% investing currently. Healthcare and social assistance – also a sector where technology is sparking change – is the second most common, with 60% investing. Turning to a sector that has traditionally been favored by family offices, over half (54%) invest in real estate and rental/leasing.

"We have just committed to a cybersecurity fund as we think that is an area that will continue to see additional spending," says one US family office manager. "We're also looking for managers that specialize in clean technology and blockchain."

When evaluating direct private equity deals, the most common consideration is the expected return on investment, according to two thirds of family offices with private equity investments (67%). However, half cite a wide range of factors, indicating the breadth of their due diligence. These include key metrics such as IRR and MOIC (55%), company data (54%); available local knowledge and expertise (52%); the economic sector (51%); historical performance of the sponsor/deal source (50%).

Sustainable and impact investing: taking a more selective approach

Key findings

Just over half of family offices have sustainable investments: as allocations stabilize, they're refining their purpose and the objectives they want to reflect.

Due diligence is intensifying as they seek to avoid greenwashing, measure impact and define their approach.

Exclusions remain the most common tool, continuing to surpass environmental, social and governance (ESG) approaches such as integration and stewardship, that are growing more popular with other types of institutional investors.

Increasing due diligence

More than half (56%) of family offices allocate to sustainable investments. This varies regionally, with the lowest levels in the US (39%) and the highest in the Middle East (70%) and Western Europe (65%). Levels of allocation appear to be stabilizing, as family offices refine their values and objectives at a time when new regulations and standards are sharpening the definition of sustainability.

"I was at a family office forum recently where about a third of us were knee-deep in large projects to understand and measure sustainable investing and bring it into their thinking," notes a UK family office manager. "I think the need to embrace it is driven by generational changes."

Notably, concerns about financial performance, once common, are no longer an issue. Family offices think sustainable investments will continue to at least match broader market returns over the next five years. Eight out of ten globally believe this to be the case. This is consistent across most regions, too, with the notable exception of the US.

Reflecting the greater professionalization of how they approach sustainability, more than half (53%) of those invested have increased due diligence. More than half (52%) aren't confident that they can identify greenwashing, though, and 60% think that performance evaluation remains a problem in impact investing. Of those family offices that still don't invest sustainably, more than a quarter (27%) point to lack of standard definitions of sustainability as a barrier to investing.

Stepping up due diligence

Avoiding greenwashing, measuring impact and defining approaches

53%
We have increased our due diligence process when looking to invest

41%
We are actively allocating more to companies/sectors that are focused on directly impacting real world issues (e.g., lowering carbon emissions, renewable energy etc.)

34%
We are actively allocating more to companies/sectors that can demonstrate strong ESG performance

25%
We are actively engaging with management teams on sustainability/ESG in private equity deals

18%
None of these

Considering options

Looking ahead five years, family offices say they're unlikely to change their favored approaches. Unlike other institutional investors, they have greater freedom to take their own approach and so can tailor it to their needs and values at their own pace. Doing so for large and complex families can take time.

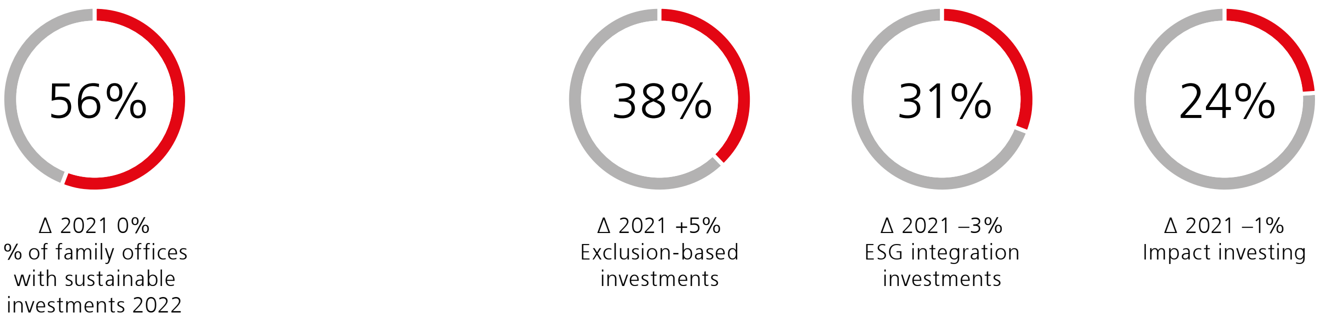
Illustrating their hesitation, family offices aren't fully embracing the latest developments in sustainable investing yet. The straightforward approach of excluding industries or controversial business activities is still used by many, although the European Union's Sustainable Finance Disclosure Regime that is taking a lead on defining sustainable investing aims to steer away from pure exclusions into broader ESG integration. More than a third (38%) take the exclusions approach globally. While ESG integration and the pursuit of specific sustainability objectives have become a more prominent approach for various larger institutional investors, only just under a third (31%) of family offices have embraced it in their investment process. Finally, a quarter (24%) of family offices make impact investments.

When it comes to motivation, most family offices invest sustainably for the positive impact on society (61%) and because it's the right thing to do for the world (60%).

"For us, the impact element is always present in our investments rather than being a specific part of the portfolio," states a Middle Eastern family office manager. "We always ask what the social and environmental impact will be."

Share of family offices investing sustainably remains unchanged

More than half invest sustainably, with significant regional variations



	US	Latin America	CH	Western Europe	Middle East and Africa	Asia-Pacific
% of family offices with sustainable investments 2022	39%	61%	48%	65%	70%	53%
Exclusion-based investments	32%	25%	26%	51%	61%	25%
ESG integration investments	25%	43%	30%	33%	26%	31%
Impact investing	21%	32%	37%	22%	22%	9%

Digital assets and distributed ledgers: crypto-curious rather than crypto-committed

Key findings

Many family offices are investing in distributed ledger technology and cryptocurrencies to learn about decentralized payments, rather than purely for financial reasons.

There are geographical differences – for instance, US family offices are more likely to invest than those in Asia-Pacific.

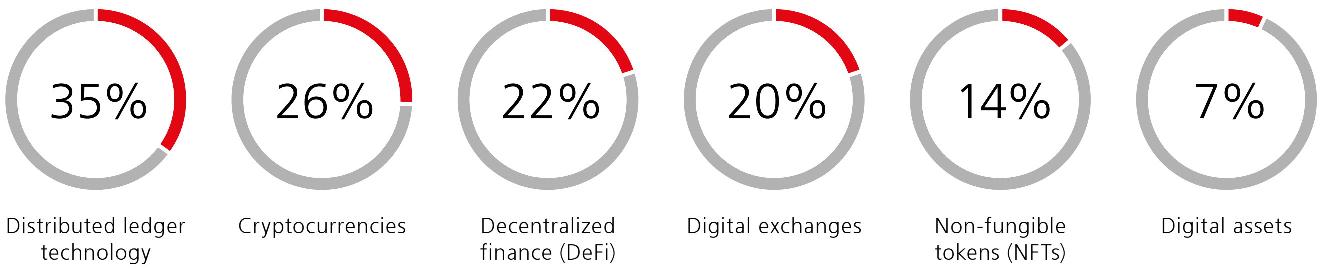
Family offices view lack of regulation as the biggest obstacle to investing.

Monitoring distributed ledger technology's advances rather than crypto investing
Mindful of how the internet sparked an economic revolution 20 years ago, family offices are turning their attention to digital assets and distributed ledger technology (DLT). Yet perhaps remembering that it was the internet's second wave, platform businesses like Google, that were the big success rather than the first wave, the browsers, they're focusing on DLT applications such as blockchain more than cryptocurrencies like Bitcoin.

A third (35%) are either investing in DLT or considering doing so, with a quarter (26%) investing in cryptocurrencies or considering it. Broadly speaking, US and Middle Eastern family offices are participating most actively. Half (50%) of US and Middle Eastern (48%) respondents are turning to DLT. Just a quarter are doing so in Asia-Pacific (24%) and Latin America (24%), though.

A third are investing in distributed ledger technology or are considering it

Intentions for investing in decentralized payment technologies



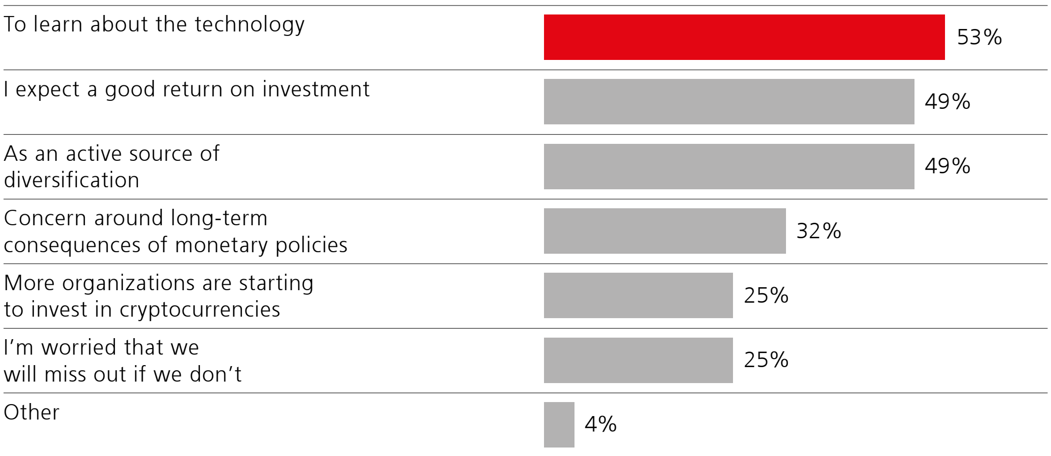
Currently and/or considering investing
Not investing

	US	Latin America	CH	Western Europe	Middle East and Africa	Asia-Pacific
Currently and/or considering investing						
Distributed ledger technology	50%	24%	30%	37%	48%	24%
Cryptocurrencies	36%	14%	33%	21%	32%	24%
Decentralized finance (DeFi)	50%	14%	33%	12%	20%	21%
Digital exchanges and/or tokenization platforms	43%	24%	22%	12%	8%	18%
Non-fungible tokens (NFTs)	21%	10%	11%	10%	24%	18%
Digital assets (e.g., photos, videos, spreadsheets etc.)	7%	3%	4%	8%	24%	0%

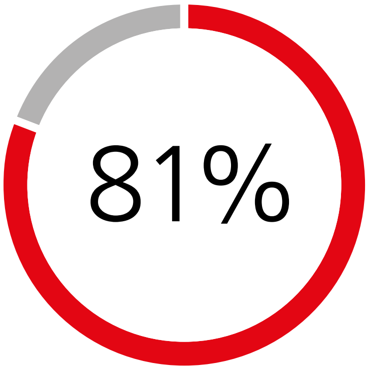
Exploring potential
As many beneficial owners are entrepreneurs, they don't want to miss the potential of DLT. 35% of family offices are currently or considering investing in DLTs. More than two thirds (69%) explain they're investing because they believe decentralized payments and technologies will be widely used. Similarly, over half (53%) of those investing in cryptocurrencies, or considering doing so, want to learn about the technology. That compares with just under half (49%) who are doing so for financial reasons – either to make a return or to diversify.

Investing in education more important than profit

Reasons for investing in cryptocurrencies



Allocation to cryptocurrencies by those family offices that invest



More than a quarter (28%) of family offices are investing in decentralized payments or technologies by way of private equity. 26% of family offices are currently or considering investing in cryptocurrencies. Of those that do invest in cryptocurrencies, or are considering doing so, most (81%) do so with up to 3% of their portfolios.

The biggest barrier to investing is the lack of regulation, according to half (50%) of family offices globally. But the reasons for not investing vary by region. Almost half of family offices in the US (48%) and Switzerland (48%) state that they're worried about cybersecurity and the danger of being hacked.

"We have invested in cryptocurrencies and distributed ledger technologies to be in the market and learn and see how it evolves," says a Swiss family office manager.

Costs and staffing: mounting costs expected

Key findings

Typically, family offices focus on where they can add most value – strategic asset allocation and risk management – as well as the key control function of financial accounting and reporting.

As they compete for qualified staff in these areas, family office costs are expected to rise in the next three years, lifted by salaries and bonuses.

IT costs are also expected to rise, as spending increases on software, platforms and cybersecurity.

Staff expected to drive rise in costs
Family offices foresee increases in costs over the next three years, with the greatest rises in the area of their biggest overheads – staff.

More than half (54%) expect staff costs – including hiring, salaries and bonuses – to rise. Regionally, US family offices appear to face the greatest staff costs, with 80% expecting increases. Roughly two thirds of Swiss (67%) and Middle Eastern (63%) offices have similar expectations. By contrast, survey respondents in Asia-Pacific (44%) anticipate less upwards pressure and Latin Americans (22%) seem far less concerned.

"We do see an inflation in staff costs," notes a Swiss family office manager. "The ask is higher than in the past. I think it's because the supply is very limited. During the last six months, as some economies have opened up, the candidates have become more certain of their value.

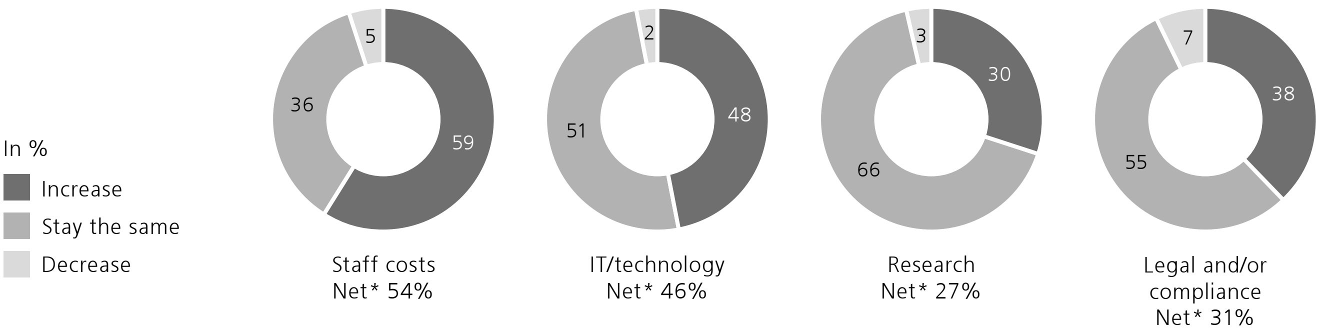
"Cybersecurity will also increase in terms of cost," he adds. "It's a very high agenda point at the board and family level."

Staff costs account for more than two thirds (69%) of the pure cost of running a family office in 2022, according to respondents. These key staff conduct the family office's core tasks of strategic asset allocation (83%), risk management (78%) and financial accounting and reporting (70%), which are typically the main functions performed in-house.

The next biggest costs are IT/technology (11%) and legal/compliance (12%). Research such as investment newsletters and white papers takes up about 5% of costs.

Costs set to increase over 3 years

Staff are major cost driver



Regional breakdown

	US	Latin America	CH	Western Europe	Middle East and Africa	Asia-Pacific
Staff costs	80%	22%	67%	53%	63%	44%
IT/technology	54%	42%	44%	40%	50%	50%
Research	29%	27%	12%	26%	30%	37%
Legal and/or compliance	33%	15%	37%	23%	45%	31%

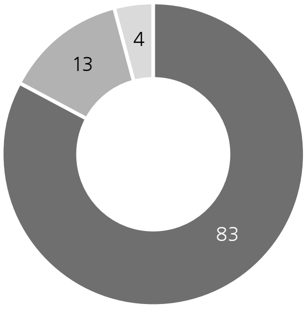
* Net equals increase minus decrease

Top three tasks performed in-house

Percentage of family offices performing tasks in-house

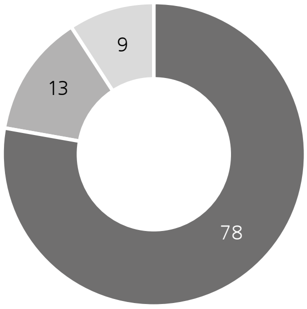
83%

Strategic asset allocation



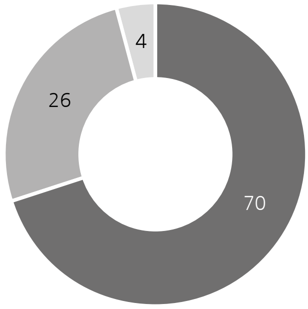
78%

Risk management

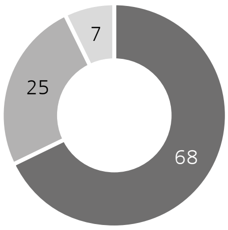


70%

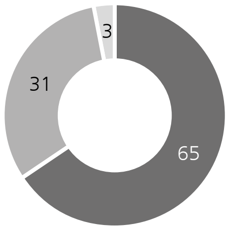
Financial accounting and reporting



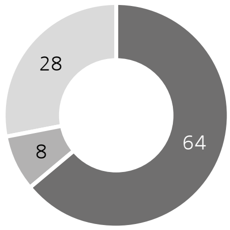
Portfolio administration



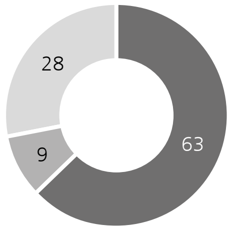
Accounting



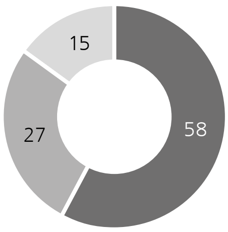
Philanthropy



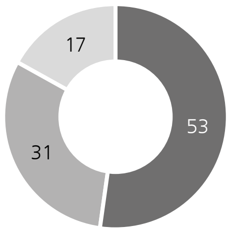
Own philanthropy



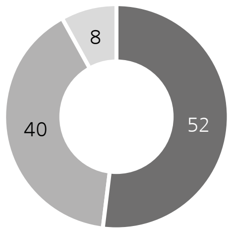
Succession planning



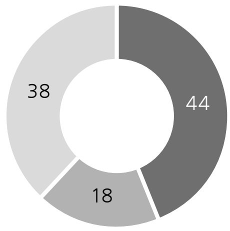
Real estate



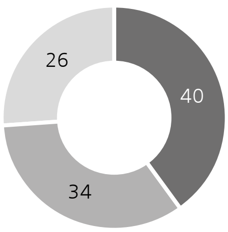
Investment research



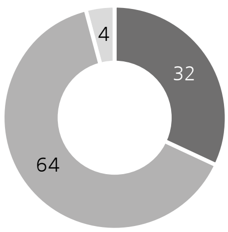
Lifestyle services



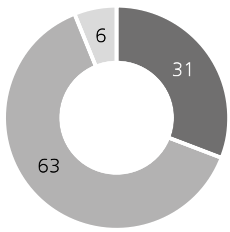
Corporate finance consulting



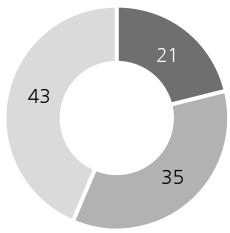
Tax planning



Legal services



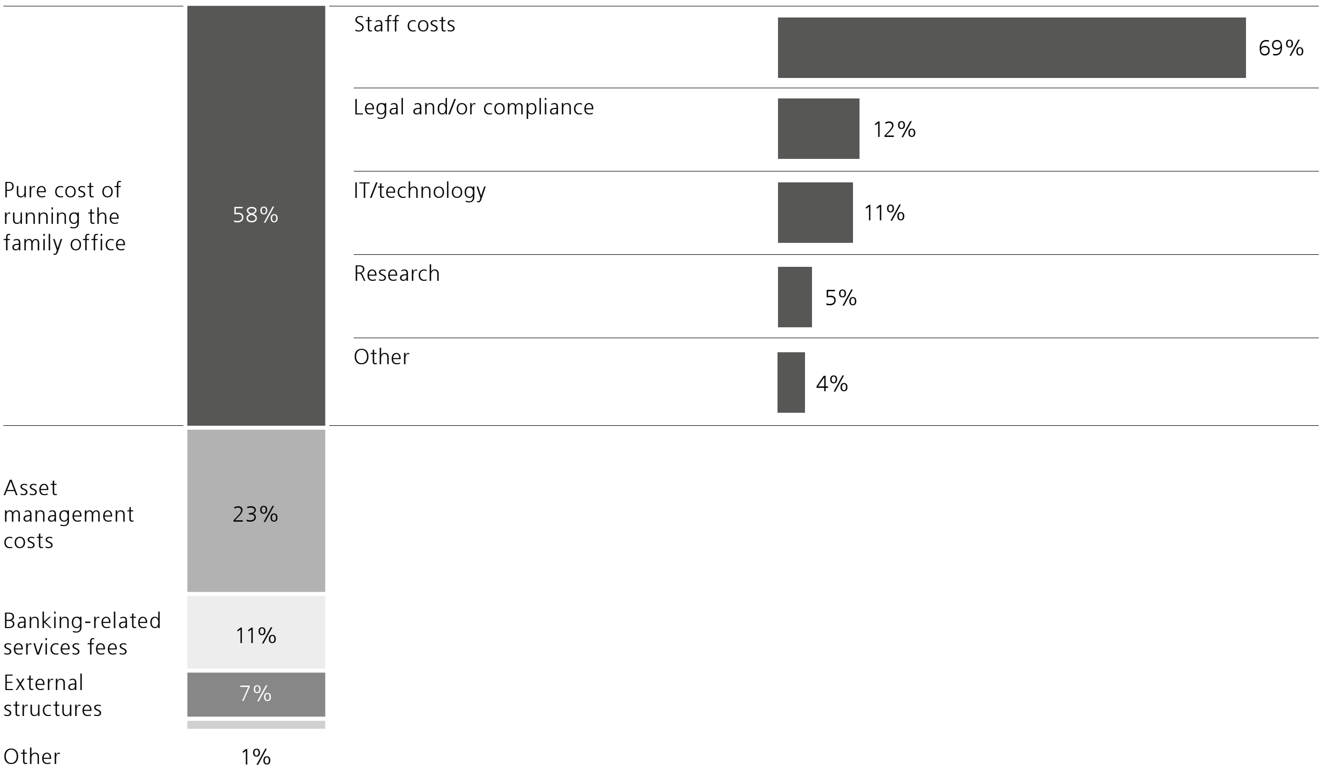
Pension/life assurance planning



In-house
Outsourced
Not applicable – my family office doesn't offer this service

Internal costs account for over half of total expenses

Overall cost of operating the family office in 2022



Size has some benefit in terms of scale. While the average cost of running a family office in 2022 is 42.2 basis points (bps) of assets under management, that varies depending on the size of assets. In a family office with assets of USD 100 million to USD 250 million, this cost is 58.6 bps. When assets rise to USD 251 million to USD 1.0 billion, though, the cost falls to 42.5 bps. And, for large offices managing assets of USD 1.01 billion or more, average costs fall to 31.7 bps.

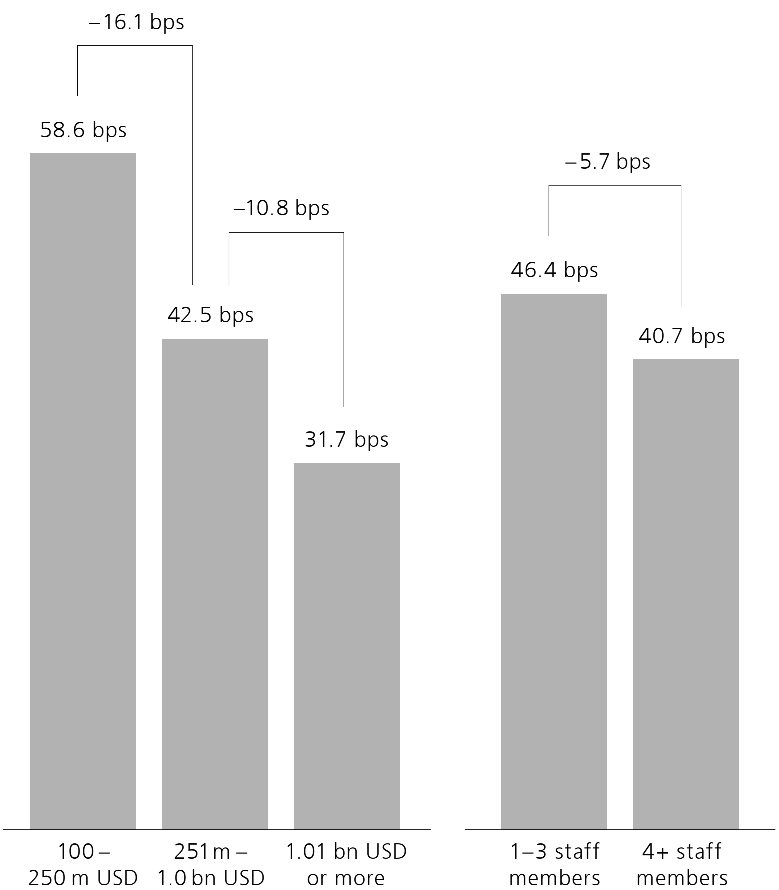
Similarly, as the number of people employed by a family office rises, so cost falls as a proportion of the asset base. For instance, small family offices with up to three staff members have average costs of 46.4 bps; for those with four or more the cost falls to 40.7 bps.

External provider fees typically make up a smaller proportion of the overhead (7%). While the pure cost of operating the family office is 58% of total costs on average globally, family offices report asset management costs as 23%, with banking-related services such as FX and brokerage fees being 11%.

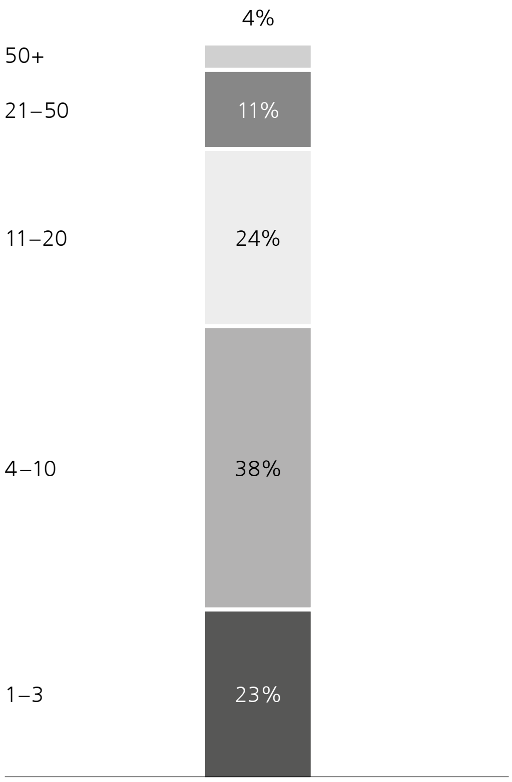
Even so, family office teams remain tight and focused. Most (61%) have ten or less staff members. Family members make up a minority of staff (18%). Reflecting the explosion in the number of family offices over the past few decades, they mostly serve families' first and second generations.

Family office costs reduce with scale

Pure cost of operating the family office in 2022



Most family offices have up to 10 staff members



Concluding remarks

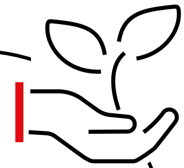
Returning to the theme of uncertainty, in the words of one UK family office manager, "with high inflation likely to remain persistent, it feels very different." While there are many different views about when and by how much today's high inflation will ease, many family offices agree that fixed income no longer serves so well as an anchor for diversifying portfolios.

That's driving a quest for diversification in private markets and higher expected returns, which can lend itself to beneficial owners' entrepreneurial talents for adding value. Yet valuations are often high, encouraging a tendency for investing in earlier-stage assets.

There are no easy options. As the UK executive remarks: "Do we have a magic bullet? No." Our survey shows that family offices are using the full range of options – from illiquid investments in private markets to active management in public markets.

United States

Current macro climate



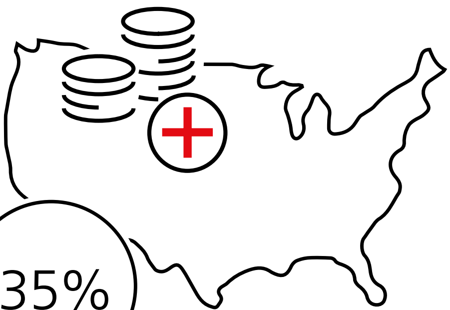
77%

say uncorrelated returns are difficult to find

33%

say private debt/illiquid is best replacement for fixed income to generate yield

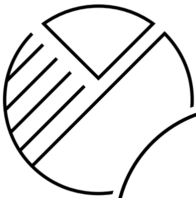
Top concern



35%

say rising inflation

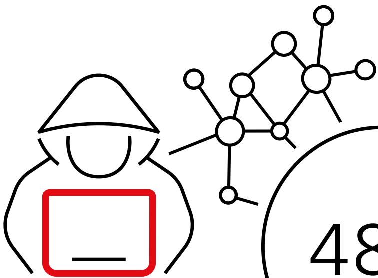
Top alternative strategy to enhance portfolio construction



50%

are currently and/or considering increasing amount of illiquid assets

Decentralized payments and technologies



48%

say the main barrier to investing is cybersecurity and safety concerns

Strong home bias

79%

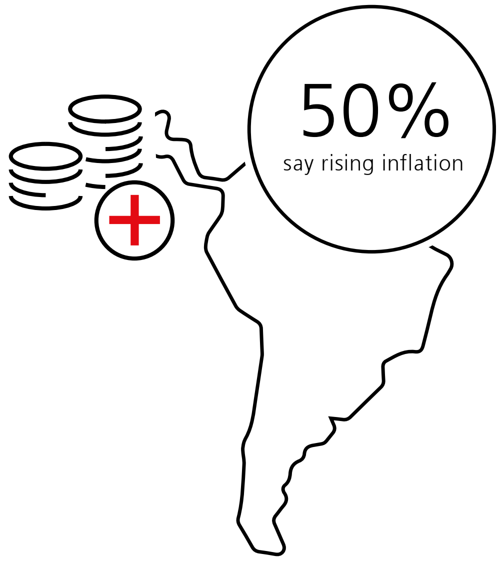
of assets invested locally

Latin America

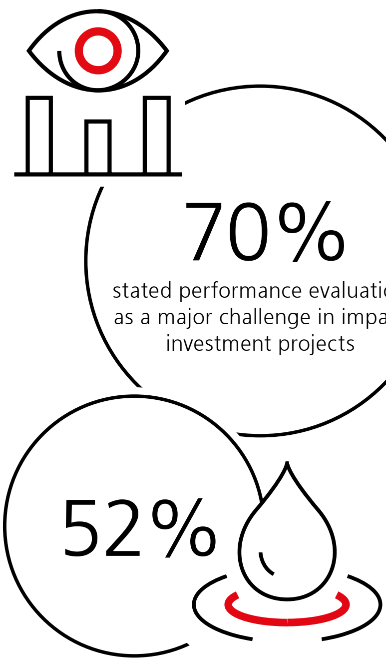
Outsourcing

Most likely to outsource more services over next three years

Top concern

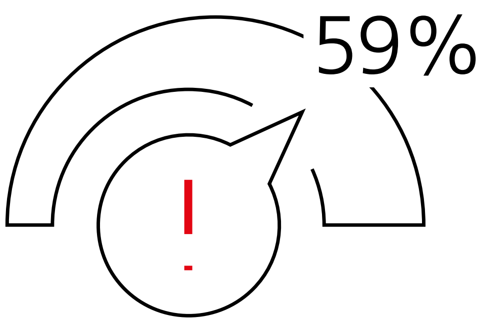


Sustainable and impact investing



are confident in identifying greenwashing

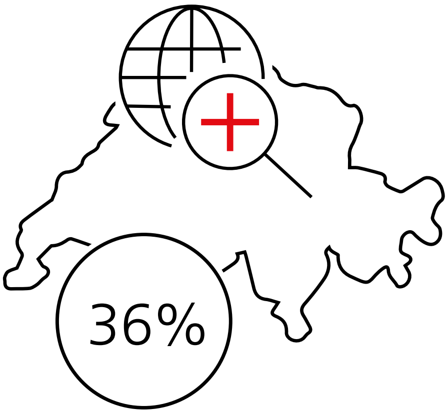
To generate the same return



are willing to accept more risk

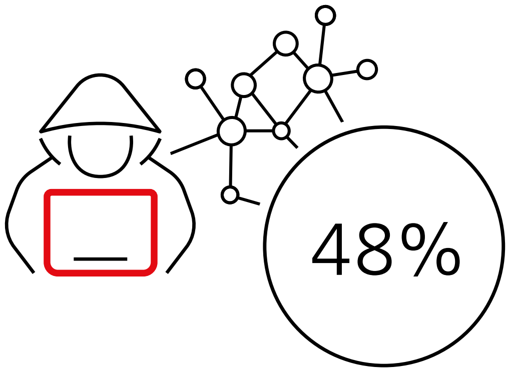
Switzerland

Top concern



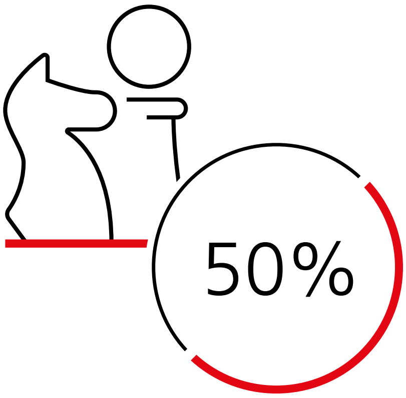
say global geopolitics

Decentralized payments and technologies



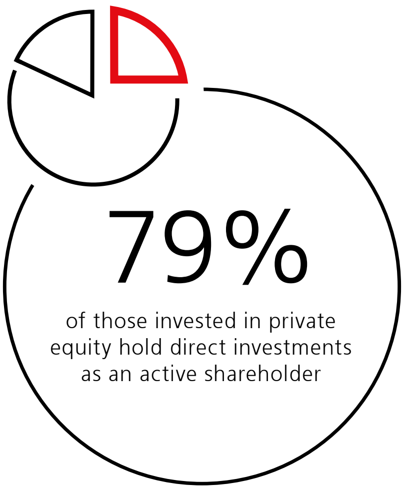
say the main barrier to investing is cybersecurity and safety concerns

Tactical asset allocation



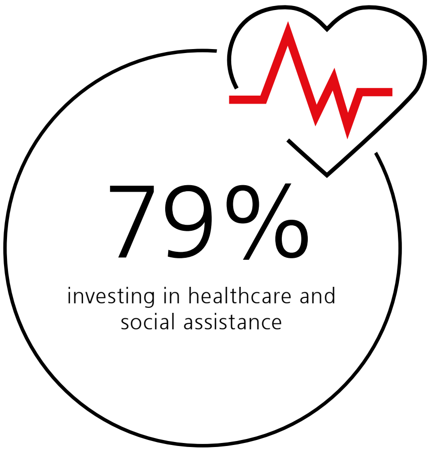
do not do tactical asset allocation – the least likely of any region

Private equity investment



of those invested in private equity hold direct investments as an active shareholder

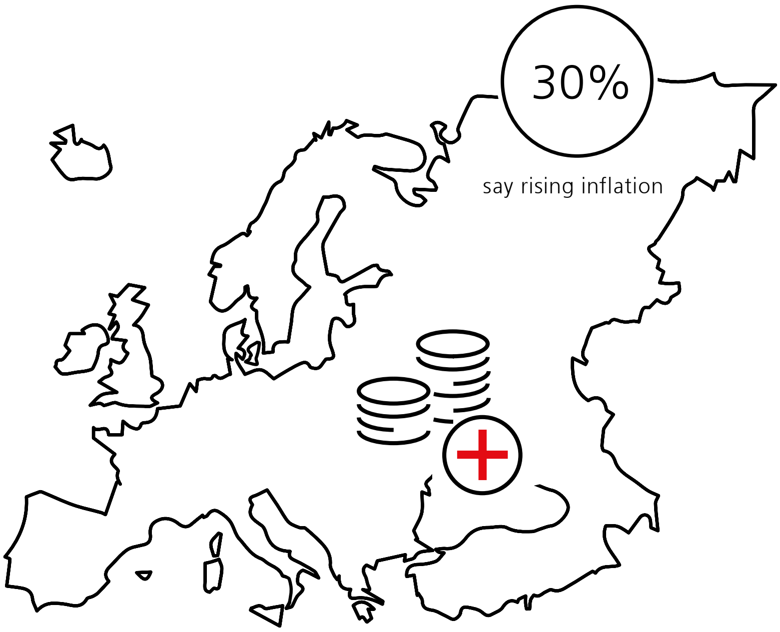
Top private equity sector



investing in healthcare and social assistance

Western Europe

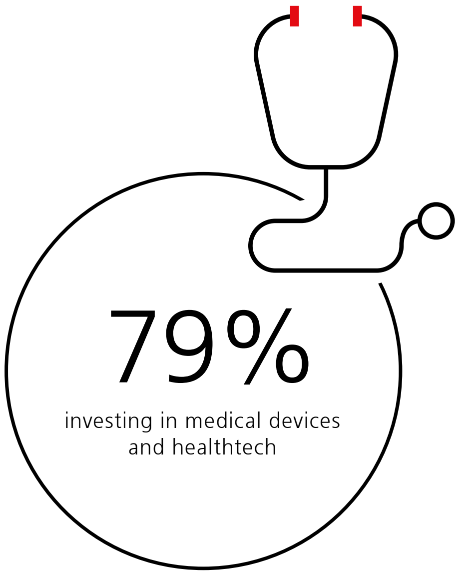
Top concern



30%

say rising inflation

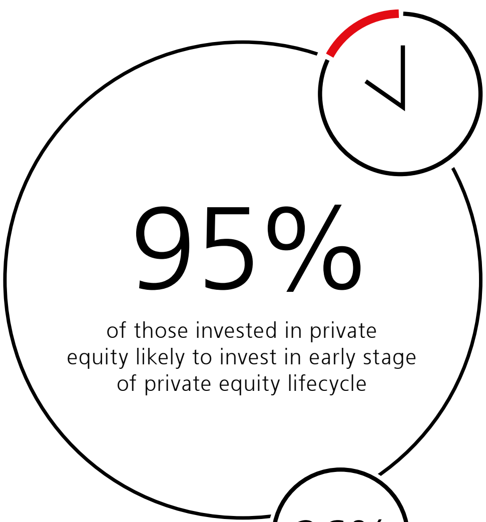
Top investment area



79%

investing in medical devices and healthtech

Private equity investment



95%

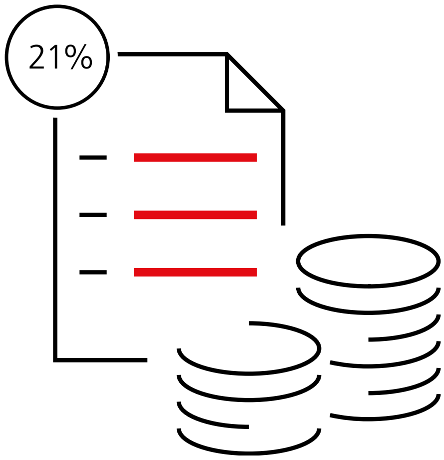
of those invested in private equity likely to invest in early stage of private equity lifecycle

26%

are likely to invest in a distressed buyout as a private equity investment

Private/illiquid debt

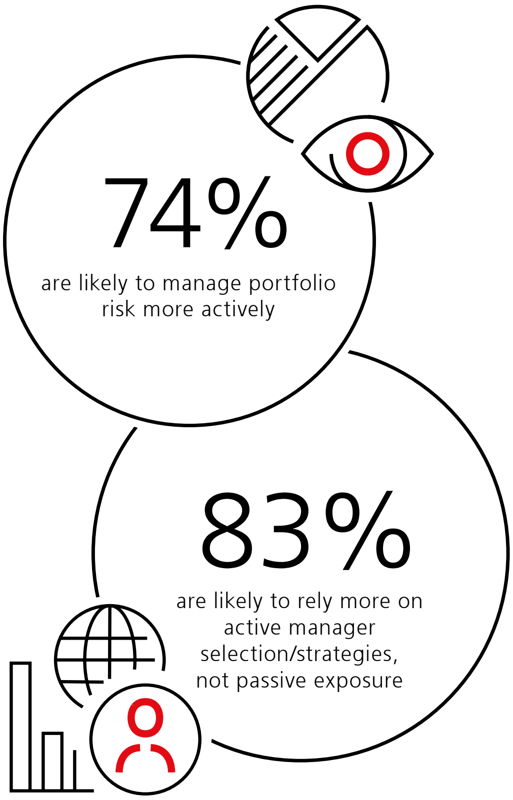
Best replacement for fixed income to generate yield in current macro climate



21%

Middle East and Africa

Active versus passive



74%
are likely to manage portfolio risk more actively

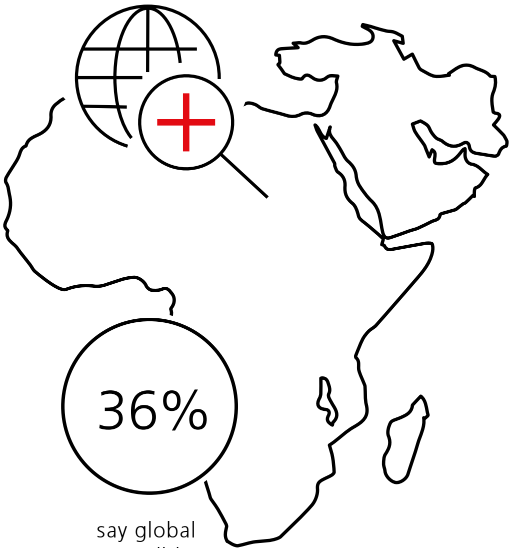
83%
are likely to rely more on active manager selection/strategies, not passive exposure

Real Estate

Average allocation to real estate

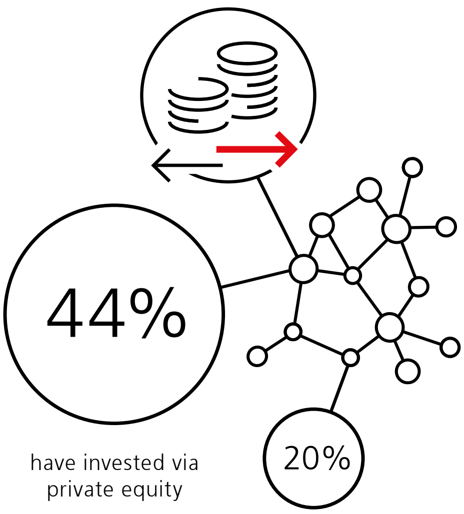
22%

Top concern



36%
say global geopolitics

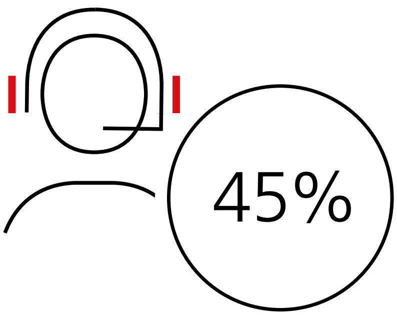
Decentralized payments and technologies



44%
have invested via private equity

20%
have invested directly

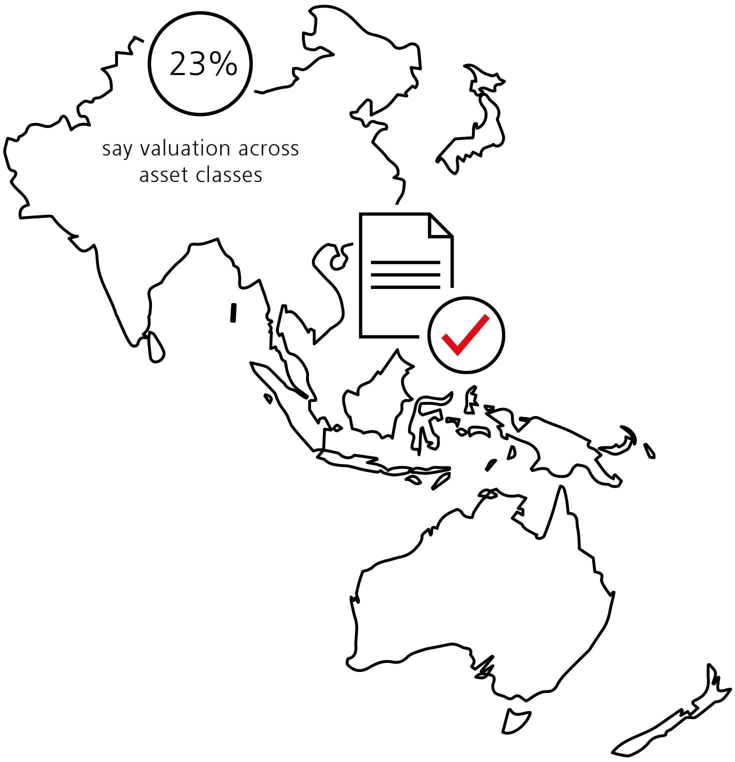
Most likely to insource more services over the next three years



45%
are likely to insource services over the next three years

Asia-Pacific

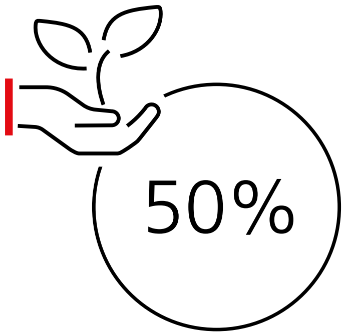
Top concern



23%

say valuation across asset classes

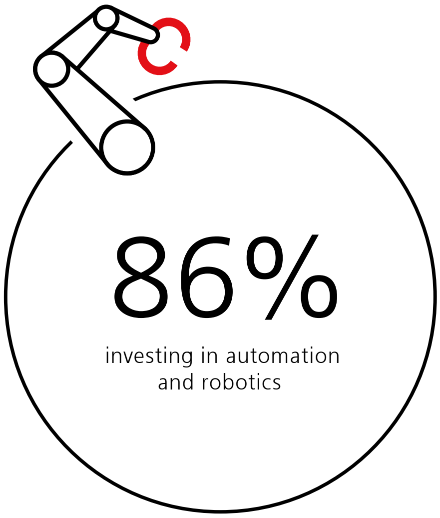
Sustainable investing



50%

say sustainable investments will outperform overall market in the next five years

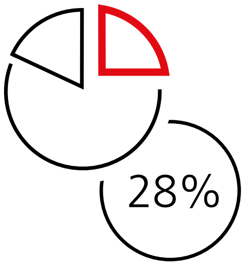
Top investment area



86%

investing in automation and robotics

Current macro climate

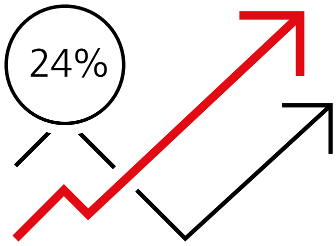


28%

say private equity is best replacement for fixed income to generate yield

Enhancing portfolio construction

Using or considering quantitative strategies as alternative diversifier



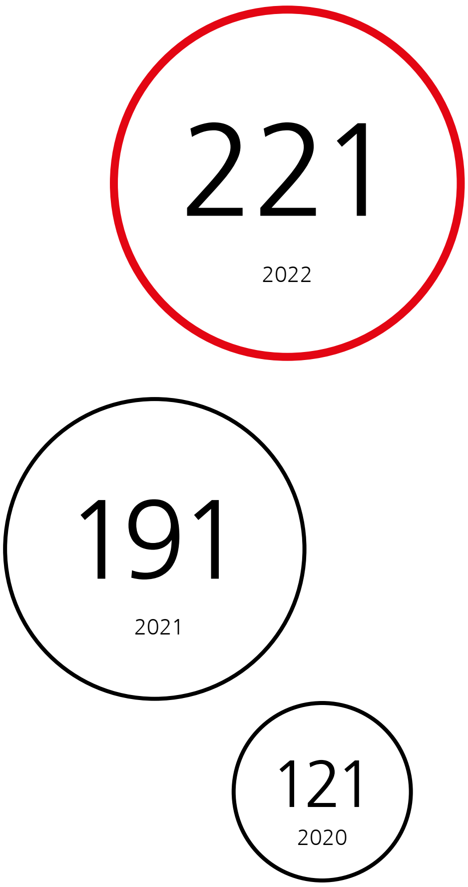
24%

Some facts about our report

Net worth averaging USD 2.2 billion
The 2022 UBS Global Family Office Report is the third of our annual surveys on the activities of family offices researched and written in-house. Significantly, the total wealth covered by the survey this year has more than doubled, while the number of family offices participating has also risen.

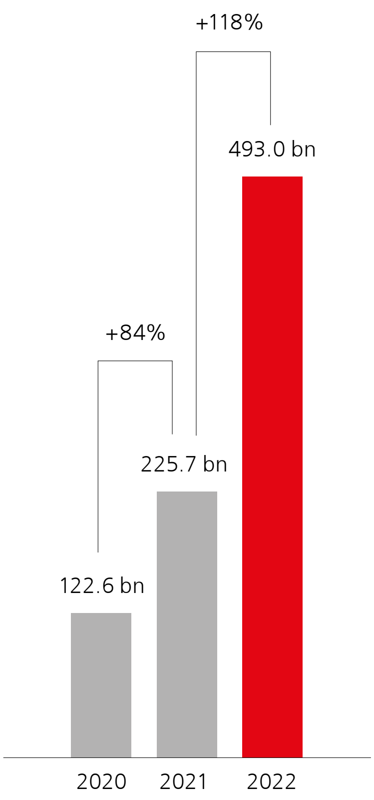
Our 2022 report focuses on 221 of the world's largest single family offices, up from 191 in 2021. It covers a total net worth of USD 493.0 billion (USD 225.7 billion in 2021), with the individual families' net worth averaging USD 2.2 billion (USD 1.2 billion in 2021). The family offices manage a total of USD 258.8 billion of assets (USD 148.2 billion in 2021), or an average of USD 1.2 billion each (USD 0.8 billion in 2021).

221 family offices participated globally

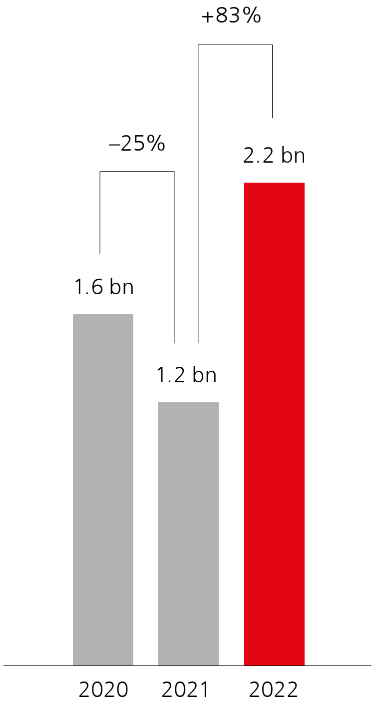


Total wealth covered increases to new high

Total wealth in survey reaches USD 493.0 bn



Average total worth reaches USD 2.2 bn



Net worth averaging USD 2.2 billion

Regional split

Geographically, more than a third (37%) of the family offices' beneficial owners are based in Europe. Ten percent come from North America, 6% from Greater China and 8% from Asia-Pacific excluding Greater China. Finally, 16% are from the Middle East and Africa, 15% from Latin America and 5% from Eastern Europe.

Operating businesses

Over four fifths (85%) of the families still have operating businesses. The main industries represented are: industrials (17%), financials (17%) and real estate (11%).

Methodology

This marks the third iteration of the Global Family Office Survey. UBS surveyed 221 of its clients globally between 19 January and 20 February 2022. Participants were invited using an online methodology and were distributed across more than 30 markets worldwide.
We surveyed smaller samples of 191 and 121 UBS clients for the 2021 and 2020 editions of the report respectively.

In developing year-on-year comparisons, we have made slight adjustments to the private equity allocation figures as disclosed in previous reports to ensure a consistent and accurate approach. The revisions refer to the numbers on page 26. Whilst the year-on-year comparisons involve (statistically) significant datasets, they should be considered to be indicative of trends in the family office space as a whole because they involve differing sample sizes with differing compositions of participants.

In some instances the data may not look as if it adds up to 100%. In these instances this is due to the fact that we have added the figures together to two decimal places which can cause slight variations to the figures when rounded.

UBS Evidence Lab

UBS Evidence Lab is a team of alternative data experts who work across 55+ specialized areas creating insight-ready datasets. The experts turn data into evidence by applying a combination of tools and techniques to harvest, cleanse, and connect billions of data items each month. The library of assets, covering over 5,000+ companies of all sizes, across all sectors and regions, is designed to help answer the questions that matter to your decisions.

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84963E-2022
IS2202850

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