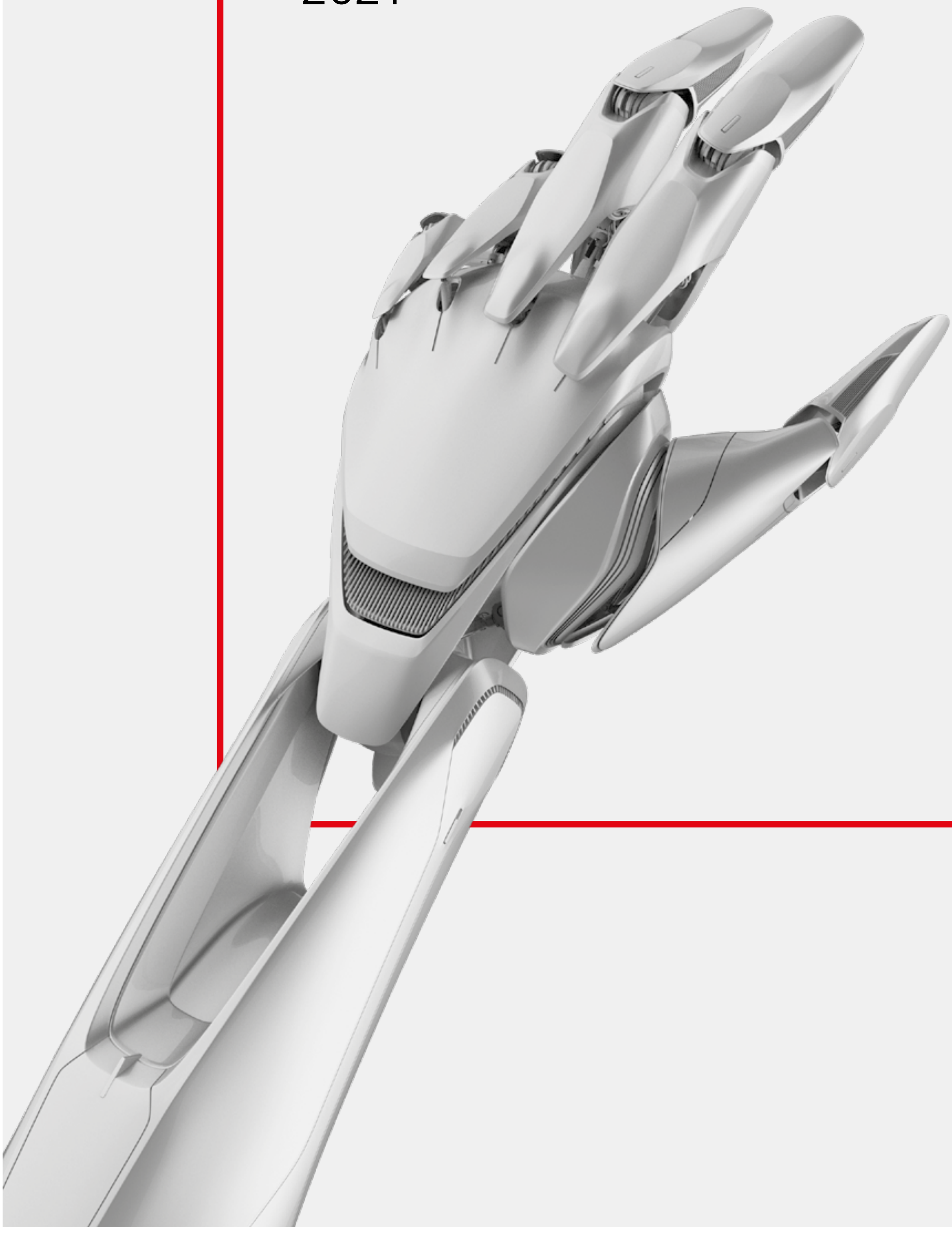
Global Family Office Report

2021



UBS

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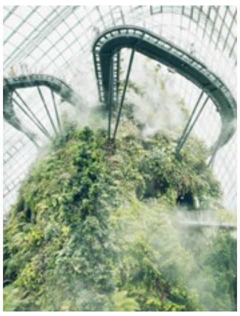

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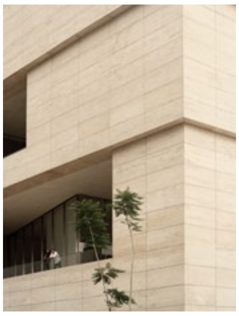

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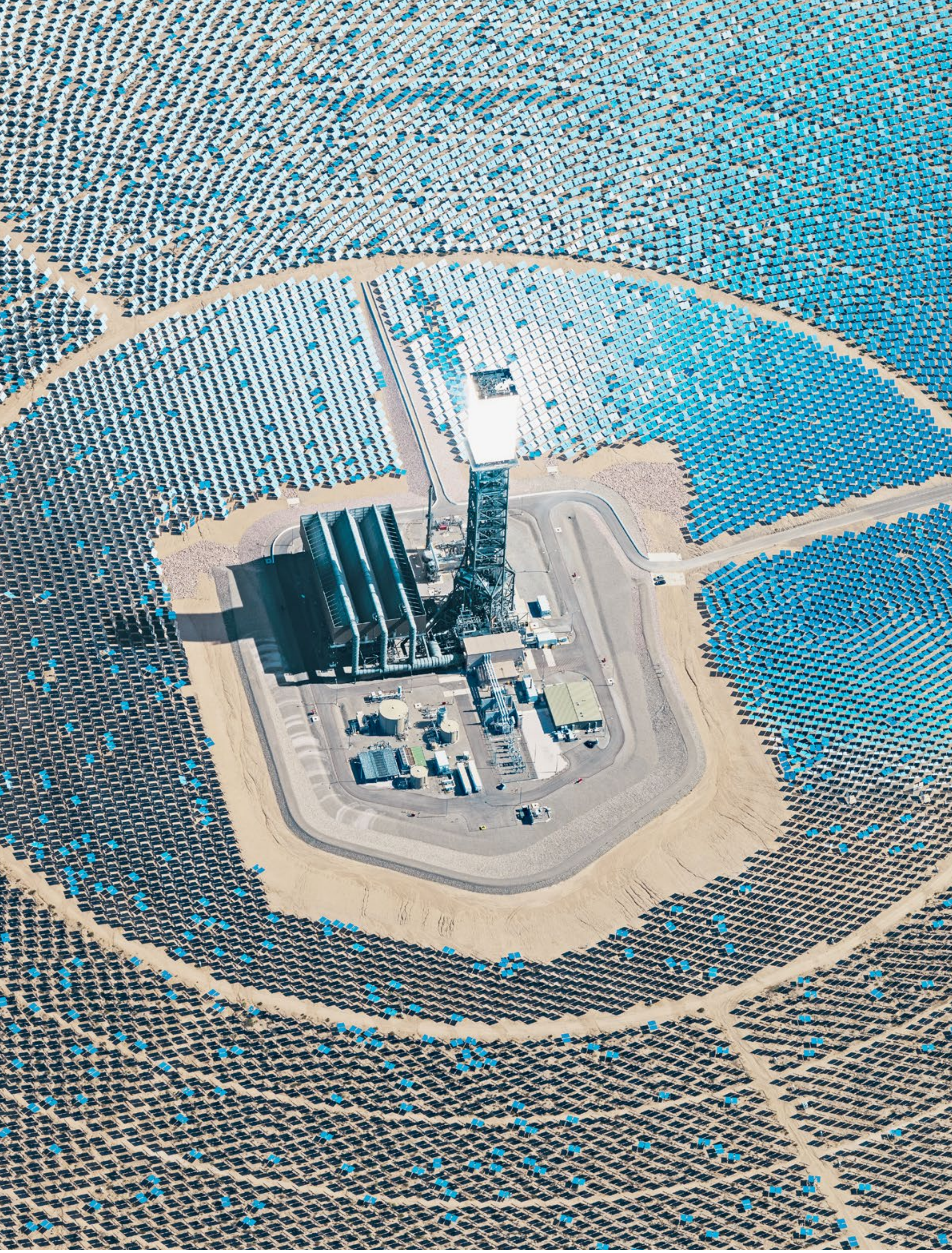


Foreword

As the post-pandemic world begins to take shape, so a rare strategic shift is underway. Family offices plan in generations, and they are setting their sights on the themes that will come to dominate the 2020s. Healthcare, robotics and green technology are at the forefront, while regionally capital is shifting towards Asia. Record-low interest rates have shaken faith in fixed income, which is no longer seen as an effective diversifier of portfolios.

In this low-yield environment, private equity is becoming ever more important. But not only is it an opportunity to outperform public markets; it also plays into an innate desire to back entrepreneurs with bold ideas. As the asset class takes on greater prominence, so family offices are switching emphasis from more abstract funds of funds to direct involvement.

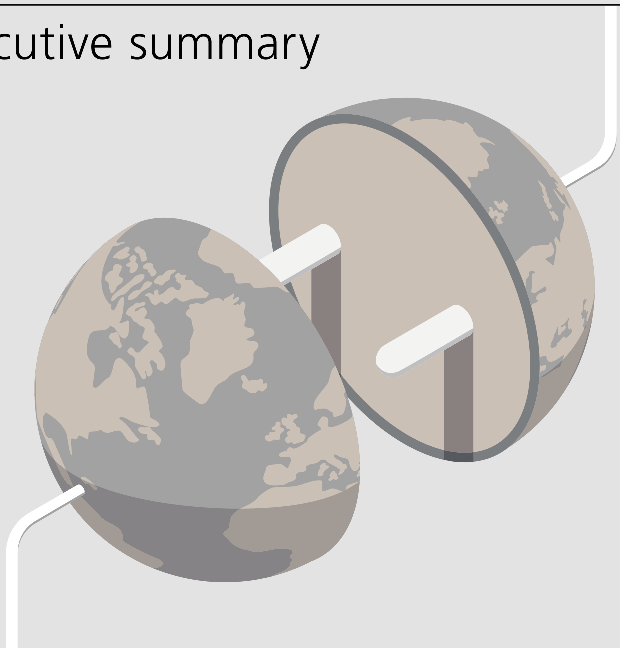
Cool heads have served family offices well through the storm, and they continue to rule despite the persistent geopolitical and economic uncertainty. Our clients recognize that several factors have the potential to trigger another market correction, but they have begun 2021 with few immediate concerns. They are entering the coming decade with optimism and confidence, even testing the momentum of cryptocurrencies. Anticipating a period of stronger growth, higher inflation, low interest rates, renewed government stimulus, and persistent volatility, family offices are generally holding or adding to risk assets – but in a controlled fashion.

As the leading bank to family offices, we are in a unique position to understand their thinking. We have produced this report in-house together with our UBS Evidence Lab colleagues, and are pleased to have expanded its scope, both in terms of clients surveyed and total wealth represented. We always strive to improve and, following the feedback on last year's report, have added a section on costs and staffing which we hope you will find useful.

We would like to thank everyone who contributed to the report. It is the most comprehensive study of single family offices globally and will no doubt become a reference point for those wishing to understand the space over the coming 12 months. If you have any strong views on the findings, we would welcome the opportunity to discuss them with you.

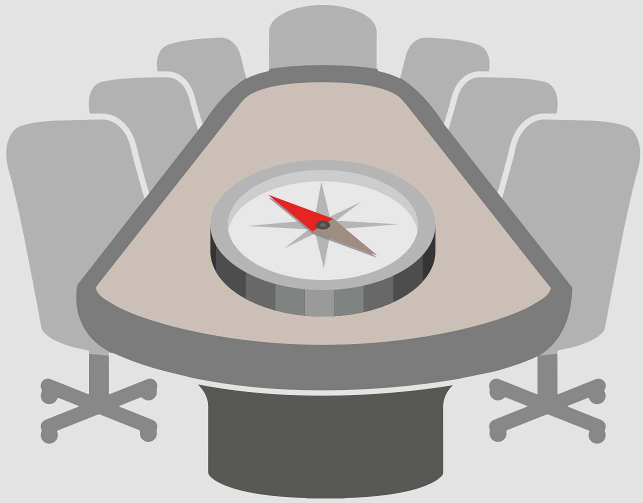
Josef Stadler
Group Managing Director
Head Global Family Office

Executive summary



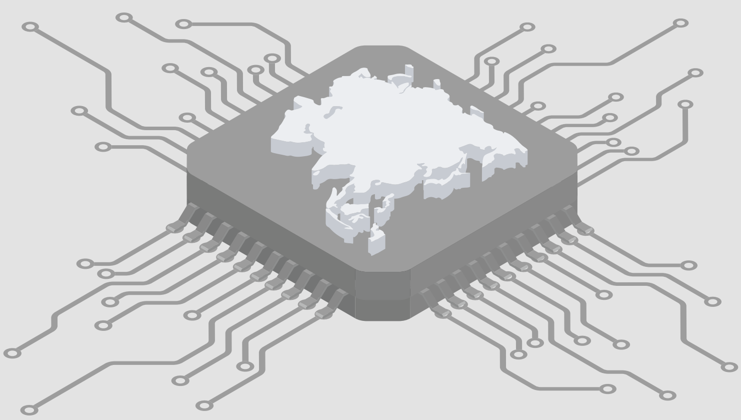
Adapting to an altered world

Continued low interest rates have shaken family offices' long-standing faith in fixed income. Looking forward five years, they plan to dial down strategic asset allocation to low-yielding bonds and cash. About a third (35%) intend to raise equity allocations in developed markets, more than half (56%) will do so in developing markets and almost half (42%) in private equity direct investments.



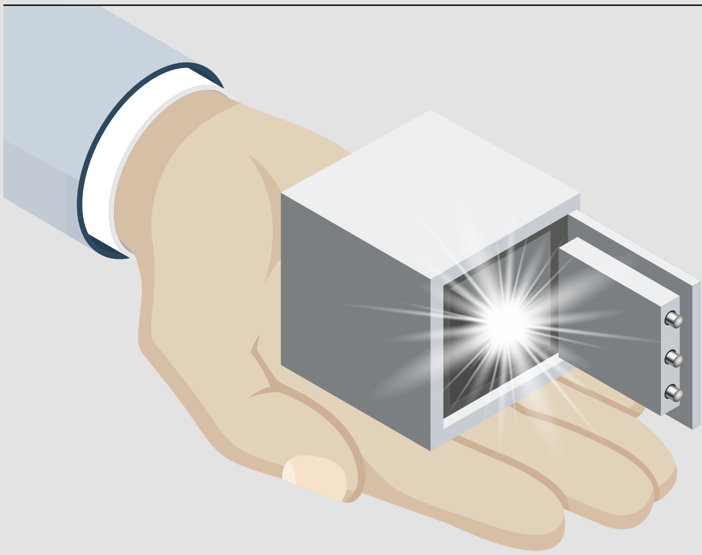
Cool heads rule

Despite economic turbulence and strains in international relations, family offices retain a risk-on frame of mind. There are no overriding concerns when it comes to geopolitics, COVID-19's impact on the economy, rising inflation, low interest rates or high public debt. The chief concern is high valuations across asset classes, with around a quarter (26%) of family offices globally naming this as their top concern, and a higher 47% doing so in the US.



Seeking returns in digital themes and Asia

Family offices are pivoting to themes that will dominate the economy in the 2020s – including healthcare technology, digital transformation, automation and robotics, smart mobility, and green tech. This also means moving allocations to Asia's vibrant economies, especially Greater China where 63% of respondents plan to increase allocations over five years. Family offices from Western Europe, very much an "old economy," stand out as cutting back at home and tilting to Asia.



Private equity preferred

Private equity offers opportunities not accessible in public markets, according to half (52%) of family offices. Forty-seven percent of family offices use both funds and direct investments, while 30% opt for direct investments only. Access and better knowledge of the underlying market are the main reason for considering an intermediary.

Embracing sustainable investing

Sustainable investing is firmly entrenched in portfolios, as more than half (56%) globally have allocations, with family offices in Western Europe and Asia leading the way. Looking forward five years, family offices may use their flexibility to lead the way on adopting ESG integration, planning to increase the allocation to about a quarter (24%) of the overall portfolio.

Cost pressure ahead

Costs are rising, chiefly due to more spending on wages and IT. More than a third (39%) of family offices report significant or moderate upwards pressure on salaries, and a similar percentage (35%) do for IT. The only area where costs are falling is office space, where 22% of family offices are budgeting for a fall.

Asset allocation: adapting to an altered world

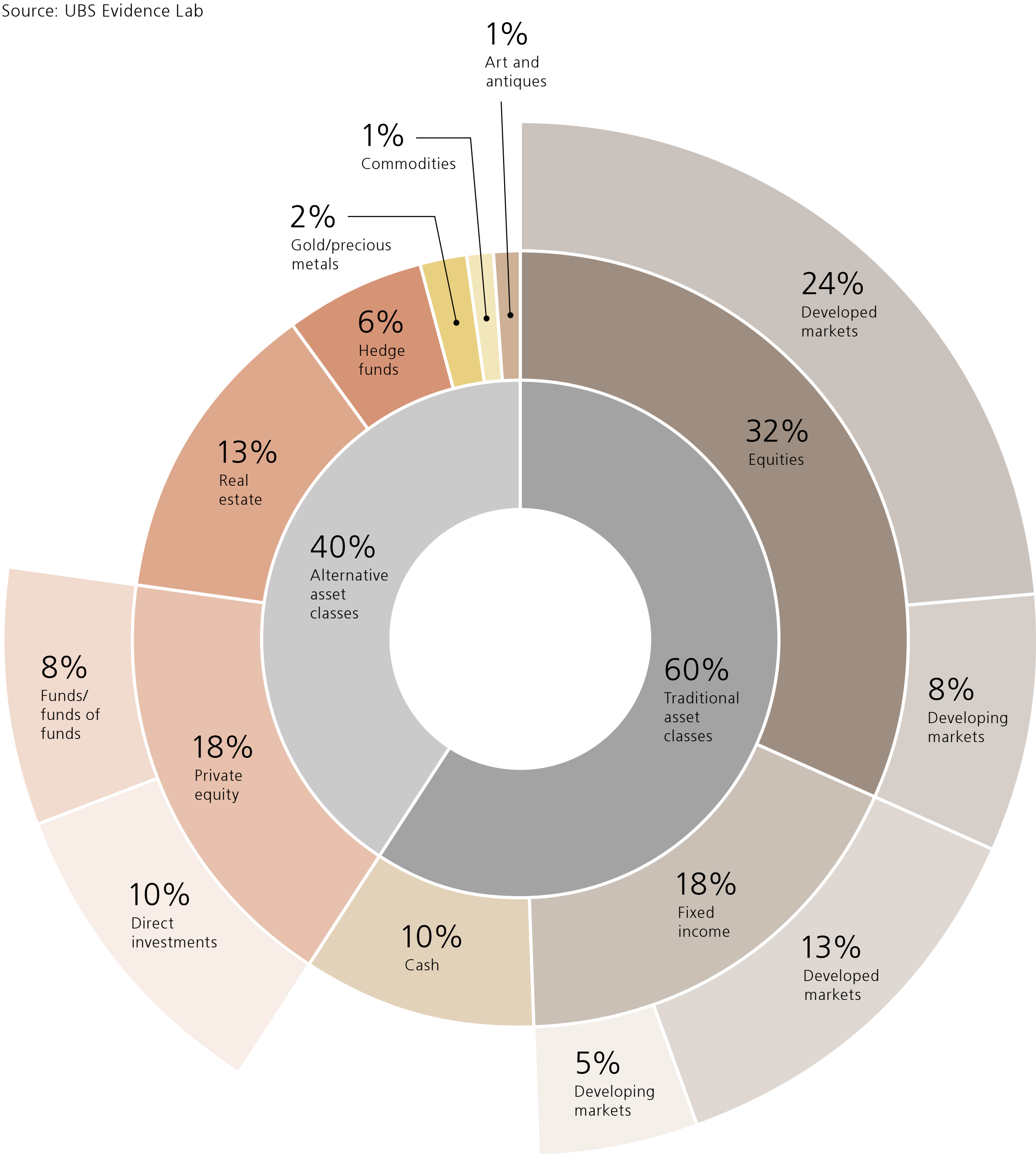
Key findings

Taking advantage of family offices' institutional nature, access and flexibility, portfolios continue to be broadly diversified across a range of asset classes, including alternatives.

Despite economic turbulence and strains in international relations, family offices retain a risk-on frame of mind.

Family offices are placing their equity bets on the themes that will dominate the global economy in the 2020s, many related to the interplay of technology with environmental and social opportunities, as well as Greater China's powerful growth story.

Strategic asset allocation for 2020
Source: UBS Evidence Lab



Strategic asset allocation of family offices (regional breakdown)
Source: UBS Evidence Lab

	CH	Asia-Pacific	Eastern Europe	Western Europe	US
Traditional asset classes					
Equities	30%	46%	21%	28%	32%
Developed markets	27%	28%	15%	24%	27%
Developing markets	3%	18%	6%	4%	5%
Fixed income	13%	16%	21%	21%	17%
Developed markets	10%	11%	12%	16%	14%
Developing markets	3%	5%	9%	5%	3%
Cash	14%	8%	15%	10%	5%
Alternative asset classes					
Private equity	21%	14%	15%	17%	21%
Direct investments	9%	7%	10%	10%	15%
Funds/funds of funds	12%	7%	5%	7%	6%
Real estate	14%	6%	21%	12%	14%
Hedge funds	3%	6%	3%	7%	9%
Gold/precious metals	2%	1%	1%	3%	0%
Commodities	0%	2%	0%	1%	1%
Art and antiques	1%	1%	0%	0%	1%

2021 marks the gradual acceleration of a change in strategic asset allocation (SAA) as family offices adapt to an altered world of interest rates at close to zero or even negative in many developed markets. While SAA is broadly stable compared with the previous year, they're contemplating a world where fixed income yields remain relatively low for some time and there are new sources of growth.

Looking back at 2020, portfolios finished the year broadly diversified across asset classes, including alternatives. Average allocations were stable, with approximately a third (32%) dedicated to equities, a fifth (18%) to fixed income, a similar amount (18%) to private equity and 13% to real estate. Cash was 10% and hedge funds 6%, with smaller allocations to gold with precious metals, commodities, and art and antiques. Note that these are global averages. For instance, US family offices allocated more than those in other regions to direct private equity and hedge funds while Asian family offices were more in favour of developing market equities.

Clearly change is in the wind. Low interest rates pose a major challenge to performance in the next three to five years, according to half (49%) of survey respondents.

Faith in fixed income has been shaken – just 17% of Swiss respondents reported having implemented it for portfolio protection in 2020. Again, though, the picture isn't universal. With fixed income no longer as effective for diversifying portfolios, half of family offices (51%) confessed to researching possible "alternative diversifiers," such as areas within hedge funds and private equity.

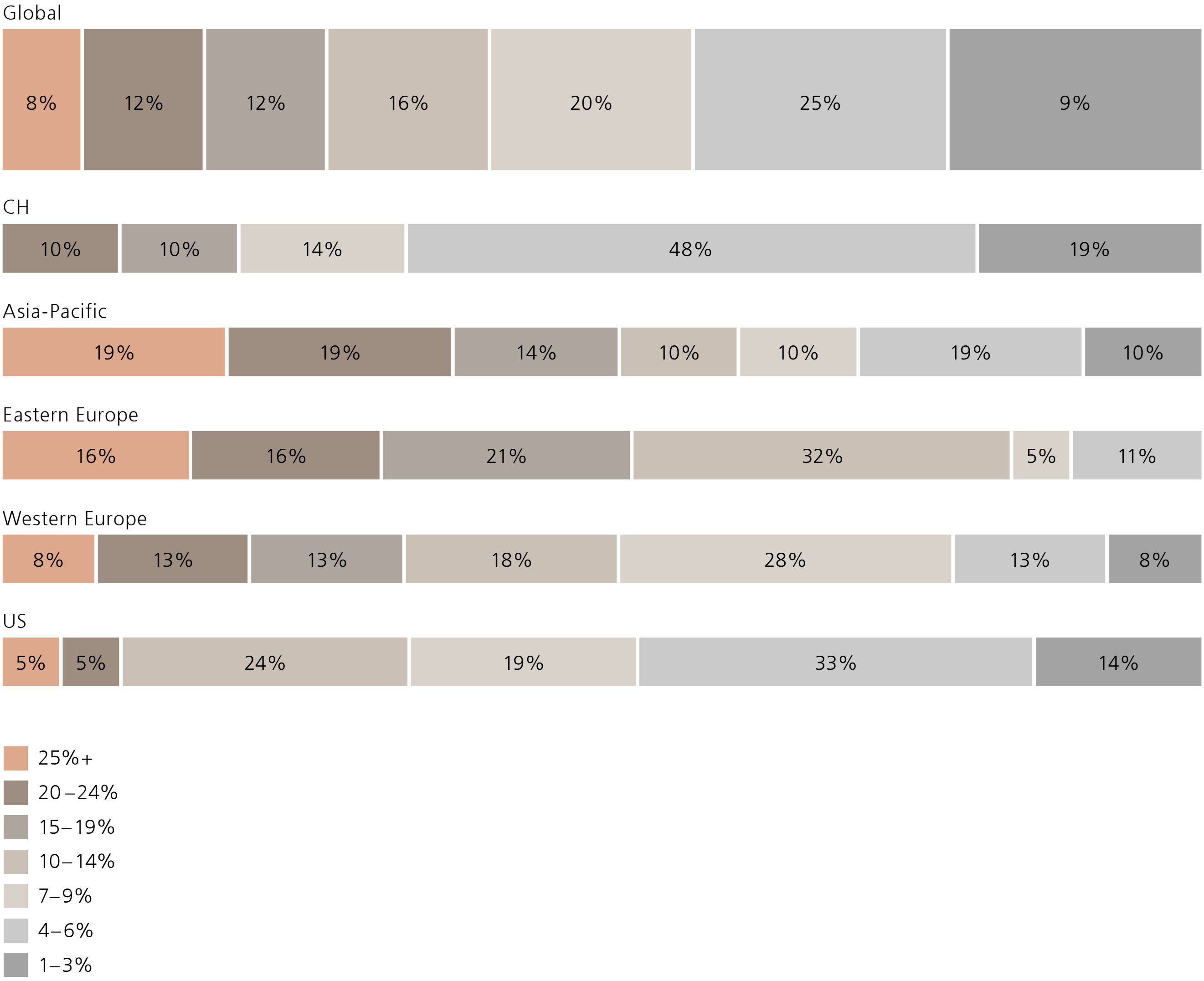
Even so, change happens gradually. While a quarter of respondents plan changes to their SAA in 2021, the shifts are incremental. On average, they plan to reduce developed market fixed income from 13% to 10% and developing markets from 5% to 4%. At the same time, they're planning to up private equity allocations, which rise from 18% to 20%, mainly through direct investments.

But SAA and systematic rebalancing aren't everything. Generally speaking, three quarters (72%) of family offices deviate tactically from SAA to capture short-term opportunities, on average trading just over a tenth (12%) of portfolios. In 2020's exceptionally volatile and fast-moving markets, three quarters (75%) of family offices rapidly switched positions, on average trading almost a quarter (22%) of portfolios in the three months of March, April and May. Asian and Eastern European family offices are the most active traders – almost a fifth (19%) of the former and 16% of the latter deploy tactical asset allocation to trade more than a quarter of the portfolio.

Interviews with chief investment officers (CIOs) of family offices suggest that there has been an uptick in trading activity. "We handle tactical asset allocation very actively – mostly making changes for a duration of three to six months, overweighting or underweighting some asset classes that we have in our strategic asset allocation," explains a CIO of a family office based in Switzerland. "This is how we basically deal with shifting opportunities. We have been doing this extensively for a year and a half."

Turning to cryptocurrencies, upwards momentum makes them hard to ignore. Thirteen percent of respondents have invested, and 15% are considering doing so, although not as part of their SAA. "For us, it started really as just a pure trade," notes the Swiss CIO. "We saw the institutional adoption and that was why we took on a small allocation in bitcoin, maybe almost a year ago. We figured that institutional adoption is only going to increase. It began as a pure momentum trade." In Asia, a quarter report having invested, although it's most likely at the margin of portfolios.

Proportion of portfolio changed in 2020 through tactical asset allocation
Source: UBS Evidence Lab



Risk and currency hedging pay off: 2020 simulated investment performance

Family offices' institutional yet dynamic approach to asset allocation, with approximately 40% dedicated to alternative investments, generated solid returns in 2020. Based on the year's average global SAA, in US dollars, a notional portfolio would have yielded a return of 8.1%, with a risk of 11.9%.

Risk appetite and currency hedging paid off. Asian families reaped the rewards of taking more risk, returning 10.6%, against a risk of 14.9%. But with the dollar weakening, currency hedging was the most prudent decision of all: a fully hedged Swiss franc portfolio would have returned 5.1% versus zero for a partially unhedged portfolio. Similarly, a fully hedged European portfolio would have returned 6.3%, against a partially unhedged portfolio's 1.5%.[1]

2020 performance simulation
Source: UBS Evidence Lab

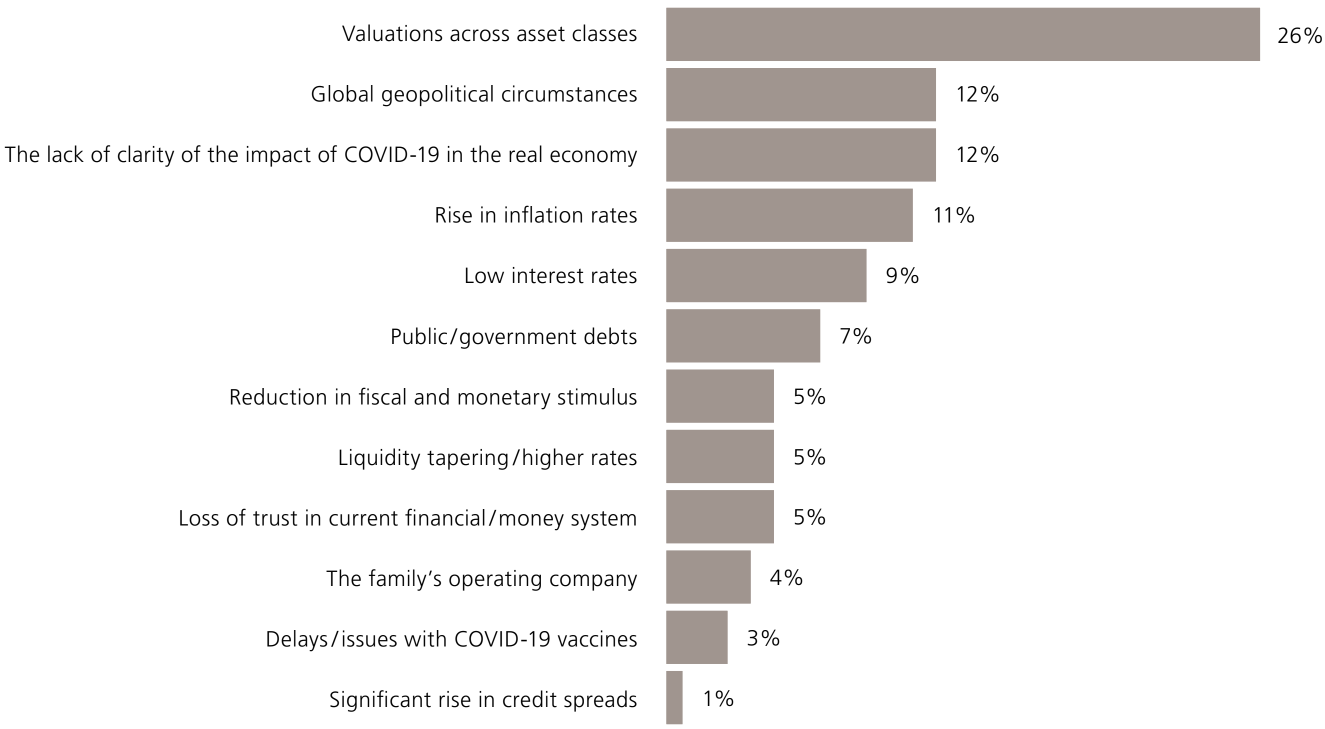
	Global	**CH** fully hedged	**CH** partially hedged	**Asia-Pacific**	**Eastern Europe**	**Western Europe** fully hedged	**Western Europe** partially hedged	**US**
Return	8.10%	5.10%	0.00%	10.60%	5.70%	6.30%	1.50%	7.80%
Risk	11.90%	11.10%	10.00%	14.90%	9.40%	11.20%	9.70%	12.40%
Sharpe ratio	0.63	0.53	0.08	0.67	0.54	0.61	0.2	0.58

[1] The indices used are calculated in USD. The European and the Swiss portfolios have been simulated in EUR and CHF respectively. In the partially hedged simulations, the cash holdings, the allocation to fixed income developed markets and the real estate allocation to the NCREIF have been hedged to EUR and CHF respectively. All other allocations are in USD and unhedged. These are compared to fully hedged European and Swiss portfolio simulations. For a detailed methodology of how we calculated the simulated performance see page 48.

“Risk-on” mindset dominates
The greater changes are to come, as family offices plan to ratchet up exposure to risk assets. They intend to mitigate the potential price volatility through further diversification in terms of regions, sectors and (sub-)asset classes.

Looking at the next two to three years, they’re typically in a “risk-on” frame of mind. They have no overriding concerns about markets – whether geopolitics, COVID-19’s impact on the economy, rising inflation, low interest rates or high public debt. While all have the potential to unsettle markets, family offices aren’t signalling undue concern about any single one. Their greatest concern is high valuations across asset classes. Around a quarter (26%) of respondents globally cite this as the top anxiety, with half (47%) doing so in the US. Given the current growth/policy mix, family offices are largely staying long risk, albeit in a controlled fashion. It’s also worth noting that levels of concern about families’ operating businesses are very low.

Perceived threats to investment objectives over the next 2–3 years
Source: UBS Evidence Lab



"I think it's a great time to be in US equities; obviously there'll be some losers along the way, but there's just so much money flooding into the US economy now," asserts the manager of a family office based in the United States. "And with the supportive infrastructure bill that's going to be coming our way, it's hard not to be bullish on the US economy for the next 18 months."

Even so, some are nervous of the general level of bullishness. As the Swiss-based CIO cautions: "There's a quote, 'be greedy when others are fearful and fearful when others are greedy.' I think the time to be fearful is not here yet, but it may come sooner than you expect. We also realize that, typically, the most profitable parts of any bull market are in its later stages. It would be wrong to take the foot off the gas too soon. But risk management is key; having a really tight grip around the portfolio."

Looking forward five years, family offices plan to dial down SAA to low-yielding bonds and cash, further lifting the risk in portfolios.

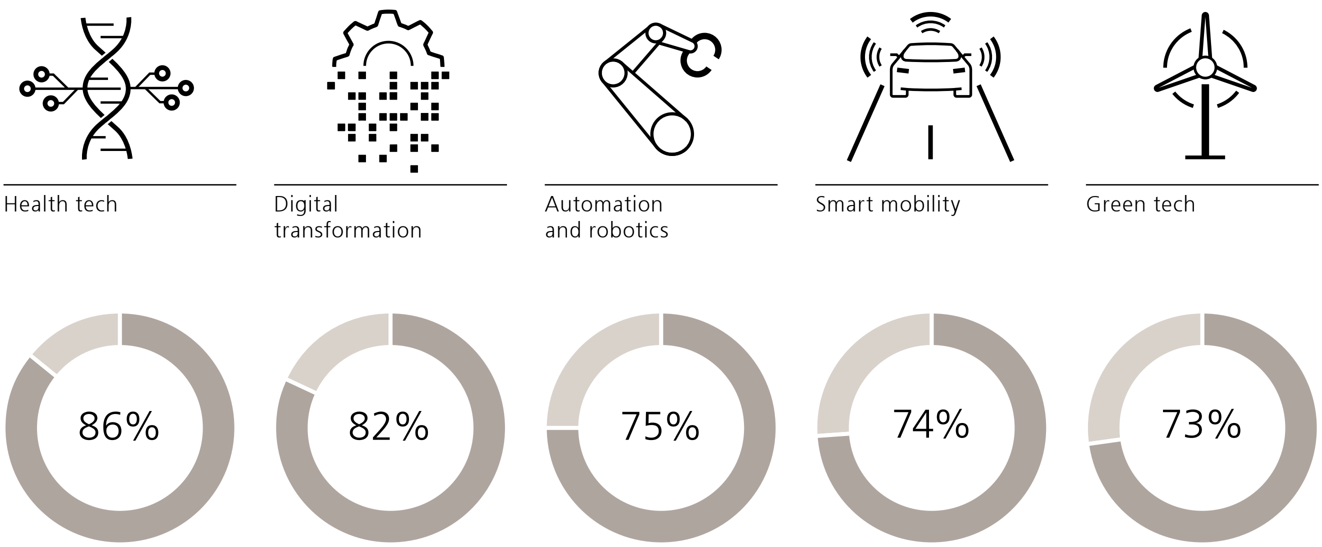
About a third (35%) intend to raise equity allocations in developed markets, more than half (56%) will do so in developing markets and almost half (42%) in direct private equity. Regionally, Eastern Europeans have the biggest shift in mind – they plan to slash their historically high allocations in fixed income, lifting their holdings in equities, private equity, hedge funds and commodities.

Family offices are placing equity bets on the themes that will dominate the global economy in the 2020s, many related to environmental and social issues. Following the global pandemic, health tech is the biggest investment theme for family offices, with over 86% of them seeking investments in this area over the next two to three years. At the same time, more than 70% of family offices look to invest in areas linked to digital transformation, automation and robotics, smart mobility and green tech.

Planned changes to asset allocation in the next 5 years
Source: UBS Evidence Lab

	Net Increase/ decrease	Increase	Stay the same	Decrease	Don't plan on investing in this asset class
Fixed income developed markets	**–18%**	17%	40%	34%	9%
Fixed income developing markets	**3%**	22%	45%	19%	15%
Equities developed markets	**35%**	48%	37%	13%	2%
Equities developing markets	**56%**	60%	29%	4%	6%
Private equity direct investments	**42%**	53%	32%	11%	5%
Private equity funds/funds of funds	**26%**	37%	41%	11%	11%
Hedge funds	**16%**	25%	46%	9%	20%
Real estate	**22%**	36%	46%	14%	4%
Infrastructure	**23%**	24%	50%	1%	25%
Gold/precious metals	**10%**	16%	55%	6%	22%
Commodities	**9%**	14%	46%	5%	35%
Cash (or cash equivalent)	**–18%**	11%	56%	29%	4%
Art and antiques	**8%**	10%	56%	2%	32%

Investment priorities in the next 2–3 years
Source: UBS Evidence Lab



Drawn by China's powerful growth story

Family offices are also reallocating assets geographically to Asia's vibrant economies, especially Greater China where 61% of respondents plan to increase allocations over five years. Families from Western Europe, very much an "old economy" region, stand out as cutting investments at home and shifting to Asia. More than 70% of Western European family offices foresee doing so.

Illustrating the enthusiasm for Asia, the COO of one Swiss family office explained: "We definitely want to take more opportunities in Asia at the stock-picking level, if not so much in terms of our overall equity allocation. However, we will definitely increase the exposure to Asian bonds, and in particular China."

Notably, US survey respondents don't share the enthusiasm. After several years when a trade war has escalated into a broad geopolitical standoff with China, they're more hesitant, preferring to invest in attractive US equities at a time when the new administration is set to boost the economy.

Within Asia, investors are drawn by the powerful growth in China and across the region, which stands in stark contrast to the rest of the world. Traditionally, wealthy business families in developing countries have safeguarded their wealth by spreading their investments outside their region. Unlike other parts of the world, there was little home bias. Yet this has changed, with Asian respondents now investing 55% of their assets at home. Looking forward five years, more than 60% of respondents plan to lift their allocations to Asia generally and China specifically still further.

But North America still has the largest home bias. Family offices from the region invest more than three quarters (79%) of assets locally, also reflecting the fact that the United States is the world's largest equity market. This is about 20% more than the US proportion of the total global market capitalisation in equities, as measured by the MSCI All Country World index. US investors have seen this bias encouraged by several factors, including a historically strong dollar, higher returns, and higher interest rates than many other countries/regions. For Western Europe, the proportion is just over half (52%).

Asset allocation changes by region
Source: UBS Evidence Lab

	Net Increase/decrease	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%**	30%	55%	13%	2%
Eastern Europe	**4%**	11%	55%	7%	27%
Middle East	**4%**	10%	50%	6%	33%
Africa	**10%**	11%	50%	1%	39%
Latin America	**16%**	18%	48%	3%	31%
North America	**23%**	40%	42%	17%	1%
Greater China	**61%**	63%	27%	2%	9%
Asia-Pacific excl. Greater China	**54%**	54%	37%	0%	9%

Geographical asset allocation
Proportion of portfolio invested in each region
Source: UBS Evidence Lab

Home location of beneficial owner | **Location of investment**

	Rest of the world	Asia-Pacific	Western Europe	North America
North America	4%	6%	11%	79%
Western Europe	4%	10%	52%	35%
Asia-Pacific	4%	55%	12%	29%
Rest of the world	26%	9%	26%	40%

Home investment

Private equity: a preferred source of opportunity

Key findings

Private equity (PE) is a preferred source of opportunity. More than half of family offices (52%) see it as a way of accessing investments that aren't otherwise available.

As PE becomes a greater source of funding for the economy, so family offices are now expert investors in the asset class. There's a sharp drop-off in the use of funds of funds, while involvement in funds and direct investments has risen significantly.

In line with the goal of growing family wealth, there's a focus on investing in tomorrow's innovators and disruptors. More than three quarters (77%) make expansion or growth equity investments.

With PE edging ever higher in portfolios, the asset class has become key for driving returns in an otherwise low-yield world. Just as in 2020, more than two thirds (68%) of family offices agree that it plays a central role, accounting for a high proportion of the alternative assets.

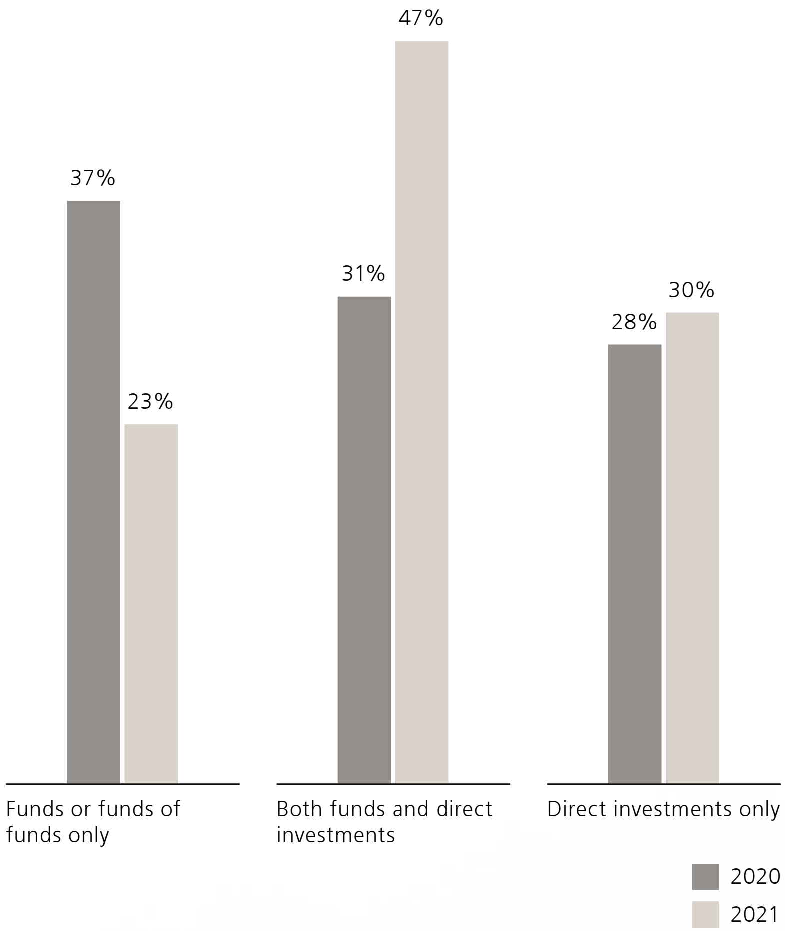
Three quarters (75%) think PE will deliver higher returns than public equity markets, while 44% see it as a source of diversification. But more than half (52%) look to PE for its broader range of opportunities. In a quarter (25%) of cases, the business owner is passionate about PE, often investing in the sectors where he or she already has a business.

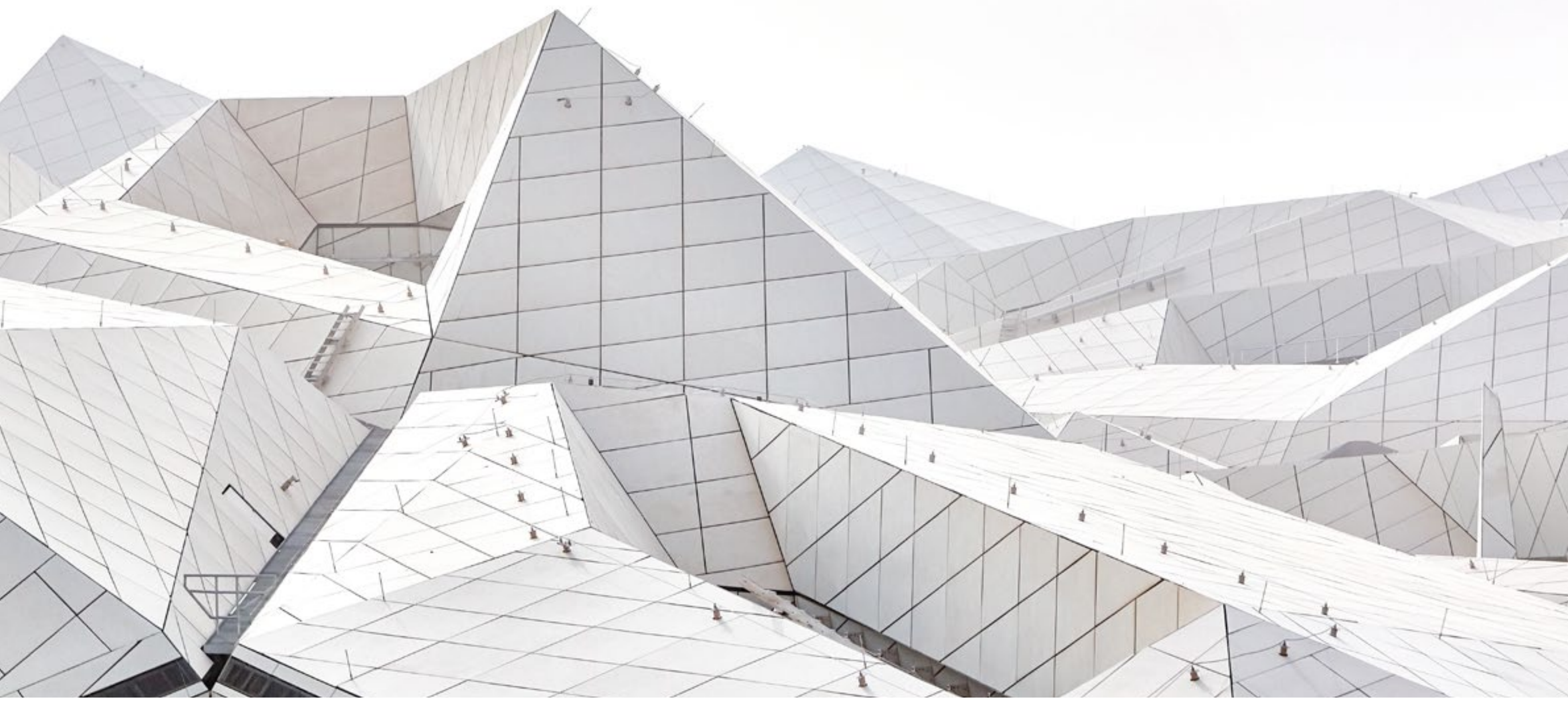
"Over the last 10 years it's hard to find something that's delivered better returns than public markets so for us private equity is there for diversification," notes the COO of one Swiss family office. "Yes, it's an equity risk but it's not reacting to news at the same time for the same reason, like public markets or other assets."

Expert investors

Just as PE has become a greater source of funding for the real economy, so it's natural for business families to become more directly involved. There's a sharp drop-off in the use of funds of funds, with investment in funds and direct investments rising significantly. 83% of survey respondents invest in PE. But while 37% of them invested in funds or funds of funds in 2020, that fell to 23% in 2021. Almost half (47%) invest in both funds and direct investments, up from 31% in 2020. Meanwhile, just under a third (30%) only invest in direct PE, a similar level to 2020. As a rule, direct PE is becoming more accessible, with secondary markets providing greater liquidity.

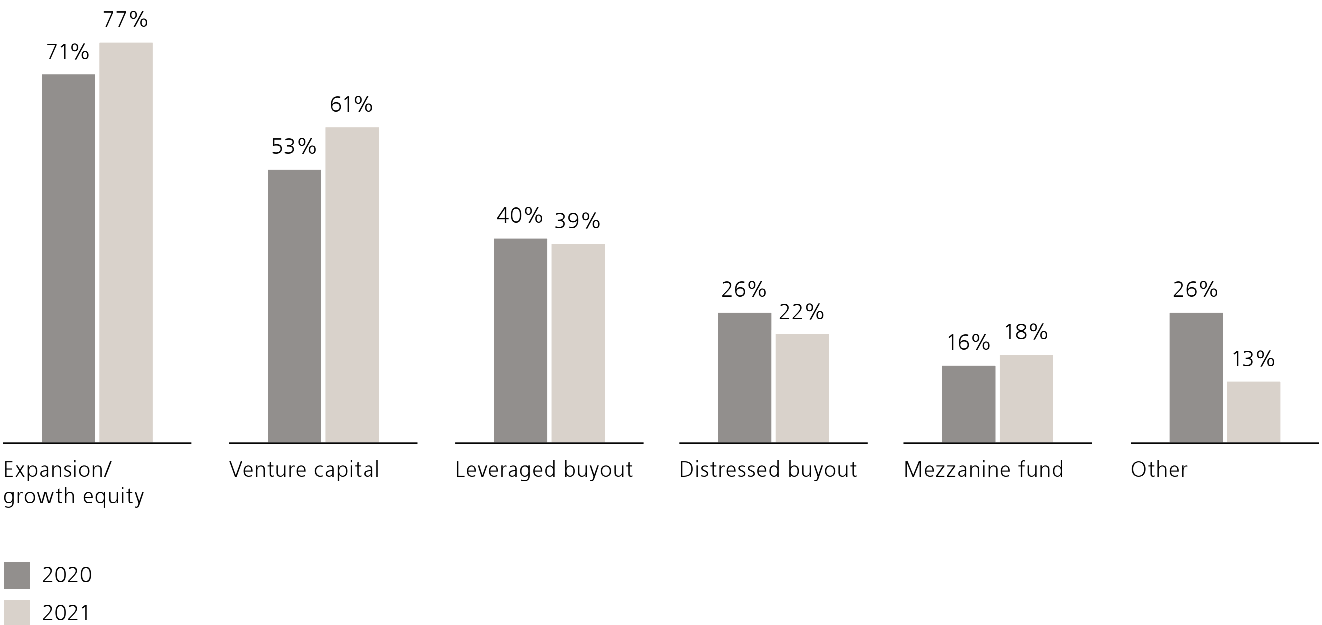
Private equity investment by type
Source: UBS Evidence Lab





At a time when many young companies are growing fast, disrupting the incumbents, there's a quest to invest in the innovators. More than three quarters (77%) of family offices make expansion/growth equity investments, with that proportion even higher in Switzerland (86%) and the US (92%).

Private equity investment by type
Source: UBS Evidence Lab



A US-based family office manager interviewed uses all three types of PE. "We do some funds of funds for the older generation if you will, but we've got two classes of direct investments, as two of the family members have their own private equity funds that they invest in their industries, and that's mostly in the software enterprise area, which is the area they know," he explains. "Then we do a variety of one-off real estate investments with some developers we know. We've done a number of opportunistic deals recently in hotels, for example, where financing for renovation or construction had been pulled."

More than half (57%) of family offices use intermediaries such as banks to source investments, valuing access to opportunities and knowledge. Almost two thirds (65%) of those using intermediaries say they do so for access to investment opportunities in funds that are otherwise difficult to enter, while privileged knowledge of the underlying market is similarly important (60%). Asian family offices find intermediaries' access to funds and keen knowledge especially important. With most PE houses still based in the US, the region's family offices have smaller need of intermediaries' expertise.

Seeking innovation

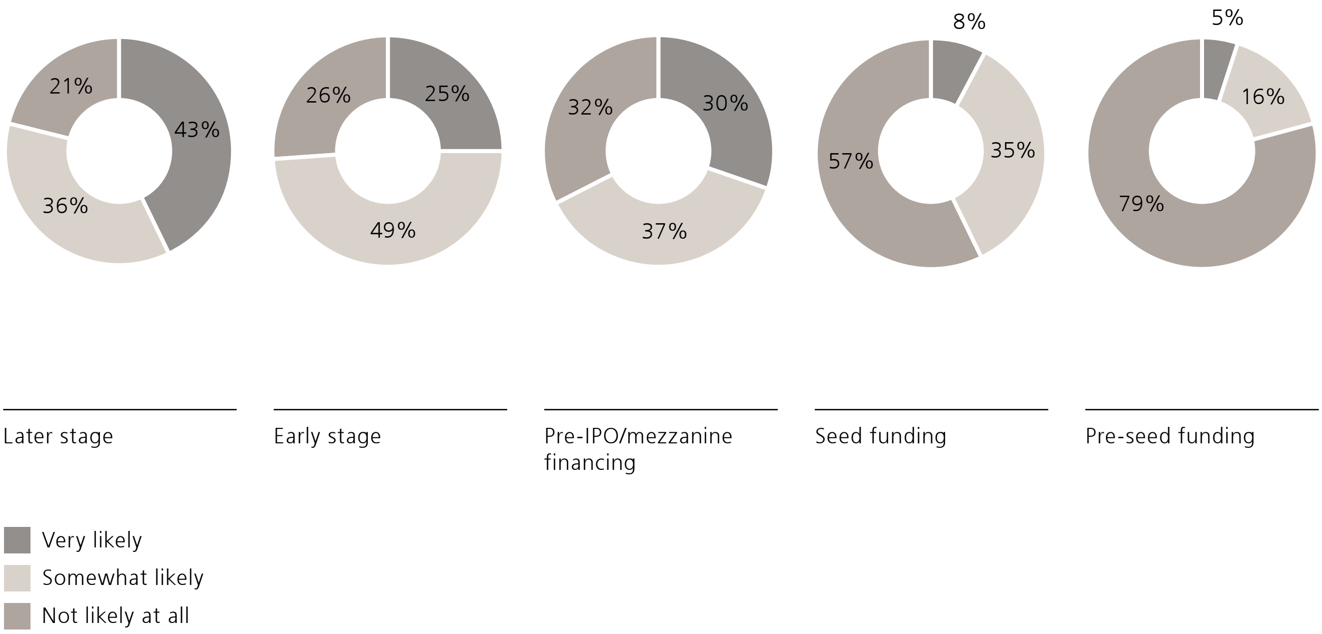
At a time when many young companies are growing fast, disrupting the incumbents, there's a quest to invest in the innovators. More than three quarters (77%) of family offices make expansion/growth equity investments, with that proportion even higher in Switzerland (86%) and the US (92%).

"We look at a lot of deals in China giving access to the new consumer," notes the CIO of a family office based in Beijing and Hong Kong. "In the US, we look more at technology. We also look at opportunities in Japan. It just depends where the opportunity is."

Similarly, venture capital (VC) is the second most popular type of investment. Almost two thirds (61%) of family offices make VC investments; yet the proportion is higher still in Eastern Europe where three quarters (75%) do so.

From a life cycle perspective, later-stage and pre-IPO/mezzanine financing are preferred. This mitigates risk in what otherwise can be a high octane form of investing.

Private equity investment by life cycle stage
Source: UBS Evidence Lab



Sustainable investments: the best of all worlds

Key findings

Sustainable investment (SI) is entrenched in portfolios. More than half (56%) of families invest sustainably, although with wide regional differences. Three quarters (72%) do so in Western Europe, a cheerleader for sustainability, while Eastern Europe lags at only a quarter (26%) and the US at 45%.

As the most dynamic asset owners, family offices appear to be leading the evolution to environmental, social and governance (ESG) integration, planning to increase allocations to about a quarter (24%) of the portfolios.

Turning to how family offices carry out SI, they're equipping themselves with experts. Forty-two percent state that they've prepared the investment team to make SIs.

Why are families putting such faith in SI? The most popular answer is a sense of responsibility – it's for the positive impact on society, according to almost two thirds (62%). Similarly, more than half (55%) say it's the right thing to do for society. Roughly half (49%) also see it as being the main way to invest in future.

Families are seeking out investments that not only earn positive returns but also benefit society after a year of pandemic that has heightened anxiety about environmental and social issues. More than half (56%) already invest sustainably, although with wide regional variations. Three quarters (72%) of families do so in Western Europe, arguably the global cheerleader for cutting carbon emissions and addressing societal problems. Adoption in Asia is broad-based, too, with more than two thirds (68%) of family offices investing sustainably. Meanwhile, just 45% of US respondents do so and a quarter (26%) in Eastern Europe.

As the most dynamic and flexible asset owners, family offices look set to lead the way on adopting the "ESG-integration" form of SI, which incorporates the sustainability and societal impact of a business into investment analysis. Globally, family offices think ESG-integration investments will be about a quarter (24%) of total portfolios five years from now. Attitudes are steadily evolving, with appreciation of how ESG factors can cut risk, raise returns and benefit society. Today, the traditional approach of excluding investments judged unsustainable still dominates SI. Looking forward five years, though, this will account for less than a third (30%) of portfolios, while impact investing will make up just over a tenth (14%).

Why are families putting such faith in SI? The most popular answer is a sense of responsibility – it's for the positive impact on society, according to almost two thirds (62%). Similarly, more than half (55%) say it's the right thing to do for society. Roughly half (49%) also see it as being the main way to invest in future.

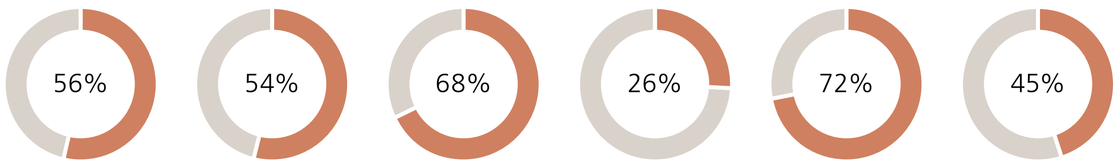
"We have more of an exclusion-based approach ourselves," notes a Swiss-based CIO. "But when we engage with external funds that's when we pay attention to what their ESG-integration approach is. On the impact side of things, that's exclusively carried out through our charitable effort. Obviously, we're now thinking long and hard about how far we should go and whether inclusion should become part of the overall allocation. We're just not there yet."

Mindsets are shifting. The barriers to investing are falling. When asked why they might not embrace SI, fewer say that they're happy with their current approach or that they prefer to maximize returns in their investment portfolios and pursue philanthropy separately. But it's also notable that after a period when SI strategies have often outperformed there's less concern about giving up returns – only 11% still view this as a problem.

"We invest a lot in healthcare and education," says the CIO of a Beijing- and Hong-Kong-based family office. "The financial return is the most important thing, but a lot of these technology-related investments will make a positive impact as well."

There's evidently a need for more education as people are concerned about whether they know enough about SI. In the field of impact investing, there's still unease about how to measure impact. These are the worries, though, of people who are evidently not rejecting investing sustainably.

Sustainable investing strategy
Source: UBS Evidence Lab

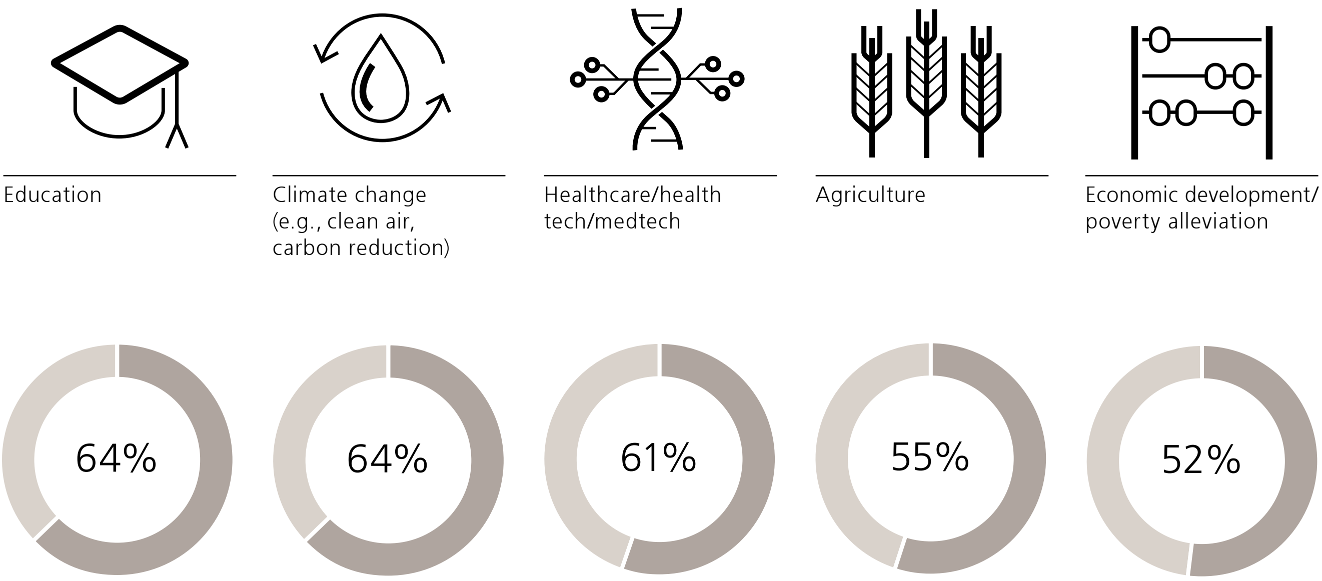


	Global	CH	Asia-Pacific	Eastern Europe	Western Europe	US
Exclusion-based investments	33%	35%	36%	4%	48%	23%
ESG-integration investments	34%	38%	43%	13%	43%	32%
Impact investing	25%	31%	29%	17%	23%	29%
No sustainable investments yet	44%	46%	32%	74%	28%	55%

Family offices with sustainable investments of any type


250
ml
200
APPROX. VOL
100

Favored impact investment themes for 2021
Source: UBS Evidence Lab



Getting more active
Turning to how family offices carry out SI, they're equipping themselves with experts. 42% state that they've prepared the investment team to make SIs.

Different parts of the world have different priorities. In Western Europe, over half (52%) of family offices say that climate change has already influenced their investment choices. Meanwhile, Asia (43%) and the US (38%) say they have a pipeline of direct impact investment opportunities.

Generally speaking, the number of impact investments is growing, notwithstanding the fact that it remains a relatively small part of portfolios. On average, family offices state they have impact projects across approximately six areas in 2021, versus four in 2020. While education still remains the most popular area, in 64% of portfolios, climate change matches it, up from 40% the previous year. Healthcare is also an area for 61%. Other increasingly popular areas include: economic development/ poverty alleviation, agriculture, alternative food sources and clean water and sanitation.

Blending with philanthropy?
Clearly, SI is claiming its place in the modern family office. It's not just becoming entrenched in investment portfolios but also at least partly blending with philanthropy for some. Globally, 28% state that's the case, with that percentage rising to 37% of Swiss and 39% of Western Europeans. But only a tenth (9%) of US family offices think that way, as culturally they're highly committed to philanthropy and view it as entirely separate.

Costs and staffing: cost pressure ahead

Key findings

There's upward pressure on operating costs. More than a third (35%) report significant or moderate upwards pressure on salaries, while a further third do on IT (33%).

The cost of running a family office depends on size. Expressed in terms of basis points as a percentage of assets under management, the range is from 35 to 52 basis points.[2]

Reflecting Singapore's recent influx of family offices from places such as the US and China, more than half (52%) of Asian family offices say their staff has become more global, while 44% say they're actively hiring outside the head office location to access a broader talent pool.

[2] The calculation excludes all external fees.

Despite the economic turbulence in many parts of the world, there's some upward pressure on operating costs. More than a third (39%) of family offices report significant or moderate upwards pressure on salaries. A further third do on IT (35%). The only area where costs are falling is office space, where 22% are budgeting for a fall, rising to 30% in the US. Like others, family offices are being offered discounts by landlords as staff work from home.

The cost of running a family office depends on the size of assets under management (AuM). Expressed in terms of basis points (bps) as a percentage of AuM, the range is from 35 to 52 bps. That includes all internal activities, but excludes external fees (such as asset management). For family offices with less than USD 750 million in AuM, the range is 31 to 48 bps. But for those managing more than USD 750 million, the range drops somewhat to 30 to 46 bps.

Of the four discrete types of activity, investment-related activities are the most expensive. Administration follows. Then comes general advisory and, lastly, family professional services.

Budget/spend in 2021/2022
Source: UBS Evidence Lab

	Net Increase/ decrease	Significant/ moderate increase	Stay the same	Significant/ moderate decrease
Salaries/staff	**35%**	39%	57%	4%
IT	**33%**	35%	64%	2%
Hardware	**11%**	16%	78%	6%
Insurance	**13%**	15%	84%	1%
Office space	**–11%**	11%	67%	22%
Utilities	**1%**	10%	81%	9%

Describing categories of family office activity

Investment-related activities
Strategic asset allocation; tactical asset allocation; traditional investments; manager selection/oversight; real estate direct investment; financial accounting/reporting; alternative investments; investment banking functions; risk management; global custody and integrated investment reporting; private banking; foreign exchange management.

Administrative services
Accounting; bookkeeping; mail sorting; office overheads; IT costs; management of contracts.

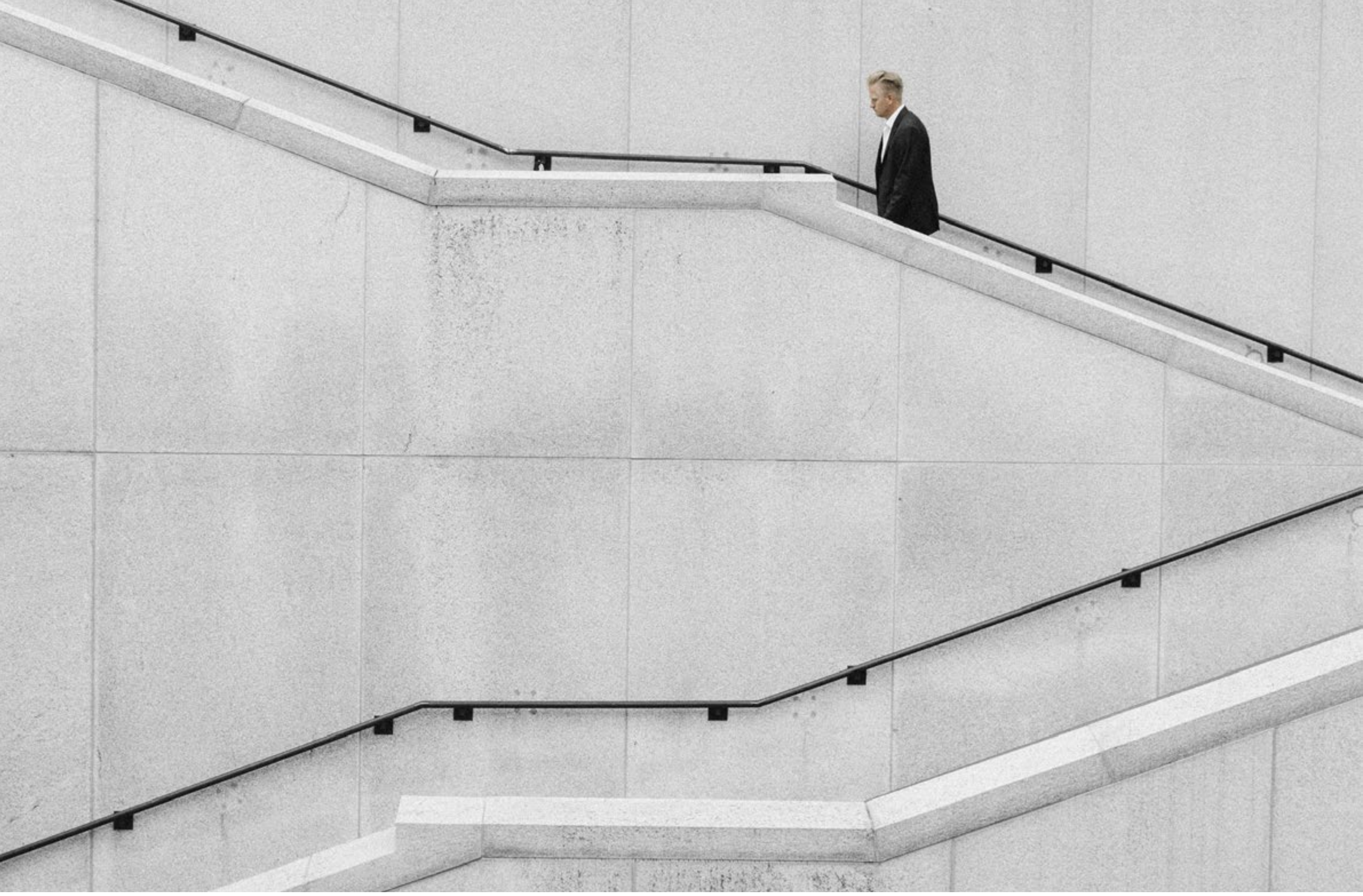
General advisory services
Financial planning; tax planning; trust management; legal services; estate planning; insurance planning.

Family professional services
Family governance and succession planning; support for new family business and other projects; philanthropy; concierge services and security; family counseling/relationship management; management of high-value physical assets (e.g. property, yachts, art, aircrafts); entrepreneurial projects; education planning; next generation mentoring; entrepreneurship; communication between generations.

Costs of running the family office range from 35 to 52 bps [3]
Source: UBS Evidence Lab, table numbers are rounded

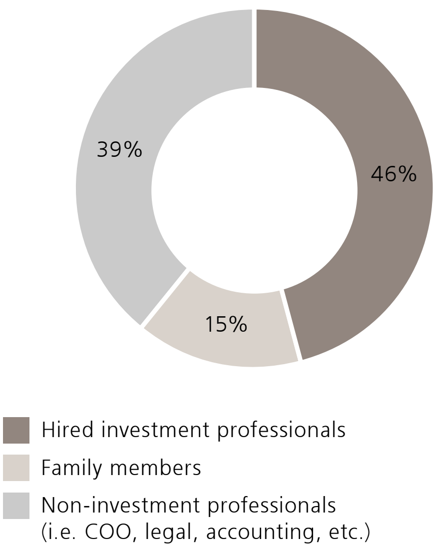
			Assets under management			
	Total (min)	**Total (max)**	**Less than USD 750 m (min)**	**Less than USD 750 m (max)**	**More than USD 750 m (min)**	**More than USD 750 m (max)**
General advisory services	6.7	10.8	6.7	10.7	4.6	8.6
Investment-related activities	14.6	19.1	13.0	17.6	14.6	19.0
Family professional services	6.0	10.2	5.7	9.8	5.3	9.4
Administrative activities	7.3	11.4	5.7	9.8	5.3	9.4
Cost range		**35–52 bps**		**31–48 bps**		**30–46 bps**

[3] See family office cost calculation, under methodology on page 48.



As the debate grows about whether firms will adopt hybrid working in future, family offices are traditionalists. Two thirds (66%) of them plan to return to the office just as soon as it's safe to do so. This is especially the case in Switzerland, where fully three quarters (77%) are looking forward to returning to office life.

Type of staff
Source: UBS Evidence Lab



Trends in staffing

As the debate grows about whether firms will adopt hybrid working in future, family offices are traditionalists. Two thirds (66%) of them plan to return to the office just as soon as it's safe to do so. This is especially the case in Switzerland, where three quarters (77%) are looking forward to returning to office life.

Only in Asia does there seem to be a significant growth in staff numbers, as family offices professionalize. In particular, Singapore's location as a gateway to the fast-growing region, stable politics and attractive blend of tax and regulations have led to an influx of family offices from places such as the US, UK and China. Likely this is why more than half (52%) of Asian family offices say their staff has become more global, while 44% say they're actively hiring outside the head office location to access a broader talent pool.

The size, shape and function of family offices vary considerably. Wealthier families with total wealth north of USD 1 billion have more staff, averaging 18 people; those with under USD 1 billion average seven. However, this contrast masks a broad range of sizes. Most family offices are small, with up to 10 staff members, but almost a fifth employ over 20 people and a small number employ more than 50. Broadly speaking, the US appears to have the largest family offices; Switzerland the smallest.

Demonstrating the family office's core purpose, nearly half (46%) of staff are investment professionals. Family members make up a minority of just 15%. The balance of 39% are non-investment professionals, typically in operations, legal and accounting. But the picture varies by region – for instance, the US has the smallest number of investment professionals and largest number of non-investment professionals. Switzerland has the highest number of family members.

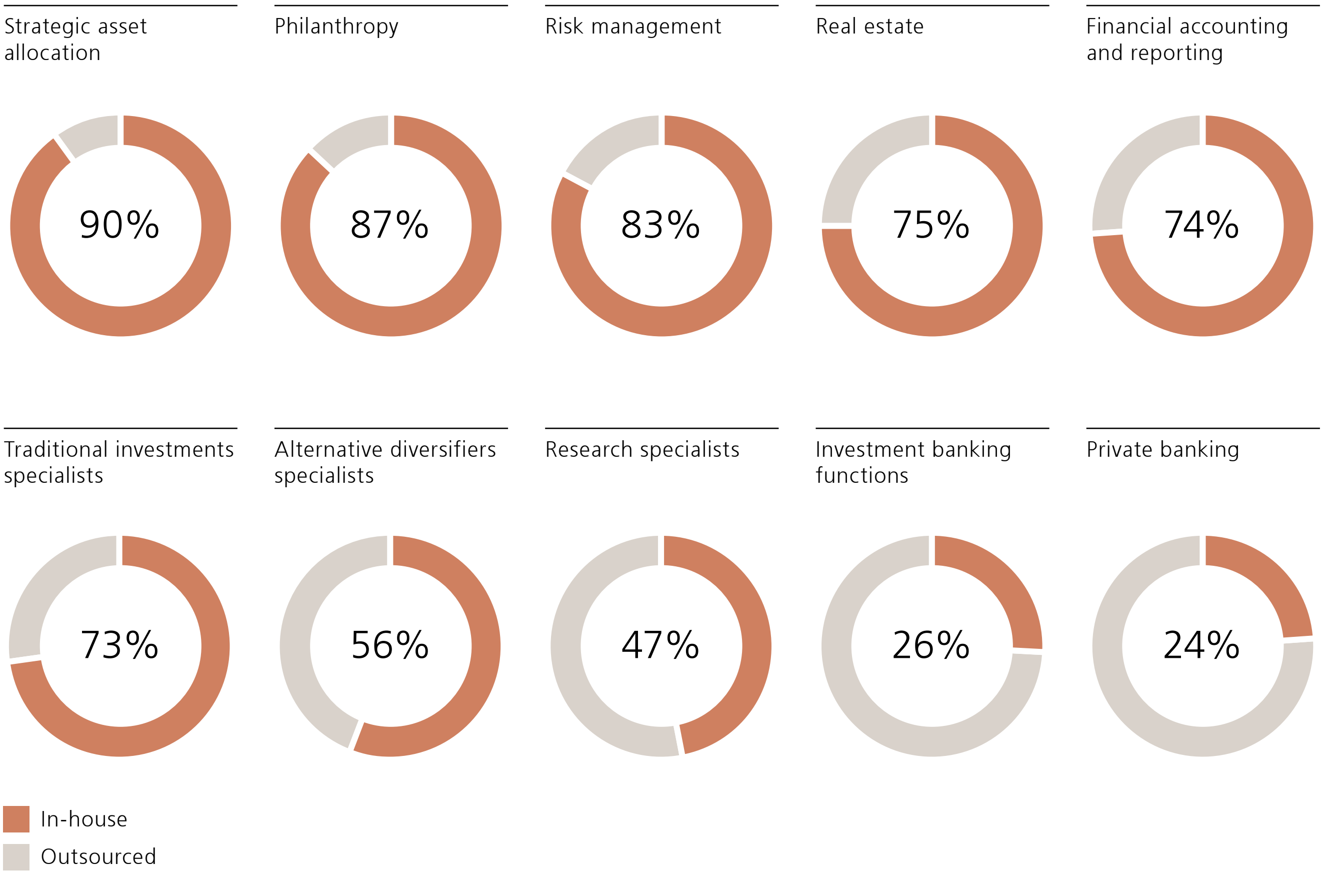
Bonuses are still relied on to compensate staff. The US appears to be ahead of other regions as the one most likely to offer more diverse benefits such as the opportunity to invest alongside the family.

In-house vs. outsourcing

What's kept in-house and what's outsourced reflects the purpose of a family office and families' interests. SAA is conducted in-house by almost all, as is risk management. However, specialist expertise in investment banking and private banking is outsourced by most.

By and large, families don't outsource philanthropy. Almost all (87%) keep it in-house, staying closely involved.

In-house or outsourced?
Source: UBS Evidence Lab



The next generation expected to make little change

As the next generation prepares to take control, family offices don't expect major change. More than half state that the next generation is very interested in the family office, while more than two thirds (68%) say they are just as interested in traditional investments as their parents.

What's more, the upcoming generation will continue their parents' journey towards more sustainable investing. Sons and daughters have been influencing impact investing in 42% of family offices, particularly in Switzerland. Forty-four percent of family offices report that they've been a big influence in driving SI.

The change in control anticipated for some time is under way, as the next-in-line take over from their fathers and mothers. A third (34%) of family offices globally are currently in the process of handing over responsibilities, rising to 41% in Switzerland. More than a quarter (28%) expect to in the near future.

Looking to the future

2021 marks the beginning of a medium-term shift in strategic asset allocation for many family offices. Our survey data shows them raising allocations to private equity at the expense of fixed income in years to come, while also focusing on the next decade's sources of growth in niche tech sectors and Asia.

Sustainable investing also appears set to claim a larger part of portfolios, especially as family offices use their flexibility to lead the way in integrating ESG analysis.

Family offices began 2021 in an optimistic frame of mind, with few primary concerns about markets. But it remains to be seen whether the secondary concerns that they voiced will become more pressing over the coming year – namely valuations, geopolitical tensions and high government debts.

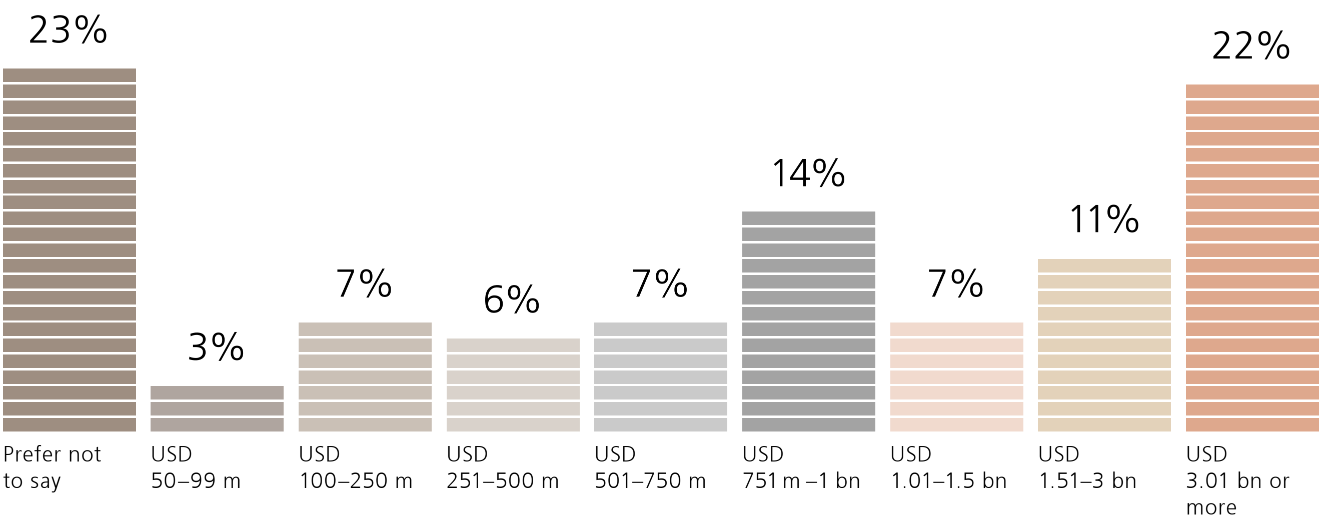
Some facts about our report

Net worth averaging USD 1.2 bn
The 2021 UBS GFO Report is the second of our annual surveys on the activities of family offices researched and written in-house. As such, we are pleased that the study has expanded in terms of both the number of respondents and the total wealth represented.

Our 2021 report focuses on 191 of the world's largest single family offices, up from 121 in 2020. It covers a total net worth of USD 225.7 bn (USD 122.6 bn in 2020), with the individual families' net worth averaging USD 1.2 bn (USD 1.6 bn in 2020). The family offices manage a total USD 148.2 bn of assets (USD 83.0 bn in 2020), or an average of USD 0.8 bn each (USD 1.1 bn in 2020).

Total net worth of founding family including core operating business
Source: UBS Evidence Lab

Total wealth in GFO Survey USD 225.7 bn
Average total worth USD 1.2 bn

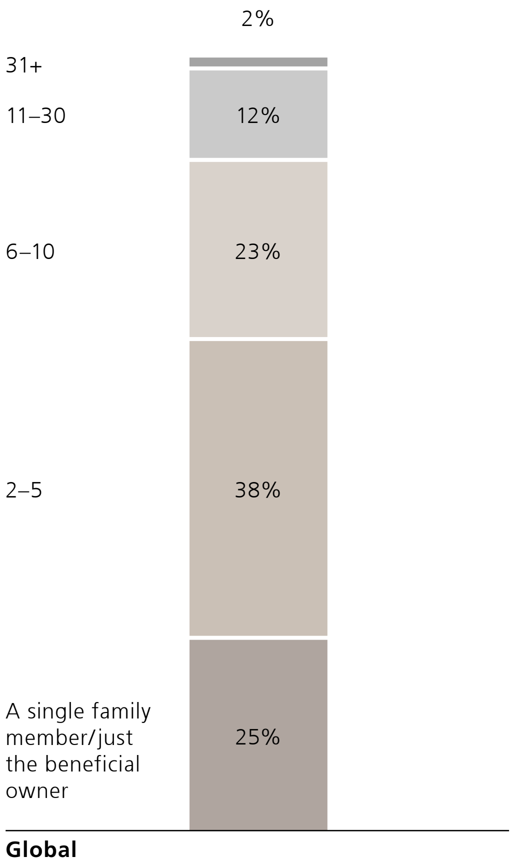


Regional split
Geographically, half (50%) of the family offices' beneficial owners are based in Europe. Fourteen percent come from North America and 14% from Asia-Pacific. Finally, 11% are from the Middle East, 7% from Latin America and 2% from Africa.

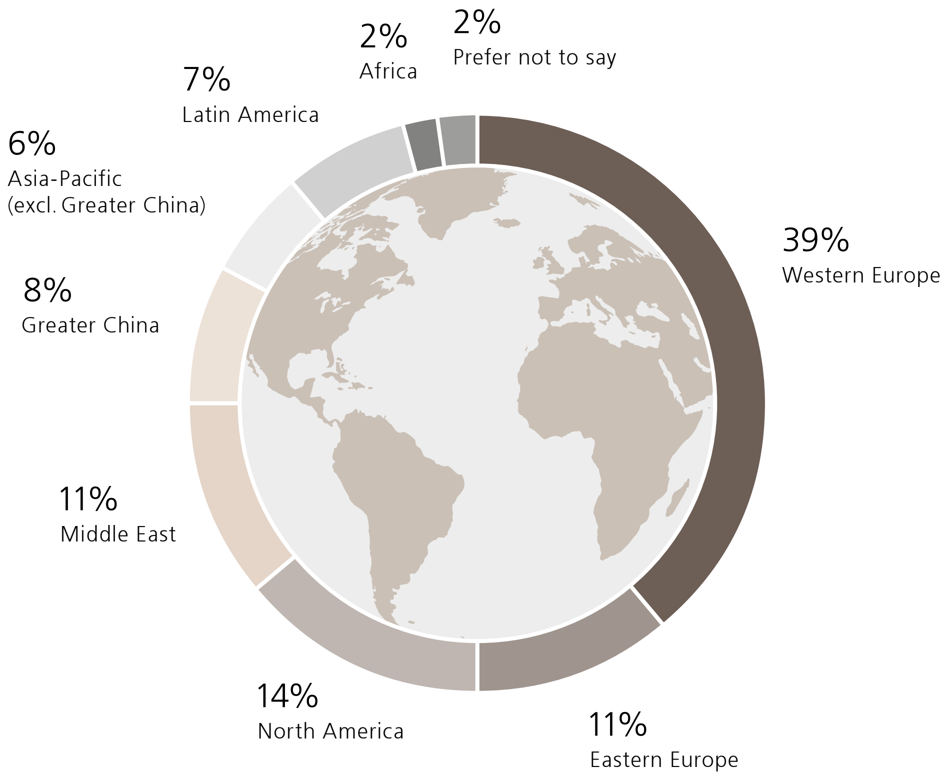
Average family size
The average size of families is eight. The largest families are in Eastern Europe, the smallest are in Asia and Switzerland.

Operating businesses
Four fifths of the families still have operating businesses. The main industries represented are: financials, real estate and industrials.

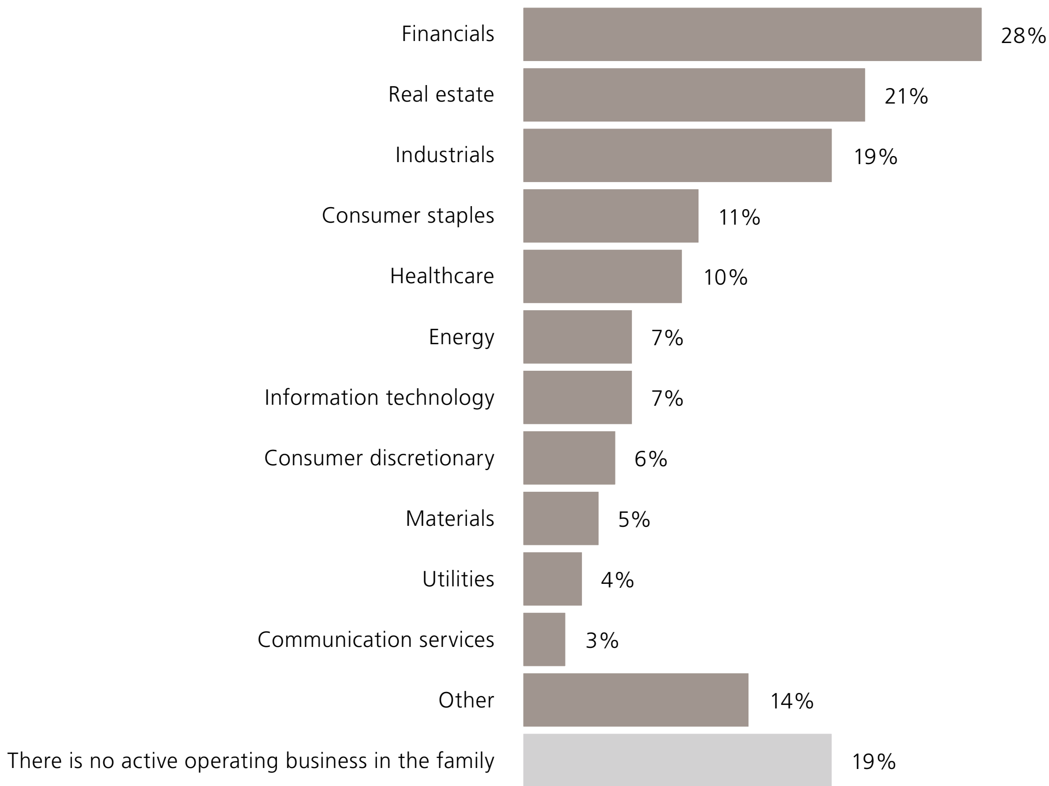
Number of family members served by family office
Average family size served by the family office: 8 people
Source: UBS Evidence Lab



Region of family office principal/beneficial owner
Source: UBS Evidence Lab



Primary industry of family's operating business
Four in five family offices have an operating business
Source: UBS Evidence Lab

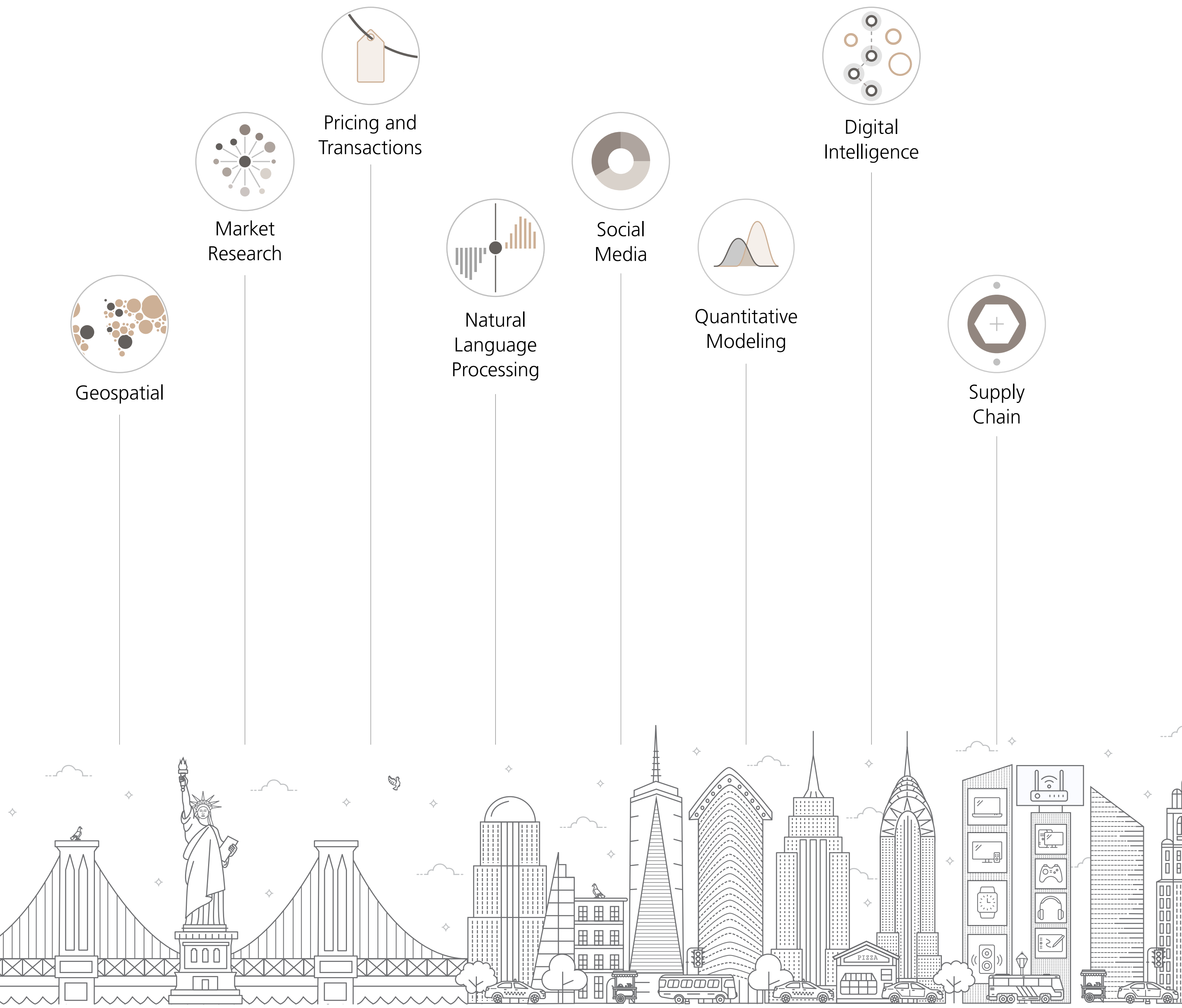


UBS Evidence Lab

Turning data into evidence

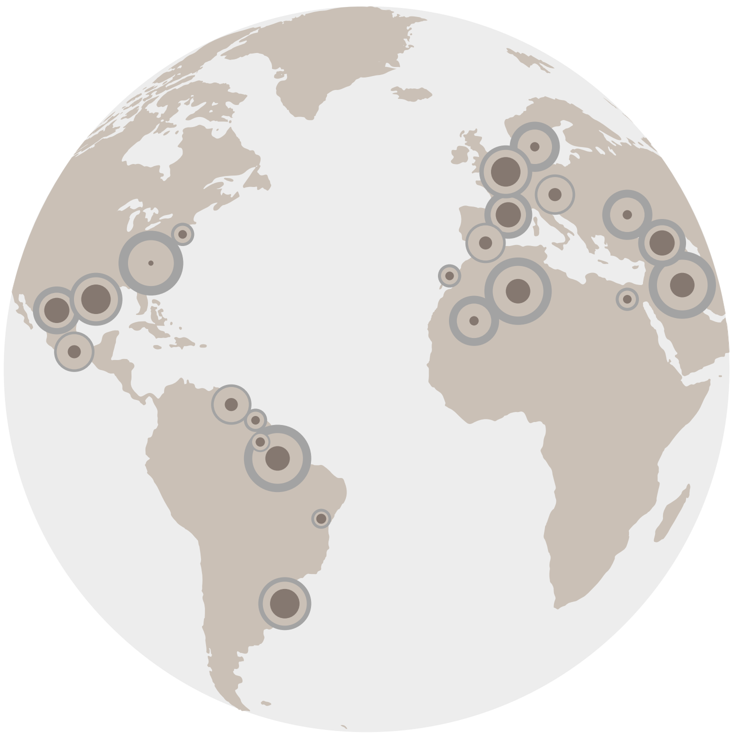
UBS Evidence Lab is a team of alternative data experts who work across 55+ specialized areas creating insight-ready datasets. The experts turn data into evidence by applying a combination of tools and techniques to harvest, cleanse, and connect billions of data items each month. The library of assets, 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.

Robust coverage. Rigorous approach.



UBS Global Family Office

Global Family Office (GFO) aims to anticipate and respond to the evolving needs of clients seeking the most complex solutions, ongoing institutional coverage, bespoke investments and financing, global coverage, and corporate solutions. In addition to global wealth management services, we offer billionaire families, wealthy entrepreneurs and their family offices access to the full range of UBS's investment bank and asset management capabilities across geographies and booking centers. Our clients are provided with holistic financial and non-financial advisory services, as well as an extensive peer network with dedicated teams in Switzerland, Hong Kong, Singapore, Germany, the United States, the United Kingdom, Luxembourg, the United Arab Emirates, Spain and Italy.



Global coverage

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Integrated solutions

At Global Family Office we align our capabilities across Wealth Management, Institutional Asset Management and Investment Banking.

Connectivity and insights

We will connect you with like-minded peers and recognized experts to provide a platform for exchange and collaboration.

Methodologies

This marks the second iteration of the Global Family Office Survey. UBS Evidence Lab surveyed 191 UBS clients globally between 18 January and 15 February 2021. Participants were invited using an online methodology and were distributed across 30 markets worldwide. In 2020, we surveyed a smaller sample of 121 UBS clients across 35 markets in February and again in May.

Family office cost calculation:
Participants were offered ranges to select from to indicate their estimated costs in four categories: general advisory services, investment-related activities, family professional services and administrative activities.

Costs are represented by a weighted average, calculated using the minimum and maximum points of those ranges (from "up to 10 bps" to "more than 100 bps").

"Total costs" reflect costs provided by those with "less than $750 m AuM" and "more than $750 m AuM" and "family offices who did not disclose their wealth in the survey".

Simulated family office performance:
The historic risk/return simulations are based on the theoretical performance of the standard benchmarks or indices underlying the portfolios from 31 December 2019 to 31 December 2020. The historical performance shown does not reflect actual performance but, rather, was calculated by the retroactive application of historic index results. These results are based on the historical performance of selected broad-based indices. The results shown reflect realized and unrealized gains and losses and the reinvestment of income, but do not include the impact of transaction costs, taxes and inflation. The historic back test analysis assumes that the asset allocation was rebalanced at the beginning of each month back to the initial asset allocation.

The indices used are calculated in USD. The European and the Swiss portfolios have been simulated in EUR and CHF respectively. In the partially hedged simulations, the cash holdings, the allocation to fixed income developed markets and the real estate allocation to the NCREIF index have been hedged to EUR and CHF respectively. All other allocations are in US dollars and unhedged. These are compared to fully hedged European and Swiss portfolio simulations.

Indices used for each asset class		2020 Global
Liquidity		**10.0%**
Cash	FTSE USD Euro Deposits 3M	10.0%
Cash	FTSE EUR Euro Deposits 3M	
Cash	FTSE CHF Euro Deposits 3M	
Bonds		**18.0%**
Fixed income developed markets	BBG Barclays Global Aggregate	13.0%
Fixed income developing markets	JPM CEMBI Diversified	1.7%
Fixed income developing markets	JPM EMBI Global Diversified	3.3%
Equities		**32.0%**
Equities Developing markets	MSCI Emerging Markets	8.0%
Equities Developed markets	MSCI World	24.0%
Private markets		**18.0%**
Private equity	CAPE US Private Equity Index	18.0%
Hedge funds		**18.0%**
Hedge funds	HFRI Fund Weighted Composite	6.0%
Real estate		**13.0%**
Real estate	NCREIF Property Index	6.5%
Real estate	Cambridge Real Estate	6.5%
Commodities		**3.0%**
Gold	London Gold Fixing USD	2.0%
Commodities	UBS Bloomberg CMCI Composite Index	1.0%
		100.0%

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