

Welcome to today's webinar

2014 FOX Investment Survey Presentation of Findings

July 16, 2014

10:00 – 11:30 CST

Amy Hart Clyne, Executive Director, Knowledge Center
Charles Grace III, Managing Director
Family Office Exchange

FOX Financial Executives Forum

Chicago, IL
July 22-23, 2014

FOX Private Family Trust Symposium

Chicago, IL
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FOX Fall Forum

Chicago, IL
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Upcoming Webinars...

August 20

Organization and Operation of PFTCs: Building Effective Boards

*Marty Lybecker, Partner, Perkins Coie LLP
Rana Salti, Trust Officer, Kinship Corp*

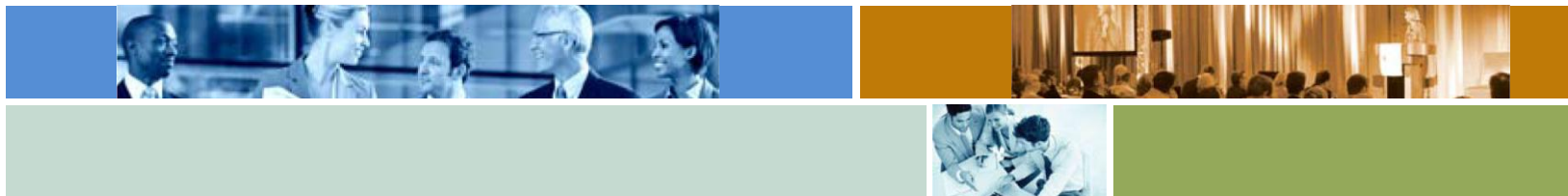
September 10

Raised Healthy, Wealthy & Wise

*Coventry Edwards- Pitt
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2014 FOX Investment Survey Presentation of Findings

FOX Webinar
July 16, 2014





Amy Hart Clyne
Executive Director
Family Office Exchange

Amy Hart Clyne serves as Executive Director of Family Office Exchange (FOX) where she oversees all of the knowledge activities of the firm. FOX, a knowledge-centered business that supports a global community of wealthy families and their advisors, pursues best practices for optimal management of family wealth and legacy. Through her leadership of FOX's knowledge acquisition, development and dissemination process, Amy guides the organization's vision to be the global leader in ultra wealthy owner research and family office best practices.

The FOX Knowledge Center gathers information about the top end of the private wealth management industry, develops and analyzes that information, synthesizes it into actionable insight, and then communicates it via print, live and online channels to the community. Under Amy's guidance, the Knowledge Center leads knowledge creation focused on wealth owner interests and buying behaviors, including: proprietary research content, surveys and benchmarking studies, "how to" guides for families and advisors, best practices reports, trend analyses papers and the like.

Amy has more than 25 years of extensive experience serving ultra high net worth individuals in private wealth management. She joined Family Office Exchange in 2012 after working as a consultant to some of the country's leading private wealth management firms such as Silver Bridge Associates, Atlantic Trust, Fleet Private Client Services and a leading family foundation. Before consulting, she was the Global Marketing Director of The Chase Manhattan Private Bank. Prior to joining Chase, Amy worked for Bankers Trust Private Bank and Lehman Management Company, a subsidiary of Lehman Bros. Kuhn Loeb, an institutional and ultra high net worth individual investment manager, for 6 years.

Amy received her MBA in Marketing from the Columbia Business School at Columbia University at New York, and her BA degree in International Affairs from Colgate University at Hamilton, New York. She is a Certified Financial Planner (CFP) and holds an Accredited Asset Management Specialist (AAMS) designation.



Charles B. Grace, III
Managing Director
Family Office Exchange

Charles B. Grace, III is Managing Director at FOX. Charlie works on strategic planning projects for families and family offices as well as wealth management advisor clients. Assignments have included work on advisor selection, education of the next generation, leadership and succession, governance, family office structuring, among others. Charlie is active on the family office and advisor membership and research sides at FOX, including investment focused studies and other initiatives. He has experience facilitating member and client meetings for FOX.

Charlie has been active for over twenty years in the family office community advising high net worth families and serving as a resource to high net worth families and family offices. He advised on investment portfolios and wealth management generally for almost 10 years working day-to-day at the multi-family office Ashbridge Investment Management LLC and the single family office Ashbridge, LLC. His responsibilities included client relationships, business development, and membership on the firm's investment committee, as well as business operations and firm strategy as Chairman of the Management Committee of the \$1 billion investment advisory firm. Charlie has been quoted in various publications on the subject of private wealth management, including The Wall Street Journal, Financial Times, and Worth Magazine and presented at many conferences focused on private investors and family offices.

In addition to his responsibilities at FOX, Charlie has been active on the Board of the single family office Ashbridge, LLC since 1992 and in 2010 was named President. He is a Trustee and member of the Investment Committee of the non-profit Tuttle Fund, Inc. in New York City.

Charlie graduated from the Washington College of Law with a J.D. and is a member of the New York State Bar. He received a B.A. and M.A. in history from Bates College and the American University, respectively.

- About the Survey
- Survey Demographics
- Performance, Asset Allocation, Costs
- How Family Offices Utilize Investment Professionals, Services, Committees
- How Family Offices Make Investment Decisions
- Alternative Investments
- Portfolio Benchmarking and Reporting
- Successes and Regrets from Past Five Years

Family Office Exchange collected data in February and March 2014 to understand asset allocation and performance and also delve into areas such as alternative investments, the investment decision-making process, and the use of consultants.

The survey captures data from 113 families (75 FOX members, 38 non-members) in the USA and around the world with investable assets in excess of \$50 million*.

Sample sizes are noted for each chart or graph. In certain cases where sample sizes are small (<100) caution should be exercised and any interpretation should be limited to directional only.

** A total of 155 respondents participated in the survey (92 members, 63 non-members). However, 42 participants (17 members, 25 non-members) represent family offices with assets less than \$50M and were not included in the findings.*

Survey Demographics – 113 Participants

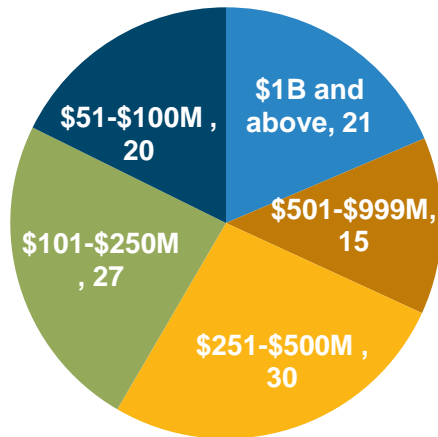
Participant Location n=113

83% US

17% Non-US

Investable Asset Size n=113

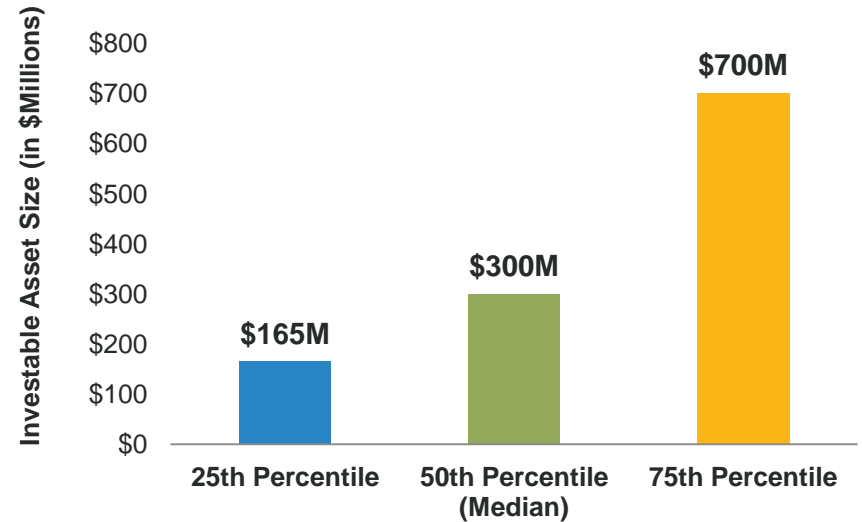
Asset Size, Number of Participants



- The vast majority of participants are US-based with a median investable asset size of \$300 million.

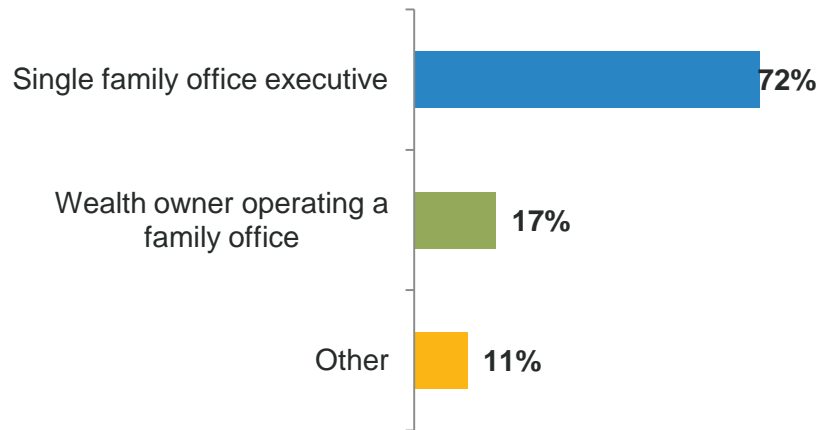
Investable Asset Size n=113

Percentiles

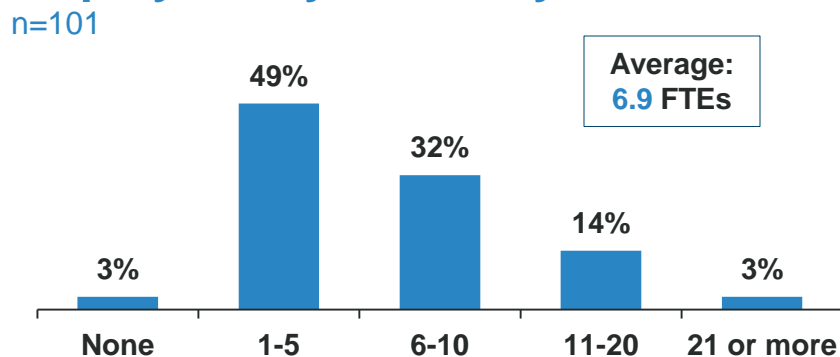


Survey Demographics (Continued)

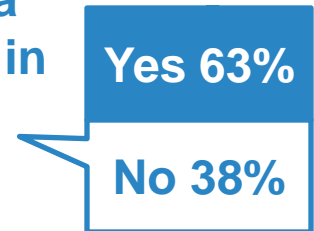
Which of the following best describes you? n=112



How many full-time employees are employed in your family office? n=101

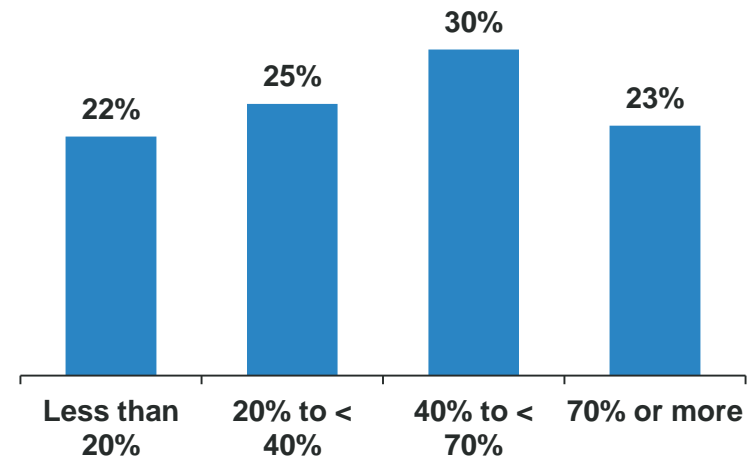


Does your family own a significant percentage in one or more operating business(es)? n=112



Among those who said 'yes' above (63%)

Percentage of family's wealth represented by operating business(es) n=64



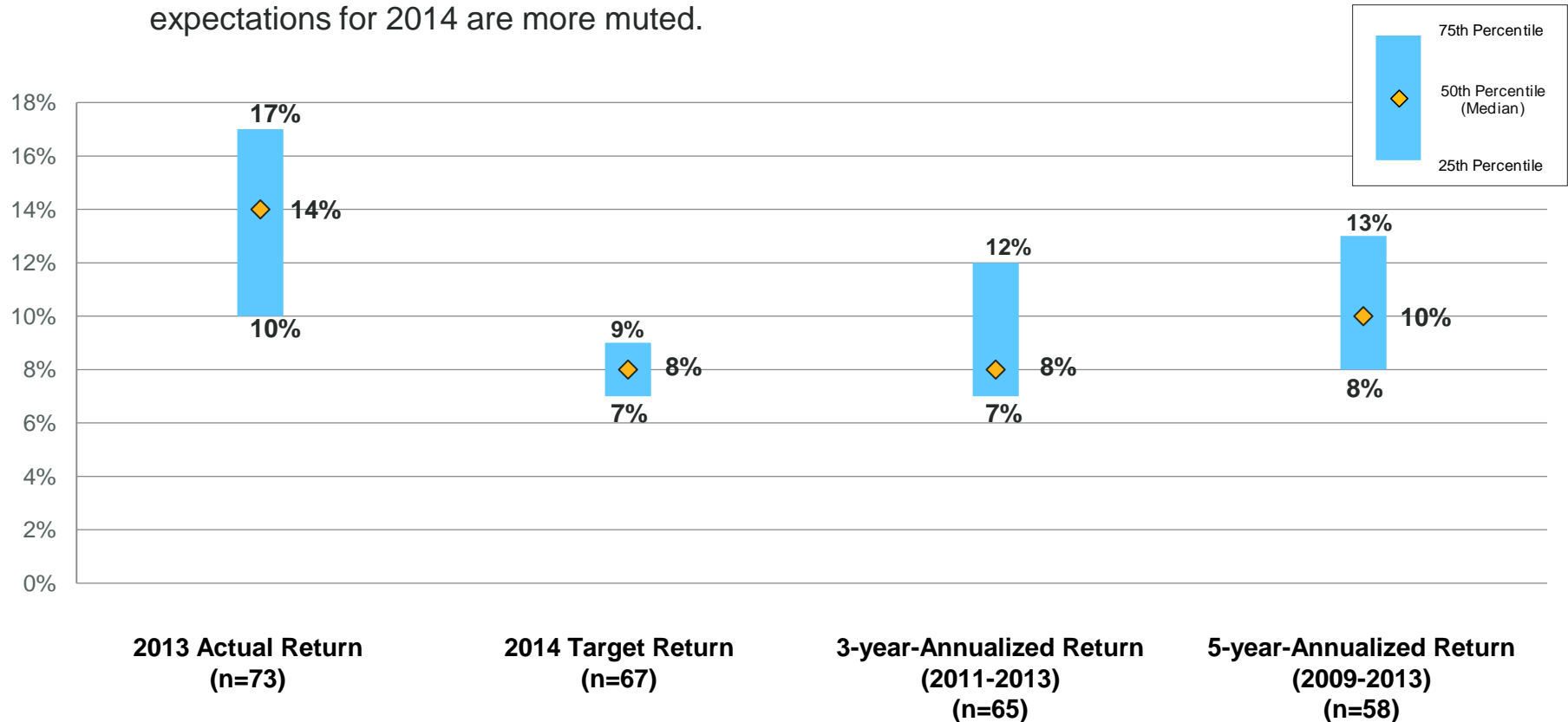
Performance, Asset Allocation, Costs

2013 Actual, 2014 Target, 3 and 5 Year Returns

2013 Actual Return, 2014 Target Return, 3 and 5 Year Returns

n = 73, 67, 65, 58

- The actual returns reported for 2013 are significantly higher than 3-year and 5-year annualized returns reflecting the exceptional market performance seen last year. In comparison, expectations for 2014 are more muted.



Q20a. 2013 Actual Return

Q20b. 3-Year Annualized Return (2011, 2012, 2013)

Q20c. 5-Year Annualized Return (2009, 2010, 2011, 2012, 2013)

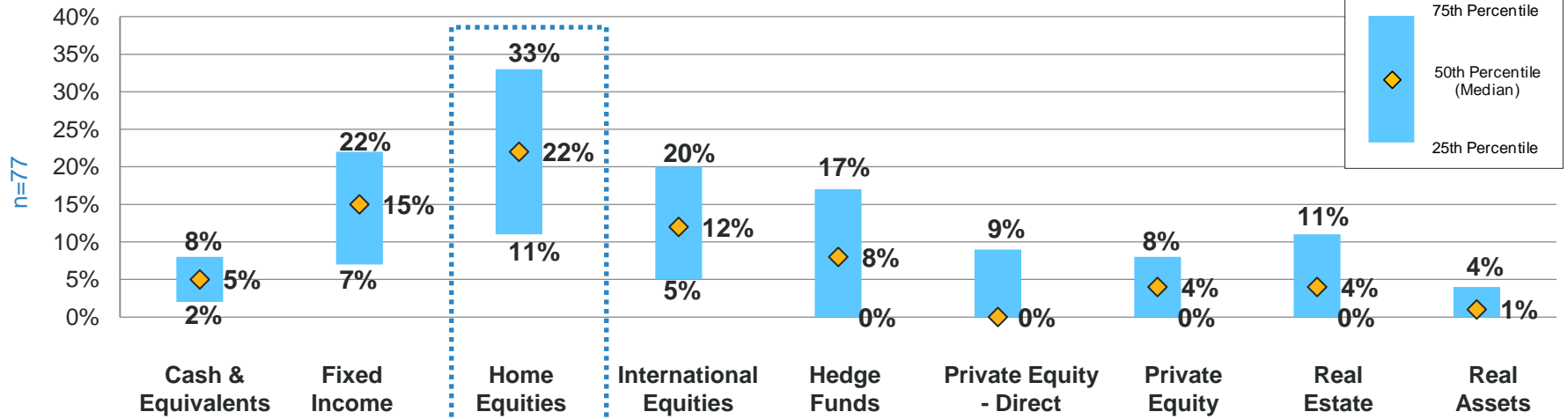
Q20d. 2014 Target Return

2013 Asset Allocation* and Performance

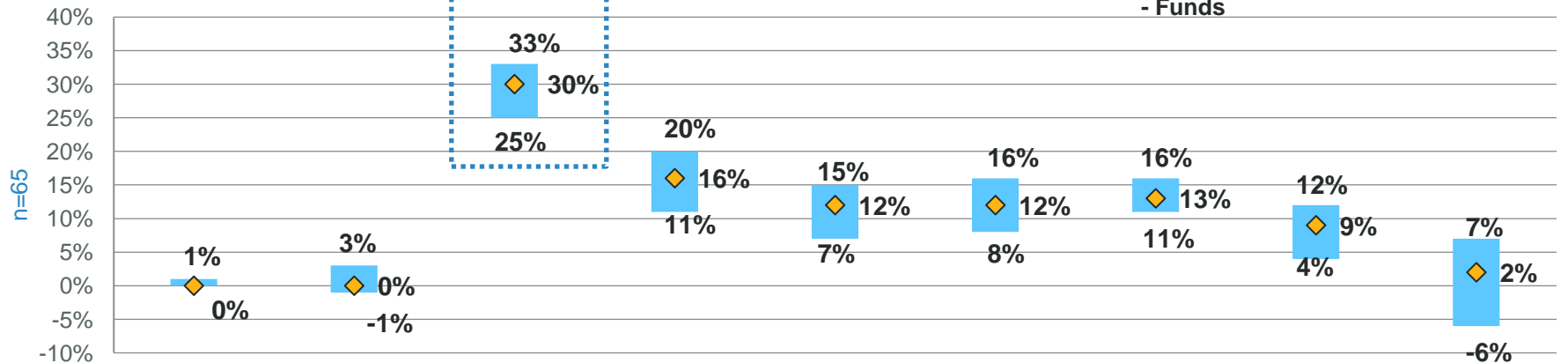
2013 Asset Allocation vs. Performance Return

- Family offices allocated their assets most in the area that saw the best performance in 2013, namely home equities, which returned an average 30% gain.

Asset Allocation



Performance

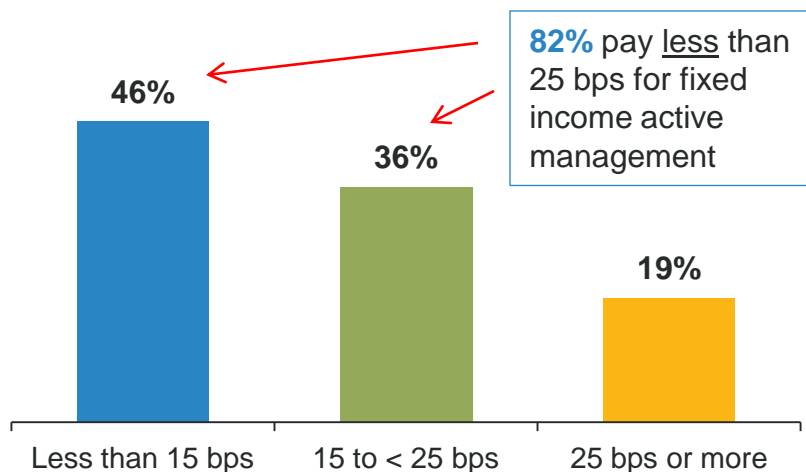


Q19b. Year-end 2013 Asset Allocation

* The asset allocation percentiles include those who responded '0' or no allocations to that asset type. For asset types where a majority of respondents do not have allocations (e.g., Private Equity Direct) the 50th percentile and/or 25th percentiles may be 0%.

Cost Parameters – Where Do You Stack Up?

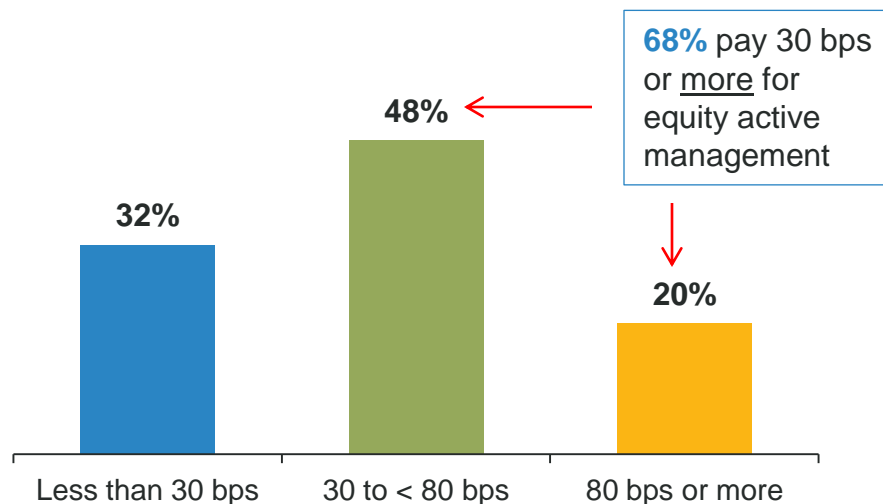
Amount Paid for Long Only Public Fixed Income Active Management



- Nearly half pay less than 15 bps for fixed income active management.

- A large majority (68%) pay 30 bps or more for active management of equities.
- One-third pay less than 30 bps.

Amount Paid for Long Only Public Equity Active Management



n=79

Q28. How much do you pay on average for long only public fixed income active management (in basis points)?

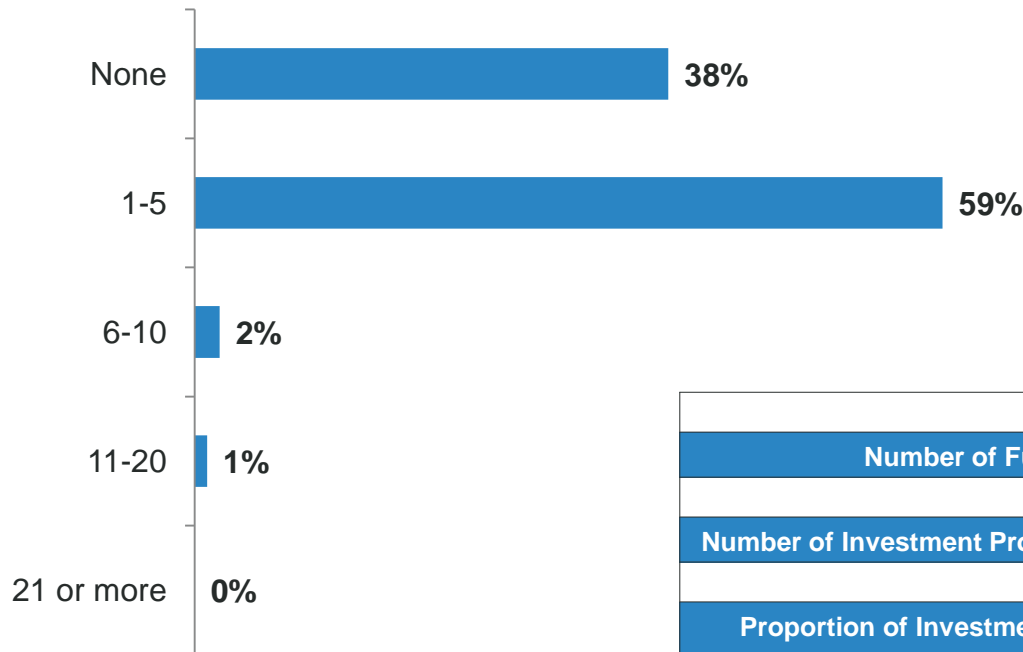
n=81

Q29. How much do you pay on average for long only public equity active management (in basis points)?

How Family Offices Utilize Investment Professionals, Services, Committees

Number of Family Office Employees Who Serve as Investment Professionals

- 6 in 10 have at least one investment professional in the office.
- But, nearly 4 in 10 family offices have no investment professionals on staff, leaving opportunity for external advisors to provide value.



On Average, **30%** of FTEs serve as investment professionals. The proportion is highest (41%) among FOs with assets over \$500M and less than \$1B.

	Total	\$51M- \$500M	\$501M- \$999M	\$1B or More
<i>n=</i>	101	69	14	18
Number of Full-Time Employees				
Average	6.9	6	7.8	9.6
Number of Investment Professionals on Staff				
Average	2.1	1.8	3.2	2.3
Proportion of Investment Professionals to Total FTEs				
Proportion	30%	30%	41%	24%

n=101

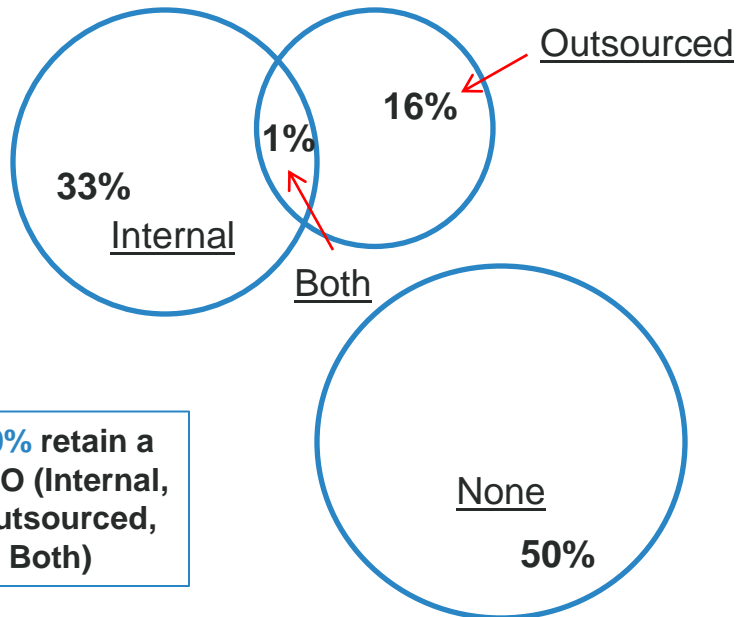
Q11. How many family office employees serve as investment professionals (e.g. chief investment officer, investment research analyst, etc.) ?

Investment Professional Usage

- Nearly 6 in 10 (59%) work with an Investment Consultant (internal or external). Among those who do, most work with an external consultant.
- Half of respondents retain a Chief Investment Officer (internal or outsourced). One-third (33%) have one on staff.

Chief Investment Officer

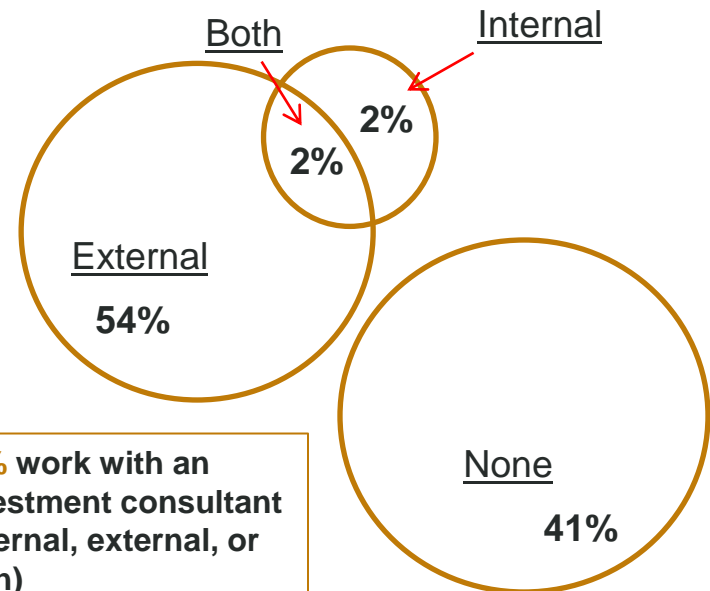
(n=111)



50% retain a CIO (Internal, Outsourced, or Both)

Investment Consultant

(n=111)



59% work with an investment consultant (internal, external, or both)

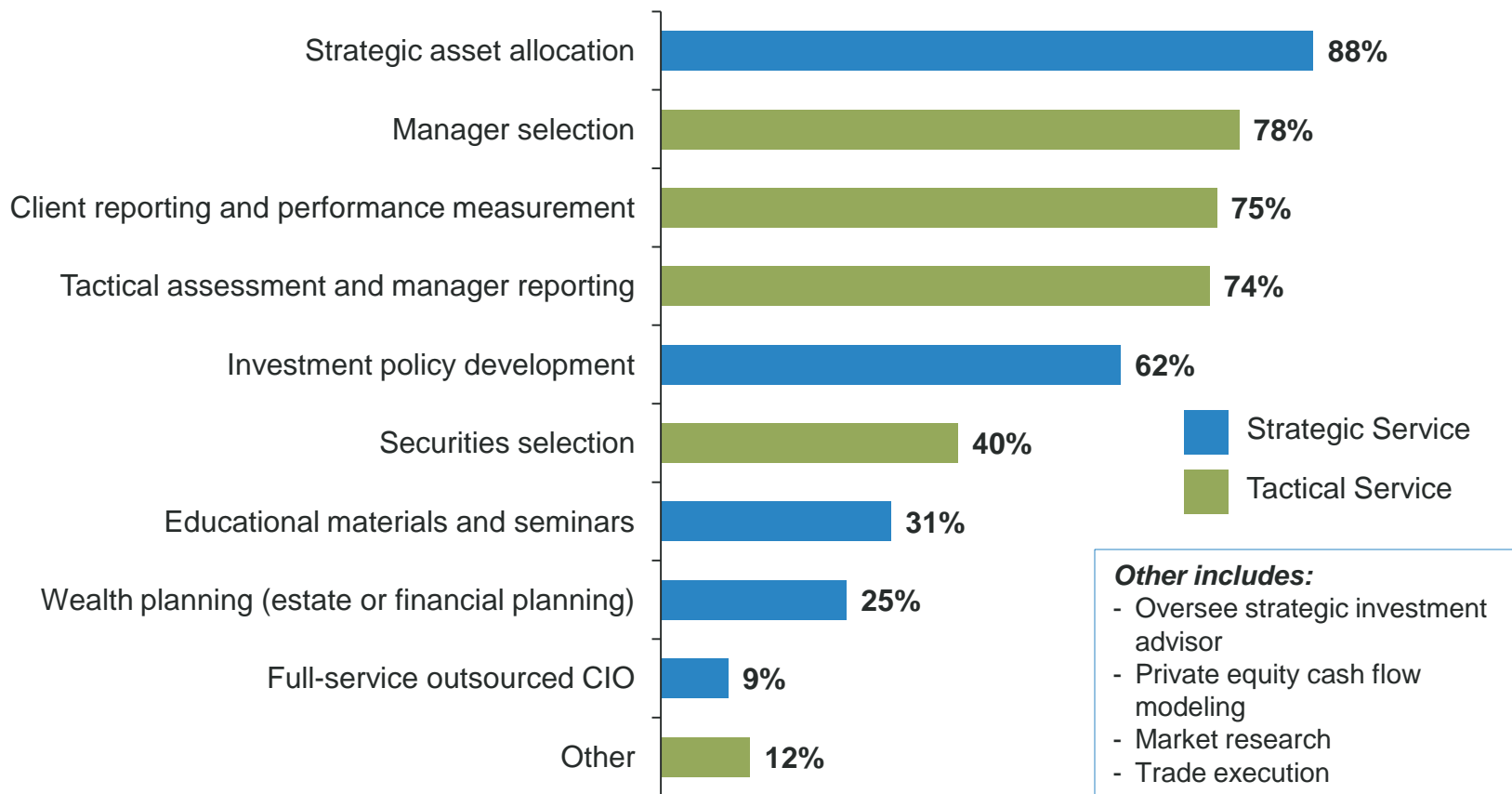
Q12. Does your firm currently retain any of the following investment professionals?

- Internal chief investment officer
- Outsourced chief investment officer*
- Internal investment consultants
- External investment consultants**
- None of these

* An outsourced chief investment officer is a third party that is engaged to manage all or a portion of an investment portfolio; functions include asset allocation, selecting investment managers, implementing portfolio decisions (both strategic and tactical), providing on-going oversight, performing risk management and other areas of portfolio management ** An external investment consultant is a third party that is engaged to provide advice related to long-term investment planning and strategies and monitor those assets based on client need.

Services Provided By Investment Consultants

- The most commonly performed service provided by investment consultants is strategic asset allocation, followed by manager selection, reporting & measurement, and tactical assessment and manager reporting.
- Of note, nearly a third of family offices look to their investment consultants for educational materials and seminars.



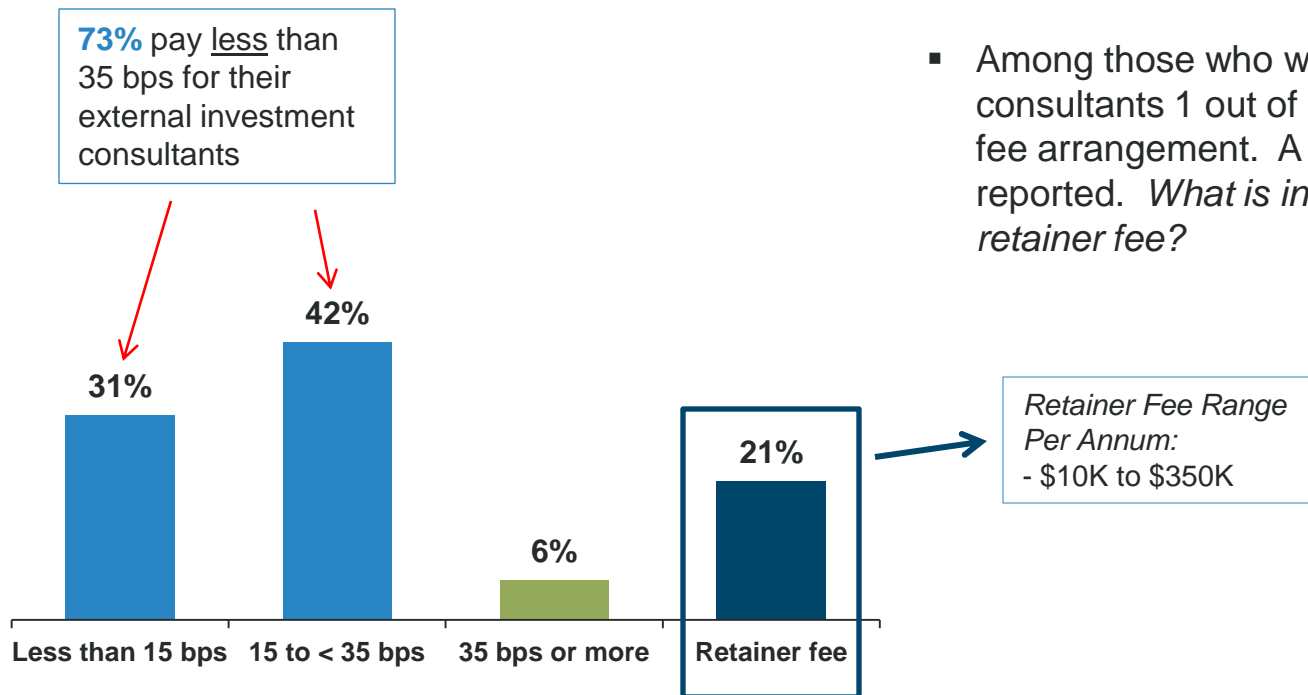
n=65

Q13. Which of the following services do your investment consultants provide? Check all that apply.

Amount Paid for External Investment Consultant

Among Those Using External Investment Consultants (n=48, mean asset size of \$681.6M)

- Less than 15 bps
- 15 to < 35 bps
- 35 bps or more
- Retainer fee



- *Is this in line with what you are paying your external investment consultants?*
- Among those who work with consultants 1 out of 5 have a retainer fee arrangement. A wide fee range is reported. *What is included in your retainer fee?*

n=48

Q31. How much do you pay on average for your external investment consultant? Please answer in either bps or retainer fee.

Half of Respondents Have an Investment Committee

- Half of family offices have a formal investment committee. While family members are most commonly found on investment committees, it is noteworthy that nearly half (45%) of those with a formal investment committee have a third-party consultant serving on it.
- Over two-thirds have a particularly high number of members with five or more.

52% have a formal investment committee

Size of Investment Committee

	n=	Total
Number of Individuals on Investment Committee		42
Less than 5		31%
5 or 6		33%
7 or More		36%
Average		6.0

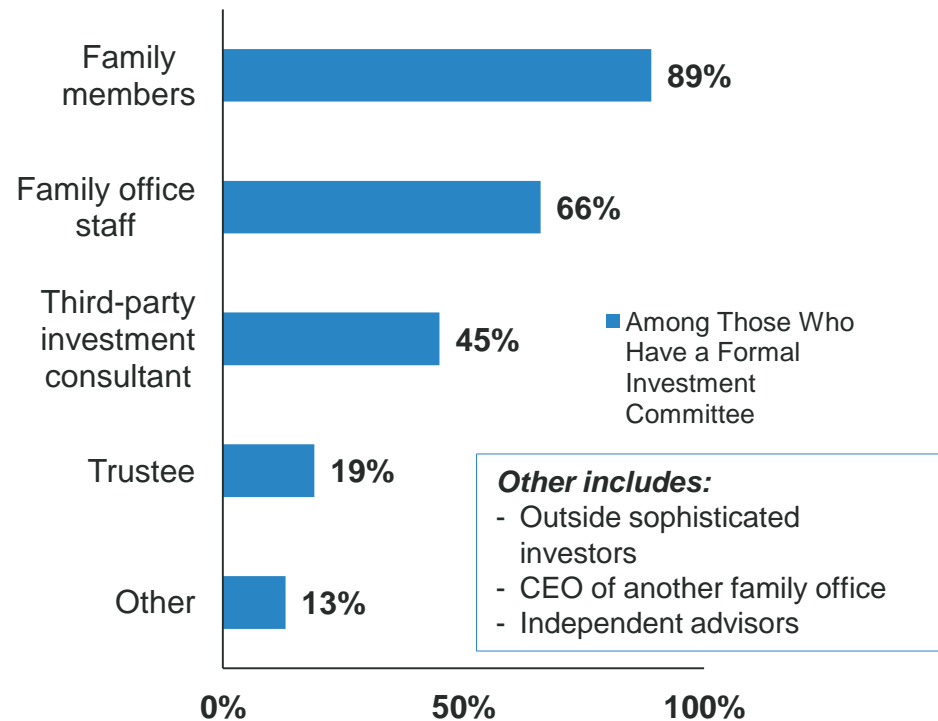
n=90

Q23. Do you have a formal investment committee for family assets?

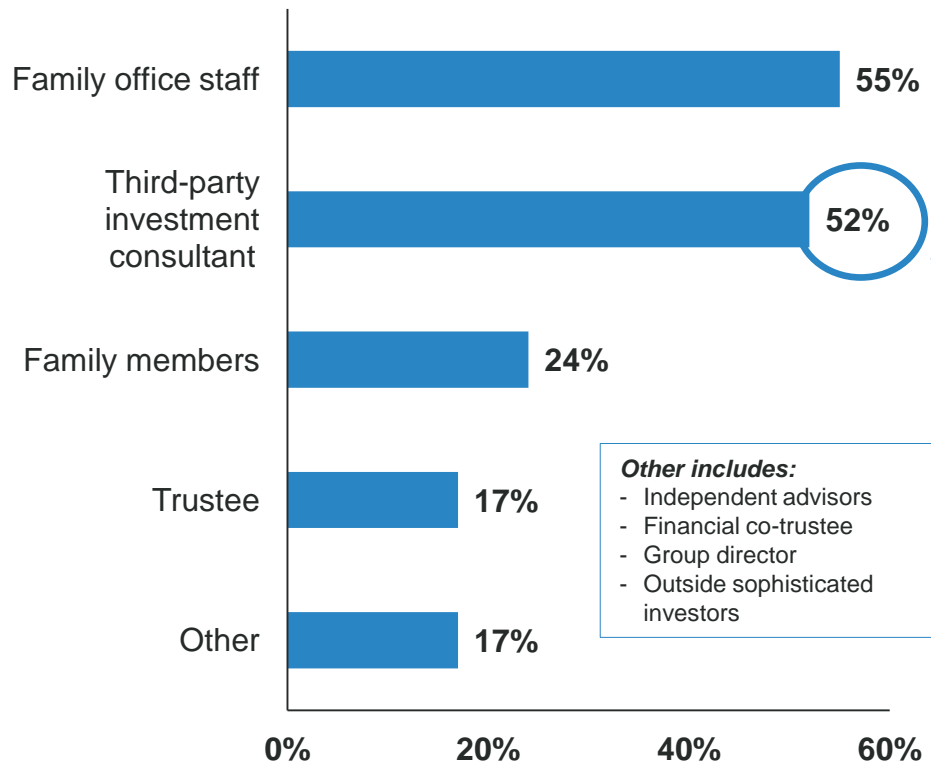
N=47

Q24. If yes, please check whether each of the following sit on the investment committee. Check all that apply.

Makeup of Investment Committee



Compensated for Serving on Investment Committee



- However, only one-quarter of family members who sit on an investment committee are compensated monetarily.
- Half of investment consultants serving on a formal committee are compensated monetarily.
- Strategic asset allocation and manager selection are the most commonly performed tasks by these consultants.

Third-party investment consultants compensated for serving on a committee perform (n=13):

- Strategic asset allocation (100%)
- Manager selection (92%)
- Tactical assessment and manager reporting (85%)
- Investment policy development (85%)

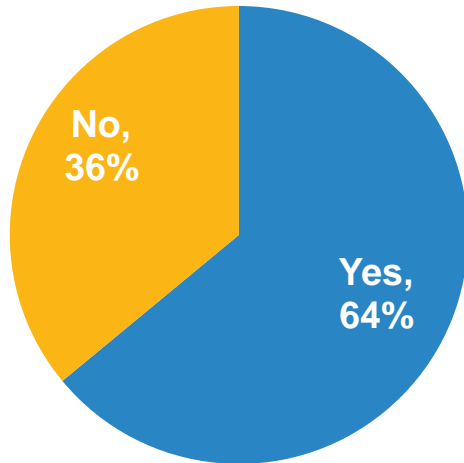
N=29

Q24. Please check whether each of the following (investment committee members) are compensated monetarily.

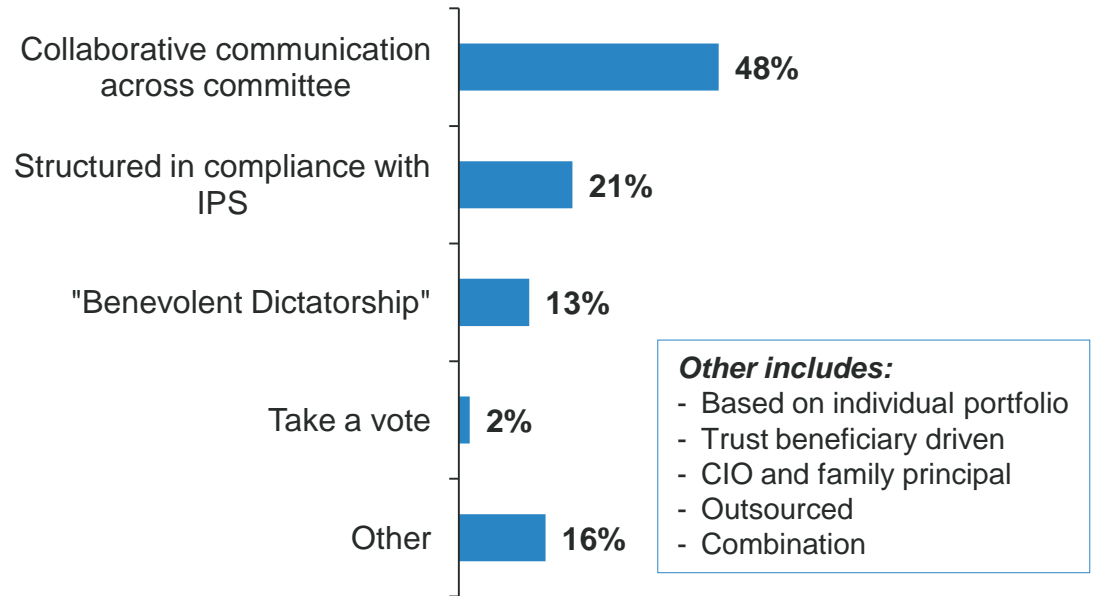
How Family Offices Make Investment Decisions

- Only 6 in 10 family offices have a structured Investment Policy Statement.
- Collaborative communication across committee is the most commonly reported investment decision-making process suggesting the importance of developing collaboration and leadership skills within the family.

Whether Have a Structured Investment Policy Statement (IPS)



Characterization of Investment Decision Making Process



n=90

Q21. Do you have a structured Investment Policy Statement (IPS) that encompasses the majority of your assets?

n=90

Q22. How would you best characterize your investment decision making process? Single answer.

- Offices with \$1B or more are most likely to retain an internal CIO and to have an Investment Policy Statement. However, on a surprising note, 4 in 10 of these largest families do not have a formal investment committee.
- Outsourced investment professionals (CIO or other investment consultant) are the most widely used, particularly among those with investable assets less than \$1B.
- Additionally, of note, only about half of families with assets over \$500M but less than \$1B have an investment policy statement, but well over half retain a formal investment committee.

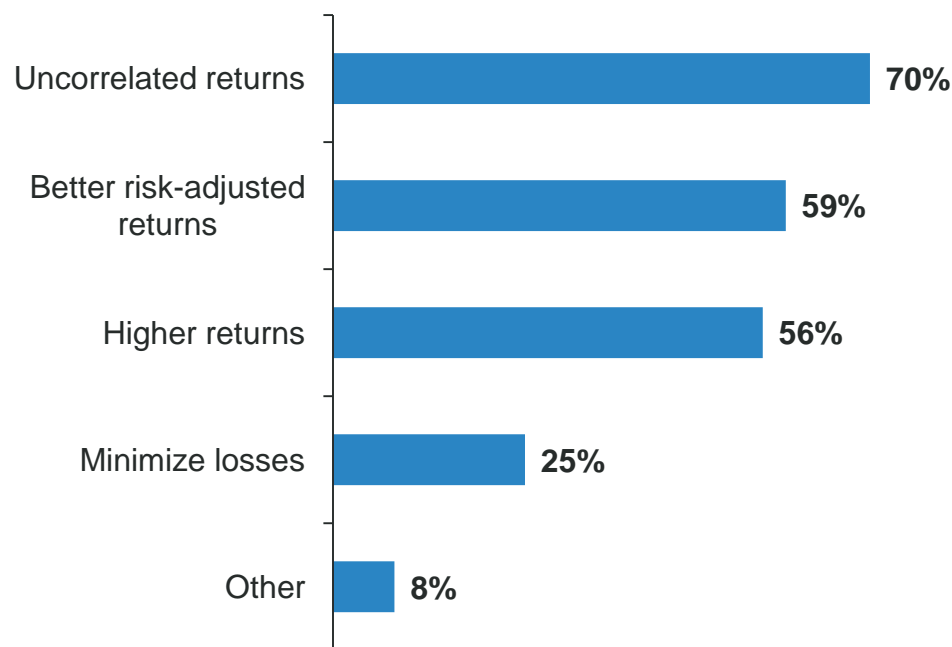
	<i>n</i> =	\$51M- \$500M	\$501M- \$999M	\$1B or More
Investment Professional Usage				
Internal chief investment officer		26%	33%	65%
Outsourced CIO / External Investment Consultant		71%	73%	55%
None of these		13%	13%	5%
Whether Have a Formal Investment Committee				
% Yes		47%	69%	59%
Whether Have an Investment Policy Statement (IPS)				
% Yes		63%	54%	76%

For assets over \$1B, greater likelihood of an internal CIO; below \$1B vast majority outsource.

Alternative Investments

Purpose of Alternative Investments

- A desire for uncorrelated returns is the most commonly reported motivator for holding alternative investments.
- Better risk-adjusted returns and higher returns are also motivators.



83% hold alternative investments – i.e., hedge funds, private equity (direct), private equity (funds)

Other includes:

- Leverage industry experience
- Business opportunities
- Entrepreneur spirit
- Bond substitute
- Tax Efficiency (Private Equity)
- Managers use LP structure

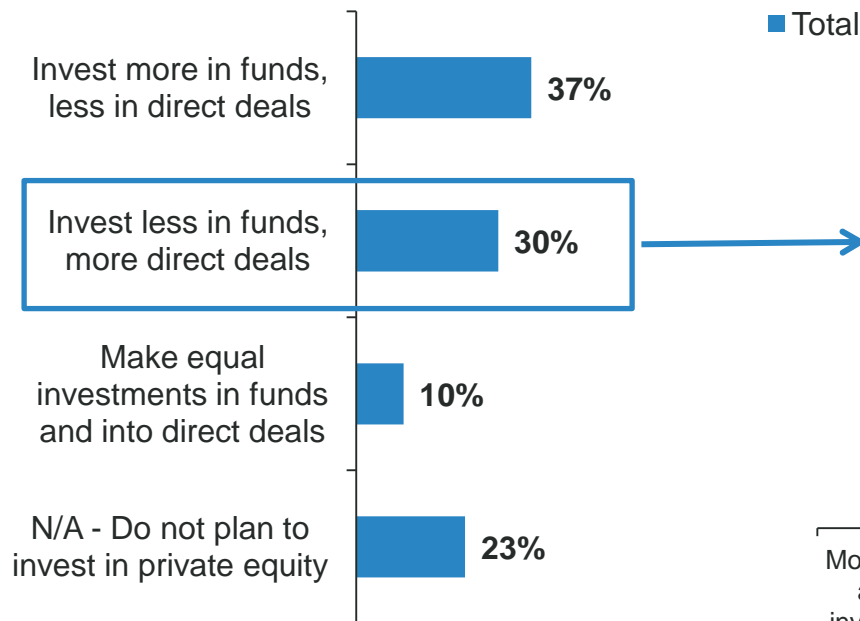
■ Hold Alternative Investments

n=64

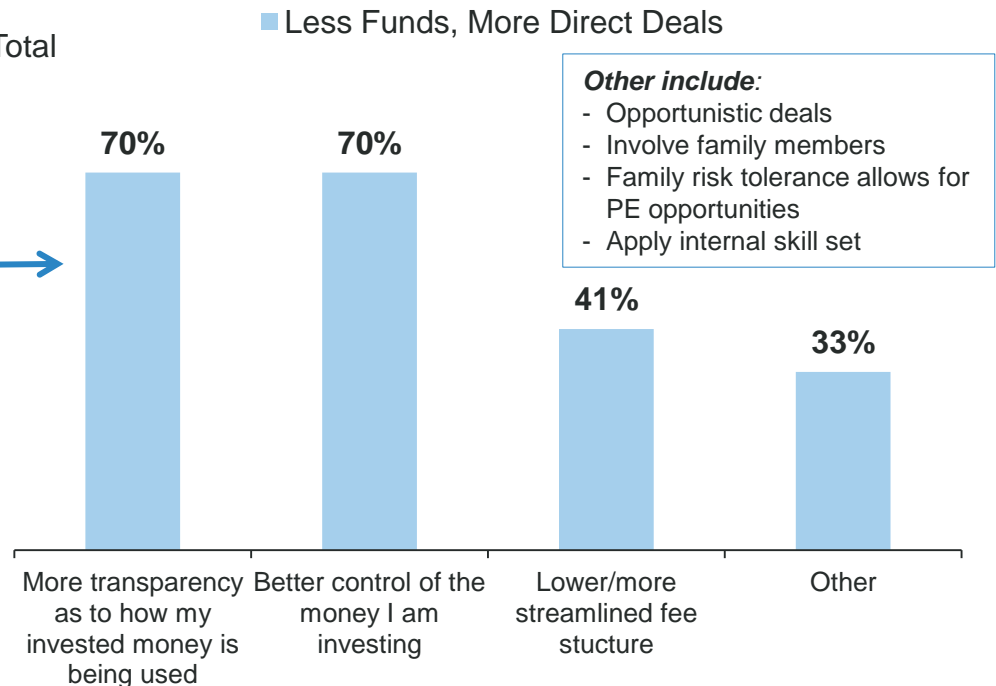
Q25. You told us earlier that parts of your representative family portfolio are allocated to hedge funds and/or private equity. What is the purpose of these alternative investments? Check all that apply.

- A little over one-third (37%) plan to invest more in private equity funds and less directly in the future.
- However, those who plan to invest more in direct deals are motivated to do so by more transparency and better control.

Future Plans for Private Equity Investment



Reasons for Less Funds, More Direct Deals



n=90

Q26. Which of the following best describes your future plans for private equity investment? Single select.

n=27

Q27. For what reasons do you plan to invest less in equity funds but make more direct investments into private companies? Check all that apply.

Investor Behavior Differences by Approach to Private Equity

	Less Funds, More Direct n= 27	More Funds, Less Direct 33
Own Significant Interest in Operating Business		
Percent 'Yes'	70%	56%
Have at Least One FO Employee an Investment Professional		
Percent 'Yes'	73%	64%
Investment Professional Usage		
Internal chief investment officer	44%	33%
Outsourced chief investment officer	15%	24%
Internal investment consultants	15%	0%
External investment consultants	48%	61%
None of these	15%	3%
2013 Performance Return		
Less than 13%	39%	53%
13% or More	61%	47%
Whether Have a Structured IPS		
Percent 'Yes'	59%	76%
Investment Decision-Making Process		
Collaborative communication across committee	67%	45%
'Benevolent Dictatorship'	11%	18%
Take a Vote	0%	3%
Structured in compliance with IPS	7%	27%
Whether Have a Formal Investment Committee		
Percent 'Yes'	44%	64%

n=90

Q26. Which of the following best describes your future plans for private equity investment?

Single select. See Appendix for table of investment behaviors by operating business interest.

- **Those who plan to allocate more to direct deals are likely to...**
 - Own significant interest in an operating business
 - Have at least one FO employee who is an investment professional
 - Retain an internal CIO and external Investment Consultant
 - Enjoyed 2013 performance returns of 13% or more
 - Approach investment decision-making collaboratively

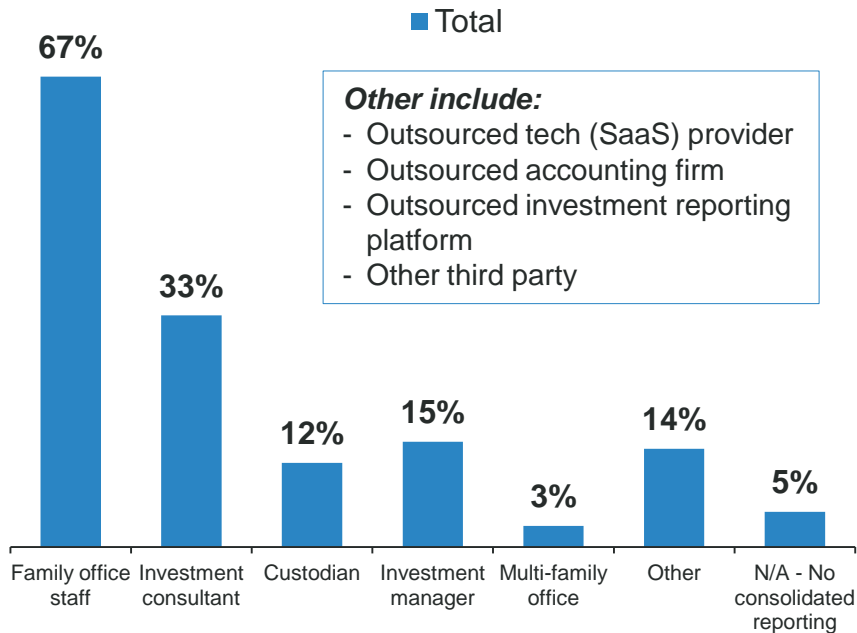
- **Those who plan to allocate more towards funds are more likely to...**
 - Have an external investment consultant
 - Have a structured IPS and comply with it when making investment decisions
 - Have a formal investment committee

Portfolio Benchmarking & Reporting

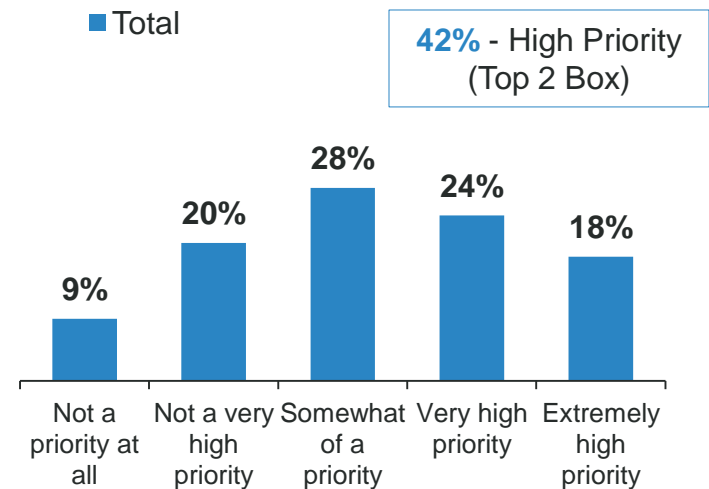
Reporting Done Internally, Improvements Not a Priority

- Family office staff most commonly handle consolidated portfolio reporting.
- The improvement of reporting is not a high priority overall.

Provider of Consolidated Portfolio Reporting



Priority of Improving Portfolio Reporting



n=88

Q33. Who provides consolidated investment portfolio performance reporting? Check all that apply.

n=88

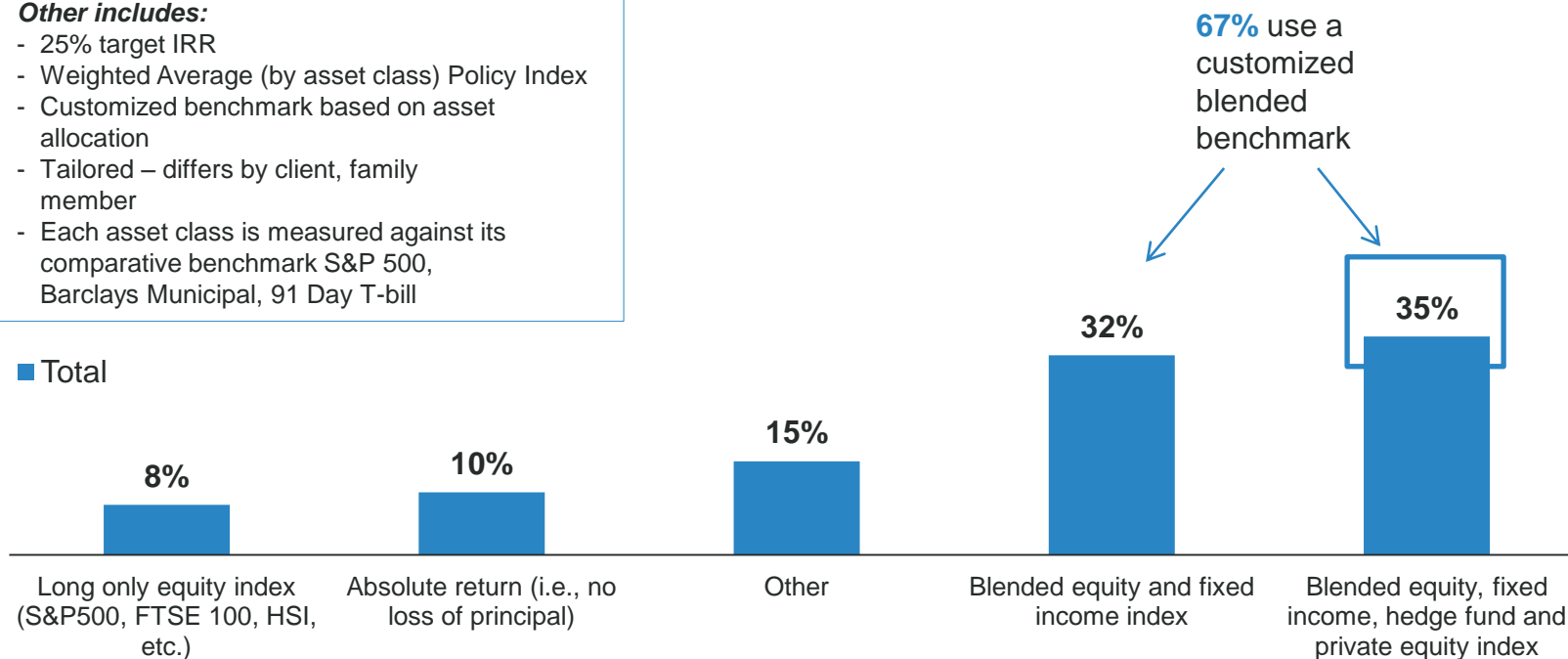
Q34. How much of a priority to your firm is the improving or enhancing of your investment portfolio performance reporting capabilities this year?

Benchmark Used to Measure Representative Diversified Portfolio

- Two-thirds (67%) reportedly use a customized blended index as the benchmark to measure their representative diversified investment portfolio.
- Of note, only about one-third (35%) report using a blended equity, fixed income, hedge fund and private equity index.

Other includes:

- 25% target IRR
- Weighted Average (by asset class) Policy Index
- Customized benchmark based on asset allocation
- Tailored – differs by client, family member
- Each asset class is measured against its comparative benchmark S&P 500, Barclays Municipal, 91 Day T-bill



n=88

Q32. What is the benchmark you use to measure a representative diversified investment portfolio? Single select.



Q & A Discussion

Thank You!

Amy Hart Clyne and Charles Grace! Family Office Exchange

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About Family Office Exchange Network

759 FOX Members and Clients Served in 2013

8,353 Registered Website Users



**UK, Europe and
Middle East: 90**

532 Registered Website Users

**North and South
America: 635**

7,608 Registered Website Users

**Asia, Australia and
New Zealand: 34**

213 Registered Website Users

Family Membership Profile

- Serving nearly 450 families with multi-generational wealth
- The median amount of assets of family groups who are FOX members exceed \$400 million
- About 50% of our members have retained a direct ownership interest in the original business that created the family's wealth
- 90% of our members operate established family offices more than 5 years old

Family Office Exchange at a Glance

- Founded in 1989 to serve as an advocate for wealth owners and their offices spread throughout 20 countries worldwide
- Now educating over 300 Multi-family Offices and private wealth advisory firms about how to best serve wealth owners
- 40 full time staff employed in Chicago, New York and London offices

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