



Wealth Trends™

2011 Investment Survey Insights

Executive Summary



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Highlights: Wealth Trends™ 2011 Investment Survey Insights

Families are feeling more confident about their investments and the economy, and appear more willing to make decisions about their families and wealth. This view of family behavior finds considerable support in the Family Office Exchange (FOX) Wealth Trends™ survey, which documents thoughts from families and office executives on myriad hot topics, including investment performance, risk, asset allocation and their advisors. This represents our fifth “Deep Dive” into investment issues since the advent of the financial crisis in 2008.

We hope that the comprehensive set of exhibits in the report helps enrich investment conversations, complements your analysis of current market trends, and supports key decision-making. In addition, drawing largely from Wealth Trends as well as insights gleaned from other FOX publications, we present a few highlights for your consideration below. We invite your feedback.

Strong investment performance is improving the expectations of families and family office executives for future returns.

As early as January of this year we observed that families’ confidence in the economy and financial markets was improving and, as a result, they are more willing to make important decisions about their families, businesses and financial assets. Strong actual and perceived investment performance is consistent with this observation: the median family office reported 12% annual pre-tax portfolio returns in 2010. For 2011, families are anticipating a median return of 8%, a figure that essentially mirrors the 7-8% long-term performance target documented in FOX’s single family office benchmarking for at least the past five years. In this statistic, at least, families seem to be expecting a return to normalcy.

More importantly, Wealth Trends suggests that families are feeling more confident. **About 85% of families and office executives said that 2010 portfolio performance either met or exceeded their expectations.** Assuming that the economy withstands a recent soft patch, we believe that families are likely to remain cautiously optimistic about the economy, continue to make and enact important decisions (e.g., about asset transfers), and invest money that they had previously sidelined.

The complete report includes the following exhibits:

- Total Pre-tax Portfolio Performance, 2008-2011 (Expected) (Page 9)
- Five-year Compound Annual Return, 2006-2010 (Page 9)
- Pre-tax Performance Data by Asset Class, 2008-2011 (Expected) (Page 10)
- Portfolio Performance versus Expectations, 2010 (Page 11)
- Total Pre-tax Portfolio Performance, Offices with Heavy Allocation to Alternatives (Page 13)

Although they are feeling more confident today than in the recent past, families remain worried about the potential for future capital losses, liquidity and economic risks.

Families may be feeling more confident today than they were during the past 2-3 years, but are still very focused on investment risks and risk management strategies. More than 40% of Wealth Trends survey respondents nominated “loss of capital” as the top risk facing their families in 2011, suggesting that memories of steep losses in 2008 and 2009 remain fresh. Liquidity risks, inflation, general concerns about the US economy, government policies, and geopolitical risks such as Middle East turmoil and European debt defaults also feature prominently in FOX member risk lists.

The complete report includes the following exhibits:

- Top Investment Risks, 2011 (Page 16)
- Top Three Investment Concerns, 2011 (Page 17)

Many families are adjusting their investment philosophy and asset allocation in a manner consistent with their views on risk.

For example, in response to three years of economic uncertainty, more than one-quarter of Wealth Trends respondents said that they are adjusting their investment philosophy to ensure greater liquidity. Nearly one in five offices—including many of those wary of further capital losses—are pursuing a more conservative approach to their investments. Given lingering concerns about the US economy and government policies, nearly 10% of offices are shifting away from US-centered assets.

What we find striking is that only 26% of single family offices—sophisticated investors with long-term investment horizons—report making no significant change to their investment philosophy. The remaining 74% includes a number of offices that are planning substantive changes, such as adopting a more conservative investment approach. This finding seems to mirror anecdotal evidence from early in the economic crisis that—long-term investing horizon or not—many single family offices seem to respond noticeably to short-term market and economic events. In late 2008 and early 2009 many families moved substantial assets to cash and sacrificed investment returns in the interests of becoming more “conservative.”

Recent changes in sentiment and investment philosophy are impacting asset allocation. Families, feeling more confident, are putting money back to work: 52% of survey respondents will be decreasing their allocation to cash over the coming year, dwarfing the number (9%) that plan to increase their cash holdings. Consistent with their views on risks and investment philosophy, allocations are becoming more international in flavor: almost half of respondents plan to increase their allocation to international equities over the next 12 months. There are fewer discernible patterns in allocations to hedge funds and private equity. Many families (approximately half) are “holding steady”; FOX members, generally, expect increasing allocations to private equity as the economy improves, although the impact of perceived liquidity risks may have a moderating effect.

The complete report includes the following exhibits:

- Asset Allocation by Category, 2009-2011 (Expected) (Page 18)
- Anticipated Changes in Asset Allocation Over the Next 12 Months (Pages 20-21)

The names and faces of advisors in families’ “ecosystems” are likely to change—perhaps significantly.

From FOX’s single family office benchmarking, we know that families commonly have 30 advisors or more, including 20 or more investment managers, as well as custodians, consultants, and attorneys. The safe bet is that families will make only modest changes to their network of external advisors. However, in survey after survey, families seem willing to make significant changes. Wealth Trends suggest that 59% of families are in the market for an alternative investment manager; 49% are searching for a traditional investment manager. More than a quarter, 26% of offices, are similarly looking for outside help from an investment consultant. Across multiple categories of advisors, sizable minorities of families plan to terminate an existing relationship.

While Wealth Trends offers no definitive answers about whether families plan to expand their ecosystems (i.e., add new advisors and/or deepen existing relationships) our expectation is that—over a number of years—the answer is affirmative. The drivers of this trend are likely to be numerous and varied. On the demand side, cost-conscious and value-seeking families have a higher-quality array of options for external advice from which to choose than ever before. Staff retirements and similar transitions will prompt many families to reevaluate decisions to deliver services internally or externally; many such families are likely to seek outside assistance. On the supply side, many advisors view family offices as a source of future revenue growth, and are developing the infrastructure and marketing plans to increase collaboration between families, family offices and the financial services community.

The complete report includes the following exhibits:

- Primary Wealth Advisor Services Provided, 2011 (Page 27)
- External Advisor Changes, 2011 (Page 28)
- Investment Decision-making Authority, 2011 (Page 8)

The full briefing is available to members on the Family Office Exchange website, www.familyoffice.com. To inquire about membership, please e-mail info@familyoffice.com or call 312.327.1200.



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