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THE EUROPEAN FAMILY OFFICE REPORT 2024

HSBC
Global Private Banking

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It is important to note that the capital value of, and income from, any investment may go down as well as up and you may not get back the original amount invested.

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Forewords

Dear reader,

HSBC Global Private Banking understands the importance of keeping up to date with the key changes and trends in the family office sector, which is why we are proud to partner with Campden Wealth on the European Family Office Report 2024. This research helps to provide a comprehensive analysis, from family office governance structures to investment preferences, as well as discussing future risks, challenges and opportunities.

Encouragingly, there are many comforting results – including high levels of satisfaction among family offices regarding the work ethic and abilities of their staff, as well as their investment function. This is something we can attest to, as family offices continue to professionalise and attract top-calibre employees and professionals. Many family offices are also embracing the benefits of technology to improve how they operate and protect themselves against cyber threats, although there is more to do in this increasingly important area.

Following the difficult years that followed the global pandemic, the report also shows how family offices in 2024 have begun to look forward to a more growth-orientated future, albeit one where risks are managed carefully. While investment strategies are currently balanced, fairly evenly between wealth preservation and a need for higher returns, there is a notable shift in expectations towards taking a more growth-orientated approach over the next five years. Nevertheless, European family offices remain less adventurous compared with their peers in North America and Asia-Pacific, and they continue to have a healthy appetite for portfolio diversification.

The report also shows where family offices have some areas for improvement – including around succession planning. Despite a third believing the next generation will assume control of the family wealth in the next 10 years, most ultra high net worth individuals and their families remain unprepared, without succession plans in place. Succession planning is of course a sensitive area for all families, but one that should not be put to one side. It's never too early to be discussing the future with the family – through such conversations, family members can find their shared values to incorporate into their plans.

At HSBC Global Private Banking, we understand these complex needs of ultra high net worth clients and their families, with private banking and wealth teams present in over 30 markets. We hope that the research will be of interest and use to all family offices, and those who work with them. We would like to thank all the families and professionals who contributed their insights.

With best regards,

Caroline Kitidis
Global Head of Ultra High Net Worth
HSBC Global Private Banking

Francois Essertel
Head of Europe International
HSBC Global Private Banking

Dear reader,

In these past few years, our world has witnessed unprecedented geopolitical events: a global pandemic, the Ukraine-Russia war and conflict in the Middle East. These events have impacted the European economy and produced volatility in financial markets. The good news, however, is that inflation has fallen and is no longer adrift from the European Central Bank's target. In response, European stock markets have behaved reasonably well. US markets have performed significantly better, which is important because more than one third of European family office assets are held in North America. Assuming no material setback to markets during the final quarter, European family offices expect, on average, a return on investment of around nine percent over the full year.

No two family offices are exactly the same. Data from our survey reveals very considerable differences in size measured by assets under management. Larger firms have the benefit of economies of scale and this difference is reflected in the number of employees, remuneration strategy, the range of services offered and extent to which they are provided in-house. Nonetheless, their smaller peers can also be successful through careful selection of services and reliance on outsourcing. A challenge for all family offices, both large and small, is the recruitment and retention of staff with appropriate professional and interpersonal skills.

Beyond financial and human capital, family offices must grapple with a variety of operational and strategic risks. There is also the introduction of new technology to consider, particularly generative AI which has the potential to eliminate many manual processes. Individual family offices will need to carefully weigh up the benefits of upgrading to new technological solutions when they become available. Governance will also be a critical issue. Our survey reveals that recently established family offices tend to be "light" on governance because first-generation wealth creators don't always perceive a need to formalise how their family office will function. This deficiency will need to be addressed.

The vast majority of respondents expressed satisfaction with the dedication of their family office staff, the investment function of their family office both in terms of financial performance and the range of investment options that it offers, and its ability to handle complex transactions. On this evidence it seems that the family office community has navigated a complex, and at times very difficult environment, remarkably well. Our hope is that the data and information which the community has shared in this report will aid its continued success and support families in their decision-making.

I would like to extend my gratitude to our partner, HSBC Global Private Banking, for their enduring commitment to the community and this report. I also want to express my deep appreciation to all the family offices that participated in this research.

Warm regards,

Dominic Samuelson
Chief Executive Officer
Campden Wealth

Executive summary

This report, which is accompanied by Asia-Pacific and North American editions, is based on a statistical analysis of 360 survey responses from single family offices and private (non-commercial) multi-family offices worldwide. Of these, 101 were located in Europe. The survey was conducted between March and June 2024. On average, families participating in the survey have total wealth (including operating businesses) of US $1.8 billion, and their collective wealth stands at US $186 billion. Their family offices have, on average, US $1.4 billion of assets under management (AUM), whilst aggregate AUM stand at US $136 billion. Across all three geographies covered in our global report, total family office AUM is estimated at US $368 billion.

Competence

More than 70 percent of respondents viewed their family office as effective at making informed decisions and protecting their family's reputation and legacy. The majority of family offices (68 percent) are perceived to be effective at their core function of passing wealth from one generation to the next. The activity where family offices are most visibly falling short of expectations is succession planning.

Governance

First-generation family offices tend to be "light" on governance structures and documentation. It seems that first-generation wealth creators are accustomed to making decisions independently, and don't feel the need to formalise how their family office will function. This factor, together with the relatively small size of first- and second-generation families may explain why only approximately 40 percent of European family offices have a mission statement or family council.

Investing preferences

In public markets, family offices' preferred asset classes and investment themes are AI, the "Magnificent Seven" technology stocks, defence industries, cybersecurity and semiconductors. Long-duration bonds, Indian and Chinese equities are amongst those less favoured. In private markets, future investment is likely to be skewed towards automation and robotics, AI, digital transformation and healthcare.

Investment performance

Year-to-date financial markets have been relatively kind to family offices with the result that almost 30 percent are anticipating an investment return of more than 10 percent for full year 2024. A strong performance from public markets has provided the momentum but returns from real estate, venture capital and private equity funds are generally below expectations.

Market risks

Last year the majority of family offices believed the US economy would go into recession but fortuitously this expectation proved too pessimistic. Currently, the most frequently cited concern is the stickiness of inflation which is preventing the Federal Reserve from cutting interest rates or at least reducing them at the pace which seemed likely a few months ago.

Philanthropy

Around half of our sample of European family offices make philanthropic donations. The majority of donations are for less than US $1 million but a limited number of large donations pushes the average up to US $3 million. Philanthropy is seen by many as an opportunity to put family values into action and engage the next generation.

Private markets

A key feature of family office investment in recent years has been an ever-increasing allocation to private markets which now, at 24 percent of the average portfolio, is only marginally less than exposure to public equity markets. Family offices still expect private equity and venture capital to supply the best long-term risk-adjusted returns despite recent disappointing outcomes and liquidity problems caused by reduced exit activity.

Real estate

Real estate is a popular asset class for European family offices. 74 percent have some direct exposure, and the asset class constitutes 15 percent of the average asset allocation. Their exposure is predominantly residential rather than the more problematic office and retail sectors.

Recruitment

Recruitment of finance professionals from external organisations is a challenge for family offices, not least because, as in the commercial world, they expect performance to be rewarded financially. In order to aid recruitment and retention, bonuses which are offered by around 80 percent of family offices are being supplemented with other forms of incentivisation such as co-investment opportunities, shares of investment management profits, and options on phantom equity.

Responsible investing

Based on survey responses, around half of all European family offices adhere to responsible investing principles. For the majority of family offices, adopting this regime does not mean accepting lower financial returns. 70 percent incorporate ESG principles into their investment selection process, and a similar percentage engage in outcome-focused impact investing.

1. Family office landscape

1. Family office landscape

1.1 Introduction

"Today someone's sitting in the shade because a long time ago someone else planted a tree."

Warren Buffett

2024 is likely to have been a good year for investment returns. In response to our survey, 28 percent of family offices are expecting a return in excess of ten percent, with hardly any anticipating a negative outcome. This optimism could have proved misplaced if markets had suffered a material setback during the later part of the year. But despite some volatility over the period of the US election, a drawdown has not materialised, leaving positive expectations intact.

Our survey reveals that preferred near-term investment themes are AI, the "Magnificent Seven" technology stocks, defence industries, cybersecurity, and semiconductors. Long-duration bonds are among the least favoured asset classes, in line with family offices' view that interest rates would stay higher for longer and Fed easing would be delayed. Interestingly, over the next several years family office preference swings dramatically towards value equities.

Investor psychology is heavily influenced by risks and uncertainties surrounding the US economy. The common concern of family offices is the stickiness of inflation which is preventing the Federal Reserve from cutting interest rates. Family offices also foresee risks to financial markets coming from political turbulence around the US election and from geopolitical issues in the Middle East and Eastern Europe. On the positive side, few see a global stock market sell-off. Over the medium term, they see risks coming from AI failing to live up to expectations.

Historically, private equity and venture capital have provided the best risk-adjusted returns. These asset classes together with private credit constitute, on average, 24 percent of family office investment portfolios. Developed market equities are the second largest asset class at 23 percent and real estate at 15 percent is third.

Family offices participating in the survey varied very considerably in size, with operating costs ranging from less than US $1 million to over US $20 million. We examined the financial characteristics of offices of different sizes, finding that for those with less than US $500 million of assets under management (AUM), average costs are equivalent to 105 basis points (bps) of AUM, falling to just 36 bps for family offices with more than US $1 billion under management. This difference in scale is reflected in the number of employees, the extent to which services are outsourced (greater for smaller family offices) and compensation (lower for smaller offices, particularly for family members in C-level positions).

Technology is radically changing family office operations. Repetitive tasks are being automated, workflows systematised, and processes streamlined. Wealth aggregation platforms are emerging as the "big thing" in family office technology. Elements of AI are available on certain platforms but family offices are looking forward to the full implementation and use of this technology which, put simply, will allow anyone, irrespective of programming or coding skills, to access any digital data in easily digestible formats.

Family offices put their investment function at the top of their list of priorities, and consequently an investment committee is the most common governance structure found in European family offices. However, only around 40 percent have a family council, but then two-thirds of our survey participants are from first- and second-generation families where relatively small family size may limit the need for formal meetings.

Despite its importance, only 47 percent of family offices have a succession plan. But irrespective of the absence of succession plans, a large generational wealth transfer is coming. One third of family offices anticipate the transition happening within the next ten years, driven by the surge in family office formation that took place in the decade after the millennium.

More than 70 percent of participants expressed satisfaction with the dedication of their family office staff and the ability of the family office to handle complex activities, and believed it provided value for money transactions. There is a high level of satisfaction with the investment function, both in terms of financial performance and the range of investment options offered, but relatively low levels with outsourcing and the scope of functions provided. Where family offices appear to be falling short of expectations is around succession planning and the associated issue of next-generation education.

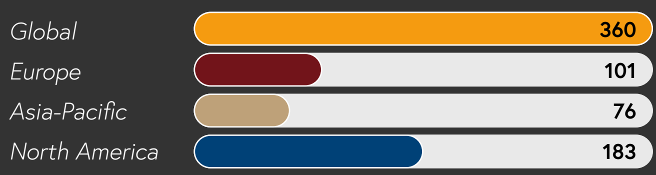
Methodology

This report is accompanied by North American and Asia-Pacific editions and together they aim to provide the most in-depth global coverage of the family office ecosphere. The research supporting these reports is both quantitative and qualitative. Between March and June 2024, 360 family offices participated in the survey, including 183 from North America, 101 from Europe and 76 from the Asia-Pacific region. They are predominantly single family offices although non-commercial private multi-family offices are also included. In-depth interviews were conducted with 29 family office executives worldwide.

1.2 *Overview of participants*

A total of 101 family members and family office executives participated in this survey of European family offices. Among them, 40 percent are family members, and 44 percent hold key leadership positions as chairperson, chief executive, founder, principal or president.

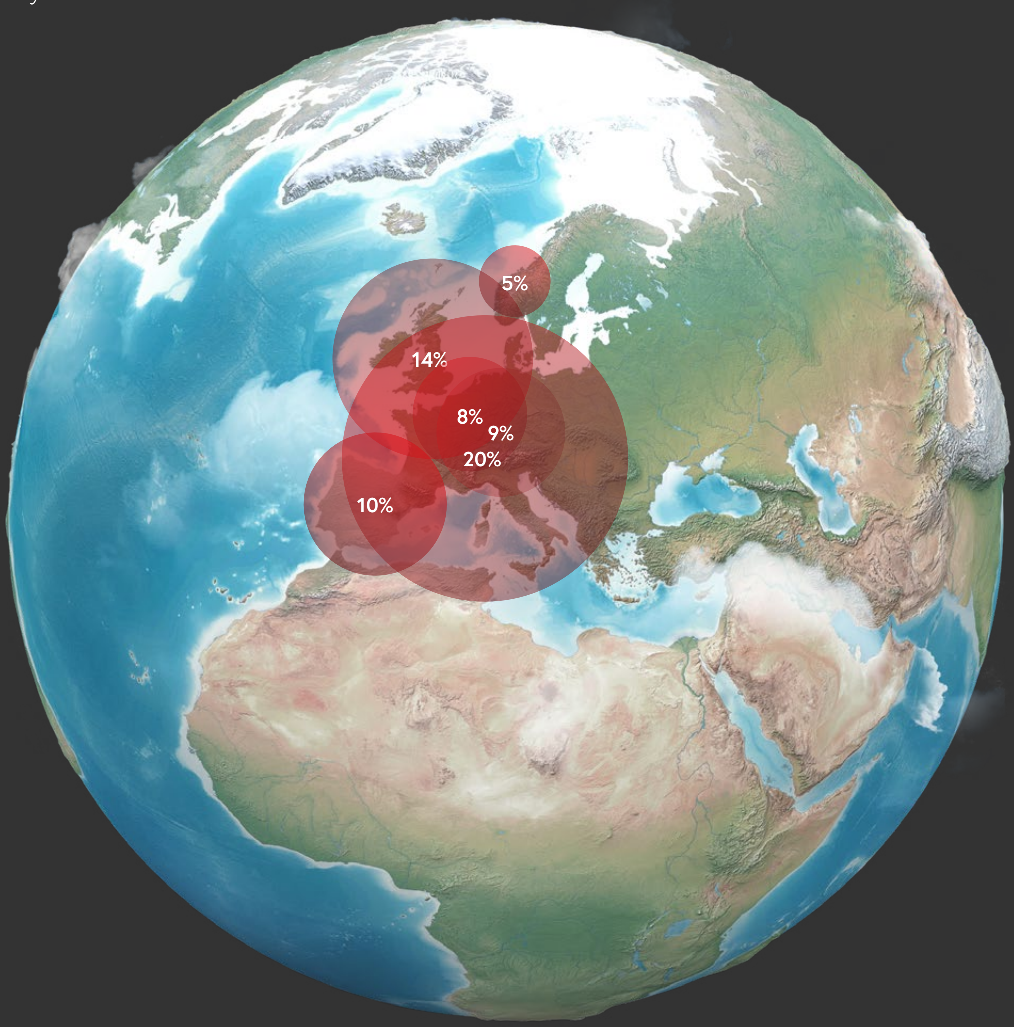
Figure 1.1: *Participating family offices by number and geography*



Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Figure 1.2: *Location of European family offices*

Andorra	**1%**
Belgium	**3%**
Czech Republic	**2%**
Denmark	**2%**
Finland	**1%**
France	**2%**
Germany	**9%**
Greece	**4%**
Ireland	**2%**
Italy	**4%**
Liechtenstein	**1%**
Luxembourg	**8%**
Monaco	**2%**
Lithuania	**1%**
Netherlands	**3%**
Norway	**5%**
Poland	**1%**
Spain	**10%**
Sweden	**1%**
Switzerland	**20%**
Turkiye	**1%**
United Kingdom	**14%**



Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Figure 1.3: *Participants by title*

Board member	7%
Chairperson	7%
Chief Executive Officer	24%
Chief Financial Officer	1%
Chief Investment Officer	9%
Chief Operating Officer	2%
Director	3%
Founder / Co-founder	9%
Investment Manager	3%
Managing Director	9%
Managing Partner	8%
President	1%
Principal	2%
Senior executive	3%
Other	9%

Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Figure 1.4: *Respondents to family office survey by relationship*

I am a family member and work for the family office	36%
I am a family member but do not work for the family office	4%
I am not a family member and work for the family office	60%

Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

76 percent of participants represent single family offices, and the remainder private multi-family offices. The single family offices are predominantly standalone legal entities independent of any family business. 39 percent of families have total wealth (including operating businesses) in excess of US $1 billion.

Figure 1.5: *Participating family offices by type*

Single family office (independent from the family business)	56%
Single family office (embedded in the family business)	19%
Virtual family office (technology orientated, functions outsourced)	1%
Private multi-family office (founding family holds at least 50% of AUM, and does not represent more than 8 families)	24%

Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Figure 1.6: *Wealth distribution of participating families*

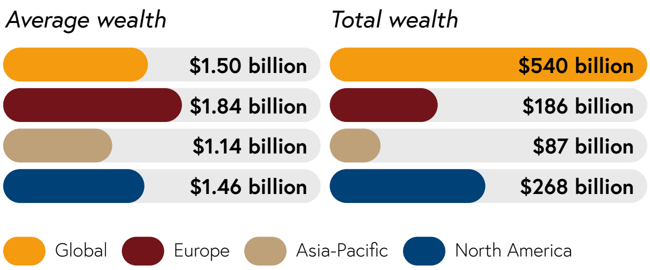
Less than US $100 million	11%
US $100 - $249 million	16%
US $250 - $499 million	16%
US $500 - $749 million	9%
US $750 - $0.99 billion	9%
US $1 - $1.49 billion	11%
US $1.5 - $2.99 billion	10%
US $3 - $4.99 billion	5%
US $5 - $9.99 billion	8%
More than US $10 billion	5%

Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Participating European families demonstrate impressive financial stature, with average wealth of US $1.84 billion. Collectively, their combined wealth amounts to a substantial US $186 billion. Correspondingly, their family offices have, on average, US $1.35 billion of assets under management (AUM), and aggregate AUM of US $136 billion.

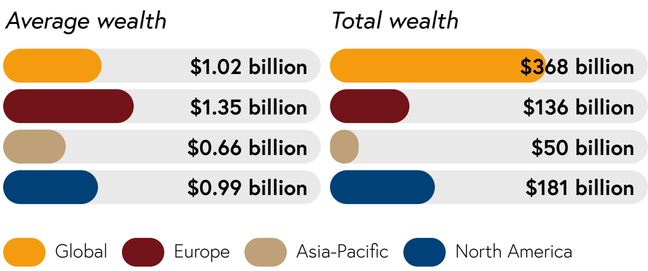
In the context of our comprehensive global report covering North America, Europe and Asia-Pacific, combined family wealth is estimated at US $540 billion, with family office AUM at US $368 billion.

Figure 1.7: *Average and total wealth of families by region, including operating businesses (US $)*



Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

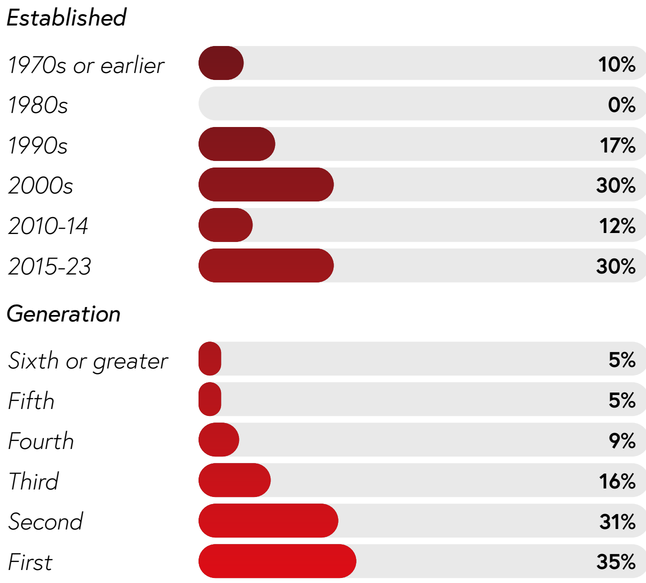
Figure 1.8: *Average and total AUM managed by family offices by region (US $)*



Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

30 percent of family offices were established relatively recently from 2015 onwards, which is slightly more than the percentage established through the 1970s, 1980s and 1990s. Slightly more than one third of family offices are controlled by their founders, or at least first-generation family members.

Figure 1.9: *Period when participating family offices were established and generation in charge*



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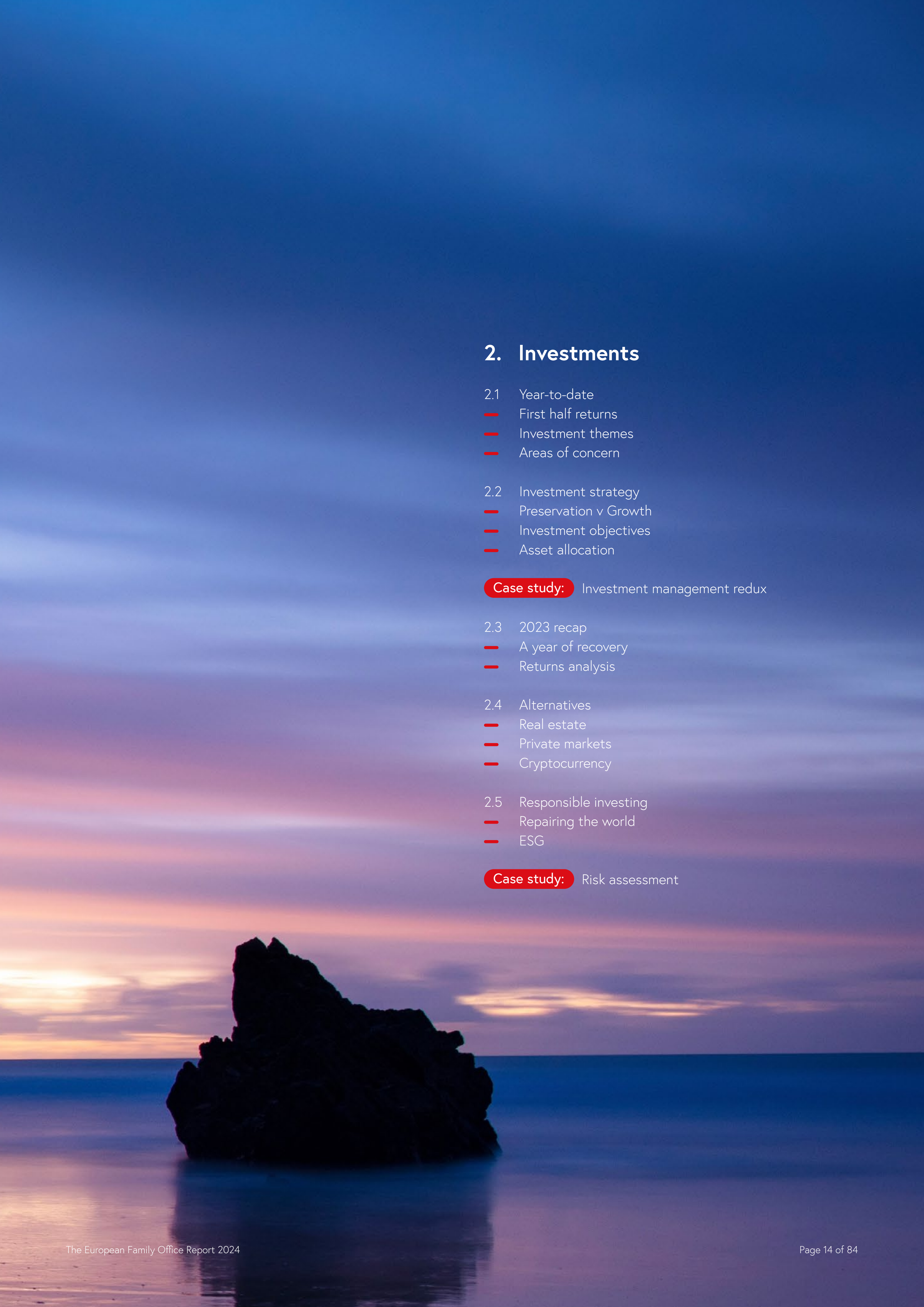
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024



2. Investments

2. Investments

Based on the performance during the first part of the year, family offices were optimistic about 2024 investment returns. 28 percent were expecting a return in excess of ten percent with hardly any anticipating a negative outcome, the obvious caveat being no material setback to financial markets during the second half of the year. Despite some volatility over the US election period, it seems that the optimism of family offices will not prove misplaced.

With the S&P 500 rising 15 percent, Nasdaq 20 percent and Europe's Stoxx 600 by seven percent over the first half of 2024, 64 percent of survey participants indicated that the performance of developed market equities was better than they had anticipated. This asset class represents 23 percent of the average European family office portfolio and so the strong performance of these markets would have provided considerable momentum. But partially offsetting these positive outcomes, some family offices were disappointed with the performances of real estate, fixed income, and private equity funds.

For investments in both private and public markets it is instructive to look at the themes or asset classes which family offices believe will provide them with the best returns, both in the near term (next 12 months) and over the medium term (two-to-five years). Our survey reveals preferred near-term themes are AI, the "Magnificent Seven" technology stocks, defence industries, cybersecurity, and semiconductors. Long-duration bonds, Japanese, Indian and Chinese equities are less favoured asset classes. In the case of the former this ties in with family offices' view that interest rates would stay higher for longer and Fed easing would be delayed. Most interesting perhaps, when considering the long term, family office preference swings dramatically towards value equities.

Investor psychology is heavily influenced by risks and uncertainties surrounding the US economy. The most common concern of family offices is the stickiness of inflation which has prevented the Federal Reserve from cutting interest rates, at the pace which seemed probable at the start of the year. Family offices also foresee risks to financial markets coming from political turbulence around the US election and from geopolitical issues in the Middle East and Eastern Europe. However, on the positive side, few see a global stock market sell-off.

28%

Expect full year investment returns in excess of 10 percent

64%

State performance of developed market equities exceeded their expectations

50%

Highlighted risk of delayed Fed easing

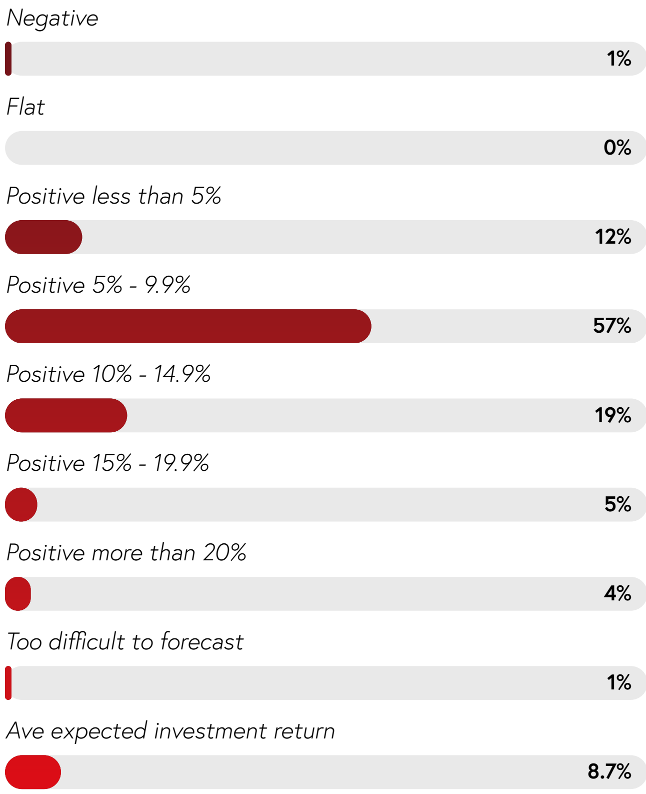
2.1 Year-to-date

First half returns

2024 is likely to have been a good year for investment returns. In response to our survey, 28 percent of family offices are expecting a return in excess of ten percent, with hardly any anticipating a negative outcome (**Fig 2.1**). This optimism could have proved misplaced if markets had suffered a material setback during the later part of the year. But despite some volatility over the period of the US election, this reversal has not materialised leaving positive expectations intact.

> *"Investors are bullish and we think they are right; CEOs sounded optimistic in the Q2 earnings season and the central bank rate cuts provide a second tail wind for markets. As of early November, diversified portfolios with a moderate risk profile had already returned 13 percent in the year to date, so it is no surprise that 28 percent of people are looking for more than 10 percent returns on their investments for 2024."*
>
> Willem Sels, Global Chief Investment Officer,
> HSBC Global Private Banking

Figure 2.1: *Percentage of family offices indicating expected investment return*

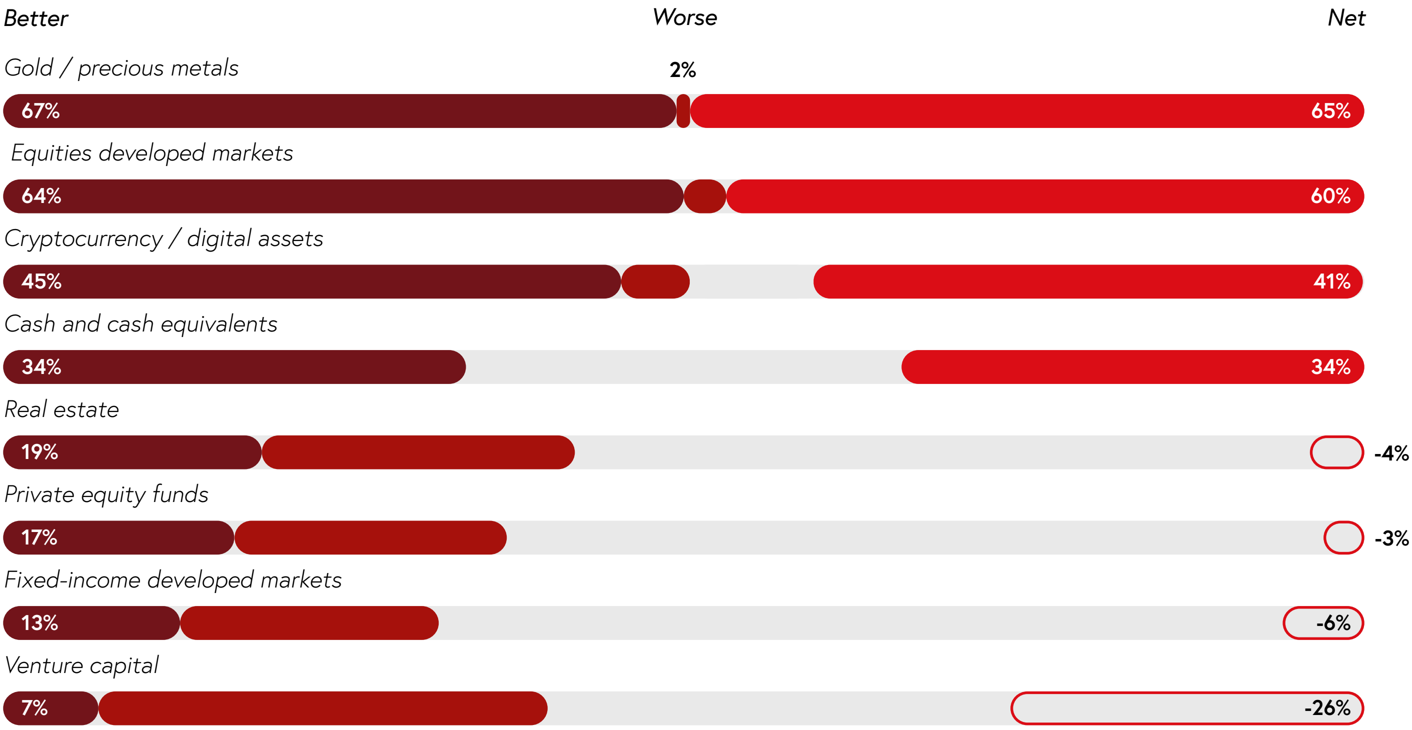


Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Developed market equities represent 23 percent of the average family office portfolio and so the performance of these markets would have provided considerable momentum. Among survey participants, 64 percent indicated the performance of developed market equities was better than they had anticipated (**Fig 2.2**). Gold and cryptocurrencies also outperformed expectations, but these asset classes are only small components (combined two percent) of the average family office portfolio.

Partially offsetting these positive outcomes, some family offices were disappointed with the performances of real estate, fixed income, and private equity funds. For these asset classes, the number of family offices reporting worse-than-expected outcomes marginally exceeded the number reporting better-than-expected outcomes, but in the case of venture capital, the disparity was significant.

Figure 2.2: *Percentage of family offices indicating investment return better / worse than expectations since start of 2024*



Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Investment themes

Which investment themes and asset classes are viewed as most attractive by family offices? Our survey provides some indication, both for the near term (next 12 months), and over the medium term (two-to-five years). Preferred near-term themes are AI, the "Magnificent Seven" technology stocks, defence industries, cybersecurity, and semiconductors (**Fig 2.3**). There is very limited enthusiasm for long-duration bonds, Japanese, Indian and Chinese equities. In the case of the former this ties in with family offices' view that interest rate would stay higher for longer and Fed easing would be delayed.

AI not only heads the list of near-term but also medium-term prospects. More family offices (49 percent) believe it will reward shareholders above any other asset class or investment theme. Cybersecurity (44 percent) and defence industries (42 percent) are also viewed as very good medium-term prospects but definitely not the "Magnificent Seven" (11 percent). Most interesting perhaps, over the next several years family office preference swings dramatically towards value equities (39 percent).

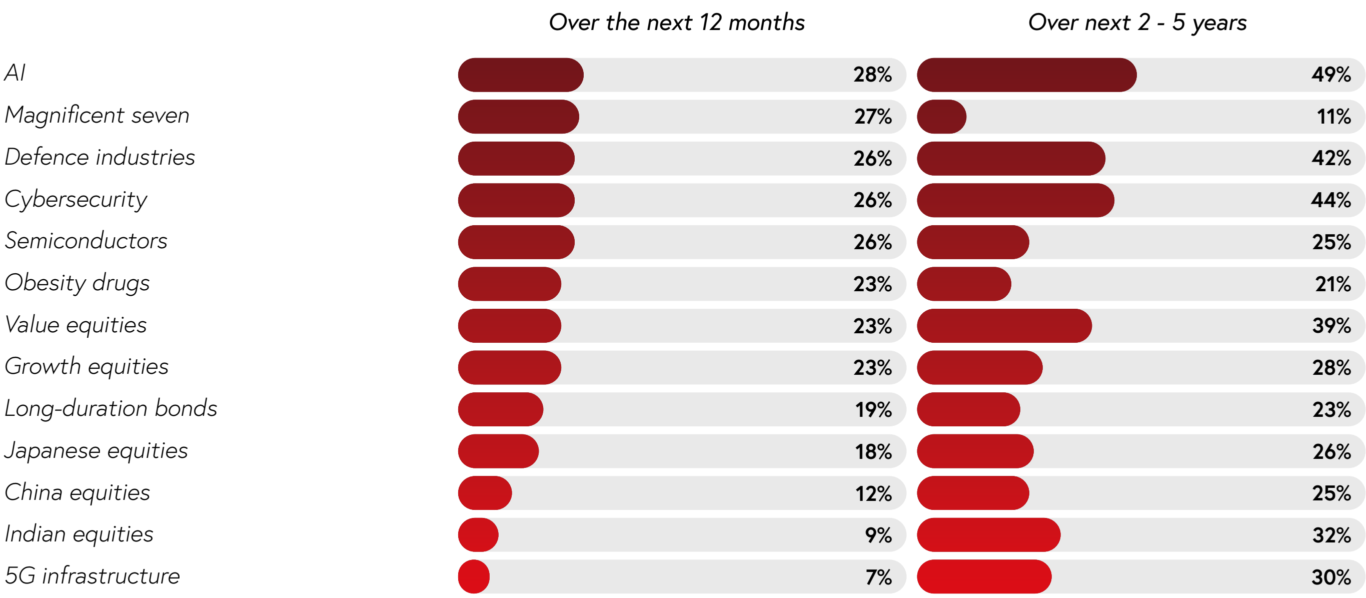
"At the beginning of this year, the market thought there would be five or six rate cuts. I'm not an economist, but I couldn't understand how they could have ever thought that. I don't see how the Fed can cut unless inflation falls significantly, and there's a fairly contentious presidential election coming."

Chief executive officer, single family office, United Kingdom

"In spite of the volatility of tech stocks we saw in the summer, they still generate strong earnings, and should do well over the next 12 months. It's interesting to see that in the next two-to-five years, people are more optimistic on the tech applications than on the Magnificent Seven themselves. We agree that there are great opportunities in innovations that are enabled by AI, such as robotics, automation and health technology."

Willem Sels, Global Chief Investment Officer,
HSBC Global Private Banking

Figure 2.3: *Percentage of family offices selecting asset class / investment theme as likely to reward shareholders*

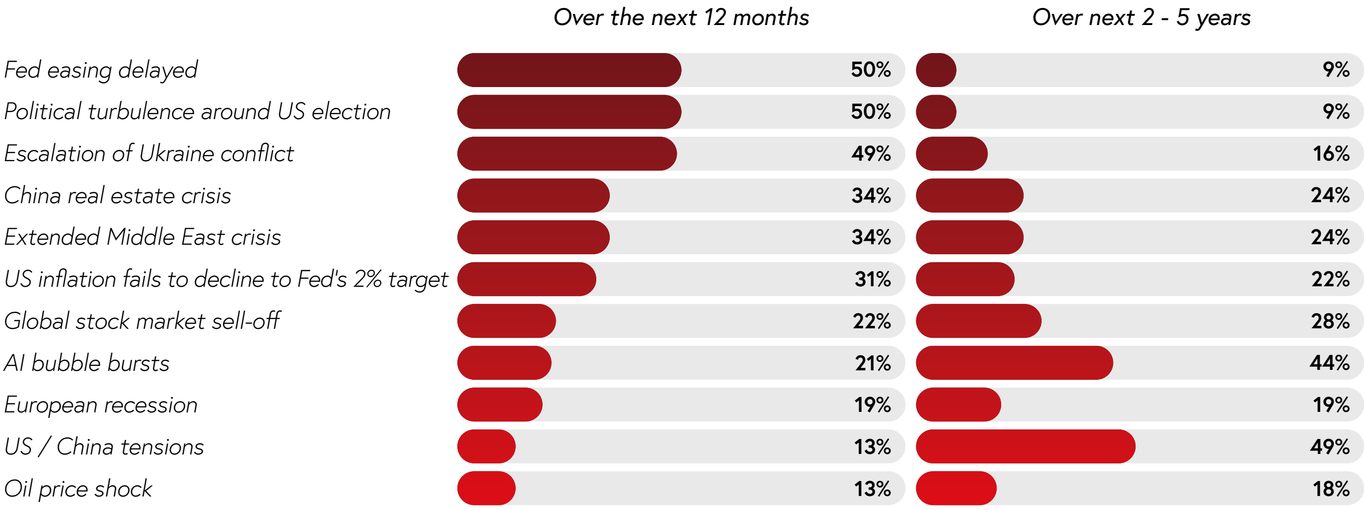


Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Areas of concern

Investor psychology is heavily influenced by tangible risks surrounding the US economy, and geopolitical tensions. In 2023 the most common concern of European family offices was that the rate of inflation would not decline (44 percent). This year they have become more positive on the inflation outlook (only 31 percent predicting the Fed's two percent target would not be achieved) but nonetheless, probably recognising that the economy had escaped recession, 50 percent anticipated Fed easing being delayed. This scepticism has proved entirely justified since rates have not fallen at the fast pace expected at the start of the year (**Fig 2.4**). Family offices also foresee risks to financial markets coming from political turbulence around the US election and from geopolitical issues in the Middle East and Eastern Europe. On the positive side, few see a global stock market sell-off or a bursting of the AI bubble, at least in the short term. But on a two-to-five year perspective, this is the most frequently cited risk alongside China's relationship with the United States.

Figure 2.4: *Percentage of family offices expecting risks to crystallise within time period*



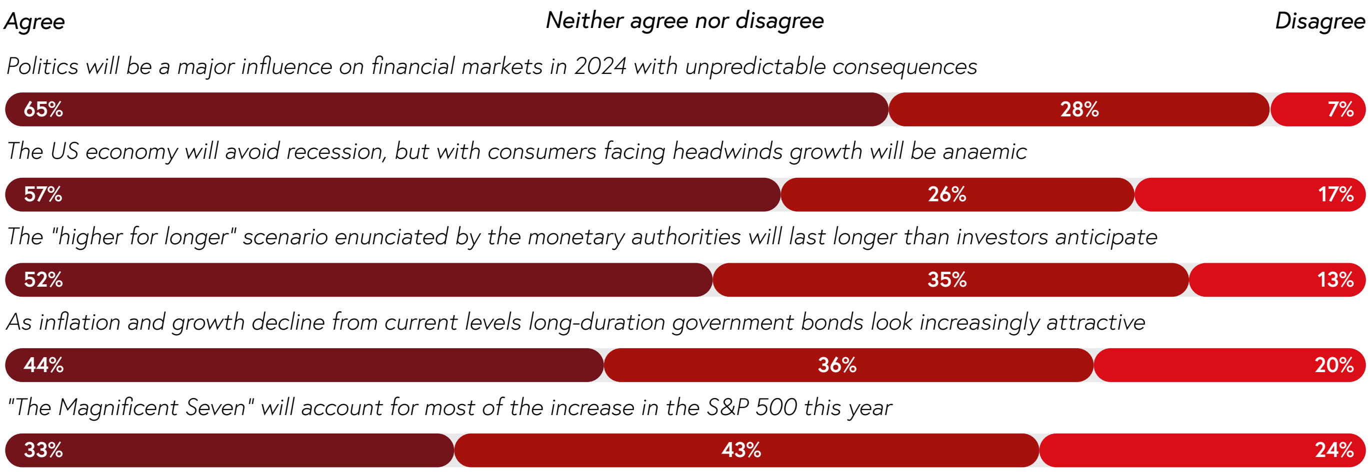
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Scenarios highlighted in our attitudinal question (**Fig 2.5**), include "higher for longer" interest rates, a weak US economy but no recession, and the "Magnificent Seven" accounting for a sizeable proportion of the gain in the S&P 500, actually materialised during the first half of the year. A significant percentage of family offices, being well-informed investors, correctly anticipated these developments. For example, 57 percent correctly indicated the US economy would avoid recession. 52 percent anticipated the high interest rate scenario lasting longer than most investors anticipated.

"We are more optimistic about Indian equities than the survey suggests. Some investors worry about the high price/earnings valuation multiple in India, but return on equity and earnings growth in India are strong, so those valuations are warranted in our view."

Willem Sels, Global Chief Investment Officer, HSBC Global Private Banking

Figure 2.5: *Extent to which family offices agree or disagree with statement*



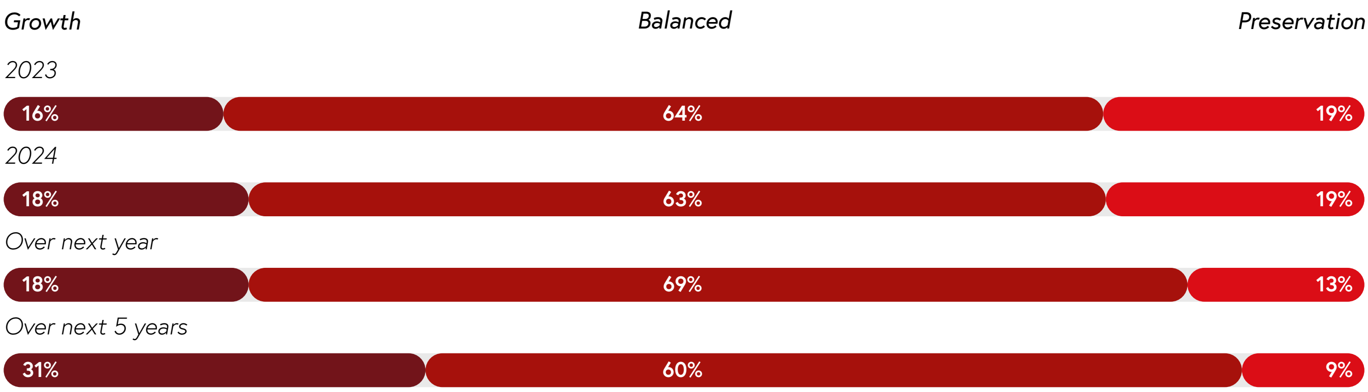
Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

2.2 Investment strategy

Preservation v Growth

To gain insight into investment strategy we asked family offices where they sat on a line between wealth preservation and growth. Growth implied taking above-average risk for the promise of faster capital appreciation and higher income. Preservation meant lower risk and lower investment returns to limit portfolio volatility. Between these extremes is a balanced strategy which was the preferred option of around 60 percent of family offices. (**Fig 2.6**). The percentage operating this balanced strategy has been reasonably stable but over the next year family offices are expecting to become more adventurous and the number operating a balanced strategy will increase at the expense of those only intent on wealth preservation. Further out, balanced strategies are expected to convert to growth strategies, bringing the percentage pursuing this course back to the levels witnessed in the period prior to inflation taking off in 2022.

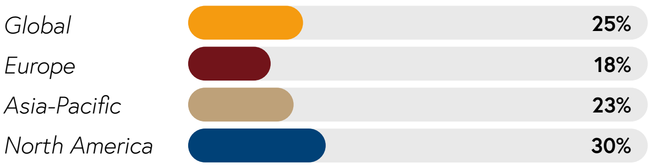
Figure 2.6: *How family offices describe their investment strategy*



Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Based on the percentage of family offices pursuing a growth strategy, European family offices are more conservative than their global peers (**Fig 2.7**). But family offices do need growth. Families probably double in size every generation or every 30 years. Preserving per capita wealth in these circumstances requires real growth of almost 2.5 percent per annum.

Figure 2.7: *Percentage of family offices operating growth strategy*



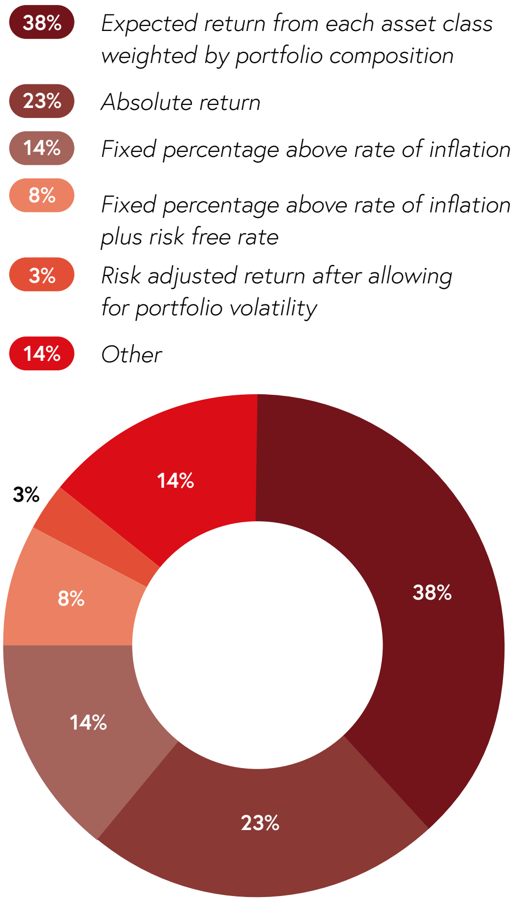
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Recognising the importance of balancing risk and return, it is common for the benchmark return which family offices seek to achieve in any year to be set in relation to the risk profile of the assets in the portfolio. The most popular methodology is to compute the benchmark as the expected return from each asset class weighted by portfolio composition. This compares with the 23 percent of survey participants which set an absolute level of return, and 22 percent which set a benchmark linked to inflation.

"Family offices are recognising the need to take more risks in order to generate returns above inflation. We tend to see that those who operate businesses alongside their family office are more cautious than those who are not, but this adjusted attitude to risk is a symptom of seeing inflation running hot and realising that there can be downsides to being cautious for too long."

Christo Scott, Managing Director, UHNW,
HSBC Global Private Banking

Figure 2.8: *How family offices set their benchmark return*



Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

"The strategic challenge of preserving wealth across the generations is getting harder because the number of family members expands through the generations, and the rate of investment growth can't match it."

Chairman, single family office, Belgium

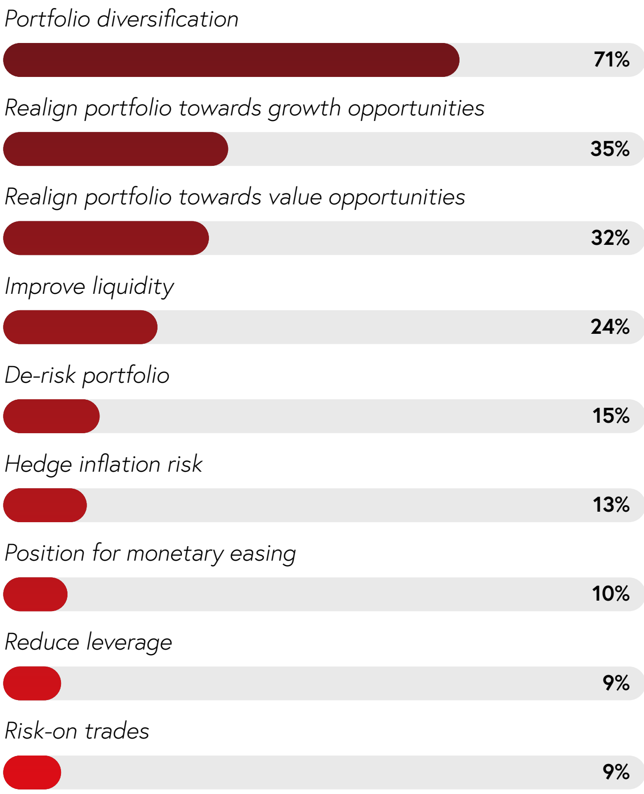
"A strategic investment framework sets down the general investment objective, in a way which family members who are not investment specialists understand. It could be something very simple like preserving wealth after inflation, taxes and distributions. To achieve this you might need a nominal return of perhaps six percent per annum, and from that you can devise an asset allocation which can be expected to deliver that return and translate that into guidelines for your professional investment managers."

Managing partner, multi-family office, Germany

Investment objectives

In most years portfolio diversification tops this list of family office investment objectives (**Fig 2.9**), but this year it is by a very considerable margin (71 percent). Family offices are almost equally split between the desire to realign toward growth (35 percent) or value opportunities (32 percent). Improving liquidity (24 percent) has become more important, probably because the limited number of exits in private equity markets means more illiquid assets on balance sheets, but hedging inflation risk, which was seen as an imperative last year, has dropped back to 13 percent.

Figure 2.9: *Family office investment objectives for 2024*



Note: Multiple answers permitted
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Having identified the investment objectives, **Fig 2.10** identifies how family offices go about achieving them. Increasing exposure to private markets (61 percent), alternative asset classes (50 percent) and real estate (34 percent) appear the most popular mechanisms for achieving diversification. Family offices intent on rebuilding liquidity expect to be increasing cash balances (23 percent) rather than reducing new money to private markets (8 percent). However private markets are already the largest single asset class in family office portfolios, so achieving worthwhile diversification may depend on adopting a new strategy as per **Fig 2.23**.

"There are more and more investment managers in the market. They all have a lot of data on their methods and information on past performance. I try to explain this to the family and select the most appropriate. Most often they continue to work with their existing providers because the know the people or the firm have done well for them in the past."

Managing director, virtual family office, Luxembourg

"The most important thing is diversification. We have discussions around the proper balance of the portfolio. Perhaps we invested a little bit too much in tech rather than in basic manufacturing. Also, the maturity of structured products and fixed income investments is important and I need to know the dividend flows coming into the portfolio since this cashflow may be needed for the family business."

Managing partner, multi-family office, Germany

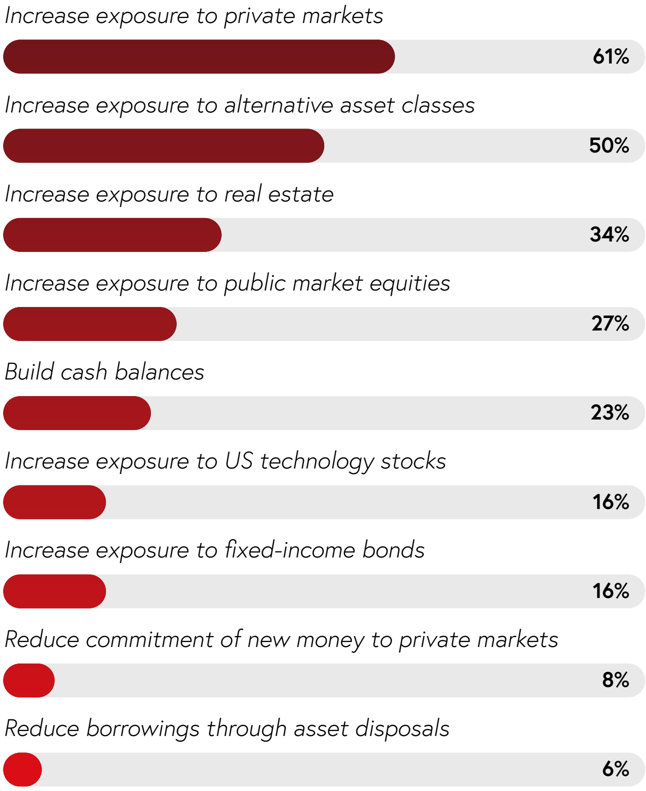
"The absence of realisations and IPOs means that general partners are forced to hold assets for longer which creates problems for the limited partners who are now unable to deploy capital into new private equity funds or direct investments. It's also raising a question mark over valuations since the only time you know if the valuation is correct is when the asset is sold."

Chief investment officer, single family office, United Kingdom

"The desire to maintain access to liquidity stems from an increased appetite for illiquid markets, such as private equity and venture capital. Family offices are getting smarter about working capital lines through debt facilities and how this can form part of a successful private markets portfolio."

Christo Scott, Managing Director, UHNW,
HSBC Global Private Banking

Figure 2.10: *How family offices intend to achieve their investment objectives*



Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Asset allocation

The asset classes which constitute family offices' strategic asset allocation are characterised by different expected returns and degrees of risk. Historically, private equity and venture capital have delivered the highest returns but carry the highest levels of risk, since investments are made in emerging companies and technologies. Nonetheless, family offices rank these categories as providing the best risk-adjusted return, followed by public market equities and real estate. Traditional low-risk assets like cash and fixed income bonds appear mid-table, because although risk is low so are returns. The return from cryptocurrencies, gold, and commodities is not seen as sufficient to compensate for the risk.

Figure 2.11: *Asset classes ranked by expected long-term risk-adjusted return*

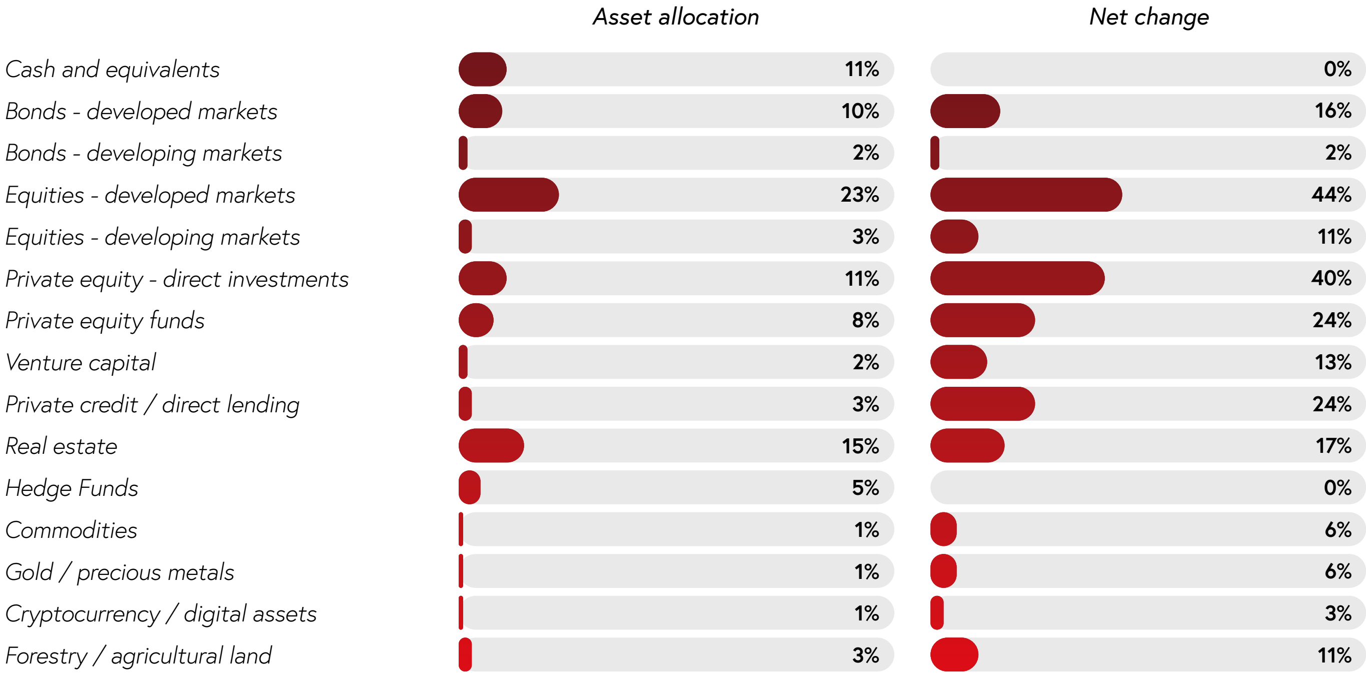
1st	Private equity & venture capital
2nd	Public market equities
3rd	Real estate
4th	Fixed-income
5th	Cash and cash equivalents
6th	Hedge funds
7th	Cryptocurrency / digital assets
8th	Commodities
9th	Gold / precious metals

Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

The ranking of risk-adjusted returns in **Fig 2.11** goes a considerable way towards explaining family offices' strategic asset allocation (**Fig 2.12**). Recognising that private equity and venture have historically provided the best risk-adjusted returns, these categories together with private credit constitute, on average, 24 percent of strategic portfolios, making private markets the second largest individual asset class. Public market equities is the largest asset class at 26 percent and real estate, at 15 percent, is the third. Cash at 11 percent is at a near-term high reflecting the four-to-five percent rates available on bank deposits.

Holdings of cryptocurrency, gold and commodities are around the one percent level; diversification into these asset classes has been limited.

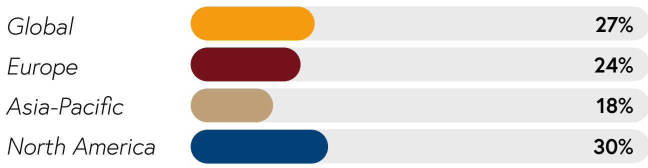
Figure 2.12: *Average strategic asset allocation and percentage of family offices intending to increase, less percentage intending to decrease, their exposure*



Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

The second "Net change" column in **Fig 2.12** represents the percentage of family offices looking to increase their allocation to a particular asset class less the percentage looking to reduce their holdings. Many more family offices are looking to increase their allocation to developed market equities (44 percent) and direct private equity (40 percent) than decrease their exposure. As a result, both asset classes are likely to increase as a percentage of the average portfolio. Private equity funds and private credit (both 24 percent) will also be in demand. But holdings of cash and hedge fund investments look set to decline, the former probably reflecting the likely downward course of interest rates.

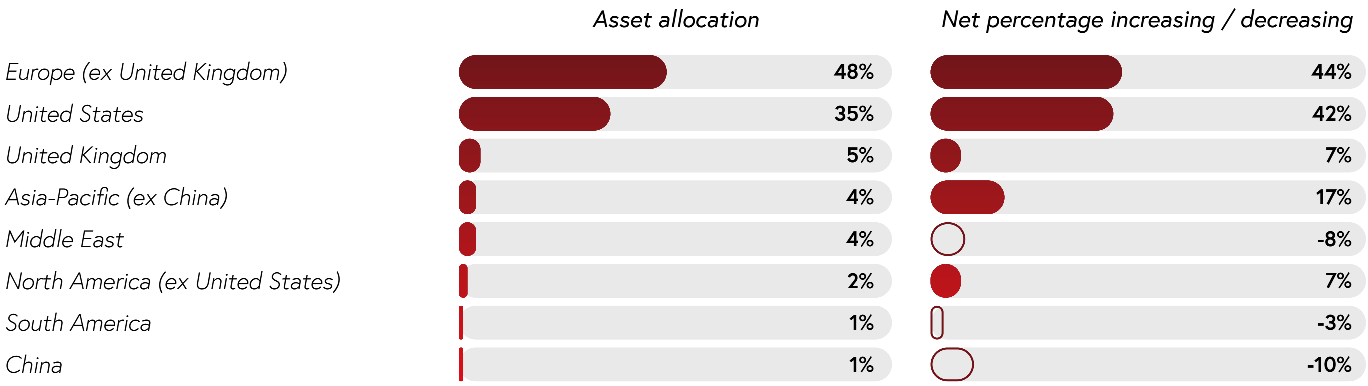
Figure 2.13: *Private markets as percent of average asset allocation*



Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Including the United Kingdom, little more than half the assets of European family offices are actually European investments (**Fig 2.14**). The average portfolio is well-diversified geographically with 37 percent in North America, and four percent in both Asia-Pacific ex China and the Middle East. Future investment is likely to be heavily weighted towards Europe (ex United Kingdom) and the United States.

Figure 2.14: *Average geographic asset allocation and percentage of family offices intending to increase, less percentage intending to decrease, their exposure*



Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Investment management redux

The investment process has become too complex. The Chief Investment Officer of a single family office in the United Kingdom argues that it should be stripped back to its essentials; the desired return and the investor's risk tolerance. It's possible to have too much diversification as well as too little. He is a strong advocate of a pooled investment approach which allows family members to achieve their own required investment outcomes.

Year after year, in every survey we conduct, family offices are telling us that investment policy and the management of investment risk are their top priorities. Almost every family office has an investment committee and documented investment guidelines. Is all the effort that goes into this really necessary?

"Well, I believe the answer to that question is indisputably yes. Look at it this way. The family will almost certainly double in size every 30 years which is the approximate longevity of one generation. Simply maintaining the status quo means the family's wealth also has to double in real terms over the same time period, and this will require real growth of almost 2.5 percent per annum. Achieving that year in, year out, is a really demanding target."

How should family offices go about achieving this?

"I think the really important first step is to establish the family's long-term financial goal. It might be something as simple as preserving per capita wealth in real terms. It could be an absolute rate of return or a fixed rate above the rate of inflation. Then, having settled on a target, the next step is to think about the asset mix which would enable this to be achieved. But the higher the return target, the higher the portfolio allocation to high return, high risk asset classes like private equity and venture capital. This risk will most probably be reflected in the volatility of the portfolio. Consequently, the trade-off between risk and return needs to be carefully considered."

"Essentially, the desired return and risk tolerance should drive the entire wealth management process. What I'm advocating might be described as investment 101, or investment redux. It's simplistic, but on the other hand the huge volume of information that's available to investors makes investment management appear quite daunting and it can obscure the best path forward. Filtering through the noise can be challenging and over-complicates the process."

Can you give me an example?

"Like many other family offices, mine has a sizeable portfolio of residential real estate. Property rents can adjust with inflation so we view this portfolio as an inflation hedge. But if that's the case, do we need to invest in commodities or a private equity infrastructure fund, both of which have inflation-hedging characteristics? Adding too many asset classes and too many specific allocation targets increases the risk of suboptimal allocations. There's a related issue on rebalancing. The limited number of exits means that the percentage of private equity in our portfolio is rising. Should we dispose of assets simply to rebalance our portfolio back to target allocations? Given the valuation discounts in the market, selling just doesn't make sense."

What are your views on diversification?

"A common challenge for families is negotiating the balance between a concentrated and well-diversified portfolio. Sometimes a very concentrated portfolio arises by default because family members hold stock in a family-owned business, or because they have specialist knowledge of a particular industry and therefore feel comfortable investing in it. On the other hand, portfolios can become excessively diversified through the need to position for new investment strategies and hesitation about culling investments that no longer serve a particular purpose. Studies in behavioural finance confirm that investors are much more hesitant when it comes to selling than buying."

"Too much concentration means a particular event or outcome will exert a larger-than-expected influence, either positive or negative, on the portfolio. Conversely, too many disparate holdings will make the overall performance of the portfolio difficult to monitor and the smaller holdings will not be significant enough to have a meaningful impact on the portfolio one way or another."

How are your family's investments organised?

"We have a pooled investment structure which keeps most family members happy. Their assets are aggregated and invested in four individual funds, each committed exclusively to one of four asset classes: public equity, private markets, alternatives and real estate. This allows the members, each with their own specific financial circumstances, to achieve their required investment outcomes. For example, those requiring inflation-linked income might have a higher proportion of their wealth invested in the real estate portfolio. Younger members, without significant liquidity requirements, might have a higher allocation to private markets. Aside from this, the pooled structure enables family members to take advantage of economies of scale meeting minimum investment requirements, achieving fee breaks, and simplifying administration and documentation."

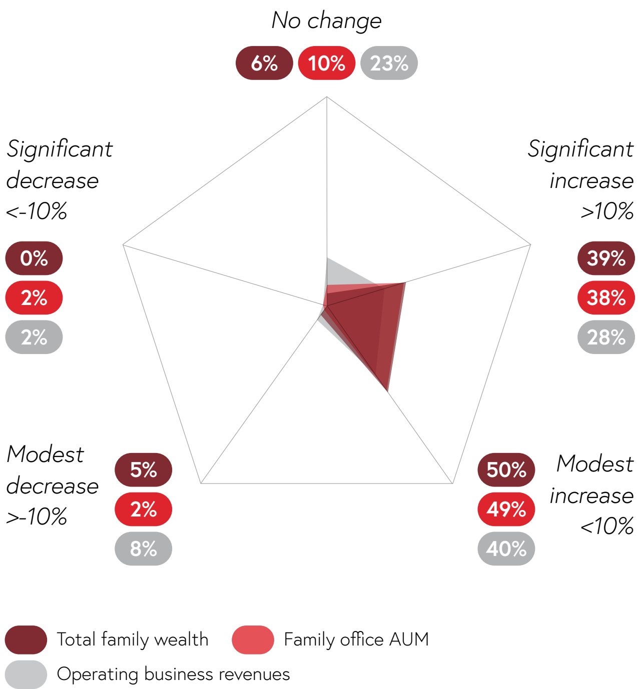
"I term this pooled approach "cooperative capital allocation"*. It's an elegant, dynamic solution to the problem of meeting the different objectives and preferences of family members. No single formulation will be appropriate for every family, but the approach is sufficiently flexible to be universally viable."*

2.3 2023 recap

A year of recovery

Following on from a very difficult 2022, 2023 proved to be a good year for family offices. Almost 90 percent reported an increase in family wealth and family office AUM, with nearly 40 percent reporting increases of more than ten percent (**Fig 2.15**). Further, 44 percent of family offices reported outperforming their investment benchmark, and operating businesses connected to family offices also performed well with nearly 70 percent reporting an increase in revenues.

Figure 2.15: *Percentage of families reporting change during 2023*



Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Eurozone inflation fell precipitately through 2023, beginning the year at 8.6 percent and closing at 2.9 percent in response to the European Central Bank tightening rates. But as a consequence, GDP growth was modest at just 0.4 percent. Despite this somewhat unpromising background, some major European stock markets turned in strong performances reflecting an element of recovery from the setbacks experienced in 2022. The CAC 40, DAX and Eurostoxx 50 all enjoyed gains of around 20 percent over the course of the year although FTSE 100 and SMI were laggards, posting low single-digit gains.

European family office portfolios were also helped by strong performances from US public markets with the S&P 500 index rising 19 percent and Nasdaq 43 percent. Additionally, the Cambridge Associates LLC Private Equity Index[1] recorded a return of nine percent for the US and seven percent for other developed markets. But it wasn't all positives. Government bond yields remained unchanged at historically high levels and venture capital returns in both Europe and North America were negative[2].

Returns analysis

We asked family offices for returns (capital appreciation plus income) for each individual asset class. By aggregating this data and applying it to the average family office portfolio (**Fig 2.12**) we estimate the average investment return for 2023 at 8.3 percent. This appears roughly consistent with the distribution of returns from our survey data (**Fig 2.15**).

By far and away the main contributor to this favourable outcome was developed market equities which closely mirrored the performance of US equities and provided a return of 14 percent. Cryptocurrency and digital assets produced the best individual return but the very low allocation to portfolios meant this had little overall impact on returns. Returns from private equity and private credit were satisfactory in high single digits, but around a quarter of venture capital and real estate portfolios produced negative returns.

> *"Family offices experienced a strong year in 2023 due to varying factors including declining inflation and diversification of investment portfolios into sectors such as technology and industrials."*
>
> Robert Kalff, Head of Family Office Coverage, HSBC Global Private Banking

[1] https://www.cambridgeassociates.com/en-eu/private-investment-benchmarks/
[2] https://www.cambridgeassociates.com/en-eu/private-investment-benchmarks/

Figure 2.16: *Average net return from asset class reported by family offices*

	Asset allocation	*Return*
Cash and equivalents	11%	2.3%
Bonds - developed markets	10%	5.3%
Bonds - developing markets	2%	6.1%
Equities - developed markets	23%	13.6%
Equities - developing markets	3%	7.0%
Private equity - direct investments	11%	12.7%
Private equity funds	8%	9.0%
Venture capital	2%	6.1%
Private credit / direct lending	3%	8.1%
Real estate	15%	4.7%
Hedge Funds	5%	7.3%
Commodities	1%	2.4%
Gold / precious metals	1%	6.8%
Cryptocurrency / digital assets	1%	31.9%
Forestry / agricultural land	3%	5.0%
Total	100%	8.3%

Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

2.4 *Alternatives*

Real estate

Real estate is a popular asset class for family offices, not least because a sizeable percentage of family-owned businesses are engaged in the industry. Our survey found 74 percent of European family offices have some direct real estate exposure, in line with the global average. They are predominantly investors rather than developers, with portfolios weighted towards residential (43 percent) and offices (25 percent), although alternative real estate assets such as care homes, data centres and student accommodation are gaining traction (**Fig 2.18**). Approximately 70 percent of real estate assets are located in Europe and a further ten percent in both the United Kingdom and the United States.

Figure 2.17: *Percentage of family offices with exposure to real estate*

Global	74%
Europe	74%
Asia-Pacific	74%
North America	75%

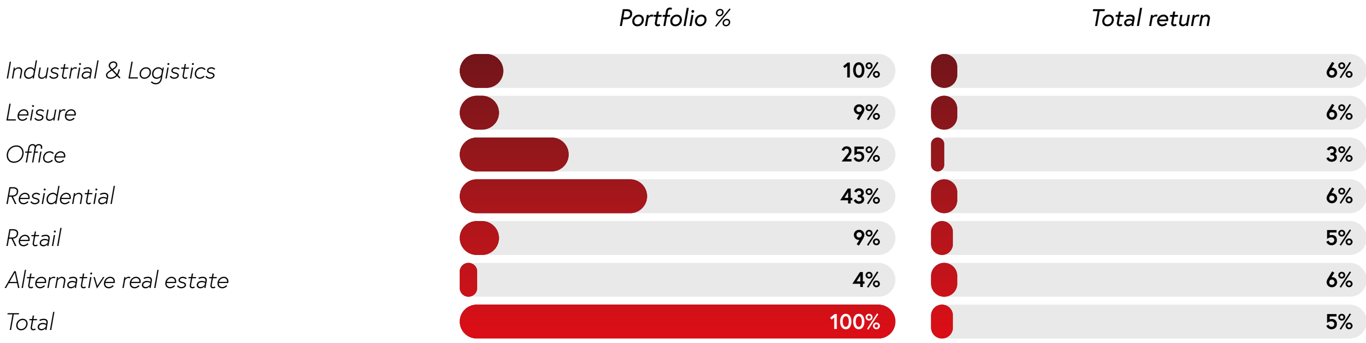
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

As an alternative asset class family offices have been keen to diversify their portfolios into real estate (**Fig 2.10**), especially in a period of rising inflation. But to date, the returns have been relatively modest.

There are significant regional differences across Europe. For example, prime office rents in London City, and certain German cities are rising significantly faster than the overall European average of four percent pa[3]. However, the over-arching trend is that home working has reduced demand which is yet to recover to pre-pandemic levels. New build supply is adjusting, but vacancy rates are uncomfortably high in many cities. E-commerce has been the long-term problem for retail space but the expectation is that the big transition is now behind us and modest rental growth can be anticipated. Most important for family offices however is the residential market. Here the fundamentals remain favourable because rising house prices and mortgage rates plus shortages in the housing stock have pushed households into the rented sector[4].

[3] https://www.savills.com/research_articles/255800/362952-0
[4] https://www.aew.com/research/european-residential-finding-a-new-balance

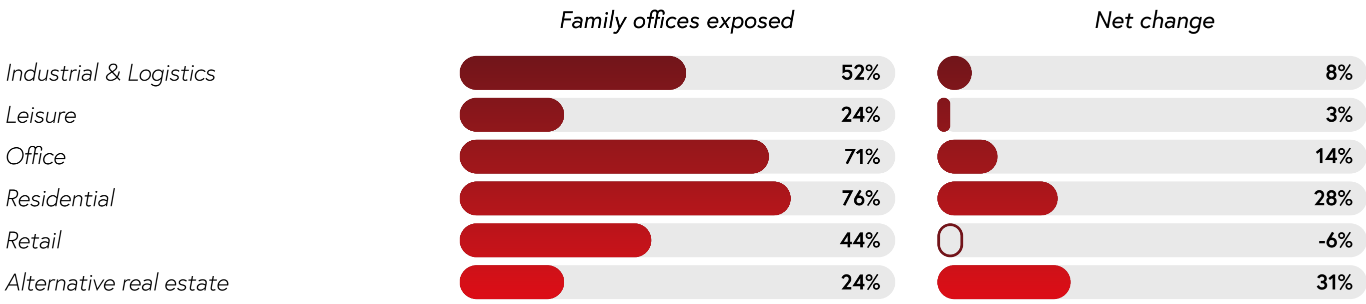
Figure 2.18: *Average family office real estate portfolio by category and 2023 average total return*



Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

These trends have made their mark on family office investment. For example, 44 percent of family offices have some exposure to retail and more of these family offices are looking at reducing their exposure than increasing it (**Fig 2.19**). In contrast, residential and alternative real estate are the two sectors where family offices appear happy to continue investing.

Figure 2.19: *Percentage of family offices with exposure to real estate sector and percentage planning to increase, less percentage planning to decrease, exposure*

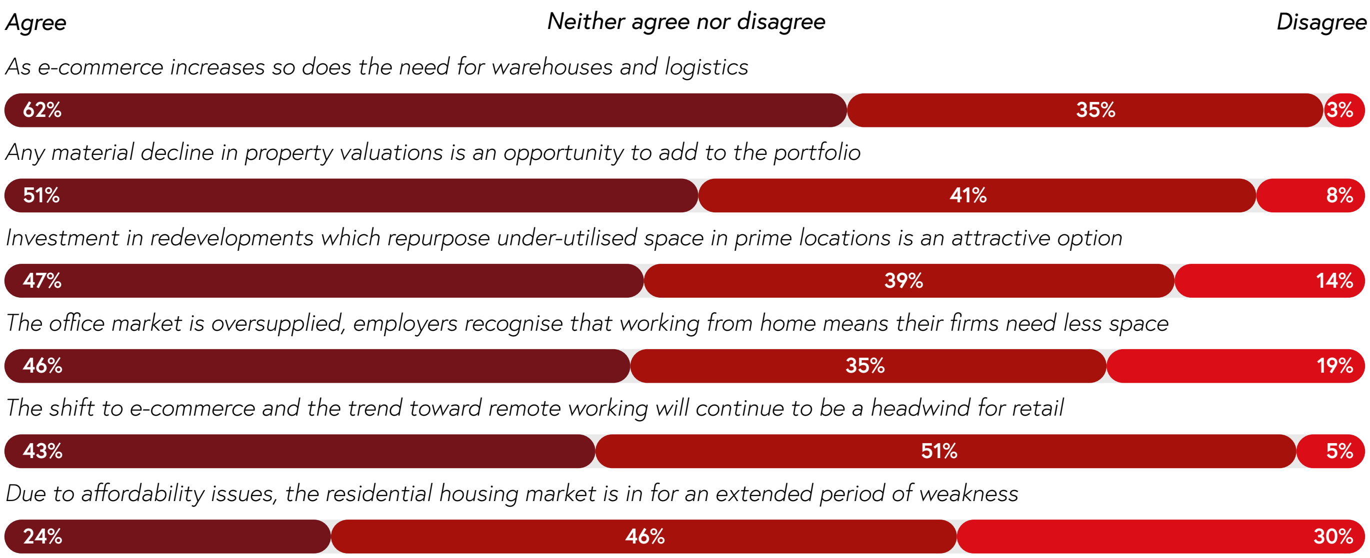


Note: Multiple answers permitted
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

[3] https://www.bloomberg.com/news/articles/2024-02-22/the-economic-time-bomb-ticking-in-empty-office-buildings-everywhere
[4] https://www.capitaleconomics.com/publications/us-commercial-property-chart-pack/us-commercial-property-chart-pack-q2-24

Our attitudinal survey (**Fig 2.20**) reveals the reasons why family offices are still cautious about the outlook for office and retail sectors. However, 47 percent believe that the trend towards repurposing properties will throw up attractive investment opportunities, and 51 percent see any material setback in the price of real estate as a buying opportunity. Despite the affordability issue which hangs over the residential market, family offices are positive because this will promote renting over ownership.

Figure 2.20: *Extent to which family offices agree or disagree with statement*



Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

"The trick with real estate is that family investment is always in locations very close to home. They really know their markets."

Chief executive officer, single family office, Spain

"Investors are becoming more positive on UK commercial property. Office and retail rents are marginally higher than a year ago, lower inflation and interest rates will provide some momentum and with more settled politics, foreign buyers are expected to return."

Chief investment officer, single family office, United Kingdom

"Real estate remains a key asset class for our clients. We find that family offices tend to select their subsectors and subsequently become experts in this area. For example, families investing in offices have tended to specialise in offices although they may branch out into different locations in response to changing market dynamics."

Purvi Amin, Managing Director,
Head of UHNW Solutions Group, UK

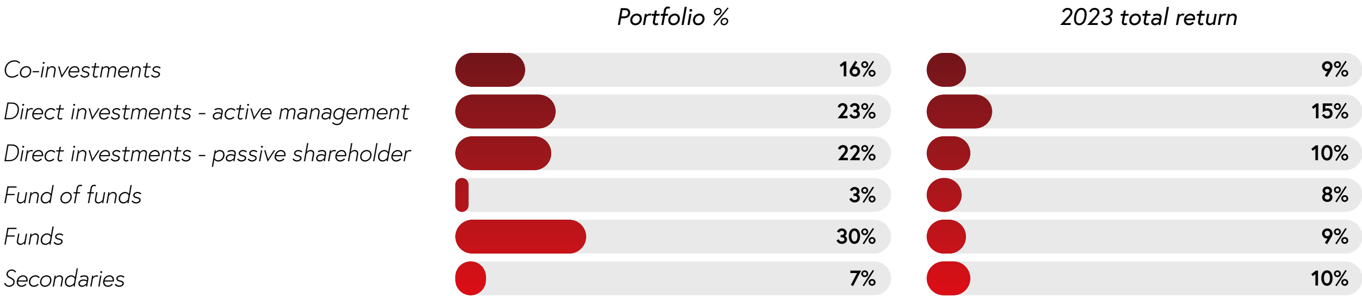
Private markets

An overwhelming 87 percent of European family offices own private equity investments, which is higher than the global average. Of this investment, 45 percent is achieved through direct participation, and 33 percent through holdings of funds or fund of funds (**Fig 2.22**). Co-investments made alongside private equity managers, and secondaries, positions acquired in the secondary market, play a modest but increasing role in family office investment strategies.

Figure 2.21: *Percentage of family offices with exposure to private equity*

Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Figure 2.22: *Average family office private markets portfolio by category and 2023 average total return*



Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Family offices' preference for fund investment is often attributed to the burden of in-depth due diligence and specialised investment management expertise that direct investments require. By contrast, some families opt for direct investment because they can leverage their industry-specific expertise and take a hands-on approach. Direct investment gives the family the opportunity to advise, mentor and propagate their values. In our survey 34 percent of family offices held a mix of direct and fund investments, 28 percent held only direct investments and 38 percent, predominantly smaller family offices, only fund investments.

"The family really wants to invest but the big question is how to manage the risk because there is no in-house capacity to do proper due diligence. That's why they like co-investing with other families. This is a growing trend, families like to discuss investments with one another and also to mutualise the risk by benefiting from the knowledge and experience that other families may bring."

Chairman, single family office, Belgium

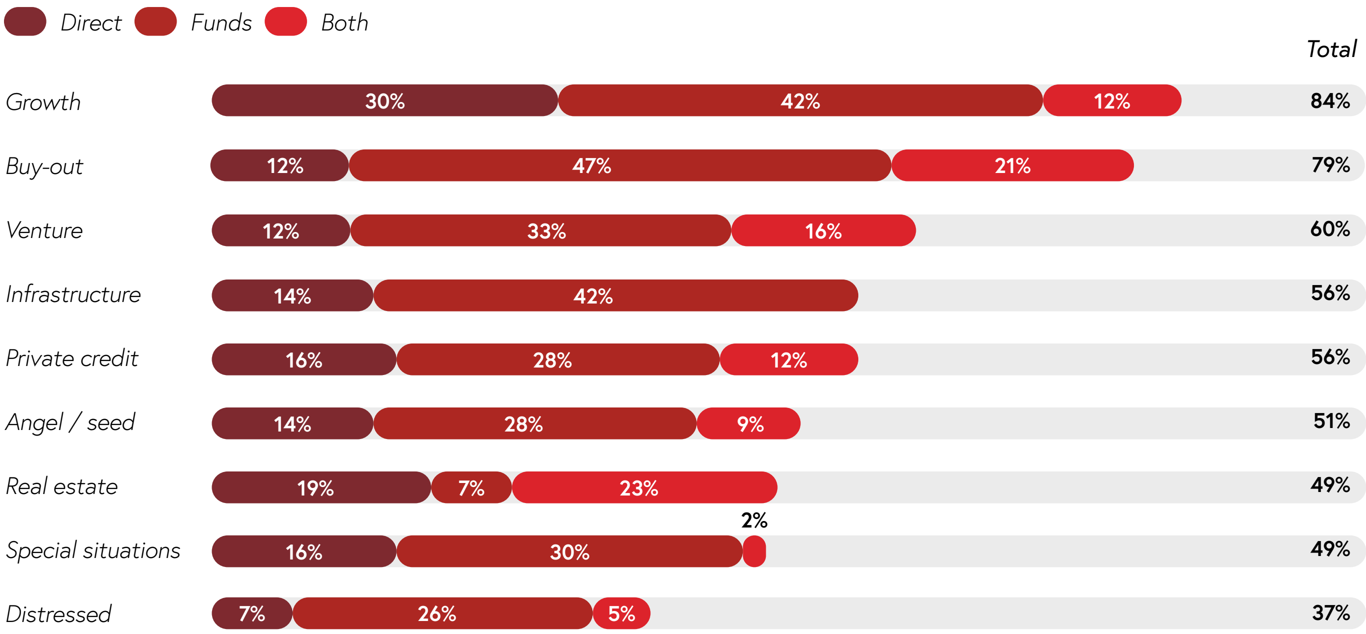
"A recent trend we are seeing is more family offices going into direct investment and co-investments with other families. I think many families thought that this is where they're going to get the greatest returns, but they now realise how difficult it is to actually do. It's very labour-intensive, and you have to have deep knowledge of the industry into which you are investing."

Chief investment officer, single family office, United Kingdom

"In addition to diversification and higher returns, we see family offices increasing their exposure to private markets as it provides them with the ability to invest in unique opportunities or to align themselves to specific sectors of interest. With their long term time horizon, family offices are able to ride out the illiquidity of private markets, alternative and real estate investments while benefitting from long term growth."

Sian Pierce, Director, Ultra High Net Worth Solutions, HSBC Global Private Banking

Figure 2.23: *Percentage of family offices investing in private equity with exposure to private equity strategies*



Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Across both direct and fund investments, the most appealing investment strategies (**Fig 2.23**) are growth (84 percent), buy-out (79 percent), and venture (60 percent). Venture capital investments in early-stage innovative businesses provide the opportunity for family offices to benefit from start-up businesses often utilising new processes or technologies. It is high risk but high return. The popularity of private credit reflects the high nominal interest rates that sub-investment grade borrowers are prepared to pay.

"In private equity we are likely to get our capital back, on average, after five years, but for venture it's a much longer eight or nine years to pay back. Our invested dollars are compounding for longer periods which is fine so long as the underlying investment return is good. We target companies in their first institutional funding round to get the cheapest entry point possible, and exit on the third or fourth funding round, to extract maximum valuation uplift."

Chief executive officer, single family office, Switzerland

"We're not particularly keen on industry-specific funds. We prefer funds that invest across different sectors so that we don't get caught in a sector that ends up going nowhere. Likewise, we don't confine ourselves to particular vintages, our strategy is to stay consistently invested through every year. In short, we aim to avoid the situation where all our investments are AI start-ups established in 2023."

Chief executive officer, single family office, United Kingdom

"Private credit is undoubtedly the hottest part of the market. Many funds offer a private credit side deal alongside an equity investment in a company. It's certainly attractive because the general partner does the due diligence and fees tend to be lower. However, the underlying companies can be highly leveraged and at risk of failure in a high-interest-rate environment."

Chief investment officer, single family office, United Kingdom

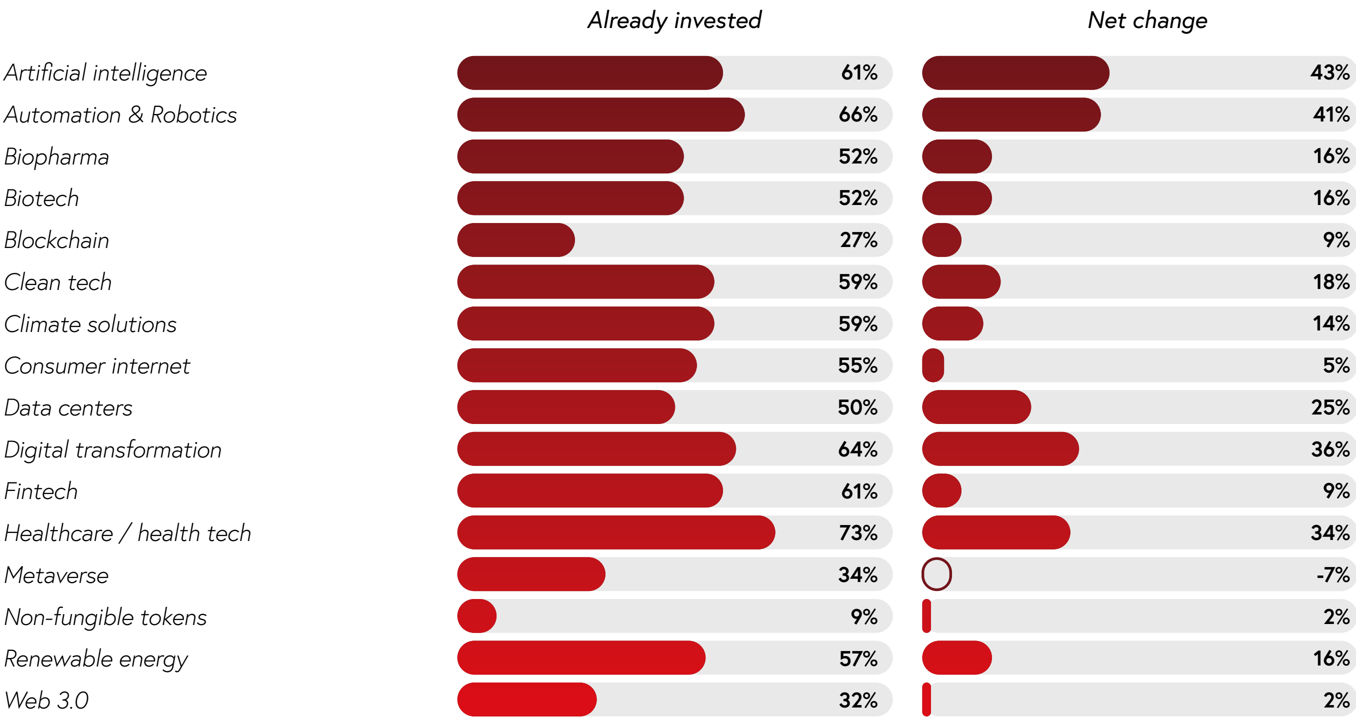
> *"Almost every family office out there exists as a result of a successful entrepreneurial journey so it is no surprise that they like to invest in (and back) other entrepreneurs. We see clients doing this directly in sectors / geographies they know particularly well, or indirectly via private equity funds to benefit from diversification."*
>
> Purvi Amin, Managing Director, Head of UHNW Solutions Group, UK

Through their direct private equity portfolios, family offices can engage directly with exciting emerging businesses that harness cutting-edge technologies. Additionally, private equity funds offer family offices exposure to a very comprehensive range of these technologies as indicated in **Fig 2.24**.

The most popular technology sector is healthcare where 73 percent of family offices investing in private equity have some involvement. Other popular sectors include automation (66 percent), AI (61 percent), digital transformation (64 percent), and fintech (61 percent). The second column in **Fig 2.24** indicates that future investment is going to be skewed towards the first three technologies in this list plus healthcare.

The percentage of family offices with exposure to blockchain (27 percent) and blockchain innovations such as Web 3.0 (32 percent), and the Metaverse (34 percent), is quite modest and family offices do not appear keen to increase their involvement.

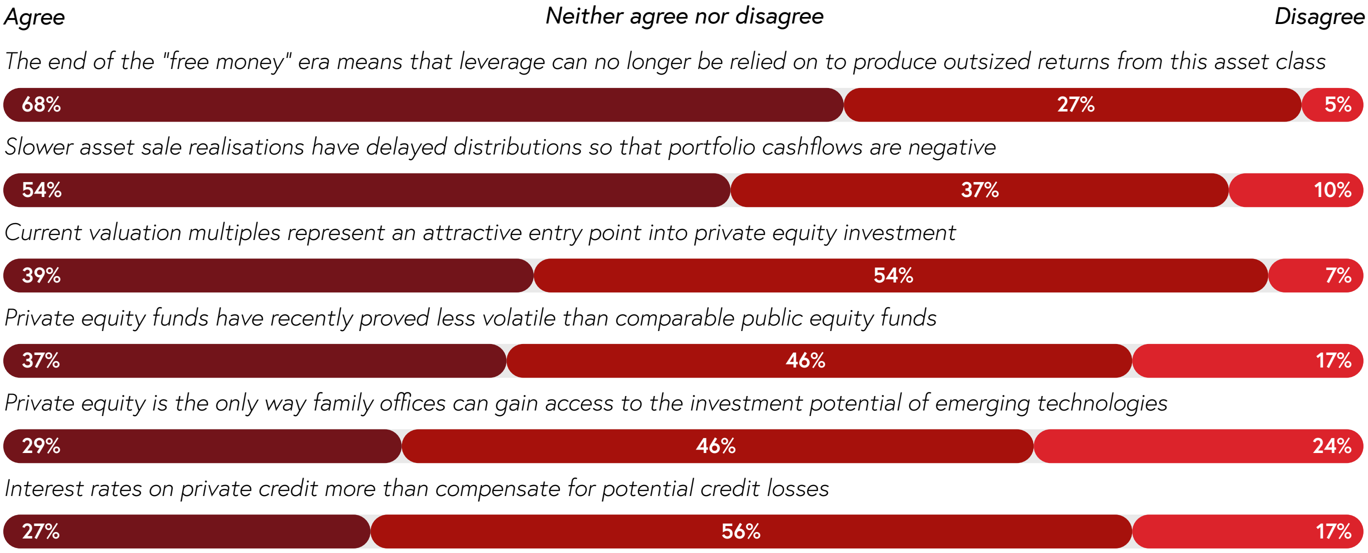
Figure 2.24: *Percentage of private equity owning family offices already invested in new technology and percentage intending to increase, less percentage planning to decrease, exposure*



Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Although family offices believe that private equity offers the best risk-adjusted return, their attitude towards the asset class has cooled somewhat. 68 percent agree (**Fig 2.25**) that the impact of higher rates will reduce the capacity to enhance returns through leverage, and delayed exits are causing a cashflow headache for 54 percent of investors. More contentious is the belief that the interest rates on private credit are adequate compensation for the risk of borrower default which is supported by 27 percent of family offices but opposed by 17 percent. Likewise, the 29 percent of family offices who agree that private equity is the only way to access emerging technologies is balanced by the 24 percent who disagree. The latter are probably considering the weighting of technology companies within US public markets.

Figure 2.25: *Extent to which family offices agree or disagree with statement*



Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

"If you are a limited partner in a fund with 30 or 40 investments run by one of the giant private equity houses then you naturally have exposure to companies who are working on AI or robotics and probably benefitting from the development of these technologies. We also get exposure through our public equities."

Chief executive officer, single family office, United Kingdom

"The family had direct private equity exposure in the past and they did quite well from it. But now there's a problem because the principal is of a certain age, and private equity is a long-term investment. He won't be investing again to avoid creating a problem for the next generation. The other factor is that private equity is extraordinarily time-consuming. In the past private equity was 20 percent of the family's portfolio, but took up virtually 100 percent of their meetings with investment managers."

Managing partner, virtual family office, Switzerland

"The way it worked was that exits from the first fund would cover our commitment to the manager's next fund. But the exits are not coming through so allocation is rising by default. We don't mind the general partners holding good companies for longer if it avoids selling at the wrong price, but it puts a strain on funding our future commitments."

Managing partner, multi-family office, Germany

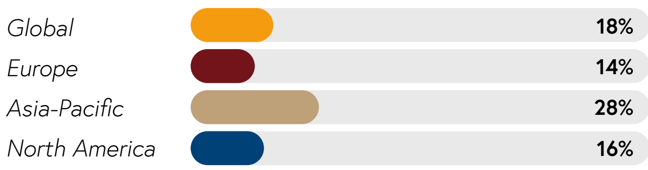
"While we continue to see interest in the wider tech sector, there is a much greater focus on profitability and we note a strong preference for more established businesses which are profitable or have a clear short-term path to profitability."

Purvi Amin, Managing Director, Head of UHNW Solutions Group, UK

Cryptocurrency

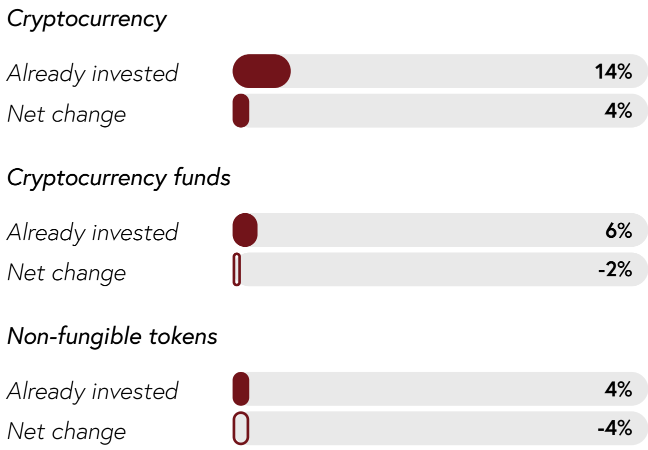
From a low point at the end of 2022 the market value of cryptocurrencies has almost tripled to more than US $2.0 trillion[5]. Despite other investors reassessing the prospects for this asset class, family offices are uncommitted. Cryptocurrencies account for no more than one percent of the AUM of the average European family office (**Fig 2.12**). Our survey indicates only 14 percent of family offices invest in cryptocurrencies, which is around half the level of two years ago (**Fig 2.27**),and the lowest percentage on a regional basis.

Figure 2.26: *Percentage of family offices with exposure to cryptocurrencies*



Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Figure 2.27: *Percentage of family offices already invested in cryptocurrency and percentage intending to increase, less percentage planning to decrease, exposure*



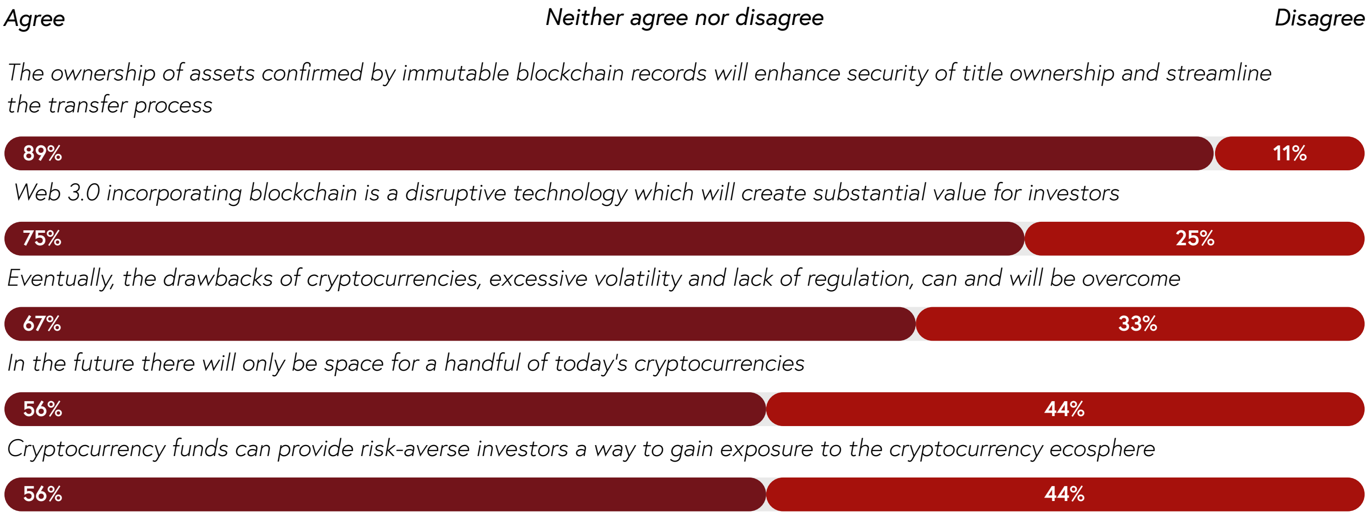
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

[5] https://www.coingecko.com/en/global-charts#:~:text=The%20global%20cryptocurrency%20market%20cap,a%20Bitcoin%20dominance%20of%2053.69%25.

Although enthusiasm for cryptocurrencies appears muted, this could change in the future. **Fig 2.28** reveals that 67 percent believe that the drawbacks of the asset class, excessive volatility and lack of regulation, will eventually be corrected.

Their views on blockchain, tokenisation and Web 3.0 are also more positive than might be inferred from **Fig 2.24,** but these come exclusively from crypto-investing family offices.

Figure 2.28: *Extent to which family offices agree or disagree with statement*



Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

"There's simply too many of them and too much volatility for cryptocurrencies to be viewed as serious currencies or non-speculative investments."

Chief executive officer, single family office, Spain

"Blockchain technology has to be differentiated from cryptocurrencies. Blockchain is incredibly useful technology which could be turned to any application requiring an immutable record to be kept. Apart from a handful of the largest coins, the purpose and usefulness of cryptocurrencies has yet to be determined."

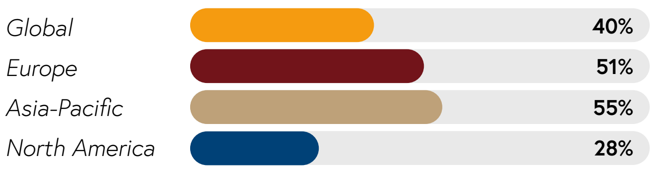
Chairman, single family office, Belgium

2.5 *Responsible investing*

Repairing the world

Among survey respondents, 51 percent are engaged in responsible investing, which is significantly higher than the global average (**Fig 2.29**).

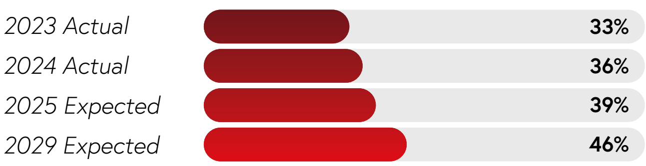
Figure 2.29: *Percentage of family offices engaged in responsible investing*



Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

However, these family offices do not give 100 percent of their portfolios to responsible investing; the average allocation is 36 percent. However, this is expected to rise to reach 46 percent within five years.

Figure 2.30: *Responsible investments as percent AUM for families engaged in responsible investing*



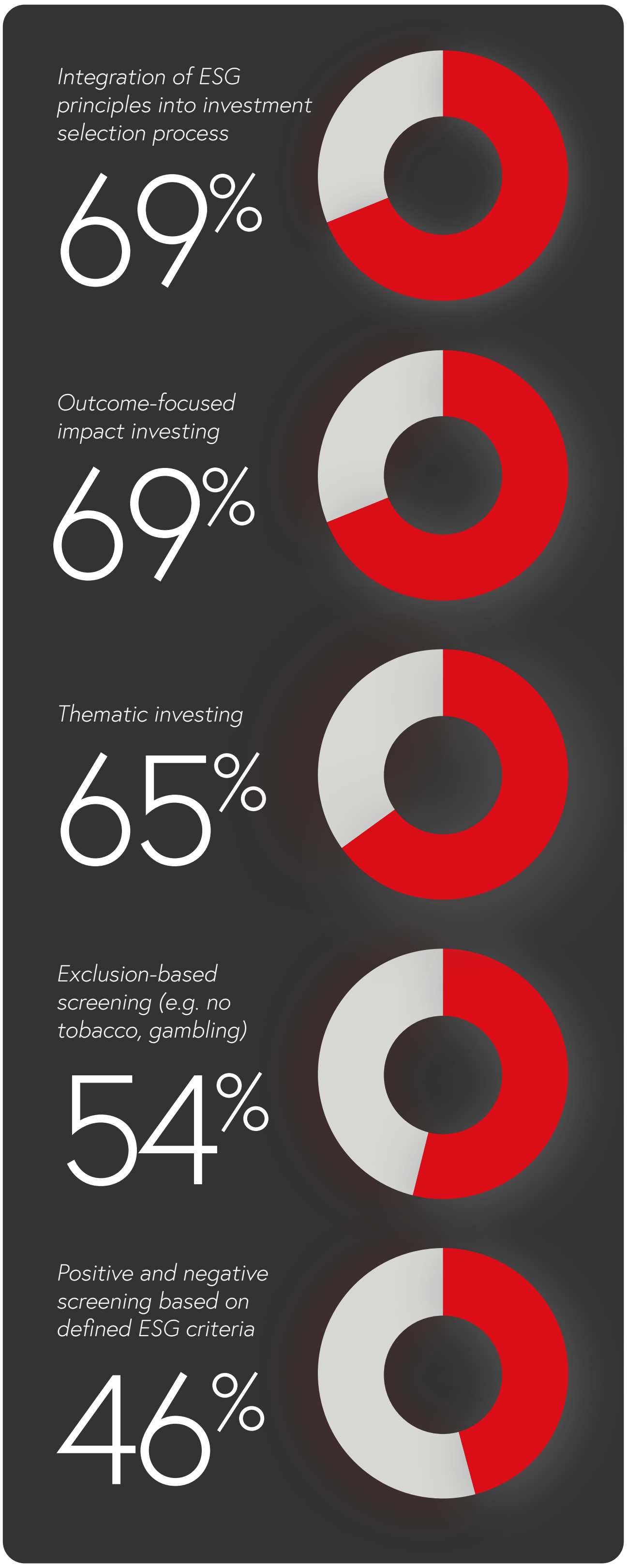
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Approaches to responsible investing vary from family office to family office. The principal methodological approaches are set out in **Fig 2.31**. The most commonly employed integrates ESG principles into the investment selection process (69 percent) with the primary motivation of mitigating financially material ESG risks.

Impact investing, which aims to produce direct positive social or environmental outcomes as well as financial returns, automatically falls into the responsible category, and is a viable option for 69 percent of family offices. The approach is to measure the impact a potential investment would have on society and/or the environment, determine whether the impact is positive or negative, and invest on the understanding that the positive elements will be enhanced and the negative elements neutralised. However, measurement of societal and environmental effects is often problematic, and it is not always possible to invest in businesses that contribute to the positive outcomes that families may want to achieve.

Thematic investing (65 percent) entails investing in themes aligned with the family's specific interest. Exclusion-based screening, which blocks investment in certain industries with dubious social or environmental benefit (e.g. gambling, fossil fuels) is a less nuanced approach than positive screening, where investments that meet desired ESG product or conduct-related criteria are positively selected.

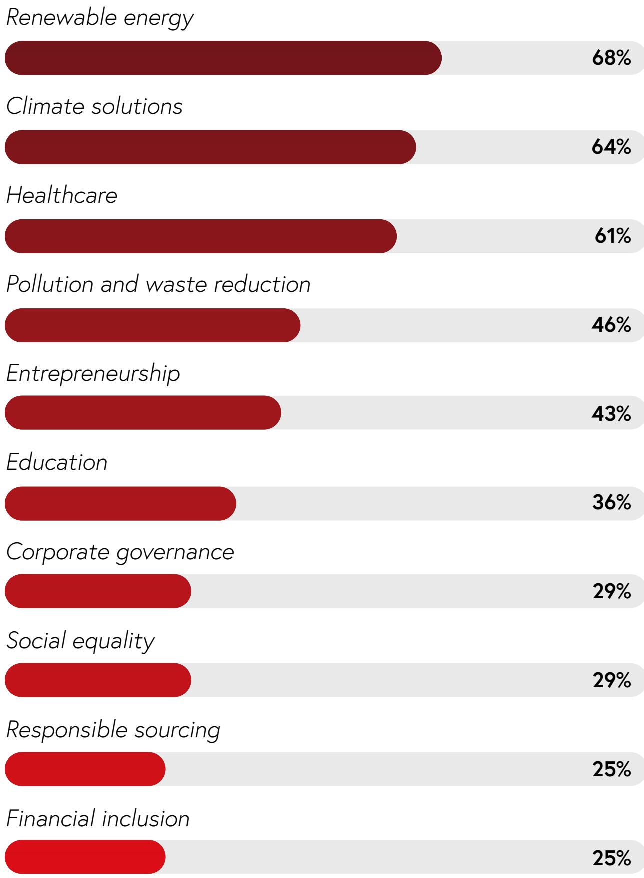
Figure 2.31: *ESG and other responsible investment methodologies used by family offices*



Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Each of these approaches requires some element of additional analysis and in many cases, due to the nature of the investment or limited data, a particular methodology may not be applicable. Therefore, family offices tend to adopt more than one, which is the case for almost 90 percent of survey participants.

Figure 2.32: *Responsible investment themes supported by family offices*



Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Popular themes supported by investors are renewable energy (68 percent), climate solutions (64 percent) and healthcare (61 percent). There's considerable overlap between these themes (**Fig 2.32**) and the causes that families support through philanthropy (**Fig 4.19**).

"Sustainable investing alongside philanthropy are two tools which enable family offices to effect positive social or environmental change. Families do have a genuine desire to see their wealth being used for these purposes, to change the world for the better."

Managing director, virtual family office, Luxembourg

"The standardised ESG data provided by investment managers and the vast range of ESG-compliant funds that are now available have galvanised responsible investing. It is now very much part of the mainstream."

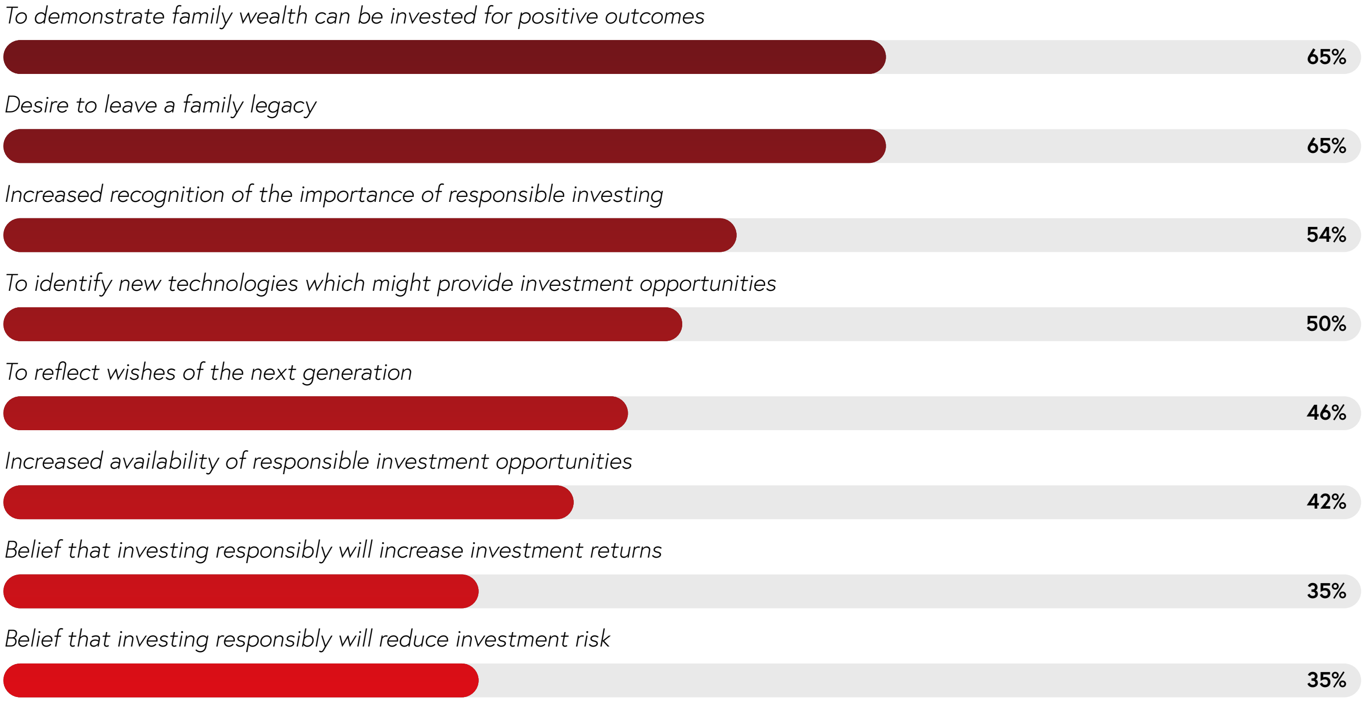
Chief executive officer, single family office, Spain

The motivations driving responsible investing are many and varied. Our survey reveals that 65 percent of European family offices are driven by a desire to leave a family legacy and demonstrate family wealth can be invested for positive outcomes (**Fig 2.33**). This points to a genuine interest in the topic rather than engaging simply to reflect the wishes of the next generation (46 percent). The increased recognition given to sustainability in business, the media and popular culture is a factor for 54 percent of family offices.

"Sustainability transition presents both opportunities and risks to investors. The nuances in different sustainability approaches can create challenges for family offices to navigate this complex landscape. Despite this, family offices expect their sustainable portfolio allocation would continue to increase in the medium term."

Peggy Smith, Global Head of ESG Solutions,
HSBC Wealth & Personal Banking

Figure 2.33: *Motivation for investing responsibly*



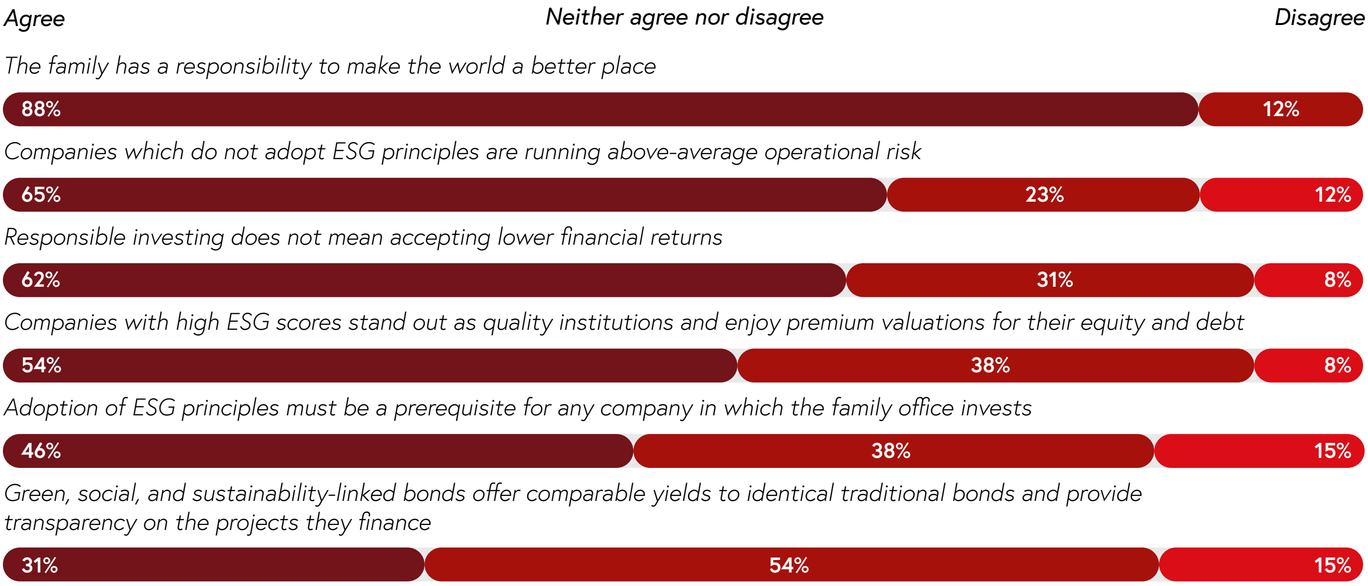
Note: Multiple answers permitted
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Interestingly, 35 percent of family offices believe investing sustainably will increase returns. This is further reinforced by our attitudinal study in which 62 percent agree that responsible investing does not mean accepting lower returns (**Fig 2.34**). There is some empirical evidence to support this view. According to investment industry data, sustainable funds outperformed their traditional peers in 2023 with a median return of 12.6 percent compared to traditional funds' 8.6 percent, a pattern repeated in four of the past five years[6].

Additionally, 35 percent of family offices believe responsible investing reduces investment risk because businesses which might cause issues through unsatisfactory environmental, social and governance practices are necessarily excluded from responsible portfolios. Selecting companies that have better ESG scores can help investors to build diversified and resilient portfolios.

Almost 90 percent of families which engage in responsible investing believe they have an obligation to make the world a better place (**Fig 2.34**) and 46 percent will not consider investment in a business which does not adhere to ESG principles. 65 percent believe that companies which do not adopt ESG principles are running above-average risk which ties in with their view that responsible investing reduces investment risk (**Fig 2.33**). Conversely, 54 percent take high ESG scores as the hallmark of a quality institution.

Figure 2.34: *Extent to which family offices agree or disagree with statement*



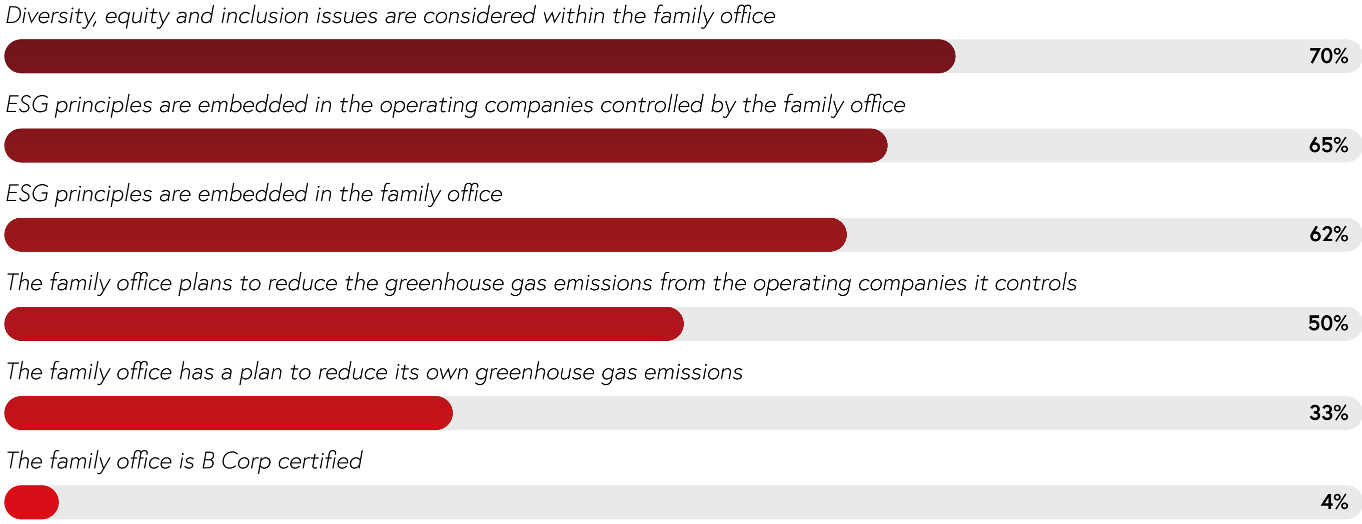
Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

6 Institute for Sustainable Investing analysis of Morningstar data as of Feb 2024

ESG

Family offices talk the talk, but do they walk the walk? Do they apply the same rigorous criteria to their own behaviour? We found that more than 60 percent have a diversity, equity and inclusion framework, and embedded ESG principles (**Fig 2.35**). Family offices are also engaged in embedding ESG principles and reducing greenhouse gas emissions from operating businesses where relevant. A small percentage of family offices are B Corp certified.

Figure 2.35: *Family office commitment to environmental and social issues*



Note: Multiple answers permitted
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

"The demands of the younger generation are different from their parents. They're much more savvy on using technical tools, such as automated investment reporting. They also identify strongly with ESG topics, taking responsibility for the environment."

Managing partner, multi-family office, Germany

"It has become harder to find public companies which satisfy the families on ESG. They prefer private market investments because it's easier to influence management into adopting more rigorous ESG criteria."

Managing partner, multi-family office, Germany

Risk assessment

Our interviewee sits on the board of two family offices based in Luxembourg. She advises families on investment risk, sources private equity investments and oversees negotiations with bankers. She is also an enthusiastic advocate of the steps Luxembourg has taken to build a global asset management and fund distribution ecosystem, and the measures the country has taken to attract family offices.

How would you describe your non-exec roles?

"In Luxembourg, being a non-executive director is a demanding job. Non-execs generally have real responsibility, are expected to act with high ethical standards, and indeed they have their own association. I'm on the board of two family offices, and my specific function is to provide the families with investment advice and alert them to the risks associated with certain asset classes and investments. I give them my opinion, but it is always the family which makes the final decision."

"I'm not the investment director. I cannot do the due diligence that you would find in a large family office with a chief investment officer and chief financial officer. But I don't work alone. There are banks which take care of asset management and custody, and investment managers who advise the families. I'm in regular contact with all of them and I monitor the investment reports they provide. I also work with families to put in place a governance framework for their investment function."

It's interesting that you advise families on investment risk but you are not an active investment manager. How do you advise families to mitigate investment risk?

"The most important thing is diversification and avoiding risk concentrations. I talk to the families about geopolitical risks and the merits of new asset classes. For example, I'm still quite negative on cryptocurrencies, I'm not really convinced that they have an intrinsic value. That didn't stop one of my families from building a position, but it was probably smaller than it would have been otherwise. Likewise, the portfolio may hold listed shares in a company which is facing a problem or I suspect it will face a problem and I make sure the principal and the board are alerted to this risk."

"Most of the time I'm providing a general overview but there are instances where I get involved with the specifics. For example, I'm involved with the families' negotiations with their bankers and investment managers to make sure that they fully understand what's been agreed and its likely consequences. They also ask me to source potential direct private equity opportunities because I'm connected to several co-investment networks. They employ professional advisors to do the due diligence, but I read the documentation in the data room, speak to the management, and if the family likes the story they may go ahead and make an investment."

"The families I work with are not big enough to employ their own in-house analysts. But this matters less nowadays because there are now some automated digital solutions on the market. I recently discovered a product which benchmarks private companies against a database of relevant peers and industry transactions and can provide a very detailed valuation report in a fraction of the time it would take to do manually. I'm trying to convince the families to invest in digital tools like this because it would really help in the screening process. It will pay for itself because you don't need to employ a professional for a week just so they can understand the presentation deck. Also, my families collaborate with others in investment clubs where they swap ideas and undertake co-investments. Normally one lead investor does all the due diligence on behalf of the others, but if my family can understand the value of the investment they are making then that's only a positive."

Why do families find Luxembourg attractive?

"In 2007 the Government introduced the Societe de gestion de patrimoine familial or SPF. The only activity permitted an SPF is to hold financial instruments so it is a very suitable asset management vehicle for ultra and high net worth individuals looking to build their wealth."

"But it's not just about taxation. Luxembourg has a huge financial eco-system built around its position as a global leader in international fund distribution. I knew a family which came here from Singapore and launched a fund to invest in climate tech. They were able to raise money from other families and private investors in the United States, Asia and the Middle East, because the lawyers here do understand the requirements in all these different jurisdictions."

Our research shows that ESG and impact investing are more deeply embedded in Europe than elsewhere. Has that been your experience in Luxembourg?

"Yes, family offices are increasingly monitoring ESG criteria, and they are asking the investment managers why they continue to invest in companies which are not ESG compliant. They are most interested in climate change mitigation, also life sciences and healthcare. But impact investing to achieve social benefits is not seen as a priority. In part, this may be because many of the families that are behind the SPFs are not resident here. They are engaged in impact investing in the countries where they are resident rather than in Luxembourg."

3. Inside the office

3. Inside the office

Family offices participating in the survey varied very considerably in size. For the very smallest with less than US $100 million under management operating costs (excluding investment-related fees) are frequently less than US $1 million. Rather than focus on one simple average we take a more granular approach, looking at the financial characteristics of three classes of family offices, those with less than US $500 million of assets under management, those with more than US $1 billion, and those in between.

For family offices with less than US $0.5 billion of AUM, costs averaged US $2.6 million equivalent to 105 basis points (bps) of AUM, and US $4.2 million and 54bps of AUM respectively for family offices with AUM between US $0.5 and US $1 billion. However, for family offices with more than US $1 billion under management, costs average US $10.1 million or just 36bps, demonstrating the economies of scale available to larger family offices. This difference in scale is reflected in remuneration strategies, the number of employees and the extent to which services are provided in-house rather than outsourced.

Most family offices operate a mixed strategy, keeping some functions in-house and outsourcing when they lack expertise, when the volume of work wouldn't justify a full-time hire, or when complexity necessitates the use of an experienced external specialist. Less than a handful of family offices in our survey do everything in-house or outsource 100 percent. Functions most likely to be outsourced are advisory such as estate and tax planning and legal services.

The average base salary of European family office chief executives is US $288,000, but our survey data reveals a huge divergence in salary levels. The disparity appears to be associated with their status, base salaries for family members are very significantly lower than for non-family members occupying the same position in other family offices. The same picture emerges when other C-level positions and bonuses are considered.

Professionalisation of family offices entails the recruitment of non-family professionals from financial organisations. Compensation needs to be competitive and although 80 percent of family offices reward employees with bonuses, these are now being supplemented with other forms of incentivisation, such as co-investment opportunities, profit shares and options on phantom equity.

$2.6m

Average operational costs of European family office with less than US $0.5 billion of AUM

105 bps

Cost / AUM efficiency ratio

$288K

Average base salary CEO of family office with less than US $500 million of AUM

3.1 *Cost footprint*

Operating efficiency

Operating costs of the family offices participating in the survey, (excluding investment-related fees paid to banks and third-party managers) average US $5.2 million, an increase of 18 percent on last year. However, this simple average is misleading, for the very smallest family offices costs are often less than US $1 million, whilst for their larger peers figures in excess of US $20 million are not uncommon. Rather than focus on one figure, we take a more granular look at the data, subdividing it into three segments as per **Fig 3.1**. For family offices with less than US $0.5 billion of AUM, costs average US $2.6 million, rising to US $4.2 million for those with between US $0.5 and 1 billion. For family offices with more than US $1 billion under management the average is US $10.1 million.

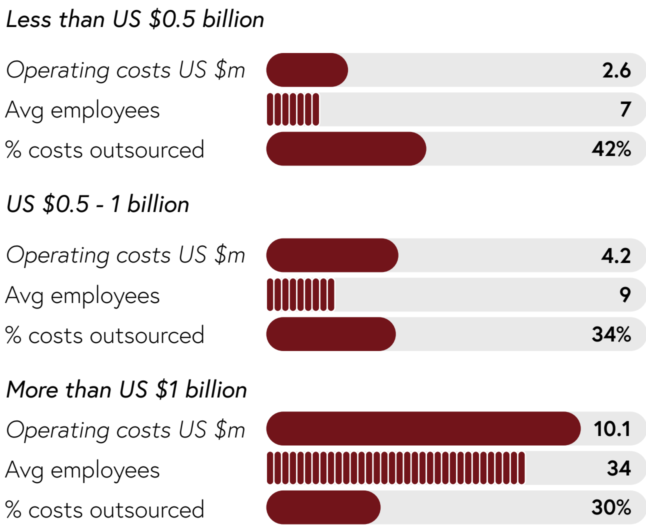
Figure 3.1: *Average family office operating costs by AUM band (US $million)*

	Average costs	Average AUM	Costs / AUM bps
Less than US $0.5 billion	$2.6	$249	105
US $0.5-1 billion	$4.2	$775	54
More than US $1 billion	$10.1	$2,778	36

Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Although these larger family offices have a much higher absolute level of costs, these costs are spread over a larger base of assets. Hence the ratio of costs to AUM is only 36bps compared to 105bps for the smallest family office group. In 2023 the average net investment return on AUM for European family offices was eight percent (**Fig 2.1**). Therefore, virtually all family offices would have been operating profitably. But this might not have been the case for small family offices in 2022 when the average investment return was very much lower at an estimated two percent of AUM or 200bps. Differences in scale highlighted here are reflected in the operations of the three family office categories, particularly as regards remuneration, the number of employees, and the extent to which services are outsourced rather than provided in-house (**Fig 3.2**). External vendors are likely to be employed to fulfil tasks where the volume/scope of work does not justify a full-time hire and this is more likely to be the case with a small family office than a large one.

Figure 3.2: *Key characteristics of family offices by size*

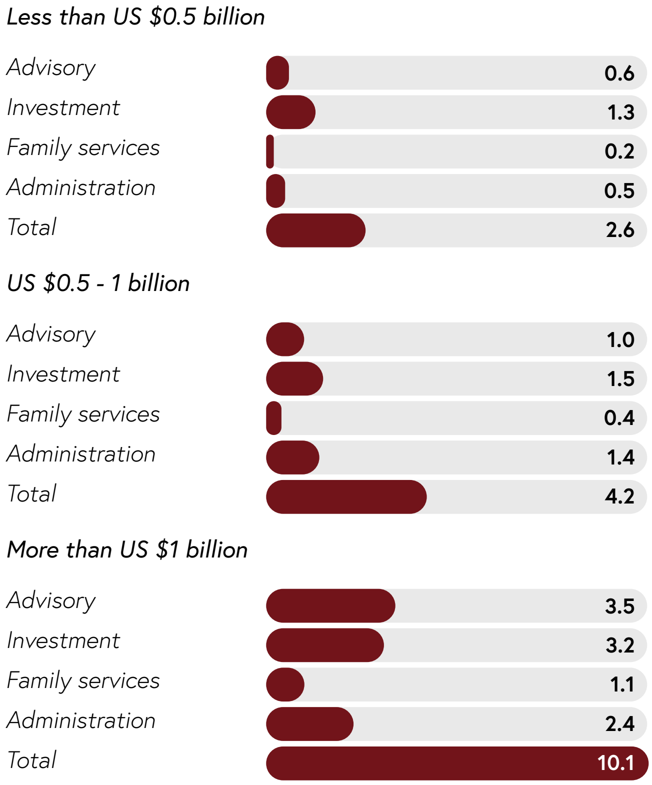


Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Cost categories

We asked survey respondents to break down costs into four basic categories: advisory, investment, family services and administration. Advisory includes estate, tax, and succession planning, while investment includes accounting, due diligence and risk management. The latter two categories are self-explanatory. **Fig 3.3** reveals that investment-related expenses are the predominant factor in the cost base of smaller family offices. This is perhaps not surprising because the effective management of financial assets is often the primary motivation for the establishment of a family office. From the table, we can infer that as family offices develop, then more cost investment goes into administration and family services, and advisory services become more important.

Figure 3.3: *Components of average family office operating costs US $ million by AUM band*

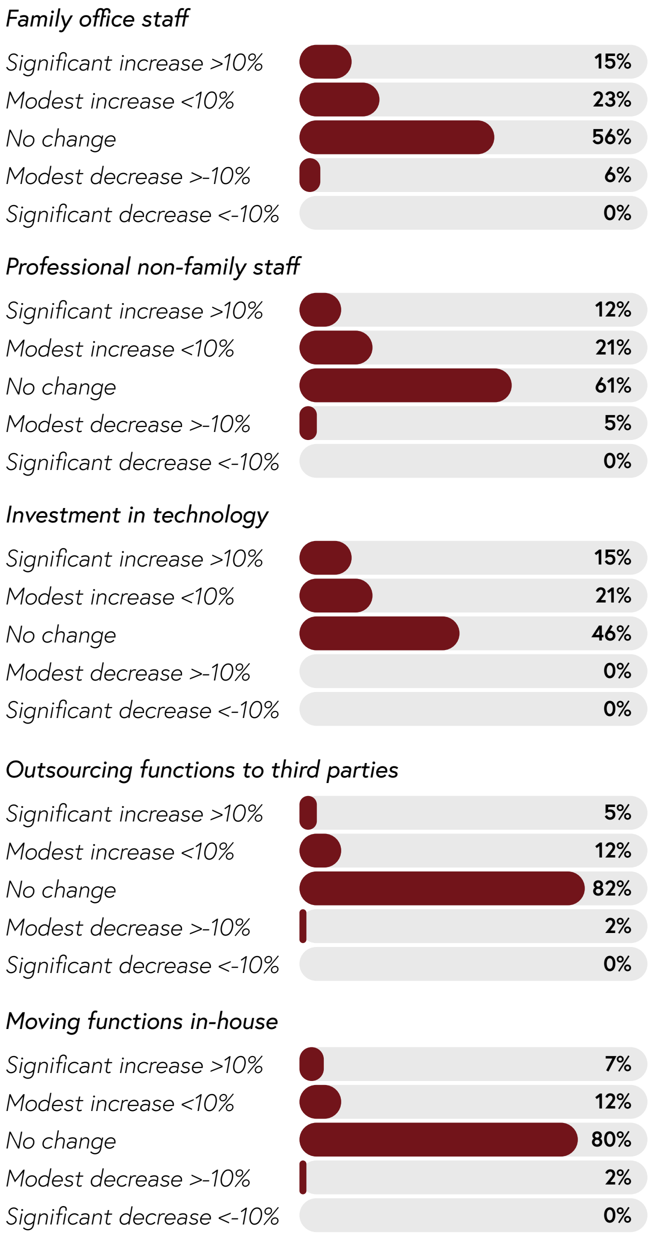


Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Advisory = Estate, Financial, Insurance, Legal, Tax, Succession Planning
Investment = Accounting, Asset Allocation, Due Diligence, Real Estate, Risk Management
Family services = Concierge, Next-gen Education, Oversight, Security, Travel
Administration = Human Resources, Information Technology, Premises

European family offices were expanding at pace during 2023. Almost 40 percent reported an increase in staff numbers relying on the recruitment of professional non-family staff. Over half stepped up their investment in technology (**Fig 3.4**). Both developments lie behind the hefty increase in operating costs witnessed last year, and since both professionalisation and technology investment are long-term trends, it seems inevitable that, in absolute terms, family office operating costs will rise again this year.

Figure 3.4: *Percentage of families reporting change during 2023*



Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

"If the family is wealthy enough with US $1 billion or more of assets then the running cost of the family office is probably somewhere between 25 and 50 basis points of assets. Most of them think that represents value for money."

Managing partner, multi-family office, Germany

"We have costs like performance fees and carry. They can be enormous, but these are good expenses. We want these expenses because it means we've made very good returns. The problem these days is that returns are not high enough."

Chief investment officer, single family office, United Kingdom

In-house v Outsource

Survey data (**Fig 3.4**) reveals almost 20 percent of respondents moved functions in-house and a slightly smaller percentage increased the volume of work they outsource to third parties. This fits with the observation that most family offices operate a mixed strategy, keeping some functions in-house and outsourcing when they lack expertise, when the volume of work wouldn't justify a full-time hire, or when complexity necessitates the use of an experienced external specialist. Less than a handful of family offices in our survey do everything in-house or outsource 100 percent. Functions most likely to be outsourced fall under the "Advisory" category (**Fig 3.5**). There are plenty of external firms offering these services. Administrative functions are most likely to be carried out in-house.

Outsourcing is particularly for small family offices, enabling them to extend the range of their services within financial constraints. But the overall level of satisfaction of family office employees and family members with their outsourcing function is relatively low (**Fig 5.2**), which may reflect the difficulty of selecting outsourcing partners with the appropriate skill set or effectiveness.

"My instinct is that there are more family offices around now. The reason is that there's more wealth around and also greater appreciation as to what a family office can provide versus a wealth manager, private bank or any other solution. For many wealthy families, these services are worth every bit of the additional cost."

Chief executive officer, single family office, Switzerland

"The people employed within a family office tend to be generalists. So if you have a very specialised legal or estate planning problem you have to look outside the family office to get the best advice. Outsourcing is essential. It's the combination of low costs and the ability to outsource which makes the option of a virtual office so attractive."

Managing director, virtual family office, Luxembourg

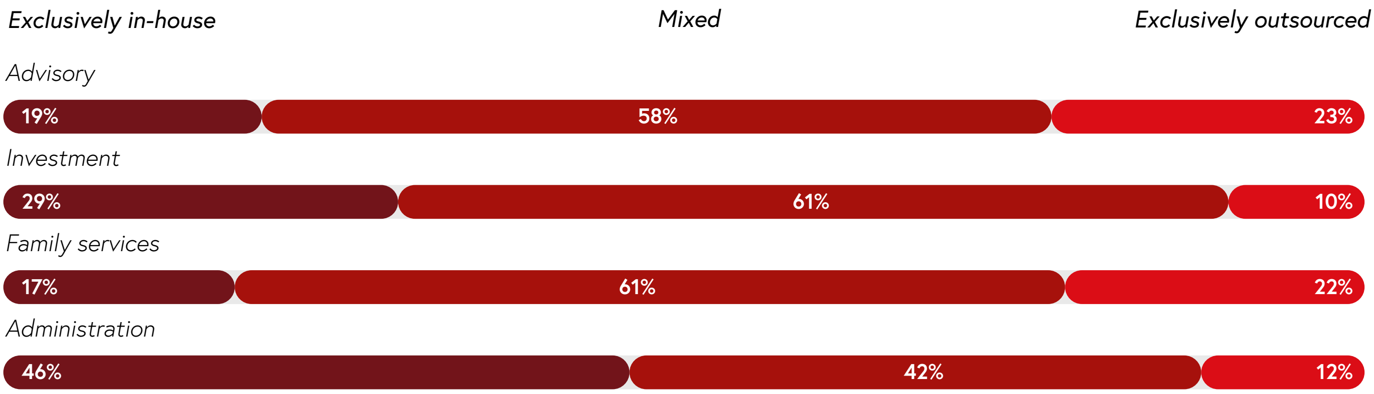
"I've talked to some multifamily offices with a view to outsourcing accounting and investment reporting functions. This is actually a very big step; you have to be entirely comfortable with your outsourcing partner. What happens if after five years your partner is taken over by another firm? All your data is on a system owned by someone else you don't know."

Chief executive officer, single family office, United Kingdom

"Many family offices begin with relatively simple infrastructures, typically integrated within the principal's business operations. As they evolve, alongside the family's needs, they gradually expand their human resource capabilities with a mix of in-housing core functions and outsourcing the rest. This allows them to access top external expertise in critical areas while retaining a manageable cost base, giving them the time to find the right formula for operating efficiently and delivering good results for the family they serve."

Russell Prior, Regional Head of Family Governance,
Family Office Advisory & Philanthropy, EMEA,
HSBC Global Private Banking

Figure 3.5: *Percentage of family offices providing services exclusively in-house, exclusively outsourced and mixed*



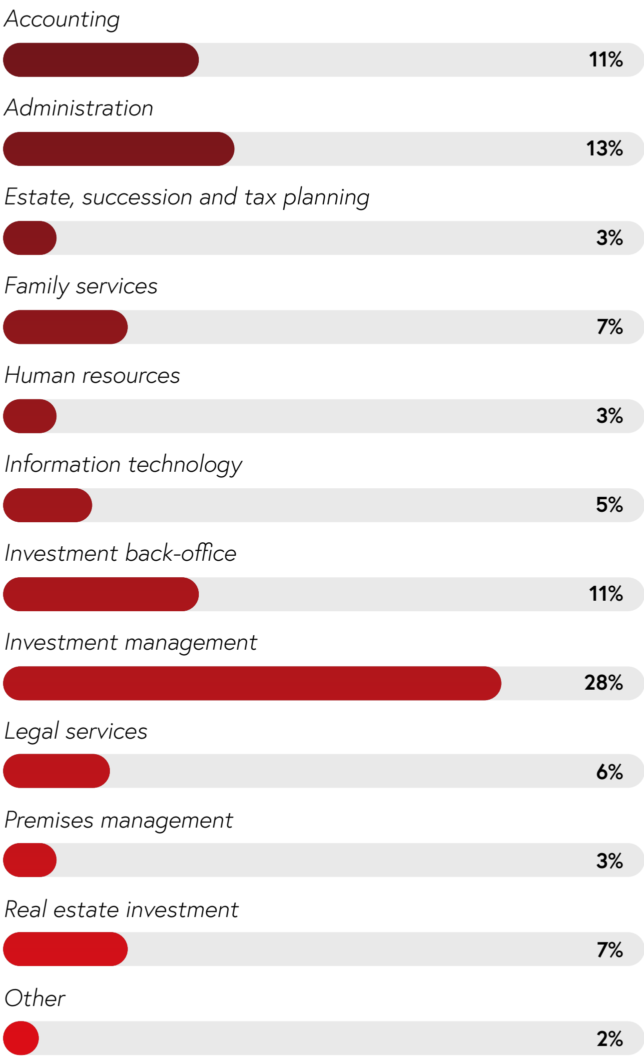
Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

3.3 Talent

Headcount

The staff complement of European family offices is generally in high single digits, but some of the largest family offices employ considerably more, pushing the average for those with more than US $1 billion of AUM up to 34 (**Fig 3.2**). Almost half of family office staff are involved in investment management. Behind that comes administration and accounting. Family offices employ personnel in many other functions but none is individually significant.

Figure 3.6: *Functions of family office staff*



Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Compensation

The average base salary of European family office chief executives is US $288,000, but there is huge divergence of salary levels with the top decile earning above US $500,000 and the bottom decile below US $120,000. This wide disparity is also evident in the compensation of other C-suite executives (**Fig 3.7**).

Figure 3.7: *Average base salaries of C-suite executives (US $'000)*

	Top 10%	Bottom 10%	Average
Chief Executive	$500	$120	$288
Chief Investment Officer	$410	$130	$241
Chief Operating Officer	$230	$0	$107
Chief Financial Officer	$259	$32	$155
Investment Manager	$285	$79	$170
Accountant	$130	$38	$78

Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Part of the explanation lies with size of the family office, but the status of family office executives is also important. We found that over 60 percent of CEOs in our sample are family members, also 25 percent of CIOs and COOs. Base salaries for these family members are very significantly lower than for non-family members occupying the identical position in other family offices (**Fig 3.8**). The same picture emerges when bonuses are considered.

Figure 3.8: *Average base salary and percentage bonus of chief executive (US $'000)*

	Base salary		*Bonus*	
	Family member	*Non family*	*Family member*	*Non family*
Less than US $0.5 billion	$281	$310	7%	50%
More than US $1 billion	$300	$370	13%	88%

Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

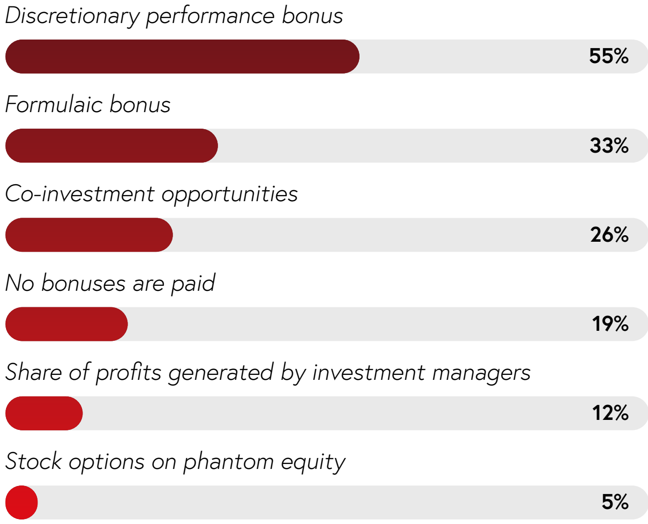
Family members occupying C-level positions are more common in smaller family offices. If three or four senior non-family executives are employed at US $0.3 - 0.4 million per head, excluding bonuses, then average costs would be considerably higher than US $2.6 million. The upshot is that smaller family offices must be staffed by family members at sub-market rates of compensation and/or several key management roles must be amalgamated. This points to professionalising a small family office being significantly more complex and costly than it might first appear.

Retention and recruitment

Professionalisation of family offices entails the recruitment of non-family professionals from financial organisations. This is a challenge because compensation needs to be competitive and in the commercial world, employees expect performance to be rewarded financially. Around 50 percent of family offices which reward employees with formulaic and discretionary bonuses are now supplementing this compensation with other forms of incentives (**Fig 3.9**). These include co-investment opportunities (26 percent), shares of investment management profits (12 percent) and options on phantom equity (5 percent).

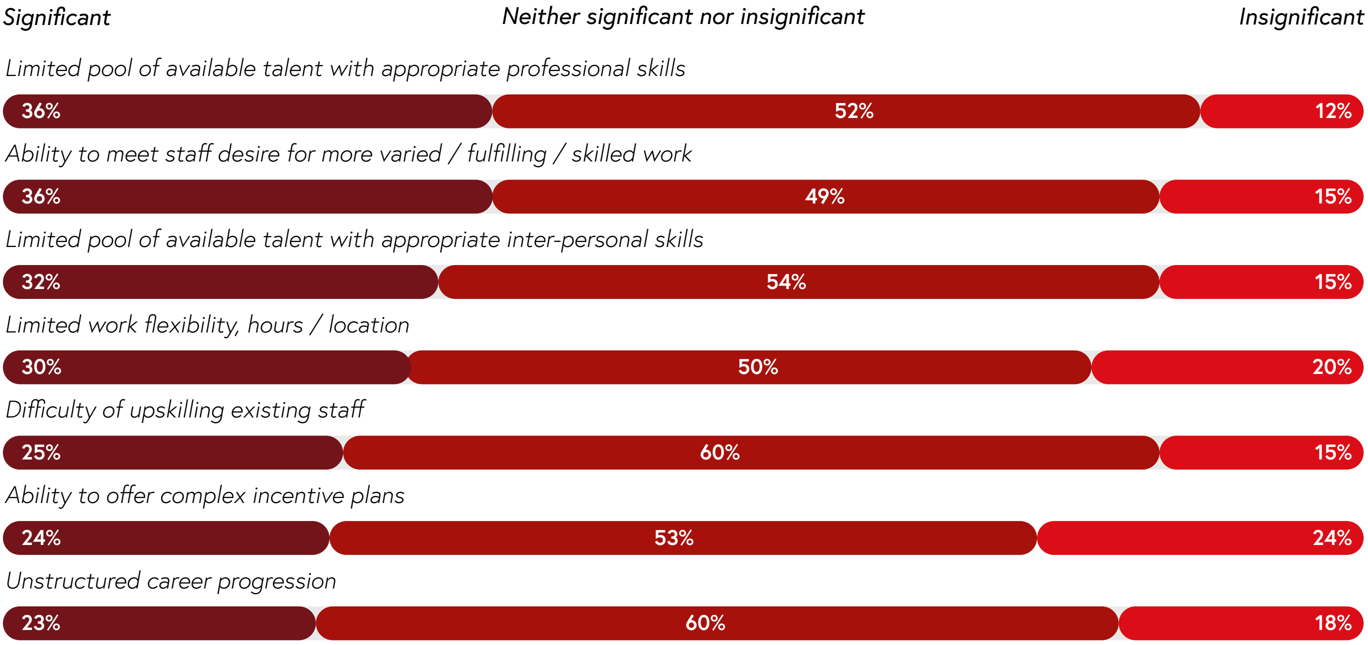
The adoption of new incentivisation schemes is explicable in terms of the difficulty of staff recruitment and retention, a common complaint of family offices. The limited pool of candidates with appropriate professional skills is cited by 36 percent of respondents while 32 percent highlight the limited number with appropriate interpersonal skills (**Fig 3.10**). The quality of work on offer is seen as a more significant factor in the ability of family offices to retain staff (36 percent) than their ability to offer complex incentive plans (24 percent).

Figure 3.9: *Percentage of family offices offering additional incentive*



Note: Multiple answers permitted
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Figure 3.10: *Significant issues in staff recruitment / retention*



Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

"I think that there's going to be a shortage of people to run family offices. The family members who were born in the 1960s and have been running the family office for 15 years or 20 years are retiring. Many next gens will want to do their own thing away from the family office and recruitment of staff will become progressively harder. Who is going to fill the gap? Family offices will be forced to bring in more professional staff from financial institutions and their culture will change."

Founder, single family office, United Kingdom

"With more family offices being established the demand for high quality staff is getting stronger and recruitment is getting harder. But I'm noticing the motivation of people applying to work in family offices is subtly changing. In the past family offices exerted a pull effect on candidates who are drawn to working in a small office environment. Today, large financial institutions which are overburdening their employees with compliance and regulatory overload are pushing them towards family offices."

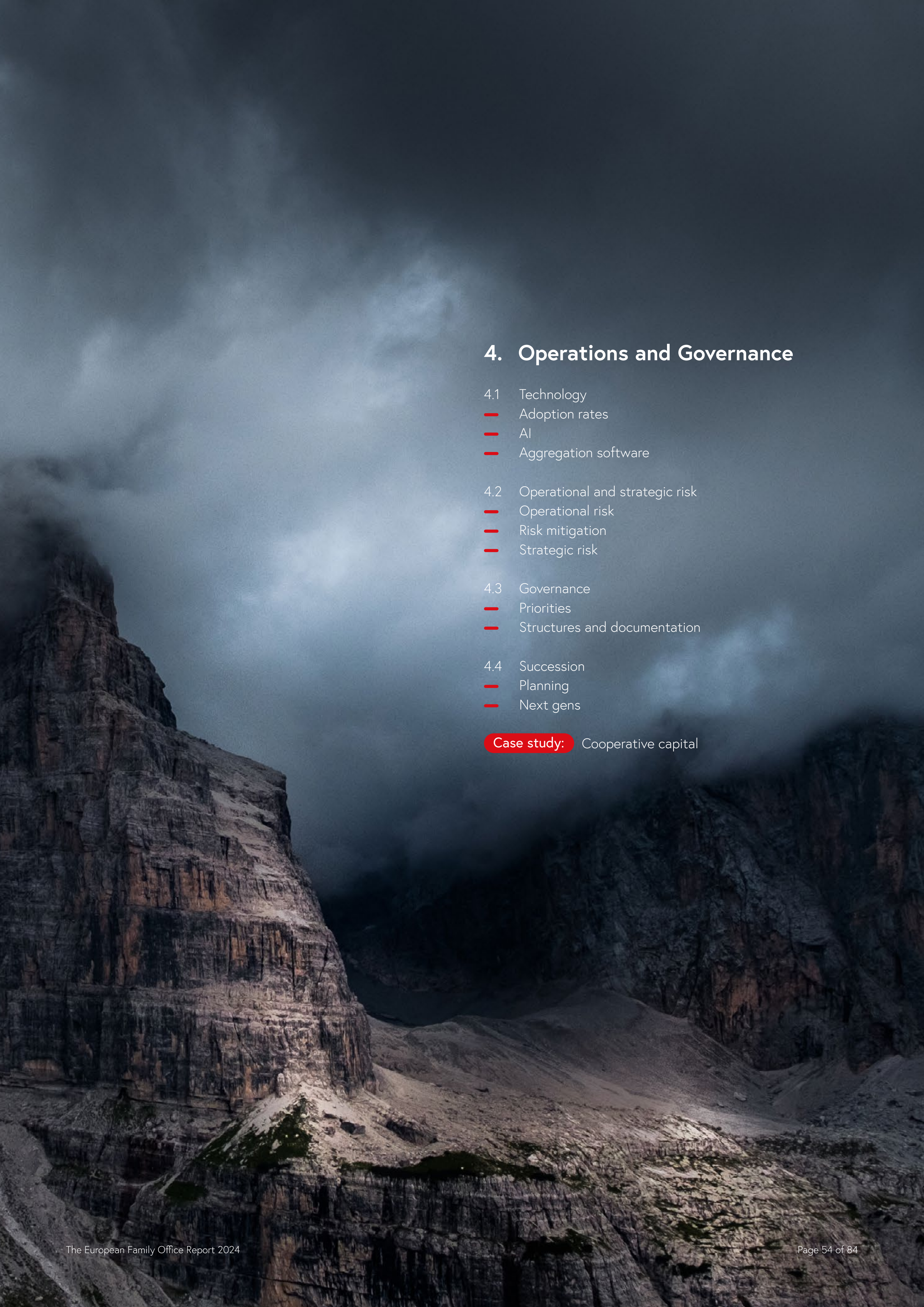
Chief executive officer, single family office, United Kingdom

"Hiring is a big challenge. We try to be efficient, and the office only employs seven. It's small enough that everyone has a big impact. I used to hire on the basis of the applicant's capabilities but I also have to work out who is going to be a good fit culturally. But I've come to appreciate that you can teach people to do most things and so attitude and temperament have become more important for me than qualifications and experience."

Chief executive officer, single family office, United Kingdom

"The family office will have to professionalise at some point and that implies changes to compensation and benefits. This sounds sensible in practice, but employees' and the family's interests must align. The employees mustn't be encouraged to run risks just to satisfy incentivisation payments."

Chief executive officer, single family office, United Kingdom



4. Operations and Governance

4. Operations and Governance

Technology is radically changing family office operations, automating repetitive tasks and streamlining workflow. However, some other well-established technological products such as budgeting and reporting software, customisable accounting software and automated payroll are not utilised as extensively as might be expected. Wealth aggregation platforms are emerging as the next big thing in family office technology, with their adoption rate significantly higher than last year. Elements of AI are already in use on certain platforms, but family offices eagerly await the arrival of AI-enabled tools which will be proficient at reading, interpreting, and contextualising written documents.

31 percent of family offices are concerned about the risk of data breach or cyber-attack, but a comparable 28 percent are unconcerned. This is almost certainly not because they believe the risks have diminished but rather because they believe the controls and processes they have in place are sufficiently strong to prevent serious breaches. The spread between concerned and unconcerned family offices is much narrower than in prior years and points to increasing confidence in the countermeasures which they have put in place. Around two-thirds of family offices employ back-up servers as a defence against cyber-attacks and IT system failures and enforce a data security policy. But two-factor authentication of payees (55 percent) and dual authorisation of payments (52 percent) are far from being standard, which leaves a relatively high percentage of family offices unnecessarily exposed to cybercrime and wire fraud.

The main strategic risk facing family offices is perceived to come from the tax, regulation and compliance framework imposed by government. Behind that comes a failure to upgrade technology.

Family offices put their investment function at the top of their list of priorities and consequently, an investment committee is the most common governance structure found in European family offices. However, only around 40 percent have a family council, but then two-thirds of our survey participants are from first- and second-generation families where relatively small family sizes may limit the necessity of formal meetings. Despite its importance only 47 percent of family offices have a succession plan. But irrespective of the absence of succession plans, a generational wealth transfer is in prospect. One third of family offices anticipate the transition happening within the next ten years, driven by the surge in family office formation that took place in the decade after the millennium.

#1

Priority is investment management

39%

Use wealth aggregation platforms

33%

Anticipate transition to next generation control over next decade

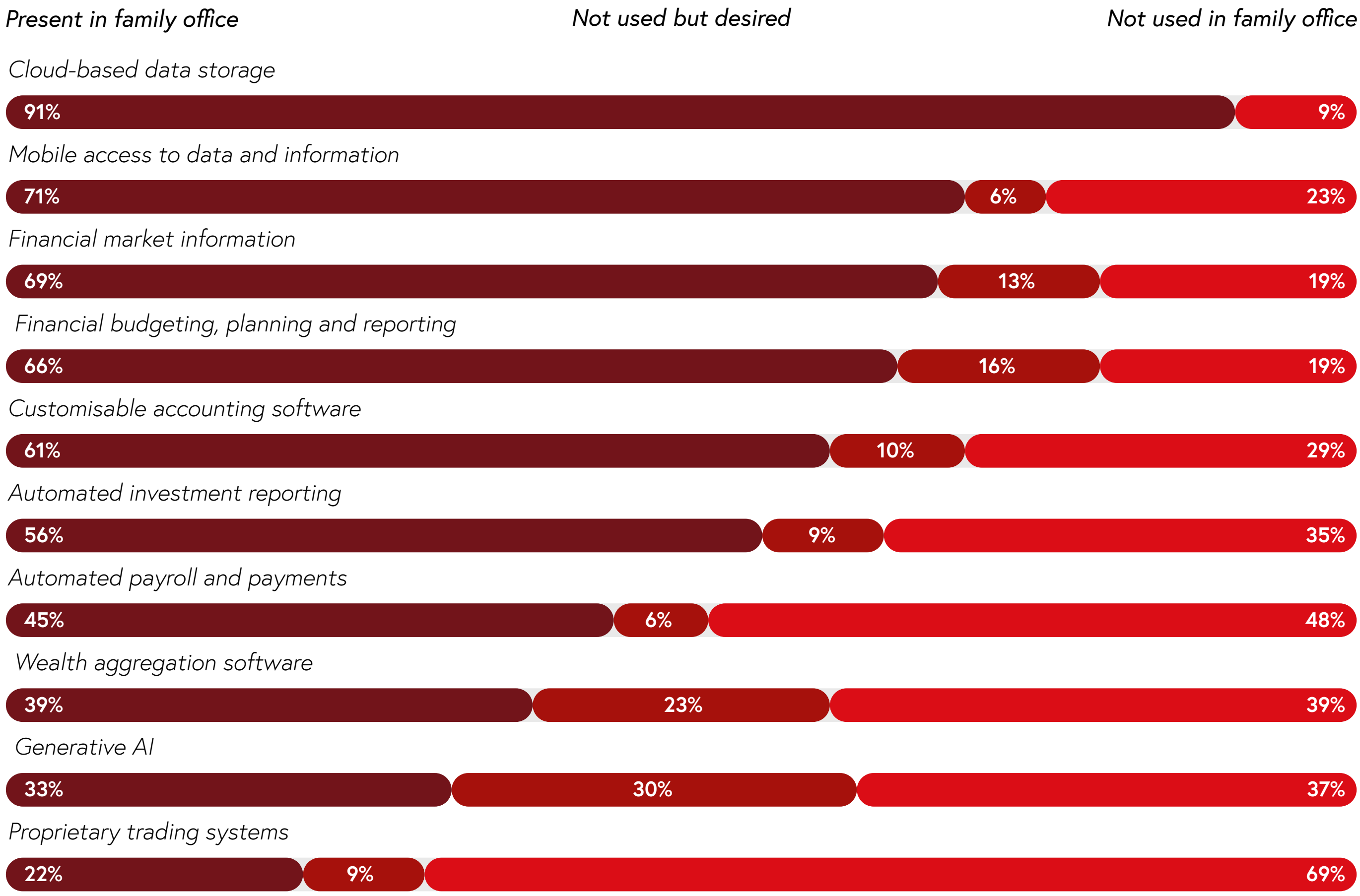
4.1 Technology

Adoption rates

Technology is radically changing family office operations. Repetitive tasks are being automated, workflow systematised and processes streamlined. New tools are emerging. Digital platforms are enabling estate plans, tax and legal documentation to be uploaded to the cloud, making manipulation and storage very much easier and often eliminating the need for time-intensive data entry. Improvements in software are enabling families to bring more of this work in-house, saving the expense of employing an external vendor. The advantage of these developments is that they improve productivity and eliminate the risk of human error. There may be unintended benefits such as the capture of additional data and improved time management. On the other hand, licenses for the use of new technology are not cheap, and the pace at which new systems are being rolled out means that it may be a sensible strategy for family offices to defer purchases on the basis that something better will come to the market within a short time.

> *"Wealth aggregation platforms are becoming indispensable for family offices, offering a unified view of assets across multiple institutions. By improving transparency and providing real-time insights, they support informed decision-making and streamline reporting. However, ensuring the accuracy and security of the data remains critical to protecting client wealth and privacy."*
> Mai Trinh, Head of HSBC Private Banking France

Figure 4.1: *Presence of technology platforms used in family offices*



Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

AI

One technology that 30 percent of family offices are keen to employ is AI. Elements are already in use on certain platforms, but more advanced AI-enabled tools will be proficient at reading, interpreting, and contextualising written documents. Data will be accessible to anyone with no programming or coding skills, simply through screen-based or voice commands. AI will be capable of producing accessible reports and formatting data as required, unlocking new insights. With appropriate software, any cognitive task involving human reasoning, decision-making and content generation can be augmented with AI.

"The growing interest in AI among family offices aligns with broader trends in financial services. It is creating huge opportunities through optimising investment strategies, personalising client services, and enhancing operational efficiency by automating tasks like reporting. Predictive analytics provide a competitive edge by identifying market opportunities and risks. However, integrating AI requires careful attention to data security and ethical considerations, as privacy remains paramount in this sector."

Mai Trinh, Head of HSBC Private Banking France

"The manual work reporting and record-keeping for private equity and alternative assets is the most tedious part of our investment work. Almost every day we receive a notification on capital account or general partner statement. All this data has to be recorded manually. But if there are new AI-enabled tools that can read these reports and do the updates remotely that would be a massive step forward."

Chief investment officer, single family office, United Kingdom

"The right technology, used correctly, should make the family office more efficient. It's always cheaper to bring on technology than to bring on a person. There are no employment taxes or benefits and you can probably do more with fewer people. Compensation is always the largest element of the cost base."

Founder, single family office, United Kingdom

Aggregation software

Wealth aggregation platforms provide a comprehensive overview of an organisation's financial landscape by consolidating data from multiple financial institutions. They are the latest addition to the family office armoury and their adoption rate of 39 percent is up from 32 percent last year.

This technology has the potential to significantly enhance the operational efficiency and financial oversight of family offices. But to be effective, wealth aggregation platforms have to accommodate all the intricacies of wealth ownership, taking account of legal structures like trusts and limited liability companies, and individual and group interests tied to these structures. Moreover, platforms must be versatile enough to handle the unique characteristics of diverse asset classes, ranging from the redemption cycle of debt securities to the capital call dynamics of private equity.

Participants value the ability of these systems to provide real-time information and act as a "single source of truth" within the family and their ability to provide real-time information is highly valued. But this technology comes with a cost, both in terms of time and money, and there is always a concern that - having acquired a system today - something better will arrive on the market tomorrow.

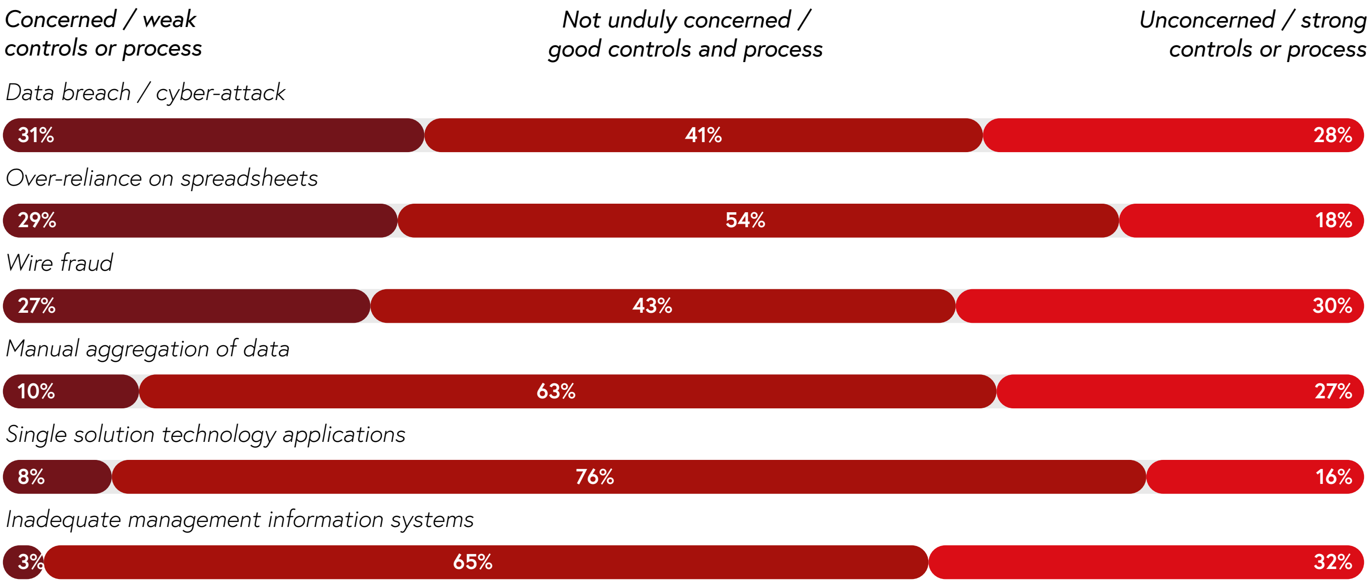
4.2 *Operational and strategic risks*

Operational risk

Operational risks can be defined as the uncertainties and hazards family offices face when conducting their normal activities. In this regard, family offices face some unique challenges regarding the privacy and security of family members and safeguarding the family's reputation. But topping their list of concerns (**Fig 4.2**) as it has for several years, is cybersecurity.

31 percent of family offices are concerned about the risk of a data breach or cyber-attack but a comparable 28 percent are unconcerned, almost certainly not because they believe the risks have diminished but rather because they believe the controls and processes they have in place are sufficient to prevent serious damage. The spread between concerned and unconcerned family offices is much narrower than in prior years and points to increasing confidence in the counter-measures which family offices have put in place.

Figure 4.2: *Percentage of family offices expressing concern over specified operational risk*

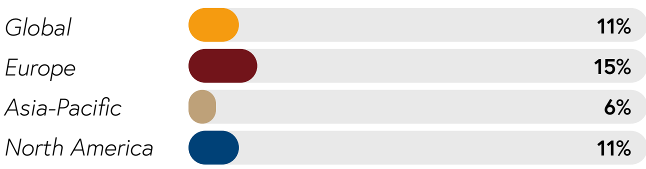


Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Behind cyber-attacks, 29 percent of family offices are concerned by their over-reliance on spreadsheets. Spreadsheets offer the advantage of flexibility, but they generally represent the intellectual capital of one specific individual which doesn't necessarily lend itself to producing streamlined processes. Additionally, there's the risk of human error and data loss through the resignation or retirement of staff members with specialist skills or knowledge.

It's also interesting to learn what is not giving family offices too much cause for concern. This would appear to include management information systems and the manual aggregation of data.

Figure 4.3: *Percentage of family offices experiencing a cyber-attack within past 24 months*

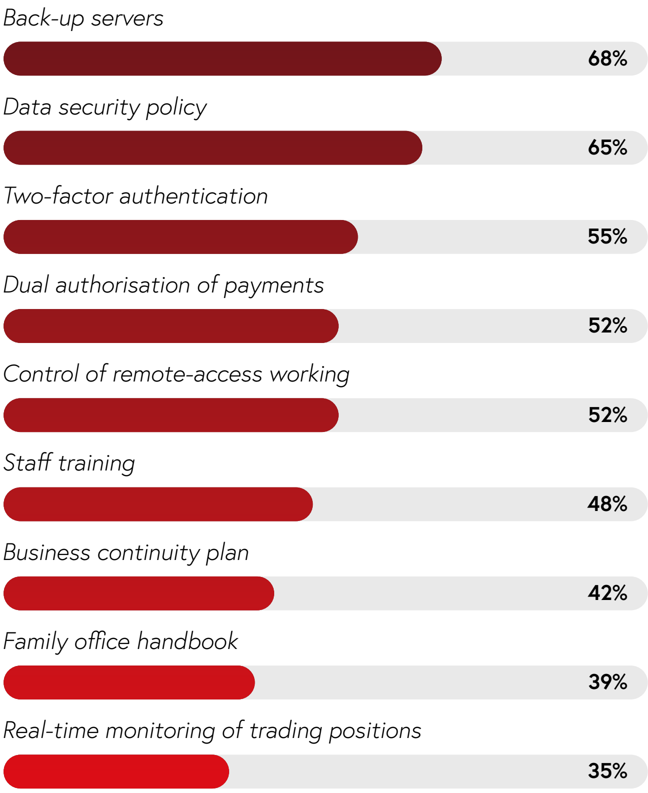


Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Risk mitigation

Having highlighted the most prominent operational risks, **Fig 4.4** lists the measures family offices adopt to counter them. Around two-thirds employ back-up servers as a defence against cyber-attacks and IT system failures, and enforce a data security policy. But two-factor authentication of payees (55 percent) and dual authorisation of payments (52 percent) are far from being standard, which leaves a relatively high percentage of family offices unnecessarily exposed to cybercrime and wire fraud. Interestingly, the adoption rate of these two important preventatives is much lower than in the United States (**Fig 4.5**).

Figure 4.4: *Percentage of family offices with identified measure to reduce operational risk*



Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

"Cybersecurity remains a primary concern for many family offices. The increase in cyber-attacks has prompted many to turn to new, technological solutions to reduce risk and improve general security."

Robert Kalff, Head of Family Office Coverage, HSBC Global Private Banking

Of course, having these and other counter-measures in place do not of themselves make the family office secure. Risks need to be constantly monitored, and counter-measures updated regularly because in a complex world, new operational risks are emerging all the time.

Figure 4.5: *Percentage of family offices employing dual authorisation of payments*

Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

"I might click inadvertently on a bogus email which could be a fake bank email, DocuSign, or password reset. This is really a daily occurrence. Some of them are amazingly close to the real thing so I tend to delete anything I'm the least bit uncertain about."

Chief executive officer, single family office, Spain

"Our latest piece of kit is a communication platform. This enables me to send encrypted messages, which are much more secure than conventional emails, from the family office to family members directly. We use the platform to make distributions and we can be 99 percent certain that it's going to the correct family member. Likewise, if someone purporting to be a family member asks us for a distribution but is not using the platform then we know instantaneously he's not a family member."

Chief executive officer, single family office, United Kingdom

"We would like to automate as much as we can. To do this we need software that understands the different types of investments. Do they have coupons or dividends, or capital gains, and the taxation element is crucial. Also, the treatment varies significantly across countries. Finding the appropriate software is very difficult and it may not even exist. At the moment expected cashflows, budgeting and optimisation of liquidity are done manually on spreadsheets. The technology will improve radically with AI and we will then have to decide whether it's worth the investment".

Chairman, single family office, Belgium

"There is dual authorisation on every payment we make, and we verbally confirm every instruction with a phone call to the family member to whom we are sending remittances. I have family members who are concerned about AI mimicking their voices. For them, any messages are passed through a separate, secure communication platform."

Chief investment officer, single family office, United Kingdom

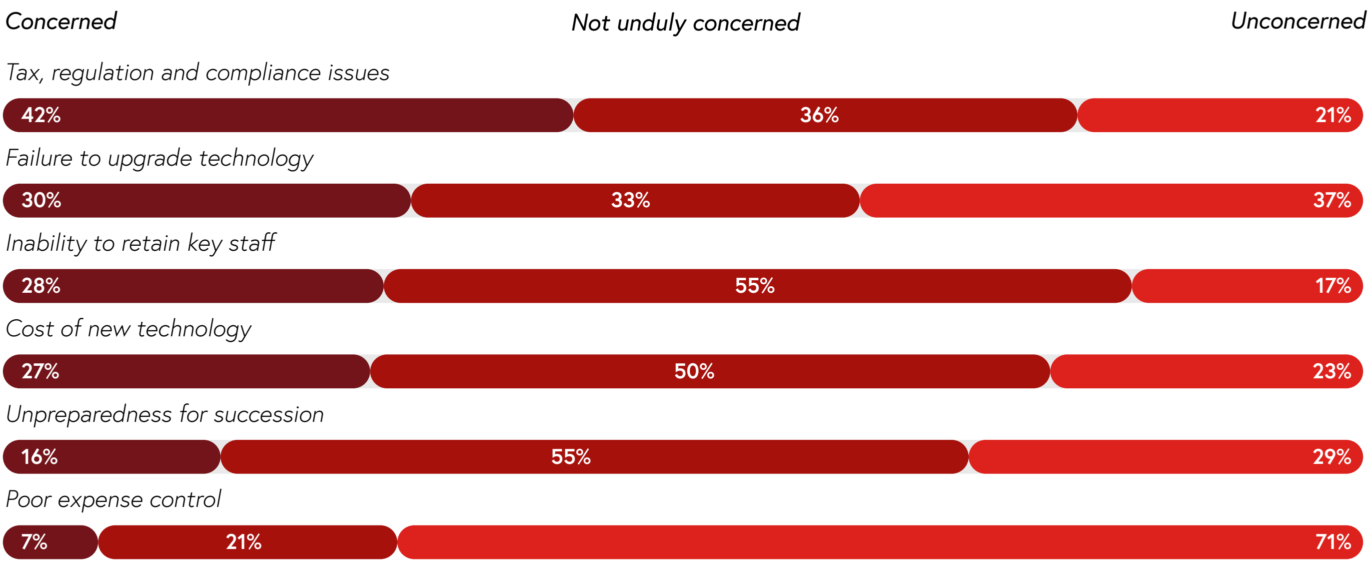
Strategic risk

The main strategic risk facing family offices (**Fig 4.6**) is perceived to come from the tax, regulation and compliance framework imposed by government (42 percent).

A failure to upgrade technology is seen as a concern by 30 percent of respondents, but the majority (37 percent) don't see this as a serious issue. Presumably, they are prepared to continue to work with older, less sophisticated technology even if it's sub-optimal. Likewise, family offices are fairly evenly split on whether the cost of new technology is a concern. In any event, it is encouraging to see that unpreparedness for succession and poor cost control are not seen as serious risks.

> *"Navigating the tax, regulation and compliance framework is no easy task and the fact that so many see it as the main strategic risk highlights the increasing complexity of the regulatory environment. Robust advisory and compliance strategies are necessary to mitigate risk and allow family offices to adapt to the ever-changing landscape."*
>
> Robert Kalff, Head of Family Office Coverage, HSBC Global Private Banking

Figure 4.6: *Percentage of family offices expressing concern over specified strategic risk*



Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

4.3 Governance

Priorities

Traditionally, the purpose of a family office has been the collaborative management and safeguarding of family wealth, both for the present and future generations. This fundamental purpose is reflected in the ranking of European family office priorities: managing investment risk and determining investment policy emerge in first and second place (**Fig 4.7**). But neither of these would be meaningful without communication with the family which is ranked third. Managing operational risk, protection of the family's reputation and establishing a family legacy rank mid-table, but education of next gens and giving family members a voice through a family council are not strong features.

Figure 4.7: *Ranking of family office governance priorities*

1st	Managing investment risk
2nd	Determine investment policy
3rd	Communication with family
4th	Care of ageing family members
5th	Managing operational risk
6th	Protect family reputation
7th	Establish family legacy
8th	Financial education of next generation
9th	Oversight of human capital
10th	Facilitate family council

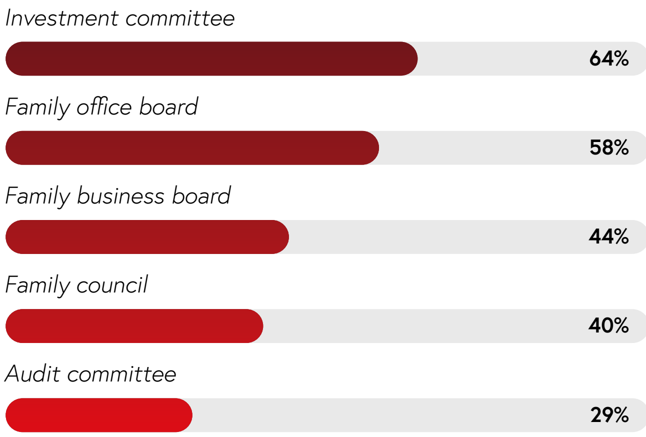
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Structures and documentation

Having established family office priorities, the next step is to identify the appropriate governance structures and documentation necessary to put them into effect. In this context, governance is the rules, values and principles formalising the family office's mode of operation and its relationship with the family.

Given that the investment function is at the top of the list of family office priorities it is not surprising that the most common governance structure, present in almost two-thirds of European family offices, is an investment committee (**Fig 4.8**). Its purpose is to onboard non-family investment professionals as non-executive directors and advisors.

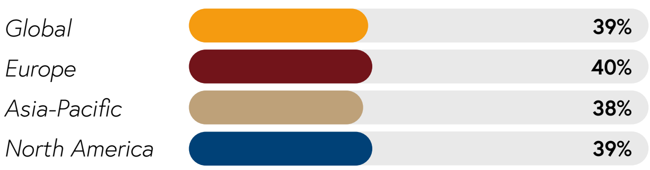
Figure 4.8: *Governance structures commonly found in family office*



Note: Multiple answers permitted
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

58 percent of family offices in our survey have a family office board. This seems on the low side but it may be the case that a formal board structure is only established when the family office is professionalised and not under the exclusive control of the family. Similarly, only 40 percent of family offices have a family council, but often family councils are only deemed necessary for large multi-generational families. It may be relevant that two-thirds of the family offices participating in our survey are first- and second-generation and their limited family size precludes the need for formal meetings. Although the incidence of governance structures appears on the low side, it is noteworthy that every participating family office had at least one formal structure.

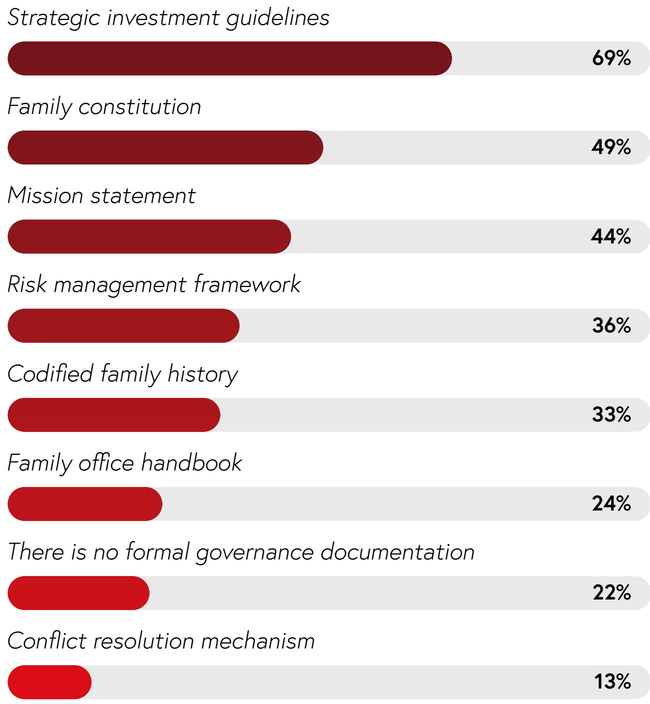
Figure 4.9: *Percentage of family offices supporting a family council*



Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Much of the documentation forming part of family office governance is there to regulate investment decisions by setting down strategic investment guidelines (69 percent) and the remainder is there to instil a sense of purpose and unity within the family (**Fig 4.10**). This includes family constitutions (49 percent), mission statements (44 percent), and family histories (33 percent). This documentation is important because initially, first-generation wealth creators can pass their values, sense of mission and history to their children, but as time passes future generations will have no first-hand experience of the founder and the sense of family cohesiveness may diminish. This also explains why this documentation is often absent from first-generation family offices. Among our survey participants, the percentage with a mission statement rises from 44 to 56 percent if first-generation families are excluded. Also noticeable is that families with no governance documentation are exclusively first- and second-generation.

Figure 4.10: *Documentation commonly forming part of family office governance*



Note: Multiple answers permitted
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

"There are a lot of advisors and a lot of advice out there. Everyone has a different idea about what is the best form of governance for wealthy families. But the family is pragmatic. Of course, there are life cycle events, children get older, get married, get divorced and things like that but most of the time there's not that much to do. The years tick by without the family having to think about it, although they do recognise its importance."

Managing director, virtual family office, Luxembourg

"Our mission statement is always being referred to. Certainly, at every family council and when individual family members meet the family office. The family members get a reminder of why the family office exists and it creates connectivity."

Chief executive officer, single family office, Switzerland

"At one of my client families, the daughter is taking over the running of the family office from her father. But the father is still heavily involved in the running of the family business which he founded and has no intention of stepping back. I'm the head of the advisory board of the family office and to facilitate the transition I've concentrated on developing its governance structure so that if necessary it could take control of the family business. I've done this by putting good knowledgeable people on the advisory board. So if something happens to the father, the daughter has a network of trusted competent people to rely on."

Managing partner, multi-family office, Germany

"We are a first-generation family office; it's just me and my wife, so the governance is minimal but we're not overly concerned. The only decisions we have to make at the moment are who to appoint as advisers and when to bring our kids into the picture. Governance is something we have to work on but we have time."

Founder, single family office, United Kingdom

"There's an analytic side and an emotional side in my role as CEO. The analytic bit is asset allocation, tax planning, and legal stuff. The emotional side is engaging with family members, running the family council, and mentoring the next gens so that the family can continue to control the business and family office."

Chief executive officer, single family office, Spain

4.4 Succession

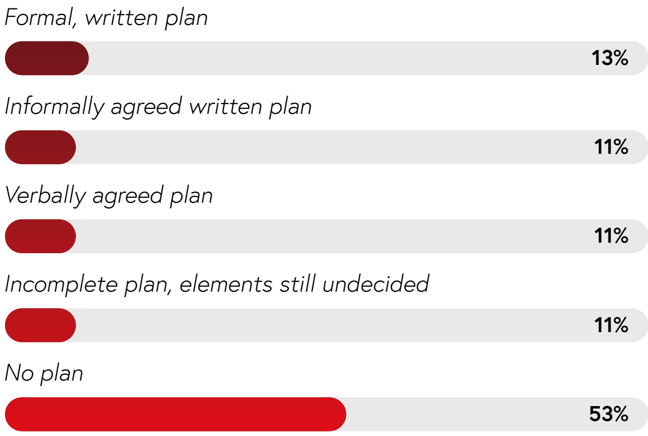
Planning

Figure 4.11: *Percentage of family offices with succession plan*

Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Succession planning is a critical element within governance. Planning is essential to ensure that capable individuals fill leadership positions, and the risk of business disruption is minimised. Planning also needs to take account of the personal development of future leaders to ensure that they are equipped for the task. Despite its importance only 47 percent of family offices have a succession plan and only 13 percent are formal written plans (**Fig 4.12**).

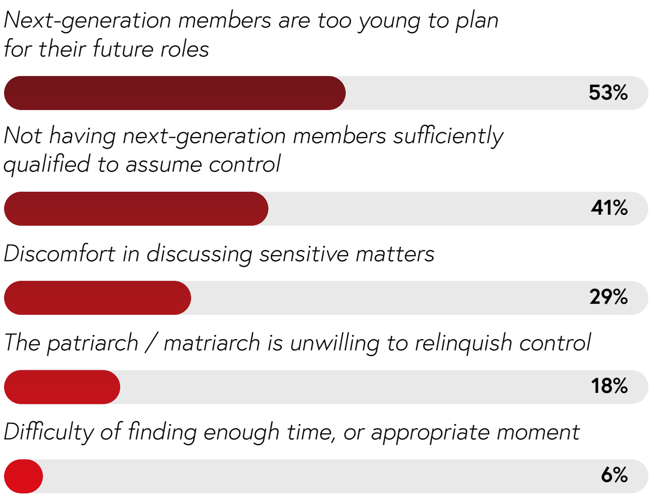
Figure 4.12: *Percentage of family offices with succession plan*



Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Given its importance, why don't more family offices have succession plans? It is certainly the case that when the current generation is healthy and engaged there is a temptation not to address the succession issue until a real crisis occurs. But a simpler explanation is that in many family offices the next generation is either insufficiently qualified (53 percent) or just too young (41 percent) for their post-succession roles to be considered (**Fig 4.13**). All the responses in this table come from family offices which do have a succession plan so the challenges set out in it can be viewed as surmountable obstacles rather than permanent blockages.

Figure 4.13: *Challenges to succession planning*



Note: Multiple answers permitted
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

As evidenced in **Fig 4.6**, most family offices don't see unpreparedness for succession as a major risk and they view themselves as well prepared (**Fig 4.14**). But they are concerned that the family itself is not prepared, and to an even greater extent that the rising generation is unprepared. Only 38 percent of family offices see their next gens as prepared for succession, which is the counterpart of the message from **Fig 4.13**.

"It's not as dramatic as the television series Succession*. That was great television, but not really realistic. However, among our next gens are seven cousins, the offspring of three siblings. All or some will go on to work in the family business or family office. I'm not sure how well they will be able to work together if there are effectively seven family members competing for the top job."*

Chief executive officer, single family office, United Kingdom

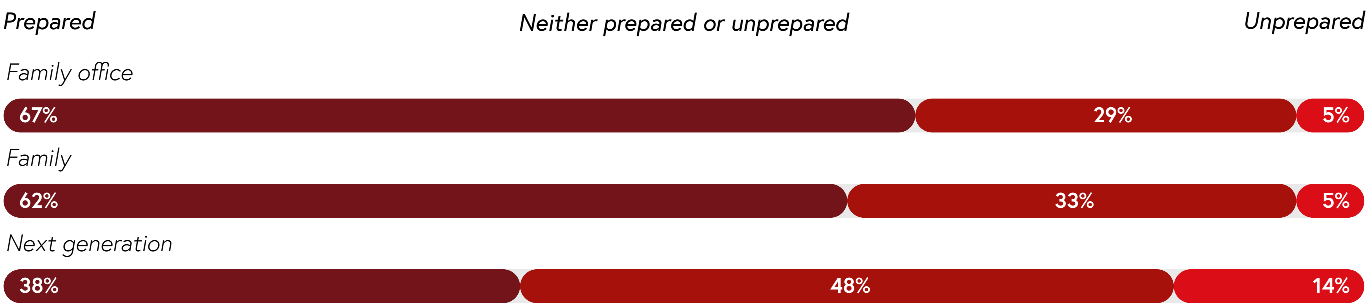
"There are two types of succession; an executive or management succession and a shareholder succession. The former is really much more important since it's essential to have the right leadership at the top of the family business or family office if the organisation is to survive through the generations. Having a strong professionalised leadership team and advisory board can really help the process."

Chief executive officer, single family office, Switzerland

"The importance of having a succession plan frequently arises in family office discussions, yet the number of those taking action remains low. Whilst this can be due to a mindset of "if it's not broken why fix it", it is often combined with a reluctance to deal with or confront the emotional complexity of such conversations. While aspects such as cultural considerations and the family office lifecycle typically influence these dynamics, we often find that the prompt to start the conversation is sparked by either an emotional or commercial trigger, such as someone's passing or a major liquidity event in the business."

Russell Prior, Regional Head of Family Governance,
Family Office Advisory & Philanthropy, EMEA,
HSBC Global Private Banking

Figure 4.14: *Family office view of preparedness for succession*



Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

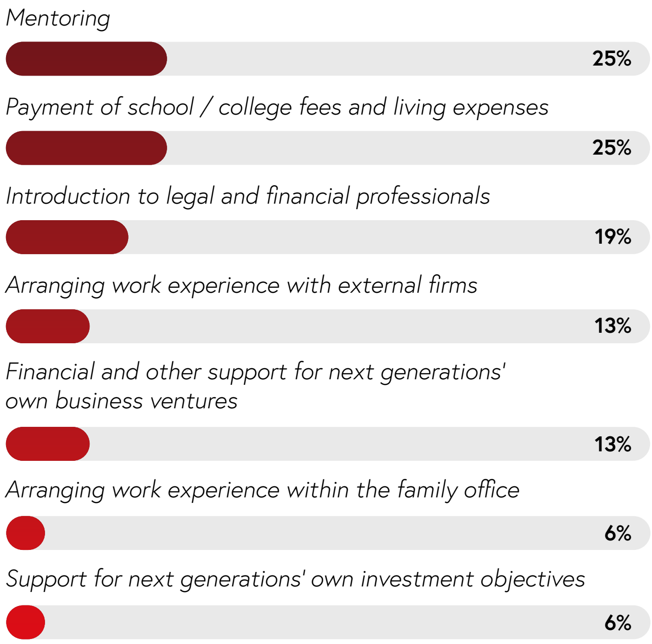
Next gens

It may be the case that the next gens are not sufficiently qualified for a post-succession role but family offices are trying to do something about this (**Fig 4.15**). For exactly a quarter of family offices, the education of next gens up to college level is a collaborative exercise paid for by trusts and administered by the family office rather than individual families. Additionally, family offices also arrange mentoring (25 percent), internal (6 percent) and external work experience (13 percent) and support their next gens' own investment and business objectives.

A quarter of family offices report that control passed to their next gens within the past five years (**Fig 4.16**). Looking forward, the pace of leadership transition may not be quite so extreme but it certainly won't be slow. One third of family offices anticipate the transition happening within the next ten years, driven by the surge in family office formation which took place immediately after the turn of the millennium (**Fig 1.9**).

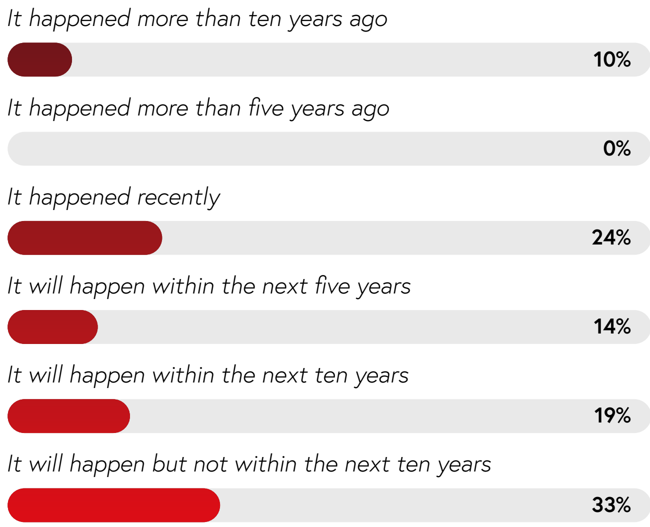
A change in control of the family office is not necessarily contemporaneous with intergenerational wealth transfer but **Fig 4.16** provides an indication of the timescale over which the latter might occur.

Figure 4.15: *Support family office offers next gens*



Note: Multiple answers permitted
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Figure 4.16: *When the next generation is expected to assume control*



Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

"I think it's important to get the next gens up to speed on what we do, why we do it, why we exist, what our purpose is. But more importantly, the next gens need to decide what they want to do. Correspondingly we need to make sure that this office is evolving in a way that will continue to serve not only the older generations but also the younger ones."

Managing partner, multi-family office, Germany

"Getting engagement from younger family members is a continual challenge. But we have made some progress by creating an advisory group of next gens which has become our next gen training ground for leadership. At an offsite, we explained what a family office does, why it was created, and how it operates. We told the next gens that they would decide whether the family office would continue to exist."

Chief investment officer, single family office, United Kingdom

Cooperative capital

This Scandinavian family business is more than a hundred years old, but the family office was only established a few years ago when the fifth generation of the family took over from the fourth. This transition resulted in the family business being controlled by several siblings rather than just one single owner. The family office was established to take account of the more complex ownership structure and build expertise in investment management. The interviewee is effectively the Chief Investment Officer with a specific brief to build private equity and real estate portfolios.

Why was the family office established?

"The family office was only established quite recently but the family business is much older, dating back to the turn of the last century. The fifth generation of the family is now in control. When control passed a few years back, the family decided it was the right time to establish a family office. The earlier generations were dedicated entirely to the family business and had no interest in wealth management."

"As far as the principal at that time was concerned, wealth management was just a number in the bank account. All this changed with the fifth generation. They had an interest in wealth management and believed they should be doing more than simply holding a classic 60-40 equity bond portfolio. They began to ask questions of the older generation and take responsibility for the investment process. They wanted at least a proportion of the portfolio to be invested in real estate, private equity, or other less liquid longer-cycle investments, with hopefully higher returns."

"That's where I came in, to fill the alternative investment space and build real estate and private equity portfolios. But first I should say that the CEO is extremely cost-conscious both in his roles with the family business and family office. Also, he is very cautious about anything he doesn't know about or understand. The result of that is that while we still use banks and investment managers to run the traditional equity and bond components of our portfolio, we've managed through a process of consolidation to significantly reduce the costs we pay for this."

"With private equity, the CEO is interested but simply doesn't have the time to pursue it himself. My initial task was to work on manager selection, there is a huge dispersion in the returns individual managers achieve. Before I joined, investments were made solely to funds where the family knew someone who worked there, or perhaps a family that had already invested. But the family was coming late to the party. They felt they were being treated as investors of last resort by every fund that was desperately trying to raise capital. Sometimes It didn't end well. Now I'm trying to professionalise our private equity operation; it's better for us to identify the most attractive funds and fund managers and go and seek them out rather than accept everything that comes through the door."

What's your most immediate task?

"At the moment my immediate focus is on funds. I'm particularly interested in infrastructure and private credit which I believe have the advantage of bringing balance and consistency to portfolio returns. Direct investment will come later. One thing I intend to avoid is a fund of funds, simply because the fee structure is too high."

Talking to some smaller family offices, they found it hard to get on the lists of some of the more successful private equity fund managers. But as the market has become more difficult over the last few years it seems that this has become less of a problem.

"That's certainly been our experience. We are on the inside now, part of the investor base, and I expect we will have a much easier time joining the next funding round, even if the fund-raising environment improves dramatically."

When the fifth generation succeeded the fourth generation, was there any sort of change in the way the family office operated?

"We are learning, primarily from speaking to other family offices, how to build the right organisation for us. You have to appreciate that the family is highly unusual in that although it's fifth generation the family is actually very small. Historically the business was passed from eldest son to eldest son so there was only one owner in each generation. This has now changed with the fifth generation where ownership is shared amongst all the siblings and their families. But it means that there are now multi-generations of family members to support."

"The families all have children and so they are thinking of the future when the ownership base will broaden out and the next gens will be involved. So they have begun to put in place governance structures for the family office. There is a sort of constitution setting out how the family will operate in terms of the joint ownership of the family business and how the next principal will be chosen. There are guidelines for the family office setting out its investment mandate, and how the board is to operate. But this is all relatively informal, since the families get along very well there is at the moment no reason to do it more formally. But I think it will definitely happen when the next generation is invited to join the board as owners because then it will be cousins working together rather than siblings and that is an entirely different proposition."

4.5 Philanthropy

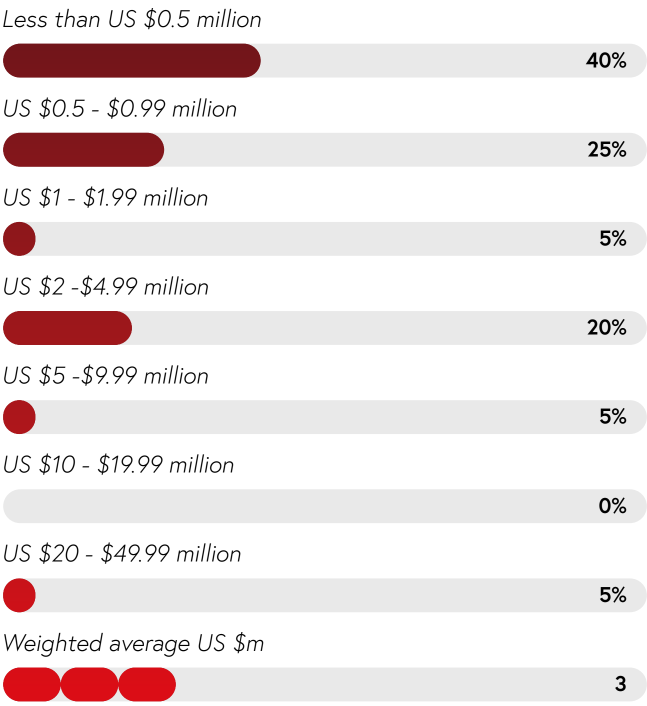
Causes and motivations

Figure 4.17: *Percentage of family offices engaged in philanthropy*

Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Slightly more than half of European family offices make philanthropic donations. The majority of donations are for less than US $1 million but a limited number of large donations pushes the average up to US $3 million (**Fig 4.18**).

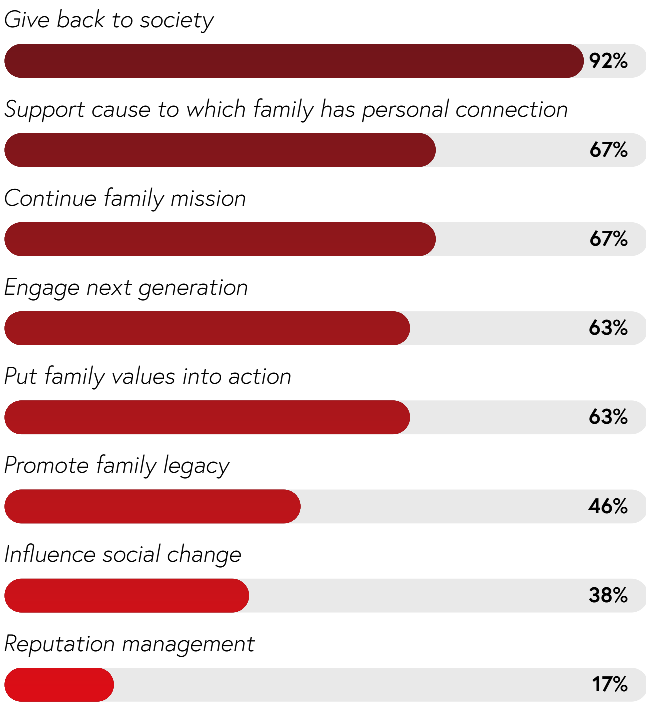
Figure 4.18: *Size of philanthropic donations*



Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Families have a strong desire to give back to society (**Fig 4.19**) and 92 percent claim this provides the principal motivation for their philanthropic efforts. In addition, they are inclined to support causes to which they have some personal connection (67 percent). Philanthropy is seen as an opportunity to engage the next generation (63 percent) and put family values into action (63 percent).

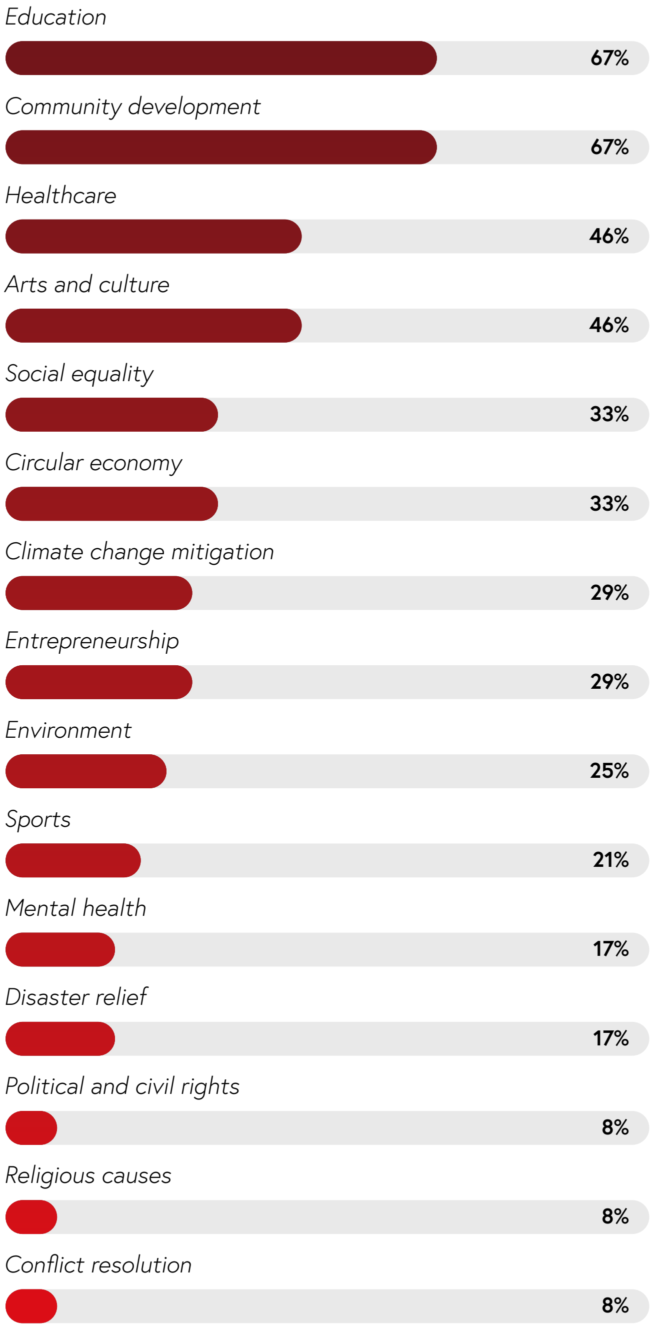
Figure 4.19: *Motivation for engaging in philanthropy*



Note: Multiple answers permitted
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

The principal philanthropic causes (**Fig 4.20**) that families support are education (67 percent), community development (67 percent), healthcare (46 percent) and arts and culture (46 percent). A feature of all these causes is that they entail a long-term commitment. Families are attempting to address the root cause of problems rather than just providing temporary solutions. Hence their efforts are better described as philanthropic rather than simply charitable.

Figure 4.20: *Percentage of family offices supporting cause*

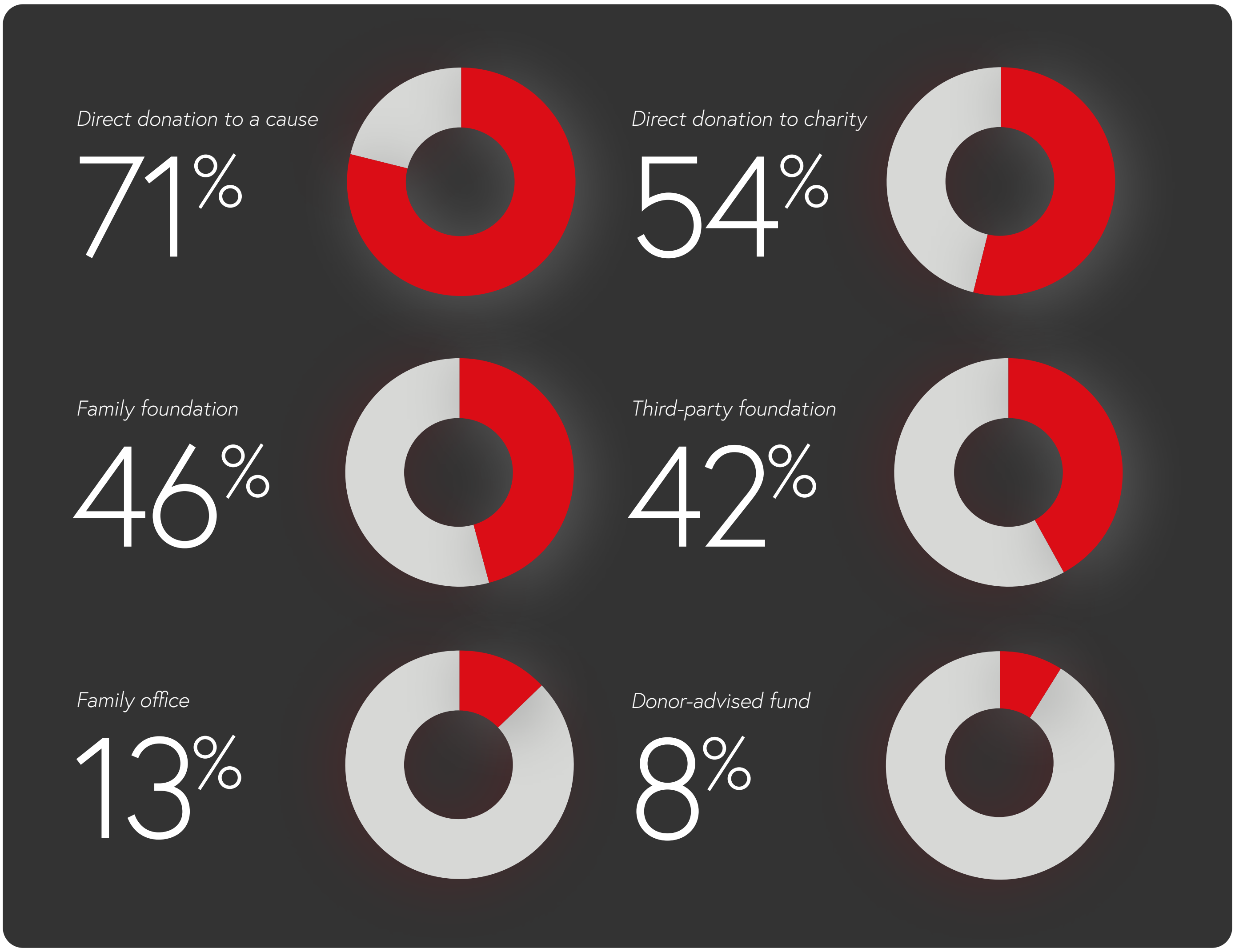


Note: Multiple answers permitted
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Vehicles

European family offices tend to make direct donations to causes and charities (**Fig 4.21**). The trend of establishing a family foundation is not so evident as in North America where our survey found 64 percent of families used this vehicle. This may reflect the less generous tax incentives available to European foundations, and their variation across national boundaries.

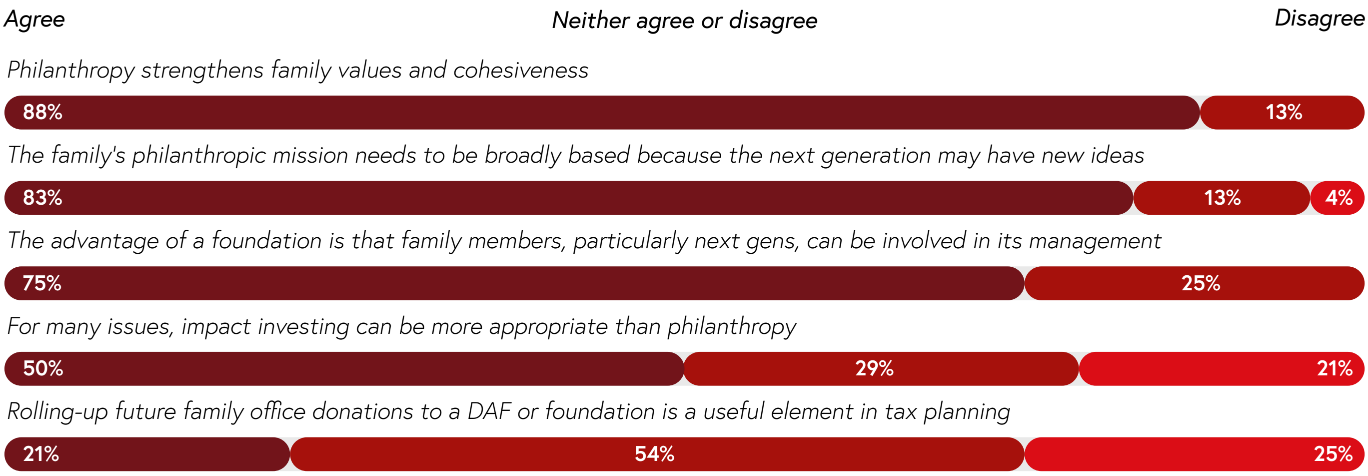
Figure 4.21: *Vehicles used for philanthropic giving*



Note: Multiple answers permitted
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

It is often argued that putting the family's purpose and mission into practice through philanthropy strengthens its values and cohesiveness, a view supported by 88 percent of our participants (**Fig 4.22**). Sizeable majorities believe that to engage next gens, families' philanthropic missions should be broadly based (83 percent) and involve the establishment of a family foundation (75 percent). They also believe that impact investing, where there is potential for an economic return alongside social or environmental benefits, can be more appropriate than philanthropy (50 percent).

Figure 4.22: *Extent to which family offices agree or disagree with statement*



Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

"Philanthropy is a great teaching tool for next-gen family members. It's a kind of glue that can hold a family together and a way of remembering and appreciating the inherited wealth, understanding where it came from, and how fortunate we are to have access to it to make an impact and help other people."

Chief investment officer, single family office, United Kingdom

"A foundation brings visibility. Everybody sees that the family is doing good things, but there are pros and cons to this. For instance, the foundation will get a lot of requests. These have to be dealt with and 90 percent of them will be rejected. That represents time and effort. The family should be doing good things, but not everyone needs to know it."

Chief executive officer, single family office, Switzerland

"Philanthropy and impact investing are complimentary, not mutually exclusive. Philanthropy is just impact with no financial return and in certain circumstances the former is more appropriate than the latter."

Managing partner, private multi-family office, Germany

"Although lower than the US, over half of European family offices are actively involved in philanthropy, and we see this number continuing to grow, particularly as the younger generations increasingly come to the fore. Reflecting that philanthropy is such a personal matter, our experience with families is that their philanthropy will often take place within the family setting long before it moves into the family office realm."

Russell Prior, Regional Head of Family Governance,
Family Office Advisory & Philanthropy, EMEA,
HSBC Global Private Banking

5. Conclusion

5. Conclusion

This report attempts to shed light on the operations of European family offices. It recognises that this community is far from homogeneous and that they differ markedly in size, operating models, capabilities, and aspirations, and of course, they are not all subject to the same regulation, tax and compliance regimes.

The purpose of our analysis is to provide some useful benchmarks against which individual family offices can assess themselves relative to their peers. Additionally, it might be useful to draw some conclusions about what we believe family offices do well, and possible areas of improvement. To facilitate this we asked survey participants for their level of satisfaction with their family office's performance of certain key functions.

73 percent of participants expressed satisfaction with the dedication of their family office staff and a similar percentage believe their family office offers value for money, which is a somewhat higher percentage than observed globally (**Fig 5.1**).

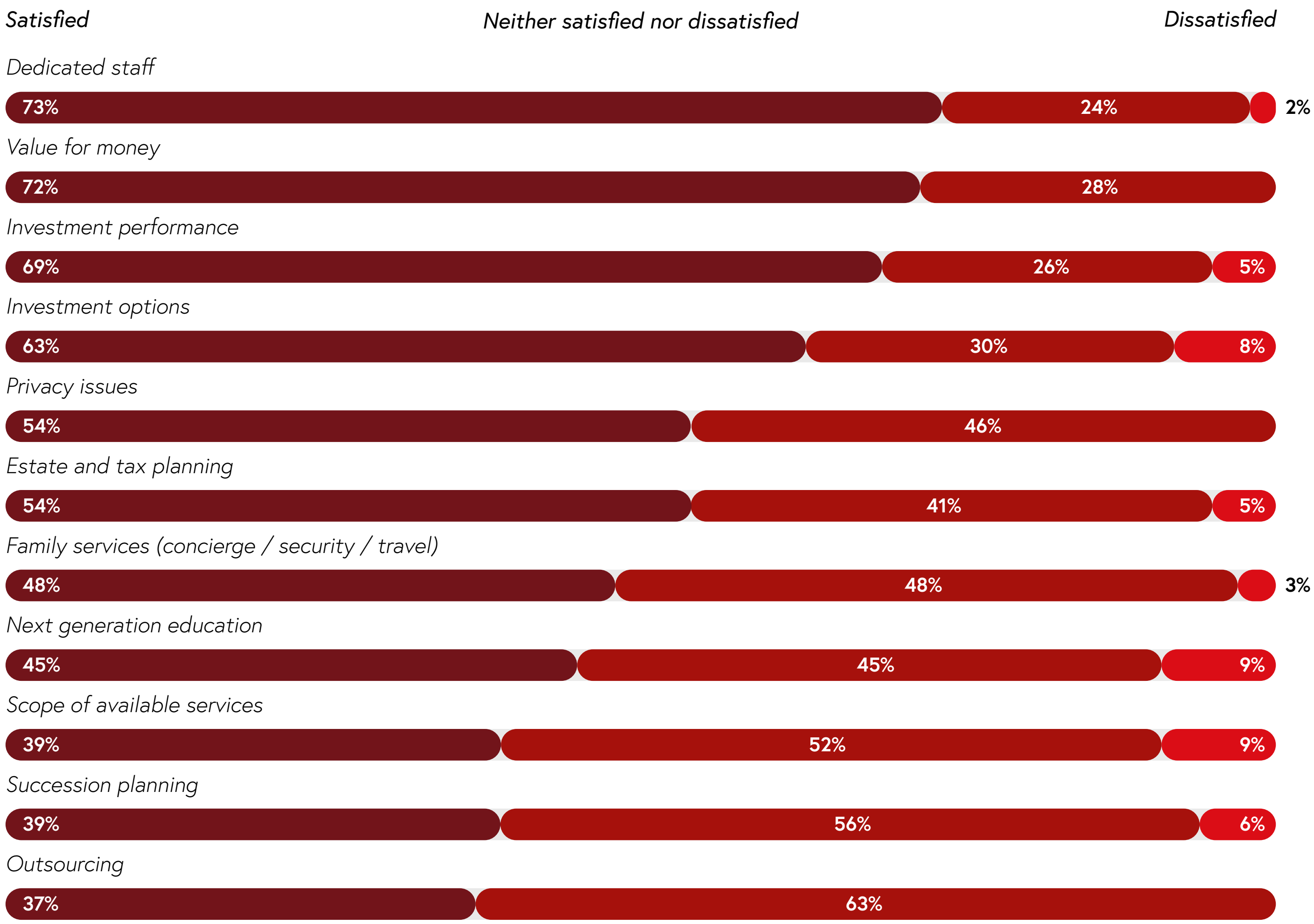
Figure 5.1: *Percentage of participants who view their family office as providing value for money*

Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

There is a high level of satisfaction with the investment function, both in terms of financial performance (69 percent) and the range of investment options offered (63 percent). However, respondents are more ambivalent on privacy issues (54 percent), estate and tax planning (54 percent) and family services (48 percent) (**Fig 5.2**).

Where family offices appear to be falling short of expectations is around succession planning (39 percent) and the associated issue of next generation education (45 percent). There is also some pressure, presumably on smaller family offices, to extend the range of services they offer (39 percent). Interestingly, outsourcing comes bottom of the satisfaction league table. This is a critical function for smaller family offices and it may be the case that disappointment here stems from the performance of external vendors.

Figure 5.2: *Percentage of participants satisfied with their family office function*

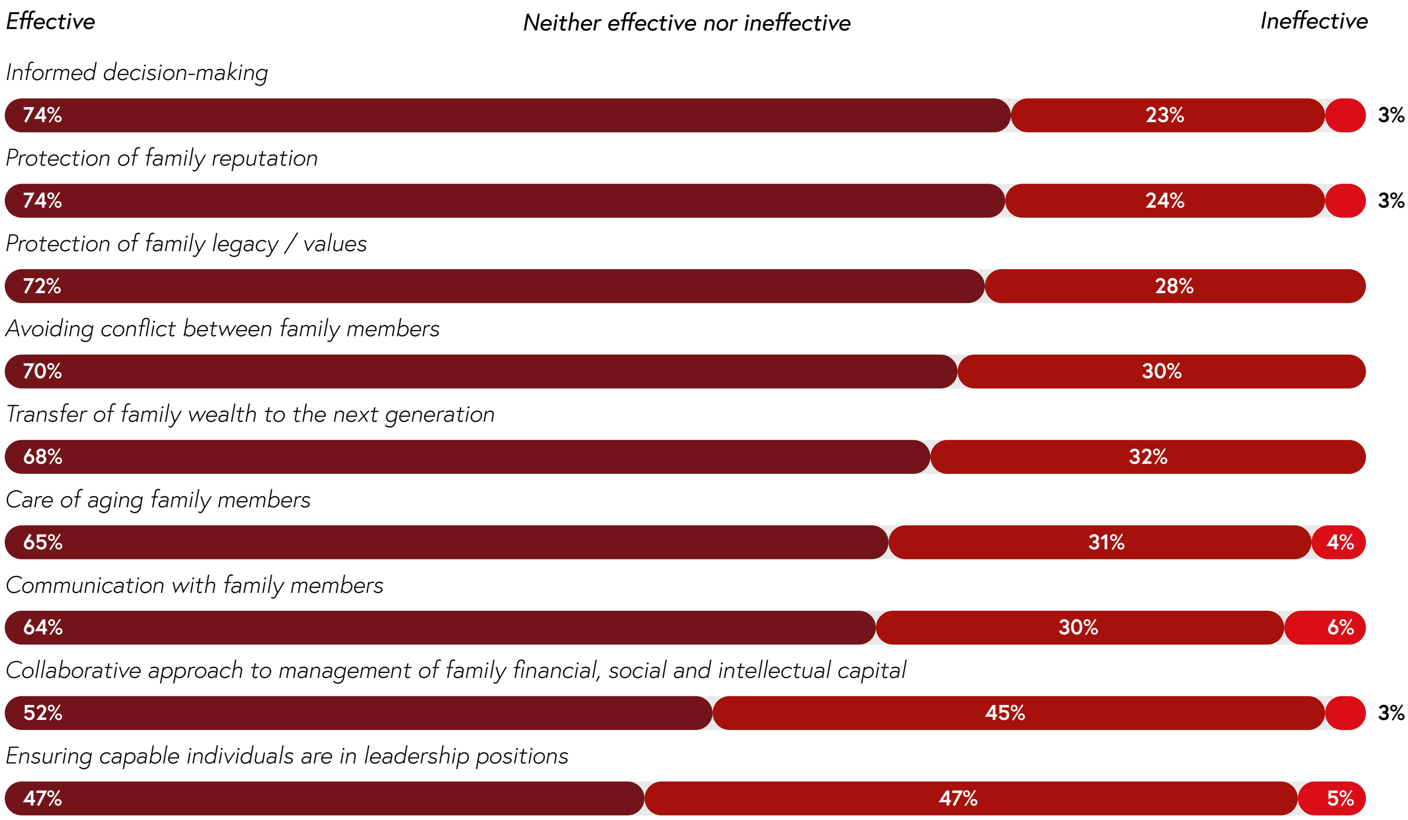


Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

Aside from the performance of key functions, family offices need certain core competences to fulfil longer-term strategic goals. In this regard, more than 70 percent of participants viewed their family office as effective at making informed decisions and protecting their family's reputation and legacy (**Fig 5.3**). They score well at avoiding conflicts between family members (70 percent) but on the other hand fewer are seen as effective promoters of collaborative behaviour (52 percent). This points to the importance of communication with family members and more work needing to be done here.

Likewise, the majority of family offices (68 percent) are perceived to be effective at their core function of passing wealth from one generation to the next, but only 47 percent are seen as effective at putting capable individuals in leadership positions. Succession planning appears as the most visible area where family offices need to focus more attention.

Figure 5.3: *Percentage of participants indicating effective core competence*



Note: Figures may not sum to 100% due to rounding
Source: Campden Wealth / HSBC Global Private Banking, The European Family Office Report, 2024

List of figures

About family offices

What is a family office?

A family office is, in its simplest form, the private office for a family of significant wealth. The number of staff working in the office can vary from one or two employees to 100 or more staff, depending on the type and number of services it provides.

The purpose of an office can range from handling key family assets and core holdings (tax and accountancy, property and estate management) to include more sophisticated wealth management structures, while often providing family members with educational, professional and lifestyle services.

Generally, family offices manage key areas of family assets, including real estate holdings and direct or indirect investments, tax consolidation and estate management.

They can serve as the central hub for a family's legacy, governance and succession. They can furthermore support the education and development of family members, facilitate family governance, coordinate communication and resolve issues within the family enterprise. A typical family office:

– Affords structure to the management of family wealth, establishing increased control and oversight of the family wealth strategy and costs of managing investments;

– Consolidates tax, accountancy and wealth management reporting execution under one roof;

– Provides a clearly-articulated, efficient governance framework for investment decision-making, as well as family legacy and succession functions (including philanthropic foundations and initiatives);

– Coordinates with service providers, achieving economies of scale (especially in the case of multi-family offices) and preferential deal access and products;

– Ensures confidentiality and privacy for family members, liberating them from the burden of wealth.

Who would benefit from using a family office?

Families with private wealth in excess of US $150 million are ideal candidates for establishing a single family office structure. While it is not uncommon for first-generation entrepreneurs to establish a family office, these offices often support families with greater complexity in terms of households and generations. This is a key characteristic of family office structures and one that offices must account for when designing and executing investment strategies and family governance plans.

While each household will share some similar needs, from the perspective of the family office, each household merits special consideration. Such consideration cannot always be restricted to typical generational needs (i.e. retirees require income, while younger family members can accommodate more risk and longer horizons), because households themselves have differing liquidity requirements (for example, sibling benefactors may hold quite distinct professional ambitions).

Multiple wealthy families which might not necessarily be related to each other but nonetheless share some common values or goals may opt to consolidate and leverage resources by creating a multi-family office, rather than a single family office to manage the family wealth. Such a structure provides the benefit of economies of scale and investment deal opportunities that formal collaboration and a consolidated management structure afford. Naturally, family complexity factors arise for the multi-family office, only on another level of magnitude.

Here things can get quite messy. As such, traditionally, for a multi-family office to be successful and sustainable, families should share a common purpose, interest and risk appetite or, alternatively, comparable levels of wealth.

Traditionally for multi-family offices to be sustainable over the medium to long-term, they must manage cumulative assets of more than US $3.5 billion. For the sake of clarity, a number of terms with specific meaning in this report are defined below:

Private multi-family office: These will all have had a founding family before widening out their offering to multiple families. These offices are owned by families and operated for their benefit.

Commercial multi-family office: These will look after the interests of multiple families, often with wealth of less than US $150 million. Unlike private multi-family offices, they are owned by commercial third parties.

About the creators

About HSBC Global Private Banking

HSBC Global Private Banking provides investment and wealth management solutions for private investors, families, business owners, entrepreneurs and single and multi-family offices. Our global private bank is proud to serve clients with excellence across Asia, Europe, the Americas, the Middle East and North Africa and connect them to meaningful opportunities worldwide.

About HSBC Holdings plc

HSBC Holdings plc, the parent company of HSBC, is headquartered in London. HSBC serves customers worldwide from offices in 60 countries and territories. With assets of US$3,098bn at 30th Sept 2024, HSBC is one of the world's largest banking and financial services organisations.

About Campden Wealth

Campden Wealth is a family-owned, global membership organisation providing education, research, and networking opportunities to families of significant wealth, supporting their critical decisions, helping to achieve enduring success for their enterprises, family offices and safeguarding their family legacy.

The Campden Club is a private, qualified, invitation-only members' club. Representing 1,400 multi-generational business owning families, family offices and private investors across 43 countries. The Club delivers peer networking, bespoke connections, shared knowledge and best practices. Campden Club members also enjoy privileged access to generational education programmes held in collaboration with leading global universities.

Campden Research supplies market insight on key sector issues for its client community and their advisers and suppliers. Through in-depth studies and comprehensive methodologies, Campden Research provides unique proprietary data and analysis based on primary sources.

Campden Education delivers a virtual training platform empowering families with practical knowledge and the tools to make informed decisions. Drawing on deep expertise and real-world experiences, our programmes are designed to guide the whole family through all stages of ownership and growth.

Campden Wealth owns the Institute for Private Investors (IPI), the pre-eminent membership network for private investors in the United States founded in 1991. In 2015 Campden Wealth further enhanced its international reach with the establishment of Campden Family Connect PVT. Ltd., a joint venture with the Patni family in Mumbai.

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