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THE NORTH AMERICA FAMILY OFFICE REPORT 2023

RBC®

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Forewords

Dear reader,

Despite challenging environments in 2020 and 2021, North American family offices (NA FOs) were able to (on average) realize a 15 percent annual return on their investments. This was in large part thanks to proactive steps taken to prepare for strategic adjustments when opportunities presented themselves. However, as indicated in our 2022 report, they were rightfully cautious of turbulence in the near future. Concerns for the significant risks of stagnant growth, rising inflation, and other market impacts materialized in 2023 – leaving family offices to shift focus.

Looking back on the year, the average asset return for NA FOs was a modest 1 percent (close behind the global average of 2 percent). This is the outcome of trending towards more conservative stances in investment strategies – with only 38 percent focused on growth (compared to 48 percent in 2021) and 18 percent adopting wealth preservation strategies (versus 13 percent in 2021).

In tandem with this shift in approach, NA FOs have also reevaluated their cost control practices. They spent 22 percent less (averaging spend of US $5.7 million) than the previous year – the primary areas of focus being decreasing discretionary expenditures and staff compensation. Despite their CEOs receiving 33 percent less year-over-year (averaging US $304,000 vs. US $454,000), the majority of NA FOs still feel confident in the capabilities of their leadership teams (79 percent) and the broader office's ability to make informed decisions (78 percent).

While navigating these present challenges, NA FOs continue to keep their eyes on the future. A growing number (38 percent, expected to increase in coming years) are turning to wealth aggregation platforms to oversee their financial position – while others (31 percent, similarly expected to climb) seek to expand their positions in technologies like artificial intelligence. They also remain focused on human capital and succession planning, valuing introducing their next gens to family values (92 percent) and the family office leadership teams (84 percent). However, in the face of aforementioned challenges, some NA FOs (29 percent) anticipate their current family heads will resist ceding control in the near future.

My colleagues and I at RBC are proud to partner with family offices to help navigate these challenges of today – and the opportunity to build, steward, and preserve wealth for a prosperous tomorrow. We want to thank Campden Wealth for their continued partnership in producing the report and all the participants who generously contributed to the findings.

We hope you find these insights helpful in shaping the path your own family office takes.

Manju Jessa
Head, Family Office and Strategic Clients
Enterprise Strategic Client Group
Royal Bank of Canada

Dear reader,

In these past few years, our world has witnessed unprecedented geopolitical shifts, fluctuations in the U.S. economy, and the volatile behavior of financial markets. Regrettably, the turmoil sparked by Russia's invasion of Ukraine has now been compounded by a significant confrontation in the Middle East. The U.S. economy, after grappling with resurgent inflation brought on by pandemic-related measures, is slowly returning to normalcy. Yet, the future remains uncertain, with questions looming over interest rate and debt levels and the impact of generative AI casting a shadow over financial markets. Amidst this complex landscape, investors, including family offices, have faced remarkable challenges.

How have family offices navigated this tumultuous terrain? To our pleasant surprise, the answer seems to be better than expected.

Our survey for 2023 unveils that nearly half of family offices reported an increase in Assets Under Management (AUM) while surpassing their overall investment benchmarks. Much of this success can be attributed to proactive investment strategies which included adjustments to bond portfolio durations and reductions in borrowing to mitigate the impact of rising interest rates.

Recent experiences affirm that family offices are agile and adaptable entities well-equipped to operate in challenging environments. However, they acknowledge that they remain vigilant, as 59 percent believe a U.S. recession could still materialize, and 47 percent express concerns about tensions between the U.S. and China. Investment strategies have shifted from growth to wealth preservation. Nevertheless, North American families are determined to contribute to a better world through responsible and impact investing, as well as philanthropic initiatives.

Beyond investments, family offices grapple with additional concerns. Cybersecurity continues to be a paramount issue, although it is encouraging to note that nearly 40 percent of family offices believe their countermeasures are now robust enough to mitigate this threat. The need for technological upgrades and the elimination of manual processes are also areas of concern, yet the increasing availability of sophisticated wealth aggregation platforms offers potential solutions.

Regarding governance, family offices primarily focus on managing investment risk. Consequently, most have established investment committees and defined investment guidelines. However, our survey suggests that more could be accomplished in areas like mission statements or family councils, where applicable, to enhance the governance framework and foster family harmony.

For the first time, we asked respondents about aspects of their family office with which they were content. A substantial percentage expressed satisfaction with their family office's investment options, dedicated staff, and capacity to handle estate and tax planning. Family offices are seen as providers of value, capable of handling intricate activities, proficient in outsourcing, and skilled at safeguarding family privacy. Nevertheless, there is room for improvement in areas such as the scope and range of services offered by the family office, succession planning, and next-generation education.

As we navigate through these challenging times, the ability of the family office community to share information and learn from one another will be invaluable. I would like to extend my gratitude to our partner, RBC, 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 European and Asia-Pacific editions, is based on a statistical analysis of 330 survey responses from single family offices and private (not commercial) multi-family offices worldwide. Of these, 144 were located in North America. The survey was conducted between April and September 2023. On average, North American families participating in the survey had total wealth (including operating businesses) of US $1.3 billion, and their collective wealth stood at US $189 billion. Their family offices had, on average, US $0.9 billion of assets under management (AUM), whilst aggregate AUM stood at US $126 billion. Across all three geographies covered in our global report, total family office AUM is estimated at US $269 billion.

Investment performance

Despite the dismal performance of financial markets throughout 2022, North American family offices fared surprisingly well. Almost half reported an increase in AUM, with 12 percent reporting a significant increase. Likewise, when asked how their investment portfolio performed relative to benchmark, 48 percent of respondents reported that it had outperformed compared to just 12 percent who indicated underperformance. Part of the explanation may lie with a proactive investment stance adopted by 73 percent of family offices, which saw them taking measures, such as shortening the duration of bond portfolios and reducing borrowings, to mitigate the impact of rising interest rates.

Financial strategy

Difficult conditions in financial markets have prompted a more conservative attitude towards investment strategies. Two years ago, the primary investment strategy of 48 percent of family offices was growth. Subsequently, it's declined to 38 percent, with family offices adopting a strategy of wealth preservation rising from 13 percent to 18 percent.

Market risk

The risk most family offices (57 percent) believed would crystallize in 2023 was a U.S. recession. Year-to-date this hasn't materialized, but family offices have been concerned the rate of inflation would not decelerate (39 percent) leading to excessive tightening by the Federal Reserve (Fed) (42 percent).

Private markets

A key feature of family office investment in recent years has been an ever-increasing allocation to private markets. This now constitutes the largest asset class. Last year, 2022, saw a continuation of this trend with private markets rising to 29 percent of the average portfolio, up from 27 percent a year earlier. Family offices still expect private equity and venture capital to supply the best long-term returns despite last year's disappointing outcomes.

Bonds in demand

More family offices intended to increase their allocation to developed market bonds than developed market equities. This suggests that they are buying into the idea that U.S. inflation is at, or close to, its peak and that as it falls the Fed will cut interest rates. Bonds are preferred over equities because the U.S. economy is expected to be close to recession for the foreseeable future.

US $189 billion

Collective wealth of participating families

US $0.9 billion

Average AUM for participating family office

Cost control

Last year, faced with a challenging investment market, family offices showed firm cost control. We estimate North American family offices' operational costs averaged US $5.7 million last year, representing a 22 percent reduction on the previous year. Family offices were able to keep tight control on their costs by reducing discretionary expenditure and staff remuneration. The average basic remuneration for CEOs was US $304,000 – down by around one-third.

Technology

Wealth aggregation platforms, which can provide an overview of an organization's financial position by consolidating data from multiple banks and investment managers, are relatively new additions to the family office armory. The level of adoption is still relatively low (38 percent) but can be expected to rise rapidly, given the percentage of family offices keen to take advantage of these platforms.

Effectiveness

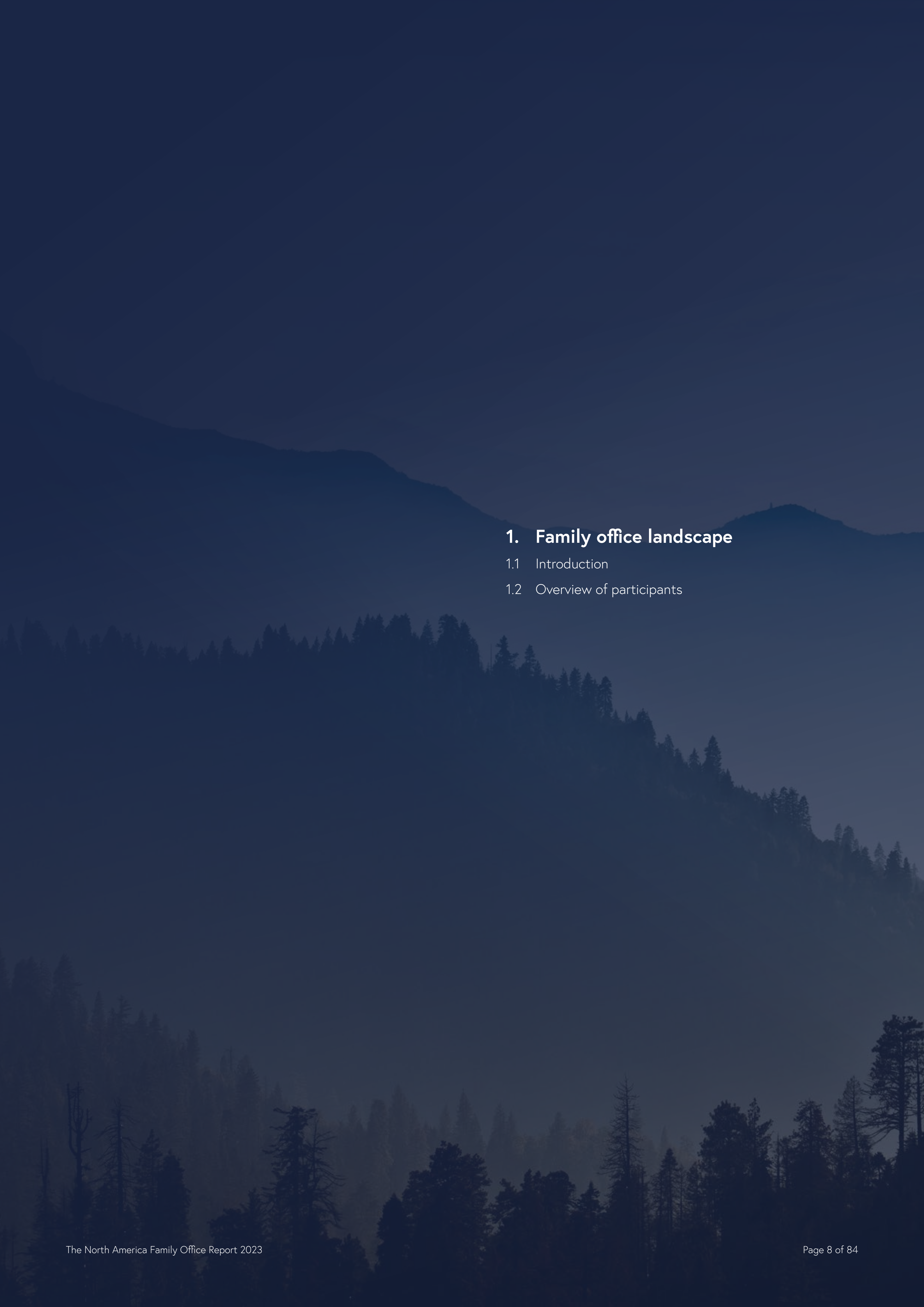
Family offices are viewed as effective when it comes to ensuring capable individuals are in leadership positions (79 percent) and making informed decisions (78 percent). Where they are seen as less effective is in facilitating a collaborative approach and avoiding conflict between family members.

Succession planning

According to respondents, the most critical factor for successful succession planning is to start early, introducing next gens to family values (92 percent) and encouraging their interaction with the family office and family leadership (84 percent). These count more than educational attainment and external work experience, but ultimately the willingness of the existing family leadership to embrace the succession issue is critical (76 percent).

Philanthropy

Three quarters of North American family offices make philanthropic donations, with an average value of US $12 million. Donations focus on providing solutions to long-term challenges in education (68 percent), community development (56 percent) and healthcare (46 percent). Since these causes entail an extended period of commitment, they are best described as philanthropic rather than just charitable. Increasingly, families see philanthropy as part of their broader social impact strategy, which also covers their approach to investing and business development by integrating ESG and sustainability.



1. Family office landscape

1. Family office landscape

1.1 Introduction

"The most important investment you can make is in yourself."
Warren Buffett

After a challenging 2022, investors were understandably cautious regarding the prospects for the current year. The degree the Fed would tighten monetary policy to address rising inflation remained uncertain, and the possibility of a U.S. recession was too close to call. Stagflation, characterized by below-average growth and persistently high inflation, appeared to be the most optimistic scenario on the horizon.

As we transitioned into 2023, this prognosis proved to be fairly accurate. Furthermore, the Fed's tightening measures have been notably more aggressive than initially expected. Surprisingly, despite this economic backdrop, the performance of financial markets has largely defied expectations. As of the year to end September, the S&P 500 has surged by approximately a low-teens percentage, and the NASDAQ has experienced a remarkable uptick of nearly a quarter. In part, the explanation can be attributed to the curtailment of U.S. inflation. At the beginning of the year it stood at six percent but has subsequently halved. It's still above the Fed's two percent target, but the notion that interest rates might now be nearing their peak no longer appears entirely far-fetched.

At some point the Fed will bring rates down commensurate with the new level of inflation which will have a positive impact on both bonds and equities. However, if the economy is close to recession at this point, then the positive impact is more likely to be felt in the bond market. This is reflected in the investment intentions of North American family offices. Our survey data indicates a net 16 percent of respondents intend to increase their allocation to developed market bonds, but only a net eight percent intend to do the same for developed market equities.

Analysis of survey data indicates the average investment return for North American family offices was a modest one percent in 2022. This figure marked a significant decrease from the robust 15 percent returns achieved in each of the two preceding years. Interestingly, this performance surpasses what one might infer from a cursory glance at key financial market indices over the period. It appears that the proactive strategies employed by family offices allowed them to mitigate the most severe impacts of market downturns. While making predictions is inherently risky, an assessment of the year-to-date performance of financial markets suggests returns will rebound modestly this year.

The cost bases of family offices demonstrated considerable flexibility in adapting to reduced income levels. We estimate that operational costs of North American family offices averaged US $5.7 million in 2022, reflecting a reduction of slightly over 20 percent compared to the previous year. This cost reduction extended to both basic remuneration and bonuses across the management hierarchy. This trend may, in part, be attributed to the significant presence of family members in senior management roles, with 69 percent of CEOs being family members.

An enduring hallmark of family office investment strategies in recent years has been the progressively growing allocation to private markets, culminating in its status as the largest asset class. In 2022, this trend continued its upward trajectory, as private markets expanded to encompass 29 percent of the average portfolio, up from 27 percent in the preceding year. However, after several years of robust high-teens returns, private market portfolios delivered, on average, a mere four percent with approximately one-third experiencing negative outcomes.

Nonetheless, family offices continue to hold a positive outlook for these asset categories, considering them to offer the most promising long-term returns. Notably, 41 percent of family offices have intentions to increase their allocation to private equity funds, while 32 percent plan to bolster their investments in direct private equity.

While family offices primarily see their role as management of investment risk, their second priority revolves around effective communication with the family. This communication extends to encompass the myriad of non-investment issues that family offices are entrusted with. These responsibilities span a wide spectrum, from mitigating operational risk to facilitating the education of the next generation.

Our survey and case studies offer valuable insights into how family offices tackle these multifaceted challenges. For instance, when it comes to security measures, a substantial 78 percent of family offices mandate dual authorization of financial transactions. However, only 47 percent have a comprehensive business continuity plan outlining procedures to sustain operations in the face of natural disasters or other unforeseen emergencies.

In addition, for the first time, we sought feedback from survey participants regarding their satisfaction with various attributes of their family office. High levels of satisfaction were reported for investment options, dedicated staff, and estate and tax planning. Conversely, there was comparatively less satisfaction expressed in relation to the breadth of functions offered by family offices, succession planning, and next-generation education.

Methodology

This report, accompanied by European and Asia-Pacific editions, aims to deliver an exhaustive analysis of the global family office landscape. The quantitative components of this research are gleaned from a comprehensive survey conducted between April and September 2023, encompassing 330 single family offices and private (not commercial) multi-family offices. Within this cohort, 144 offices were situated in North America. To augment our insights, the qualitative aspects are drawn from interviews conducted with 31 family office executives world-wide, including 13 from North America. In certain instances, quantitative findings from North American family offices are juxtaposed with a global average, which is comprised of aggregated data from Asia-Pacific, Europe, and North America.

1.2 Overview of participants

A total of 144 family members and family office executives actively participated in the North American survey. Among them, 46 percent were family members, while 42 percent held key leadership positions as chairpersons, chief executives, or founders.

Figure 1.0: *North America: location of family offices*

United States

Alabama	4
California	18
Colorado	5
Connecticut	7
Florida	7
Georgia	6
Illinois	7
Kentucky	2
Louisiana	1
Massachusetts	12
Michigan	3
Minnesota	5
Missouri	2
Nevada	1
New York	14
Ohio	4
Oklahoma	1
Oregon	1
Pennsylvania	1
Rhode Island	1
Tennessee	5
Texas	9
Utah	1
Virginia	2
Wisconsin	2

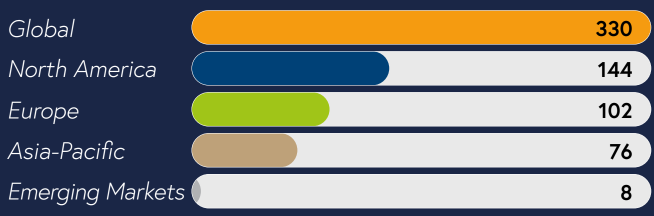
Canada

Alberta	3
British Columbia	5
Ontario	10
Quebec	3

Other

Bermuda	1
Mexico	1

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



Source: Campden Wealth / RBC The North America Family Office Report, 2023

Figure 1.2: *Respondents to family office survey by title*

Board member	2%
Chairperson / President	11%
Chief Executive Officer	15%
Chief Financial Officer	5%
Chief Investment Officer	11%
Chief Operating Officer	4%
Director	7%
Founder / Co-Founder	16%
Managing Director	4%
Partner	6%
Senior executive	2%
Vice President	4%
Other	12%

Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

Figure 1.3: *Respondents to family office survey by relationship*

I am a family member and work for the family office	46%
I am a family member but do not work for the family office	5%
I am not a family member and work for the family office	49%

Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

Figure 1.4: *Participating family offices by type*

Single family office (independent from the family business)	65%
Single family office (embedded in the family business)	23%
Private multi-family office (founding family holds at least 50% of AUM, and does not represent more than 8 families)	9%
Virtual family office (technology orientated, functions outsourced)	3%

Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

Among the participants, 88 percent were single family offices, either independent from, or embedded in the family business. More than a quarter of participating families had total wealth in excess of US $1 billion.

Figure 1.5: *Wealth distribution of participating families*

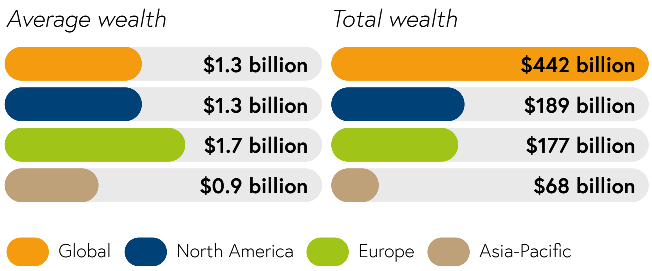
	North America	Global
More than US $10 billion	3%	3%
US $5.01 - $10 billion	3%	3%
US $3.01 - $5 billion	5%	7%
US $1.51 - $3 billion	11%	11%
US $1.01 - $1.5 billion	6%	5%
US $751 million - $1 billion	11%	10%
US $501 - $750 million	9%	9%
US $251 - $500 million	14%	16%
US $100 - $250 million	22%	18%
Less than US $100 million	16%	19%

Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

Participating North American families demonstrated impressive financial stature, with average wealth of US $1.3 billion. Collectively, their combined wealth amounted to a substantial US $189 billion. Correspondingly, their family offices had, on average, US $0.9 billion of assets under management (AUM), and aggregate AUM of US $126 billion.

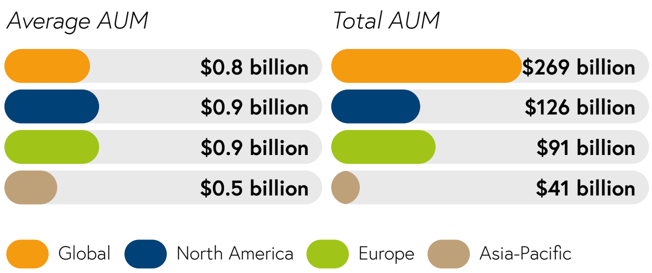
In the context of our comprehensive global report covering three geographical regions, combined family wealth is estimated at US $442 billion, with family office AUM at US $269 billion.

Figure 1.6: *Average and total wealth of families by region, including operating businesses (US$)*



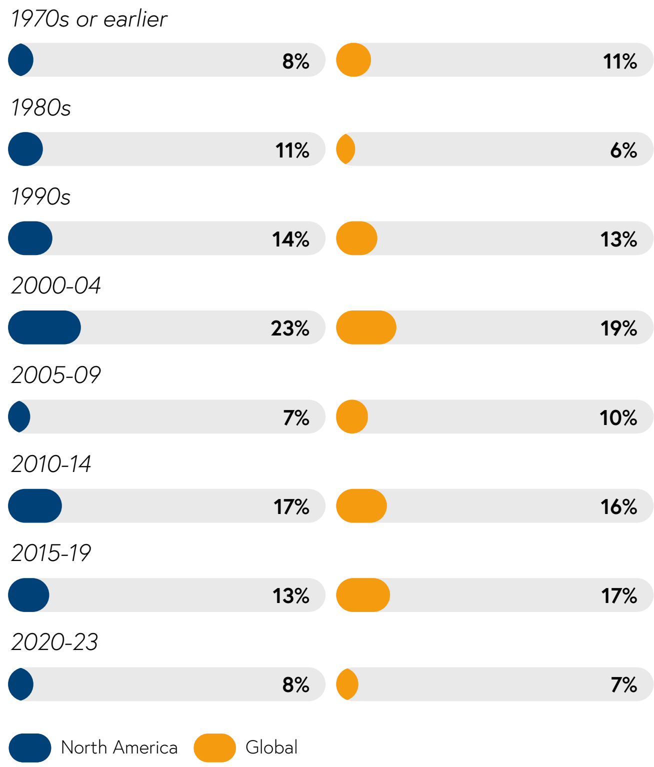
Source: Campden Wealth / RBC The North America Family Office Report, 2023

Figure 1.7: *Average and total AUM managed by family offices by region (US$)*

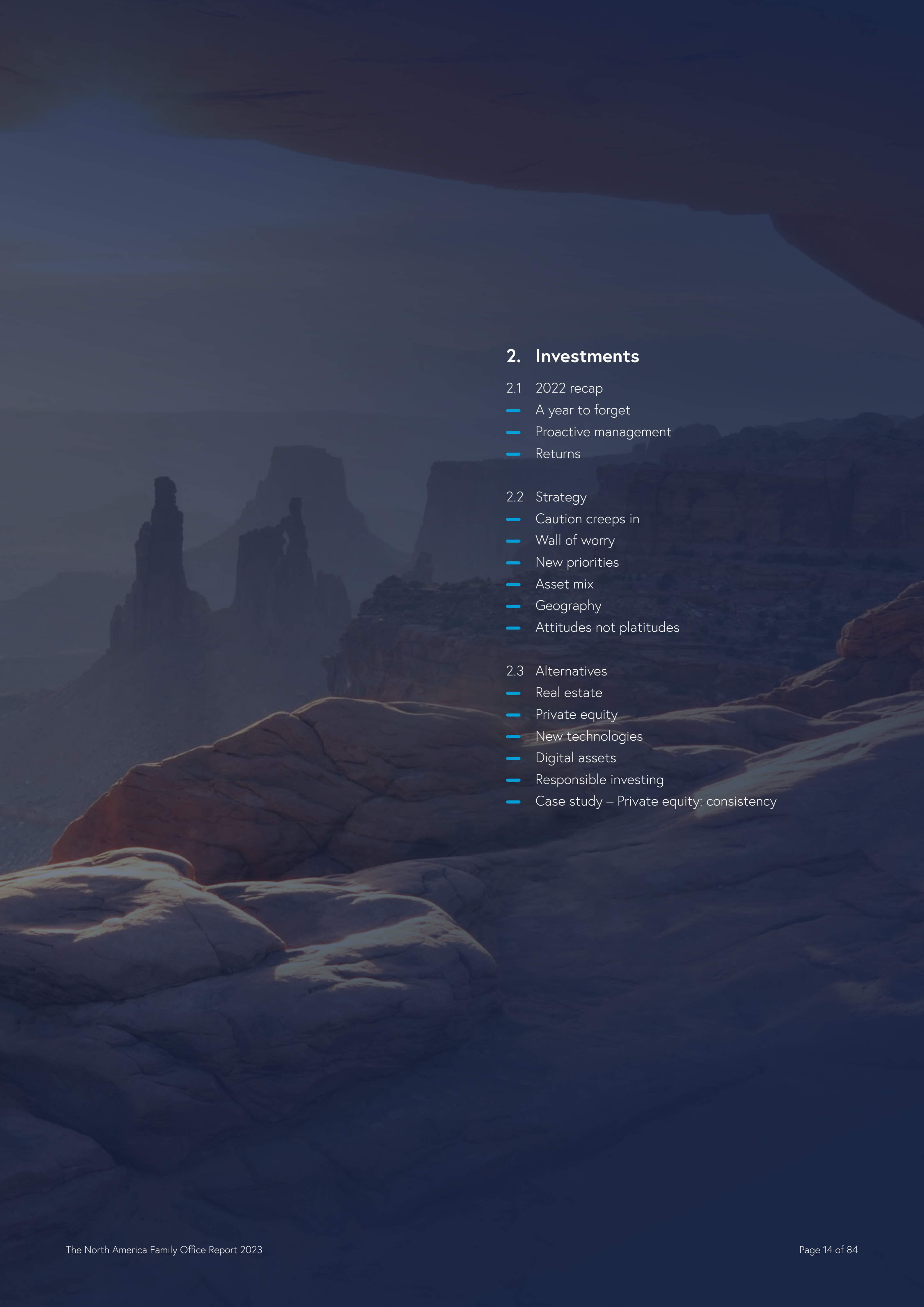


Source: Campden Wealth / RBC The North America Family Office Report, 2023

Figure 1.8: *Period when participating family office established*



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023



2. Investments

2. Investments

The investment performance of North American family offices in 2022 defied expectations and surpassed what might have been inferred from the performance of financial markets. Surprisingly, despite the challenging economic landscape, 46 percent reported an increase in AUM. Furthermore, when asked about the performance of their investment portfolios relative to their overall benchmarks, an impressive 48 percent of respondents indicated that their portfolios had outperformed, in stark contrast to the mere 12 percent who reported underperformance.

How did family offices manage to attain this superior investment performance, surpassing expectations? In part, their success can be attributed to their proactive approach. 73 percent took decisive actions to mitigate the adverse effects of market downturns. The most prevalent strategies involved shortening the duration of fixed income bond portfolios, decreasing borrowing, expanding exposure to real estate, and scaling back new financial commitments to private equity.

The challenging conditions in financial markets have spurred a more cautious outlook when it comes to investment strategies. Just two years ago, growth was the predominant investment strategy for 48 percent of family offices. However, by 2022, this figure had declined to 38 percent, and it has remained at that level in the current year. In contrast, the percentage of family offices adopting a wealth preservation strategy has shown an upwards trajectory, rising from 13 percent to 18 percent.

Family offices have maintained a consistent pattern of augmenting their allocations to private markets. In 2022, this allocation saw an increase from 27 to 29 percent, culminating in private equity, venture capital, and private debt surpassing equities to become the most substantial asset class within their portfolios. According to our survey, an encouraging 41 percent of family offices have intentions to further bolster their allocations to private equity funds, while 32 percent plan to increase direct investments in private equity. Notably, both these categories are expected to provide the most promising returns for family offices over the medium term.

It's noteworthy that a greater number of family offices expressed their intention to expand their allocation to developed market bonds compared to developed market equities. This inclination suggests that they are embracing the notion that U.S. inflation has either reached its peak or is in close proximity to it, and as it recedes, the Fed will commence a cycle of interest rate reductions. The preference for bonds over equities can be attributed to the expectation that the U.S. economy is poised to remain close to recession for the foreseeable future.

As expected, given the substantial media coverage it has garnered, the most coveted new technology from an investment standpoint is artificial intelligence (A.I.). A net 31 percent of family offices are actively seeking to expand their involvement in this domain, with an additional 14 percent planning to initiate an exposure. In stark contrast, family offices appear to be actively divesting from cryptocurrencies.

48%

of North American family offices outperformed benchmark

73%

of North American family offices took action to mitigate market drawdown

29%

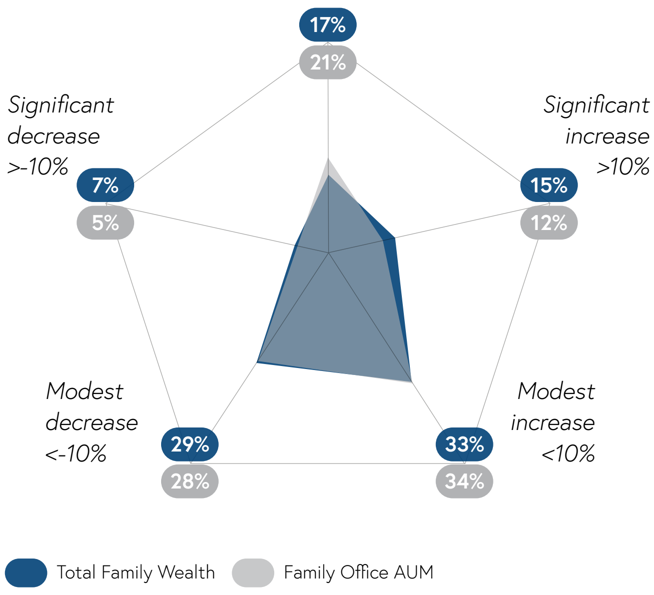
of North American family offices portfolio allocation to private markets representing single largest asset class

2.1 2022 recap

A year to forget

From an investment perspective, 2022 marked the most difficult year since the Global Financial Crisis. A confluence of factors including inflation, rising interest rates, and geopolitical events exerted substantial pressure on investor sentiment. Notably, the S&P 500 index saw a decline of 19.4 percent over the year, while the Dow Jones Industrial Average retreated 8.8 percent, and the Nasdaq Composite plummeted by 33.1 percent[1]. In turn, bond markets experienced one of the most severe selloffs on record, with the 10-year Treasury yield climbing from 1.8 percent at the year's outset to a peak of 3.9 percent at year end[2]. In the realm of private equity, the Cambridge Associates LLC Private Equity Index recorded a loss of 4.3 percent, while its U.S. Venture Capital Index saw a substantial decline of 20.8 percent[3]. The close correlation of the major asset classes made 2022 particularly challenging for investors.

Figure 2.0 *Percentage of families reporting change in 2022 relative to 2021*



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

"2022 was not pretty, and it was all made much more difficult by the different markets and asset classes all being highly correlated. Everything was impacted apart from energy and defense contractors."

Chief executive officer, single family office, TX

"I sold everything we owned early last year. There was a herd-like mentality amongst retail investors who were powering into the stock market. Economic indicators were not strong, but we'd enjoyed an enormous bull run."

Chief investment officer, single family office, MA

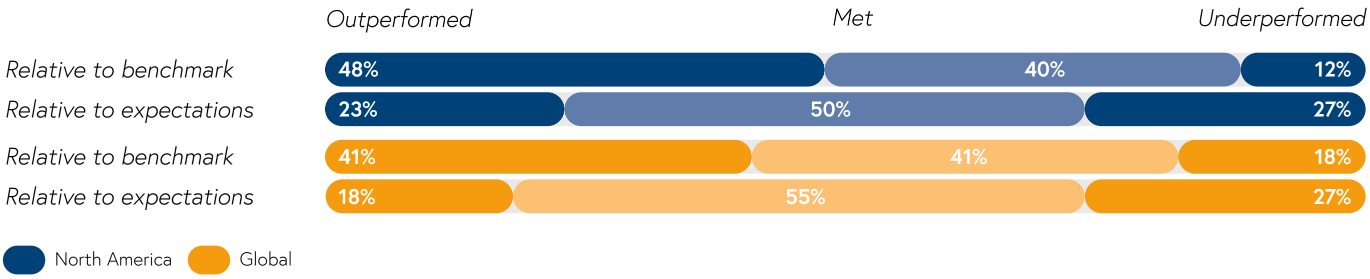
More family offices reported their wealth increasing rather than decreasing

Despite the challenging performance of financial markets in 2022, the outcomes for family offices were far from universally grim. While approximately one-third of family offices reported a reduction in AUM, 46 percent reported an increase of which 12 percent reported a gain of more than 10 percent (**Fig 2.0**).

Similarly, when queried about how their investment portfolios fared in comparison to their overall benchmarks, a noteworthy 48 percent of respondents indicated that their portfolios had outperformed, in stark contrast to the mere 12 percent who indicated underperformance (**Fig 2.1**). However, the narrative becomes more nuanced when evaluating portfolio performance in relation to expectations. It is evident that expectations for portfolio performance exceeded benchmark performance, as only 23 percent of family offices reported outperformance, while a substantial 27 percent reported underperformance.

[1] www.cnbc.com/2022/12/29/stock-market-futures-open-to-close-news.html
[2] www.cnbc.com/2022/12/30/treasury-yields-as-investors-look-ahead-to-2023-.html
[3] www.cambridgeassociates.com/en-eu/private-investment-benchmarks/

Figure 2.1: *2022 investment performance relative to benchmark and expectations*



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

Proactive Management

How did family offices manage to achieve investment performances that exceeded expectations? In part, the explanation lies in their proactive approach; a substantial 73 percent of family offices took action to mitigate the impact of market drawdowns (**Fig 2.2**). The tactic of shortening the duration of their fixed income portfolios to limit the sensitivity of valuations to higher bond yields, was adopted by 34 percent of respondents. Other common strategies included reducing borrowing (25 percent), increasing exposure to real estate in the belief that rents are resilient to inflation (25 percent), and reducing new financial commitments to private equity (25 percent). Interestingly, only a relatively small proportion of family offices took the step of actually reducing their allocation to fixed income.

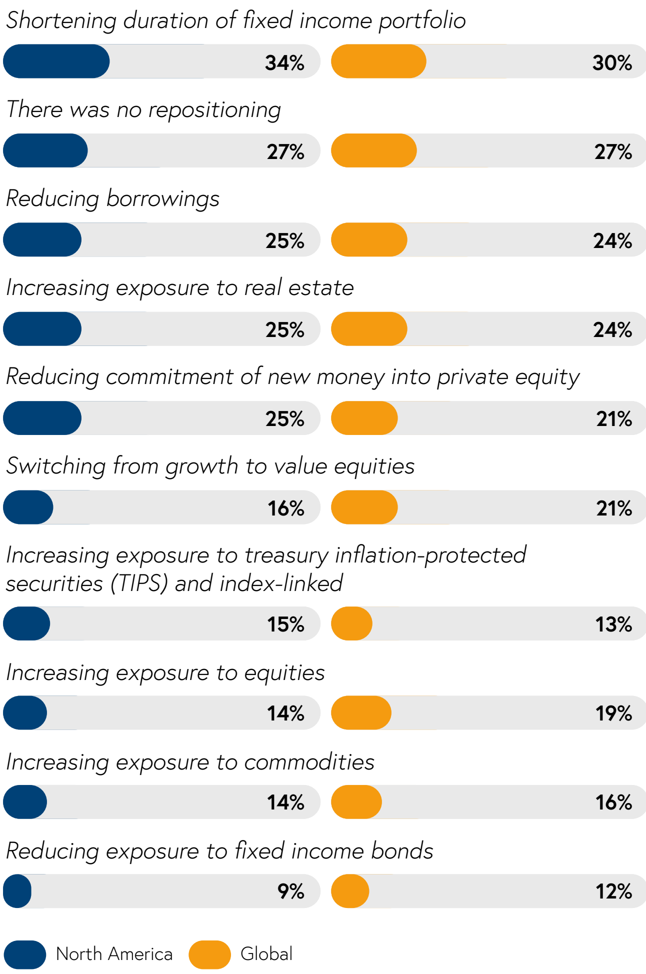
Why the investment performance of family offices held up reasonably well in 2022

"A family's return expectation often relates to how the portfolio performed against a predetermined benchmark, also called 'relative performance'. These benchmarks go beyond stocks or bonds, including real estate, commodities, private assets and debt, and infrastructure. In down markets, relative performance can be above benchmark if the asset class weightings are favorable. The asset class correlation is also important in limiting the impact from declining markets and rising inflation. In 2022, when global balanced portfolio benchmarks were overall negative, holding private assets (real estate, infrastructure, debt, equity) helped performance in some cases."

Hermann Leiningen,
Managing Director, International Family Office Investments
RBC Enterprise Strategic Client Group

Majority took action to mitigate market drawdowns

Figure 2.2: *Repositioning of family office portfolios to mitigate inflation and rising interest rates*



Note: Multiple answers permitted
Source: Campden Wealth / RBC The North America Family Office Report, 2023

Returns

We harnessed the survey data to calculate the average asset allocation of North American family offices and the average returns derived from each individual asset category (**Fig 2.3**). By aggregating this data, we estimate that the average family office achieved a modest one percent return on its investment portfolio in 2022. This performance was impacted by two big asset classes, bonds (comprising eight percent of assets) and equities (representing 29 percent), both of which produced negative returns due to the sell-off in public markets. Returns from private markets, the largest asset class, which encompasses private equity, venture capital, and private debt (29 percent), were a small positive overall but notably lower than the 20 percent plus returns achieved in each of the two preceding years. Roughly one-third of portfolios produced a negative return.

Analyzing returns across various assets categories, there were no standout winners in 2022. However, it's important to note that most categories performed better than publicly available data might suggest. For instance, developed market equities, which largely reflect the performance of U.S. stock market indices, posted a negative three percent return, which was considerably less negative than the S&P 500. Likewise, the low single-digit return from private equity compares very favorably with the Cambridge Associates index.

Figure 2.3: *Average strategic asset allocation and average asset return for 2022*

	Asset allocation (North America)	*Asset return* (North America)	*Asset allocation* (Global)	*Asset return* (Global)
Cash and equivalents	9%	3%	9%	3%
Bonds - developed markets	7%	-2%	7%	-1%
Bonds - developing markets	1%	-2%	3%	-1%
Equities - developed markets	25%	-3%	22%	-1%
Equities - developing markets	4%	-5%	5%	-3%
Private equity - direct investments	10%	5%	10%	7%
Private equity funds	10%	3%	9%	4%
Venture capital	6%	0%	5%	2%
Private debt / direct lending	3%	6%	3%	5%
Real estate	17%	6%	18%	6%
Hedge funds	5%	1%	3%	1%
Commodities	1%	3%	1%	2%
Gold / precious metals	0%	1%	1%	2%
Cryptocurrency / digital assets	0%	-4%	0%	-3%
Forestry / agricultural land	2%	2%	2%	2%
Total portfolio	100%	1%	100%	2%

North America Global

Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

2.2 Strategy

Caution creeps in

Did the challenging financial markets in 2022 trigger a shift in investment strategy among family offices? The survey data unmistakably reveals a growing note of caution. Just two years ago, a commanding 48 percent of family offices identified growth as their primary investment strategy demonstrating a willingness to accept above-average risk for the promise of rapid capital appreciation (**Fig 2.4**). However, by 2022, this figure had dwindled to 38 percent, and it has persisted at that level in the current year. In contrast, the percentage of family offices embracing a wealth preservation strategy, characterized by low risk and low returns, has grown from 13 percent to 18 percent.

Shift from growth to wealth preservation

It appears that the setbacks experienced in 2022 left a notable impact on investor psychology. However, there is reason to believe that this effect may ultimately prove to be temporary. A substantial 46 percent of family offices indicate that by 2028 they will have reverted to pursuing growth strategies.

"Like a lot of families, we started off adopting an institutional approach where we had a checker on every square of the board. In other words, a highly diversified portfolio touching every conceivable asset class. So in effect we were running an indexed portfolio but paying active management fees. It was absolutely guaranteed that we would underperform."

Chief investment officer, single family office, MA

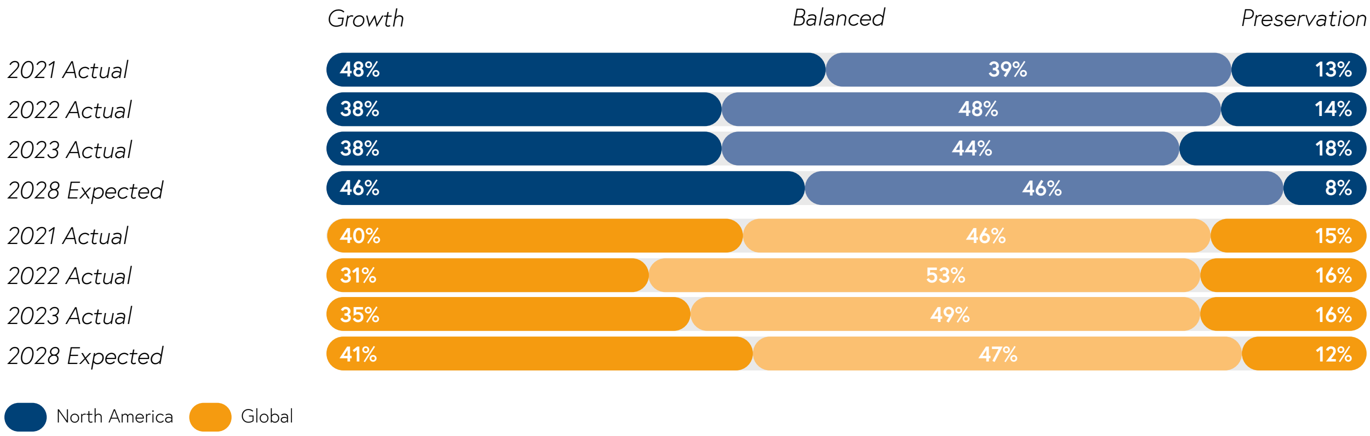
"There are a lot of brilliant people out there, and expecting to outperform the market when you're invested in exactly the same portfolio as everybody just isn't logical. If you look at the most successful investors, a big part of what they do is sit on their hands. They are not active investors, they just let their wealth compound over time."

Chief executive officer, single family office, TX

"Family offices invest for the long term, they are trying to achieve generational increases in wealth. So the past few years may be seen as pretty irrelevant."

Chief investment officer, single family office, MA

Figure 2.4: *Percentage of North American family offices pursuing investment strategy*



Preservation: Accept low returns in exchange for low risk
Growth: Accept high risk for faster capital appreciation
Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

Wall of worry

Investor psychology is also being significantly influenced by tangible risks surrounding inflation, the U.S. economy, and geopolitical tensions. When surveyed about which of these risks is most likely to materialize in 2023, a striking 59 percent of respondents pointed to a U.S. recession (**Fig 2.5**). They may be relieved that, year-to-date, their foremost concern hasn't so far materialized. Following recession risk, respondents highlighted tensions between the U.S. and China (47 percent), as well as two closely intertwined scenarios: the continued absence of inflation deceleration (39 percent) and the risk of excessive tightening by the Federal Reserve (42 percent). Despite our survey being launched concurrently with three U.S. bank failures, respondents did not perceive a systemic banking crisis as a realistic threat. Likewise, the majority of respondents dismissed the prospects of a global stock market sell-off and a housing market collapse.

Notably, North American respondents appear to be much less concerned about the risks of de-globalization and de-dollarization compared to their global counterparts.

"Our investment thesis is that central banks will have to push economies into recession, because as long as the labor market is tight, salary inflation will continue. Some U.S. economists believe it will take a decade for inflation to fall back from its current five percent to the targeted two percent. So the market's expectation that the Fed will start cutting in the autumn is not something we subscribe to."

Founder, single family office, CT

"Although I think inflation will subside by the end of the year, we don't seem to have traditional economic cycles anymore. So I've given up trying to predict what may or may not happen with our portfolio. We just try to stay as diversified as possible."

Director, single family office, NY

"Geopolitical risk is going to be with us for the foreseeable future."

Chief investment officer, single family office, MA

"The Fed has been too slow, they didn't see inflation. Part of this stems from the time taken for increases in housing costs (both rents and mortgage expense) to fully work through into the inflation indexes. The excessive rent increases which happened last year are still influencing reported inflation even though actual rents are now basically flat. So just as monetary conditions were too loose in 2022, they are probably too tight now and this is going to hamper growth."

Chief executive officer, multi-family office, CT

"I fall into the higher for longer camp. The labor market is still strong, and so is consumer consumption. This is not the type of environment in which inflation will easily fall back into the Fed's target range."

Chief executive officer, single family office, Canada

Figure 2.5: *Financial market risk most likely to crystallize in 2023*

Note: Multiple answers permitted.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

New priorities

In prior surveys family offices have consistently emphasized their desire to explore new investment opportunities and diversify their portfolios. However, this year, both conventional priorities have been eclipsed by the focus on investing in alternative asset classes. This shift can likely be attributed to the appeal of alternatives such as real estate, commodities, and hedge funds which have been widely recommended as effective hedges against inflationary pressures. Remarkably, family offices do not seem particularly enthusiastic about increasing their exposure to private markets, in contrast to other indications from the survey (see **Fig 2.6**). Additionally, they remain unconvinced by the argument advocating a shift from growth equities to value equities.

Figure 2.6: *Family offices' investment priorities for 2023*

Source: Campden Wealth / RBC The North America Family Office Report, 2023

"It all depends on the time horizon over which you are investing but I think a traditional portfolio, with a few inflation hedges, is a good place to start."

Chief investment officer, single family office, MA

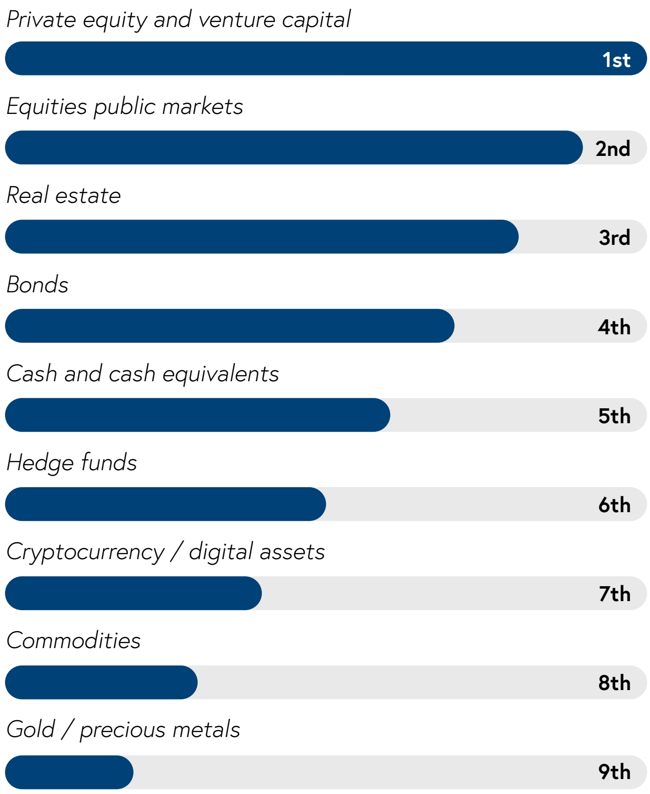
"We are more value-oriented than growth-oriented. So for us the change in market leadership from growth to value which occurred in 2022 was not too painful. Nor did we own the big tech names that declined 50 percent or more."

Chief executive officer, multi-family office, CT

Expected returns

Despite the cautious approach adopted by family offices in response to the retreat of financial markets, their perspectives on the sources of the best long-term returns remain steadfast. Private equity and venture capital continue to head the list, followed closely by public market equities, and then real estate (**Fig 2.7**). In contrast, commodities, cryptocurrencies, gold, and other precious metals, occupy the lower end of return expectations, providing insight into the limited holdings of these asset categories in family office portfolios (**Fig 2.3**).

Figure 2.7: *Asset classes ranked by highest expected long-term returns*



Source: Campden Wealth / RBC The North America Family Office Report, 2023

"In private equity and venture capital returns may be cyclical. Some vintages have given us as much as 35 percent, others as low as 10 percent, there's a wide dispersion."

Founder, single family office, CA

"There's no urgency in deploying capital. How long this situation will persist, I just don't know, but if it lasts long enough it may undermine the historic hierarchy of returns."

Vice president, single family office, IL

Asset mix

A significant characteristic of family office investment strategies in recent years has been the consistent increase in allocation to private markets, to the point where this now constitutes the largest asset class. The trend persisted in 2022, with private markets encompassing private equity, venture capital, and private debt surging to 29 percent of the average portfolio, up from 27 percent the preceding year. This development is not entirely surprising given the prevailing expectation that private equity and venture capital will deliver the best long-term returns (**Fig 2.8**), despite the less-than-stellar outcomes observed last year (**Fig 2.3**).

The shift towards private markets came at the expense of developed market equities, which saw their allocation drop from 31 percent to 25 percent. This reduction reflected a combination of market movements and strategic shifts by family offices. However, it's worth noting that North American family offices maintain a higher proportion of equities in their portfolios compared to their global counterparts. Interestingly, average bond holdings remained relatively stable, reinforcing survey findings that, in an effort to mitigate the impacts of inflation, family offices did not substantially reduce the overall size of their bond portfolios (**Fig 2.2**).

Figure 2.8: *Family offices' average strategic asset allocation*

	North America 2022	North America 2021	Global 2022	Global 2021
Cash and equivalents	9%	5%	9%	5%
Bonds				
Developed markets	7%	8%	7%	9%
Developing markets	1%	1%	3%	3%
Equities				
Developed markets	25%	31%	22%	27%
Developing markets	4%	4%	5%	5%
Private markets				
Private equity - direct investments	10%	9%	10%	10%
Private equity funds	10%	9%	9%	8%
Venture capital	6%	6%	5%	6%
Private debt / direct lending	3%	3%	3%	3%
Alternatives				
Real estate	17%	15%	18%	14%
Hedge funds	5%	6%	3%	4%
Commodities	1%	1%	1%	1%
Gold / precious metals	0%	1%	1%	1%
Cryptocurrency / digital assets	0%	1%	0%	1%
Forestry / agricultural land	2%	1%	2%	2%
Total portfolio	100%	100%	100%	100%

North America Global

Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

Cash and equivalents held by family offices worldwide grew from five percent to nine percent, reflecting their prudent approach amidst volatile and risk-averse markets. North American family offices followed suit in this trend, and the key questions now revolve around how and when this capital might be reinvested. As highlighted in **Fig 2.9**, it appears that private markets are poised to be the primary beneficiaries of this capital re-allocation. An impressive 41 percent of family offices intend to increase their allocation to private equity funds, with 32 percent looking to boost direct investments in private equity. While a reasonable percentage of families consider divesting from these asset categories, the net result clearly positions private equity funds alongside private debt (37 percent) as the standout winners.

Moreover, it's noteworthy that, on a net basis, a greater number of family offices are inclined to augment their allocation to developed market bonds (net 16 percent) compared to developed market equities (net eight percent). This inclination suggests that family offices are subscribing to the notion that U.S. inflation will fall further, enabling the Federal Reserve to initiate interest rate cuts in 2024. Bonds are favored over equities due to the expectation of the U.S. economy hovering near recessionary territory for the foreseeable future. The exception is real estate (14 percent), where a large majority of family offices already have investments, there appears to be limited enthusiasm for alternative assets, particularly hedge funds and gold.

"Today, rates are at a relatively healthy level. So, for people like me who don't have to get wealthy, it's silly not to take advantage of that."

Founder, single family office, CA

"After a decade of hardly providing any interest, the fixed income asset class is becoming attractive again."

Partner, single family office, CA

"Our private equity portfolio looks illiquid, but actually it's a mature portfolio. In current circumstances this is attractive in its own right, and we are not going to be blown off course by any unexpected cash-calls."

Chief investment officer, single family office, MA

Figure 2.9: *Percentage of North American family offices intending to increase / decrease their allocation to asset category*

	Increase	*Decrease*	*Net*
Cash and equivalents	19%	22%	-3%
Bonds			
Developed markets	26%	9%	16%
Developing markets	7%	7%	0%
Equities			
Developed markets	23%	15%	8%
Developing markets	20%	6%	14%
Private markets			
Private equity - direct investments	32%	9%	22%
Private equity funds	41%	11%	30%
Venture capital	32%	11%	21%
Private debt / direct lending	37%	4%	33%
Alternatives			
Real estate	25%	11%	14%
Hedge funds	4%	10%	-6%
Commodities	6%	3%	3%
Gold / precious metals	6%	6%	0%
Cryptocurrency / digital assets	4%	1%	3%
Forestry / agricultural land	5%	2%	3%

Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

What can family offices learn from 2023?

"Lessons from 2023 and prior years are often similar: think about what can happen instead of what will happen. Using scenario analysis around the possible outcomes, and assessing the probability of those outcomes, can often mitigate investment risk. When everyone is thinking the same, no one is really thinking. In rising market environments, investors often feel they can assume more risk. In declining markets, they feel they can assume less risk. Ensuring your Investment Policy Statement truly reflects the family's risk, return, and liquidity needs – then staying the course despite periods of higher volatility and uncertainty – remains of utmost importance."

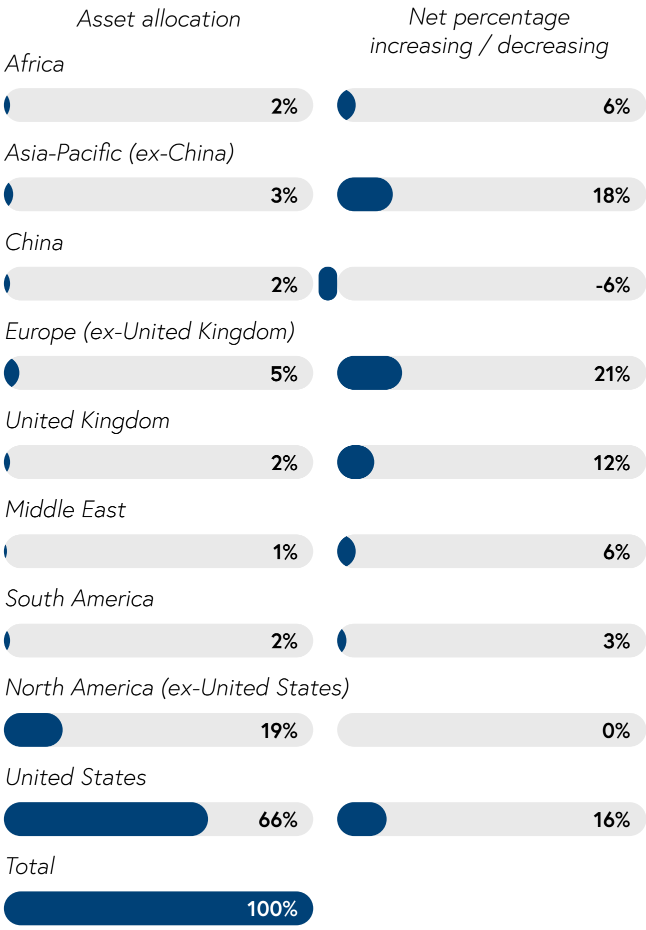
Elizabeth Francis,
Managing Director, Institutional Family Office Solutions
RBC Enterprise Strategic Client Group

Geography

Given their convenient access to the world's largest capital markets, it comes as no surprise that North American family offices allocate a substantial 66 percent of their portfolios to assets within the United States, with 85 percent concentrated in North America overall (**Fig 2.10**). However, the benefits of geographic diversification are not being entirely ignored since our survey revealed that 80 percent of family offices maintain investments outside of North America, with a primary focus on Europe (excluding the United Kingdom) and Asia-Pacific. Both of these geographical regions hold appeal for future investments, with a noteworthy trend emerging – more family offices intend to increase their exposure to Europe (excluding the United Kingdom) than to the United States. Interestingly, China appears to be distinctly out of favor.

U.S. assets predominate

Figure 2.10: *Family office geographic asset allocation, and net percentage of family offices intending to increase / decrease their allocation*



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

"There may be a stock market correction before year end and corporate earnings may disappoint. If there is a sizeable drawdown, we would look to correct our underweight, but we are also likely to look at Europe rather than the US."

Chief investment officer, single family office, MA

"There are some world-class companies in Europe, comparable to our most successful US companies."

Founder, single family office, CT

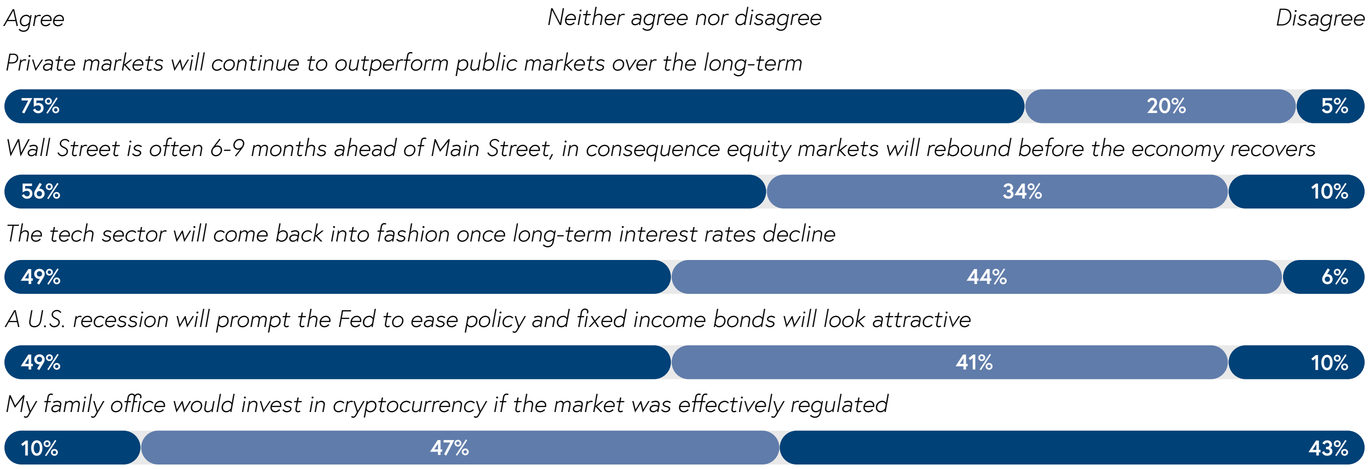
Attitudes, not platitudes

We've emphasized family offices' sustained enthusiasm for private markets, and from the attitudinal section of the survey (**Fig 2.11**), it's evident that more family offices place their faith in the projection that private markets will outperform public markets than any other statement. Furthermore, a significant majority of family offices believe that stock market recovery can precede economic recovery and that the tech sector can rebound in response to lower interest rates.

Remarkably, to a considerable extent, both of these scenarios have already materialized this year, even though the tech sector did not receive any tailwind from declining rates. Notably, a net 49 percent of family offices concur that fixed income bonds will become attractive once policy rates are eased. However, the recession that might have triggered such a scenario appears to have been averted, at least for the time being.

While it's a common complaint that the cryptocurrency market lacks regulation, our survey findings reveal that even with increased regulation, more than 40 percent of family offices would still refrain from investing in it.

Figure 2.11: *Considering your family office's investments, do you agree with the following statements?*



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

2.3 Alternatives

Real estate

A substantial 89 percent of North American family offices have investments in real estate, a figure closely aligned with family offices globally. Typically, family offices own investment properties in the residential and industrial sub-sectors, although a minority also engage in real estate development (**Fig 2.12**).

Figure 2.12: *Percentage of family offices investing in real estate having exposure to sub-sector*

	As investor	*As developer*	*Both*
Industrial	63%	1%	1%
Leisure	36%	1%	4%
Offices	44%	4%	6%
Residential	60%	4%	15%
Retail	38%	1%	10%
*Alternatives**	50%	1%	6%

*Senior housing, care homes, data centers, health centers, student accommodation
Note: Multiple answers permitted.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

Future Real Estate Investments

The residential and industrial sectors continue to be the preferred choices for family offices when considering future real estate investment. Additionally, alternative real estate investments are gaining traction (**Fig 2.13**). Conversely, there is limited interest in the retail sector, while the office sector is generally viewed as unattractive.

Figure 2.13: *Percentage of family offices investing in real estate intending to increase / decrease their allocation to sub-sector*

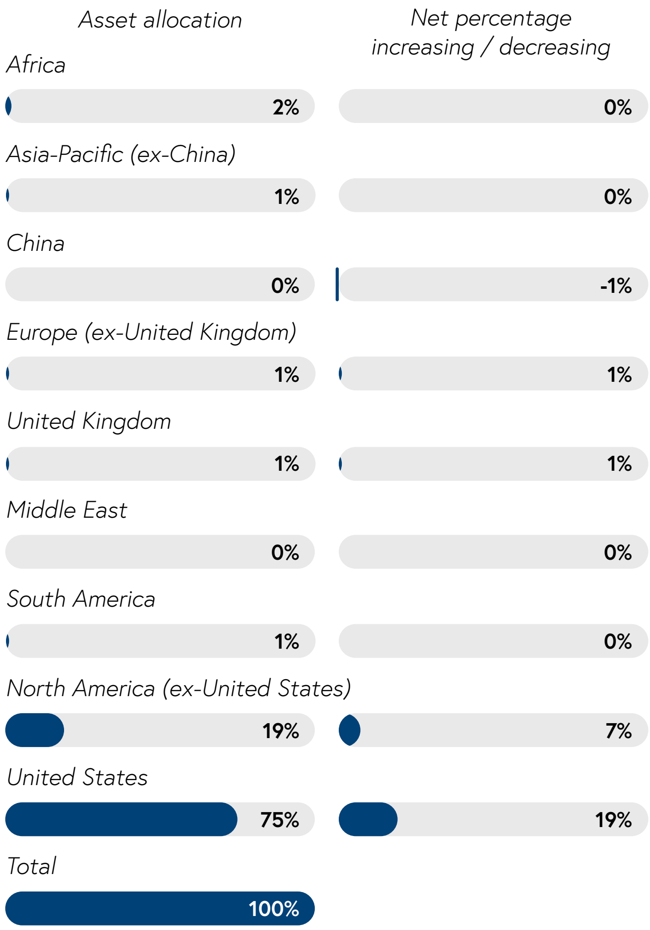
	Increase	*Decrease*	*Net*
Industrial	28%	3%	25%
Leisure	6%	1%	4%
Offices	8%	25%	-17%
Residential	35%	6%	29%
Retail	11%	8%	3%
*Alternatives**	25%	1%	24%

*Senior housing, care homes, data centers, health centers, student accommodation
Note: Multiple answers permitted.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

Geographic focus

Not surprisingly, the majority of North American family office real estate investments (94 percent) are located in North America, with only a small portion invested in other regions like Europe, Asia-Pacific, and South America. Future real estate investments are expected to continue focusing on the United States and Canada.

Figure 2.14: *Family office geographic allocation of real estate assets, and net percentage of family offices intending to increase / decrease their allocation*



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

Offices and retail face structural problems

In the United States, real estate markets exhibit significant regional variations. While the overall residential market may appear weak, certain cities such as New York and Chicago are faring better than others such as San Francisco and Miami[4]. It's important to note that these geographic disparities could influence our attitudinal survey. Nevertheless, a notable 58 percent of family offices believe that affordability issues are likely to plague the housing market, leading to an extended period of weakness (**Fig 2.15**).

The prevailing aversion towards the office market is evident from the 83 percent of respondents who regard remote working as imposing substantial limitations on the amount of office space employers require. The transition towards e-commerce is regarded as a headwind for the retail sector by 54 percent of respondents, while 80 percent see it as a tailwind for warehouse and logistics. However, there is a recognition of potential opportunities stemming from the repurposing and redevelopment of under-utilized prime space, as noted by 75 percent of respondents. Additionally, 72 percent anticipate opportunities arising from significant declines in real estate valuations.

[4] www.forbes.com/advisor/mortgages/real-estate/housing-market-predictions/

Figure 2.15: *Considering your family office's real estate investments, do you agree with the following statements?*

Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

"Our family does not have any leverage on any of its real estate, and so we can ride the cycle. Others, who are dependent on leverage, may feel the pressure as their debt refinances."

Founder, single family office, CA

"I'm looking at the various different geographies where we can make residential investments and try to work out the appropriate entry price given the long-term demographic trends. There's beginning to be a bit of a population shift from historically expensive regions such as New York and San Francisco to cheaper but attractive cities like Nashville and Charleston."

Chief executive officer, multi-family office, CT

"The family are keen to start building a property portfolio over the next 12-18 months but they have been holding back because pricing in the markets we've been looking at is still very frothy, and there's very few houses on the market. The sellers had a view of what their house was worth when mortgage rates were down at three percent but rates are now up at seven percent and sellers' expectations haven't adjusted downwards. These vendors are probably taking the view that the interest rate spike is only a temporary blip."

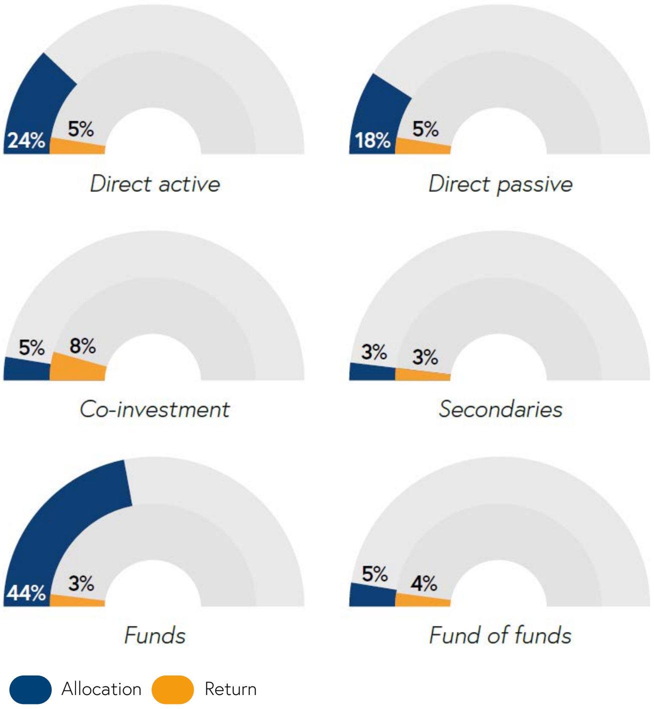
Partner, single family office, CA

Private equity

An overwhelming 90 percent of North American family offices have a stake in private equity. Of this investment, 42 percent is achieved through direct participation, and 49 percent through holdings of funds or fund of funds (**Fig 2.16**). Notably, co-investments and secondaries do not play a significant role in their investment strategies. As mentioned earlier, handicapped by a limited volume of exits, 2022 saw sub-par returns from both direct and fund investments.

Active approach, enhanced returns

Figure 2.16: *Average family office private equity portfolio, allocation and the returns achieved in 2022*



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

Direct vs. funds

While direct investments, on average, constitute the largest segment within portfolios, it's worth noting that more family offices opt to invest through funds rather than directly (**Fig 2.17**). This preference is often attributed to the administration burden, in-depth due diligence, and specialized investment management expertise that direct investments require.

However, some families opt for direct investment where they can leverage their industry-specific expertise and take a hands-on approach.

Across both direct or fund investments, the most appealing investment strategy remains growth. Venture capital investments in early-stage innovative businesses, often but not exclusively utilizing new technologies, continue to garner attention. Additionally, buy-outs and private debt investments maintain their popularity among family offices.

"The family is looking to do direct deals rather than invest in funds. But since we are a relatively small office we don't have the resources to monitor direct investments."

Partner, single family office, CA

"Leverage is a big element in the strategy of buy-out funds. There's a lot of debt that's going to roll over during the next five years, and borrowers will not be able to renew at the same low interest rates as before and covenants will be a lot tighter. But it's going to take some considerable time for this situation to play out."

Director, single family office, NY

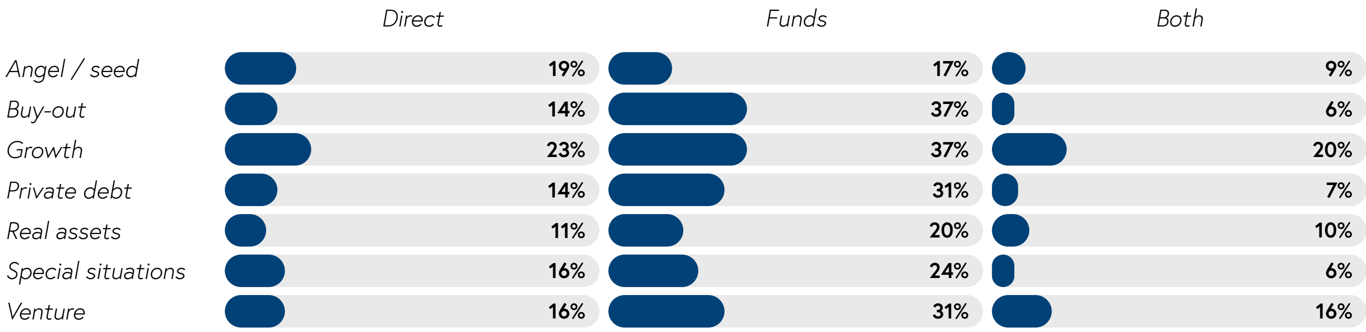
"Financial engineering works well, until it doesn't. A more traditional strategy may carry less risk provided you don't overpay for it."

Founder, single family office, CA

"From my experience there are two types of family office, those that are financially oriented and those that are entrepreneurially oriented. For the more entrepreneurial family offices, making direct private equity investments is probably not a particularly big deal. They are hands-on business creators, used to building big companies out of small companies. The more financially orientated family offices come out of a professional services background – bankers, lawyers, accountants – they don't tend to be involved at the sharp end."

Chief financial officer, single family office, PA

Figure 2.17: *Percentage of family offices investing in private equity with exposure to private equity category*



Note: Multiple answers permitted.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

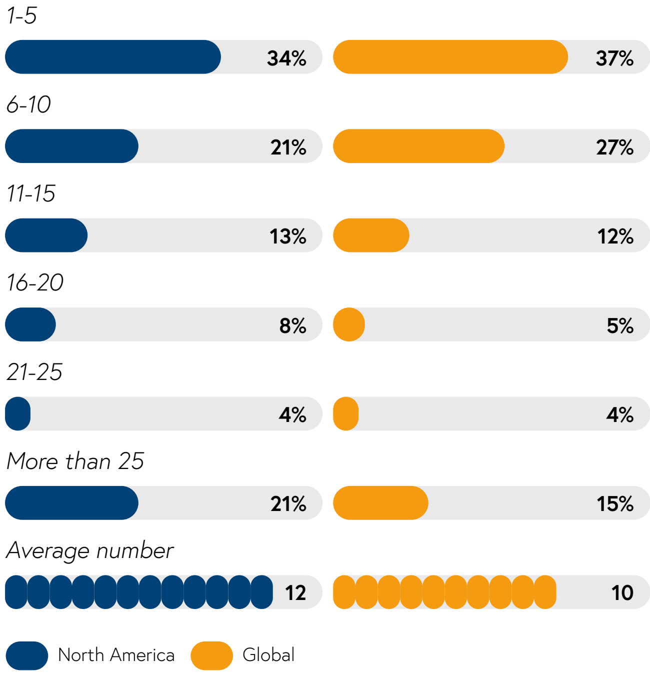
New technologies

Through their private equity portfolios, family offices find themselves involved with exciting emerging businesses that harness cutting-edge technologies. Private equity funds, in particular, offer family offices a comprehensive exposure to a range of these innovations, as indicated in **Fig 2.18**. Notably, artificial intelligence has garnered substantial attention, with a net 31 percent of family offices seeking to increase their involvement, and 14 percent intending to initiate exposure. In contrast, healthcare (81 percent) and digital transformation (76 percent) are also popular technology sectors, but they have been the focus of investment for many years, leading to a lack of new exposures. On the other hand, there is very limited enthusiasm for consumer internet and the Metaverse.

Growing A.I. investment

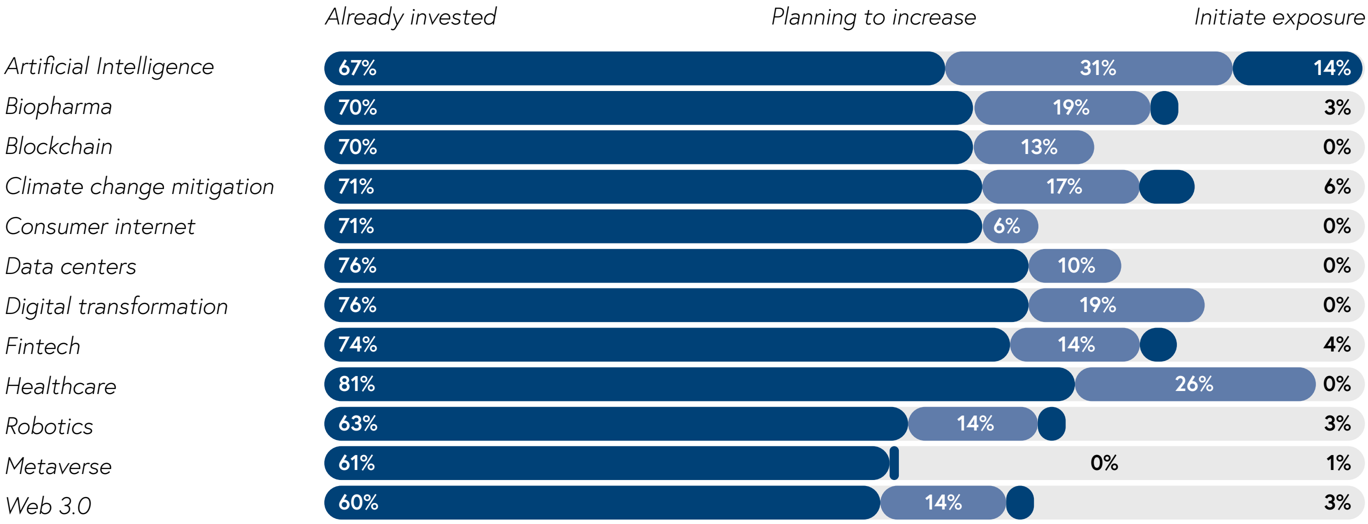
When it comes to direct private equity investing, family offices, on average, maintain 12 concurrent open positions, although the majority hold less than five. Notably, North America boasts a higher proportion of large direct private equity investors, with holdings exceeding 15 positions, surpassing other geographic regions (**Fig 2.19**).

Figure 2.19: *Number of direct private equity positions run concurrently by family offices engaged in direct investing*



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

Figure 2.18: *Percentage of private equity owning family offices already invested in new technology, net percentage intending to increase their allocation, and percentage intending to initiate exposure*



Note: Multiple answers permitted.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

"The families some of us work with are still active entrepreneurial operating families, and they still have core businesses that they run. Our venture capital effort is designed to help them find strategic opportunities to bolt onto their core businesses. Effectively we try to leverage the expertise and networks of the families we work with."

Chief investment officer, single family office, MA

"We just invest in what we know. This isn't just what our family knows, but what the other families we work with know, because they may have existing businesses in these areas. We have strong relationships with them and that's really our focus at the end of the day. If you're playing a game where you have above-average understanding and information, you can generally do better than average."

Managing director, single family office, NY

"Usually what happens is that one of families which has a specific expertise will be the lead investor, and there will be a cluster of perhaps half a dozen families interested in that technology and they will come in as co-investors. But we are not trying to syndicate deals to twenty-plus families, because on that scale you end up with too many cooks in the kitchen."

Director, single family office, NY

"In venture there's a wide dispersion of returns, not only by industry and by vintage, but also by managers."

Vice president, single family office, IL

"We don't manage our commitment decisions to get specific exposures. It's much more an organic process. Having said that, we have tools that tell us where we are invested so that we can determine exactly the minefields are. If we found that we had 90 percent of our portfolio exposed to artificial intelligence, we would all look at ourselves and say I'm not really sure that's what we intended, maybe we should fix this? As it stands over 50 percent of our portfolio is a combination of information technology and health care, but I don't believe that is particularly unusual."

Vice president, single family office, IL

"What passes for artificial intelligence today is really just mathematics and algorithms. Real artificial intelligence is something different. Real artificial intelligence involves machine learning where the machine learns from answering you, so that its second response is better than its first."

Chief executive officer, single family office, Canada

"Artificial intelligence may become specialized. There may be companies offering AI applications for specific industries like biopharma or green-tech. I guess we may find AI turning up in everything, everywhere in a few years."

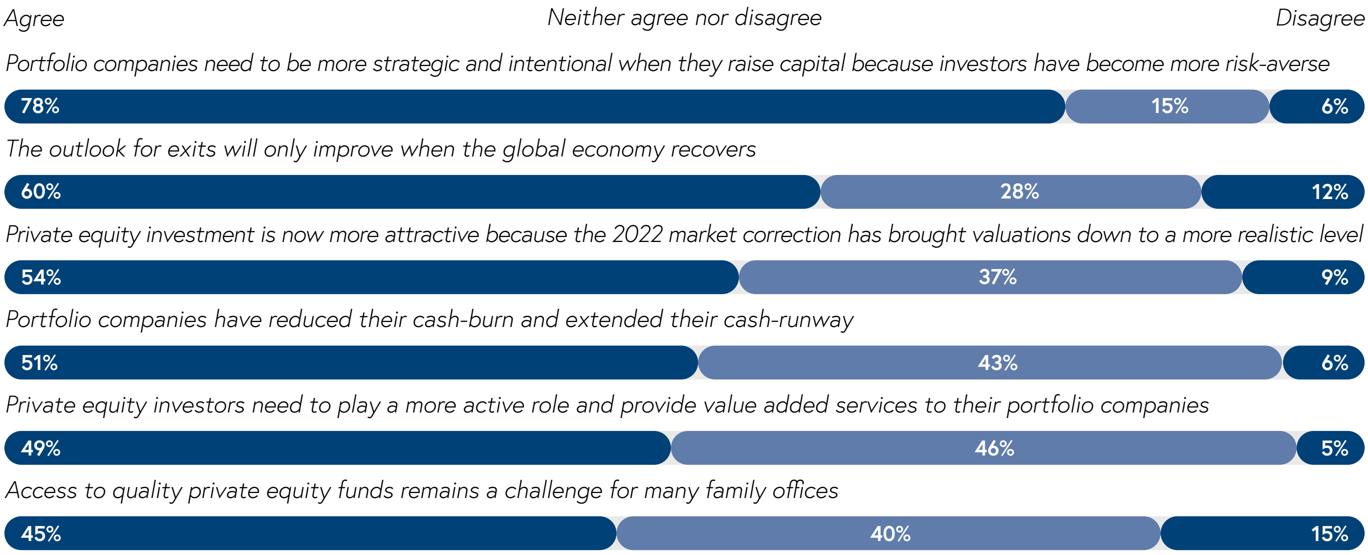
Managing director, single family office, NY

Family offices express a consensus (78 percent) that private equity investors have become more risk-averse, signalling that companies will face increased challenges in raising capital. But 49 percent recognize that as direct investors they should contribute more value-add to their portfolio companies. However, amid the possibility of an impending recession, family offices are not entirely convinced that their portfolio companies have taken sufficient measures to reduce cash-burn, and they remain somewhat cautious about the attractiveness of current valuations.

Historically, family offices have often voiced difficulties in accessing the private equity funds of the most successful fund managers. Despite a cooling market, this is still a problem for 45 percent of respondents.

It's getting tougher out there

Figure 2.20: *Considering your family office's private equity investments, do you agree with the following statements?*



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

"The buyers for our early-stage venture businesses are the big private equity firms. We aren't reliant on the IPO market, or trade purchases by large corporates."

Partner, single family office, CA

"We focus on managers which may have a little bit more flexibility in terms of transaction timing, they may not be dependent on IPO markets. They may have more exit options than larger buyout funds."

Chief investment officer, single family office, MA

"The top managers may require smaller family offices to invest in virtually every fund they sponsor simply to maintain access."

Chief executive officer, multi-family office, CT

Digital assets

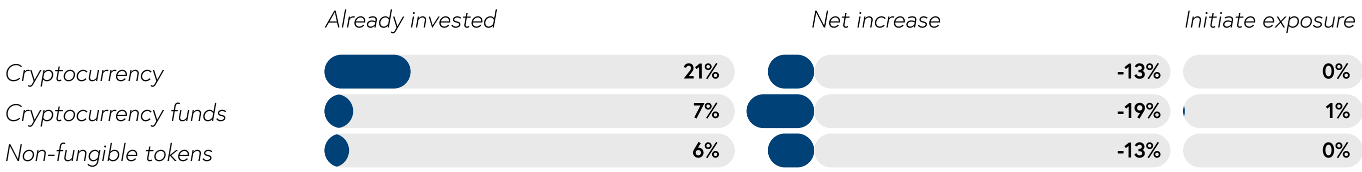
The total cryptocurrency market capitalization currently stands at approximately US $1.2 trillion, a significant decrease from its peak just shy of US $3 trillion in the winter of 2021[5]. This decline reflects investor disillusionment with the asset class, which is mirrored in the holdings of North American family offices. On average, cryptocurrencies account for less than 0.5 percent of total AUM (**Fig 2.7**). Our survey indicates 21 percent of family offices hold cryptocurrencies, down from 35 percent reported in the previous year. Looking ahead, the percentage of family offices intending to reduce their holdings of cryptocurrency and non-fungible tokens (NFTs) exceeds those planning to increase them, with non-holders showing no intention of initiating positions (**Fig 2.21**).

Blockchain unchained

Family offices have a very positive stance of blockchain technology and its potential application to Web 3.0. Blockchain is viewed as transformative because of its ability to establish an immutable record of commercial transactions. A net 42 percent of family offices (**Fig 2.22**) agree that blockchain technologies will generate substantial value, and as previously indicated (**Fig 2.18**) 13 percent are intending to increase their allocation. Similar positive sentiment extends to cryptocurrency. A net 17 percent of family offices believe drawbacks, such as volatility and lack of regulation can be overcome. However, the majority agree that only a select few of today's cryptocurrency offerings will endure in the future. A net 13 percent of respondents agree that a work of art possesses a certain intrinsic value, and this value remains unchanged when represented by a non-fungible token.

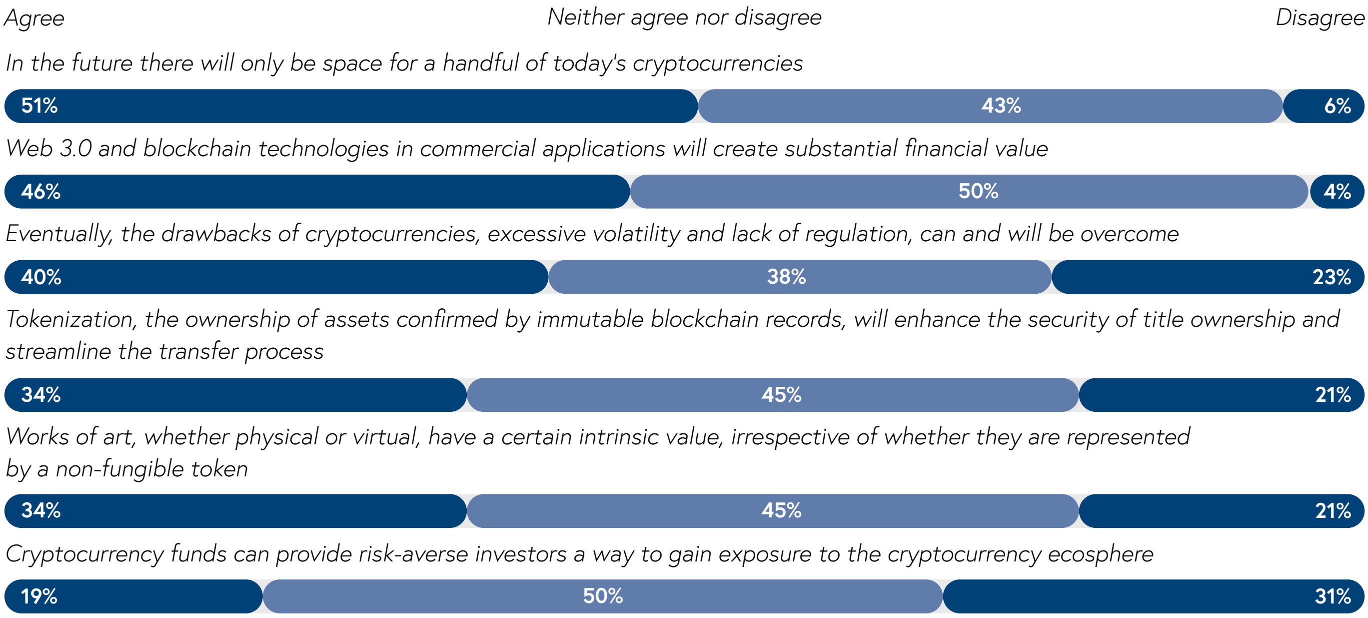
5 www.coinmarketcap.com/charts/

Figure 2.21: *Percentage of private equity owning family offices already invested in new technology, net percentage intending to increase their allocation, and percentage intending to initiate exposure*



Note: Multiple answers permitted.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

Figure 2.22: *Considering your family office's digital asset investments, do you agree with the following statements?*



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

"We are interested in the start-up companies behind the technology rather than the cryptocurrencies themselves."

Managing director, single family office, NY

"We didn't buy into the argument that crypto might substitute for mainstream currencies. We didn't see that as a compelling value proposition."

Chief executive officer, multi-family office, CT

"The question is how do you evaluate it? We know the fair value of things because there is supply and demand, the hidden hand of the market determines the price. But in this case demand is entirely speculative so the value itself is entirely speculative."

Managing director, single family office, NY

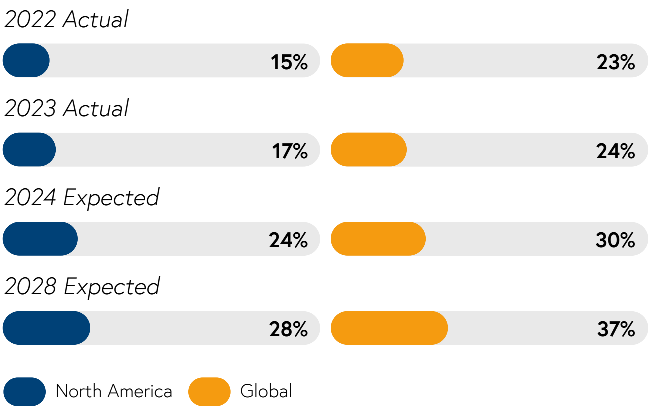
"I believe blockchain will be a very useful technology with many applications. But today it is mainly used for creating money, and this is something I'm not interested in investing in, even though it's a nice technology."

Chief executive officer, single family office, Canada

Responsible investing

Responsible investing is gaining momentum among North American family offices, with 41 percent actively engaged in this strategy. This marks a notable increase compared to the 37 percent recorded in our survey last year. However, the percentage of portfolios directly allocated to responsible investments is considerably smaller at 17 percent, although the expectation is that this will rise to 28 percent over the next five years. It's worth noting that the percentage of family offices engaged in responsible investing is lower than our global average of 50 percent, as is the percentage of portfolios given over to responsible investing (**Fig 2.23**).

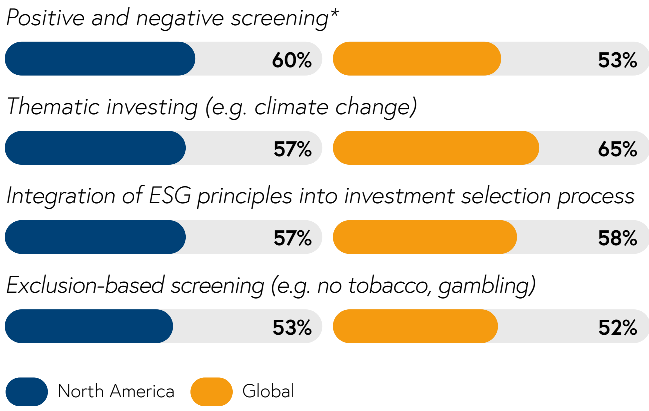
Figure 2.23: *Responsible investments as percent AUM for families engaged in responsible investing*



Source: Campden Wealth / RBC The North America Family Office Report, 2023

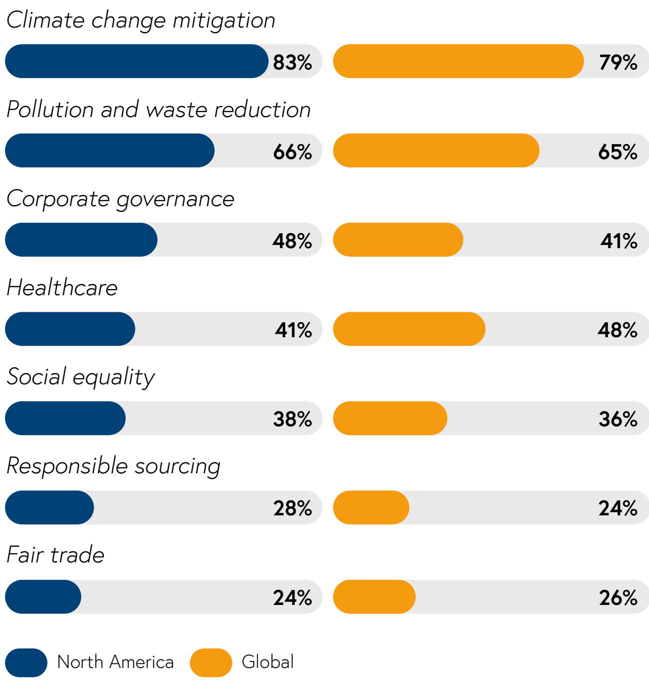
Two of the most commonly employed approaches to responsible investing are 'positive and negative screening' and 'thematic investing' (**Fig 2.24**). The former involves assessing a firm's environmental, social, and governance targets, while the latter focuses on investing in themes aligned with the family's specific interests. Our survey reveals that family offices often combine elements of two or more of these strategies, rather than exclusively using one. Notably, climate change mitigation remains the most popular thematic investing target (**Fig 2.25**).

Figure 2.24: *Responsible investment methodologies used by family offices*



Note: Multiple answers permitted. *RBC would refer to "Positive / best-in-class selection" as "Positive and negative screening", which is a form of ESG Screening. Positive and negative screening identifies assets that meet a defined set of desired ESG-related criteria (which may be product or conduct based). It involves selecting only the companies that meet a defined ESG score threshold.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

Figure 2.25: *Responsible investment themes supported by family offices*



Note: Multiple answers permitted.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

The motivation behind responsible investing varies, with 55 percent of North American family offices citing the increasing importance of sustainability in the media and popular culture as a key driver (**Fig 2.26**). They have a genuinely altruistic approach, although 52 percent also see responsible investing as an opportunity to identify new technologies which might provide attractive investment opportunities. Both in North America and globally, family offices are eager to demonstrate that wealth can be invested for positive outcomes and to align their investments with the preferences of next-generation family members who will have to grapple with environmental and social challenges into the future.

"I believe it's important that our equity portfolio reflects the beliefs of our next gens. We've been transitioning to clean tech and using ESG data to better reflect their interests."

Vice president, single family office, IL

Link to impact investing

Interestingly, responsible investing is becoming increasingly linked with impact investing. Every organization makes an impact on the world and has an identity. Impact measure uses environmental and social data to measure an organization's influences on the world. Stakeholders can include people who work for the organization, use its products or exist in the community where it operates. The question is, are these impacts positive or negative?

Impact investing attempts to net and measure the impacts using an investment portfolio. The biggest challenge to implementing impact investing in a portfolio is that there is no standardized framework or data for what an organization's impacts are, or how to measure those impacts. Many of the data points that are used to perform environmental, social and governance (ESG) integration are also usable for measuring impact – but there needs to be further work on the exact framework to disclose these impacts.

Impact investing is attempting to measure the actual result of adding or removing something to a portfolio and the societal and environmental impact. Impact investing refers to investments made with the specific intent of generating positive, measurable social and environmental impact alongside a financial return (which differentiates it from philanthropy).

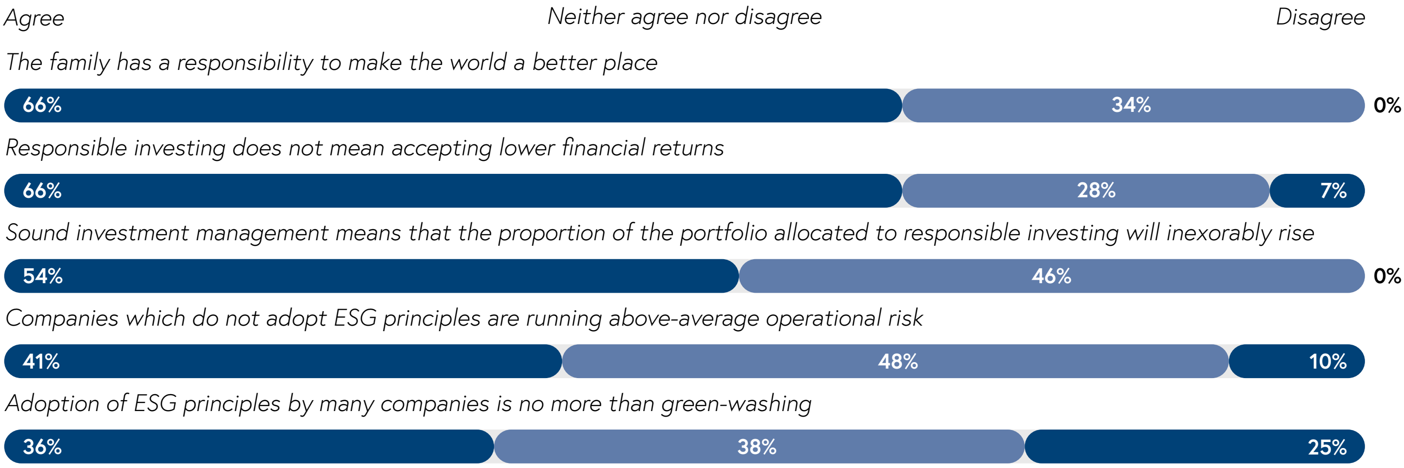
Figure 2.26: *Main motivations for investing responsibly*

Note: Multiple answers permitted.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

Repairing the planet

Exactly two-thirds of families agree that they have a responsibility to make the world a better place, and the same proportion believes that attempting this through responsible investing doesn't mean compromising on financial returns. Recent perfomance doesn't appear to have shaken family offices' belief that there is no financial or risk-adjusted cost to responsible investing. Furthermore, despite the potential for cynicism regarding companies' adoption of ESG principles, only a net 11 percent of family offices view this as greenwashing.

Figure 2.27: *Considering your family office's involvement with responsible investing, do you agree with the following statements?*



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

"The debate around ESG investing has come into sharper focus since 2022 was not a great year for responsible investing, primarily because of the surge in energy-related stocks. Also, there's considerable concern around greenwashing, where companies publicize an element of their behavior specifically to demonstrate how environmentally friendly they are."

Chief executive officer, multi-family office, CT

"The problem is that the investment products that are available from the market do not match the criteria that family offices want to see. True, we could buy an ETF investing exclusively in green bonds, but the ETF is basically telling us what they think is green."

Partner, single family office, CA

"In retrospect it's quite unbelievable how quickly responsible investing has become the accepted norm. This is reflected in the number of participants and the range of ESG investments available. This is especially the case with climate change. It has become universally accepted that it must be addressed, and the families are addressing it head-on."

Founder, single family office, CA

Private equity: consistency

Our survey reveals that after several years of high-teens returns, the private equity portfolios of North American family offices returned, on average, just four percent in 2022. Around one-third were in negative territory. But that hasn't changed the views of this investment manager responsible for a US $2 billion private equity portfolio. Here he explains why and elaborates on his distinct investment strategy.

Can you provide some background on the family office's private equity investments?

"The family office has been around for a very long time; it's now looking after fifth and sixth-generation members. My primary responsibility is private market exposure, which is exclusively focused on U.S.-based managers, early-stage venture capital, growth equity and middle-market buyout. Our exposure is made through commitments to primary funds, we don't do co-investments or secondaries."

What was different about 2022?

"2021 was a fantastic year for exits. By contrast 2022 was pretty poor. It's not that the exits our funds undertook were at a low price, rather it's just that there were not a lot of them. I think an explanation was the cost and availability of debt for both the larger private equity funds and the corporates which would be the natural buyers of venture capital assets. The sparsity of exits creates problems. Investors can only wait so long. Their capital is valuable and can't be left in the fund indefinitely, it needs to be redeployed."

"I'm hoping later this year, or early next, we see exit activity picking up even if that means the highest exit valuations are not achieved. It would certainly help if markets became convinced that interest rates had peaked. One encouraging feature is that cash calls have been below trend so far this year. It doesn't look as though portfolio companies are trying to pay down debt with equity, which is something they would attempt if they were particularly stressed by the interest environment."

Has recent experience prompted you to re-assess the merits of private equity?

"We don't really look at private equity performance in a given year. We think about it holistically over a period of time. The only time when you get a really good answer for how well you have done is when every portfolio business is sold and the fund is liquidated."

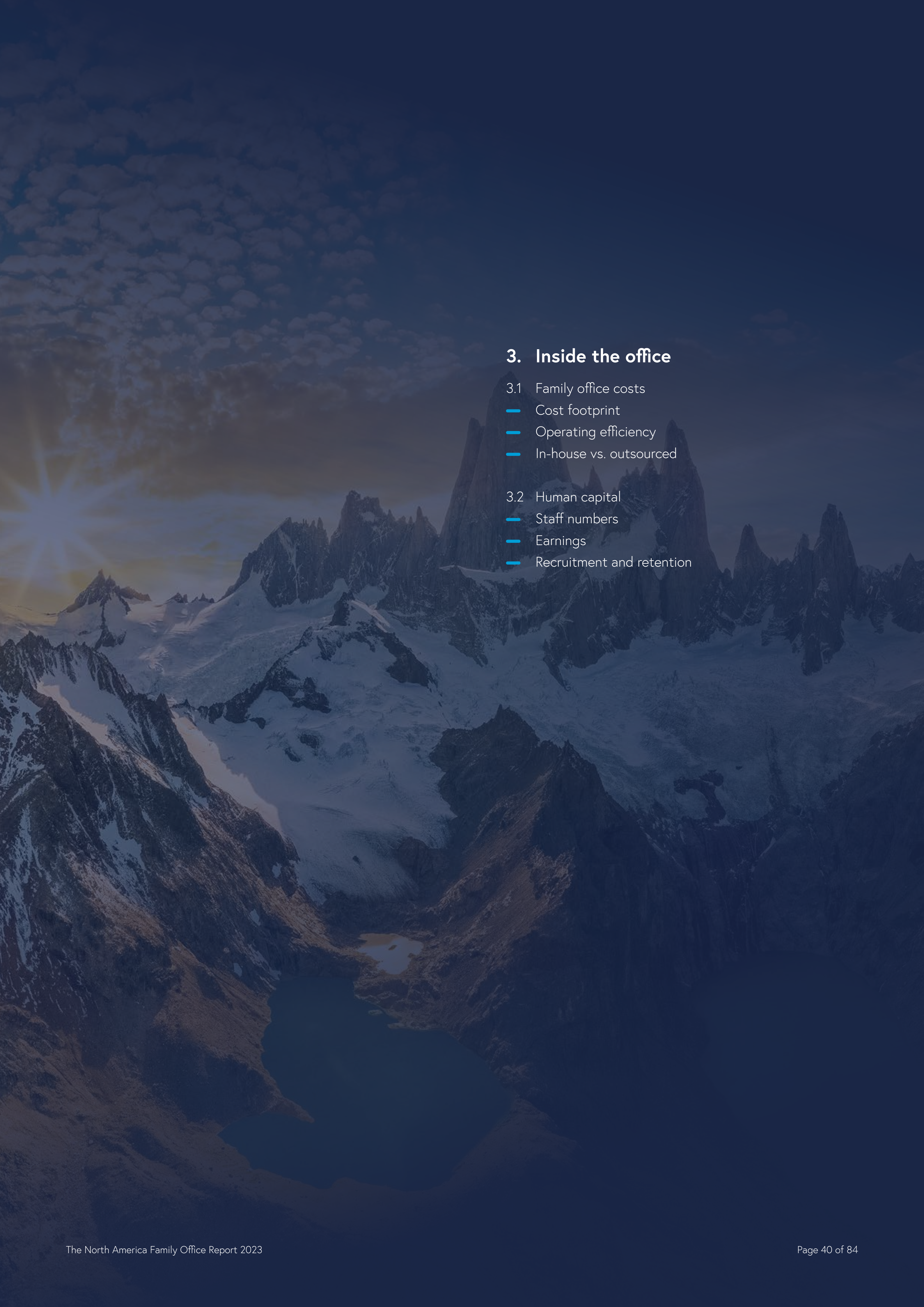
"Last year our venture capital portfolio was down around 20 percent. But was any of this loss actually realized? No it wasn't. Suppose in 2021 the managers had marked a portfolio company at 20 times, and in 2022 they marked it at 10 times. If you think about it over the year the result looks terrible, but over the entire period you still have an investment on which you've made 10 times your initial investment. That's pretty good. We choose to focus on the return at the point of exit, sometimes the intermediary marks are not helpful."

"Our private equity strategy is based on consistency. A market downturn may be a good time to invest because valuations are lower and this may produce an excellent vintage. By contrast they don't need to up their commitments in a strong period because they may end up paying top dollar for the latest investment fad and the performance of that vintage won't look so clever. Now, that's easier said than done because all the time you are going against the conventional wisdom. You have to have enough self-confidence not to be diverted from your strategy. Actually, the family office environment is conducive to this approach because family money is genuinely long-term money. The only thing that would prompt us to change our allocation strategy would be if, for some reason, we changed our beliefs about the markets."

It's not intuitively obvious that recessions are a good time to invest.

"No it's not. But then it's not intuitively obvious which vintages are going to be good and which bad. Therefore, I don't try to guess, which means I'm not taking the risk that I'm going to get it wrong. I'm just going to commit the same amount of money in each vintage and simply bet that on average, as in the past, there will be more good years than bad years. Even if we wanted to select vintages or technologies our system doesn't allow us to do so. Rather, we select the fund managers, effectively outsourcing investment timing and stock-picking to them. On top of that, they're going to be exiting positions perhaps seven or eight years from now and so given all the inherent uncertainties it doesn't make sense to try to over-think timing. Investors who want to do that can use secondaries and co-investments but that's not our strategy."

"Every family office does private equity in a different way. It has to do with the family's expertise; are they risk-taking family entrepreneurs, which generation is in charge, which managers are they close to? There are so many different variations. That's why family offices don't tend to copy each other the way that institutional investors do. If you think about fiduciary responsibility, looking after someone else's pension or capital, you can't afford to deviate too far from everyone else. With family offices, the people making the decision actually own the wealth, they're willing to make decisions that don't adhere to the conventional wisdom and live by the consequences of those decisions."



3. Inside the office

3.1 Family office costs
- Cost footprint
- Operating efficiency
- In-house vs. outsourced

3.2 Human capital
- Staff numbers
- Earnings
- Recruitment and retention

3. Inside the office

- We estimate that the operational costs of North American family offices averaged US $5.7 million last year, reflecting a notable 22 percent reduction compared to 2021. This achievement is particularly remarkable given the prevailing inflationary environment, the expansion of staff numbers, and increased IT expenditure. Family offices maintained costs by implementing measures such as reducing discretionary spending and moderating staff remuneration. In summary, operational costs accounted for 65 bps of AUM, which is 7 bps lower than the previous year but 9 bps higher than the global average.

- While the average operational costs stand at US $5.7 million, it's important to note a substantial variance around this figure. Larger family offices can exhibit operating costs three or even four times greater than the average. This dispersion becomes more pronounced when considering AUM because the largest family offices may have ten times the average. Consequently, the ratio of operating costs to AUM demonstrates significant variability depending on the size of the family office. For family offices with AUM in the range of US $100-$250 million, the average is 239 bps, whereas it drops to 54 bps when AUM are in the US $500-$750 million range. This represents a four-fold improvement in operating efficiency.

- Family offices typically offer services through a combination of their in-house employees and external outsourcing. In most cases services come from both elements. A relatively small percentage (14 percent) exclusively provides all their services in-house, while even fewer (four percent), outsource everything to external vendors. When it comes to advisory and investment-related services, more than 60 percent of family offices adopt a mixed approach, as these services can be readily sourced from external professional vendors. Conversely, administration and family services tend to be handled in-house by family office employees.

- The decision to perform a service in-house or outsource is likely influenced by factors such as cost, frequency, and complexity. On average, smaller family offices with AUM in the US $100-$250 million range outsource 36 percent of their operating costs, whereas larger family offices with AUM exceeding US $1 billion outsource only 20 percent.

- Notably, basic remuneration across the management structure saw significant reductions in 2022 compared to the previous year. The average remuneration of CEOs decreased by one-third to US $304,000. This reduction in basic remuneration, rather than just discretionary bonuses, likely contributed to the strong cost control measures implemented by family offices. This trend may have been facilitated by the high percentage of senior management who are also family members.

$5.7m

(US$) average operational cost of family office

65 bps

of AUM efficiency ratio

$304k

(US$) average CEO basic remuneration

3.1 Family office costs

Cost footprint

In 2022, despite the challenging investment landscape, family offices continued to expand. Approximately 26 percent of respondents indicated that they increased their staff numbers (**Fig 3.0**). This expansion aligns with the trend of professionalization through the recruitment of non-family members. Interestingly, nearly twice as many family offices increased their outsourcing activities compared to those that moved functions in-house. But there was minimal interest in expanding their physical footprints.

Figure 3.0: *Percentage of families reporting change during 2022*

	Significant increase >10%	*Modest Increase <10%*	*No change*	*Modest Decrease <-10%*	*Significant decrease >-10%*
Family office staff	5%	21%	70%	4%	7%
Professional non-family staff	4%	14%	79%	3%	5%
Investment in IT infrastructure	6%	34%	58%	2%	0%
Outsourcing functions to third parties	1%	27%	69%	3%	0%
Moving functions In-house	2%	13%	82%	3%	0%
Number of Offices	0%	2%	97%	0%	1%

Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

Operational costs for North American family offices are estimated to have averaged US $5.7 million in 2022. This figure represents a 22 percent reduction from 2021, despite the inflationary environment and increases in staff numbers and IT expenditure as outlined in **Fig 3.0**. Family offices managed to control costs effectively by reducing discretionary spending and remuneration. Overall, costs represented 65 bps of AUM, which is 7 bps lower than the previous year but 9 bps higher than the global average (**Fig 3.1**).

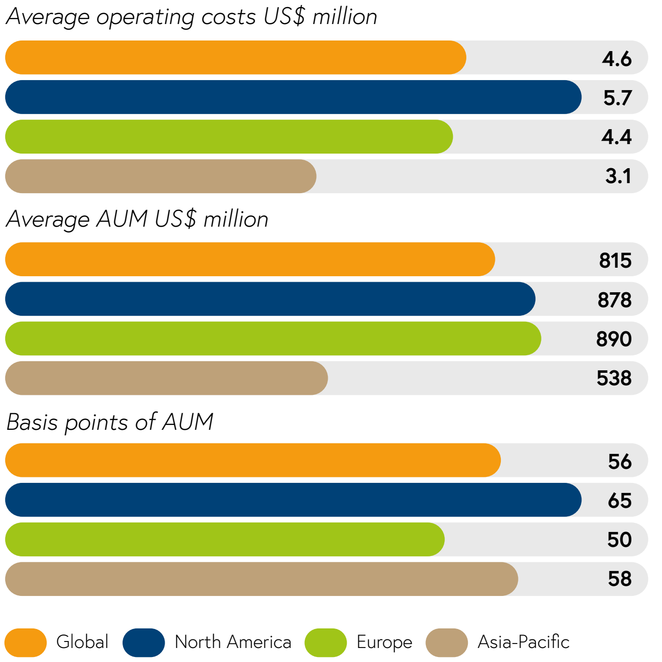
Investment in technology is not an optional extra

"Operating efficiencies, at a high level, is maintaining a healthy balance between cost control and savings. As the world becomes increasingly complex with heightened wide-ranging risks, requirements to expertly manage and protect all aspects of payments, investments and consolidated reporting per family or family member – including expansion of family member coverage perhaps in different countries – through leveraging technology become really important. Investment in technology is the upfront cost of keeping family office staff at current levels."

Lori Woodman
Managing Director, Family Office Services
RBC Enterprise Strategic Client Group

Careful cost control

Figure 3.1: *Family office operating costs as basis points of AUM*



Source: Campden Wealth / RBC The North America Family Office Report, 2023

Family offices expenses can be categorized into four main areas: advisory, investment-related, family services and administration. Advisory costs, which includes estate and financial planning as well as legal services, accounted for 29 percent of total expenses. Investment-related costs, encompassing asset allocation, due diligence, and real estate management, constituted the largest category at 34 percent. Family services, (which incorporates travel and security) and administration each represented slightly less than 20 percent. For a detailed breakdown of operational costs, please refer to **Fig 3.2**.

In addition to operational costs, family offices incur significant fees paid to external investment managers. Averaging 19 bps these costs were notably lower than in recent years, primarily due to a reduction in performance fees.

Operating efficiency

Fig 3.2 provides an overview of the average costs reported by survey respondents. However, there is substantial variation within this aggregate, as larger family offices have operating costs three to four times higher than the average. This variation is further amplified when considering assets under management, as the largest family offices may have more than ten times the average AUM. Consequently, the ratio of operating costs to AUM varies significantly, indicating that operating efficiency and potential profitability improve substantially when moving from the US $100-250 million to the US $500-$750 million range, as shown in **Fig 3.3**.

Size advantage

Achieving efficiency improvements in operating costs becomes increasingly challenging once family offices exceed US $750 million in assets under management (AUM). Beyond this threshold, the pace of reduction in the cost-to-AUM ratio begins to taper off. For family offices with over US $1 billion in AUM, we estimate the ratio to average around 41 bps. This implies that either achieving additional cost efficiencies becomes more difficult at this size, or, more likely, the expansion of functions and scope within family offices as they grow beyond this point contributes to an increase in their cost base.

"Being embedded within the family office is very helpful when it comes to costs. An awful lot of services such as payroll, human resources, office administration we don't end up paying for, it's handled by the family business. This is very helpful, and we run the office with six employees including three who look after the real estate portfolio."

Director, single family office, NY

"The costs in the family office depend directly on the number of people it serves. If the family is just a founder, a couple of kids and a couple of grandkids, the office doesn't need a whole bunch of people to make them happy. But if you are into the sixth generation with 150 family members it's a different story."

Vice president, single family office, IL

"We're a relatively large family office with a sizeable direct private equity and real estate portfolios and more than 30 staff. Aside from some legal work more or less everything is done in-house. Our costs are consistently around 70bp of AUM."

Chief investment officer, single family office, MA

"We have a record going back 50 years and over that period we've generally kept costs below 40bp of AUM, and we've been helped by setting up our own private trust company. The private trust company acts as the trustee for all the family trusts, and therefore provides flexibility as well as efficiency."

Partner, single family office, CA

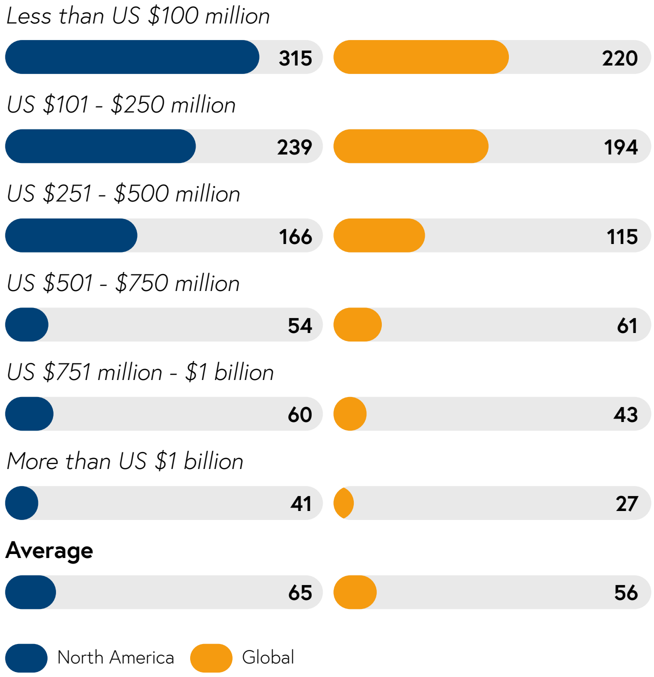
Figure 3.2: *Breakdown of average family office operating costs 2022*

	Percent average family office operating costs (North America)	Basis points (North America)	Operating cost of average family office (US $ million) (North America)	Percent average family office operating costs (Global)	Basis points (Global)	Operating cost of average family office (US $ million) (Global)
Estate planning	5%	3	0.3	4%	2	0.2
Financial planning	7%	5	0.4	8%	4	0.3
Insurance	5%	3	0.3	4%	2	0.2
Legal	5%	3	0.3	5%	3	0.2
Succession	3%	2	0.2	2%	1	0.1
Tax planning	5%	3	0.3	5%	3	0.2
Advisory	**29%**	**19**	**1.7**	**28%**	**16**	**1.3**
Accounting	8%	5	0.5	7%	4	0.3
Asset allocation	5%	3	0.3	6%	3	0.3
Due diligence	7%	4	0.4	7%	4	0.3
Real estate	5%	3	0.3	5%	3	0.2
Reporting	4%	3	0.3	4%	3	0.2
Risk management	4%	3	0.3	5%	3	0.2
Investment related	**34%**	**22**	**1.9**	**35%**	**20**	**1.6**
Concierge	5%	3	0.3	5%	3	0.2
Next-gen education	5%	3	0.3	4%	2	0.2
Security	4%	3	0.2	4%	2	0.2
Travel	5%	3	0.3	5%	3	0.2
Family services	**18%**	**12**	**1.0**	**18%**	**10**	**0.8**
Human resources	6%	4	0.3	7%	4	0.3
Information technology	5%	3	0.3	5%	3	0.2
Premises	7%	5	0.4	7%	4	0.3
Administration	**19%**	**12**	**1.1**	**19%**	**11**	**0.9**
Total operating expenses	**100%**	**65**	**5.7**	**100%**	**56**	**4.6**
Administration		5	0.4		4	0.4
Custody and reporting		5	0.4		4	0.4
Performance		9	0.8		7	0.6
External investment management fees		**19**	**1.6**		**16**	**1.3**
Total operating and investment management		**84**	**7.4**		**72**	**5.9**

North America Global

Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

Figure 3.3: *Family office operating costs as basis points of AUM by AUM*



Source: Campden Wealth / RBC The North America Family Office Report, 2023

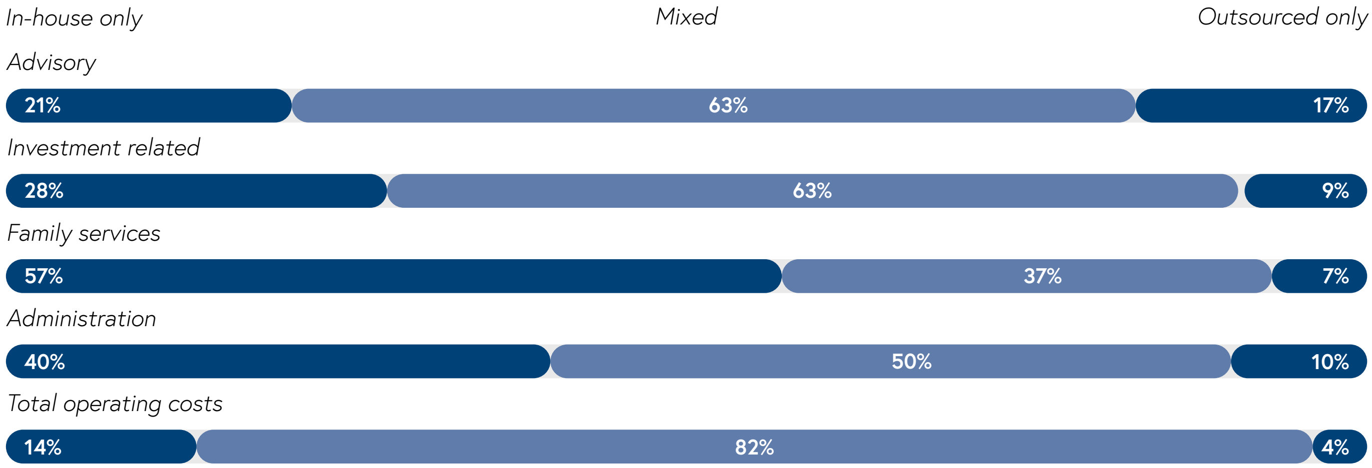
In-house vs. outsourced

Family offices deliver services through their own employees and resources or through outsourcing arrangements. Typically, services are a mix of both. Only a small percentage (14 percent) of family offices handle all services in-house, and an even smaller fraction (four percent), referred to as 'virtual offices' outsource everything to external vendors. Services like advisory and investment-related functions are often outsourced to professional vendors, explaining why more than 60 percent of family offices adopt a mixed approach for these services (**Fig 3.4**). Conversely, administration and family services are typically performed in-house by family office employees.

Family offices take a mixed approach

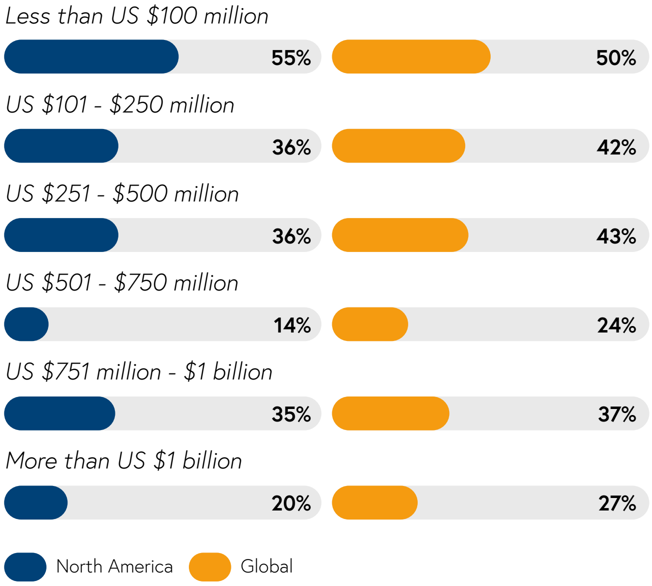
The decision to keep a service in-house or outsource it likely hinges on factors such as cost, frequency, and complexity. Frequently repeated, less-complex functions can be efficiently managed in-house by generalists within the family office. In contrast, more complex and specialized tasks may necessitate the expertise of external professionals. Since frequency plays a role, it's reasonable to expect that larger family offices, which likely have more functions performed more frequently, would have a higher percentage of their expenses incurred in-house. Data from North America, as well as globally (**Fig 3.5**) supports this hypothesis.

Figure 3.4: *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 / RBC The North America Family Office Report, 2023

Figure 3.5: *Percentage of operating costs outsourced and family office AUM band*



Source: Campden Wealth / RBC The North America Family Office Report, 2023

"The family really wants a super high level of service, and you lose control of it when you outsource. Everything, estate planning, wealth management, tax management, and insurance, all that is done in-house. It's expensive to hire all the necessary people, but an external vendor will never give you the same quality of service because their business model is to serve many clients, not just one."

Director, single family office, NY

"I keep the intellectual capital in-house but everything else is outsourced to an external network of virtual professionals. This way I have the best people employed on every project. Instead of paying for an under-employed permanent resource, I'm only paying for services when I actually need them."

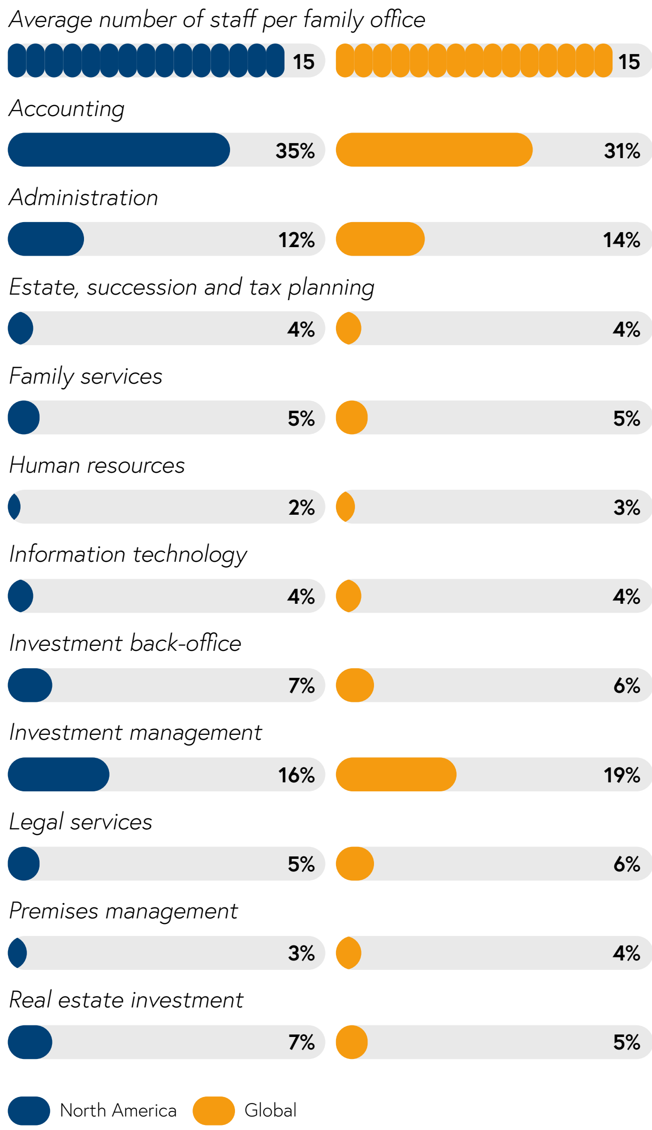
Founder, virtual family office, TX

3.2 Human capital

Staff numbers

Most North American family office employ between five and ten staff members, but roughly one-third have a considerably larger workforce, often in the high double-digits, which pushes the average headcount up to around fifteen (**Fig 3.6**). When considering back-office and real estate functions, just under one-third of employees are dedicated to investment management. Another third focus on financial and investment accounting, with the remainder involved in various areas such as administration, legal services, estate planning, and IT.

Figure 3.6: *Number and function of family office staff*



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

Earnings

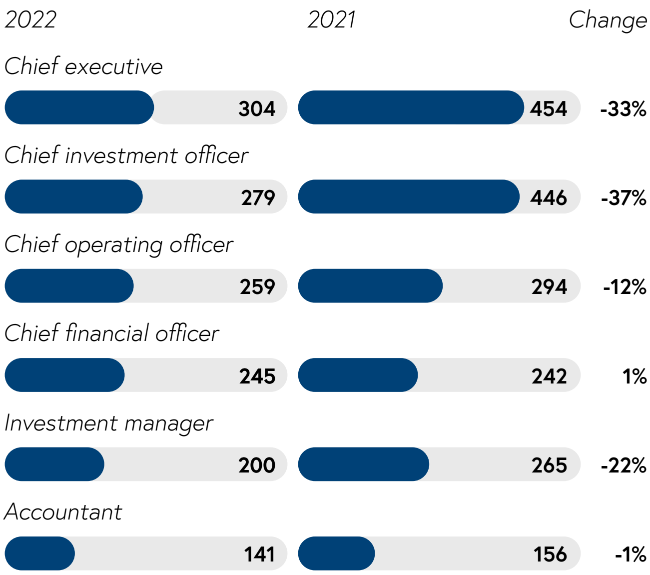
In 2022, Chief Executives of North American family offices received an average base salary of US $304,000. However, there is a significant range in salaries, with the top decile earning US $633,000 and the bottom decile receiving as little as US $36,000. The variation can be attributed in large part to the fact that 69 percent of CEOs are family members, many of whom either completely forgo remuneration or receive below market rates. For CEOs who are also family members, the average salary was US $234,000.

In 2022, family offices implemented significant reductions in basic remuneration across their management structure (**Fig 3.7**). These reductions were most notable at the top levels of the hierarchy, with average CEO remuneration decreasing by 33 percent and CIOs by 37 percent. This reduction in basic remuneration likely played a key role in the overall cost control measures adopted by family offices during a challenging investment environment, probably made possible by the high percentage of senior management who are also family members. This goes a considerable way towards explaining the strong cost control that family offices exhibited (**section 3.1**).

"Salaries and professional fees are the principal elements in our spending. We've cut our own salaries to make the office more responsible. The family members recognize the office can't afford to pay them the market rates they would earn outside the family enterprise."

Founder, single family office, CA

Figure 3.7: *Average base salaries of senior family office executives (US $ thousand)*



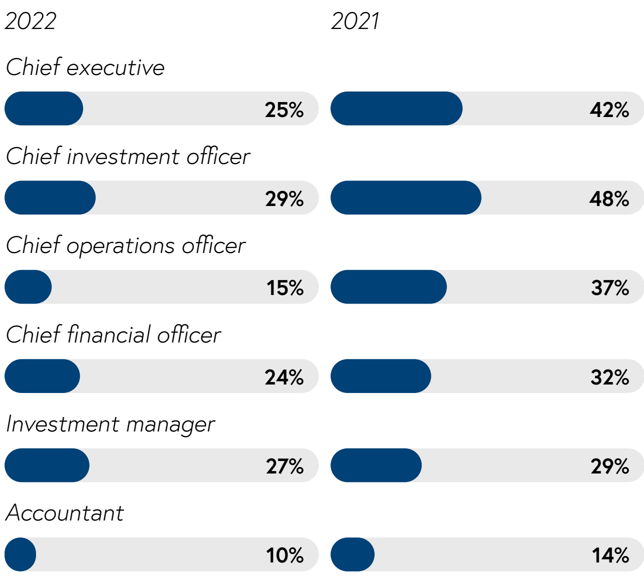
Source: Campden Wealth / RBC The North America Family Office Report, 2023

Bonuses paid by family offices to their senior management and executives are predominantly discretionary or discretionary with a formulaic element linked to investment performance. In a good year these bonuses typically amount to 30 to 40 percent of base salary, but for 2022, they were significantly lower (**Fig 3.8**), serving as an additional source of cost-saving for family offices.

"One of the challenges is how to compensate investment professionals who work for family offices. They will be acutely aware of what they could earn in an institutional environment. At a family office they will enjoy a better work / life balance. But they will only be prepared to earn fractionally less. We've found that sharing the benefits of investment outperformance through a discretionary bonus scheme creates the right environment."

Chief investment officer, single family office, MA

Figure 3.8: *Value of bonus as a percentage of base salary*



Source: Campden Wealth / RBC The North America Family Office Report, 2023

Recruitment and retention

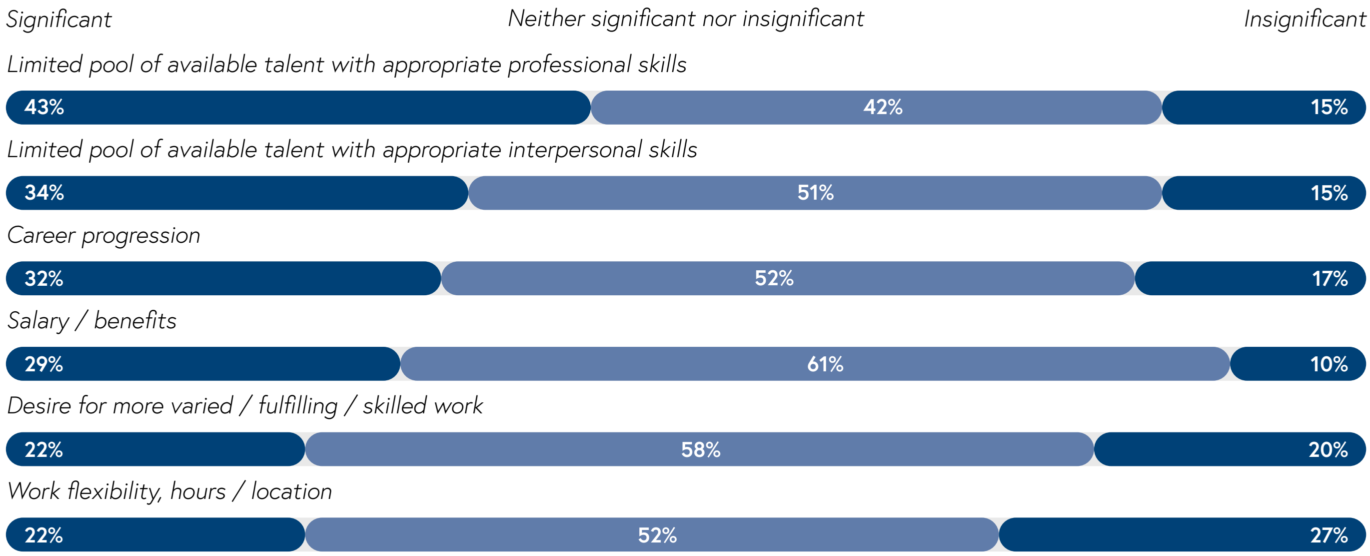
The ability to recruit staff with the appropriate skill set is critical for family offices. Often, the pool of potential talent is found to be too small, with 43 percent seeing this as a significant constraint on their ability to hire professional staff (**Fig 3.9**). Additionally, 34 percent feel that the limited talent pool is also a constraint on their ability to hire staff with appropriate interpersonal skills. When it comes to retaining staff, family offices see providing career progression as more important than salary and benefits. However, factors like work flexibility and the variety and nature of work are not viewed as significant factors in staff recruitment or retention.

Talent pool too narrow

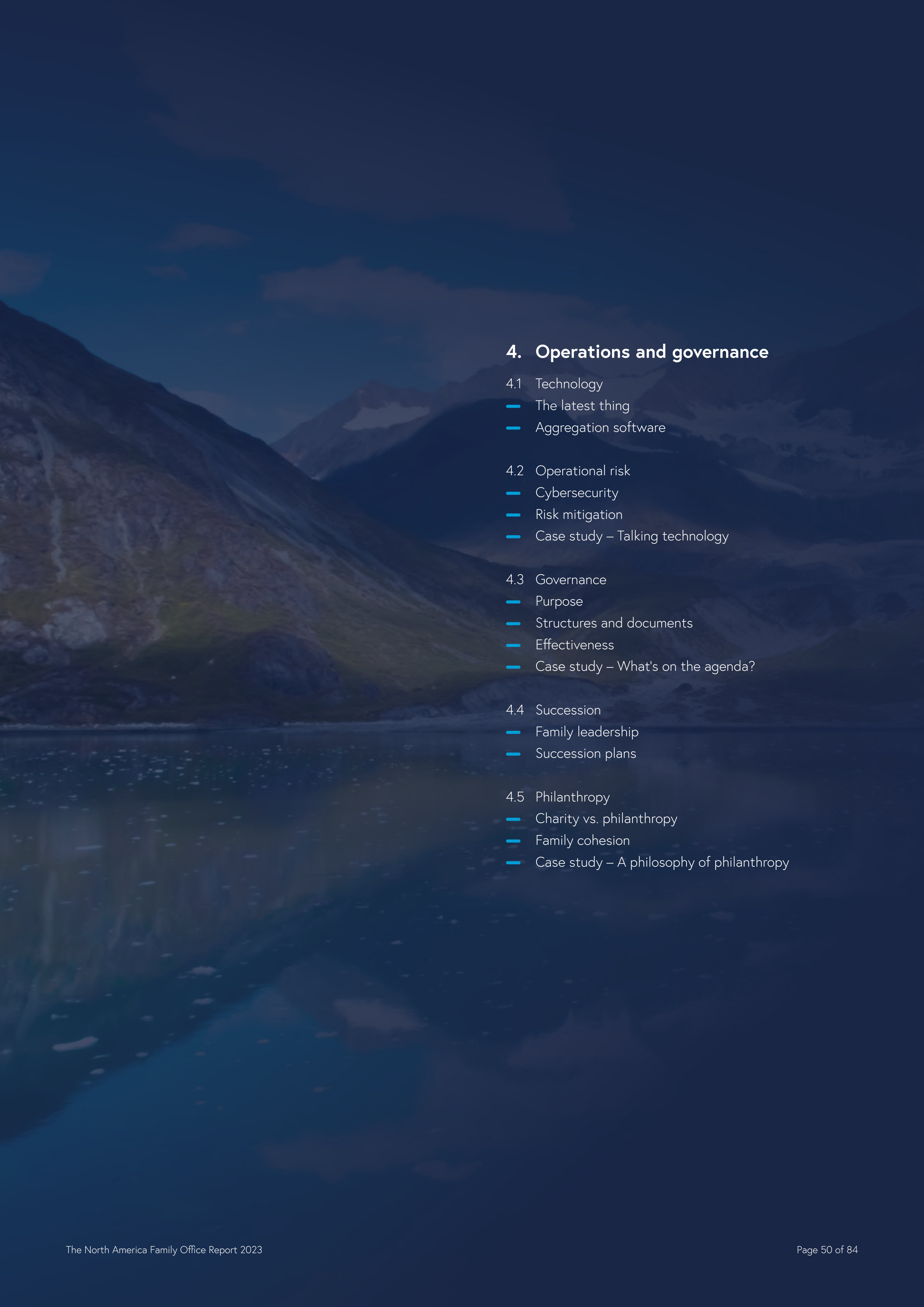
"Retaining staff is always a challenge. One of the benefits of upgrading to more sophisticated technology platforms would be to allow us to attract talented staff for more meaty, demanding and fulfilling roles that would help us grow assets, rather than recruiting just to ensure there was someone to do the back office functions."

Chief financial officer, single family office, PA

Figure 3.9: *Please indicate significance of issue in staff recruitment / retention*



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023



4. Operations and governance

4. Operations and governance

- Wealth aggregation platforms are gaining traction among family offices, with 38 percent adopting these platforms to consolidate financial data from various sources.

- Cybersecurity is the most frequently cited concern for family offices, with 61 percent listing it as a top worry. While 21 percent reported experiencing cyber-attacks in the past 24 months, no family office recorded a significant financial loss. Coming behind cyber-attacks, 60 percent of families are concerned by the risks associated with manual processes such as human error and data loss.

- To mitigate operational risk, family offices commonly employ measures such as dual authorization of payments (78 percent) and backup servers (73 percent). However, only 47 percent have a business continuity plan detailing how operations might continue in the event of a natural disaster or other emergency.

- The most prevalent governance structure in family offices is an investment committee, found in 77 percent of cases. Family councils are less common but more popular with larger, multigenerational families.

- Family offices are viewed as effective at transitioning wealth from one generation to the next (70 percent), ensuring capable leadership (79 percent), and making informed decisions (78 percent). They are seen as less effective in fostering collaboration and avoiding conflict between family members.

- Successful succession planning involves early introduction of next generations to family values (92 percent) and encouraging their interaction with the family office and leadership (84 percent). Additionally, the willingness of the existing family leadership to embrace the succession issue is critical (76 percent).

- Many family offices engage in philanthropy, with 75 percent making philanthropic donations. They focus on causes like education (68 percent), community development (56 percent), and healthcare (46 percent), to address the root cause of problems rather than just providing temporary solutions.

61%

cite cybersecurity as a primary concern

77%

have an investment committee

70%

view their family office as effective

4.1 Technology

The latest thing

Family offices in North America are embracing various technological solutions, including cloud-based data storage, automated payroll systems, and access to financial market information with penetration levels exceeding 70 percent for all three product types (**Fig 4.0**). However, some family offices have reservations about certain technologies, such as cloud-based data storage, due to security concerns.

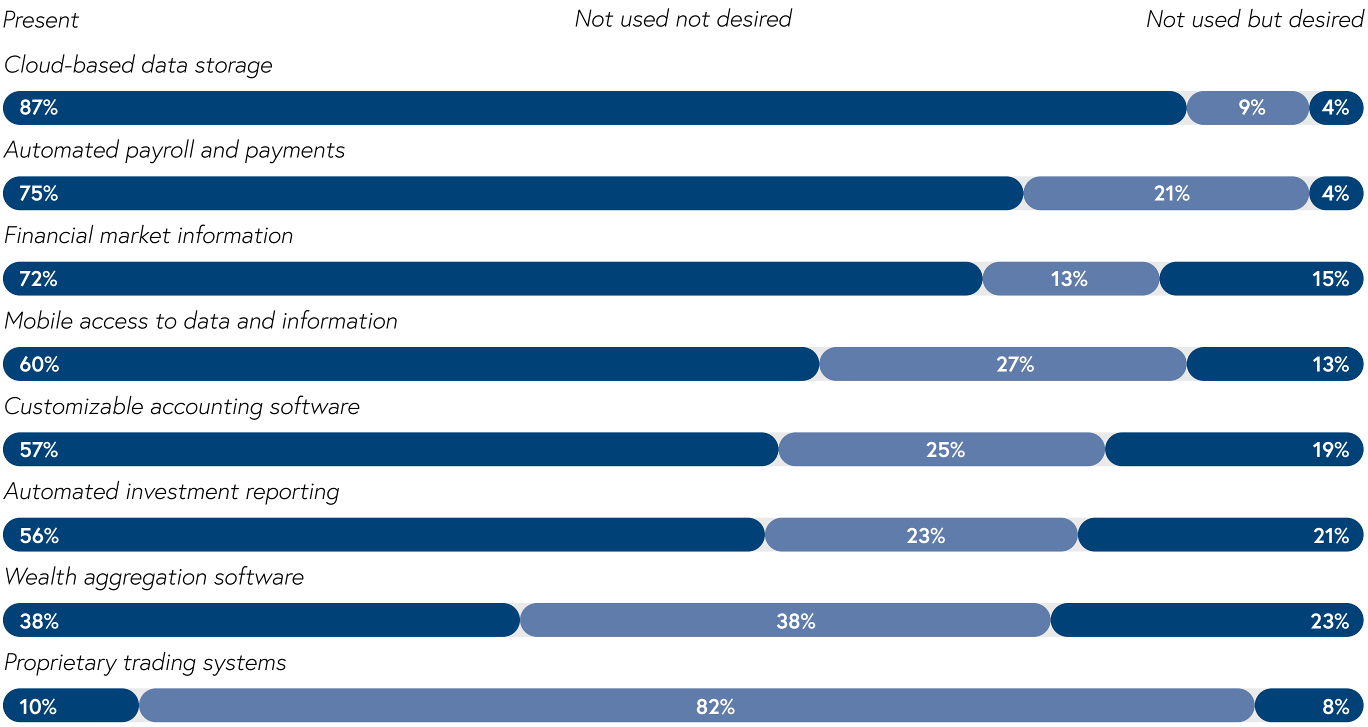
While customizable accounting software, automated investment reporting (covering risk, portfolio management, and order execution), and mobile access solutions are well established, adoption by family offices is not yet universal. Surprisingly, a significant percentage of family offices that do not currently use these technologies express interest in doing so, indicating a potential desire for greater efficiency and automation.

The hesitation in adopting certain technologies could be attributed to cost considerations and the limited scope of certain family office activities making the necessary investment uneconomic. However, it's essential for family offices to consider the long-term benefits and efficiencies that technology can offer, even if there are initial implementation costs. As one participant argued, not doing so could prove short-sighted.

"In the early days we viewed technology as a cost that we were always trying to minimize. Over time we learned that was pretty short-sighted because it didn't take account of all the data we could get. Our technology budget is now 20 times higher than 15 years ago, but the benefit that we get out of it is a multiple of that. Take contact management software, for example. We use it to track outside projects that come into the firm. We can use it to see who has looked at it, what their findings were, would it be worth looking at it again? We are happy to have a first meeting with almost anyone, but we're very intentional about who we want to see for a second meeting. The software really helps with that."

Senior executive, single family office, FL

Figure 4.0: *Presence and usefulness of technology platforms used in family offices*



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

"We are a medium-sized family office and technology is a considerable part of our operating costs. But technology is still progressing at a fast pace, and we don't know what the end product will look like, or how to incorporate it into our business, or indeed whether it can be incorporated at all. Cloud platforms make it efficient for multiple users to use the same software, but we are very worried about security and confidentiality."

Director, single family office, NY

"Adopting new technologies has a cost not only in terms of money but also time. It's accepted that adoption will make the work easier and reduce running costs, but in order to get there a significant investment in time is normally required. Our family implemented a document management system which created a paperless office. This increased their flexibility enormously, but the set-up was a huge task because every document had to be scanned into the new system."

Founder, virtual family office, TX

Aggregation software

Wealth aggregation platforms and related software, designed to offer a comprehensive view of an organization's financial landscape by consolidating data from multiple banks and investment managers, are emerging as valuable tools for family offices. While adoption levels are currently modest, there is growing interest among family offices in harnessing the capabilities of these platforms.

The most effective wealth aggregation platforms are those capable of accommodating the intricacies of family office operations, taking account of legal structures like trusts and limited liability companies, and individual and group interests tied to these structures. Moreover, these 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, as well as lifestyle assets like art or cars. This technology has the potential to significantly enhance the operational efficiency and financial oversight of family offices as they manage complex and diversified portfolios.

"The accountants spend months preparing balance sheets and profit and loss accounts for all the different operating assets and then try to produce a consolidated report. This is actually very difficult and very spreadsheet- and time-intensive. The principal wants a picture of total net worth at the press of a button but we simply don't have the capability."

Director, single family office, NY

"My family office has a dozen irrevocable dynasty trusts, each of which is invested, to differing degrees, in several hundred limited liability companies. Then there are nested structures where family members own some assets jointly and some separately. Keeping tabs on any individual's ownership rights is problematic because of this layering."

Chief executive officer, single family office, TX

"When I arrived here in 2019, we just had basic accounting software and a spreadsheet. Every month we added a new column, but there was no way of extracting any useful timely information out of it, and it was full of errors. Now we have what I refer to as a single source of truth, and it enables me to avoid having to look at individual third-party systems."

Chief executive officer, single family office, Canada

"Right now we are not using any sophisticated technology in the family office unless you count cloud-based data storage. Possibly this is connected to decisions taken by the older generation, and possibly because we haven't seen technologies and devices we really need to use. We are a pretty lean set-up."

Managing director, single family office, NY

"A significant cost is the license fee paid for software. We use specialist aggregation software which consolidates all the data feeds we get from our various accounts held with financial institutions. We use this system for tracking receipts and payments, collating and aggregating them. It also handles conventional accounting, tax accounting, and investment accounting, all the various things we need to monitor in one place. The overall cost is almost a quarter of a million dollars a year."

Chief financial officer, single family office, PA

4.2 Operational risk

Operational risk is a shared concern across all types of organizations, but family offices face unique challenges related to the physical security and personal privacy of family members as well as the safeguarding of financial assets. Family offices must be vigilant against fraudulent activity by those seeking to exploit their role as custodians of substantial wealth.

Cybersecurity

It's unsurprising that 61 percent of family offices cite data breaches and cyber-attacks as a significant concern (**Fig 4.1**). The remaining percentages who are not concerned (31 percent) or unconcerned (eight percent), likely base their confidence on the robustness of their own cybersecurity measures.

The risks associated with manual processes are also prominent, with 60 percent of family offices expressing concern. Manual processes introduce the risk of data errors or loss, and even theft or fraud, especially when key staff members depart. The failure to upgrade technology, which can help automate processes and reduce risks, is closely related. Notably only 40 percent of family offices view this as a potential concern, suggesting that many believe their technology is sufficiently advanced.

Cybersecurity and manual processes head operational risk concerns

Family offices appear less concerned about risks related to inadequate management information systems (18 percent) or poor expense control (18 percent). This may reflect confidence in their current systems or a focus on more pressing concerns.

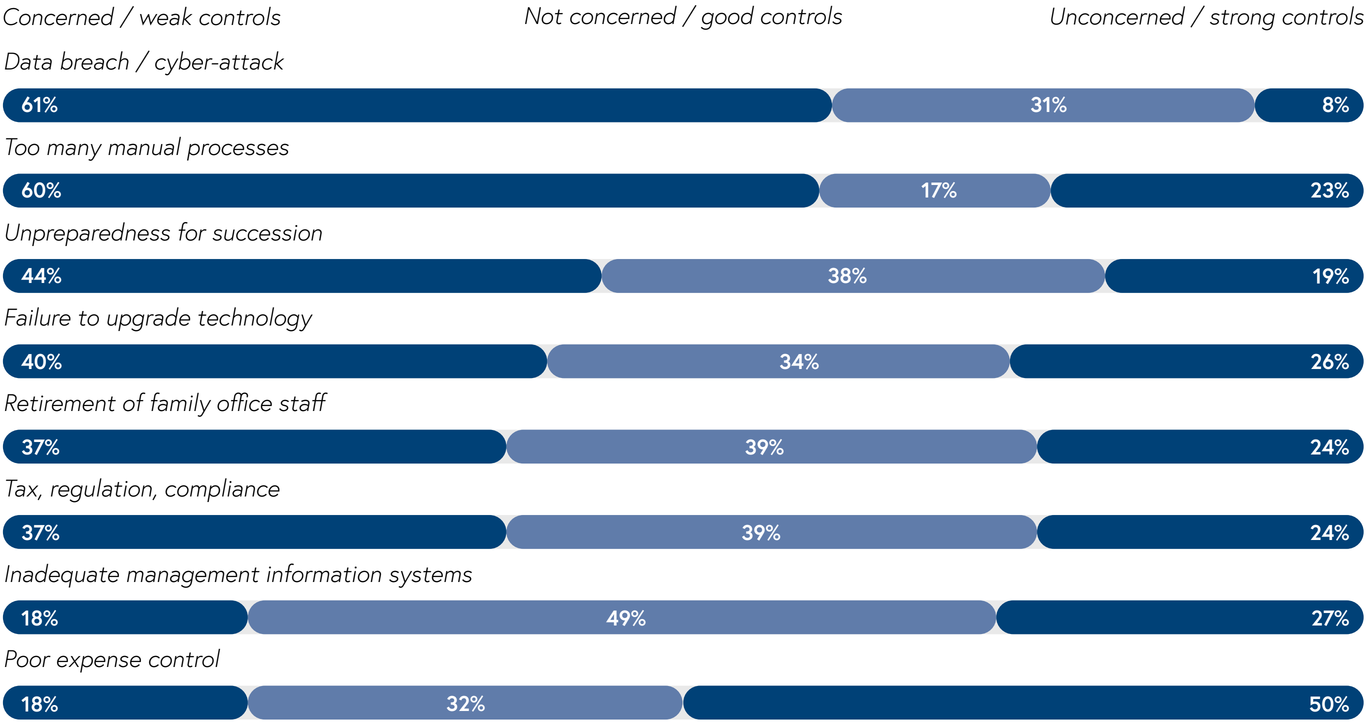
The retirement of senior leaders and the transition to the next generation is a potential source of operational risk, but one which comes only mid-table in this assessment. Family offices appear to believe that careful planning is in place to help mitigate adverse outcomes.

Operational risk management is paramount for family offices as they navigate these challenges and work to safeguard family wealth and security.

"I'd like to eliminate spreadsheets from the family office, but I can't ever see it happening because spreadsheets are so flexible. I have to keep track of over a hundred utilities supplied to 40 homes within our rental portfolio. But no one makes specific software for this. We could spend US $5 million commissioning programmers to write bespoke software but it's not worth the expense."

Founder, single family office, CA

Figure 4.1: *Percentage of family offices expressing concern over specified operational risk*



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

"As chief executive of a family office I see my principal functions as threefold. The first is to handle day-to-day operations. Number two is making sure that the family are protected against all eventualities. Finally, the third is helping them to make sensible investments. I always feel whenever I'm at family office webinars or conferences, the juicy part is always the investment stuff. But in my mind, that should be third on the list of priorities."

Chief executive officer, single family office, TX

Risk mitigation

Having highlighted the most prominent operational risks, **Fig 4.2** lists the measures family offices adopt to counter them. As a defence against cyber-attacks and IT system failures, 73 percent of family offices employ back-up servers, 71 percent have systems to control remote access working, and 63 percent enforce a data security policy. Dual authorization of payments (78 percent) has become the standard defence against theft and fraud, but to a lesser extent family offices also rely on staff training (49 percent) and their own family office handbooks (37 percent). But only 47 percent of family offices have a business continuity plan detailing how operations might continue in the event of a natural disaster or other emergency.

Dual authorization is standard

Family offices in North America have faced a higher incidence of cyber-attacks compared to their counterparts in Europe and APAC. The survey revealed that 21 percent of family offices in North America reported experiencing a cyber-attack, including phishing incidents, in the past 24 months. This percentage is notably higher than the incident rate among family offices in Europe, which stood at 11 percent, and significantly higher than APAC, where only three percent reported such incidents.

Whilst no family office reported a significant financial loss due to these attacks, approximately 60 percent recorded some financial loss, which respondents generally described as 'insignificant'. Importantly, a quarter of cyber-attack cases resulted in disclosure of data or personal information. These findings underscore the vital importance of implementing robust cybersecurity measures within family offices to protect sensitive data and maintain the trust of stakeholders.

"The problem about defending against cyber-attacks is that you can never kill your attacker. They get infinite tries, but I can't find them."

Founder, single family office, CA

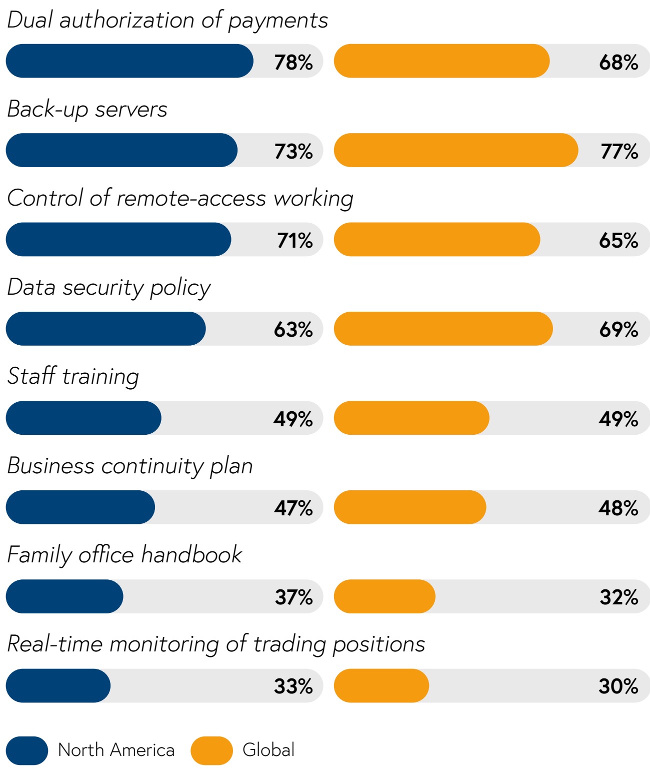
"We had a new employee and on her very first day she received an email which looked as though it came from our CEO. It asked her to make a payment to an account which had no connection to the family office. How did they know we had a new employee? They found an update on LinkedIn."

Chief executive officer, single family office, Canada

"Large family offices are always vulnerable to scams because of the disbursements we regularly make to family members. Several years ago, a scammer used a family member's name and asked us to send US $250k to an account which foolishly we did. We learned from it and brought in a cybersecurity specialist to review our security protocols. Now, when we get an email asking for money, we phone the family member, and every payment requires two-factor authentication of the recipient and dual authorization at our end."

Chief financial officer, single family office, PA

Figure 4.2: *Percentage of family offices with identified measure to reduce operational risk*



Note: Multiple answers permitted.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

Talking technology

Technology is radically changing family office operations, a trend which is likely to accelerate with the advent of artificial intelligence. We interviewed a Chief Executive waging a war on spreadsheets, as he attempts to automate as many repetitive processes as possible. He asserts that, aside from the cost, one of the real issues with new technology is the abundance of choice, which means looking at all available options is very time-consuming. The pace at which packages and systems are being upgraded and improved makes it difficult to know which represents the optimum solution for your family office.

What's taking up your time at the moment?

"I've been working on trying to automate tasks and minimizing reliance on spreadsheets. We will always use spreadsheets no matter what because of their supreme flexibility, but we do have issues because it's easy to lose track of which version of the spreadsheet is up to date, and there are always access and data security issues. This is where new technology, systemizing task management and workflow could be really useful. I'm really working to try to find ways to automate as much as I can. We can't do it blindly, letting loose automation without checking. But we have been able to automate a lot of repetitive tasks so that we can pay attention to the more complex stuff, and client service."

"One example is a program we use which uploads digital copies of tax documents, retrieves information from financial institutions, and stores them in the cloud. There they can be accessed by a system operated by our external tax advisor which automatically loads the information onto the appropriate tax returns. Consequently, much of the data entry has been automated, which otherwise is a very time-intensive process. We still review and check the filings, but they are now much less subject to human error. I do spend quite a lot of time thinking about how to automate the rest of the data entry process so that all we will need is for someone, or perhaps a couple of people, to review it."

I noticed from our survey that less than 40 percent of family offices use some form of wealth aggregation software which seemed surprisingly low?

"We use wealth aggregation software to enable us to see our positions at all the financial institutions we have relationships with. Rather than just investment management, we also use our aggregation software for financial planning since it offers a particularly sophisticated package which can incorporate estate planning strategies such as insurance, gift, and grantor trusts, and show the effect of these structures on future cash-flows."

"I use another package for investment reporting and performance. I have looked at most of the available packages on the market and there is a lot of competition. Some stand out through their ability to handle real estate and private market assets, tracking capital calls and distributions. But these tend to be considerably more expensive and certainly more sophisticated than our office requires."

So it sounds as though technology has really enabled you to transform family office operations?

"For the most part, I think I've done a good job at finding the technology needed for the family office. But the real problem is finding out what the best solution really is because there is so much out there. This highly customized technology is expensive; not just financially, it's also expensive in terms of time. Every time I start looking at a piece of technology, and come close to buying it, I learn that there are at least three other vendors with a product which may or may not be superior. It's scary having to make choices involving technology, but you just have to get on with it."

"What I have found invaluable is the ability to reach out to other family offices and their input has helped me cut through the clutter. It's a similar picture with outsourced services, there's just so many out there. But again, I do have a good network, and the network is a great help in finding the most appropriate service provider. Every decision is a risk, and you try to make every decision with the best information available. However, two weeks after you make the decision, you could learn something that you wish you had known two weeks earlier. Probably with the current explosion of artificial intelligence, a piece of new technology could become redundant within days. Still, making decisions is an integral part of the job."

Where do you see the greatest operational risk coming from?

"Undoubtedly, it's cybersecurity. I felt we were doing a decent job on cybersecurity until I went to a presentation on this subject given by high-powered technologists. It made me realize that the risks do not just lie in the family office itself. We have over a hundred family members across the United States. Every day, they're making incoming requests to the office to move money or whatever. If one of their emails gets hacked, we could be vulnerable. We've tried to put in policies and procedures to mitigate that risk, but that's certainly something we can't control, and it scares me the most."

"The situation requires constant vigilance, I constantly feel that I'm about to be scammed. But possibly that's a good thing. That concern keeps me on my toes."

4.3 Governance

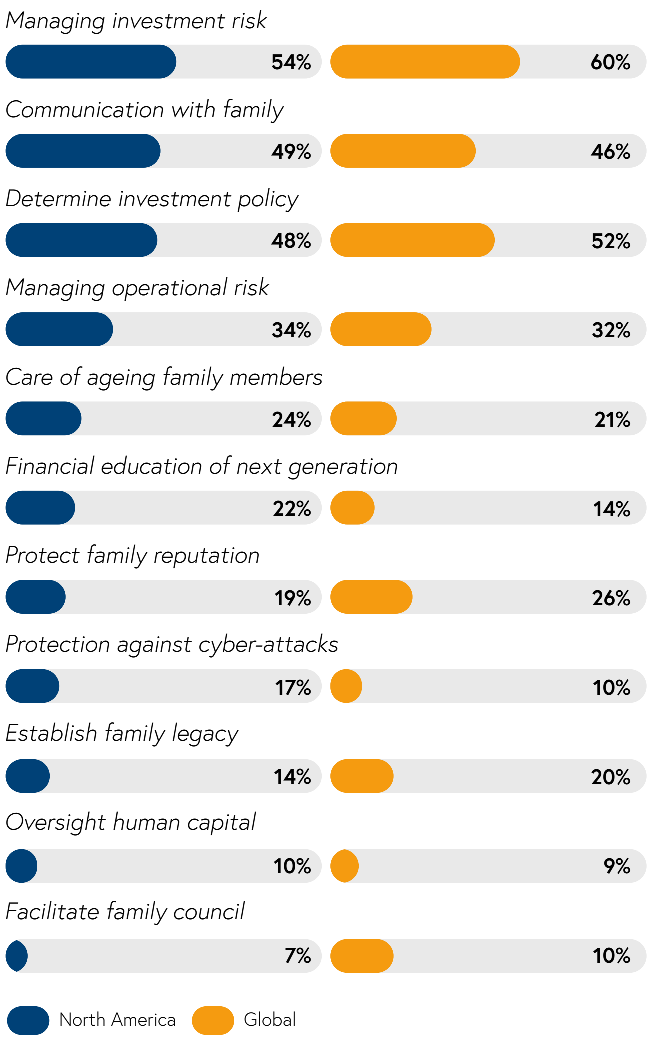
Purpose

Traditionally, the purpose of family offices has been collaboratively managing and safeguarding family wealth, both in the present and for the benefit of future generations. This fundamental purpose remains highly relevant for North American family offices, as evidenced by their prioritization of governance objectives. Managing investment risk and determining investment policy emerged in first and third place (**Fig 4.3**).

However, family offices also place considerable emphasis on other key aspects of governance, notably managing operational risk and communicating with family members. The establishment of a family legacy and facilitating a family council are not seen as major objectives; these are perceived as the responsibility of individual family members themselves. Surprisingly, protection of family reputation ranks someway down the list (19 percent of respondents) even though it often figures within family constitutions.

Investment management seen as primary purpose

Figure 4.3: *Ranking of family office governance priorities*



Source: Campden Wealth / RBC The North America Family Office Report, 2023

While investment management is widely regarded as the primary purpose of a family office, it's important to note that not everyone shares this perspective. Several respondents to our survey expressed a differing viewpoint.

"The purpose of a family office is to keep everybody in the family happy, but as the family gets larger and larger this becomes harder and harder. The family members are all related, but they're all different with their own nuclear families, their own needs and their own goals. Therein lies the challenge. In the commercial world, if you have an unhappy client he will leave and go elsewhere. Not good but you can go out and find another client. In the family office world, if a family member is unhappy, the family office is stuck with them, and somehow this difficult situation has to be put right."

Senior executive, single family office, FL

"The number one governance priority is to establish a family legacy. There are two elements to this. First, setting out a list of values that the family wishes to perpetuate from one generation to next. Second, to establish structures like a family council which would act to protect the family's reputation."

Managing director, single family office, NY

"We focus maniacally on three things: estate planning, tax planning and investment. Yes, we have a family council, and we provide educational courses for family members, but the real imperative for the family office is to optimize investment performance."

Vice President, single family office, IL

"The principal task of the family office is to maintain communication with the family. But we also try to foster communication across the family. With a large family the individual members are effectively strangers to each other. They have never had an opportunity to connect with each other because they live in diverse geographies. We are trying to find ways to improve intra-family communication. There are possible technology-based solutions apart from the biennial family get-together in Florida."

Director, single family office, NY

"We don't want to be viewed by the family as a sort of convenient dog walking service. That's not our purpose. We think proactively about all strategic, investment, and governance matters which are important for the family. Issues like next-gen education and medical insurance. All this helps the family identify with the family office."

Chief financial officer, single family office, PA

"I am an advisor to the senior people in the family today. But that doesn't mean I'll be accepted as an advisor to the younger generation. So, my challenge is to build a team that addresses the wishes and concerns of the younger generation. Otherwise, as the family office staff get older and the senior family members pass away, we will lose the connection between the family and their family office. The answer is to be proactive on strategic and governance issues which help the family stick together. The family office should be a kind of glue."

Chief executive officer, multi-family office, CT

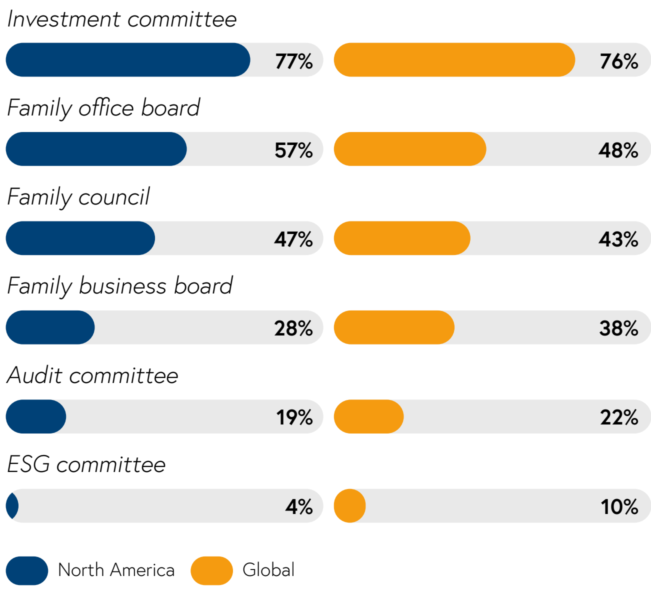
Structures and documents

Structures and documentation play a crucial role in shaping the operations of North American family offices. Among these structures, the most prevalent is the investment committee, which is found in 77 percent of family offices. However, a family office board to oversee the family office itself is present in only 57 percent of cases. Typically, a family office board only becomes a necessity when the family office is fully professionalized and not exclusively controlled by the family.

Additionally, less than half of survey participants have a family council; generally this is more common in larger extended families spanning multiple generations. Only 28 percent of respondents had a family business board which mirrors the observation that only 23 percent of family offices in the survey were embedded within a family business. Often, families utilize two or three of these structures (**Fig 4.4**) of which one will almost invariably be the investment committee.

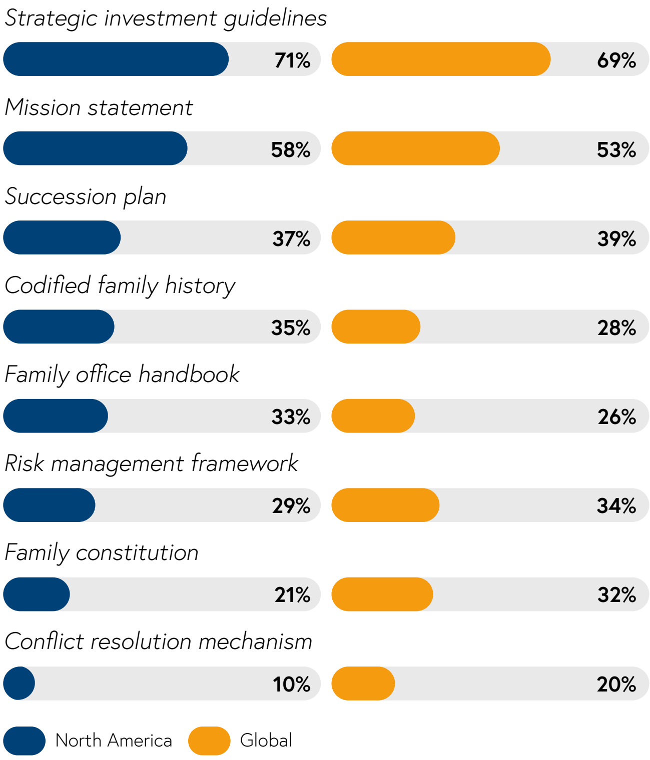
Regarding documentation, given the importance of investment management, 71 percent of family offices have documented strategic investment guidelines (**Fig 4.5**). Fifty eight percent have a mission statement, providing a sense of purpose and unity within the family. In contrast, codified family histories (35 percent) and family constitutions (21 percent) are less common, potentially due to the relatively young age of many family offices surveyed, with nearly two-thirds founded since the early 2000s.

Figure 4.4: *Governance structures commonly found in family offices*



Note: Multiple answers permitted.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

Figure 4.5: *Documentation commonly forming part of family office governance*



Note: Multiple answers permitted.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

The right personnel in the right positions

Family governance is a continuous journey

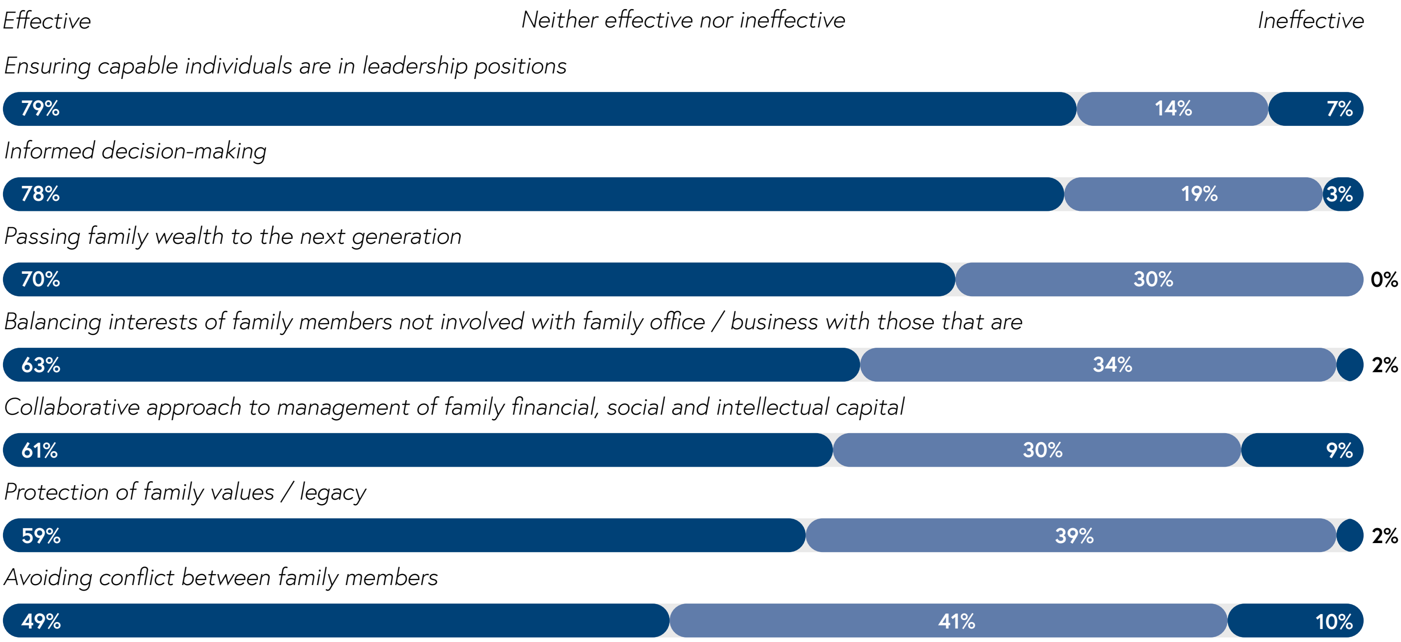
"As family systems and dynamics change through life events like deaths and marriages, robust governance provides a framework for adaptation, promoting stability through open dialogue and collective decision-making. This governance is anchored in shared values, mission, and purpose – fostering unity and a strong family identity. Understanding the family history and founders' journey is key to appreciating current success and preventing entitlement. Solid governance acts as the glue that maintains familial unity, promoting both financial and relational harmony."

Asin Nurani,
Managing Director, Family Governance
RBC Enterprise Strategic Client Group

Effectiveness

The perception of 70 percent of respondents is that family offices are effective at their core function, which is passing wealth from one generation to the next (**Fig 4.6**). Additionally, they are seen as effective in two other critical areas: ensuring capable individuals hold leadership positions (79 percent) and making informed decisions (78 percent). However, there is room for improvement in certain areas. Family offices are perceived as less effective in facilitating collaboration among family members (61 percent) and preventing conflict between them (49 percent). These areas may require more attention, and strategies to enhance family unity and cooperation.

Figure 4.6: *Perceived effectiveness of family office governance at facilitating:*



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

"The strategic investment framework is the most important governance document for the family office because it's a road map of where the family wants to go. It must incorporate the different views of family members. Some may want a high level of income today, others want to see wealth preserved and enhanced for the benefit of future generations."

Vice President, single family office, IL

"Family offices which just focus on investment and generating performance are probably less concerned with governance structures, and formulating plans the whole family can buy into. My multi-family office spends most of its time working on governance issues which will build family identity."

Chief executive officer, multi-family office, CT

"There are over 100 family members. A family council is something that we will have to look at because it could be a great governance body for the office. Right now, we have a family office board and a committee that stands in place of a family council and that works quite well, even though they have rather different purposes. Family engagement is something we take quite seriously when we think about the composition of the board. But it could be that a family council as well as our board and a committee might be just too much."

Chief executive officer, single family office, Canada

"For a relatively small family office our governance is quite meaty. We have a family constitution, hold family strategy meetings and run an educational program. I think the family constitution is the most important element but as the family becomes more multigenerational, it's hard to police the culture. The younger generation have their own ideas, and they don't necessarily think what granddad did, or what the patriarch did is the right thing. So I would say the constitution is useful but only to the point that the next gens listen to it."

Chief executive officer, single family office, TX

"We've invested in setting up a proper governance structure for the family office so that it could continue after we're no longer here. The next generation will inherit a coherent structure, a sensible portfolio and viable processes. They could continue the family legacy. The big question is, will they want to? Would they rather unwind the family office and go their separate ways? My siblings and I recognize the advantages of working together, but will our children?"

Partner, single family office, CA

"The management of the family office evolves with the family. Our patriarch is still very active, and effectively we have an investment committee of one. It's very efficient because it's not run by committee. The wealth creator pays for the office, so he decides what it does. Other family members can benefit from the work the office does, but they can't influence it."

Senior executive, single family office, FL

"If you consider political systems, or important institutions, they don't tend to be multi-generational unless they have a culture that allows people to speak their mind, disagree with one another, work through problems, get to an answer even though many don't agree with it, and then move on to the next problem. That's governance; families are no different."

Founder, single family office, CT

What's on the agenda?

A senior family executive and long-time family advisor focuses on what's changing in the family office space: technology, people, and next gen attitudes. He envisages family offices becoming increasingly customized to the requirements of individual families and professionalized through the influx of talent from financial institutions. This will change the culture of family offices, as will the influx of millennials who will replace the boomer generation.

What's grabbing your attention?

"Today, there's so much technology available to simplify the family office that it's possible to build a highly customized structure exactly attuned to the family's preferences. Some families are very hands-on when it comes to investing their money. Others want to outsource the process. Either way, just through minor adjustments to the way the family accesses their investments, and through streamlining the decision-making process, it's possible to keep both categories happy. It also explains why we are going through a phase of retro-fitting and streamlining well-established family offices because they are serving very different needs today than when they were initially established."

Which pieces of technology have made the biggest difference?

"I'm a huge fan of data in the family office, but without good analysis, it's just data, not information. Turning data into information is where the value-add of the family office lies, and software which can aggregate data from multiple sources is critical for that. High quality information can now be obtained with much less effort. If I consider the conversations I've had with other family offices over the past year, wealth aggregation software is always one of the top three topics."

What are the other two?

"Investment management and information security, these are the other hot topics at the moment. Some families are very focused on being hyper-secure, others don't really worry about it that much. As regards investment management, it seems to me that everything new is something I've already witnessed at an earlier stage of my career. So the current hype around artificial intelligence, and the bubble valuations that go with it, are reminiscent of the internet boom at the start of the millennium. But perhaps we need these hypercycles to push capital into technologies that look like they are built on fantastical ideas. My guiding investment thesis is that most of the time we are just recycling old ideas. Hedge funds, for example, were a dirty word for a really long time. But not anymore, post the recent market setback they've been reconstructed, particularly those offering multi-asset absolute return strategies."

"Having said all that, one thing that is new is the genuinely lower cost of investing and that is certainly something which helps family offices. Nobody pays commissions on long-only portfolios anymore. In the private equity world, family offices can participate through direct or synthetic general partnership interests to improve their economics, whilst some asset managers have linked their fees exclusively to investment performance."

How is the professionalization of family offices going?

"In terms of personnel, the family office space is evolving fast. It used to be the case that people were hired from the family's CPA firm, or they were the CFO of the family's operating company, and they stayed in post forever. Now there are a lot of private equity people joining because, as they professionalize, family offices are seen as an increasingly attractive place to work. But these new additions are coming from a more commercial, profit-sharing environment. So family office compensation structures will have to adapt and become more incentive-based."

"Likewise, these new recruits will be different from the old guard they are replacing. Their primary concern was the integrity and privacy of the family. The new cohort will be more concerned with their own career development and opportunities. Still, I think they will make the investment process more rigorous and the pool of collective talent around family offices will increase. But there will have to be more than a small bit of a cultural change."

We've talked about financial capital, but how important are social and intellectual capital for family offices?

"It really all depends on the leadership of the family office. If a family with multiples of billions of dollars made only a very small philanthropic effort, then you could argue that their social focus is unbalanced. But if the family is taking philanthropy seriously, has a mission statement which explains how it sees the world, and healthy budget for next-gen education, then I would claim that it was ticking both boxes. In establishing behaviors which reflect the importance of social and intellectual capital it may be a good idea to examine family history in some sort of documented way. Through family history and family stories, the founder's wishes can be passed down the generations."

"One factor I've picked up from my own experience and had confirmed by other family offices, is that generally succession planning is becoming harder because next gens are taking longer to decide what they want to do with their lives."

"Successful succession planning depends on leadership emerging and if this takes longer to happen it creates a degree of frustration in the older generation. There is a genuine difference of values between the generations. The boomer generation has this notion that being busy all the time is fundamentally a good thing. This is not something that millennials share. This difference shows up in family offices and I don't think it's being discussed in the right way. Rather, the older generation feel that if their kids want to stay home with their grandchildren and leave the non-lineal descendant to be the breadwinner, well, that's plain wrong. I see that tension across multiple families and multiple situations."

"Because next gens are taking longer to decide what they are going to do and settle down, it means that when they do enter their family businesses and family offices, the older generations will still be there. Now millennials have a different view of work / life balance than boomers, and there are a whole load of other cultural and behavioral differences. So I don't think any of this is going to make succession planning any easier."

4.4 Succession

Family leadership

Succession planning in family offices presents unique challenges, particularly when it comes to determining who should hold leadership positions. While family offices generally excel at placing qualified individuals in various roles, the ultimate responsibility for top leadership positions, such as Chairman or Chief Executive, frequently rests with the family.

Next gens are often simply too young

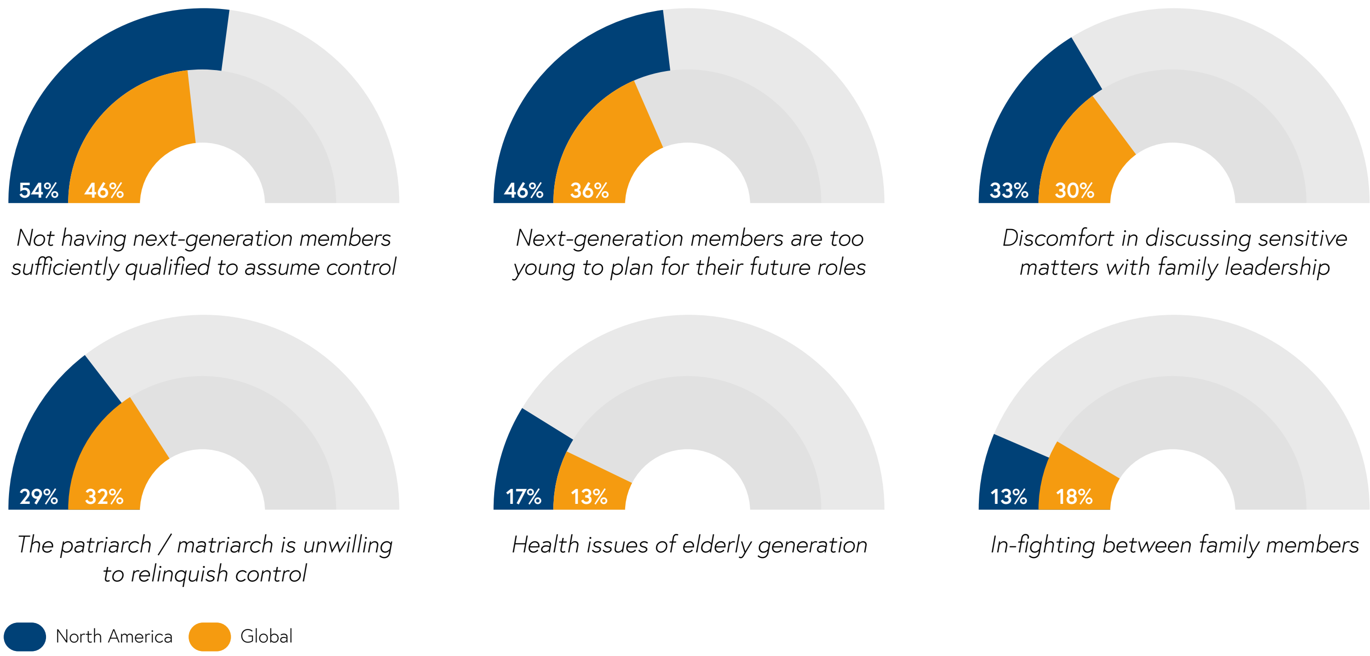
One of the most significant challenges in succession planning is that next-generation family members are often perceived as either inadequately qualified (54 percent) or too young (46 percent) to assume leadership roles. This situation may be attributed to the relatively recent establishment of the family offices in the survey, where founders are still active and managing relatively young families. Additionally, addressing sensitive issues like succession with senior family members is uncomfortable for 33 percent of family offices (**Fig 4.7**).

Another obstacle to succession planning is family matriarchs or patriarchs unwilling to cede control, a concern raised by 29 percent of respondents. Conflicts between family members regarding succession are not uncommon.

Start educating early

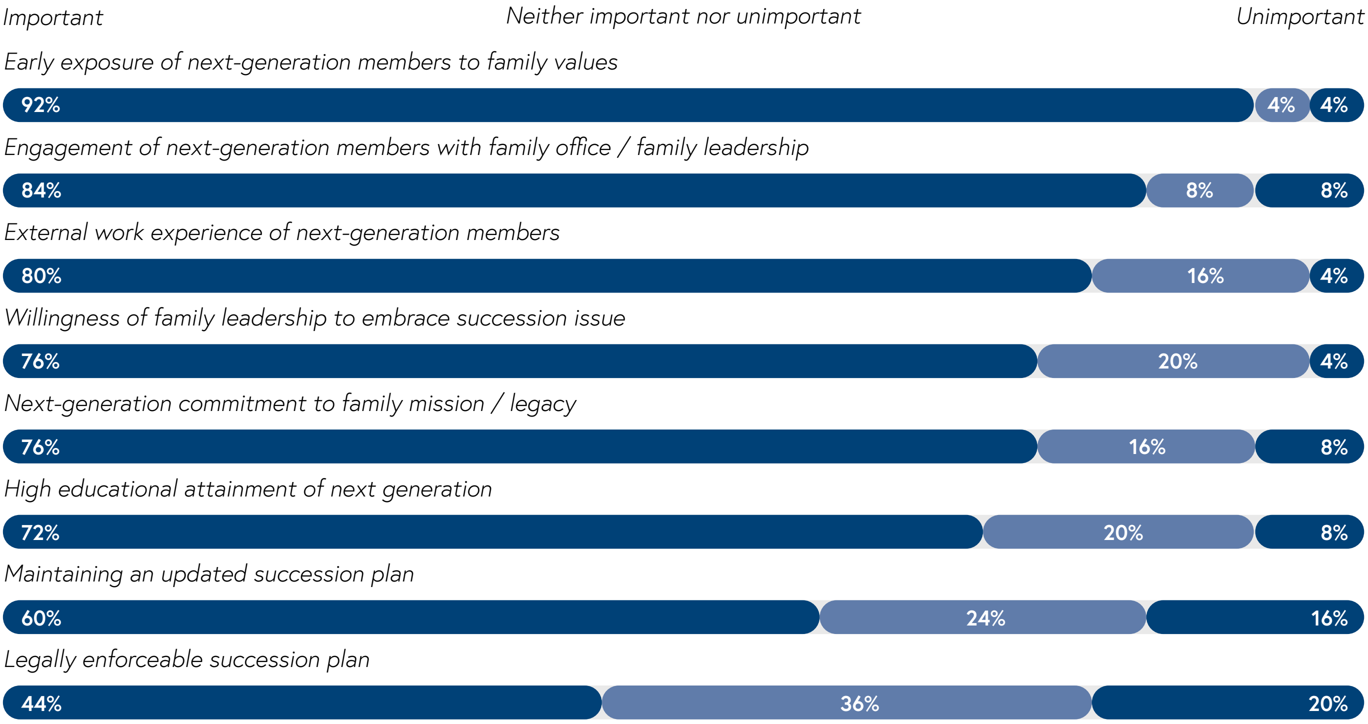
To engage effectively in succession planning, family offices should begin by introducing next-generation family members to family values (92 percent) and encouraging their interaction with the family office and family leadership (**Fig 4.8**). These factors are deemed more important than educational qualifications and external work experience. Ultimately, the willingness of the existing family leadership to embrace the succession issue is critical (76 percent). Early and open communication within the family can help address these challenges and ensure a smooth transition of leadership roles.

Figure 4.7: *Challenges to succession planning*



Note: Multiple answers permitted.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

Figure 4.8: *Factors important / unimportant for successful succession planning*



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

"No succession planning is ever finished because you never know what's going to happen. You can't plan for every eventuality."

Chief financial officer, single family office, PA

"If you are a wealthy family it's important to start educating your children when they are in their early teens. They won't understand everything at that age but they will begin to realize that they are in some way different from their peers. Initially, parents should educate their children about the family heritage. Later on they might learn about investments and the family office operations. This should encourage them become involved with the family wealth or family business or whatever."

Managing director, single family office, NY

"The family office tries to make the younger generation self-sufficient and resilient. We never pay their bills directly. They have to pay their own bills and then we reimburse them so that they learn the adult experience of paying bills and the value of money."

Chief executive officer, single family office, Canada

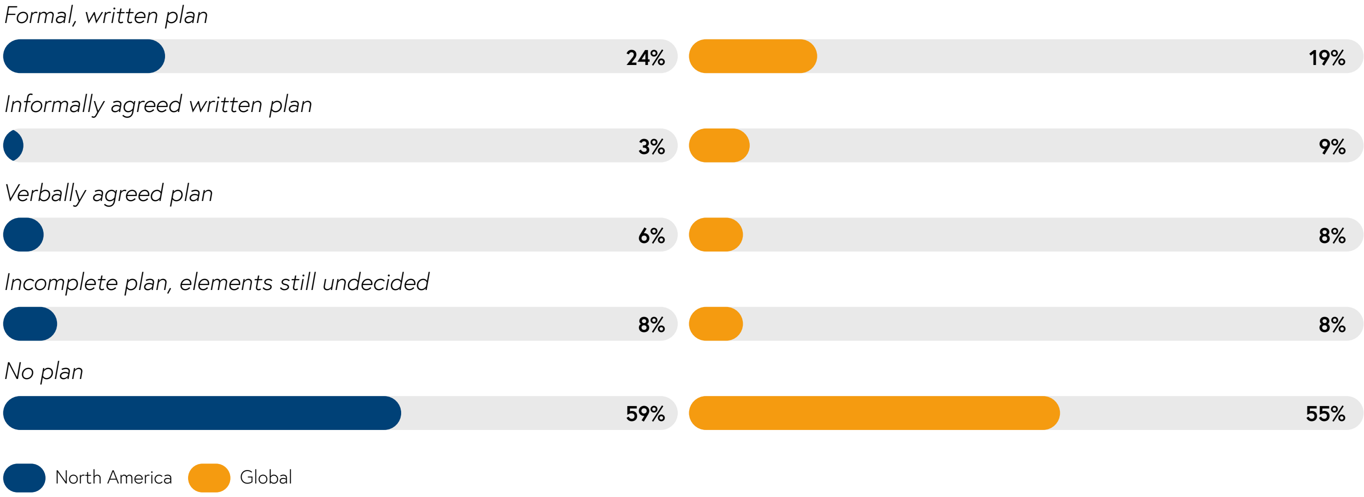
"I've changed my perception of what the family office should do. We're always here for our family, especially the younger members. But sometimes we need to give them the opportunity to mess up so that if they do they will learn from the experience and get it right next time."

Vice president, single family office, IL

Succession plans

A formal succession plan is good to have, but as **Fig 4.8** points out, it's not the most important element in succession planning. This may explain why only 41 percent of North American family offices have a succession plan and why many of these plans are informal, verbal, or incomplete (**Fig 4.9**).

Figure 4.9: *Percentage of family offices with succession plan*

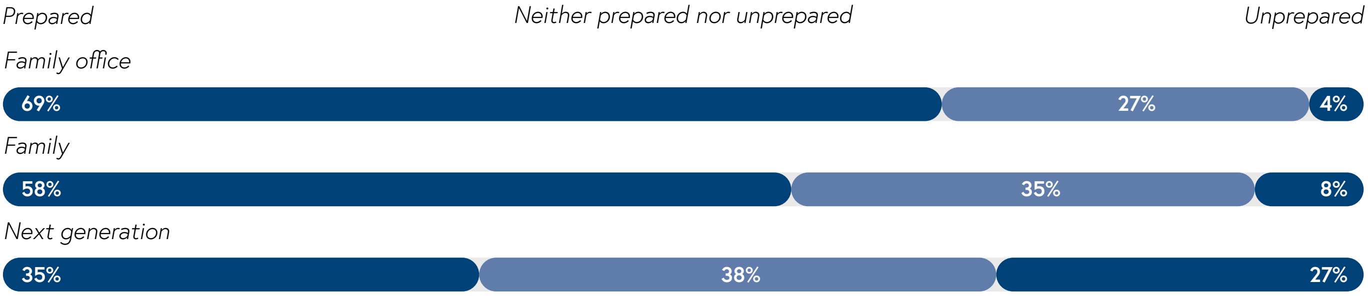


Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

Less than half have a succession plan

Surprisingly, despite the absence of formal plans, nearly 70 percent of family offices consider themselves well-prepared for succession (**Fig 4.10**). In most cases, they also believe their respective families are well-prepared (58 percent). However, the challenge lies with the next generation. Only 35 percent of family offices view their next generation as adequately prepared. This aligns with the observation that around half of all family offices perceive their next generation members as either too young or inadequately qualified to assume control.

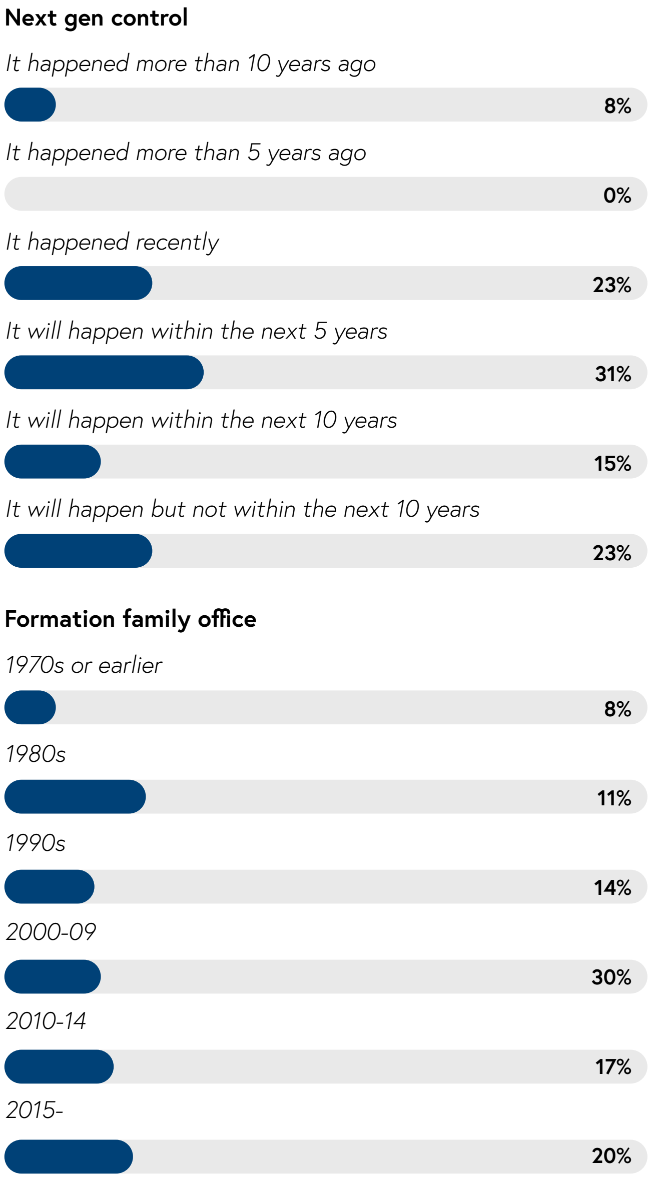
Figure 4.10: *Preparedness for succession*



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

For 31 percent of the family offices in the survey, the next generation has already assumed control (**Fig 4.11**). These are likely the 33 percent of family offices that were established in the 1970s, 1980s, and 1990s. However, going forward, the pace of wealth transfer is accelerating. Forty six percent of family offices anticipate the transition happening within the next ten years, primarily among the 47 percent of family offices established between 2000 and 2014. This indicates the rate of generational wealth transfer will soon intensify, driven by the surge in family office formation immediately after the turn of the millennium.

Figure 4.11: *When the next generation is expected to assume control and date of formation of family office*



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

"Families always hope their offspring will be the right sort of people to manage their wealth in the future. You can do your best to train them, give them a really good education, and provide them with relevant work experience outside the family business. But he or she might decide to do something entirely different, and we or them, when the time comes, might decide to close the family business and distribute the proceeds."

Chief executive officer, single family office, Canada

"The first generation is still young, in their fifties. Their children are doing their own thing right now, at university or travelling. They don't appear particularly interested in the family business or the family office, but we have to hope that eventually some or all of them will come back."

Director, single family office, NY

"A succession plan has to bridge the generations and that's why it's difficult to formulate, and even harder to put it into effect. With smaller families it may well be the case that there are no natural successors and professionalized management has to be brought in or the family office is shut down and its assets distributed."

Vice president, single family office, IL

"Naturally, every parent would like to think that a child will step into their shoes, whereas actually a lot of them want to go their own way. I think sometimes the children get involved with the family office or family business just to try to please, rather than because it's what they actually want to do."

Chief executive officer, single family office, Canada

"The patriarch wants the next gens to be stewards, managers, board members and advisers to the family enterprise. But there are many examples of next gens who have their own independent, successful businesses that are completely different and removed from the family business. But this achievement is often just dismissed as irrelevant. It's unfair and causes problems down the line."

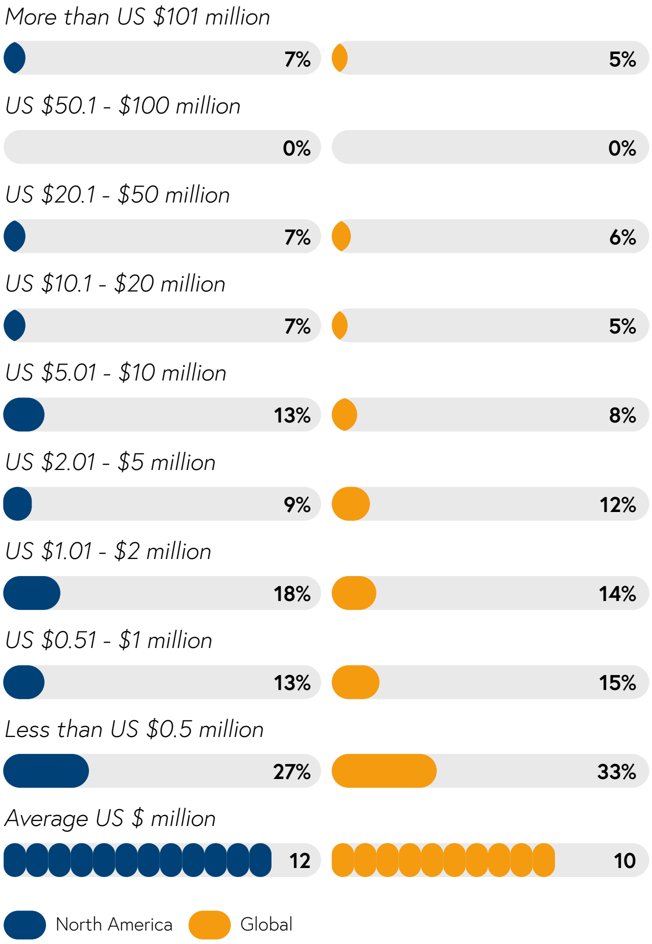
Senior executive, single family office, FL

4.5 Philanthropy

Charity vs. philanthropy

North American family offices exhibit a strong commitment to philanthropy, with 75 percent making philanthropic donations, compared to the global average of 69 percent. Moreover, their generosity leans towards larger donations, resulting in an average size of US $12 million, higher than the global average of US $10 million (**Fig 4.12**).

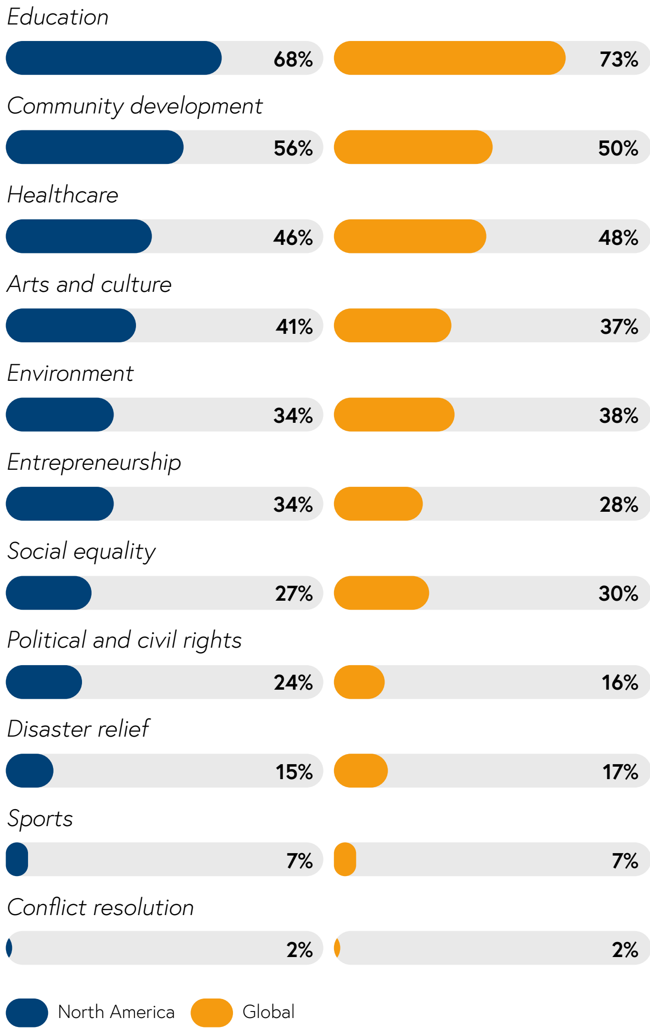
Figure 4.12: *Percentage of philanthropic donations within band*



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

These donations are described as philanthropic rather than merely charitable, reflecting family offices' efforts to address the root causes of problems rather than providing temporary solutions. Families look to their philanthropic values, vision and mission to provide guidelines for their charitable giving and to some extent their investment focus. The causes they support are indicative of this approach, with the top three being education (68 percent), community development (56 percent), and healthcare (46 percent), all of which require extended commitment (**Fig 4.13**). In contrast, a smaller percentage (15 percent) support disaster relief efforts, which tend to be one-off contributions linked to specific natural disasters.

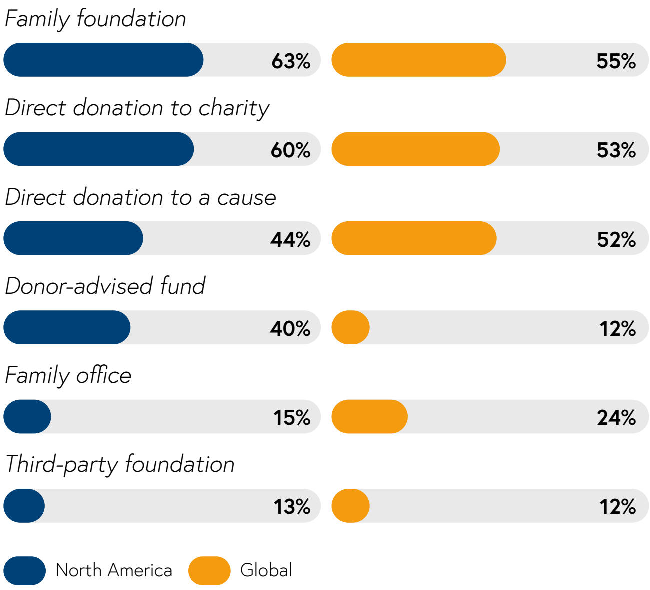
Figure 4.13: *Percentage of families supporting cause*



Note: Multiple answers permitted.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

This long-term commitment is reinforced by the fact that 63 percent of the surveyed families have established their own foundations (**Fig 4.14**). In the United States, foundations are required to distribute a minimum five percent of their assets annually, encouraging families to support causes and institutions over the long-term. Foundations offer advantages such as tax deductions on donations and the ability for family members to actively participate in their administration and governance. Alternatively, donor-advised funds (40 percent) provide a more cost-effective option but are limited to supporting public charities rather than making grants to individuals and corporations.

Figure 4.14: *Vehicles used by family for philanthropic giving*



Note: Multiple answers permitted.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

Family cohesion

Generally, philanthropy is seen as a factor strengthening family values and cohesiveness but only 48 percent of respondents agree (**Fig 4.15**). There is also ambivalence regarding other supposed advantages of certain philanthropic strategies. For instance, only 36 percent believe that a match-funding strategy brings donors closer to the communities they support, and just 33 percent believe impact investing can, in some circumstances, be more appropriate than philanthropy.

Survey participants view philanthropy as an important tool binding family members together.

"Philanthropy is so important to the external mission of the family and also, in many instances, to the internal mission of family members. It can be a family building opportunity, a life experience, or a vehicle for educating next gens."

Founder, single family office, CT

"We are changing our foundation's donation policy to be 100 percent ESG compliant. There's a little bit of a conceptual problem about this. Should the foundation be invested in ethically responsible, ESG compliant companies or should it seek out the best returns, irrespective of the nature of the companies which provide them?"

Chief executive officer, single family office, Canada

Philanthropy has become increasingly linked to responsible investing and ESG criteria.

Relationship between responsible investing, impact investing and philanthropy

"Two-thirds of families feel a responsibility to help make the world a better place. Philanthropy, like responsible investing, is one of several tools families can use to help effect positive social change. Families see the value in their wealth supporting positive outcomes. Increasingly, we see family members taking charge of foundations, leading with social enterprises or impact investing businesses that contribute to positive outcomes."

Dr. Paula Murphy Ives
Managing Director, Social Capital & Impact
RBC Enterprise Strategic Client Group

Figure 4.15: *Thinking about the family's attitude towards philanthropy, do you agree with the following statements?*

Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

A philosophy of philanthropy

Over 20 years ago, the founder of this single family office started a company to help other families establish their own private foundations. Subsequently, he has set up over 2,000 foundations working with families at all ends of the wealth spectrum. He sheds some light on the complex, esoteric legal structures which support philanthropy in the U.S., and explains his own personal philosophy.

What do you understand by the term "Philanthropy"?

"People use the word philanthropy very liberally. But, in reality, most people are not philanthropic, they're charitable. The difference between charity and philanthropy is that charity is reactive. In the U.S. there are over 1.6 million non-profits that are all asking for support. Most are subscale and are focused on narrow issues. Charitable giving is devoid of mission and does not look at the social return on investment. By contrast philanthropists identify particular problems they care about, like cancer or climate change, and then look for the root causes of these problems. Then they try to identify, or conceivably establish, organizations that might be able to solve the problem. So rather than sticking a band-aid on the problem, philanthropists take positive steps towards solving it."

"Another key difference between charitable people and philanthropists is that the former only consider financial capital whereas philanthropists consider human capital as well. Human capital is an individual's time, expertise, experiences, contacts and resources that can be utilized in attempting to solve problems. There's a lot more to philanthropy than just writing a check."

How can philanthropy be embedded in the family office?

"Philanthropy should definitely be at the heart of the mission statement. But the mistake that many families make is being too specific with their mission statement. Suppose the family's philanthropic mission is to alleviate prostate cancer. It's very narrowly defined, probably their children can't relate to it, and when they are running the family foundation they probably won't engage with it. So the mission statement should be very broadly worded, perhaps just to give back to society, for all of the benefits that society has given them. This wording allows future generations to set their own philanthropic agenda."

"The best age to get kids involved is between three and 12 years old. That's before they become cynical teenagers, when everything they learn comes from the family, and they believe that anything can be done. Thereafter, most of what they learn comes from friends and the media, and their time becomes very limited. The mistake that many families make is waiting to tell their kids about wealth when they're between 18 and 35 years old, and then trying to pull them into family activities. That's exactly the time that their DNA is programmed to pull away from the family. The inevitable result is conflict."

Is impact investing superior to philanthropy?

"Impact investing is just another form of philanthropy. But with impact investing, the donor is expecting both an economic and a social return, which distinguishes it from checkbook philanthropy. Impact investing could involve an equity investment, or lending money, or credit enhancement so that an organization could borrow more cheaply. But whatever the mechanism, the investor is hoping for both an economic return and a social return, that way he expects some tremendous value enhancement. But there are two big issues that come out of impact investing. First, the investor may feel that he should lend or inject equity into a project at below the risk-adjusted rate of return, that way the project will have even more positive social impact. But frequently social projects are not scalable. Consequently, impact investors should not feel in any way guilty about demanding a market return for the risks they are running."

"The second problem with impact investing, which is always raised, is the difficulty of measuring outcomes. My view is that everything is measurable, but it depends on the time horizon. I mean if it's an impact investment to relieve poverty the outcome is going to be noticeable within a short period of time. But if the project is carbon capture to alleviate climate change, then it may take years for the consequences to become apparent. Nonetheless, there will certainly be some measurable interim steps which can provide an indication of whether the project is moving in the right direction."

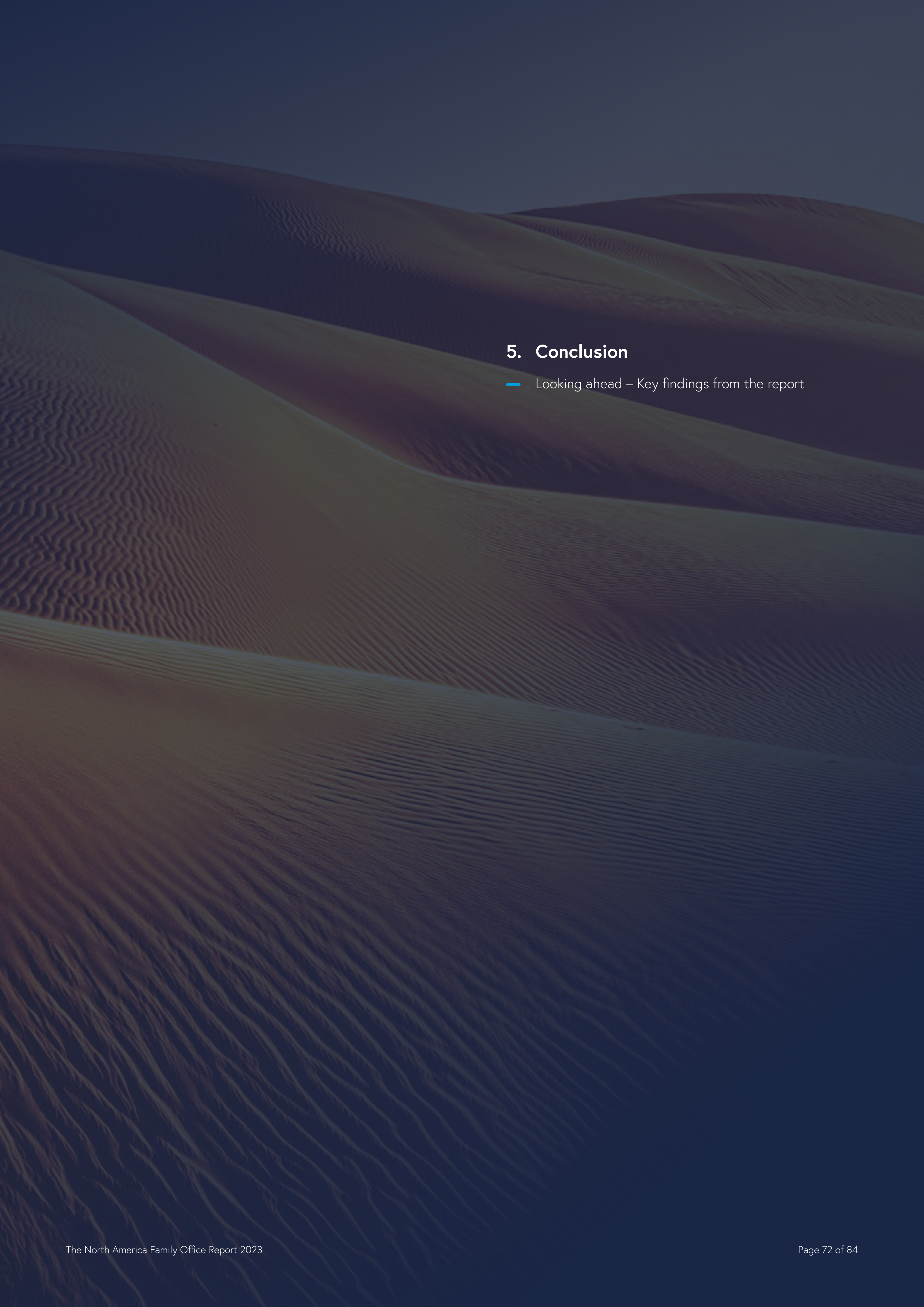
Can you explain the advantages and disadvantages of the different vehicles through which family offices make philanthropic donations?

"There's three principal ways in which people can give. First, they can simply write a check to a public charity. It's called checkbook philanthropy. The second is they can have a donor advised fund or DAF. These are available from large financial institutions and various community foundations. Finally, there's a foundation which is much more sophisticated and provides much greater optionality."

"The first method is self-explanatory. The DAF is a pretty simple product. It is simply an account within a public charitable gift fund. The donor makes an irrevocable donation to the account, can determine how this contribution is invested, and when, and to which charities, it is finally distributed. Because the donor is technically giving his initial donation to a public charity, he becomes eligible for an income tax deduction of up to 60 percent of gross adjusted income for cash gifts and 30 percent for donations of stock."

"A foundation offers much more control and capability. Although a non-profit organization, a foundation can have staff and expenses and make grants to individuals or to corporations. More importantly from a family perspective, as a purely legal entity they exist through generations, and they have their own governance structure so that family members can take an active role in their leadership by becoming officers and directors. This capacity for family control means foundations are a popular choice for the wealth community but there are drawbacks. Foundations have to give away at least five percent of their assets each year which DAFs do not. The cost to establish and run a foundation is significant, particularly if it has its own dedicated staff, and the allowable income tax deduction at 30 percent of gross income is much lower than with a DAF."

"Whilst the preference for a DAF or a foundation will depend on the circumstances of each individual case, both offer a significant advantage over checkbook philanthropy. If you're doing checkbook philanthropy, you're getting your tax write-off on the day that you made your gift. But if you're giving to a foundation or DAF, you can roll up some of your future year donations into the current period and immediately enjoy the tax benefits of those future donations. This provides a mechanism for reducing your income tax bill in any particular period, a useful strategy when it comes to tax-planning."



5. Conclusion

- Looking ahead – Key findings from the report

5. Conclusion

Looking ahead — Key findings from the report

In conclusion, this report sheds light on various aspects of North American family offices, revealing both their strengths and areas for improvement, as they continue to evolve and adapt in a changing landscape. While overall satisfaction is high, there are areas with potential for improvement.

High satisfaction but room for improvement

More than 75 percent of respondents expressed satisfaction with their family office's investment options, dedicated staff, and capacity to handle estate and tax planning (**Fig 5.0**). Family offices are also perceived as offering value for money, capable of handling complex activities, proficient at outsourcing, and skilled at maintaining family privacy.

On the flip side, there are functions and attributes that family members and executives believe could be enhanced. These include the scope and range of services provided by the family office, succession planning, and next-generation education.

Investment managers are earning their fees

Despite challenging financial markets in 2022, family offices fared relatively well. While some reported a reduction in total wealth, half reported an increase. Additionally, 48 percent of respondents indicated that their investment portfolio outperformed its benchmark, compared to just 12 percent who indicated underperformance. We attribute this to proactive decision-making and input from internal and external investment managers.

Technology: don't be short-sighted

There's noticeable interest in adopting new technologies among family offices, even among those who currently don't use specific technology tools, there's a significant percentage interested in using it in the future. It may be the case that the cost of new technology is too high and the scope of family office activities too limited to merit the incremental investment. But embracing technology can help reduce manual tasks, lower the risk of data loss or errors, and enhance security.

Investment or governance?

Family offices primarily see their role as managing investment risk, with communication among family members as the second priority. However, some survey participants believe that establishing effective governance structures should take precedence, as these can help strengthen family cohesion. For example, only 58 percent of family offices have a mission statement indicating room for improvement in this area.

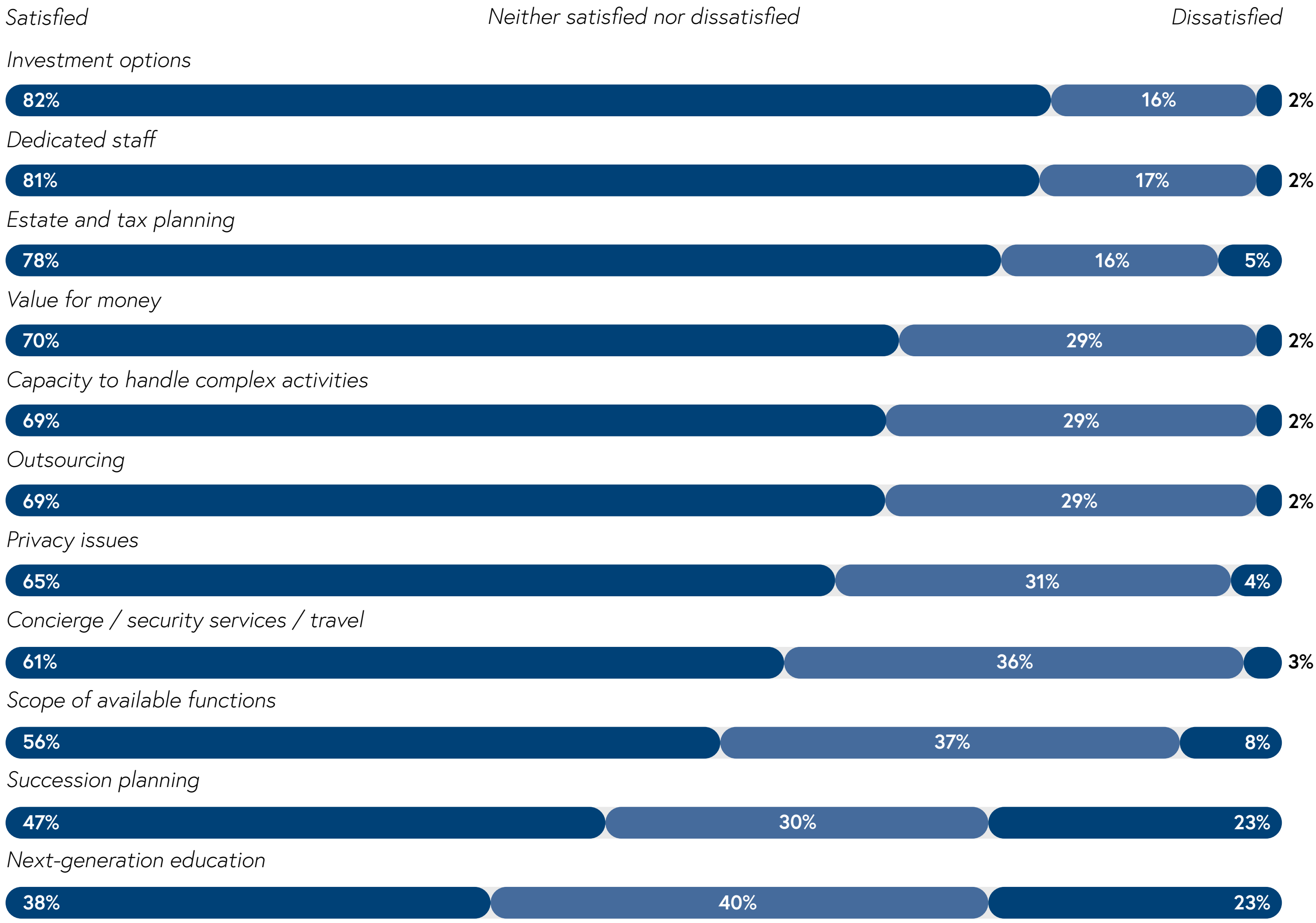
Expect a change of culture

Nearly half (46 percent) of family offices expect a leadership transition to the next generation to occur within the next decade. This generational shift may bring changes to desired work-life balance and could lead to shifts in family office culture, especially with new talent joining from commercial, profit-sharing backgrounds.

Successful succession planning means starting early

Succession planning is important and it's never too early to start. While written succession plans are essential, introducing next-generation members to family values and ensuring the existing family leadership is ready to embrace succession are viewed as even more critical.

Figure 5.0: *Please indicate degree of satisfaction with family office attributes / functions:*



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC The North America Family Office Report, 2023

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 responsible, families should share a common purpose, interest and risk appetite or, alternatively, comparable levels of wealth.

Traditionally, for multi-family offices to be responsible 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.

List of figures

About the creators

About RBC

Royal Bank of Canada is a global financial institution with a purpose-driven, principles-led approach to delivering leading performance. Our success comes from the 97,000+ employees who leverage their imaginations and insights to bring our vision, values and strategy to life so we can help our clients thrive and communities prosper. As Canada's biggest bank and one of the largest in the world, based on market capitalization, we have a diversified business model with a focus on innovation and providing exceptional experiences to our more than 17 million clients in Canada, the U.S. and 27 other countries. Learn more at www.rbc.com.

We are proud to support a broad range of community initiatives through donations, community investments and employee volunteer activities. See how at www.rbc.com/community-social-impact.

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 39 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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