William Blair

Private Wealth
Management
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Family Office Direct Investing Report
Global Data and Key Findings

About William Blair
William Blair is the premier global boutique with expertise in investment banking, investment management, and private wealth management. We provide advisory services, strategies, and solutions to meet our clients' evolving needs. As an independent and employee-owned firm, together with our strategic partners, we operate in more than 20 offices worldwide.*

www.williamblair.com

March 2023

*Includes strategic partnerships with Allier Capital, BDA Partners, and Poalim Capital Markets.

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Foreword

If 2022 has taught us anything, it is the importance of being prepared for the unexpected and the necessity of taking a long-term view. This report on family offices and direct investing comes at a time of ambiguity and flux. As we spring back from a global pandemic, watch the Russian invasion in disbelief, and face global recession predictions, the world also continues to find incredible innovation and promise in health care, communication, and technology. There are general and economic opportunities that always emerge in times of disruption.

A question we hear often from our family-office clients is "What are other families like mine doing in this environment?"

A total of 188 family office respondents from 32 countries took part in this survey during 2022. Participants' aggregated responses provide a comprehensive picture of how family offices view the world and the key factors driving their investment strategies. The report includes key findings around diversification, access to deal flow, and new talent acquisition.

While many family offices stay cognizant of continued volatility as investors, they also are continuing to search for the best investments in public and private markets. This report examines how family offices are thinking about allocating capital to funds versus investing directly. Private equity remains a key focus. Many families prefer to back early-stage growth enterprises in key sectors rather than participate in mega rounds involving the largest private equity fund managers.

If you are involved in a family office, whether a family member, board member, senior executive, or employee, we trust you will find this report thought-provoking and insightful. We are grateful to Dentons for including our family office clients and William Blair in this survey; it has been a fruitful endeavor. We thank those who participated in this survey.

We invite each of you to contact your William Blair advisor with questions or for additional information about our Family Office Solutions.

Wishing you good health and peace of mind as you explore the strategies and practices used by some of the world's leading family offices presented herein.

Best,

Ryan DeVore
GLOBAL HEAD OF PRIVATE WEALTH MANAGEMENT
rdevore@williamblair.com

Introduction

Family offices face an uncertain investment outlook following Russia's invasion of Ukraine and the lingering impacts of the COVID-19 pandemic. The pandemic's disruption to labor markets and global supply chains, combined with huge injections of liquidity through quantitative easing and low rates, has triggered a sharp rise in inflation worldwide. China, an engine driving growth in the past two decades, has seen its economy slow due to a series of coronavirus-related lockdowns and the disruption to globalization, among other factors. Adding to these macroeconomic and geopolitical shocks were falling bond and equity markets in 2022. As this word cloud shows, family offices are worried about various threats in 2023, but inflation, recession and the economy are foremost on their minds. Asked about the current market environment, over two-thirds of family offices (68%) are very concerned about inflation and are buying assets that will benefit from inflation. This number increases to 80% in the Middle East. Seventy percent are taking a wait-and-see approach, poised to add risk when valuations fall, while others have already started to hunt for bargains—just over half of family offices (53%) say they are taking advantage of market falls to add more equity exposure. On a geographical basis, family offices in Asia Pacific (75%), Latin America (58%) and the Middle East (55%) are most likely to be using market falls to buy equities, while those in North America (45%) and Europe (42%) are less likely to do so.

We can see that larger family offices are better positioned to look through current market threats, such as inflation or market slumps. For example, the largest single family offices (SFOs) and family enterprises (FEs), with over $1 billion in assets under management (AUM), are slightly less concerned about inflation (62%), but the smallest SFOs and FEs, with under $250 million, are slightly more concerned about inflation (73%). The same pattern exists on being patient and looking for lower valuations before adding risk; the largest SFOs and FEs are less inclined to take this view, while the smallest are more likely to be watching and waiting for lower valuations. Please note that "family enterprise" is defined as a family-owned operating business(es) that also manages the assets and/or affairs of the family.

EXHIBIT 1

Family Offices on their Biggest Concerns for 2023

Another interesting comparison in this survey is between family members and non-family members (the latter group consisting of C-suite executives, investment professionals or portfolio managers, board or investment committee members, and in-house staff covering legal matters, accounting and tax, real estate and other areas). Here, family members and non-family members have a very similar level of concern over inflation, but family members are more likely to say they are being patient and looking for lower valuations before they add risk (76% vs. 67% for non-family office members and 70% overall)—an indication, perhaps, that family members are more careful, while investment staff are more willing to seek returns, in this environment.

EXHIBIT 2

Most Family Offices are Being Patient and Are Concerned About Inflation in the Current Market Environment

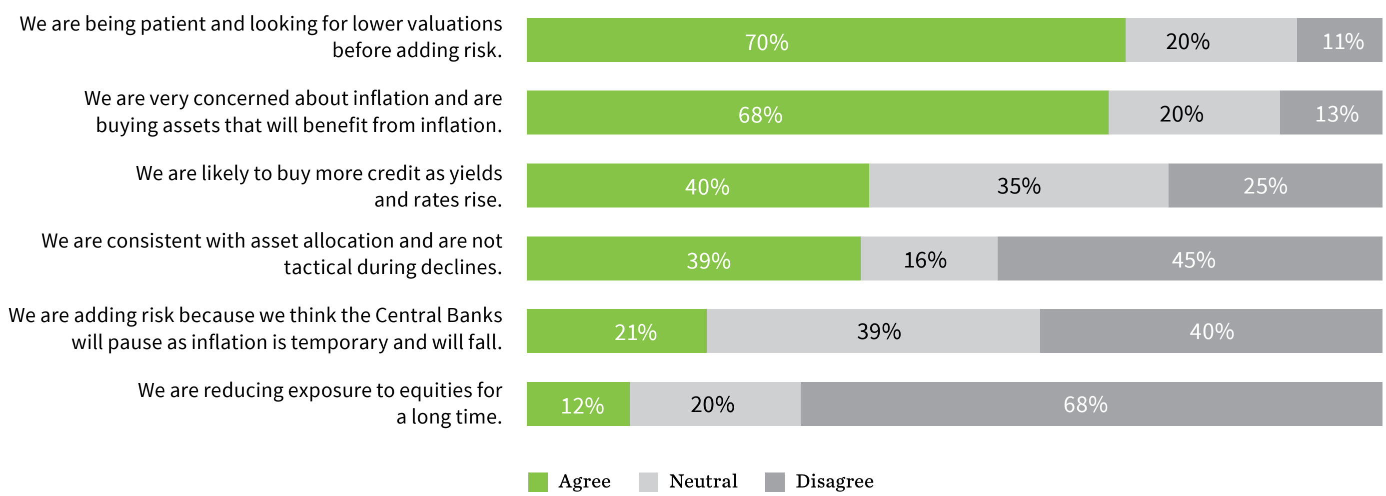

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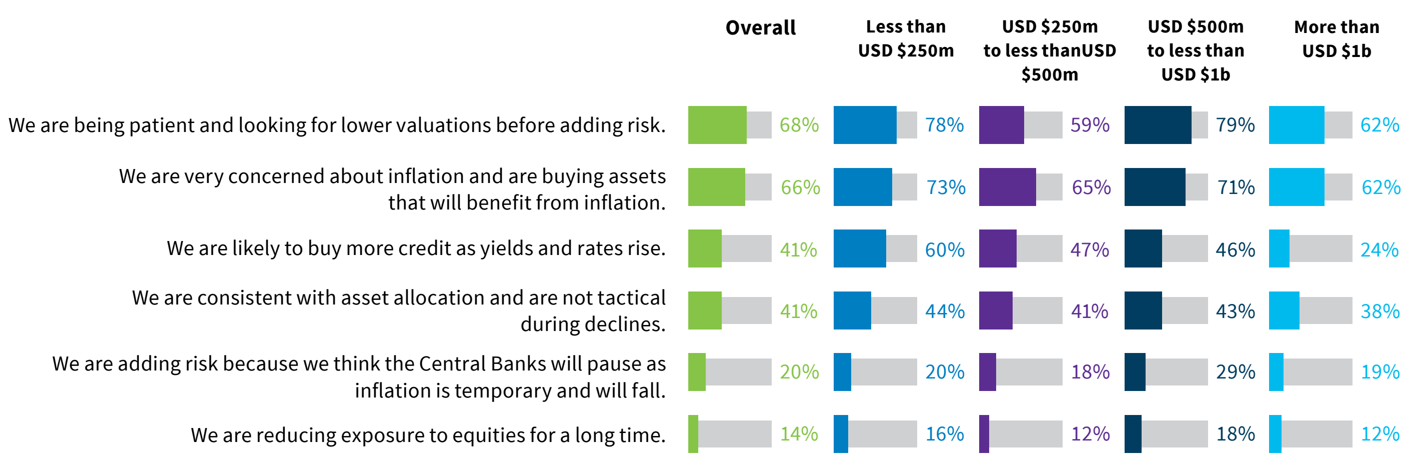
EXHIBIT 3

SFOs and FEs on the Current Market Environment



% Agree (Strongly agree + Agree)

"Demand for private-equity participation in funds and direct investments by family offices is strong and continues to grow. Given the complexity of these illiquid investments—which are often higher-risk and higher-reward in nature—combined with the highly competitive private markets, family offices more than ever need experienced talent and external partners to provide quality deal flow, efficient screening, due diligence rigor, and structuring. With billions in dry powder competing for transactions, it is important to have a 360-degree view of the landscape and all the players."

Merchant Banking, William Blair

EXHIBIT 4

Family Offices on Changes They Plan to Make In 2023

Key Findings

Digital assets offer potential outsized gains and diversification for many, but caution abounds
Noting that survey respondents submitted during the latest high-profile meltdowns in the crypto markets, nearly a quarter (23%) invest or are planning to invest in cryptocurrencies and/or digital assets. A further 30% are potential investors taking a wait-and-see approach. The biggest drivers are the potential for outsized gains, diversification and taking advantage of an emerging market. On the backdrop of crypto market declines, almost half of family offices do not currently plan investments in digital assets.

Family members are heavily involved in important investment decisions
Only 8% of family offices defer entirely to family office staff to make investment decisions. 30% of respondents say important investment decisions are made by family office staff in collaboration with family members. For 29%, key family members alone make these decisions. Almost two-thirds (65%) of family offices have a formal investment policy statement.

Family offices use diversification
85% of family offices believe in broad diversification of factors, and 74% use diversification across geography. In private equity, 69% work to invest across different fund vintages.

Interest in private markets and direct investing is high
60% of family offices believe that private markets often have the best opportunities now, rising to 72% in North America. 63% make direct investments, with another 22% saying they do not but that it is of interest. At family offices with direct investments, the average allocation is 37% of private equity assets under management.

Deep expertise is the most important criterion for external partners
When selecting an external partner, service provider or supplier, deep expertise in specialist areas is the most important criterion for 65%. The biggest reasons to seek external legal advice are trust-and-estate planning, M&A, litigation, investment structures for different investment entities and direct investments.

Looking ahead: Inflation protection and future investments
Over two-thirds (68%) are very concerned about inflation and are buying assets that will benefit from it. The most likely future industries of interest for direct investments are healthcare (65%), disruptive technology/digital tech (61%) and commercial property (58%).

Family offices are facing the challenges of direct investing
Family offices are grappling with numerous direct investment challenges, including taking on too much operational risk (45%), finding high-quality deal flow (43%), having control of exit options (42%) and finding enough time for proper due diligence (41%).

New talent acquisition and strategy shifts are on the agenda for 2023
Adding talented new staff, upskilling existing staff and investing in new technologies are among the most frequently mentioned planned changes for 2023 by family offices. Some are planning strategic shifts, such as increasing downside protection or increasing liquidity.

Improved deal flow is prized by family offices in 2023
Asked about their top needs for 2023, deal flow was No. 1 among family offices, with more opportunities and better-quality deals and/or new partners wanted. In addition, guidance on investment strategies and portfolio management in a tough environment, and advice on tax and legal issues are in demand.

Family offices are defensively positioned amid market volatility
70% of family offices are being patient and looking for lower valuations before adding risk, indicating they expect further declines in asset values. For 64%, avoiding losses and volatility is a key objective.

Family Offices' Investment Strategies

The most common way of structuring a family office is through a limited liability entity that combines characteristics of a corporation with those of a partnership (53%), although a significant number define themselves as a personal holding company (19%) or a private trust company (19%). Limited liability entities are most common in North America (59%), the Middle East (70%) and at the largest SFOs and FEs (62%). The largest SFOs are more likely to be structured as a company (i.e., a separate legal entity from its owners) with the ability to own and transfer property (21%) or as a personal holding company (23%).

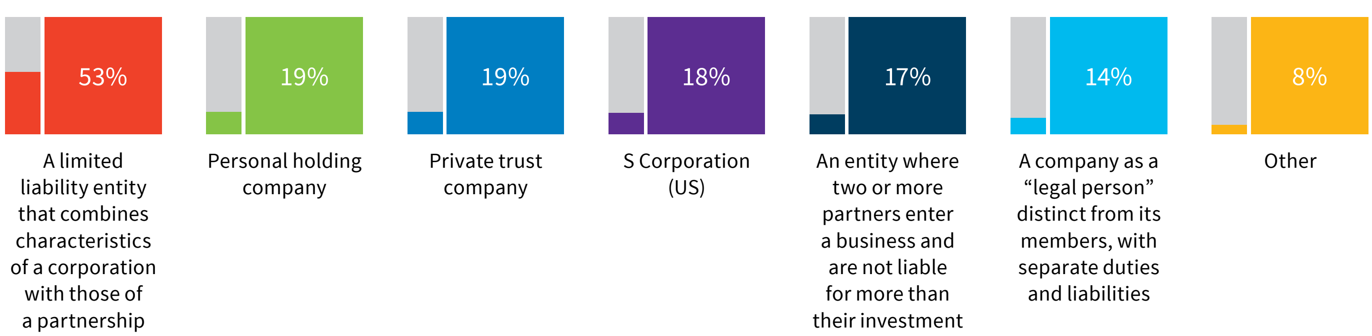
Almost two-thirds (65%) of family offices have a formal investment policy statement. It is somewhat surprising that many family offices do not have one, as such a document is usually seen as an important foundation for formulating an investment strategy. On the other hand, as key family members can be the main investment decision-makers, they may feel it is unnecessary, or prefer to operate in a nimble manner, without formal guidance. Regionally, family offices in Europe (58%) and Asia Pacific (60%) are slightly less likely to have a formal investment policy statement, while larger SFOs and FEs are more likely to have a formal investment policy statement; 69% with an AUM over $1 billion compared to 53% with an AUM less than $250 million.

> "In the last few years, we have seen family offices proliferate in Asia in general and Singapore in particular. As Asian wealth is typically new wealth, it is common for family members to take major roles in their management and operation, as it takes time for entrepreneurial families to hand over management to outside professionals. They also tend to invest in the family's own businesses or related businesses. On the non-financial side, Asian family offices increasingly plan for political risk as well as legal and tax issues, and look at issues like family succession and governance. With a changing world, family offices need to learn and adapt quickly."

Edmund Leow, Partner, Dentons-Singapore

EXHIBIT 5

What Legal Structure(s) Does Your Family Office Employ?



Multiple answers allowed

Family Offices' Investment Strategies (continued)

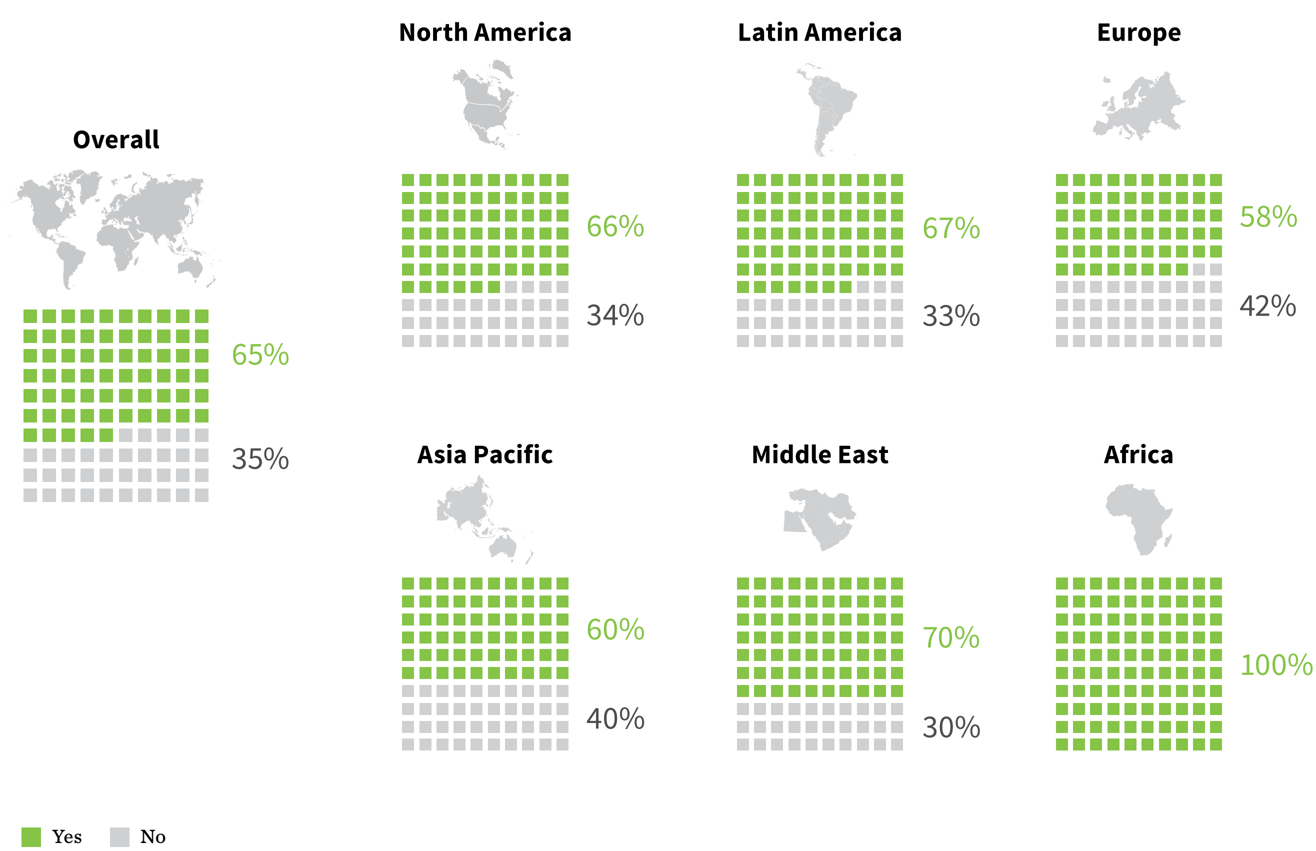
When it comes to investment decision-making, three out of ten family offices (30%) make important investment decisions by family office staff collaborating with family members and then making decisions on a consensus basis, while at 29% of family offices, key family members alone decide.

A collaborative approach between family members and family office staff is more prevalent in North America (35%) and Europe (37%), while key family members deciding is more common in the Middle East (45%) and Latin America (33%).

Important investment decisions are made by key family members at 44% of the smallest SFOs and FEs (under $250 million) but this falls to 19% at SFOs and FEs with over $1 billion in assets. Only 16% of family offices make decisions through a formal governance structure involving family members, but this rises to 40% for the largest SFOs and FEs (over $1 billion in assets).

EXHIBIT 6

Does the Family Office Have a Formal Investment Policy?



Family Offices' Investment Strategies (continued)

However, when family offices make decisions, diversification is one of their key investment principles, with 85% believing in factor diversification and 74% in geographical diversification. A similar proportion, 81%, believe in using a mix of active and passive management, while slightly less, 77%, believe low fees for the family office are important over the long-term. North American family offices are particularly keen on low fees but are also more likely to believe that private markets have the best opportunities now (72% vs. 60% overall). European family offices are most likely to want to avoid managers applying a "2% & 20%" fee structure, which is the fee structure typically used by hedge funds. For some family offices this may mean looking for discounts on "2% & 20%" fees, others might avoid funds using this type of fee structure entirely. Asia Pacific family offices are most likely to believe in using the market decline to add more equity exposure (75% vs. 53% overall).

EXHIBIT 7

How Does Your Family Office Make Important Decisions Regarding the Activities of the Family Office?

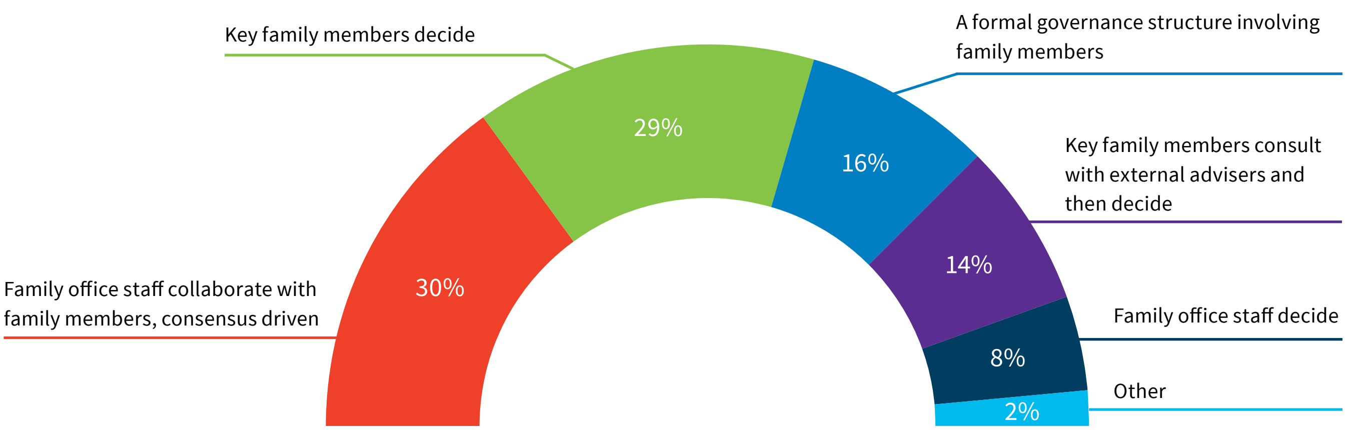


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EXHIBIT 8

Investment Beliefs of Family Offices

Overall		North America	Latin America	Europe	Asia Pacific	Middle East	Africa
85%	We believe in diversification in factors (size/value/quality).	82%	92%	79%	88%	95%	75%
81%	Use a blend of active and passive management.	81%	75%	75%	88%	80%	100%
77%	Low fees are important over the long-term.	85%	75%	75%	60%	75%	100%
74%	We use diversification across geography (EM, Developed/Frontier).	64%	83%	83%	80%	90%	75%
64%	Avoiding losses and volatility is a key objective.	63%	58%	58%	73%	65%	75%
63%	We prefer long-only over long/short.	64%	58%	71%	60%	60%	50%
60%	Private markets often have the best opportunities now.	72%	42%	67%	53%	35%	
56%	Generally, we avoid 2% & 20% managers.	55%	67%	67%	45%	70%	25%
53%	We are using this market decline to add more equity exposure.	45%	58%	42%	75%	55%	50%

Given the important role that family members often have in investment decision-making, it is relevant to look at the views of family members on investment. They are less likely than non-family members or staff to believe in factor diversification (78% vs. 85%) and more likely to believe that private markets often have the best opportunities now (73% vs. 60% overall).

In terms of size, the largest SFOs are less likely to believe that avoiding losses and volatility is a key objective (52% of those with $1 billion or more AUM vs. 69% for those with less than $250 million AUM). Added to this, larger family offices are more likely to share the belief that private markets have the best opportunities now. These differences are predictable to the extent that larger family offices are likely to be better equipped to undertake direct investments and more willing to ride out market volatility in pursuit of growth and returns.

"Family offices as well as family members on their own continue to find an interest in investing in the hotel sector. This has been ongoing for decades in Europe, the Middle East and Asia, with significant increases in North America over the past 15 years. While most of these investments are done in a discreet manner, some are far more public. The biggest challenge for many of these investors and their family offices is both sourcing good opportunities, conducting due diligence in an area that is highly specialized and asset management as to the operational matters (which are far different than other real estate asset classes). These investors often have different motivations, which include: pride of ownership and diversification as to other real estate assets. The hotel sector provides a number of different aspects that allow family offices of all sizes to determine what meets their investment objectives, whether yields or ROI, as well as the size of the investment. Given the unique aspects of investing in this sector, family offices and family members often seek input and guidance from outside sources, which are often legal experts, specialized industry consultants and/or other families with deep experience."

Rick Ross, Global Chair, Hotels & Leisure and Global Co-Chair, Family Office and High Net Worth, Dentons-Phoenix

Private Equity Investing

Private equity is an important asset class for many family offices, as it gives access to a wide range of opportunities, from new tech start-ups to major corporate deals backed by private equity funds. From the data, it appears that family offices would prefer to back entrepreneurs with new ideas, rather than benefitting from corporate deal-making, and many (52%) want to avoid the largest private equity managers.

Among SFOs and FEs, the average number of private equity fund commitments made in the last 24 months is 6, with an average of 11 private equity fund managers in each family's portfolio. Larger SFOs had higher numbers of fund managers (20+) as part of their portfolios. North American family offices have the highest average number of private equity managers in their portfolio, with 16.

EXHIBIT 9

Family Office Views on Private Equity

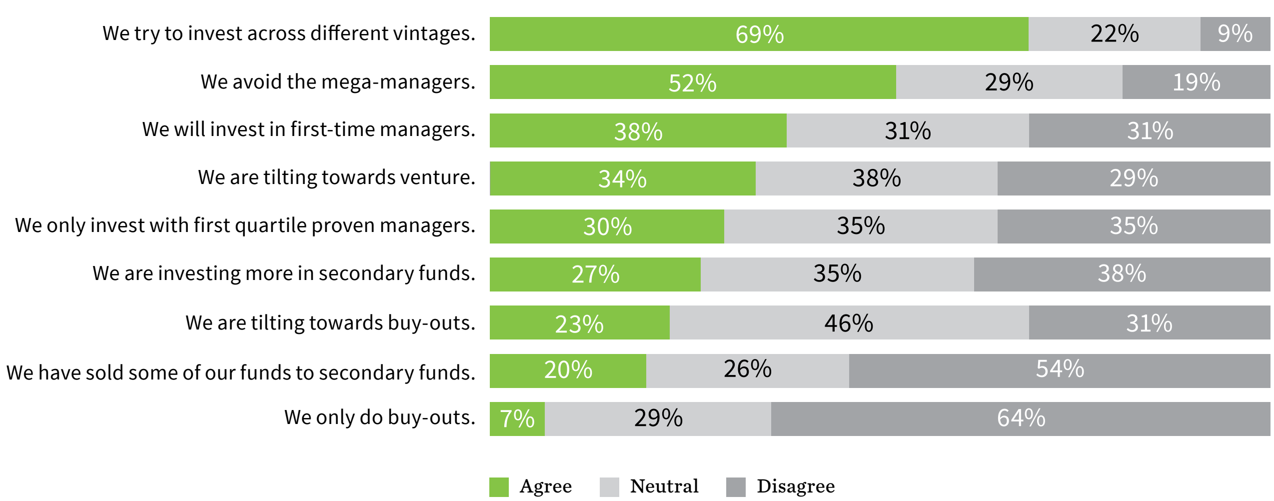

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EXHIBIT 10

Family Offices and Private Equity Investments Made Recently

Number of Private Equity Fund Commitments in the Last 2 Years

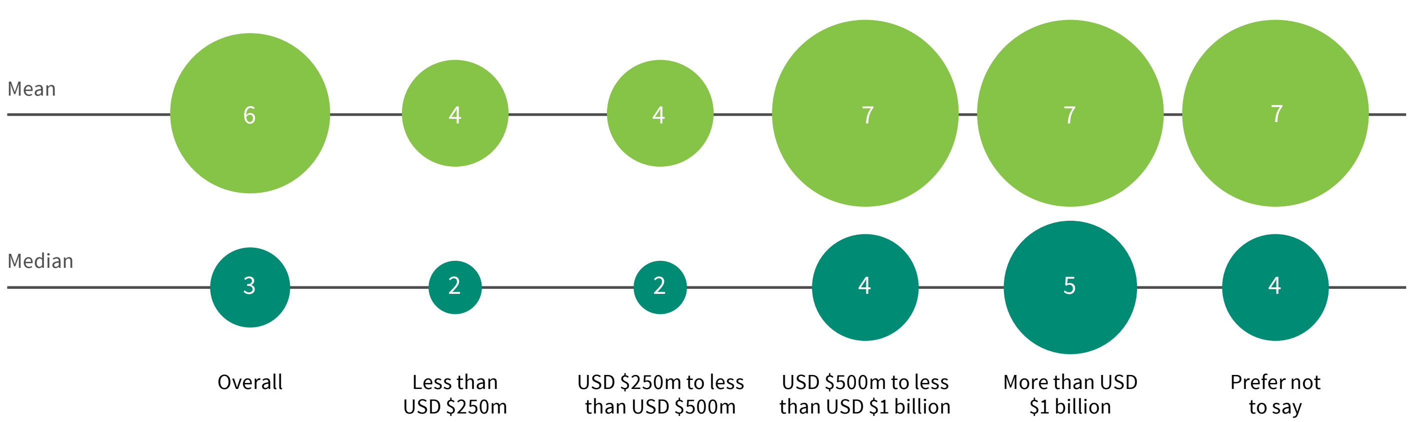
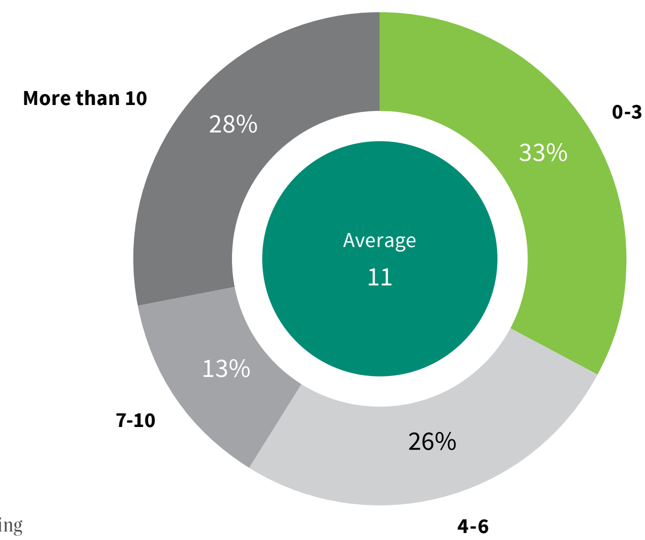


EXHIBIT 11

Family offices and Private Equity Investments Made Recently



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	Overall	North America	Latin America	Europe	Asia Pacific	Middle East	Africa
We try to invest across different vintages.	69%	73%	75%	58%	63%	75%	75%
We avoid the mega-managers.	52%	55%	42%	67%	38%	60%	25%
We will invest in first-time managers.	38%	45%		46%	30%	35%	25%
We are tilting towards venture.	34%	32%	17%	46%	43%	25%	
We only invest with first quartile proven managers.	30%	24%	33%	33%	33%	35%	75%
We are investing more in secondary funds.	27%	24%	42%	17%	35%	25%	50%
We are tilting towards buy-outs.	23%	27%		25%	20%	25%	25%
We have sold some of our funds to secondary funds.	20%	14%	25%	17%	30%	20%	50%
We only do buy-outs.	7%	7%		13%	5%	5%	25%

% Agree (Strongly agree + Agree)

A large majority (69%) of family offices believe in investing across different vintages of private equity, which is important for diversification. This rises to 79% of larger SFOs and FEs, with $1 billion in AUM or more. Larger SFOs and FEs are also more likely to say that they will invest in first-time private equity managers. This may be due to the fact that with larger, diversified allocations to private equity, larger SFOs and FEs can afford to take the risks of first-time managers, who may also be highly motivated and open to lower fees or to negotiate on terms and conditions with investors.

On a regional basis, European family offices are least likely to try to invest across different vintages (58% vs. 69% overall) and most likely to be tilting towards venture (46% vs. 33% overall). European and North American family offices are also most likely to invest in first-time managers, while Asia Pacific family offices are least likely to invest in first-time managers. European investors are also more likely to avoid mega-managers (67% do so vs. 52% overall). Latin American and Middle East family offices are more likely to be investing more in secondary funds (42% and 35% respectively vs. 27% overall).

Compared to non-family office staff, family members are more likely to take a bolder approach to private equity investing. For example, family members are less likely to be tilted toward buy-outs, or larger transactions (18% vs. 25% of non-family members) and more likely to be tilting towards venture, or smaller and growing businesses, (40% vs 31% of non-family members). Family members are also more likely to invest in first-time managers (42% vs. 36%).

Overall, these findings on private equity investing show that while family offices want to manage their risks by diversifying across different vintages, many also see this approach as a key to growth, by investing in first-time managers and by tilting towards venture, avoiding the biggest private equity managers.

"Family offices should consider structural dynamics of private asset valuations, including the absence of mark-to-market and efficient pricing. When assessing portfolio diversification amid market fluctuations, private holdings/direct investments may appear either overweight or underweight relative to target allocations. For instance, if public equities and fixed income investments decrease in value quickly, while private market investments experience less volatility or markdown, the portfolio may appear over-allocated to private markets. Conversely, if public markets rise while private allocations are marked up to a lesser extent or not at all, the relative private allocation is reduced."

Tyler Glover, Partner, Consulting Services, William Blair

Direct Investing: Challenges and Opportunities

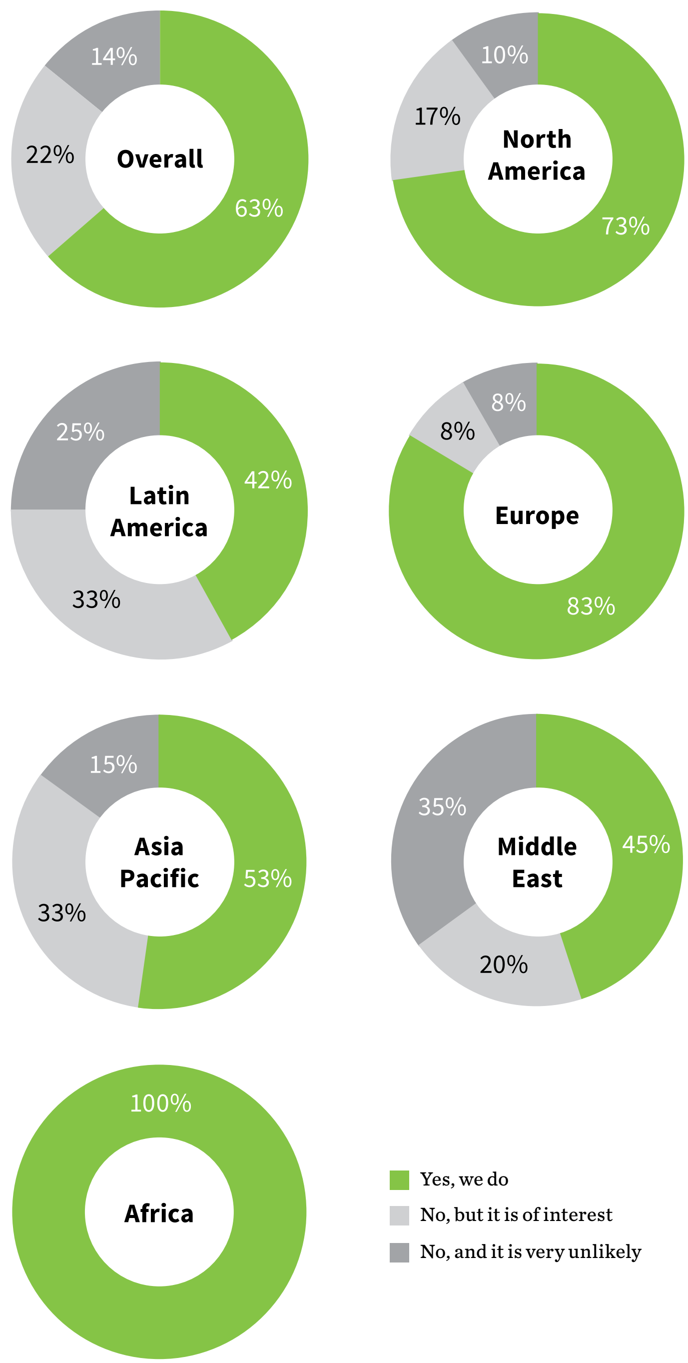
The ability to make direct investments can be very attractive to family members and those running family office investment portfolios. It can mean investing in areas related to the wealth-creating activities of the family members, or areas in which they have developed a particular interest. Many family offices pursue direct investments with a goal of enhanced returns by avoiding the management fees and carried interest of fund investments, in addition to supporting the family's interest in having more influence, transparency or control in its investments, including pursuit of certain industries and company types. However, directs can be complex, illiquid, risky single-asset investments, with no guarantee of outperformance over funds or publics, and require skilled investment management resources for success.

> "Direct investing and deal flow remain of high interest to a significant subset of family office clients, but decision making varies widely. Family members and/or family office staff often drive decision making, with or without the appropriate due diligence and expert advice supporting the process."

Stephen Prostano, Chairman of Board, The UHNW Institute

EXHIBIT 12

Does Your Family Office Make Direct Investments?



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In all, 63% of family offices use direct investments, which as well as investing directly in a business, can mean participating in club deals with other family offices, or directly participating in private equity or venture capital investments. A further 22% of family offices say that they do not currently make direct investments, but it is of interest to them. Size matters here, as larger family offices are more likely to undertake direct investments. For example, among SFOs and FEs, 74% of those with $1 billion or more in assets use direct investments compared to 53% of SFOs and FEs with less than $250 million in assets. In addition, larger family offices have more staff in total and more staff dedicated to private equity and direct investments, giving them more capacity to manage the demands of this asset class.

For family offices making direct investments, allocations are often substantial with an average allocation of 37% of private equity assets. This varies from 40% in Europe to 27% in the Middle East. Larger SFOs and FEs tend to have a higher percentage of private equity assets in direct investments (45% for those with $1 billion or more in assets).

Family offices frequently partner with other entities on direct investments, such as other families, other funds (limited partner, or LP, co-invests) and independent sponsors. By family office type, family enterprises are most likely to partner with other families and independent sponsors, while single family offices show a slightly greater tendency to work with other funds (often through limited partner co-investors or special purpose vehicles).

> "Families in MENA, Africa and Asia are increasingly seeking to diversify their wealth beyond their family businesses. Concerned about keeping all of their eggs in one basket — or, said differently, in one business, one country or one currency — these family enterprises are increasing their exposure to private equity, venture capital and real estate, typically in Europe and the United States."
>
> **Christopher Rose, Partner, Dentons-London/Dubai**

EXHIBIT 13

Family Offices Staff by Assets Under Management

	Overall	Less than USD $250m	USD $250m to less than USD $500m	USD $500m to less than USD $1 billion	More than USD $1 billion
Total staff	14	5	7	10	29
Staff that are dedicated to private equity and/or direct investments	4	3	3	4	6

In terms of the size of direct investments, the average investment is $19 million on a global basis, with this increasing with the size of a family office. Family enterprises also make larger direct investments, on average, when compared to single family offices.

EXHIBIT 14

Family Offices Partnering With Other Entities on Direct Investments

	Overall	Single Family Office	Multi-Family Office	Family Enterprise
Other families	65%	66%	57%	75%
Other funds (LP coinvests)	57%	61%	43%	58%
Independent sponsors	42%	43%	35%	50%
We don't partner on direct investments	17%	16%	26%	8%

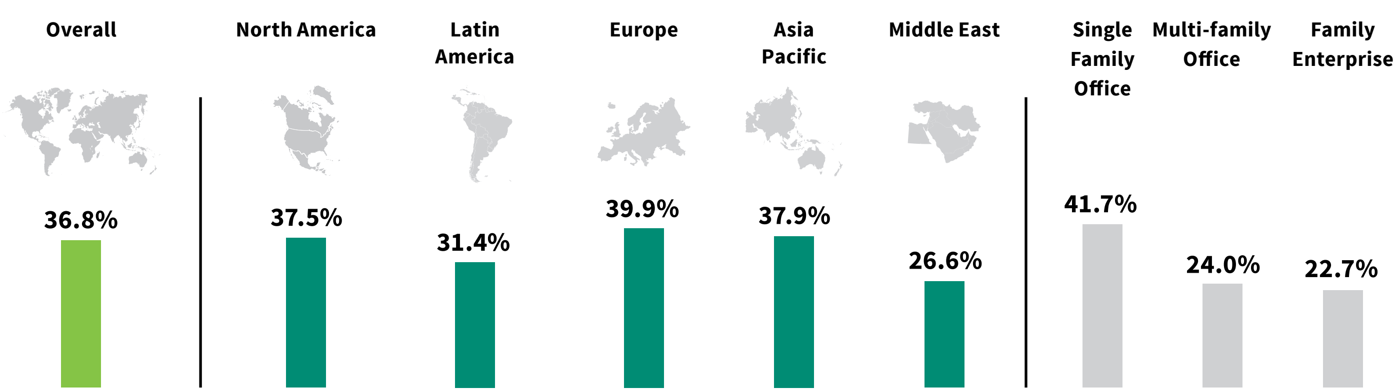
% Yes, multiple answers allowed

> "Family offices are increasingly expanding into direct investments in healthcare and technology, whether at the seed stage, growth stage or beyond. Such deals require significant due diligence and structuring advice once the deal has been sourced to reduce exposure in these risky, but potentially highly lucrative investments. Given the repricing of these deals occurring in real time due to current market conditions, well sourced and properly structured deals present an outsize risk/reward profile for family offices with significant dry powder."

Amit Singh, Partner, Dentons-San Diego

EXHIBIT 15

Direct Investments Account for Almost 40% of Private Equity AUM



Direct Investing: Challenges and Opportunities (continued)

One advantage large family offices have with direct investments is that they are more likely to be in a controlling position, or to have influence, allowing more control of exit options and other important aspects of direct investments. For larger family offices with more than $1 billion in AUM, 44% of direct investments have a controlling position, compared to 30% for those with less than $1 billion in assets. By region, European family offices (44%) and North American family offices (42%) were also more likely to have a controlling position in direct investments.

EXHIBIT 16

Family Office Direct Investments Control vs. Minority

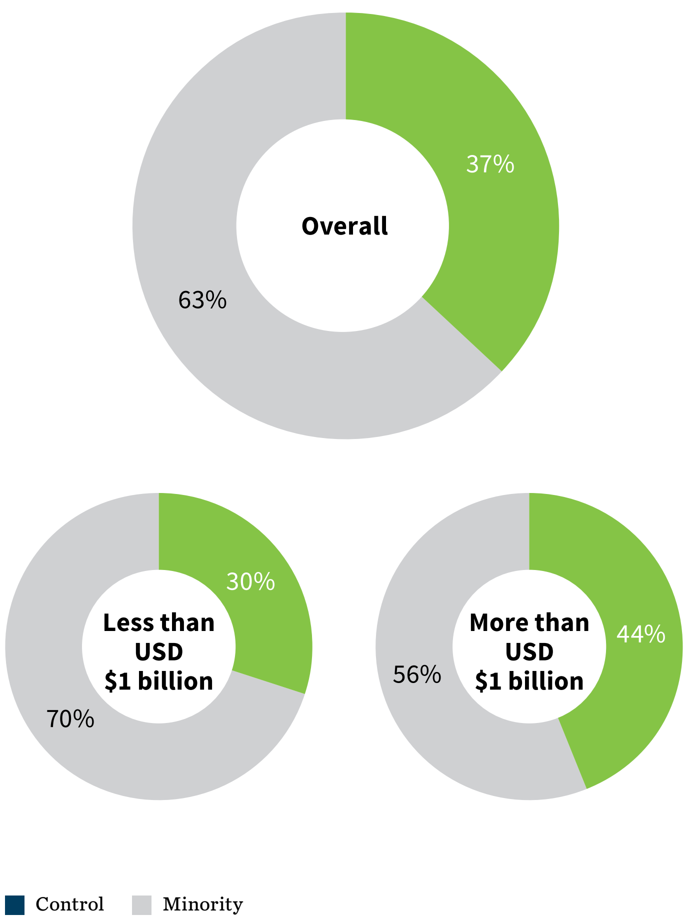
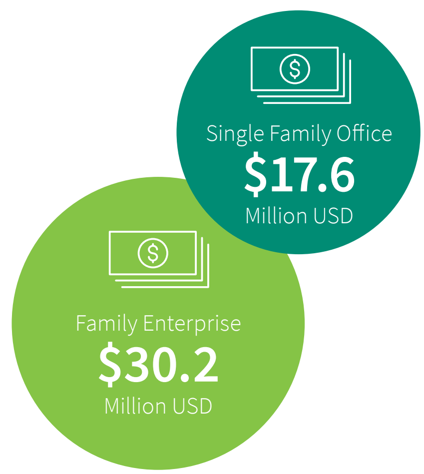


EXHIBIT 17

Average Size of Direct Investments by SFOs and FEs in the Last 12 Months

	Million USD
Overall	19.3
Less than USD $250m	3.7
USD $250m to less than USD $500m	6.5
USD $500m to less than USD $1 billion	14.3
More than USD $1 billion	39.0



Preferred Areas for Direct Investing

The most popular area for family offices to invest directly in over the next five years is healthcare (65%), followed by disruptive technology and digital tech (61%). Both these areas can offer opportunities to invest in start-ups, and healthcare can encompass areas such as biotechnology, where innovation can drive the development of new therapies and treatments. In addition, both areas may offer investment opportunities at a time when the global economy is struggling.

Healthcare is particularly liked by family offices in the Middle East (77% are likely to invest), while 68% of European family offices are likely to invest in disruptive and digital tech. Over half (58%) of family offices making direct investments plan to invest in commercial property in the next five years and this rises to more than 3 in 4 (78%) in Latin America and to 69% in the Middle East. Commercial property can offer a mix of rental income and capital gains and it can be a relatively stable investment. Against this, events such as the pandemic and the trend to online retail are reducing the investment case for office and retail property for some. Another regional difference is that both investments with a positive environmental or social impact (64%) and start-ups (nearly 64%) are more popular among European investors. Overall, industrial services, private debt, manufacturing and ESG-impactful investments rounded out sectors where a majority of family offices expressed focus.

> "From our experience, we observe that family-owned businesses appreciate the optionality of being introduced and potentially acquired by family office investors, as often the ethos of the two entities is aligned. Family office investors generally tend to hold acquired companies longer, disrupt the employee base and community less, and often leave some version of family management in place. Given our market position, we act as facilitators of deal flow to family office investors with exiting family-owned businesses."

Ryan DeVore, Global Head of Private Wealth Management, William Blair

EXHIBIT 18

Family Offices on the Most Attractive Areas for Direct Investing

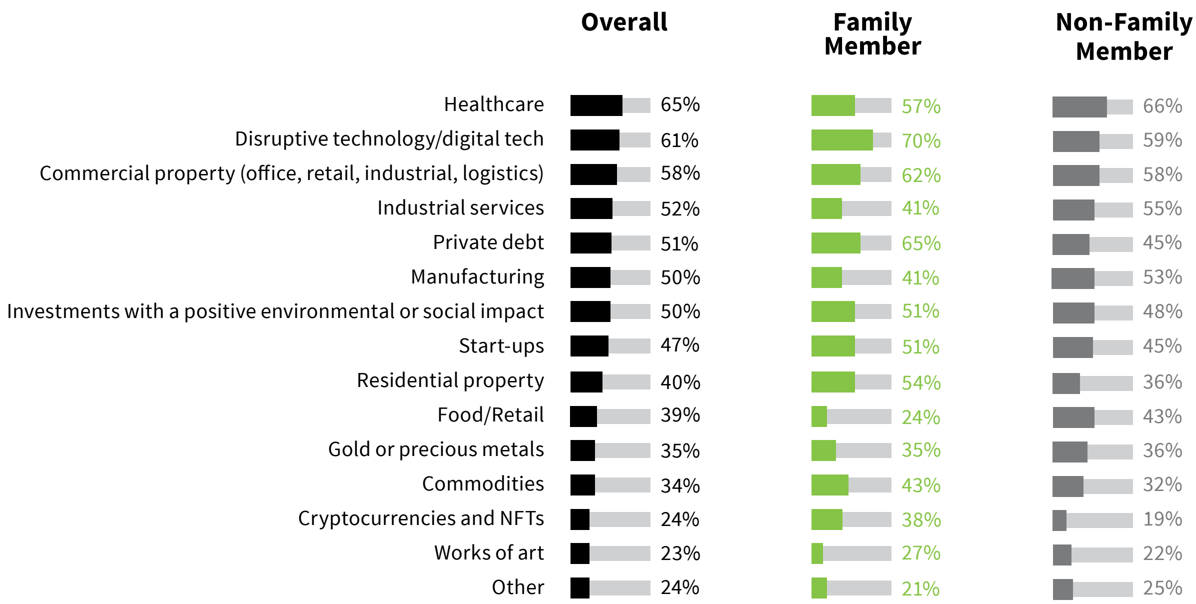
	Overall	North America	Latin America	Europe	Asia Pacific	Middle East	Africa
Healthcare	65%	65%	67%	68%	56%	77%	75%
Disruptive technology/digital tech	61%	63%	44%	68%	59%	54%	75%
Commercial property (office, retail, industrial, logistics)	58%	56%	78%	55%	59%	69%	50%
Industrial services	52%	57%	67%	45%	44%	38%	50%
Private debt	51%	53%	56%	36%	59%	38%	50%
Manufacturing	50%	53%	44%	55%	44%	46%	50%
Investments with a positive environmental or social impact	50%	46%	44%	64%	53%	38%	75%
Start-ups	47%	49%	22%	64%	35%	54%	25%

Question: Which of the following areas is your family most likely to invest directly in (e.g., buying a business, or a stake in a business, or via a club deal or other private investment) in the next five years?

% Likely (Very likely + Likely)

EXHIBIT 19

Family Offices on the Most Attractive Areas for Direct Investing



% Likely (Very likely + Likely)

Family members are often instrumental in deciding on direct investments and their views on the attractiveness of different areas can differ from non-family staff at family offices. For example, family members are more likely to find disruptive technology and digital tech (70% vs. 59%), cryptocurrencies and NFTs (38% vs. 19%), private debt (65% vs. 45%) and residential property (54% vs. 36%) attractive than non-family staff. These results show that family members may have strong views on direct investments and may be more willing to invest in new and developing areas. If this is the case, non-family staff, such as investment managers, may need to support family members by providing quality sourcing, thorough diligence, careful structuring, sound advice and skillful post-close investment management, to ensure that direct investments in what could be high risk, high reward areas are structured and managed in a way that aims to optimize results and limits downside exposure.

The challenges of direct investing for family offices

While direct investments can give family offices access to good opportunities and the ability to influence how an investment is managed, they can also be challenging, requiring time and expertise. From identifying suitable opportunities, agreeing to terms, then managing a direct investment through to exit routes and realizing gains, direct investments can be very demanding. For family offices, the biggest challenges of direct investing are taking on too much operational risk (45%), obtaining high-quality deal flow (43%), having control of exit options (42%) and time management issues, including a lack of time for due diligence (41%).

EXHIBIT 20

Deal Flow was Named as the Top Need for 2023 by Family Offices

Family office size is an important factor in what they see as the biggest direct investing challenges. Obtaining high-quality deal flow (51%) and having too much operational risk (54%) are more likely to be seen as the biggest challenges at large SFOs and FEs, with over $1 billion in assets. It may be the case that for larger SFOs, deal flow is a critical issue, as more in assets needs to be allocated to suitable opportunities. In contrast, for SFOs and FEs with less than $250 million in assets, having control of exit options is among the biggest challenges (41%), along with managing fees and costs (32%). Small SFOs and FEs are also more likely to find that high-minimum-investment amounts required are a challenge (13% vs. 6% overall).

When asked about the importance of factors behind a decision to make a direct investment rather than use an external fund, family offices recognize the challenges they face. For instance, nearly all (93%) say having the relevant skills and experience in-house is important, and 84% of family offices believe that being able to exit when and how they want is important and consider that when making decisions regarding fund vs. direct investing.

Family offices also see having influence or control (81%) and having influence over the management of a business (78%) as important factors in any decision over investing directly or using a fund, while nearly half (45%) see being able to take a majority stake as being an important factor. Fees and costs are also an important factor when deciding between direct investing and a fund; around two-thirds (67%) see being able to avoid fees as an important factor, while 63% see being able to avoid carried interest as an important factor.

The legal challenges of direct investments

From a legal perspective, the biggest challenges of direct investing are due diligence issues (66%). Structuring investments is also a challenge for 43%, while 40% say that tax and estate planning is a challenge.

Due diligence issues are a particular challenge for family offices in North America (70%) and Asia Pacific (71%), while structuring investments stands out as a challenge in Europe (55%) and the Middle East (54%). Nearly half (46%) of Middle Eastern investors cite regulatory issues as a legal challenge. One possibility is that this is related to the challenges of investing in line with Shariah law for Middle Eastern families.

EXHIBIT 21

Family Offices on the Hurdles of Direct Investing

% Yes, multiple answers allowed

"We are seeing countries make efforts to increase interest in cross-border direct investing by family offices. Some countries are promoting family office direct investing by offering tax incentives and the potential for residency by investment. As an example, Uruguay has benefited from increased interest as a destination for family office direct investment through various government incentives and political stability. Uruguay is playing an outsized role in South America as a conduit for family investment and for family offices looking to set up a base in the region."

Virginia Brause, Partner, Dentons-Montevideo

While there are regional differences on legal challenges, overall, family members (57%) and smaller SFOs and FEs (62% for those with less than $250m) are more likely to see tax and estate planning as a key legal challenge. For the largest SFOs and FEs, with $1 billion or more AUM, over half (51%) put litigation risk as one of the most challenging aspects of direct investing.

"Family offices are typically on a maturity continuum in relation to private asset class investment. I think that in markets less mature than the US, there is a tendency to start opportunistically with investments from friends and family. Many family offices may find it more manageable to get to know the asset class and build out their in-house resources and external advisory teams before getting more direct or co-investing. Maturing family offices are only now starting to think about the structures, systems, processes and resources they need to succeed. So at least in the early years it can make sense to outsource to managers some of the due diligence, execution, monitoring and other functions associated with direct investment."

Henry Brandts-Giesen, Partner, Dentons - Auckland

EXHIBIT 22

The Most Challenging Legal Aspects of Direct Investments

	Overall	North America	Latin America	Europe	Asia Pacific	Middle East	Africa
Due diligence issues	66%	70%	56%	50%	71%	62%	75%
Structuring investments	43%	43%	44%	55%	38%	54%	
Tax and estate planning	40%	41%	33%	41%	35%	46%	50%
Litigation risk	30%	30%	11%	41%	26%	31%	50%
Regulatory issues	24%	20%	22%	27%	26%	46%	
Fee structures	24%	29%	44%	14%	18%	15%	25%
Security, safety, and threat management	22%	20%	44%	32%	18%	23%	
Key person agreements	19%	23%	11%	18%	9%	31%	
Other	4%	3%	11%	9%	3%		

% Yes, multiple answers allowed

Cryptocurrency and Digital Assets

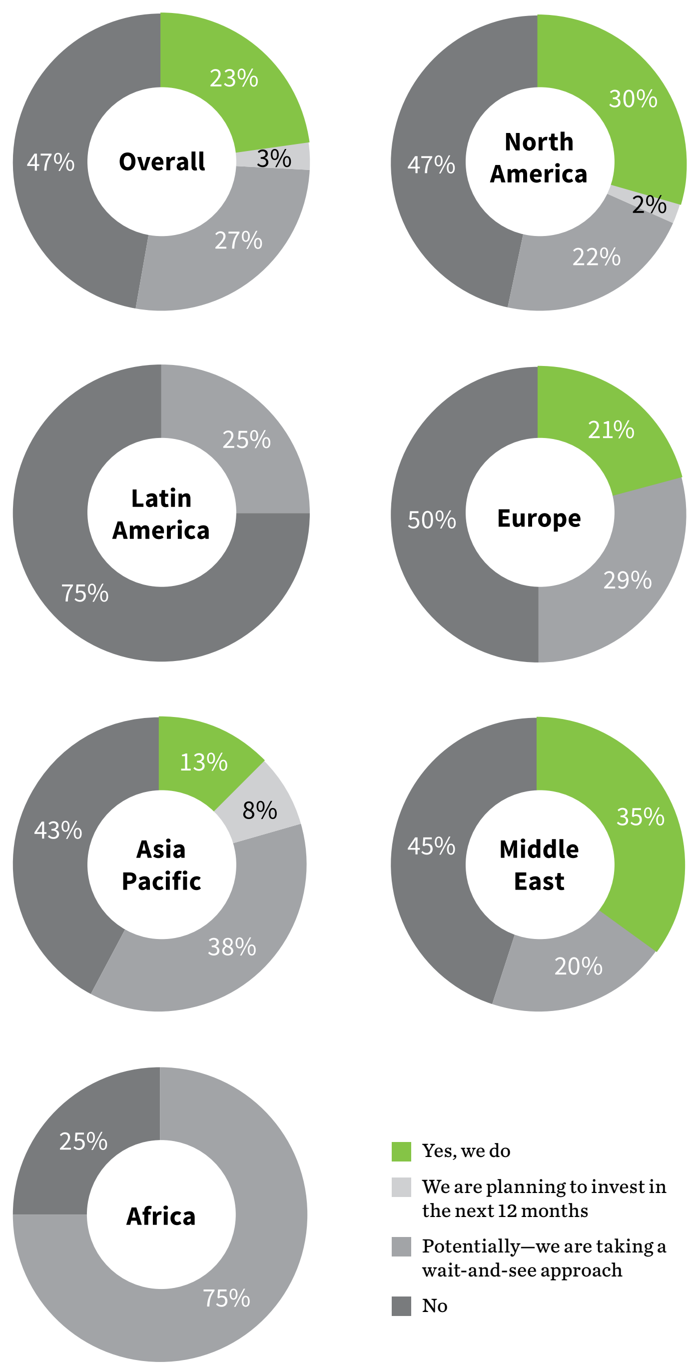
The recent upending in crypto and digital asset markets, including bankruptcies of perceived industry-leading companies backed by strong investors, has created both skepticism regarding the asset class as well as opportunities for careful study and future opportunity. Family offices have not been immune to the enormous interest in cryptocurrencies and digital assets in the last few years. Nearly one in four (23%) family offices are investors in cryptocurrencies and/or digital assets, and another 30% are either planning to invest in the next 12 months or are taking a wait-and-see approach. Against this, just under half (47%) do not intend to invest in cryptocurrencies and digital assets, showing a clear split among family offices on this emerging asset.

Family members are more likely to have a firm view either way on cryptocurrencies than non-family members; 36% of family members say that they are investing in crypto, while 51% do not plan to invest and only 13% are taking a wait-and-see approach. The largest SFOs and FEs are also more likely to be investing in cryptocurrency, as over a third (36%) are already investing or plan to do so in the next 12 months. By region, family offices in the Middle East (35%) and North America (30%) are most likely to be investing in cryptocurrencies, while Latin American family offices (75%) are least likely to invest in this area.

For family offices, there are several reasons to invest in cryptocurrencies and digital assets. The most popular rationale is the potential for outsized gains (58%), ahead of diversification from traditional assets (52%), taking advantage of an emerging market (49%), focusing on the "picks and shovels" of cryptocurrency/blockchain (46%) or to gain knowledge of cryptocurrencies and how they work (46%).

EXHIBIT 23

Does Your Family Office Invest in Cryptocurrencies or Digital Assets?



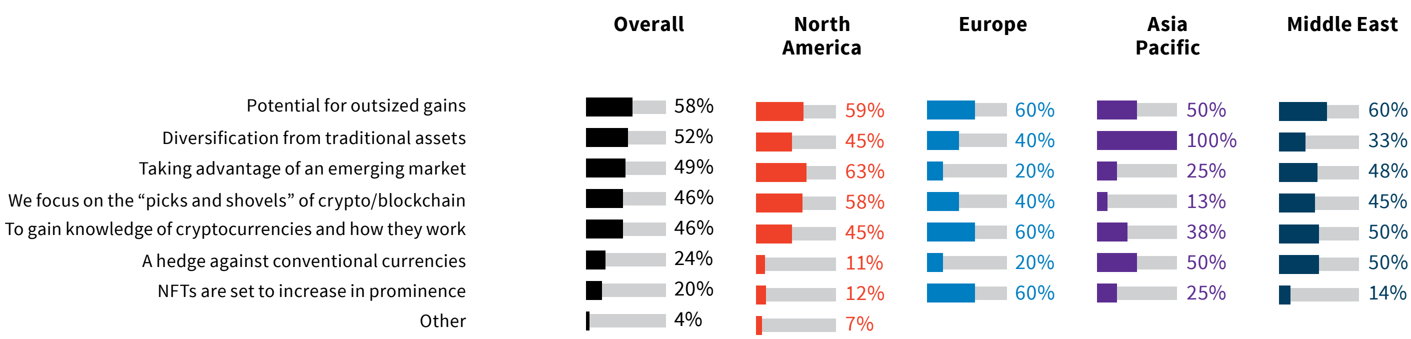
Data may not sum to 100% due to rounding

Family members are particularly likely to be attracted by the potential for outsized gains (69%) or as a hedge against conventional currencies (37% vs. 24% overall). By region, the strongest rationale for investing in cryptocurrencies for North American family offices is taking advantage of an emerging market (63%), while diversification is a strong driver for Asia Pacific investors.

When asked about reasons for not investing in cryptocurrencies, the lack of regulatory oversight (61%) was the biggest reason overall. Concerns over fraud and security (55%) and volatility (54%) are also prominent disincentives. There are some significant differences between family members and non-family staff on this topic. Family members are more worried about a huge loss of value, for example, with nearly half (46%) citing this, compared to 35% of non-family staff. Family members also dislike the lack of an established track record for cryptocurrencies. For non-family staff, the lack of regulatory oversight and the lack of research and advice are bigger deterrents to investing in this area.

EXHIBIT 24

What is Your Organization's Rationale for Investing in Blockchain, Cryptocurrencies and/or Digital Assets, such as NFTs (Non-Fungible Tokens)?



% Rank 1+2+3

> "Speculative investing in tech is not new. The dotcom boom (and bust) was high risk/high return for patient investors who could wait for Internet business models to mature. Many argue that blockchain tech is the next foundational technology to drive new business models we can't imagine today. While the crypto market has already been through boom/bust cycles, it's important to recognize there is more to the technology than the speculative trading markets. Fundamentally, investments in the space are investments in the underlying tech. Careful due diligence and long-term vision is critical."

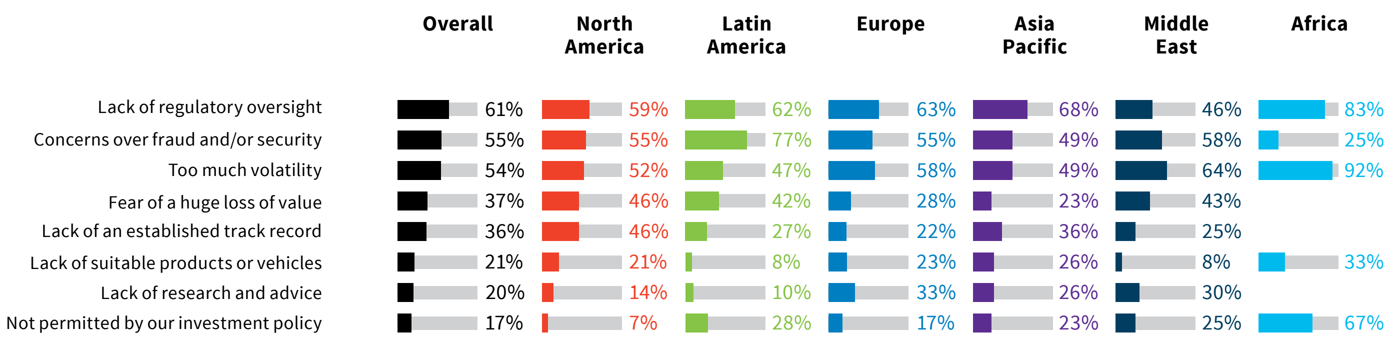
Joe Guagliardo, Partner, Dentons-New York

"The management of private wealth is demonstrating increasing complexity, with new generational demands turning into a wider variety of newer asset types most notably into the digital assets space. We have seen a lot of venturing of wealth managers into new asset classes which propels legal counsel into new territories of legal and regulatory, technology, investigations and macro and multi-level risks. The new economy has presented excitement into the legal issues relating to trusts, estates, security, and wealth preservation, but has also given rise to new and real challenges on the value of the underlying assets as well as questions of privacy, philanthropy, governance and disputes."

Julianne Doe, Senior Consultant, Dentons-Hong Kong

EXHIBIT 25

Reasons Why Family Offices Are Not Investing In Cryptocurrencies, Blockchain, and Digital Assets



% Rank 1+2+3

Working with External Partners

Family offices need to work with a range of external partners as it is unlikely they will have the internal capabilities to cover all areas of investing, accounting and tax, estate planning, investment banking, legal services and other functions. The research shows that over 80% of family offices have in-house investment capabilities, while the functions most likely to be outsourced are legal services (77%) and accounting and tax compliance (62%). On a regional basis, North American (68%) and Middle Eastern (70%) family offices are more likely to provide philanthropy and charitable activities in-house, showing that they place more importance on this as a function of a family office.

As would be expected, larger family offices are more likely to have more in-house capabilities. For instance, 95% of SFOs and FEs with over $1 billion in AUM manage direct investments internally and 76% manage philanthropy and charitable activities internally. Nonetheless, it is notable that while larger SFOs and FEs are more likely to have internal capabilities for IT and cybersecurity, 40% still outsource this either fully or partially. This shows that along with legal services, there are areas where even the largest SFOs and FEs need external providers.

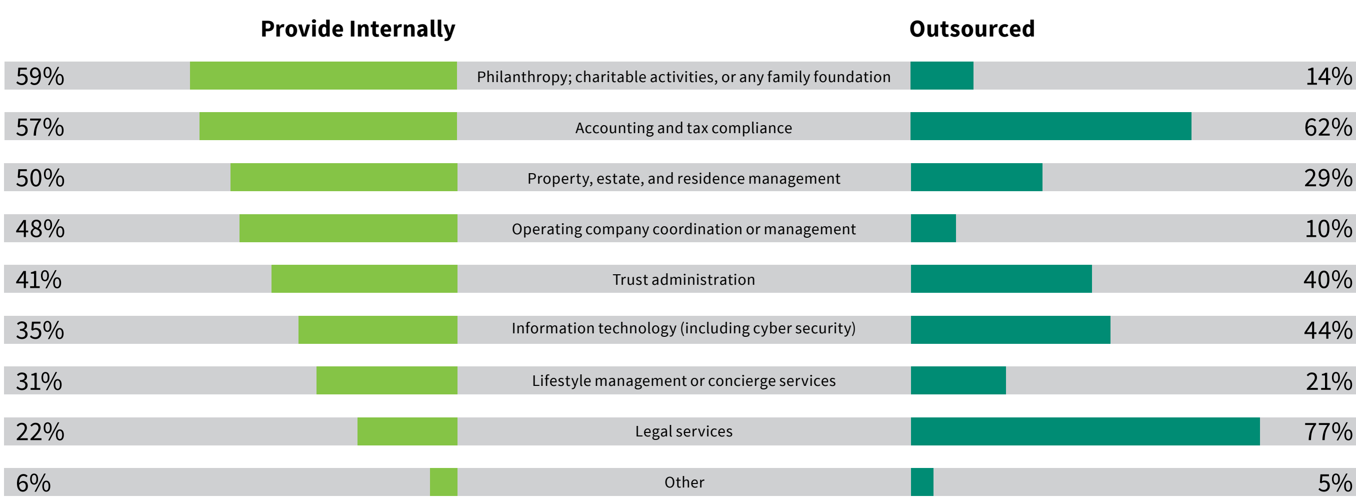
When selecting external partners, 65% of respondents said the most important criterion for family offices is deep expertise in specialist areas. After this factor, family offices give a range of criteria, such as recommendation by trusted contacts and experience servicing similar family offices (both 39%), or the ability to give strategic advice (34%). Alignment of values and culture (32%) and fees (31%) are among the other criteria used.

For North American family offices, a recommendation by trusted contacts (46%) is relatively more important than elsewhere. In Europe, the ability to give strategic advice (42%) is important, while in the Middle East, deep expertise in specialist areas (75%) stands out. For Middle Eastern family offices, experience servicing similar family offices (53%) and recommendation by trusted contacts (46%) are important criteria.

By size, SFOs and FEs with less than $250 million are more fee-conscious; 52% cite this as an important criterion. Family members are also more likely to note fees as a key factor (50%) and recommendations by trusted contacts (47%). For the largest SFOs and FEs, with over $1 billion in assets, 37% report that having a dedicated point of contact is an essential element.

EXHIBIT 26

Services Provided Internally and Outsourced (Partially or Fully) by Family Offices



Multiple answers allowed

Conclusion

This family office direct investing report is a strong first step into examining how family offices, especially single family offices and family enterprises, are tackling numerous opportunities and challenges. Facing headwinds from higher inflation and interest rates, market fluctuations and recession risks, as well as global concerns such as conflict in Ukraine and uncertainties in China, family offices are retaining their faith in making direct investments, as well as in diversification, as part of their overall plans to manage risk and return. For many family offices, direct investing is a key part of their investment strategies, enabling them to target attractive opportunities, in ways that can avoid short-term market volatility and often provide enhanced transparency, influence and/or control.

While family offices are likely to be defensively positioned at present, they still want to invest in the key areas for future growth to preserve wealth and achieve attractive returns. As we look deeper at how single family offices and family enterprises view investing and governance, we can see that family offices are dealing with the hurdles of direct investing. To do this, working with partners who can bring deep expertise to the table is vital, as family offices recognize. As families look ahead to 2023 and beyond, finding talented new staff, high-quality deal flow, managing diligence and operational risk, and strategic shifts are top of mind for family offices, showing how they are focused on proactively managing opportunities in a changing world. If we are indeed moving into a new macroeconomic and geopolitical era, after "the Great Moderation" of cheap money and relative stability, family offices are doing their best to ensure this transition does not halt their mission of investing family wealth to achieve long term goals in a shrewd and long-term manner.

"During this period of geopolitical and macro-economic uncertainty, families are navigating investing choices with far more sobriety about objectives and the need for adherence to a structured plan. Across families and executives in 32 countries sharing front-line perspectives on the direct investment climate, private market opportunities—appropriately accessed, presented, valued, structured and diligenced—play a growing and competitive role in diversified portfolio. Family members and executives each bring complementary talents to decision making. Family offices and their partnering organizations more than ever need to leverage broad internal and external expertise to deploy liquidity, maximize downside protection and create value amidst rapid change."

Mike McNamara, Partner, Dentons-Washington, DC

Background to Survey

The findings here are based on the views of 188 individuals at family offices from 32 countries around the world, with 44% in the United States, during July and August 2022. Most respondents (73%) either work at family offices or are advisors to one or multiple family offices. Nearly a quarter of respondents (24%) are family members, with most of these also working in their family office or a multi-family office (MFO).

Half of the respondents are C-suite (e.g., CEO, CFO or COO), while 21% are investment professionals, 9% are portfolio managers and 6% are board members. By region, 47% of respondents are based in North America, 21% in Asia Pacific, 13% in Europe, 11% in the Middle East, 6% in Latin America and 2% in Africa. SFOs are the most common type of family office, for 71% of respondents, while 18% are at MFOs and 7% are at FEs (i.e., family-owned operating businesses that also manage the assets and/or affairs of the family).

EXHIBIT 27

What Is Your Relationship to the Family Office?

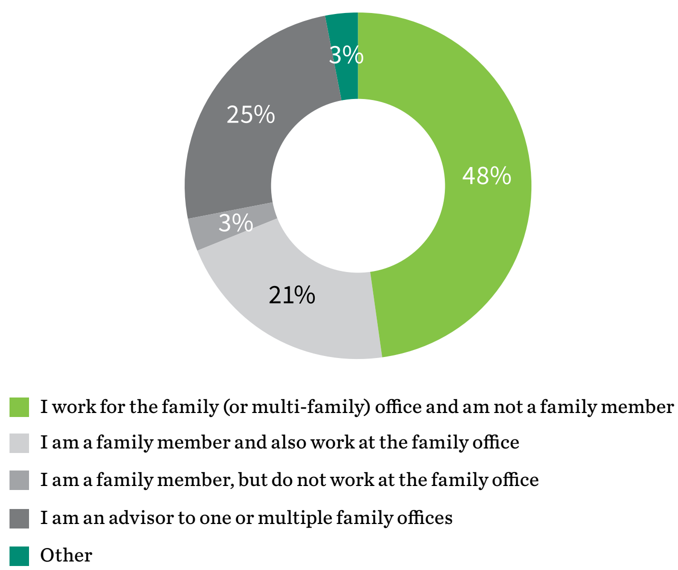
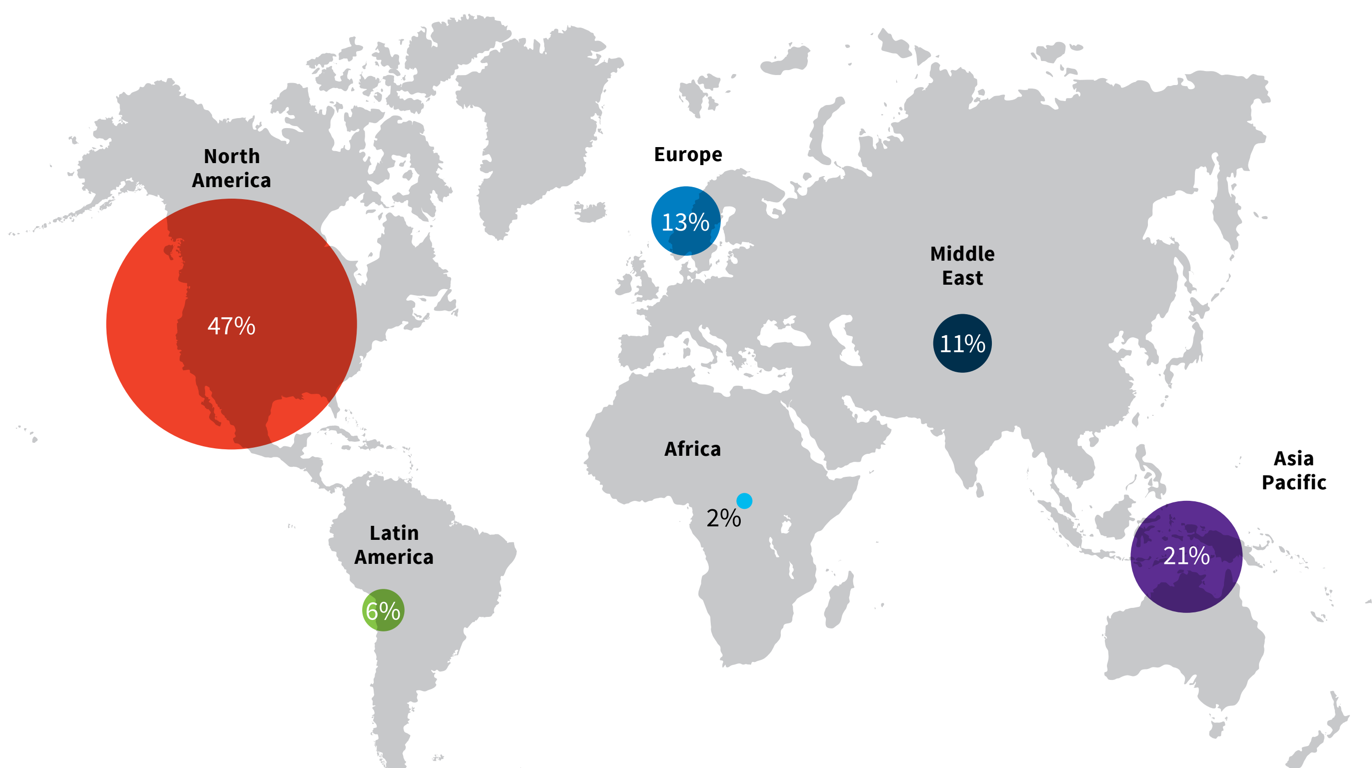


EXHIBIT 28

Please Indicate the Primary Location of Your Family Office



Multiple answers allowed

EXHIBIT 28

Please Select Your Primary Title and/or Functional Role

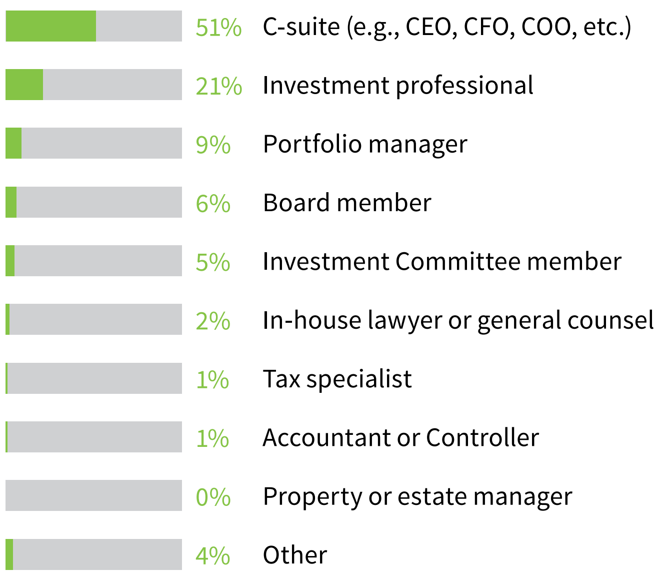


EXHIBIT 29

Please Select the Archetype that Best Describes Your Family Office

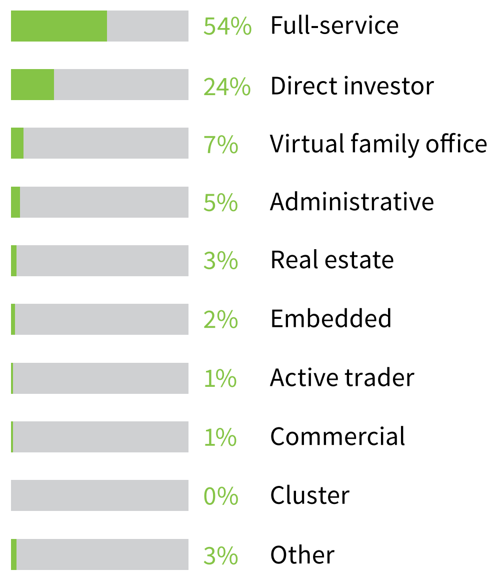


EXHIBIT 30

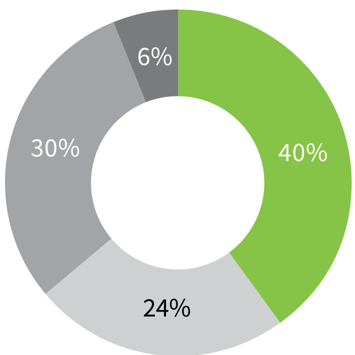
How Would You Describe Your Family Office?

Data may not sum to 100% due to rounding

Background to Survey (continued)

EXHIBIT 31

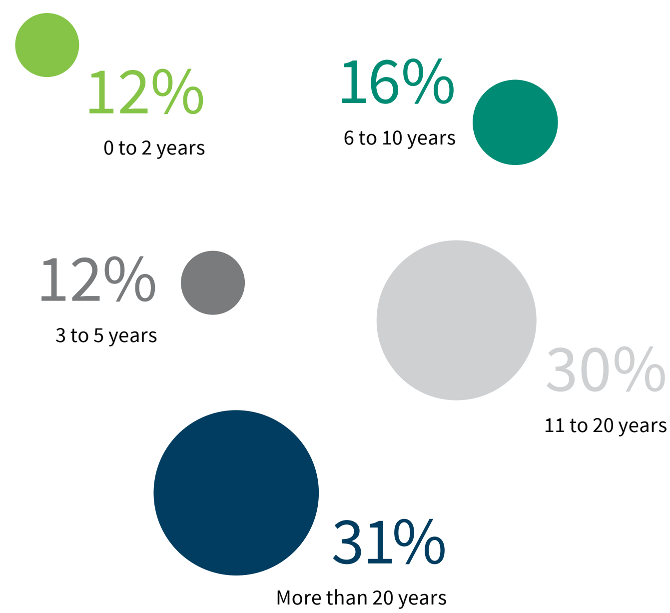
Please Describe the Primary Source Of the Wealth Managed/Administered by the Family Office



- From the business interests of a leading family member; which they have set up and/or are currently involved in on day-to-day basis.
- From the business interests of a leading family member, which they have either sold, or are no longer involved in on a day-to-day basis.
- From past founder, business interests or accumulated family wealth, now inherited by founder-descendants and managed for them and their descendants.
- Other

EXHIBIT 32

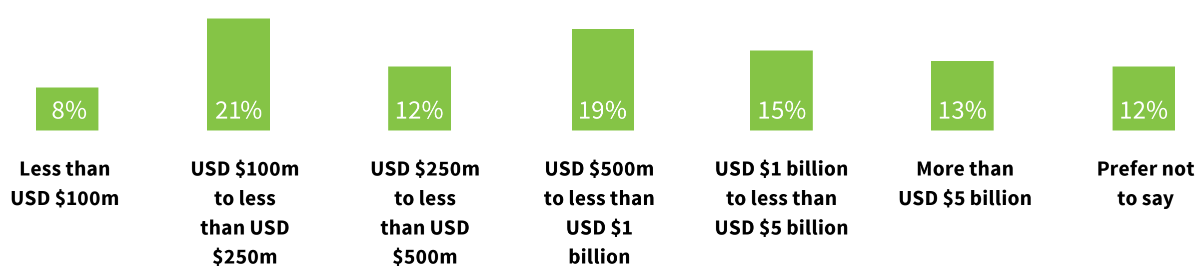
How Long Has the Family Office Been in Existence?



Data may not sum to 100% due to rounding

EXHIBIT 33

What Is the Net Worth of Your Family Office?



Multiple answers allowed

William Blair wishes to thank our family-office clients who participated in this survey and also extends gratitude to our survey partner Dentons for fielding the questionnaire to their worldwide network. Specifically, we would like to acknowledge Edward V. Marshall, Global Head, Family Office, at Dentons for his expertise and collaboration.

For more information on how William Blair works with family offices, please visit

www.williamblair.com/Private-Wealth-Management/Family-Office-Solutions