



Family Office Industry Briefing Series

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INTRODUCTION

Dear Reader,

Welcome to our Family Office Industry Briefing Series, in partnership with Charles Schwab.

I founded FINTRX in 2014 with a mission to provide asset raising professionals access to high-quality Family Office data, and the ability to leverage it in a streamlined manner.

Since inception, FINTRX has compiled over half a million data points on more than **3,500** Family Offices globally, with detailed and continuously updated insights on the nearly **16,000** contacts that work within them.

Today, our platforms are used by hundreds of clients globally – all of whom rely on our breadth and depth of data, our accuracy and attention to detail, and our state-of-the-art technology engineered to provide the research they need.

Continuing our drive to provide the most robust insight on Family Offices, I am delighted to launch our Industry Briefing Series, which takes an in-depth look at the global Family Office landscape.

Uniquely, all data in these reports has been built bottom-up from our extensive dataset, rather than based on models or small-sample survey data. As a result, for the very first time, we are able to share robust insights into this hard-to-reach, yet economically highly significant sector.

I'd like to take this opportunity to thank the members of Schwab Advisor Family Office for their assistance with this report. Their support and contributions were invaluable.

Best wishes,



Russ D'Argento
Founder & CEO







PART ONE

Mapping the Location and Assets of the Family Office Industry

THE HISTORY AND LANDSCAPE OF FAMILY OFFICES

Pioneered by the family of J.P. Morgan and the Rockerfellers in the 19th Century, Family Offices have blossomed from a cottage industry into a substantial player within the private capital markets. Over the past 50 years, the number of Family Offices across the globe has risen substantially, becoming the preferred vehicle for the ultra wealthy to organize, invest, and direct their net worth.

Family Offices are typically private unregulated companies, constructed to manage the wealth and investments of individuals and families with over \$100m of investable assets. As their name implies, Single Family Offices (SFOs) manage the wealth of a single family and serve to centralize the management of investments, taxes, philanthropic activities, trusts, and legal matters. Multi Family Offices (MFOs) are designed to look after a number of families, by allowing the wealthy to leverage the infrastructure and investment talent already being used by other families. This approach can greatly simplify the process and limit time spent by a wealthy family when attempting to setup an entity to advise the direction of their assets.

Family Offices often fly under the radar and face little regulatory oversight. This creates a landscape that is difficult to assess and measure. The result is an ecosystem which is difficult to track in terms of size, numbers, and assets. At FINTRX, we believe that there are approximately 3,500 - 5,000 Family Office in the world, that have one or more employees, \$100M or greater in investable assets, and have some form of external investment activity.

Of these, we estimate that **39%** are Single Family Office and **61%** are Multi-Family Offices.

39%

Single Family Offices (SFOs)

61%

Multi-Family Offices (MFOs)



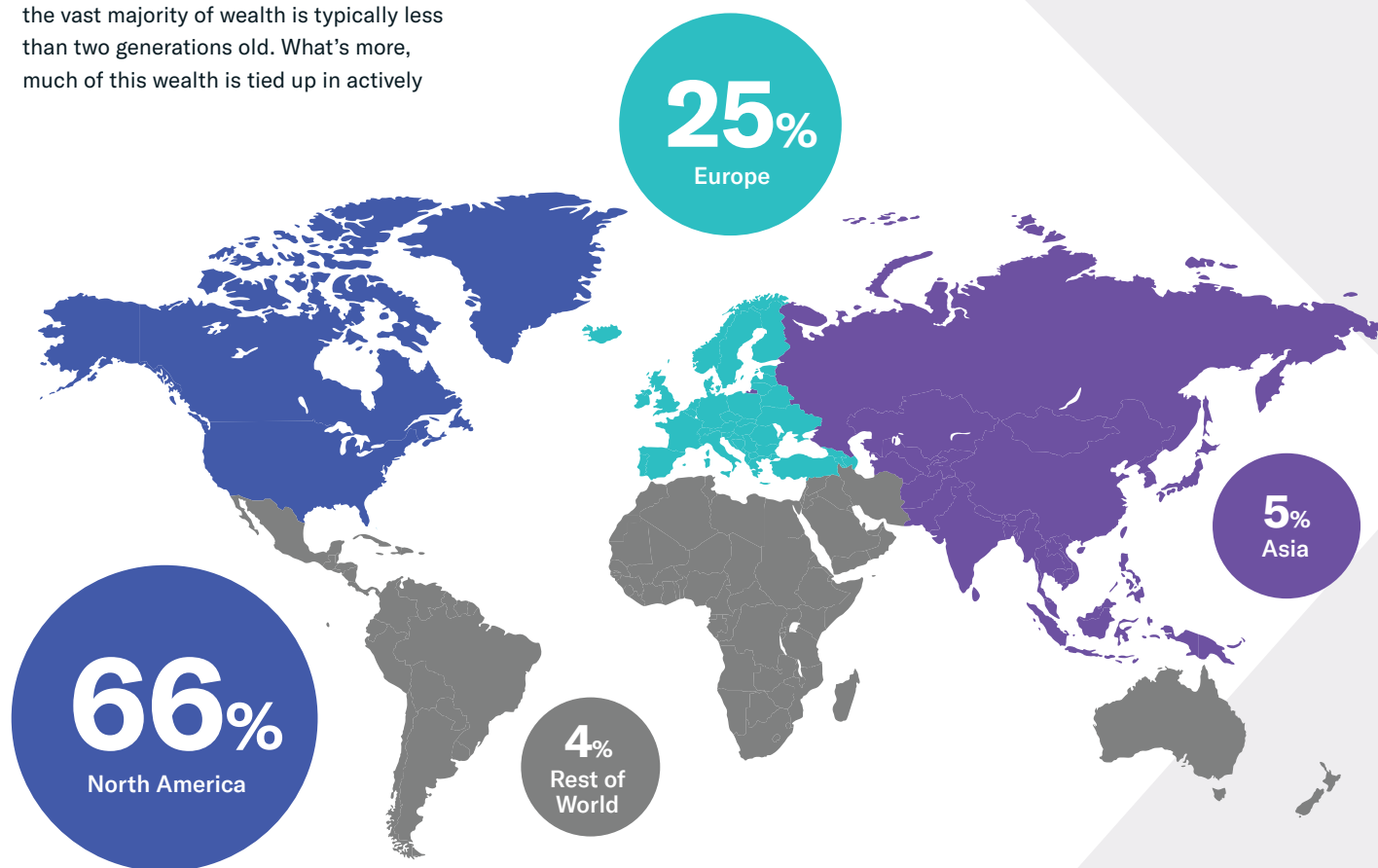
The location of Family Offices around the world

Today, approximately two-thirds of SFOs and MFOs are in North America. Approximately one quarter are in Europe and the remaining 9% are in Asia and the Rest of the World.

With an estimated 35-40% of the world's billionaires and ultra-wealthy, it is not surprising that North America would be the region with the most Family Offices. However, its comparative over-representation (and comparative under representation in Europe and Asia) can be explained by a number of factors. First, Europe has a long and established tradition of private banking, as an alternative to Family Offices. While in Asia and other emerging economies, the vast majority of wealth is typically less than two generations old. What's more, much of this wealth is tied up in actively

managed businesses, with inter-generational management and transfer of wealth still some years away.

That said, the steepest rate of growth within the Family Office space is outside of North America, as they fast become the investment vehicle of choice for the world's wealthiest. Family Offices now have the capability and appetite to conduct transactions on a par with established investment companies and private equity firms.

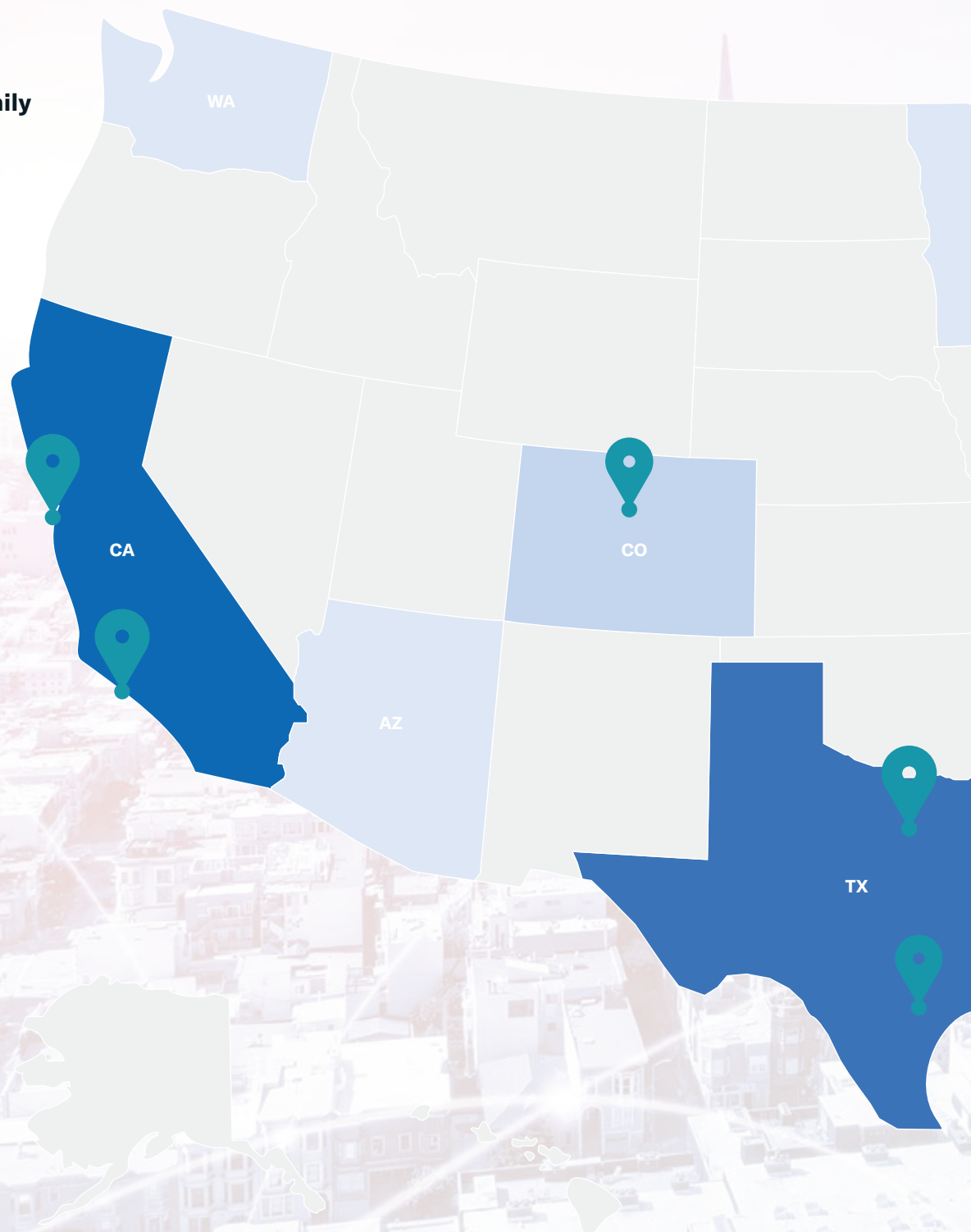


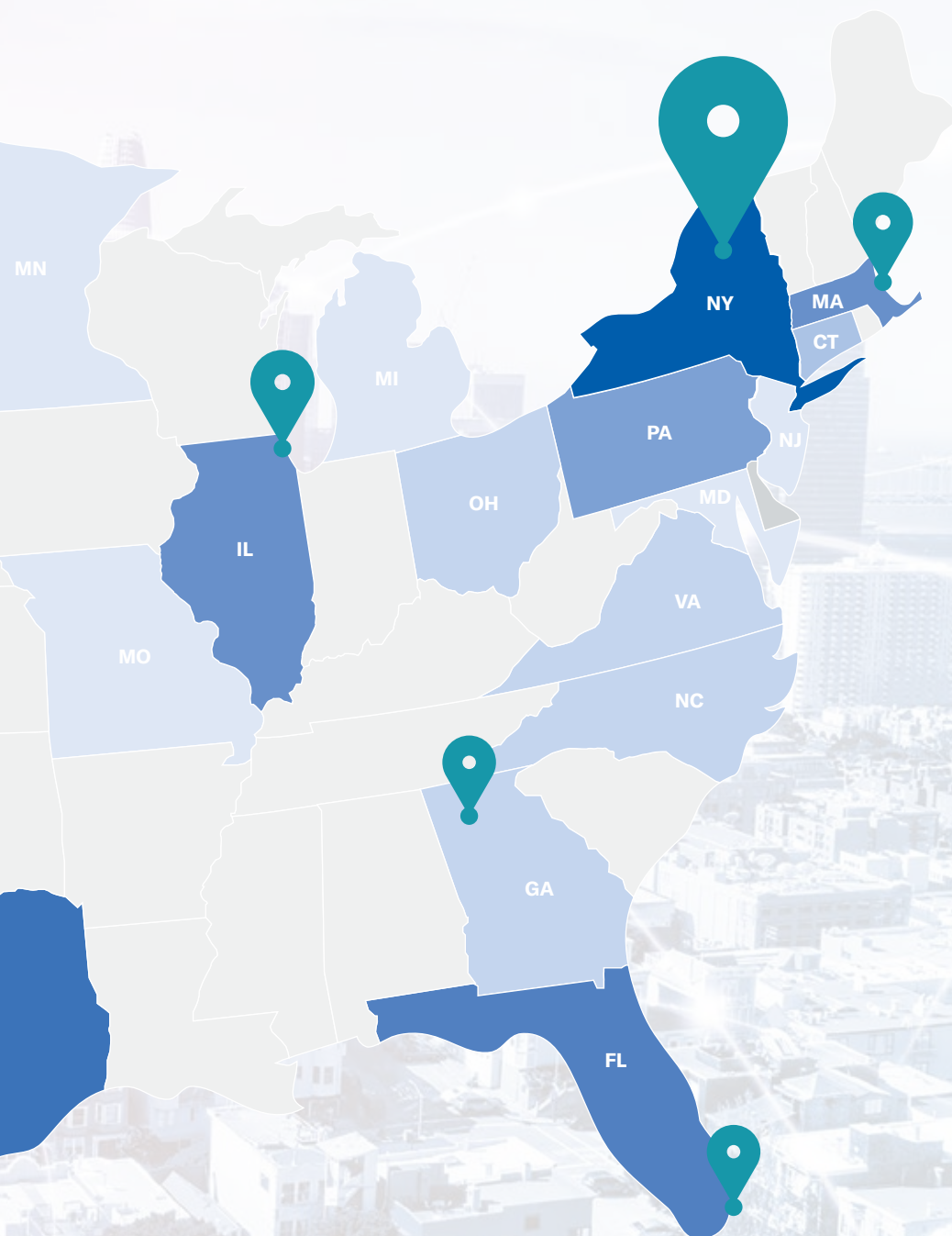
Regional distribution of Family Offices

IN FOCUS: THE UNITED STATES

Top 20 locations of Family Offices by US State

NY	20.0%
CA	15.0%
TX	8.0%
FL	6.2%
IL	5.8%
MA	5.1%
PA	4.6%
CT	3.7%
CO	2.8%
OH	2.5%
GA	2.2%
NC	2.0%
VA	2.0%
NJ	1.9%
MD	1.8%
WA	1.7%
MN	1.6%
MI	1.3%
MO	1.3%
AZ	1.1%





Top 10 cities of Family Offices in the US

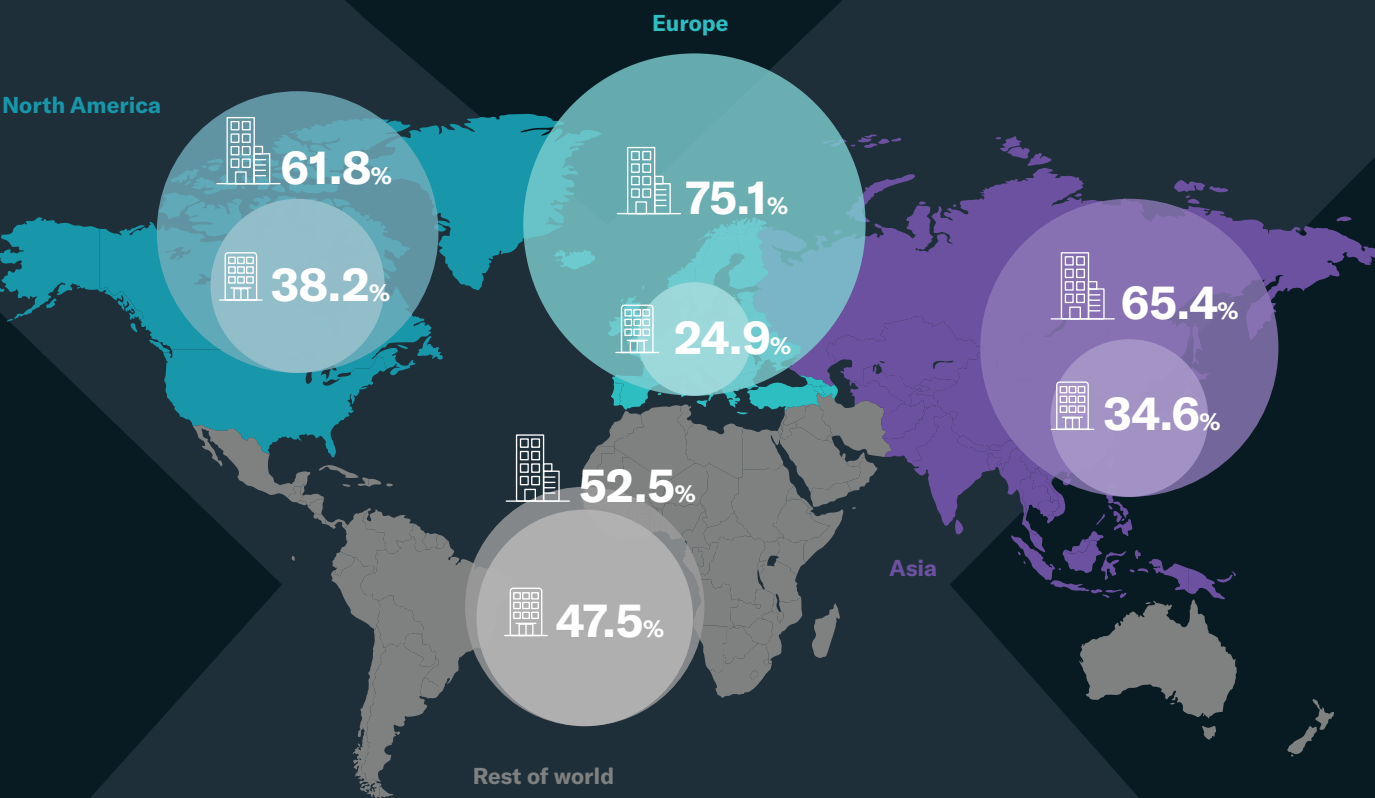


New York	18.0%
Chicago	3.9%
Dallas	3.4%
Los Angeles	3.3%
San Francisco	3.1%
Boston	3.0%
Miami	1.6%
Atlanta	1.6%
Houston	1.5%
Denver	1.3%

THE DIFFERENT TYPES OF FAMILY OFFICE BY REGION

Across the Family Offices we track, there is a higher incidence of MFOs in Europe compared to North America and Asia.

We conclude that North America's longer heritage of SFOs is a large driver of this delta. However, in Europe, there has been a greater number of SFOs that have opened their doors to other families within a MFO structure, often sharing the costs to create greater collective investment capabilities.



Type of Family Office by Region

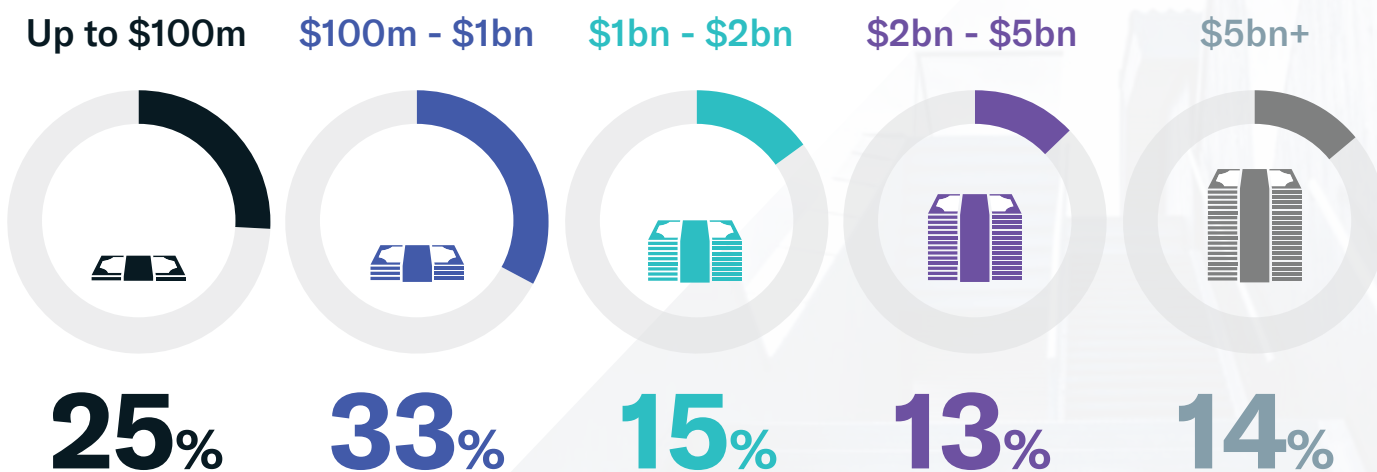


ASSETS UNDER MANAGEMENT

42% of the Family Offices we track have Assets Under Management (AUM) of more than \$1bn. Approximately 74% of these are MFOs, higher than the general incidence of MFOs at 65%, which is understandable given that they are looking after the wealth of more than one family and thus often a larger total amount of assets.

Family Offices with more than \$1bn in AUM are slightly more likely to be located in North America, and 16% of all Family Offices with more than \$1bn are located in New York.

Looking at those Family Offices with up to \$100m AUM, over half of these are SFOs (52%) and almost all of them are located in North America.



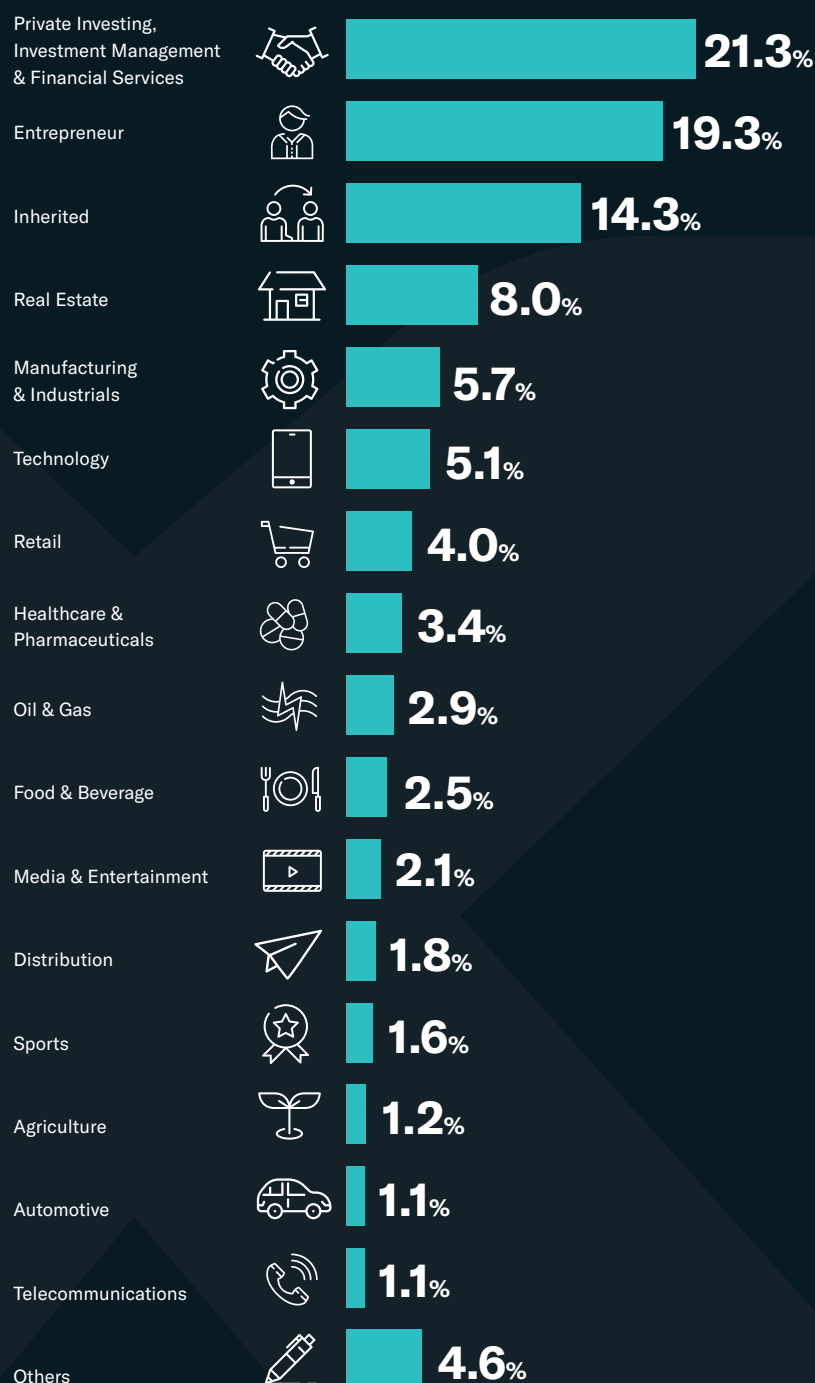


INDUSTRY ORIGIN OF WEALTH

Understanding the industry or way in which the principal made his or her wealth is often an important insight into how the Family Office might operate and deploy future capital.

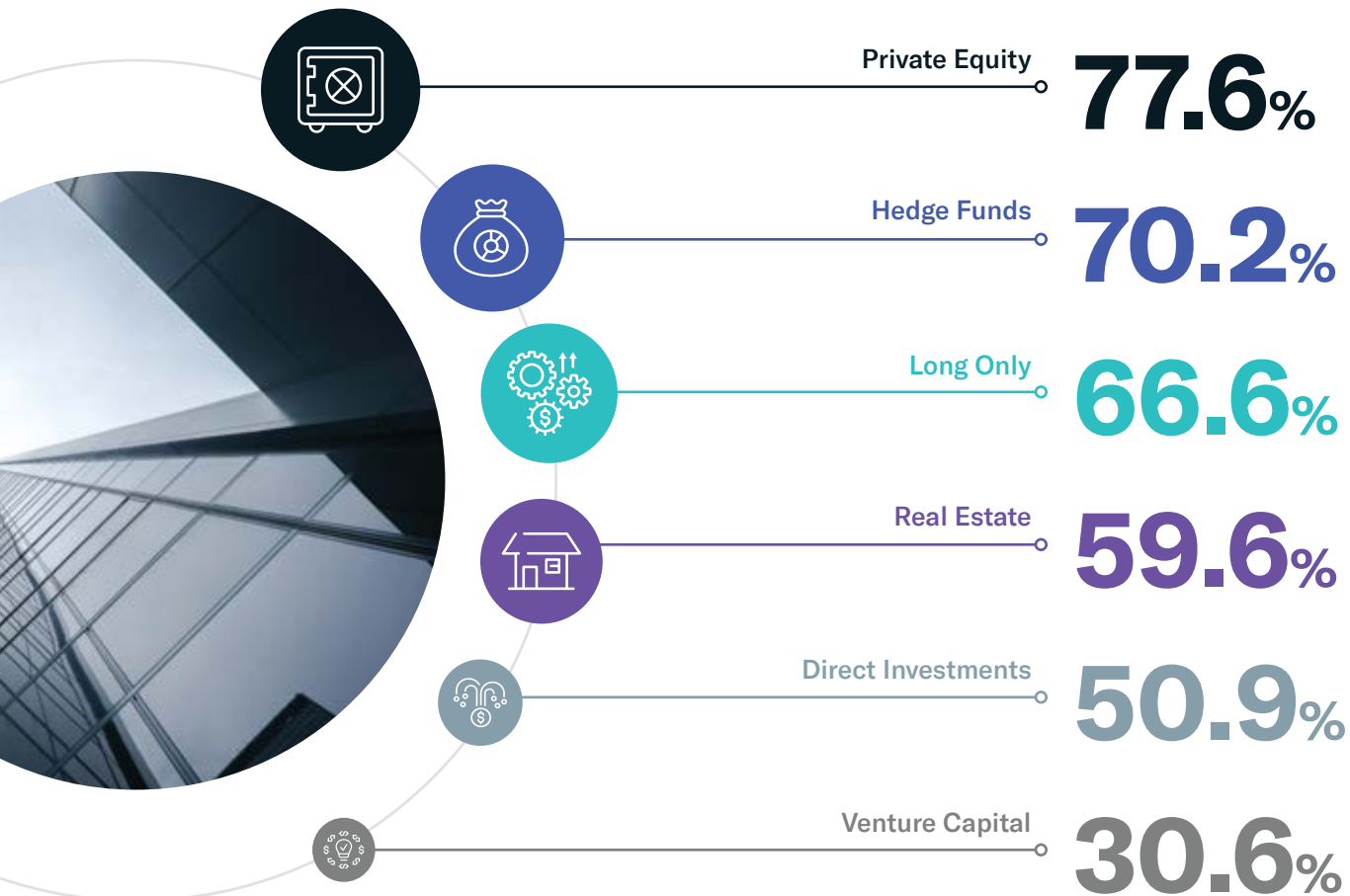
The largest single group is those who have made their wealth in financial services and investing, at just over **21%**. Next are serial entrepreneurs, comprising just under **20%**. The individuals in this segment have founded and sold multiple businesses throughout their lifetime. The next largest segment is comprised of those with inherited wealth, at just under **15%**.

The Family Offices managing the wealth of such diverse contexts may well operate and invest very differently. For example, it is often the case that Family Offices with a principal who made money in these industries would seek to leverage his or her expertise and make a greater number of additional investments in and around the industries that they know well.



FAMILY OFFICE ASSET EXPOSURE

Proportion of Family Offices invested in each asset type



A core function of a Family Office is to centralize the investment activities of a wealthy family or group of families. Single Family Offices give investors essentially complete control, and because the investment advice from the team running the Family Office is confined to a single individual and/or his or her direct descendants, there is no requirement to be regulated.

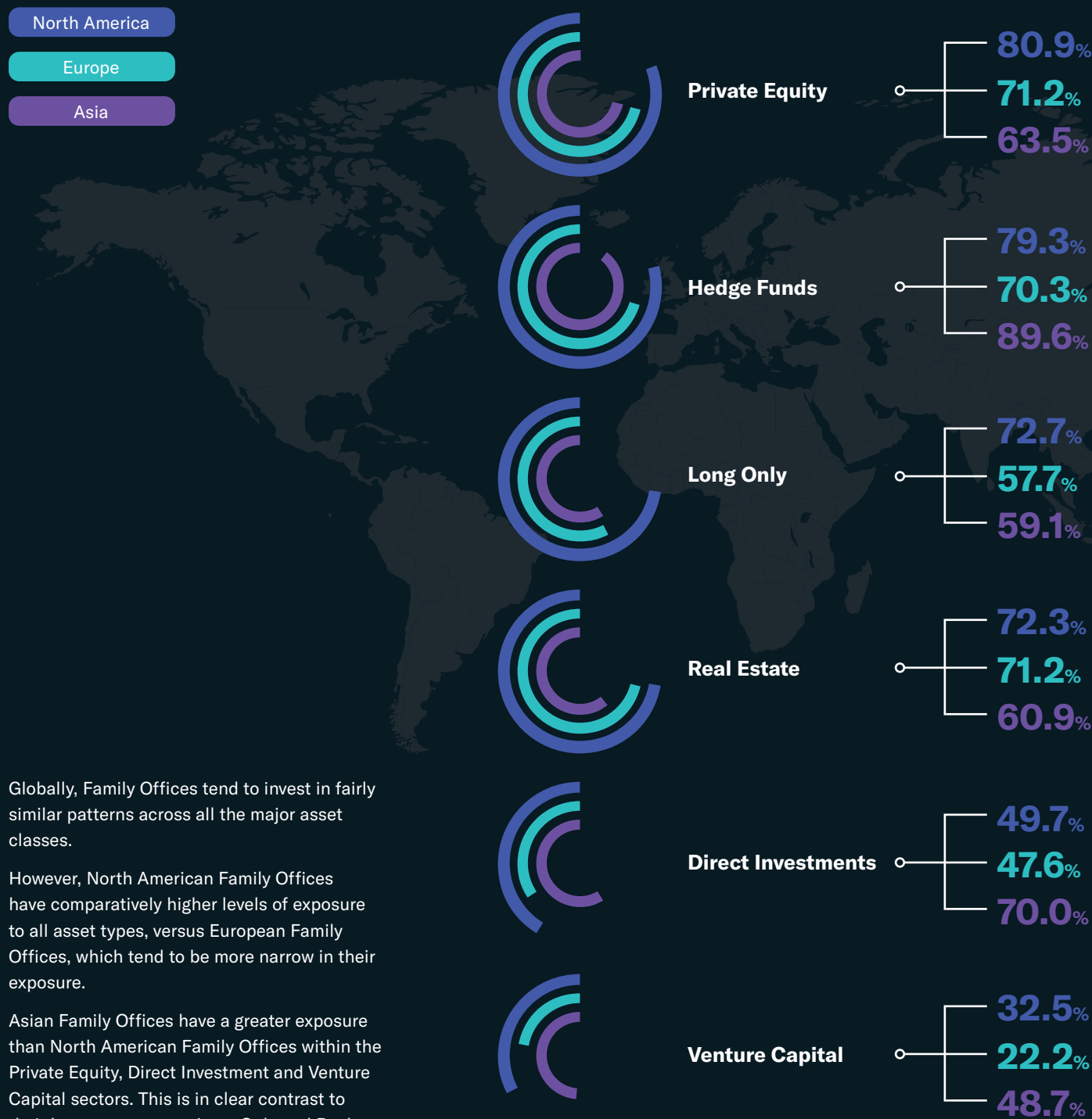
Multi Family Offices allow for a number of families to invest together, enabling them to collectively engage in a wider range of more aggressive and ambitious strategies.

From a fund-raising perspective, Family Offices are increasingly being seen as ideal

investors: offering efficiency and streamlined decision-making, large individual check sizes, and often a high degree of flexibility compared to typical investors.

More than three-quarters of Family Offices are invested in Private Equity, and over two-thirds are invested in Hedge Funds. Whilst nearly 60% have investments in Real Estate, it's notable that both Private Equity and Hedge Funds, typically riskier but offering higher returns, are more widely allocated to.

Comparison of asset exposure by region



Globally, Family Offices tend to invest in fairly similar patterns across all the major asset classes.

However, North American Family Offices have comparatively higher levels of exposure to all asset types, versus European Family Offices, which tend to be more narrow in their exposure.

Asian Family Offices have a greater exposure than North American Family Offices within the Private Equity, Direct Investment and Venture Capital sectors. This is in clear contrast to their lower exposure to Long Only and Real Estate.

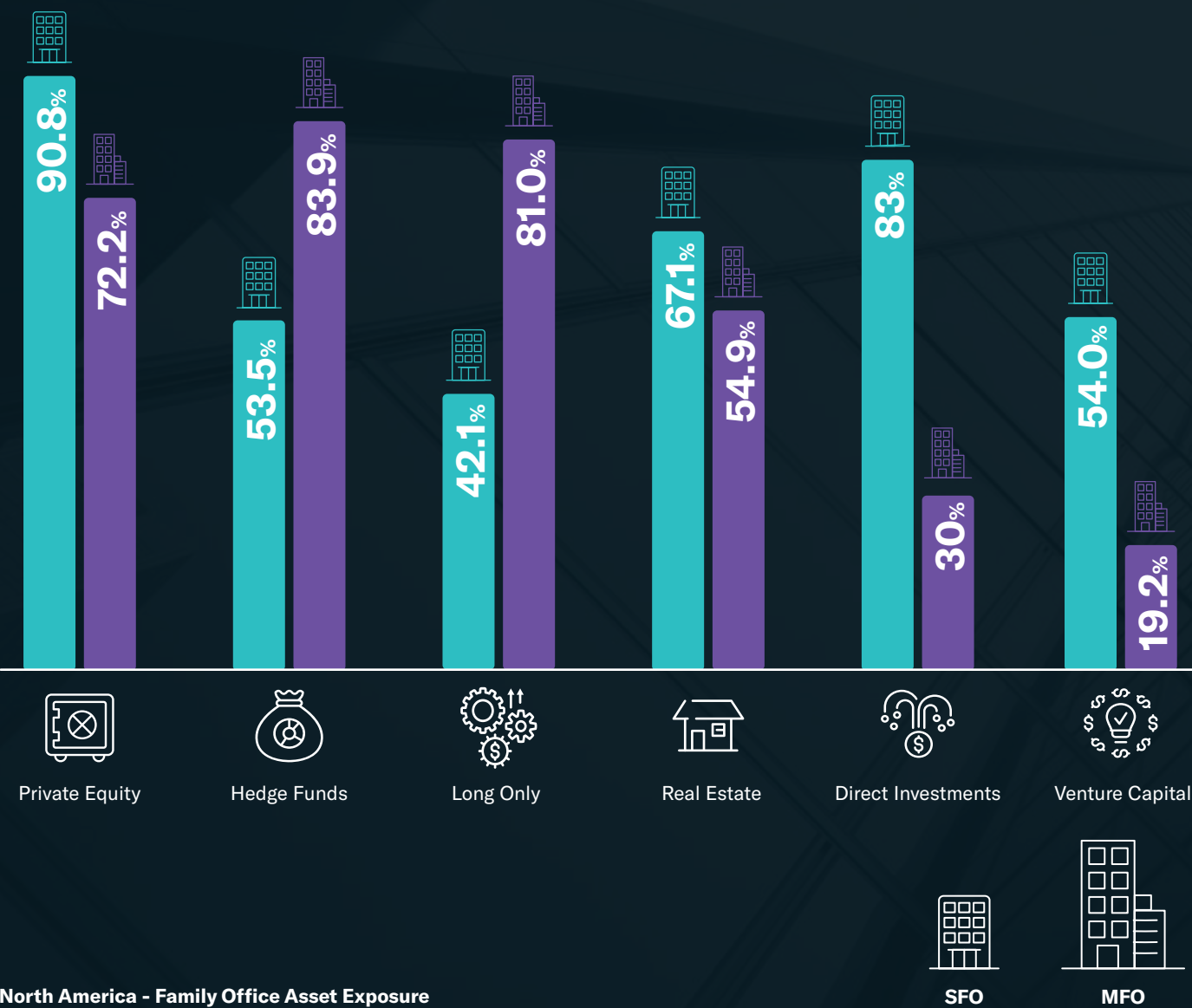
IN FOCUS: THE UNITED STATES SFO VS. MFO

Focusing specifically at North American Family Offices, considerable variations emerge between SFOs and MFOs.

SFOs have a substantially lower exposure to Long Only funds and Hedge Funds, with far greater exposure to Private Equity, Direct Investments (Private Deals) and Venture Capital.

In contrast, MFOs have a much greater exposure to Long Only funds and Hedge Funds, and a much lower exposure to Direct Investments and Venture Capital.

Such disparity is particularly important for fund-raising professionals, who must understand and appreciate the different dynamics and capabilities of SFOs versus MFOs both generally and individually.







PART TWO

Direct Investments

FAMILY OFFICES - SINGLE VS MULTI

Total family offices
3,500

Family Offices are typically unregulated companies, established and constructed to manage and invest the wealth of individuals and families of substantial net worth. As their names suggest, Single Family Offices (SFOs) manage the wealth of a single family or individual. Multi Family Offices (MFOs) are designed to provide similar services to their Single Family Office counterparts but to a number of wealthy families. By leveraging the services of an existing Multi Family Office, these wealthy families can limit the time needed to establish their own wealth advising entity. At FINTRX, we estimate there are approximately **3,500-5,000** Family Offices throughout the world that have one or more employees and some form of external investment activity. At the current time, we estimate that **39%** are Single Family Offices and **61%** are Multi Family Offices.



61%

Multi-Family
Offices (MFOs)



39%

Single Family
Offices (SFOs)

FAMILY OFFICES MAKING DIRECT INVESTMENTS

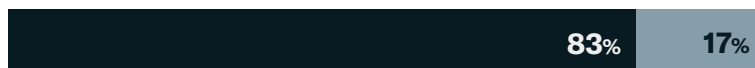
Direct Investments have become increasingly common throughout the Family Office space, particularly within the Single Family Office ecosystem. We attribute this trend to a number of changes, none more influential than the increase in sophistication of Family Office vehicles themselves. Over the past decade, Family Offices have accumulated the assets and talent required to effectively allocate capital directly into the private space. The result of this trend is more than half of all family offices allocating capital directly to some degree.



Direct Investment Breakdown by FO type



Single Family Offices



83% of single family offices across the globe consider allocating directly



Multi Family Offices



30% of multi-family offices across the globe consider allocating directly

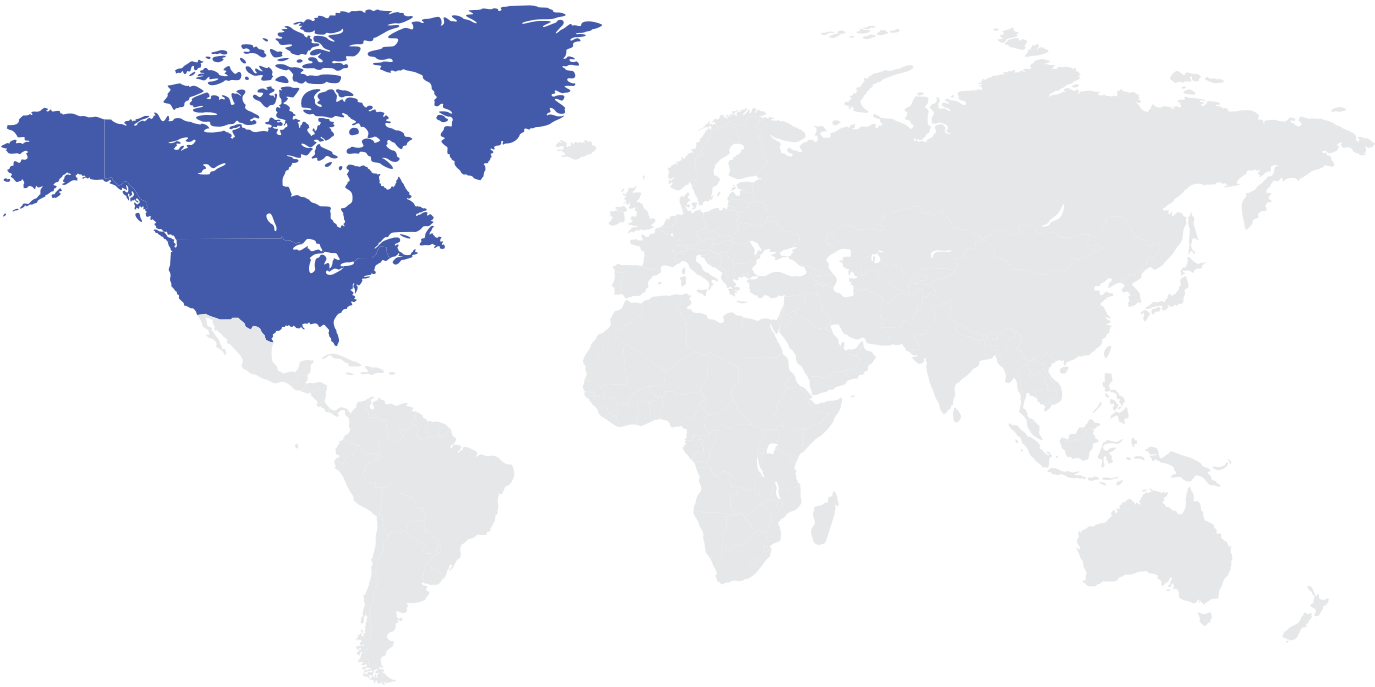


Total Family Offices



50.9% of all family offices across the globe consider allocating directly

NORTH AMERICA BREAKDOWN



 **49.7%**
of FOs making Direct Investments

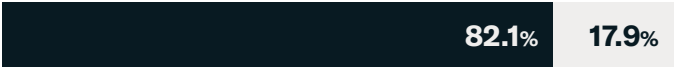


42%

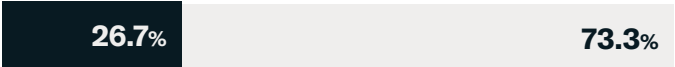


58%

82.1% SFOs making Direct Investments



26.7% MFOs making Direct Investments



49.7% Family Offices making Direct Investments

Total NA FOs



 Making Direct Investments

 Not making Direct Investments

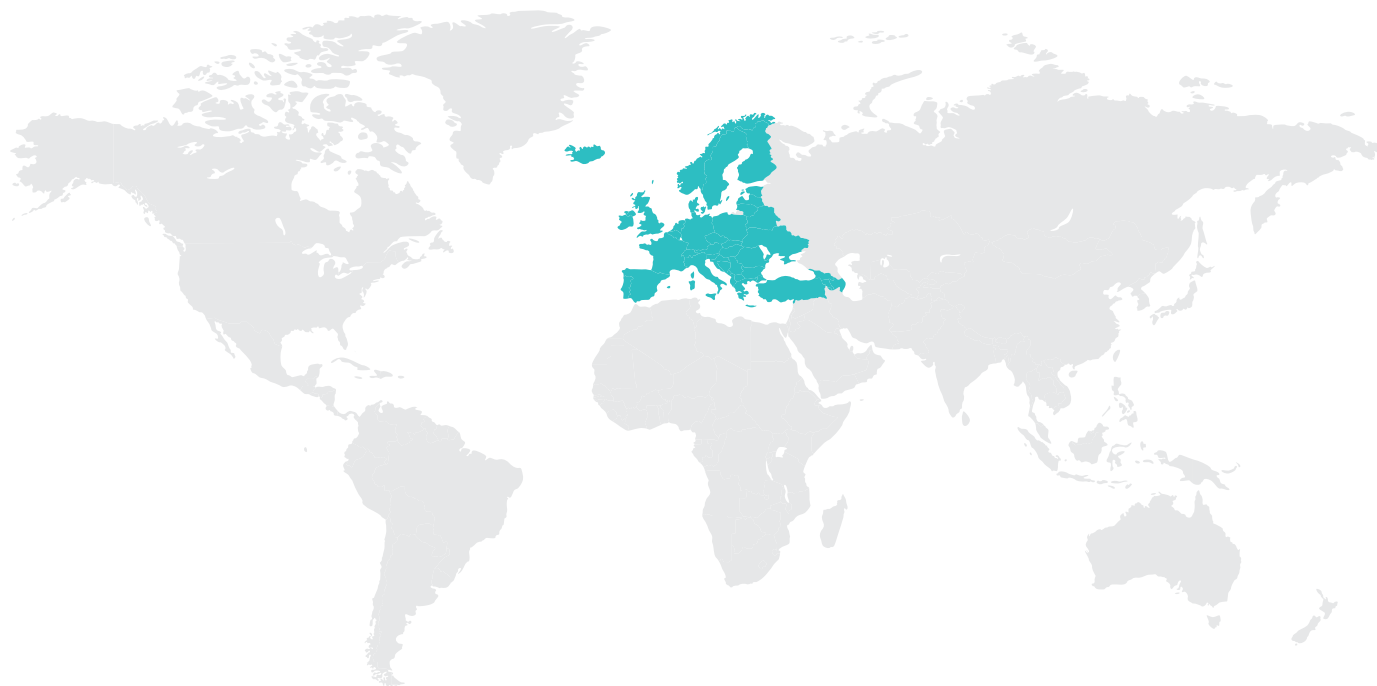


SFO



MFO

EUROPE BREAKDOWN



 **47.6%**
of FOs making Direct Investments

 **33%**  **67%**

83.3% SFOs making Direct Investments



83.3% **16.7%**

30.2% MFOs making Direct Investments



30.2% **69.8%**

47.6% Family Offices making Direct Investments

Total Europe FOs

47.6% **52.4%**

■ Making Direct Investments

■ Not making Direct Investments

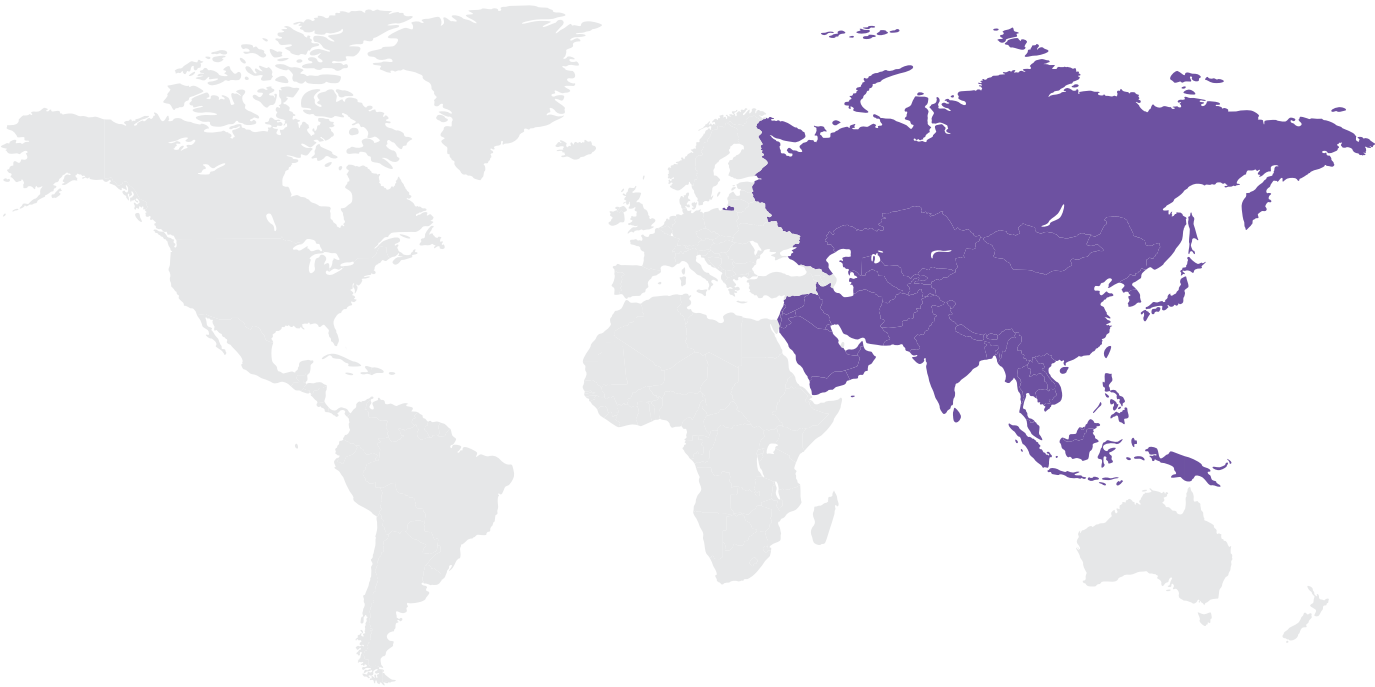


SFO



MFO

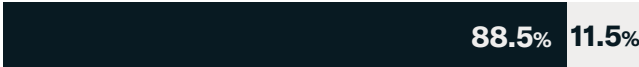
ASIA / MIDDLE EAST BREAKDOWN



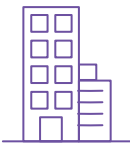
 **70%**
of FOs making Direct Investments

 **44%**  **56%**

88.5% SFOs making Direct Investments

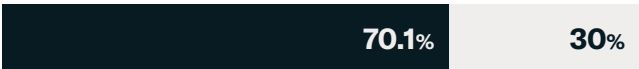






55.3% MFOs making Direct Investments



70.1% Family Offices making Direct Investments

Total Asia & Middle East FOs



 Making Direct Investments  Not making Direct Investments  SFO  MFO

REST OF WORLD BREAKDOWN



 **56.5%**
of FOs making Direct Investments



38%



62%

87.5% SFOs making
Direct Investments



87.5% **12.5%**

37% MFOs making
Direct Investments



37%

63%

56.4% Family
Offices making Direct
Investments

Total
Rest of
World
FOs

56.4%

43.6%

■ Making Direct Investments

■ Not making Direct Investments



SFO

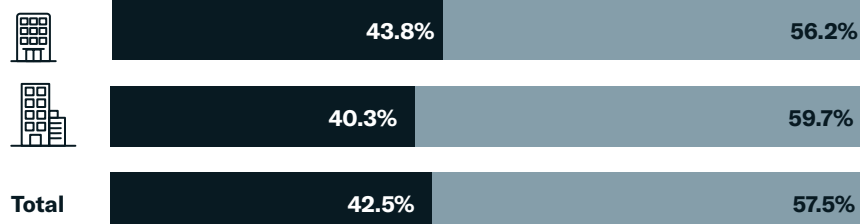


MFO

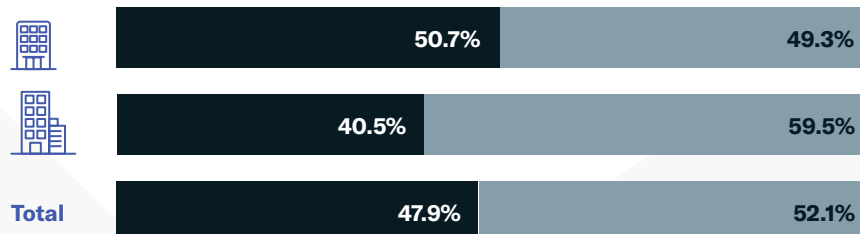


GLOBAL FAMILY OFFICES CO-INVESTING BREAKDOWN

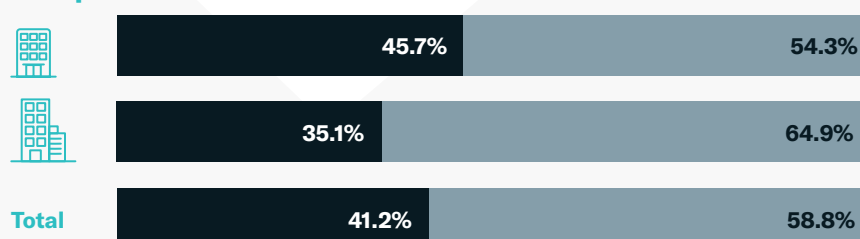
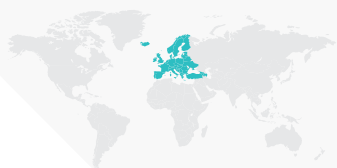
Global



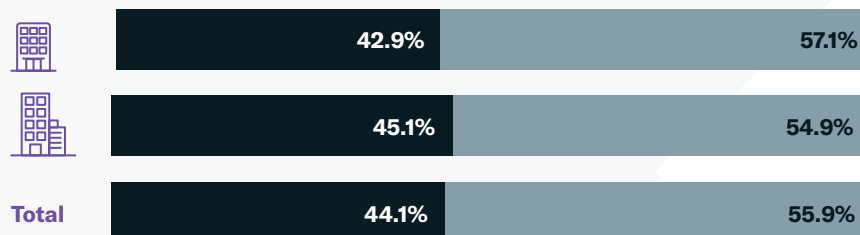
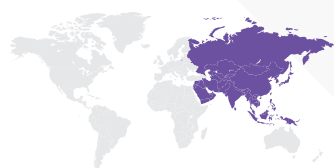
North America



Europe



Asia / Middle East



Rest of World



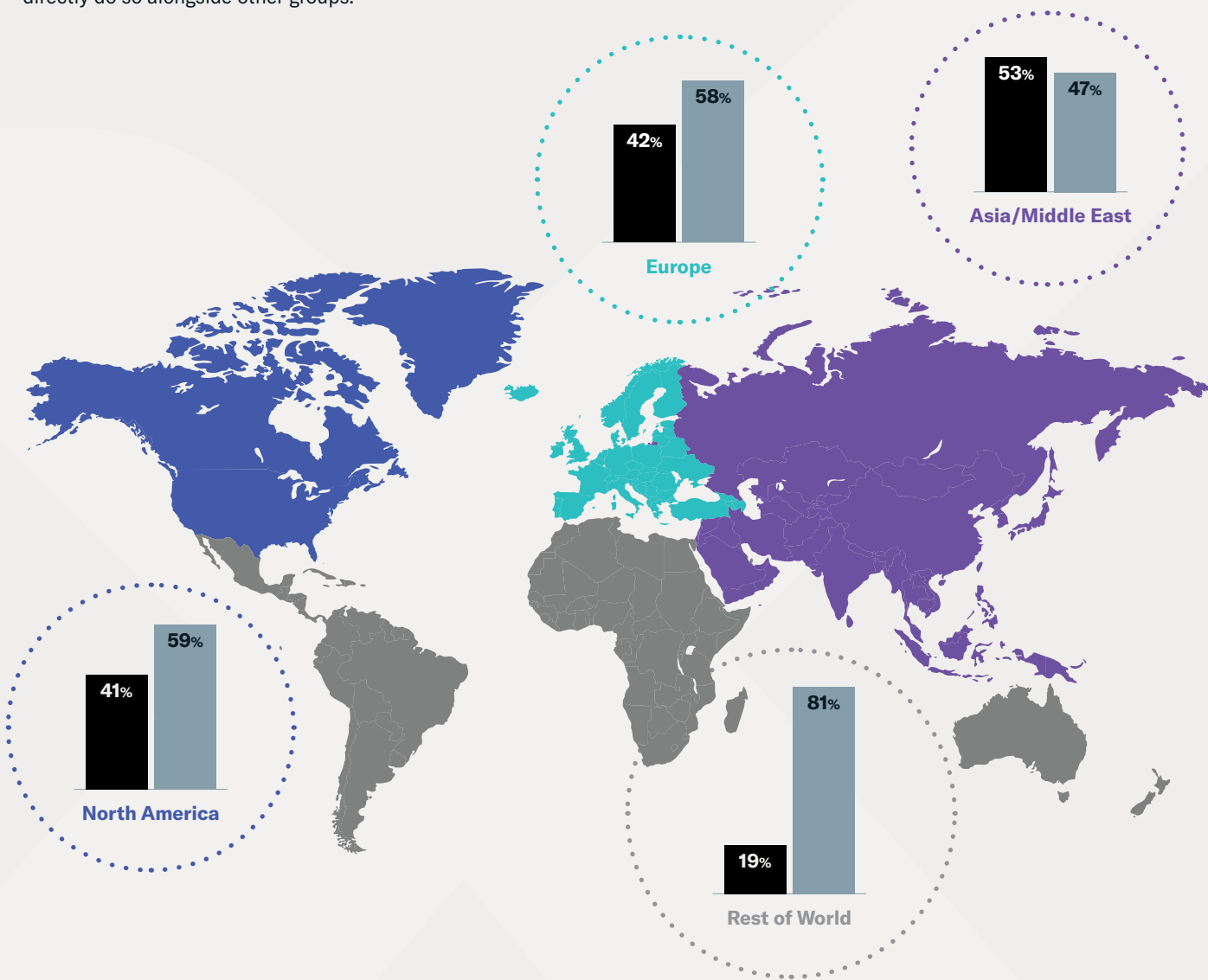
■ Co-investing

■ Not Co-investing

SFO
 MFO

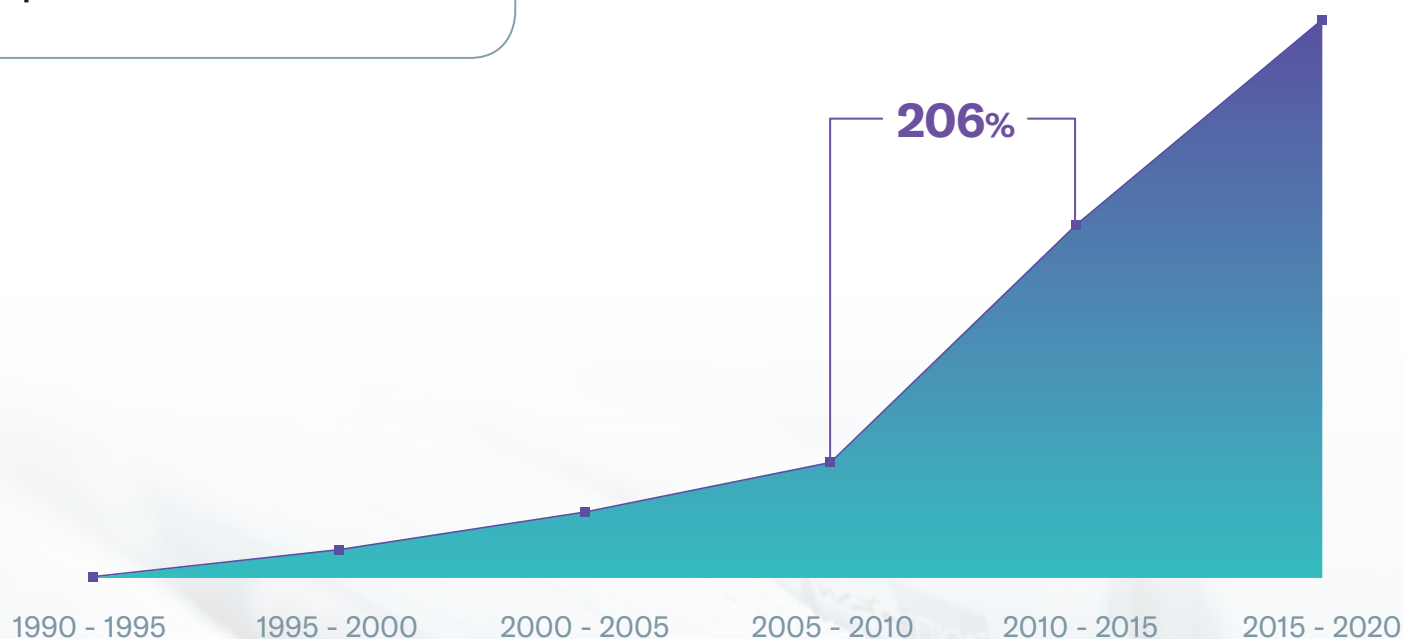
GLOBAL FAMILY OFFICES CO-INVESTING

Alongside an increased interest in investing directly, the desire and need to co-invest in such opportunities alongside like minded entities has grown significantly. Our analysis indicates that approximately **42%** of family offices that allocate capital directly actively do so or consider doing so, alongside other family offices, venture capital, private equity and real estate investors. Further analysis shows this tendency is most prevalent among North American-based Single Family Offices wherein approximately **51%** of groups allocating directly do so alongside other groups.



YEARLY INVESTMENTS

2010-2015 saw the largest % increase in direct investment activity of any 5 year period since 1990



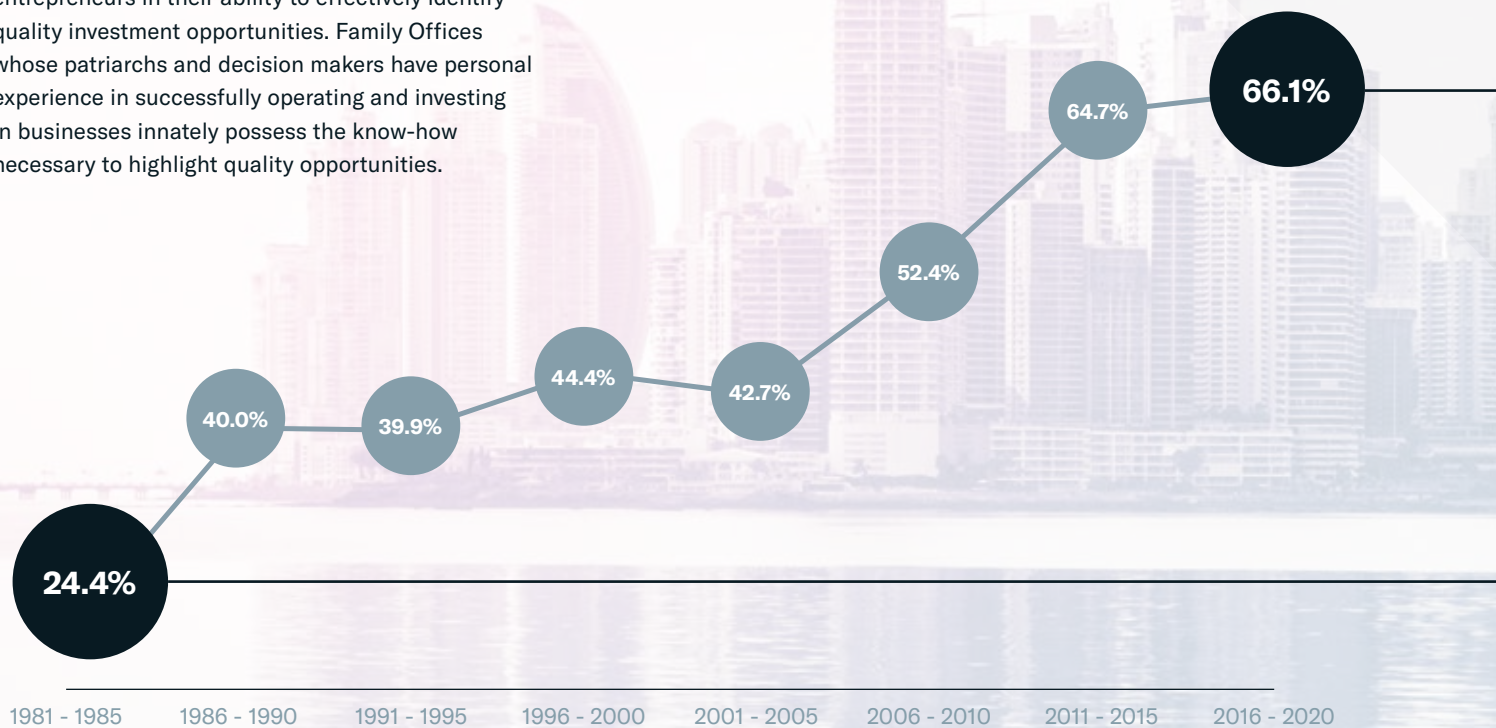
Though investing directly has been a possibility and consideration for Family Offices for decades, the regularity of doing so is a relatively new phenomenon. Throughout the early 2000s, several sophisticated Family Offices partook in the practice however between 2010 and 2015 an increase in overall family numbers and an appetite for investing directly led to a spike in direct allocations. The number of investments made per year continued to grow throughout 2018.

FAMILY OFFICES BY YEAR OF ESTABLISHMENT

Family Offices Making Direct Investments

1980-2020

Several factors contribute to the prevalence of direct investments across the Family Office vertical. Data shows Family Office entities founded in recent years have an increased inclination to invest in opportunities directly. More than two thirds of family offices founded after 2015 are actively participating in direct investment opportunities. In contrast less than a quarter of groups founded prior to 1985 are actively making direct investments. This phenomenon is likely attributed to several factors including the confidence of self-made entrepreneurs in their ability to effectively identify quality investment opportunities. Family Offices whose patriarchs and decision makers have personal experience in successfully operating and investing in businesses innately possess the know-how necessary to highlight quality opportunities.



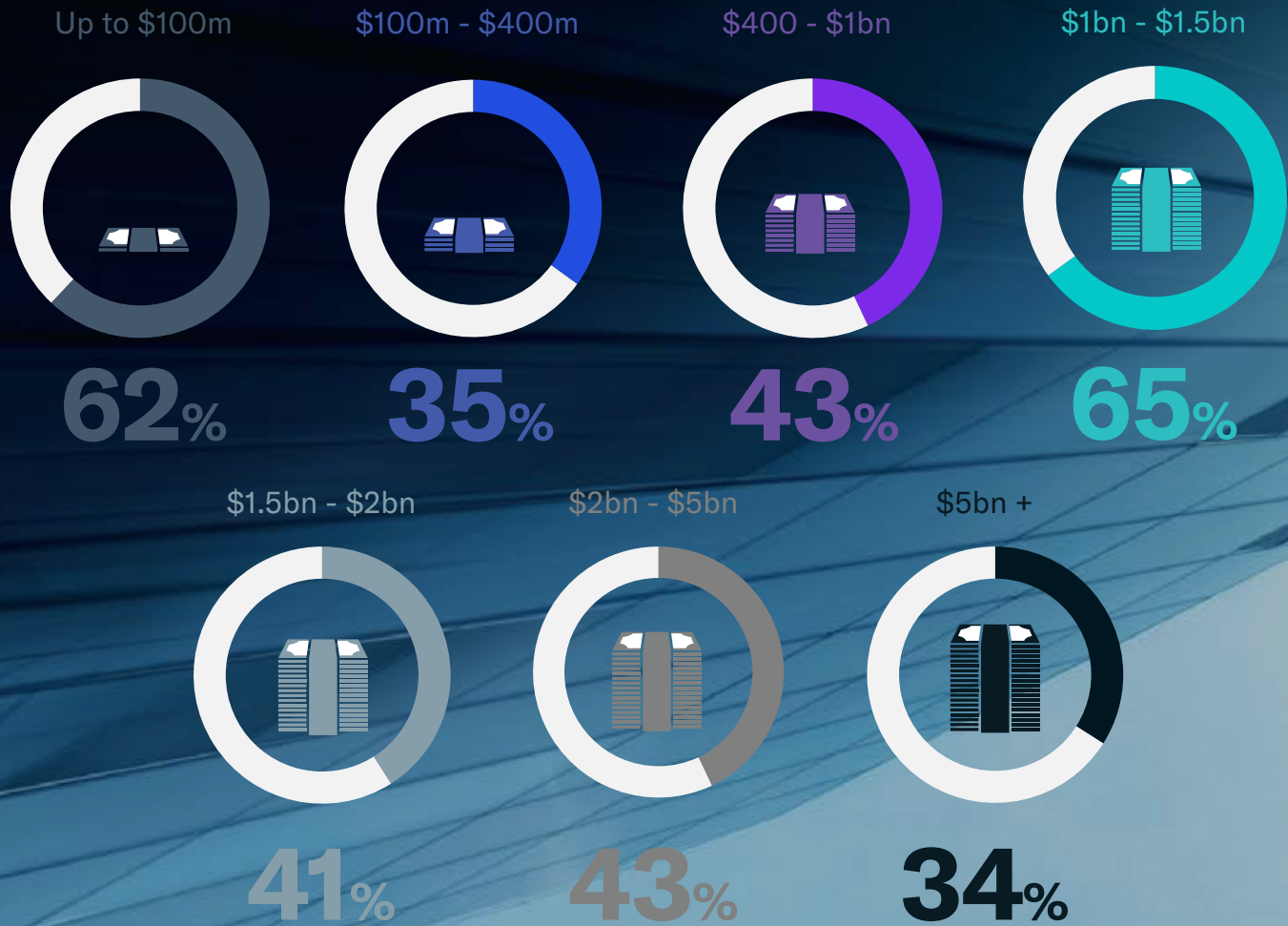
In contrast, Family Offices whose decision makers are generationally removed from first-hand involvement, more often than not, require the services of experienced investment groups. In addition to confidence and experiential factors, Family Offices established in recent years have been forged in an environment where direct investments are evermore present. Opportunities to allocate directly are more prevalent now than ever and the Family Office is seen as a viable source of capital for companies seeking investors.



171%
difference

ASSETS UNDER MANAGEMENT

Family Offices making Direct Investments



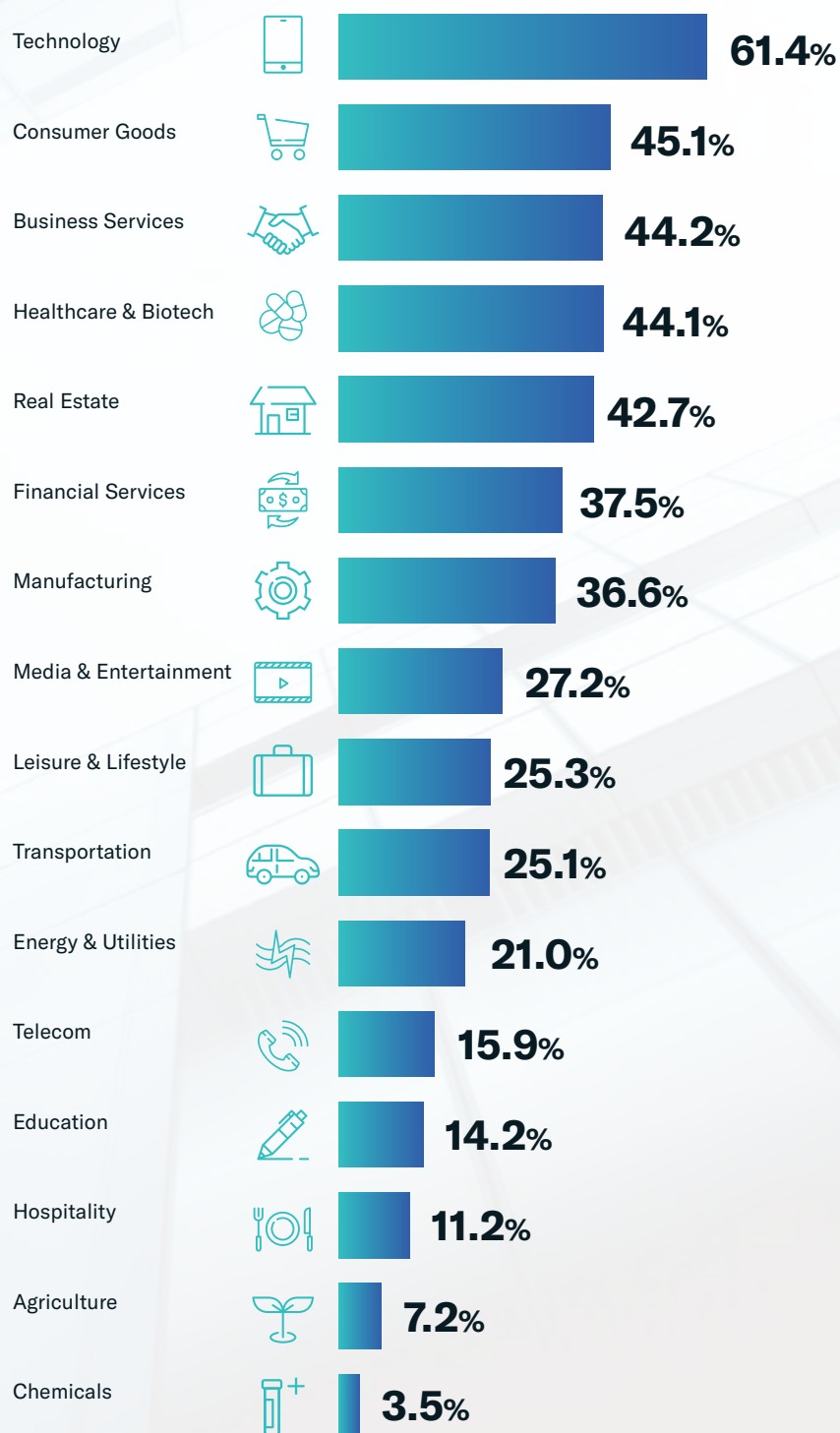
Research outlines interesting trends in Family Offices' direct investment activity based on the group's assets. A breakdown of entities by assets under management highlights an outsized desire for groups between \$1bn and \$1.5bn to invest directly. This is likely due to several factors including the barrier of hiring experienced professionals capable of identifying and addressing quality investment opportunities. Groups with the resources necessary to retain qualified in-house investment teams are likely more capable and drawn toward making direct investments. It is also

worth noting, a slightly outsized percentage of North American-based, Single-Family Offices fall into the \$1bn and \$1.5bn asset range.

FAMILY OFFICES INVESTING IN INDUSTRIES

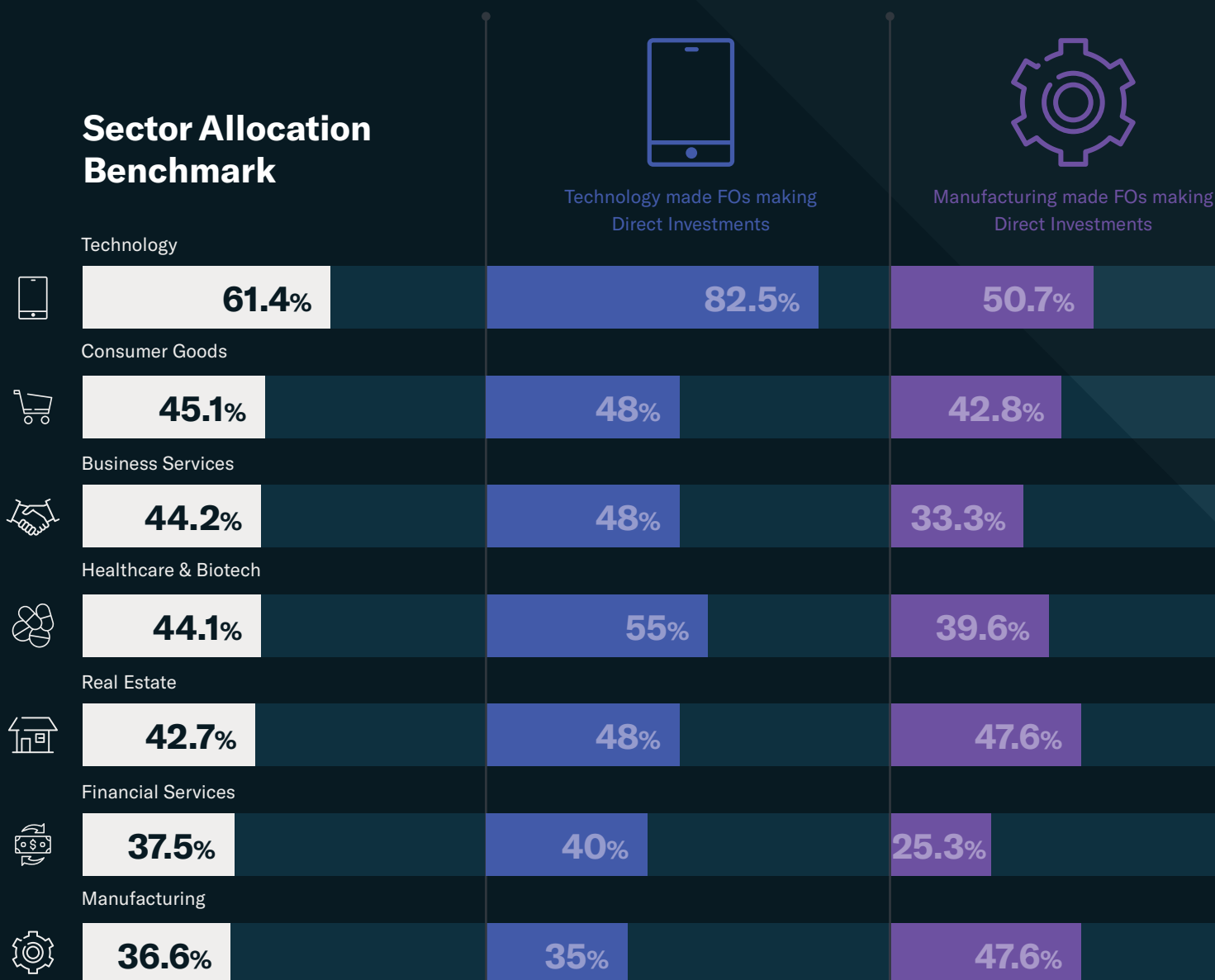
The Family Office Market represents a highly diversified cross section of the private wealth landscape. As expected, their direct investment interests vary greatly. Macro data highlights several tendencies with regard to industry allocations including the majority of family offices allocating within the technology industry to some degree.

As outlined, **61.4%** of global family offices that actively allocate directly, do so to some degree within the technology industry. Subsequently, **45.1%** invest in Consumer Goods, **44.2%** within the Business Services industry and **44.1%** to the Healthcare and Biotechnology space.



SECTOR ALLOCATION BY INDUSTRY OF WEALTH ORIGIN

Sector Allocation Benchmark



Given the private nature of Family Offices, these entities allocate capital with fewer restraints compared to other investment groups. As expected, research clearly shows the primary factor contributing to sector and industry preference of family offices is the ability of such investments to generate alpha. However, several additional variables play a part in the types of investments these groups look to make. One of the more prevalent patterns elucidated by research is the

connection between industry of wealth origin and industry of investment interest. As outlined, there is a clear tendency for groups to invest in opportunities throughout familiar industries. Analysis of Family Office entities broken down by the industry in which the family created its wealth, highlights a consistent and distinct preference to invest in the familiar.



Real Estate made FOs
making Direct Investments

41.2%

38.1%

31.9%

31.9%

64.9%

24.7%

25.7%



Consumer Goods made FOs
making Direct Investments

61%

61.4%

51.4%

45.7%

42.8%

27.1%

40%



Financial Services made FOs
making Direct Investments

66.7%

49.2%

51.5%

51.5%

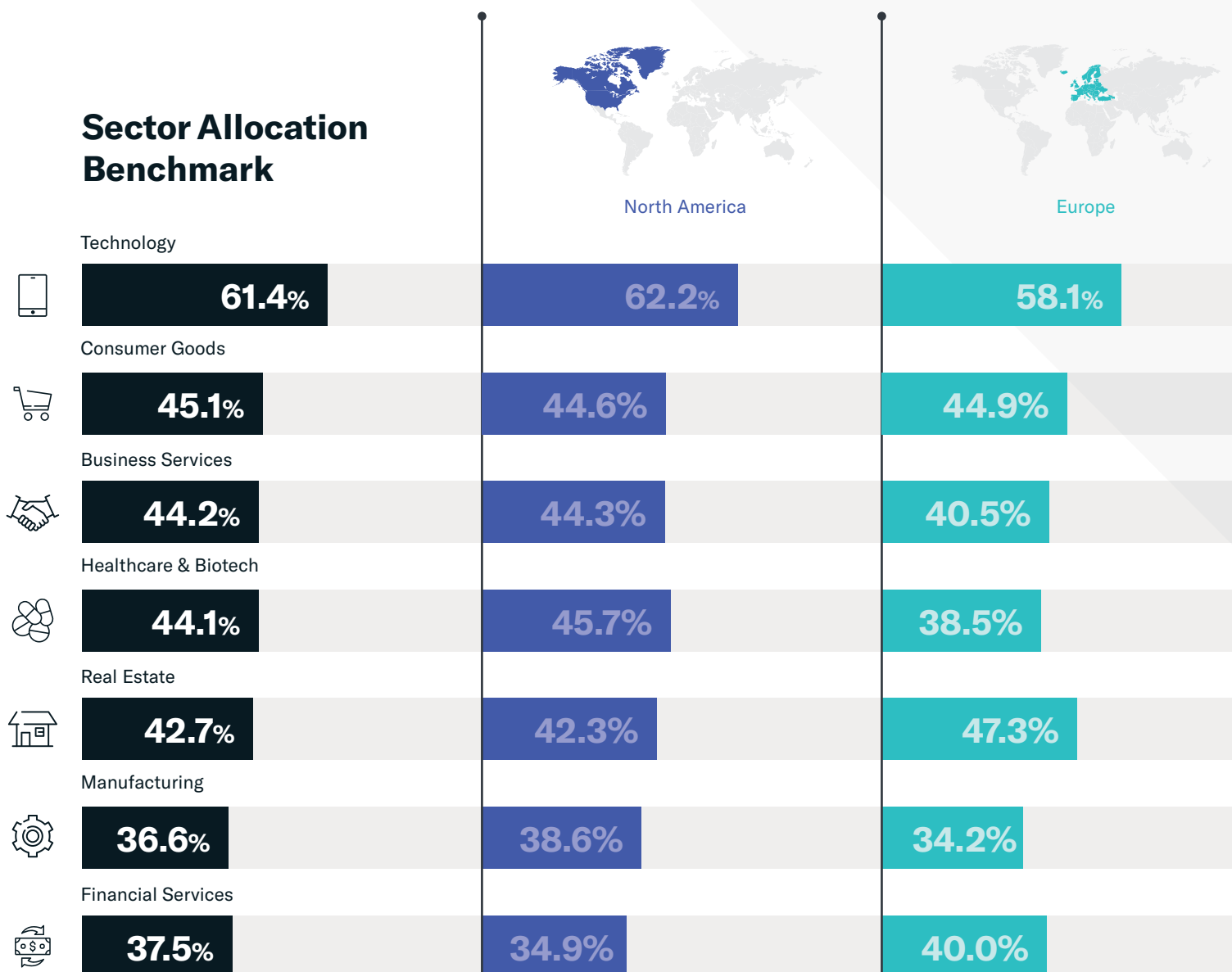
46.8%

40%

30.9%

SECTOR ALLOCATION BY REGION

Sector Allocation Benchmark



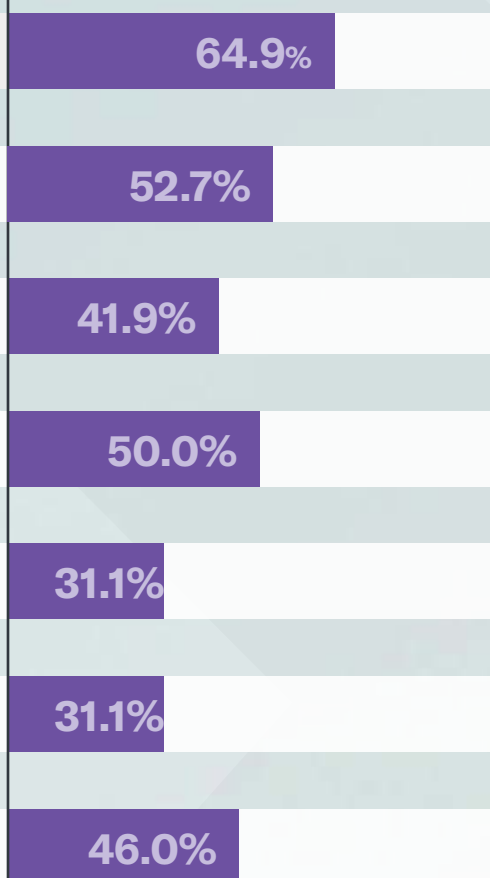
As with industry of wealth origin, geographic location appears to play a role in the direct investment preferences of Family Offices. Macro research highlights correlations among the percentages of family offices allocating to certain sectors based on where they are domiciled. In particular, Asian-based Family Offices show an outsized preference to opportunities within the consumer goods, healthcare

and biotech and financial services industries. In contrast, European-based Family Offices show partiality to real estate investments.

Note: % of family offices making direct investments, by region allocating to the following sectors



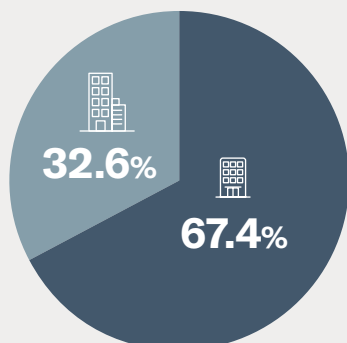
Asia / Middle East





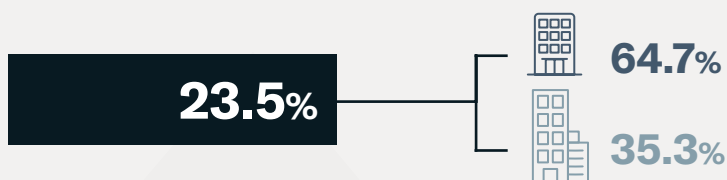
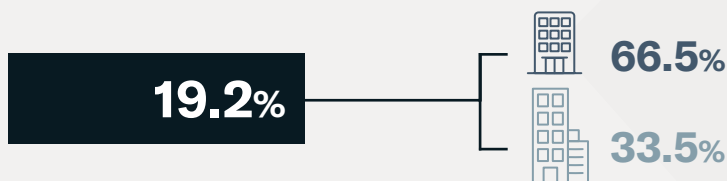
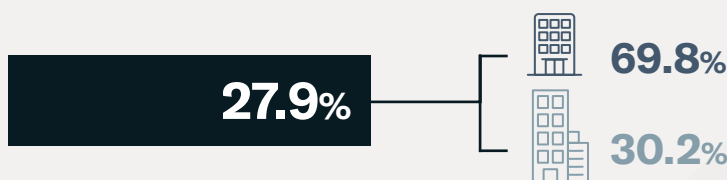
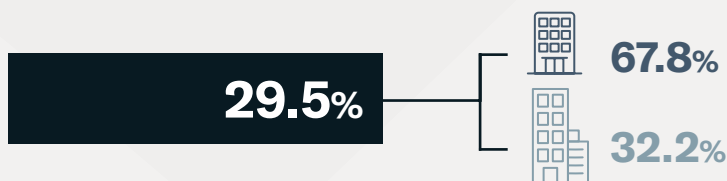
ROUNDS OF FUNDING

All Stages



Research highlights the majority of direct investments are executed by Single Family Offices regardless of funding round or type. Furthermore, the majority of investments made by family offices occur throughout early rounds of funding as **29.5%** of allocations are made in seed and venture rounds. Additionally, Multi Family offices make acquisitions and buyouts with more frequency than they partake in any funding rounds.

Family Office Investments by Stage





PART THREE

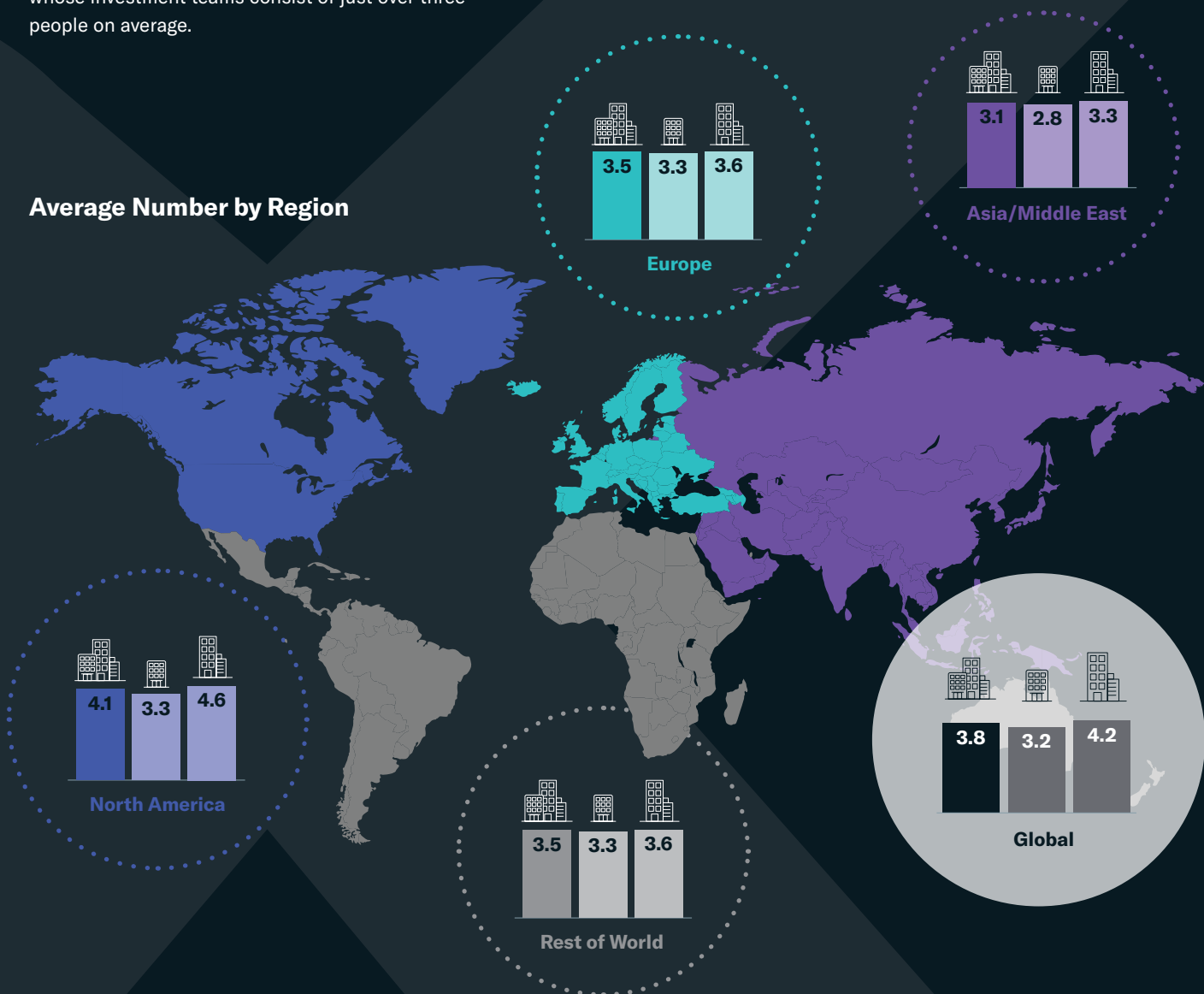
Family Office Professionals

THE MILLENNIUM HILTON

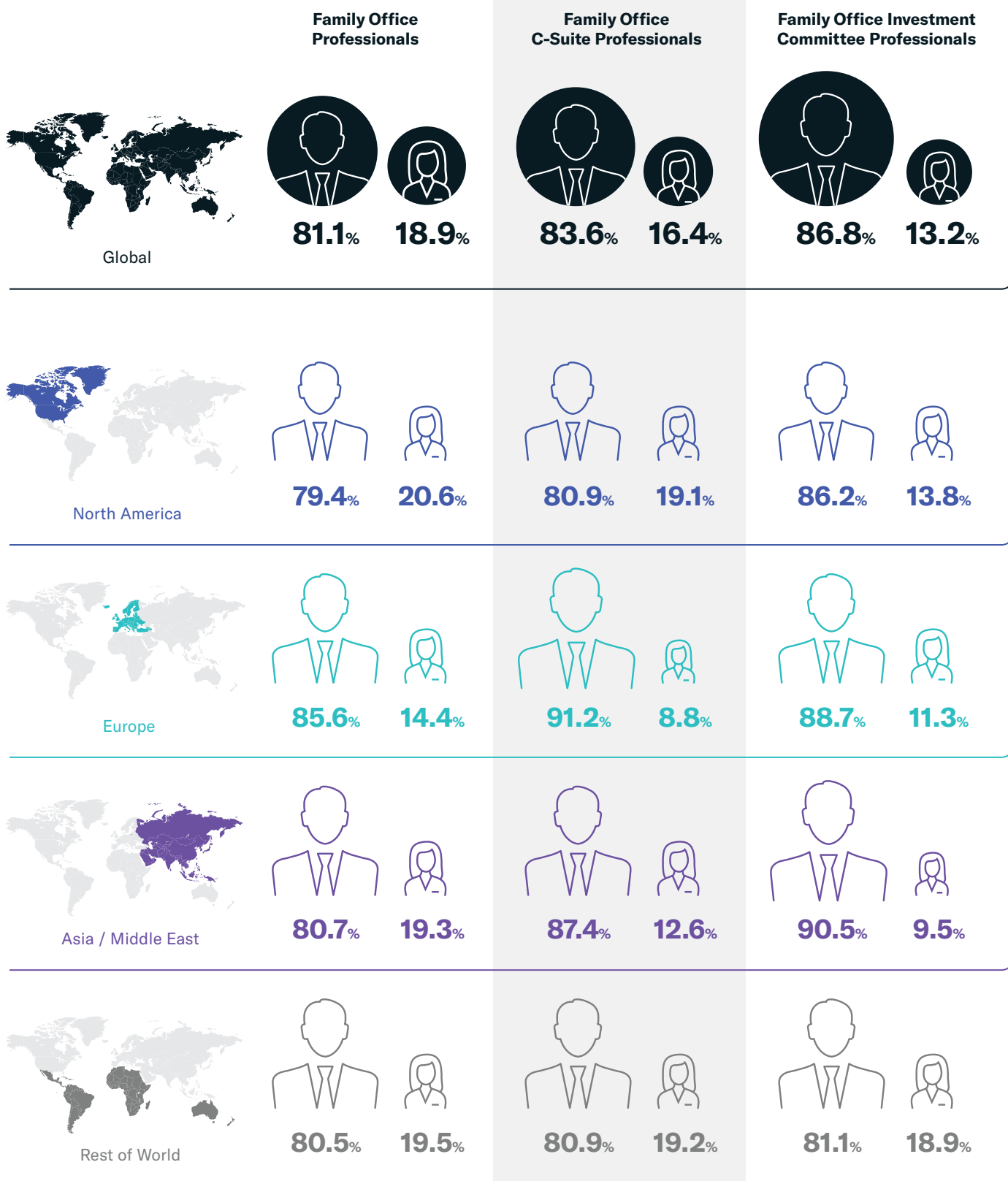
FAMILY OFFICE INVESTMENT PROFESSIONALS

Throughout the globe family offices vary in size, both with regard to assets under management as well as number of employees. As expected, the average number of investment decision making professionals per family offices is greater within multi-family offices compared to their single-family office counterparts. While the majority of the world's family offices employ a similar number of investment professionals, Asian and the Middle Eastern family offices tend to operate with smaller teams. This is particularly prevalent among single-family offices whose investment teams consist of just over three people on average.

Average Number by Region



GENDER BREAKDOWN

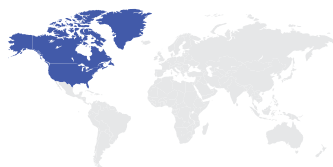


AVERAGE AGE

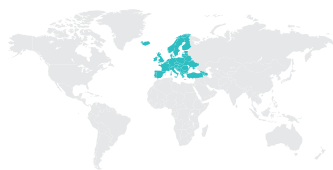
Average Age of Family Office Professionals



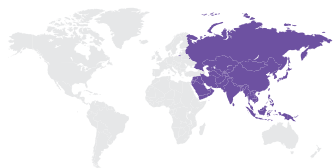
Global



North America



Europe



Asia / Middle East



Rest of World



Age Breakdown of Family Office Professionals



C-Suite



Investment Committee



Non-investment Committee,
Non C-Suite



TOP EDUCATIONAL INSTITUTIONS

Top Universities Globally



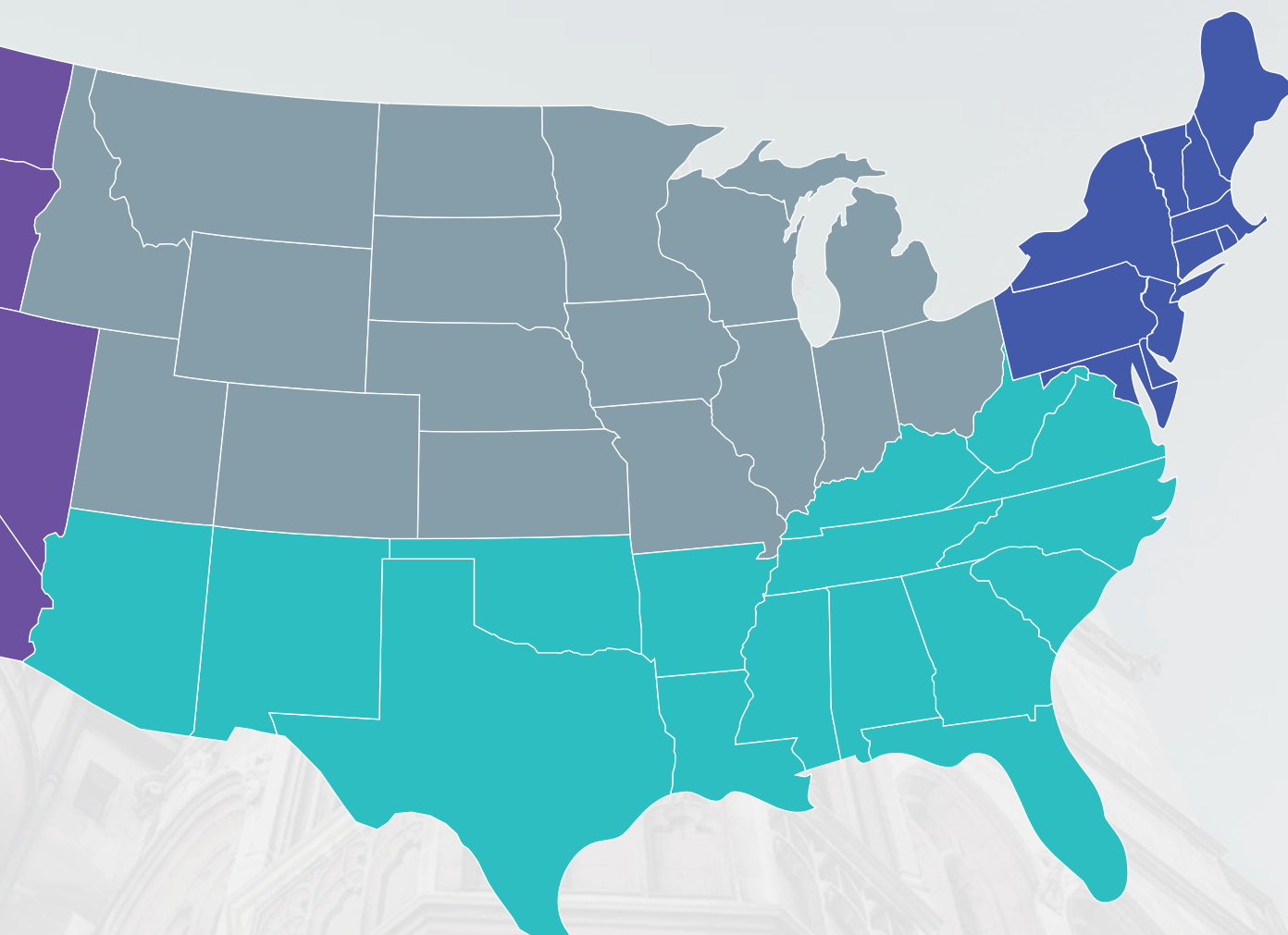
Via historical tracking, the FINTRX research team has identified the top educational institutions feeding the family office space. The Ivy League Universities, Harvard, University of Pennsylvania and Colombia make up the top three institutions of family office professionals. Interestingly, there is a strong correlation between the location of the family office and the schools from which their talent has matriculated. When examining the region in which family offices are domiciled, the most commonly attended University is consistently located within that region. Furthermore, Harvard University is the only higher-education institution that appears on the top ten list for all regions.



By USA Region

West Coast Family Offices

Stanford University
University of California Berkley
University of California Los Angeles
Harvard
University of Pennsylvania
University of Washington
Columbia University
University of Chicago
University of California Irvine
New York University



Mid West Family Offices

Northwestern
University of Chicago
University of Illinois
University of Michigan
University of Colorado Boulder
University of Wisconsin
Harvard
Notre Dame
Ohio State
University of Minnesota

Southern Family Offices

University of Texas
Southern Methodist University
Harvard
Texas A&M
University of Pennsylvania
University of Florida
Stanford University
University of Georgia
Texas Technical
University of Miami
New York University

Northeast Family Offices

Harvard
New York University
University of Pennsylvania
Columbia
Boston University
Boston College
Yale
University of Michigan
Dartmouth
Brown

ADVANCED DEGREES

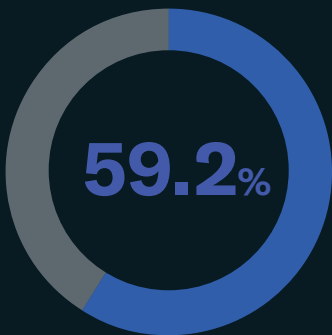
Family office professionals operating within the investment arm of their respective firms frequently possess advanced certifications. The most common being the CFA followed by the CFP. With regard to further education nearly a quarter of investment professionals across the family office landscape have obtained their MBA from an accredited business school.



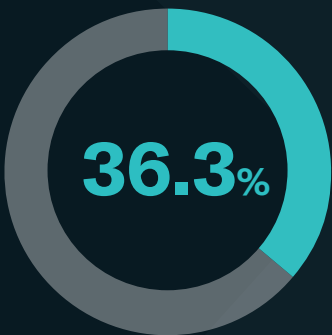
25.1%



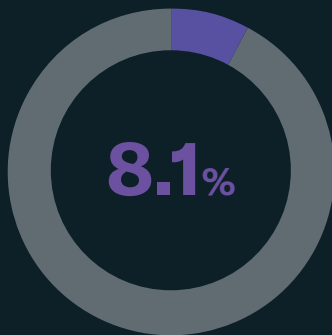
5.2%



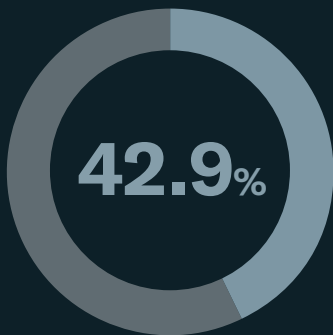
CFA



CPA



CAIA



CFP

TOP PREVIOUS EMPLOYERS

Top 10



Goldman
Sachs



Morgan Stanley



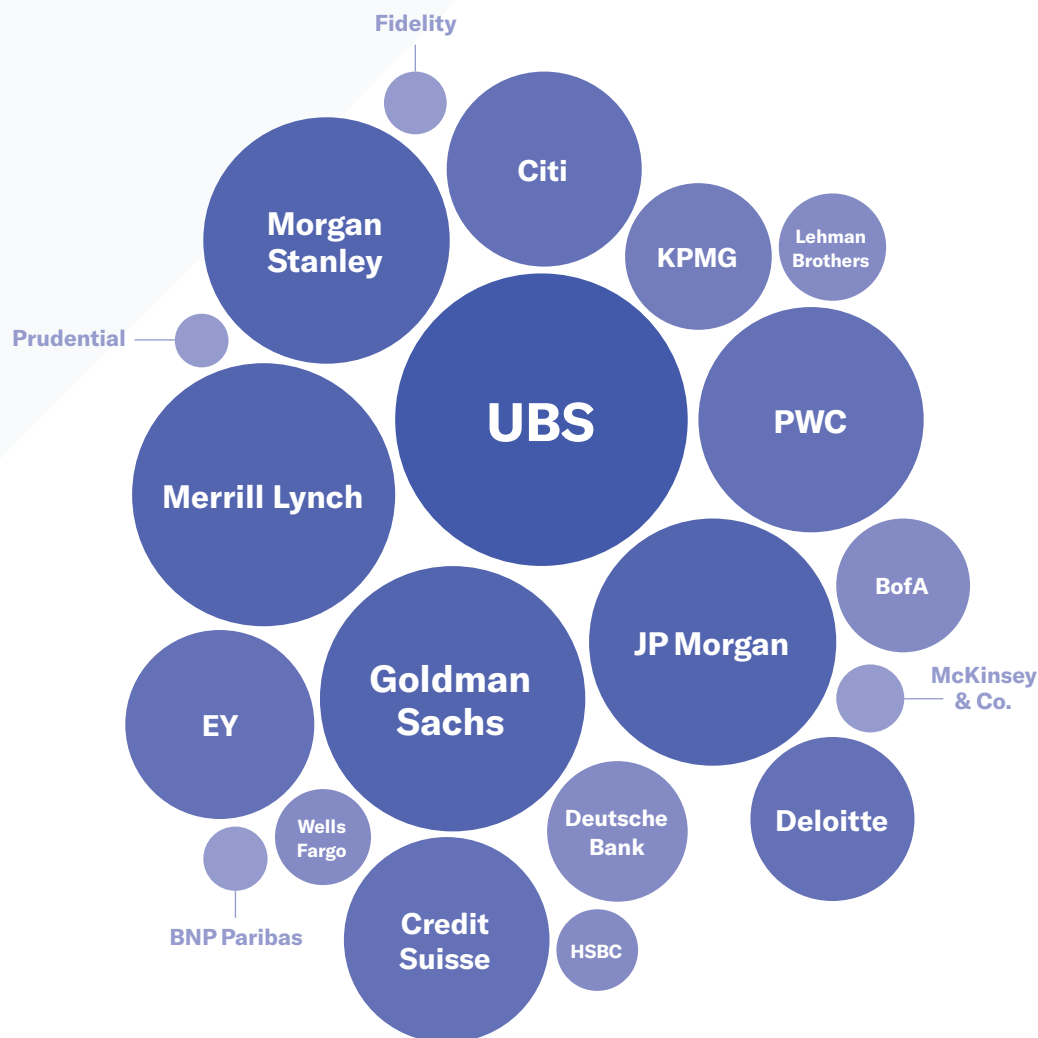
CREDIT SUISSE



Deloitte.



Top 20 complete list



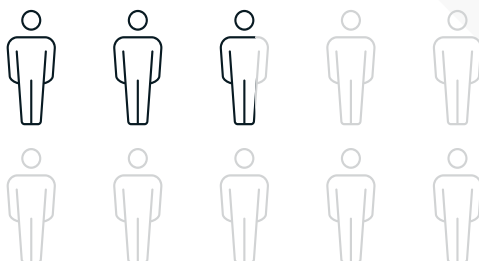
Historically, Family Offices have attracted some of the most experienced and successful professionals across the financial and private wealth landscape. Over the past decade, these entities have increasingly pursued industry leaders to assist in their investment research and execution. As the family office market has greatly expanded, so too has the complexity of their investment activities. With the understanding that hiring top industry professionals opens a number of doors with regard to investment opportunities, family offices continue to attract the highest industry talent. Following the events of 2008, these private entities have placed greater value on ensuring their assets are managed by highly qualified investment managers. Further contributing to this trend is the understanding that by internalizing investment processes, these family offices can often avoid high fees and more directly access opportunities of interest.

EXTERNAL BOARD SEATS

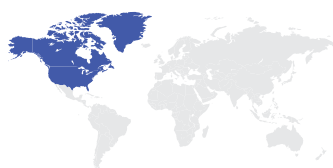
By Region



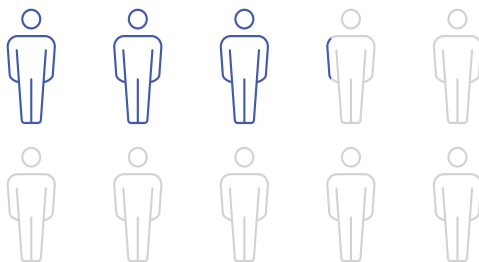
Global



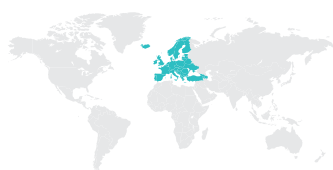
27.9%



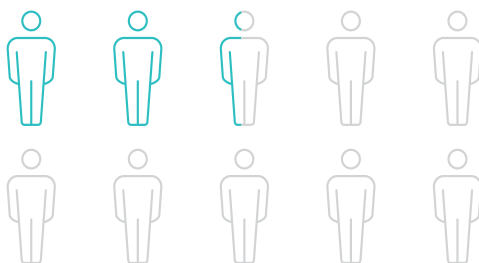
North America



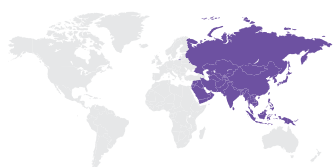
31.6%



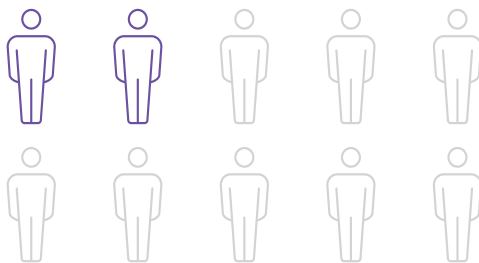
Europe



24.8%



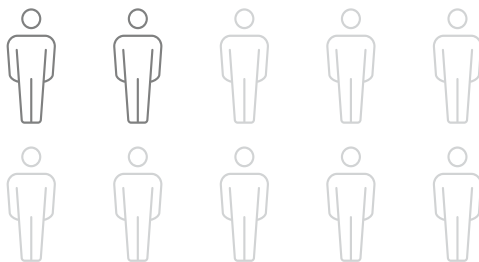
Asia / Middle East



20.4%



Rest of World



19.8%

HOBBIES & INTERESTS

Hobbies

Golf

Running

Skiing & Winter Sports

Hiking

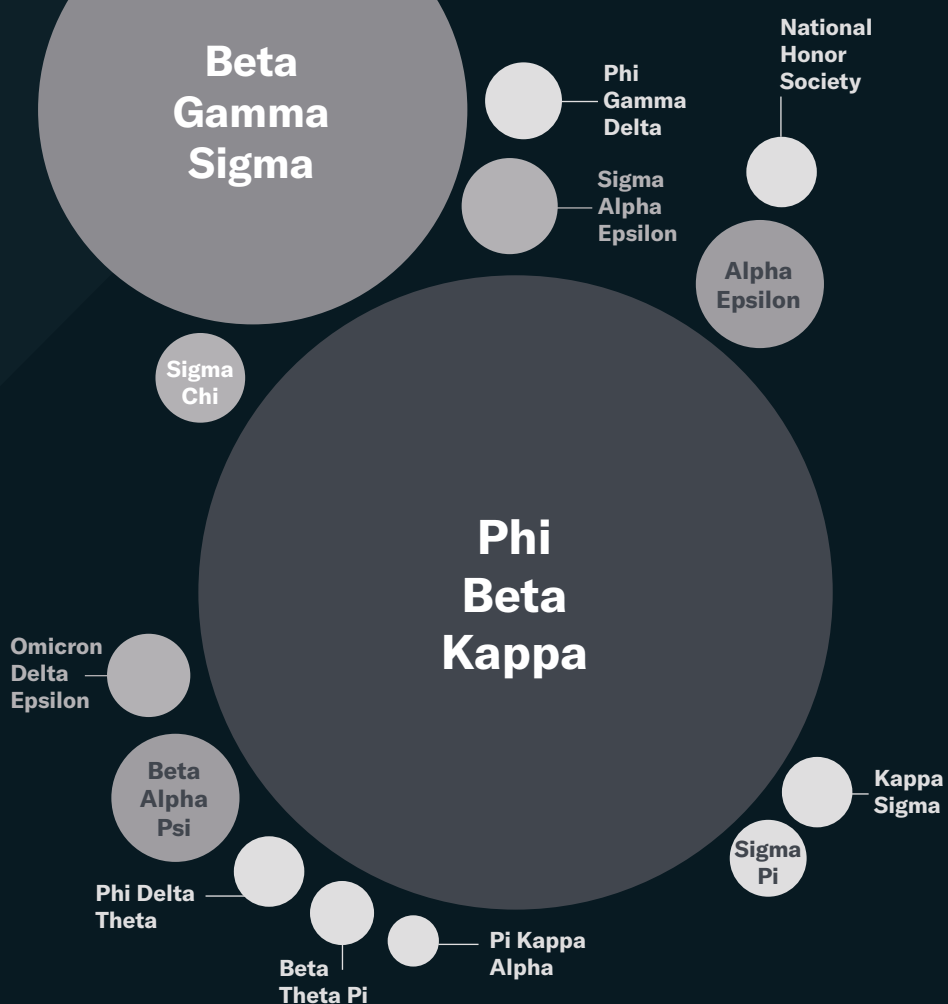
Sailing & Boating

Fishing & Hunting

SOCIETAL AFFILIATIONS

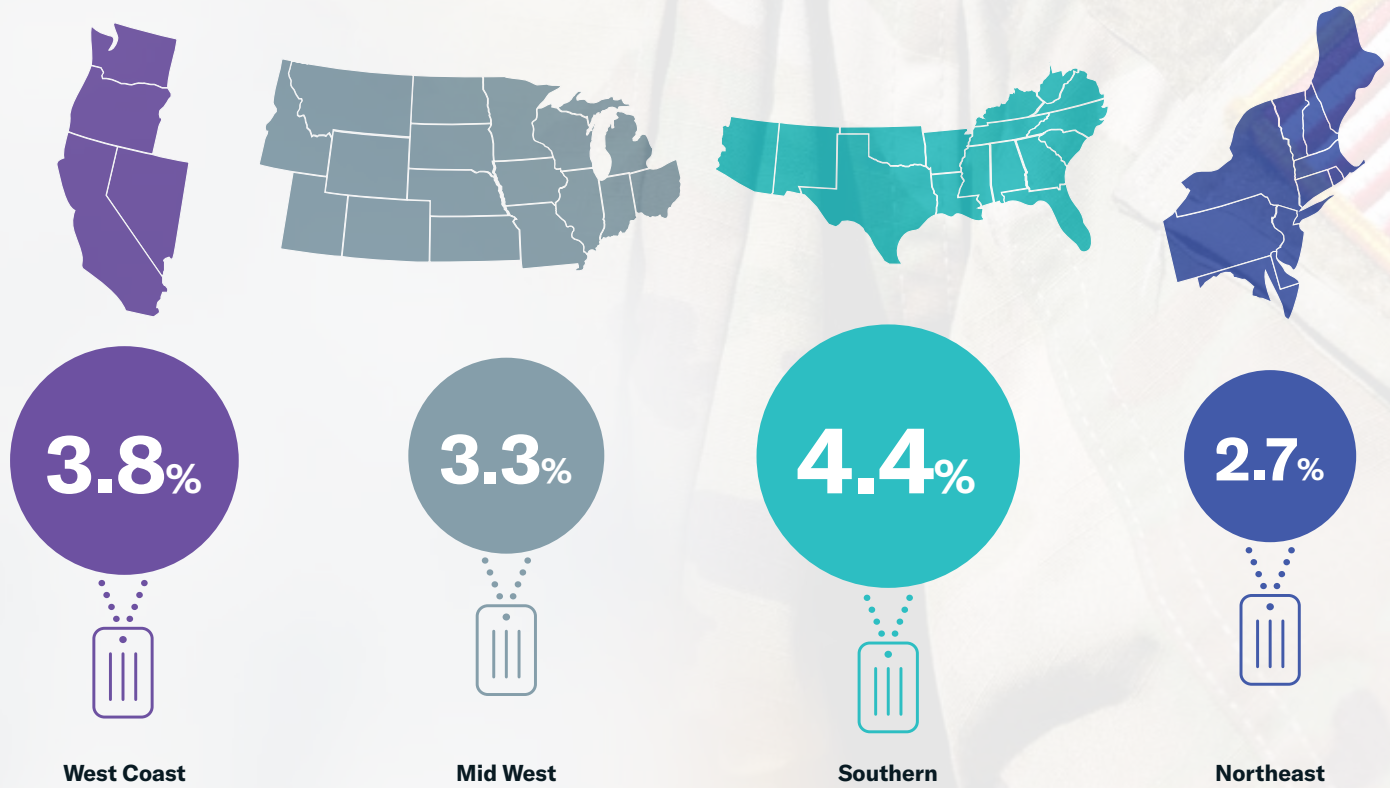
Top Societal Affiliations

- Phi Beta Kappa
- Beta Gamma Sigma
- Alpha Epsilon
- Beta Alpha Psi
- Sigma Alpha Epsilon
- Sigma Chi
- Omicron Delta Epsilon
- Phi Gamma Delta
- Sigma Pi
- National Honor Society



MILITARY VETERANS

By Region



Military service across all sectors is seen as a valuable asset. With regard to the family office landscape it is evident that certain geographical areas value military experience above others. It is worth noting this is likely correlated with the overall impression of military service in respective regions as well as the total number of veterans entering the workforce in different areas of the nation.



The average tenure of family office professionals varies greatly depending on region. Interestingly, the highest retention rate of family office talent is found among European-based single family offices. This is likely correlated to the number of family members that enter the family business which is outsized in the region. Furthermore, there is a clear trend of single family offices retaining talent for longer periods of time compared to their multi family office counterparts. It is worth noting that multi family offices generally hire more mid and entry-level financial professionals compared to single family offices, who tend to employ fewer employees in total, but those with more experience. Interestingly, tenure across North American family offices is several years less than that of Europe and Asia/Middle East. This is likely due in-part to the overall culture of American employees who are less hesitant to move from company to company. Additionally, the heavy and outsized push in recent years, on the part of family offices, to bring on new talent certainly contributed to these statistics. It is likely that the average tenure of family office professionals in the coming years will continue to rise, as these positions are more coveted than in years past.

AVERAGE TENURE

Global

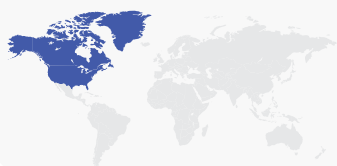


+++++++ **9** years



+++++ **6** years

North America

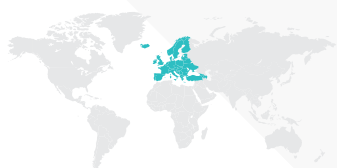


+++++ **7** years



+++++ **5** years

Europe

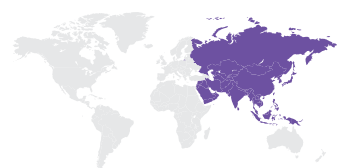


+++++++ **13** years



+++++ **8** years

Asia / Middle East



+++++++ **12** years



+++++++ **10** years

Rest of World



+++++++ **9** years



+++++ **6** years



PART FOUR

Industry Q&A With Schwab Advisor Family Office

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SCHWAB

AN INTERVIEW WITH EDDIE BROWN

Modernizing the family office

With Eddie Brown, National Managing Director and Head of Schwab Advisor Family Office

Q: Hello, Eddie. Could you tell us a little bit about yourself and your background?

A: First of all, I would like to congratulate Russ and his FINTRX team on the launch of the Industry Briefing Series, which provides valuable research and insight into the family office community. We are a proud sponsor. It is our responsibility as a leader in the industry to provide thought leadership that empowers family office professionals to enrich the lives of some of the most successful families in the world.

I joined Schwab Advisor Family Office in March 2018 and feel fortunate to have spent the last 25 years in financial services, partnering with the advisors and family office professionals who support ultra-high-networth families. I'm honored to serve in a national role, leading our family office business and representing Schwab's values of seeing everything through our clients' eyes. Above all, I believe in building strong and trusted relationships with families and the best professionals in our industry. When we share our collective learnings, we can help simplify the complex challenges and opportunities that wealth creates.



Eddie Brown

National Managing Director and
Head of Schwab Advisor Family Office

Q: Schwab Advisor Family Office is new to this space. Why enter now?

A: This is not a new business for Schwab. In fact, we have been partnering with advisors and family office professionals who serve the ultra-affluent for decades. At Schwab Advisor Services, we custody \$378 billion across ultra-high-net-worth households, primarily held with 288 family offices. The needs of today's modern family office are changing at a rapid pace. By creating a unit dedicated to family offices, we are leveraging our scale, resources, and deep expertise to advance how we serve family office firms. With an eye toward the future, we empower our people and develop technology that helps advisors and family office executives provide the best possible outcomes for generations to come.

One of our priorities with Schwab Advisor Family Office is cultivating a thriving family office community. We bring together this community to create meaningful connections, which is at the heart of everything we do. Our Family Office Symposium in New York is an example of the bespoke events we curate to highlight trends, insights, and opportunities.

Q: You use the term "modern family office." What does this mean?

A: Family offices have been in existence for centuries, and they are constantly evolving. A family office can be defined in many ways, but most agree there are two primary types: the single-family office and the multi-family office. They are not mutually exclusive, and we are seeing a convergence of the two working together. The modern family office is a highly customized wealth management solution. It has expansive internal and external resources that are aligned to meet the ever-changing needs of current and future generations. At Schwab, we support all kinds of family offices, which gives us great insight into emerging models and services.

The number of global ultra-wealthy families is on the rise, and so are their expectations and options for managing wealth.

The modern family office is structured to respond to this need for expanded services, which is why it has become the preferred alternative to a traditional private banking or wirehouse relationship.

**Q: Where do you see family offices evolving?
What big trends do you see?**

A: We believe family offices will continue to grow globally to meet the needs of a growing population of ultra-wealthy families. The level of sophistication of today's investor is higher than ever before. These families are seeking objectivity and transparency in managing their wealth as a business. We learned in Schwab's most recent high-net-worth study the importance of a clear fee structure and how critical it is to investors that advisors always put their best interest first. Family offices are purpose-built for these reasons.

As the family office market expands, a talent war is growing. The competition to attract and retain top professionals for both single- and multi-family offices has intensified. This is compounded by the need to nurture the next generation of leadership for succession planning in these firms. The most successful modern family offices are addressing these challenges by investing in their people and establishing attractive incentive plans. It's also increasingly important that the values of these family offices are aligned with the personal values of their employees—and the families they serve. This way, each stakeholder is working toward a larger purpose and a cohesive vision.

We look forward to sharing additional trends, insights, and opportunities with FINTRX in the next series. Thank you!

Learn more about Schwab's exclusive offer for family office professionals. Call 877-687-4085 to talk with a Schwab representative.

About Schwab Advisor Family Office

With more than three decades of serving ultrawealthy families and advisors, Schwab Advisor Services™ has the deep experience and extensive resources needed for today's single- and multi-family offices. As an industry leader, we combine experts who deliver high-touch service with modern technology.

Our mission at Schwab Advisor Family Office is to be the most trusted partner to advisors and family office professionals serving the ultra-wealthy community. Our dedicated team of experts is highly specialized in providing what is most critical to the modern family office. We offer subject matter expertise, curated thought leadership, and bespoke events to fuel the success and ensure the sustainability of the family office firms we serve.



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AHA (1121-1RXH) (11/21)

Taking a smart approach to direct investment

With Paul Ferguson, Managing Director at Schwab Advisor Family Office

Q: Could you tell us a little bit about yourself and your experience with direct investments?

A: I've been lucky enough to be in the family office and ultra-high-net-worth (UHNW) business for close to 27 years and with Schwab Advisor Family Office since April of last year. My experience in tax and estate planning, private equity, and running a multi-family office has allowed me to see the industry from a number of angles.

Prior to joining the family office team at Schwab, I worked at a middle-market buyout private equity firm, which acquired operating businesses and invested \$50 million to \$400 million in each. Before that, I led a multi-family office (MFO) that had numerous single-family office (SFO) clients focused on direct investing. Understanding how SFOs and UHNW families think about private equity funds, co-investments, and direct investing has helped me lead a team of family office relationship management professionals who work with family offices every day.



Paul Ferguson

Managing Director at
Schwab Advisor Family Office

Q: How have you seen the role of private equity and direct investing changing at family offices?

A: Historically, private equity funds were the primary vehicle for UHNW families to invest in privately held businesses. This allowed family offices the potential for significant returns and a valuable way to diversify across industry, business lifecycle, and geography.

As this industry briefing shows, we're seeing direct investment in privately held companies becoming more popular. We believe this is the result of broader industry trends towards investors wanting greater control, more transparency, and lower fees.

When a UHNW family invests in a private equity fund, they can control the level of their commitment and potentially negotiate certain terms, but they do not generally have control over the companies purchased or timing of capital commitments and distributions.

Direct investment, by contrast, enables the SFO to focus on buying companies of a preferred size or industry. Then the SFO receives more transparent financial information—receiving it from the company directly instead of through a fund sponsor.

In addition, direct investments come without the 2% annual management fee and 20% carried interest associated with most hedge fund structures. These fees can substantially affect returns over time. Direct investments generally have no sponsor, although an investment banker may earn a commission for the sale of the company.

Q: What should family office investment advisors ask themselves when considering direct investing?

A: SFOs and MFOs should ask themselves three questions about direct investing.

1. How are we going to access the private markets?

Private markets can be accessed through fund investing, co-investment, and direct investments. To invest in funds, you need to hire or outsource to someone skilled in performing due diligence on fund sponsors. For co-investments and direct investing, the due diligence needs to focus on the underlying company. As it's difficult to staff up for the correct type of due diligence on every industry, many family offices specialize in a single sector where they have deep expertise and a network of established relationships.

2. How are we going to source investments?

Private equity funds, family offices, strategic acquirers, and others are all searching for companies to buy. That competition can change the economics and complexity of the purchase. Finding the right deals takes a strong network with deep relationships.

3. How much control are we willing to give up?

Family offices can broaden their access to deals if they're willing to partner with other family offices or private equity funds. This type of co-investment can also provide quality due diligence in industries outside of one's direct expertise. The drawback is a lack of full autonomy over the purchased company. Thus, it's important to know how much control the client needs in order to be comfortable with their position.

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AHA (1121-1RXH) (11/21)

An evolving approach to finding great talent

With Jill Matesic, Family Office Strategist at Schwab Advisor Family Office

Q: Could you tell us a little bit about yourself and your family office experience?

A: I have had the pleasure to work with ultra-high-net-worth (UHNW) clients in various capacities for the last 20 years. After working at McKinsey & Company and completing business school, I spent a decade at Goldman Sachs building up a business of UHNW clients. I then went to work directly for a family who had recently sold their multigenerational family-owned business.

Over the next five years, I helped the family with a wide range of priorities, including managing investments and evaluating their portfolio of businesses. That's when I grew my network in the family office community and realized the value of the independent advisory model. Ultimately, I decided to broaden my reach and help other advisors evolve their practices, which led me to join Schwab. We are having great success growing our family office business, addressing the important issues our clients face. One such issue is talent—how to hire and retain the best professionals.



Jill Matesic

Family Office Strategist at Schwab Advisor Family Office

Q: How are the talent needs of family offices unique?

A: The talent demands of the UHNW client are extremely complex. Advisors need a combination of high-level professional expertise and the emotional intelligence to navigate family relationships.

Single-family offices (SFOs) face a significant challenge attracting, retaining, and compensating the right talent for their particular situation. SFOs often need generalists who also have deep skills suited to the family's philosophy, the origin of their wealth, and their level of liquidity. The candidates for these roles must be trusted to maintain a high level of confidentiality of the families. But as small organizations, SFOs can struggle to offer a clear career trajectory. Hiring can get very expensive. This helps explain why SFOs often bypass hiring and instead outsource specific tasks to multi-family offices (MFOs).

The hiring challenge for MFOs is competition with other family offices, Registered Investment Advisors, and the large financial services companies. As the MFO segment grows and requires more specialized talent, competition intensifies for the limited number of candidates who have experience serving UHNW families.

Q: How is the next generation of UHNW families shaping talent demands in the industry?

A: We often see the next generation of a family replace their investment advisor almost immediately upon taking control of the family's assets. That's usually a moment of peril for the incumbent advisor. The risk is even more pronounced now with younger generations who tend to have significantly different expectations and goals than their parents.

The next generation, by and large, places less value on in-person reviews of lengthy decks and performance reports. Instead, they expect to be able to quickly handle most issues with modern digital tools. This increases advisors' technology needs and potentially upends their standard ways of showing value. The next generation also tends to be more purpose driven — wanting their investments to provide a sense of meaning as much or more than to earn a profit. So, firms are focusing more on ESG, impact investing, and philanthropy. They're also adding family dynamics specialists, life coaches, and other professionals who can engage clients more holistically. These new roles require a different approach to hiring.

Finally, the next generation values organizations that understand and feel in step with the modern, diverse world. They expect to work with more women and a more diverse group of individuals from all backgrounds and cultures. Embracing a more inclusive workplace is more than just the right thing to do—it's essential to future business.

Q: What are family offices doing to recruit diverse, next-generation talent?

A: By broadening where they look for talent, leading firms are addressing the generational shift, diversity issues, and competitive hiring market. They are bringing in people with different backgrounds, beyond just investment management. This includes estate and tax planning, risk management, technology, operations, business development, psychology, and relationship management.

Q: How does Schwab help family offices navigate these issues?

A: Because we serve an elite group of family offices, we can act as a centralized resource for talent strategy and tactics. We are on calls every week with families forming SFOs and advisors looking to grow their MFO business, helping them think through the solutions and talent that make sense for their vision. We connect firms with specialty providers who can support their evolution, and we use our network to help firms navigate their talent search. We introduce them to candidates, recruiters, and other advisors who've just completed a similar search but aren't competing in the same talent pool. We take a custom, curated approach so firms don't have to handle these complex issues on their own.

Even more broadly, Schwab is expanding the awareness of the family office and independent advisory industry as a whole to deepen the talent pool and broaden opportunity for all.

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ABOUT FINTRX

Launched in early 2014, FINTRX is the preeminent Family Office and private wealth data and research solution.

Our platform combines over half a million data points on **15,000+** Family Office professionals and more than **3,500** unique Family Offices globally. Built with the asset raising professional in mind, FINTRX features state-of-the-art data exploration and visualization tools, engineered to provide the most efficient and effective means of targeting Family Offices and the private wealth ecosystem.

Today, FINTRX serves hundreds of clients globally via our cloud-based platform. FINTRX provides detailed insight into each family office - including background, contact information, origin of wealth, investment interest, direct transaction history, AUM and more. It is continuously updated, guaranteeing you have the most comprehensive and accurate data at your fingertips.

Editors note: A special thank you to our Director of Research, Dennis Caulfield and the entire FINTRX research team.







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