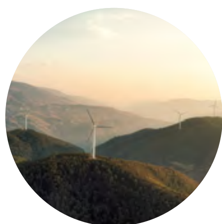
UBS Family Office Quarterly

A Family Office Solutions publication

First Quarter 2024

UBS Family Office Quarterly

A Family Office Solutions publication



03
Introduction

Investment outlook

04
Investing in a new world
Solita Marcelli
Chief Investment Officer, Americas
UBS Chief Investment Office
Daniel J. Scansaroli, Ph.D.
Head of Portfolio Strategy &
UBS Wealth Way Solutions, Americas
UBS Chief Investment Office

Beyond investments

10
Economics of structuring a family office
Brian S. Schimpf
Senior Quantitative Strategist
UBS Advanced Planning Group
Brian Hans
Senior Income Tax Strategist
UBS Advanced Planning Group

16
Family office risk management for direct investments
Brian E. Raftery
Partner
Trusts, Estates and Wealth Preservation
Global Co-Chair
Family Office and High Net Worth
Dentons

Operational excellence

20
The evolution of the family investment committee
Mark R. Tepsich
Family Office Design
and Governance Strategist
UBS Family Office Solutions

30
Modern household management
Jacco de Bruijn
Co-founder and CEO
Nines

Human capital

36
How family offices compensate their employees
Paul Westall
Co-founder
Agreus Group
Tayyab Mohamed
Co-founder
Agreus Group

In conversation

40
Family office investment strategies: Private equity and sponsorship for high-growth companies
Leora Zach, CFA
Client Solutions Specialist
UBS Family Office Solutions
Miles Molyneaux
CFO
Next Sparc
James Carey
Partner and Head of Origination
Next Sparc

Introduction

We are pleased to present the first edition of *UBS Family Office Quarterly*. Produced by UBS Family Office Solutions, this publication will bring family office insights and best practices to family office executives. We will also highlight important trends and events affecting family offices as part of our mission to help advance the family office industry overall.

To this end, we will focus on organizational capabilities as well as showcase strategies to navigate issues to help family office executives excel. For instance, we will explore tax and legal issues, operational best practices and human capital considerations relevant to family office executives. You will also find themes emerging from two important intersections: that of the family office and philanthropy; and that of the family office and family business.

In addition to thoughtful perspectives and insights from UBS, you will find contributions from top partners in the family office space. For example, in this issue, we hear from Agreus, which, together with KPMG, recently completed the largest family office compensation survey to date. In addition, the Dentons law firm provides important risk considerations when allocating to direct investments. Nines, a software platform designed to bring organization to residential property management, shares best practices around effectively operating a residential household—an endeavor that can often become overwhelming without proper management.

What is most unique, you will also hear from family office executives themselves, as well as their beneficial owners. While each family office is as different as the families they serve, there are also many commonalities. In bringing these voices and their experiences to you, we intend to create a community to drive discourse and a forum for learning from one another.

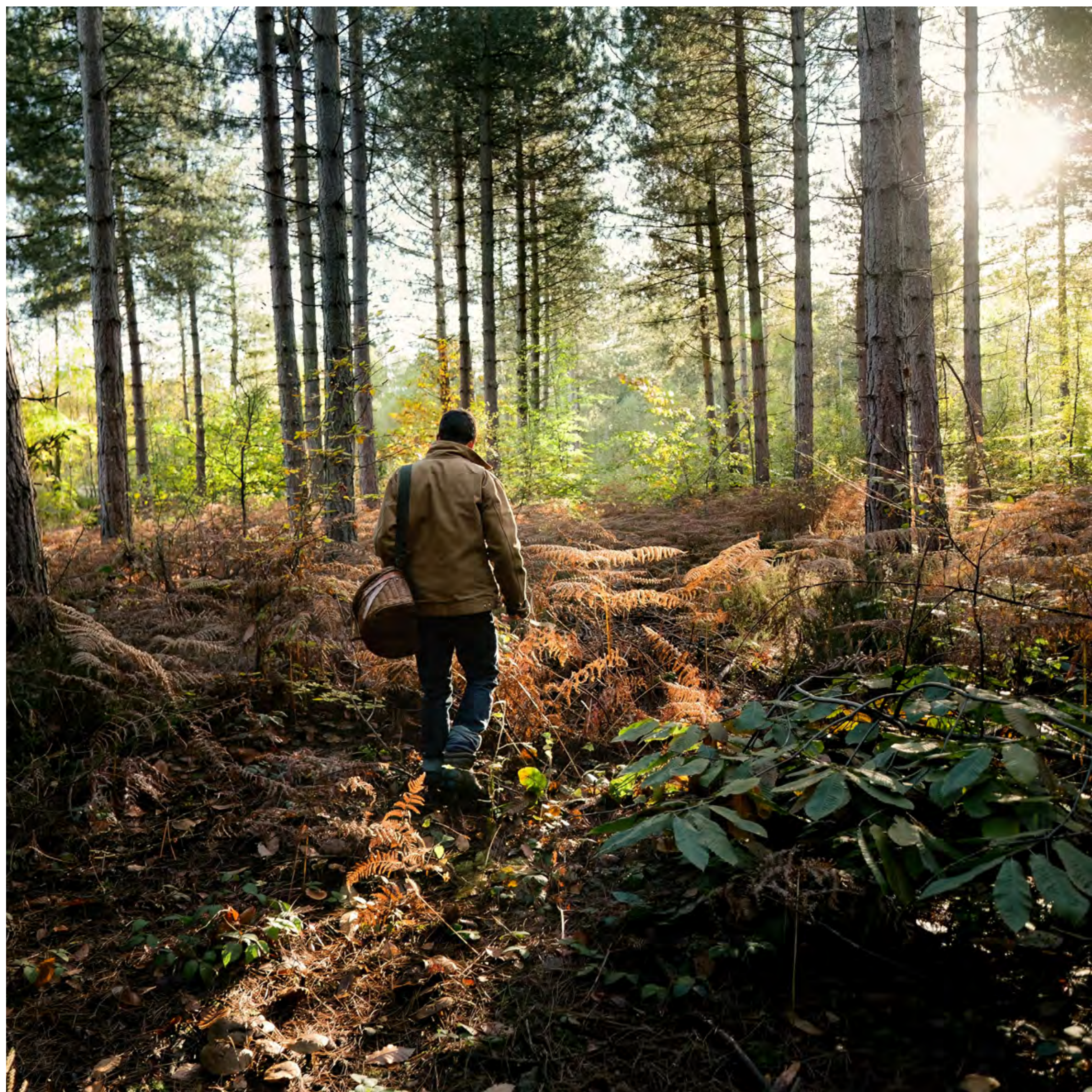
Finally, we would love to hear from you. If there is a topic you would like to see addressed or learn more about, please let us know. We want to drive the industry forward as we evolve with it, constantly adapting and improving. We hope you enjoy the *Quarterly* and look forward to hearing from you.

Best regards,

Judy Spalthoff
Head, Family Office Solutions

John Mathews
Head, Private Wealth Management Americas

Investing in a new world

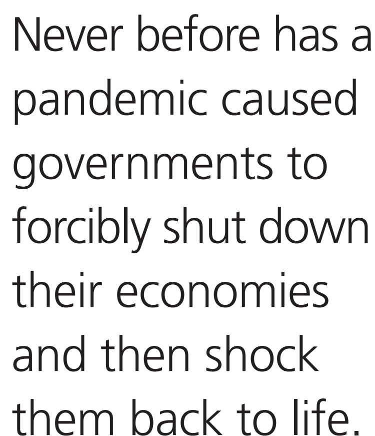


Solita Marcelli
Chief Investment Officer Americas
UBS Chief Investment Office

Daniel J. Scansaroli, Ph.D.
Head of Portfolio Strategy &
UBS Wealth Way Solutions, Americas
UBS Chief Investment Office

As we look at how investors should position their portfolios in the year and decade ahead, we continue to see how the economic and political aftereffects of the global pandemic continue to reverberate, years after its onset.

Never before in human history has a pandemic caused governments to forcibly and almost simultaneously shut down their economies and then shock them back to life. The result? The return of inflation, labor market stress, and a surge in interest rates, bond yields and government debt. At the same time, wars in oil-producing regions, a maturing China, and the rise of national industrial and environmental policy are remaking the geopolitical sphere. And while the old threat of great powers at war seems to be returning, new developments in artificial intelligence (AI) might also transform humanity.



In 2023, these dynamics played out with a US economy that proved surprisingly resilient in the face of higher interest rates, and that seems likely to deliver growth of 2.5% for the year. Inflation, wages and a tight labor market moderated, as Federal Reserve tightening pushed 10-year bond yields to 5%, the highest level since 2007. Global equity indices provided double-digit returns, with most of this driven by AI. The "Magnificent 7," mostly AI-linked US stocks, accounted for ~80% of the price return of the S&P 500 in 2023. Unfortunately, the fourth quarter has seen a continued escalation in geopolitical uncertainty with Hamas's attack on Israel and the subsequent Israel-Hamas war, which has led to a humanitarian crisis, sparking higher volatility in gold and oil.

This leaves us in a new world, one defined by economic uncertainty and geopolitical and environmental instability, but also profound technological change.

What to expect in the year ahead and how to invest?

Buy quality in both fixed income and equities
We expect slower growth for the US economy in 2024 as consumers face mounting headwinds. We expect European growth to remain subdued, and China to enter a "new normal" of lower, but potentially higher-quality, growth. We think this environment speaks in favor of tilting equity allocations toward quality stocks, including in the technology sector, which can deliver earnings growth even against a backdrop of slowing global growth. Historically, we find that companies with the highest return on capital tend to outperform during periods of economic slowdown or even recession.

Historically, we find that companies with the highest return on capital tend to outperform during periods of economic slowdown or even recession.

Within fixed income, quality bonds combine attractive yields at levels not seen in over 16 years with the potential for capital appreciation and a portfolio hedge against downside scenarios. We expect central banks to start cutting rates after July of 2024 as savings are exhausted, student loan payments resume and high credit card balances start to weigh on the US consumer. Even if inflation doesn't moderate enough for the Fed to start cutting, yields are offering a significant buffer to protect investors against the risk of losses if rates should continue to rise. For example, a five-year Treasury would have to be above 5.5% by the end of 2024 for investors to earn a negative total return. This speaks in favor of limiting cash allocations and locking in yields in quality bonds.

Manage liquidity
Continuing with our view on rates—the combination of economic uncertainty, geopolitical instability and high cash yields can increase the perceived safety of holding cash. However, given elevated inflation and the prospect of rates falling in 2024 and beyond, investors are facing increasing reinvestment risks. Correspondingly, we believe investors with spending needs should consider investing funds that are earmarked for cash flow needs over the next three to five years in a high-quality bond ladder program that aligns the maturity of each bond to the timing of their capital needs. This institutional approach, known as liability matching, will mitigate reinvestment risks by limiting the drag on return by limiting cash allocations and locking in rates at current levels for years to come until the bonds systematically mature at par, providing the needed capital that year and potentially combating inflation as it tends toward central bank targets of 2%-2.5%.

Hedge market risks
We expect politics to have an outsized role in 2024. The US presidential election, the Israel-Hamas and Russia-Ukraine wars, and the ongoing rivalry between the US and China could all have global market repercussions. And political decisions to engage in large and unfunded fiscal spending create both upside and downside investment risks to base case economic forecasts. Investors should prepare to hedge market risks.

We believe investors should look to oil and gold to hedge the rising geopolitical tensions, particularly in oil sensitive regions. While it isn't our base case, if further sanctions

were put on Iran, there is about 500,000 barrels a day that could be taken off the market, and we would expect oil to potentially rise to over $120 per barrel.

Macro funds could also be an effective hedge and diversifier in 2024. Headwinds of the last decade to macro hedge funds have largely reversed with high rates, a shifting macroeconomic landscape, prospect of dollar dominance likely to decline and commodity volatility. Historically, macro hedge funds have demonstrated an ability to navigate adverse market conditions with little uncorrelation to market trends.

Investors looking to hedge against the risk of losses can make use of structured investments with capital preservation features. These strategies are particularly attractive during times of average volatility and high bond yields and can balance the opportunity cost of a potential stock market rally.

Diversify with alternative credit

Elevated rates and a slowing economy are likely to put pressure on companies' ability to refinance. This could lead to higher dispersion between issuers and wider credit spreads, creating a supportive backdrop for credit arbitrage funds to capture relative mispricing between securities. This dynamic should also create an opportunity for distressed and special situation funds to provide capital to companies that struggle to cover interest costs.

Investing for a decade of transformation

As we look to the decade ahead, we expect the effects of AI, China's maturing economy, the energy transition and high global debt levels to grow larger still.

We think AI will spur meaningful value creation across a range of sectors. For now, investors have focused on the likely beneficiaries from AI hardware and platforms, but the potential spillover into applications will reach far and wide.

A new normal is coming into view for China. Constraints on old growth models will likely see slower growth than the norm over the past two decades. Investments aligned with the country's efforts to boost higher value-added manufacturing, drive a green transition and develop greater self-sufficiency should be best positioned.

Concerns about climate change and national security will drive a global transition toward decarbonization. Achieving a complete transition to a carbon-zero economy is a complex undertaking. But significant investment in decarbonization projects should mean high growth potential for solution providers in the space.

Government investment in technological, environmental, energy and physical security—as well as aging populations—means debt levels are likely to rise. We believe higher debt levels will contribute to higher volatility in fixed income, but also more opportunities for private investors to supply financing. These trends speak to the importance of building alternative assets into diversified portfolios for investors able to manage the specific risks associated with them.

What does this all mean for markets and investing?

Get back in balance

In our base case, we expect positive returns for balanced portfolios in 2024, and our scenario analysis suggests that multi-asset diversification should also prove effective at hedging risk scenarios. Over the longer term, we believe that investors who keep a diversified multi-asset portfolio—traditional or sustainable—as a "core" investment strategy are most likely to successfully protect and grow real wealth over time.

As investors get their portfolios back in balance, we see the largest opportunities to generate efficient risk-adjusted returns in alternative investments. Slower global growth rates, higher government debt, deglobalization and a focus on digitization is likely to shift growth further into private sectors. Structural shifts by private fund sponsors have improved access to private markets, and decreased operational burdens with the proliferation of perpetual capital funds. As investors consider adding alternatives to their portfolios, they should consider the risks, from long lockup periods, to leverage, illiquidity and credit defaults. We expect that investors who shift from the traditional 60-40 stock-bond portfolio to a 40-30-30 stock-bond-alternatives, with a diversified mix of private equity, private credit and real assets could increase annual returns 80-100 basis per year with 50-75 basis points less volatility. This significant increase in portfolio efficiency can drive additional long-term wealth creation, with a smoother ride.

Pick leaders from disruption

We expect some of the highest returns in the equity markets over the decade ahead to come from those companies that can harness innovative technologies to grow markets, dislodge incumbents or slash costs. Those "leaders from disruption" are likely to be in technology, energy and health care.

Within technology, an unusual feature of generative AI is that many of the same companies already operate in multiple stages of the value chain—from cloud to ownership of large language models, to the development of end-user applications. This ultimately means there is a case for the big to get bigger.

Concerns about climate change, national security and advancing technology are driving global decarbonization and infrastructure investment. Creating an economy free of carbon emissions and transitioning to clean fuels is a complex undertaking that requires the adoption of green technologies. We expect a tripling in solar capacity, rising

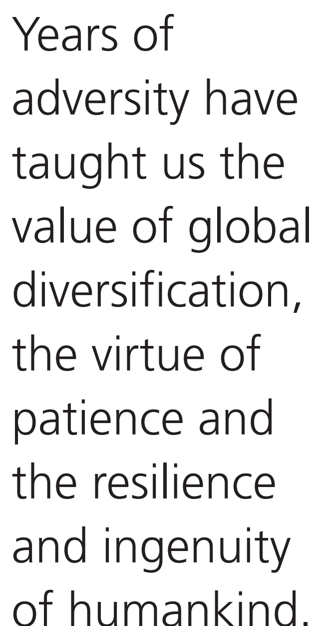
needs for energy storage, electrification of transport networks and investment in energy efficiency. Directly related to infrastructure needs, McKinsey has estimated that USD 69 trillion of investment is needed globally by 2035 in everything from power infrastructure and roads to ports and telecommunications.

Finally, the health care sector will be a key source of disruptive innovation amid increased demand from an aging population. In addition to the obesity remedies that grabbed investors' attention in 2023, we see opportunities in cancer treatment, rare diseases, immunology and neurology.

Capture growth with private markets

The number of public companies has declined 46% since year 2000 and more companies are staying private longer. With high levels of government debt, public funding for innovation is likely to be constrained, giving private managers a greater opportunity to access value being created by fast growing and disruptive companies by providing them with equity and debt capital—particularly in the innovative technology, energy and health care sectors.

In 2023, mark-downs and valuation declines in private equity have improved entry points. The prospect for higher cost of debt shifts our focus away from highly leveraged buyout deals toward middle market value-oriented buyouts that have robust cash flows to weather an economic slowdown. These strategies have seen valuations decline to 10.3x EV/EBITDA from 12.8x. We expect General Partners (GPs) who target multiple expansion through operational improvements, cost-revenue optimization and synergies to produce attractive illiquidity premiums over those who focus on financial engineering.



Investors are also seeing attractive opportunities to acquire stakes in companies from existing private equity investors who are seeking an early exit in the secondary market. Secondaries historically have had a discount of 5% of net asset value (NAV), but following an institutional overallocation and need for liquidity, NAV discounts have remained near 15%.

Lastly, despite expectations of slower growth and rates settling higher than before COVID, private credit fundamentals remain attractive. While these dynamics could put pressure on debt servicing and increase potential credit losses, a fall in rates could also provide an offset to default risks. As bank lending tightened in 2023, disciplined private lenders have been able to negotiate stronger protections, with lower leverage, and more equity behind each loan. These loans are also typically top of the capital stack, which increases recovery rates relative to subordinated debt. They currently offer a floating rate yield close to 12% on an unleveraged basis, which is an attractive pickup over high yield and leverage loans and provides considerable compensation for any potential credit losses.

Lessons from "the old world"

As we enter a new world, it would be easy to feel a sense of trepidation. Yet it's worth remembering that since 1900, the world has seen two world wars, nine pandemics, hundreds of civil or regional wars, more than 2,000 nuclear detonations, revolutions in both the world's largest and most populous countries, at least a dozen hyperinflations, over 15 bear markets, over 20 recessions, and almost 200 sovereign defaults or debt crises.

When it comes to investing, all these years of adversity have taught us three things: the value of global diversification, the virtue of patience, and, most important, the resilience and ingenuity of humankind.

For more insights on the Chief Investment Office views, please visit our website.

Beyond investments

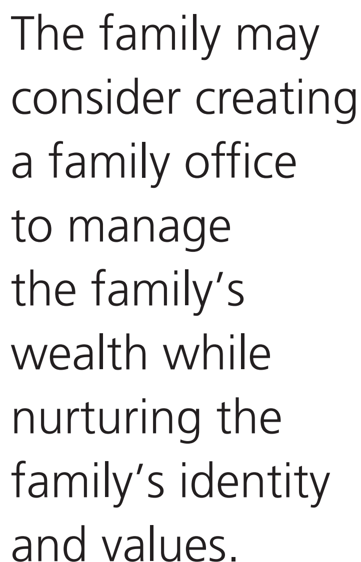
Economics of structuring a family office

Brian S. Schimpf
Senior Quantitative Strategist
UBS Advanced Planning

Brian Hans
Senior Income Tax Strategist
UBS Advanced Planning

Ultra high net worth (UHNW) individuals and families frequently seek guidance from their trusted advisors about the possible benefits of setting up a family office to manage their wealth. The family may need a coordinated enterprise to carry out the administrative needs of numerous stakeholders while maintaining the wealth creator's vision and philosophy of how the family's wealth should be deployed. To this end, the family may consider creating a family office to manage the family's wealth while nurturing the family's identity and values across a wide range of areas, such as wealth management, wealth transfer, philanthropy and family governance. For a more complete discussion of these topics, please see Ann Bjerke, David T. Leibell and Brian Hans, *Building a Family Office to Steward Family Wealth and Values* (a publication of UBS Advanced Planning and UBS Family Office Solutions) and Mark Tepsich and Nicole Sebastian, *Family Matters: The Family Focused Family Office* (a publication of UBS Family Office Solutions and UBS Family Advisory and Philanthropy).

And while the establishment of a formal family office may provide structure and simplicity to the administration and management of a complex balance sheet and family dynamic, oftentimes that may not be the initial consideration driving the family's decision to create the family office. Usually, but not always, the exploration of the establishment of a family office is led by a focus on tax efficiency. Families may fully understand the non-tax benefits referenced above, but they need to grasp the economic benefits as well in order to make an informed decision about whether the economic benefits of a single family office specifically designed to create tax-efficiency will outweigh the costs and administrative burden of establishing and maintaining the entities on an ongoing basis.



Are there certain rules of thumb that should guide the economic aspect of the decision to create or not create a single family office? We will analyze this question and some related issues here. As we will see in the case studies below, there is no panacea; each situation should be reviewed and analyzed independently, as there are many factors that can influence the results regarding the amount of tax-efficiency gained in a single family office structure. While the amount of potential tax savings that will warrant a single-family office structure varies from family to family, once expenses reach the million-dollar mark, a family may wish to take a closer look at the potential tax savings. Once family office expenses reach $1 million, the potential tax savings can begin to become significant and start to approach several hundred thousand dollars, depending on the specifics of the family's situation, as described more fully below.

Background

Under prior law, individuals, estates and trusts were able to deduct miscellaneous itemized deductions (such as investment advisory fees) to the extent they exceeded 2% of adjusted gross income. This was suspended with the Tax Cuts and Jobs Act of 2017 for tax years 2018 through 2025, such that, under current law, individuals, estates and trusts may no longer be able to deduct these types of expenses, including investment advisory fees. Depending on a family's specific situation (as discussed further below), the inability to deduct these types of expenses for income tax purposes may result in an increased income tax liability as compared to the environment under prior law.

However, under Section 162 of the Internal Revenue Code, an investment management enterprise that operates as a trade or business can still deduct its ordinary and necessary expenses (including investment management expenses) because the limitations under the Tax Cuts and Jobs Act of 2017 referenced above do not apply to enterprises that meet the definition of a trade or business. Recent case law has provided some authority and guidance for family offices to enable them to deduct investment management expenses if structured and implemented properly and if the family dynamics are appropriate to support the structure.[1]

The following are some of the relevant factors which, among others, should be considered when assessing whether a single family office is properly characterized as a trade or business under section 162:

– whether ownership of the family office investment management company is spread among different family members or in different percentages relative to the owners of the investments being managed,

– whether compensation is structured such that the family office management company receives a profits interest and a separate management fee,

– whether the family office investment management company provides extensive services rather than only administrative or "back office" services,

– whether the family office investment management company has a sufficient number of clients (different family members and trusts, etc.), and

– whether the family office employs full-time workers.

In addition to investment management expenses (fees paid to investment management professionals such as financial advisors and third-party investment managers, such as private equity or hedge fund sponsors), the following additional expenses also may potentially be deductible by a family office:

1. Rent expense for the family office.
2. Utilities for the family office.
3. Office expenses for the family office (equipment, supplies, etc.).
4. Family office employee salaries.
5. Outside third-party professional fees for expenses related to the management of the family's assets (i.e., not related to personal items such as personal tax returns or personal planning).

Two hypothetical families: the Montagues and the Capulets

For purposes of the discussion that follows, we have assumed that a bona fide family office has been created which would be respected for federal income tax purposes as a trade or business under section 162 and would meet all other requirements to deduct its expenses incurred in the operation of its daily activities.

The Montagues

The Montagues had a liquidity event several years ago: the family sold a business to a strategic buyer in an all-cash deal. The family resides in Florida where there is no state income tax. The family's assets are allocated in a diversified portfolio with 70% global equities, 10% municipal bonds and 20% alternative investments. Altogether, the $250 million portfolio generates about $4.5 million in annual income, mostly in the form of dividend income and realized capital gains, but also tax-exempt municipal bond interest and ordinary income (see breakdown below). Altogether, estimated federal income taxes on portfolio income is approximately $935,000 per year.

At the moment, the Montagues do not have a family office. The family works with a financial advisor but hasn't hired any other investment professional to formally manage and evaluate investments on behalf of the family. The family

> Usually, but not always, the exploration of the establishment of a family office is led by a focus on tax efficiency.

[1] *Lender Management LLC v. Commissioner,* T.C. Memo. 2017-246.

does incur $2 million in annual investment management fees. They pay 40 basis points in fees on the $250 million under management (0.4% x $250 million = $1 million), in addition to a 2% asset management fee to various third-party alternative investment managers (2% x $50 million = $1 million). As described above, under current law the family is not able to deduct these investment management expenses. The family is considering establishing a formal family office structure where a portion of the portfolio income can be allocated to the family office in the form of a profits interest, which may allow for greater income tax efficiencies.

Recap of the Montagues' situation

– State of residence: Florida

– Liquid investment asset base: $250 million.

– Investment allocation:

– 10% municipal bonds

– 70% global equities

– 20% alternatives

– Investments generate estimated annual income as follows:

– $250,000 ordinary income

– $3.5 million long-term capital gain/qualified dividend income

– $750,000 tax-exempt municipal income

– Investment management fees: $2 million (40 basis points on $250,000,000 plus 2% to alternatives managers)

– Other potentially deductible expenses: none currently

Below is an example of the after-tax and expense cashflows for the Montagues under current circumstances (No Family Office) or if a formal family office were established (Family Office):

	No Family Office	Family Office	
	Personal	Personal (LP Interest)	Family Office (GP Interest)
Ordinary Income	250,000	138,889	111,111
LTCG/Dividend	3,500,000	1,944,444	1,555,556
Muni Income	750,000	416,667	333,333
State Taxes	-	-	-
Fed Taxes	(935,000)	(519,444)	-
Investment Management Fees	(2,000,000)	-	(2,000,000)
Other Expenses	-	-	-
Net Income	**1,565,000**	**1,980,556**	-

In the "No Family Office" scenario, after the payment of income taxes and investment management fees, the family is left with $1.565 million of net income. In the "Family Office" scenario, a portion of the income (in the form of a profits interest) is allocated to the family office entity on a pro-rata basis. In our example, for illustrative purposes only, the amount allocated to the family office is exactly enough to offset the investment management expenses, which will be completely borne by the family office. These expenses are deductible by the family office against the income allocated to the family office. Meanwhile, the family's income on the personal side of the ledger has been reduced by the $2 million of profits interest allocated to the family office. Under the "Family Office" scenario, taxes are now $519,000, as compared to $935,000 in the "No Family Office" scenario, a difference of $416,000.

The Capulets

The Capulets, a family living in upstate New York, currently have $500 million of assets, but, other than a small allocation to municipal bonds (10%), the family's wealth is held in equities. The family is interested in reducing their risk and diversifying into other asset classes, such as alternatives. Their current investment management fees total $1.25 million per year.

Recap of the Capulets' situation

– State of residence: New York

– Liquid investment asset base: $500 million.

– Investment allocation:

– 10% municipal bonds

– 90% global equities

– 0% alternatives

– Investments generate estimated annual income as follows:

– $0 ordinary income

– $6.75 million long-term capital gain/qualified dividend income

– $1.5 million tax-exempt municipal income

– Investment management fees: $1.25 million (25 basis points on $500 million)

– Other potentially deductible expenses: currently none

	No Family Office	**Family Office**	
	Personal	Personal (LP Interest)	Family Office (GP Interest)
Ordinary Income	-	-	-
LTCG/Dividend	6,750,000	5,727,273	1,022,727
Muni Income	1,500,000	1,272,727	227,273
State Taxes	(695,250)	(589,909)	-
Fed Taxes	(1,606,500)	(1,363,091)	-
Investment Management Fees	(1,250,000)	-	(1,250,000)
Other Expenses	-	-	-
Net Income	**4,698,250**	**5,047,000**	-

As can be seen from the above illustrations, although the Montagues have a smaller asset base ($250 million vs. $500 million for the Capulets), a single family office may result in greater tax savings for the Montagues (tax savings of $416,000 for Montagues vs. $349,000 for the Capulets). The reason for the greater tax efficiency in the Montagues' structure is due to the fact that they have a larger allocation to alternative investments, resulting in higher current investment management expenses. The Montagues also have more ordinary income (also due to the nature of alternative investments) than the Capulets, which creates additional tax efficiency for the Montagues as they are allocating to the family office (and therefore not being taxed on) income that would be taxed at a higher rate.

Meanwhile, the Capulets are receiving certain benefits the Montagues are not—they avoid two levels of tax (both federal and New York state income tax on the amounts allocated to the family office) whereas the Montagues do not get additional state income tax savings as they do not pay income taxes in Florida. If the Capulets had the same overall expenses as the Montagues, their tax savings would be even more significant as both federal and New York tax would be avoided on the family's personal tax returns on the amounts allocated to the family office.

To illustrate this point, we look at an example where the Capulets incur an additional $750,000 of expenses, bringing their total expenses to $2 million. The Capulets have done some extensive estate planning to transfer wealth among various trusts for the benefit of different family members. The family decided it needed to hire some additional staff to manage the complex needs of multiple family members and trusts. With higher expenses, cashflow is reduced, but the potential benefit of creating the family office increases. Altogether, when factoring in the state income tax savings, the overall tax benefit for the Capulets of setting up the family office would be $558,000 vs. $416,000 for the Montagues for the same $2 million of total expenses.

	No Family Office	**Family Office**	
	Personal	Personal (LP Interest)	Family Office (GP Interest)
Ordinary Income	-	-	-
LTCG/Dividend	6,750,000	5,113,636	1,636,364
Muni Income	1,500,000	1,136,364	363,636
State Taxes	(695,250)	(526,705)	-
Fed Taxes	(1,606,500)	(1,217,045)	-
Investment Management Fees	(1,250,000)	-	(1,250,000)
Other Expenses	(750,000)	-	(750,000)
Net Income	**3,948,250**	**4,506,250**	

Additional considerations

What other factors could influence the potential benefit of setting up a family office?

– The legal and tax advisory costs of establishing and administering a formal family office may be significant, perhaps in the nature of several hundred thousand dollars. Ongoing legal and compliance costs should be considered as well. Some of these costs may be deductible by the family office.

– It is unknown whether the suspension of the deduction of miscellaneous itemized expenses subject to the 2% floor will be lifted or extended (it is currently scheduled to sunset at the end of 2025). A reversion to the prior law could limit the benefit of establishing a family office. However, even under a reversion to prior law, a single-family office may still offer significant income tax savings when factoring in the alternative minimum tax and related limitations on the ability to deduct investment management expenses. Accordingly, an analysis of the potential tax savings should still be conducted.

Conclusion

The decision of whether to create a family office or not goes well beyond the financial impact. If the family dynamics and administrative needs warrant the exploration of establishing a formal structure to help manage the family's assets, a few key characteristics stand out as drivers of the ultimate tax savings that the family office structure may afford:

– Amount of ordinary income generated by the investments (all else equal, a dollar of ordinary income allocated to the family office has a greater tax benefit than a dollar of income taxed at long-term capital gains/qualified dividends rates).

– Amount of private fund investments (these assets tend to have higher fees, which can be paid through the family office to offset income allocated to the family office)

– Amount of other business-related expenses the family office may incur, such as salaries, rent and equipment.

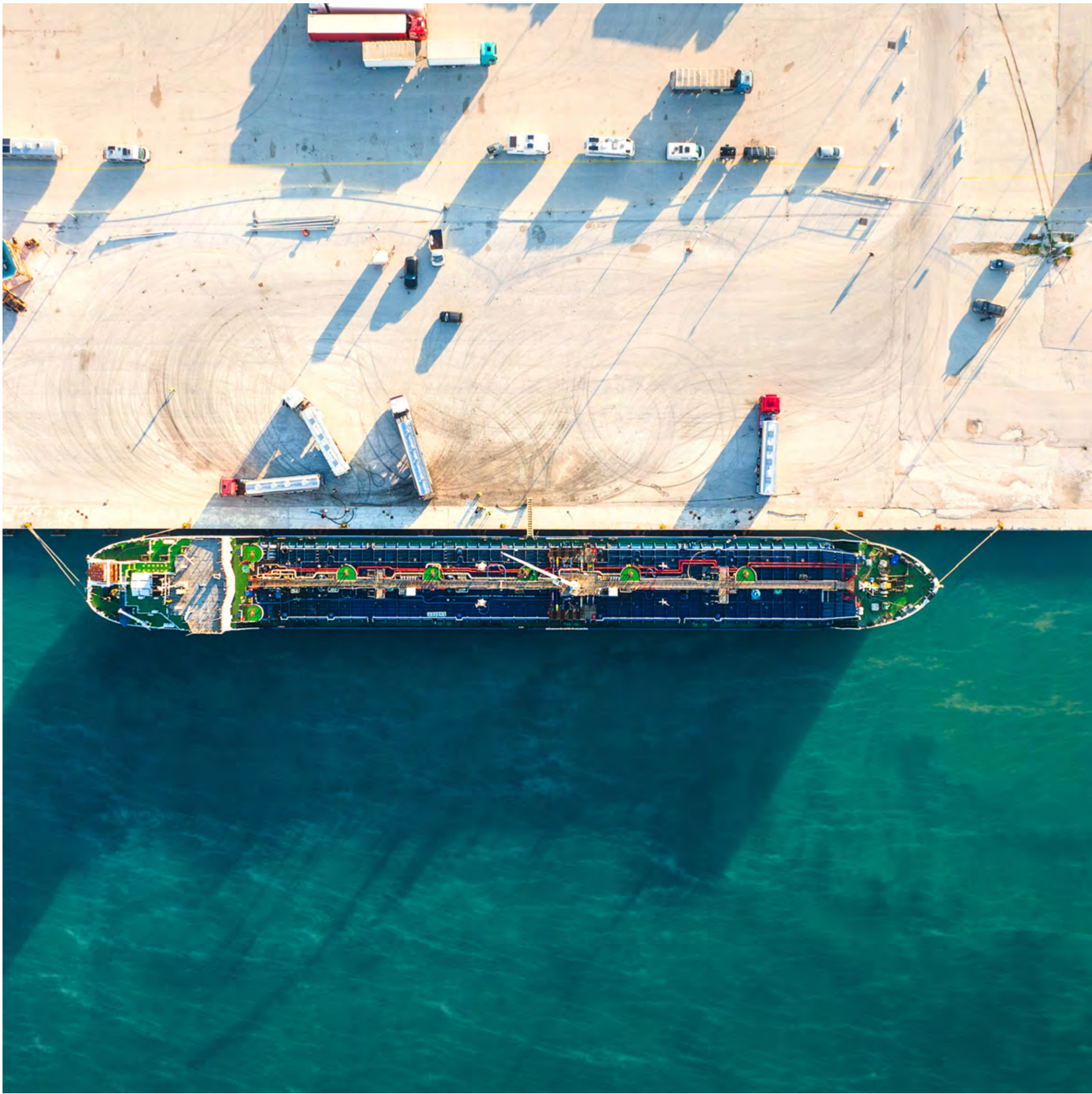
– Income tax jurisdiction of the family, family trusts and the family office itself (all else equal, a higher state tax rate increases the benefit of setting up the family office structure vs. not setting up the family office).

As the examples above show, the specifics of the family will dictate how large of an impact any one factor will have on the family's decision to establish a family office. Working closely with a team of advisors highly experienced in weighing the various considerations can help the family make an informed decision.

Important note: This feature within the Family Office Quarterly is not intended for use by, or to provide any information to, persons outside of the United States.

Beyond investments

Family office risk management for direct investments



DENTONS

Brian E. Raftery
Partner
Trusts, Estates and Wealth Preservation
Global Co-Chair
Family Office and High Net Worth
Dentons

Family offices have traditionally invested indirectly through funds and investment managers. However, a trend in recent years toward direct investments by family offices—whether in real estate, infrastructure or private equity—has continued unabated. The ability to make direct investments can be very attractive to family members and those running family office investment portfolios. However, as direct investments can be complex, illiquid and risky single-asset investments with no guarantee of outperforming funds or public investments, they require skilled investment management resources for success.

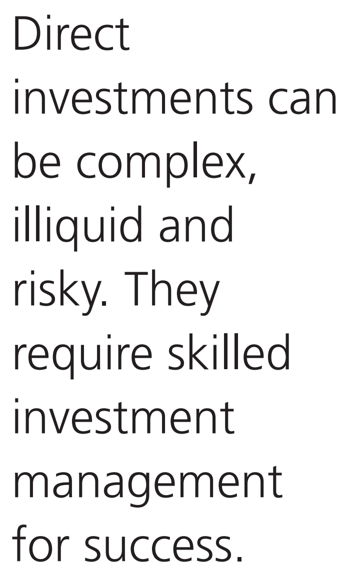
This article explores some key risks to be navigated in the current climate.

The challenges of direct investing for family offices

While direct investments can offer 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 determining market and regulatory intelligence to identifying suitable opportunities, agreeing to terms, then managing the direct investment through to exit routes and realizing gains, direct investments can be very demanding.

There are at least nine hurdles family offices face when going direct:

- Operational risk
- Deal flow quality
- Control of exit options
- Time management
- Ability to conduct thorough due diligence
- Fees and costs
- Legal and regulatory issues
- Alignment with family mission and portfolio goals
- Investment amount requirements



Family office size is an important factor in direct investing challenges. Large single family offices ("SFOs") with over $1 billion in assets are more likely than smaller ones to see obtaining high-quality deal flow and having too much operational risk as the biggest challenges. It may be the case for larger SFOs that deal flow is a critical issue because more in assets needs to be allocated to suitable opportunities. In contrast, for SFOs with less than $250 million in assets, having control of exit options can be one of the the biggest challenges, followed by managing fees and costs. Small SFOs are also more likely to find high minimum investment amounts a challenge.

From a legal perspective, the biggest challenges of direct investing for our clients and contacts are due diligence issues. Structuring investments is also an obstacle for families, while a significant number say that tax and estate planning is a difficulty. While there are regional differences on legal challenges, overall, family members and smaller SFOs are more likely to see tax and estate planning as a key legal hinderance. For the largest SFOs, most put litigation risk as one of the most arduous aspects of direct investing.

Avoiding pitfalls on the path to going direct

Family offices are typically quite different in their objectives, design, operations and impact on their environs from other types of business and institutions as their creation often results from the sale of a privately held business or similar liquidity event.

For many families, the business exit and the ensuing transition from predominately owning and operating a commercial enterprise or real estate to passive, indirect ownership of a portfolio of less familiar asset classes is challenging, both conceptually and practically.

This is because some wealth creators and stewards expect higher returns and prefer more direct ownership and control than what a portfolio of listed securities and managed funds can provide. They may crave the stimulation and potential for outsized return on investment that directly owning and operating a business offers, and therefore favor direct investing after an exit.

While that approach may fulfill the natural human instincts of entrepreneurial family members, it can defeat many of the purposes for which the family office was set up—for example, diversification, liquidity, reducing key-person risk, smoothing out returns, downside risk protection and liberating the family to do other things. Direct investment may also be inconsistent with the family office's investment governance structure, investment policy statement and the views of hired investment advisors.

However, it need not be that way, and directly held investments can be a high-performing component of a responsible family office asset allocation strategy. With a clear strategy, advice, research, systems, processes, protocols and procedures in place, many of the aforementioned issues can be managed. Engagement with, and sharing intel among, other family offices and sector experts is a good starting point.

Global M&A in 2023

The global M&A topography has become increasingly jagged, as recession, inflation and geopolitics place a pause on transactions. But that same lull appeals to visionary companies and financial sponsors eager to take advantage of decreased valuations. In a recent Dentons global M&A survey, *The shifting tides of cross-border M&A*, over a third of executives in the US and Canada and 40% outside North America expect the volume of near-term cross-border M&A to increase compared with the prior year. Within the realm of acquisitions, the technology, media and telecommunications sectors are currently seen as most attractive. However, these visionaries remain alert in managing cross-border and growth-capital investment risk as inflation and stricter protections on foreign direct investment may negatively impact their investment strategies.

These family enterprises, concerned about keeping all of their "eggs in one basket" (or in one business, one country or one currency), are increasing their exposure to equity, venture capital and real estate, mainly in Europe and the US. It is not surprising that the main drivers of cross-border M&A transactions in the coming months will include expansion into new growth markets and scaling up to become more competitive.

Adding to the complexity of the current business landscape, executives and family enterprises anticipate that guidelines involving ESG (environment, social and governance) and sustainability principles will heavily impact cross-border M&A decisions going forward. However, addressing the ESG agenda need not be a daunting task, as investors can work on closing the gaps in ESG strategies and cultures between the buying and selling entities.

On an overall positive note, two-thirds of respondents based outside of North America cite the US as being one of the most appealing regions for buy-side, cross-border M&A activity, leaping ahead of other markets. Conversely, US and Canadian respondents emphasize opportunities in Eastern Europe (47%). In particular, we have found that families in Africa, Asia and Middle East/North Africa are increasingly seeking to diversify their wealth beyond their family businesses.

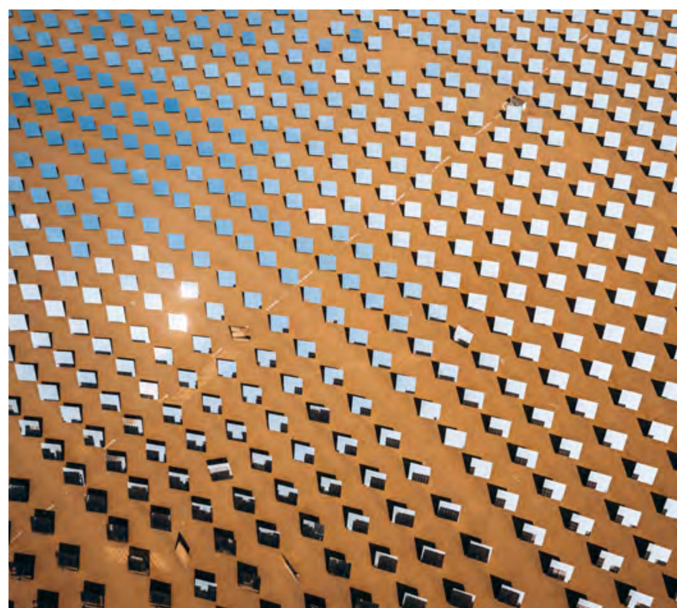
Trends to consider in regulatory, legal and political affairs

The impact of current geopolitical disruptions, tumultuous economic markets and stepped-up restrictions imposed by regulatory authorities are directly affecting family office investment dynamics. The war in Ukraine was a defining geopolitical challenge in 2022 that continues well into 2023, as tensions spiral between Russia and the West. Additionally, the left-leaning governments of Latin American countries that dominate the world's supply of certain agricultural products and the extraction of green minerals will impact global markets. The global rise in inflation may lead to political instability in certain countries.

It is also a fact that our globally connected economy is locally driven. As China and the West continue to decouple their economic strategies, we will experience a seesaw effect in trade policies. The change in the composition of the US Congress, post the midterm elections, and in the regulatory framework relating to valuation, securities lending, special purpose acquisition companies (SPACs) and cyber security disclosures, among others, as well as the uncertain outcome of the US debt ceiling negotiations will evoke concerns globally.

During this period of geopolitical and macroeconomic 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 worldwide who have shared their front-line perspectives on the direct-investment climate, private market opportunities—appropriately accessed, presented, valued, structured and diligence—are playing a growing and competitive role in a diversified portfolio. More than ever, family offices and their partnering organizations need to leverage broad internal and external expertise to deploy liquidity, maximize downside protection and create value amid rapid change.

On the environmental front, we anticipate ESG regulations and growing controversy around the form of ESG mandates, to ramp up in many regions, improving sustainability and reducing greenwashing while also confronting uneven government mandates.



Conclusion

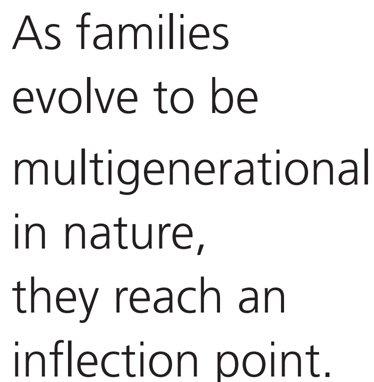
A global economy roiled by geopolitical, economic and regulatory transformations in 2023 undoubtedly will present challenges for family capital, but well-positioned planning also will allow capture of some dynamic opportunities. Family offices attentive to the factors driving global volatility will be better able to determine when to avoid risk and when to embrace it. Robust diligence, creative investment vehicle architecture and strategic engagement grounded in the confidence of executing against an advised plan already is allowing family offices investors to navigate the new investment climate.

The evolution of the family investment committee

Mark R. Tepsich
Family Office Design
and Governance Strategist
UBS Family Office Solutions

A family office should look to enhance family connection, facilitate communication, administer the family governance framework and promote financial literacy initiatives. Our recent publication, *Family Matters: The Family Focused Family Office*, sets out the idea that, in addition to financial administration, these functions should be part of helping to support family development, both individually and collectively.

When the first-generation wealth creator controls and makes all decisions, governance is an afterthought. This dynamic can result in a lack of professionalized investment management. As families evolve to be multigenerational in nature, they reach an inflection point. These inflection points often highlight the need for a more coordinated communication function, decision-making mechanism and forum to bring the family together. When family ownership and leadership roles are transitioned to the next generation, family members must have experiences that prepare them for these roles. Family governance is often not built to support family member development to meet these challenges and opportunities.



Here, we discuss how to leverage the family investment committee (IC) as a part of supporting these broader family initiatives. This discussion is relevant for multigenerational families looking to evolve their governance practices.

In this article, we will cover:

- Role and overview of the Family Investment Committee
- Status quo investment committee
- Evolution of the family investment committee
- Family office role in evolution

To begin, it is helpful to briefly understand the role of the family investment committee and how the current status quo family investment function often operates.

Role and overview of the family investment committee

The family investment committee provides oversight and monitoring of stakeholders who are delegated with implementing investment policy. The family office staff, as well as external investment advisors, are those stakeholders who are often delegated execution of the investment strategy. The investment committee develops the investment strategy, often in discussions with the family office and external investment advisors, and memorialized in a well-thought-out investment policy statement (IPS).

Additional investment committee responsibilities, in collaboration with the family office staff, include:

- Choice of external investment advisors, often through an RFP process
- Review and negotiation of advisory fees
- Review and choice of custody platforms
- Termination of investment advisors

The family office often has responsibility for:

- Due diligence and monitoring of direct investments
- Relationship management and oversight of external investment advisors
- Facilitating meetings and agenda setting of the family investment committee
- Data gathering and reporting
- Overall risk monitoring of entire family investment portfolio

The external investment advisors often have responsibility for:

- Implementation and execution of the non-direct investment strategy
- Third-party investment manager due diligence, selection and monitoring
- Capital movement and custody
- Portfolio rebalancing, often at the direction of or in consultation with the family office staff
- Collaborative and active due diligence on direct investments with family office staff

In practice, the division of both operational and oversight responsibilities, between the investment committee, family office staff and external investment advisors, becomes blurred. Discussion of this dynamic, while important, is reserved for another time.

Family investment portfolio

Each family structures their investment portfolios according to their own unique needs, goals and objectives and then chooses a strategy to meet those goals. Often there are several commingled partnerships and each asset class has its own dedicated partnership or LLC. These commingled investment partnerships are often designed to take advantage of the family's scale. Each family member often has the flexibility to make investments as they see fit. This flexibility includes choosing investment allocations or allocating to specific and unique direct investments.

The investment horizons of the investment portfolio are often multigenerational and perpetual in nature, in the sense that the capital will outlast all living generations. These commingled partnerships are also where the investment committee becomes relevant in providing oversight.

Status quo investment committee

Here, the current family investment governance structure is termed the status quo investment committee. Since the portfolio often begins with distributions from the family business, it can be an afterthought compared to the active business operations that comprise most of the family wealth. Further, because it is often deemed an extension of the family business, there is often no IPS or well-thought-out investment strategy. Since the family business is where most of the concentrated risk resides, the portfolio often takes much less risk and is viewed as the "safe money."

Because the portfolio is often seen as an extension of the family business, the investment committee, if there is one, is often comprised exclusively of senior family leadership, who are often the same family leaders in the family business. This is often based on years, if not decades, of family practice.

The investment committee often meets to receive updates on investment performance from the family office staff or external investment advisors, make a decision if necessary and then disbands. At times, meetings are cancelled and updates from the investment advisors or family office staff are e-mailed to the investment committee. The investment committee often has limited communications with the broader family, and its decisions, with respect to its rationale, are not shared. So, how the investment committee is granted authority and discretion and how it is judged on holding others accountable for performance, is not well defined.

Results of the status quo investment committee:

- Not professionalized
- Exclusionary in composition and practice
- Not built for family member development
- Lack of family alignment
- Lack of trust

The result of the status quo dynamic is that the family investment function often lacks professionalization. This is because there is no clear, well-defined role or authority among the stakeholders. There is often no well-thought-out investment policy or process, which often means the goals or purpose of the family investment portfolio is also not clearly defined. Often it is not until the portfolio grows to a sufficient size or the family business is stabilized that the investment management function comes into greater focus.

The status quo investment committee is not built to support family member development. The investment committee is a body that is exclusive by nature, whether by default or by design. When a broad swath of the family does not participate or have a voice in the family enterprise, it can lead to disengagement or even antagonistic relationships among the broader family. These family governance practices in effect tell family members that they do not have a role within the family as a future leader or even as a co-owner. This dynamic thwarts the motivation of next generation family members, particularly those who are not in the narrow family leadership circle.

These family leaders have often sat in their roles for decades, while the next generation does not get an opportunity to exercise responsibility for the family enterprise until much later in life, if ever. At times, when the next generation's opportunity arises, it is too late and they do not care to be involved in family governance. Cutting off avenues to learning, participating and collaborating from the broader family does not allow family members the opportunity to develop.

If the next generation are not being offered a seat on the investment committee, they are not being taught how to be competent or responsible with respect to investment management. Additionally, they are not having the experiences that will prepare them to be collaborative with other family members in a shared decision-making environment.

Further, when the senior leadership investment committee makes decisions, whether that's on the portfolio or acquiring businesses or making direct investments, it is the senior leadership designing the future balance sheet that the next generation will have to live and operate within. In essence, the senior leadership is designing the future enterprise reality for the next generation, without their insight or voice.

Lack of family alignment can also result from non-participative family governance. Here, family alignment is generally agreeing and understanding the family purpose, shared goals and objectives of the portfolio. When family members have never been exposed to seeing values applied in practice, or rationales explained, then lack of alignment results. Family alignment is important when there are shared assets or resources, such as a family business or family office.

A lack of transparency also tends to breed a lack of trust. Decisions made in a black box without their rationale being explained result in a breakdown in trust. This in turn can lead to fractured family relationships and family members redeeming their capital and exiting the family office.

To note, these are all general observations; families will experience more or fewer challenges with respect to their family governance practices.

Evolution of the family investment committee

Professionalizing investment management
First and foremost, the investment committee should seek to professionalize the family's investment management function. If the family investment committee is focused on its role as an oversight body, rather than an operational body, it will delegate the investment management execution function to professionals. In providing oversight, the investment committee will monitor those investment professionals. Defining stakeholder responsibilities and delegating accordingly enhances role clarity.

Incorporating key behaviors in design process, operations and investment committee meetings
The design and build as well as the operational dynamics of the investment committee should deliberately incorporate principles and behaviors to foster inclusivity, collaboration and transparency. These principles and behaviors should enhance professionalism, governance relevancy and serve to develop family members. Collaborating with each other and other stakeholders serves to educate and develop all family members. Transparent practices help inform the broader family as to how the investment committee makes decisions. This should lead to family members having greater confidence in their investment function.

The goal is not to create investment professionals; it is to create sufficient competency that the family has insight and understanding of the investment management process. This should also result in family members who can hold others accountable for their performance, which is a key element of effective ownership.

> The investment committee design and build should incorporate principles to foster inclusivity, collaboration and transparency.

Incorporating principles and behaviors that foster inclusivity, collaboration and transparency results in a family that is more capable of making thoughtful decisions together. Family social capital is strengthened through collaborative environments and through shared decision-making. A greater number of family members should also become more confident in how to navigate the future enterprise, individually and collectively.

Governance horizon
In finance, assets must generally match the goals and purpose for which they will be used. With respect to family governance, when a portfolio, business and foundation are to last generations, the younger generation should be incorporated into family governance bodies that match the horizon of the family enterprise.

Enterprise literacy
The family investment portfolio provides a window into other parts of the family enterprise and how they are linked together. To illustrate, the family investment portfolio is often comprised of family business distributions or from its partial or total liquidity event. The investment committee is often deeply involved in conversations with family business leaders about reinvesting proceeds in the business or distributing them into the family investment portfolio.

The investment committee must also be aware of the amount and timing of family business distributions. This is crucial as the family looks to allocate investment capital. The investment committee also needs to understand how portfolio outflows affect investment compounding. Trust structures must also be sufficiently understood in order to determine appropriate asset location. These conversations touch upon income taxation, especially in light of any potential transactions. In short, the family investment committee sits at the nexus of the business, portfolio, fiduciary, family consumption and taxation issues, to name a few. This nexus also incorporates the understanding of goals for each part of the enterprise.

Trust and alignment
Trust often results when the investment committee is collaborative, participative, inclusive and transparent. The family becomes more trusting when a broader set of family members participate in family governance. Inclusion in governance bodies also says the family trusts the members to act responsibly toward furthering the family's shared vision, mission, goals and objectives. Family alignment is enhanced as the governance evolution fosters participation and seeks a wider perspective of voices.

Process of designing the family investment committee

Design and build process

One of the most important elements of evolving the investment committee is the design process. This process enhances buy-in when it is collaborative and gives family members a voice. The collaborative nature will serve to make an investment committee that is relevant and sustainable, as it will match the goals and objectives of the broader family, not just a narrow subset. If the design process is not inclusive or transparent, then the investment committee risks being irrelevant, illegitimate and not sustainable. The collaborative design process will also serve to develop family members in their shared decision-making skills.

Phase 1: Creating a Working Committee

The initial step is choosing a small cohort of the family to represent and speak for all relevant family branches and senior leadership, as well as the next generation. Known as the Working Committee, this cohort should be chosen by the broader family to represent them during the design process. The composition of the working committee and the eventual makeup of the investment committee may have significant overlap, depending on the size of the family.

Phase 2: Gathering best practices

Before the working committee starts the design process, they must understand how an effective investment committee operates, its purpose, composition, role and authority. Understanding best practices will serve to inform the design process. This period can be facilitated by a cross-section of the family office and external investment advisors.

Phase 3: Design and build

At the end of the prior stage, a regular working committee cadence can be established, with defined agendas to keep meetings efficient. At regular intervals, but not more than necessary, the working committee can facilitate a meeting, even if virtual, to update the broader family on the work that has been done to date. This update might only need to happen once or twice, but only after a fair amount of work has occurred each time. These updates help ensure that the design is relevant and allow for course corrections as needed rather than waiting until the entire investment committee is designed and built. They also ensure a transparent process.

Considerations during the design phase

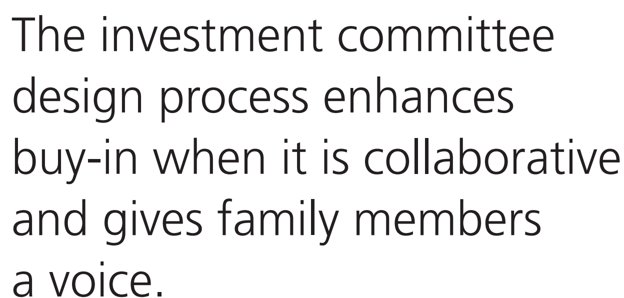
Role clarity

Role clarity helps everyone know their responsibilities and function. This includes where the investment committee derives its authority, what that authority is, who it is accountable to, and what and how it can delegate. Without a clear definition of roles, it is hard to hold parties accountable for their performance. In short, it is about deciding who does what, enhancing role clarity for family office staff and external investment advisors. It is also important to consider and define how the investment committee is legally structured among and between the family office, trust structures and overall family governance system.

Investment committee composition

One key consideration is the investment committee makeup. This includes the number of committee members, who they represent, how they are chosen, as well as their terms, removal and replacement.

To keep the investment committee collaborative, it should seek to have an upper limit on the size of its membership, such as no more than eight or nine individuals. The committee should represent the broader family, including representatives from both senior family leadership and family members outside of the current status quo across all family branches and generations.



The role of an observer can be incorporated if necessary. An observer is someone who can attend meetings but not vote. This option is often incorporated as a way to be more inclusive but also to gradually transition family members onto the investment committee, where they can become fully participating members. This role should have a definite end date and defined goal of fostering a more informed investment committee member before they assume a participating role.

Investment committee seats should not be permanent. Terms should be staggered to enhance continuity of the investment committee. They should be of sufficient duration so that committee members can be exposed to a longer view of the market cycle. Longer terms also promote longer-term thinking.

With respect to minimum ages, unless there is a very good reason, there should be a presumption that younger family members can participate on the investment committee. This presumption should lead to putting family members in positions of responsibility earlier to give them a longer opportunity to develop.

Investment committee member onboarding

If the status quo investment committee does not have an onboarding process, the family-focused investment committee has a deliberate process. The onboarding process serves to inform members of recent investment committee decisions and their rationale, as well as the role and responsibility of all stakeholders. It should seek to aid family members in understanding the purpose and goal of the family portfolio and how it is constructed.

For example, the onboarding process could combine discussions with family office staff and external investment advisors, as well as with the external investment committee member. Short, university-sponsored programs focused on private wealth for families can give new members an overview of investment basics. External consultants can also be leveraged to provide a short and tailored investment curriculum to family members. The goal of onboarding is to prepare the relevant family member to be able to participate in an informed discussion focused on investment management.

Investment policy statement

The IPS is the foundational document that professionalizes the family investment management function. In designing an IPS, the purpose of the portfolio, time horizon, risk level, asset allocation ranges, any concentrated positions and tax status should be defined. Additional components include rebalancing frequency, liquidity constraints and any planned portfolio distributions.

The IPS is often drafted by the investment committee, with the assistance of third parties such as the family office or other external consultant or it is drafted by a family governance body from which the investment committee derives its authority. The investment committee is then tasked with monitoring, reviewing and holding the family office staff and external investment advisors accountable in how well they implement sound investment strategy based on the investment policy.

The IPS should be collaboratively designed, which fosters greater understanding of those who participate in the process. The value of the IPS is that it provides a road map to guide the investment committee in the decisions it needs to make when confronted with various market environments. The IPS should be fully explained to the broader family. The IPS should also enhance broader family confidence in its investment function and strategy. An adequate discussion of the IPS is beyond the scope of this paper.

Independent investment professional

Many families made their wealth not in the financial markets, but from an operating business. This means it may be necessary to incorporate an independent and unconflicted investment professional from outside the family to be part of the investment committee. This person should be chosen by the investment committee and not sourced from the family's existing social network, to avoid a risk of the person being viewed as conflicted by prior family relationships. This person often serves as the unofficial arbiter in family debates regarding the investment portfolio. In addition, this professional enriches the discussion regarding the investment portfolio, with the benefit of making family members better investors. This professional will also help hold the family office staff and external investment advisors accountable.

Investment committee chair

The investment committee should also incorporate the role of chairperson. This person would lead and organize the discussions, often in coordination with the family

office staff, and would serve as the investment committee spokesperson with respect to other stakeholders and advisors. The chair is a leadership role and should be looked at as an opportunity to develop family members. The chair role should rotate at regular intervals.

Post design and build: Operating environment and meetings

In designing the investment committee, keep in mind that what is being built is a social environment. Making the investment committee design and build, as well as the investment committee meetings and operations transparent, should enhance understanding by all family members of the investment committee's role and responsibilities; it should also help them know how the portfolio is constructed and its goals and objectives.

Pre-meeting: agenda, objectives
Each investment committee meeting should have a defined agenda with objectives. Information and materials to be discussed should be sent to the investment committee well in advance of each meeting to allow for more robust discussion. In short, all members should come prepared to discuss the agenda.

Meetings: learning, collaboration
Each meeting can be an opportunity to develop family members, individually and collectively. The goal of each meeting should be to foster participation and collaboration among all parties. Each meeting should have a list of decisions to be considered.

In addition, each meeting should incorporate intentional learning objectives that are relevant to the conversation regarding the investment portfolio. Much of the learning will come from the collaborative environment and from family members, family office staff, external investment advisors, as well as the independent investment committee professionals all participating in the discussion.

For example, the conversation could include:

– Why a specific manager was chosen for an allocation
– How market fluctuations are impacting the portfolio
– Having a specific investment manager join the call to discuss their investment process and how they are viewing the investment opportunity set
– How moves being made are reducing risk and achieving diversification

While the family office staff and external investment advisors will still provide typical updates, additional time can be allotted to focus on collaborative discussions.

Post-meeting: distribution of information
Post-meeting, information relied upon and discussed, as well as decisions made during the meeting should be transmitted in written form to the broader family. This could include minutes of the investment committee meeting, as well as a summary of performance updates. This helps create a more transparent governance body.

Summary of the design and post-design phase

Investment committee charter
While drafted and adopted during the design phase, the investment committee, its purpose and goals, and how it operates in practice should be memorialized in a charter. This would include the authority and discretion of the investment committee, as well as how and where it derives its authority. The investment committee should also define the investment committee meeting process.

Typical investment committee charter provisions include:

- Purpose of the investment committee (i.e., professionalized investment management and developmental body)
- Desired behaviors (i.e., collaborative, participative, inclusive, etc.)
- Role and authority among stakeholders
- Composition of the investment committee
- Decision-making and voting
- Family branch representation
- Schedule of meetings and ideal meeting process
- Conflict of interest policy

Family office role

While much of the above is general and not specific, that is the intent. Each family should discuss and decide what is appropriate for them. The investment committee design should not be off-the-shelf. However, this does not mean that there should be a completely blank slate in its design and build. Indeed, the family office can inform the discussions and present options, so that the investment committee can have productive meetings and make decisions. The family office can facilitate the work of the working committee, helping to schedule meetings, as well as build meeting agendas. It can communicate with the broader family on the design and build. The family office can also take the lead in drafting documents that result from investment committee discussions. Whatever the design chosen, it must be through an inclusive, transparent and collaborative process and the investment committee itself must not be an artifice to perpetuate the status quo.

The family office can also support more robust operations of the investment committee both prior to, during and post meetings. The family office can help keep the family investment committee meeting consistently throughout the year, from creating a meeting calendar, building agendas and gathering materials before the meeting for the committee to review. Additional support can include data gathering, as well as analysis to help support the investment committee in their decisions. The family office can and should also play a role in enhancing communications between the investment committee and the broader family. Additionally, the family office should play a role in communicating with the external investment advisors in furthering the work of the investment committee.

> Each family should discuss and decide what is appropriate for them. The investment committee design should not be off-the-shelf.

Challenges to evolving the family investment committee

Evolving the family investment committee remains a challenge for a variety of reasons. Disrupting long practiced governance dynamics is challenging. For the family office executive, there is the question of how to broach this governance evolution with the family, specifically, if parts of the family are reluctant to change.

At times, the senior family members practice command-and-control style leadership. Other times, they may be protective, attempting to alleviate any burden they think the next generation might not be ready for. Other times, they may be both protective and fearful, working to shield the next generation from the family enterprise, often thinking that exposing the next generation to wealth will disrupt their intrinsic motivation. At times, the challenge is that family leadership does not know how to develop the next generation.

The next generation may also be reluctant, unsure of what new responsibility might entail, out of fear or apathy. Other times, the next generation clamors for insight into the family enterprise, a change in governance practices, a voice and seat at the table to contribute. Because of all of these dynamics, the senior leadership often looks to the family office executive to engage and help prepare the next generation.

In attempting to evolve family governance practices, the entire family must understand the complete process and its rationale. All family members must be aligned with the goal of authentic change and all family members, particularly the senior generation, must be on board with the evolution. Without family member buy-in, actual change will be difficult to implement. The family needs to understand that the repositioning of the investment committee, as well as its benefits, is not a quick fix.

However, it becomes challenging for the family office executive to evolve governance practices while also managing the disparate interests of various family stakeholders. If the family dynamic is too sensitive or fraught, it is often prudent to engage a neutral third party, chosen by the broader family, to facilitate these governance conversations. This neutral party has the ability to have more frank conversations with the family than is often possible with the family office executive. The process is often the same highly collaborative process as described above.

Practical challenges
There are of course practical challenges that include the additional time it will take to build and operate the investment committee. However, the investment committee can be designed in less than a year and then quarterly committee meetings can follow with the annual or semiannual update to the broader family. The extra time spent during the process is valuable, as it should make the governance body more relevant and better positioned to meet the demands of the future. These can include geographic dispersion, disparate time zones and achieving alignment with often dozens of family members who may have a tenuous connection to each other.

Also, the family's engagement with the investment committee will ebb and flow. At times there will be high engagement, often on the heels of market volatility. Other times the family will be disengaged because of family business initiatives or other life events. Not every meeting will yield a breakthrough in family dynamics or create more sophisticated investment thinking. However, every meeting, over time, will serve to advance the family. Over time, the family should become more collaborative, understand the investment process and be better positioned to meet challenges and seize opportunities.

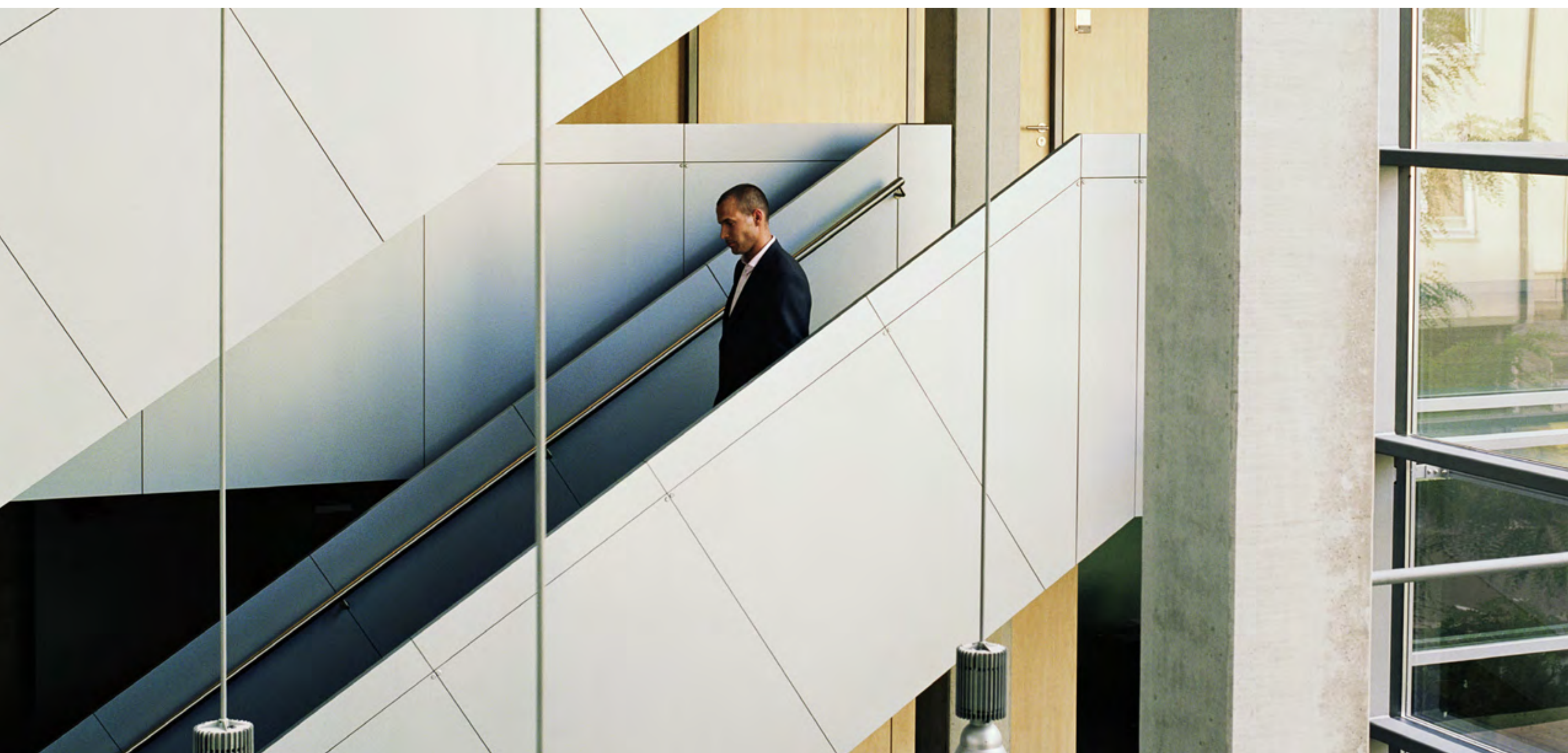
Summary

The evolution of the family investment committee should be driven by collaborative, participatory and transparent behaviors. These behaviors should result, over time, in a family that is more informed and confident in their investment management process and in a governance body that is designed to support family member development.

The evolution of the family investment committee, as well as other governance practices, should coincide with a more robust evolution. Perhaps this means that the family collaboratively designs and memorializes a family constitution. Governance must evolve across the balance of the family enterprise if the family is to create confident and effective family members who are capable of being co-owners, as well as of holding others accountable.

Progress, from the initial design to the ongoing collaboration and meetings, should be measured in years, not days or months. Governance is never static, and progress is never final as the family and its enterprise will forever evolve. While optimizing governance won't solve every challenge, it is a significant factor in the family's overall resilience over time.

If the family investment committee can help drive outcomes such as enhancing communication, strengthening family connections, developing financial literacy and fostering family development, why can't other family governing bodies be leveraged to do the same?



Operational excellence

Modern household management

NINES

Jacco de Bruijn
Co-founder and CEO
Nines

How to escape the wealth spiral and live the life you imagine

Your family office is focused on a wide range of priorities: the family's wealth, their assets, their properties, maybe a charitable foundation. It's hard to imagine questions about housekeeping and property maintenance becoming a major pull on your time and resources. Yet because most family offices oversee multiple homes for the families they support, the challenges of household management tend to demand more attention than you might expect.

At the same time, these challenges affect the family most acutely. Most people equate a certain level of wealth with an easier lifestyle. In reality, wealth adds complexity to everyday life, kicking off a wealth spiral.

> The more properties a family acquires, the more people they need to manage it all—and over time, the family starts to feel that their lives at home are in a constant state of chaos.

How a wealth spiral starts

Families invest in high-end properties, with luxury features and commercial-grade home systems. Then, because they don't have the time, desire or even the know-how to manage these properties and everything that comes with them, they hire vendors and household staff to help. But it can be difficult to find trusted staff and vendors. Hiring and retaining top talent is expensive, and it takes a lot of training and communication to onboard new team members. When someone leaves, it can be painful to start over.

The more properties and assets a family acquires, the more people they need to manage it all—and over time, the family starts to feel that their lives at home are in a constant state of chaos.

It's no surprise that families want to lean on their family offices for support in managing their properties, their assets and their household staff. While this may not seem like a top priority for family office executives, it's a beneficial opportunity for two reasons:

1. The family's holistic success and well-being. The families you support expect to rest easy knowing their wealth is well-managed, but the everyday frustrations that come with owning complex homes often get in the way of the lifestyle they imagined. Bringing a high level of structure to the family's properties, assets and household employees empowers them to live well and enjoy their success.
2. Comprehensive risk mitigation. During the wealth spiral, it's easy to start managing things casually, especially at home. A family's wealth might seem protected, but failing to approach household employment, property management and asset maintenance with care and professionalism can lead to serious risk.

The question is, how can a family office bring a sense of ease to the family's everyday lives in an efficient, cost-effective way?

Modern household management

We believe that with the right people and the right systems in place, it's possible to streamline household operations without taking too much of the family office team's time and attention. The key is to bring professional processes and efficiencies to every area of household management, such as household staffing and project management.

In the next section, we'll explore modern household management strategies and best practices that will help your family office and household staff members save time, prevent challenges, reduce risk and improve the lives of the family.

Professional household staffing and employment

Hiring and retaining household staff is one of the most common challenges for families at every stage of the wealth spiral.

For example, someone who's recently had a wealth event might immediately buy a new property, then hire a housekeeper and a property manager to help maintain it. Meanwhile, a family who's been building their wealth slowly over decades may have a household staff of several team members that's grown and evolved over time.

> Managing household staff the right way has a profound impact on the family's everyday lifestyle.

In both cases, it's easy to make the mistake of handling staffing too casually. The individual who's hiring household staff for the first time might not understand the implications of becoming a household employer. The family whose team has grown over time may not have set up the right structure from the beginning, leading the current org chart to feel like a disorganized—and entrenched—Wild West.

Missteps when it comes to household staffing are riddled with risk. Families might pay an employee in cash, ask the wrong question during an interview or forget to sign up for workers' compensation insurance, without thinking about the potential financial, legal and reputational consequences.

Perhaps even more importantly, managing household staff the right way has a profound impact on the family's everyday lifestyle. Household staff members interact with the family every single day in their most vulnerable and private environments. They have the power to enhance the family's comfort and well-being, as well as the ability to undermine that peace when things go wrong.

Successful household staffing requires two main components:

1. A foundation of professional employment practices.
2. A supportive approach to help private service professionals thrive in their roles.

By starting with a foundation of professional employment practices, you protect the family from risk and show household employees that you care about them as well as the family. This foundation should include fair and compliant HR practices for every part of the employment relationship, including:

- Hiring
- Payroll
- Insurance
- Benefits
- Termination

Beyond that foundation, family offices that invest in helping private service professionals thrive in their roles stand to reduce turnover, which is costly and disruptive to the family, and create strong working relationships between the family and their household staff.

Families and the private service professionals who support them both want long-term relationships. Families want continuity and feel a sense of familiarity with tenured staff members. Meanwhile, staff members want to grow in their roles and make a meaningful impact on the lives of their principals.

Best practices for hiring and retaining high performing private service professionals include:

- Clearly outlining job responsibilities and expectations, so everyone is on the same page about roles, responsibilities and metrics for success
- Investing in onboarding and training, so staff members are set up for success from the beginning
- Creating feedback loops and clear lines of reporting and communication
- Setting up a go-to place to find information and answers to questions
- Implementing a competitive strategy for compensation and benefits, so you can retain top performers and reduce turnover
- Supporting staff members with professional development opportunities, like workshops and courses
- Fostering a healthy, positive culture for everyone involved in the household
- Equipping staff members with the tools, knowledge and support they need to be successful

The last bullet point leads us to the next section, where we'll cover the following best practices around estate management systems. Staff should be empowered to use their time efficiently and focus on the projects that improve their principals' lives. This not only reduces burnout among staff and allows households to retain their best employees, but also optimizes the household's progress without placing an unreasonable burden on household and family office staff.

Streamlined household operations

In the past, the homes of the world's most successful people have run on spreadsheets and paper "house manuals"—binders filled with property information, contact lists and emergency protocols. Household managers wrote out task lists for housekeepers and property managers and kept endless notes on vendor communications in a number of different places.

The most tech savvy estate managers cobbled together solutions with a number of different tools, from Google Drive folders and calendars to generic project management tools—and all of them kept a huge amount of the household's important information in their heads.

The old way of managing these complex households simply cannot keep up with the project management needs of today. A household manager who's drowning in spreadsheets and a number of cobbled-together tools can't find the answers they need when they're on the go, and a binder quickly becomes outdated.

Meanwhile, the family needs a way of understanding what's being done on their properties and who's responsible, rather than looking around and wondering: "We have all these people here, what are they doing?"

Increasingly, high-end households are trading the old way of managing their homes for a centralized estate management platform that's cloud-based, dynamic and built specifically for complex households and the private service professionals who support them.

Organizing the household's information in one easy-access place and streamlining how the team manages tasks and projects allows the family, the family office and the household staff's leadership team to:

- Hold household staff accountable without having to micromanage
- Give everyone a clear understanding of the team's priorities and progress
- Stay updated without the need to check in

And, when the entire team adopts the same process for managing tasks and projects, it allows everyone to save time and automate recurring processes, like annual maintenance, which we'll get into in the next section.

Proactive property and asset maintenance

A family's homes, and the art, furniture, cars, and other valuable or sentimental items within them, play a central role in their lives. In the wake of a wealth event, most people's first purchase is a new home. Some homes are passed down from generation to generation.

Our homes are a reflection of who we are and what we've accomplished, and they give us a place to focus on whatever matters most to us—relaxing, celebrating, spending time with loved ones, entertaining friends, enjoying.

And yet, many families fall short of recognizing their homes and their most valuable assets as investments that need to be maintained and preserved. Failing to get ahead of property and asset maintenance leads to chaos, risk and, sometimes, irreversible damage.

Many high net worth families own complex homes with commercial grade systems for everything from HVAC and AV to landscaping and plumbing. If a household allows regular maintenance tasks to slip through the cracks, they may face regular breakdowns, causing the need for emergency repairs every time they want to enjoy a property—which is both costly and frustrating for everyone involved.

And, in the worst case scenario, falling behind on important maintenance projects can lead to the deterioration of the property or asset damage, which is not only expensive but potentially devastating to the family.

Here's the good news: while every household is unique, 80% of maintenance tasks are recurring. This means that creating regular maintenance plans for properties and assets once will allow teams to save hours in the future.

Simply laying out weekly, monthly and annual maintenance plans for each property and asset will enable you to reduce risk, avoid emergencies and preserve the family's most valuable places and possessions.

> Many families fall short of recognizing their homes and their most valuable assets as investments that need to be maintained and preserved.

Secure team communications

A key element of all of the other best practices we've talked about so far is team communications. How do you share a household's most private information in a secure way? And, how do you preserve the information as staff members come and go?

Of course, one worst case scenario is when a household staff member leaves the family, and their 10 years of institutional knowledge leaves with them, buried in notes and photos on their personal phone.

Setting up secure systems of communication for the family office and the household staff gives the family a historical record, no matter who comes and goes. It allows them to ensure they always have access to key information, such as vendor contact lists and photos of renovation projects.

With the right tools, you and the family can rest assured that the household's most important information is backed up and accessible, and that it won't fall into the wrong hands.

An opportunity for family offices

By bringing professional processes to these key areas of estate management, family offices can calm the chaos and support families in a holistic way.

About the author

Jacco de Bruijn is an experienced technology entrepreneur and the co-founder and CEO of Nines, the household management platform built for managing properties, people and projects all in one place. Jacco works with UHNW families and the advisors and private service professionals who support them, using software to simplify and elevate complex and demanding households.

How family offices compensate their employees

Paul Westall
Co-founder
Agreus Group

Tayyab Mohamed
Co-founder
Agreus Group

Structuring long-term incentive plans and bonuses

Family offices are sophisticated entities that provide services to ultra high net worth families to help them manage financial or nonfinancial matters in their lives. However, due to the private and discrete nature of the industry, family offices often struggle with the concept of compensation.

The dynamics of family offices, the various investments and the small scale of operation have all added to the complexity of designing effective compensation structures for family office employees. As a result, decisions regarding compensation in a family office are often a product of guesswork and emotion rather than research.

As the family office space became more professionalized and institutionalized, the demand for high-calibre investment professionals began to surge. The professionals that family offices require often come from the very benchmarked environment of professional and financial services, and are accustomed to a consistent and competitive compensation structure. In order to attract and retain these professionals, family offices must compensate them to or above the market standard. Family offices worldwide need effective reward and retention strategies to retain key talent.

With this in mind, we created the Global Family Office Compensation Benchmark Report 2023 in collaboration with KPMG Private Enterprise. This report aims to offer a comprehensive set of data on the usually discreet family office space, allowing family offices worldwide to establish a better understanding of how to compensate their employees.

In this article, we will focus on how family offices structure their long-term incentive plans (LTIPs) and bonuses for their employees in 2023.

> Carried interest is gaining popularity as an ideal way to attract and retain key investment employees.

Long-term incentive plans (LTIPs)

We found that in 2023, while 60% of family offices offer discretionary bonuses to their staff, only 23% of the family office professionals receive an LTIP. Among that percentage, the most common form of LTIP offered to family office professionals is carried interest. Carried interest, also known as “carry,” is a common way to compensate investment professionals in the private equity sector. Simply put, carried interest refers to the share of profits received by fund managers. It is now gradually increasing in popularity as a reward and retention incentive in the family office world.

Our Carried Interest 101 report delves into carried interest and explains how it may benefit your family office. We believe that carried interest as an LTIP is highly effective in retaining investment professionals. Carried interest operates in line with the life of the investment fund and its retention effect is particularly pronounced in the family office space. Family offices value longevity and tend to invest in asset classes such as venture capital, real estate and private equity that often require many years to increase in value or exit. In contrast to private equity firms and institutional investors, family offices have a longer time horizon. While the time horizon depends on the life cycle of the family office, generally, family offices seek to hold their investments for much longer periods than institutional

firms and are known to have the luxury of "patient capital"—capital they can choose to deploy whenever they deem appropriate.

Consequently, family offices would expect their investment employees to be loyal and stay for a relatively long period of time. Carried interest is therefore gaining popularity as an ideal way to attract and retain key investment employees in the family office space, especially those with a private equity background.

Other LTIP options

Other popular LTIP options among family offices are co-investing opportunities and stock options. A prevalent LTIP in family offices, co-investing opportunities allow the employee to make investments alongside the family. Key executives will be rewarded with shares or ownership opportunities in selected family ventures and investments. Based on their circumstances, individual executives are typically expected to commit a certain amount of investment as needed. These are often investment opportunities that the employee would not normally have access to. Family office professionals are given an incredible opportunity to generate wealth and as a result, are more motivated to stay in the family office for longer.

Stock options as an LTIP can be done in the form of physical or synthetic equity (also known as phantom equity). The payouts vest over a period of time, often three to five years, depending on the family. The vesting element of stock payments provides a retention incentive and encourages employees to remain in the family office.

An LTIP scheme with clear and correlating key performance indicators can effectively engage employees, align interests and incentivize them to stay within the family office for as long as they can. Senior employees generally place more value on LTIP rewards that directly influence performance and their corresponding returns. Therefore, we recommend that family offices seeking to recruit at a senior professional level incorporate an LTIP in their compensation package.

> Family office professionals are given an incredible opportunity to generate wealth and as a result, are more motivated to stay in the family office for longer.

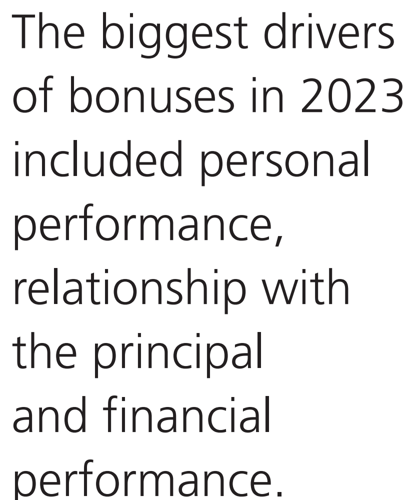
Annual performance bonuses

We found that 80% of family office professionals receive a performance bonus worldwide. Among that percentage, 60% receive a discretionary bonus and 26% receive a formulaic bonus. Bonuses are often aimed at rewarding personal performance or personal contribution by the employee. Consequently, they are often linked to the achievement of a certain target over the performance period and are therefore a great motivating factor for employees.

We found that family offices tend to offer competitive bonuses. According to the responses to our survey, most family office CEOs across the world receive an additional bonus of 21% to 30% of their annual salary, with some walking away with 100% or even 200% of their annual salary in 2023.

As a result of the discreet nature of the industry, family offices tend not to have clearly defined objectives or key performance indicators (KPIs). When awarding bonuses, family offices may consider factors such as financial performance as well as subjective factors, including family member satisfaction and personal relationships within the family office. From the responses we received for our Global Family Office Compensation Benchmark Report 2023, we found the drivers of bonuses to be rather subjective and personal. The biggest drivers of bonuses in 2023 included the personal performance of the employee, their relationship with the principal and financial performance.

A discretionary bonus, as the name suggested, is paid at the discretion of the family office principal. While this gives the family maximum flexibility, it is very unpredictable for the executives and may result in low morale within the family office. The rather subjective and personal assessment of bonus payments also poses the risk of disgruntled employees. The family office space is growing exponentially and will require more high-calibre professionals. However, to attract the most competitive talent, family offices must improve their reward and retention strategy. As the family office space continues to professionalize, we are expecting to see the use of more formalized metrics and objectives in designing a bonus structure.



Concluding notes

Just like in any other organization, people are the greatest assets of a family office. An effective reward and retention strategy combined with a competitive compensation structure will show your employees that you value their hard work and contributions, which is vital to the success and longevity of the family office.

We believe it is important for family offices to familiarize themselves with the compensation benchmark and adjust their compensation structure accordingly. Agreus works exclusively with family offices. We are recognized as an expert in the family office space and provide tailored recruitment and compensation consulting services to family offices worldwide. We understand that it has been very challenging for family offices to access compensation benchmarking data in the industry due to the discreet nature of the industry. Our Global Family Office Compensation Benchmark Report 2023 report covers the key trends on compensation, governance and investment practices in the family office space and provides dedicated benchmark data for each region. The report offers an insightful and helpful guide for family offices that would like to review their compensation structure.

Bonuses and LTIPs make up a critical part of the compensation structure. They are often expected by many high-calibre professionals and are vital for family offices looking to attract and retain top talent. A well-designed bonus and LTIP structure can proactively and positively influence the behaviors of employees. They also contribute greatly to the alignment of interest, employee morale and the longevity of the family office. We therefore highly recommend that family offices consider incorporating them into their compensation structures.

In conversation

Family office investment strategies: Private equity and sponsorship for high-growth companies

A Family Office Solutions podcast

Leora Zach, CFA
Client Solutions Specialist
UBS Family Office Solutions

Miles Molyneaux
CFO
Next Sparc

James Carey
Partner & Head of Origination
Next Sparc

> "We want people who are interested in our intellectual capital as well as our financial capital."
>
> —James Carey

Our Family Office Solutions podcast features a conversation with Miles Molyneaux and James Carey of Next Sparc, a family office built with the mission of helping other founders spark new growth for their own companies.

Next Sparc founder Len Pagon built a technology consulting firm in 1989 called Brulant, grew it to be the third largest privately held agency in North America and sold it to the private equity-backed firm Rosetta in 2008. Rather than use this experience to build another company, Len wanted to distill what he had learned to help other founders and launched Next Sparc in 2009.

Miles Molyneaux has been the CFO of Next Sparc since 2013. He focuses on transaction execution and providing operational financial support to our portfolio companies.

James Carey is a Partner at Next Sparc and Head of Origination at the firm. He is responsible for analyzing new investment opportunities, due diligence, portfolio optimization, and working with partner companies on M&A initiatives and strategic growth partnerships.

Highlights of their conversation include Next Sparc's:

- Unique approach that combines acting like a growth equity firm but with a more operationally focused mission
- Ability to make both minority and majority investments with flexible time frames (currently 60% to 70% in direct investments)
- Active involvement in the companies they invest in—typically higher growth stage businesses just below what a traditional private equity or lower middle market firm would target
- Focus on management teams and investing in great entrepreneurs
- Emphasis on having the right team, both from a transaction and operational perspective

Excerpt

Leora: What was the catalyst for bringing a business development partner in-house to source deal flow with James's role? Have you seen other families doing this? What are some of the benefits that you've seen?

Miles: I don't think it was seeing another family doing it and seeing success. I think it was probably the lack of focus or lack of success in finding the right companies for several years. Not that we didn't find the right companies, but we had many people reaching out to us directly, whether it was investment bankers or other PE firms looking to sell some of their portfolio companies. It was a constant barrage of opportunities, so it was hard to identify which ones were the best. We also wanted to find companies that weren't necessarily up for sale yet, or that were in certain target industries. So without having a business development professional, we just didn't have the time to focus.

"Having the right team, both from a transaction perspective and operational team afterwards, is important."

—Miles Molyneaux

Leora: What types of opportunities are you investing in when it comes to sector, size and their management team? Do you target similar industries based on prior experience?

James: The types of opportunities that we're investing in are typically higher growth stage businesses. So most likely they're under five years old and are relatively new companies. They're probably just above a venture type of business, but right below what a traditional private equity and lower middle-market firm would look for. So from a size perspective, I would say our sweet spot would be $1-5m in EBITDA. Obviously, there's a lot of great opportunities out there, but our focus is also in investing in great people and great entrepreneurs. And as far as industry goes, frankly we're pretty industry-agnostic if you look at our portfolio. That said, we do have contacts around industries that we will proactively go out and market to. Additionally, we do naturally tend to see a lot more opportunities in the professional services space, just given our background and our founder's experience.

Leora: As it relates to leadership and management coaching in the business, do you play an active role or more of a passive role?

James: We are very active compared to most other family offices. We are not just writing a check and going away. We only invest in businesses where we feel that we can add value. So from a minority perspective, if we make a minority investment, we want to be on the board. We want to be advising the entrepreneur, the CEO, on his or her growth. And if we do a majority investment, clearly we're on the board. My partner Miles is very involved in the financial aspects of the business on a week to week and month to month basis.

Listen to the full podcast >

Important note: Information on this website is directed solely at US Persons or in jurisdictions where its financial services are locally registered for public solicitation. The information does not constitute an offer to sell or the solicitation of an offer to buy an investment product in any jurisdiction in which such offer, solicitation or sale would be unlawful. If you have any questions about the information on this website, please contact your local Financial Advisor.

Want to learn more about Family Office Solutions?

Please reach out to your UBS Financial Advisor or for more information, please visit ubs.com/familyofficesolutions.*

Family Office Solutions is a team of specialists that works exclusively with qualified US families and family offices with a net worth of USD 100 million+. The team helps clients navigate the challenges and opportunities across their family enterprises, including their businesses, family offices, philanthropic structures, and passions and interests. Having this expertise under one roof allows for integration and layering of services across the UBS ecosystem, delivering a personalized, holistic client experience.

* Important note: Information on this website is directed solely at US Persons or in jurisdictions where its financial services are locally registered for public solicitation. The information does not constitute an offer to sell or the solicitation of an offer to buy an investment product in any jurisdiction in which such offer, solicitation or sale would be unlawful. If you have any questions about the information on this website, please contact your local Financial Advisor.

UBS Family Office Quarterly Editorial Board

Judy Spalthoff
Head, Family Office Solutions

Mark Tepsich
Family Office Design and Governance Strategist
Family Office Solutions

Leora Zach, CFA
Client Solution Specialist
Family Office Solutions

Brittany Chajkewicz
Business Development
Family Office Solutions

Dan Scansaroli
Head of Portfolio Strategy & UBS Wealth Way Solutions, Americas
Chief Investment Office

Todd Mayo
Senior Wealth Strategist
Advanced Planning

Andy Andreo
Relationship Manager, Americas
Global Family & Institutional Wealth

Alicia Jayo
Head of Business Development and Management
Family Advisory and Philanthropy Services

This document is for your information only and should not be relied upon as investment advice or the basis for making any investment decisions. It does not constitute an offer to sell or a solicitation of an offer to buy any specific product or service. UBS retains the right to change the range of services, the products and the prices at any time without prior notice. Certain services and products are subject to legal provisions and cannot therefore be offered worldwide on an unrestricted basis. UBS does not provide legal or tax advice and this does not constitute such advice. UBS strongly recommends that persons obtain appropriate independent legal, tax, and other professional advice.

All opinions and views expressed by third parties in this material are those of the author(s) or respective persons and do not represent—and may differ or be contrary to—the views and opinions of UBS or its affiliates. The articles profiled in this document were selected based on their experiences and professional history. Neither UBS, nor any of its employees or affiliates participated in any of the professional trajectories, corporate formations, capital funding, financing, sales, deals, transitions or other events discussed in this paper. This material is not intended to be and should not be considered or construed to be a testimonial or endorsement of a non-UBS product or service. Business Consulting Resources, InfoGrate, Major, Lindsay & Africa, January Ventures and its employees are not affiliated with UBS Financial Services Inc. or its affiliates.

Non-UBS logos, brands, other trademarks and third-party content are the property of their respective firms or its subsidiaries. This is used for illustrative purposes only and are not intended to convey any endorsement or sponsorship by, or association or affiliation with, the trademark holders.

The material presented in this podcast has no regard to the specific investment objectives, financial situation, or particular needs of any specific recipient and is published for informational purposes only. It is intended to be educational in nature; it is not an advertisement nor is it a solicitation or an offer to buy or sell any financial instruments or to participate in any particular trading strategy nor should it be viewed as such by the listener. UBS AG or its affiliates and its employees are not affiliated with any 3rd party speakers mentioned. None of UBS or its representatives is suggesting that the recipient or any other person take a specific course of action or any action at all in response to this podcast. By accessing and listening to this podcast, the listener acknowledges and agrees with the intended purpose described here and disclaims any expectation or belief that the information constitutes investment advice or a solicitation of any kind. Any financial instruments or services described in this podcast may not be eligible for sale in all jurisdictions or to certain categories of investors.

This document and the information contained herein are provided solely for informational and/or educational purposes. Nothing in this document constitutes investment research, investment advice, a sales prospectus, or an offer or solicitation to engage in any investment activities. The document is not a recommendation to buy or sell any security, investment instrument, or product, and does not recommend any specific investment program or service.

Nothing in this document constitutes legal or tax advice. UBS and its employees do not provide legal or tax advice. This document may not be redistributed or reproduced in whole or in part without the prior written permission of UBS. To the extent permitted by the law, neither UBS, nor any of it its directors, officers, employees or agents accepts or assumes any liability, responsibility or duty of care for any consequences, including any loss or damage, of you or anyone else acting, or refraining to act, in reliance on the information contained in this document or for any decision based on it.

Important information in the event this document is distributed to US Persons or into the United States
As a firm providing wealth management services to clients, UBS Financial Services Inc. offers investment advisory services in its capacity as an SEC-registered investment adviser and brokerage services in its capacity as an SEC-registered broker-dealer. Investment advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate arrangements. It is important that clients understand the ways in which we conduct business, that they carefully read the agreements and disclosures that we provide to them about the products or services we offer. For more information, please review the PDF document at ubs.com/relationshipsummary. UBS Financial Services Inc. is a subsidiary of UBS AG. Member FINRA/SIPC.

Sustainable investing strategies aim to incorporate environmental, social and governance (ESG) considerations into investment process and portfolio construc-tion. Strategies across geographies and styles approach ESG analysis and incorporate the findings in a variety of ways. The returns on portfolios consisting primarily of sustainable investments may be lower or higher than portfolios where ESG factors, exclusions or other sustainability issues are not considered, and the investment opportunities available to such portfolios may also differ.

Important information in the event this document is distributed by the following domestic businesses
Denmark if distributed by UBS Europe SE, Denmark Branch: This publication is not intended to constitute a public offer under Danish law. It is distributed only for information purposes by UBS Europe SE, Denmark Branch, filial af UBS Europe SE, with place of business at Sankt Annae Plads 13, 1250 Copenha-gen, Denmark, registered with the Danish Commerce and Companies Agency, under No. 38 17 24 33. UBS Europe SE, Denmark Branch, filial af UBS Europe SE is subject to the joint supervision of the European Central Bank ("ECB"), the German Central Bank (Deutsche Bundesbank), the German Federal Financial Services Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht), as well as of the Danish Financial Supervisory Authority (Finanstilsynet), to which this publication has not been submitted for approval. UBS Europe SE is a credit institution constituted under German law in the form of a Societas Europaea, duly authorized by the ECB.

Germany if distributed by UBS Europe SE, Germany: This publication is not intended to constitute a public offer under German law. It is distributed only for information purposes by UBS Europe SE, Germany, with place of business at Bockenheimer Landstrasse 2-4, 60306 Frankfurt am Main. UBS Europe SE is a credit institution constituted under German law in the form of a Societas Europaea, duly authorized by the European Central Bank ("ECB"), and supervised by the ECB, the German Central Bank (Deutsche Bundesbank) and the German Federal Financial Services Supervisory Authority (Bundesanstalt für Finanzdienstle-istungsaufsicht), to which this publication has not been submitted for approval.

Hong Kong if distributed by UBS AG Hong Kong Branch: This publication is distributed by UBS AG Hong Kong Branch, a licensed bank under the Hong Kong Banking Ordinance and a registered institution under the Securities and Futures Ordinance. UBS AG Hong Kong Branch is incorporated in Switzerland with limited liability.

Israel if distributed by UBS Wealth Management Israel Ltd.: UBS is a premier global financial firm offering wealth management, asset management and investment banking services from its headquarters in Switzerland and its operations in over 50 countries worldwide to individual, corporate and institutional investors. In Israel, UBS Switzerland AG is registered as Foreign Dealer in cooperation with UBS Wealth Management Israel Ltd., a wholly owned UBS subsidiary. UBS Wealth Management Israel Ltd. is a Portfolio Manager licensee that engages also in Investment Marketing and is regulated by the Israel Securities Authority. This publication is intended for information only and is not intended as an offer to buy or solicitation of an offer. Furthermore, this publication is not intended as investment advice and/or investment marketing and is not replacing any investment advice and/or investment marketing provided by the relevant licensee, which is adjusted to each person's needs. The word "advice" and/or any of its derivatives shall be read and construed in conjunction with the definition of the term "investment marketing" as defined under the Israeli Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 1995.

Italy if distributed by UBS Europe SE, Succursale Italia: This publication is not intended to constitute a public offer under Italian law. It is distributed only for information purposes by UBS Europe SE, Succursale Italia, with place of business at Via del Vecchio Politecnico, 3-20121 Milano. UBS Europe SE, Succursale Italia is subject to the joint supervision of the European Central Bank ("ECB"), the German Central Bank (Deutsche Bundesbank), the German Federal Financial Services Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht), as well as of the Bank of Italy (Banca d'Italia) and the Italian Financial Markets Supervisory Authority (CONSOB - Commissione Nazionale per le Società e la Borsa), to which this publication has not been submitted for approval. UBS Europe SE is a credit institution constituted under German law in the form of a Societas Europaea, duly authorized by the ECB.

Luxembourg if distributed by UBS Europe SE, Luxembourg Branch: This publication is not intended to constitute a public offer under Luxembourg law. It is distributed only for information purposes by UBS Europe SE, Luxembourg Branch, with place of business at 33A, Avenue J. F. Kennedy, L-1855 Luxembourg. UBS Europe SE, Luxembourg Branch is subject to the joint supervision of the European Central Bank ("ECB"), the German Central bank (Deutsche Bundes-bank), the German Federal Financial Services Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht), as well as of the Luxembourg supervisory authority (Commission de Surveillance du Secteur Financier), to which this publication has not been submitted for approval. UBS Europe SE is a credit institution constituted under German law in the form of a Societas Europaea, duly authorized by the ECB.

Mexico if distributed by UBS Asesores México, S.A. de C.V.: This information is distributed by UBS Asesores México, S.A. de C.V. ("UBS Asesores"), an affiliate of UBS Switzerland AG, incorporated as a non-independent investment advisor under the Securities Market Law due to the relation with a Foreign Bank. UBS Asesores is a regulated entity and it is subject to the supervision of the Mexican Banking and Securities Commission ("CNBV"), which exclusively regulates UBS Asesores regarding the rendering of portfolio management, as well as on securities investment advisory services, analysis and issuance of individual investment recommendations, so that the CNBV has no surveillance faculties nor may have over any other service provided by UBS Asesores. UBS Asesores is registered before CNBV under Registry number 30060. You are being provided with this UBS publication or material because you have indicated to UBS Asesores that you are a Sophisticated Qualified Investor located in Mexico. The compensation of the analyst(s) who prepared this report is determined exclusively by research management and senior management of any entity of UBS Group to which such analyst(s) render services.

Monaco if distributed by UBS (Monaco) SA: This document is not intended to constitute a public offering or a comparable solicitation under the Principality of Monaco laws, but might be made available for information purposes to clients of UBS (Monaco) SA, a regulated bank under the supervision of the "Autorité de Contrôle Prudentiel et de Résolution" (ACPR) for banking activities and under the supervision of "Commission de Contrôle des Activités Financières for financial activities."

Singapore if distributed by UBS AG Singapore branch: This material was provided to you as a result of a request received by UBS from you and/or persons entitled to make the request on your behalf. Should you have received the material erroneously, UBS asks that you kindly destroy/delete it and inform UBS immediately. Clients of UBS AG Singapore branch are asked to please contact UBS AG Singapore branch, an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110) and a wholesale bank licensed under the Singapore Banking Act (Cap. 19) regulated by the Monetary Authority of Singapore, in respect of any matters arising from, or in connection with, the analysis or report.

Spain if distributed by UBS Europe SE, Sucursal en España: This publication is not intended to constitute a public offer under Spanish law. It is distributed only for information purposes by UBS Europe SE, Sucursal en España, with place of business at Calle María de Molina 4, C.P. 28006, Madrid. UBS Europe SE, Sucursal en España is subject to the joint supervision of the European Central Bank ("ECB"), the German Central bank (Deutsche Bundesbank), the German Federal Financial Services Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht), as well as of the Spanish supervisory authority (Banco de España), to which this publication has not been submitted for approval. Additionally it is authorized to provide investment services on securities and financial instruments, regarding which it is supervised by the Comisión Nacional del Mercado de Valores as well. UBS Europe SE, Sucursal en España is a branch of UBS Europe SE, a credit institution constituted under German law in the form of a Societas Europaea, duly authorized by the ECB.

Sweden if distributed by UBS Europe SE, Sweden Bankfilial: This publication is not intended to constitute a public offer under Swedish law. It is distributed only for information purposes by UBS Europe SE, Sweden Bankfilial, with place of business at Regeringsgatan 38, 11153 Stockholm, Sweden, registered with the Swedish Companies Registration Office under Reg. No 516406-1011. UBS Europe SE, Sweden Bankfilial is subject to the joint supervision of the European Central Bank ("ECB"), the German Central bank (Deutsche Bundesbank), the German Federal Financial Services Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht), as well as of the Swedish supervisory authority (Finansinspektionen), to which this publication has not been submitted for approval. UBS Europe SE is a credit institution constituted under German law in the form of a Societas Europaea, duly authorized by the ECB.

Taiwan if distributed by UBS AG, Taipei Branch: This material is provided by UBS AG, Taipei Branch in accordance with laws of Taiwan, in agreement with or at the request of clients/prospects.

UK if distributed by UBS AG UK Branch: UBS AG is registered as a branch in England and Wales Branch No. BR004507 (a public company limited by shares, incorporated in Switzerland whose registered offices are at Aeschenvorstadt 1, CH-4051, Basel and Bahnhofstrasse 45, CH-8001 Zurich). Registered Address: 5 Broadgate, London EC2M 2QS. Authorised and regulated by the Financial Market Supervisory Authority in Switzerland. In the United Kingdom, UBS AG is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

Important information in the event this document is distributed cross-border
Bahrain: UBS is a Swiss bank not licensed, supervised or regulated in Bahrain by the Central Bank of Bahrain and does not undertake banking or investment business activities in Bahrain. Therefore, clients have no protection under local banking and investment services laws and regulations.

Mainland China: This report is prepared by UBS Switzerland AG or its offshore subsidiary or affiliate (collectively as "UBS Offshore"). UBS Offshore is an entity incorporated out of Mainland China and is not licensed, supervised or regulated in Mainland China to carry out banking or securities business. The recipient should not contact the analysts or UBS Offshore which produced this report for advice as they are not licensed to provide securities investment advice in Mainland China. UBS Investment Bank (including Research) has its own wholly independent research and views, which at times may vary from the views of UBS Global Wealth Management. This report shall not be regarded as providing specific securities-related analysis. The recipient should not use this document or otherwise rely on any of the information contained in this report in making investment decisions and UBS takes no responsibility in this regard.

Czech Republic: UBS is not a licensed bank in the Czech Republic and thus is not allowed to provide regulated banking or investment services in the Czech Republic. Please notify UBS if you do not wish to receive any further correspondence.

Greece: UBS Switzerland AG is established in Switzerland and operates under Swiss law. UBS Switzerland AG and its affiliates (UBS) are not licensed as a bank or financial institution under Greek legislation and do not provide banking and financial services in Greece. Consequently, UBS provides such services from branches outside of Greece only. No information in this document is provided for the purpose of offering, marketing and sale by any means of any capital market instruments and services in Greece. Therefore, this document may not be considered as a public offering made or to be made to residents of Greece.

Indonesia, Malaysia, Philippines, Thailand: This material was provided to you as a result of a request received by UBS from you and/or persons entitled to make the request on your behalf. Should you have received the material erroneously, UBS asks that you kindly destroy/delete it and inform UBS immediately. Any and all advice provided and/or trades executed by UBS pursuant to the material will only have been provided upon your specific request or executed upon your specific instructions, as the case may be, and may be deemed as such by UBS and you. The material may not have been reviewed, approved, disapproved or endorsed by any financial or regulatory authority in your jurisdiction. The relevant investments will be subject to restrictions and obligations on transfer as set forth in the material, and by receiving the material you undertake to comply fully with such restrictions and obligations. You should carefully study and ensure that you understand and exercise due care and discretion in considering your investment objective, risk appetite and personal circumstances against the risk of the investment. You are advised to seek independent professional advice in case of doubt.

Jersey: UBS AG, Jersey Branch, is regulated and authorized by the Jersey Financial Services Commission for the conduct of banking, funds and investment business. Where services are provided from outside Jersey, they will not be covered by the Jersey regulatory regime. UBS AG, Jersey Branch is a branch of UBS AG a public company limited by shares, incorporated in Switzerland whose registered offices are at Aeschenvorstadt 1, CH-4051 Basel and Bahnhofstrasse 45, CH 8001 Zurich. UBS AG, Jersey Branch's principal place business is 1, IFC Jersey, St Helier, Jersey, JE2 3BX.

Nigeria: UBS Switzerland AG and its affiliates (UBS) are not licensed, supervised or regulated in Nigeria by the Central Bank of Nigeria or the Nigerian Securities and Exchange Commission and do not undertake banking or investment business activities in Nigeria.

Poland: UBS is a premier global financial services firm offering wealth management services to individual, corporate and institutional investors. UBS is established in Switzerland and operates under Swiss law and in over 50 countries and from all major financial centres. UBS is not licensed as a bank or as an investment firm under Polish legislation and is not allowed to provide banking and financial services in Poland.

Portugal: UBS Switzerland AG is not licensed to conduct banking and financial activities in Portugal nor is UBS Switzerland AG supervised by the Portuguese regulators (Bank of Portugal "Banco de Portugal" and Portuguese Securities Exchange Commission "Comissão do Mercado de Valores Mobiliários").

Singapore: This material was provided to you as a result of a request received by UBS from you and/or persons entitled to make the request on your behalf. Should you have received the material erroneously, UBS asks that you kindly destroy/delete it and inform UBS immediately.

UAE: UBS is not licensed in the UAE by the Central Bank of UAE or by the Securities & Commodities Authority. The UBS AG Dubai Branch is licensed in the DIFC by the Dubai Financial Services Authority as an authorised firm.

Ukraine: UBS is a premier global financial services firm offering wealth management services to individual, corporate and institutional investors. UBS is established in Switzerland and operates under Swiss law and in over 50 countries and from all major financial centers. UBS is not registered and licensed as a bank/financial institution under Ukrainian legislation and does not provide banking and other financial services in Ukraine.

Private Wealth Management is a division within UBS Financial Services Inc., which is a subsidiary of UBS Group AG.

© UBS 2024. All rights reserved. The key symbol and UBS are among the registered and unregistered trademarks of UBS. UBS Financial Services Inc. is a subsidiary of UBS AG. Member FINRA/SIPC. Review code: IS2307532. Expiration.: 12/31/2024.

2023-1075450
UBS Financial Services Inc.
ubs.com/fs
1075450_UBS Family Office Quarterly_Jan 2024_v6