The Evolution of Private Wealth

April 2024

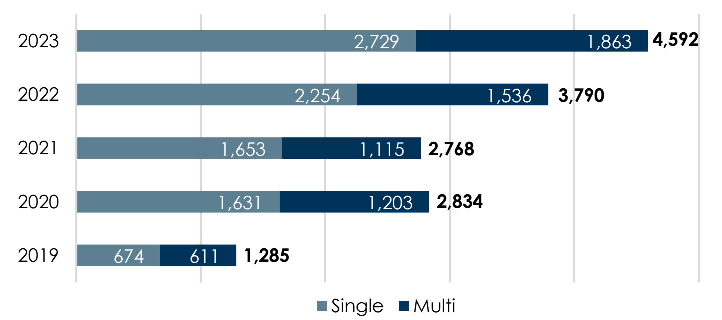
- **More than $80 trillion of wealth is expected to be transferred within families over the next two decades[1]**
- **The formation of family offices that partner with ultra-high-net-worth (UHNW) families has surged in the last five years[2]**
- **Families often face several challenges preserving their family's wealth, legacy and harmony**

Growth of Private Wealth and Family Offices

A recent Wealth-X study[3] highlights the substantial growth in wealth of UHNW individuals (those with greater than $100 million), who are expected to grow in number from around 400,000 currently to over 500,000 by 2027, representing an additional $15 trillion of wealth created.

Given this rise in wealth and aging populations globally, the number of family offices has surged to help guide succession planning and the transfer of assets. According to Preqin, the number of family offices increased from 1,285 in 2019 to 4,592 in 2023. The skill set and role of the family office is undergoing a meaningful shift as the next generation potentially reorients family goals toward qualitative objectives (mission-driven) in addition to quantitative metrics (investment returns). Family wealth often does not survive past the second or third generation, posing challenges to families to perpetuate their legacy for future generations.

Number of Family Offices Worldwide

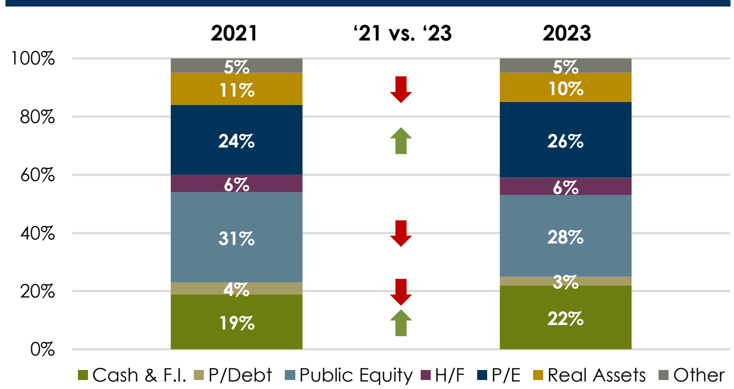


Source: Preqin, ACG, Totals for each year in bold

- **Administrative Complexity** – without a thoughtful pacing program that provides adequate asset class and vintage diversification, investors often make a higher number of small investments early on in an attempt to gain exposure and diversify risk. This can result in a high volume of capital calls and tax complexity. Having adequate family office, investment and tax support is key to an efficient and successful program.
- **Performance Measurement** – unlike publicly-traded equity and fixed income strategies that can be invested in within a few days, it can take five to seven years to build out a private markets investment program, and measuring returns can require a similar commitment of time.

Investment portfolios can certainly be enhanced with allocations to non-traditional assets, but studies show that families are still making sizeable allocations to traditional stocks, bonds and cash.

Average Asset Allocation – Global Survey



Source: Goldman Sachs 2023 Family Office Survey, ACG

Investing Trends

In recent years, there has been a greater emphasis on thematic investment ideas, often initiated by Rising Gen family members. Examples include Environmental-Social-Governance (ESG), Special Purpose Acquisition Companies (SPACs), Non-Fungible Tokens (NFTs), Cryptocurrency Tokens and ETFs, Digital Assets, Artificial Intelligence (AI), Transition-Investing, etc. As families contemplate redirecting funds into these newer "asset classes", investment firms are quickly creating new strategies to provide that access. The magnitude of funds flowing into these products/strategies can drive up prices in the short-term. As the popularity and fund flows moderate, price volatility can increase. In many cases, the fundamental drivers of value supporting these strategies is not fully understood, and sizing these investments appropriately is critical to avoid disrupting the overall investment program.

Another growing trend amongst family offices is allocating to private-market strategies (buyout, venture, real estate, credit, etc.) which are deemed to provide higher returns and potentially less volatility than publicly-traded assets. Families newer to this space might not fully appreciate some of the key complexities that come with private market investing, particularly administrative complexity and performance measurement.

Current Investing Landscape

US economic growth has been remarkably resilient in the post-pandemic period, inflation is normalizing and the labor market has remained strong. This fairly positive backdrop has allowed the Fed to be patient in reducing short-term interest rates and financial markets have generally performed well in recent years, despite meaningful drawdowns in 2020 and 2022. As the November US Presidential election approaches, investors and families are likely to focus more on potential policy changes, particularly those involving estate taxes that may influence the pace of wealth transfer in the next few years.

The Path Forward for Families and Family Offices

- Build inter-generational consensus
- Balance "goals-based" and "returns-based" objectives
- Leverage the family office and third party advisors to build an investment program that is understandable, measurable and avoids becoming unintentionally complex
- Take a long-term view

[1] Cerulli. *The Cerulli Report—U.S. High-Net-Worth and Ultra-High-Net-Worth Markets 2023.*
[2] Preqin. *Fundraising from Family Offices: A guide to raising capital report.*
[3] Wealth-X – *World Ultra Wealth Report 2023.*

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