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Family Offices Are Reassessing Traditional Approaches to Asset Allocation According to New Family Office Exchange Study

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CHICAGO, June 14, 2018 – Family Office Exchange (FOX), a global learning and networking community of single family offices, recently published the results of the **2018 FOX Global Investment Survey.** Among the findings is that family offices are reassessing traditional approaches to asset allocation.

Less than a third (29%) of family office respondents report that they use quantitative modeling to determine asset class allocations and position sizes, a core tenet of academic finance and the typical approach of many investment advisors. Only 65% of family office participants are relying on the traditional building block of "asset classes" (e.g. domestic equities, fixed income) with 35% considering other asset categories (27% cited "objectives in the portfolio.")

Much of this move away from conventional approaches to portfolio construction is likely driven by family offices' interest in direct investments in operating businesses and real estate. Of the 29% that say that they continue to use a quantitative model to determine asset allocations, almost half (42%) exclude direct investments from the model-driven outcome. More dramatically, when asked "do you include direct investments in operating businesses in your asset allocation," the majority of all participating offices reported "No" (55%).

Kristi Kuechler, Managing Director of the Investor Market at Family Office Exchange who oversaw the study, said, "The increasing appetite of family offices for direct investments is upending many of the traditional approaches to portfolio construction. We are seeing a significant shift in how families approach asset allocation across the overall portfolio, which we expect to continue to evolve."

"We continue to see strong interest in family offices for investing directly in operating businesses," said Sara Hamilton, founder and CEO of FOX. "Direct investing gives family offices the opportunity to invest in companies that they expect to grow, seeking strong returns, often with a longer time horizon than private equity funds."

Other study findings include:

1. The survey participants reported a 13.9% average portfolio return for 2017, which 93% said was a satisfactory result (58% stating that they were "very satisfied" and 35% saying "somewhat satisfied"). For comparison, the MSCI All Country World Index returned 24.0% and the S&P 500 returned 21.8%.
2. Given the impressive global equity returns of 2017, it is noteworthy that the average equity allocation of the family offices in the survey remained at 42% (28% to U.S. and 14% to international equities), the same overall public equity allocation as at the end of 2016. Given the dramatic run-up in equities, this suggests a careful rebalancing or policy of "selling winners" in order to maintain a consistent allocation.
3. Fully 77% of participating offices use an Investment Committee, with nearly all (96%) comprised of at least one family member, and 77% having at least one external advisor. Those offices that utilize an Investment Committee achieved higher 2017 portfolio returns than those without (14.3% vs. 13.6%) and were more likely to be "very satisfied" with their 2017 investment performance.
4. FOX survey respondents report that one-third (32%) of their long-only publicly traded securities are managed passively (either through an indexed mutual fund, separately managed account, or ETF), with 40% managed actively.
5. More than three-quarters of those surveyed (81%) invest directly in real estate or operating businesses, with nearly half (47%) investing directly in an operating business (outside of the core business, if there is one).
6. Family office interest in direct investing is strong with 30% planning to increase the pace of their direct investments and only 10% planning to decrease.

This annual survey of investor attitudes and behaviors provides a peer perspective from 109 family offices on asset allocation and investment performance. The average investable asset base of those completing the survey is $543 million, with 13% of respondents overseeing more than $1 billion of investable assets.

Half (48%) continue to have ownership of the original business that generated the family's wealth. More than two-thirds of respondents are led by Generations 1 and 2 (69%) and 84% of the family offices are headquartered in the United States.

The survey asked about allocations and performance as of December 31, 2017, and the surveys were completed in January and February of 2018.

About Family Office Exchange

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