Family Capital

Jersey Finance

Delivering Insight • Driving Innovation

Family Offices and Investment

The Generation Shift

How the COVID-19 Pandemic has Accelerated a Generational Shift in Investment Priorities

Report 2022

Contents

03 **Foreword**

04 **Introduction**

05 **Executive Summary**

06 **1. NextGen Involvement**
- NextGen and the Pandemic
- NextGen and Engagement with Advisors

08 **2. The Pandemic and Investing**
- The Significance of the Pandemic to Investment Strategies
- Asset Allocation
- Environmental, Social and Governance (ESG) Investment

10 **3. Governance and Family Management**
- Family Governance
- Family Management
- Technology
- Tax and Political Risk

14 **Conclusion**

Foreword

More than six decades ago, Jersey began its journey towards becoming a leading international finance centre (IFC). Today, the Island's depth of experience, reputation and sound legal and regulatory environment, supported by international endorsements, make it a clear choice for family offices when it comes to selecting a jurisdiction.

Currently, Jersey firms are managing in excess of £1 trillion in private trust and asset holding vehicles, with clients spanning the Americas, Europe, Africa, the Middle East and Asia-Pacific. Jersey's responsiveness to the evolving needs of clients against a backdrop of increasing regulatory complexity and drive for greater transparency has stood the Island in good stead.
However, this is not a jurisdiction that rests on its laurels, which is why Jersey Finance has worked with Family Capital to take a deeper look into the role being played by the NextGen in the investment process amid the sustained disruption of the COVID-19 pandemic.

Already aware of the paradigm shift prompted by a greater focus on environmental, social and governance (ESG) investment by the NextGen, we wanted to speak directly with families as to how investment strategies were evolving and whether the Pandemic was accelerating this shift.

In a naturally diverse sector, the interviewees responses provided us with some great insights into how the next generation of wealth owners are shaping family offices to evolve with their changing aspirations and gear them up for the future.

Such NextGen voices are gaining traction at pace; a significant proportion of those interviewed agreed that the NextGen's role in decision-making had increased during the pandemic; and with COVID-19 undoubtedly set to leave a mark on family office dynamics, the findings of this work should be of vital significance for IFCs.

In this regard, Jersey is well-placed to meet the demands of the next generation of wealth owners and the future family office. The importance of a robust digital infrastructure and effective governance were brought sharply into focus by the report, for instance, and these are areas where Jersey, with its world-leading fibre broadband connectivity and reputation for effective oversight, can position it right at the fore.

I hope you find the insights from this study useful.

Robert Moore
Director – UK, Jersey Finance

About Jersey Finance

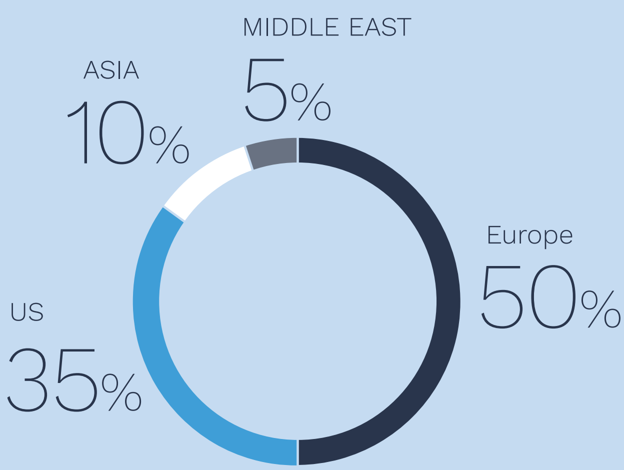
Jersey Finance, which is run as a not-for-profit organisation, was formed in 2001 to represent and promote Jersey as an international finance centre of excellence. We champion the competitive position of Jersey's finance industry, which both locally and internationally, supporting the highest regulatory standards and the most attractive products and services to suit the needs of global investors. Funded by members of the local finance industry and the Government of Jersey, we have a global presence with offices in Jersey, Dubai, Hong Kong and New York; representation in London, Johannesburg and Shanghai; with a virtual office in Mumbai.
www.jerseyfinance.je

Introduction

We are pleased to present the findings of a survey conducted by Family Capital in association with Jersey Finance on the effects of the COVID-19 Pandemic on the investment priorities of family offices and the greater role played by the NextGen in the investment process.

The report directly surveyed 50 family offices in Europe, the US and Asia, and asked them a variety of questions about their investment priorities and how specifically they had been affected by the Pandemic. The report also used data provided by Family Capital's Analytics, which is one of the biggest data sources on global family offices and their investment decisions.

GEOGRAPHICAL BREAKDOWN OF RESPONDENTS



Most of the family offices in the survey had portfolios worth at least $200 million or over, and some had portfolios of more than $1 billion.

The survey was created to assess how the Pandemic had accelerated the influence and the thinking of the NextGen wealth owners at family offices and how that might affect their investment priorities. Further, the survey was interested in the role NextGen, as wealth owners, were playing in one of the most important parts of the global investment world.

The survey canvassed family offices both online and directly during the three months between April and the end of June 2021.

Executive Summary

The role of the NextGen in determining investment priorities has been a talking point for some time now, with **greater emphasis on impact and purpose-led investment themes apparent for at least five years before the COVID-19 Pandemic**, with groups like Blue Haven Initiative, Emerson Collective, and Omidyar Network all set up sometime beforehand. But, as this survey highlights, the Pandemic has accelerated this trend and placed it at the heart of investing priorities.

As the world prepares for post-Pandemic realities, these trends will consolidate and grow. **What is clear is that the NextGen will be the driving force in investment decision-making, whether through existing family office structures or new investment groups they set up.**

In the past, wealth owners tended to park their "doing good" efforts with their foundations and thought of them as philanthropic. Of course, this will continue, but the **emphasis on "doing good" in all investment decision-making has now become central to the portfolio constructions of an increasing number of family offices**, as the survey shows. This tends to be more apparent where the NextGen control the investment groups, compared with the NextGen taking over existing structures.

But, when it comes to "doing good", family offices **showed greater interest in investments in the biotech and healthcare space**, compared to portfolios with an emphasis on environmental protection or social justice goals. This was potentially a direct result of the greater importance on healthcare and vaccine development due to the Pandemic, rather than necessarily a long-term trend.

1. NextGen Involvement

On the whole, family offices aren't as systematic as family businesses are when it comes to succession and NextGen participation.

There are several reasons for this:

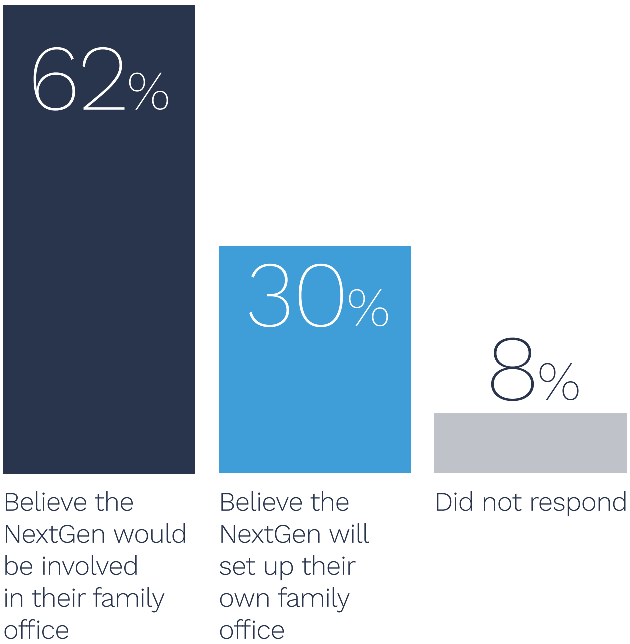
- *Evolution.* For the most part, family offices are relatively early in their evolution. Yes, they have been around since the 19th century - with Rockefeller Family & Associates set up by America's first billionaire, John D. Rockefeller, in 1882 - but most were established in the last 20-30 years. In many ways, they are a phenomenon of the 21st century. So, the issue of succession and NextGen engagement isn't as developed as it has been for family businesses.

- *Ephemeral.* Predominantly, family offices are led by investment priorities, which for the most part, facilitate less emotional involvement than a product or service provided by a family business. Given this, they tend to be more ephemeral than family businesses, with the NextGen likely to be less attached to them as the founder generation setting them up.

- *Control.* Principal control is usually powerful within family offices, given they are likely to have been set up by an entrepreneurial founder. Given this control, the NextGen are often more interested in setting up their own investment organisations than working for the existing family investment group.

Despite these factors, 62% of respondents believed the NextGen would be involved in their family office in the future.

MOST FAMILY OFFICES BELIEVE THE NEXTGEN WOULD BE INVOLVED IN THE FAMILY OFFICE IN THE FUTURE



"At least one of my children will help me run our investment business in the future," said one US-based principal. *"And all of my children will be involved at some level in the decision-making process within the office."*

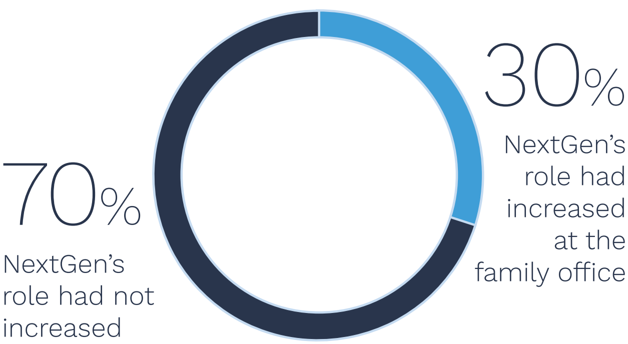
But clearly, succession is an issue for family offices, and some principals and senior managers (22%) believed at least one of the children of the owning family would set up separate investment offices rather than be involved with the current structure.

NextGen and the Pandemic

The survey then asked whether the Pandemic had accelerated the influence of the NextGen in the decision-making process of their family office.

30% said the role of the NextGen in the decision-making process had increased at their family office. The rest felt it hadn't. Although not the majority, the 30% level suggested family office decision-making had been significantly affected by the Pandemic, and the next generation was playing an increasingly important role in the organisation, post-Pandemic.

NEXTGEN GAIN INFLUENCE WITHIN THE FAMILY OFFICE



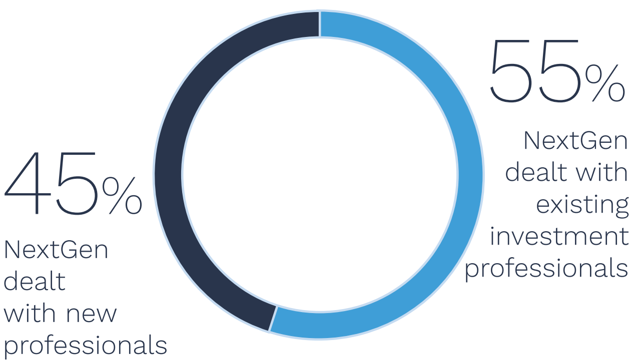
There was also anecdotal evidence that "baby boomer" senior management had moved to speed up their departure from family enterprises, given that COVID-19 has brought their mortality into sharp focus. However, how much in practice this was the case remains to be seen.

NextGen and Engagement with Advisors

The survey also looked at the relationship between the NextGen and management at the family office. Participants were asked if greater involvement of the next generation would lead to hiring a new set of investment professionals.

Out of the family offices who answered this question, it was fairly split, with 55% saying they still dealt with the existing investment professionals and 45% saying new professionals were engaged.

THE ROLE OF THE ADVISORS WITH NEXT GENERATION TRANSITION



"Perhaps as time goes on, the children of the principal will bring in new managers, but we don't believe this is going to happen until long after succession has occurred," said one German-based family office senior manager.

2. The Pandemic and Investing

Family offices tend to be more reactive to investment developments compared with institutional investors. Typically, they don't have to answer to trustees and are more entrepreneurial in their decision-making. Additionally, they tend to be more open to new investment opportunities, especially those linked to entrepreneurial owners.

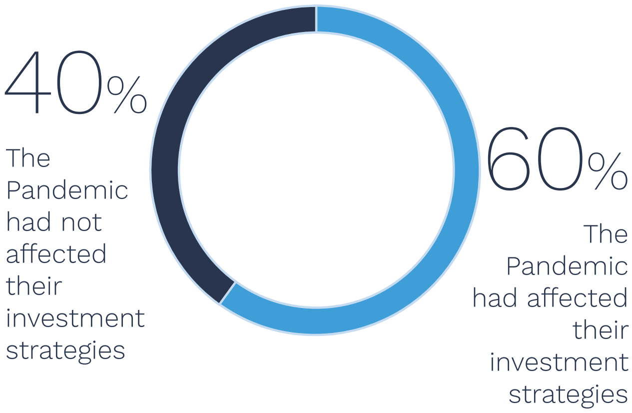
One key difference observed by the survey is the expectation as to the timing for return on investments. The research identified that family offices are prepared to make long-term investments, in contrast to most private equity and venture fund managers. But did the Pandemic affect this culture of decision-making in any way?

The Significance of the Pandemic to Investment Strategies

The survey asked family offices how significantly the Pandemic affected their investment strategies on a scale of one (not significant) to four (hugely significant).

Most respondents said the Pandemic had affected their investment strategies, with 60% saying it had been from 'somewhat significant' up to 'hugely significant' in their investment strategies. 16% within this group said the Pandemic had been tremendously influential to their investment strategy.

THE PANDEMIC AFFECTING INVESTMENT STRATEGIES



Nevertheless, 40% of respondents felt the Pandemic was not significant to their investment strategy. One respondent in this group said that, although they observed how the Pandemic affected capital markets: *"we made no changes to our portfolio and weren't influenced by the Pandemic at all"*.

Another one said: *"Although originally shaken by the seriousness of the Pandemic, we waited to see how significant COVID-19 would affect markets. That cautious approach proved the right strategy."*

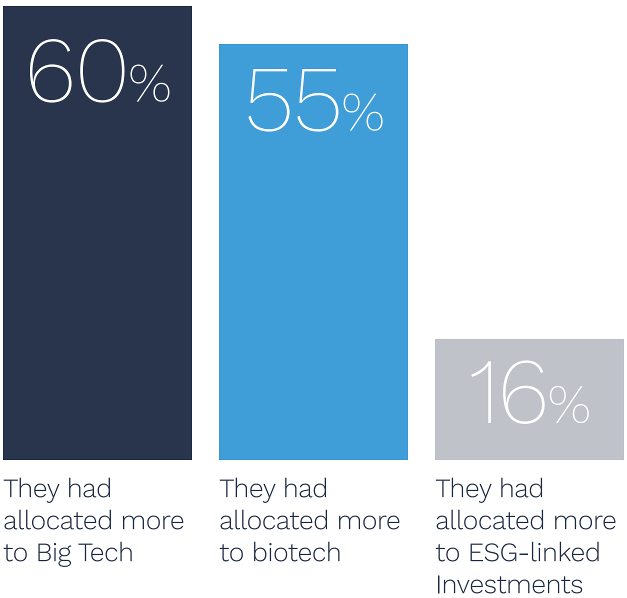
Asset Allocation

We asked participants how their asset allocation had changed in the last year (up until the end of June 2021), particularly concerning these sectors:

- Cleantech
- Biotech
- Social-orientated investments linked to greater gender, race diversity
- Big Tech
- ESG-linked funds

More than half (55%) said they had allocated an increased amount (either increased or increased substantially) to biotech in the last year, whether through funds or directly. This isn't surprising given the Pandemic has dominated most people's consciousness in the previous 18 months and consequently led many to think more about healthcare as a priority.

MAIN ASSET ALLOCATION PRIORITIES



The stellar performance of several biotech companies, particularly those linked to vaccines for COVID-19, has also helped to accelerate biotech investing in the last 18 months.

"We are witnessing a golden era in life sciences and consequently are bullish in allocating more of our portfolio to the biotech and healthcare sectors," said one Boston-based family office principal.

Interestingly, despite the ever-greater coverage of climate change and the importance of new energy technologies, most family offices said they hadn't increased their portfolio allocation to cleantech. One said: *"We were very aware of the cleantech sector before the Pandemic and consequently made no changes in our portfolio allocation to the sector because of COVID-19."*

Environmental, Social and Governance (ESG) Investment

ESG investment priorities have moved up the agenda in recent years, but has the Pandemic increased that acceleration? Although family offices were aware of more ESG-orientated investment priorities in the last few years, none of them said they had allocated more to these priorities due solely to the Pandemic.

The survey also asked family offices whether the COVID-19 Pandemic had accelerated their efforts to bring more ESG-related structures to their family office. Only 16% of respondents said it had increased their efforts to accelerate their ESG-linked investments. Most felt the Pandemic hadn't made any difference whatsoever in this respect.

"We believe impact investment efforts better correspond with our commitment to being more purpose-led when it comes to investing," said one respondent. *"But we are sceptical of many ESG investment products given the prevalence of greenwashing among many asset managers when it comes to ESG funds."*

Those who answered 'yes' to the question all said they concentrated more on the environment than on social and governance-led investments.

When it came to Big Tech, family offices were more positive, with 60% saying they had either increased or substantially increased their allocation to the so-called FAANG stocks (Facebook, Amazon, Apple, Netflix, and Alphabet) and other Big Tech groups like Tesla in the last 18 months up until June 2021.

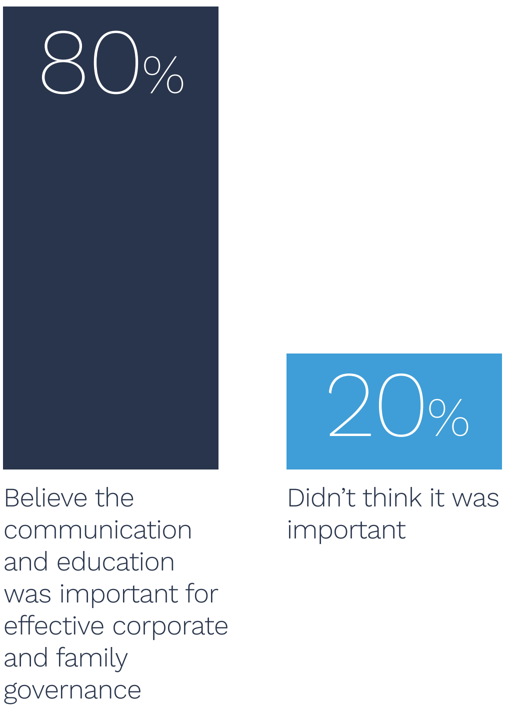
3. Governance and Family Management

Family Governance

The survey asked family offices how important communication and education were to ensuring effective corporate and family governance.

Family offices were adamant in this respect, with 80% believing it as 'very important' or 'extremely important'.

GOVERNANCE AND FAMILY OFFICES



As witnessed in the family business world, better governance has become a priority within the entire family enterprise sector. But, up until recently, family offices lagged when it came to placing governance as a priority, certainly compared with family businesses. Although family offices still have much to learn from the family business sector, the responses to this question suggest internal governance and how that is communicated have become a bigger priority for family offices and we are likely to see greater formalisation of structures and governance processes in the coming years.

"The challenges arising from the 2020 global pandemic have undoubtedly permeated throughout all businesses, causing many to reflect on the how and why of what they do. For family offices, this introspection has accelerated thinking around best practice in the sustainable finance and ESG space by analysing how attitudes are changing and the role governance plays in helping families meet their investment goals.

Today, with sustainability in both business and investment strategies higher on the agenda than ever, the importance of effective governance around key elements such as succession planning and formalised family values is being seen in a far broader sense – that of bridging the founding and future visions of the family to safeguard a legacy while also impacting positively on the world."

Robert Moore, Director
UK Jersey Finance

Family Management

Most family offices are set up in locations where the family and/or the operational business is based. But some will consider locating the family office in jurisdictions that offer incentives like access to talent, tax efficiencies, and better geographical convenience.

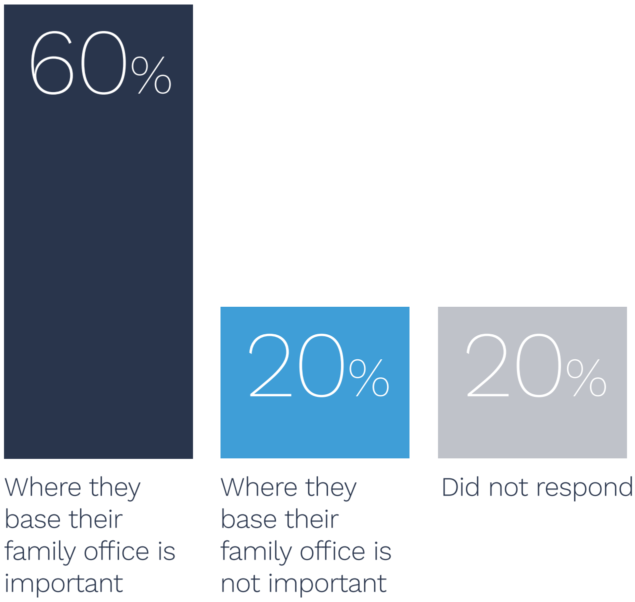
Family offices were asked: "How important is the jurisdictional consideration when establishing and implementing a formal, effective governance framework for the family office?"

60% said it was somewhat significant. *"We did look at issues around access to professional staff and tax structures of jurisdictions, but ultimately it wasn't a deciding factor in our choice,"* said one respondent.

"Listening to the experiences of some local family offices, we learned that tax was not the key driver for using Jersey. Instead, families were looking to establish in jurisdictions that had political and economic stability, access to expertise and a strong reputation, to name a few. Their other considerations were around strong, effective regulation, ease of doing business, legal certainty, lifestyle and confidentiality".

Robert Moore, Director
UK Jersey Finance

JURISDICTION PRIORITIES



20% of respondents believed where they based their family office wasn't significant at all. Although this probably masks their decision to establish their family office in a city or area where they are from, agreeing on other matters didn't influence them.

One respondent said: *"The family office is based in the town we come from, and that was the most important consideration."*

That said, family offices were concerned about stability and want to be based in a jurisdiction that offers this with an infrastructure to support their businesses.

Technology

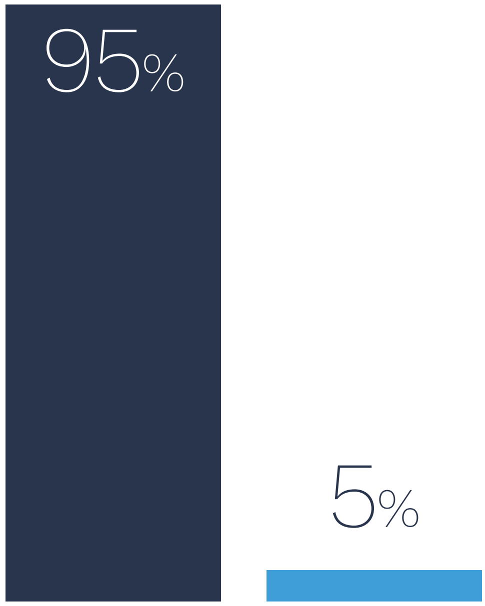
Survey participants were asked to what extent had technology helped bring their family together during the Pandemic.

Unsurprisingly, most (95%) said they believed new technologies linked to video conferencing, etc., had helped them bring their family together during the Pandemic. The digital revolution is clearly something that all family offices are aware of and it has given them access to portfolio, accounting and reporting management tools. Anecdotal evidence suggests they are spending more on digital management than ever before.

"Connectivity was and continues to be essential for family offices. Jersey's digital infrastructure has proven priceless to families and businesses during the Pandemic. We're particularly proud of the fact Jersey was the first jurisdiction in the world to make 1GB full-fibre broadband available to every home, while the network which connects homes and businesses to pure fibre gigabit speeds allows businesses to process significant volumes of data at high speed to other, global locations".

Robert Moore, Director
UK Jersey Finance

TECHNOLOGY AND FAMILY UNITY



Believe new technologies had helped them bring their family together during the Pandemic

Feel technology had not made a difference to their communication efforts during the Pandemic

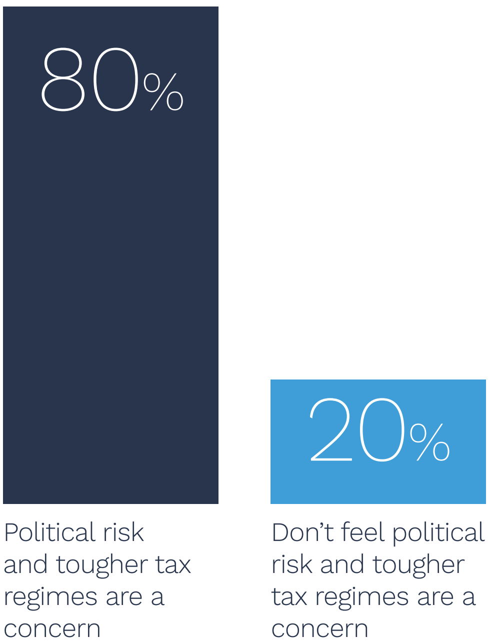
"The Pandemic accelerated the use of video technology for us as a business, but also brought our family together in otherwise difficult times to do so given geographical separation," said one principal of a US family office.

Family offices also said they believed video technology would fundamentally change their dynamics of doing business in the future and felt, as a business, they would rely on it more, and less on meeting face to face when it requires international travel.

Tax and Political Risk

Eighty percent of the family offices surveyed felt political risk and tougher tax regimes were concerns, with 30% saying these issues were very significant. While the survey didn't ask for details as to plans to mitigate these risks, some provided anecdotal evidence in their remarks.

TAX AND POLITICAL RISK ISSUES



"Tax concerns are always uppermost in how we structure our portfolio," said one German family office senior manager. *"We have looked at offshore centres as an alternative location to base the family office if tax concerns become more of an issue for us."*

Stability is always an issue for family offices when they consider jurisdictional locations. This is particularly the case for Asian, Latin American and African families, who often either base their family office outside of their country of origin or have a subsidiary in an offshore location.

Conclusion

Like most businesses, family offices have been affected by the Pandemic. However, results from this survey indicate the next generation of wealth owners are shaping family offices into their mould, where investment priorities are influenced more by impact ideas and purpose. The Pandemic accelerated this trend, although perhaps not as much as might have been expected at the beginning.

When it comes to impact investing, family offices are more influenced by biotech and healthcare investing than ESG issues. That said, most had already placed issues like cleantech and social priorities central to their thinking before the Pandemic.

Most felt better governance was needed in their family offices and emphasised the importance of education and communication in this process.

While the Pandemic will doubtless leave a mark on family office dynamics, the greater impact will be on the adoption of technology and the growth in impact-led investment decision-making spearheaded by the NextGen. The Pandemic has also thrown governance into sharper focus, with a necessary move to formation of formal structures in many family offices.

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