



THE NORTH AMERICA
FAMILY OFFICE
REPORT 2022



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Forewords

Dear reader,

We are pleased to share The North America Family Office Report 2022 in continued partnership with Campden Wealth.

As I reflect on the past year and the evolving needs of family offices we work with around the globe, one thing remains clear: we are at the center of a multi-trillion dollar transition between generations. For North American family offices (NA FOs) in particular, 30 percent of Next Gens have already assumed control of their families' operations – with another 27 percent expected to do so within the next decade. Now more than ever, it is critical that these future leaders be prepared to succeed. However, only 54 percent of NA FOs have a succession plan in place – and 40 percent feel they do not have a suitable individual ready to take over.

While they may not be fully in control yet, we are starting to see the influence of Next Gens' ingenuity. Over a third of NA FOs practice sustainable investing (largely focused in climate change mitigation), with the average share within their portfolios expected to increase in the next five years. This year, investments in healthcare tech, fintech, digital, and green tech continued to rise. Looking to 2023, artificial intelligence, healthcare tech, and green tech are expected to be areas of further increased investment.

The greatest risk (cited by 81 percent of respondents) to NA FOs is investment risk. As a result, more and more are taking a relatively conservative or balanced (mix of preservation and growth) positions vs. the growth-focused mindsets seen in the early days of the pandemic. Paired with inflationary risk on the rise, NA FOs are leaning further into the safety of private equity, real estate, and commodities. Beyond market forces, over a third of NA FOs also experienced one or more cyberattacks in 2022 – with 30 percent feeling insufficiently prepared to defend themselves and 32 percent having no cyber security plan in place at all.

Despite all this, NA FOs outperformed the global average portfolio return of 13 percent with a strong 15 percent – edging ahead of European (13 percent) and Asia-Pacific (10 percent) counterparts. If NA FOs want to remain ahead, they will need to invest further into Next Gen preparedness and education – which currently sits at an average spend of just 2 percent of their annual operational costs.

In the midst of this transition, we at RBC are proud to partner with family offices to realize their ambitions today and for generations to come. We hope you find this report insightful and helpful in shaping the future of your family office – and want to thank all participants who generously contributed to the findings.

Yours faithfully,



F. Mark M. Fell

Head, Family Office and Strategic Clients
Enterprise Strategic Client Group – Royal Bank of Canada



Dear reader,

We find ourselves at a unique point in time. On the positive side, through the extraordinary efforts of many, we are coming out the back end of a highly challenging global pandemic. Less positive is that we are now facing the economic aftermath of the damage the pandemic has caused, as we see inflation swelling, interest rates soaring and the prospect of a recession looming.

With that said, family offices are exceptionally well-poised to navigate rocky terrain. As nimble entities with cash reserves and patient capital, they can swiftly respond to economic changes quicker than many large-scale organizations can, while also being well equipped to capitalize on opportunistic deals thrown up by market volatility.

In turn, both families and family offices have proved tremendously resilient in recent years. In fact, they not only bounced back, but flourished. This is evidenced by the fact that 77 percent of North American families' wealth rose over the last year, alongside 58 percent of their family office AUM and 55 percent of their operating business revenue. Merely 5 percent or less saw a financial decline in any of these areas.

Furthermore, 33 percent of North American family offices have grown their staff numbers over the year, and in a sign of their operational enhancement, 46 percent have improved their IT infrastructure and 35 percent their risk management structures.

They have also done remarkably well investment-wise, as North American family offices outperformed their regional peers in 2021, delivering a 15 percent average portfolio return, compared to 13 percent in Europe and 10 percent in Asia-Pacific. The asset class that stole the show was private equity, with venture capital garnering a remarkable 26 percent average return, private equity funds 22 percent and direct investments 21 percent. On all accounts, eyes should be on this promising asset class in 2023, as family offices seek out new opportunities both within the region and abroad.

That being said, family offices are navigating the landscape tactically, but treading carefully. They know they are in a balancing act, juggling a range of risks, such as succession planning, cyber threats, investment dynamics and political instability, while also needing to preserve and grow the family wealth. It will be a fascinating year ahead as we see which players ride the waves, and which get taken by the tide.

As we chart our path through, what will help us is to share knowledge and learn from one another as a community. In turn, I want to extend deep gratitude to all of those who participated in this research which is, at its core, a tool for family offices to benchmark themselves against their peers. I would also like to thank our partner, RBC, and the Campden Wealth Research team for their hard work and longstanding commitment to the community.



Dominic Samuelson
Chief Executive Officer
Campden Wealth



Executive summary

This report is based on statistical analysis from 382 surveys with family offices worldwide, with 179 (or 47 percent) coming from North America. The average family represented from North America has wealth of US\$2 billion, while their estimated cumulative wealth stands at US\$363 billion (total global wealth across the report series is estimated at US\$699 billion). The average North American family office has assets under management (AUM) of US\$1 billion, while their collective AUM is estimated at US\$182 billion (the total global family office AUM across the report series is estimated at US\$390 billion).

The following denotes the key takeaways:



Reducing investment risk

The proportion of North American family offices which employ a growth-oriented investment strategy has fallen from 43 percent in 2021 to 39 percent in 2022. This shift follows stock market declines in the first half of 2022, and concerns over inflation, rising interest rates and a potential forthcoming recession. Consequently, the proportion employing a more conservative, balanced (preservation plus growth) approach has grown from 47 to 51 percent over the year. This follows 81 percent heralding investment risk as the number one risk to family offices.



Inflation drives shift towards private equity, real estate and commodities

Currently, the most significant risk to financial markets is deemed to be inflation, as cited by 88 percent of North American family offices. This is closely followed by concerns over rising interest rates (72 percent) and geopolitical risks (53 percent). To mitigate inflation effects, notable proportions of family offices are planning to invest more into private equity (+46 percent for funds and +41 percent for direct deals), real estate (+41 percent) and commodities (+22 percent) next year, and less into fixed income (-17 percent for developing and -10 percent for developed market bonds).



Private equity takes centre stage

While investment into equities has remained stagnant in North America, private equity has come into sharp focus. This stems from: its production of outsized returns in 2021 (venture capital 26 percent, private equity funds 22 percent and direct investments 21 percent); a notable rise in the asset class's average portfolio share from 22 percent in 2021 to 27 percent in 2022; and a desire among family offices to invest more into private equity in 2023 (46 percent plan on allocating further to private equity funds, 41 percent to direct deals and 35 percent to venture capital).



North American family offices outperform their peers

North American family offices outperformed their peers with an average portfolio return of 15 percent in 2021 compared to 13 percent in Europe, 10 percent in Asia-Pacific and a global average of 13 percent. This performance is largely attributed to strong gains within private equity, developed market equities and real estate.

81%

of North American family offices identified investment risk as the number one risk to family offices

88%

of North American family offices cited inflation as the most significant risk to financial markets

15%

is the average 2021 portfolio return among North American family offices



Sustainable investing is heating up

Over a third (37 percent) of North American family offices now engage in sustainable investing (47 percent globally), up from 34 percent in 2021. Sustainable investing currently accounts for 20 percent of these investors' average portfolio, up from 18 percent in 2021. This proportion is expected to rise to 31 percent within five years (38 percent globally). The number one theme these investors are targeting is climate change mitigation, with 77 percent investing here.



Family offices are avid investors in tech

The most popular technology North American family offices invest in is healthcare tech, with 71 percent allocating here, followed by biotech (62 percent), fintech (59 percent), digital tech (52 percent) and green tech (50 percent). Looking to 2023, the areas most likely to see a rise in allocations are artificial intelligence, with 40 percent of those currently invested here planning to increase their allocations, healthcare tech (39 percent) and green tech (35 percent).



Falling behind the succession curve

We are in the midst of a major generational transition in which trillions of dollars are changing hands globally. At present, 30 percent of Next Gens have already assumed control, while 27 percent are expected to do so within the next 10 years. Despite this, only 54 percent of North American families have a succession plan in place, while just 33 percent of family offices have a succession plan for their senior executives. Meanwhile, one of the greatest challenges families face with regard to succession, denoted by 40 percent of respondents, is not having a Next Gen family member qualified enough to take over. Despite this concern, family offices are only investing an average of 2 basis points (or approximately 1.5 percent of their operational costs) on Next Gen education.



Family offices are in the crosshairs of cyber criminals

Over a third (37 percent) of North American family offices have experienced one or more cyber attacks over the last year. Despite this, 31 percent do not have a cyber security plan in place, and 30 percent feel insufficiently prepared to safeguard themselves from an attack.

An aerial night view of a city, likely New York City, showing a grid of streets and illuminated buildings. The image is overlaid with three large, semi-transparent blue circles of varying sizes, creating a modern, abstract design. The text is positioned within the central circle.

1. The family office landscape

1.1 Introduction

1.2 Overview of participants

1.3 Wealth and family office structure

1. The family office landscape

1.1 Introduction

After over two years of a global pandemic, the world continues to feel the effects both from a health and economic perspective. To keep economies afloat after stock markets across the world crashed in February 2020, governments injected trillions of dollars to keep businesses and individuals alike above water. This buffer proved a successful lifeline for many, and last year we reported that optimism largely reigned among family office executives, as a significant 86 percent reportedly believed that 2022 would embody a period of positive economic recovery.

However, conventional wisdom failed to predict that supply chain constraints, transport dislocation and quantitative easing—factors that were inescapable during the pandemic—can lead to a sustained period of inflation. Thus, not all were prepared for U.S. inflation to rise to a 40 year high (hitting 9.1 percent in June 2022), for interest rates to rise repeatedly in tandem and for the economy to shrink over two consecutive quarters in 2022. Nor did many expect Russia to invade Ukraine, resulting in a disruption of the global energy market and ballooning oil prices, or the U.S. dollar to appreciate starkly against other major currencies as the Fed raised short-term interest rates to combat inflation.¹

This has led many family offices to change their tune, as fears of a forthcoming recession have permeated, with 68 percent of executives now reporting to have a negative economic outlook for 2022/2023.

Despite this dampening of an emotional high once felt by those relieved to finally be free from lockdowns, travel bans and other government restrictions, the findings this year are not a story of bleak times. In fact, to date, family offices have been emerging from this period stronger, wiser and wealthier than before. This is because family offices, with their long-term approach, patient capital and nimble structures, are exceptionally well-poised to not only ride out, but to capitalize on, economic downturns.

This was evidenced last year, when we reported that a staggering 86 percent of families saw their wealth increase, while 58 percent saw their family office AUM rise over 2020/2021. This year, most families, 77 percent, have once again seen their wealth rise, along with 56 percent in their family offices' AUM.

Family offices hold onto assets when it advantages them during turbulent times. They maintain cash reserves to capitalize on opportunistic investments when moments to strike emerge, such as is common in volatile markets. They also have highly diverse portfolios spanning high and low risk asset classes across both developed and developing markets. This enables them to flexibly adjust to changing market conditions.

This report, which is accompanied by European and Asia-Pacific editions—all of which offer a robust global overlay—aims to be the most in-depth series available on family offices. It covers topics such as investing, performance, operational costs, technology, cybersecurity, governance, risk, succession planning, the next generation, philanthropy and more. With a robust sample of 382 participants, accounting for roughly US\$700 billion of wealth, this report provides a detailed picture of the family office landscape so that family offices can benchmark themselves against their peers.

Methodology

This research is both quantitative and qualitative. Between March and June 2022, 382 family offices from across the globe participated in the survey, with 179 being from North America. In addition, in-depth interviews were conducted with 32 family office executives worldwide with 15 being based in North America. Single and private (not commercial) multi-family offices are included in the analysis this year. We define private multi-family offices as entities that serve no more than eight families, and the core family must hold at least 50 percent of the family office's total AUM.

For the purposes of comparing the North America family office findings to those from Europe and Asia-Pacific, reference is sometimes made in the text to data which is not included in the charts. Please note that these are references to the European and Asia-Pacific editions of this regional series. All other individual references are highlighted in the footnotes.

¹ Trading Economics, United States Inflation Rate, 2022: <https://tradingeconomics.com/united-states/inflation-cpi>
World Economic Forum, 5 things to know about the Fed's biggest interest rate increase since 1994 and how it will affect you, June 16, 2022: <https://www.weforum.org/agenda/2022/06/5-things-to-know-about-the-fed-s-biggest-interest-rate-increase-since-1994-and-how-it-will-affect-you/>
Financial Times, US economy shrinks for two consecutive quarters, July 28, 2022: <https://www.ft.com/content/8e4caa59-5799-430b-9896-e494369900dc>

1.2 Overview of participants

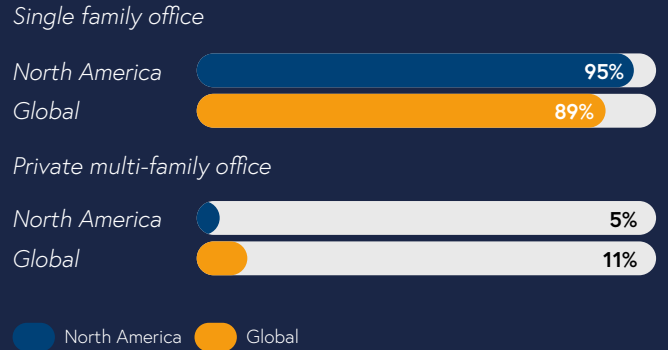
The following provides a profile of the family offices which participated in this research.

A significant 179 family offices from North America participated

In 2022, 179 family office executives in North America were surveyed for this report. Ninety-five percent are from single family offices and 5 percent from private multi-family offices (figure 1.1). These include non-commercial family offices that look after no more than eight families and have a core family that holds at least 50 percent of the office's total AUM.

Of these, 84 percent are based in the United States, 14 percent in Canada, and 2 percent in Mexico and the Cayman Islands.

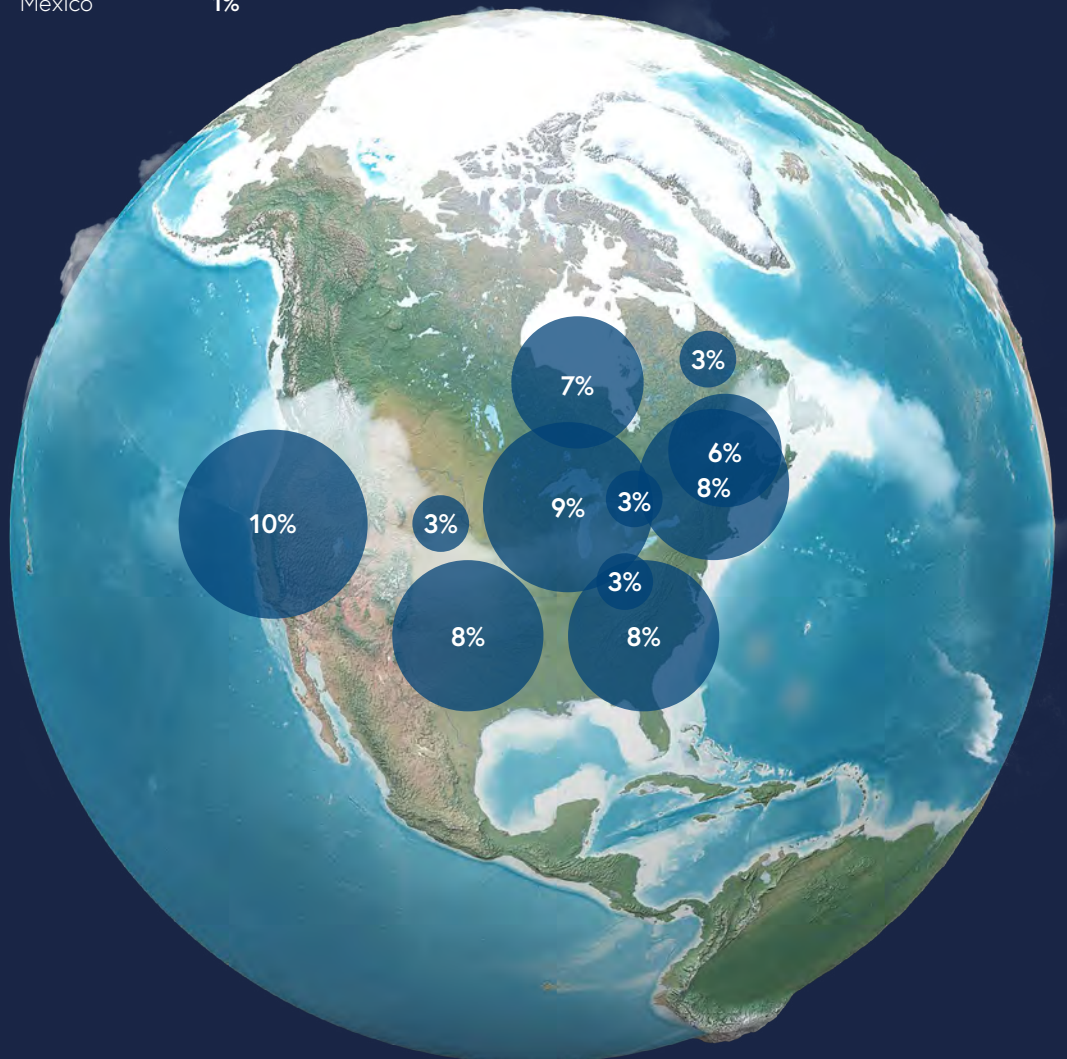
Figure 1.1: Participating family offices by type of office



Source: Campden Wealth / RBC, The North America Family Office Report, 2022

North America: location of family offices

United States	84%	Other	2%
Alabama	1%	Cayman Islands	1%
Arizona	1%	Mexico	1%
California	10%		
Colorado	3%		
Connecticut	3%		
Florida	8%		
Georgia	3%		
Illinois	9%		
Indiana	1%		
Kentucky	3%		
Louisiana	1%		
Maine	1%		
Maryland	1%		
Massachusetts	6%		
Michigan	1%		
Minnesota	1%		
New Hampshire	1%		
New Jersey	3%		
New York	8%		
North Carolina	2%		
North Dakota	1%		
Ohio	3%		
Oregon	1%		
Pennsylvania	1%		
Texas	8%		
Utah	1%		
Virginia	1%		
Washington	1%		
Wisconsin	1%		
Wyoming	1%		
Canada	14%		
Alberta	2%		
British Columbia	1%		
Ontario	7%		
Quebec	3%		

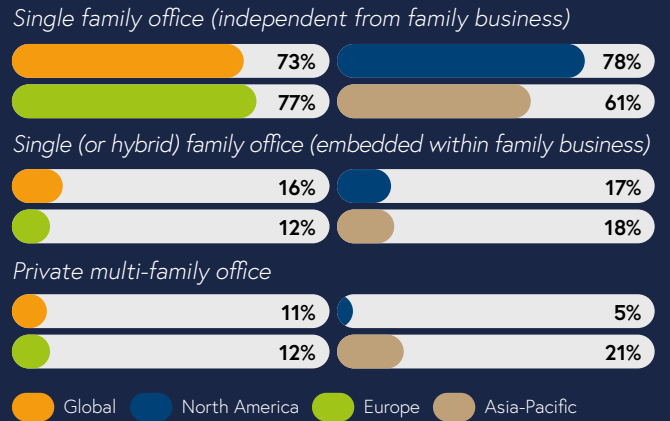


382 family offices participated worldwide

A total of 382 family offices participated in the survey worldwide. Eighty-nine percent are from single family offices and 11 percent from private multi-family offices (figure 1.2).

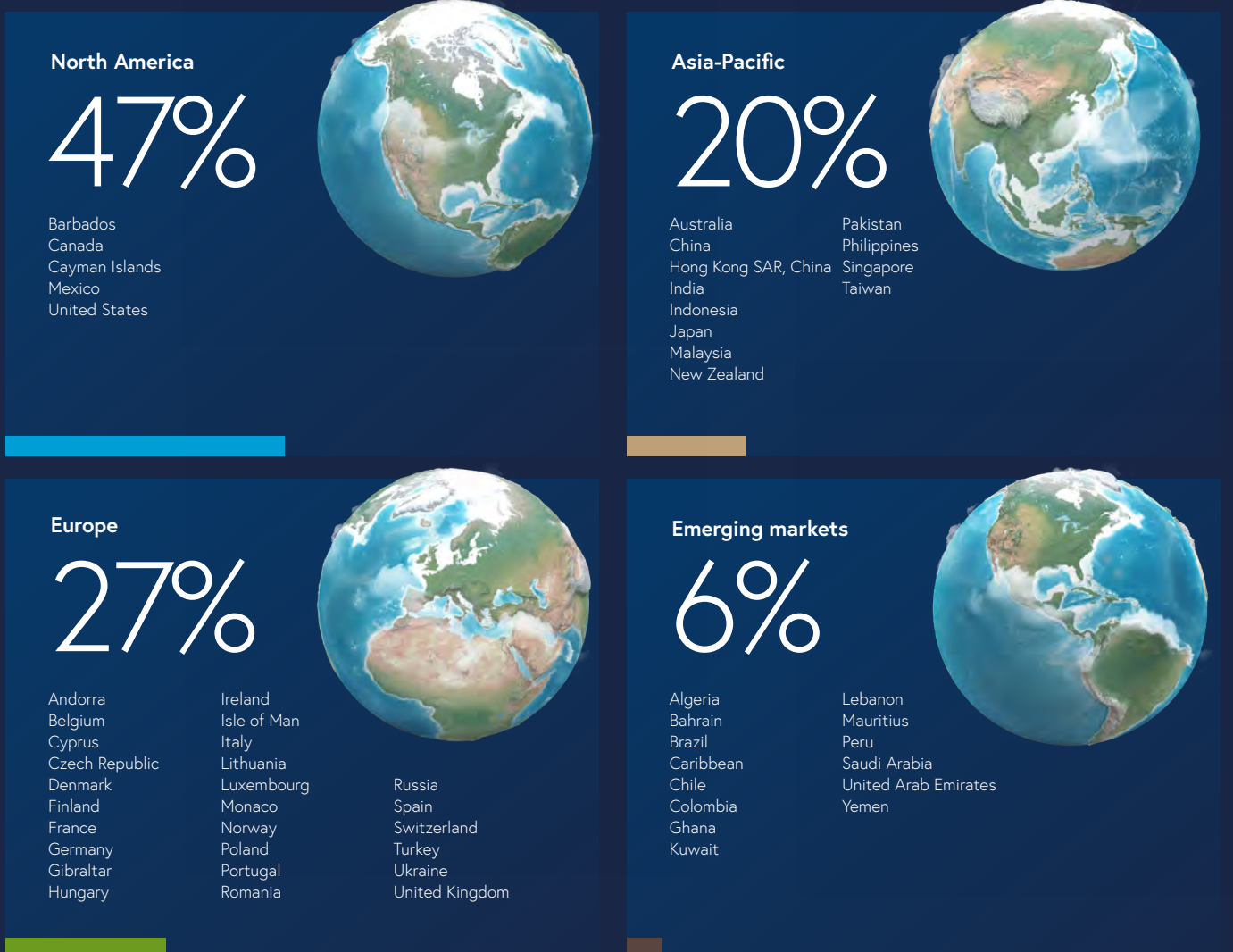
Nearly half, 47 percent, are headquartered in North America, 27 percent in Europe, 20 percent in Asia-Pacific and 6 percent in emerging markets including South and Central America, Africa and the Middle East (figure 1.3).

Figure 1.2: Participating family office by type



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Figure 1.3: Global breakdown of the family offices by region

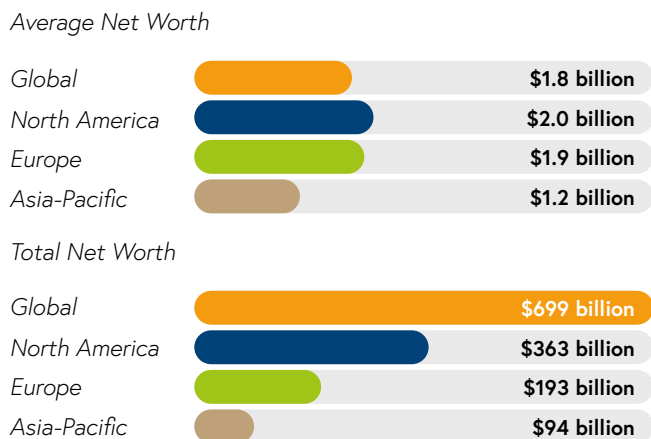


Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Of those surveyed in North America, the average family wealth is US\$2 billion, and the cumulative total estimated wealth is US\$363 billion (figure 1.4).

The respective figures for those surveyed worldwide are US\$1.8 billion for average family wealth and US\$699 billion for estimated total wealth.

Figure 1.4: Including their holding in the core operating business, the total net worth of the families by region

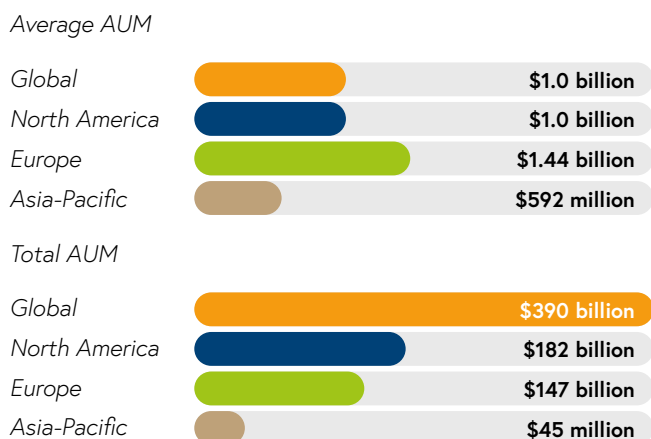


For private multi-family offices, the total net worth of all families.
Source: Campden Wealth / RBC, The North America Family Office Report, 2022

The average AUM of the family offices surveyed across North America stands at US\$1 billion, while their total estimated AUM is US\$182 billion (figure 1.5).

The respective figures for those worldwide are an average AUM of US\$1 billion and estimated total AUM of US\$390 billion.

Figure 1.5: Excluding operating business ownership, the total private wealth the family offices manage (in assets under management, AUM) by region

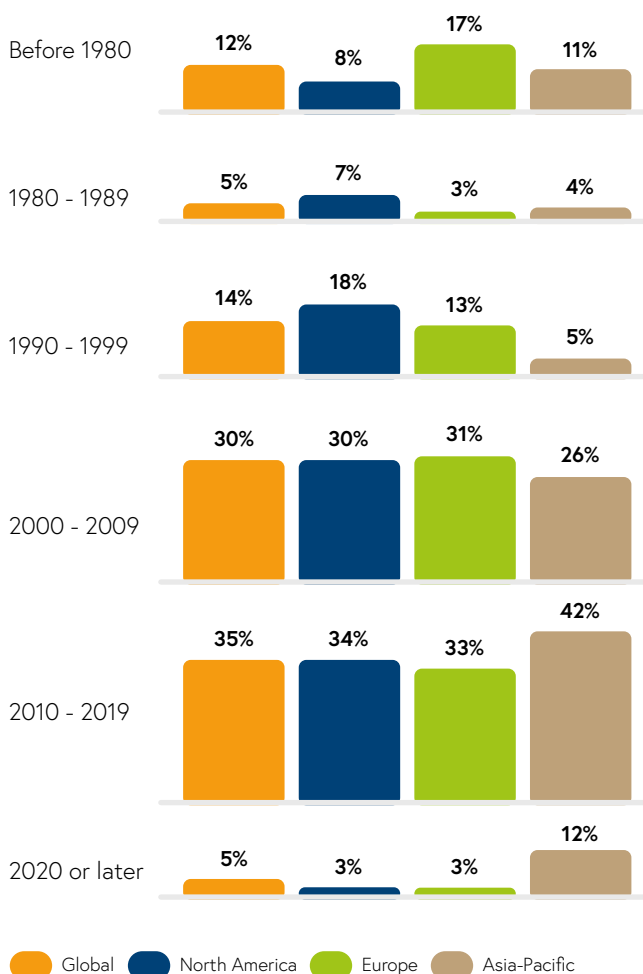


Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Over two-thirds of family offices were founded after the millennium

Most of the family offices in North America and Europe were founded after the millennium, 67 percent each (figure 1.6). In Asia-Pacific, given the more recent emergence of family wealth, a higher proportion were founded during this period, 80 percent.

Figure 1.6: Year the family office was founded



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC, The North America Family Office Report, 2022

1.3 Wealth and family office structure

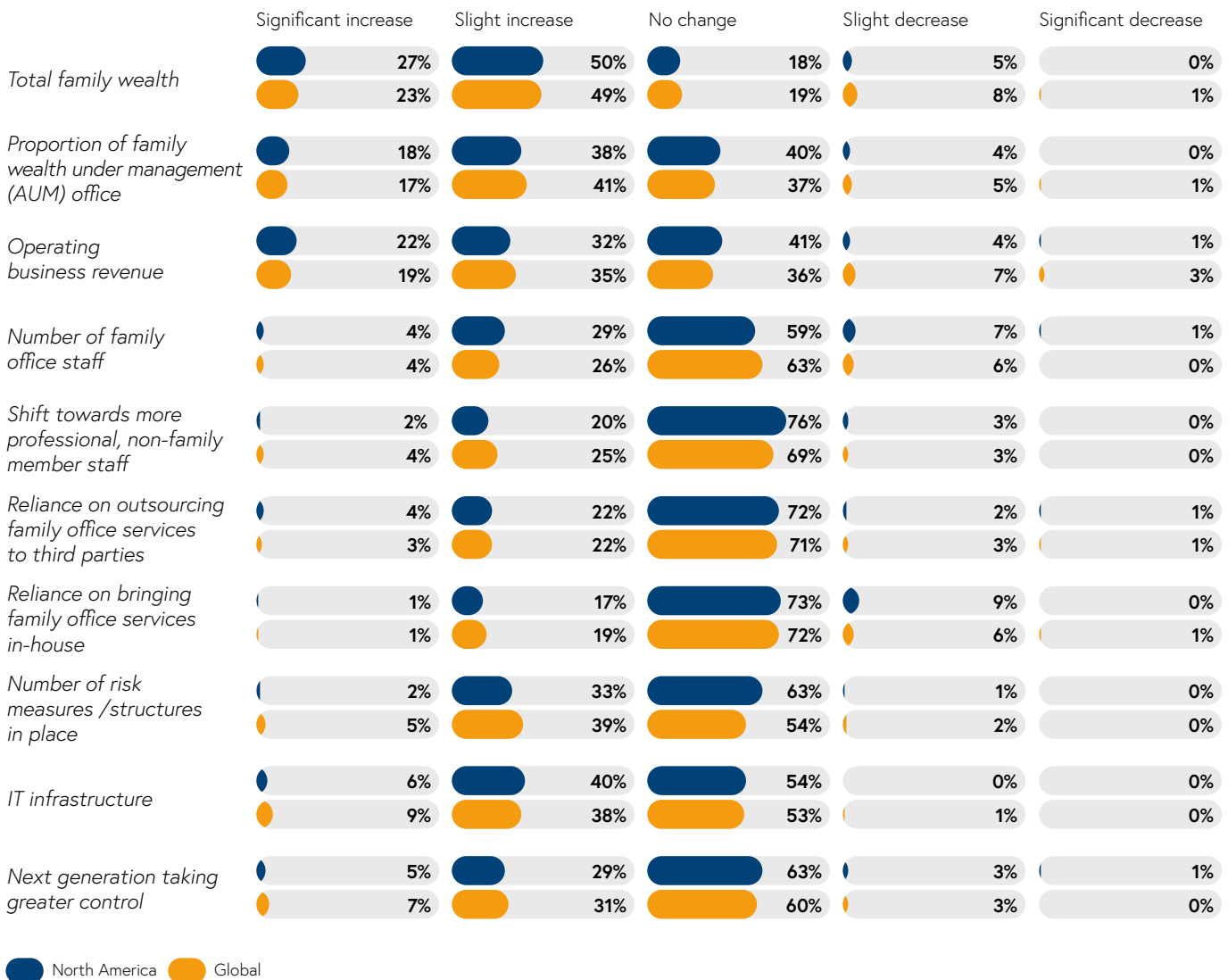
77 percent of North American families' wealth increased over the last 12 months, along with 56 percent of their family offices' AUM

Amid a turbulent economic climate, and broadly echoing a trend from last year, it is noteworthy that 77 percent of the families in North America saw their wealth rise over the last 12 months, with 27 percent experiencing a significant hike in wealth (figure 1.7). Similarly, a notable 56 percent of North American family offices' AUM went up over the year, with 18 percent rising significantly. This compares to global averages of 72 percent for increases in wealth and 58 percent for increases in family office AUM.

Family offices are expanding, while beefing up their risk management and IT infrastructures

North American family offices have focused on expanding their teams, with 33 percent reporting a rise in staff numbers over the past 12 months (global average 30 percent). A further 26 percent are outsourcing more functions to service providers, while 35 percent are increasing their number of risk management measures / structures and 46 percent are improving their IT infrastructures.

Figure 1.7: Percentage of family offices reporting changes over the last 12 months (Tick all that apply)



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC, The North America Family Office Report, 2022

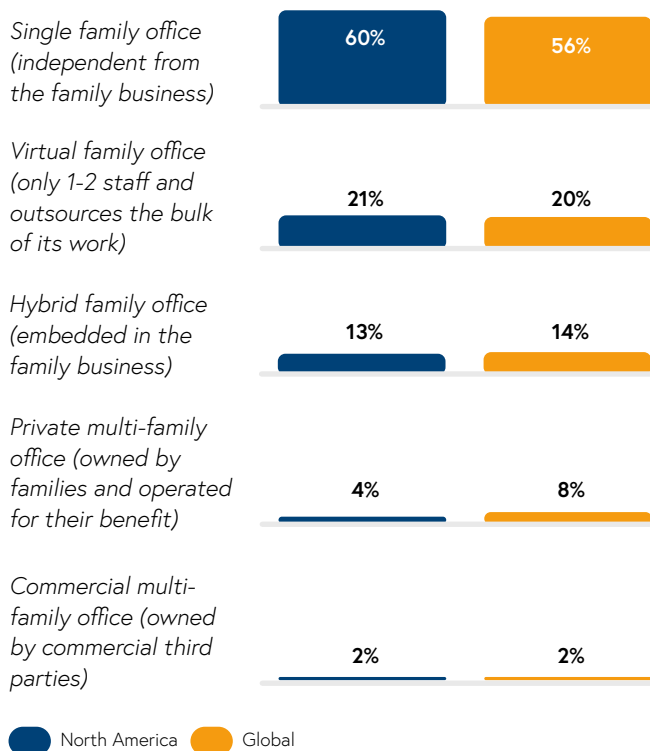
A single family office is the most popular operational structure, followed by a virtual family office

When respondents in North America were asked which family office structure they believe is most beneficial to families, the majority (60 percent) said a single family office that is independent from the family business (figure 1.8). The second most popular structure is deemed to be a virtual family office (21 percent), an office that has few staff, such as one or two, and outsources the bulk of its work. These numbers broadly resemble worldwide sentiment on the matter.

"My job is to make sure that the family, which has over 100 members, understands the power of being together as opposed to being apart, and the advantages of maintaining a single family office. Everything is done at scale, and we invest with one voice. We've had extensive experience running a successful family office since the 1930s."

Principal, single family office, Illinois, U.S.

Figure 1.8: Best perceived structure for a new family office



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC, The North America Family Office Report, 2022

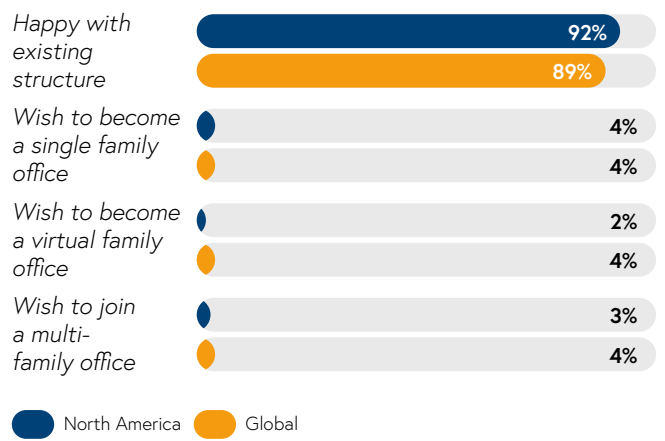
Nine in ten are satisfied with their existing structure; one in ten would prefer a change

Most North American respondents are satisfied with their existing structure (92 percent). However, 8 percent would prefer to change to either a single family office (4 percent), virtual family office (2 percent), or multi-family office (2 percent) (figure 1.9). These changes can reflect the natural evolution of family offices as entities, as denoted by one executive:

"There are different models for family offices, but the starting point is usually a family office that's embedded in the family's operating business and shares its resources. If the business is then sold, you're left with a dedicated single family office which has its own staff and resources. Then, over time, as families grow wealthier, their requirements become more complex. The family office grows bigger too, but eventually they become too cumbersome, and families look to outsource activities and create a virtual family office, where you centralize your custody and record-keeping, but outsource things like money management, taxation, estate planning and IT functions. Essentially, many of the major functions are outsourced, but you keep the core relationship components in-house. As technology gets better and families grow in complexity, I think the role of virtual family offices will only increase over time."

President, multi-family office, Massachusetts, U.S.

Figure 1.9: Proportion of respondents satisfied with their existing family office structure and those seeking an alternative



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC, The North America Family Office Report, 2022



2. Investments

2.1 Asset allocation

- Investment strategy
- Asset allocation
- Allocations to emerging technology
- The geography of allocations

2.2 Performance

2.3 Asset class focus

- Private equity
- Venture capital, a family office fan favourite
- Real estate
- Sustainable investing
- Tackling climate change one "gigacorn" at a time

2.4 Service provision

2. Investments

- The proportion of North American family offices which employ a growth-oriented investment strategy has fallen from 43 percent last year to 39 percent this year. This shift follows Q1/Q2 stock market declines and concerns over inflation, rising interest rates and a potential forthcoming recession. Consequently, the proportion employing a more conservative, balanced approach has grown from 47 to 51 percent over the year.
- Currently, the most significant risks to financial markets are deemed to be inflation (88 percent), rising interest rates (72 percent) and geopolitical risks (53 percent). These concerns follow a year of high investment returns in 2021, as North American family offices outperformed their peers with an average portfolio return of 15 percent compared to 13 percent in Europe, 10 percent in Asia-Pacific and a global average of 13 percent.
- While equities investment has remained relatively unchanged over the year in North America, private equity has come centre stage. This stems from: its production of outsized returns in 2021 (venture capital 26 percent, private equity funds 22 percent and direct investments 21 percent); a notable rise in the asset class's average family office portfolio share from 22 percent in 2021 to 27 percent in 2022; and a significant interest from family offices to increase their investment in private equity over 2023 (46 percent plan on allocating more to private equity funds, 41 percent to direct deals and 35 percent to venture capital).
- Over a third (37 percent) of North American family offices now engage in sustainable investing (47 percent globally), up from 34 percent in 2021 and 26 percent in 2019. Among these investors, sustainable investing accounts for 20 percent of their average portfolio, up from 18 percent in 2021 and 16 percent in 2020. This proportion is expected to rise to 31 percent within the next five years (38 percent globally).
- Following a recent wider trend, 12 percent of North American family offices now invest in NFTs and 8 percent plan to allocate more to NFTs over the coming year. Meanwhile, nearly one in four (23 percent) invest in the metaverse and that 13 percent plan on increasing their investment in the metaverse over 2023.

88%

of North American family offices deem inflation to be the number one risk to financial markets

15%

was North American family offices' average investment portfolio return in 2021

37%

of North American family offices now engage in sustainable investing

2.1 Asset allocation

Investment strategy

Reducing investment risk

Family offices typically favour a conservative approach to investing and maintain a balance between the need to preserve capital and the desire to grow wealth. Furthermore, most family offices represent multi-generational wealth holders, and tend to be long-term investors with deep pockets and patient capital. In turn, they can ride out economic storms and typically make only moderate changes to their annual portfolios.

With that said, last year amid the COVID-19 pandemic we reported that family offices had shifted more towards a growth-oriented investment strategy. This move came after a year of strong gains in both private and public equities which were, in part, fueled by family offices' ability to capitalize on the stock market's rapid recovery following the 2020 crash. It was also aided by broadly positive sentiment about the forthcoming economic climate, with 86 percent of North American family offices feeling that 2022 would be a time for economic recovery, and only 7 percent believing that a global recession would ensue, following government ceasing of economic stimulus injections.²

A year later, family offices are more pessimistic owing to recent stock market declines and concerns over inflation, rising interest rates and a potential forthcoming recession. At present, 68 percent have a broadly negative outlook about the 2022/23 economic climate, while only 32 percent feel positive (**figure 2.1**). In turn, some are taking a more conservative stance by shifting away from growth and towards a balanced investment strategy.

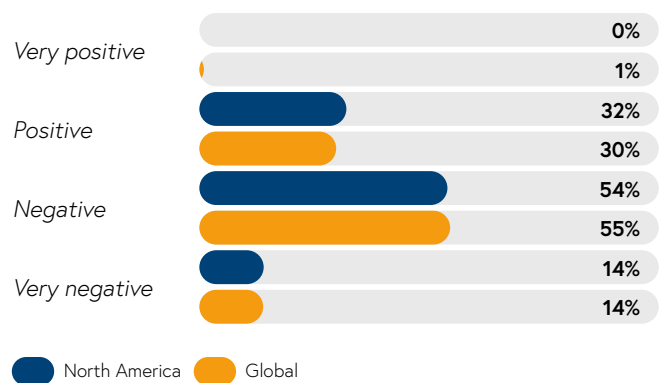
To illustrate, in 2021 43 percent of North American family offices held a growth-oriented investment approach, while 47 percent held a balanced strategy. This year, fewer family offices have opted for growth (39 percent), while more have opted for a balanced approach (51 percent) (**figure 2.2**).

It is also noteworthy to mention that family offices in North America tend to embrace growth-driven strategies more than any other region, as reflected by the 2021 and 2022 findings. One family office executive commented:

"My first insight when we established the family office almost 40 years ago was that the portfolio should be entirely equity, held over a very long-term horizon. That's the situation we have today with roughly half our portfolio in developed market public stocks and the other half in private equity. The second insight was that the family's consumption had to be controlled so that after allowing for taxes, consumption and inflation there was sufficient capital to reinvest to keep the portfolio growing in real terms."

President, single family office, Massachusetts, U.S.

Figure 2.1: Whether family offices general economic outlook for 2022/2023 is positive or negative

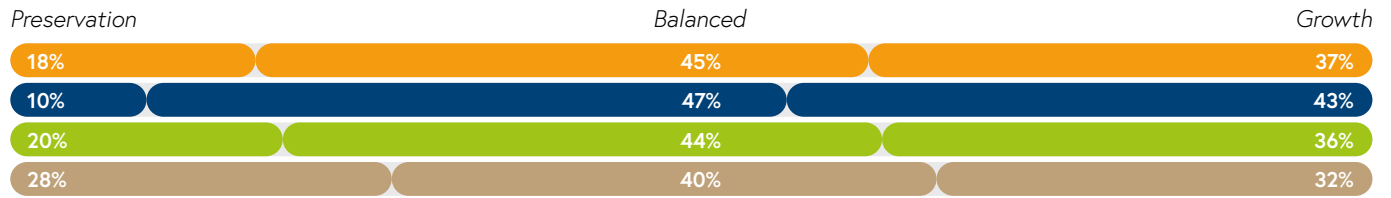


Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC, The North America Family Office Report, 2022

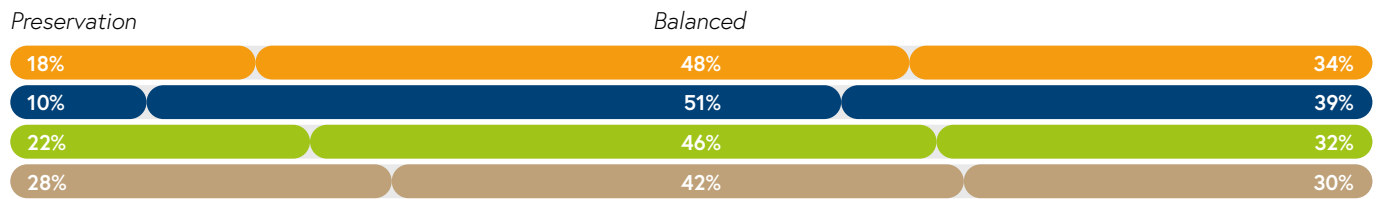
² Campden Wealth / RBC, The North America Family Office Report, 2021

Figure 2.2: The main investment objectives of the family office for 2021, 2022, and in 10 years' time

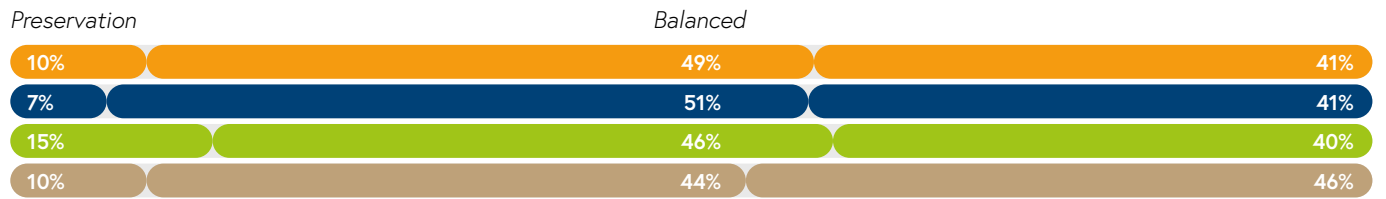
2021



2022



10 years



● Global
 ● North America
 ● Europe
 ● Asia-Pacific

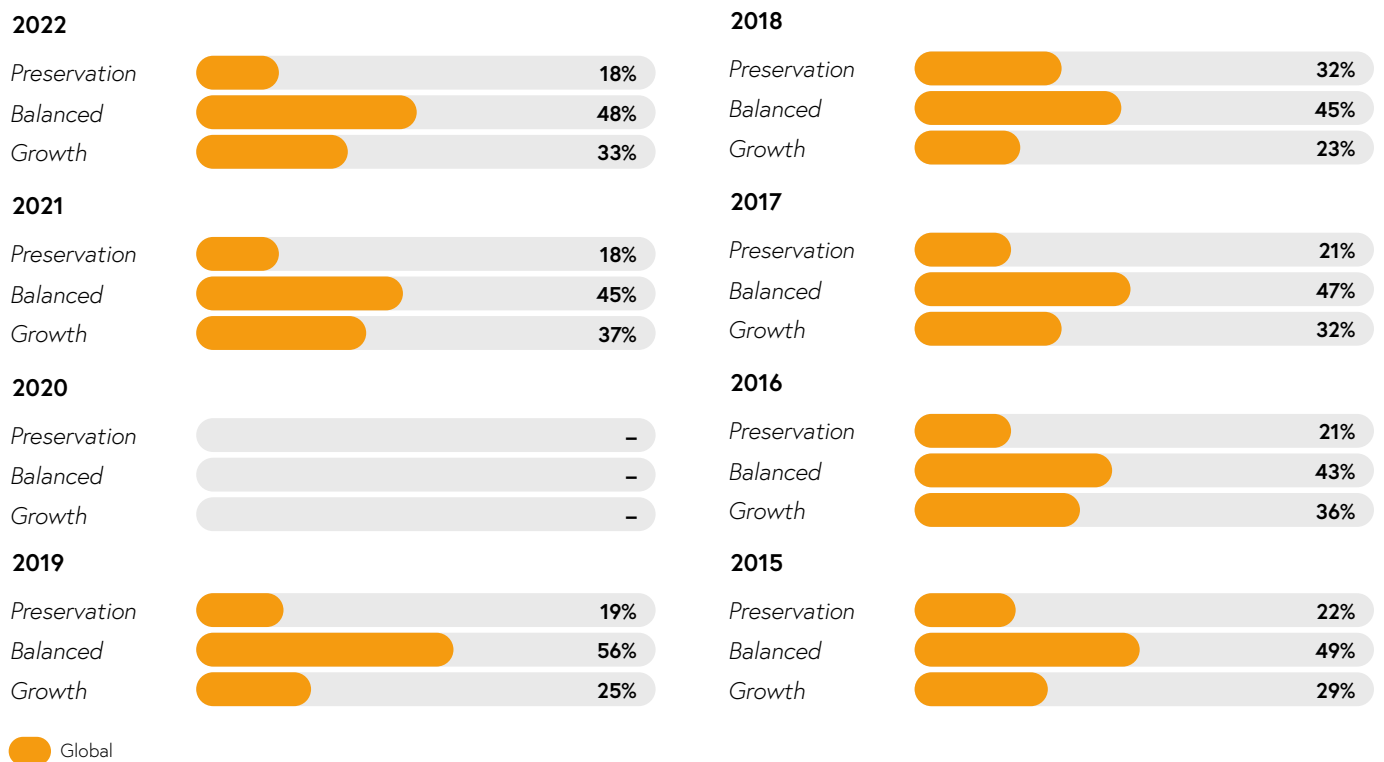
Note: Figures may not sum to 100% due to rounding.
 Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Over time, family offices have gradually shifted away from preservationist approaches

Looking at wider global trends, it is interesting to note that, over time, family offices have shifted away from a preservationist approach, with 22 percent adopting

this model in 2015 compared to 18 percent in 2022, and more towards a growth-oriented model, with 29 percent adopting this model in 2015 compared to 34 percent today (figure 2.3). In turn, this year's retraction from growth may not lead to a long-term shift.

Figure 2.3: Main investment objectives of family offices worldwide between 2015 and 2022



Note: Figures may not sum to 100% due to rounding.
 Figures were not produced in 2020 due to the COVID-19 pandemic.
 Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Inflation risk tops the chart

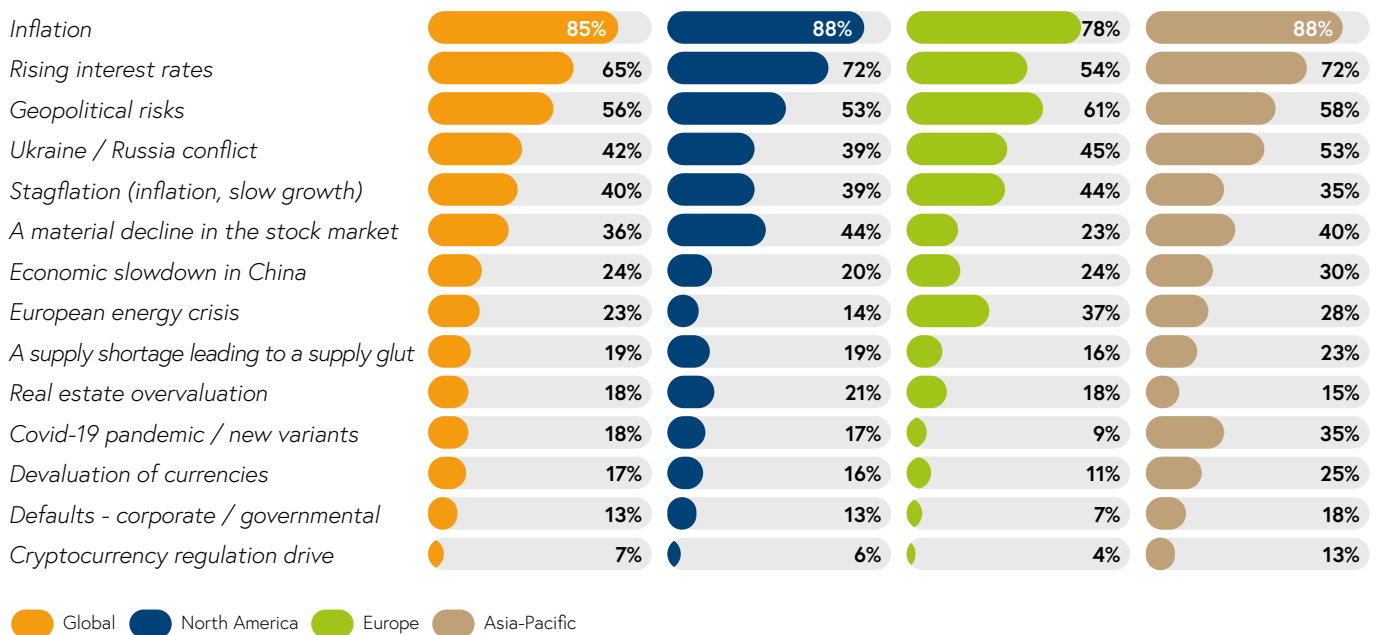
The conventional wisdom at the end of 2021 was that inflation was the product of transport dislocation and supply chain constraints and would therefore prove no more than a temporary blip, set to disappear as the impact of the pandemic faded. Many family offices were however sceptical, as last year's report found that 71 percent of respondents globally saw inflation as the most significant risk to financial markets.³ Unfortunately, these fears were realized when U.S. inflation continued to rise to over 8 percent by the end of the first quarter of 2022.

Inflation is still the most commonly cited risk to financial markets (85 percent of family offices globally and 88 percent

in North America) (**figure 2.4**). Recognizing that the central bankers would deal with inflation through tighter monetary policy, rising interest rates ranked second among investors' top concerns, with geopolitical risks coming in third.

Some key differences between the regions relate to European family offices' greater concern than their regional counterparts over geopolitical risks (a natural response given the war in Ukraine), North Americans' heightened concern over the stock market's decline and a lack of concern about the European energy crisis (perhaps because of geographic location), and Asia-Pacific respondents' heightened worry about China's economic slowdown.

Figure 2.4: Most significant market risks perceived by family office over the coming 12 months (Tick all that apply)



Source: Campden Wealth / RBC, The North America Family Office Report, 2022

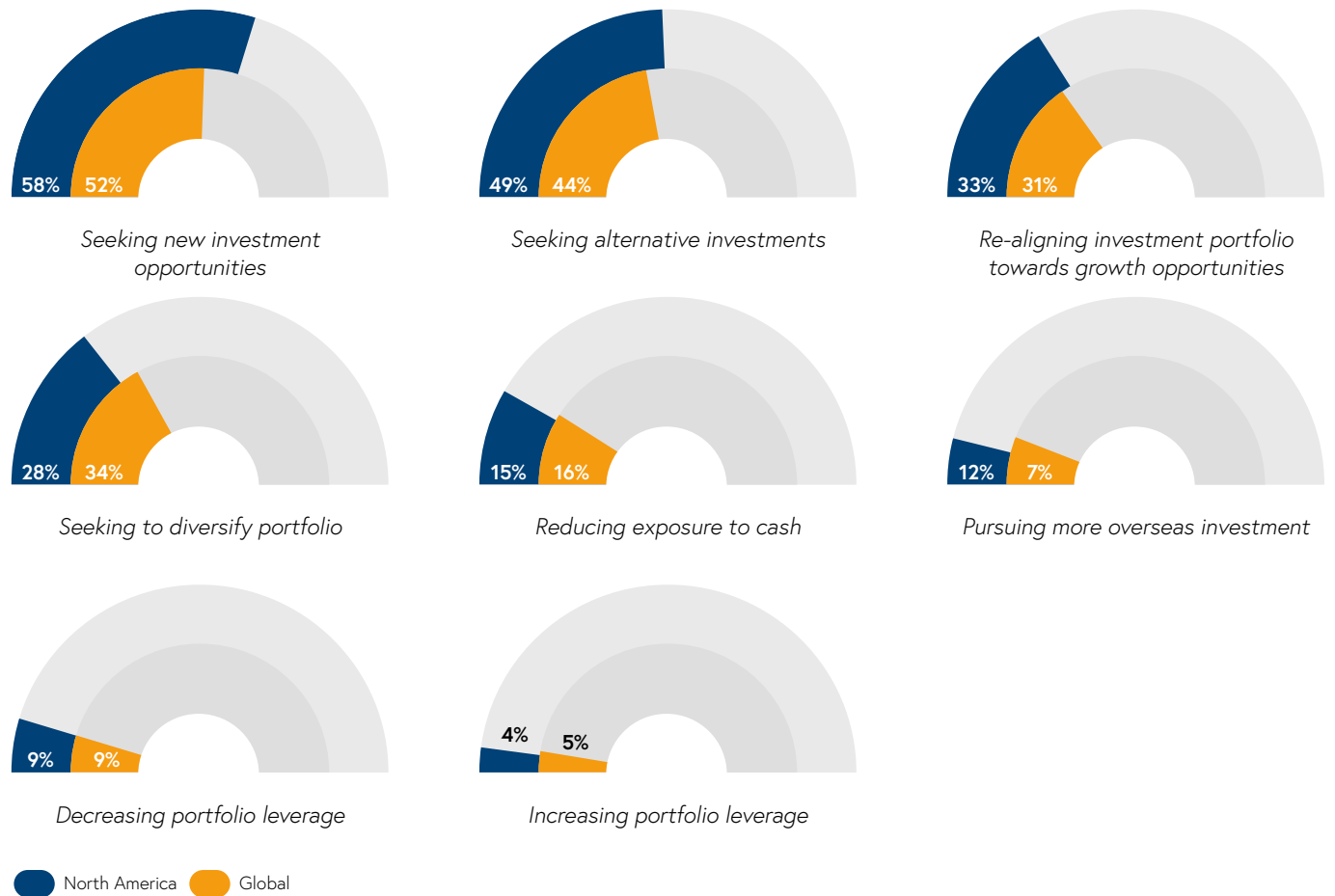
³ Campden Wealth / RBC, The North America Family Office Report, 2021

Family offices' number one investment priority: find new deals

Despite the difficult economic climate, 58 percent of North American family offices and 52 percent globally rank finding

new investment opportunities as their top investment priority for the year. Other notable priorities include finding alternative investments (49 percent), seeking to diversify one's portfolio (28 percent) and reducing one's cash exposure (15 percent) (figure 2.5).

Figure 2.5: Family offices' top investment priorities for 2022 (Tick all that apply)



Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Asset allocation

Private equity takes centre stage...

While last year we reported that family offices were hot on public equities given the considerable returns they garnered in 2020 (19 percent for developed and 16 percent for developing market equities), the key story this year is about private equity.⁴

Public equities remains the largest asset class family offices invest in, as it has every year since this report originated in 2015, accounting for 35 percent of the average North American family office portfolio (32 percent globally, 2022). However, private equity has risen to centre stage with outsized returns, a notable rise in allocations since 2021 and significant interest from family offices intending to increase their investment in this asset class over 2023.

Last year, we reported that private equity accounted for 22 percent of the average North American portfolio, with 12 percent for direct and 10 percent for funds-based deals. We have changed our methodology this year to offer more granular analysis and have surmised that family offices currently allocate, on average, 27 percent of their portfolio to private equity and private debt more broadly. This includes 9 percent towards direct investments, 9 percent for private equity funds, 6 percent for venture capital and 3 percent for private debt / direct lending.

...and the light on this asset class is only set to grow brighter in 2023

Looking to 2023, North American family offices plan on increasing their allocations to private equity more than to any other asset class. For instance, when family offices were asked whether they would increase, maintain or decrease their allocations to private equity next year, 46 percent said they would allocate more to private equity funds and 41 percent to direct investments (**figure 2.7**). A further 35 and 34 percent wanted to allocate more to venture capital and private debt / direct lending, respectively.

Comparatively, 24 percent wanted to increase their exposure to developed market equities against a nearly equal proportion (23 percent) who wanted to reduce it, while 14 percent wanted to allocate more to developing market equities against 8 percent who wanted to pull back.

Fixed income has fallen out of favour

In the 2021 report, we reported that North American family offices intended to decrease their exposure to fixed income—and indeed they did. Being an asset class that is often sidelined during high inflationary periods, allocations fell a considerable 5 percent points from 14 percent in 2021 to 9 percent in 2022, with developed market bonds being largely selected over developing markets (8 percent versus 1 percent, respectively).

One executive commented:

"On the face of it, 25 percent of our strategic asset allocation in fixed income looks excessive given inflation. But much of this is in short duration municipal bonds and the remainder is what I would term high octane, high yield debt of various oil and gas concerns which we acquired opportunistically through the private debt market."

Principal, single family office, Illinois, U.S.

Equities: little change expected in allocation levels over 2023

Last year, North American family offices, which were already saturated with equities, predicted that they would allocate slightly less to developed markets and notably more to developing market equities this year.⁵

In practice, their allocations increased slightly to developed markets (from 29 percent to 31 percent) and decreased slightly to developing markets (from 5 percent to 4 percent). This shows a strong bias towards developed markets, which is traditionally the case. In the words of one family office executive who is an advocate of developed market equities:

"If you look at the top GDP (gross domestic product) countries in the world, those are the ones that have been creating investment returns over the past 20 years. You could make an argument for some smaller GDP countries, but returns have been a lot more volatile. So, I have taken the view that developed countries are going to continue developing."

Chief Finance Officer, single family office, Canada

⁴ Campden Wealth / RBC, The North America Family Office Report, 2021
⁵ Campden Wealth / RBC, The North America Family Office Report, 2021

Equities ended up performing remarkably well in 2020, despite an uneasy first half of the year when the pandemic first hit, delivering an average return of 19 percent for developed and 16 percent for developing markets. Equities again produced solid returns in 2021 (18 percent and 8 percent, respectively).

Following on from this, volatile market conditions in 2022 have led to a stagnation in allocation levels. At present, the majority of North American family offices intend to maintain their level of allocation to developed (53 percent) and developing (78 percent) market equities over the coming year. The net difference between those who plan to increase or reduce their allocations equates to merely -1% for developed markets and +6 percent for developing markets. It is also important to highlight that family office executives are often long-term investors with patient capital, who aren't afraid to stay the course when faced with difficult tides—a position that might be impacting their investment strategy. One executive commented:

"If I'm in a high inflation environment, I want to be in U.S. or international equities that have some tangible assets, so I'm selling bonds and need to put the proceeds somewhere, and so I'm allowing cash balances to build. But for the time being I'm keeping my equity exposure flat and so I've turned off dividend re-investment, which is also adding to my cash balances."

President, multi-family office, Massachusetts, U.S.

Real estate, a partial hedge against inflation

"Now we're asking ourselves, in an inflationary environment, who's smarter, the seller or the buyer? Will the effect of inflation on rents provide handsome returns for buyers of real estate assets, or are sellers doing the right thing crystallizing excess value now which they can re-invest after a market correction?"

Managing Partner, single family office, Connecticut, U.S.

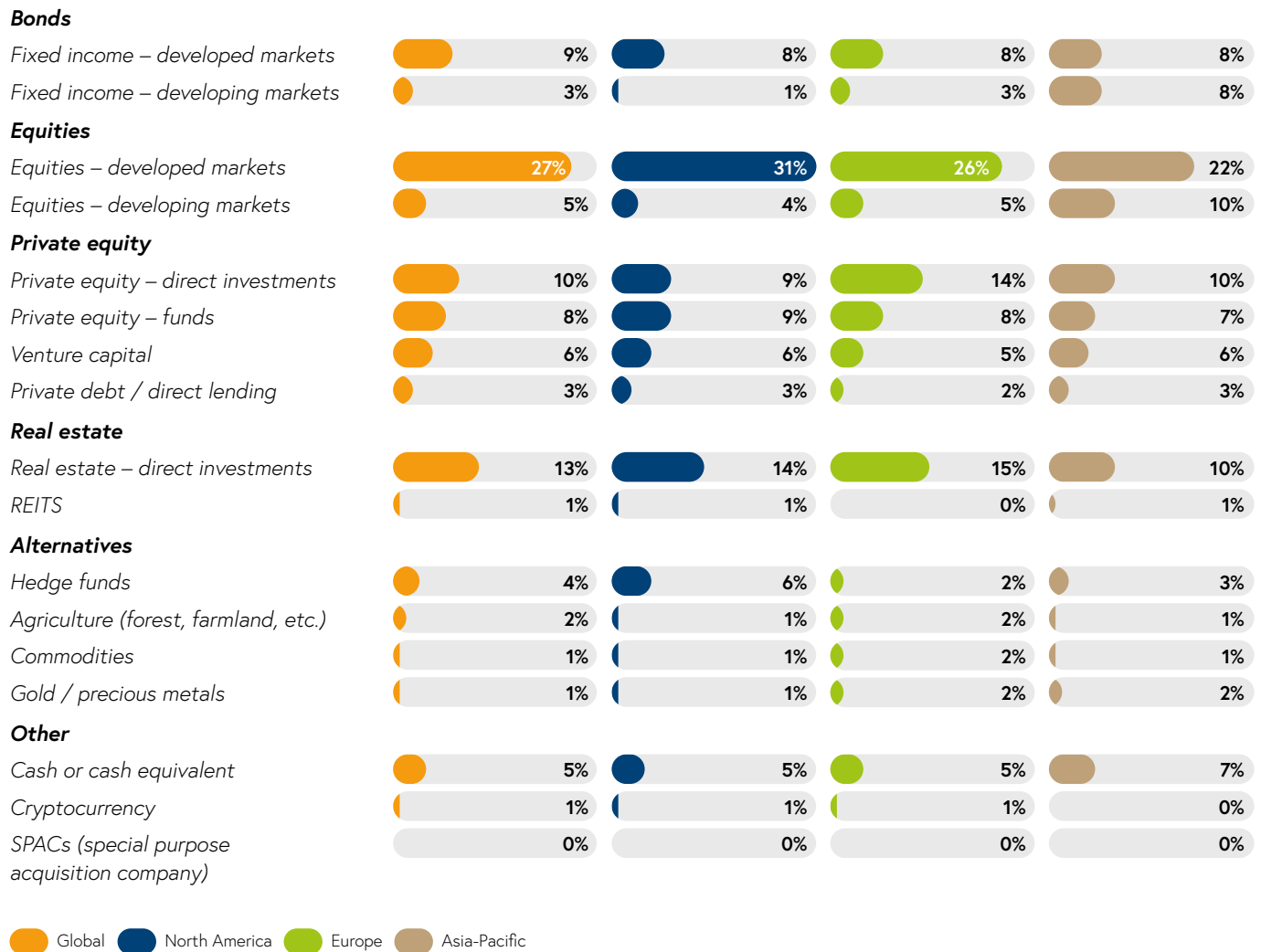
Many family offices view real estate as a safe haven for investment during times like these, with the asset class currently accounting for 14 percent of North American family offices' average portfolio (13 percent globally).

Looking to 2023, 41 percent of North American family offices also expect to increase their investment in real estate, while 13 percent are planning for a decrease. This could be a move to take advantage of currently high values, as one family office executive remarked, "Most families have been selling their real estate because prices have been crazy." On the flip side, another remarked that the high prices have kept him from entering the market, despite his appetite to invest:

"Roughly a third of our portfolio is in cash and fixed income. This seems nonsensical in the current climate, so we have been looking to start a real estate portfolio. However, we haven't seen any value emerging yet as prices are still too high, so we're keeping our powder dry."

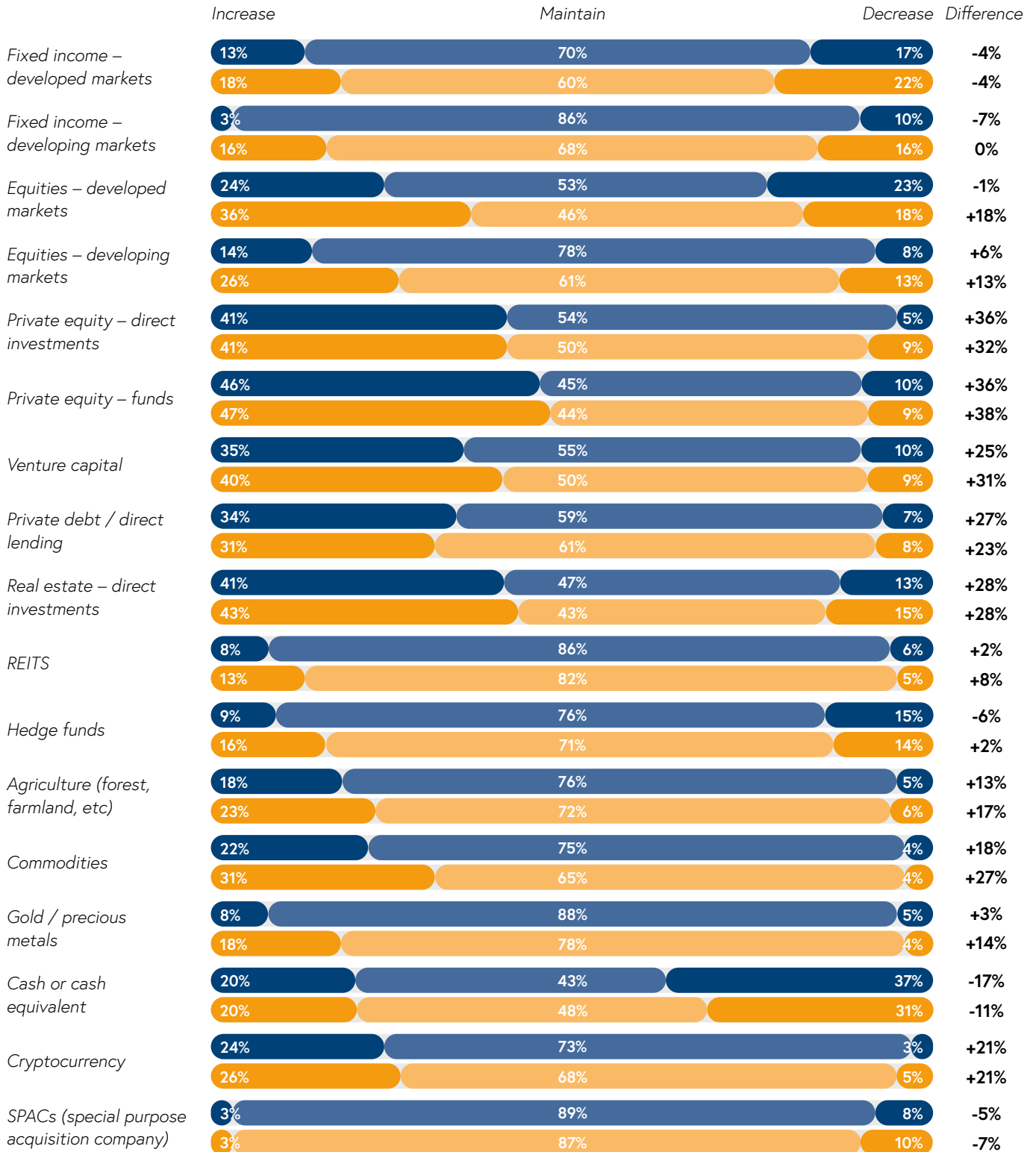
Chief Executive Officer, single family office, Connecticut, U.S.

Figure 2.6: Family offices' average strategic asset allocation, 2022



Note: Figures may not sum to 100% due to rounding.
 Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Figure 2.7: Family offices' intention to increase, maintain or decrease allocation to the following asset classes in 2023



● North America ● Global

Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Allocations to emerging technology

Three in four family offices invest in healthcare

Given the healthcare crisis we have endured over the last several years, it is not surprising to see that 71 percent of family offices currently invest in healthcare and 39 percent plan on increasing their investment over 2023 (**figure 2.8**). Aside from the pandemic, other factors, such as an aging baby boomer population, make this space attractive to investors.

Biotech, which 62 percent of North American family offices invest in, is the second most popular technology for investment, followed by fintech (59 percent), digital technology (52 percent) and green tech (50 percent).

Looking to 2023, outside of healthcare, the areas most likely to see a rise in allocations are artificial intelligence, with 40 percent of those invested here planning to increase their allocations, green tech (35 percent) and biotech (34 percent).

"There are a lot of buzzwords in the tech space, but the real question is whether there is a real-world application for the tech. I looked at a company that utilizes blockchain technology to model the environmental impact of a business, and then showcase it to investors to demonstrate that the business truly has a zero carbon footprint. This was an actual application of blockchain technology that I thought was simply awesome. This is the future, an innovative use of game-changing technology."

Founder, single family office, Michigan, U.S.

"I understand that in every tech market there's an initial land grab. How many people will buy an electric car, watch streaming TV or order their groceries online? But at some point, the only thing that's worth anything is cash. Until a company is actually generating cash and able to distribute it, it's pretty hard to know what it's worth. There's lots of smart people who have made tons of money betting on tech. But, if you look at those tech companies, for the most part, they're still not valued in a way that is commensurate with their ability to generate cash."

Chief financial officer, single family office, Canada

"To quote Marc Andreessen, 'software is eating the world.' In order to participate in what is driving the world going forward, you must participate in technology. So, it's always going to have a premium attached to it, and I think you must participate regardless."

Managing Partner, single family office, Connecticut, U.S.

"Investors will end up with a high concentration of artificial intelligence (AI) in their portfolios because AI will be everywhere. If you have public equity exposure, you will probably be overweight with FANGS right now and technically they will be AI companies. All producers of computer games will be AI companies so, without having to do much, you will have a large AI exposure."

Chief Financial Officer and Principal, single family office, U.S.

Roughly a quarter of family offices invest in the metaverse

While not asked what portion of their portfolio is invested in the metaverse, it is interesting to note that nearly one in four respondents (23 percent) invest in the metaverse—a computer-generated virtual reality space in which users can interact with an environment and other users—and that 13 percent plan on increasing their investment in the metaverse over 2023.

"The disintermediation of our identities by Google, Facebook and the like means we can shop at Gucci in the metaverse. We will go there as avatars with digital cash and order an item which the non-digital Gucci will deliver to your real front door. The metaverse is going to quadruple the volume of online shopping."

Partner, single family office, Connecticut, U.S.

"The metaverse is going to take off! I think there's going to be metaverse property, art, everything. I don't see it as an investment thesis for our family office, at least as long as the current generation is in charge, or until one of us gets to understand it in a completely different way. But I have no doubt that a lot of money will go into it and be made from it."

Head, single family office, Illinois, U.S.

Crypto investors hold on amid a bursting bubble

Last year, we reported that a notable 31 percent of North American family offices and 28 percent globally invested in cryptocurrency, albeit this asset class has and continues to only account for 1 percent of their average portfolios.

This investment came off the back of high 2020 performance figures, with the average family office globally garnering a 40 percent return, outstripping all other asset classes by a far-reaching margin. Following suit, nearly a third (30 percent) of North American family offices reported that they planned to increase their investment in crypto over 2022 (globally, 28 percent).⁶

Since then, the Financial Times reported in July 2022: "Crypto is in the midst of one of the worst market crashes the relatively new industry has ever witnessed. Since the peak of last year's bull run, the most popular crypto tokens such as bitcoin and ether have plummeted by roughly 70 percent, while the size of the industry itself has fallen from more than

⁶ Campden Wealth / RBC, The North America Family Office Report, 2021

US\$3 trillion dollars to less than US\$1 trillion.⁷

Also negatively impactful was the Terra Luna crash, global inflation and the U.S. Federal Reserve's decision to raise interest rates.

Amid an economically turbulent and high inflationary environment where it is common for investors to pull out of high-risk investments, it is interesting to note that 35 percent of family offices in North America and 32 percent globally continue to invest in crypto (**figure 2.8**). Furthermore, 27 percent of those in North America and 28 percent globally plan on increasing their investment in 2023. This comes after cryptocurrency produced an average annual return of 11 percent both in North America and globally in 2021, reflecting a solid performance, but a serious decline from the 40 percent average return the year prior.

It is also important to highlight that this survey was conducted between March and June 2022, and so some of the effects of crypto's downhill plummet were felt post-surveying. With that said, the market had already dropped by US\$1 trillion by January 2022 and despite a slight recovery in April, it continued to fall to a new low in June 2022.⁸

In interviews with family office executives, current sentiment towards crypto is more negative than positive, a sea change from before the crash. The negative sentiment also reflects the fact that nearly seven in ten family offices still don't invest in crypto, a position that is linked to a variety of concerns respondents expressed relating to market volatility (54 percent of respondents), lack of regulation (46 percent), market immaturity (41 percent), among other drawbacks (**figure 2.9**).⁹ Various executives remarked:

"There are at least 10,000 cryptocurrencies. I could go and create one this afternoon and sell it to my friends. Only 50 are meaningful in terms of size and only Bitcoin gets close to resembling a real currency. But Bitcoin is too volatile to be a store of value. Right now, it's not storing anything other than people's aspirations."

Partner, single family office, Connecticut, U.S.

"The closest proxy to cryptocurrency might be tulip mania in seventeenth-century Holland. The tulips had no sustainable value because the shelf life of a tulip is short once it's cut. So, it's not that you can't make money in cryptocurrencies, but you'll hear about the people who have made money and nothing from the people who have lost money and are just slinking away into the background. The people who make money are the middlemen, as is usually the case with Wall Street. Cryptocurrency is an unregulated but legal Ponzi scheme; that might be a good way to explain it."

President, single family office, Massachusetts, U.S.

"When it comes to cryptocurrencies, there's simply too much volatility for them to be viewed as good currencies or investments."

Chief Financial Officer, single family office, Canada

"We have concerns regarding regulation, market disruptions and, very simply, it feels more like gambling than investing. Lately, it has seemed like crypto has been pegged very much to tech. And, if that's the case, we'd rather stick with the equity market for tech investment rather than have the additional risks associated with cryptocurrencies. So, we are watching it, tracking it and fascinated by it, but as with our whole philosophy, we tend to stay very conservative."

Chief Financial Officer, single family office, Connecticut, U.S.

Roughly one-in-10 invest in NFTs

This is the first year we have analysed family offices' investment in non-fungible tokens (NFTs), which are digital assets that link ownership to digital or physical items, such as music, art, real estate and videos. Such assets are often considered modern-day collectibles. While we did not track their proportionate allocation across the average family office portfolio, it is interesting to have discovered that, at present, 12 percent of North American family offices invest in NFTs and 8 percent plan on allocating more to NFTs over the coming year. The equivalent global figures are 12 percent and 10 percent, respectively. With that said, this space is still nascent, and investors remain divided as to whether it is a good investment, with many unsure of the tangible value NFTs offer:

"I don't understand the fascination with NFTs. Last year, a New York Times journalist posted an article he had written as an NFT, and it sold for US\$500,000. All the buyer was getting was a cryptographic signature linked to an image of a column that anyone could read on the paper's website. Other than the novelty of saying this was the first newspaper article to be turned into an NFT, what was the value? It's very confusing."

Head, single family office, Illinois, U.S.

"When I think about NFTs I think about tokens that represent value, and how they're structured and traded, not about art. Tokenization will be a huge deal. Today, we have exchange traded funds. Soon we will have blockchain traded tokens. There are many other examples out there. I've spent the last six months doing a deep dive into the space, and there's a growing realization that this technology has multiple uses if it's connected to smart contracts. With appropriate security and governance, utilization will increase inexorably."

Managing Partner, single family office, Connecticut, U.S.

⁷ Financial Times, What's Next After the Crypto Crash? Q&A, July 20, 2022. <https://www.ft.com/content/f1f3197f-4e33-4dc1-99ea-1a13d765efd6>

⁸ Financial Express, Rise and fall of cryptocurrencies; looking at the cryptocurrency crash in 2022, August 13, 2022.

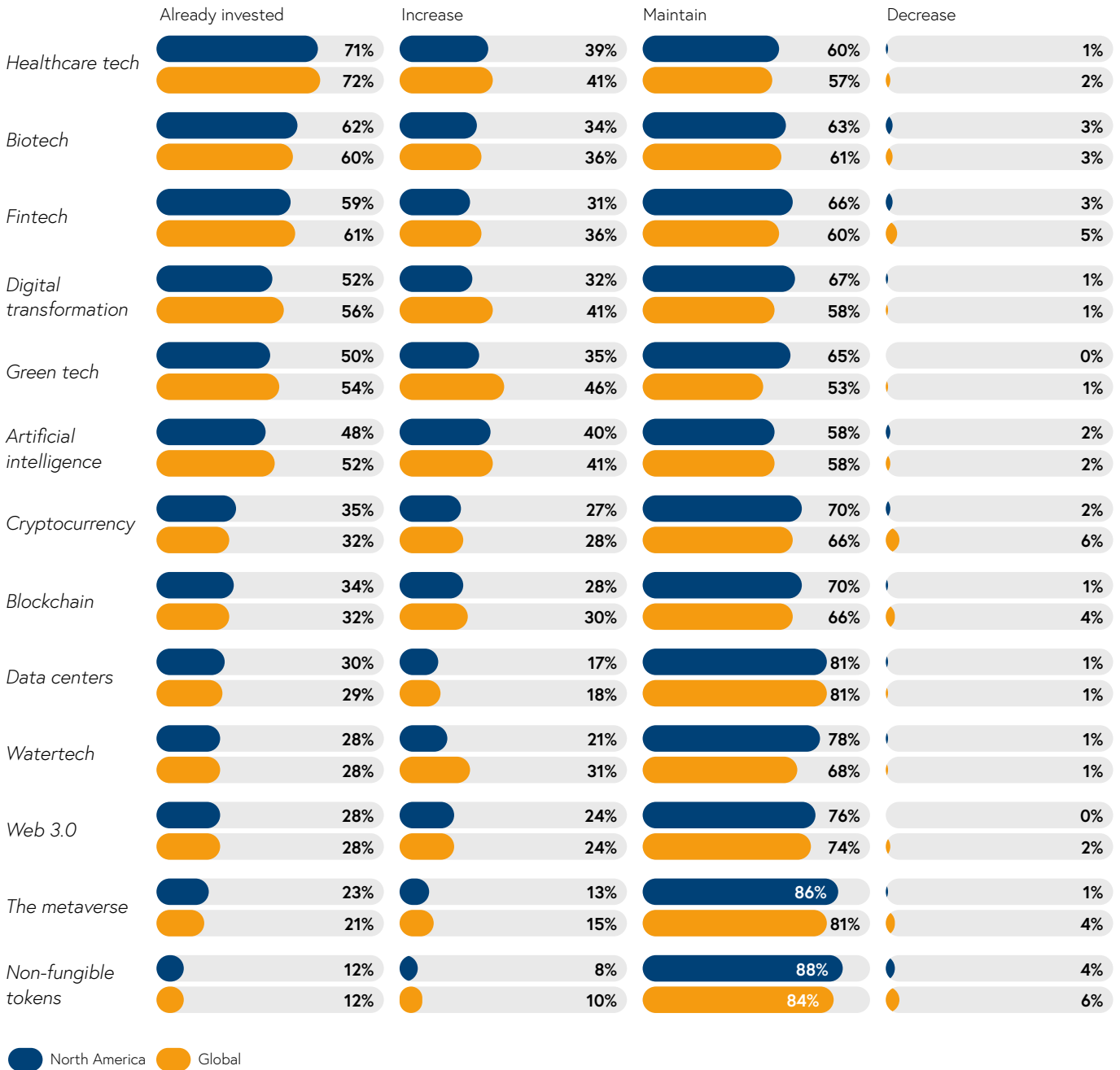
⁹ <https://www.financialexpress.com/digital-currency/rise-and-fall-of-cryptocurrencies-looking-at-the-cryptocurrency-crash-in-2022/2628151/>

⁹ Campden Wealth / RBC, The North America Family Office Report, 2021

"We are positive about NFTs, they are fascinating. I sense a tremendous amount of growth to come. That's more of a statement about blockchain than a comment on NFTs given how they have developed so far. But, whether it's in the art market, or in any other market where title to assets must be proven, blockchain represents a tremendous opportunity."

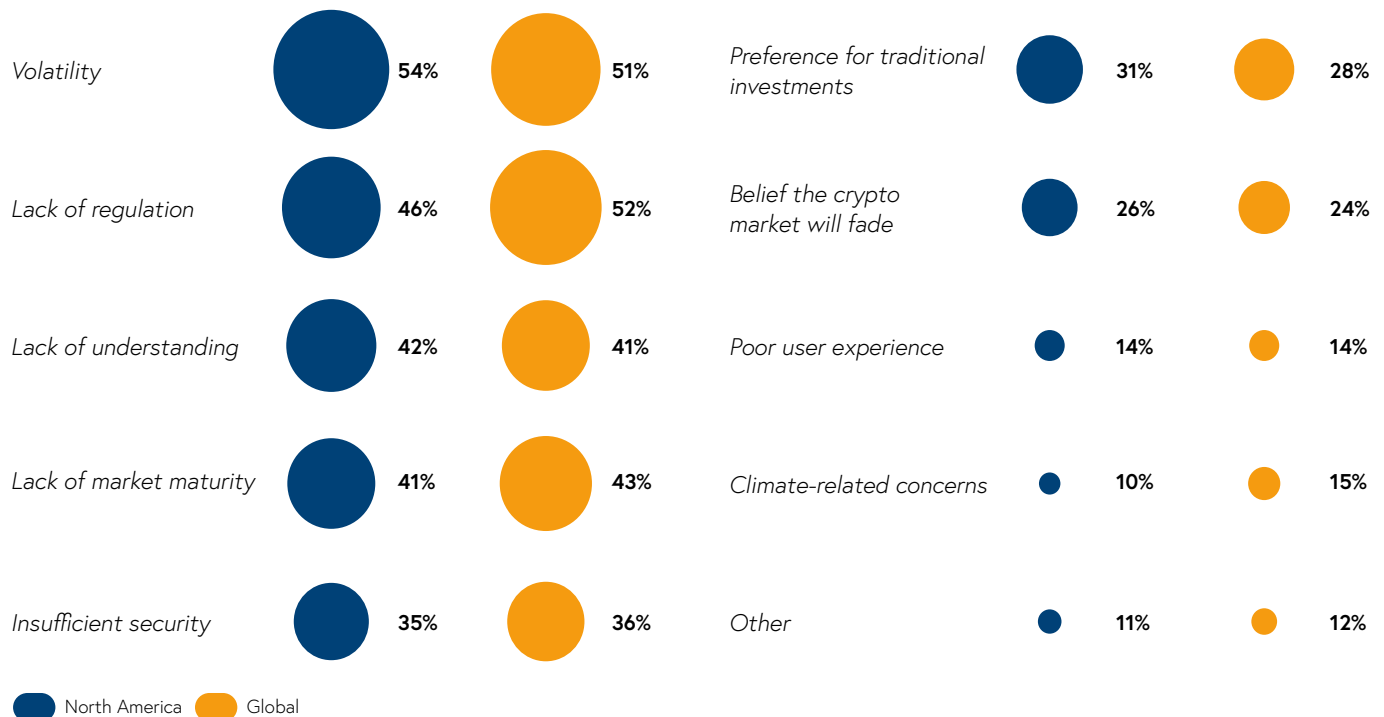
Head, single family office, Illinois, U.S.

Figure 2.8: Family offices with investments in identified technologies and their intention to increase, maintain, or decrease asset allocation



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Figure 2.9: Impediments to investing in cryptocurrency (Tick all that apply)



Source: Campden Wealth / RBC, The North America Family Office Report, 2022

The geography of allocations

Most North American family offices invest in Europe and Asia-Pacific

Last year we reported that most North American family offices (61 percent) invested merely between zero and 20 percent of their portfolios in foreign markets. While their foreign allocations might be modest, this year we have discovered that they are varied across the regional spectrum. A notable 85 percent of North American respondents invest in Europe, 75 percent in Asia-Pacific (with 56 percent investing specifically in China), 47 percent in South America, 17 percent in the Middle East and 16 percent in Africa (**figures 2.10 and 2.11**).

It is also interesting to highlight how North America lags behind global averages when it comes to investing in Asia-Pacific (at 75 versus 81 percent) and China (at 56 versus 62 percent, respectively). This may stem, in part, from persistent political tensions between the U.S. and China, along with the inclusion of Asia-Pacific in the global averages. Interviewees commented generally about their stance towards investing in China:

"Pre-COVID-19, we looked at China from a venture capital perspective and found that it was producing returns very similar to the U.S. ecosystem. So, we travelled there for a market mapping exercise and realized that if the U.S. produces just as good a return, from a risk standpoint, we don't need to allocate to China."

Vice President, single family office, Pennsylvania, U.S.

"We found that developed markets have produced better returns for us. We've tried hard on the emerging market side to find active managers, but we've gone passive except for China. The only manager that's produced returns for us, that would beat the passive benchmark, is in China."

Vice President, single family office, Pennsylvania, U.S.

Figure 2.10: Percentage of family offices with investment(s) in geographic region and their intention to increase, maintain or decrease their investment(s)

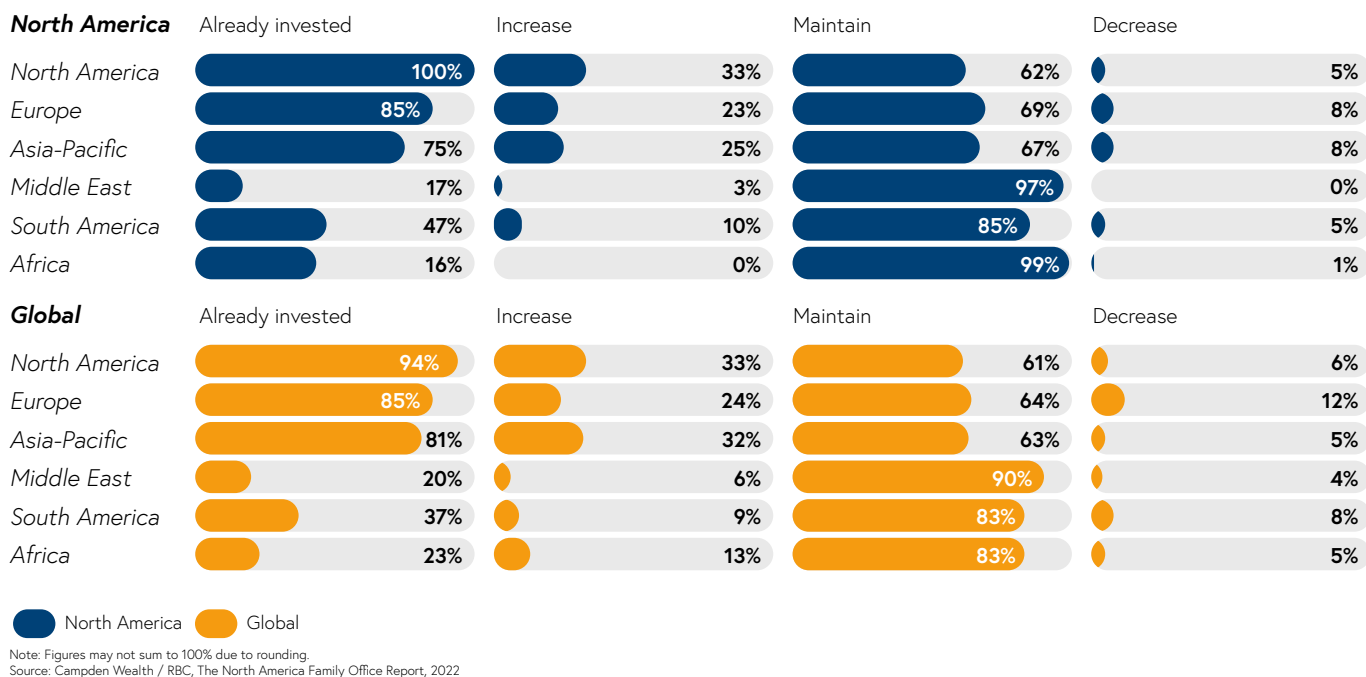
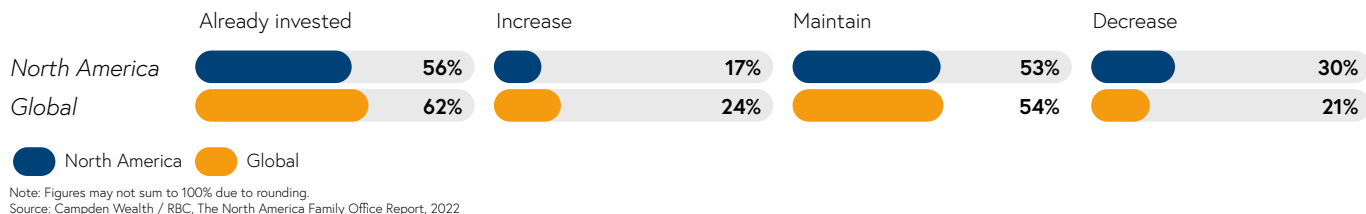


Figure 2.11: Percentage of family offices with investment(s) in China and their intention to increase, maintain or decrease their investment(s)



2.2 Performance

Nine in ten investments met or exceeded expectations in 2021

Ninety-two percent of North American family offices' investments met or exceeded expectations in 2021, roughly falling in line with 2020 performance at 91 percent (figure 2.12). This somewhat exceeds a 2021 global average of 88 percent.

With that said, the global stock market experienced a decline in the first nine months of 2022 amid concerns over skyrocketing inflation, rising interest rates and threats of an economic recession, so the landscape has subsequently changed and so could forthcoming 2022 performance figures. One family office executive discussed his experience over the last several years and how his reaction to the current economic landscape is to sit on the sidelines and invest his gains when the time is right:

"We have made a lot of money since the pandemic started. After the initial market crash, we knew how the Fed and the president at that time were going to respond. Republican policy is always to support the economy. We knew everything was being lined up for lift-off and the S&P 500 went up 50 percent in 18 months. I've never seen anything like it. I can't imagine that sort of performance continuing into 2022; it's not how the world works. So, now I'm not surprised to see markets pulling back and certain companies reporting lower earnings than six months ago. I'm happy enough to sit on the sidelines, ready to re-invest some of the gains we made during the pandemic when the time looks right."

Founder, single family office, Michigan, U.S.

North American family offices outperformed their peers with an average portfolio return of 15 percent in 2021

Matching their performance in 2020, North American family offices outperformed their peers in 2021, delivering an average portfolio return of 15 percent, compared to 13 percent in Europe, 10 percent in Asia-Pacific and a global average of 13 percent.

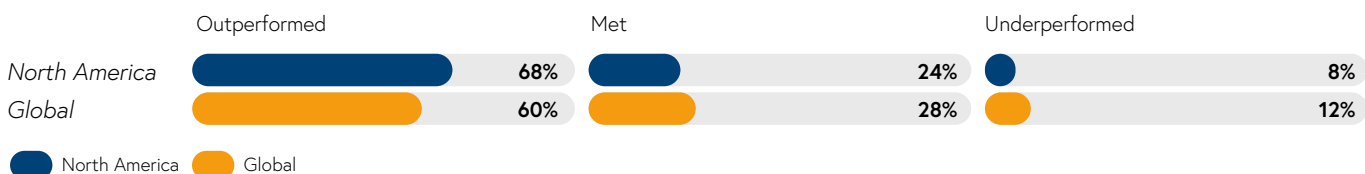
Private equity topped the charts

These gains were driven by a strong performance within private equity, with venture capital stealing the show with an average return of 26 percent, followed by private equity funds at 22 percent and direct private equity at 21 percent. Developed market equities also performed well at 18 percent, real estate at 17 percent and commodities at 13 percent (figure 2.13). One executive, very satisfied with his returns, commented:

"We had some bets that paid off handsomely. One is where we really loaded up on bank stocks, in particular smaller banks, when COVID-19 hit and prices were extremely depressed. The other is when we made a couple of specific energy investments that have paid off really well. Finally, we had the most boring, large cap dividend growth portfolio you can imagine, but dividends just continued to compound at a fast clip. So, when you add those things together, we've had some tremendous gains in our public markets exposure over the last few years."

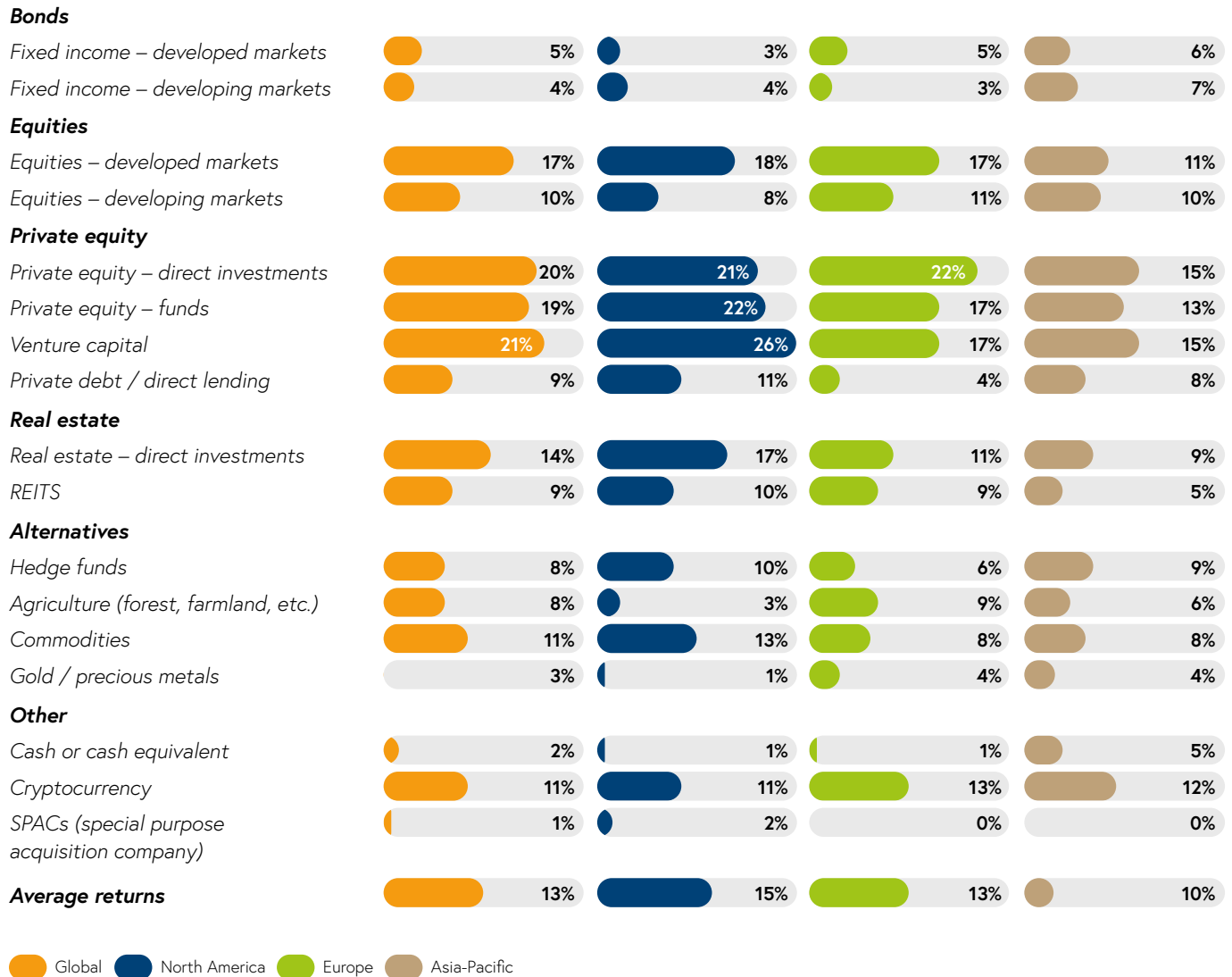
Managing Partner, single family office, Connecticut, U.S.

Figure 2.12: Percentage of family offices where investments out-performed, met or under-performed their overall benchmark in 2021



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Figure 2.13: Average net return by asset class generated by family office in 2021



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC, The North America Family Office Report, 2022

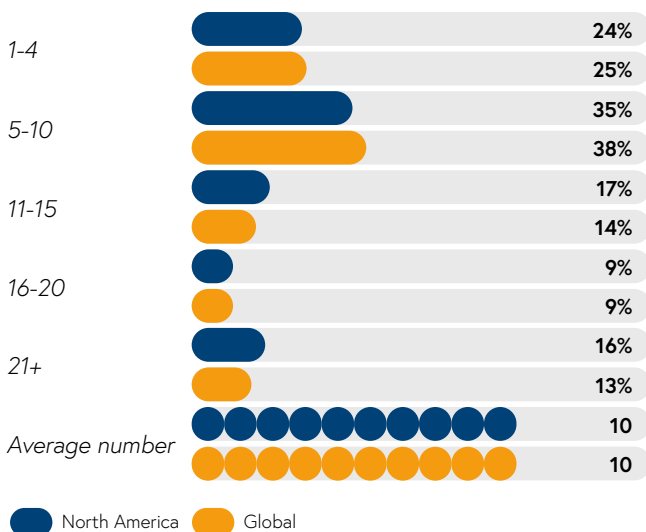
2.3 Asset class focus

Private equity

Activity is high

Most family offices invest in private equity, both in North America (90 percent) and globally (88 percent). On average, they are running 10 private equity deals in parallel this year, but roughly a quarter of family offices hold considerably more (**figure 2.14**).

Figure 2.14: Number of private equity deals run in parallel by family offices



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Some bias towards funds over direct investment

Within the average private equity portfolio, there is a slight bias amongst those in North America towards fund-based investing (54 percent) over direct investing (46 percent) (**figure 2.15**). There is also a notable bias towards private equity funds (46 percent) over fund of funds (8 percent), along with a relatively even split of actively managed direct investments (24 percent) and passively managed ones (22 percent). Respondents commented:

"The problem with direct investing is that it eats up an enormous amount of your time. You tend to focus on the one thing you know how to do and end up not focussing on where the other 98 percent of the money is going."

President, single family office, Massachusetts, U.S

"We invest through funds, not directly. Direct involves more people, more time and generally greater effort. Our family office is not involved in an operating business, so we're not experts in any specific vertical. It often makes sense for offices to do direct deals when they have a particular field of expertise."

Vice President, single family office, Pennsylvania, U.S.

"The Heisenberg uncertainty principle of finance is that the information from private fund investing can either be timely or accurate. However, it cannot be both and it's usually neither. We are seeing this right now because many of our funds were marked up 50 percent at the start of the year, although Financial Accounting Standards Board (FASB) guidelines put some constraints on what GPs can do."

President, single family office, Massachusetts, U.S.

Private equity funds delivered the highest returns in 2021

Private equity funds performed the strongest among North American portfolios in 2021, delivering an average return of 22 percent, followed by direct deals with 20 percent and fund of funds with 13 percent (**figure 2.15**). Respondents noted:

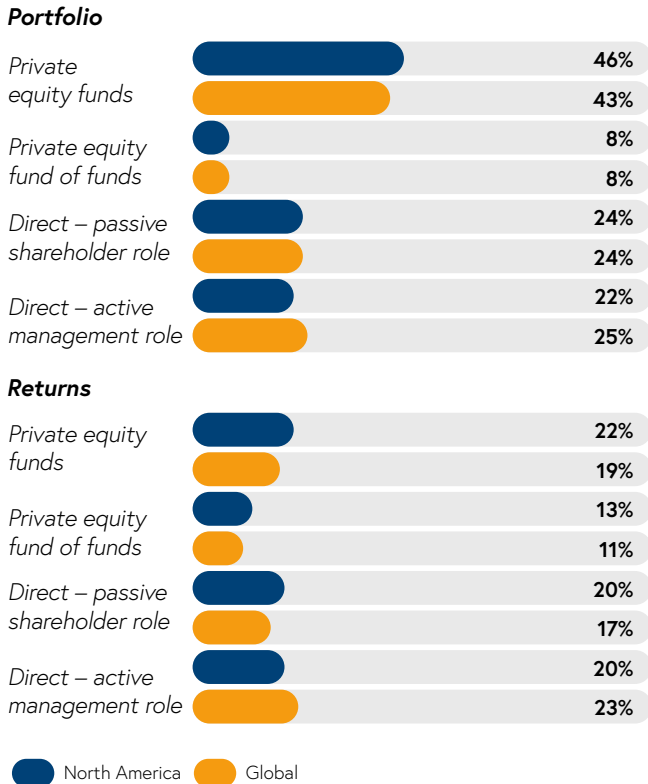
"We expect an IRR (internal rate of return) of 10 to 15 percent for private equity funds. If the equity market is generating 8 percent, we think private equity funds should be doing about 500 basis points more. Direct private equity should have a premium on top of that because it requires more time. Our goal is to generate 20%. If you look back over the last decade, returns have been a lot better than that, but they've fallen back to 20 percent over the last five years due to COVID-19."

Chief Investment Officer, single family office, Canada

"People invest in private equity thinking their valuations are less volatile than those of public companies. But this is a fallacy, they're just as volatile as anything else. If you have a private company doing the same thing as a public company, then the valuations are going to be equally volatile. It's just a matter of how their valuations are reported and how this impacts investor emotions."

Chief Financial Officer, single family office, Canada

Figure 2.15: Family offices' average private equity portfolio and 2021 returns by asset category



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Favour for private equity growth and venture funds

Echoing the findings from last year, the two most popular areas for North American family offices to invest in are growth funds, with 71 percent of respondents allocating here, and venture funds, with 61 percent (figure 2.16).

It is also interesting to note that 25 percent of those with private equity portfolios are engaged in private debt direct investments and 31 percent in private debt funds, two areas that have gained increased interest from family offices since the start of the pandemic.

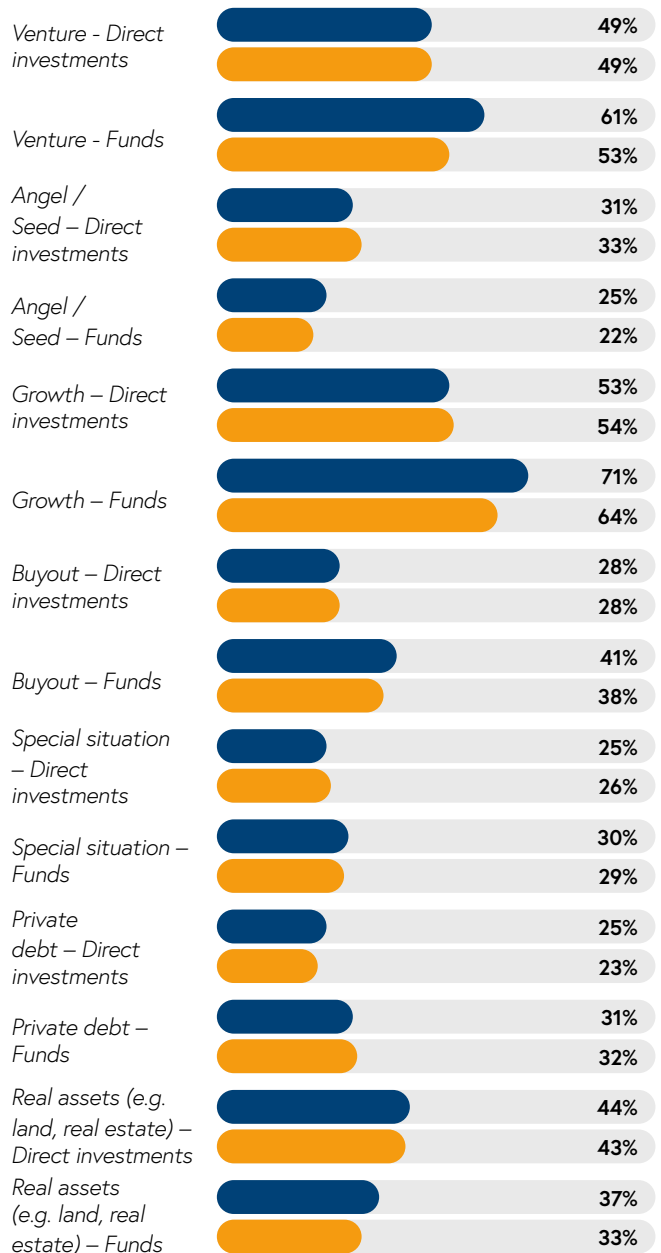
"We were one of the larger hard money lenders about 10 years ago when yields stretched up to 17 percent. Today, it's down to 6 or 7 percent. We are much less active now, but we still do bridge loans where the bank cannot close on time. I think the private debt market in the U.S. is growing with many more players in it, and that's why rates have come down so materially. However, returns are still attractive and there's no credit risk because it's all short-term and you know everyone you are lending to."

Chief Investment Officer, single family office, California, U.S.

"I think there could be forthcoming trouble in the private debt market. It could be part of the next crisis if we're not careful, because there's just so much money out there. And it's not regulated, it's not inside the banks; banks don't make risky loans anymore."

Managing Partner, single family office, Connecticut, U.S.

Figure 2.16: Percentage of family offices with exposure to private equity investing directly or through funds in the relevant categories (Tick all that apply)



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC, The North America Family Office Report, 2022



Venture capital, a family office favourite

With nearly two-thirds of North American family offices investing in venture capital funds (61 percent) and nearly half in direct venture investments (49 percent), this asset class has become a fan favourite owing to families' commonly associated entrepreneurial nature and skillset. Venture portfolios have a track record of producing high returns, entry prices are relatively low compared to investing in more mature companies, and family offices can get the opportunity to mentor businesses and thus influence their investment outcomes. Venture was an actively discussed topic among interviewees, and the following represents a snapshot of some key take-aways from these discussions:

Family offices have been increasingly allocating to venture deals, as illustrated by one executive:

"Over the past few years, we've been actively increasing our portfolio share to early-stage venture. We hope to continue to expand and help the family's capital compound at a high rate, in what is a very tax-friendly asset class."

Managing Director, single family office, Illinois, U.S.

More family offices are growing their teams to include dedicated venture specialists:

"We have a team of five people who source and vet deals and present them to our founder. He's a guru in the tech space, so everybody wants to do business with him; we have no deal flow issues."

Chief Financial Officer, single family office, U.S.

One benefit of venture is that investment dollars can compound at a higher rate and for a longer period than other investments, and taxes are meanwhile deferred:

"In private equity we are likely to get our capital back in four to six years, which is good for cash-flow management. But when we're investing in early-stage venture, it typically takes seven to nine years for a start-up to reach its third or fourth funding round, which is when we begin to look for an exit. So, our invested dollars are compounding at a higher rate for a longer period before the capital is sent back to us. That's one advantage of venture over private equity. Additionally, it means that we're not perennially searching for new high growth companies to invest in and, importantly, taxes are only paid when we realize assets and so that cost is effectively deferred."

President, single family office, Pennsylvania, U.S.

Another benefit is that venture can be a good alternative to growth and buyout private equity deals:

"The correlation between early-stage venture and the S&P 500 is close to zero from a valuation perspective. If you invest in a start-up today and it's successful, you'll exit in eight to ten years. So public markets today have little impact on the exit environment of tomorrow. But with conventional growth equity or buyout private equity transactions, the exit valuations are highly correlated with public markets. If we were investing in those types of assets, then recent stock market declines would give us pause for thought."

President, single family office, Pennsylvania, U.S.

Family offices can also take on an advisory role, increasing both their company share and influence over the outcome of their investment:

"Many of the direct venture deals have an advisory component, where we receive shares for providing mentorship and guidance. They are more time-intensive, but deal sizes tend to be larger, and we tend to have a majority stake which is advantageous. We're seeing more deals being structured this way."

Chief Financial Officer, single family office, U.S.

There is a downside to venture though:

"The difficulty with early-stage venture is that while we periodically get outsized returns, you also get seven out of ten that go to zero, and these are big drags."

Managing Director, single family office, Illinois, U.S.

One family office's approach to venture: lock-in early and target high-performing networks and geographies:

"We target a company in the first one to two years of its life. We access the company at the cheapest entry point possible at the first institutional round of funding. We also target networks and geographies which produce consistent outlier returns. For instance, we'll target California-based deals because if you look at an outlier that comes out of California, it's worth US\$8.5 billion on average, compared to an average of US\$2.5 billion in New York."

President, single family office, Pennsylvania, U.S.

In terms of returns, family offices can be patient, but they need to understand the endgame:

"As a family office we are not worried about returns two to five years from now, but if we are going to invest in an asset class consistently over a long period of time, we need to understand what the return profile is, and how that might compound the family's capital. For early-stage venture, if you look at our returns from 1986 to 2020 they are around 25 percent, which is a similar CAGR (compound annual growth rate) to what Yale has produced. However, the upside potential could be as high as 50 percent in certain vintage years, where you have a Facebook or a company that cures cancer for instance."

President, single family office, Pennsylvania, U.S.

So, what's the strategy for success?

"It's important to stay consistently invested every single vintage year, which means you must think about asset allocation and make sure you know you're not deploying too much capital today at the expense of tomorrow. Otherwise, you are making a huge bet on market timing. We don't confine ourselves to particular industries or vintages. If I only invested in AI start-ups in 2023, I'm making the bet that AI will be the big winner in 2033. I'm not willing to take that risk."

President, single family office, Pennsylvania, U.S.

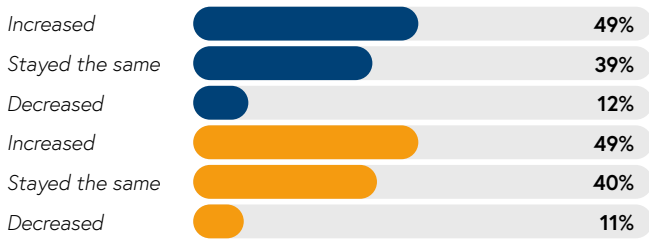
Most family offices do direct investments

Perpetuating a trend from last year, a notable 76 percent of family offices in North America and 77 percent globally currently engage in direct investing. Meanwhile, 49 percent in both North America and globally noted that their interest in doing direct deals has increased over the last year (figure 2.17). One executive commented:

"We spend 90 percent of our time fleshing out direct private equity opportunities, everything from organic dairies to 3D printing. There's one company where we supported the management buyout and then three subsequent acquisitions. Every time they do an acquisition, we step in with incremental capital to support our original investment. Those are the situations we love, because we can help them with the acquisition opportunity and invest without having to do due diligence in a brand new business."

Partner, single family office, Connecticut, U.S.

Figure 2.17: Whether the family's interest in direct investment increased, stayed the same or decreased over the last 12 months



Legend: North America (blue), Global (orange)
 Note: Figures may not sum to 100% due to rounding.
 Source: Campden Wealth / RBC, The North America Family Office Report, 2022

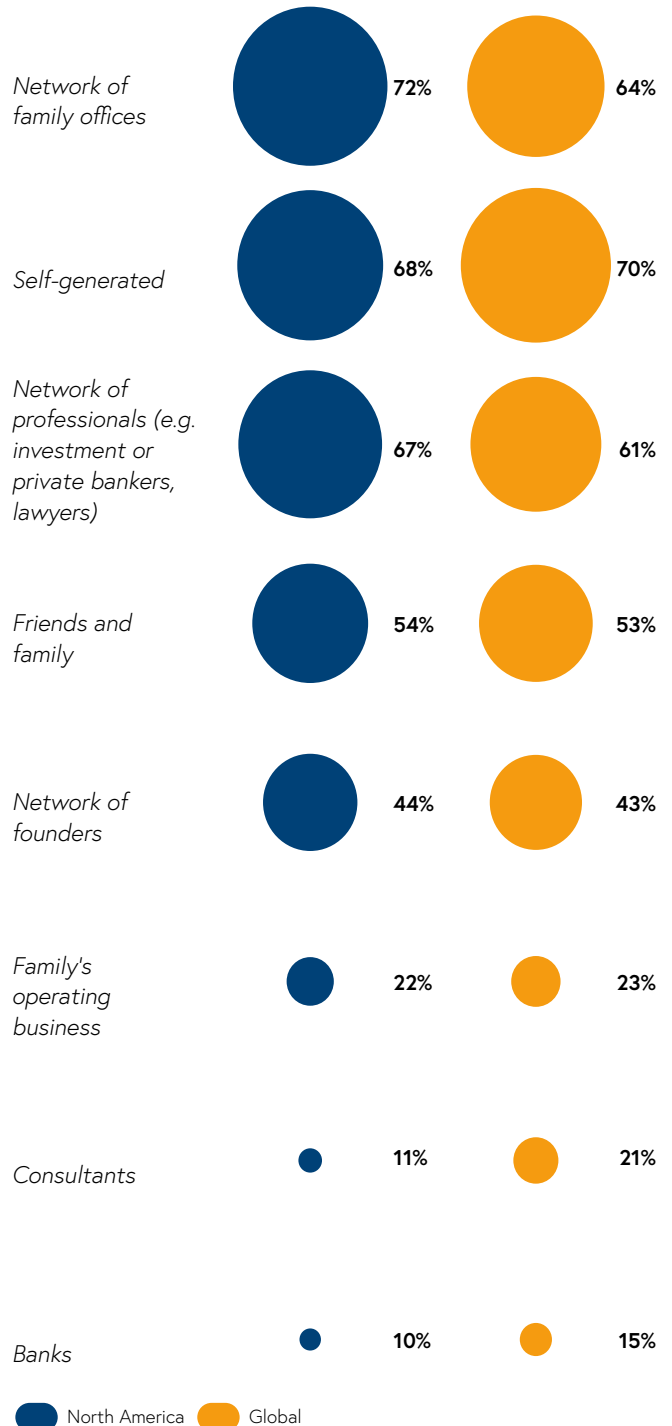
Direct investments are often sourced through family office networks

The most common vehicle in North America for sourcing direct deals is via family office networks, as noted by 72 percent of respondents (64 percent globally). This is followed by self-generation (68 percent), professional networks (67 percent) and family and friends (54 percent) (figure 2.18). One interviewee claimed:

"We've been in the early-stage venture business for 40 years and are well-known in the healthcare space. So, people come to us with deals, entrepreneurs and CEOs who have moved on or become chairmen of new companies, and even the occasional investment banker. I'd say it's a viral network supporting our deal flow."

Managing Director, single family office, Illinois, U.S.

Figure 2.18: Where direct investments are sourced (Tick all that apply)



Legend: North America (blue), Global (orange)
 Note: Figures may not sum to 100% due to rounding.
 Source: Campden Wealth / RBC, The North America Family Office Report, 2022

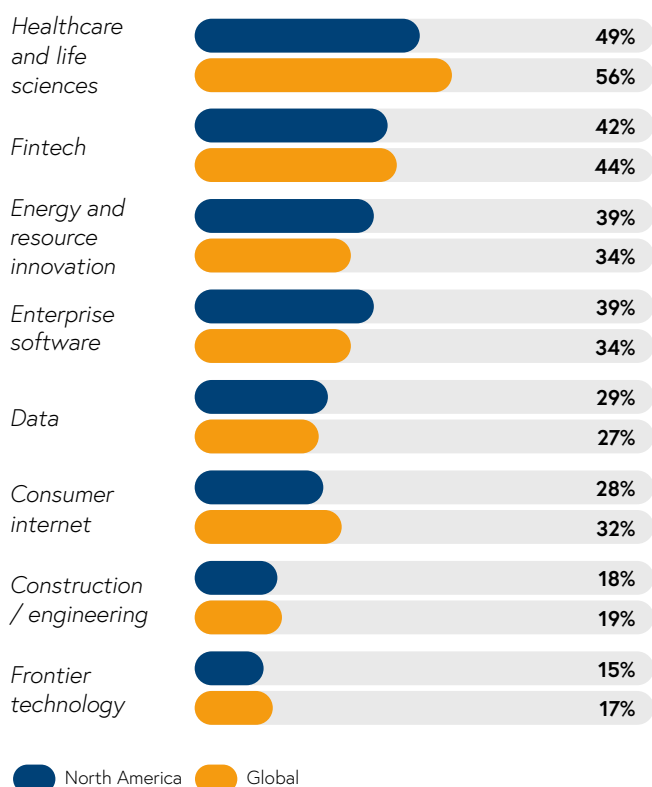
Healthcare / life sciences is the most popular industry for direct investment

Nearly half (49 percent) of North American family offices invest in healthcare and life sciences, the most popular industry for investment. This is followed by 42 percent who invest in fintech, and 39 percent in both enterprise software and energy / resource innovation (figure 2.19). One executive commented:

"Going back 40 years, my dad was a generalist and a deal junkie. He would do anything interesting that came across his desk. Then, 20 years ago we started analysing where we actually made money. We quickly realized that all our success came from healthcare, so we went down that path."

Managing Director, single family office, Illinois, U.S.

Figure 2.19: Percent of family offices having direct investment in this in the following industries (Tick all that apply)



Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Co-investing is on the rise

Last year, we reported that co-investing accounted for 24 percent of family offices' average direct investment portfolio. This proportion has climbed notably to 44 percent this year. Meanwhile, allocations to majority stake deals declined from 28 percent to 16 percent, and minority stake deals from 35 percent to 30 percent over this period (figure 2.20). Interviewees commented:

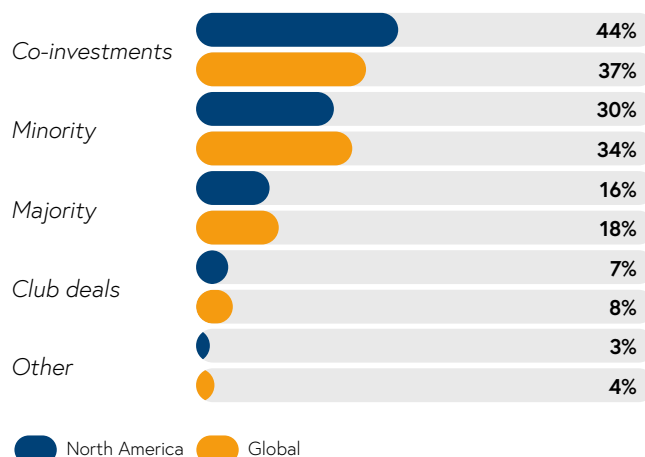
"We have such diverse holdings that we are offered a lot of co-investment opportunities through fund managers and others. We decided to track them to see if we really need to take advantage of them. The challenge is that you only get about two weeks to decide whether to put money into something. Do we take all the deals? Do we lean on other family offices in our network that have the vertical expertise and follow them in? It really comes down to bandwidth. So, we're now going through an educational exercise."

Vice President, single family office, Pennsylvania, U.S.

"There are examples of families doing what I call core competency investing, meaning I'll invest alongside you, because you're good at this, and you invest alongside me because I'm good at that. Supposedly, these families investing together creates a halo effect, but it's never really been a thing for us. If you find a good deal, you don't want to share it unless you're in the business of syndicating or an independent sponsor looking for capital."

Managing Partner, single family office, Connecticut, U.S.

Figure 2.20: Breakdown of family offices' average direct investment portfolio by type of investment

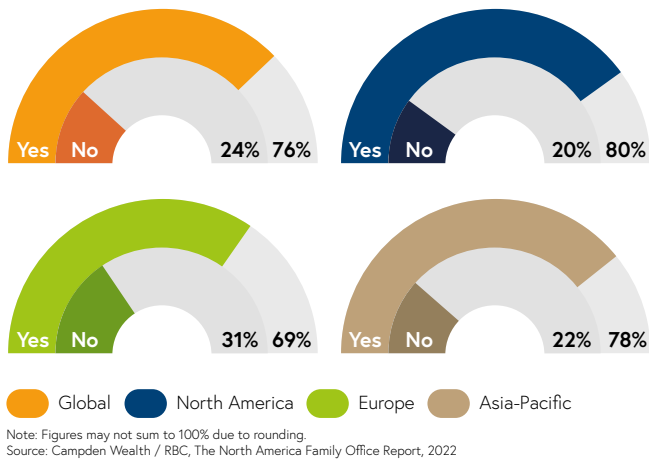


Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Real estate

Real estate continues to be the third most popular asset class family offices invest in, with 80 percent of those in North America and 76 percent globally allocating here (figure 2.21). This compares to 69 percent in Europe and 78 percent in Asia-Pacific.

Figure 2.21: Whether the family office invests in real estate



Local commercial deals are family offices' favourite

Looking at a breakdown of North Americans' average real estate portfolio, local commercial (26 percent) and regional commercial and residential investments (each 23 percent) account for the largest shares, followed by local residential (19 percent). Like last year, there is less appetite for international deals, as they presently make up only 9 percent of the average portfolio, with a slight bias towards commercial over residential opportunities (5 percent versus 4 percent, respectively) (figure 2.22). Two executives discussed their own preferences:

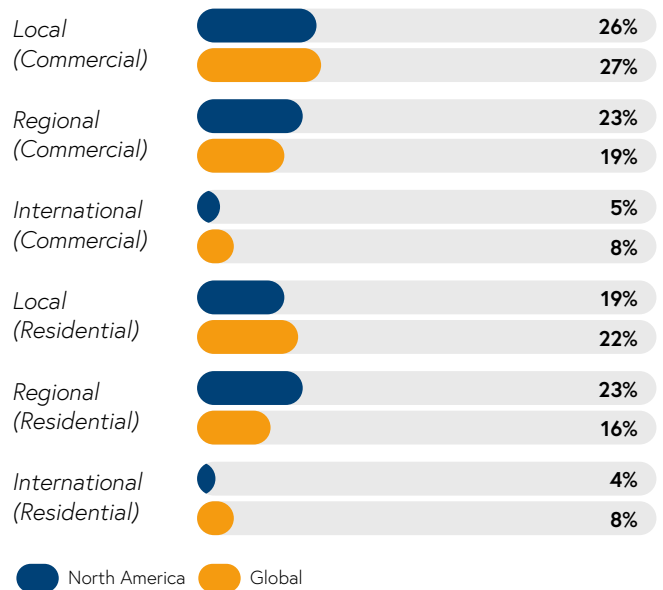
"I've got a preference for retail and it's not because retail is doing fine, but because retail means no landlord expenses in terms of upgrading the property. Essentially, the retailer has to keep the property in good condition, otherwise his store won't be in a condition where it can attract customers. But the truth is that I sold some retail properties a few years ago, because I thought rents were too high. Now I'm starting to buy back very slowly, but prudently, in good locations at a price which is a fraction of what I sold for a few years ago."

Managing Partner, single family office, Connecticut, U.S.

"We are looking for multi-family residential property in the South West, but excluding Austin and Las Vegas where prices have risen very dramatically and look overvalued."

Chief Executive Officer, single family office, Connecticut, U.S.

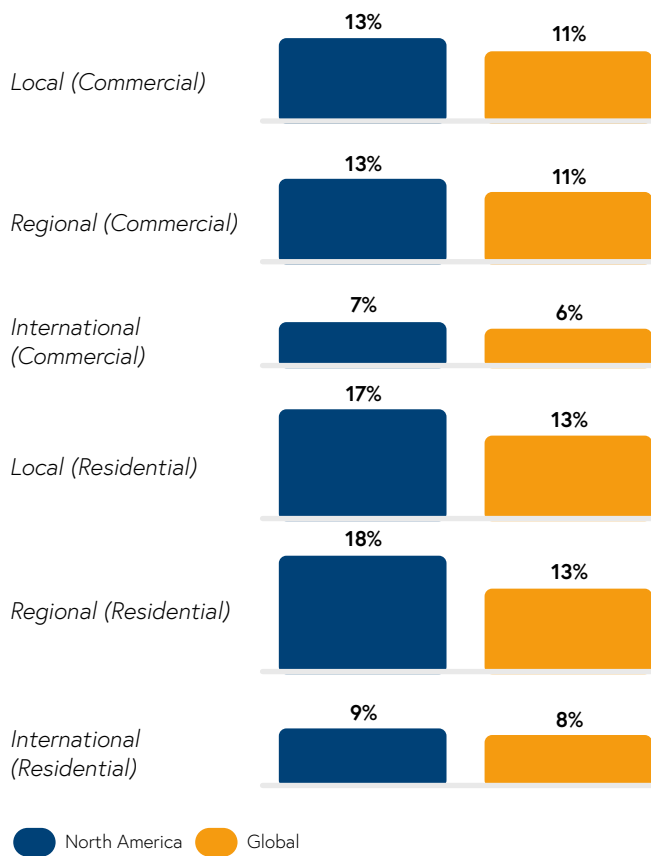
Figure 2.22: Composition of family offices' real estate portfolio



Local and regional residential produced the highest returns in 2021

Regional and local residential deals produced the highest returns in 2021, at 18 percent and 17 percent, respectively (figure 2.23). This far exceeds the returns they delivered in 2020 at 11 percent and 13 percent, respectively.¹⁰

Figure 2.23: Family offices' average 2021 return from real estate investments by asset

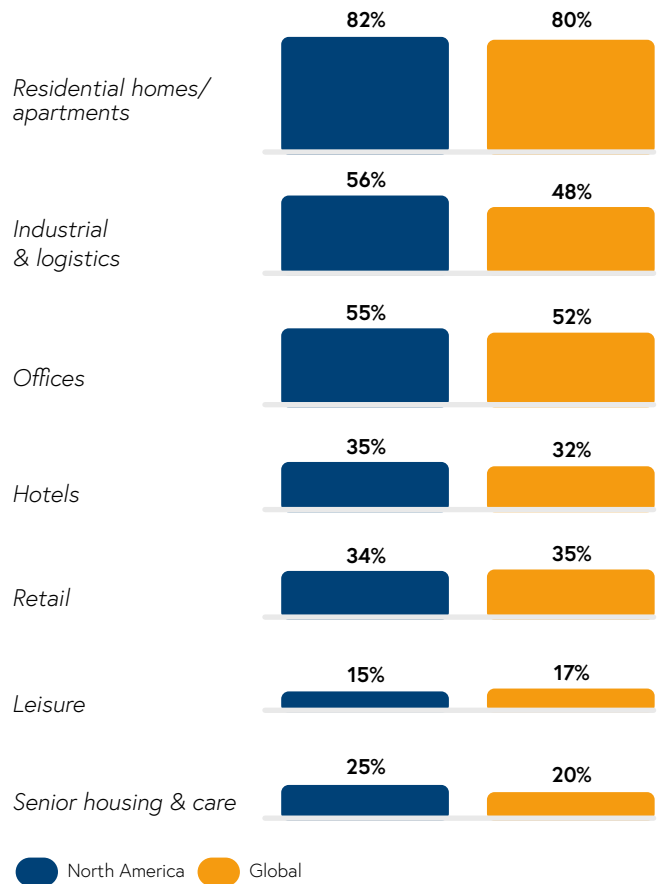


Source: Campden Wealth / RBC, The North America Family Office Report, 2022

From a sector perspective, the majority of North American family offices invest in residential homes and apartments (82 percent, global average 80 percent). Following notably behind are industrial and logistics (56 percent), offices (55 percent), hotels (35 percent) and retail (34 percent) (figure 2.24).

With that said, it is interesting to note that family offices have been increasingly moving towards industrial and logistics investment, as 46 percent invested here last year, thus a sizeable difference of +10 percentage points in 2022.¹¹

Figure 2.24: Percentage of family offices with real estate investments by sector (Tick all that apply)



Source: Campden Wealth / RBC, The North America Family Office Report, 2022

¹⁰ Campden Wealth / RBC, The North America Family Office Report, 2021
¹¹ Campden Wealth / RBC, The North America Family Office Report, 2021

Sustainable investing

"Generating real world change never used to be part of the old school way of investing. It was just about making money; it didn't matter what the business did. Now, when you add a sustainability layer to your investing, you can see an incredible opportunity to improve so many lives. To me, that's as great as it gets."

Founder, single family office, Michigan, U.S.

What is sustainable investing?

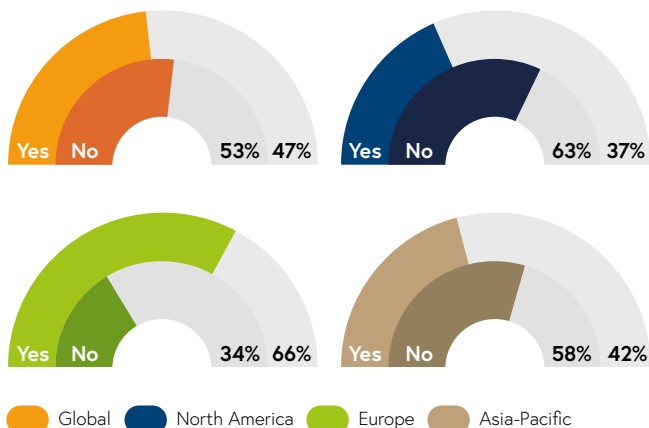
Sustainable investing is an investment approach that involves the consideration of environmental, social and governance (ESG) factors in the investment process. Three distinct sub-approaches, which can be used individually or in combination, can be identified: 1) exclusion, excluding investments that are not aligned with an investor's values; 2) integration, incorporating ESG factors into traditional investment processes; and 3) impact investing, investing with the intention to generate measurable environmental or social impact, alongside providing a competitive financial return.

Sustainable investing is catching on worldwide, but North America continues to trail its regional counterparts when it comes to adoption

Nearly half of family offices globally now invest sustainably. This figure has grown rapidly from 34 percent in 2019 and 42 percent in 2021 to what it is today, 47 percent (figures 2.25 and 2.26).

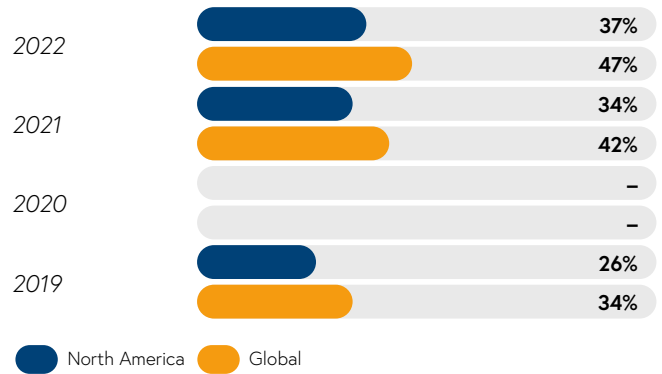
Despite the ballooning gravitation towards this area, those in North America continue to trail their regional peers in terms of adoption rates. At present, just 37 percent of North American family offices invest sustainably. This is compared to 66 percent in Europe and 42 percent in Asia-Pacific. This is broadly in line with previous years' reports.

Figure 2.25: Whether the family office is engaged in sustainable investing



Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Figure 2.26: The proportion of family offices that adopted sustainable investing, 2019 – 2022



Note: Figures for 2020 are not available as the report was not produced this year due to the COVID-19 pandemic. Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Sustainable investing is rapidly increasing in portfolio share

In 2020, those in North America who invested sustainably dedicated an average of 16 percent of their portfolios to sustainable investments. This grew to 18 percent in 2021, 20 percent in 2022, and is expected to rise to 23 percent in 2023 and 31 percent in five years' time (figure 2.27).

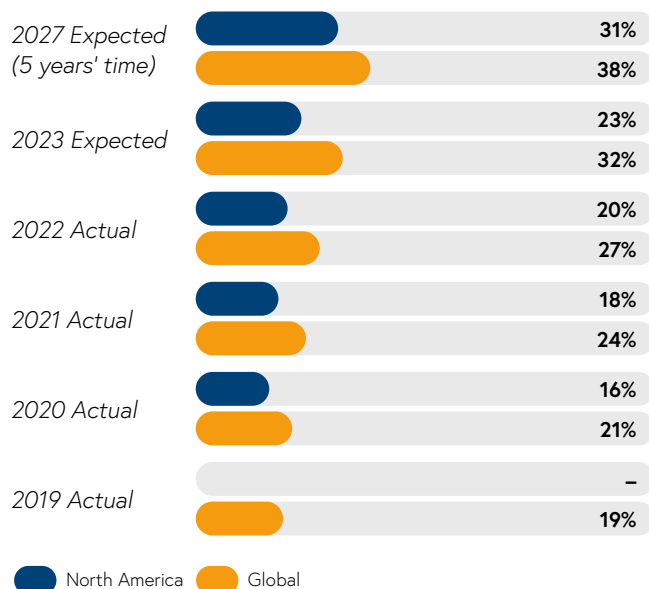
The trend is echoed worldwide, with portfolio shares rising year-on-year from 21 percent in 2020 to a projected 38 percent in 2027.

In what is likely to propel this trend forward, 32 percent of those in North America and 33 percent globally report that families believe they are not currently allocating enough to their sustainable investments, reinforcing family offices' objective to increase their investment in the coming years. One interviewee commented:

"The reason that investors are starting to get concerned about sustainability is because the people they report to are concerned about it."

Chief Financial Officer, single family office, Canada

Figure 2.27: Approximate percent of investment portfolio allocated to sustainable investments in 2020, 2021 and 2022, and expected allocation in 12 months and 5 years' time



Source: Campden Wealth / RBC, The North America Family Office Report, 2022

2021 returns reach 12 percent in North America

Combating concerns that sustainable investments are unable to produce attractive returns, North American family offices garnered a 12 percent average return in both 2020 and 2021, and they expect this performance to hold up in 2022 (**figure 2.28**). These returns slightly outperform global averages of 10 percent in 2020 and 11 percent in 2021.

It is also worth mentioning that European family offices, which invest more than any other region in sustainability, had a total average portfolio return of 13 percent (2021). This somewhat lags behind that in North America (15 percent), however, North Americans' short-term financial gains might not outweigh Europeans' long-term social / environmental gains. Sustainable investing carries two kinds of returns, financial and social / environmental, and families place different values on each, as expressed by our interviewees:

"Impact investing is only two percent of our portfolio. The most important criteria for us is the social and environmental impact of an investment, not the financial return. Investments must be fully aligned with the family's values. For instance, we have a residential real estate portfolio and it's important for us that it includes social housing. So, we're backing a group that does social housing in the same cities as our real estate projects. The expected return is low, but it's the social impact we're looking for."

Chief investment officer, single family office, Canada

"If a business with high margins and retentions engages with impact investing then it's a good business. It's not a good business simply because it engages with impact investing. In fact, if it's involved with impact simply to make 'things right' and doesn't make money, in my opinion, it's a bad business."

Chief executive officer, single family office, California, U.S.

Figure 2.28: Family offices' average annual return on sustainable investments in 2021 and expected return in 2022



Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Most family offices invest thematically

The most commonly employed approach to sustainable investing, used by 72 percent of North American respondents, is thematic. Here, family offices target themes of interest, such as clean energy and gender equality. Other popular approaches include positive / best in class selection, used by 53 percent of respondents, and the integration of ESG factors into one's analysis and valuation, used by 51 percent (**figure 2.29**). Two interviews commented on the ESG integration tactics they use:

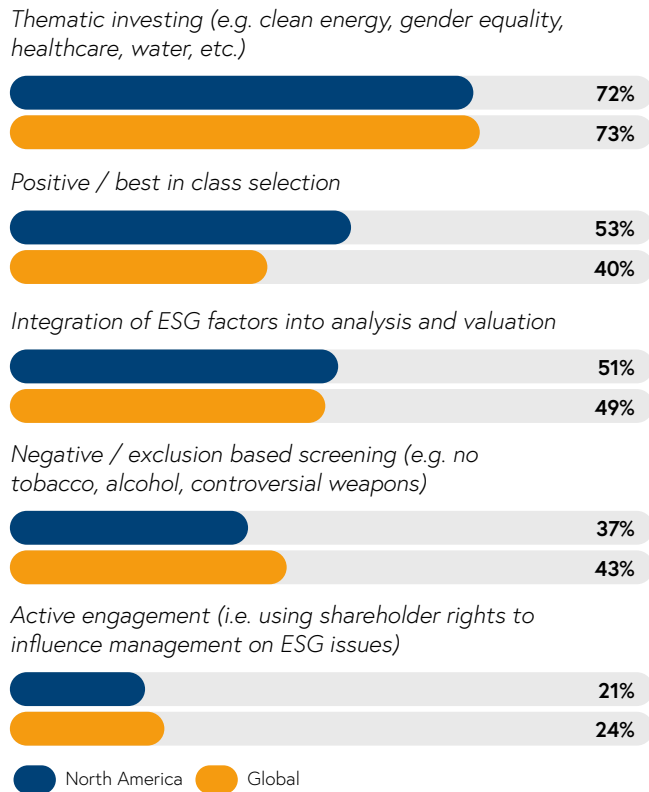
"Our investment policy requires the managers we invest with to be Principals for Responsible Investment (PRI) signatories. We do ESG due diligence for all our investments, and we raise ESG issues with the boards of the companies we work with. We would never invest in oil, gas, mining companies or areas like that."

Chief Investment Officer, single family office, Canada

"We have an investment firm that offers a direct index fund. The fund mirrors, say the S&P 500, and then we apply an ESG screen which we developed with an ethical investing consultancy. They put the portfolio through an explicit exclusionary process and add weights to the firms that are doing a great job. This gives us much more control over what we are investing in compared to owning an index mutual or exchange-traded fund."

President, multi-family office, Massachusetts, U.S.

Figure 2.29: Sustainable investment approaches used by the family office (Tick all that apply)



Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Climate change, family offices' number one target

Following a wider trend in which families are increasingly using sustainable investing as a vehicle to combat climate change, this area is, once again, the number one theme offices are targeting. At present, 77 percent of those in North America invest in climate change mitigation, up marginally from 74 percent last year (figure 2.30).¹²

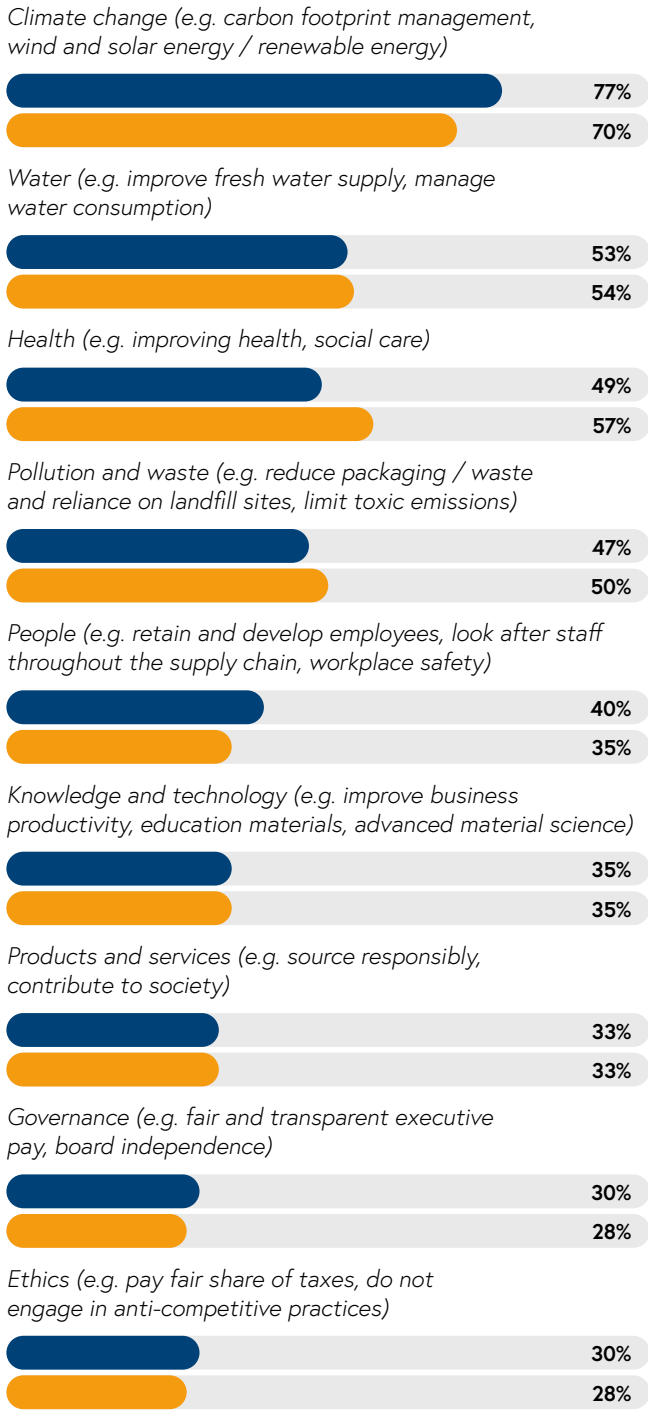
Other popular areas for investment include water (53 percent), health (49 percent) and pollution / waste (47 percent), with these proportions being relatively similar to global averages. One executive commented on his efforts to tackle climate change and waste:

"The ethical investing firm we work with gives us data by industry on how companies are moving the needle in terms of carbon consumption and greenhouse gases, so we try to strike a 50/50 balance between bottom line return and impact return. We also invested in a company that took kitchen waste from restaurants and made a 10-fold return, then we made a 10-to-one return when we sold it to a waste management company. My kids thought it was great that we made money on one of their ideas, so we're going to do more here."

President, multi-family office, Massachusetts, U.S.

¹² Campden Wealth/RBC, The North America Family Office Report, 2021

Figure 2.30: Main focus of family's sustainable investments (Tick all that apply)



North America Global

Source: Campden Wealth / RBC, The North America Family Office Report, 2022



Tackling climate change one "gigacorn" at a time

"What does net zero mean? It means eliminating 40 gigatons of carbon dioxide emissions every year. Investors look for unicorns, but we look for gigacorns, which are companies that can mitigate a gigaton of carbon."

We conducted an interview with a family office CEO, who established a private equity fund dedicated to climate change mitigation through decarbonization. He passionately believes that adherence to ESG principles alone is not enough, but rather that the world is going to need large-scale pools of capital to meet a zero emissions target. But he is optimistic about hitting net zero and the Paris agreement objectives because he argues that new technologies, such as agrotech and carbon capture, will be capable of eliminating gigatons of carbon dioxide emissions.

Where did your motivation come from?

"We started our fund because we didn't think there were vehicles within public or private markets to invest in sustainability in a way that made sense. Six or seven years ago I said to my advisors that I wanted to move all our assets into a sustainability framework. They scored all the fund managers on a traditional ESG basis, and we have moved almost entirely to ESG managers on the public equity side. In 2017, I said I wanted to have a 25 percent ESG dedication in the portfolio by 2022, and it was 100 percent by 2021. However, there's a problem with ESG investing. Essentially, it's just a checkbox. Over the long-term it's probably going to achieve something but not enough to meet the challenge of the climate emergency."

In regards to private markets, we were dissatisfied, irrespective of whether we were investing with private equity firms or venture capitalists. A lot of them will talk the talk and walk the walk when it comes to sustainability, but their guidelines are not consequential or ambitious. So that's the reason we started this climate change equity fund. The first question we ask companies in our prospect pipeline is, "What is your carbon mitigation?" If it's not over a megaton a year, we're not even going to look at it. So, we started my fund, with a particular focus on climate change and decarbonization to move beyond box-ticking and greenwashing. To date, we've made three investments with IRRs forecasted around 30 percent. This is all part of the massive pool of capital the world is going to need if climate change is going to be mitigated through investment in decarbonization."

Where do you source your private equity deals?

"We source them from early stage venture capitalists, climate incubators and corporates that are restructuring. About 15 years ago there was this kind of clean tech revolution, and many companies raised a lot of capital but many weren't able to achieve their goals. Lots of those companies are still around, and they're kind of orphaned. So, we go in there, reinvent them, and give them new energy. Their valuations are modest because people have forgotten about them, but they have 15 years of technology they have developed to deal with greenhouse gases. We closed our first fund recently and have already made three investments. One is a SaaS platform for climate reporting and the other specializes in regenerative agricultural technology."

Which technologies provide the biggest opportunities?

"There are six industry segments as defined by the United Nations intergovernmental panel for climate change. We've looked at agrotech, changing land use to minimize carbon emissions, power generation, construction and transportation. I think we will see the first test flights of battery-powered commercial planes within the next three years. Industrial includes the exciting area of carbon capture where carbon dioxide is literally filtered out of the air. The interesting element is the carbon price, the cost that governments impose on companies that create emissions. Levels of innovation are highest where the carbon price is highest."

Is the Paris agreement goal of limiting global warming to 1.5 degrees Celsius, and net zero emissions by 2050 realistic?

"Unfortunately, the latest scientific thinking is that the probability of the 1.5 degrees limit being exceeded near-term is 50%, but it is all very confusing for the general public. What does net zero mean? It means eliminating 40 gigatons of carbon dioxide emissions every year. Investors look for unicorns, but we look for gigacorns, which are companies that can mitigate a gigaton of carbon. We are virtually certain that one company in our portfolio will be a gigacorn. So, if you think about it, in that context, if there are 10 funds like ours around the world, together we could eliminate perhaps a third of the world's emissions. If you break the problem down into bite-sized chunks it is easier to see how it could be resolved."

"As I said at the start, we wouldn't look at a proposition that didn't reduce emissions by at least a megaton, but two to three years from now I hope that's five megatons. By the time we exit fund one and move into fund two, I hope we're talking 10 to 20 megatons. That snowball effect will create an environment where people jump on the decarbonization band-wagon."

3. Family office structures

3.1 Family office costs

3.2 Human capital

— If you're thinking about starting a family office, ask yourself: Do you want to build a legacy?

3. Family office structures

- In 2022, North American family offices' total average spend on services stood at US\$14.4 million. This includes US\$7.4 million in operating costs and US\$7.1 million in external investment management administration, performance and custody/report fees.
- Family offices spent an average of: US\$1.5 million (15 basis points, bps) on general advisory services; US\$2.4 million (24 bps) on investment-related activities; US\$1.8 million (17 bps) on family professional services; and US\$1.6 million (16 bps) on administration activities.
- North American Chief Executive Officers (CEOs) make an average base salary of US\$454k, with an average annual bonus of 42 percent (as a proportion of base salary). The equivalent figures for Chief Investment Officers (CIOs) are US\$446k for base salary and 48 percent for bonuses.

\$14.4

(US\$) million is the total average North American family offices spent on services in 2022

\$454k

(US\$) is the average base salary of a North American family office CEO

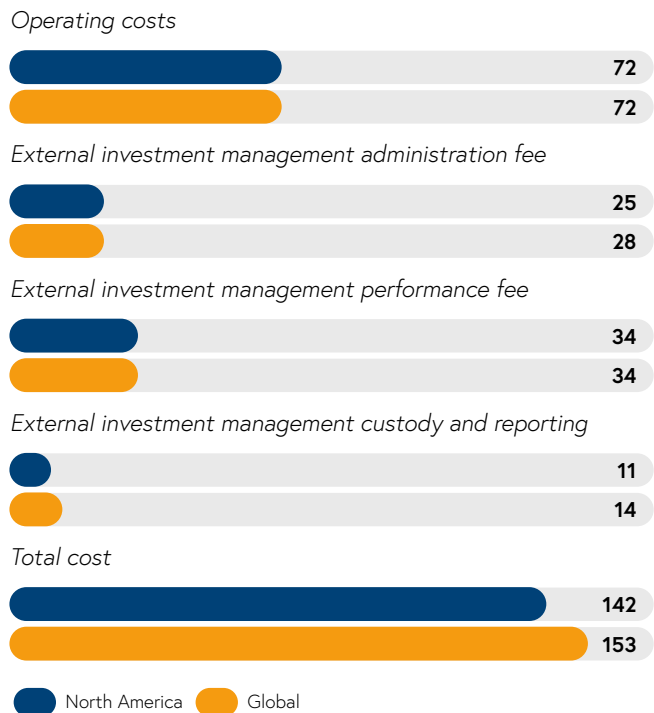
3.1 Family office costs

Rising costs aren't for the faintedhearted

Given the high inflationary environment, it is unsurprising that operational costs have risen this year. In 2022, family offices in North America spent an average of 142 bps of AUM on services (US\$14.4 million), up from 121 bps in 2021 (US\$12.1 million). This consists of 72 bps on operating costs (i.e. general advisory, investment, family professional and administration-related services), and 70 bps on external investment management administration, performance and custody/reporting fees, which is where the rise emanates from (figures 3.1 and 3.2). Globally, overall costs have risen from a total of 124 bps to 153 bps over this period.

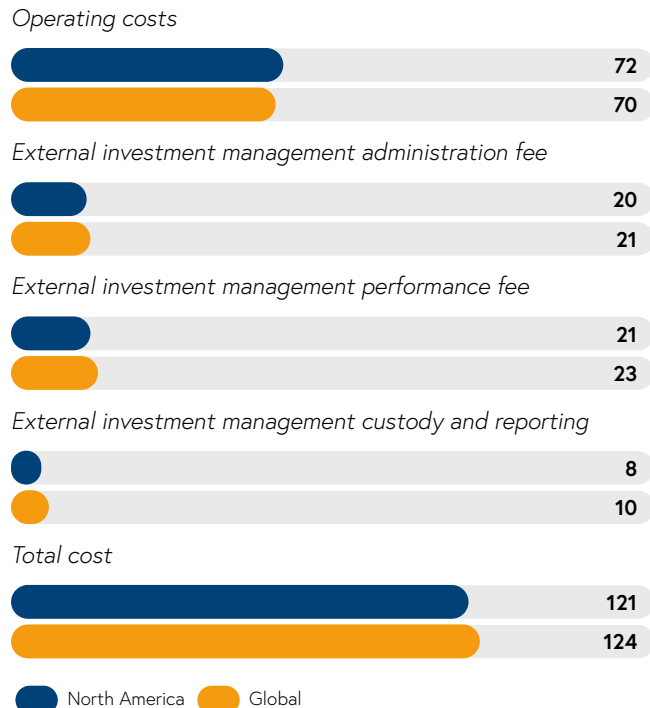
Figure 3.3 breaks down these costs in greater detail.

Figure 3.1: Family offices' overall costs in basis points of AUM, 2022



Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Figure 3.2: Family offices' overall costs in basis points of AUM, 2021



Source: Campden Wealth / RBC, The North America Family Office Report, 2022

"We're a large family office with 40 staff which reflects the size of our private equity portfolio. We have 15 deals running at present. There is a separate real estate team, a direct investment team and a team that invests with third-party managers. We have a CEO, CFO and the back office is large because we offer administrative services to other family members. Philanthropy and tax are also covered by the back office. We outsource some legal work and accounting, but otherwise pretty much everything is in-house. The result is that our costs are around 70bp of AUM."

Chief Investment Officer, single family officer, Canada

"We have a record going back 50 years. We have generally kept costs below 40bp of AUM, and we've been helped by setting up our own private trust company. This has enabled us to move away from some fiduciary relationships we had with some institutions in the U.S. They gave us good rates, but we still did better on our own, and we had more flexibility."

Principal, single family office, Illinois, U.S.

Figure 3.3: Breakdown of North American family office operating costs 2022 and comparison with Global average

	Percent average family office operating costs	Basis points	Operating cost for average family office	Percent average family office operating costs	Basis points	Operating cost for average family office
General advisory services	21%	15	\$1,529,000	20%	16	\$1,609,000
Financial planning		3	\$313,000		3	\$341,000
Tax planning / advice		3	\$279,000		3	\$272,000
Tax compliance/reporting		2	\$253,000		3	\$280,000
Estate planning		2	\$179,000		2	\$165,000
Legal services		2	\$190,000		2	\$238,000
Insurance planning		1	\$106,000		1	\$103,000
Trust management		2	\$208,000		2	\$210,000
Investment related activities	33%	24	\$2,421,000	35%	27	\$2,743,000
Asset allocation		3	\$256,000		3	\$333,000
Risk management		2	\$192,000		2	\$204,000
Manager selection		2	\$234,000		2	\$256,000
Private banking		1	\$94,000		1	\$121,000
Traditional investment		2	\$237,000		3	\$259,000
Alternative investment		3	\$267,000		3	\$299,000
Real estate		2	\$237,000		2	\$231,000
Investment banking		2	\$191,000		2	\$196,000
Investment strategy		2	\$192,000		2	\$216,000
Financial accounting / reporting		3	\$265,000		3	\$259,000
Global custody and investment reporting		1	\$97,000		2	\$181,000
FX management		0	\$16,000		1	\$55,000
Philanthropy		1	\$142,000		1	\$134,000
Family professional services	24%	17	\$1,775,000	22%	17	\$1,738,000
Concierge services and security		1	\$63,000		3	\$299,000
Family counselling / relationship management		1	\$58,000		3	\$306,000
Family governance and succession planning		1	\$56,000		3	\$343,000
Management of high-value physical assets		4	\$411,000		3	\$282,000
Support for new family business projects		1	\$90,000		3	\$259,000
Educating Next Gen members		2	\$161,000		2	\$249,000
Administrative activities	22%	16	\$1,647,000	23%	18	\$1,836,000
IT costs		1	\$84,000		4	\$403,000
Office overheads		1	\$150,000		7	\$720,000
Cybersecurity		0	\$48,000		2	\$233,000
Other		1	\$100,000		5	\$480,000
Total operating costs	100%	72	\$7,372,000	100%	77	\$7,926,000
Investment management administration fee		25	\$2,541,000		28	\$2,896,000
Investment management performance fee		34	\$3,415,000		34	\$3,434,000
Investment management custody & reporting		11	\$1,117,000		14	\$1,417,000
Total investment management fees		70	\$7,073,000		76	\$7,747,000
Grand total		142	\$14,445,000		153	\$15,673,000

North America Global

Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Family offices rely on a mix of services, in-house and outsourced

The services family offices most often provide in-house are financial accounting and reporting (76 percent), philanthropic giving (75 percent) and devising their investment strategy (70 percent) (**figure 3.4**).

The services they most often outsource are private banking (46 percent) and global custody and integrated investment reporting (35 percent). Along with this, an array of family offices rely on a mix of in-house and outsourced services.

"We are definitely doing more insourcing. All our accounting is in-house and although our tax is done externally, we do a lot of the preparatory work in-house before it's sent out. We don't do tax strategies or planning in-house but certainly all

the underlying information and tracking that would be used in tax returns is prepared in-house. It's less expensive and more tailored to the family's needs."

Chief Financial Officer, single family office, U.S.

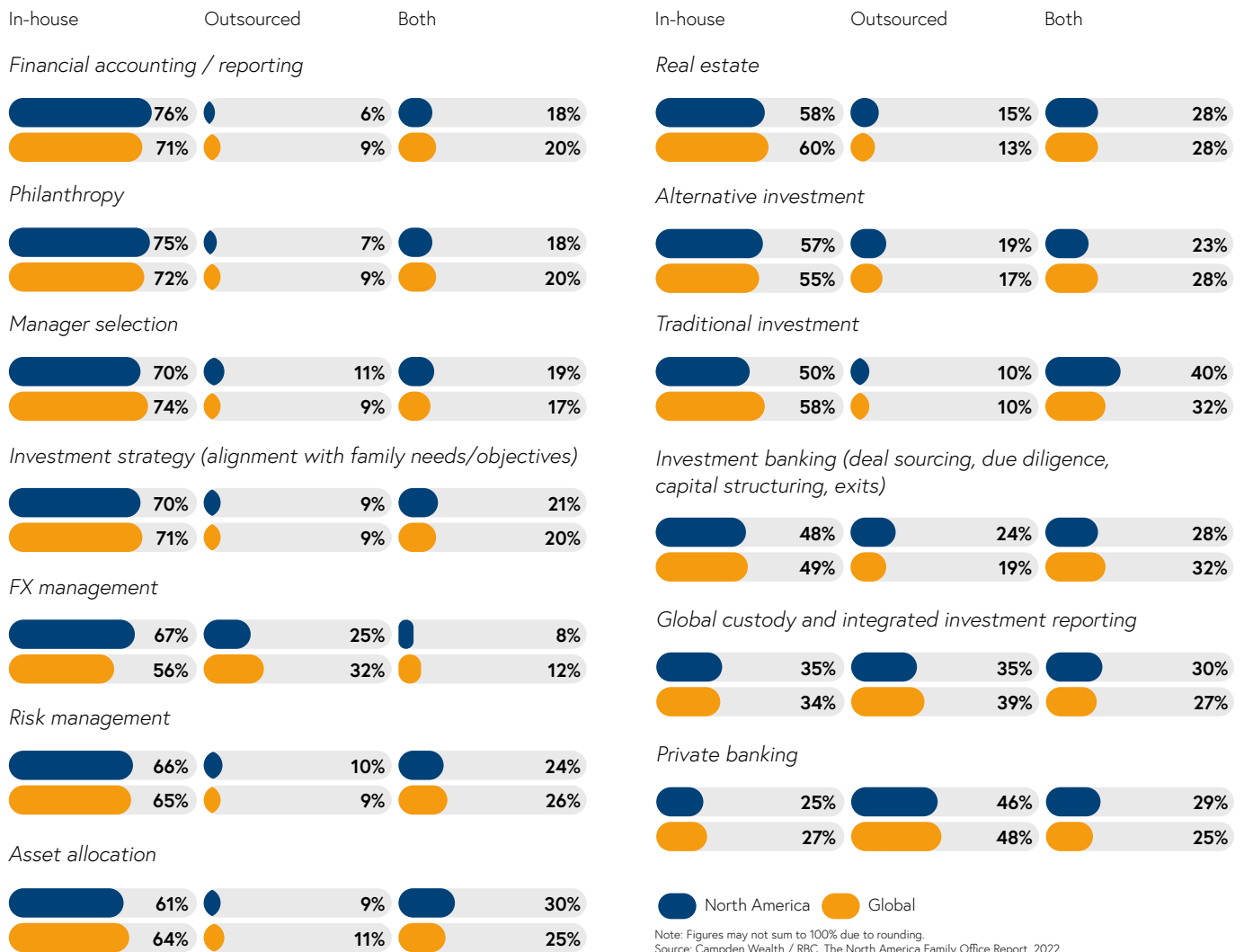
"There are pros and cons to outsourcing. But if you think about it, we already outsource audits and fund management. It's just a question of where to draw the line between what the principal directly controls and what he doesn't."

Chief Financial Officer, single family office, Canada

"Hopefully the family office will be self-perpetuating for years to come. But it's intuitively obvious that not everyone can build this structure. You either must pick advisors that you absolutely trust, or you have to dig in yourself."

Managing Partner, single family office, Connecticut, U.S.

Figure 3.4: Investment-related services provided by the family office (in-house, outsourced, or both)



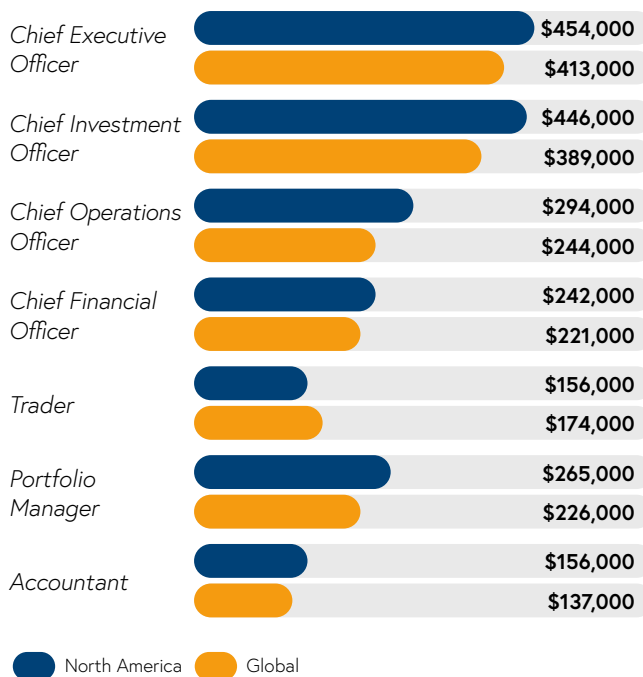
3.2 Human capital

The average family office in North America has nine members of staff, one of which is a member of the family. This is compared to a global average of nine members with two being family members.

North American CEOs make an average base salary of US\$454k

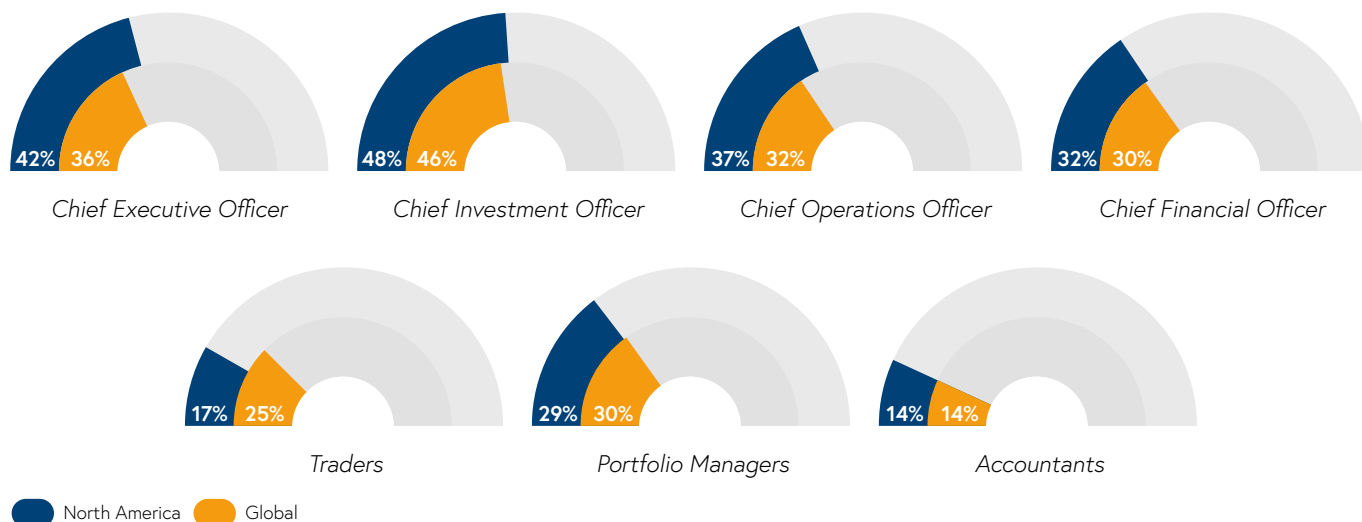
CEOs in North America are paid, on average, a base salary of US\$454k, compared to a global average of US\$413k (figure 3.5). CIOs' average base salary stands at US\$446k, COOs US\$294k, CFOs US\$242k, traders US\$156k, portfolio managers US\$265k and accountants US\$156k. Each of these salaries is higher than global averages. Lastly, bonuses range from 14 percent to 48 percent, and most are discretionary rather than formulaic or a mix of the two (figures 3.6 and 3.7).

Figure 3.5: Base salaries of senior family office executives (US\$)



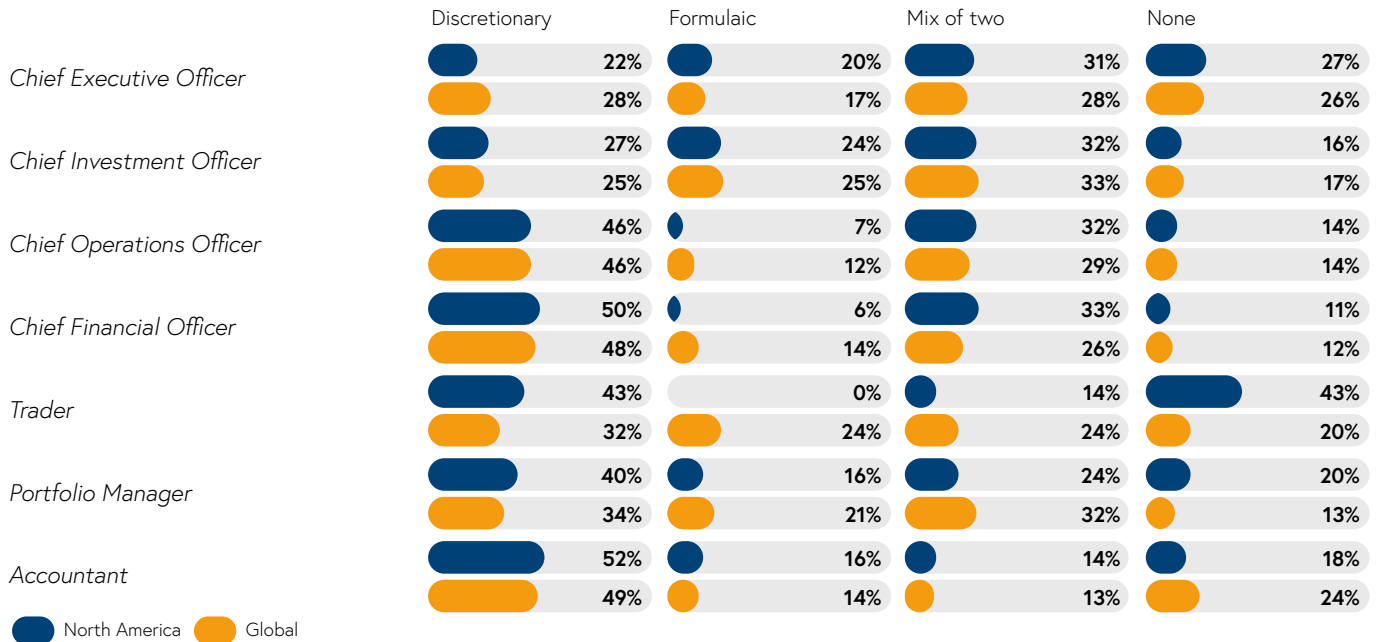
Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Figure 3.6: Value of bonus paid as percentage of base salary



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Figure 3.7: Bonus structures for senior family office executives



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC, The North America Family Office Report, 2022

27 percent of family offices have diversity policies in place

Just over a quarter (27 percent) of those in North America have diversity, equity and inclusion (DEI) policies in place (figure 3.8). Forty-three percent are at least somewhat aware, but do not promote DEI, while 29 percent believe that the topic is "not relevant" to them because, for instance, their headcount is too small.

Two-thirds (66 percent) of family offices in North America (71 percent globally) believe that their office is moving towards greater diversity and expects the same action from their external service providers. Bearing this in mind, 93 percent of those in North America (89 percent globally) equally report that it's becoming more difficult to attract top leadership talent to the family office given growing competition.

Some of the comments family office executives made about staffing follow:

"A big challenge right now is identifying and retaining staff. We need to use more sophisticated technology platforms and automate more of our back office functions. This would allow us to attract talented staff for more meaty, demanding roles that would help us grow assets, rather than worrying about who would be responsible for back office functions."

Chief Financial Officer, single family office, U.S.

"A key issue is human capital. Although we are a large office, I believe we are very lean because we have so much activity going on. We are permanently short-staffed and it's difficult to attract the right people. The market is very competitive."

Chief Investment Officer, single family office, Canada

Figure 3.8: How aware and proactive the family office is to issues of diversity / equity / inclusion (DEI)



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC, The North America Family Office Report, 2022





If you're thinking about starting a family office, ask yourself: Do you want to build a legacy?

Tips for those considering setting up a family office and how to prepare the next generation from Tommy Mayes, a highly experienced CEO of a single family office in Florida and an advisor to wealth holding families.

"Setting up a family office is very different today than it was 20 years ago, because there are so many more tools, resources, advisors and technologies on offer. There are tried and true best practices, so it's not quite as daunting. With that said, if you are thinking about setting up a family office, you must mentally walk yourself down the path.

When families first think about setting up a family office, typically all they think about is taking care of their money. However, there is much more to it than that, so you must ask yourself what your goals are. For instance, let's say a couple obtained their wealth through creating a business together—the utopian business-owner's dream—and then they had a big exit. They then must ask themselves, what is important to us? Should we simply enjoy our money, or should we try to leave a legacy for our family, something that will sustain itself for our children and their children for generations to come? Because if it's not important to you to put your financial resources towards building a long-term legacy, then instead of starting a family office, you can think about giving your money away or doing what we call, 'going to Fiji'. Going to Fiji is what we say when you leave just enough for the next generation and then move on and let them decide what to do with it. (Of course, that can have its own issues, because if you haven't taught

your children how to be financially independent and have a healthy relationship with the money, then you could be doing them more harm than good.)

My advice though is to just sit still. Really think about whether it is important to you to build something that will outlive anybody that is living today. This is what I refer to as an 'aspirational family', which is a family that desires a legacy in the form of influence around financial, social and human capital which persists through multiple generations. If this is you, and you want to set up a family office to help facilitate your family's legacy building, then move on to the next step. This is to ask yourself how involved you intend to be. Do you want to be involved in the family office on a day-to-day basis or do you want to outsource it all to professionals?

Once you get to the point of putting your estate plan together, you will need to ask yourself how to build a team to make sure your vision is executed. That comes back to control. How do you control the operation as long as you can? Well, a lot comes down to your first hire. Often, a family's first hire is a specialist, such as a CPA, a lawyer or a tenured investment professional. This can be a good strategy, depending upon the situation. My advice is to focus on what is often referred to as an expert generalist. Ignoring the oxymoron, consultants and recruiters often advise this as well, given the diversity of talents required to build and lead a family enterprise office. For instance, I spoke with one such investment professional who had resided in a large family office and was pulled out to build a new family office. He was young enough to have the energy to get through a lot of it, but also wise and adept enough to know what he didn't know. He was able to pull a team together.

Furthermore, looking at it from a lifecycle perspective shows you that some of the things you do early on will impact your success, not only one generation down the road, but two, three, four and five generations down the road. Therefore, there are certain things that should be put in place early on. For instance, everything you do needs to be able to sustain itself. By that I mean, sustainability around your governance structure, how you are going to make decisions and who you are going to rely on inside and outside the family. Ask yourself, how are these things going to be sustained when none of the people that are around today are available to make the decisions down the road?"

Do you have any advice on how to help the next generation become good stewards of wealth?

"I have worked with well-educated, well-read, thoughtful Next Gens who are successful in their own right. They may have their own business, run a family foundation or have received an MBA. When you pull together people like this, you have a lot of talent. So, the trick for most families is how to teach them, from a stewardship perspective, how to be owners, not operators. How to be a good board member, how to be a good governing representative for the family and how to think about things from the spirit of wanting the family money to last hundreds of years. The types of decisions that need to be made are all in dynasty trusts. It's a very different thought process.

Furthermore, seeing your father or mother spend hours every day on the phone and in board meetings making operating and allocation decisions can be intimidating for many Next Gen. Therefore, unless you have developed some specific talent and stepped into an operating role in the family enterprise, you will become a governor, an owner, a shareholder or a beneficiary. And that's where it gets tricky for many Next Gen, so you must allow them to understand their future role and practice it in advance. I believe rehearsing is a big deal in the family office space.

For instance, you can have an investment committee that Next Gens are invited to so that they can listen, learn and participate. You can have a monthly family board meeting where the generations sit together. The CFO can talk about what's going on, the investment pipeline and the portfolio. It doesn't need to take the form of a governing body, but rather a rehearsal to become a governing body. I think that's really important. It gives Next Gens comfort around their fears about the big decisions they will have to one day make. A Next Gen doesn't just show up being the perfect CEO or CIO. You don't know what will happen until you get into meetings and build a dialog. Here is where the emergence of leadership happens, and you find out who is ready to step up. This approach allows Next Gens to get engaged and have enough visibility to be able to one day say, 'This is the role I want to play in the family's future.'"

Do you have any further words of advice for the family and family office?

"Transparency around information at the family office is a glue because in the vacuum, where everything happens, there's guesswork. Next Gens assume they're going to inherit a lot of money, and sometimes they don't. It's called the 'lifestyle creep', so it's important to make them aware.

Another factor that is incredibly important is the inclusiveness of both the inheritor and the spouse. A common thread among really successful multi-generational family offices is the inclusion of the in-laws. That's hard for many principals. Do you tell the in-laws explicitly what is going on and bring them into the conversation, or do they just hear about it in the bedroom? Which one do you want? Do you want them to hear your version of things, or just your son's or daughter's version? In turn, I think those two elements go hand-in-hand, transparency and the inclusion of as many people in the family discussion as possible."

4. Purpose

4.1 Family office governance

4.2 Family office risk and cyber security

- Risks to the family office

- Cyber security

- Family offices' take on cyber security

4.3 Succession planning and the next generation

- Succession planning

- The next generation

- Building a successful family office, with the next generation in mind

4.4 Philanthropy

- Philanthropy is more than just putting a name on a plaque: The merits of donor advised funds

4. Purpose

- North American family offices' number one governance priority over the next 12 to 24 months relates to risk management, according to 78 percent of respondents (global average, 72 percent). This is an unsurprising result given the present challenging economic climate.
- A notable 37 percent of North American family offices have experienced one or more cyber attacks over the last 12 months. Despite this, nearly a third (32 percent) do not currently have a cyber security plan in place. This may help to explain why 30 percent feel insufficiently prepared to safeguard themselves from an attack.
- Fifty-four percent of North American families have a succession plan in place, up slightly from 50 percent last year, while just 33 percent of family offices have a succession plan for their senior executives. Sixty-eight percent of respondents believe family offices are well prepared for families' succession, along with 57 percent of families and just 39 percent of the next generation.
- The greatest challenges North American family offices face with regard to succession planning include the next generation being too young to plan for their future roles (42 percent), not having a next generation member qualified enough to take over (40 percent), discomfort is discussing the sensitive matter (25 percent) and the patriarch / matriarch being unwilling to relinquish control (16 percent).
- Most families in North America (86 percent) give philanthropically (global average, 82 percent), with the average annual donation sitting at US\$15.4 million (global average US\$11 million).

78%

of North American family offices assert that their number one governance priority over the next 12 to 24 months is risk management

54%

of North American families have a succession plan in place

86%

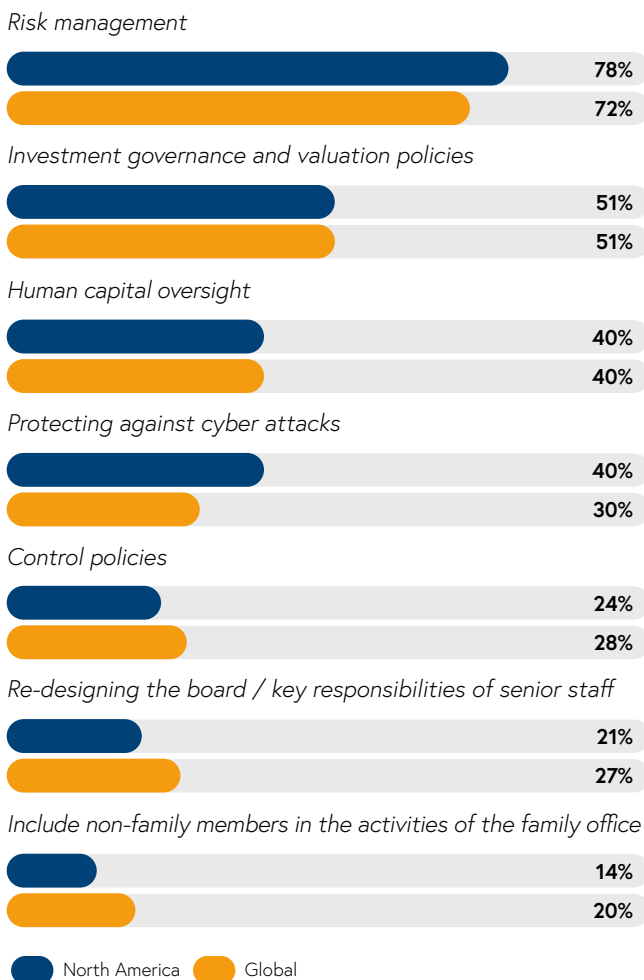
percent of North American family offices give philanthropically

4.1 Family office governance

Risk management is family offices' top priority

Family offices' number one governance priority over the coming 12-to-24 months is risk management, as denoted by 78 percent of respondents (global average, 72 percent). It is interesting to note that the focus on risk management intensified last year amid the COVID-19 pandemic and that, once again, it has further intensified amid concerns about the economy, moving from 65 percent in 2021 to 78 percent in 2022 (figure 4.1).

Figure 4.1: Top three governance priorities for the family office in the next 12-24 months



Source: Campden Wealth / RBC, The North America Family Office Report, 2022

"We are a first generation family office; the governance is handled by just me and my wife, so we're not overly concerned. Our only questions are how and when to bring our kids into the picture, and how we assemble our advisors. I know, we probably won't achieve a pass grade on governance. That's something that we should definitely work on."

Chief Executive Officer, single family office, Canada

Family offices adopt a variety of governance structures

Family offices often have an array of governance structures in place, but the most common are a control plan to monitor investments (which 67 percent of respondents have) and investment guidelines for strategic asset allocation (66 percent). Other less common structures include succession planning guidelines (32 percent) and an operational manual to aid portfolio construction decisions (figure 4.2). Two interviewees commented:

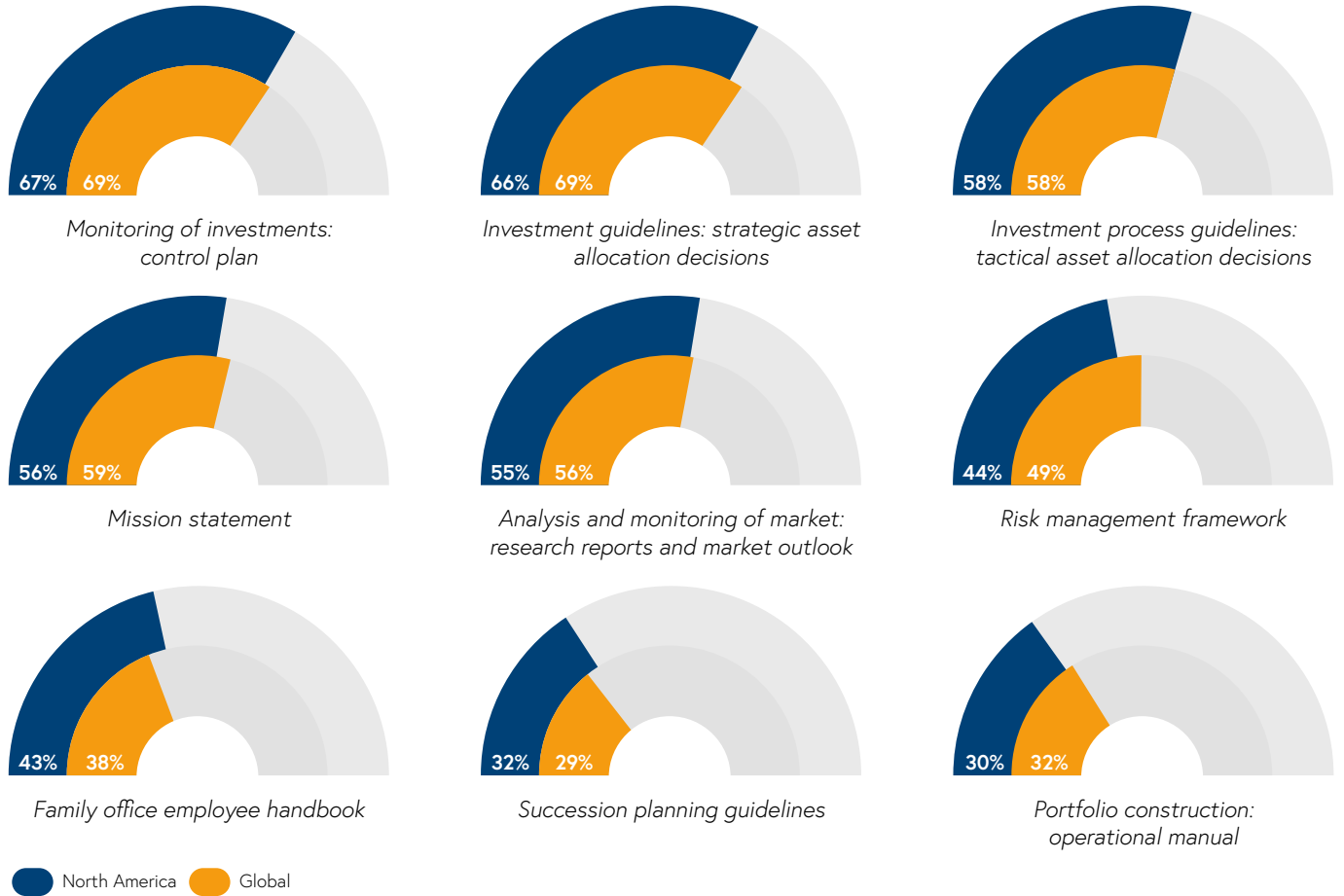
"My job running our family office has two discrete components; one component is the hard topics like estate planning, asset allocation and manager selection. The other is to work with family members to ensure their financial affairs are in order. Once the family's hard topics are in order, we turn to softer topics. That's where I add most value by developing the next generation, holding family meetings and having a family constitution and family counsel. I try to engage with every family member and have conversations about their life goals, what they hope to achieve and where they want to go next."

President, private multi-family office, Massachusetts, U.S.

"The core issue I had when we started the office was governance. We brought in consultants and started investigating different frameworks. We were trying to solve problems before they occurred by creating a framework for conflict resolution. Our long-term goals are responsible stewardship of the family wealth and the creation of a family legacy. But neither would be possible if the interests of family members were not aligned. The inevitable conclusion resulting from a lack of alignment would be division, separation and the end of the family office. So, the resolution framework we have put in place will make us think twice before taking any drastic action."

Chief Executive Officer, single family office, Connecticut, U.S.

Figure 4.2: Governance structures in family offices (Tick all that apply)



Source: Campden Wealth / RBC, The North America Family Office Report, 2022

4.2 Family office risk and cyber security

Risks to the family office

Investment risk is considered the biggest risk to family offices over the coming three to five years

It is unsurprising that investment risk ranked number one again this year (81 percent; last year 78 percent) (figure 4.3). This risk is deemed by far the most central to family offices, and it is highlighted more by family offices in North America than any other region (81 percent, versus 77 in Asia-Pacific and 75 percent in Europe).

Other notable mentions include political and country risk (31 percent), a factor likely swayed by the war in Ukraine, the potential theft of families' confidential information (38 percent) and an unpreparedness of the next generation (32 percent). In interviews, executives spoke of the risks they deem most important:

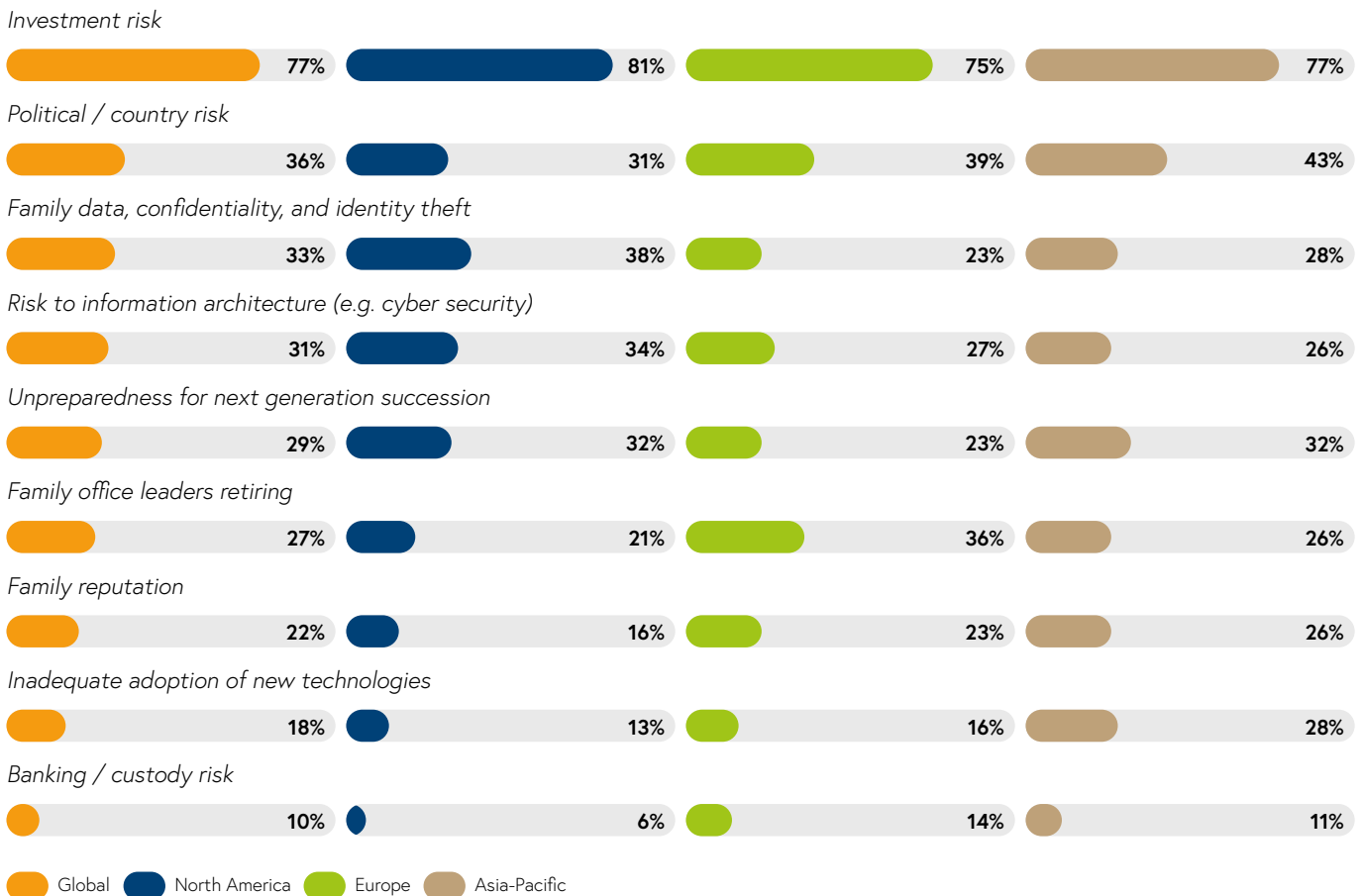
"Based on President Biden's announcements, I think the number one risk is taxation. I think the U.S. government will go after wealthy families over US\$100 million in net worth, with an automatic 20 percent annual tax. Second would be regulatory risk because as family offices get bigger, they operate as essentially unregistered investment companies and there's been various attempts by the U.S. Securities Exchange Commission to try to regulate family offices. Third would be interest rate risk, simply because many families have invested their portfolios aggressively in private equity and venture, but the underlying assumptions around interest rates are changing and so I think return expectations are going to have to come down. Inflation, which devalues assets overtime, only ranks as the fourth risk."

President, private multi-family office, Massachusetts, U.S.

"The key risks for us are taxation changes and the fact that it gets harder to move wealth across the generations as time goes by because you have an increasing number of family beneficiaries and a rate of investment growth that can't keep up. That's when family offices end up as dinosaur bones."

Principal, single family office, Illinois, U.S.

Figure 4.3: Biggest risk factors identified by family offices over the next 3-5 years (Tick all that apply)



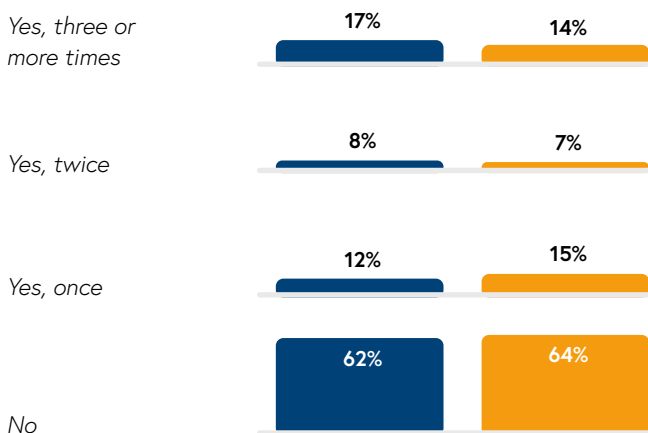
Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Cyber security

Over a third experienced a cyber attack within the last year

Cyber attacks have become an increasingly prominent concern in recent years and a notable 37 percent of the North American family offices surveyed noted that they have experienced one or more attacks over the past 12 months (global average, 36 percent) (figure 4.4).

Figure 4.4: Number of cyber attacks experienced by family offices over the past 12 months (e.g. phishing emails, identity theft, hacking, etc.)



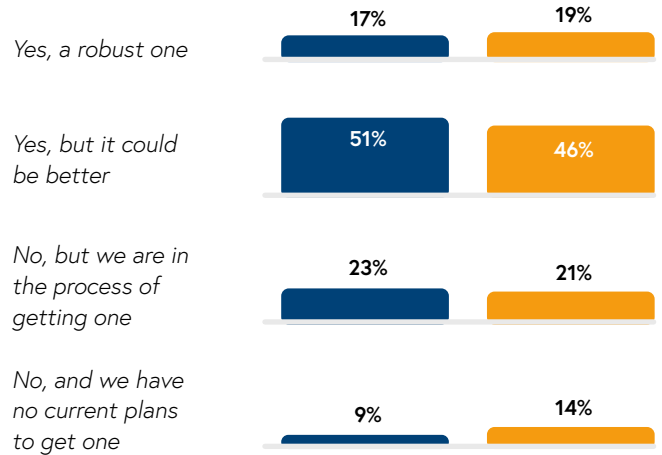
Legend: North America (Blue), Global (Orange)
 Note: Figures may not sum to 100% due to rounding.
 Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Roughly one-third don't have cyber security plans; many feel unprepared for an attack

Despite the high level of attacks, 32 percent of North American family offices don't currently have a cyber security plan (although 23 percent are in the process of getting one) (figure 4.5).

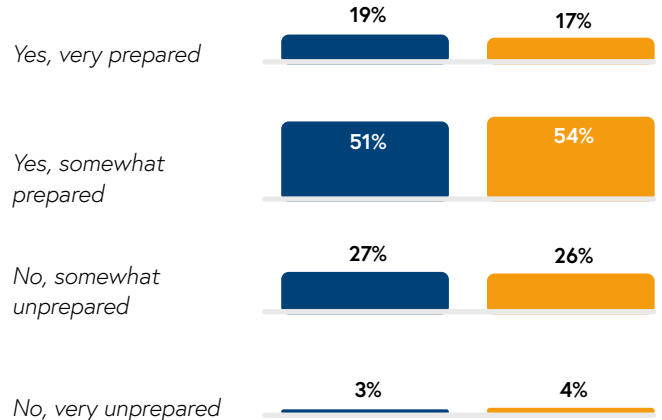
It is unsurprising that 30 percent feel insufficiently prepared for an attack (figure 4.6). It is also noteworthy that merely 19 percent feel 'very prepared', especially considering this research includes findings from families that collectively have roughly US\$700 billion in wealth.

Figure 4.5: Whether the family office has a cybersecurity plan in place



Legend: North America (Blue), Global (Orange)
 Note: Figures may not sum to 100% due to rounding.
 Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Figure 4.6: Whether the family office adequately prepared / educated to safeguard itself from cyber attacks



Legend: North America (Blue), Global (Orange)
 Note: Figures may not sum to 100% due to rounding.
 Source: Campden Wealth / RBC, The North America Family Office Report, 2022



Family offices' take on cyber security

We conducted numerous interviews with family office executives and a key area discussed was cyber security. The following outlines, in executives' own words, the level of risk family offices face regarding cyber attacks, what types of attacks they have experienced and how they are safeguarding themselves for the future.

Should family offices be concerned about cyber security?

"My previous operating company was a major cyber security firm so I'm very aware of the topic. I think it should be on every family office's top worry list. Family offices are a very low hanging target for cybercriminals because they're not well protected. They don't take it seriously. If I were a bad actor, targeting them would be a very good place to start."

Chief Executive Officer and Principal, single family office, Canada

"I think what we are seeing now is family offices becoming the number one target for hackers and phishing scams. Perhaps that sounds a bit paranoid, but I was on a call recently with 10 other very large single family offices and six of them had been hacked. I brought in a technology firm to help educate our family. They monitor all our devices, hardware and software. Everyone in the family must go through a monthly online class with a test at the end, which they must pass. It describes things like phishing and all the latest scams, and everyone must use a virtual private network for secure transactions. So, I feel like we're in a great place, but I'm sure that there's stuff going on that I have no awareness of."

President, multi-family office, Massachusetts, U.S.

Has your office experienced a cyber attack?

"We were a victim of wire fraud made possible by a hacked email. There was a very strong response by the FBI and our bank. We were able to recover some of the money quickly. However, some of the transactions were international and so

foreign banks and police departments also got involved, but they were less accommodating."

Chief financial officer, single family office, U.S.

"We've experienced phishing attacks which have been remarkably sophisticated. We've been very fortunate not to have had any losses. One of the discussions we've had lately is being more proactive and less reactive. We've been talking to different companies and consultants about our platforms going forward and how to reorganize ourselves."

Chief Financial Officer, single family office, Connecticut, U.S.

"One significant thing happened to us; we got an email purportedly coming from one of our investment managers. It gave us revised wire instructions for money transfers. Fortuitously, we didn't act on it. This caused us to implement a whole new process to mitigate the risk of wire fraud."

Managing Director, single family office, Illinois, U.S.

What are you doing to safeguard the family office from attacks?

"We are putting a lot of new protocols in place. We introduced a multi-authentication protocol where you need a text message with a code in order to log into your computer. The family has been working with an outside consultant, so clearly they are concerned and are taking the threat of a cyberattack very seriously."

Chief Investment Officer, single family office, Canada

"If you go back 20 years in the family office world, we were all talking about how fast you could recover from a server crash. Now the question is really the same except that 'server crash' has become 'ransomware'. So, it's really a question of how you have duplicated your data. This will determine how quickly you recover."

Managing Director, single family office, Illinois, U.S.

"Sometimes you have older family members who don't fully understand phishing attacks and can't easily recognise if something is wrong with an email. So, we've tried to make family members more aware from a cybersecurity standpoint. We ask them to use certain portals to communicate with us and we provide video training to make sure everyone is up-to-date on the protocols. If they are unsure of anything, there is always a point person they can go to."

Vice President, single family office, Pennsylvania, U.S.

"We have built in back-ups and back-ups of those back-ups, so I hope we wouldn't be seriously inconvenienced if we suffered a ransomware attack. However, until you go through it, you never know."

Chief Financial Officer, single family office, Connecticut, U.S.

4.3 Succession planning and the next generation

Succession planning

In 2017, we asked family offices when they expected the next generational transition to occur, and 69 percent said in 15 years or less. This suggests that we are in the middle of a seismic shift, one that will see trillions of dollars changing hands between generations. Since this date, we have tracked the progress of this transition and monitored how family offices are preparing for it.

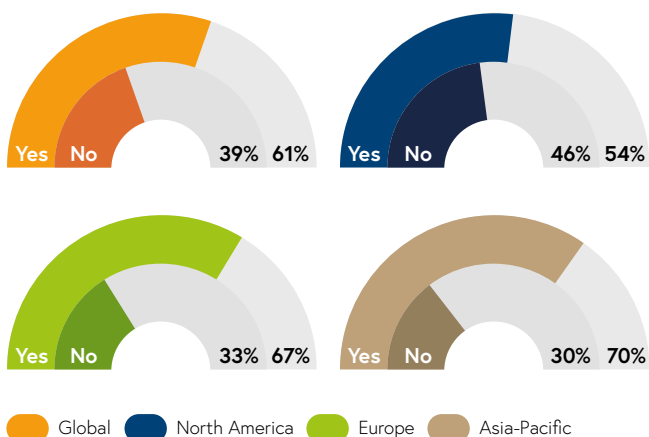
North American family offices trail their regional counterparts in succession planning

At present, just over half (54 percent) of families in North America have a succession plan in place, up slightly from 50 percent last year (figure 4.7). Worldwide, 61 percent have plans in place, up from 55 percent in 2021, with Europe at 67 percent and Asia-Pacific at 70 percent.

"Succession planning is on the top of my mind because I'm a trustee of everything and I'm not going to be here forever. My grandfather and father both died without a succession plan in place, and I'm determined not to repeat that mistake. So, I have a roadmap, everyone knows that a copy exists in our attorney's office and a copy exists in my home safe. Furthermore, I have three members of generation eight who I think have the potential and aptitude to run the family office, but they have their own careers, and I don't want to disrupt them. However, if something happens to me the plan will spring into effect. In the meantime, I watch my Next Gens develop and hopefully one or two of them will take over my responsibilities."

President, single family office, Massachusetts, U.S.

Figure 4.7: Whether the family has a succession plan in place

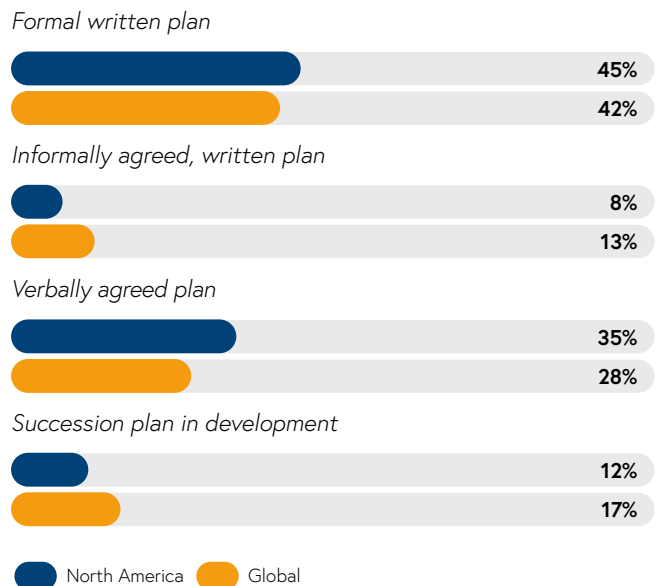


Note: Figures may not sum to 100% due to rounding. Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Merely 53 percent of succession plans are written; 35 percent are verbally agreed

The most sophisticated family offices have both long-term and short-term contingency plans for succession. This highlights an area that needs ongoing focus. In terms of types of plans in place, just over half of those in North America are either formally (45 percent) or informally (8 percent) written, while the remainder are verbally agreed (35 percent) (figure 4.8).

Figure 4.8: Type of succession plan



Note: Figures may not sum to 100% due to rounding. Source: Campden Wealth / RBC, The North America Family Office Report, 2022

"I think it's common for a self-made patriarch or matriarch to have a difficult time envisioning how the family enterprise will sustain itself in a manner that they would be proud of once they are gone. They are going to leave their kids a lot of money, but they can't be sure that everything they've put in place won't be undone. That's a natural human reaction. In turn, I think families need to do one of two things. They either have to invest enough time to understand all their options and then pick the one most relevant to their family ethos, or they have to choose advisors who understand where the family wants to go, and who they trust implicitly to get them there."

Managing Partner, single family office, Connecticut, U.S.

"Our CEO is the family patriarch. Historically, he's been the communicator between the family office and the family. In recent years, we decided to increase the communication with more family members because we recognize there could be a wealth transfer event. Therefore, we now have an annual off-site gathering where we review our investment performance and certain plans, such as what we'd do if something happened to a family member or if we experienced a cyber attack."

Vice President, single family office, Pennsylvania, U.S.

Merely one-third have a succession plan in place for senior family office staff

Some family offices think about more than just the succession of family members. They also consider the wider succession of senior family office executives, family members or otherwise. At present, just one-third of family offices have such a plan in place, with 14 percent training family members to take over the family office, 13 percent training other internal staff and 6 percent relying on outside professionals to step in. Others (17 percent) have alternative plans for the family office, such as dissolving it after the passing of the current generation.

This leaves roughly half (49 percent) of offices with a vulnerability when it comes to passing on the baton; something they may wish to address before the next transition occurs (figure 4.9), and it appears that some (27 percent) are working on this at the moment. One family member explained his own experience, which is one that many other families will likely relate to:

"We're a relatively small, third generation family. Outside of myself, none of them are engaged with the family office except for some philanthropy. They have never expressed any interest in the family office or the investment portfolio, so succession has been a big issue for us to think about. This is limiting the direct venture capital deals we undertake because that's a business with a 10-to-15 year horizon and we may not be around for that length of time. My strategic plan is to wind down and outsource as much as possible so that we become a virtual family office. Another option is to hire a non-family chief executive so that we can have a succession plan even if it means relying on outsiders. Alternatively, we could join a multi-family office, except that I can't imagine how any multi-family office could take on the responsibility I have of always acting in my own family's best interest."

Managing Director, single family office, Illinois, U.S.

Figure 4.9: Preparations for the retirement of family office leaders



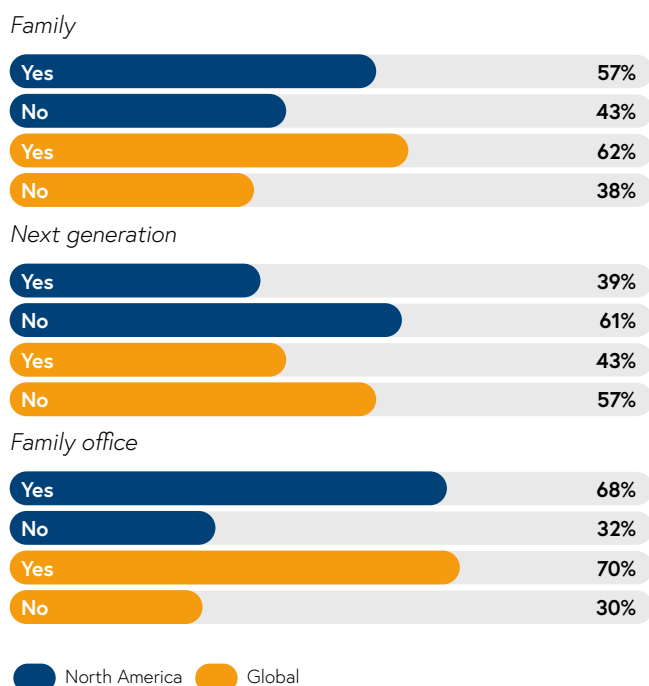
Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Just 33 percent of Next Gens are deemed prepared for succession

Most family office executives in North America (61 percent) deem the next generation to be insufficiently prepared for succession (figure 4.10). This is up marginally from 55 percent last year and compares to a global average of 57 percent.

Families also evidently need support with succession, as only 57 percent are believed to be prepared. This has dropped from 66 percent last year and compares to a global average of 62 percent. Those viewed as most prepared are family office executives, with 68 percent in North America feeling ready for the future, compared to a global average of 70% (2021 global average, 77%). (For a more in-depth look at succession and the next generation from the perspective of Next Gens themselves, please see the Campden Wealth / RBC report, *The Next Generation of Global Enterprising Families, 2020*.)¹³

Figure 4.10: Whether the family / next generation / family office is well prepared for succession



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC, *The North America Family Office Report, 2022*

40 percent of family offices deem Next Gens to be unqualified to take over

When family offices were asked about the greatest challenges they face with regard to succession, one of the most commonly raised factors was not having a next generation family member qualified enough to take control, as denoted by 40 percent of respondents (figure 4.11).

This issue is more prevalent in North America than any other region, as just 34 percent of those in Europe and 26 percent in Asia-Pacific highlighted this issue (global average, 36 percent). One executive commented:

"How can you be certain that the wealth that's been created is going to be actively managed by the next generation, rather than just becoming a source of conflict amongst those who expect an inheritance. I really think that addressing this issue is why family offices are established."

Chief financial officer, single family office, Canada

Another factor that came into play was that next generation members were still too young to plan for their future (42 percent). This compares to a global average of 36 percent and might, in part, be explained by the fact that Next Gens in North America, on average, assume control of the family wealth at an older age than they do in Asia-Pacific. That being said, in 'The Next Generation of Global Enterprising Families' report a notable 38 percent of Next Gens felt a conversation around succession should have happened earlier, so it's something to consider for families as they raise their young children.¹⁴ One interviewee, facing this very challenge, commented:

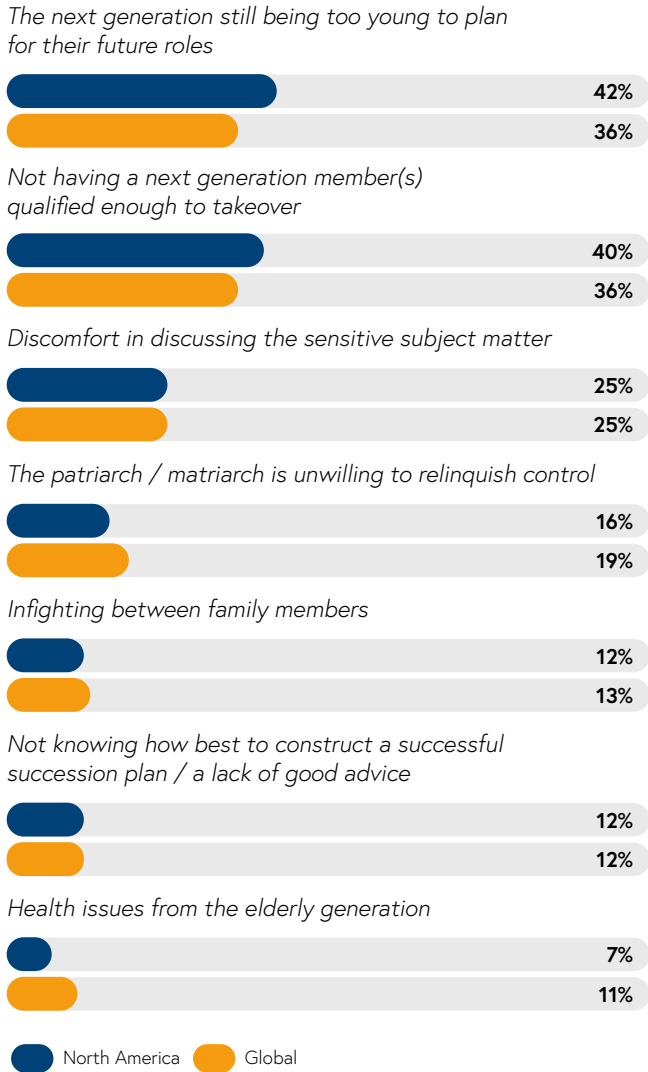
"We need to implement a succession plan, but there isn't a rush; the next generation is still very young. I don't expect succession to be an issue in the next 10 years, but this is something we've started to discuss. We'll begin work on it in a few years. Our current plan is only very high level."

Chief investment officer, single family office, Canada

Still further, discomfort in discussing this sensitive matter troubles 25 percent of family offices, while having a patriarch or matriarch who is unwilling to relinquish control troubles 16 percent. Finally, over one in 10 face issues with not knowing how to construct a succession plan and infighting between family members (12 percent each).

¹³ Campden Wealth / RBC, *The Next Generation of Global Enterprising Families: Shaping Tomorrow, Today, 2020*. <https://www.rbcwealthmanagement.com/en-ca/campaign/shaping-tomorrow-today-family-wealth>
¹⁴ Campden Wealth / RBC, *The Next Generation of Global Enterprising Families: Shaping Tomorrow, Today, 2020*. <https://www.rbcwealthmanagement.com/en-ca/campaign/shaping-tomorrow-today-family-wealth>

Figure 4.11: Greatest challenges the family face with regard to succession planning (Tick all that apply)

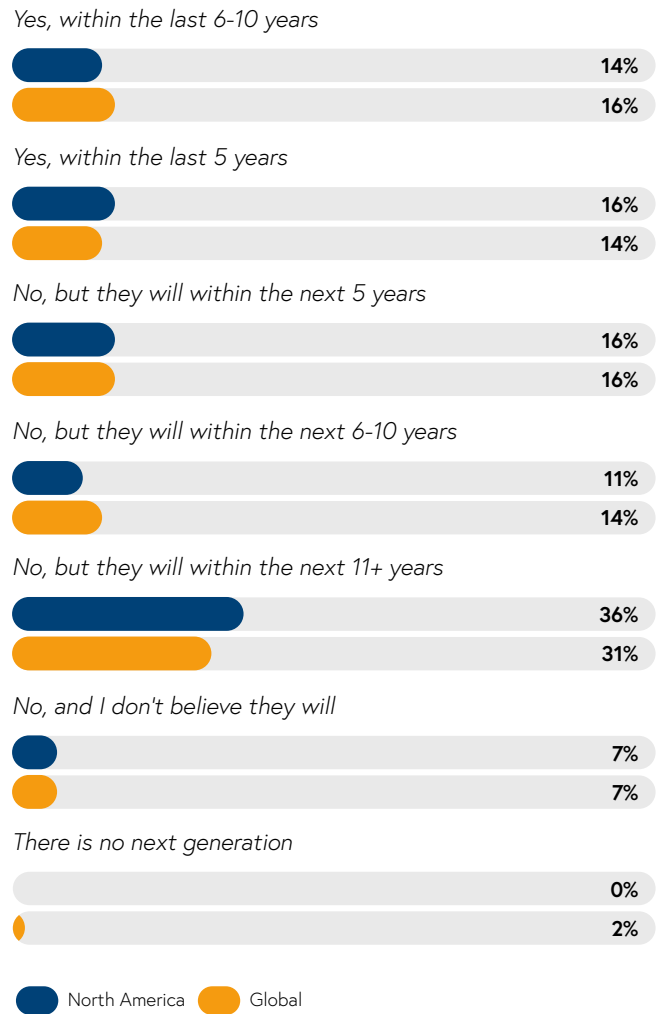


Source: Campden Wealth / RBC, The North America Family Office Report, 2022

30 percent of Next Gens have already assumed control; 27 percent will do so within the next 10 years

The former figure is on par with the global average of 30 percent. However, broken down by region, slightly more Next Gens in Europe have already taken over (32 percent), compared to slightly fewer in Asia-Pacific (26 percent) (figure 4.12).

Figure 4.12: Whether the next generation has already assumed control



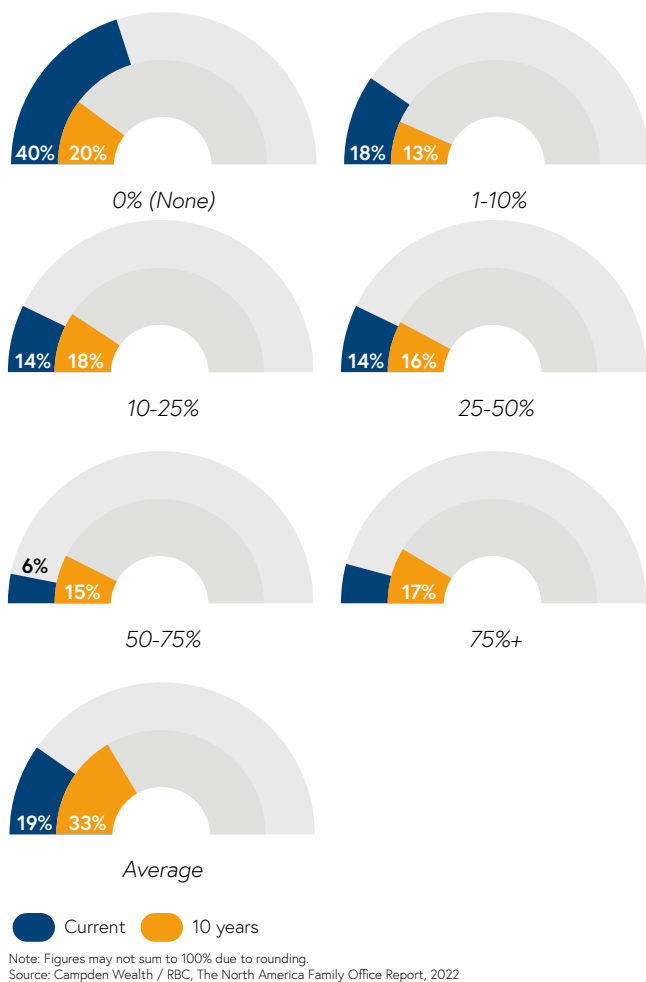
Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC, The North America Family Office Report, 2022

The next generation

Most family offices employ Next Gens

At present, 60 percent of family offices have at least one Next Gen working with them, and this is expected to rise to 80 percent over the next decade. With that said, on average, roughly one in five Next Gens from wealth-holding families currently work in the family office, and this proportion is expected to grow to one in three within 10 years' time as the global wealth transfer continues to unfold (**figure 4.13**).

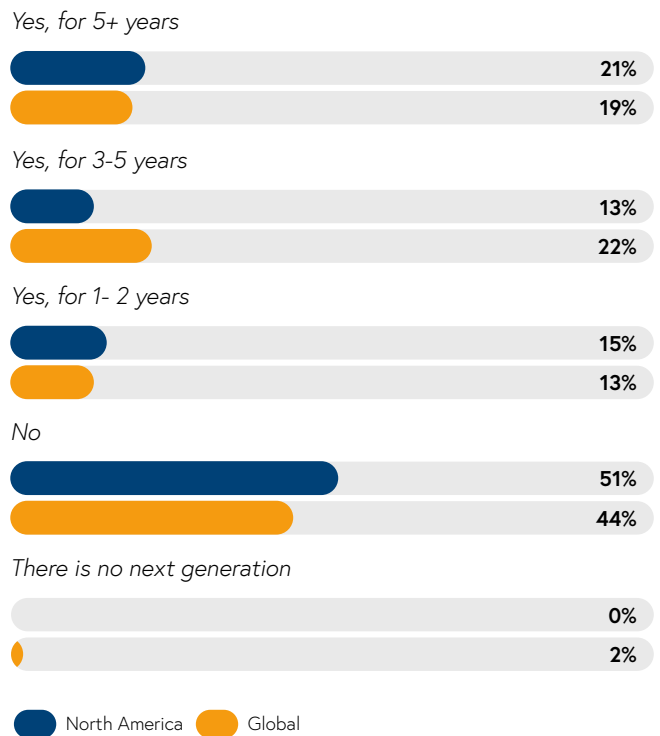
Figure 4.13: Proportion of Next Gen family members currently engaged in the family office in North America



Next Gens are commonly expected to gain outside work experience before joining the family office / business

While family offices and family businesses can be useful training grounds for Next Gens' educational development, 49 percent of families expect them to gain work experience elsewhere, such as at a bank or a hedge fund, before joining the family firm (**figure 4.14**). This approach is often deemed beneficial, both to Next Gens who can gain additional experience from outside institutions, and to the family office / business itself, as Next Gens can bring the additional knowledge they gain into the firm.

Figure 4.14: Whether next generation members are required to work elsewhere (e.g. investment bank, hedge fund) before joining the family office / family business

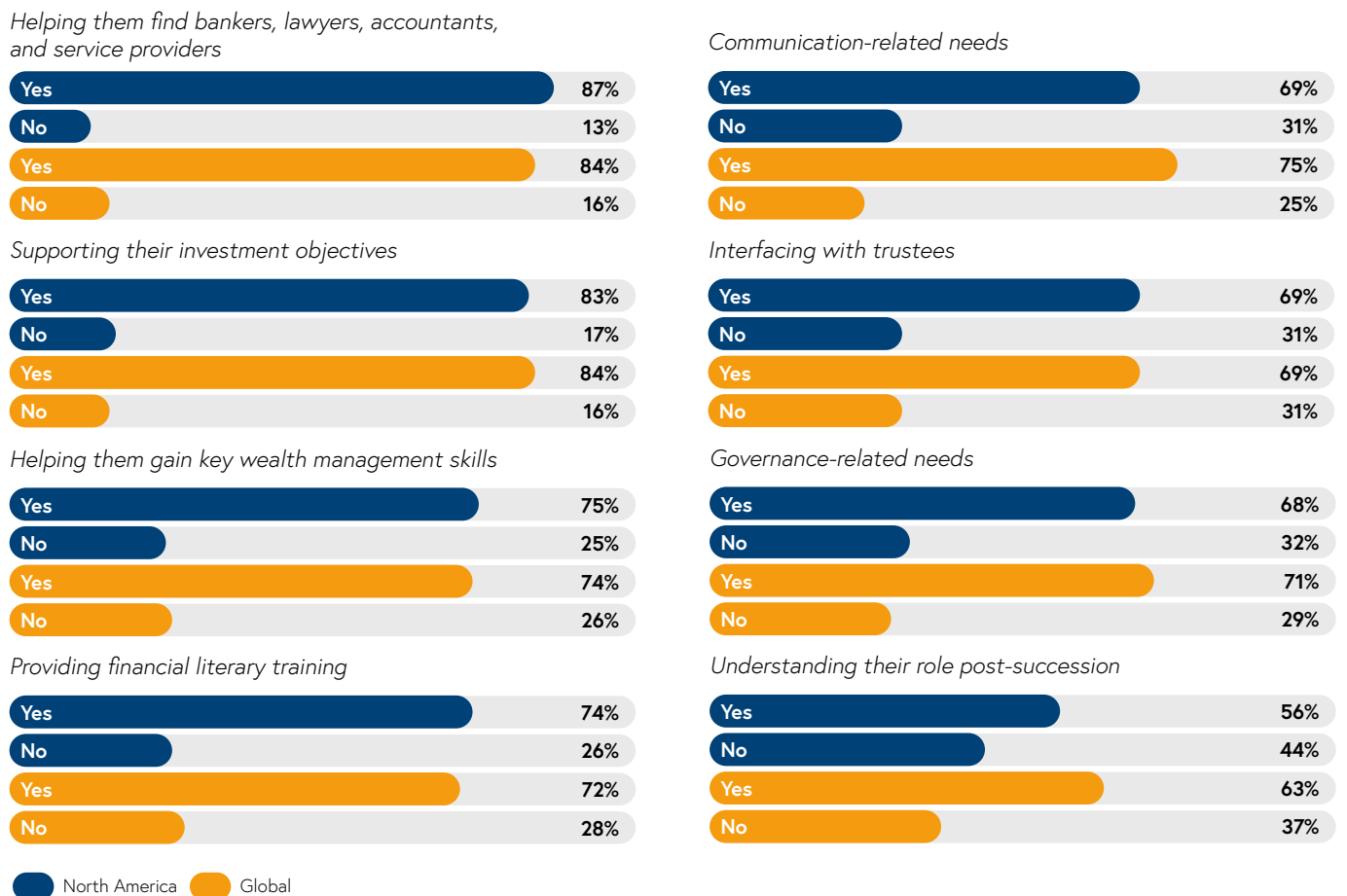


Most family offices feel prepared to support Next Gens on a variety of fronts

When it comes to how prepared family offices feel in relation to addressing Next Gens' forthcoming needs, they feel the most prepared to help them find bankers, accountants and

service providers, and to support their investment objectives (87 and 83 percent feel prepared, respectively). They feel the least prepared when it comes to understanding their role post-succession and with governance-related needs (56 percent and 68 percent feel prepared, respectively) (figure 4.15).

Figure 4.15: Whether the family office is meeting the next generation's needs in relation to succession



Note: Figures may not sum to 100% due to rounding.
Source: Campden Wealth / RBC, The North America Family Office Report, 2022

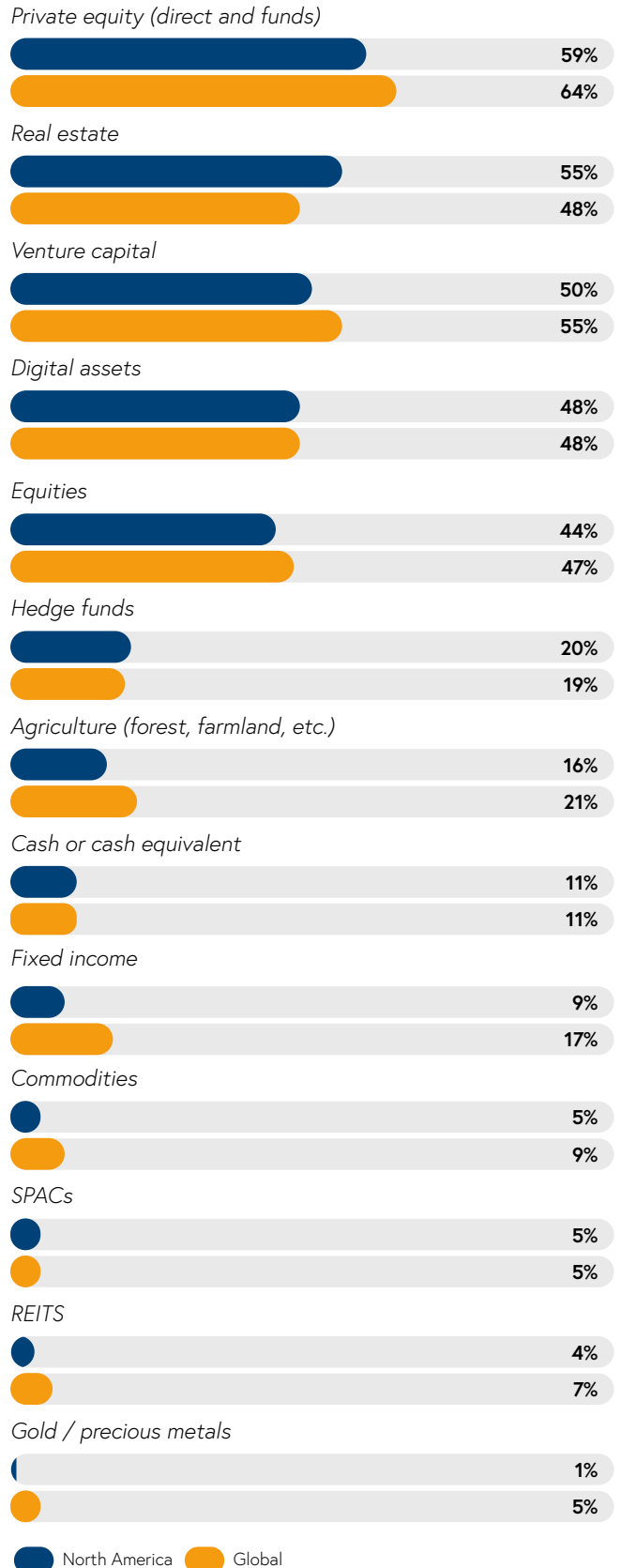
Next Gens' favourite asset classes are private equity, real estate and venture capital

When asked what asset classes Next Gens are most actively interested in, the top five were private equity (with 59 percent being interested), real estate (55 percent), venture capital (50 percent), digital assets (48 percent) and equities (44 percent) (figure 4.16). One CEO purported:

"I'm really looking forward to getting Next Gen investors involved when I'm pitching to potential limited partners. When you're talking to young people from high-net worth families, they want to be part of it. When people think about Next Gen engagement, they think about philanthropy, but it doesn't have to be limited to that. Climate change mitigation, particularly decarbonization, is something young people understand much more easily than their elders."

CEO and Principal, single family office, Canada

Figure 4.16: Whether Next Gens have an active interest in the following asset classes:



Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Next Gens' favourite technologies are artificial intelligence, fintech and blockchain

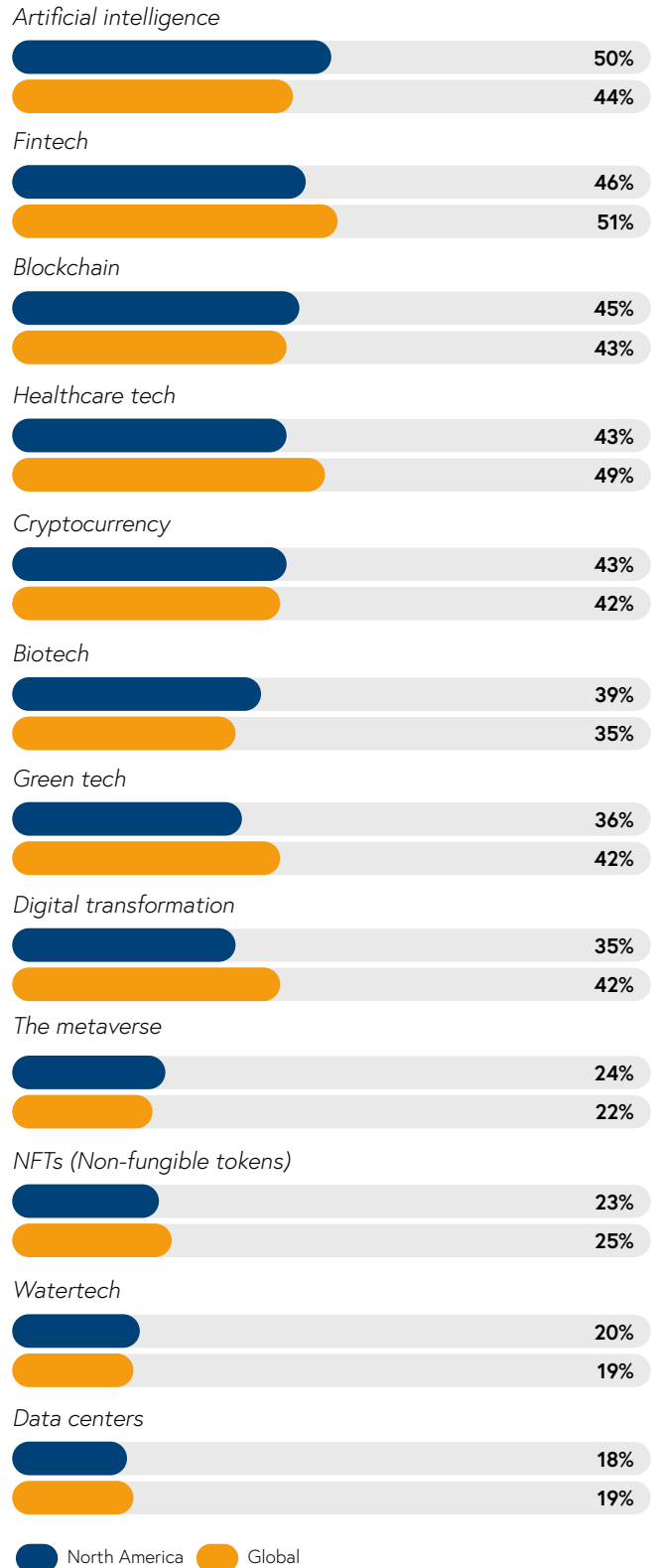
When asked what their favorite technologies are, the top five were artificial intelligence (50 percent), fintech (46 percent), blockchain technology (45 percent), healthcare tech (43 percent) and cryptocurrency (43 percent) (figure 4.17).

One next generation member, who had far more knowledge than his family about cryptocurrency and blockchain, explained how he intended to train them up so that they could start allocating to these newer areas of investment:

"I'm not going to ask my family to invest in something that they have no idea about like crypto or blockchain. This is something that's not on my family's radar. But I think eventually it will be, and there's a lot of opportunity in the space. But they must dive headfirst into the technology and understand it, what it can do, and how it can problem-solve before I can ask them to invest in it. That's really going to be my focus, helping some of my family members understand that there's a tremendous opportunity here."

Next generation member and single family office founder, Michigan, U.S.

Figure 4.17: Whether Next Gens have an active interest in the following technologies



Source: Campden Wealth / RBC, The North America Family Office Report, 2022



Building a successful family office with the next generation in mind

This second generation family member is not only the CEO of his own family office but has also established a multi-family office to help other like-minded families. He has been an extremely successful investor, having been an early investor in some of the very successful companies that have emerged over the past 20 years. Nonetheless, he finds significant wealth creates challenges when it comes to the family. Here he weighs up the pros and cons of family offices, the difficulties of preserving wealth and why preparing the next generation for their inheritance should start early on.

Is there a role for family offices?

"In my mind, wealth should enable you to find your passion and fulfillment. Therefore, I do not believe wealth should be a burden for my children, which means that I don't think my children should have the obligation of overseeing their money. I'd rather they don't manage family money unless they feel inclined to do so and are good at it. That's where a family office comes in, as a source of investment know-how and advice."

Having said that, it's possible to see situations where a family office can create tensions between family members. I came across a family member who was a teacher on a relatively modest salary. She discovered that the CEO of her family office made US\$1 million a year. So, she decided she would run the family office and earn the big salary. Somehow, through nepotism, she became the CEO. This was someone who had been fulfilled as a teacher but had no investing experience. So, what she did may have been good for her as an individual, but it was not a good outcome for the family office, and by extension not a good outcome for the family. I wouldn't run my own family's money if I thought there was someone who could do the job better than me."

Do governance structures help resolve conflicts like these?

"I'm familiar with the basic tools, such as mission statements, family constitutions and family councils. But keeping a family office together means keeping the family together, which means keeping the interests of individual family members aligned. Frequent meetings of the family council might help with this, but ultimately it depends on the goodwill of family members towards each other."

Do you intend to create a legacy for future generations?

"Is it possible to create a lasting legacy for future generations? Family offices which have survived for five or six generations are deemed successful. But I wonder how much of this was genetics, or because they are good investors or if it is simply luck. I believe making money is more luck-based than smart-based. Most people work hard but they have dramatically different outcomes. In my opinion, fifth or sixth generation families survive more by chance than by judgment. However, having said that, a surprising number of fifth or sixth generation family offices do survive, suggesting that there are structures or behaviours which support their longevity."

Can you identify those behaviours?

"It's easier to identify those behaviours which undermine family offices. My theory is that the first generation works incredibly hard because their parents had nothing. The second generation does not work as hard because they know they will be supported by, and ultimately inherit from, their parents. The third generation no longer sees the link between hard work and money. By the time you get to the fifth or sixth generation, there are so many individuals in the wealth pyramid that it can't stretch far enough. By that stage the family office is into wealth preservation rather than growth, and if it doesn't grow it will eventually run out of capital and collapse."

How do you prepare your children for their inheritance?

"I try to live a life that my kids could live on with a reasonable but not excessive amount of money. For example, my kids can't afford this house in the town we live in, but they can afford a similar house in the Midwest. We fly commercial, whereas my friends' children think flying by private jet is normal. They think living in a 20,000 square foot house with 8 cleaners and 5 nannies is normal. I think their kids will feel disappointed or like failures if they can't provide that lifestyle for their own children. That's a very realistic scenario because as the size of the family expands through the generations, there's not going to be enough money to provide that level of luxury to every individual. So, I think that some families are setting themselves up for a fall, and some future generations will end up very disenchanting."

Therefore, is it all about managing expectations?

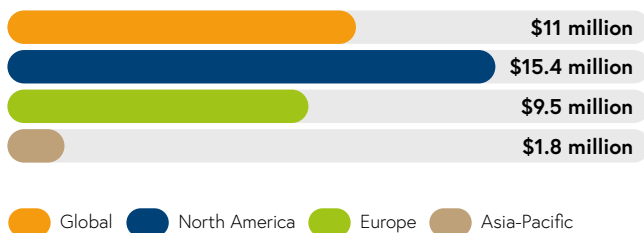
"Yes, isn't that everything? At the end of the day, expectation management is most of life."

4.4 Philanthropy

Families in North America lead the way in giving philanthropically

The majority (86 percent) of families in North America give philanthropically (global average, 82 percent), with the average annual donation being US\$15.4 million. The respective average giving in Europe is US\$9.4 million and Asia-Pacific US\$1.8 million (figure 4.18).

Figure 4.18: Total family donations over the last 12 months, US\$

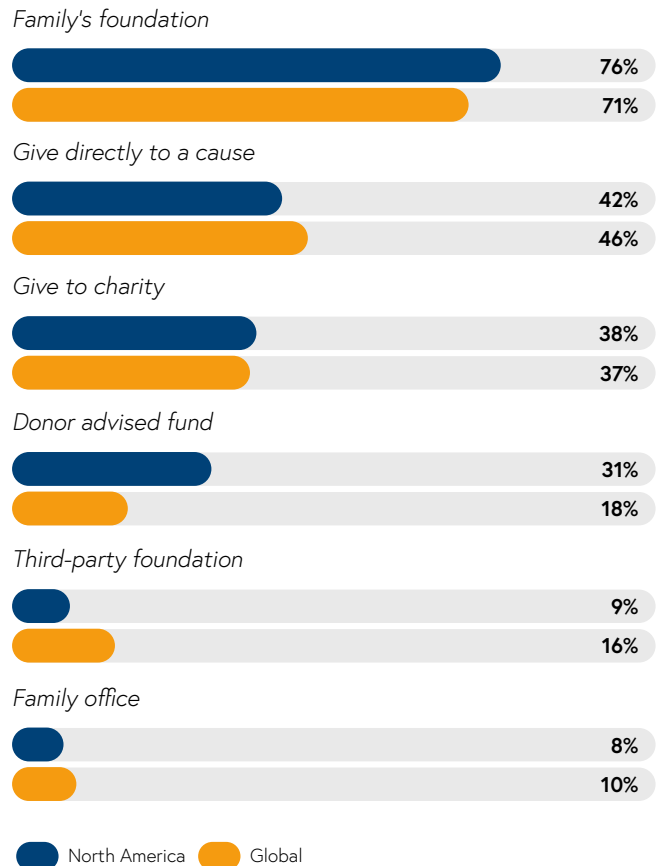


Source: Campden Wealth / RBC, The North America Family Office Report, 2022

76 percent of families have their own foundations

Families most often give through their own foundations (76 percent, global average 71 percent). However, many families also give directly to a cause (42 percent) or charity (38 percent), or via donor advised funds (31 percent) (figures 4.19).

Figure 4.19: Vehicles used by the family in support of philanthropic giving (Tick all that apply)



Source: Campden Wealth / RBC, The North America Family Office Report, 2022

Education is the top cause North American families support, and they target environmental action more than their peers

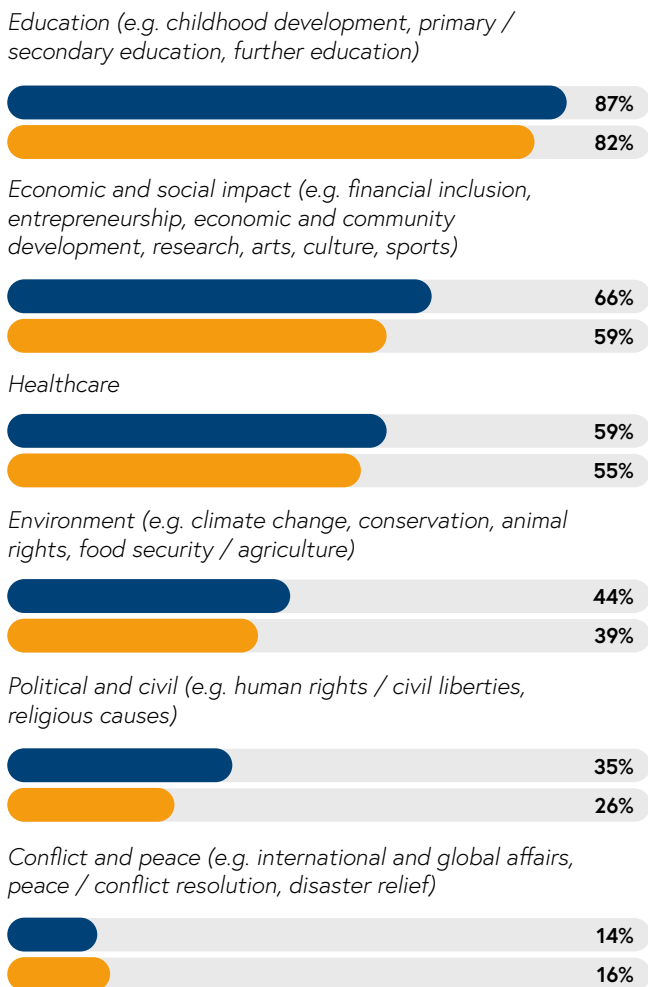
The vast majority of family offices in North America support education (87 percent). This is followed by economic and social impact (66 percent), healthcare (59 percent), the environment (44 percent), political / civil matters (35 percent) and conflict resolution / peace (14 percent) (figure 4.20).

Proportionately, more families in North America support environmental action (44 percent) than in Europe (36 percent) or Asia-Pacific (34 percent, global average 39 percent). However, as noted earlier, North America lags behind its regional peers when it comes to the adoption of sustainable investing, an approach which often targets environmental causes.

"We have a family foundation which is entirely ESG aligned. We support diversity, indigenous affairs and access to healthcare. We are involved as a family; everyone has the authority to give on their own, but it's done with a pitch to the rest of family to explain why they've selected a particular cause."

CEO and Principal, single family office, Canada

Figure 4.20: Philanthropic causes supported by the family (Tick all that apply)



Source: Campden Wealth / RBC, The North America Family Office Report, 2022



Philanthropy is more than just putting a name on a plaque

The merits of donor advised funds

A senior family member discusses goals of philanthropy and a family foundation. He argues that philanthropy is more than just putting a name plaque on a new building. Rather, the most satisfying results have come when his philanthropic interests have aligned closely with his own personal interests. He also discusses the downside of family-wide foundations.

How is the family's philanthropy structured?

"For our extended family we discussed, on and off, the suggestions from consultants and conferences that a philanthropic foundation involving multiple family members and generations would be a good idea. I disagreed (and we never did it). First, rarely is there a material economy of scale consolidating charitable giving unless it involves a professional staff and huge amounts of money. Second, different family members have very different preferences as to what is the most appropriate charity, e.g., medical, educational, social justice, animals, climate change, religious, art, music, etc. This seemed to generate more conflict than cooperation or give the advantage to the squeakiest wheel. Third, for younger family members who have very little work or investment experience, it seemed to me that the message is perverse because we would be "teaching" children to give away money that they had no hand in making and at a scale that made them "special for being rich" rather than "rich for being special".

What factors determine your philanthropic activity?

"We have certain self-imposed constraints, one of which is we almost never give money to bricks and mortar requests. This is the easiest money to raise because the recipient will offer naming rights on different parts of a museum or hospital, and this is always a popular trick for bringing in donations. The hardest money to raise is for general operations, but it's the most efficient use of the money, hence we donate specifically for this rather than funding pet building projects which are probably often not essential. If a college built a new lecture theatre, we'd give them a donation to help them maintain it rather than getting a plaque on the wall.

When an institution raises funds for a new building, they never think about what it's going to cost to support that building in the long-term. More square footage means more utility, staffing and maintenance costs. They don't say to the donor of a new gallery space, 'We are naming this gallery after you and we expect you to give us enough money to get it cleaned every day.' So, that's where we step in. Our donations are for things or services that can't get funded elsewhere, or to jumpstart a project that potentially has some huge impact.

We never donate for permanent endowments of staff positions or physical construction or programs because inevitably the costs grow to more than the income generated by the endowment."

What is your most satisfying philanthropic project?

"This probably doesn't count as philanthropy in the conventional sense, but it's been amongst my most worthwhile experiences. I'm an art collector and I lend parts of my collection to around 30 museums in the U.S. and Europe. We've worked out ways to lend to exhibitions which cost the museums about half of what they might expect to pay. There is no income tax deduction, however as part of our estate planning most of the art will go into the public domain as a final resting place and will not be subject to estate tax. Holding art in a private foundation can be a problem because the free market value can count as part of the base for the minimum mandatory annual donations, and this can wipe out a lot of the liquid assets needed for sustaining the private foundation into the future. For assets like works of art, they must be available to and used for public consumption and cannot be kept at home (or in the office)."



5. Conclusion

5.1 Looking ahead

5. Conclusion

5.1 Looking ahead – some key findings from the report:

Manage risk to underwrite consistent investment performance

Risk management is cited by 78 percent of North American family offices as the top governance priority for the next 12 to 24 months. This is unsurprising given the setback to financial markets in the early part of the year. However, while there's no room for complacency, there is evidence that sound risk management systems are making a difference. Significantly, 88 percent of respondents identified inflation as the biggest risk to financial markets and 72 percent pointed to rising interest rates. Unfortunately, those risks crystallized in the first quarter of 2022, but our survey reveals that many family offices are ahead of the game with sound governance and investment structures, along with plans to increase their exposure to real estate, private equity and commodities, while reducing their exposure to fixed income. Although overall investment returns in 2022 may be lower than 2021 returns, it is likely that professional investment management will have protected families from the worst outcomes.

Portfolio diversification is key to long-term wealth preservation

Long-term wealth preservation often relies on having a diverse portfolio of investments. This diversification should be in terms of asset classes, sectors, currencies and / or geographies. A portfolio of diverse investments can mitigate the risks of "black swan" outcomes. A classic example is cryptocurrency. According to last year's survey, 30 percent of North American family offices intended to increase their holdings and 43% agreed with the statement that cryptocurrency is a promising investment. With the benefit of hindsight, it's apparent that family offices would have been better advised to reduce rather than increase their exposure, but a well-diversified portfolio would have mitigated the negative financial consequences of the price collapse. Diversification by its very nature means that returns will not be maximized, but extreme losses can be avoided, which is important because wealth preservation is a marathon, not a sprint.

Strengthen governance through investment monitoring and mission statements

No two family offices are the same and they rely on many different structures within their governance frameworks. Most commonly, these relate to the monitoring of investments and strategic and tactical asset allocation. Surprisingly, merely around half of North American family offices have a mission statement (56 percent) or a family office employee handbook (43 percent), while a notable 32 percent have no cyber security plan, despite over a third (37 percent) having experienced a cyber attack within the last year. These would all be useful adjuncts to existing governance structures and protocols mitigating investment risk and fraud. Improving the robustness of systems and business processing is an important way to futureproof family offices.

Tackle succession planning head-on

Effective succession planning is critical to ensuring the longevity of the family office and family legacy. This makes developing effective succession plans a key priority for family offices. Since over a quarter (27 percent) of families expect their wealth to transfer to the next generation over the forthcoming decade, inadequate succession planning could end up problematic for many. Particular issues making planning difficult include the ill-preparedness of Next Gen members to take over (cited by a significant 40 percent of respondents), along with the unwillingness of the current generation to relinquish control (16 percent) and the reluctance to discuss sensitive matters with patriarchs or matriarchs (25 percent). Challenges also arise because the next generation may be too young or inadequately qualified to take over (36 percent).

Families and family offices alike should think about more than just the succession of family members, but the succession of senior executives within the family office, irrespective of their familial ties. At present, merely one-third of family offices are equipped in this regard, however, having a succession plan in place may improve one's chances of a smooth and successful transition when the time arises.

Understand the needs of the next generation

It is incumbent on family offices to help the next generation prepare for their post-succession roles. One way of achieving this is by arranging access to work experience in the family office, family business or outside financial institutions. Next Gens can also attend workshops and higher education courses to gain an educational edge. At present, 49 percent of North American family offices require next generation members to work elsewhere, such as a bank, hedge fund or asset manager before joining the family office or family business, while 19 percent of family offices already have Next Gens engaged in their activities. The benefits of this extended education may show up in the confidence that families show in their Next Gen.

Overall, a high percentage of North American family offices believe they address the needs of the next generation when it comes to supporting their investment objectives, helping them gain key wealth management skills and with finding suitable bankers / lawyers. Sixty-four percent admit they are less successful when it comes to understanding Next Gens' roles post-succession, helping them with their governance-related needs (32 percent) and with interfacing with trustees (31 percent). Clearly the educational role undertaken by family offices is having some positive effect but, as ever, more could be done.

Aim to onboard top talent

Families are comfortable working with known and trusted individuals. But periodically it's important to bring in new recruits to generate fresh ideas and add new skillsets. This explains why many family offices have hired top professionals from investment banks, private equity houses and hedge funds to support their evolution. It also explains why competition to attract top leadership professionals has been and will remain intense.

About family offices

What is a family office?

A family office is, in its simplest form, the private office for a family of significant wealth. The number of staff working in the office can vary from one or two employees to 100 or more staff, depending on the type and number of services it provides.

The purpose of an office can range from handling key family assets and core holdings (tax and accountancy, property and estate management) to include more sophisticated wealth management structures, while often providing family members with educational, professional and lifestyle services.

Generally, family offices manage key areas of family assets, including real estate holdings and direct or indirect investments, tax consolidation and estate management.

They can serve as the central hub for a family's legacy, governance and succession. They can furthermore support the education and development of family members, facilitate family governance, coordinate communication and resolve issues within the family enterprise. A typical family office:

- Affords structure to the management of family wealth, establishing increased control and oversight of the family wealth strategy and costs of managing investments;
- Consolidates tax, accountancy and wealth management reporting execution under one roof;
- Provides a clearly-articulated, efficient governance framework for investment decision-making, as well as family legacy and succession functions (including philanthropic foundations and initiatives);
- Coordinates with service providers, achieving economies of scale (especially in the case of multi-family offices) and preferential deal access and products;
- Ensures confidentiality and privacy for family members, liberating them from the burden of wealth.

Who would benefit from using a family office?

Families with private wealth in excess of US\$150 million are ideal candidates for establishing a single family office structure. While it is not uncommon for first generation entrepreneurs to establish a family office, these offices often support families with greater complexity in terms of households and generations. This is a key characteristic of family office structures and one that offices must account for when designing and executing investment strategies and family governance plans.

While each household will share some similar needs, from the perspective of the family office, each household merits special consideration. Such consideration cannot always be restricted to typical generational needs (i.e. retirees require income, while younger family members can accommodate more risk and longer horizons), because households themselves have differing liquidity requirements (for example, sibling benefactors may hold quite distinct professional ambitions).

Multiple wealthy families which might not necessarily be related to each other but nonetheless share some common values or goals may opt to consolidate and leverage resources by creating a multi-family office, rather than a single family office to manage the family wealth. Such a structure provides the benefit of economies of scale and investment deal opportunities that formal collaboration and a consolidated management structure afford. Naturally, family complexity factors arise for the multi-family office, only on another level of magnitude.

Here things can get quite messy. As such, traditionally, for a multi-family office to be successful and sustainable, families should share a common purpose, interest and risk appetite or, alternatively, comparable levels of wealth.

Traditionally for multi-family offices to be sustainable over the medium to long-term, they must manage cumulative assets of more than US\$3.5 billion. For the sake of clarity, a number of terms with specific meaning in this report are defined below:

Private multi-family office: These will all have had a founding family before widening out their offering to multiple families. These offices are owned by families and operated for their benefit.

Commercial multi-family office: These will look after the interests of multiple families, often with wealth of less than US\$150 million. Unlike private multi-family offices, they are owned by commercial third parties.

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About the creators

About RBC

Royal Bank of Canada is a global financial institution with a purpose-driven, principles-led approach to delivering leading performance. Our success comes from the 92,000+ employees who leverage their imaginations and insights to bring our vision, values and strategy to life so we can help our clients thrive and communities prosper. As Canada's biggest bank and one of the largest in the world, based on market capitalization, we have a diversified business model with a focus on innovation and providing exceptional experiences to our 17 million clients in Canada, the U.S. and 27 other countries. Learn more at [rbc.com](https://www.rbc.com).

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About Campden Wealth

Campden Wealth is a family-owned, global membership organisation providing education, research, and networking opportunities to families of significant wealth, supporting their critical decisions, helping to achieve enduring success for their enterprises, family offices and safeguarding their family legacy.

The Campden Club is a private, qualified, invitation-only members' club. Representing 1,400 multi-generational business owning families, family offices and private investors across 39 countries. The Club delivers peer networking, bespoke connections, shared knowledge and best practices. Campden Club members also enjoy privileged access to generational education programmes held in collaboration with leading global universities.

Campden Research supplies market insight on key sector issues for its client community and their advisers and suppliers. Through in-depth studies and comprehensive methodologies, Campden Research provides unique proprietary data and analysis based on primary sources.

Campden Education delivers a virtual training platform empowering families with practical knowledge and the tools to make informed decisions. Drawing on deep expertise and real-world experiences, our programmes are designed to guide the whole family through all stages of ownership and growth.

Campden Wealth owns the Institute for Private Investors (IPI), the pre-eminent membership network for private investors in the United States founded in 1991. In 2015 Campden Wealth further enhanced its international reach with the establishment of Campden Family Connect PVT. Ltd., a joint venture with the Patni family in Mumbai.

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