Private Bank citi

Global Family Office Survey Insights 2023

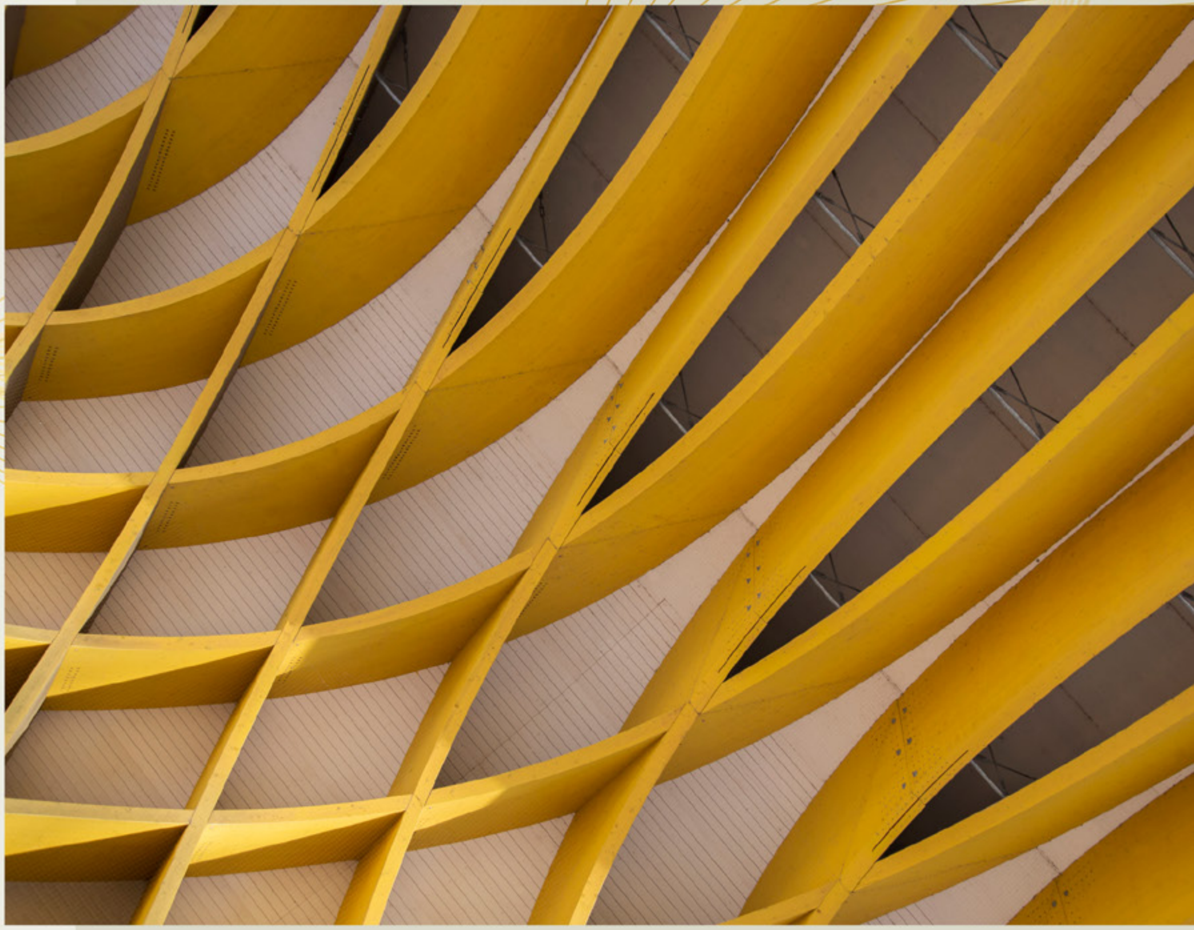

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Table of contents

This year's survey was initiated during Citi Private Bank's eighth annual Family Office Leadership Program held in June 2023. The survey was subsequently released to Citi Private Bank's global family office clients for input. The survey included over 40 questions aimed at gauging investment sentiment and portfolio actions of clients in the wake of ongoing geopolitical tensions, macroeconomic headwinds and market volatility in early 2023. It drew responses from 268 participants who were included in this report.

This report is for informational purposes only based on those responses from the survey and are not intended to represent investment advice. The views expressed herein are those of the participants and do not necessarily reflect the views of Citigroup Inc., Citigroup Global Markets Inc., and its affiliates. This presentation does not constitute any solicitation for the purchase or sale of any security. Past performance is no guarantee of future results.

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Foreword

A very warm welcome to Global Family Office Survey Insights 2023.

For each of the last three years, we have published this detailed collection of perspectives into the thinking and actions of some of the world's most sophisticated investors: our family office clients. Since last year, annual respondent numbers have doubled to 268. Representing $565 billion in total net worth, this year's respondents hail from all four of our global regions, with two-thirds coming from outside North America. We therefore believe this to be one of the most global and comprehensive reports of its kind.

Contrary to widespread expectations at the start of the year, public equity markets extended their gains from October 2022's lows. Against this backdrop, we find that allocations in the first half of 2023 shifted toward fixed income and private equity but away from public equity. What's more, nearly all respondents expected portfolio appreciation over the coming year.

Among their leading investment concerns were interest rates, inflation, the Russia-Ukraine war and US-China relations. The appetite for direct investment remained strong, albeit with some seeing short-term opportunities and others pausing activity owing to economic uncertainty. Perennially critical issues such as striking a balance between wealth management functions and family offices' equally important role in facilitating family unity and continuity were also cited.

Alongside these perspectives, we present some of the key takeaways from our Family Office Leadership Program. This annual gathering – which took place over two-and-a-half days in June 2023 in Ossining, New York – consisted of discussions led by some of the greatest minds in their respective fields. Half of the 140 family office executives in attendance came from outside North America, with a total of twenty-four countries represented. Among the topics explored were opportunities in dislocated markets, the potential of artificial intelligence and leadership succession.

Based on self-reported data from a sample of family office clients across all their providers, this annual publication may prove especially useful when read alongside our Family Office Investment Report. The latter is drawn quarterly from all family clients' portfolios held at Citi Private Bank.

If you would like to discuss any aspect of Global Family Office Survey Insights, our specialists around the world are ready to engage with you. Finally, we would like to express our gratitude to all those who gave their time and insights when completing the survey. We hope everyone finds the results as illuminating as we have.

Thank you for the trust and confidence you place in Citi Private Bank.

Hannes Hofmann
Global Head
Global Family Office Group

Alexandre Monnier
Global Family Office Advisory
Global Family Office Group

Executive summary

Increased allocations to fixed income and private equity amid broad portfolio reassessment

Against a backdrop of rising financial markets, unrealized recession fears and multi-year high bond yields, many family offices reassessed their asset allocation more than in recent years. Over half reported increasing fixed income allocations, 38% upped private equity allocations, while 38% cut public equity allocations.

Top concerns abound and transcend financial issues

The top family concerns were preserving asset values (68%), preparing the next generation to be responsible wealth owners (60%) and ensuring shared goals and vision for the family (52%). Family offices were particularly concerned about inflation (56%), interest rate increases (51%) and US-China relations (48%) impacting financial markets and the economy.

Rising portfolio values in the first half of 2023, widespread optimism for the year ahead

Amid rising asset prices in the first half of 2023, two-thirds of respondents saw mark-to-market portfolio increases. Remarkably, nearly all respondents were expecting positive portfolio returns over the next twelve months.

Continued focus on direct investments, but some caution too

Direct investments remain strongly in focus, with 80% of family offices engaged. But while 66% said they were seeking opportunistic deals based on attractive valuations, some 38% had paused new direct investments due to economic uncertainty.

More family office focus on wealth and investment management, less on family unity and continuity, despite growing concerns from families

Family offices' primary focus has been on wealth management (74%) and investment management (55%). This comes at the expense of fostering family unity and continuity (21%). But over half of families' top concerns is preparing the next generation to be responsible wealth owners and ensuring shared goals and vision for the family, up from 2022. This insufficient alignment is worrying as families' main apprehensions reflect the dual need to prepare wealth for their family and their family for wealth.

The investment function is professionalizing fastest within family offices

The most progress in professionalization is in the investment function with initiatives like the implementation of Investment Committees (64%) and IPS (51%). Family office activities beyond investing are taking longer to professionalize, including governing boards (48%) and leadership succession plans (31%). Families themselves are taking more time still to embrace a more formalized approach, such as having a family constitution (32%), a family leadership succession plan (28%) and a next generation education program (21%). The latter two are most concerning.

Changing families and a shifting operating landscape represent challenges but also opportunities for family offices

External forces such as technological disruption, globalization and deglobalization, and socio-political-economic shifts create business and investing challenges but also opportunities. So too are internal forces, including generational transitions, evolving values, greater diversity and more geographical dispersion. Adapting to changing conditions was thus the top challenge for 52% of respondents, followed by meeting the needs and expectations of family members (50%).

Large but narrowing gap between intention and action on sustainable investments*

While the gap between intention and action on sustainable investments remains large, it is starting to narrow, driven by growing sustainability concerns and a broadening range of themes and instruments for investment. Families indicate that access to sustainable investment opportunities with competitive financial performance may further narrow this gap (51%).

Philanthropic focus has yet to adjust to the rising generation's priorities

While the philanthropic focus has yet to adapt to reflect the priorities of the rising generation, families are increasingly aware that a generational philanthropic transition is coming. They are seeking support to engage the next generation and plan philanthropic leadership succession (38%) and to integrate philanthropy as part of the greater wealth planning strategy (34%).

*Please refer to the Sustainable Investing and Philanthropic Impact section for important information.

Investment strategy and sentiment

OVERVIEW

Increase in high-quality fixed income and alternatives allocations

Top concerns were inflation, interest rate rises and US-China relations

Portfolio values have rebounded in 2023 after 2022's declines

Nearly all respondents expected portfolio upside in the coming year

Amid rising financial markets and unrealized fears of recession in 2023, many family offices have shifted their asset allocation more than in recent years, taking both defensive and more risk-seeking positions.

Notably, over half reported increases to fixed income allocations, with 38% allocating more to private equity, while 38% retreated from public equity. This represents an adjustment from the common pattern of family offices taking a long-term view, deploying patient capital and making marginal short-term adjustments.

Inflation (56%), interest rate increases (51%) and US-China relations (48%) are family offices' top three concerns in relation to financial markets and the economy. But these priorities vary by region, with rate increases the main concern in North America (64%), the Russia-Ukraine War in Europe and the Middle East (52%), US-China relations in Asia Pacific (64%) and inflation in Latin America (63%).

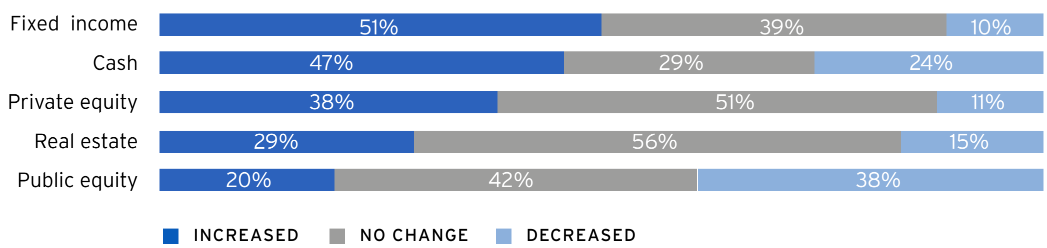
With widespread predictions of recession so far unrealized, mark-to-market portfolio values have rebounded following last year's losses. Two-thirds of family offices reported year-to-date portfolio increases.

Remarkably, nearly all respondents were expecting positive portfolio returns over the next twelve months.

ASSET ALLOCATION CHANGES IN THE LAST YEAR

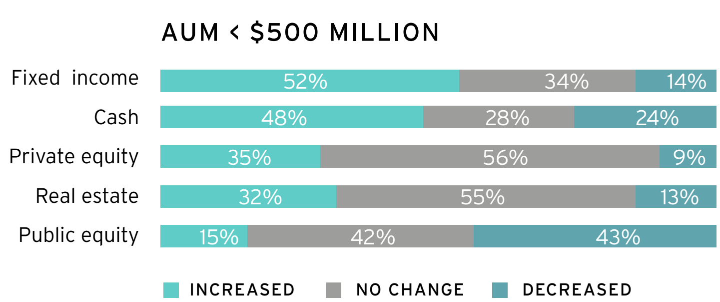
GLOBAL VIEW

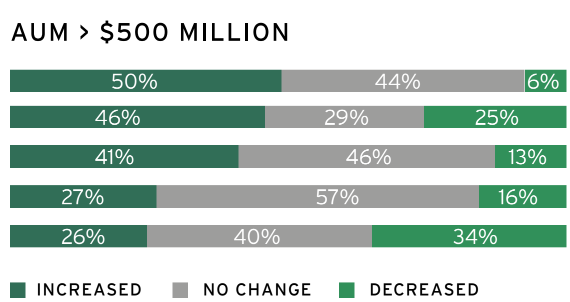
We have seen notable shifts in asset allocations in the last year. With yields having risen sharply, about half of respondents (51%) increased fixed income allocations. This marked a striking acceleration over the last two years, when only about 20% did so. Cash allocations saw the most divergent trends of any asset class, with 47% raising their allocation and 24% decreasing it. Private equity allocations increased among 38% of respondents, a significant slowdown from the last two years (63% and 52%). Real estate allocations were steadiest, with 56% of respondents maintaining weightings, while 29% increased them. Public equity saw the biggest retreat, with 38% of respondents decreasing allocations, whereas just 19% and 28% did so in 2021 and 2022 respectively.



AUM VIEW

Smaller family offices were even likelier than larger entities to increase their fixed income allocations (52% vs 50%) but also to reduce them (14% vs 6%). They were also more disposed to reducing public equity allocations (43% vs 34%) and less so to increase them (15% vs 26%.)





REGIONAL VIEW

The increase to fixed income allocations was the most significant shift reported in both Europe, the Middle East and Africa (67%) and Latin America (60%). Increased cash was the biggest shift reported in North America (51%) and Asia Pacific (54%). Conversely, the principal decrease reported was in public equity allocations for North America (36%), Latin America (44%) and Asia Pacific (40%), but in cash for Europe, the Middle East and Africa (37%).

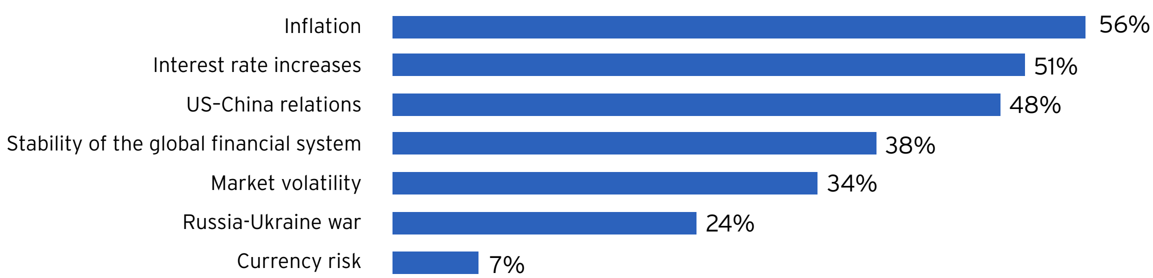
	APAC			EMEA		
	INCREASED	NO CHANGE	DECREASED	INCREASED	NO CHANGE	DECREASED
Fixed income	43%	41%	16%	67%	27%	6%
Cash	54%	23%	23%	40%	23%	37%
Private equity	26%	50%	24%	48%	48%	4%
Real estate	26%	52%	22%	29%	48%	23%
Public equity	34%	26%	40%	23%	42%	35%

	LATAM			NAM		
	INCREASED	NO CHANGE	DECREASED	INCREASED	NO CHANGE	DECREASED
Fixed income	60%	31%	9%	46%	46%	8%
Cash	34%	29%	37%	51%	34%	15%
Private equity	40%	54%	6%	42%	51%	7%
Real estate	29%	63%	8%	31%	59%	10%
Public equity	6%	50%	44%	17%	47%	36%

NEAR-TERM WORRIES IMPACTING FINANCIAL MARKETS AND THE ECONOMY

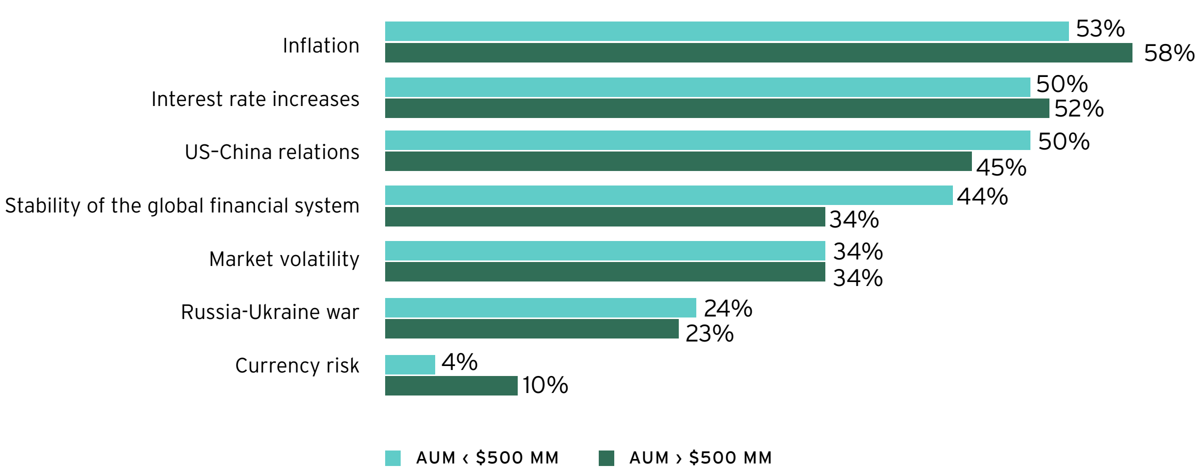
GLOBAL VIEW

The interrelated forces of inflation and interest rate increases were uppermost among family office executives' near-term concerns (56% and 51%). US-China relations and stability of the global financial system were not far behind at 48% and 38%.



AUM VIEW

Larger and smaller family offices worried to a similar extent over key issues facing the global economy and markets. That said, smaller entities were more concerned when it came to financial system stability (44% vs 34%).



REGIONAL VIEW

Levels of concern varied by region, with interest rate increases as the top issue in North America (64%), the Russia-Ukraine War in Europe, the Middle East and Africa (52%), US-China relations (64%) in Asia Pacific and inflation in Latin America (63%).

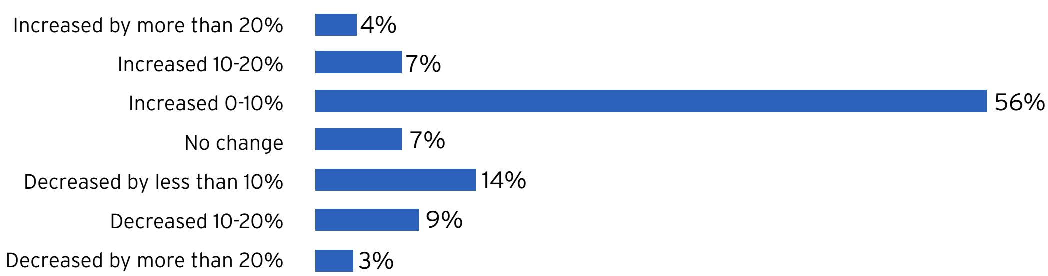
	GLOBAL	APAC	EMEA	LATAM	NAM
Inflation	56%	50%	45%	63%	60%
Interest rate increases	51%	42%	39%	43%	64%
US–China relations	48%	64%	32%	54%	43%
Stability of the global financial system	38%	48%	35%	37%	34%
Market volatility	34%	34%	32%	23%	39%
Russia-Ukraine war	24%	26%	52%	20%	14%
Currency risk	7%	8%	13%	14%	1%

ESTIMATED YEAR-TO-DATE MARK-TO-MARKET PORTFOLIO VALUE CHANGE (%)*

GLOBAL VIEW

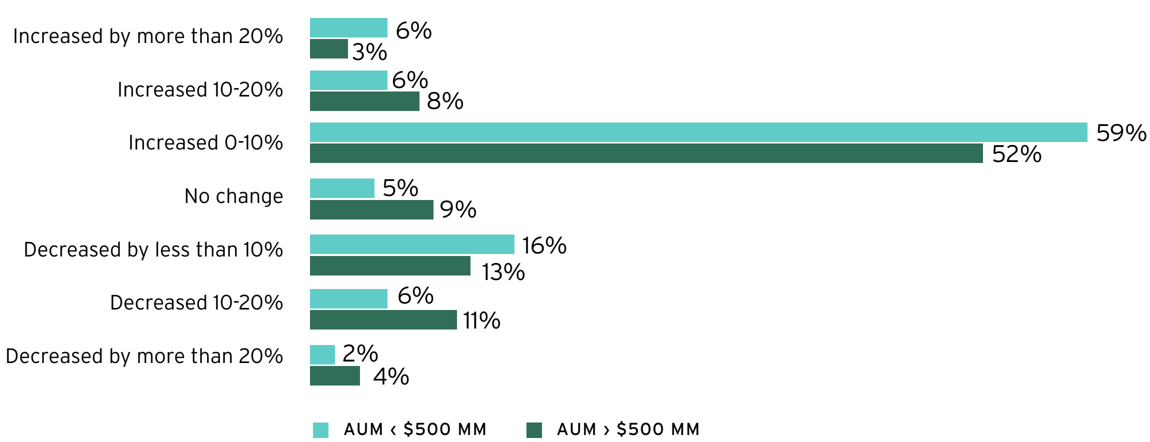
With the widely forecasted recession so far having not materialized, reported mark-to-market portfolio values saw a rebound YTD following last year's losses.

More than two-thirds of respondents reported an increase in mark-to-market total portfolio value changes between January and June 2023, mostly gains of between 0% and 10%. Despite the strength of financial markets during the period, more than a quarter of respondents said they had seen declines. Some 12% reported decreases of more than 10%.



AUM VIEW

Larger and smaller family offices on average reported similar estimates of changes in year-to-date mark-to-market values.



* Survey responses were collected from Citi Private Bank Family Office clients from June 7th through August 9th 2023.

REGIONAL VIEW

Asia Pacific was the region where most respondents (36%) reported portfolio declines, with Latin America seeing the least such respondents (18%). Latin America and Europe, the Middle East and Africa had the most respondents reporting gains (73% and 72% respectively).

	GLOBAL	APAC	EMEA	LATAM	NAM
Increased by more than 20%	4%	0%	6%	2%	7%
Increased 10-20%	7%	4%	3%	11%	9%
Increased 0-10%	56%	52%	63%	60%	54%
No change	7%	8%	3%	9%	7%
Decreased by less than 10%	14%	16%	16%	9%	14%
Decreased 10-20%	9%	14%	6%	9%	6%
Decreased by more than 20%	3%	6%	3%	0%	3%

ASSET CLASS SENTIMENT FOR THE COMING YEAR

GLOBAL VIEW

To continue adapting to shifting market conditions, family offices are planning to reposition their portfolios further in the next six to twelve months.

Family offices are bullish on global developed investment grade fixed income (45%), private credit (44%), investments in private equity directly (38%) or through funds (32%).

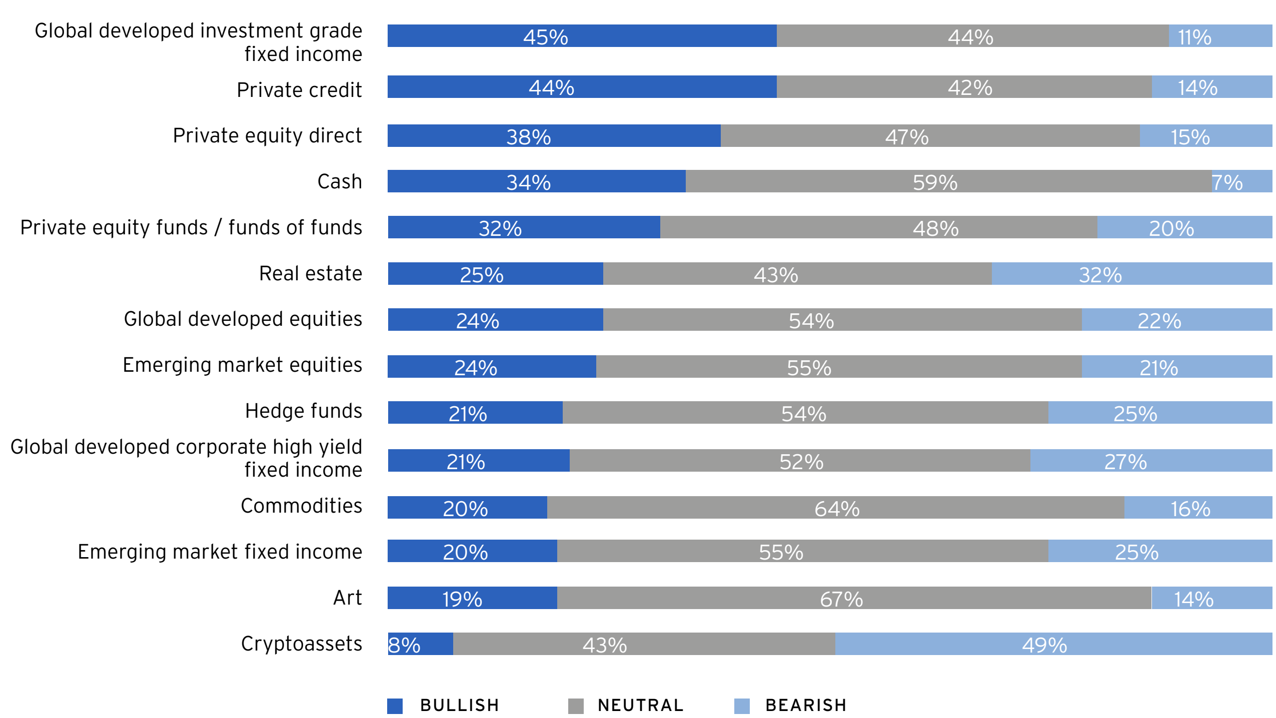
With inflation starting to subside, and a desire to keep some dry powder for investment opportunities, there is greater consensus on the attractiveness of cash, with 34% of family offices bullish and only 7% bearish.

Against the backdrop of a potential peak in the US dollar, which would favor many non-US markets, views on global developed and emerging equities are polarized. Some 24% were bullish while about 22% were bearish.

Respondents expressed more negative than positive views on global developed corporate high yield fixed income, emerging market fixed income and hedge funds, although the degree of negative sentiment has fallen since last year's survey. Sentiment toward real estate remains mixed amid concerns over interest rate increases, upcoming refinancing and vacancy rates.

While family offices increasingly noted challenges around direct investments, this has not resulted in a shift out of such holdings or towards private equity funds. About half of respondents planned to maintain their allocations to private equity funds (48%) and direct (47%). And they are slightly more bullish on direct (38%) than on funds (32%).

Net sentiment – the percentage of those planning to add to their allocations minus those planning decreases – was most positive for global developed investment grade fixed income (+34%), private credit (+30%), cash (+ 27%) and direct private equity (+23%). It was most negative for crypto assets (-41%), real estate (-7%) and global developed investment high yield income (-6%).



YEAR-OVER-YEAR CHANGE IN SENTIMENT

The most significant sentiment changes since 2022's survey include:

MORE BULLISH

Global developed investment grade fixed income	19% to 45%
Global developed corporate high yield fixed income	8% to 21%
Emerging market fixed income	8% to 20%
Hedge funds	13% to 21%
Emerging market equities	17% to 24%

LESS BULLISH

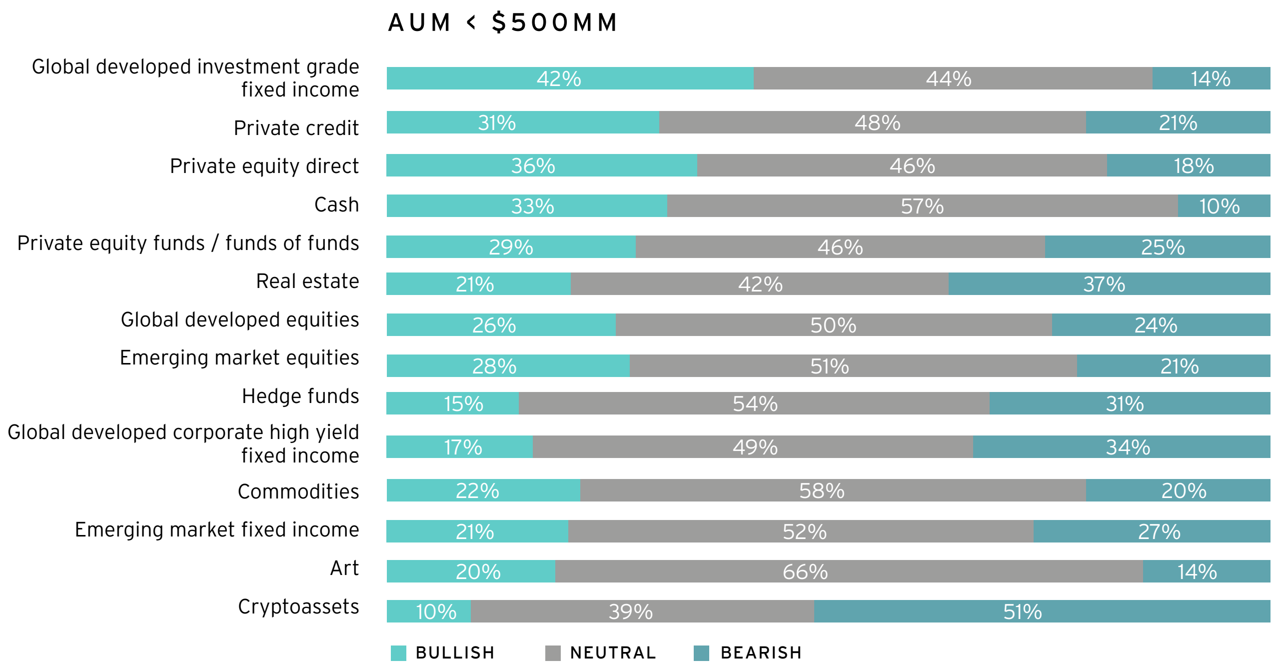
Private equity funds / funds of funds	49% to 32%
Global developed equities	30% to 24%

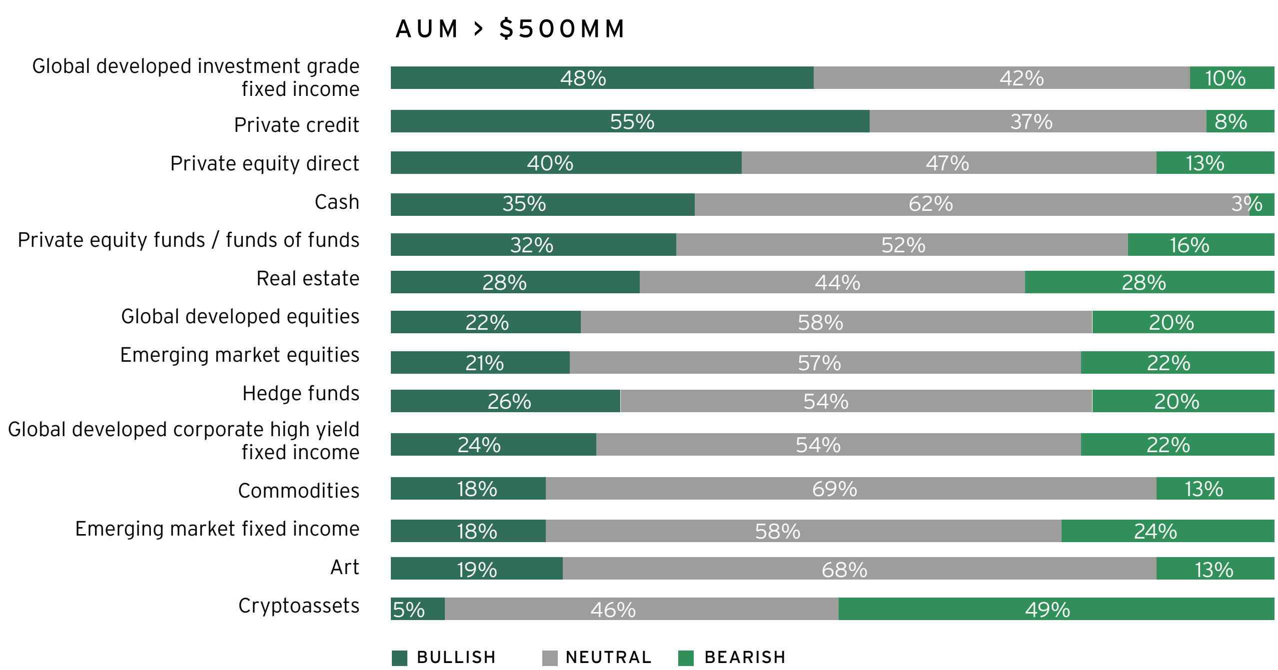
We explored the topic of reassessing asset allocations and opportunities at our 2023 Family Office Leadership Program in June. Another asset class that has received additional scrutiny among family offices are high yield opportunities in credit markets. The views expressed below during our session on "Opportunities in Dislocated Credit Markets" encapsulate this sentiment:

We see potential opportunities in the secondary debt market among near- to medium-term maturities. Attractions include yields, cap structure seniority, contractual cash flows, favorable covenants, reasonable pro forma leverage profiles and even equity upside potential in certain situations. Fund managers with a potential track record in high yield or distressed markets are one of the ways to access these opportunities.

AUM VIEW

While intentions were broadly similar across the board, larger family offices tended much more than smaller ones to be planning to add to private credit (55% vs 31%). Smaller family offices were more prone to be contemplating reducing holdings of private equity funds (25% vs 16%) and real estate (37% vs 28%) but likely to be planning a reduction in cash (10% vs 3%).





REGIONAL VIEW

While cross-regional sentiment by asset class is broadly similar, bullishness toward global investment grade fixed income in Europe, the Middle East and Africa (73%) is much greater than in North America especially (32%). As noted earlier, direct private equity continues to be a focus with largely bullish sentiment globally. However, this is more pronounced in North America (47%) and Europe, the Middle East and Africa (38%), and slightly less so in Latin America (31%) and Asia Pacific (29%), where neutral sentiment may indicate a ''wait-and-see'' approach until economic uncertainty subsides.

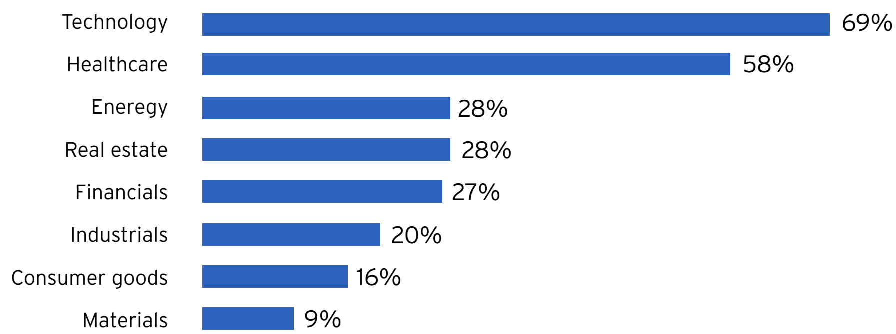
	APAC			EMEA		
	BULLISH	NEUTRAL	BEARISH	BULLISH	NEUTRAL	BEARISH
Global developed investment grade fixed income	43%	49%	8%	73%	20%	7%
Private credit	33%	40%	27%	48%	42%	10%
Private equity direct	29%	46%	25%	38%	45%	17%
Cash	25%	69%	6%	43%	46%	11%
Private equity funds / funds of funds	24%	45%	31%	24%	55%	21%
Real estate	20%	33%	47%	35%	41%	24%
Global developed equities	22%	53%	25%	23%	60%	17%
Emerging market equities	29%	50%	21%	23%	54%	23%
Hedge funds	13%	62%	25%	17%	55%	28%
Global developed corporate high yield fixed income	14%	41%	45%	27%	52%	21%
Commodities	20%	55%	25%	21%	61%	18%
Emerging market fixed income	22%	51%	27%	10%	62%	28%
Art	25%	58%	17%	27%	52%	21%
Cryptoassets	12%	48%	40%	3%	62%	35%

	LATAM			NAM		
	BULLISH	NEUTRAL	BEARISH	BULLISH	NEUTRAL	BEARISH
Global developed investment grade fixed income	51%	43%	6%	32%	50%	18%
Private credit	41%	50%	9%	51%	40%	9%
Private equity direct	31%	49%	20%	47%	47%	6%
Cash	23%	65%	12%	41%	55%	4%
Private equity funds / funds of funds	37%	49%	14%	36%	47%	17%
Real estate	17%	60%	23%	28%	43%	29%
Global developed equities	26%	57%	17%	24%	50%	26%
Emerging market equities	20%	60%	20%	22%	57%	21%
Hedge funds	26%	46%	28%	25%	52%	23%
Global developed corporate high yield fixed income	31%	46%	23%	17%	62%	21%
Commodities	17%	74%	9%	20%	65%	15%
Emerging market fixed income	40%	49%	11%	12%	57%	31%
Art	6%	94%	0%	18%	67%	15%
Cryptoassets	3%	43%	54%	8%	33%	59%

SECTOR PREFERENCE FOR PUBLIC MARKETS OVER THE COMING YEAR

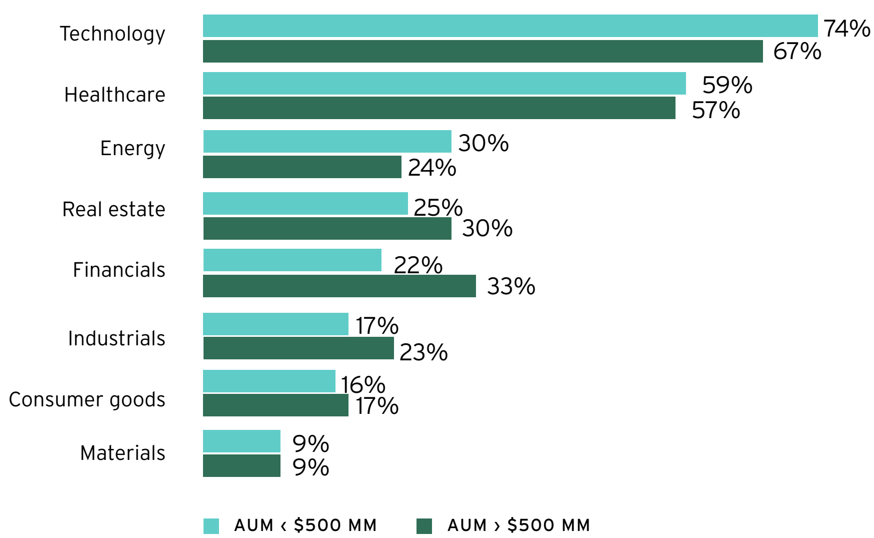
GLOBAL VIEW

While there is mixed sentiment toward public equity over the next twelve months, the consensus favors increasing exposure in technology (69%) and healthcare (58%).



AUM VIEW

As to the most favored sector – technology – smaller family offices reported themselves as even likelier than larger counterparts (74% vs 67%) to increase their public market exposure. While response levels were broadly similar otherwise, larger entities saw themselves as likelier to be adding to financials (33% vs 22%).



REGIONAL VIEW

Technology and healthcare are the most popular sectors for public markets in every region. The third preference was financials in Asia Pacific (37%), real estate and financials in Europe, the Middle East and Africa (35% each), real estate in North America (36%), and industrials and energy in Latin America (31% each).

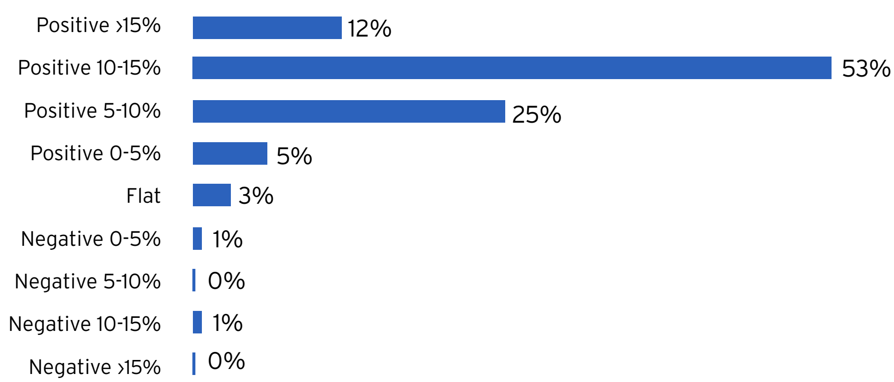
	GLOBAL	APAC	EMEA	LATAM	NAM
Technology	69%	76%	73%	78%	60%
Healthcare	58%	61%	69%	56%	53%
Energy	28%	29%	23%	31%	27%
Real estate	28%	18%	35%	19%	36%
Financials	27%	37%	35%	16%	23%
Industrials	20%	14%	15%	31%	21%
Consumer goods	16%	14%	23%	22%	13%
Materials	9%	12%	15%	3%	7%

EXPECTED PORTFOLIO RETURN OVER THE COMING YEAR

The past two editions of Global Family Office Survey Insights have recorded overall optimism for the twelve-month outlook, notwithstanding concerns expressed about inflation, geopolitical strife and other factors. This year is no different, with optimism but also some apprehension. We attribute this part to family offices' ability to adapt and deploy patient capital in pursuit of opportunities no matter the short-term market challenges.

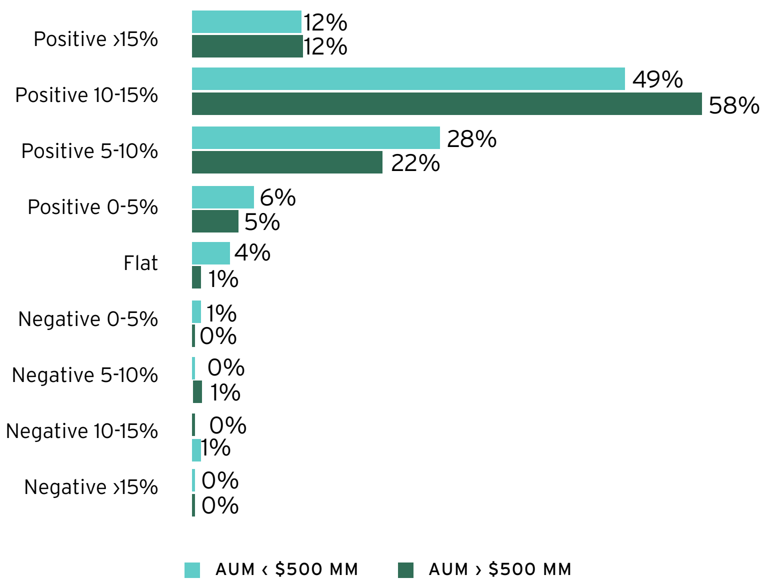
GLOBAL VIEW

Remarkably, nearly all respondents (95%) were expecting positive portfolio returns over the next twelve months, with over two-thirds anticipating double-digit performance. Their expectations ranged from gains of 0-5% (5%), 5-10% (25%), 10-15% (53%) and over 15% (12%).



AUM VIEW

Family offices with assets of $500 million or above were more optimistic about the outlook for portfolio returns, with 70% of them expecting returns of 10% or more over the coming year, compared to 61% of their smaller counterparts.



REGIONAL VIEW

Optimism over the portfolio returns outlook was high across all regions. Some 97% of family offices in Latin America expected returns of 5-10% and upwards over the next twelve months, followed closely by those in Europe, the Middle East and Africa (94%) then North America and Asia Pacific (89% and 88% respectively). Interestingly, family offices in Latin America were less bullish about the prospect of very high (above 15%) returns. Only 3% of them expected such returns, versus 23% of those in Europe, the Middle East and Africa.

	GLOBAL	APAC	EMEA	LATAM	NAM
Positive >15%	12%	12%	23%	3%	11%
Positive 10-15%	53%	49%	58%	60%	51%
Positive 5-10%	25%	27%	13%	34%	27%
Positive 0-5%	5%	8%	3%	3%	6%
Flat	3%	2%	3%	0%	4%
Negative 0-5%	1%	0%	0%	0%	1%
Negative 5-10%	0%	0%	0%	0%	0%
Negative 10-15%	1%	2%	0%	0%	0%
Negative >15%	0%	0%	0%	0%	0%

Portfolio construction and management

OVERVIEW

Ongoing commitment to private equity, real estate and hedge funds

Average allocations to public and private equity the same at 22%

Cash allocations remain high at 12%

Home bias and concentrated positions are prevalent globally

Alternative asset classes – private equity and credit, real estate, and hedge funds – made up almost half (46%) of respondents' total portfolios.

Private equity allocations were identically sized as those to public equity at 22%, with private equity funds (12%) slightly exceeding direct private equity (10%).

Concentrated positions are a common source of family office wealth, often in a single company founded by the family that has grown significantly. Two-thirds of respondents globally indicated that they held concentrated positions in public or private companies.

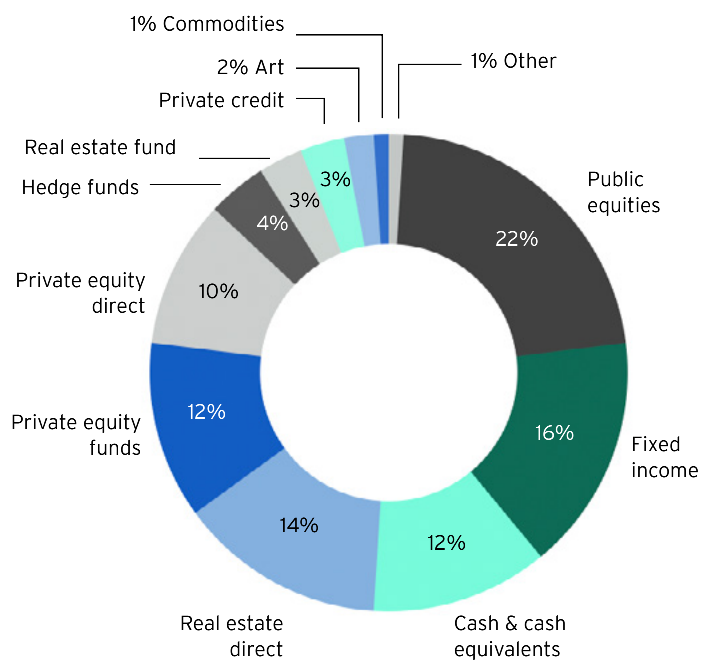
Like concentrated positions, home bias – skewing holdings to one's own region of the world – can represent a threat to existing wealth. However, we identified this phenomenon among the holdings of family offices from every region.

ASSET ALLOCATION BY CLASS

The average asset allocation is starting to reflect some of the tactical and strategic reassessments that we mentioned earlier. In this year's survey, we separated private equity and real estate into funds and direct investments, providing an even more granular view into allocations.

GLOBAL VIEW

Family offices remained committed to alternative investments, with 46% of total holdings comprising private equity and credit, real estate, and hedge funds. Cash stands at 12% and fixed income at 16%. Public and private equity allocations are identical at 22%, with private equity funds (12%) slightly exceeding direct private equity (10%). Within alternatives, family offices continue to commit to real estate (17%), with direct investments making up the lion's share (14%). The appetite for hedge funds remains muted (4%) despite their potential portfolio diversification role in volatile markets. Private credit allocations remain modest (3%) but have potential to grow in the months ahead given family office sentiment — 44% of family offices reported they are bullish on private credit.

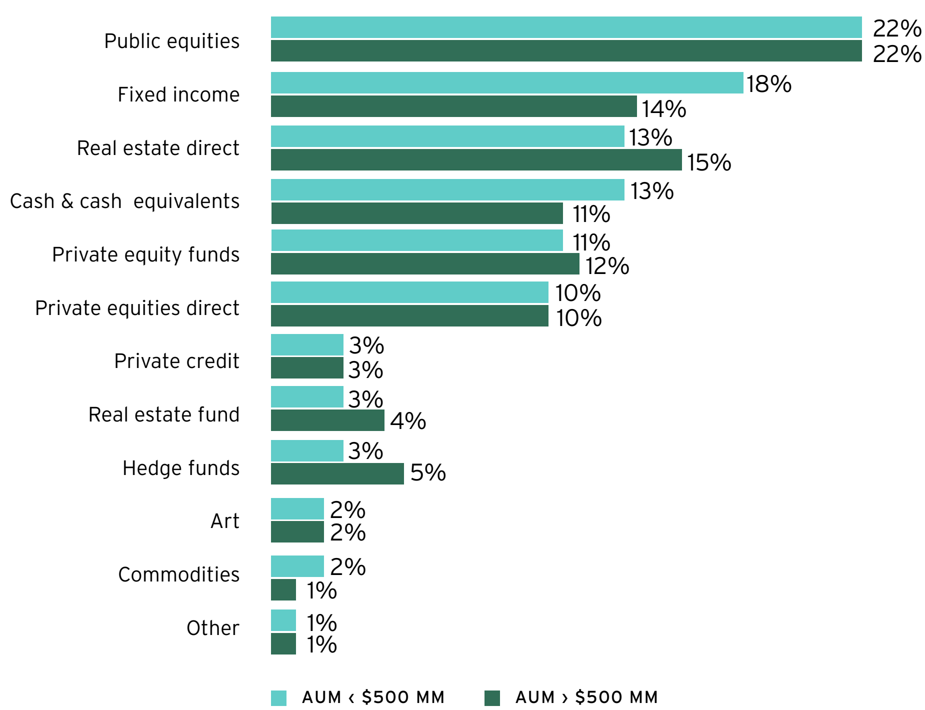


Real estate has historically been a dominant component within many family offices' holdings and a source of wealth creation. During the 2023 Family Office Leadership Program, we explored challenges and opportunities for this key sector. Our expert panel of speakers expressed this view:

While the commercial real estate sector is enduring rates hikes, high vacancy rates and upcoming maturities, there are also bright spots, such as in the travel and hospitality sectors which have benefited from post-pandemic "revenge travel." The industrial sector had had a boost from the revival of manufacturing capability, especially in the US. Select opportunities within global luxury real estate, multifamily and offices are available for investors focused on quality over quantity.

AUM VIEW

Allocations overall were similar for larger and smaller family offices. That said, smaller entities held slightly bigger allocations to cash and fixed income, most likely due to their lower appetite for illiquid assets.



REGIONAL VIEW

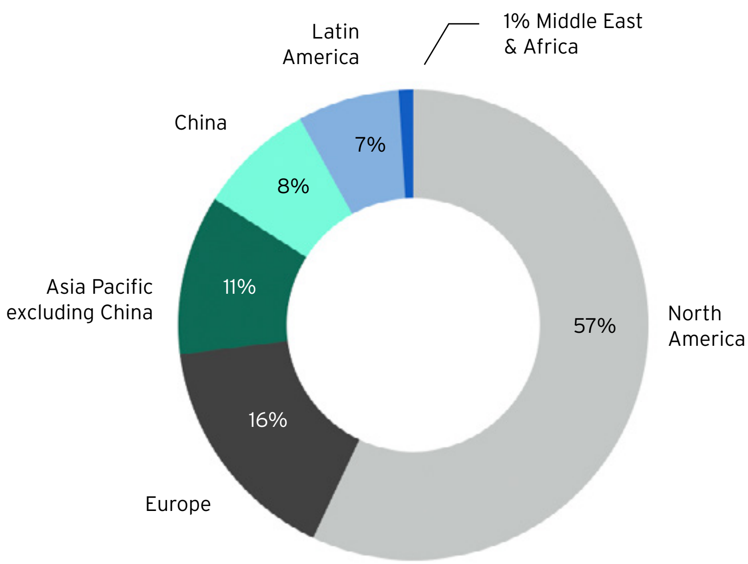
Regionally, family offices tended to hold similar allocations. That said, family offices in Latin America held much more in fixed income (30%) than the 13.7% average elsewhere. Family offices in Asian Pacific had larger cash holdings (18%) than the 10.3% average elsewhere. Family offices in North America's weightings in direct private equity (14%) were around double the rest-of-world average of 7.3%.

	GLOBAL	APAC	EMEA	LATAM	NAM
Public equities	22%	20%	19%	24%	23%
Fixed income	16%	13%	17%	30%	11%
Real estate direct	14%	14%	14%	11%	16%
Cash & cash equivalents	12%	18%	12%	10%	10%
Private equity funds	12%	14%	12%	9%	11%
Private equities direct	10%	8%	8%	6%	14%
Private credit	4%	2%	2%	4%	3%
Real estate fund	3%	2%	3%	2%	5%
Hedge funds	3%	5%	4%	2%	4%
Art	2%	2%	5%	0%	1%
Commodities	1%	1%	2%	1%	1%
Other	1%	1%	2%	1%	1%

ASSET ALLOCATION BY GEOGRAPHY

GLOBAL VIEW

On a global basis, it is no surprise that North America (57%) received the highest overall weighted allocations followed by Europe (16%) and Asia Pacific excluding China (11%). The breakout gets more interesting below as we start to see the home bias based on the geography of the family office.



REGIONAL VIEW

North America–based family offices allocated on average 80% of their assets to their home region. Other regions also displayed home bias: Europe, the Middle East and Africa (47%), Asia Pacific (56%), Asia Pacific excluding China (30%) and Latin America (30%). As to exposure to the US, Europe, the Middle East and Africa had 47%, Asia Pacific 30% and Latin America 54%. Family offices in North America, Latin America and Europe, the Middle East and Africa had minimal exposure to Asia Pacific.

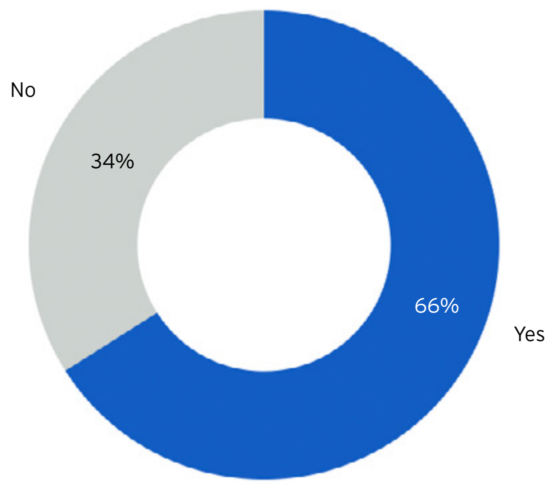
	GLOBAL	APAC	EMEA	LATAM	NAM
North America	57%	30%	47%	54%	80%
Europe	16%	13%	44%	12%	9%
Asia Pacific excluding China	11%	30%	4%	1%	4%
China	8%	26%	2%	3%	2%
Latin America	7%	0%	0%	30%	3%
Middle East & Africa	1%	1%	3%	0%	2%

CONCENTRATED POSITIONS HELD

Overall, two-thirds of respondents indicated that they held concentrated positions in public or private companies. While concentration is a typical feature during the initial wealth creation phase – often as a business is being built – it can later represent a large and unnecessary threat to wealth preservation.

GLOBAL VIEW

Almost two-thirds of family offices held a concentrated position. given the larger absolute value of their wealth.

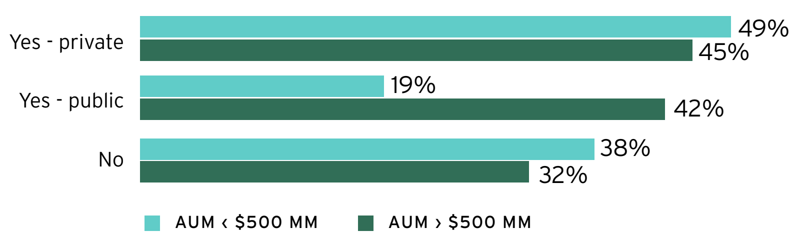


At our 2023 Family Office Leadership Program, we explored key considerations and strategies for families seeking to monetize or exit concentrated positions. Participants commented that family-owned and closely held businesses may seek outside capital for acquisitions and/or other growth initiatives, buying out existing family or external shareholders and deleveraging balance sheets with equity strategies to seek more operational flexibility.

Having a robust governance framework, a carefully considered succession plan and long-term vision and alignment within the stakeholders and family members is critical. Sovereign wealth funds can be a source of long-term, patient capital that is better aligned with the family's desire for longevity, while a partnership with a like-minded private equity firm can be a fruitful experience.

AUM VIEW

Family offices with $500 million in assets or more were likelier to hold a concentrated position (68%) than those below that threshold (62%). Those larger family offices were more than twice as likely (42% vs 19%) to hold concentrated positions in a public company as their smaller counterparts. One possible reason for this is that larger family offices may be more comfortable with holding a greater share of their assets in concentrated form given the larger absolute value of their wealth.



REGIONAL VIEW

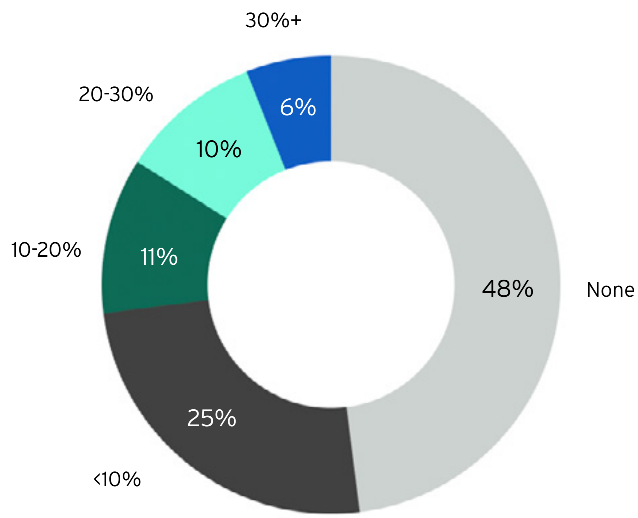
Interestingly, family offices in Europe, the Middle East and Africa and Asia Pacific were more diversified, with around 45% not holding public or private concentrated positions. Among their North America and Latin America counterparts, only 26% held no such positions.

	GLOBAL	APAC	EMEA	LATAM	NAM
Yes - private	48%	32%	35%	59%	59%
Yes - public	31%	28%	35%	35%	29%
No	34%	44%	45%	26%	26%

AMOUNT OF LEVERAGE EMPLOYED

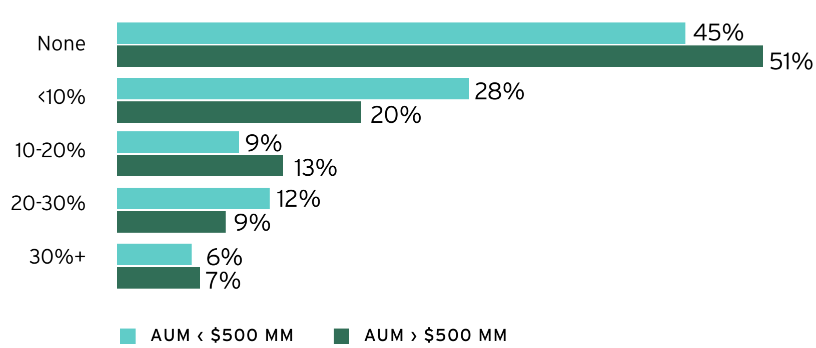
GLOBAL VIEW

Unlike what one might expect from institutional investors such as hedge funds, three out of four family offices said they use no (48%) or little (25%) leverage.



AUM VIEW

Family offices with above $500 million in AUM were likelier to use no leverage than smaller family offices (51% to 45%). All else equal, it might be expected that the former would have greater risk appetite than the latter and thus be likelier to employ leverage. Of those that did use leverage, there was no consistent relationship between family office size and amount of leverage employed.



REGIONAL VIEW

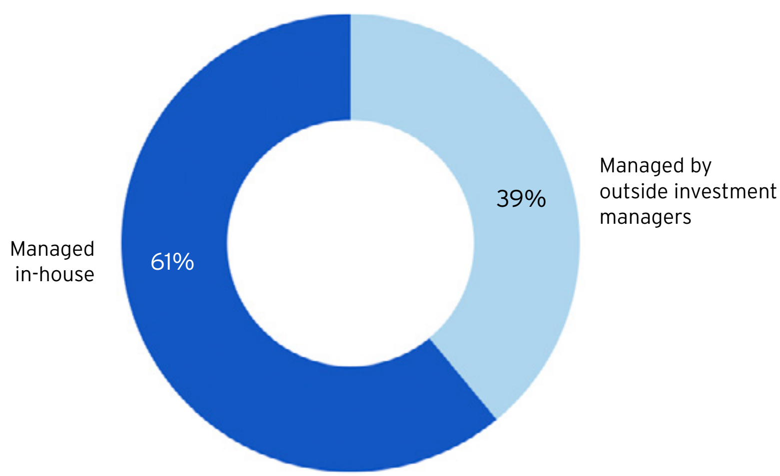
Among family offices using leverage, patterns were similar across all regions, with most employing 10% or less. Not only were family offices in Latin America less likely to use leverage than their counterparts elsewhere, those that did so were likelier to do so in smaller amounts.

	GLOBAL	APAC	EMEA	LATAM	NAM
None	48%	43%	48%	53%	48%
<10%	25%	21%	26%	35%	23%
10-20%	11%	14%	16%	9%	7%
20-30%	10%	10%	7%	3%	15%
30%+	6%	12%	3%	0%	7%

SHARE OF PORTFOLIO ASSETS MANAGED IN-HOUSE VS EXTERNALLY

GLOBAL VIEW

Globally, family offices managed an average of 61% of their investment assets in-house. The proportion was similar for those with AUM below $500 million (63%) and those above that threshold (60%).



REGIONAL VIEW

Regionally, there was greater variation, with family offices in North America managing the least proportion of their investment assets internally (52%) and Asia Pacific the most (72%).

	GLOBAL	APAC	EMEA	LATAM	NAM
Managed by outside investment managers	39%	28%	41%	31%	48%
Managed in-house	61%	72%	59%	69%	52%

Private equity

OVERVIEW

Ongoing appetite for private equity, but fewer than last year planning to increase allocations

Growth equity and venture capital were the most popular fund categories

More than three-quarters of respondents engaged in direct investing

Early- and growth-stage companies were the most favored direct investments

Family offices remain keen on private equity.

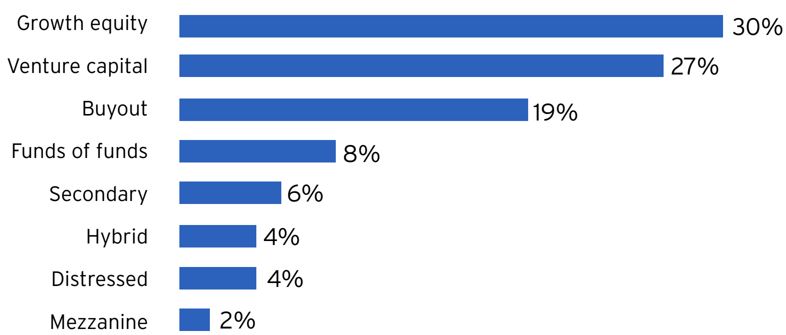
That said, the percentage seeking to increase their allocation (38%) has slowed down significantly since 2022 and 2021 (63% and 52% respectively).

With direct investing, motivations are split, with 66% seeking opportunistic deals based on attractive valuations and 38% pausing fresh dealmaking because of economic uncertainty.

PRIVATE EQUITY FUND ALLOCATION BY TYPE

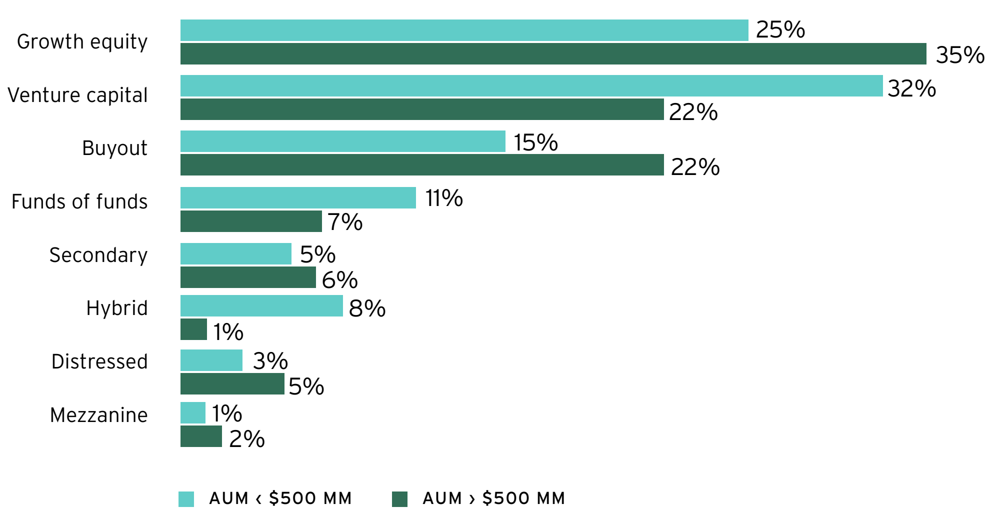
GLOBAL VIEW

Allocations to private equity funds are primarily focused on growth equity (30%), venture capital (27%) and buyout (19%). The interest in secondary transactions that many family office clients have expressed in conversation has yet to materialize in actual investments (6%).



AUM VIEW

Allocations to private equity sub-categories were broadly similar between family offices with AUM above and below $500 million. That said, the latter were more heavily weighted in venture capital funds (32% vs 22%), hybrid (8% vs 1%) and fund of funds (11% vs 7%). By contrast, larger family offices had 35% of their private equity holdings in growth equity funds versus 25% for their smaller counterparts.



REGIONAL VIEW

On a regional view, there were many similarities between allocations to private equity fund types. Family offices in Latin America had a noticeably lighter weighting to venture capital (18% vs an average 30% across the other three regions), but also a much greater weighting to funds of funds (16% vs 7% average elsewhere).

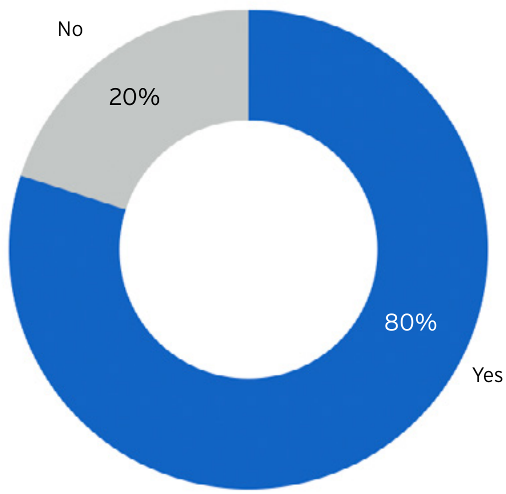
	GLOBAL	APAC	EMEA	LATAM	NAM
Growth equity	30%	32%	28%	31%	29%
Venture capital	27%	31%	33%	18%	26%
Buyout	19%	14%	16%	23%	21%
Funds of funds	8%	4%	8%	16%	8%
Secondary	6%	6%	8%	4%	5%
Hybrid	4%	6%	0%	3%	6%
Distressed	4%	4%	4%	3%	4%
Mezzanine	2%	3%	3%	2%	1%

ENGAGEMENT WITH DIRECT INVESTMENTS

GLOBAL VIEW

Direct investing continues to be a priority for family offices worldwide.

Four-fifths of family offices globally reported that they engaged in direct investments. The response barely differed between those below and above $500 million in AUM.



REGIONAL VIEW

Family offices in North America (86%) and Europe, the Middle East and Africa (87%) were the likeliest to engage in direct investments, with Asia Pacific the outlier at 69%.

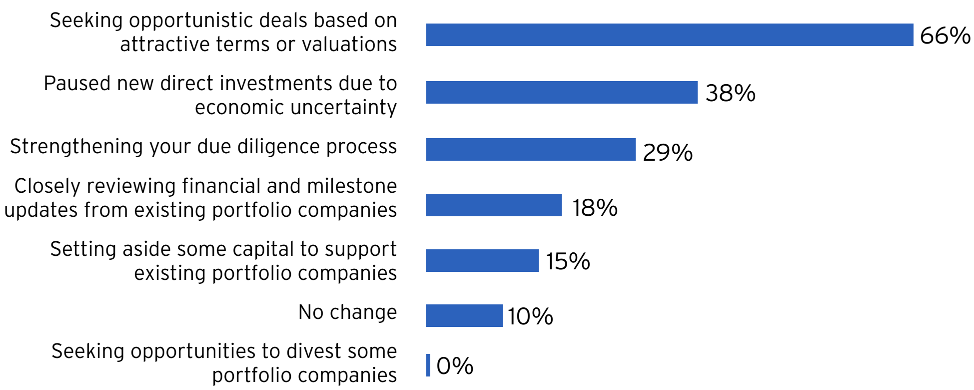
	GLOBAL	APAC	EMEA	LATAM	NAM
Yes	80%	69%	87%	76%	86%
No	20%	31%	13%	24%	14%

DIRECT INVESTING STRATEGY ADJUSTMENTS

GLOBAL VIEW

The enthusiasm for direct investing remains high but family offices may be reaching a crossroads.

Two-thirds of respondents reported seeking opportunistic deals based on attractive terms or valuations. By contrast, 38% paused new activity due to economic uncertainty, albeit none said they were seeking to divest portfolio companies on these grounds.

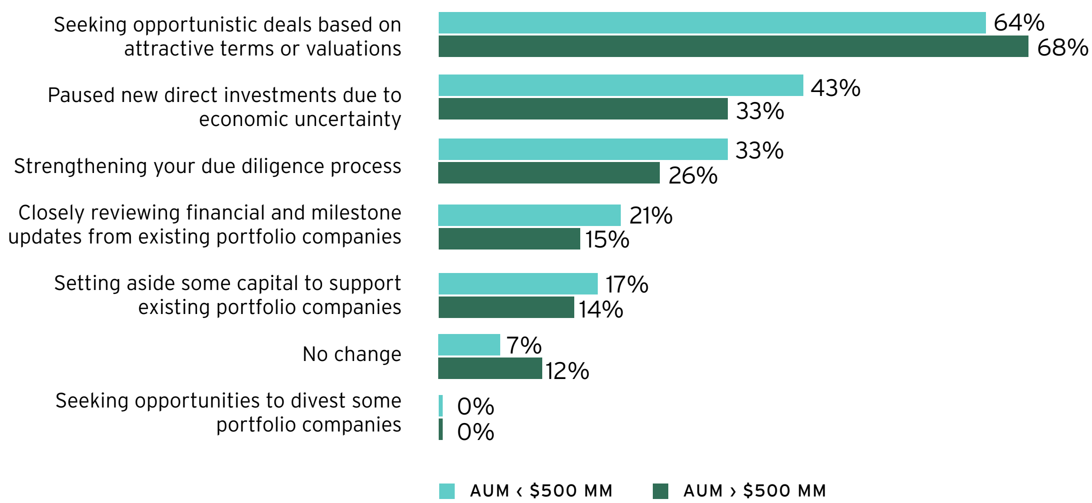


A key takeaway from the 2023 Family Office Leadership Program was that private valuations will likely continue to decline in the near term. The extent of this should become clearer when firms needing to raise further capital seek their next funding round.

Many venture/growth businesses will likely face substantial challenges and those unable to secure additional capital may default. At the same time, there may be potential opportunities to take advantage of market stress, capital dislocations and asset repricing.

AUM VIEW

Family offices with both more and less than $500 million in AUM reported investment strategy adaptations to a similar degree. That said, larger family offices were less likely to be pausing direct investments due to economic uncertainty than smaller ones (33% and 43%), probably reflecting their greater risk tolerance. Smaller family offices were also more likely to be taking other precautionary measures such as strengthening due diligence, reviewing existing portfolio company updates more closely and setting aside capital to support those companies, perhaps because they have embraced these practices already.



REGIONAL VIEW

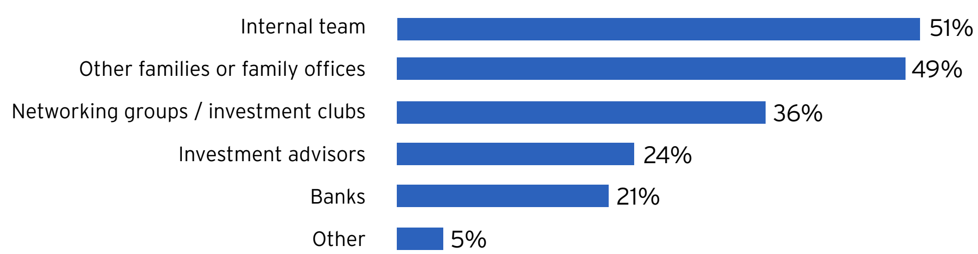
Responses to the current environment have been consistent between regions overall. However, family offices in Europe, the Middle East and Africa and North America are about twice as likely to closely review financials and milestone updates from existing portfolio companies than Asia Pacific (23% vs 12%) and almost three times more so than those in Latin America (8%).

	GLOBAL	APAC	EMEA	LATAM	NAM
Seeking opportunistic deals based on attractive terms or valuations	66%	70%	67%	71%	63%
Paused new direct investments due to economic uncertainty	38%	42%	37%	33%	37%
Strengthening your due diligence process	29%	33%	30%	33%	24%
Closely reviewing financial and milestone updates from existing portfolio companies	18%	12%	22%	8%	23%
Setting aside some capital to support existing portfolio companies	15%	15%	22%	21%	10%
No change	10%	6%	19%	4%	10%
Seeking opportunities to divest some portfolio companies	0%	0%	0%	0%	0%

SOURCES OF DIRECT INVESTING DEAL FLOW

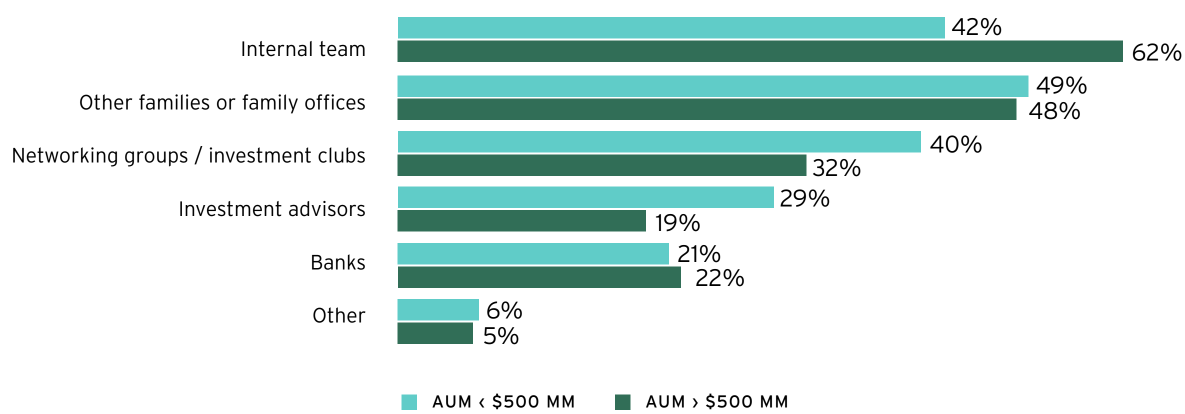
GLOBAL VIEW

While most family offices reported continuing to rely on their internal teams (51%), other families (49%) and networking groups (36%) for deal flow, a growing number were turning to external investment advisors (24%) and banks (21%).



AUM VIEW

Family offices with AUM above and below $500 million reported using sources for deal flow to a similar degree in most cases. The standout exception was in relation to internal teams, which larger family offices were likelier to use as trusted sources (62% vs 42%). This is intuitive, as larger entities tend to have more dedicated in-house personnel in this area.



REGIONAL VIEW

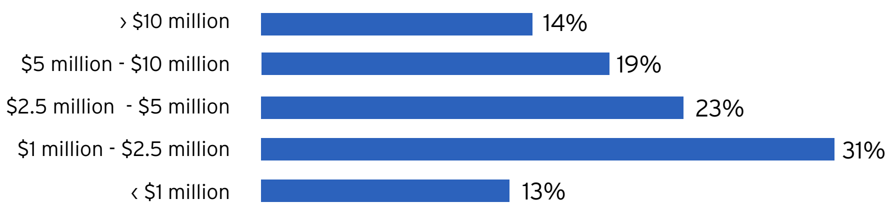
Family offices in Asia Pacific and North America were much likelier (58% and 56%) to use internal teams as a trusted source of deal flow than their Latin American counterparts (33%). Other families and family offices were highly trusted sources in Latin America (63%), as were networking groups and investment clubs in Europe, the Middle East and Africa (48%).

	GLOBAL	APAC	EMEA	LATAM	NAM
Internal team	51%	58%	48%	33%	56%
Other families or family offices	49%	39%	41%	63%	53%
Networking groups / investment clubs	36%	30%	48%	42%	33%
Investment advisors	24%	30%	26%	25%	19%
Banks	21%	30%	26%	17%	16%
Other	5%	3%	4%	4%	8%

DIRECT INVESTING TICKET SIZE PREFERENCE

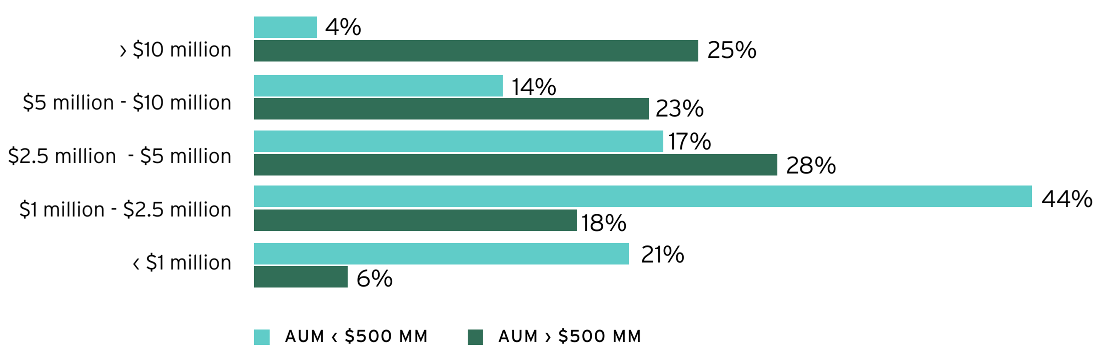
GLOBAL VIEW

The preferred direct deal ticket size has grown since last year, with 31% reporting $1 million-$2.5 million and 23% $2.5 million-$5 million. Recent entrants into this sub-asset class are gaining experience and appear more willing to make larger investments. It's interesting to observe that another third prefer ticket sizes upwards of $5 million.



AUM VIEW

Intuitively, family offices with larger AUMs preferred larger ticket sizes for their direct investment deals. Fully 25% of larger entities reported a preference for $10 million or above, with 65% of their smaller counterparts favoring ticket sizes of less than $2.5 million.



REGIONAL VIEW

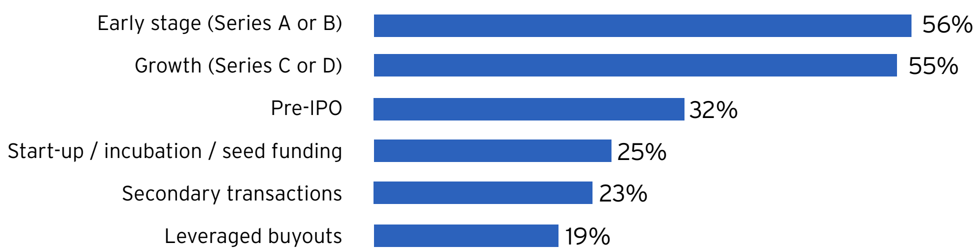
Asia Pacific reported the greatest share of the smallest ($1 million and below) ticket sizes (22%) and the same proportion of family offices in Europe, the Middle East and Africa sought deals upward of $10 million.

	GLOBAL	APAC	EMEA	LATAM	NAM
› $10 million	14%	12%	22%	0%	18%
$5 million - $10 million	19%	19%	11%	13%	24%
$2.5 million - $5 million	23%	19%	19%	29%	24%
$1 million - $2.5 million	31%	28%	33%	50%	24%
‹ $1 million	13%	22%	15%	8%	10%

DIRECT INVESTING STAGE PREFERENCE

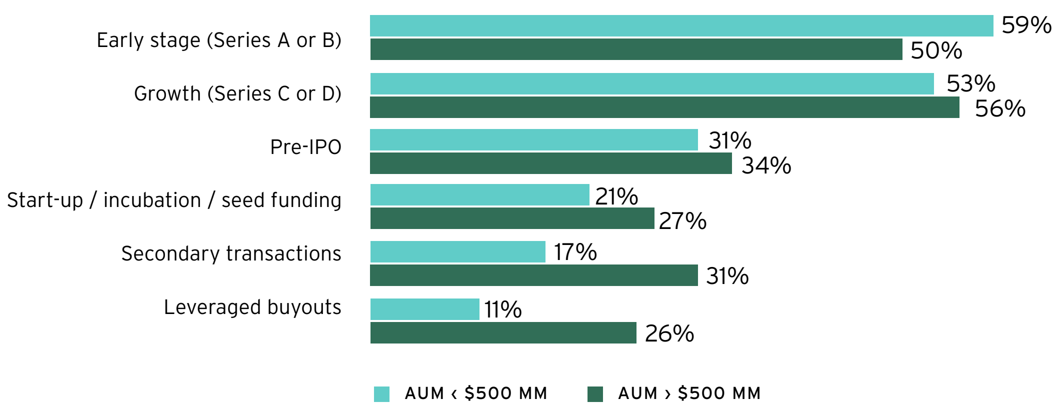
GLOBAL VIEW

Respondents' preferences for deals were predominantly for early- (56%) and growth-stage companies (55%). However, appetite for secondary transactions (23%) had increased since 2022, with family offices expecting that some institutional investors will be forced to divest holdings amid limited IPO opportunities.



AUM VIEW

Preferences for stages of direct investments were broadly similar for both smaller and larger family offices. The widest disparities were in leveraged buyouts and secondary transactions, where larger entities expressed a much greater preference (26% vs 11% and 31% vs 17% respectively). Smaller entities were keener on early-stage (Series A or B) investments by a lesser margin (59% to 50%).



REGIONAL VIEW

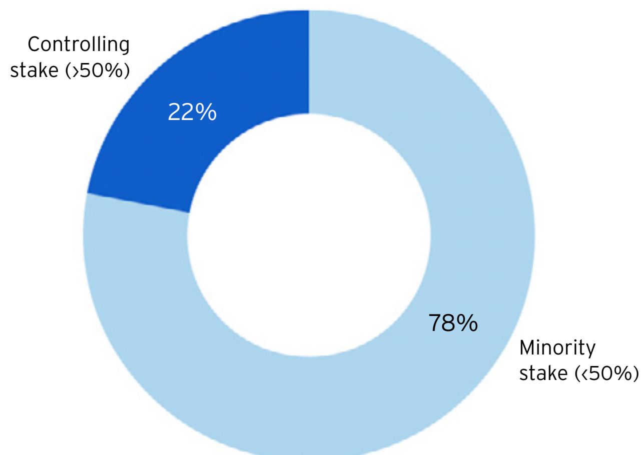
Early-stage and growth-stage deals were most popular in all regions while leveraged buyouts were more sought after in North America and Europe, the Middle East and Africa than in Asia Pacific and Latin America. Start-up / incubation / seed funding were preferred almost three times more in Asia Pacific than in other regions. Secondary transitions were slightly more favored in Latin America and the Middle East and Africa (29% and 26% respectively).

	GLOBAL	APAC	EMEA	LATAM	NAM
Early stage (Series A or B)	56%	67%	63%	46%	53%
Growth (Series C or D)	55%	63%	37%	46%	61%
Pre-IPO	32%	33%	37%	21%	31%
Start-up / incubation / seed funding	25%	67%	26%	21%	24%
Secondary transactions	23%	17%	26%	29%	20%
Leveraged buyouts	19%	17%	19%	13%	25%

DIRECT INVESTING MAJORITY VS MINORITY STAKE PREFERENCE

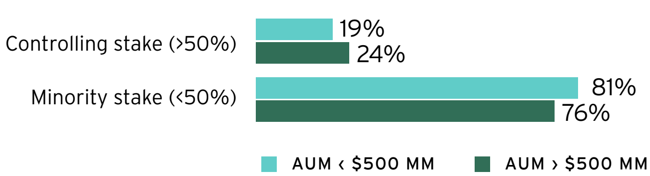
GLOBAL VIEW

Among respondents overall, there was an overriding preference for taking minority stakes in direct investment portfolio companies (78%) rather than controlling position (22%). This is because most family offices are either unwilling or unable to assume the responsibilities associated with owning controlling positions.



AUM VIEW

On a global view, larger family offices were slightly likelier to seek controlling stakes (24%) than smaller entities (19%). This is probably a result of the former's greater financial firepower and internal resources.



REGIONAL VIEW

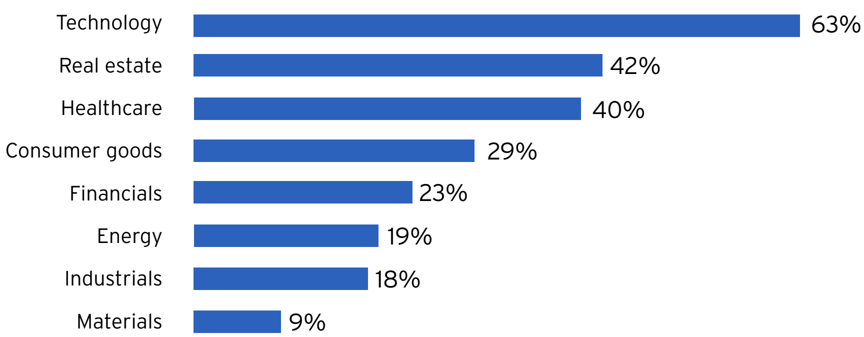
Family offices in Asia Pacific expressed the strongest preference for controlling stakes in direct investments at 28%, with their counterparts in Latin America the least enthusiastic at 13%.

	GLOBAL	APAC	EMEA	LATAM	NAM
Controlling stake (>50%)	22%	28%	15%	13%	25%
Minority stake (<50%)	78%	72%	85%	87%	75%

DIRECT INVESTING SECTOR PREFERENCE

GLOBAL VIEW

Family office sector priorities in direct investments mirror those in public equity, with technology and healthcare leading the way at 63% and 40% respectively. Real estate continues to generate interest at 42%.

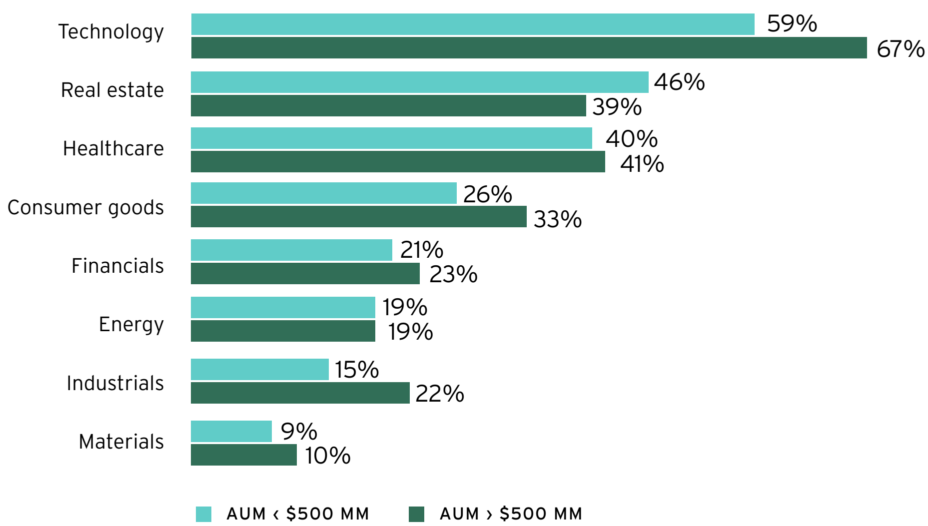


At our 2023 Family Office Leadership Program, panelists discussed how artificial intelligence could potentially add as much as $7 trillion of labor efficiencies over the next ten years. In the equity markets, it's already proving a key driver of the technology sector rebound since October 2022. Investors should consider the three Ts before investing here:

Team:	Talent of the founders and operating team
TAM:	Total addressable market (TAM) size and proven ability to scale
Traction:	Staying power and growth potential of the business

AUM VIEW

When seeking direct investment deals, larger and smaller family offices expressed broadly similar sector preferences. Technology was the most popular sector for both groups but even more so for larger entities (67% vs 59%).



REGIONAL VIEW

Technology was the most popular sector for direct investment in every region apart from Latin America, where there was a preference for real estate (57% vs 43%). Another striking disparity was in attitudes toward healthcare, where 58% of family offices in Europe, the Middle East and Africa and 56% of those in Asia Pacific named the sector among their top three, compared to just 26% in North America.

	GLOBAL	APAC	EMEA	LATAM	NAM
Technology	63%	88%	69%	43%	55%
Real estate	42%	31%	23%	57%	52%
Healthcare	40%	56%	58%	35%	26%
Consumer goods	29%	28%	27%	39%	28%
Financials	23%	28%	12%	17%	28%
Energy	19%	16%	27%	17%	17%
Industrials	18%	9%	19%	17%	22%
Materials	9%	6%	8%	13%	10%

Family office management and family governance

OVERVIEW

More family office focus on wealth and investment management, less on family unity and continuity

Preparing the next generation and sharing a vision remains a top concern for many families

The professionalization of the family office industry is progressing unevenly

Insufficient leadership succession planning is widespread

Family offices' primary focus has shifted toward wealth management (74%) and investment management (55%) at the expense of fostering family unity and continuity (21%), as it often does in challenging times.

Nevertheless, this tendency is much less pronounced for third-generation families. Such families have weathered more storms and realize that they need to continue addressing critical issues even if others might appear more urgent for now. More than half of families' top concerns include preparing the next generation to be responsible wealth owners and ensuring shared family goals and vision, for which they need family office support.

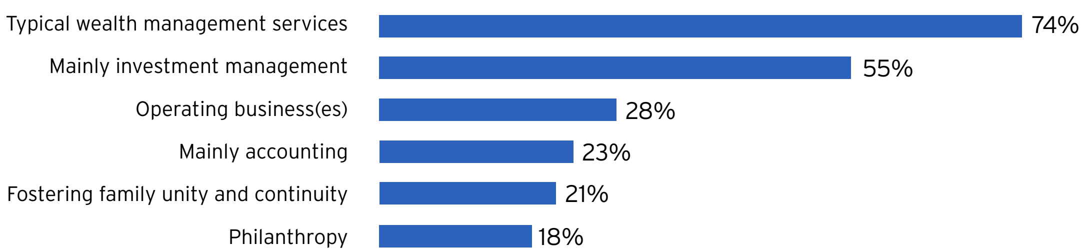
Considering the professionalization of various functions, investment management was reported as seeing the most advances, family office professionalization beyond investing showing mixed results and families themselves trailing behind. Most concerning is the insufficiency of leadership succession planning for families and family offices alike and the lack of educational programs for the next generation.

FAMILY OFFICE PRIMARY FOCUS

GLOBAL VIEW

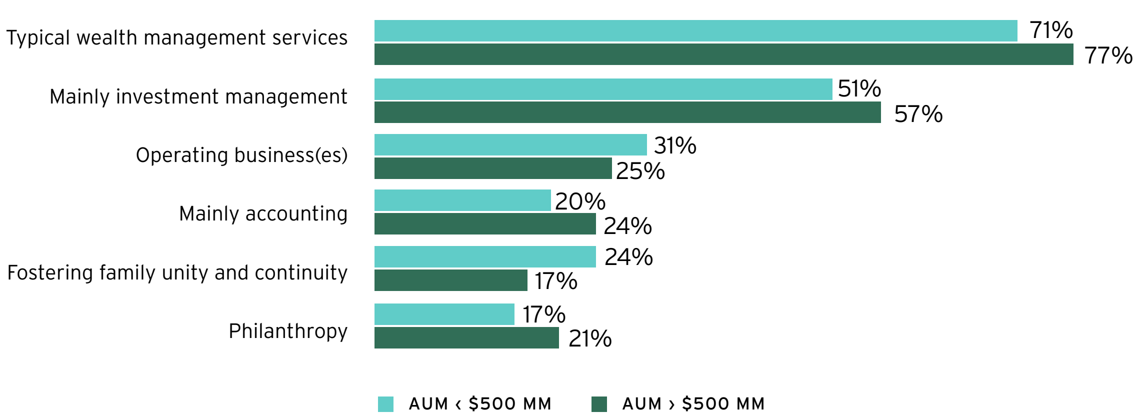
Family offices reported their top two areas of focus as typical wealth management services (74%) and mainly investment management (55%), well ahead of fostering family unity and continuity (21%).

In 2022, by contrast, respondents' top priority was family unity and continuity (34%). It is typical in challenging times for family offices to prioritize immediate needs at the expense of less pressing but highly important priorities, as we also observed during the Global Financial Crisis or COVID pandemic.



AUM VIEW

Respondents' primary focuses were broadly similar across larger and smaller family offices. Smaller entities were slightly likelier to report an emphasis on fostering family unity and continuity, possibly due to less access to outside resources.



GENERATIONAL VIEW

However, the primary focus of the family office changes considerably depending on the generation in control of the wealth. For example, family offices servicing families at the third generation prioritize fostering family unity and continuity twice as much as the average (41% vs 21%).

	GLOBAL	FIRST GENERATION	SECOND GENERATION	THIRD GENERATION	FOURTH GENERATION OR BEYOND
Typical wealth management services	74%	78%	65%	88%	63%
Mainly investment management	55%	50%	59%	59%	63%
Operating business(es)	28%	30%	30%	18%	25%
Mainly accounting	23%	23%	22%	12%	50%
Fostering family unity and continuity	21%	19%	17%	41%	25%
Philanthropy	18%	24%	11%	6%	25%

REGIONAL VIEW

Primary focuses were broadly similar across regions, with wealth management and investment management the leading two everywhere. Family offices in Europe, the Middle East and Africa were somewhat less focused on fostering family unity and continuity (13% vs the global average of 21%). Philanthropy was more than ten times likelier to be a focus of North American (32%) than Latin American entities (3%).

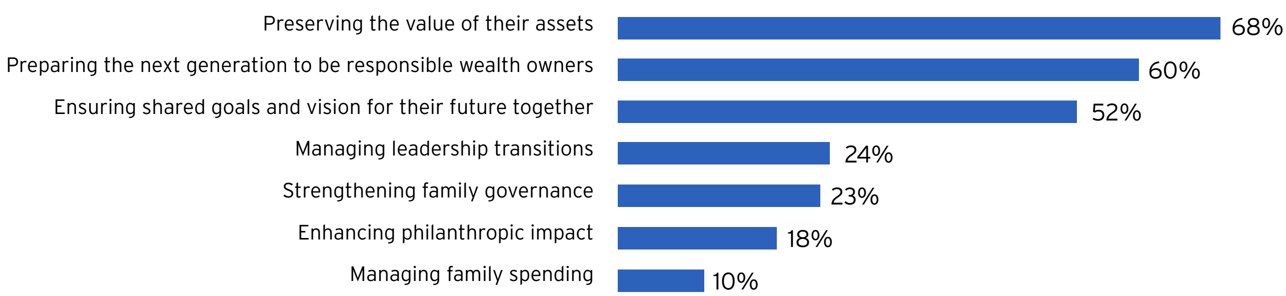
	GLOBAL	APAC	EMEA	LATAM	NAM
Typical wealth management services	74%	64%	77%	84%	75%
Mainly investment management	55%	62%	55%	63%	47%
Operating business(es)	28%	21%	39%	19%	32%
Mainly accounting	23%	26%	26%	25%	19%
Fostering family unity and continuity	21%	23%	13%	25%	20%
Philanthropy	18%	11%	13%	3%	32%

FAMILIES' PRIMARY CONCERNS

GLOBAL VIEW

The top concern reported was preserving asset values (68%), closely followed by preparing the next generation to be responsible wealth owners (60%) and ensuring shared goals and vision for the family (52%). These worries have intensified since 2022, where preparing the next generation and developing a shared vision were cited as priorities by 51% and 24% of families respectively.

Families clearly expect more than wealth management from their family offices. Executives should therefore not deprioritize family unity and continuity for too long.

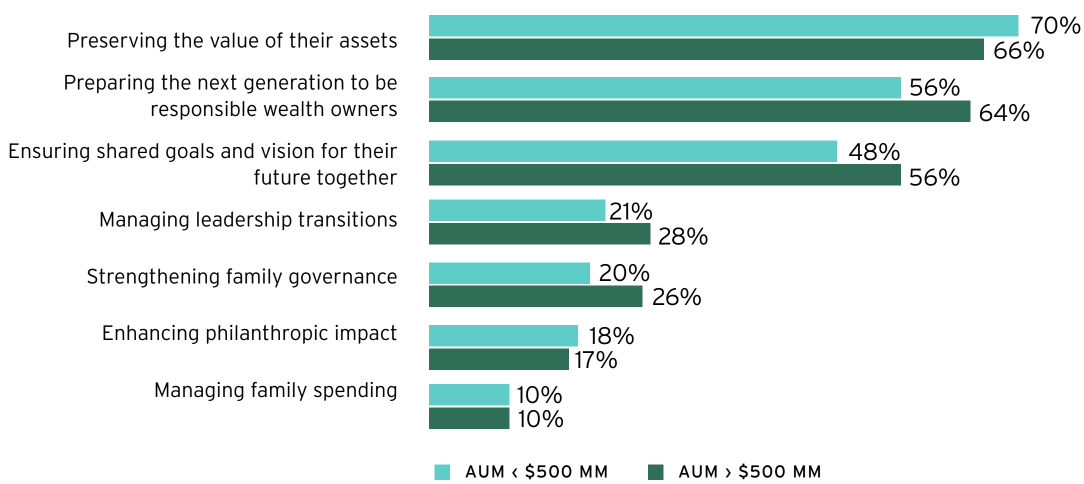


Leadership transition was discussed at our 2023 Family Office Leadership Program. The seasoned family office executives in attendance highlighted seven key lessons for navigating the complexity of family and family office leadership succession:

1. Have the courage to start a conversation about succession
2. Develop a succession plan early and make it a continuous process
3. Seize the opportunity to redefine the family's vision for their future
4. Communicate, communicate, communicate!
5. Set the new leader up for success
6. Support the transitioning leader
7. It is never too early to start planning

AUM VIEW

Respondents reported similar degrees of concern in relation to various key issues. Families with larger family offices put somewhat more weight on managing leadership transitions, ensuring shared goals and vision and preparing the next generation. This is possibly because they have learned from other families with substantial wealth or perhaps because failure to act can be even more costly at higher levels of wealth.



REGIONAL VIEW

Levels of concern over leading issues were broadly similar across regions. Ensuring shared goals was especially likely to be a concern of families in Latin America (69% vs 52% average elsewhere.) Preserving asset value was the highest priority in Asia Pacific (74%), while managing leadership transitions was seen as twice as high in Europe, the Middle East and Africa (40% vs 20% average elsewhere). Strengthening family governance was weighted more heavily in Latin America (31%), where families tend to be larger.

	GLOBAL	APAC	EMEA	LATAM	NAM
Preserving the value of their assets	68%	74%	63%	66%	68%
Preparing the next generation to be responsible wealth owners	60%	59%	53%	59%	63%
Ensuring shared goals and vision for their future together	52%	54%	47%	69%	46%
Managing leadership transitions	24%	22%	40%	13%	24%
Strengthening family governance	23%	23%	13%	31%	24%
Enhancing philanthropic impact	18%	17%	17%	9%	24%
Managing family spending	10%	11%	13%	9%	9%

FAMILY OFFICE SERVICES PROVIDED

As expected, the suite of services that family offices provided was broad and largely unchanged. However, most of the evolutions are coming from the build vs partner vs buy options.

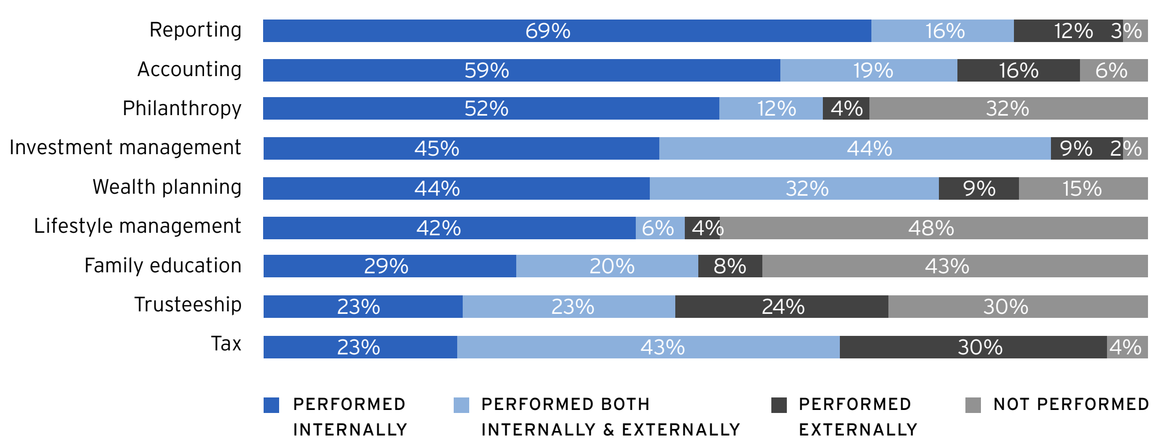
GLOBAL VIEW

The most frequently provided services included investment management (98%), reporting (97%), tax (96%), accounting (94%) and wealth planning (85%).

Family education was the second least commonly provided service (43% reporting "not performed"), coming before lifestyle management (48% reporting "not performed"). As such, families' desire to prepare the next generation to become responsible wealth owners remained mostly unaddressed.

Complex services requiring deep expertise are most often performed in collaboration with external partners, such as investment management (44%) and tax (43%).

However, a majority of family offices chose to perform a series of services internally, including reporting (69%), accounting (59%) and philanthropy (52%). We see the primary motivation here as a desire to maintain control, customization and privacy.



REGIONAL VIEW

As might be expected, reporting is mostly performed internally in Europe, the Middle East and Africa and North America, at 90% and 71% respectively. However, there is more partial or full reliance on external vendors in Asia Pacific and Latin America, at 37% and 34% respectively. In North America, only 12% of family offices reported not offering philanthropy-related support. But this figure was substantially higher in Latin America at 53%, 45% in Europe, the Middle East and Africa and 38% in Asia Pacific. US tax incentives for charitable donations may help to explain the gap or simply the fact that philanthropy is frequently managed separately by the likes of a family foundation. Finally, lifestyle management and family education were some of the least offered services in Asia Pacific, Europe, the Middle East and Africa and Latin America, averaging around 54%, while that number is much lower in North America at around 34%. However, while families probably have access to other resources to manage their lifestyle, it is likely that family education remains mostly unaddressed.

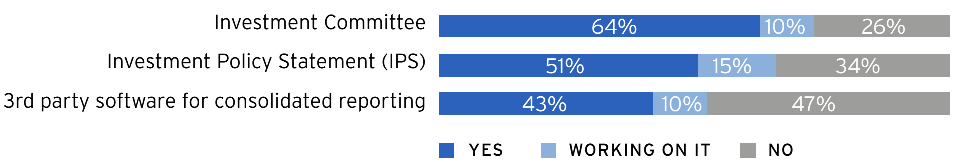
	APAC				EMEA			
	PERFORMED INTERNALLY	PERFORMED BOTH INTERNALLY & EXTERNALLY	PERFORMED EXTERNALLY	NOT PERFORMED	PERFORMED INTERNALLY	PERFORMED BOTH INTERNALLY & EXTERNALLY	PERFORMED EXTERNALLY	NOT PERFORMED
Reporting	57%	28%	9%	6%	90%	7%	0%	3%
Accounting	47%	34%	13%	6%	66%	21%	10%	3%
Philanthropy	32%	21%	9%	38%	41%	10%	4%	45%
Investment management	49%	43%	6%	2%	45%	48%	7%	0%
Wealth planning	41%	26%	13%	20%	55%	35%	0%	10%
Lifestyle management	33%	4%	11%	52%	32%	4%	4%	60%
Family education	17%	17%	16%	50%	31%	17%	0%	52%
Trusteeship	10%	17%	45%	28%	45%	17%	0%	38%
Tax	23%	41%	23%	13%	28%	45%	24%	3%

	LATAM				NAM			
	PERFORMED INTERNALLY	PERFORMED BOTH INTERNALLY & EXTERNALLY	PERFORMED EXTERNALLY	NOT PERFORMED	PERFORMED INTERNALLY	PERFORMED BOTH INTERNALLY & EXTERNALLY	PERFORMED EXTERNALLY	NOT PERFORMED
Reporting	63%	9%	25%	3%	71%	15%	14%	0%
Accounting	53%	16%	22%	9%	67%	11%	18%	4%
Philanthropy	38%	3%	6%	53%	76%	10%	1%	13%
Investment management	56%	28%	10%	6%	38%	49%	11%	2%
Wealth planning	47%	38%	6%	9%	41%	32%	11%	16%
Lifestyle management	41%	9%	0%	50%	54%	6%	1%	39%
Family education	16%	19%	6%	59%	42%	24%	6%	28%
Trusteeship	13%	19%	31%	38%	28%	32%	17%	23%
Tax	34%	29%	34%	3%	15%	50%	35%	0%

PROFESSIONALIZATION OF THE INVESTMENT FUNCTION

GLOBAL VIEW

The professionalization of the investment function continued at family offices. About two-thirds of respondents reported having an investment committee (64%), and half said they had an investment policy statement (IPS). Surprisingly, though, most family offices still use Excel for consolidated reporting, with only 43% using specialist software. Technology switching costs are high and it sometimes takes an inflection point, such as a generational transfer or new leadership in the family office, to overcome any resistance to change and embrace new systems.



REGIONAL VIEW

Investment policy statements were most and least in evidence in Latin America (65%) and in Asia Pacific (45%) respectively. Family offices in North America seem committed to catching up, with 41% reporting that they are working on it. Latin America is also leading the way in terms of having investment committees (82%), with North America and Europe, the Middle East and Africa on board to get there (only 7% replying "no").

	APAC			EMEA		
	YES	WORKING ON IT	NO	YES	WORKING ON IT	NO
Investment Committee	45%	37%	18%	57%	30%	13%
Investment Policy Statement (IPS)	55%	29%	16%	62%	31%	7%
3rd party software for consolidated reporting	31%	58%	11%	48%	42%	10%

	LATAM			NAM		
	YES	WORKING ON IT	NO	YES	WORKING ON IT	NO
Investment Committee	65%	16%	19%	48%	41%	11%
Investment Policy Statement (IPS)	82%	9%	9%	63%	30%	7%
3rd party software for consolidated reporting	52%	29%	19%	44%	49%	7%

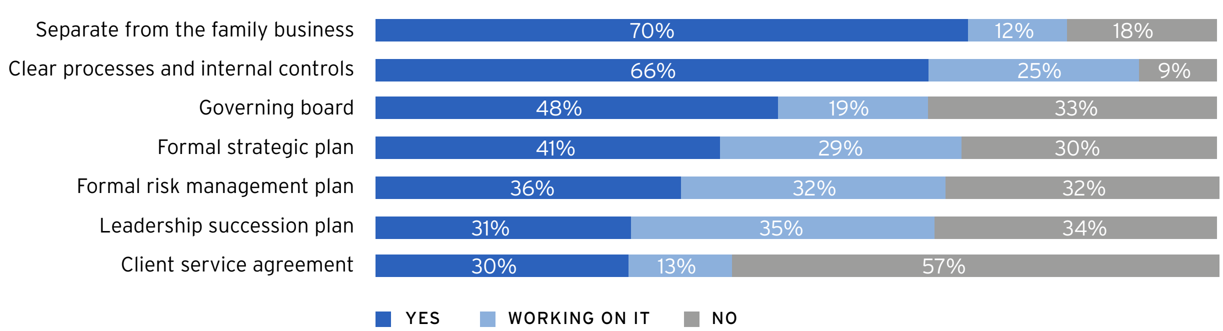
PROFESSIONALIZATION OF THE FAMILY OFFICE BEYOND INVESTING

GLOBAL VIEW

Family offices are continuing to professionalize their activities beyond just investments, bringing more structure to their approach. However, there is still some way to go.

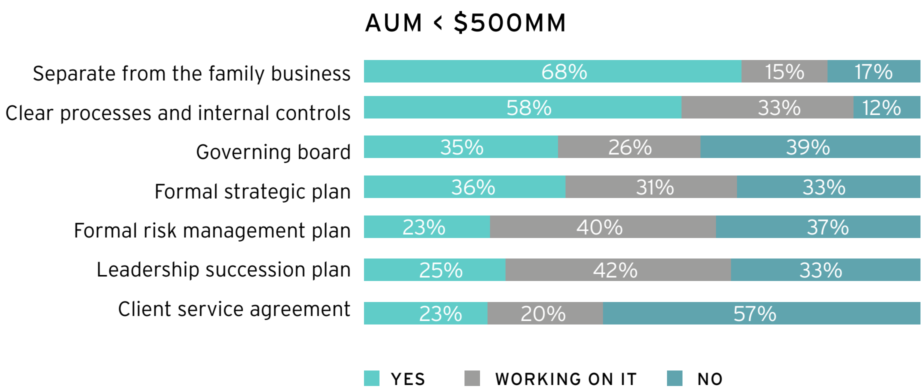
About two-thirds of families have separated their family office from the family business and have clear processes and internal controls in place. Less than half have governing boards or formal strategic plans, but about one in five are working on it.

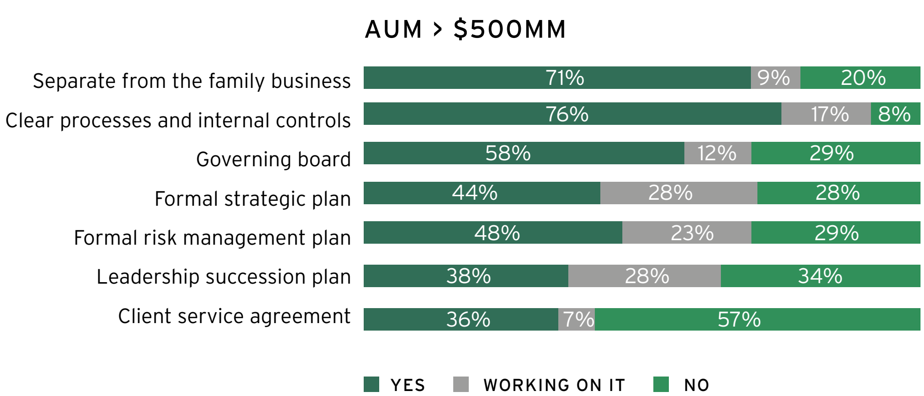
However, leadership succession planning is behind the curve, with only one in three family offices having created one. This is despite the finding in our 2022 survey that 52% of clients are expecting a leadership succession in the next five years. That said, it is encouraging that a further one in three family offices are working on a succession plan. Given the challenges around unplanned leadership successions, however, this constitutes a significant risk for those who are not yet prepared.



AUM VIEW

As expected, larger family offices have reached a higher level of professionalization, most likely due to their greater resources. They are twice as likely to have developed a risk management plan and over 50% more likely to have a governing board, a leadership succession plan and a client service agreement in place.





REGIONAL VIEW

Family offices in Europe, the Middle East and Africa were the most committed to leadership succession plans (only 18% replying "no"). Latin America was most likely to have governing boards (only 22% replying "no"). These responses most likely reflect the challenges most prevalent in these regions. Strategic plans are unevenly distributed, with only Latin America and Asia Pacific reporting a majority of adoptees (53% and 49% respectively).

	APAC			EMEA		
	YES	WORKING ON IT	NO	YES	WORKING ON IT	NO
Separate from the family business	63%	13%	24%	79%	4%	18%
Clear processes and internal controls	55%	36%	9%	71%	18%	11%
Governing board	40%	28%	32%	44%	19%	37%
Formal strategic plan	49%	28%	23%	39%	32%	29%
Formal risk management plan	38%	36%	26%	43%	39%	18%
Leadership succession plan	31%	38%	31%	32%	50%	18%
Client service agreement	36%	18%	47%	46%	4%	50%

	LATAM			NAM		
	YES	WORKING ON IT	NO	YES	WORKING ON IT	NO
Separate from the family business	78%	13%	9%	67%	14%	19%
Clear processes and internal controls	63%	28%	9%	72%	18%	10%
Governing board	63%	16%	22%	48%	14%	38%
Formal strategic plan	53%	19%	28%	30%	33%	37%
Formal risk management plan	38%	31%	31%	31%	26%	43%
Leadership succession plan	26%	32%	42%	32%	28%	39%
Client service agreement	25%	19%	56%	21%	11%	68%

PROFESSIONALIZATION OF FAMILIES

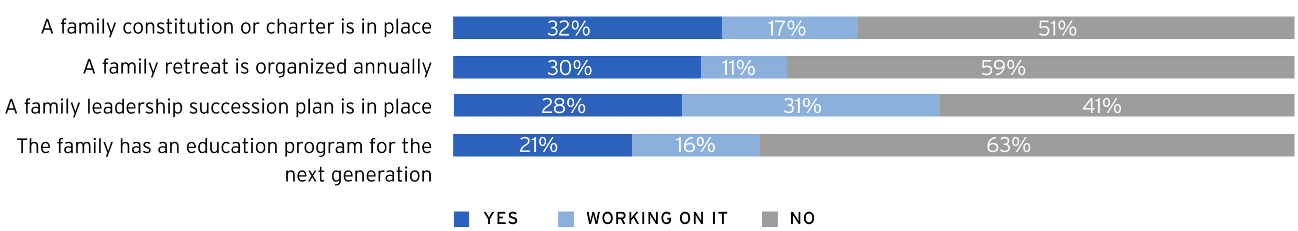
GLOBAL VIEW

Families themselves are starting to adopt a more structured approach too. However, they still typically operate informally, which does not position them well to address their key concerns.

About one third of respondents have a family constitution or charter (32%) and organize an annual family retreat (30%). This shows an increasing awareness of the need to be more intentional and strategic about their family's future.

As with their family offices, families' adoption of leadership succession planning remains at relatively low levels (28%), with some 31% actively engaged in it.

Unfortunately, only one in five families have an educational program to prepare the next generation, despite 60% reporting that readying the next generation for responsible ownership was a key concern.



REGIONAL VIEW

Family constitutions have been more heavily adopted by families in Latin America (48%), probably because they have been perceived as representing best practice in this region for some time. Leadership succession plans are much more common in Europe, the Middle East and Africa (38%) than in Latin America (a concerning 19%), possibly reflecting a greater experience with generational transitions. Finally, every region scores low on having family education programs for the next generation especially, with Europe, the Middle East and Africa and Latin America reporting alarming levels of "no" responses (74% and 71% respectively).

	APAC			EMEA		
	YES	WORKING ON IT	NO	YES	WORKING ON IT	NO
A family constitution or charter is in place	37%	24%	39%	16%	12%	72%
A family retreat is organized annually	30%	21%	49%	32%	0%	68%
A family leadership succession plan is in place	33%	35%	33%	38%	19%	42%
The family has an education program for the next generation	26%	19%	55%	19%	7%	74%

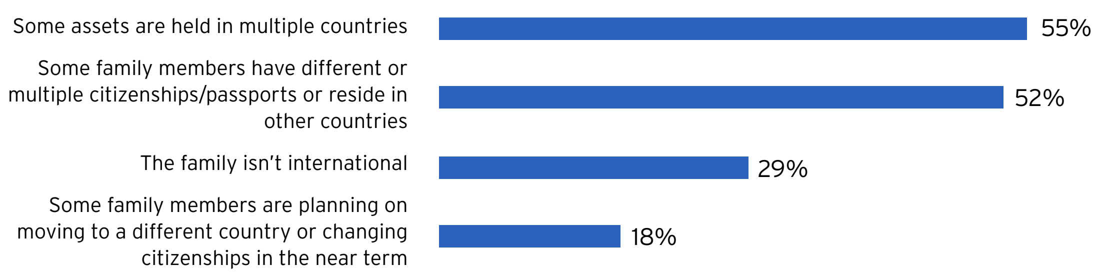
	LATAM			NAM		
	YES	WORKING ON IT	NO	YES	WORKING ON IT	NO
A family constitution or charter is in place	48%	16%	35%	26%	14%	60%
A family retreat is organized annually	29%	6%	65%	29%	9%	62%
A family leadership succession plan is in place	19%	28%	53%	24%	35%	41%
The family has an education program for the next generation	16%	13%	71%	22%	18%	60%

INTERNATIONALIZATION OF FAMILIES

As family offices take on the responsibility of serving ever more international family members, they face unique issues and challenges that include: tax and wealth transfer considerations, legal and regulatory complexity, privacy and data security, time zone and communication challenges, as well as cross-cultural dynamics that can lead to differences in decision making, communication styles and expectations.

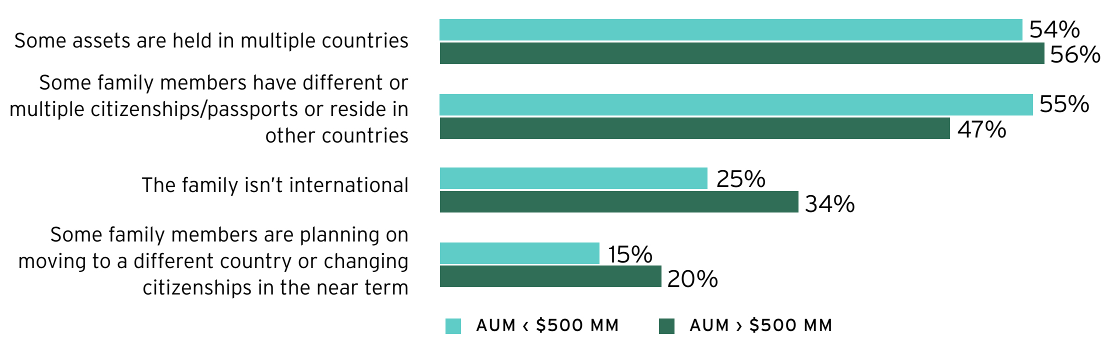
GLOBAL VIEW

Some 52% of families reported some family members with different or multiple citizenships or residencies, with 55% holding assets in multiple countries. Another 18% had some family members planning to move to another country or change citizenships in the near term.



AUM VIEW

It's interesting to note that there are no significant differences on these issues based on AUM, which reflects a generally globalized world where the internationalization is no longer inherent to larger families.



REGIONAL VIEW

As might be expected, families in North America were the least international (56%). Families in Latin America were the most international, with only 9% of respondents saying their families were not international. Some 31% of family members in Latin America were planning to move to a different country or change citizenship.

	GLOBAL	APAC	EMEA	LATAM	NAM
Some assets are held in multiple countries	55%	70%	76%	72%	30%
Some family members have different or multiple citizenships/passports or reside in other countries	52%	62%	55%	84%	30%
The family isn't international	29%	11%	14%	9%	56%
Some family members are planning on moving to a different country or changing citizenships in the near term	18%	23%	10%	31%	11%

FAMILY OFFICE PRIMARY CHALLENGES

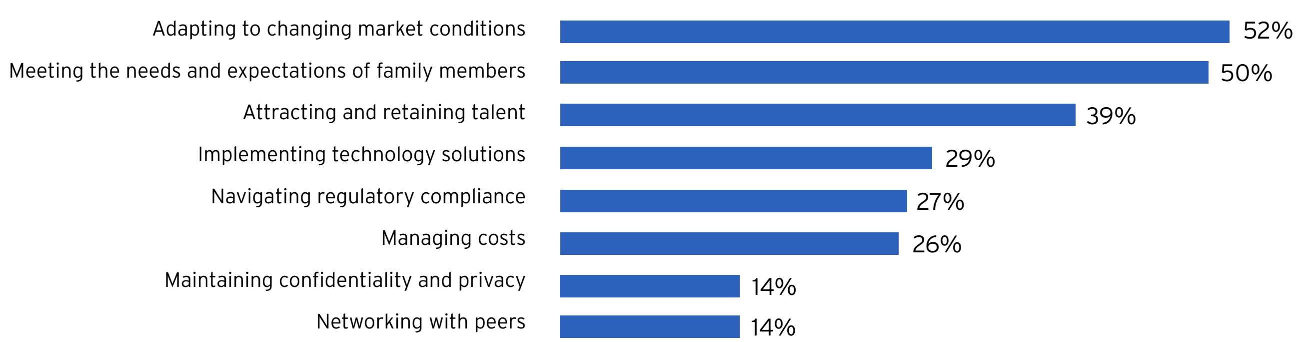
GLOBAL VIEW

Family offices reported a broad range of challenges, some perennial and others more relating to last year's market conditions.

Adapting to changing market conditions (52%) and meeting the needs and expectations of family members (50%) were the top two challenges reported. This reflects the difficulty of navigating uncertain financial markets while responding to the demands of changing families. Our recent research report produced in collaboration with Professor John Davis and the Cambridge Family Enterprise Group[1] characterized this situation as a "perfect storm." On one hand, family offices are facing external forces including financial and economic uncertainty, technological disruption, globalization and deglobalization. On the other hand, the families themselves are changing, becoming more international, increasingly transparent, inclusive and more focused on satisfying individual needs.

Attracting and retaining family office talent remained a prominent challenge (39%) given that demand continues to outpace supply. Many believed that less competition for similar talent from the broader financial industry – and especially from private equity and hedge fund firms – would make it easier to hire going forward. An expected recession – which has yet to materialize – was the main reason behind this belief.

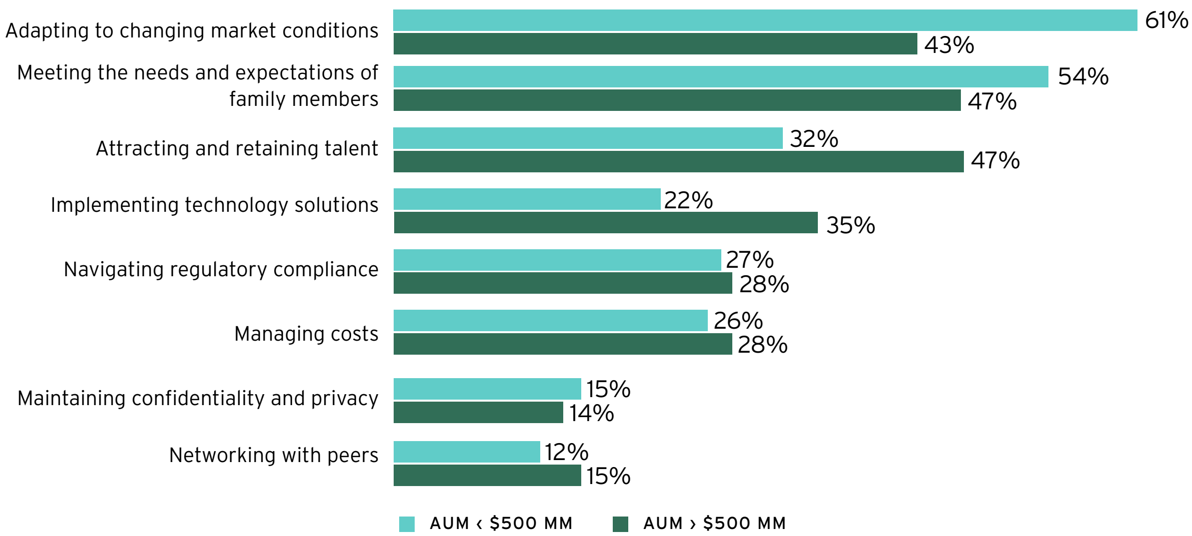
Networking with peers was not perceived to be a challenge.



[1] The future of family enterprise, turbulence and transformation in the 2020s – Citi Private Bank and the Cambridge Institute for Family Enterprise, Sep 2022

AUM VIEW

Attracting and retaining talent was an even bigger issue for larger family offices than smaller ones (47% vs 32%), most likely reflecting broader hiring needs. For smaller counterparts, adapting to changing market conditions was a greater challenge (61% vs 43%), probably a function of having fewer resources.



REGIONAL VIEW

Family offices worldwide were broadly in agreement over their leading challenges. That said, there were some disparities. For example, those in Asia Pacific were notably more concerned about adapting to changing market conditions than those in Latin America (61% vs 35%). Family offices in Europe, the Middle East and Africa cited attracting and retaining talent almost twice as much as their counterparts in Latin America (50% vs 26%.) Likewise, meeting the needs and expectations of family members was even more pressing in Latin America (68%) than in Asia Pacific (39%).

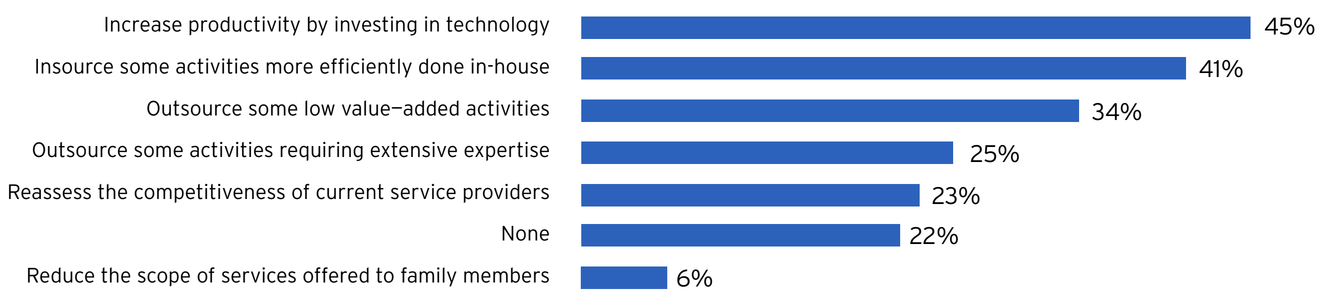
	GLOBAL	APAC	EMEA	LATAM	NAM
Adapting to changing market conditions	52%	61%	43%	35%	57%
Meeting the needs and expectations of family members	50%	39%	57%	68%	46%
Attracting and retaining talent	39%	39%	50%	26%	42%
Implementing technology solutions	29%	24%	36%	29%	29%
Navigating regulatory compliance	27%	30%	39%	29%	18%
Managing costs	26%	24%	25%	32%	26%
Maintaining confidentiality and privacy	14%	17%	14%	13%	12%
Networking with peers	14%	13%	7%	10%	18%

FAMILY OFFICE COST MANAGEMENT

Family offices have been reporting rising costs principally resulting from payroll, technology and cybersecurity expenses. They are attempting to control them in various ways.

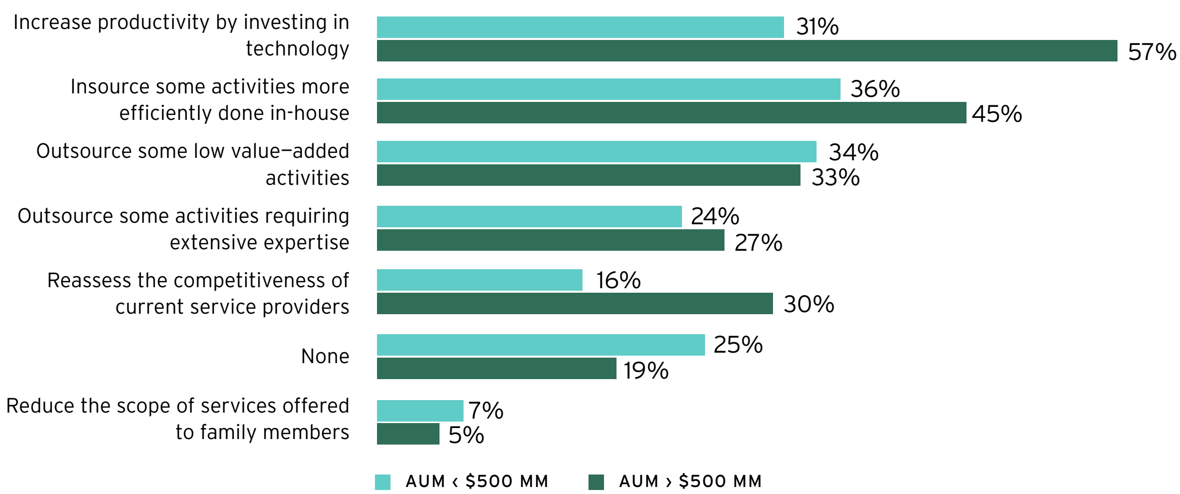
GLOBAL VIEW

Almost half have invested in technology to increase productivity (45%), and four in ten have taken some activities in-house (41%) or have outsourced some low value-added activities (34%). Some 23% have reassessed the competitiveness of their current service providers.



AUM VIEW

Larger family offices were much likelier than smaller entities to report seeking to boost productivity via technology investments (57% vs 31%), insourcing certain activities on efficiency grounds (45% vs 35%). Given the greater size of their AUM, they may well have more resources to fund these initiatives. They were also twice as likely to reassess their current service providers' competitiveness, which may also relate to their ability to take activities in-house or bear the time and cost of switching providers.



REGIONAL VIEW

Not only were family offices in Latin America likeliest (59%) to be considering or implementing technology investments but also insourcing some activities (47%). For North America, the equivalent figures were both at 36%. At the same time, entities in Latin America were much less likely than any other region to be reassessing the competitiveness of current service providers (6% vs 27% average elsewhere) and were twice as likely to revert to reducing the scope of services provided to family members (13% vs 4% elsewhere). This possibly reflects reluctance to incur inevitable switching costs.

	GLOBAL	APAC	EMEA	LATAM	NAM
Increase productivity by investing in technology	45%	46%	50%	59%	36%
Insource some activities more efficiently done in-house	41%	41%	46%	47%	36%
Outsource some low value–added activities	34%	37%	39%	25%	33%
Outsource some activities requiring extensive expertise	25%	30%	14%	28%	25%
Reassess the competitiveness of current service providers	23%	22%	32%	6%	28%
None	22%	15%	18%	19%	28%
Reduce the scope of services offered to family members	6%	0%	7%	13%	6%

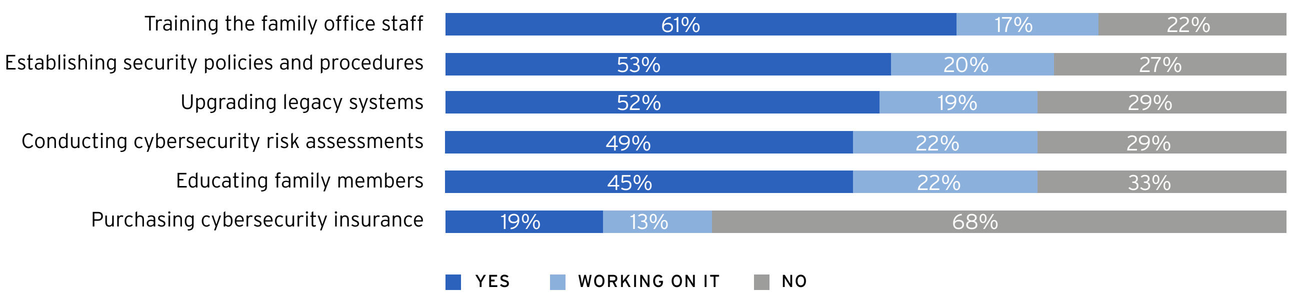
FAMILY OFFICE CYBERSECURITY MANAGEMENT

GLOBAL VIEW

To enhance cybersecurity, family offices reported pulling the right levers: technology, processes and people.

Family offices globally are upgrading legacy systems (52%), establishing security policies and procedures (53%), and increasingly training staff (61%) and educating family members (45%).

Notably, though, the use of cybersecurity insurance remained limited at 19%, probably reflecting lack of awareness of its existence among some family offices.



REGIONAL VIEW

Practices varied significantly, with family office staff in Europe, the Middle East and Africa receiving the most training (72%) and those in Latin America the least (45%). North America led the way in legacy system upgrades (67%), far ahead of Latin America (35%). Cybersecurity risk assessments were twice as frequent in North America (58%) than in Asia Pacific (29%). Purchasing cybersecurity insurance, meanwhile, was a trend in North America and Europe, the Middle East and Africa (31%) but not really a feature elsewhere.

	APAC			EMEA		
	YES	WORKING ON IT	NO	YES	WORKING ON IT	NO
Training the family office staff	53%	16%	31%	72%	14%	14%
Establishing security policies and procedures	37%	30%	33%	61%	21%	18%
Upgrading legacy systems	38%	27%	35%	56%	18%	26%
Conducting cybersecurity risk assessments	29%	38%	33%	64%	18%	18%
Educating family members	36%	32%	32%	52%	11%	37%
Purchasing cybersecurity insurance	4%	23%	73%	31%	15%	54%

	LATAM			NAM		
	YES	WORKING ON IT	NO	YES	WORKING ON IT	NO
Training the family office staff	45%	17%	38%	68%	19%	13%
Establishing security policies and procedures	57%	10%	33%	59%	16%	25%
Upgrading legacy systems	35%	17%	48%	67%	14%	19%
Conducting cybersecurity risk assessments	42%	19%	39%	58%	14%	28%
Educating family members	37%	20%	43%	51%	22%	27%
Purchasing cybersecurity insurance	0%	3%	97%	31%	11%	58%

Sustainable investing and philanthropic impact

Sustainable/Sustainability: In environmental science, the quality of not being harmful to the environment or depleting natural resources, and thereby supporting long–term ecological balance. Sustainability presumes that resources are finite and should be used conservatively and wisely with a view to long–term priorities and consequences of the ways in which resources are used. Within context of sustainable development, operating practices that meet the needs of present users without compromising the ability of future generations to meet their own needs, particularly with regard to use and waste of natural resources. UNESCO assigns four dimensions to sustainable development – society, environment, culture and economy.

Sustainability Risk: Risk of an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of an investment. The financial position of the investments in the portfolios managed by a portfolio manager may deteriorate due to the environmental, social or governance risks these investments are exposed to, which in turn may impact the market value of investments.

OVERVIEW

Sustainable investment allocations continue to show room for potential growth

Growing sustainability concerns and the broadening of themes and investment instruments are supporting change

The gap between interest and action in sustainable investments is starting to narrow

Families are seeking support to engage the next generation and plan philanthropic leadership succession

The gap between interest and action in sustainable investments remains significant. However, it is starting to narrow, thanks to growing sustainability concerns and the broadening of themes and instruments available for such investments. Just over half of respondents (51%) indicated that greater access to sustainable investment opportunities with competitive financial performance may further bridge this gap.

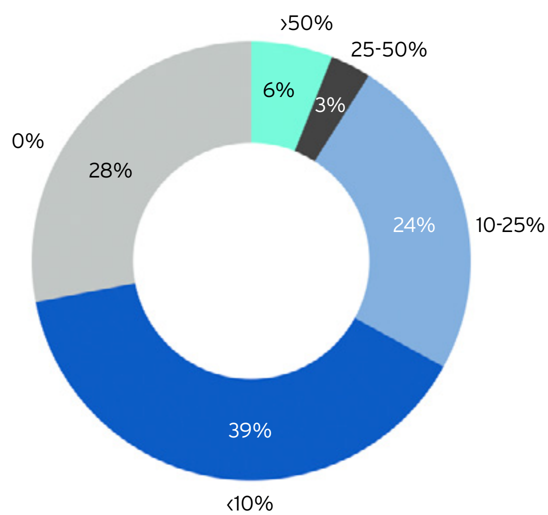
While the focus of philanthropy has yet to shift in line with the priorities of the younger generations, families are increasingly aware that a generational transition is coming. They are seeking support to engage the next generation and plan philanthropic leadership succession, and to integrate philanthropy as part of their wider wealth planning.

CAPITAL ALLOCATION TO SUSTAINABLE INVESTING

GLOBAL VIEW

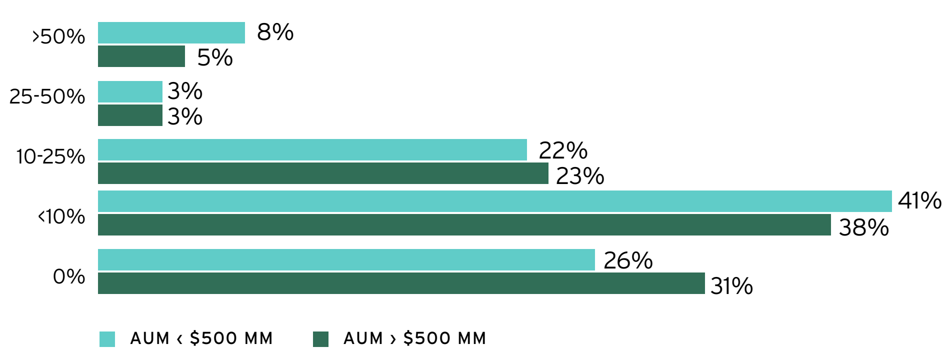
Sustainable investment allocations continue to show room for potential growth. However, the moderate increases in allocations since last year suggest momentum appears to be shifting.

Two-thirds of family offices have zero (28%) or less than 10% (39%) of their portfolios allocated to sustainable investments. This represents an improvement, since 77% of respondents fell into one of these categories last year.



AUM VIEW

Larger family offices accounted for somewhat more of those with no sustainable allocations than smaller entities (31% vs 26%). Smaller family offices were twice as likely to have more than 50% of their portfolios invested this way (8% vs 5%). This highlights that the commitment to sustainable investing is not correlated with asset size.



REGIONAL VIEW

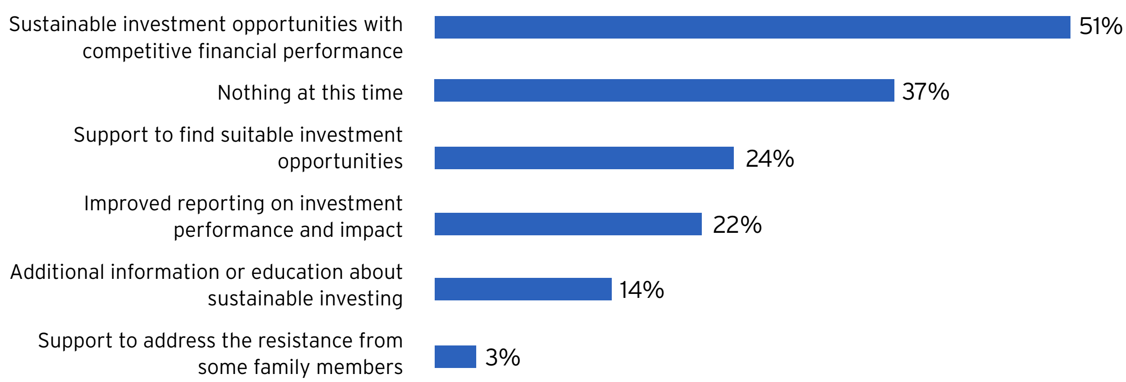
Strikingly, just 6% of family offices in Asia Pacific lacked any exposure to sustainable investments, compared to 45% of those in North America. Overall, North America has furthest to go here, with three-quarters of respondents reporting between 0% and 10% allocations.

	GLOBAL	APAC	EMEA	LATAM	NAM
>50%	6%	4%	3%	9%	7%
25-50%	3%	2%	10%	6%	0%
10-25%	24%	36%	20%	22%	18%
<10%	39%	52%	40%	38%	30%
0%	28%	6%	27%	25%	45%

DRIVERS OF INCREASING ALLOCATIONS TO SUSTAINABLE INVESTING

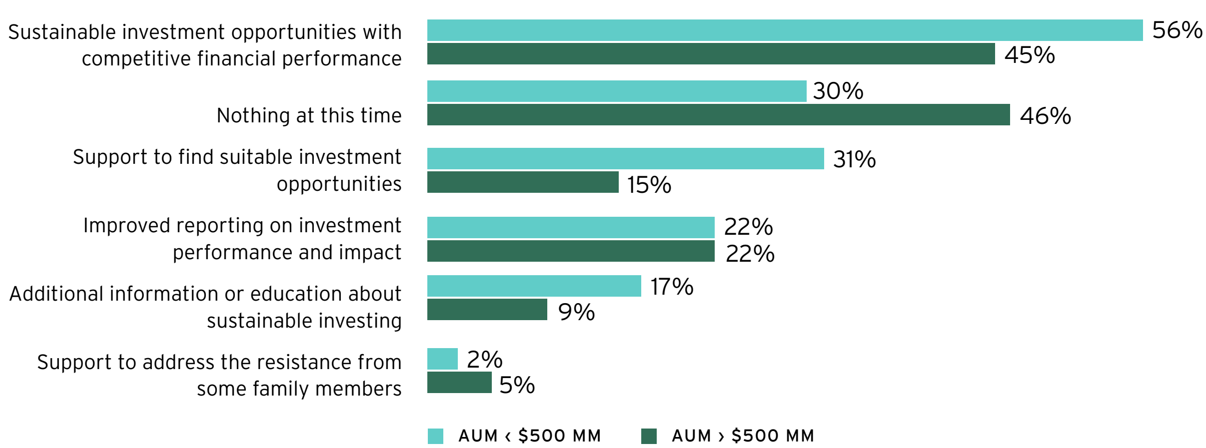
GLOBAL VIEW

The main factor that would lead respondents to raise their sustainable investment allocations was reported as finding potential opportunities with competitive financial performance (51%). It was also notable that 37% said nothing would persuade them to do so for now, perhaps because they feel they have done enough already or are still hesitant to embrace it altogether.



AUM VIEW

Larger family offices were much likelier than smaller entities to respond that nothing would lead them to increase their sustainable allocations at this time (46% to 30%), most likely reflecting that their current stance is rooted in high conviction. Smaller family offices cited finding sustainable investment opportunities with competitive financial performance even more than their larger counterparts (56% over 45%).



REGIONAL VIEW

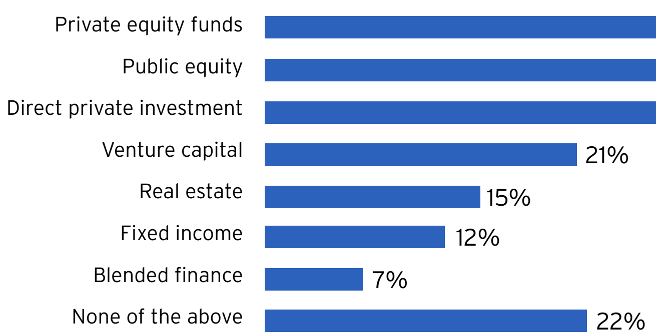
Of those responding that nothing would lead them to increase their sustainable investment allocations, North America family offices were well out in front (51% vs 30% average elsewhere). The fierce debate over sustainability and the regulations imposed in certain US states in relation to this area may have been an influence here. An alternative explanation is that many families may be satisfied with the commitments they have already made. A desire for sustainable investment opportunities with competitive financial performance was in evidence throughout all regions. Nearly one third of respondents in Europe, the Middle East and Africa, Asia Pacific and Latin America said they would benefit from support to find suitable investment opportunities, but this was less of a feature in North America (13%).

	GLOBAL	APAC	EMEA	LATAM	NAM
Sustainable investment opportunities with competitive financial performance	51%	51%	46%	53%	43%
Nothing at this time	37%	24%	39%	28%	51%
Support to find suitable investment opportunities	24%	30%	29%	34%	13%
Improved reporting on investment performance and impact	22%	27%	18%	31%	14%
Additional information or education about sustainable investing	14%	16%	14%	16%	7%
Support to address the resistance from some family members	3%	3%	4%	0%	6%

PREFERRED INVESTMENTS FOR SUSTAINABLE INVESTING

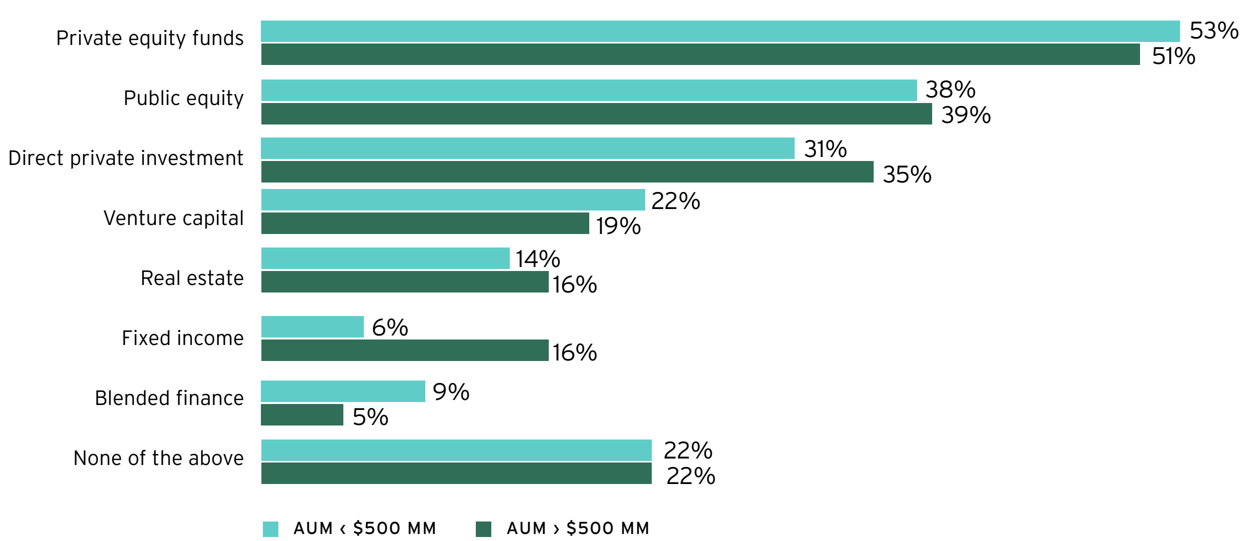
GLOBAL VIEW

With a broader-than-ever range of sustainable instruments on offer, respondents expressed a strong preference for investing sustainably via private equity funds (53%), public equity (39%) and direct investments (34%). Private asset classes are, of course, generally popular among family offices, which may offer a partial explanation. They may potentially also allow investors to have greater influence over and visibility into the sustainability agenda of the portfolio companies.



AUM VIEW

Between larger and smaller family offices, there were very similar preferences for the type of instruments used for sustainable investing. The most significant divergence occurred in relation to fixed income, where entities with over $500 million AUM were much more favorable to this asset class than smaller entities (16% vs 6%).



REGIONAL VIEW

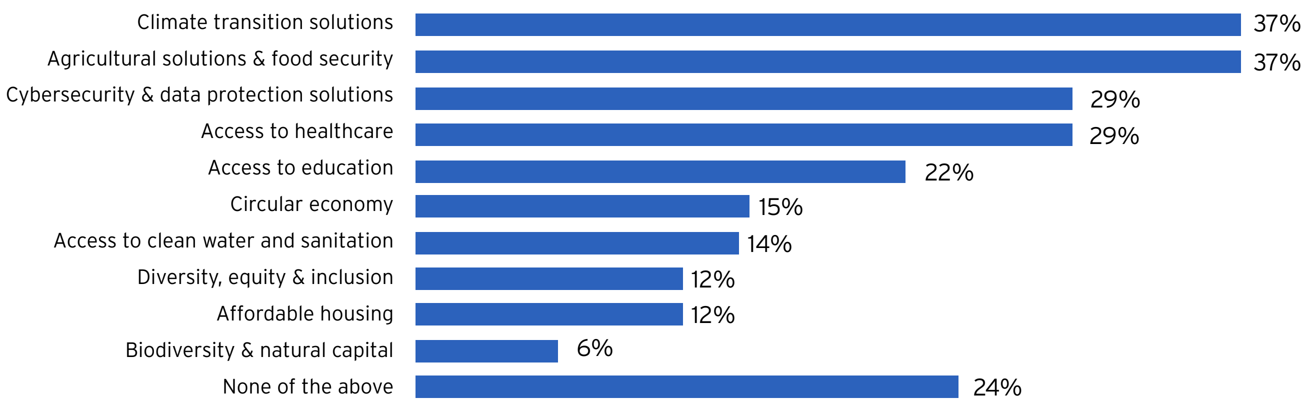
Regional responses were quite similar, with Europe, the Middle East and Africa particularly interested in private equity funds (63%) and real estate (26%), and Asia Pacific expressing the strongest preference for public equity (52%) relative to other regions.

	GLOBAL	APAC	EMEA	LATAM	NAM
Private equity funds	53%	57%	63%	60%	43%
Public equity	39%	52%	41%	43%	27%
Direct private investment	34%	33%	44%	40%	29%
Venture capital	21%	30%	30%	20%	13%
Real estate	15%	13%	26%	3%	17%
Fixed income	12%	17%	11%	13%	9%
Blended finance	7%	7%	7%	7%	7%
None of the above	22%	7%	26%	13%	34%

PREFERRED THEMES WITHIN SUSTAINABLE INVESTING

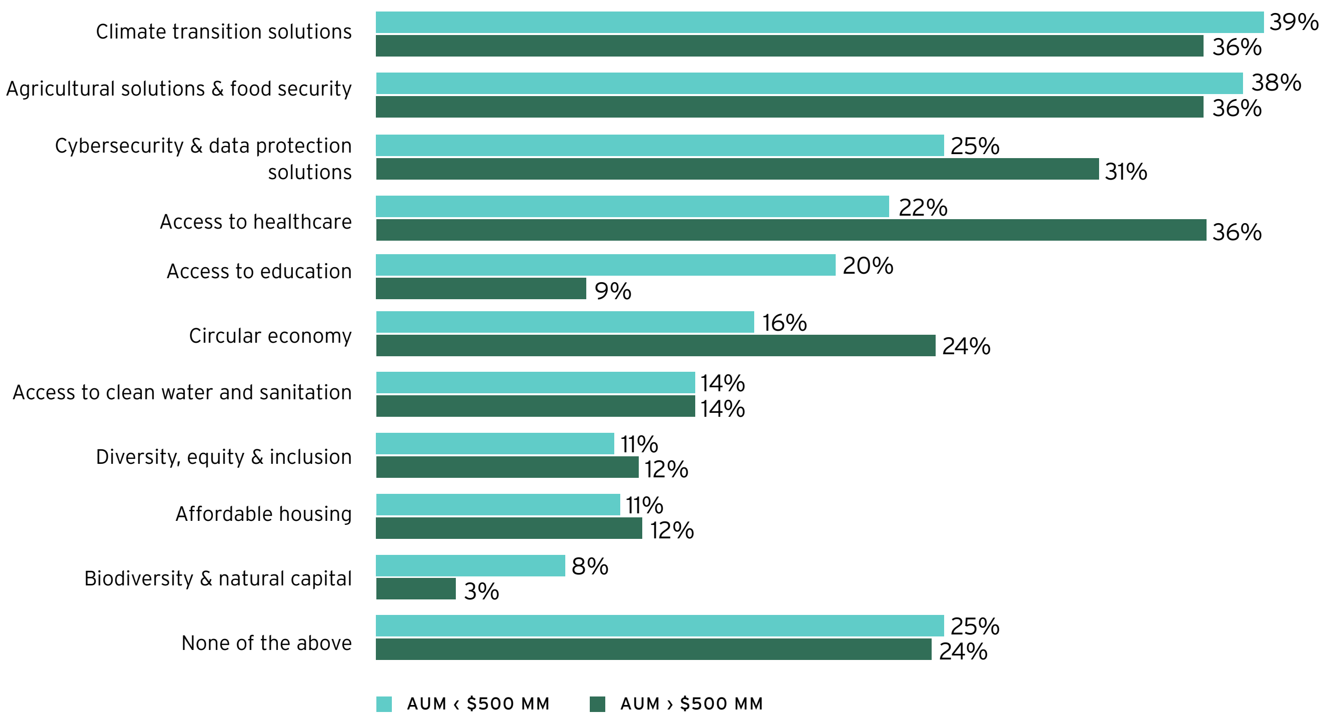
GLOBAL VIEW

Addressing the existential threat of climate change was the sustainable investment theme that most interested respondents (37%) alongside agricultural solutions and food security. Cybersecurity and healthcare access were also popular on around 29%. All four of these leading themes have links to Citi Global Wealth's longstanding Unstoppable Trends, which include the clean energy transition, managing the effect of aging populations and the need for digital security.



AUM VIEW

Areas of interest were mostly very similar between larger and smaller family offices. That said, those with more than $500 million AUM were more interested in cybersecurity (31% vs 25%), access to healthcare (36% vs 22%) and access to circular economy (24% vs 16%), managing the effect of aging populations and the need for digital security.



REGIONAL VIEW

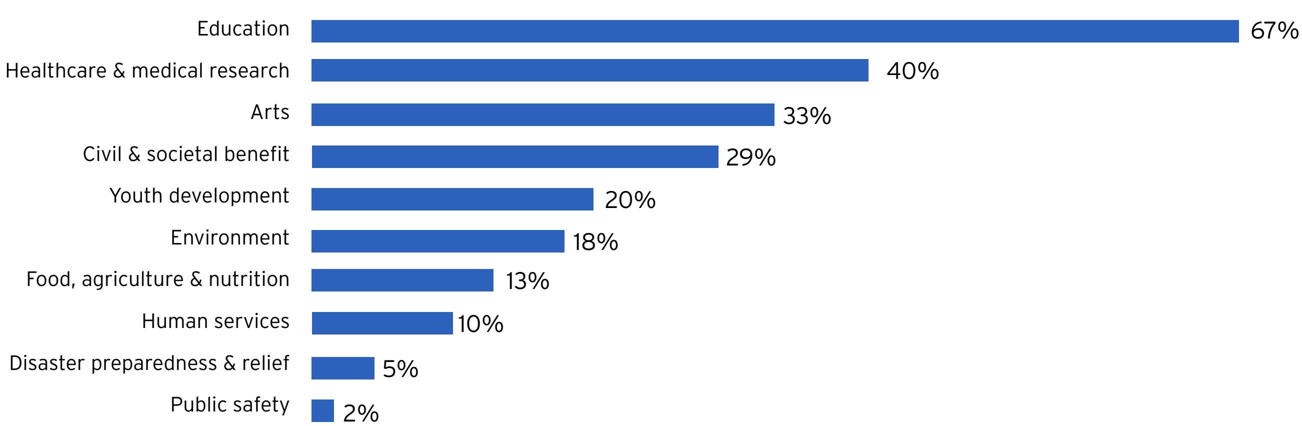
Europe, the Middle East and Africa's preference for climate transition solutions (50%) and agricultural solutions & food security (54%) is ahead of other regions, while Latin America led the way in the access to healthcare theme (40%).

	GLOBAL	APAC	EMEA	LATAM	NAM
Climate transition solutions	37%	41%	50%	43%	27%
Agricultural solutions & food security	37%	39%	54%	33%	30%
Cybersecurity & data protection solutions	29%	37%	32%	23%	26%
Access to healthcare	29%	35%	21%	40%	23%
Access to education	22%	17%	18%	33%	21%
Circular economy	15%	20%	21%	13%	10%
Access to clean water and sanitation	14%	20%	7%	20%	11%
Diversity, equity & inclusion	12%	15%	11%	7%	13%
Affordable housing	12%	9%	11%	7%	17%
Biodiversity & natural capital	6%	7%	11%	3%	6%
None of the above	24%	11%	18%	13%	40%

PHILANTHROPIC FOCUS

GLOBAL VIEW

Family philanthropic focus has held surprisingly steady despite the growing awareness for new causes needing support. Education (67%), healthcare & medical research (40%) and the arts (33%) remained the main areas of focus. Interestingly, environmental causes (18%) are a relatively lower priority despite the heightened awareness of climate change.



GENERATIONAL VIEW

However, it is interesting to note that the reported philanthropic focus on the environment increases with each generational wealth transfer, with 13% for the first, 20% for the second, 38% for the third and 43% for the fourth and beyond. We expect interest to grow further with the passage of time.

	GLOBAL	FIRST GENERATION	SECOND GENERATION	THIRD GENERATION	FOURTH GENERATION OR BEYOND
Education	67%	64%	69%	81%	86%
Healthcare & medical research	40%	44%	35%	38%	43%
Arts	33%	35%	31%	31%	29%
Civil & societal benefit	29%	27%	35%	25%	14%
Youth development	20%	22%	14%	25%	14%
Environment	18%	13%	20%	38%	43%
Food, agriculture & nutrition	13%	11%	18%	6%	29%
Human services	10%	11%	12%	0%	14%
Disaster preparedness & relief	5%	3%	8%	6%	0%
Public safety	2%	3%	0%	0%	0%

REGIONAL VIEW

Responses were strikingly similar across regions.

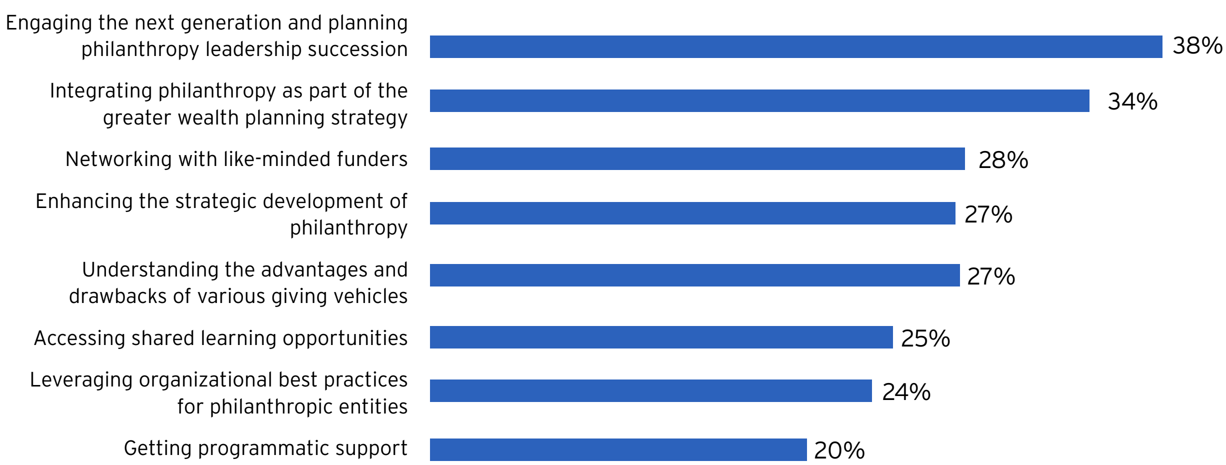
	GLOBAL	APAC	EMEA	LATAM	NAM
Education	67%	57%	64%	76%	72%
Healthcare & medical research	40%	43%	40%	34%	41%
Arts	33%	27%	40%	21%	39%
Civil & societal benefit	29%	18%	40%	38%	28%
Youth development	20%	20%	16%	10%	25%
Environment	18%	20%	12%	24%	17%
Food, agriculture & nutrition	13%	18%	16%	21%	6%
Human services	10%	9%	8%	10%	12%
Disaster preparedness & relief	5%	14%	0%	0%	3%
Public safety	2%	5%	0%	0%	1%

DRIVERS OF GREATER PHILANTHROPIC IMPACT

GLOBAL VIEW

In the context of this shift in philanthropic focus, the two leading areas where families report the need for support to be more impactful philanthropists are engaging the next generation and planning philanthropy leadership succession (38%) and integrating philanthropy as part of the greater wealth planning strategy (34%).

As previously noted in the Family office management and family governance section, engaging the next generation and preparing them to be responsible wealth owners is among the key family office concerns (60%). This emphasizes the point that generational engagement – whether in the family office or in philanthropy – is critical to sustaining family legacy but is still a work in progress.



GENERATIONAL VIEW

Families in which there have already been multiple generational transitions are more likely to include philanthropy in their estate and/or tax planning strategies. This is because of greater recognition of the need for such integration when the fourth generation is in control of the wealth (43%) than when the first is (29%).

	GLOBAL	FIRST GENERATION	SECOND GENERATION	THIRD GENERATION	FOURTH GENERATION OR BEYOND
Engaging the next generation and planning philanthropy leadership succession	38%	39%	33%	50%	43%
Integrating philanthropy as part of the greater wealth planning strategy	34%	29%	42%	33%	43%
Networking with like-minded funders	28%	33%	17%	33%	43%
Enhancing the strategic development of philanthropy	27%	32%	19%	33%	29%
Understanding the advantages and drawbacks of various giving vehicles	27%	29%	23%	33%	29%
Accessing shared learning opportunities	25%	32%	19%	33%	29%
Leveraging organizational best practices for philanthropic entities	24%	15%	29%	42%	57%
Getting programmatic support	20%	23%	21%	8%	0%

REGIONAL VIEW

Engaging the next generation and planning philanthropy leadership succession (55%) and integrating philanthropy as part of the greater wealth planning strategy (45%) were the most common responses in relation to increasing philanthropic impact in Europe, the Middle East and Africa. Family offices in North America mentioned leveraging organizational best practices for philanthropic entities more than twice as often as other regions (36% vs 16% elsewhere). Getting programmatic support was referenced by 29% of family offices in Asia Pacific (vs 17% on average in other regions).

	GLOBAL	APAC	EMEA	LATAM	NAM
Engaging the next generation and planning philanthropy leadership succession	38%	38%	55%	20%	41%
Integrating philanthropy as part of the greater wealth planning strategy	34%	24%	45%	48%	32%
Networking with like-minded funders	28%	33%	20%	24%	29%
Enhancing the strategic development of philanthropy	27%	36%	35%	16%	24%
Understanding the advantages and drawbacks of various giving vehicles	27%	33%	20%	32%	24%
Accessing shared learning opportunities	25%	24%	15%	24%	29%
Leveraging organizational best practices for philanthropic entities	24%	14%	15%	20%	36%
Getting programmatic support	20%	29%	20%	16%	15%

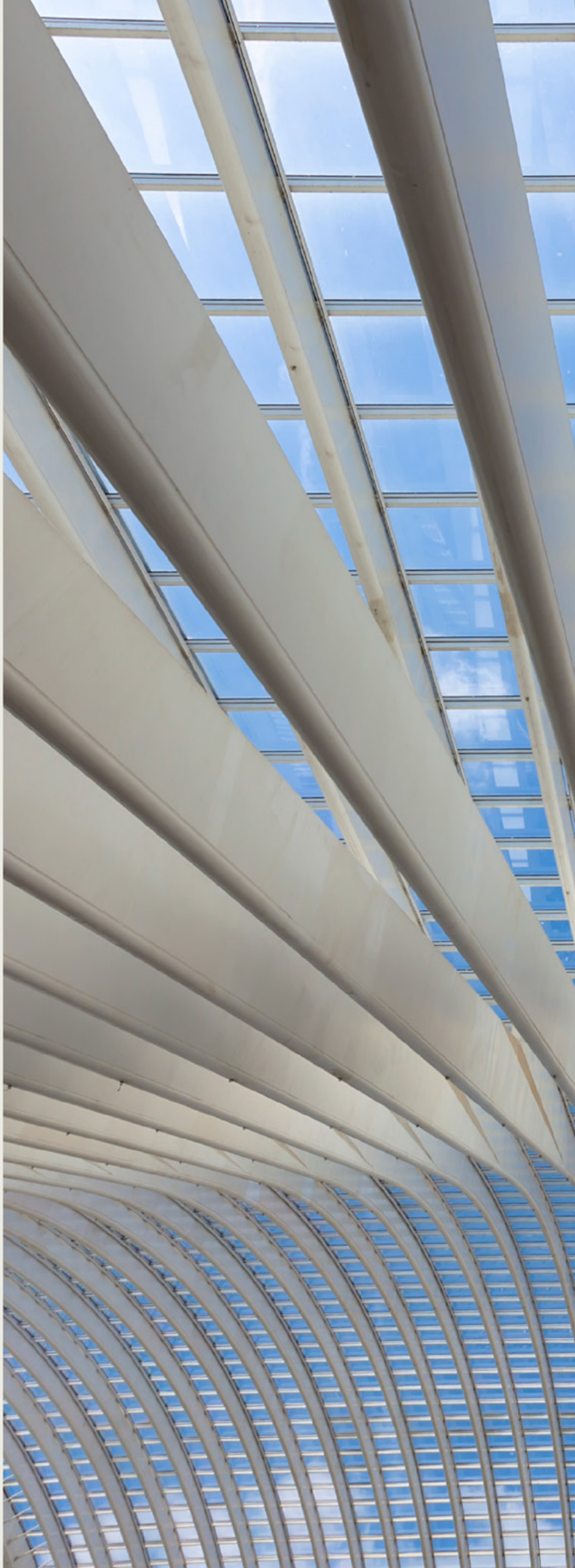
CIO view

DAVID BAILIN

Chief Investment Officer and Head of Citi Global Wealth Investments

STEVEN WIETING

Chief Investment Strategist & Chief Economist, Citi Global Wealth



Preserving wealth for future generations is a core strategic objective for family offices. To pursue this goal, successful family office leaders typically build portfolios that adapt to changing market conditions, seeking resilience and opportunity.

We are in a complex economic environment. With rates high in the US, and China facing structural economic headwinds, there are limitations to growth. A "rolling recession" — a slow-growth period with industries contracting at different times — has caused manufacturing to contract, while services are expanding slowly.

Many equity-oriented investors are waiting for something worse: a definitive and clear economic and market downstroke. We do not see that as likely. We also do not believe a rapid rise in unemployment is on the horizon but rather a cooling that reduces labor market gains to a crawl by early 2024. If that scenario proves correct, the Fed's focus would shift to lowering rates to support the economy.

In our view, this environment is ripe for fixed income investors to seek real returns. As 2024 comes into focus, we see potential yields of 5.5% to 10% available across investment grade through private credit assets. Family offices can thus seek to preserve wealth with yields that may exceed long-term inflation rates.

A sharp slowdown in inflation is unfolding, which is reducing the risk of central banks overtightening monetary policy. Falling inflation is boosting real consumer incomes and sentiment. We see US headline inflation dropping to 3.5% year-over-year at the end of 2023 and 2.5% or less year-over-year at the end of 2024.

Our valuation-based ten-year forecasts of asset class returns – or "strategic return estimates" – have risen after the synchronous equity and bond correction of 2022 – **figure 1**.

Figure 1:
Strategic return estimates: 2023 and 2022

ASSET CLASS	2023 SRE	2022 SRE
Developed market equities	7.0%	3.8%
Emerging market equities	12.9%	8.1%
Investment grade fixed income	4.6%	1.8%
High yield fixed income	7.4%	2.6%
Emerging market fixed income	7.8%	3.6%
Cash	3.4%	0.9%
Hedge funds	9.1%	4.1%
Private equity	17.6%	11.6%
Real estate	10.6%	8.8%
Commodities	2.4%	1.5%

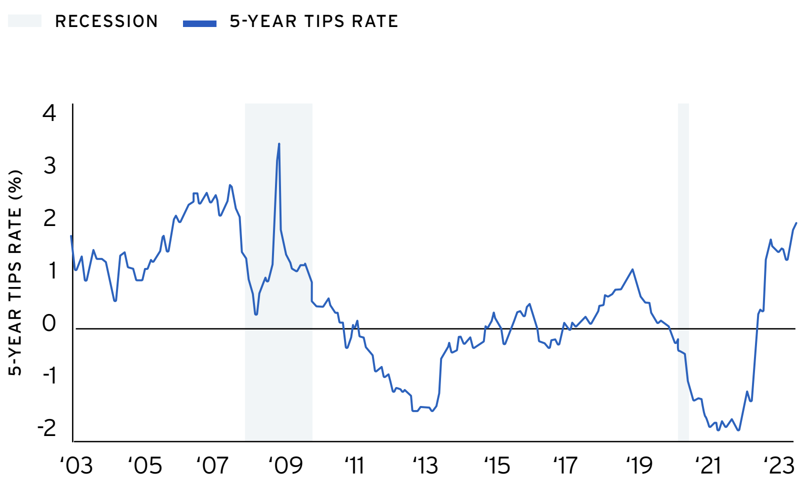
Source: Citi Global Wealth Investments. SREs for 2023 and 2022. Based on data as of October 31, 2022 and October 31, 2021, respectively. All estimates are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. Strategic Return Estimates are no guarantee of future performance. Past performance is no guarantee of future returns.

Strategic Return Estimates (SREs) are Citi Global Wealth Investments' forecast of returns for specific asset classes (to which the index belongs) over a 10—year time horizon. Indexes are used to proxy for each asset class. The forecast for each specific asset class is made using a proprietary methodology that is appropriate for that asset class. Equity asset classes utilize a proprietary forecasting methodology based on the assumption that equity valuations revert to their long—term trend over time. The methodology is built around specific valuation measures that require several stages of calculation. Assumptions on the projected growth of earnings and dividends are additionally applied to calculate the SRE of the equity asset class. Fixed Income asset class forecasts use a proprietary forecasting methodology that is based on current yield levels. Other asset classes utilize other specific forecasting methodologies.

SREs do not reflect the deduction of client fees and expenses. Past performance is not indicative of future results. Future rates of return cannot be predicted with certainty. Investments that pay higher rates of return are often subject to higher risk and greater potential loss in an extreme scenario. The actual rate of return on investments can vary widely. This includes the potential loss of principal on your investment. It is not possible to invest directly in an index. All SRE information shown above is hypothetical, not the actual performance of any client account. Hypothetical information reflects the application of a model methodology and selection of securities in hindsight. No hypothetical record can completely account for the impact of financial risk in actual trading. Adaptive Valuation Strategies (AVS) provide SREs and asset allocations profiles for multiple currency and geographic preferences.

Higher yields have allowed family offices to reconsider and adjust their asset allocation. Over half of family offices (51%) have increased their fixed income asset allocation over the past year. They are particularly bullish on global developed investment grade fixed income. Their shift aligns well to the message of our Mid-Year Wealth Outlook 2023. At such yield levels – **figure 2** – many bonds are a potentially valuable diversifier and defensive portfolio element.

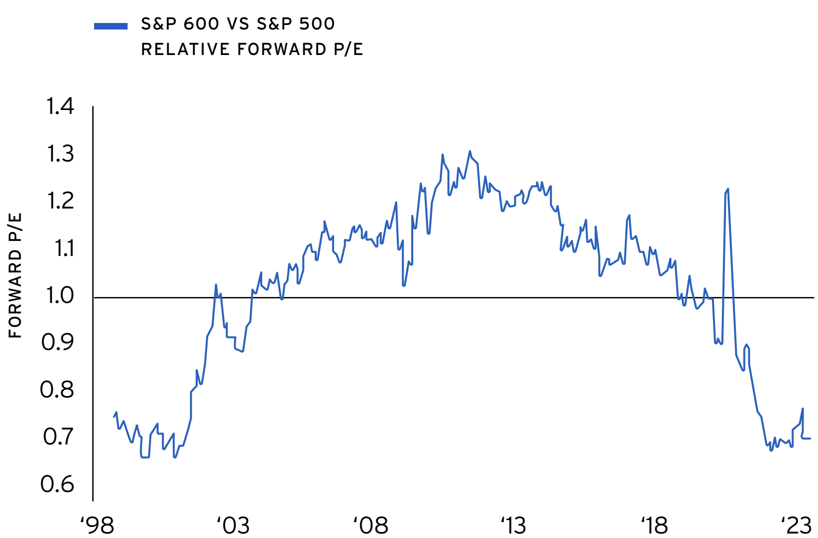
Figure 2:
Five-year TIPS yields have surged as inflation has slackened



Source: Haver Analytics as of August 4, 2023. Shaded areas are recessions.

Thirty-eight percent of family offices decreased their allocation to public equities over the past year. While we caution against market timing, we believe this is a time for value consciousness. The Nasdaq 100 and S&P 500 tech leaders' gains have rapidly driven those indices' valuations to high levels, with just seven AI stocks driving nearly half of global equities' gain this year. We think that this masks the relative value of mid-cap growth and international equities, which are trading as if no recovery were on the horizon for 2024 – **figure 3**.

Figure 3:
Profitable small- and mid-cap US equities have rarely been this cheap vs large-cap



Source: Bloomberg and Factset as of August 4, 2023. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future results.

Relative forward P/E is the forward P/E of the S&P 600 divided by the forward P/E of the S&P 500. Forward P/E is a valuation measure that calculates the ratio of the current share price to forecasted earnings.

The correction in 2022 and the unusual market conditions that exist today have created a set of long-term potential opportunities in alternative investments. For example, we believe private credit managers may see equity-like returns in debt markets over the next three to five years. In this year's survey, we saw a continued commitment to alternative investments, with 46% of total holdings held in private equity and credit, real estate and hedge funds. We also observed 38% of family offices reporting higher allocations to private equity.

We see less consensus in respondents' views on global developed and emerging equities. With a potential peak in the US dollar, we see scope to add non-US equities to core portfolios. The US dollar is just off its second-highest level in history. Non-US equities trade at a near-record valuation discount to the US of 39% based on 2023 earnings estimates.*

Overwhelmingly, family offices favor increasing exposure to technology (69%) and healthcare (58%). We could not agree with them more. Their views are aligned with two of our Unstoppable Trends from our 2023 Mid-Year Wealth Outlook: Digitization and Invest in Longevity, respectively. In particular, we expect that artificial intelligence will alter the world economy and the tech sector over the next few years.

Family office executives cited inflation, interest rate increases and US-China relations as their top-three economic concerns. Despite these critical risks, our respondents shared a favorable outlook for portfolio returns over the coming year. Nearly 95% of family offices expect positive returns in the coming year. This makes sense if the rolling recession does not become a full-blown recession.

Citi Global Wealth believes that focusing on equities and fixed income that offer high relative value is a potential course of action amid today's slow global growth. When bond markets normalize, we are likely to tilt more significantly toward equities overall. But under any circumstances, we suggest family offices consider staying or getting invested rather than attempting to time equity markets and holding too much cash in hope of a better entry point.

* Source: Factset, as of July 17, 2023.

All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events.

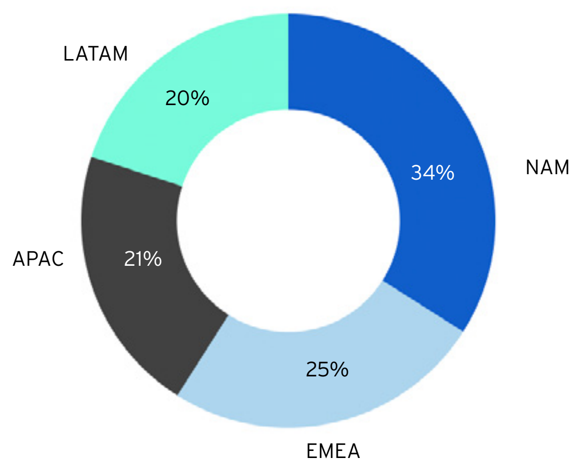
Survey particulars

Our 2023 survey was initiated during Citi Private Bank's 2023 Family Office Leadership Program on June 7. The survey was subsequently released to family office clients globally and was open for input until August 9.

The survey included over 40 questions aimed at understanding the investment sentiment, portfolio actions and family office operations of clients in 2023. It drew responses from 268 participants.

Family office respondents identified the primary geographic location of their family office. 21% of responses were from Asia Pacific, 25% of responses were from Europe, the Middle East and Africa, 20% of responses were from Latin America and 34% of responses were from North America.

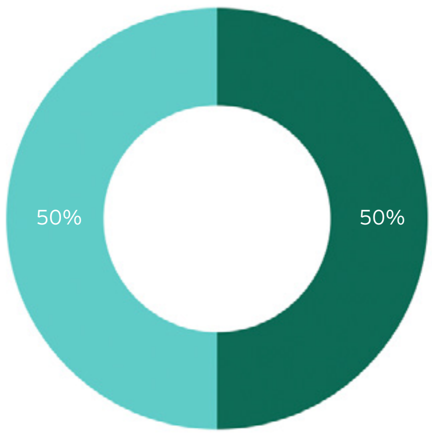
RESPONDENTS BY REGION



RESPONDENTS BY AUM

GLOBAL VIEW

For the survey, the US dollar was the valuation currency. Half of respondents had more than $500 million in assets under management (AUM) and the other half less.



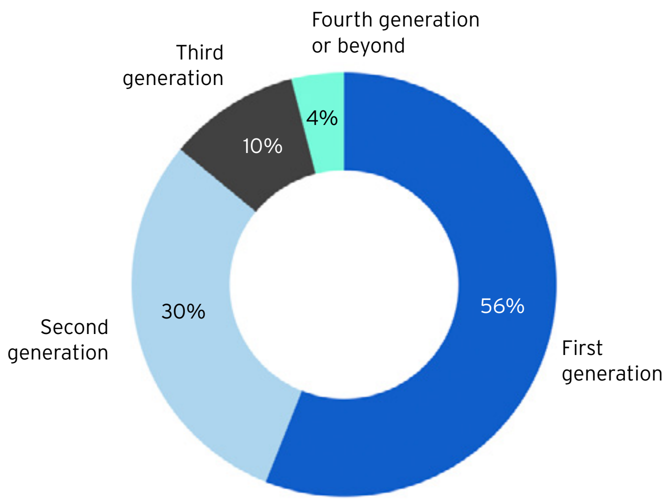
REGIONAL VIEW

	GLOBAL	APAC	EMEA	LATAM	NAM
AUM < $500MM	50%	62%	41%	65%	40%
AUM > $500MM	50%	38%	59%	35%	60%

GENERATIONS IN CONTROL OF THE WEALTH

GLOBAL VIEW

Overall, for over half of respondents the first generation who created the wealth is still in control. For another third, the wealth has already transitioned to their children.



REGIONAL VIEW

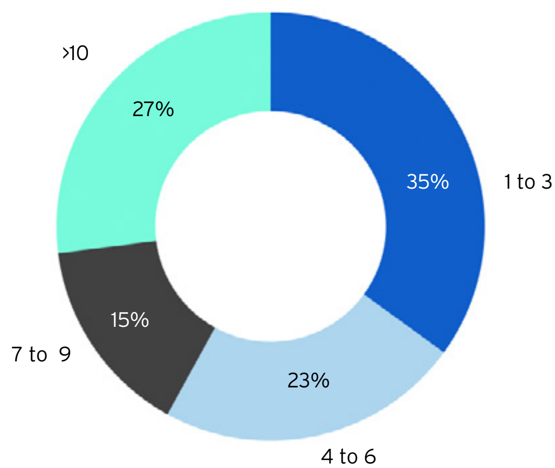
For around 60% of respondents from Asia Pacific, EMEA and North America, the first generation was in control of family wealth. In the case of Latin America, it was 41% first generation and 47% second generation.

	GLOBAL	APAC	EMEA	LATAM	NAM
First generation	56%	60%	60%	41%	60%
Second generation	30%	26%	25%	47%	26%
Third generation	10%	12%	6%	6%	11%
Fourth generation or beyond	4%	2%	9%	6%	3%

EMPLOYEES

GLOBAL VIEW

Despite their wide and great responsibilities, the average family office remains small with about seven employees, while 35% have less than three and 27% more than ten.



AUM VIEW

Intuitively, family offices with larger AUM were likelier to have more full-time professionals than those with less than $500 million. Some 41% of larger entities had ten or more professionals, versus just 12% of their smaller counterparts. Almost half of the latter reported having one to three employees, by contrast.

	AUM < $500 million	AUM > $500 million
1 to 3	47%	23%
4 to 6	30%	16%
7 to 9	11%	19%
>10	12%	41%

REGIONAL VIEW

Latin America has the greatest share of small family offices (25%). Europe, the Middle East and Africa has the greatest share of large family offices (37%).

	GLOBAL	APAC	EMEA	LATAM	NAM
1 to 3	35%	34%	25%	42%	37%
4 to 6	23%	34%	25%	11%	20%
7 to 9	15%	14%	13%	14%	18%
>10	27%	18%	37%	33%	25%

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QUARTERLY FAMILY OFFICE INVESTMENT REPORT

How are some of the world's most sophisticated investors positioning their portfolios?

We explore the recent asset allocation and portfolio moves of our family office clients globally.

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When hope is not a strategy: preparing children for significant wealth

Investment management best practices for family offices

About the Global Family Office Group

Citi Private Bank's Global Family Office Group serves single family offices, private investment companies and private holding companies, including family-owned enterprises and foundations, around the world.

We offer clients comprehensive private banking and family office advisory services, institutional access to global opportunities and connections to a community of like-minded peers.

For more information, please contact your Private Banker or the group head in your region.

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Glossary

Asset class definitions:

Global Developed Market Equity

The asset class is composed of MSCI indices capturing large-, mid- and small-cap representation across 18 individual developed markets countries, as weighted by the market capitalization of these countries. The composite covers approximately 95% of the free float-adjusted market capitalization in each country.

Global Emerging Market Equity

The asset class is composed of MSCI indices capturing large- and mid-cap representation across 20 individual emerging-market countries. The composite covers approximately 85% of the free float-adjusted market capitalization in each country. For the purposes of supplemental long-term historical data, local-market country indices are used wherever applicable.

Global Developed Investment Grade Fixed Income

The asset class is composed of Bloomberg Barclays indices capturing investment grade debt from twenty different local currency markets. The composite includes fixed-rate treasury, government-related, investment grade rated corporate and securitized bonds, and mortgage-backed securities from the developed-market issuers. Local market indices for US, UK and Japan are used for supplemental historical data.

Global High Yield Fixed Income

The asset class is composed of Bloomberg Barclays indices measuring the non-investment grade, fixed rate corporate bonds denominated in USD, GBP and EUR. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt. Ibbotson High Yield Index, a broad high yield index including bonds across the maturity spectrum, within the BB-B rated credit quality spectrum, included in the below-investment-grade universe, is used for supplemental historical data.

Global Emerging Market Fixed Income

The asset class is composed of Bloomberg Barclays indices measuring performance of fixed and floating rate US dollar denominated emerging markets sovereign debt for three different regions including Latin America, EMEA and Asia.

Cash

The asset class is represented by US 3-Month Government Bond TR, measuring the USD denominated active 3-month fixed-rate nominal debt issues by the US Treasury.

Hedge Funds

The asset class is composed of investment managers employing different investment styles as characterized by different subcategories — HFRI Equity Long/Short: Positions both long and short in primarily Equity and Equity-derivative securities; HFRI Credit: Positions in corporate Fixed Income securities; HFRI Event Driven: Positions in companies currently or prospectively involved in wide variety of corporate transactions; HFRI Relative Value: Positions based on a valuation discrepancy between multiple securities; HFRI Multi Strategy: Positions based on realization of a spread between related yield instruments; HFRI Macro: Positions based on movements in underlying economic variables and their impact on different markets; Barclays Trader CTA Index: The composite performance of established programs (Commodity Trading Advisors) with more than four years of performance history.

Private Equity

The asset class characteristics are driven by those for Developed Market Small-Cap Equities, adjusted for illiquidity, sector concentration and greater leverage.

Real Estate

The asset class contains all Equity REITs (US REITs and publicly-traded Real Estate companies) not designated as Timber REITs or Infrastructure REITs: NAREIT US REIT Index, NAREIT Canada REIT Index, NAREIT UK REIT Index, NAREIT Switzerland REIT Index, NAREIT Eurozone REIT Index, NAREIT Japan REIT Index, NAREIT Hong Kong REIT Index, NAREIT Singapore REIT Index, NAREIT Australia REIT Index.

Commodities

The asset class contains the index composites — GSCI Precious Metals Index, GSCI Energy Index, GSCI Industrial Metals Index and GSCI Agricultural Index — measuring investment performance in different markets, namely precious metals (e.g. gold, silver), energy commodities (e.g. oil, coal), industrial metals (e.g. copper, iron ore) and agricultural commodity (e.g. soy, coffee) respectively. Reuters/Jeffries CRB Spot Price Index, the TR/CC CRB Excess Return Index, an arithmetic average of commodity futures prices with monthly rebalancing, is used for supplemental historical data.

Index definitions:

Nasdaq 100 is a large-cap growth index consisting of 100 of the largest US and international nonfinancial companies listed on the Nasdaq Stock Market based on market capitalization.

S&P 500 Index is a capitalization-weighted index that includes a representative sample of 500 leading companies in leading industries of the US economy. Although the S&P 500 focuses on the large-cap segment of the market, with over 80% coverage of US equities, it is also an ideal proxy for the total market.

Other definitions:

Assets Under Management or AUM are the total market value of the investments that a person or entity handles on behalf of investors.

Strategic Return Estimates or SREs are based on Citi Global Wealth Investments' forecast of returns for specific asset classes (to which the index belongs) over a ten-year time horizon. The forecast for each specific asset class is made using a proprietary methodology based on the assumption that equity valuations revert to their long-term trend over time.

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