JULIUS BAER GROUP

Head Office
Bahnhofstrasse 36
P.O. Box
8010 Zurich
Switzerland
Telephone +41 (0) 58 888 1111
Fax +41 (0) 58 888 1122
www.juliusbaer.com

Julius Bär

FAMILY BAROMETER 2021

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“Now is the right time to think about starting a meaningful dialogue with your family and your chosen experts.”

GUY SIMONIUS

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A MEANINGFUL DIALOGUE

Since early 2020, we have found our lives shaped by Covid-19. The unprecedented restrictions experienced around the world have forced us to reconsider the things that truly matter, and we have all been reminded of importance and value of family.

This situation has also highlighted the increasing complexity of the world we now live in. We have all had to learn how to navigate the new social and regulatory landscape, which is no easy task given how frequently things are changing. As both a family man and a professional who has accompanied many families on their journeys over the past 30 years, I empathise with those who feel overwhelmed by the current situation. Managing these added complexities often robs us of precious time and energy, and makes it increasingly difficult for globalised and multi-generational families to make progress alone. They need a network of experts to move their family forward successfully.

However, perspective is important here. Each generation will face its own challenges and the experiences gained will help to inform our responses in the future. Julius Baer has been helping its clients to navigate through difficult times for more than 130 years. Our collective experience during that time has taught us many things, but one in particular: you are never alone. With the right expert help, there is always a trustworthy, reliable way to navigate through the difficulties.

Perhaps now is the right time to think about starting a meaningful dialogue with your family and your chosen experts. Experience shows that doing so can bring greater peace of mind and contentment, and can also help to mitigate conflict and bring a family closer together. That is why we are passionate about promoting open, honest dialogue around both financial and personal matters. For that reason, we commissioned a survey of more than 800 industry experts to shed light on the topics that families are discussing right now, from investments to governance, to learn where their concerns lie, and to explore how they make important decisions. Together with expert analysis and insight from our Julius Baer specialists, these responses form the heart of the second annual Julius Baer Family Barometer.

I hope that you and your family find this white paper both enjoyable and valuable, and we look forward to discussing its findings with you.

From our family to yours.
Guy Simonius, Head of Family Office Services

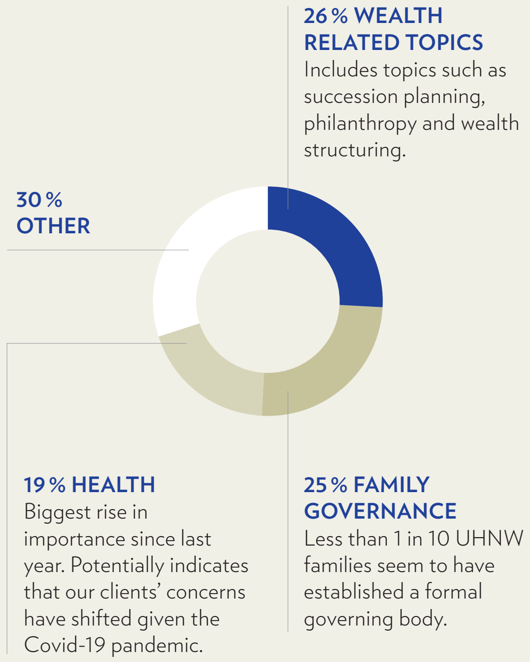
KEY FINDINGS

The past 12 months have seen a huge increase in complexity for global families. Travel and business have been disrupted, markets have been shaken, and health and family have raced up the priority list for the majority. It is hardly surprising, then, that the results of the Julius Baer Family Barometer 2021 have been coloured by the Covid-19 pandemic, particularly when it comes to wealth planning.

ALWAYS BE PREPARED

In 2020, the top three discussion topics 'beyond investments' for families were family wealth, family governance, and regulatory aspects. This year, family wealth-related topics and family governance continue to hold the top spots, with 26 per cent and 25 per cent respectively. However, health has replaced regulatory aspects as the third most important topic, with 19 per cent of respondents citing it as the most important topic for their clients. This rise is the biggest of any of the topics and indicates that the increased focus on health in recent months has translated directly into the discussions that our clients are having with their advisors. We expect to see this trend continue with families and individuals placing greater focus on jurisdictions with solid healthcare systems when it comes to choosing where they spend their time. Solid infrastructure and public services have taken on a new importance, particularly for multi-generational families, who will often have more at risk members within their ranks.

WHICH TOPIC IS **THE MOST IMPORTANT ONE BEYOND INVESTMENTS** FOR YOUR UHNW CLIENT FAMILIES?



The Barometer results show a sharp increase in interest in Direct Private Investments over the past five years, culminating in them ranking first in the list of investment discussion topics in 2021.

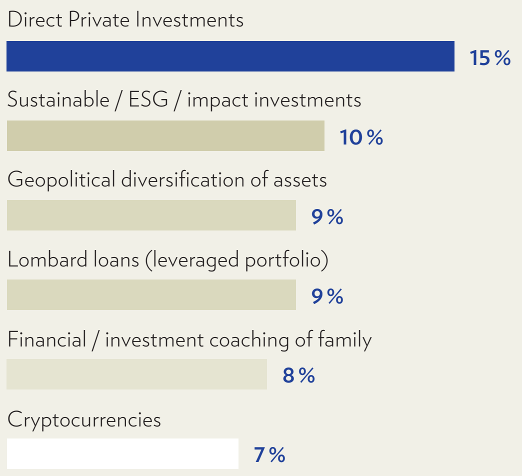
The continued dominance of family governance is to be expected and we predict that this will continue to be one of the main discussion points within global families for years to come. We are living in a time of unprecedented global wealth creation, and while this increase of wealth brings an increase in opportunities – the possibility to live in multiple locations, send your children to schools abroad, and operate your business internationally – each new opportunity adds an additional level of complexity. The best way to counter this growing complexity is with a clear framework for how the family operates, yet according to our experts they only see this type of formalised governing body in roughly one in ten ultra-high-net-worth (UHNW) families. Family governance is key to ensuring the financial and personal happiness of today's complex families (read more about this on page 10), and as the focus within these families shifts towards protection, preservation, and preparedness in the wake of the health crisis, we expect to see interest in family governance grow in the years to come.

Wealth-related topics include philanthropy, succession planning, and wealth structuring. Within this category, which has topped the ranking of important topics beyond wealth in this year's Barometer, we have seen philanthropy in particular growing in importance. Although it has been popular for a long time, thanks to the increased focus on helping others in the past year and the growth in sustainable and impact investing, demand for wealth and philanthropy solutions that combine good returns and doing good has never been higher.

MORE FOR YOUR MONEY

When it comes to investment topics, the pandemic has had less of a direct impact, with investment behaviour remaining relatively unchanged. Our surveyed experts have, however, seen an acceleration of existing trends and a shift in priorities here too. The Barometer results show a sharp increase in interest in Direct Private Investments over the past five years, culminating in them ranking first in the list of investment discussion topics in 2021.

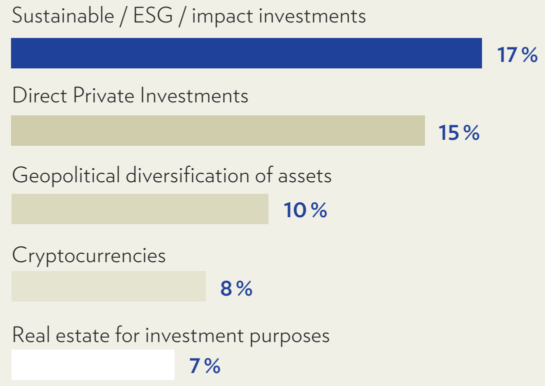
WHICH INVESTMENT RELATED TOPIC HAVE UHNW CLIENTS **INQUIRED ABOUT THE MOST** IN THE LAST 12 MONTHS?



ABOUT THE SURVEY

The Julius Baer Family Barometer is our yearly survey to gather the opinions of financial services experts working with UHNWIs and their families.

WHICH INVESTMENT RELATED TOPIC **HAS GROWN MOST IN IMPORTANCE** OVER THE LAST 5 YEARS?



There are a number of factors that have propelled private market investments to the fore in recent years. First, they offer exclusivity, and second, during times of market volatility such as we have experienced during the pandemic, they appear to be more stable, as investors do not see the price fluctuations as they would for liquid markets. In addition, many impact investments are private market investments, making it hardly surprising that these two investment topics appear together at the top of our survey this year.

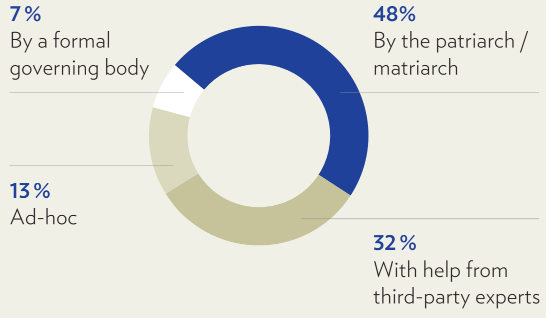
According to our findings, sustainable and impact investing and ESG-related topics have grown the most in terms of importance over the past five years when it comes to investing. They are also the second most important discussion area for UHNWs and their advisors in 2021, which is in line with the findings for the 'beyond investments' section of our survey. This trend is set to increase further as we see wealth transfer from Gen X to Millennials and then to Gen Z, who are much more concerned with operating in an environmentally and socially conscious way. For multi-generational families, there will be the potential for conflict here as the views held by each generation might be widely divergent, making good family governance and, potentially, the support of independent advisors even more important (read more about global families and investing in 2021 on page 10).

THE GENERATION GAME

Continuing the subject of generational differences, this year's Barometer included a number of new questions about how families interact with their advisors and how they make decisions. Our findings suggest that our surveyed experts see a number of opportunities in how UHNW families manage their affairs that could help them hugely. The survey indicates that in every second family, decisions are being made by just one person. Moreover, the overwhelming majority of specialists primarily engage with only the patriarch or the matriarch of a family.

As we have seen, younger generations likely have their own views on how the family money is managed, and including them more actively in the decision-making process could help families to ensure smoother transitions of wealth between generations when the time comes. Introducing younger generations of the family to trusted family advisors could also help the next generation to learn as they grow and give them a better understanding of not only the family's financial operations, but also their values and purpose (read more about family values and purpose on page 12). A family that is united behind a common goal is potentially more likely to enjoy greater success and happiness than one without.

HOW ARE SIGNIFICANT WEALTH-RELATED **DECISIONS BEYOND INVESTMENTS** MADE WITHIN YOUR UHNW CLIENT FAMILIES?



The past 12 months have been particularly difficult for everyone, and although an improvement in the global health crisis appears to be on the horizon, complexity will continue to grow for global families for the foreseeable future. The good news is that this complexity can be managed with the right combination of support, governance, and planning.

FAMILY MONEY

The pandemic may not have radically changed families' investment outlooks, but it has accelerated the growth of some trends that were already evident before last year.

Yves Bonzon

There is an expectation that following a major global event, such as the current Covid-19 pandemic, people change their investment behaviour. While we did see some short-term reactionary changes driven by market volatility, the long-term behaviour remains relatively unchanged.

From the results of this year's Julius Baer Family Barometer, we can see that while overall the investment behaviour of HNW and UHNW families has remained relatively stable, a few distinct themes have increased in prominence over the past 12 months, namely responsible investing and private market investments.

DEVELOPING TRENDS

The interest in ESG, sustainability, and impact is not a new trend but it is a relatively recent one that has accelerated at a huge rate. As the Barometer shows, this is one of the most enquired-about topics among HNW and UHNW families and the one that has grown most in interest in the past five years. Interest has certainly grown due to an increased focus on the environment and conscious practices since the onset of the pandemic, but younger generations of investors have been driving this trend for a number of years now and it will continue to grow long after the current situation settles.

The second-fastest-growing discussion topic is private investments. Many impact investments are private investments, so it is not surprising that these two topics appear together. There are a number of factors that play in favour of private investments at the moment. As we saw when the pandemic hit last year, liquid markets in particular can be tremendously volatile in the short run. That market-to-market volatility in a portfolio can make for sleepless nights for ultra-high-net-worth individuals as it is difficult for them to ignore, however hard we try to help them understand that it is a temporary phenomenon and actually an investment opportunity.

Many people assume that investing in public, liquid markets is difficult and risky, whereas private markets are much easier and safer, but this is not the case. Both have their advantages and disadvantages. However, with private investments you don't see the price fluctuation, so they feel much more stable. They also have an element of exclusivity around them as not everyone can invest in companies pre-IPO, and that exclusivity is driving the appetite for such investments among wealthy investors and families. While private markets are an important part of a HNWI's portfolio, they should not completely exclude or forget public equities as these have underappreciated merits.

A SHIFT IN PRIORITIES

The main change we have seen as a result of the pandemic is that it has shifted people's priorities. In the US, for example, many baby boomers have taken early retirement. Not only did their portfolios perform very well thanks to the swift reflation of markets by the Federal Reserve, which meant their net worth by the end of 2020 had substantially increased, but also they realised that there is more to life than work. The new focus on health and family during the pandemic, combined with the convenience of working from home, has pushed

considerations such as quality of life and family time much higher up people's lists of priorities.

While there have been common interests and developments among wealthy families, it is important to remember that they have highly idiosyncratic needs and so their individual situations and investment requirements continue to be very diverse. When you have large wealth to manage and handle, it requires a lot of time, attention, and care. The complexity is multiple times that of the average client or investor and it increases even further for families with multiple stakeholders who can hold different views. Making sure that everyone is in their comfort zone and aligned when it comes to how their money is managed is a complex problem to solve.

As a wealth manager, the first thing we have to do is understand the psychology of the families we are working with. The second step is to understand their life projects and their financial means so that we have a comprehensive view of their balance sheets, including the assets that we might not manage. For the families themselves, the most important thing they can do is ensure they have a good governance structure in place with very clear guidelines as to who is responsible and accountable for what. This will allow them to assess results and ensure everything is consistent with what the family wants to achieve. Only when this framework is in place can we work together with families to establish a strategy and deploy their capital effectively.

COMPLEXITY ABOUNDS

With UHNW investors, you can examine the granular detail of asset allocation in a far more specialised, focused, and complex way than you might with an investor with a smaller portfolio. The additional complexity will not make much of a difference on a USD 2 million portfolio in absolute terms. When it's on a USD 200 million portfolio, however, that extra complexity will, in dollar terms, make a difference. This is why having alignment and taking the time to regularly revisit strategic allocation across the entire opportunity set – from public and private markets across the whole asset class spectrum, including considering crypto-assets – is also very important for wealthy families and family offices today.
In order to manage all of these variables, having an experienced and trusted sparring partner can be beneficial, as they can help go into the finer details of strategy and asset allocation to best meet families' individual needs. They can also help to mitigate the effects of common pitfalls such as overconfidence, anchor bias (when an investor becomes fixated on a particular level of wealth, which can impair their ability to make pragmatic decisions regarding that wealth), or a lack of preparation that comes from a sudden liquidity event such as the IPO or sale of a company.

They can also help families navigate particularly difficult events such as periods of wealth transition. When it comes to investing there are not many differences between Millennials and Gen X – who still own majority of the wealth – or between Millennials and Gen Z. However, if money moves within a family from Gen X to Gen Z you will see bigger differences and potential conflict in how they think the money should be managed; independent mediation and guidance is often required to help preserve and grow the family wealth in these situations.

While the past 12 months have been unprecedented in many ways, the investment behaviour of HNW and UHNW families remains relatively unchanged and trends that were already developing before the pandemic continue to dominate. However, the pandemic has changed families' perspectives and complexity continues to grow for them. Having a trusted advisor in these uncertain times is more important than ever.

THE IMPORTANCE OF UHNW FAMILIES

Since the beginning of the century, we have witnessed unprecedented wealth creation. The most successful entrepreneurs around the world have built tremendous wealth in an incredibly short amount of time. Companies reach valuations in just a few years that would have taken the big players on the Nifty Fifty half a century to achieve. All this wealth has left a growing number of HNW and UHNW families.
This segment is of huge importance to Julius Baer, and not only for the inflow of net new money or assets under management. The complex and rapidly evolving needs of HNW and UHNW families force us to constantly adapt and improve; having these clients fosters innovation in our organisation. They play a hugely important role in keeping us at the forefront of wealth management.

ADDED VALUE

Setting up a clearly defined set of values can help families avoid the pitfalls that lead to so much family wealth drifting away over the course of generations.

"I see a lot of families who express their values through their purpose and philanthropy, although their investments are not aligned with their values or mission"

CAROLINE PIRAUD

Numerous studies have shown that, unless precautions are taken, the majority of family wealth can disappear by the third generation. So why are only a few families successful at preserving their wealth, and how do they manage it?

Those who succeed invest time in building up not only their financial capital, but also the social capital between family members. "In my experience, happy, successful families are not created by accident," says Caroline Piraud, who is responsible for Global Philanthropy Services at Julius Baer, "and the starting point for this is establishing a set of shared values."

Wealthy families today are increasingly global and multi-generational in nature, with younger members more independent than before. This often leads to a greater disparity between the experiences and values of individual family members than would have been found half a century ago. It is therefore more important than ever for families to grow their social capital and invest time in establishing a set of guiding principles to help them thrive in future generations.

The values that each family defines can serve as their compass – one which helps guide their decision making, whether it is of a financial, business, or philanthropic nature, or even to do with raising children. These values then serve to shape the family's purpose. This is a long-term goal that is shared across generations, and is something that becomes meaningful to younger family members as they educate themselves, begin taking decisions, and start thinking about the world beyond themselves.

But how do families define their values and, ultimately, their purpose? And once they have been established, how can it be ensured they live on?

"The first step is to engage an independent moderator," explains Piraud. "It is vitally important to have a neutral party to facilitate the discussions between family members." Before discussions begin, individual family members should take the time to define their own values. These can then be shared and, with the help of the moderator, refined within the family group to find those that resonate with everyone.

Establishing values that are supported by family members from different generations make them even more powerful, increasing their longevity and relevance. Yet everyone knows that finding agreement within families is not necessarily an easy task.

"Each family is different," Piraud continues. "Some are very egalitarian, some have more dominant characters, which is why it is important to ensure a platform is provided where everyone can have their say and be heard." A governance structure can provide such a platform. It is a framework that allows individuals' voices to be heard, involves them in the decision-making process, and helps everyone feel responsible and proud to be part of the family. Without a governance structure, the values of a family would likely be forgotten or lost, and the exercise would probably end in failure.

"A family's shared values form the basis for its governance," explains Guy Simonius, Head of Family Office Services at Julius Baer. "The governance itself provides the vehicle that allows the values to be translated into tangible actions." The values and purpose of the family are the fuel that powers the vehicle of the governance structure, and one doesn't work without the other.

These two symbiotic elements form a powerful tie that can help families to thrive for generations to come. Once in place, a governance structure leads to alignment and informed decision-making about how a family manages its wealth progressively, while allowing and supporting individual family members to flourish. By establishing a family governance structure, families are agreeing to evolve together and to leverage the family's position to everyone's mutual benefit.

"Money is time, and establishing a good family governance system based on values allows you to spend your time wisely," says Simonius. "The governance structure also helps to make sure the values and purpose remain valid for all members of the family. If they no longer seem to match, they can always be reassessed as and when the need arises."

DEMYSTIFYING FAMILY GOVERNANCE

Family governance is concerned with the running of a family; who makes the decisions for a family and how they make them. It can take many forms. Some families like to define everything in writing by compiling and signing a family charter, while others prefer formal or informal get-togethers to discuss plans for the next year. Another approach is to establish a 'family council' made up of key family members who can discuss strategies and make decisions. No matter what shape it takes, a family governance structure provides the framework that allows family members' voices to be heard and involves them in the decision-making process. In this way, everyone can feel responsible and proud to be a part of the family.

LEARNING THE ROPES

Philanthropy can serve as an ideal tool for realising a family's purpose, but it is also a great way to involve the next generation in family governance. Through philanthropy they can learn about financial matters, sharing, and responsibility, even if they are too young to become a member of the family governance structure or board at the time. Involving the next generation of a family at a young age instils pride, responsibility, and identification with the family brand.

ALIGNING YOUR WEALTH WITH YOUR VALUES

"I see a lot of families who express their values through their purpose and philanthropy, although while their investments are not aligned with their values or mission," says Caroline Piraud. "This approach simply does not make sense. Luckily, the younger generation are more aware of this contradiction and are more interested in aligning their investments with their values. In the years to come, I expect to see much more cohesion between actions and values, which will lead to more mission-aligned investing."

MULTI-FAMILY OFFICES COME OF AGE

As the number of high and ultra-high-net-worth families across the globe continues to rise, multi-family offices are seeing their assets under management grow and their expertise increasingly in demand. The challenge they now face will be to service this trend without sacrificing the high-end personal touch that is so attractive to clients.

The growth in multi-family offices (MFOs) is today's biggest trend in wealth management. However, managing the complex, increasingly international, and often multi-generational affairs of today's wealthy families is no simple matter. UHNW entrepreneurs from the US to Asia, as well as Europe's multi-generational wealthy, are looking for bespoke investment guidance, as well as trusted advice on areas including family governance, succession, and philanthropy, in order to gain a holistic perspective across their financial, private, and digital assets.

This is where the advice and services provided by family and multi-family offices can help. Catering to the growing needs of the 21st-century ultra-wealthy, MFOs are ideally placed to assist families with these complex tasks. They are mastering the growing diversity and intricacy of investments, harnessing the efficiencies of new technology, and grasping the internationalisation of families' lives – all without sacrificing the essence of deeply personal service.

"The biggest trend among family offices is the MFO," remarks David Reymond, Julius Baer's Head Intermediaries APAC & EMEA. "For individual families with less than USD 1 billion, the overheads of running a single-family office can become disproportional and prohibitive. Given these commercial dynamics, MFOs have become fashionable and their economics viable. More of them are also becoming increasingly international, as geographical reach and scale have become more important."

DEFINING THE MULTI-FAMILY OFFICE

Family offices are split into two different types – the single-family office and multi-family office (MFO). While the single-family office exists to manage the assets and affairs of just one family, the MFO looks after several families. A private MFO is owned by several families and operated for their benefit; a commercial MFO belongs to a third party and is run as a business.

ASIA LEADS EXPANSION

For the past 30 years, family offices have flourished, reflecting the boom in entrepreneurial wealth. The increasing number of billionaires globally and their expanding wealth illustrate the phenomenon vividly, although it applies equally to those with more modest incomes. According to Forbes' 35th annual list of billionaires, there were 2,755 billionaires globally in 2021, worth USD 8 trillion. That compares with 140 billionaires worth a combined USD 220 billion at the time of the first Forbes list in 1987. This growth has chiefly been fuelled by business success in the tech sector and China, although relentlessly rising asset prices play a part.

It is estimated by various organisations that there are about 6,500 family offices today. Just under a quarter – around 1,500 – are thought to be MFOs. While their numbers are growing in Asia and the Middle East on the back of the strong wealth creation cycle, there is more of a consolidation in Europe and the US, as existing MFOs merge in an effort to exploit synergies, complement competencies, and achieve economies of scale. Globally, while the absolute number of MFOs appears to only be increasing slightly, the assets they manage are growing significantly, according to Reymond.

SENSITIVE EVOLUTION

As families get wealthier, the business of looking after their complex, nuanced, and highly personal activities is becoming more demanding. "One of the big challenges will be if and how MFOs are able to scale up," says Reymond. "As your business grows and your clients' needs become more diverse, how can you still maintain a bespoke approach for each client in a way that's economic? How can you evolve from something that is small and highly personalised to something that's larger and still retains the personalisation that's at the core of family office services?"

As their clients acquire assets in different parts of the world, so MFOs are opening new offices to service existing clients effectively and reach out to new clients. Broadly speaking, we can observe trends of Asian MFOs opening in other parts of Asia and Europe, Swiss MFOs opening in Europe and Asia, and UK MFOs opening in continental Europe as they adapt to Brexit's inconveniences. Further, US MFOs are opening in all regions. By way of example, Singapore-based Taurus Wealth has offices in Dubai, Zurich, and London, while among UK MFOs London & Capital is expanding to Barcelona, Saranac Partners to Madrid, and Plurimi Wealth to Dubai.

There is also a growing need for MFOs to offer a more holistic set of services. In the field of investment alone, the range of utilised asset classes has widened from public to private markets, arguably meaning that it is no longer possible to offer best-in-class investment management without being able to cover areas such as private equity, hedge funds, and direct investments, in addition to the public markets of equities, bonds, and commodities. Beyond that, there is family governance, succession, and tax planning, as well as a widening range of options for philanthropy. While certain services such as wealth planning can be outsourced, much of this expertise must reside in-house.

SMART TECHNOLOGY'S KEY ROLE

Technology will play a huge role in helping to facilitate the scaling-up of MFOs. For a start, client reporting and investment reporting must be done more regularly and to a higher standard, which requires automation and digital communication. Then there is risk management. As regulatory reporting becomes more demanding in many jurisdictions, so technology can simplify the task. And finally, keeping track of a multi-asset portfolio is no longer possible without a best-in-class portfolio management system.

Smart application of technology across MFOs simply makes it possible to manage and administer larger and more diverse organisations, without being distracted from servicing the client. Those that do not embrace technology, especially the latest portfolio management systems, risk being left behind.

"Technology may be boring to talk about, but the move to internationalisation and more holistic services means that MFOs are growing in size and complexity," notes Reymond. "Manual administration is no longer good enough, so how do you deploy tech in a smart way? Elevating it is very important."

DIFFERENTIATING TOMORROW'S SUPER-BOUTIQUES

It seems that MFOs are set for sustained growth, especially in Asia and selected emerging markets where the momentum of new wealth creation is strongest. But as they grow, a number of super-boutiques are likely to emerge with the international presence, holistic capabilities, and technology to service their clients' increasingly complex needs in different regions of the world.

"The industry is clearly set for growth in line with the ever increasing population of wealthy individuals, especially in Asia," says Reymond. "Being sufficiently large to matter but still small enough to care will be essential for MFOs to differentiate themselves in such a competitive environment."

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