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TRENDS AND CONSIDERATIONS FOR FAMILY OFFICES IN 2024

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INTRODUCTION

Family offices face a range of opportunities and risks. These can be influenced by various factors, including market conditions, regulatory changes, and family dynamics.

Despite the market challenges in 2023, there will be both opportunities and risks that will confront family offices in 2024. Those family offices that embrace the opportunities and appropriately manage the risks, will be major beneficiaries in 2024.

Here's an overview:

OPPORTUNITIES: 1.WEALTH PRESERVATION AND GROWTH

- In 2024, family offices have the opportunity to preserve and grow family wealth through strategic investment decisions, diversified portfolios, and long-term financial planning. The family offices that place greater emphasis on this (that builds on the work performed in 2023) will have a greater capacity to preserve and grow wealth in 2024.
- For family offices who have concentrated investment portfolios, run the risk of unrealised losses if that particular asset class underperforms the broader market. Family offices that have a diversified investment portfolio will be more immune to market downturns in 2024.
- From a governance perspective, family offices which have an investment committee with independent board members will have a more holistic view of investments and broad investment opportunities in 2024.

2. CUSTOMISED INVESTMENT STRATEGIES:

- Family offices can tailor investment strategies to meet the specific needs and goals of the family and can take into consideration factors such as risk tolerance, time horizon, and philanthropic objectives.
- Our experience is that those family offices with a documented Investment Policy Statement (IPS) which is periodically (6 monthly) reviewed, generally outperform those family offices that have an ad hoc, reactive investment approach.
- The experience brought into family offices by having independent investment committee members cannot be underestimated. Family offices can be somewhat insular and unaware of broader market opportunities. Independent investment committee members can bring learnings and insights from their other experiences whilst respecting confidentiality of the other families they may act for.

3. DIRECT INVESTMENTS:

- Family offices can engage in direct investments, including private equity, venture capital, and real estate, providing the potential for higher returns and greater control over investments.
- In 2023 we saw more family offices directly investing rather than through managers. To ensure that family offices have the appropriate governance and risk management processes in place, we established an appropriate governance structure and risk management framework to ensure that all direct investments were appropriately scrutinised and aligned with the family's IPS. We expect more direct opportunities (in particular, private credit, private debt, private equity and venture capital) to come to market in 2024.
- For family offices that are looking at these direct opportunities, it is essential that they have the appropriate governance and risk management frameworks in place to minimise the risk of loss. Importantly, some investments can be a "lobster trap". Easy to get into but hard to get out of!

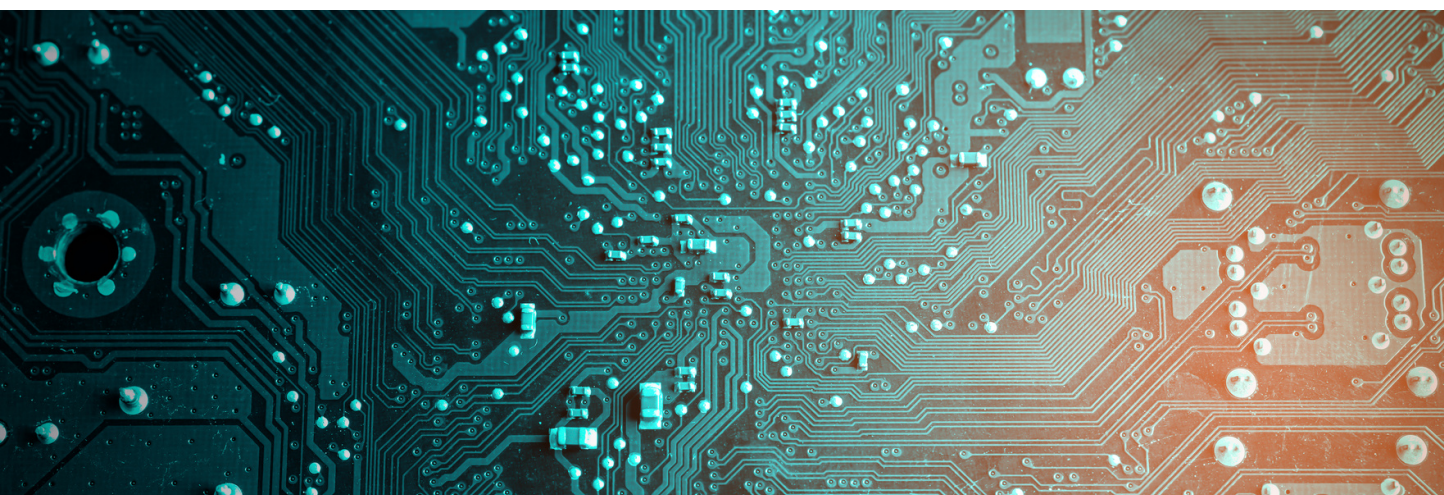
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4. GENERATIONAL WEALTH TRANSFER:

- Intergenerational transfers will be more prevalent in 2024 compared to prior years. With an aging population, many HNW families have or are in the process of planning for the large wealth transfer.
- What is it and what it looks like will differ from family to family. There is not set menu for intergenerational wealth transfers. As such a clear understanding of the parents' wishes and desires are needed before embarking on such transfers.
- If planned well, it will preserve family harmony and will also ensure that the family wealth is preserved for future generations. Ad hoc or not planned at all, will lead to family disharmony and potential erosion of family legacy and wealth.

5. TECHNOLOGY INTEGRATION AND ADVANCEMENT:

- Family offices have been increasingly adopting technology for wealth management, including advanced data analytics, artificial intelligence, and blockchain for security and transparency. We see this increasing in 2024 especially with the advancement of technology solutions.
- In 2024, increased reliance on digital platforms for communication, collaboration, and financial transactions will lead to further digitization and automation within family offices.



6. PHILANTHROPY AND IMPACT INVESTING:

- Family offices will increasingly integrate philanthropy and social responsibility into their overall strategy, aligning investments with family values and contributing to positive societal impact.
- The focus on sustainable and socially responsible investing has been growing. We don't see this trend slowing in 2024. Family offices will continue to explore impact investing opportunities, aligning investments with environmental, social, and governance (ESG) criteria.
- Family offices can play a key role in facilitating philanthropic initiatives and impact investing, aligning investments with the family's values, and contributing to positive social and environmental outcomes.
- Whilst there may be a reluctance of families to want to focus on these areas, it is clear that the next generations are focused on philanthropy and impact investing.
- What it means to each family is unique. There is no one set approach to ESG investing. Some families will only apply negative screens (e.g. no alcohol or tobacco investments) to their investments whereas others will apply both positive (e.g. social housing, climate focused investments) and negative screens.
- Some HNW families will create in 2024 their own charitable foundation for their philanthropic endeavours. Our experience is that those families that have established their own foundations have benefited through:
 - i. Improved family harmony as they are all pulling in the same direction.
 - ii. Increased engagement with the next generation.
 - iii. An acknowledgement that they have come from a privileged background and want to give back to the community.

7. FAMILY EDUCATION AND GOVERNANCE:

- What has been evident in 2023 and will become more prevalent in 2024 is the desire to provide the next generation with the tools to understand the inheritance that will come their way in the future.
- Education initiatives for family members, covering financial literacy and investment knowledge, will continue to gain importance. Effective communication within the family and with advisors will remain a priority.
- Opportunities in 2024 will exist to educate family members on financial literacy, investment strategies, and wealth management. Establishing effective family governance structures can promote unity and continuity.
- We have often been asked in 2023 as to whether there is a “course” the next generation can attend with the hope that it will solve all problems. The answer is that there is no such course. From our experience, the active engagement of the next generation in family board meetings, investment committee meetings and active engagement with independent board or investment committee members provides the best avenue for education of the next generation.
- We expect that more families in 2024 will commence on this path to providing and educating the next generation. What does get disclosed to the next generation (for example, the net wealth of the family) is something that needs to be determined on a case-by-case basis.



8. ACCESS TO EXCLUSIVE OPPORTUNITIES:

- Family offices often have access to exclusive investment opportunities, networks, and partnerships due to their close relationships with financial institutions and other high-net-worth families. This was prevalent in 2023 and is expected to continue in 2024.

9. CUSTOMIZATION AND FLEXIBILITY:

- Family offices often tailor their services to meet the unique needs of the family. In 2024 this trend will continue towards providing more customized and flexible wealth management solutions that provide the family with more reliable and informative data.



RISKS:

1. MARKET VOLATILITY:

- One of the major risks for family offices in 2024 is exposure to market risks, and fluctuations in financial markets which can impact the value of investment portfolios and overall wealth.
- Overconcentration in specific asset classes or industries can expose family offices to higher risks.
- This can be somewhat prevented through having a diversified investment portfolio with added protections within the portfolio to appropriately manage these market fluctuations.
- Given the uncertainties in global markets, family offices will require robust risk management strategies to protect and grow wealth, as well as enhance their resilience to economic downturns.



2. REGULATORY COMPLIANCE RISKS:

- Changes in tax laws, regulations, and compliance requirements can impact the structuring and management of family office investments. Whilst changes in the tax or regulatory environment can't be controlled as they are imposed at the whim of Federal or State Governments, by having appropriate advisers on the family board or investment committee with a broad skill set, then these matters can be addressed quickly and appropriately managed.

3. OPERATIONAL RISKS:

- Many family offices are under resourced and don't ensure that they have the internal and / or external resources available to ensure that operational risks don't eventuate. Inadequate operational infrastructure and cybersecurity vulnerabilities pose risks to the security and confidentiality of sensitive financial information.

4. SUCCESSION PLANNING CHALLENGES:

- Family offices may face challenges in succession planning, particularly if there are conflicts among family members or a lack of a clear plan for leadership transition. For 2024, we expect that succession planning will be on a hot topic warranting careful planning.
- Succession planning remains a key concern for many family offices. Efforts to address leadership transitions and governance structures will continue to be a priority.
- The absence of adequate planning leads to potential family conflict and disharmony. This has played out in some high-profile cases both domestically and internationally and will be front and centre again in 2024.
- Family offices must navigate complex family relationships and dynamics, which can impact decision-making and potentially lead to conflicts. In the absence of appropriate planning, there is an increased risk of family disharmony in 2024.



CONCLUSION

In 2024, successful family offices will actively manage these opportunities and risks, staying informed about market trends, adjusting strategies as needed, and fostering effective communication within the family and with external advisors.

It's essential to consider that the specifics of trends and developments in family offices in 2024 may vary based on economic conditions, regulatory changes, and other unforeseen factors. Staying informed about industry news and consulting with financial experts can provide more up-to-date insights into the evolving landscape of family offices.

Wising you all the very best in 2024!!

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