Best Practices in Institutional Family Office Investment Management

What We Have Learned from 20 Years of Family Office Investing Around the World

| Raphael Heynold; Stan Miranda |

The manner in which wealthy families manage their investment portfolios will remain as varied and diverse as the families themselves. There is no single template that will ensure that family wealth will continue to grow through investment performance whilst also guaranteeing a cohesive process suitable for each family member. Many family offices have been extraordinarily successful investors through generations, employing distinct investment structures and strategies. In such cases, long-term investment performance has rivalled that of the most successful endowment and foundation investors. In our experience, the most successful family offices have clearly codified their purpose, overall strategy, governance and investment strategy, and have aligned their resource level, structure and internal set-up with these. The aim of this paper is to provide you with a useful template to help you identify and fill any gaps in the structural and investment management of your own family office.

Large concentrations of wealth reside within family offices, which function as financial institutions. Family offices have historically been viewed as investment laggards when compared to leading endowments, foundations and even pensions. Today, that picture has changed. Whether families with a business, families with a philanthropic focus, or purely financial family offices, in this document we aim to summarise what we have concluded are the investment best practices that are most applicable to large family offices.

In contrast to pensions, endowments and foundations, family offices have unique goals and demands that complicate internal investment processes, often forcing tradeoffs between financial returns and family needs. As the requirements and risk profiles vary throughout generations, disagreements on strategy emerge between the family: the Principal can be idiosyncratic and not respect the family's established boundaries and the senior non-family member CEOs or CIOs frequently have relatively short-lived careers with family offices versus other financial institutions. As one recently appointed family office CEO put it, "the termination notice is already waiting in the Principal's drawer".

Throughout this whitepaper, for shorthand, we will refer to "The Principal" as the owner(s) of the capital, who we presume is actively involved as the leader of the family office. This may in fact be multiple family members, or may be a non-family CEO where family members are not present in the running of the family office.

Family office best practices have evolved to optimise across what were historically viewed as costly conflicting demands. Most notably, these include the potential capital requirements of the operating businesses and family beneficiaries with varying risk and return appetites and capital uses. To the extent that there are no operating businesses and there is a sole beneficiary or fully aligned beneficiaries, the family office has little reason not to adopt the investment best practices of the leading institutional investors, modified for the purpose, vision and mission for the family assets that the aligned asset owner sees.

Key Takeaways

The bulk of this white paper will elaborate on these five key lessons, which we present as the most important ingredients for managing a successful family office.

1) Long-term family office success emanates from a clear **purpose, vision and mission**. This will reflect the ambitions of the asset owner(s) and the impact they want to have. For complex family offices with operating businesses, financial assets and philanthropic activities, the mission and vision of each will be distinct.
2) The **overall strategy** for the family office is a direct logical extension of the vision for the family office and reflects corporation-like five-year plans with key initiatives, deliverables, deadlines and resources.
3) **Leadership and governance** should follow best practices of any organisation, including an agreed-upon Operating Agreement which guides decision making and calibrates optimal delegation to avoid stifling family office management. Governance often incorporates senior independent advisors or board members.
4) The **investment strategy** starts with the definition of distinct pools of capital and the owner's individual goals. These translate directly into specific investment strategies for each pool of capital which account for target returns, risk budget, illiquidity budget and asset allocation. The precise involvement of the Principal Owner and the perceived level of internal knowledge influence whether third-party managers are used (versus direct investing by the family office team).
5) **The team resource plan** emerges from the overall family strategy in #2 above. However, even the largest of family offices will have to tackle the tough "make versus buy" decisions which are tied to economic breakevens and the level of expertise that be procured internally without compromising on quality. Hybrid solutions combining internal and external expertise are often the most effective.

The World of Family Offices – Important Context

As global wealth has continued to grow, family offices have become an increasingly important segment of the investment landscape. According to estimates by Campden Wealth, family offices managed $5.5 trillion in 2019, whilst the family wealth behind them amounted to approximately $9.4 trillion. The term "family office" takes on many different guises. For the purpose of this note, we are generally referring to a professional structure created to manage the affairs of wealthy individuals and their family members, who usually employ non-family professional staff. The term "family office" is inherently a misnomer. In most cases, a family office is much more than just an office. In this document we translate the term to mean the founder's legacy which they usually want to see outlive themselves and be preserved in sufficient scale to be passed on to future generations. A family office is much more appropriately described as the "family organisation" or "family business" or even "family foundation". We will refer to it interchangeably in this paper as the family office or the family organisation.

The themes discussed here apply equally to a smaller family office, which may simply be a single multi-skilled administrative support person dealing with the business administration of family members, as they apply to a larger family organisation with multiple offices and a team which includes investment management, lawyers, accountants, property managers and philanthropy directors.

Partners Capital advises on over $48B of assets and operates from offices in London, Boston, New York, San Francisco, Paris, Singapore and Hong Kong with clients across the globe. Around 40% of the assets are managed on behalf of financially sophisticated private individuals or their family offices. Our 20+ years of experience working with some of the most sophisticated and demanding investors across the globe has shown us that the most effective practices to deploy depends on the specific circumstances and nature of the family office. So, readers should not think of this as a "one size fits all" set of recommendations, but rather a framework to aid any given family determine the most suitable approach for them. This paper does not address any structural issues, such as the best legal structure or domicile of a family office, as these are driven by each family's individual circumstances and go beyond our expertise as an independent investment manager. Hence, we focus exclusively on the key concerns surrounding the investment management of a family's financial assets.

A Word About Multi-Generational Family Offices

Family offices are most often initiated by the first-generation wealth creator with the goal of creating a vehicle for multi-generational wealth preservation and transfer. In rare cases, the first-generation Principal may seek to distribute the wealth to family members and philanthropic endeavors during their lifetime. This was precisely the "limited life" family model that Duty Free Shoppers co-founder, Chuck Feeney, established in the form of Atlantic Philanthropies. It is far more common that the family office is set up as a perpetual institution intended to preserve and transfer wealth through an unspecified number of generations beyond the life of the founder. We want to take a moment here to highlight one of the most important lessons we have learned as the key source of success for multi-generational transfer.

The incumbent Principal or Principals are most often focused on achieving the challenging objective of having some or all of their children actively involved in some way in perpetuating the family business or asset base beyond their generation; involved in a way that reinforces the positive relationships and union across siblings (and sometimes with cousins). This is challenging as that next generation generally has no desire to be "caged" inside the family organisation through strings attached to the capital. It is our observation that each successive generation will want financial independence over extreme wealth with strings attached to how the assets can be used or invested. The ideal outcome for the family may be one where family members have independent control of enough wealth that they feel they can leave their own children economically secure, and they feel a commitment to the family organisation by virtue of their family bond and because they identify with the purpose and vision of the family organisation.

Perhaps the biggest challenge in establishing the family office/organisation is around establishing its purpose. Ideally, that purpose would have each successive generation feeling proud to be contributing to the strengthening of the family organisation that provided their own family with financial security, for the benefit of future generations. So, the family organisation's purpose not only has to appeal to the Principal but to the next, and future, generations.

In many cases, we have seen the present controlling generation's Principal actively encouraging the next generation to set out early on to pursue their own career paths completely independent of the family's organisation and asset base, hoping that they will at some point in the future return to take up a role in the family business or family office. We see this as healthy and potentially essential to achieving the successful establishment of an everlasting family organisation. Without some measure of independent wealth, we often see family members "leaving the family" more permanently in pursuit of their own independent wealth creation careers, potentially alienated by the family office structure which leaves the family member without independent assets of their own. The family offices which have achieved the vision of multiple generations of family members actively engaged in the family organisation have generally been populated by family members with sufficient independent wealth to not feel trapped or caged inside the family organisation, but motivated to be engaged by non-financial factors like family union and the purpose, vision and mission of the family office.

This whitepaper aims to provide guidance on family office investment strategy, not on the complex set of human factors which will "glue" family members together for generations to come. We recognise that the management of such family relationship dynamics are far more important than how a family office manages its investment strategy, but our area of expertise resides in the investment arena. There are other skilled family office advisors who are better suited than us to advise on the human factors of family office management.

1) Purpose, Vision and Mission

Every organisation's long-term success is driven by how effective they are at executing the best strategy toward the achievement of a clearly defined vision. Family offices are no exception. What is often particularly challenging for family offices, however, is clearly defining its purpose. Family offices are often the next chapter in the life of the owners and builders of a successful business which had its own clear purpose and vision. The next chapter is likely to have a different purpose, mission and vision, which guides the family in its difficult decisions of how family assets will be allocated to a) provide for future generations, b) achieve ambitious philanthropic goals and c) to drive the family's operating businesses forward. Families often choose from one of these three purposes to dominate the others. They either choose to be a family primarily focused on providing for the financial security of future generations, a family focused on its impact on society or the environment, or a "family in business." However, many families successfully land on a clear articulation of a purpose that crosses all three of these with a clear hierarchy that effectively guides how resources will flow over the long-term.

There are two other "purpose" archetypes that we often see (that may sit under the family-in-business model). A fourth is to join the corridors of power to personally make a mark in history, deploying the family wealth to that end. Michael Bloomberg or Tom Steyer may be good examples of individuals whose wealth has been partly deployed for that purpose. Given many of our family office clients emanate from the financial world, a fifth purpose we increasingly are seeing is one we refer to as simply "playing the game." Wealth creation has become its own purpose, and the goal is simply to maximise it. The ultimate disposition of the wealth after winning the game (or not) is often unspecified until the presence of heirs to carry on playing the game become apparent or a philanthropic outlet is defined, usually toward the end of the benefactors' life. Below, in Exhibit 1, we summarise these five archetypal purposes defined by the owner of the capital when establishing a family office.

The purpose of the family office is often defined by the Principal's desire to be actively involved in the investment activities. Former successful business leaders, entrepreneurs and investors often gravitate toward building or investing in new businesses in order to be personally involved on the boards and to make a personal difference to the company (architype #3 above). This becomes their "job." It is more or less of a private equity firm model, but where the only "LP" is the family office. A not-so-rare permutation of this is where a family office

Exhibit 1: Five generic purposes typically defined for the family office

	Purpose	Description	Examples
1.	Multigenerational Financial Support	• The aim is to leave a familial legacy (i.e., dynastic wealth) to support future generations of the family	Rockefeller Rothschild
2.	Philanthropy	• The aim is to maximise the contribution to a particular cause usually outliving the donor • Typically results in the creation of a dedicated Foundation	Bill Gates Jeff Skoll McKenzie Scott
3.	New Operating Businesses	• Desire to create new operating businesses but governed within the family office construct • For financial entrepreneurs, this could be one or more asset management businesses	Jeff Bezos (Arrived Homes) Ernesto Bertarelli
4.	Join the Corridors of Power	• Use financial resources to fund a new career / project (typically distinct from a philanthropic cause) • Often times, this may take the form of having an impact in politics	Michael Bloomberg Michael Hintze Tom Steyer
5.	'Play the Game'	• Maximise wealth creation – implicitly competing against all other institutional investors • Ultimately becomes an inter-generational "game" or changes to a philanthropic purpose	Michael Dell Chuck Feeney Jim Simons

Source: Partners Capital

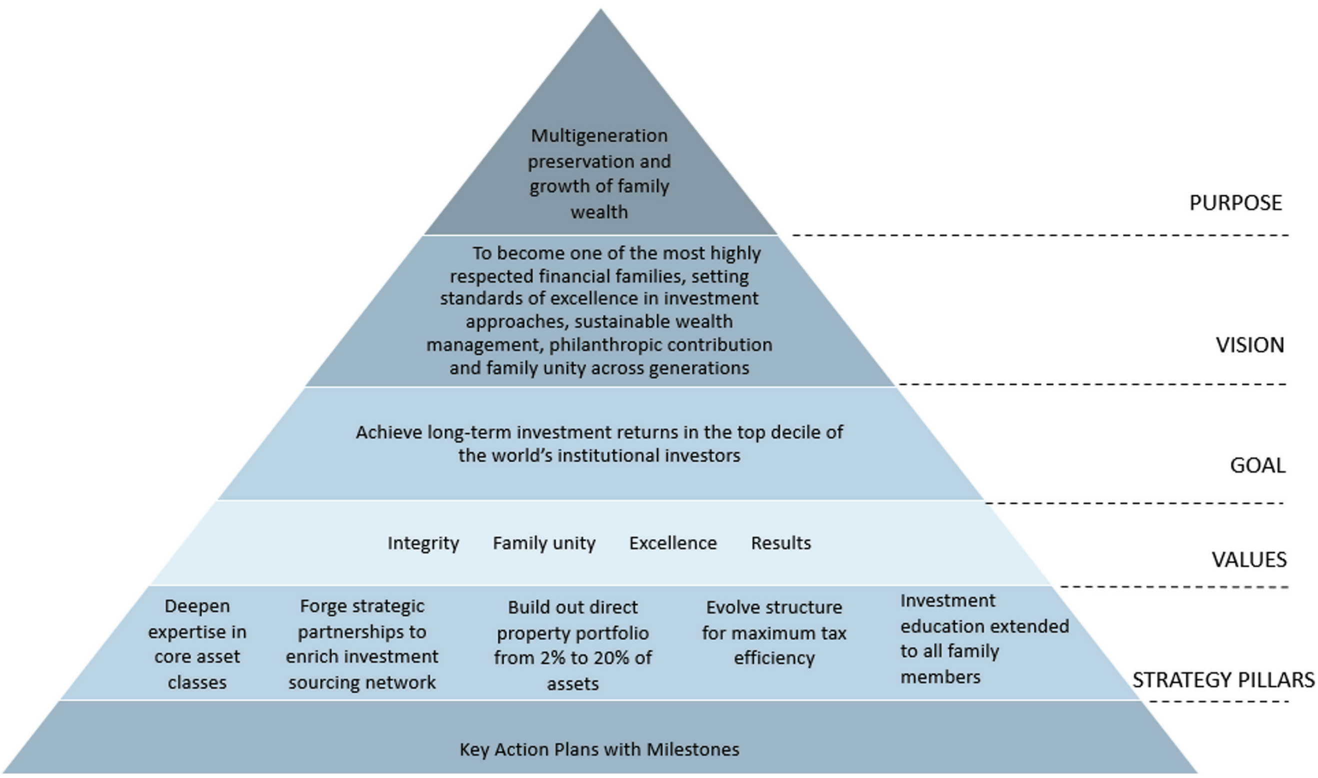
combines personal passions (e.g., basketball) with personal investments (e.g., sports teams), either on their own or with a syndicate of friends running their own family offices.

With a clearly understood purpose in place, painting a vision for where the family office is headed can provide great clarity for every family member and the family office team. To what **end point** exactly, are we taking the family office? Twenty years out, what will it look like and what will it have achieved? Vision is often expressed in terms of a family office's standing among the world of family offices and family businesses and how it is perceived by the outside world.

Why do we talk about mission? Purpose and vision may be enough to guide us towards the best strategy. The mission is the rallying cry for the family office. It captures the motivation behind the organisation's drive to achieve its vision. Partners Capital's **vision** is to be the most highly respected Outsourced Investment Office and the clear leader in the sector by virtue of the performance we deliver to our clients. Our **mission** is to take the most advanced institutional investment approach to our clients. That is our rallying cry. "A better future" serves as the mission and rallying cry of one of our family offices. Another client example of a mission statement from a private equity general partner's (GP's) family office is "to make extraordinary impact with extraordinary businesses". Mission statements tend to help organisations cut through the complexity of their daily lives and maintain focus on what matters most on the journey toward achieving the family's vision.

Before we turn to strategy for the family office, in Exhibit 2, we share an example of how one family office documented its purpose and vision and cascaded this into its overarching goal, its core values and ultimately its strategy laid out as five strategic pillars. This is a simple example of a family office whose primary purpose is to provide financial security for future generations.

Exhibit 2: Illustrative Family office Strategic Framework Pyramid



Source: Partners Capital

Every family office will have been built on top of a set of core values that usually evolved from the Principal's earlier business or from the earlier generations of the family. Family offices, again, are no different from any other organisation in that the more powerful a set of values and the more heavily they are reinforced by the behaviour of the Principal and senior family office management, the more cohesive and driven the organisation.

There are a number of family offices who have a clearly documented purpose, vision, and mission. One such example is Denmark's Kristiansen family through KIRKBI, their family holding and investing company. As the family behind the iconic LEGO brand of children's toys, they have clearly laid out their vision and mission – which can be seen on their website (www.Kirkbi.com). KIRKBI's vision is to "have built a sustainable future for the family ownership of the LEGO brand through generations". Their mission is to "inspire and develop the builders of tomorrow". KIRKBI's investment strategy is the result of its vision and mission and is aimed at achieving several strategic objectives including protecting, developing and leveraging the LEGO brand, and centres around contributing to a sustainable development in the world.

A good example of a clearly stated purpose comes from Verlinvest, an investment company of Belgian shareholders of the consumer and beer company AB-InBev. Verlinvest was specifically set-up to "drive the consumer revolution" by "supporting purpose-led entrepreneurs with a passion for products and brands". That purpose stems from the family's long experience in global consumer brands with the resulting investment strategy of partnering with visionary entrepreneurs who are driving the consumer revolutions and building the next generation of category-defining brands that will positively impact the consumer sector.

2) Strategy for the Family office

Once the family office is clear on its purpose, vision and mission, it needs to document a high-level description of how exactly the vision will be achieved, which is the essence of the family office strategy. The strategy generally starts with a clear framework of how the long-term vision will be defined and measured -- i.e., its long-term stated goals and its near-term milestones. The strategy defines how you will get there. If you have not set out a clear vision, the organisation will struggle to lay out a clear strategy to achieve its goals. The family office strategic plan is distinct from the Investment Policy Statement (IPS) which is discussed in section 4 below.

The documented strategy itself lays out what must be true to achieve the family office vision. This mostly concerns the capabilities and resources required over the long term, whether retained in-house or through external relationships, partnerships and networks. Any good strategy also lays out the priority actions or projects that the management team must undertake to achieve the vision or target end goal.

For operating businesses, the strategy may be focused on those investments required to reach a certain scale or geographic coverage to have the competitive advantages needed to achieve the corporate vision. For a family office focused on financial asset growth, the strategy may be about the in-depth expertise required in certain asset classes (e.g., direct private equity investing).

For a family office focused on philanthropy, the strategy is likely to focus on maximising the impact achieved through direct philanthropic efforts of members of the family foundation or, for indirect giving, building up a sourcing pipeline of the best philanthropic opportunities in the family's area of philanthropic focus (e.g., environment, education, health, etc.).

For family offices with operating businesses, financial investments and philanthropic activities all wrapped into one family office vision, the strategy is necessarily complex and more critical to success. In this document, we will refer to family offices with two or three of these activities as "complex family offices". Such complex family office strategies will often be constructed around first- and second-generation wealth including that of tech entrepreneurs who have set up family offices whilst still running and growing the companies which are the main source of their wealth and having sizeable philanthropic foundations. The family offices of the likes of Michael Dell, Jeff Bezos and Mark Zuckerberg are obvious examples.

Almost all family strategies incorporate the implicit long-term goal of family unity, which is often the most difficult to achieve. Any good strategic plan will have specific activities and resources in it to achieve this goal. At a minimum, this requires excellent communication and inclusion in vision and goal setting. More practically, this includes education (on investing, philanthropy, and any operating businesses) and placement of key family members in key family office activities. Succession planning is an explicit building block in any good strategic plan.

All sound strategies are then backed up with rolling updates to agreed five-year strategic plans; interim milestones with detailed descriptions of how various capabilities and resources will be garnered and built up over time.

3) Leadership and Governance

This is the area where we typically get the most questions from our family office clients. In our definition of family office governance, we are including both the decision-making process for general family matters as well as for the investment portfolio, as these are often intertwined. With complex family offices, there will be two layers of governance: one sitting at the top of the family office, managing resource allocation across operating businesses, family foundations and financial asset portfolios; the other for the individual operating companies, family foundations and financial assets. For family offices focused solely on financial assets, there is likely to be only one layer of governance. For complex family offices, the second layer of governance for the financial assets is often in the form of an investment committee. Below, we attempt to draw out key learnings about the first layer of governance, whether for complex family offices or those solely managing financial assets.

In this first layer of governance, key family office decisions fall into three categories which are not that different from those of any commercial or non-profit organization: 1. Strategic decisions, 2. Financial decisions (including investment decisions and philanthropic spending); and 3. Operating decisions (pertaining to the family office, not operating business, which have their own governance). All of these will incorporate family-specific decisions as well, such as succession planning.

General guidelines for making such decisions are usually spelled out in the family office's "Operating Agreement." This document is little different from any corporate or charitable organisation's operating agreement, to the extent that operating agreements always set out who the various groups of key decision makers are (by title, or decision-making body) and who makes which decisions. The operating agreement will break governance into its various layers such as the Family Board, an Executive Committee, an Investment Committee, a Chief Investment Officer, a Chief Executive and Chairman.

Perhaps the most important lesson we have learned related to family office governance surrounds the **role of the Principal**, or specifically the role of the creator and beneficial owner of the assets. In the case where the family office is the "second act" of a CEO who created their wealth from building and managing a large, complex industrial or technology business, for example, that former CEO is forgiven for assuming that what worked in managing the company is what will work in managing a family office focused on financial investments. It is quite natural for the ex-CEO/Principal to be hands-on in challenging family office management routinely on their decisions and feel that they should be the key decision-maker on large and small investment decisions. In many cases, the family office is being run in such a way that investment managers are being accountable for achieving quarterly results in line with a very tight annual budget, which is not compatible with long-term investing. We do not always find this to be the case, but we see this more often than not, and the result is high senior team turnover and poor investment performance. The solution is discussed below, where the Principal should play the role of just the Chairman of the Family Board and/or the Chairman of the family office Investment Committee with significant delegation of investment activities to the CIO and their team.

The composition of the **Family Board** should reflect its primary purpose of managing the family's assets. Just like any board, it is their primary responsibility to see that the management team is delivering on its plans. Too many family offices overpopulate their boards with external directors who do not have sufficient familiarity with the family office and its complex interests. Adding a small number of "the right" trusted advisors to the Family Board often proves to be a useful addition to such Family Boards or Councils, much like non-executive directors of a public or private company. These senior advisors typically have no voting power, but their experience and knowledge, paired with an independent outside perspective, tends to prove useful to the family. In many cases, the Family Board, including the external advisors, has a veto over the largest investment decisions of the CIO or Investment Committee (i.e., they must approve the actions). The optimal experience required of an external advisor depends on the focus on the family's overall strategy across the three areas of operating businesses, financial investments and philanthropy. Such advisors often include senior family members or executives of similar family offices, who can share their own experiences with respect to governance and managing the challenges of multigenerational family management. In respect to investment decisions, the Family Board generally sets the Investment Policy (e.g., target returns, spend rate, risk levels and the illiquidity budget) rather than the Investment Strategy (e.g., asset allocation, passive investments versus active management, funds versus individual securities, etc.). The latter is traditionally the domain of the Investment Committee as defined below. This delineation of decision-making will vary by family, where the board may take more of the investment strategy decisions, or may incorporate an Investment Committee, where financial assets dominate the family's balance sheet.

Many of the best-managed family offices have created a separate **Investment Committee** for making key investment decisions, where the complexity of the family office warrants it. This Committee sets the Investment Strategy and performs the same task as the Investment Committee of a typical endowment or foundation (e.g., recommending an overall asset allocation framework, sourcing and approving investments and monitoring their results). Investment Committees tend to consist of the family members who are interested and/or versed in investment matters, as well as the key employees managing investments within the family office (e.g., the CIO). The Investment Committee reports to the Family Board/Council, generally on a quarterly basis. Similar to the Family Board/Council, it may be useful to include a small number of external experts to provide an outside perspective. The experts will vary based on the focus of the investment strategy. For example, veteran private equity investors may be valuable to a family focused on direct private investments. A former CIO of an endowment or pension may be ideal for the family focused on a more traditional endowment style of investing. To avoid any potential conflicts of interests, we generally recommend that such outside advisors are not employees of a firm managing investments for the family.

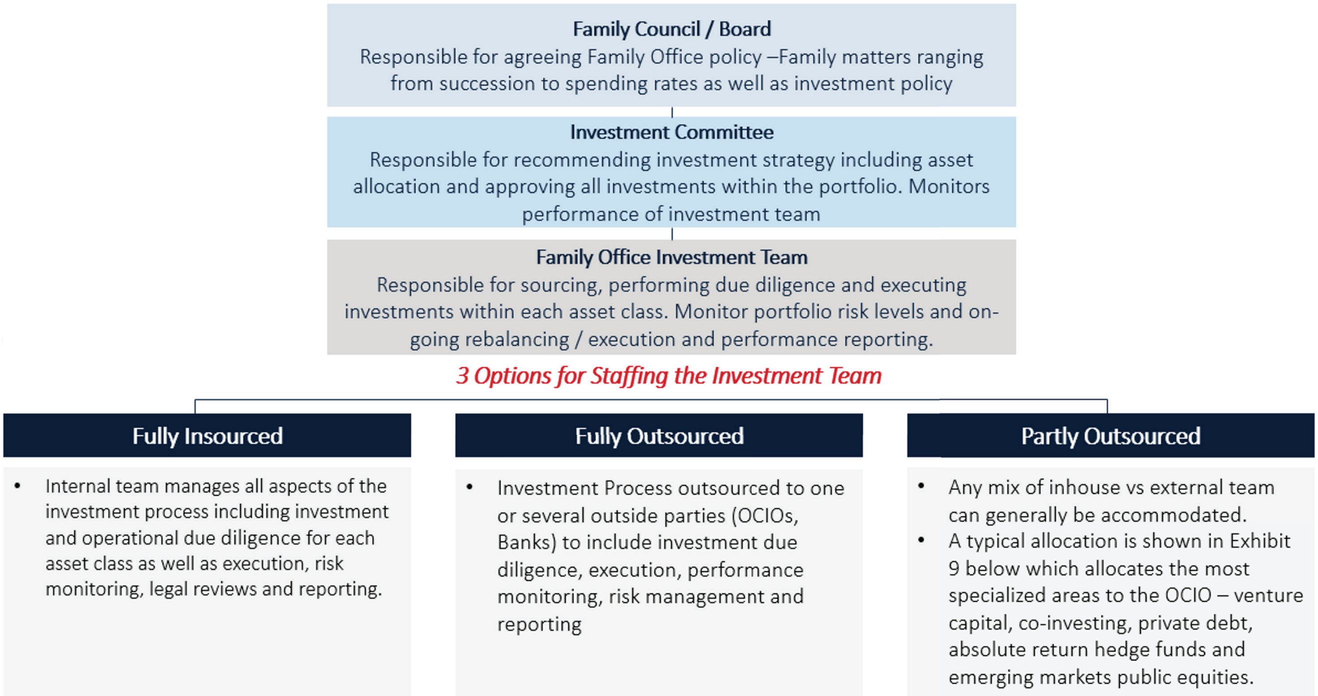
The Chair of the Investment Committee is a critical appointment and typically contributes most to the difference between effective and ineffective Investment Committees. The family office Principal may be the right choice, but not in all cases, especially where this is not the realm of the Principal's domain expertise. For example, a tech entrepreneur is not often the ideal Investment Committee chair. Please turn to the Partners Capital whitepaper entitled *"Investment Committee Best Practice"* for a more detailed review of this topic.

Investment sourcing and investment execution is generally performed by the family office investment team, unless delegated to an outsourced CIO (OCIO) or similar advisor. The size of the team and roles performed is driven by the type of investment strategy which the family decides to pursue. We elaborate this topic in the Investment Strategy section of this paper.

Another way to depict this governance structure is shown above. Here we elaborate on the financial investment resource options of a 100% insourced investment team, a 100% outsourced investment team and a hybrid option, where the internal team manages the overall portfolio but outsources certain asset classes (usually private markets) to external OCIOs or asset managers.

The “partially” outsourced branch of the governance tree can incorporate many different options. Below, we will provide a framework for thinking about what aspects of the portfolio management most logically should be insourced versus outsourced for any given family office.

Exhibit 3: Typical Family office Governance Structure and Three Investment Team Resourcing Options



Source: Partners Capital

Decision-making within the Family office

To communicate our learning on best practice for investment committee governance, we have deployed the “RAID” decision-making tool long used by business strategy consulting firm, Bain & Company. The tool itself is only part of the process of establishing decision-making clarity. The value of the tool is in highlighting with precision the role of each person or governing body involved in a decision.

The involvement of each participant in any given decision is defined by the following four possible roles (colour-coded to decipher the table below it):

As an illustration only, we share an actual RAID example of just the high-level investment policy decisions from one of our family office clients in Exhibit 4 below. Different investment organisations will allocate decision responsibility differently. For example, the Chief Investment Officer may be inserted as another discrete decision maker. What is most critical is “who has the D” in this process.

R = Recommend.	This person recommends a decision to the decision-taker	**I = Input.**	This person provides input and context to the decision
A = Approve.	This person has a power of veto the decision	**D = Decide.**	This person takes the decision, subject to input, recommendations and veto

Exhibit 4: RAID Analysis of Family Board Investment Policy and Strategy Decisions

Investment Strategy Decision	Board	Investment Committee	Head of Investment Office	External Investment Adviser
1. Membership of the Investment Committee / Sub Committee	D	I	R	—
2. Overall investment strategy and overarching investment philosophy	A	D	R	I
3. Selection of appropriate risk: return objectives for the portfolio	A	D	R	I
4. Determination of annual distributable amount (spending level)	D	R	I	—
5. Liquidity constraints for the investment portfolio (as per the IPS)	A	D	R	I
6. Foreign currency exposure targets	A	D	R	I
7. Use of leverage and derivatives at portfolio level to manage risks	A	D	R	I
8. Overall asset allocation	A	D	R	I
9. Conflict of Interest Policy	A	D	R	I

Notes:
1. The External Investment Advisor formally “Recommends” on many matters to the Head of the Investment Office, although it is reflected here as just “Input” to the overall decision.
2. The Board Chairman or other selected Director could be substituted for the Board in providing Approval (veto over) some of these decisions, where it may be impractical to reach the board in time for decisions, or where the Chairman is better suited to assess such decisions.

4) Investment Strategy for the Family office

Our family office clients think very differently about investment strategy than our endowment and foundation clients. Rarely is there ever any justification for an endowment or foundation to not adopt what we believe to be the most advanced, proven institutional investments approach. This approach is one evolved from the so-called "Yale model" and is characterized by its focus on high static risk, multi-asset class allocation and a high allocation to illiquid alternative asset classes such as private equity, private debt and property. Endowments and foundations generally do very little direct investing, but rather allocate to what they believe to be best of breed experienced third party asset managers, each specialized by asset class. Occasionally, a foundation with a team with certain asset class expertise may bias their portfolio accordingly (e.g., Washington University does significant direct public and private co-investing along-side approved core third-party managers).

Family offices, on the other hand, come with "baggage". Usually quite valuable baggage. Family offices all have a history that should not be ignored in establishing the right tailored investment strategy for them. Eric Schmidt, the former Google CEO, runs a family office called Hillspire in the San Francisco Bay Area. While they invest in all asset classes, Eric's family office will see a considerable flow of inbound new venture investment opportunities. For example, Hillspire invested in Arta Finance in 2019, founded by former Google employee, Caesar Sengupta. The mere association with Eric Schmidt will create momentum for the business, suggesting Hillspire will be more successful if its portfolio is skewed toward such investments. This sort of synergy can be applied well beyond tech to investments in any sector related to the experience, or, "baggage", inside the family office from its founder and management team.

Another example is Access Industries, the family office of an American/British industrialist and philanthropist. Given the Principal's history of being a highly successful investor in natural resources, media & technology as well as real estate, the family office has continued to leverage the knowledge and expertise in these areas to make significant control and minority investments in assets in those sectors. Successful investments include the acquisition of Warner Music Group as well as several iconic hotels and commercial real estate assets in the US and Europe.

Regardless of what biases a family office may have for its investment strategy – based on its skill base or simply what they "want" to invest in – all investment strategies (or Investment Policy Statements) need to answer the following four key investment decisions:

1) What is the overall risk budget measured in terms of maximum drawdown, equity-like beta and volatility?

2) What is the overall illiquidity budget? What proportion of the portfolio can be held in long-term illiquid investments that may not be realizable for 10 years or more?

3) To what extent should we invest directly into specific investment assets as opposed to investing through best-of-breed third-party asset managers focused within individual asset classes?

4) What is the optimal long-term allocation across asset classes (whether direct or via third party asset managers)?

This set of decisions assumes we are discussing the investment strategy or IPS for a single consolidated pool of capital. In the next section, we discuss managing multiple portfolios with varying objectives (e.g., multiple family members, charitable foundations, etc.).

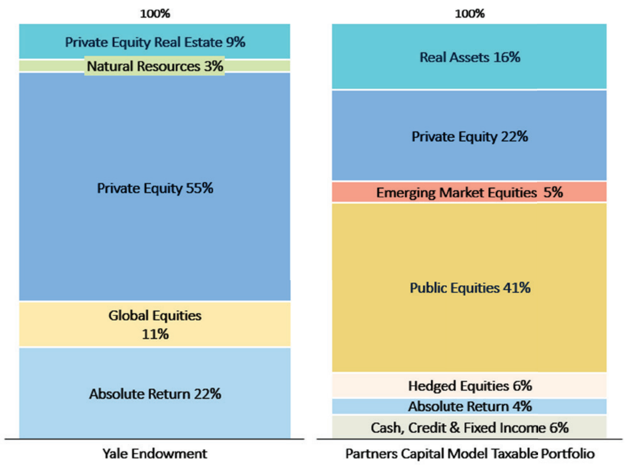
When we take on a new family office client with all of its legacy assets, we always start the investment strategy conversation by ignoring the client's biases and the team's skills. We start by nailing down their risk budget and illiquidity budget and lay out an initial "straw man" portfolio based on what we believe to be optimal for any institutional investment portfolio, factoring in any relevant tax implications. For taxable clients, the portfolio will look significantly different to a typical endowment portfolio, given the tax **in**efficiency of fixed income, credit and hedge funds, and given the tax efficiency of long-hold capital gains generating asset classes such as public equity, property and private equity.

As we alluded to above, at Partners Capital, our investment philosophy stems from the endowment investment model as codified by the late David Swensen (Yale Endowment's CIO) and published in his seminal book "Pioneering Portfolio Management" in 2001. In response to changes in the capital markets over the past 20 years, we have further enhanced the model, and continue to adapt it dynamically as the investment landscape evolves. A detailed description of our approach can be found in our whitepaper entitled *"The Partners Capital Risk-Managed Endowment approach ("PRMEA")"*.

Although we have been practitioners of the endowment model for over two decades, and pride ourselves of our investment performance, we by no means believe it to be the only successful investment strategy, or one suited for every family. The pure endowment model or PRMEA is very rarely the most appropriate model for family offices. However, as framework for arriving at the best strategy for any given family office, we start with the optimal PRMEA-based asset allocation and, from there, challenge the allocations to individual asset classes that may be less accretive to overall portfolio risk-adjusted performance than other asset classes by virtue of the skills, sourcing advantages and biases of the family office management team. In addition, the investment time frame may differ from the typical endowment's very long time frame, usually stated in decades. Long time frames typically accommodate higher allocations to long-duration assets which carry the so-called illiquidity premium which deliver a return as much as 5% above comparable liquid asset classes.

The result of the endowment model's modification for a typical tax paying family office's profile is generally a higher allocation to tax-efficient public equities, more liquidity and more direct investing activity (versus third-party asset managers). Exhibit 5 compares the current Yale Endowment asset allocation to the Partners Capital Model Portfolio for a typical tax-paying family office client. What is not delineated in the chart below is the proportion of the property, public equities and private equity invested directly in the single assets, which can be 100%, or, more ordinarily, 10 to 20%.

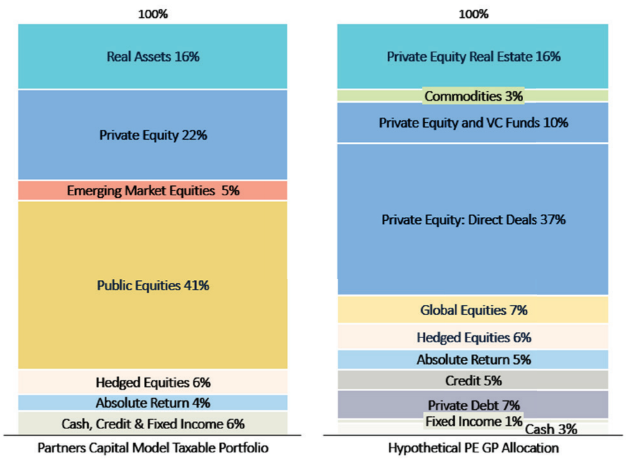
Exhibit 5: Strategic Asset Allocation of the Yale University Endowment vs Partners Capital's Model Portfolio for Taxable clients



Source:
1. Yale Endowment Allocation as per Yale 2021 Financial Statement.
2. Partners Capital

Given the origins of our business, today at Partners Capital, we have many private equity general partners as family office clients. They will have significant legacy exposure to their former employer's distributing private equity funds as the "rocks in the pond" that we will build around with complementary exposures, which ideally have low

Exhibit 6: Partners Capital's Model Portfolio for Taxable clients vs Hypothetical Portfolio of a typical senior Private Equity Professional client



Source: Partners Capital

correlations to private equity. The Private Equity GP is often effectively the family office CEO and CIO, and, accordingly, will bring advantages to adding more direct private equity exposure, exploiting their network and experience base. This can be the right decision based on expected returns and therefore makes uncorrelated investments that much more accretive to the overall portfolio. This points us in the direction of asset classes such as property, absolute return hedge funds and "orthogonal" strategies such as litigation finance and pharmaceutical royalties. Other than for liquidity constraints, adding credit exposure or more public equities makes little sense, given the highly correlated nature of their returns to private equity.

We should note that for many of our most mature relationships with private equity GPs, as their legacy private equity holdings dwindle and their direct private investing activity reaches its practical limits (exhausting the GPs available time), the portfolio starts to look a lot like the optimal taxable institution's optimal portfolio.

Once established, the optimal investment strategy for the family office should be codified into a formal Investment Policy Statement (IPS) covering the following content:

1) Purpose
2) Risk Budget and Target Return
3) Illiquidity Budget
4) Asset Allocation
5) Direct versus Third Party management
6) Passive versus Active
7) Performance Benchmarking
8) Risk management
9) ESG Policy
10) Reporting
11) Decision-making process (RAID)

We would be happy to share an example of a typical IPS developed for one of our family office clients with you. Most reviews with the Investment Committee take place on a quarterly basis, with an agenda covering performance, portfolio compliance, market environment, tactical asset allocation moves, and any asset manager changes.

Investment Strategy for more than one pool of capital

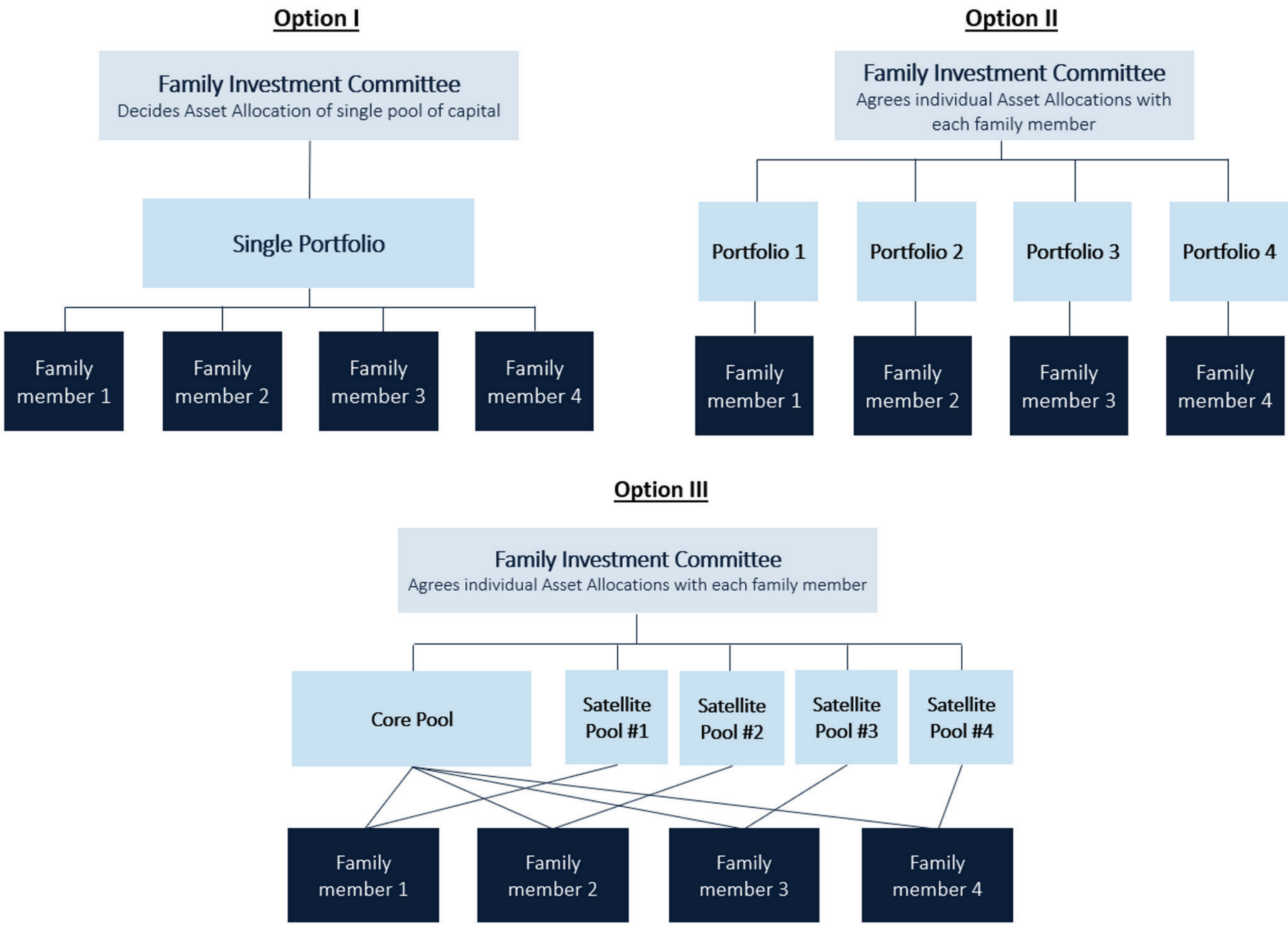
Family offices are generally created for the specific purpose of pooling the assets of individual family members to manage and grow the wealth of the family holistically over the long-term. It helps to maintain unity within the family, in particular if the family is also the controlling owner of an operating business where joint-decision making can be important. With multiple family members comes varying goals, liquidity needs and risk appetite, so it may make sense to create discrete pools of capital. Where there are many family members, some family offices have created a menu of different portfolios with a spectrum of liquidity and risk. These are unitised and priced for family members redeeming and buying into each.

Although we fully understand the rationale for distinct pools of capital, which may be appropriate for certain family situations, Partners Capital believes that there are numerous investment advantages in managing a single consolidated pool of capital that is beholden to one IPS. These benefits include allowing for a simpler and more streamlined investment and operational process, as well as benefiting from economies of scale and lower institutional fee levels when accessing investment opportunities. Many of the best investment managers have sizeable investment minimums that are only accessible to larger pools of capital. As an example, some of the best-known and hard to access venture capital managers are currently requiring a minimum investment as large as $250M, thus excluding most individual investors who have not pooled their capital. This model of family investing is depicted in Exhibit 7 as Option I. The portfolio accounting usually unitizes the portfolio with a moving share value to accommodate inflows and outflows from individual family members.

Option II (shown below) is simply allowing each family member to have their own dedicated portfolio with a risk profile and IPS which suits them best. Different family members may have overlapping investments with other family members, but portfolio management is replicated for each family member. This structure often leads to inferior performance as the investment team is distracted away from the largest pool of capital by the smaller pools of capital, and family members who may be less understanding of short-term performance moves. In one example, we know of a $5B family office where pools of $5M for individual family members are being managed internally by the main team. Family members lost confidence in the internal team's ability to invest based on what they saw as "poor" performance in their $5M portfolio.

Option III is a hybrid, creating a core pool of family assets separate from a portion of the assets left in the names of individual family members. The core pool makes up the majority of the capital and is aimed at preserving and growing the overall family wealth, taking advantage of economies of scale and a single efficient process. The separate family member "satellite pools" cover the day-to-day expenses and liquidity needs of each individual family member and are used to "up-weight" or "down-weight" the risk of the combined portfolio for any one family member to match their risk profile (IPS). Depending on the size of the smallest pools and the sophistication of family members, the family office may experience the same shortcomings as described above for Option II.

Exhibit 7: Single vs. multiple pools of assets



Source: Partners Capital

5) Family Office Resource Decisions

The core pillars of the family office's strategy will spell out the capabilities and resources needed to achieve the vision. This needs to be translated into specific quality and quantity of resources. This is an integral part of the strategy, not a separate exercise. Cost and benefit will be the major input to this exercise.

Insourcing versus Outsourcing

Beyond the investment strategy itself, perhaps the single most important investment decision any family office makes is whether to build an inhouse investment team with the requisite skill to deliver the chosen investment strategy, or outsource the investment management to one or several outside providers (e.g., OCIO, consultant, private bank). There are two levels of outsourcing: firstly, delegating **security selection** to independent asset managers (e.g., private equity firms); and secondly, delegating the **manager selection** to outsiders (e.g., outsourced CIOs). It is very rare that any family office should be in the business of security selection, just as virtually no sophisticated endowments, foundations or pensions are investing directly in companies, properties, derivatives, etc. Institutional investors, such as Harvard Management Company and CalPERS, both engaged in direct security investment activities with internal teams and have since abandoned these due to a combination of poor results and internal conflicts around two "classes" of team members.

Direct simple investment purchases of bonds and core property may be the exceptions, along with co-investing in private companies and properties with approved third-party asset managers.

In this section we are debating when a family office should outsource manager selection to an OCIO, investment consultant or private bank advisor. Partners Capital reviewed and compared the benefits of Endowments and Foundations building a full inhouse investment team versus outsourcing the investment process in the whitepaper entitled *"Investment Models for the Management of Small to Mid-Size Endowments"*. Many of the same considerations apply to family offices as to smaller endowments when weighing insourcing versus outsourcing options.

There are obvious benefits of building an inhouse investment team, including cost-effectiveness for the largest family offices and management control. However, building such an internal team can be challenging, and, in some cases, impractical. If the investment strategy includes alternative investments, a fully internalised model would require a minimum of 2-3 people to cover each asset class. In addition, hiring the best investment talent is costly and can be difficult to attract, especially if the family office is based outside of the traditional investment hubs or locations which investment talent is typically attracted to for lifestyle and/or financial reasons.

A common failing of many family offices is to assume that being part of a network of families who share investment opportunities can substitute for internal or external due-diligence resources. To be clear, such networks are valuable, but are not a substitute for the family doing their own due diligence and rely on the work of others outside of the family's supervision. We are all familiar with the many cases of "the blind **following** the blind" where it was assumed that someone in the family office chain had done adequate due diligence, thinking of everything from Madoff to FTX.

Key considerations when assessing whether to fully insource or outsource the family's investments include:

1) A desire by the family to run and control an investment management business and be involved in individual investment decisions rather than supervise the investment decisions of an outside investment manager or advisor.

2) The existing expertise/resources which may already exist within the family.

3) The cost of hiring a full inhouse investment team versus the management fee paid to outside advisors/managers. This cost varies greatly based on the number of people hired, their experience and the geographic location of the family office.

4) The ability to hire world-class talent and the compensation requirements. The availability of investment talent is highly linked to the location of the family office with the main financial centers having a larger pool of existing investment talent to choose from.

5) An assessment of how likely it is that an inhouse investment team of an affordable size will be able to fully review and access the best managers globally.

Based on our experience, Partners Capital estimates that, from a financial perspective, a full multi-asset class inhouse team would start being viable for an investment portfolio of $2B or above. Exhibit 8 summarizes the principal benefits of each option.

The Hybrid Option: Partial Outsourcing

A hybrid model of in- and outsourcing is an option which is becoming increasingly favoured by family offices with whom we interact, with families managing a smaller investment team while outsourcing a portion of the investment process. This allows the family to limit the fixed cost of hiring a full internal team whilst allowing it to focus on areas of particular interest and/or expertise. The overall asset allocation and risk management is typically done by the family office and its Investment Committee (sometimes with the assistance of an outside advisor) which then selects those outside parties which they believe are best suited to manage asset classes externally. The decision to manage specific strategies or asset classes internally is often the logical result of the family having specific sector expertise, usually acquired through the ownership of operating businesses.

The hybrid option can take different forms, but two models appear most often.

Option A: The family office focus on high-level execution of the investment strategy

The internal family office team focuses on high-level execution of the investment strategy (i.e., portfolio construction, asset allocation, overall risk management and reporting to the IC) and is supported by external investment managers/advisors for the investment management (largely manager selection and monitoring).

In such cases, the family hires a small team (usually 1-3 people) which sets the overall asset allocation framework and target risk and illiquidity levels and also tends to oversee financial activities. The family office then outsources the management of each asset class to a single OCIO firm or to several specialist advisors/providers, e.g., a private markets specialist for private equity, a hedge fund advisor for hedge funds, etc. Each advisor reports back

Exhibit 8: Advantages of Insourcing and Outsourcing the investment management of a family office investment portfolio

Insourcing	Outsourcing
• Family retains full control over investment strategy, risk management, manager selection and performance. • Family employs people it has known for many years and trusts completely. • Less risk of proprietary information leakage. • No risk of principal-agent issues. • For the largest of family offices, lower direct investment management expenses as a percentage of assets at scale. • Family office "owns" the relationships with the asset managers.	• OCIO leverages the Investment Committee's time and allows the Investment Committee to focus on key strategic decisions. • OCIO screen thousands of investment opportunities each year and may enhance access to "hard closed" managers. • OCIO can use scale to negotiate better terms and fees. • A full-service OCIO can potentially extend the level of risk management including more extensive exposure tracking, performance attribution, investment execution controls, currency hedging, lines of credit and other portfolio administration reconciliations. • Avoid risk of "adverse selection" in hiring. • OCIO provides insights into ongoing best practice across their client base and investment world.

Source: Partners Capital

to the family office who will in turn rebalance the overall portfolio based on asset class performance and risk levels. Alternatively, the family office may give roughly similar mandates to several OCIOs and compare performance and learning, with the long-term intention of concentrating with one of the OCIOs. This is generally the highest cost alternative and is a complicated structure which has significant risk management challenges which may not provide the full benefits of the scale of the family office with third party managers.

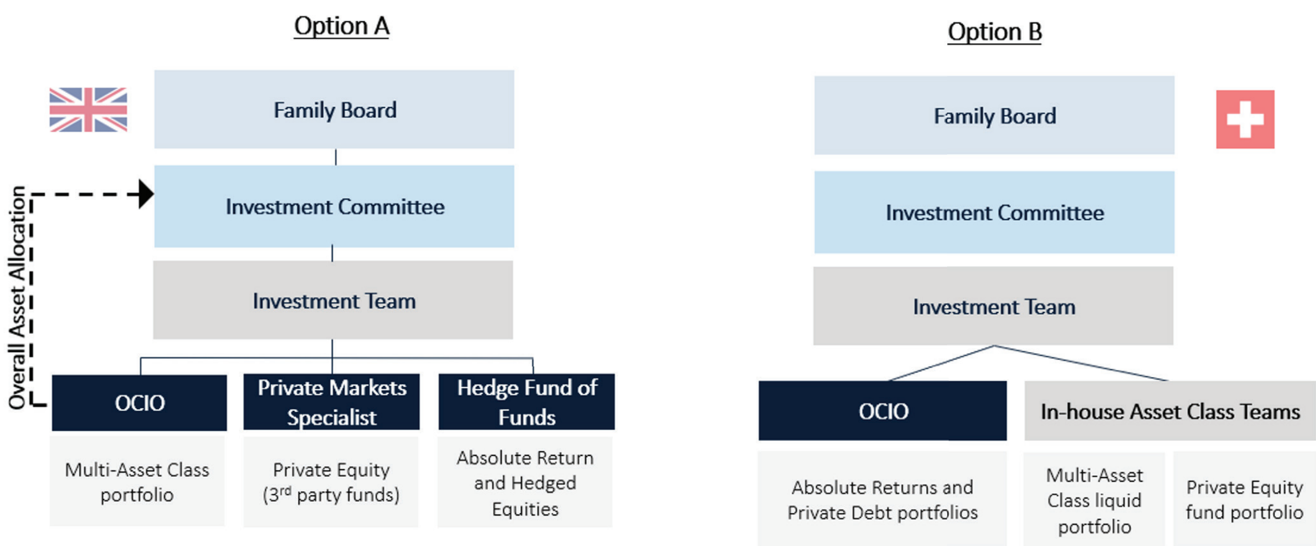
Exhibit 9 outlines two examples where Partners Capital works alongside an internal family office team in these different capacities. In the case of the UK family office example, we work with the internal team on setting the overall asset allocation framework and manage a specific liquid, multi-asset portfolio. Meanwhile, the selection of third-party private equity funds is done by a private equity fund of funds manager and hedge funds are managed by another specialized fund of fund who run the family's portfolios in separately managed accounts.

Option B: The family office manages one or several asset classes

The internal family office team focuses on the high-level execution of the investment strategy and directly manages one or several investment sleeves, with other specific asset-class mandates being delegated to external advisors.

The most common way of partially outsourcing is to clearly divide the asset classes managed inhouse from those managed externally. Family wealth has often been created via a family's in depth knowledge of a specific industry or sector, with individual family members maintaining expertise and a passion for that sector. In such cases, it seems natural for the family to keep a very hands-on-approach, hiring an internal team comprising of investment people whom they have identified as particularly capable in this asset class, and are already familiar to the family and managing such investments directly. A very typical example is that the family internally manages all direct Private Equity investments with strong involvement from the family itself, often focused on a single sector or a narrow set of sectors. Similarly – though for very different reasons –

Exhibit 9: Examples of Partial Outsourcing Structure with Current Partners Capital Clients



Source: Partners Capital

purely passive investments can often be managed in-house as they require more limited research and resources. Such personal passion or internal expertise tends to rarely extend to asset classes such as absolute return managers, long-short equity managers or private debt. These asset classes not only require extensive research of the asset class and individual opportunities but they also require active risk management and tactical asset allocation to account for changing market conditions. Some family offices therefore opt to leave the management of these asset classes to outside firms rather than hire in-house staff.

Exhibit 9 illustrates an example where Partners Capital has been specifically retained by one of its Swiss family office clients to manage two asset classes with the internal family office team managing the other asset classes.

In Exhibit 10 below, we illustrate a third example of a current Partners Capital client relationship with a more detailed matrix delineating both the target asset allocation and the respective asset class responsibilities for the family office team versus the outsourced CIO (Partners Capital in this case).

This illustrates an example where the family office investment team are focused on the simple cash-like asset classes (government bonds, inflation linked bonds), direct core property investments and developed market public equities. Partners Capital look after private debt, absolute return hedge funds, emerging market equities (mainly pan-Asia), venture capital, buyouts co-investments and select private equity real estate funds. We have a team working, in practice, in close cooperation with the team in the family office and the family's Principal. This leaves Partners Capital managing roughly one-third of the assets and the internal team manage the rest. The boundaries are the default responsibilities, but we find ourselves brainstorming on opportunities together across the full portfolio.

Exhibit 10: Detailed Asset Class Responsibility Matrix for Hybrid Insourcing/Outsourcing Model

Asset Class	Allocation %	Internal FO Team - Direct	Internal FO Team - via 3rd Party Mgrs/Funds	Outsourced CIO	No Allocation	Details on Responsibilities
Cash	2%					FO team work with core banks on cash management
Fixed Income (Govt Bonds)	5%					Execute through core broker relationships
Liquid Credit	0%					May opportunistically invest via FO selected managers
Private Debt	8%					Includes OCIO direct co-investments
Absolute Return	8%					Minimum diversification requires greater than 10 managers; diversified focus on merger arb, fixed income are and macro strategies
Hedged Equities	11%					Focus on technology sector specialists
DM Equities	25%	10%	15%			FO will "double up" on select key public equity holdings of core managers; manage through core brokers
EM Equities	3%					OCIO to focus on Pan-Asian managers; no Latam or Eastern Europe
Buyouts	14%		10%	4%		OCIO processes co-investments from FO approved PE funds; includes capital calls and distributions handling
Venture Capital/ Growth Equity	6%					OCIO processes co-investments from OCIO approved VC funds; manages capital calls and distributions
Inflation Linked Bonds	4%					Execute through core broker relationships
Commodities	0%					May opportunistically invest via FO selected managers
Core Property	8%					FO makes select direct core property investments; outsource property management
Private Equity Real Estate	6%					OCIO focused on pan-European property managers; avoid US FIRPTA
Percent of Portfolio (est)	100%	29%	36%	35%		

Conclusion

As a summary, below we have provided a simple set of questions to which we believe any family office should have clear answers that are revisited and revised on a regular basis to reflect the views of all, or at least the leading family members.

Questions to ask in order to arrive at the most effective long-term family office strategy:

1) What is our purpose?
2) Are we primarily a family in business, a family in finance, or a family focused on philanthropic impact?
3) What is our long-term vision or goal?
4) What is our mission or "rallying cry" that will have us all puling in the same direction?
5) What are the key strategic initiatives (e.g., capabilities, resources, partnerships, outsourcing, etc.) that will have us achieving our vision?
6) Who is leading us and are we following them?
7) Is it clear who makes what decisions?
8) How many different pools of capital are absolutely necessary and how differently do they need to be managed?
9) What activities must be executed by our internal team and what can usefully be outsourced?
10) Are we bringing all family members along on whatever journey we are on?

We hope this document has achieved its purpose of providing you with a useful framework for identifying and filling any gaps in the management of your own family office. We know we still have a lot to learn on this front and welcome any thoughts you have so we can be better managers of family office investments in the years ahead.

About Partners Capital

Founded in 2001, Partners Capital is an Outsourced Investment Office acting for distinguished endowments and foundations, senior investment professionals and prominent families across the globe. With over $48B in assets under management, the firm constructs customized investment portfolios for its clients tapping into its deep network of partnerships with what we consider exceptional asset managers across all major asset classes. The firm employs more than 300 people across its seven offices located in Boston, New York, London, San Francisco, Paris, Singapore and Hong Kong.

Disclaimer

This is a financial promotion, the value of any investment may fluctuate as a result of market changes.

Within the United Kingdom, this material has been issued by Partners Capital LLP, which is authorised and regulated by the Financial Conduct Authority of the United Kingdom (the "FCA"), and constitutes a financial promotion for the purposes of the rules of the Financial Conduct Authority. Within Hong Kong, this material has been issued by Partners Capital Asia Limited, which is licensed by the Securities and Futures Commission in Hong Kong (the "SFC") to provide Types 1 and 4 services to professional investors only. Within Singapore, this material has been issued by Partners Capital Investment Group (Asia) Pte Ltd, which is regulated by the Monetary Authority of Singapore as a holder of a Capital Markets Services licence for Fund Management under the Securities and Futures Act and as an exempt financial adviser. Within France, this material has been issued by Partners Capital Europe SAS, which is regulated by the Autorité des Marchés Financiers (the "AMF").

For all other locations, this material has been issued by Partners Capital Investment Group, LLP which is registered as an Investment Adviser with the US Securities and Exchange Commission (the "SEC") and as a commodity trading adviser and commodity pool operator with the Commodity Futures Trading Commission ("CFTC") and is a member of the National Future's Association (the "NFA").

This material is being provided to clients, potential clients and other interested parties (collectively "clients") of Partners Capital LLP, Partners Capital Asia Limited, Partners Capital Investment Group (Asia) Pte Ltd, Partners Capital Europe SAS and Partners Capital Investment Group, LLP (the "Group") on the condition that it will not form a primary basis for any investment decision by, or on behalf of the clients or potential clients and that the Group shall not be a fiduciary or adviser with respect to recipients on the basis of this material alone. These materials and any related documentation provided herewith is given on a confidential basis. This material is not intended for public use or distribution. It is the responsibility of every person reading this material to satisfy himself or herself as to the full observance of any laws of any relevant jurisdiction applicable to such person, including obtaining any governmental or other consent which may be required or observing any other formality which needs to be observed in such jurisdiction. The investment concepts referenced in this material may be unsuitable for investors depending on their specific investment objectives and financial position.

This material is for your private information, and we are not soliciting any action based upon it. This report is not an offer to sell or the solicitation of an offer to buy any investment. While all the information prepared in this material is believed to be accurate, the Group, may have relied on information obtained from third parties and makes no warranty as to the completeness or accuracy of information obtained from such third parties, nor can it accept responsibility for errors of such third parties, appearing in this material. The source for all figures included in this material is Partners Capital Investment Group, LLP, unless stated otherwise. Opinions expressed are our current opinions as of the date appearing on this material only. We do not undertake to update the information discussed in this material. We and our affiliates, officers, directors, managing directors, and employees, including persons involved in the preparation or issuance of this material may, from time to time, have long or short positions in, and buy and sell, the securities, or derivatives thereof, of any companies or funds mentioned herein.

Whilst every effort is made to ensure that the information provided to clients is accurate and up to date, some of the information may be rendered inaccurate by changes in applicable laws and regulations. For example, the levels and bases of taxation may change at any time. Any reference to taxation relies upon information currently in force. Tax treatment depends upon the individual circumstances of each client and may be subject to change in the future. The Group is not a tax adviser and clients should seek independent professional advice on all tax matters.

Within the United Kingdom, and where this material refers to or describes an unregulated collective investment scheme (a "UCIS"), the communication of this material is made only to and/or is directed only at persons who are of a kind to whom a UCIS may lawfully be promoted by a person authorised under the Financial Services and Markets Act 2000 (the "FSMA") by virtue of Section 238(6) of the FSMA and the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (including other persons who are authorised under the FSMA, certain persons having professional experience of participating in unrecognised collective investment schemes, high net worth companies, high net worth unincorporated associations or partnerships, the trustees of high value trusts and certified sophisticated investors) or Section 4.12 of the FCA's Conduct of Business Sourcebook ("COBS") (including persons who are professional clients or eligible counterparties for the purposes of COBS). This material is exempt from the scheme promotion restriction (in Section 238 of the FSMA) on the communication of invitations or inducements to participate in a UCIS on the grounds that it is being issued to and/or directed at only the types of person referred to above. Interests in any UCIS referred to or described in this material are only available to such persons and this material must not be relied or acted upon by any other persons.

Within Hong Kong, where this material refers to or describes an unauthorised collective investment schemes (including a fund) ("CIS"), the communication of this material is made only to and/or is directed only at professional investors who are of a kind to whom an unauthorised CIS may lawfully be promoted by Partners Capital

Disclaimer

Asia Limited under the Hong Kong applicable laws and regulation to institutional professional investors as defined in paragraph (a) to (i) under Part 1 of Schedule to the Securities and Futures Ordinance ("SFO") and high net worth professional investors falling under paragraph (j) of the definition of "professional investor" in Part 1 of Schedule 1 to the SFO with the net worth or portfolio threshold prescribed by Section 3 of the Securities and Futures (Professional Investor) Rules (the "Professional Investors").

Within Singapore, where this material refers to or describes an unauthorised collective investment schemes (including a fund) ("CIS"), the communication of this material is made only to and/or is directed only at persons who are of a kind to whom an unauthorised CIS may lawfully be promoted by Partners Capital Investment Group (Asia) Pte Ltd under the Singapore applicable laws and regulation (including accredited investors or institutional investors as defined in Section 4A of the Securities and Futures Act).

Within France, where this material refers to or describes to unregulated or undeclared collective investment schemes (CIS) or unregulated or undeclared alternative Investment Funds (AIF), the communication of this material is made only to and/or is directed only at persons who are of a kind to whom an unregulated or undeclared CIS or an unregulated or undeclared AIF may lawfully be promoted by Partners Capital Europe under the French applicable laws and regulation, including professional clients or equivalent, as defined in Article D533-11, D533-11-1, and D533-13 of the French Monetary and Financial Code.

Certain aspects of the investment strategies described in this presentation may from time to time include commodity interests as defined under applicable law. Within the United States of America, pursuant to an exemption from the US Commodity Futures Trading Commission (CFTC) in connection with accounts of qualified eligible clients, this brochure is not required to be, and has not been filed with the CFTC. The CFTC does not pass upon the merits of participating in a trading program or upon the adequacy or accuracy of commodity trading advisor disclosure. Consequently, the CFTC has not reviewed or approved this trading program or this brochure. In order to qualify as a certified sophisticated investor a person must (i) have a certificate in writing or other legible form signed by an authorised person to the effect that he is sufficiently knowledgeable to understand the risks associated with participating in unrecognised collective investment schemes and (ii) have signed, within the last 12 months, a statement in a prescribed form declaring, amongst other things, that he qualifies as a sophisticated investor in relation to such investments.

This material may contain hypothetical or simulated performance results which have certain inherent limitations. Unlike an actual performance record, simulated results do not represent actual trading. Also, since the trades have not actually been executed, the results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any client will or is likely to achieve profits or losses similar to those shown. These results are simulated and may be presented gross or net of management fees. This material may include indications of past performance of investments or asset classes that are presented gross and net of fees. Gross performance results are presented before Partners Capital management and performance fees, but net of underlying manager fees. Net performance results include the deduction of Partners Capital management and performance fees, and of underlying manager fees. Partners Capital fees will vary depending on individual client fee arrangements. Gross and net returns assume the reinvestment of dividends, interest, income and earnings.

The information contained herein has neither been reviewed nor approved by the referenced funds or investment managers. Past performance is not a reliable indicator and is no guarantee of future results. Investment returns will fluctuate with market conditions and every investment has the potential for loss as well as profit. The value of investments may fall as well as rise and investors may not get back the amount invested. Forecasts are not a reliable indicator of future performance.

Certain information presented herein constitutes "forward-looking statements" which can be identified by the use of forward-looking terminology such as "may", "will", "should", "expect", "anticipate", "project", "continue" or "believe" or the negatives thereof or other variations thereon or comparable terminology. Any projections, market outlooks or estimates in this material are forward –looking statements and are based upon assumptions Partners Capital believe to be reasonable. Due to various risks and uncertainties, actual market events, opportunities or results or strategies may differ significantly and materially from those reflected in or contemplated by such forward-looking statements. There is no assurance or guarantee that any such projections, outlooks or assumptions will occur.

Certain transactions, including those involving futures, options, and high yield securities, give rise to substantial risk and are not suitable for all investors. The investments described herein are speculative, involve significant risk and are suitable only for investors of substantial net worth who are willing and have the financial capacity to purchase a high risk investment which may not provide any immediate cash return and may result in the loss of all or a substantial part of their investment. An investor should be able to bear the complete loss in connection with any investment.

All securities investments risk the loss of some or all of your capital and certain investments, including those involving futures, options, forwards and high yield securities, give rise to substantial risk and are not suitable for all investors.