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ULTRA-HIGH NET WORTH FAMILIES NOW FOCUS ON LIQUIDITY AND HAVE TIGHTENED RISK MANAGEMENT PRACTICES, ACCORDING TO CAMBRIDGE ASSOCIATES SURVEY

BOSTON (January 18, 2012) – Family offices that oversee assets for ultra-high net worth families made few strategic changes in response to the 2008 meltdown and subsequent volatility. They mainly effected tactical adjustments, such as increasing liquidity and cash reserves. Family offices also placed more emphasis on capital call projections.

That's according to a survey of 40 single family offices in the U.S. and Europe conducted in 2011 by Cambridge Associates, the global provider of independent investment advice and research to institutional and private investors. The multi-year survey focuses on family office compensation, governance and risk management practices. The median asset size of the family offices in the survey was $534 million, and participants represented a mix of Cambridge Associates clients and other family offices that work independently or with other advisors.

"It's evident from the research that family offices were already well configured, and although in many cases they tactically made adjustments, strategically most were prepared going into the financial crisis," said Douglas Macauley, Managing Director at Cambridge Associates. "In addition, as we have studied compensation of family office professionals, we have observed more alignment between portfolio performance and compensation."

Some Tactical Changes – and a Few Strategic Adjustments

While largely well-positioned, family offices took the following more tactical steps to tighten up their approach to liquidity, cash management and risk management in response to the financial crisis and ongoing post-2008 volatility:

- 62% increased liquidity and cash reserves. (Cash positions rose to 9.6% from 7.5% pre-2008.)
- 49% rebalanced portfolios.
- 43% actively reduced portfolio risk.
- 41% conducted more projections of cash flow and capital calls.

"We believe that family offices' increased focus on liquidity and cash reserves now will position them well to take advantage of future market opportunities, such as European distressed debt," said Macauley.

Only slightly more than a quarter (27%) of family offices chose to amend their strategic asset allocation approach. Several increased allocations to hedge funds, distressed and real estate. Meanwhile, decreases were seen in public equities.

Impact of Financial Crisis on Management and Oversight Policies at Family Offices Mainly Confined to Performance Monitoring of External Managers

The most significant alteration to family office oversight involved the monitoring of outside investment managers. Most (71%) amended performance monitoring and review of such managers, and nearly half (48%) updated the due diligence applied to the manager hiring process. However, only a third said they added more risk metrics to performance reporting or to their policy statements.

Of the offices that provided information about their use of external consultants or other advisory services, 83% reported they either increased or remained constant since 2008 in their reliance on those providers.

"When it comes down to it, the most common response to questions about changes to family office oversight and management policies in the post-2008 period was that none was made. Presumably family offices in general were already comfortable with their oversight and management practices," said Macauley. "Equally interesting were observations that the underlying family had a long-term horizon, had the resources to ride out difficult market environments and, for the most part, did not initiate changes in their investment policies in reaction to the crisis."

About Cambridge Associates

Founded in 1973, Cambridge Associates is a provider of independent investment advice and research to institutional investors and private clients worldwide. Today the firm serves over 900 global investors representing more than $3 trillion in aggregate assets. Cambridge Associates delivers a range of services, including investment consulting, outsourced portfolio solutions, research services and tools (Research Navigator^{sm} and Benchmark Calculator), and performance monitoring, across all asset classes. Cambridge Associates has more than 1,000 employees based in seven global offices in Arlington, VA; Boston; Dallas; Menlo Park, CA; London; Singapore; Sydney; and Beijing. Cambridge Associates is recognized as a thought leader, innovator and advocate for investors. For more information about Cambridge Associates, please visit www.cambridgeassociates.com.

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