EP1 - Inside the Family Office: Managing Wealth, Expectations, and Legacy.

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Alex (00:07):

Hi, I'm Alex Miller, and this is the Citi Institute podcast where we explore the forces shaping finance, the global economy, and the way we live and work. In each episode, we bring you insights from thought leaders and innovators driving change, helping you stay informed, navigate challenges, and seize opportunities in a rapidly-evolving world.

Hannes (00:28):

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Kate (00:41):

There's never been a time where I've heard more people talk about revisiting their asset allocation structures in general.

Dawn (00:48):

Family office capital has a bit more patient, uh, timeline, and they're also very sophisticated investors.

Alex (00:57):

Welcome back. You join me as we look to navigate the future of family offices. Diving deep into the insights from the 2025 Citi Family Office survey, I'm delighted to be joined by three luminaries from Citi Wealth, Kate Moore, chief Investment Officer, Dawn Nordberg, head of integrated client engagement, and Hannes Hoffmann, head of the family office team globally. Together, we're going to explore some of the dynamic trends and opportunities shaping family wealth globally. So let's get into it.

(01:23):

Hannes, welcome to the podcast. We're here to discuss family offices and Citi private banks, global Family Office Survey 2025, which of course is a cornerstone of Citi Wealth's Insights. Could you start by explaining the survey's significance, what makes it unique, how it helps families, our clients, globally navigate their complex world, and importantly, of course, inform Citi's strategy to better serve them?

Hannes (01:46):

Well, first of all, Alex, thank you for having us on this podcast. Uh, it's always a pleasure to be with you and your viewers. When I think back about how it all started, uh, seven years ago, it was actually fairly small, mostly qualitative survey, just around 70 family offices that were being asked by the team at the time, um, about their priorities, what they were doing, how they were investing, how they were organised. But what really, um, piqued the interest of Citi and our team was how much client engagement came from it. So in the last three years, we grew it from 120 or so responses to 350 responses each year. Um, and a very robust, very deep global survey that provides quantitative and qualitative insight. Now, why is that important? Because family offices as a client segment have started to really, um, become important actors in financial markets.

(02:47):

Deloitte published a survey about a year ago, by 2030, family offices will manage more assets globally than the hedge fund industry in total. So family offices are becoming a force in- in financial markets. Uh, they have the luxury to think multi-generational, they have the ability to express the priorities of the family. But here's what's interesting, at the core, it's private wealth, it's family wealth. And so people want to be very, uh, confidential about the full scale of their investments.

(03:24):

And what the survey enables us to do is to take the pulse of what is happening in this important client segment, how they're investing, how they're operating, and sharing best practises and latest developments with others without, uh, lifting that veil of confidentiality. Um, we're seeing now 60% of responses are from outside North America, which we think is very important, because in this global world, having responses from Asia, Latin America, and Europe adds a lot of additional information to, um, what we know about priorities of decision makers.

(04:05):

And, uh, we continue to innovate as well with it, so, um, we are now offering benchmark reports to family offices that participate where they can see how they are themselves doing compared everyone else in the survey, so that they can see whether there's any gaps between what they do in best-in-class thinking. Um, and uh, with AI, we'll see a lot more improvements and opportunities coming to the report because it'll enable us to do a lot more micro segmentation and micro cuts, watch out for what's coming. Uh, it's a very important client segment of what ... Very important report for us.

Alex (04:45):

Kate, maybe I could turn to you. The survey itself reveals a strong optimism amongst family offices, despite obviously, global risks. From your perspective as CIO, what are the factors that you think that might sustain or indeed challenge the outlook in the coming year? And I guess, how does Citi's approach to active management help deliver exposure to some of these key themes and opportunities?

Kate (05:05):

You know, from my perspective as a CIO and as an investor, um, I think the strong optimism we're seeing from this client base, uh, despite all of the global risk, and- and despite what has been a very uncertain period for markets, I think probably can be attributed to a couple conceptual factors. And Hannes was just mentioning kind of the long term investment cycle, I think that's an important thing to anchor on. Because family offices can be long-term, they can be patient capital, and the truth of the matter is, is that many other investors don't have that luxury right now. Uh, they can operate, as Hannes was mentioning, with this kind of multi-generational view. And uh, this allows them to take advantage of different dislocations and different market opportunities that people who are getting daily marks on their portfolios, whether that's the fast money community or even, increasingly, kind of the real money mutual fund community, um, has not been able to really take advantage of.

(06:00):

Um, I think another thing that contributes to the optimism is that this ability to focus on thematic investing, you know, really anchoring to ideas that will last and can perpetuate for the long term. And these might be around investing in secular growth themes like technology or sustainability or healthcare innovation, um, and really be able to weather some of these gyrations in the market. And then I think there's this, you know, other part of it too, which is that these family offices have very strong balance sheets, they don't have the same leverage issues.

(06:31):

But you also ask the second part of this question, which is like, what may challenge that? And the first is, like, ongoing geopolitical uncertainty. We know this is persistent. Uh, it's my strongly held belief that geopolitical uncertainty will remain present, uh, for the foreseeable future. Uh, we've seen massive changes in terms of politics and policy across all regions over the course of the last couple years. I think that's the rule and that may impact the regions that family offices may want to lean into, and also how they, uh, protect or hedge the risks that they're taking.

(07:04):

Do family offices have inflation hedging strategies? They may want to have that if we think that inflation is gonna be persistently higher than it has been over the last 15 years. That's another core belief of mine, and we should really, like, continue to talk to them about how they might hedge their existing, uh, portfolio strategies to take into consideration rising prices. And then I think something else that- that comes up a lot in conversations with these clients is, like, succession planning and governance. We know there's a huge wealth transfer underway, uh, and that can impact investment decisions. The next generation may have different preferences, um, than the existing generation. That may challenge some of the optimism and it may challenge, frankly, some of the asset allocation.

Alex (07:46):

Maybe Hannes, as I could ask you to pivot slightly to, to something actually Kate mentioned in her response when she talked about the global trade tensions and the geopolitical considerations that were highlighted in the survey by- by our clients, and how that might be pushing some family offices to reevaluate the jurisdiction or, indeed, the asset location they're in.

Hannes (08:05):

So every year, we ask family offices about, um, what their top concerns are. Three years ago, the top concern was inflation. Uh, a year ago, the top concern was interest rates. Uh, this year, not surprisingly, I guess the top concern is tariffs. Number two concern is US and China relations, then interest rates and inflation. And so with tariffs and US-China relations having moved to the top of the concerns we asked about, it tells you something about, um, how families are really thinking about their global footprint, the resilience of what they've built and the rewiring that they need to do.

(08:51):

Another thing that we ask in the survey that's interesting, we ask families, "How global are you?" Outside of North America, so if you take Latin America, Europe, Asia, uh, 70% of, uh, families hold assets in more one country. 70%. Only 20% of families are not international, which means families have houses in different places, they have passports in different places, etc. So these are multi-billionaire global entrepreneurs, uh, wealth creators, change makers.

(09:25):

When you create wealth these days or run a big business, by nature, it's global. So, um, it opens up a lot of opportunity, but it takes a lot of planning. What we do is three things. We work on providing a framework to clients about their global location strategy. How do you evaluate different places where you could have assets, passports, or offices?

(09:51):

Um, together with our wealth planners all around the world, we have the resources to help clients put these frameworks into- into practice, and then, uh, find a network of professional advisors. The second thing we do, we've got booking platforms around the world. So we've got different locations where clients can actually book assets. And the third thing, uh, we got international wealth hubs, not just in the wealth segment, but also in investment banking, corporate banking, treasury security services, which are things that these family office clients really need. So it's about having a global presence, being aware of the risks, and helping clients with a framework and the ability to implement.

Alex (10:32):

Kate, turning to you, one of the things that stood out to me is the way the report notes at a high proportion, I think 70%, from memory, of family offices engage in direct investments with obviously many doing more of that recently. What in your view is driving this enduring popularity? Is it just that argument around accessing growth in sectors where companies are staying private for longer, the whole kind of internet economy, digital economy argument, or are there other broader motivations at play here?

Kate (11:00):

Yeah, I'm gonna have to say, Alex, that's 70% figure really stood out to me from the survey as well. And I think it's very telling. I think it's shift- it, like, highlights, like, kind of fundamental shift in how family offices are approaching wealth generation and preservation. But I will say this increased interest in private and direct investments is actually true across almost all of our client bases. But the family offices have a unique opportunity to take advantage of it, uh, because of their long-term capital and because they're able to weather some gyrations and volatility in near-term market movements, uh, to really stay focused on their longer term themes and asset allocation.

(11:38):

I- I think the enduring popularity of direct investments isn't just about accessing growth sectors, where companies are staying private longer. The obviously the kind of the penultimate example here is in the technology sector, where people have, you know, seen some of these awesome, um, market-moving companies stay private for a long time. They don't need outside capital or don't need to go public, uh, and people want in on that massive amount of growth.

(12:03):

I think the idea is we want to give access to differentiated opportunities, things that provide diversification for long-term portfolios, and potentially generate alpha in so doing. Um, I think that there is a, you know, huge opportunity for many families as well to use direct investing as the ways to stay actively involved in entrepreneurship, to support innovation, and a lot of kind of the mission of that family.

(12:29):

There's a lot of philanthropic and personal interest that can get expressed through direct inter- uh, direct investing that may be a little bit more challenging to do in the public markets. And so I think this kind of intersection of entrepreneurialism, kind of the sources of wealth, the expertise and sectors and industries, the philanthropic and personal interests all combines to make direct investing a really interesting, uh, path for most family offices.

(12:54):

So, uh, direct investments, particularly in niche sectors or in early-stage ventures can offer that diversification and lower correlation to public market volatility. So, uh, it's really helping to build and enhance portfolio resilience.

Alex (13:09):

Maybe Dawn, just building on what, you know, Kate was talking about there and that interest in direct investments?

Dawn (13:14):

There's sort of three ways that Citi is able to, um, get involved in the direct investing space with our family office clients. And I would say those three buckets are sort of opportunities provided by wealth directly, opportunities provided by the institutional side of Citi, and then opportunities that we can help provide through, uh, the Citi Network, right?

(13:35):

So when I think about the first bucket opportunities provided by Citi Wealth, that's really our relationships that we have with the private equity providers out there on the street, right? And we're able to bring to market, um, through our clients' private equity investments as well as bespoke co-investment opportunities. In terms of the bucket from the broader Citi institutional side of the business, that's where we really leverage our partnership with investment banking, right?

(14:02):

So, um, earlier this year, we did a bit of a reshuffle in terms of how we're organised to cover family office, such that the global family office team being part of integrated client engagement brings our family office clients even closer to our investment banking colleagues.

(14:18):

Family office capital has a bit more patient timeline, and they're also very sophisticated investors, right? And as Kate also mentioned, particularly when the industry, um, of that asset happens to be directly related to an industry that our family knows well because they might own, um, you know, an operating company or their wealth, came from that specific industry, they love to get involved and really help drive future growth of that operating company.

(14:44):

So more and more, we're trying to get our family offices positioned to make, sometimes, quite large investments into assets that our investment bank, um, is selling. A lot of different ways, it all comes down to differentiation and just making sure that we're showing our family offices really interesting, bespoke opportunities to put money to work.

Hannes (15:02):

Family offices have become very attractive partners, uh, that- that fulfil a very important role. So we are also seeing people actively asking for, "Can we talk to family offices? Can we get their insight?" I think that's a change that has really happened in the last few years. And one of the things that I noticed, which, again, makes family offices so different, because it is private money. In the end of the day, if they want, they can make decisions in size very quickly.

(15:36):

Alex (15:55):

Your experienced worldwide with our family offices. Maybe we can talk about some of the more common strategic governance or even behavioural pitfalls that you sometimes see family offices encounter. And I guess, by contrast, what- what do you think sort of best practises are?

Hannes (16:12):

I've built my career really, um, in- in markets and investments, right? That's- that's kinda my background, but one of the most rewarding aspects of working with family offices is actually, uh, the soft side, seeing the family aspect, uh, of what they do that is so important, as the flip side, if you want, to the- to the investment practise.

(16:33):

When we ask family offices what is most important for the family? Like what is most important? The three answers are the most important thing is wealth preservation. The second most- most important thing is preparing the next generation. Anyone who's a parent knows, (laughs) like, yes, that is something you care deeply about as a- as a [inaudible 00:16:56]. Third thing is, uh, finding shared values. I think the challenge is that you have, uh, something emotional, which is a family, and something very tangible, which is money. And you need to be able to bring the two together in family offices.

(17:15):

Not surprisingly, when we ask family office, uh, personnel, "What's your number one problem?" The number one problem is, um, managing the expectations of the family. How do you make sure that the expectations are realistic for what can be done in-house versus out-house and what the cost really is?

(17:35):

Two, don't try to do everything in-house, but there's a lot of things that you cannot do purely in-house. And so, uh, we're seeing that when we ask about technology, cyber security, for example, people say they don't know what best technologies are, they- they're not even aware of solutions. Well, which gets to the third point, um, doing outsourcing and recognising that needs of the family grow exponentially is something that, uh, family offices to deal with. There's a huge difference in complexity between a first-generation family office and a fourth-generation family office that is 50 stakeholders.

Alex (18:20):

Maybe Kate, I could turn to you, one of the things that the- the- that the survey brought out was that many family offices had held their overall asset allocation steady in the last couple of quarters, obviously waiting more clarity before making big shifts. But maybe at a higher level perspective, how do you think our clients in those family offices should think about when they want to trigger a major asset allocation shift versus being a bit more selective, a bit more tactical?

Kate (18:43):

I mean, there's never been a time where I've heard more people talk about revisiting their asset allocation structures in general. I'm seeing, like, similar stability in overall asset allo- allocation for many long-term allocators. But this kind of review of asset allocation is slow-moving, and it's deliberate, despite all of the changes we've experienced in market structure, in policy, and in growth forecasts over the course of 2025.

(19:13):

So I think this is gonna be a long and complex process. And what I'll say this is, is that many asset allocators are thinking about the inclusion of new and growing asset classes. They're examining the diversifying, uh, elements and properties of these assets. We're seeing everyone kind of hold their strategic asset allocation stable at the moment, but doing a lot of deep dives.

(19:36):

There have been some big, number one, cyclical economic shifts, you know, anticipating a business cycle slowdown, or in some cases K-shaped economy in certain sectors. These family offices can lean into the longer-term, uh, structural and positives, you know, secular trends. We see policy changes kind of in the short to medium-term impacts from fiscal or monetary policy adjustments. They create temporary opportunities and risk assets. And because the family office teams tend to be quite sophisticated in terms of their tactical approach, we would, you know, encourage them to put risk on, uh, in an appropriate and hedged way.

(20:12):

And then these event-driven opportunities. You know, we're getting these massive, not just M&A and, um, geopolitical events driving things, but the technological disruption to all of these different sectors is leading to kind of event-driven opportunities. So Citi supports this in a lot of different ways. You know, we wanna be an extension of family offices' own capabilities. You know, my team and everyone in Wealth and everyone, uh, around the bank is looking to provide kind of that analytical rigour, um, around strategic asset allocation, and the opportunities as you know, Dawn and Hannes have been talking about, uh, for our family offices that are patient capital and they can invest in the long term.

Alex (20:51):

Dawn, I could bring that to you. In terms of some of the innovation that we're really trying to emphasise in terms of our cooperation with our global markets colleagues, particularly thinking about some of that single stock and portfolio hedging, maybe some of that stake building that we are hearing Hannes talking about. Given the sort of the volatility in markets, uh, how does that affect that client experience that you're- you're so focused on,

Dawn (21:11):

It's all about leveraging the partnership with the institutional side of Citi, right? So what we're able to do through Citi, and specifically integrated client engagement and all the partnership that we're driving here, is make sure that we're delivering institutional-grade solutions, execution, expertise to our family office clients who are really institutional in everything that they're trying to do.

(21:35):

So we've got experts and expertise on the institutional side of the business. Again, this concept of, "Let's put the client first. Let's- let's work with, um, the folks in our family office coverage team, partnered with our private bankers, partnered with our investment consultants, layering in Kate's voice from CIO, and then how do we go achieve those objectives for the client?" And if a piece of that means that we need to leverage the institutional markets business to execute some of those things, it's there. When the solution resides outside of Wealth, within Citi, it's literally a phone call away.

Alex (22:09):

That's fascinating. I- I guess it's really interesting, when you think of one of other takeaways from the survey, Dawn, in terms of a pretty high proportion of our family offices aren't either borrowing or seemingly seem to be under-levered. I think 50% of families are not borrowing and 25%, uh, are only borrowing kind of, uh, 25% of their assets. How do we think of how we position our- I guess, our offering to- to those types of clients?

Hannes (22:32):

I think we need to remember, these are the wealthiest families in the world, right? And very often they don't need to borrow. They want to borrow. And so, for them it's part of the investment decision. And I think 76% of these families have operating companies. So, uh, families who have operating companies that generates cash flow for them. And so, they look at this more on a project and investment basis. And- and I think that's what we're seeing.

(22:59):

The- the main areas where we're active is real estate, uh, which is definitely very often done with an element of borrowing. Um, we're seeing it in private equity. And then the third thing is in the operating company. But many of these clients differentiate their operating business from the personal wealth. And where they're willing to take, uh, leverage in the operating business, and certain projects like real estate, some of them have very, um, strong beliefs in whether they want to do borrowing on the- on the private wealth side or not.

(23:37):

By the way, some of the wealthiest families are art collectors, and the ability to provide art lending is rather niche, but is something that- that Citi is also in and that this, uh, client base also enjoys.

Alex (23:50):

Well look, uh, a big thanks to the three of you. This has been a wonderful discussion. Hannes, you touched on those macroeconomic and geopolitical factors; Dawn, you really emphasise the need to provide a seamless and truly connected client=first experience; and Kate, I loved how you talked about how families talk with you and us about triggering major asset allocation shifts, and how to approach it. Thanks for joining the podcast and, uh, I'm sure we'll- uh, we'll get more questions coming out the back of it, so thank you.