Family Offices Trim Exposure to Hedge Funds

Stockholm (HedgeNordic) – Family offices are trimming their exposure to hedge funds for at least the fourth consecutive year, according to a survey among 311 family offices conducted by UBS. Hedge funds currently account for 5.7 percent of the average family office portfolio after allocations declined 3.2 percentage points this year and fell 0.9 percentage points last year.

Despite the continuous decline in allocations, the hedge fund industry delivered the best performance since 2013, with the average hedge fund earning 8.6 percent last year as reflected by the HFRI Fund Weighted Composite Index Performance. The decline in hedge fund allocations among family offices can be mainly attributable to weak performance in the past decade or so and relatively high fees imposed by hedge funds. The chief executive officer of one family office cited in the Global Family Office Report said: "If you look at hedge funds over the last five to eight years, they offer much lower returns than the rest of the market. The purpose of a hedge fund is to limit your downside risk, but you're not going to get the upside as well."

The report also reveals major differences in hedge fund allocations across regions. North American and Emerging Markets family offices, for instance, favor hedge funds the most with average portfolio allocations of 7.4 percent and 8.6 percent, correspondingly. Hedge funds account for 5.0 percent of the average European family office, whereas family offices in Asia have an average exposure to hedge funds of only 1.7 percent. Family offices also tend to allocate more capital to larger hedge funds, as vehicles managing more than $1 billion in assets account for 8.0 percent of the average family office portfolio. This compares with an average allocation of 5.3 percent to funds managing less than $250 million in assets and 5.2 percent to medium-sized funds managing between $250 million and $1 billion.

Although the weak returns in the past several years discouraged family offices from allocating a bigger portion of their capital to hedge fund vehicles, the allocation level to this asset class is expected to remain stable next year. Whereas around 15 percent of the family offices surveyed indicated they plan decrease investments into hedge funds, 21 percent of survey respondents expressed plans to increase allocations to hedge funds next year.

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