



SOMERSET CAPITAL

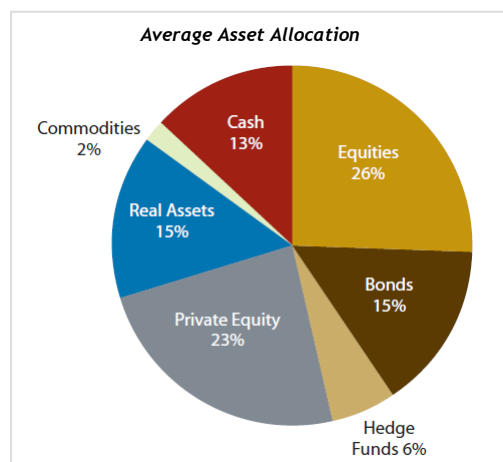
FAMILY OFFICES • PRIVATE MARKETS

Somerset Capital 3rd Annual Family Office Survey 2013

SUMMARY

In January 2013 Somerset Capital conducted its 3rd annual survey of the family office investors in its network in order to determine their investment plans for the year ahead. A total of 51 family offices participated in this survey, of which 75% were single family offices (SFO). The investors in question were predominantly located in the UK and Europe, and around half managed assets in excess of US\$500 million. 58% were pure financial investors whereas 42% continue to own an operating business. We are delighted to provide our summary findings in the attached document.

At the level of asset allocation, the main finding is that around half of the participants, over the course of the next twelve months, plan to increase their allocations to real assets (50%), equities (48%), and private equity (46%). A similar number plan to decrease their allocations to bonds (52%), and cash (43%). The average asset allocation as of today is detailed in the chart to the right.

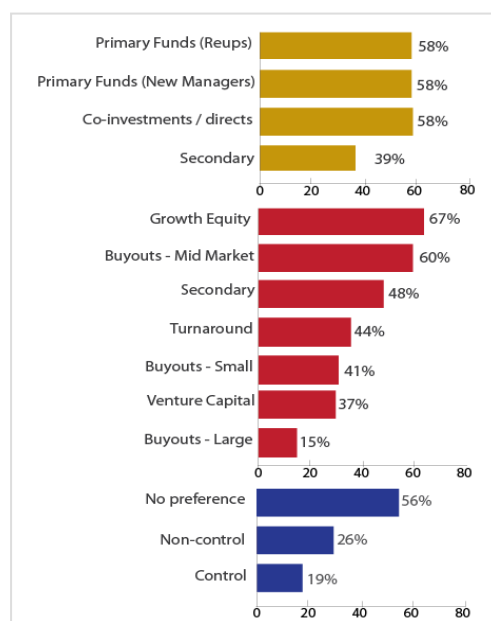


PRIVATE EQUITY RESULTS

Nearly all of the participants in the survey are investors in the private equity market.

Strategies

- Over the next two years, a majority of the investors surveyed stated an interest in continuing to back existing managers through re-ups, new managers, and to invest in co-investments and direct investments. 39% stated an interest in secondary transactions.
- The participants demonstrated a strong preference for growth equity transactions, with 67% showing an interest, compared with 60% who were interested in mid-market buyouts, 48% in secondary, 44% in turnaround and 37% in venture capital. Only 15% showed interest in large buyouts.
- Geographically, 83% showed an interest in private equity investments in Europe, versus 60% in the US and 40% in emerging markets, although it should be borne in mind that for the most of these investors Europe is the home market.
- 19% of investors had a preference for control deals, versus 26% non-control, with 56% showing no preference.



REAL ASSETS RESULTS

78% of those surveyed invest in real assets. Broadly speaking investors are looking to increase their allocations across the board to this segment of the market, with participants indicating an interest in increasing allocations to real estate, agriculture, forestry, infrastructure and commodities.

	Increase allocation	Decrease allocation	No change	No allocation	Total
Real estate	51.9%	11.1%	37.0%	0.0%	100%
Mining	20.0%	5.0%	35.0%	40.0%	100%
Agriculture	45.5%	0.0%	18.2%	36.4%	100%
Forestry	27.3%	0.0%	36.4%	36.4%	100%
Commodities	22.7%	0.0%	45.5%	31.8%	100%
Infrastructure	23.8%	0.0%	38.1%	38.1%	100%
Other	0.0%	0.0%	40.0%	60.0%	100%



HEDGE FUND RESULTS

42% of respondents invest in hedge funds.

Strategies

- Most popular strategies: A majority of respondents had allocations to fundamental equity strategies, equity long/short and global macro strategies.
- Least popular strategies: 46% of respondents said that they had no allocation to distressed, about a third do not allocate to equity market neutral, volatility arbitrage and CTA.
- Growth areas: 50% of respondents said they intended to increase allocations to fundamental equity - value biased, 36% said they would increase allocations to Equities Long/Short, and 33% said they would add to Global Macro.
- Regionally, Emerging / Frontier Market, LatAm / Brazil and Asia funds were stand outs, with around 40% of respondents planning to increase their allocations to each of these categories.

	Increase allocation	Decrease allocation	No change	No allocation	Total
Equities Long/Short	36.4%	9.1%	54.5%	0.0%	100%
Equity Market Neutral	9.1%	9.1%	45.5%	36.4%	100%
Fundamental Equity - Value biased	50.0%	0.0%	33.3%	16.7%	100%
Fixed Income Relative Value	30.0%	0.0%	50.0%	20.0%	100%
Distressed	30.8%	7.7%	15.4%	46.2%	100%
Global Macro	33.3%	8.3%	50.0%	8.3%	100%
Volatility Arbitrage	9.1%	0.0%	54.5%	36.4%	100%
CTA	27.3%	9.1%	27.3%	36.4%	100%
	Increase allocation	Decrease allocation	No change	No allocation	Total
North American Funds	33.3%	16.7%	41.7%	8.3%	100%
European Funds	16.7%	8.3%	66.7%	8.3%	100%
LatAm / Brazil Funds	36.4%	0.0%	27.3%	36.4%	100%
Asian Funds	38.5%	0.0%	46.2%	15.4%	100%
Australian Funds	0.0%	0.0%	27.3%	72.7%	100%
Emerging / Frontier Market	41.7%	0.0%	25.0%	33.3%	100%

Structures

- More than half of respondents who invest in hedge funds invest in offshore structures (91%), followed by managed accounts (64%) and EU onshore structures (56%). Onshore US structures seemed to pose the most problems, with 78% of respondents choosing not to invest.

	Yes	No	Total
Managed Accounts	63.6%	36.4%	100%
Investments through platforms (Lyxor, DB, etc)	36.4%	63.6%	100%
Offshore Funds (Cayman etc)	90.9%	9.1%	100%
Onshore (EU) funds	55.6%	44.4%	100%
Onshore (US) funds	22.2%	77.8%	100%

Fund Maturity/Size

- 62% of respondents were happy to invest in funds with less than \$100m AUM. 11% of investors indicated that they would consider seed investments, and 83% of respondents said that they would invest in funds with less than \$1B in AUM. Interestingly, 31% of respondents indicated that they would not invest in funds with AUM greater than \$1B.

	Yes	No	Total
Seed Investing	11.1%	88.9%	100%
Early Stage Investing (<\$100m AUM)	61.5%	38.5%	100%
<\$1,000m	83.3%	16.7%	100%
>\$1,000m	69.2%	30.8%	100%

OTHER ALTERNATIVE ASSETS RESULTS

32% of those surveyed invest in other alternative assets. Half of the respondents are planning to increase allocation to litigation and intellectual property; 43% would add to impact investing; 33% to insurance.

	Increase allocation	Decrease allocation	No change	No allocation	Total
Insurance	33.3%	0.0%	33.3%	33.3%	100%
Litigation	50.0%	0.0%	0.0%	50.0%	100%
Carbon Credits	16.7%	0.0%	16.7%	66.7%	100%
Intellectual Property	50.0%	0.0%	16.7%	33.3%	100%
Healthcare Royalties	28.6%	14.3%	28.6%	28.6%	100%
Impact Investing	42.9%	0.0%	14.3%	42.9%	100%
Debt Recovery	14.3%	0.0%	57.1%	28.6%	100%

PHILANTHROPY RESULTS

36% of respondents have a formal philanthropy programme within the family offices with more than half are involved in grant making and nearly half in impact investing.

FURTHER INFORMATION

For further information regarding Somerset Capital or this survey please contact Jim Miller at jim@som-cap.com or Marie Soong at marie@som-cap.com

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