Family Office

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Expansion of the industry leads to a blurring of distinctions

The generic term 'family office' creates confusion over the variety of services offered, *Page 2*

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Expansion of industry leads to blurring of distinctions

The term 'family office' has become generic, so is apt to cause confusion, says *Jeremy Hazlehurst*

Here's a question: what is a family office anyway? There was a time, long ago, when the answer was pretty straightforward: a group of people employed by a family to look after their day-to-day financial affairs.

But with the proliferation in recent years of multifamily offices, private and investment banks with their own "family offices", not to mention hedge funds that have mysteriously morphed into family offices, the term has become extremely confusing.

These days, comparing different sorts of entities that call themselves family offices is not so much like comparing apples and oranges, says one person in the industry, but "all sorts of vegetables and all sorts of fruits".

Plenty of people are sceptical about the new breed of so-called family offices. David Murray, son of Scottish industrialist Sir David Murray, who at one point owned Rangers football club, runs his family's family office. "I know a few multifamily offices, and it does strike me they are really asset managers in disguise," he says. "There are more and more of them, especially in London, so I would question how much of a family office they really are."

A recent paper in The Journal of Wealth Management called "A family office by any other name" argued that a wealthy family "seeking a true family office experience and set of services" would be "unwise" to believe "they will receive it from a traditional wealth management firm just because it calls itself a family office".

Paul Kearney, a managing director at Kleinwort Benson who advises family offices, says: "The term has become so stretched that it covers any firm that has families as its clients."

Some history might help clarify matters. The family office was invented by wealthy American families – the Rockefellers are often credited with creating the first. They wanted something parallel to the "estate office" the landed gentry used to run their estates. That involved the land agent and estate manager who ran the commercial activities, and perhaps the butler and private secretary controlling the household.

The duties of the first family offices included functions such as dealing with tax, running the family's philanthropic activities, managing trusts and producing family constitutions, advising on art, architectural matters, property or direct investments, and housekeeping-like chores such as buying opera tickets, paying school fees, vetting chauffeurs and making sure the cleaner got paid.

Every family had its own needs, so the family office's function varied accordingly. As time went on, some families with similar needs pooled their single-family offices into multi-family offices.

If the family wealth is at an early stage of development, the office might also invest some liquid assets. "Family offices that manage investments tend to be more first or second generation," says Edward Collins, managing director of Hanson Asset Management, which grew out of the Hanson single-family office. Assets are still small at that stage and investing the money is a relatively straightforward job. When the wealth increases, it becomes uneconomical to do this in-house and wealth management is outsourced.

Wealth management, therefore, is a relatively minor part of the classic family office's function. And yet this activity has been seized upon by wealth managers who have badged themselves as family offices, or multifamily offices.

True, some, like London-based Stonehage, which recently merged with Fleming Family & Partners, began life helping wealthy South Africans move their assets overseas during the apartheid era and so have a wide range of expertise.

But many organisations that call themselves family offices are more or less pure-play investors of liquid assets. Whether they are family offices in any real sense is unclear.

Why has this confusion arisen? Largely because, as the Journal of Wealth Management article argues, the name "has been co-opted by the traditional financial services industry in its marketing and positioning efforts".

"It's a fashionable term, a bit like 'hedge fund'," says Mr Collins, "but there are all sorts of hedge funds." Mr Kearney adds: "It connotes a level of personalisation and sophistication that is a useful device to throw over your entire business proposition."

Regulation has also muddied the waters somewhat. Since 1940, US family offices have been exempt from much of the regulation that applies to wealth managers, and the Dodd-Frank Act of 2011 reiterated this.

It defined family offices as "entities established by wealthy families to manage their wealth and provide other services to family members, such as tax and estate planning services". In other words, only single-family offices count.

However, several hedge funds that invested the wealth of a single family have started calling themselves family offices. This has probably blurred the lines between the two types of entities in some minds. Adding to the confusion is that numerous single-family offices have converted to multifamily offices. Even the Rockefellers' now has 259 clients.

Does it really matter that "family office" has lost its original meaning? "The question is: do people think the term implies they are getting something specific, or are they wise enough to know the term is meaningless," asks Mr Kearney. "It has become as generic as the word 'transport'. If I want transport from A to B, does it matter to me whether it is a rickshaw or an S-Class?"

So, to put it bluntly, the answer to "does it matter?" is yes. Or, to put it less bluntly, caveat emptor.

> '"Family office" is a fashionable term, a bit like "hedge fund", but there are all sorts of hedge funds'

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Multiple-client deals at a premium but one size does not fit all

OPINION
Jeremy Hazlehurst

Direct deals have been in vogue for many families ever since 2008, when they realised that handing over money to banks to pump into complex investment strategies was perhaps not the best idea, and that investing in real businesses they understood was a far better strategy.

In the years since, finding and managing these deals has become a core function of many family offices.

The problem with this, however, is that even if you are well connected in a sector and a region, good direct deals are hard to find.

Happily, there are plenty of intermediaries who will charge a fee for finding deals, especially in the UK, which has a vibrant and sophisticated network of boutiques and advisers who can find good private equity or venture capital deals.

Multifamily offices are getting in on this game too. Edward Collins, managing director of Hanson Asset Management, says some multifamily offices are starting to behave in very non-family-office ways.

"Performance fees for the lead family who have put the deal together create an alignment of interests," he says. However, he adds: "Multifamily offices that charge deal and management fees and don't invest principal capital alongside are more akin to a private equity fund than families investing together".

Are multifamily offices morphing into something else?

Quite possibly. Their primary job is, in many cases, asset management. This makes them very different beasts from traditional family offices, even ones that undertake some wealth management.

Philip Higson, vice-chairman of UBS's global family office group, says: "The beauty of the single-family office is the ability to make longer-term decisions and take bespoke decisions".

> 'Families don't have the same requirements, so it is really hard to bucket the assets in an effective way'

He thinks that even a small multifamily office with only a few families involved means compromising on a family's needs.

"Families don't have the same requirements, so it is really hard to bucket the assets in an effective way that suits the requirements of multiple families and generations," he explains.

Mr Higson says multifamily offices often end up with asset allocation models similar to those of straightforward wealth managers, whose products can be bought off the shelf for less.

Increasingly, families are keeping the management of illiquid assets in-house and outsourcing the labour-intensive day-to-day job of managing the portfolio of equities and bonds to professionals – either at a wealth manager or a multifamily office – because they find it hard to attract the right calibre of person to come and work for a family.

It is enough to make you wonder whether multifamily offices should in fact have another name.

Edward Collins, CIO of Hanson Family Holdings

One sign that the name has become utterly confused is Bloomberg's annual list of the "richest family offices", which is dominated by private banks and wealth management firms that happen to have families as clients, and don't even pretend to be any sort of family office.

Maybe we need another name for entities that are working for families purely on the sell side. Or perhaps an old term would do: "private bank".

Economies of scale play against bespoke touch

Single versus multi

Banks expand offices while smaller firms promote expertise in handling complex client needs, writes *Simoney Kyriakou*

It was a good year for multi-family offices (MFOs) in 2013. Backed by global banks, MFOs controlled more than $700bn at the end of the year, shared among 200 firms.

A report by consultancy Cerulli Associates, *High-Net-Worth and Ultra-High-Net-Worth Markets 2014: Addressing the Unique Needs of Wealthy Families*, attributes this growth in part to independent registered financial advisers moving up the wealth scale and starting to compete for business from billionaires.

It certainly helped shore up the profitability of the banks providing finance for the MFOs and this success may soon see other national and super-regional banks and trust companies setting up their own offices, the Cerulli report suggests.

Not everyone in the family office space is happy about the growth of MFOs, however.

Some have questioned whether they should even be called "family offices", given that more often than not, they do not have a founding family at the centre but a bank with deep coffers and a clever marketing strategy.

"Many firms have set up what they like to call MFOs, but which are nothing more than glorified asset managers,", says Jon Needham, global head of fiduciary services at wealth manager SGPB Hambros.

"I refer to them as wolves in sheep's clothing. It is doing a disservice to those that I consider genuine family offices, such as single-family offices (SFOs), which actually have a founding family at their heart."

Jason Porter, business development director at wealth manager Blevins Franks, says that the family often has little choice in whether to set up an SFO or use an MFO, partly because "manning an SFO with specialist staff could be economically illogical for those with wealth of less than £50m".

Catherine Grum, the private office head at merchant banking and operational risk company Salamanca Group, agrees, suggesting the super-luxury of an SFO may just be unviable for many families.

She describes setting up an SFO as like "hiring a full orchestra to play at an intimate dinner for two – not only are the costs likely to be significant but the effect is likely to be overpowering in all but the very grandest dining rooms".

As far as Ms Grum is concerned, the benefit of an MFO is that you can retain the orchestra but have greater flexibility to "tailor the composition for different occasions", without worrying over the excess costs as these would be shared with several others in the MFO.

As MFOs tend to have a number of families with similar investment, legal, tax or corporate requirements, it is possible to offer a wider service, giving clients access to a broader range of experts.

Paul Kearney, private investment office managing director at Kleinwort Benson, says the focus on investment and tax planning would suit most client families who want a simple structure where their money is managed for them.

"MFOs give client families the benefit of scale and offer deeper resources in terms of manager expertise," he says. "Also, a client of a closed MFO is unlikely to suffer dilution of service, as the number of families served will not rise above a set ceiling."

An SFO, however, might better meet the needs of families with cross-jurisdictional homes and businesses.

"In such cases," says David Bell, senior wealth planner at Lombard Odier, "bespoke structures are paramount. Families can use these without shouldering the legal and accounting set-up costs."

In Europe, he says, this means using Sicav (*société d'investissement à capital variable*) structures, which are tax efficient across the continent, and similar structures in the US and Asia.

"For such families, these collective vehicles allow more tax-efficient investment management at a lower cost for each investor," he says.

There is, however, more to just managing or investing a family's wealth, according to Mr Porter, who adds: "One of the most important roles a family office, whether it be single or multi, is the education of family members for the receipt of the wealth they are due to come by as beneficiaries.

"Being born into wealth but where you have no control over the capital is one thing, but then receiving that control at a certain age requires preparation."

Mr Needham believes families should also consider the culture.

"Having a founder at its heart is integral to the culture of the SFO," he says.

"If an MFO has a founding family at its heart, it can provide some economies of scale and manage conflicts of interest while keeping costs lower.

"But despite the expense, there are no conflicts in an SFO and, for many families, they have the key ingredient: confidentiality."

Catherine Grum of the Salamanca Group

Family lines: 'There needs to be a clear divide between investment and non-investment activities in a single family office,' says Benedikt von Michel, chief investment officer, JMH Asset Management — Daniel Jones

Nimbleness and focus provide an edge

Interview
Benedikt von Michel
Chief investment officer, JMH Capital Management

Remaining one step ahead of the pack is central to the success of a single family office, says *David Bain*

Interior design is not a skill usually required to run a family office. But Benedikt von Michel was at one stage working with four interior designers involved in an estate that the family he was employed by had just bought in the Loire Valley in France.

"I ended up spending a not inconsiderable amount of my time discussing colour schemes with interior designers," the chief investment officer of single family office JMH Capital Management says.

It was shortly afterwards that the former Schroders fund manager decided that there had to be a clear division between the investment management part of the family office and the family's own private affairs.

So a separate private office was created, staffed by a team of specialists involved in the family's more private affairs, such as trust structures, the management of their properties and the oversight of some direct investments the family had bought in the luxury sector.

The family office could then concentrate on broader investment management. "There needs to be a clear divide between investment and non-investment activities in a single family office," says Mr von Michel. "They demand very different skill sets and both sides need to be focused on what they do best."

It was Mr von Michel's investment skills that Jim Hay, the principal behind the family office, called upon soon after the financial crisis struck in 2008.

Mr Hay had made his money buying a subsidiary of BP called Fosroc in 2002, and turning it into a bigger and more profitable business that is now part of the Dubai-based JHM Group.

Mr Von Michel had worked with Mr Hay in the early 2000s, helping him restructure Fosroc, but subsequently left on good terms to work for an activist fund in 2005.

He was lured back to create a single family office and to join the board of the JMH Group. "Between my leaving and coming back, an investment portfolio had emerged, but it was a scattergun approach largely driven by the private banks" he says.

"Jim needed someone to structure and build a professional family office and come up with a coherent investment strategy," he explains.

When Mr von Michel rejoined the family office, it had accounts with 11 banks – too many, most would say, for a single family office, regardless of its size. What was needed, says Mr von Michel, was an investment strategy that satisfied the demands of the family in terms of both liquidity and returns.

An added problem, he recalls, was that the banks were not doing enough to preserve capital, despite their promises. "A lot of their strategies were highly correlated to falling equity markets," Mr von Michel says.

This eventually led the family office to focus on a strategy that would generate returns of 8 per cent a year, contain risk and be genuinely uncorrelated to the equity and bond markets.

Mr Von Michel and his team say they have achieved this by defining and implementing a simple but effective investment strategy based on disintermediating the banks.

"We are today predominantly investing in funds that directly benefit from the enormous regulatory changes occurring across global financial institutions," says Mr von Michel.

"As banks have scaled back their day-to-day activities, they have opened up big opportunities for specialist funds dedicated to these niches. Examples include direct lending, trade finance, litigation finance and reinsurance – but there are many more."

He has gone one step further in folding the entire portfolio into a Luxembourg-regulated fund. "Putting this belt and braces regulated structure in place has enabled the family office team, as well as friends and family to co-invest alongside the Hay's family office."

'There needs to be a clear divide between investment and non-investment activities in a single family office'

Professional managers of single family offices are often encouraged to invest alongside the family. "There is no better way of incentivising a manager than for him to eat his own cooking," says Mr von Michel

One of JMH Capital Management's other businesses is 46 Parallels.

"We were attracted by the Africa space, but couldn't find a fund that offered the right risk-reward profile. So we directly backed a team engaged in equity-linked debt and enabled them to set up additional offices in Lagos and Nairobi."

Single family offices such as JMH Capital Management are often nimble enough to spot and invest in emerging themes ahead of bigger and more bureaucratic institutions.

As Mr von Michel points out, single family offices were the early backers of hedge funds.

Another advantage for single family offices with an operating business attached is that they can take advantage of the group's infrastructure. "We are part of a larger group, itself once a subsidiary of BP. With that comes an institutional infrastructure in terms of IT systems, reporting structures, and so forth."

All this gives single family offices such as JMH Capital Management an advantage over many other investment houses, Mr von Michel says.

"If single family offices can continue to remain one step ahead of the pack while maximising the resources at their disposal, that has got to be a boon for the sector in the years ahead."

Direct investing investors prefer to have more control

The big news in the fast-changing family office sector has been a merger of Stonehage and Fleming Family & Partners, creating a powerhouse employing 500 staff in the Europe, Middle East and Africa region and running more than $43bn in assets for 250 wealthy families.

Both groups have been critical of opaque and complex investments, many of which should never have been included in client portfolios. "The structured product market is a clear example of where clients should have replicated the exposure far more cheaply through direct positions, but were sold complexity, which generated higher revenues" for banks, says Kirsten Boldarin, a director of Stonehage Investment Partners.

Louay Al-Doory, managing partner at family investment managers Plurimi, says: "Many offices were caught in the financial crisis with illiquid and opaque investment strategies, forcing them to deepen their investment process and realign priorities."

One of the results has been an increased focus on "direct investing", particularly in alternative assets. "This is the ultimate fashion: to keep full control over the assets to the extent the account stays with the family office's custodian. [This means] the hedge fund manager has no ability to lock in the account, to block liquidation," says Olivier Dupraz, director of family office services at Pictet Wealth Management. "There is no question that investors have more control in direct investments."

Most offices are agreed that although there is a cyclical element, the debate is dominated by costs, as offices try to see through and eliminate unnecessary "packaging" and layers of fees attached to indirect, product-based strategies.

Yet, despite heightened noise levels around direct investing, it remains difficult to access and to manage successfully. "It may be that there is more talk than action in this area," says Charlotte Thorne, founder of investment office Capital Generation Partners, which oversees more than $2bn for predominantly European families.

Funds have their advantages, especially a better risk profile. "You instantly own a portfolio of investments . . . which radically lowers the impact of an individual default at security level," suggests Hansjörg Borutta, group executive committee member of wealth manager Marcuard Heritage.

And while successes of direct investing are well known, failures are often swept under the carpet.

Yuri Bender

Family Office

Rewards are high but so is the commitment

Recruiting

Finding staff with the right experience and attitude can be tricky, says *Attracta Mooney*

Helping hand: Cary Grant, left, stars as the angel who helps David Niven in the family office in *The Bishop's Wife*

Geoffroy Dedieu is used to working with rich families. As managing director for family services at Swiss private bank Julius Baer in Singapore, he looked after some of the world's wealthiest people.

But in 2009, he stopped working with several families and turned his attention to just one: the Danjumas.

One of Nigeria's richest families, the Danjumas, hired Mr Dedieu, who had been their banker since 2006, to set up a UK-based single family office.

So-called poaching is a common way of acquiring staff for family offices, says Vahe Vartanian, founder and managing director of Family Office Recruitment, an advice and recruitment website.

"Quite often, [family offices] hire an individual they have worked with in the past and trust, or are currently working with from the legal and accounting worlds, for example, and poach them for their firms," he says.

P Scott Gregorchuk, chief executive officer of Forbes Family Trust, a multifamily office that was initially set up to look after the media family, says the firm typically "leverages our collective network" across investment banks, asset managers, wealth managers, private banks and other family offices when it comes to hiring.

It is also common for family offices to turn to friends, as well as using word-of-mouth, to find suitable staff, says Mr Vartanian.

In other cases, especially when family offices are being established, the family will appoint a staff member from their business to run the new venture, says Tayyab Mohamed, a director at Agreus, a family office advisory and recruitment firm.

Family offices are also increasingly using recruitment firms to secure some employees.

"If they can't find the right person, then they would typically engage with recruiters and headhunters and online resources," says Mr Vartanian. According to a 2014 report from Family Office Recruitment, salaries vary significantly.

A UK-based chief executive can expect to earn between £100,000 to £500,000 a year, while chief executives in the US are paid as much as $1m.

"Bonuses are usually discretionary and depend on the family, the purpose of the family office and the size of assets," says Mr Vartanian.

For investment professionals at family offices, bonuses can be as high as 100 per cent of salary, although the normal range is between 25 and 75 per cent.

At the TY Danjuma Family Office, the number of staff has grown from two to 11 over the past five years.

"We have internalised most things, except payroll and some legal work," says Mr Dedieu.

The venture now includes three staff working in finance, one in IT and one in compliance. A further two cover property investments, two work in its art division and two in fund management – including the chief executive and chief investment officer.

The family office has found new staff using a wide variety of sources, looking for people with accounting and control backgrounds at well-known recruiters and online services, while high street recruiters were also used to source property specialists.

Portfolio managers are "recruited via slightly more specialised recruiting firms", says Mr Dedieu. "For a few top positions, we may prefer to use a headhunter with a special family office focus."

But recruiting the right person is time consuming.

"We aim to hire the best and brightest, and given the diverse and fractured nature of our industry, finding those individuals can take a great deal of time and effort," says Mr Gregorchuk.

From the smallest single family offices to large multifamily offices, one of the biggest challenges is finding people who "fit in", says Mr Mohamed.

A person might have done an excellent job working for the family in their business, but that does not mean they are suited to the demands of a family office, he explains.

Bankers and fund managers can struggle in family offices as well. "People from the sell side don't always fit; they come from a different mentality," says Mr Mohamed.

Some dislike the lack of glamour in family offices, says Mr Mohamed. "The culture of working for a single family office is completely different from working for the sell side. It can be mundane."

Mr Dedieu adds: "The banking culture is not a very good match for a small, fast-paced structure such as ours."

Family offices are looking for more than skills, says Mr Vartanian.

"There needs to be a personality match with the family, a cultural match, a work-ethic match and, on the investment side, an investment mentality match, as family offices are typically risk averse."

He adds: "These individuals will have access to very confidential information concerning the family's wealth and interests, which is another reason why it is important to have the right trusted people."

Mr Mohamed says the culture within family offices means that staff are expected to do more than their job title implies.

"Whether you are the PA or the CEO, you are expected to go beyond your remit in a family office. For example, we have come across PAs who have negotiated a price on a yacht," he explains.

This is one of the reasons why there is growing demand for staff with family office experience.

Such individuals are hard to find, however, argues Mr Vartanian.

"Quite often, family office staff stay for a very long time, and it is often said they are jobs for life," he says.

> 'Whether you are the PA or the CEO, you are expected to go beyond your remit in a family office'

Family Office

Familiarity promotes a certain way of doing business

Balancing act Encouraging customers to diversify can be difficult, says *Ruth Sullivan*

Shadow play: privacy is central but there also needs to be open discussion Fabrice Coffrini/AFP

Family fortunes are often made by building up a business in a particular area where a large amount of experience, skill and knowledge is amassed over the decades or even generations.

It is not surprising if families that have come along this path may want to invest their wealth in the sector they know best.

"Their instinct is to invest capital in an area they are familiar with. This often happens when a family is in land or manufacturing," says Guy Paterson, a partner responsible for the family office business at Stanhope Capital.

The same is often true of families who have built a business in other sectors such as financial services. They are likely to favour more complex financial investments, which they understand and know how to benefit from.

But should the family's area of expertise dominate the investment portfolio and, if so, to what extent?

Family offices largely agree that entrepreneurs' specialist areas do influence the type of investments they make, although not all families want to invest only in their own area.

Much depends on the type of family office involved in the decision making. Michael Maslinski, a wealth management consultant, says: "If you're an individual [single] family office, you are there to do what the family tells you. If their business is in mining and they want to invest in mining assets, that is what you will do."

However, there is the risk of assets not being sufficiently diversified, he adds.

Multifamily offices, which advise and manage the investments and financial affairs of a number of wealthy families, tend to favour diversifying assets to spread the risk.

"It's also good to diversify into assets that have not been piled in to," points out Mr Paterson. Residential and commercial property, agricultural land, private equity and fine art are some of the areas wealthy families invest in when they choose to diversify.

Reaching an investment balance between the narrow focus of the family's business sector and a wider spread of assets proposed by many advisers is a delicate exercise involving negotiation and skill.

If the investment views of the family and adviser are at odds, then writing to the family members, clearly flagging up the perceived risks of the strategy is as far as a family office can take it without losing the client.

"There is no point in going to a family that is determined to invest in its own business only to point out a more diverse investment plan.

"There needs to be an open family discussion," says Ian Marsh, group head of asset management at Fleming Family and Partners, which is merging with Stonehage to become the largest independent multifamily office business in Europe, the Middle East and Africa.

Some founders of family companies often prefer to remain in their own area of expertise, as they feel on safe ground. "When you take families away from their comfort zone they are likely to see risk," says Mr Paterson.

While return on investment is important to an entrepreneurial family, it is not the entire picture, says Stephen Skelly, head of private wealth solutions for Europe, the Middle East, Africa and the Americas at HSBCPrivate Bank. Family members need to know they are getting a good return on capital. If the predominant mindset of the family is building the family business, then they are less likely to view it as a portfolio asset, he says.

"It is essential to understand what is driving the family," he adds.

Family views on how money should be invested often change when younger generations get a bigger voice. The founder or patriarch – usually the spokesman – is more likely to favour the family business sector and be more conservative than younger generations who may have different business experiences outside the family sector and want a diversified investment portfolio.

Bringing the wider family together to discuss such investment changes is vital, say wealth management experts.

On the other hand, a larger number of family members can also make decision making more complex. Diversification worked well for some families during the financial crisis.

When companies that were successful before 2008-09 began to flounder, those that had invested in liquid assets outside their enterprise were able to draw down relatively quickly to shore up the family business and, in some cases, even saving it from disaster.

Understanding the wider family dynamics is also an important part of building up the overall portfolio and a step towards identifying investment needs. It is a key part of any family office business but it is also about "having empathy and not just technical solutions", says Mr Nolan.

Standing up to successful entrepreneurs in order to negotiate with them and reach agreement is also part of the job.

Trust is an important element in the relationship and discussion between families and their professional advisers. It takes time to build but can be easily broken.

Staff retention is essential for maintaining trust levels, as families are unlikely to open up to newcomers they do not know well, however well qualified they may be. "You can't buy in trust, counsel and common sense," says Mr Nolan.

> 'When you take families away from their comfort zone, they are likely to see risk'

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	As of September 30, 2014	Annualized Performance			Inception
		Gross	Net	Benchmark	
20 years	Biotech Strategy	15.1%	12.9%	13.5%[1]	January 31, 1994
13 years	Healthcare Strategy	10.7%	8.9%	5.1%[2]	January 1, 2002
9 years	Generics Strategy	11.0%	8.8%	5.6%[3]	June 30, 2004
3 years	EM Healthcare Strategy	15.1%	12.5%	10.5%[4]	June 1, 2011

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[1] Nasdaq Biotechnology Index
[2] MSCI World Healthcare Index: As of January 1, 2007, the benchmark for the Healthcare strategy is the MSCI World Healthcare Index. Prior to this date, the benchmark was a customized index of 50% Philadelphia Drug Index and 50 % Nasdaq Biotechnology Index. The benchmark return displayed reflects the returns of the customized index up to December 2006 and the returns from January 1, 2007 onwards.
[3] MSCI World Pharma; [4] MSCI Emerging Market Healthcare

The Biotech strategy performance results include results from an account managed at another entity during the period February 1994 to October 2000. This information is of a summary nature only and is not to be considered as the provision of investment advice. It is not an offer, recommendation or solicitation to buy or sell securities or units of any Fund or invest in a separately managed account. Performance results include the reinvestment of dividends and other corporate earnings, and are calculated in US dollars. PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS. Investing in healthcare companies involves a high degree of risk, and prices of these companies' stocks may be very volatile. An investment in any strategy is suitable only for sophisticated investors and requires the financial ability and willingness to accept the high risks inherent in such an investment (including risk of loss of such investors' entire investment) for an indefinite period of time. Gross performance results do not reflect the deduction of advisory fees. A client's return will be reduced by fees and other expenses he may incur as a client. Sectoral's fee schedule is described in Part 2A of Sectoral's Form ADV. Net performance reflects the deduction of expenses, management fees and accrued performance fees or carried interest. Net performance does not reflect the effect of applicable taxes, which would reduce performance.

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