The Family Office Capital Base

A Primer on Raising Capital from Family Offices

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The Family Office Industry

Family offices have, of course, existed for hundreds of years in various forms whether it was the less developed structure that managed the wealth of early ultra-high-net worth families led by titans of industry like John D. Rockefeller and the Rothschilds or the contemporary model like the Gates family or T. Boone Pickens. Today, the family office model has become more efficient and is more of a viable option for wealthy families who would like a customized solution for their wealth management needs.

The family office industry is often misunderstood and underestimated by even highly-experienced financial professionals. There are a few possible explanations for this: first, the family office industry can be hard to define because of the gray line that distinguishes a family office from a traditional wealth management firm or RIA. Second, the family office industry has grown so rapidly in recent years that many in the financial industry have not caught up to recent estimates of industry size. Lastly, there is a natural preference among large institutional fund managers to focus on the investors who control the most investible capital (i.e. pension funds, endowments, sovereign wealth funds and other traditional institutional investors) and overlook the vast majority of family office investors. Investment funds that ignore the family office industry do so at their own peril, for the industry controls more than $3 trillion and the average family office controls well over $250 million in assets under management.

Recent estimates place the level of total assets under management by family offices *in North America alone* at well over a trillion dollars. According to the Securities and Exchange Commission, there are believed to be 3,000 single family offices operating in North America controlling $1.2 trillion in assets and there are hundreds of multi-family offices on the continent that control over $350 billion in assets (these numbers are expected to grow due to industry-positive trends in recent years). "I think the family office industry is certainly going to grow, it's certainly growing at the moment and I don't see that letting off anytime soon," says Greg Kushner President of Lido Advisors, a U.S.-based multi-family office.

Globally, the family office industry is growing at an impressive clip. For many years, the United States and Western Europe has been the premier hub for family offices but, while that will likely still be the case for the foreseeable future, wealthy families around the world are embracing the model as it develops and evolves to match the U.S. standard. To give you a better idea of where family offices are currently located, we have constructed a geographical sampling from our family office database in Figure 1:

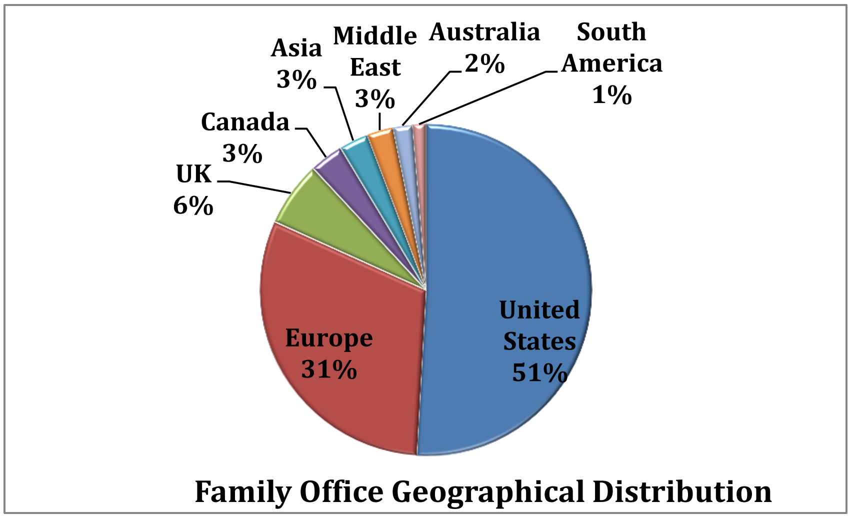

Figure 1: Family Office Geographical Distribution

In places like Singapore and Dubai, the family office industry has taken off and affluent European families are shifting assets away from local wealth management firms to friendlier regulatory and tax environments where family offices are thriving. On family office growth around the world, Lukas Doerig of Marcuard Family Office notes, "…in Switzerland just in the recent past, there have been many single family offices also set up because Switzerland is quite liked for its advantages, so it is a growing trend." Around the world, family offices are being established to serve the needs of wealthy families and these family offices are increasingly looking for fund managers that can produce alpha and help preserve and grow their clients' wealth.

The Hazards of Neglecting Family Office Investors

As outlined above, the family office industry is huge in terms of geographical scope and capital under management, but few fund managers devote the marketing resources necessary to fully seize this capital raising opportunity. Many fund managers insist on focusing almost all their efforts on institutional investors and largely neglect family offices, or, at best, assign one member of the in-house capital raising team to the entire family office industry. Worse yet, some fund managers (even including top hedge funds and private equity firms with otherwise stellar marketing operations) devote no resources to capital raising from family offices.

In the event that a fund manager does recognize the capital raising potential of family offices, too often we have found that the person who contacts the family office only has a cursory understanding of what a family office is and what family offices consider when making an investment. As you can see in the diagram below, family offices have many unique considerations when evaluating a prospective investment and each of these is carefully weighed during the selection process. It could be as simple as narrowing down what family offices are most concerned with when evaluating managers. For example, we asked Evan Cooperman of Artemis Wealth Advisors, a multi-family office based in Canada, what family offices look for most in fund managers and he boiled it down to one core consideration: "…really capital preservation with some sort of reasonable rate of return is pretty much universal among family offices." While this cannot be true for every family office out there (as Angelo Robles of the Family Office Association says, "they are all snowflakes") by constantly reaching out to family offices, a fund manager can gather feedback and understand whether the fund is a match for family offices.

Still, we have found that few fund managers have invested significant time in understanding how family offices invest and evaluate managers. By reaching out to your family office contacts and seeing what investment product is the best fit for family offices you can save time and resources that would be wasted presenting family offices with investments that are outside their preferences.

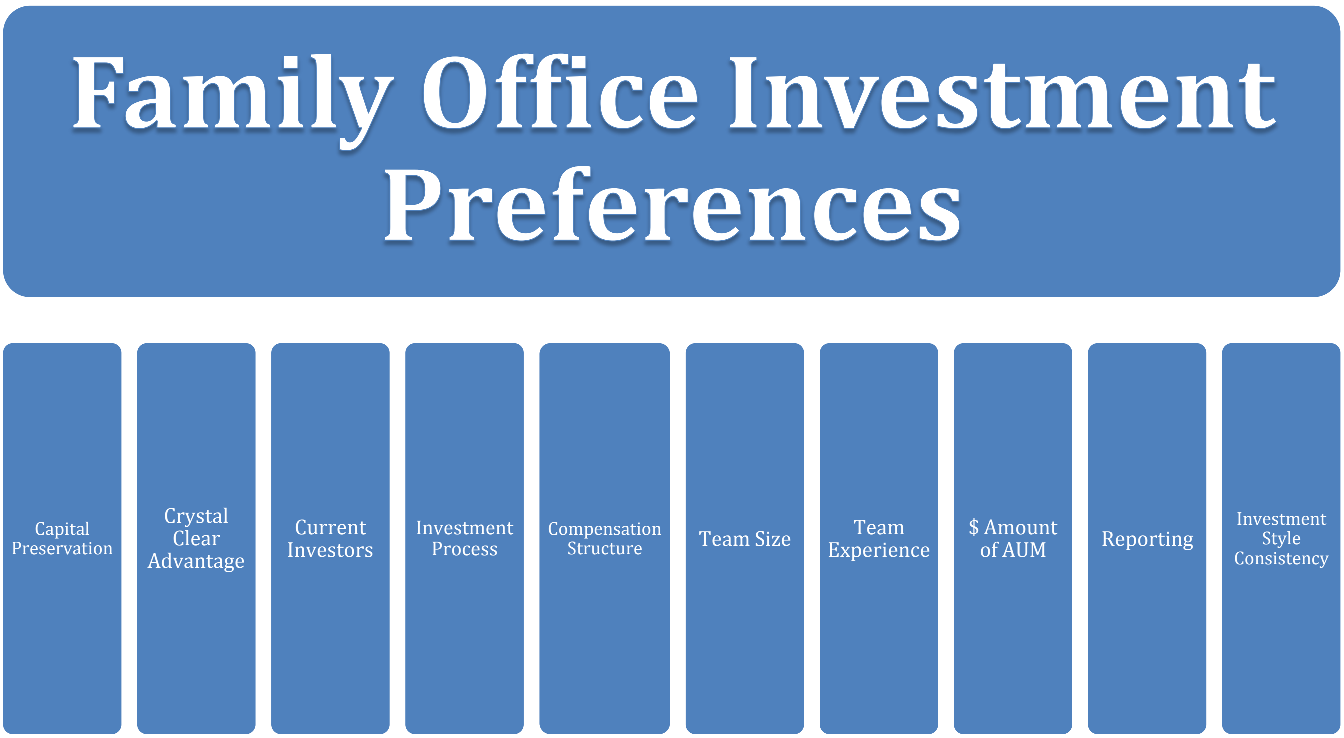

Figure 2: Family Office Investment Preferences

Another problem is that few fund managers have the capital raising and marketing resources to truly cover the "family office sandbox." As illustrated in Figure 1B below, the family office sandbox refers to the four corners of the family office industry: small single family offices; small multi-family offices; large single family offices; and large multi-family offices (and all the single and multi-family offices in between). While a hedge fund or private equity firm may want to target family offices for their capital raising efforts, frequently we find they only cover one or two corners of the family office sandbox and largely ignore the opportunities in the other areas of the family office industry. Only a family office-focused third party marketer or extensive in-house marketing operation can claim to fully capture the family office space, keeping up relationships with multi-billion dollar single family offices, recently launched smaller multi-family offices and all the other unique family offices that exist around the world today.

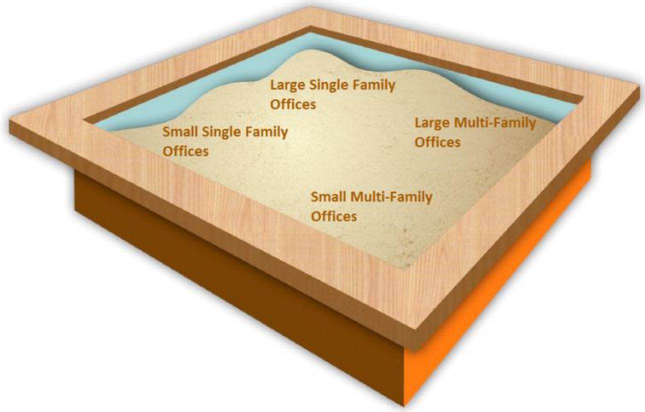

Figure 3: the Family Office Sandbox

If you are raising capital from family offices, it is likely that you are focused exclusively on the largest family offices (those 20-50 family offices that are highly-recognizable and control billions in assets under management). If you have been successful, you may have raised millions, even billions from this small section of the family office industry. However, even with that success, you are focused on only a small piece of the industry and neglecting thousands of family offices and billions of dollars in investible capital.

An Inefficient Marketplace

From a capital raising perspective, the family office marketplace is a largely inefficient one. This is true for a number of reasons: first, family offices have unique needs and investing preferences, many of which are not well understood by the placement agents and fund managers that approach them looking to form a partnership. This can lead to wasted time and missed opportunities for both parties and should be avoided by learning more about family office investors and their preferences. Second, family offices typically stay "under the radar" meaning they are not often issuing press releases, alerting managers with a fund manager mandate, or doing other activities that call attention to their firms. While multi-family offices often make a limited effort to attract new clients and boost their firm's reputation in the marketplace, single family offices often have little-to-no incentive to act publicly and thus may escape the attention of many fund managers and marketers. Finally, many family offices do not define their firms as a family office (even though they may provide all the services associated with the model or serve only one wealthy family, for example) and instead will use a different label that may make it hard to understand what investor you are targeting as a fund marketer.

In all of these inefficiencies, there is a consistent problem presented to those seeking to raise capital from family offices. Whether it is misunderstanding whether the investor you are meeting with is a single or multi-family office or whether you are presenting a fund that is outside the family office's investment preferences, the problem is the same: a failure to devote enough time and resources to the family office. Many times, I have seen marketers try and fail to connect with family office investors because they have only a cursory understanding of the family office industry. For instance, they will bring a manager with a high-risk high-reward, volatile strategy to a family office manager whose top priority is capital preservation. This is a common preference among family offices, which exist primarily to preserve their family clients' wealth and ensure that it is there for generations to follow. While capital growth is certainly a desired result of an investment, family offices are unlikely to risk significant losses on the principal in exchange for a possible larger return than a safer investment would offer.

This type of misunderstanding of the family office is common and is the reason that we see a need for full-time, dedicated family office marketing teams, rather than tasking family offices to an over-burdened individual who is already responsible for reaching out to pension funds, endowments, RIAs and other investors. Family office marketing is a full-time responsibility that requires constant nurturing of the relationship and few marketers are successful by making infrequent, unfocused attempts to penetrate the family office industry. Family offices value trust and will not respond to marketers who are not interested in what is best for their clients.

Conclusion

This Family Office Capital Base white paper is a resource for those looking for help raising capital from family offices and who want to better understand this unique investor. At the Family Offices Group, we are constantly providing thought leadership on the family office industry, connecting the ultra-wealthy and family offices, and reaching out to family offices to learn more about their investment preferences and how they select fund managers. If your ultra-wealthy family or family office needs help or connections to an expert please email me at Richard@FamilyOfficesGroup.com or visit http://FamilyOfficesGroup.com.

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