Benesch

Family Offices Market Intelligence 2018

Developments in Family Offices–Q3

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1. Family Office News

Six ultra high net worth trends

On September 5th Wealth-X released its 2018 World Ultra Wealth Report. Highlights of note were that Asian countries have seen the fastest growth in wealth accumulation from 2012-2017 and in 2017 Hong Kong overtook New York as the capital of the ultra-high-net-worth. The number of ultra wealthy individuals globally increased by 12.9 percent, with Asian individuals far surpassing other regions, up 18.5 percent. The world's total wealth increased by 12.3 percent and wealth creation in Asia in particular was up 26.7 percent. Still, Wealth-X predicts that the Americas will have the most wealthy individuals in five years.

Wealth Management on Sep 5, 2018

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1. Family Office News *(continued)*

Family offices that took hedge fund talent now go after clients

An increasing number of the ultra-rich want to turn their family offices into revenue generators and convert their portfolios into hedge funds. Asia is now arguably the most important battleground for the world's asset managers where at least eight family and multi-family offices have recently started, or are planning to start, their forays into asset management. Some advantages to opening up to outside investors include earning fee income to help offset the cost of hiring outside, experienced investment professionals, who then help to instill family offices with a greater sense of discipline and professionalism. Downsides include the likely lack of track records in money management necessary to attract external investors, or the concern that investment decisions could be unduly influenced by family members, whose objectives may not always align with those of the fund. "The new funds will only gain traction if they can compete with the existing hedge fund industry, both in terms of returns and fees," added Mohammad Hassan, an analyst at Eurekahedge in Singapore.
Bloomberg Quint - Stories on Sep 4, 2018

Envestnet | Tamarac introduces enhanced features for family office reporting

Envestnet | Tamarac announced newly launched enhancements to its platform for cohesive wealth management strategies. Through Tamarac's enhanced search engine functionality, Registered Investment Advisers (RIAs) will be able to more easily search within family office households with complex entity structures. With the Relationship Diagram, RIAs and their clients have the option of a visual for viewing households to better see how such groups are structured.
Financial Buzz on Aug 28, 2018

12 tools to run your family office like a Silicon Valley startup

Over the past few decades, most family offices have evolved to offer services that more closely resemble those of a life coach/creative director/spin-doctor, than a financial advisor. Francois Botha, a family office brand management consultant, suggests utilizing some modern business and communications apps and tools to assist family office operations in these changing times, including Podio, Slack, Trusted Family, Trello, Monday, The Consumer Trend Canvas, PSFK, Fast Company, Springwise, Mention, Brand Mentions, and Buffer.
Forbes News on Aug 20, 2018

2. Multi-Family Office

Brookfield closes $1bn U.S. multifamily value-add fund

Brookfield Asset Management and Fairfield Residential's third multifamily value-add fund has raised $1bn at final close. Brookfield Fairfield U.S. Multifamily Value Add Fund III seeks to invest in multifamily assets throughout the U.S. by acquiring and renovating existing apartments and engaging in ground-up development in select coastal markets. Investors in the fund are a diverse group of more than 25 institutional investors, including public and private pension plans, registered investment advisors, financial institutions, endowments and foundations and family offices. The fund currently has 16 investments closed or under contract throughout the U.S. with almost $470m of equity committed to those investments.

IP and Real Estate - Investors on Sep 5, 2018

3. Single Family Office

Global single-family offices are buying up companies throughout the world

There is a growing trend in single-family offices toward directly investing sizable percentages of their wealth in privately held companies. Working with carefully selected outside professionals in combination with internal experts, single-family office executives are increasingly joining elite mastermind and CEO groups in order to connect with driven entrepreneurs with the intent of investing in their companies.

Forbes News on Sep 5, 2018

Single-family offices are on the search for internal investment talent

Single-family offices are multiplying and these wealthy families are also increasingly looking to hire high-quality outside investment talent. For investment professionals, the benefits to such a position are many, but notably there is no need to raise money and single-family offices have lengthy time horizons. For compensation, the mutually beneficial Participant Compensation Model is often employed where investment professionals receive a share of the success of the portfolios they manage. Business connections are frequently made through executive search firms and retained intermediaries.

Forbes News on Jul 23, 2018

4. Investments

For the world's super rich, litigation funding is the new black

Litigation funding is attracting attention as a solid investment opportunity. Family offices, along with endowment funds and other savvy investors, have been allocating wealth to lawsuits, enticed by large payout opportunities generated in a relatively short time frame, and the fact that such returns are similar to private equity in that they do not always correlate with movements in equity and bond markets. However, in Australia, where litigation funding first originated, signs of saturation have begun to show. "The real issue that no one talks about is whether there is too much capital chasing this asset class and how does the litigation fund manager find quality of case inventory in a crowded global market," said Dan Farrell, CEO of Privos Capital, a global multi-family office. "In other words, are there enough good litigation cases to go around?"
Big Law Business on Aug 28, 2018

Should your family office invest in an Opportunity Zone?

The Opportunity Zone is being considered the next best investment opportunity, however family offices and other investors should carefully consider their options. Opportunity Zones were enacted by the Tax Cuts and Jobs Act of 2017. The program is designed to be a development tool for economically distressed communities where, by encouraging long-term investments, through tax incentives, in low-income urban and rural communities, theoretically leading to an increase in employment opportunities and a reduction in poverty, these areas would be transformed into economic hubs. The official list of all Qualified Opportunity Zones was released by the IRS on July 9th. Funds are being created and sponsors/operators are starting to talk up their Opportunity Zone Funds. Yet, in efforts to assess the effectiveness of such zones, Timothy Weaver, professor of Urban Policy and Politics at the State University of New York at Albany, stated "on a whole, scholars have reached the strikingly similar conclusion that the programs did not work, at least not as hoped."
Forbes News on Aug 22, 2018

5. Private Equity

US family offices miss out on private equity opportunities

A survey of family offices from Schroder Adveq, released August 20th, showed that U.S. family offices have continued to invest in private equity, but have missed opportunities in smaller deals. The most attractive characteristics within smaller deals have included greater buy-and-build opportunities and lower purchase prices, "but only 25% of capital goes into these types of deals, offering savvy investors access to an often-untapped and less efficient segment of the market," said Ethan Vogelhut of Shroder Adveq. Family offices also showed a large home-bias toward investment within the U.S. although emerging markets in China, India, and Europe have demonstrated strong growth potential and competitive returns.
Opalesque Exclusive on Aug 28, 2018

6. Real Estate

Why family offices shouldn't overlook apartment market

Real estate investment in general adds balance to family office portfolios and provides sustained income, but family offices should look beyond the typical trophy properties and business offices to apartments, which were the first type of real estate to recover after the recession and have been consistently positive since, as the renter-by-necessity sector continues to grow. Baby Boomers are downsizing and looking for lower maintenance and more flexible living situations; Millennials are faced with unprecedented student loan debt, rising home prices and more rigorous mortgage requirements; and a recent report showed that Generation Z will spend more on rent in their lifetime than any previous generation. To best take advantage of the increasing demand for rental housing, family offices should seek investment markets with strong job creation, small business growth, well-ranked schools, and high quality of life indexes.

Real Estate Weekly on Aug 1, 2018

7. Risks

Cybersecurity: 6 ways to protect your family office

Always targets for cyber thieves, wealthy families should take action to protect their family offices from the significant and increasing risk of cyberattack in this digital age. Steps toward greater resilience include the following: Keep track of technology and update all software and antivirus and firewall protections; Create a cyber-protection policy with guidelines covering connected devices, passwords, social media and payment authorizations; Educate family members and staff about how hackers attack; Conduct regular criminal background checks to prevent an internal attack; Test the office's resilience to attacks before they happen by simulating a cyberattack; and leverage email encryption tools and cloud-based-sharing documents.

Biz Journal - Technology on Aug 20, 2018