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Certificate Course November 2019

FAMILY OFFICES

“THE NEW NEW BANKS?”

INTRODUCTION

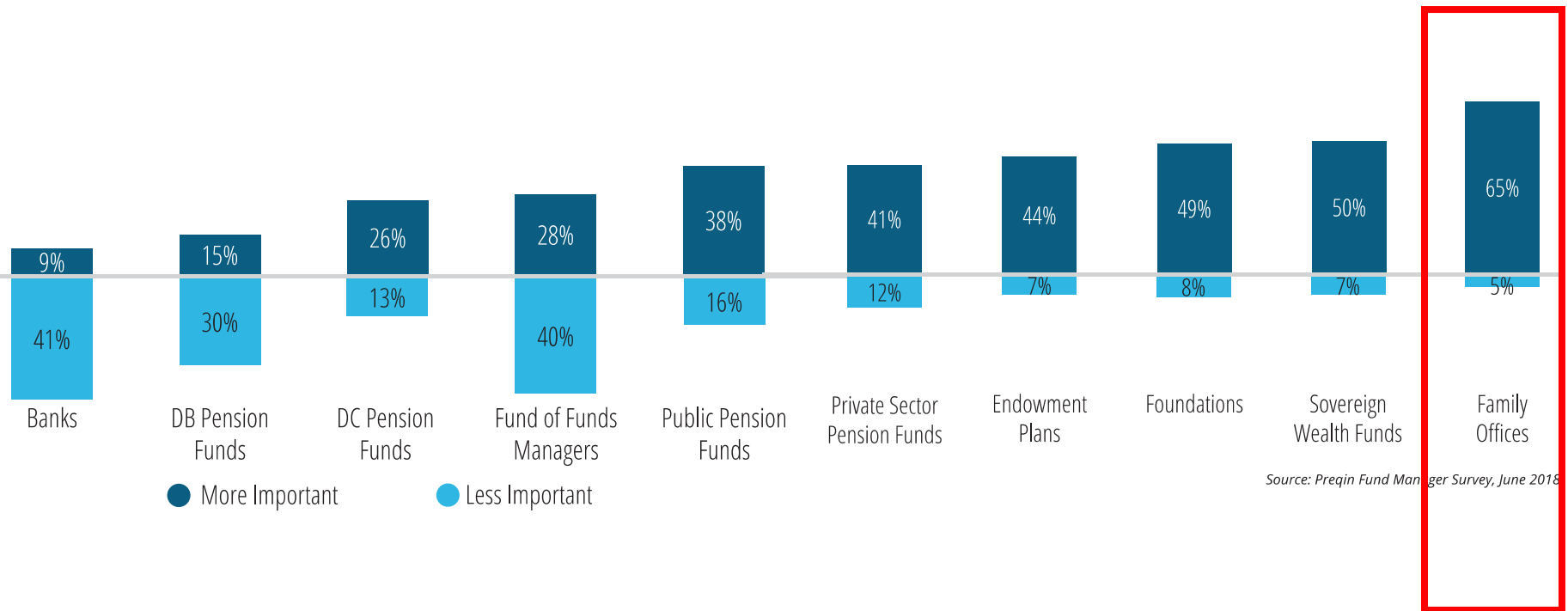


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Remember our October session..?



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1. Attempt of definition
2. The big picture
3. Family Offices & PE
4. The inner workings
5. Some local flavor
6. Looking ahead
7. Pointers for those interested in working for a SFO



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ATTEMPTS OF DEFINITION



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The genesis

Business-Centric Family

Families whose main focus is on operating companies.

Enterprise Family

Families who have multiple owners, multiple entities, multiple assets with shared ownership.

Financial Family

Families who no longer own operating companies, but share wealth and philanthropic interests.

Investment-Only Family

Families whose only shared activity is preservation and growth of the family's wealth.



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Sizing it up...

Family wealth among the richest 1% in the world grew from \$12tn in 1970 to \$92tn in 2015 (not adjusted for inflation)

20,000 families in the world are worth more than \$700m

Source: FT



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-Attempted- definition of a Single Family Office

- **SFOs typically exist to protect the wealth and interests of a family** that usually built by the same family's business, with a view to separate the two
- **JPMorgan and Rockefeller were the first formalized Family Offices**, the latter still exists, and both were considered the precursors of Private Equity as part of their approach was to back private businesses
- **The common rule-of-thumb in terms of minimum size of assets to form a SFO is \$200m** but this greatly varies from case to case



Attempts of definition

- Various types of Family Offices:
 - The most prominent ones are the single family office (SFO)
 - The multifamily office (MFO) caters to several families
 - Embedded Family Offices (EFOs) linked to the family business, where there is a low level of separation between the family and its assets
- The SFOs and MFOs are distinct legal entities and manage assets that are completely separated from the family or the family business
- **"Family Office is a culture, not a business"**
- **"A Single Family Office can be anything the family wishes it to be"**

Focus today = Single Family Offices



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Key reasons behind SFOs

- **Family offices are arguably the fastest-growing investment vehicles in the world today**, as families with substantial wealth are increasingly seeing the virtue of setting one up to:
 - Preserve / consolidate wealth
 - Plan succession professionally
 - Increase efficiency in managing wealth (Risk management)
 - Increase degree of control over investments and fiduciary affairs (alignment of interests)
- **The 2008 financial crisis has exacerbated the desire of families** to be in the driving seats, as trust in private banks has eroded.. Which also helped launch MFOs successfully
- **Globalization and the rise of emerging markets have boosted growth** for family-owned wealth

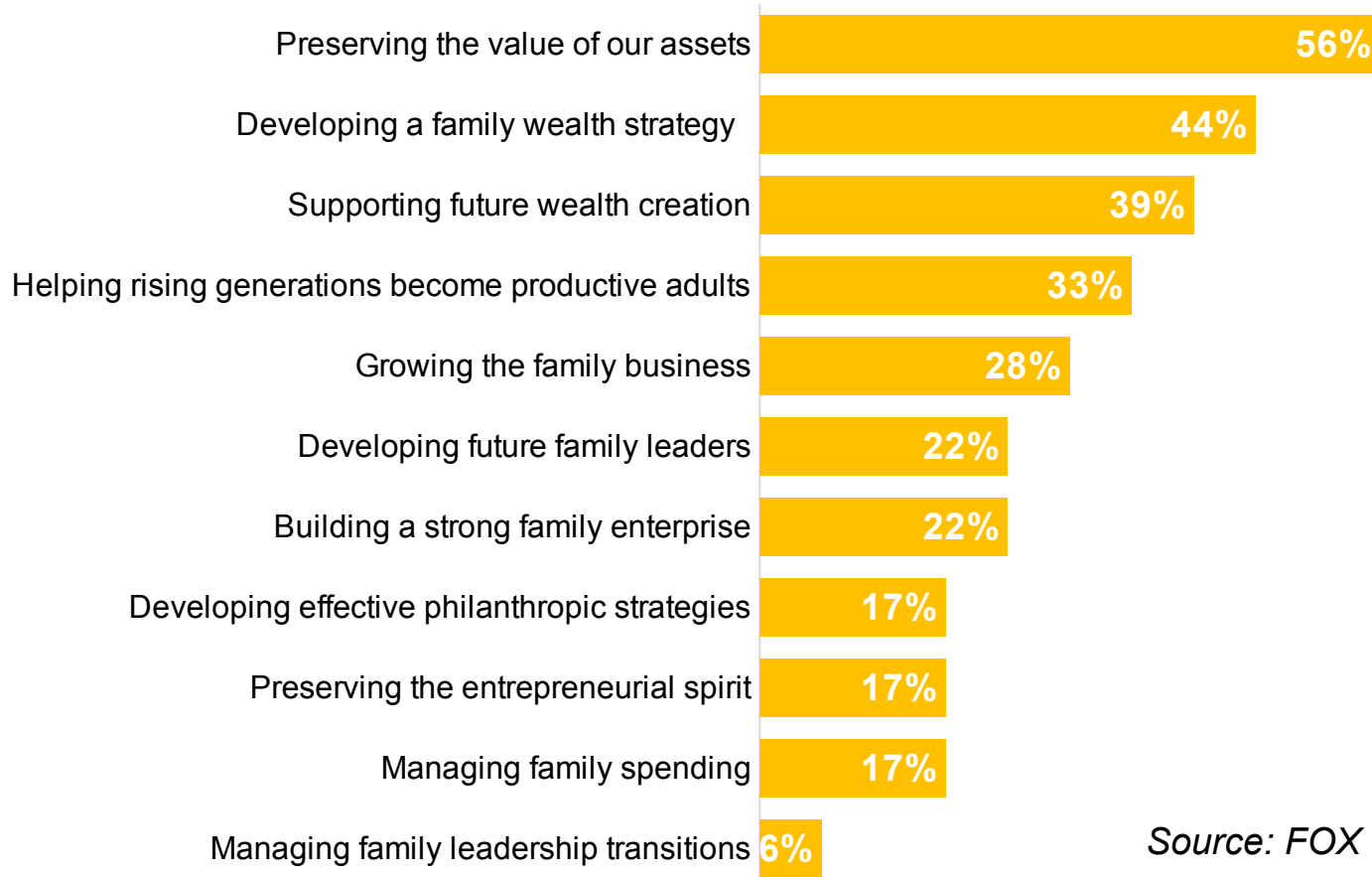


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Top family priorities



Source: FOX Family Exchange



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THE BIG PICTURE



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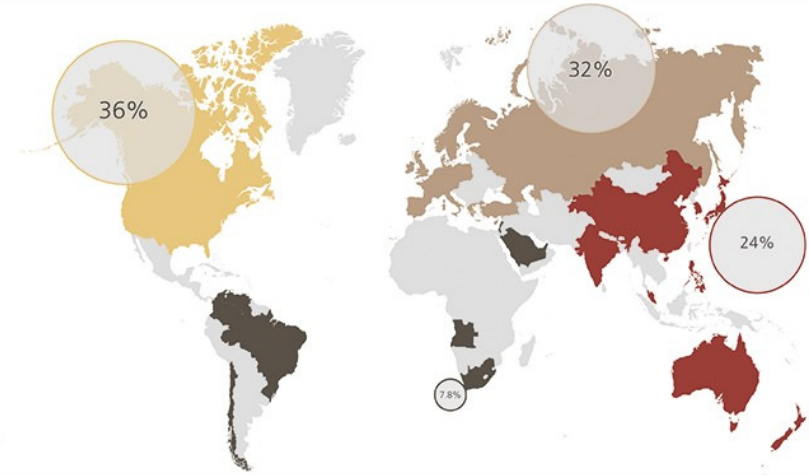
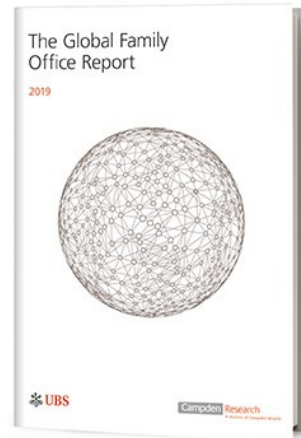
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Global stats

- 7,300 SFOs worldwide (up to 10,000):
 - 42% in North America
 - 32% in Europe
 - 18% in Asia-Pacific
 - 8% in the Emerging Markets
- The total estimated wealth of the families stands at \$9.4 tn
- The biggest growth came in emerging markets, where the number of family offices rose by half over the period, followed by Asia-Pacific (+44%), North America (+41%) and Europe (+8%).

Latest trends

- Average investment returns stood at 5.4% for 12-month period
- Over 50% of family offices anticipate a market downturn by 2020



- Family offices believe that wealthy families will play a role in addressing global challenges
- 1 /3 family offices now engage in sustainable investing
- Upsurge in succession planning driven by generational wealth transfer

Key differences

- The US is the most “sophisticated” market, because that is where SFOs started, and obviously the largest, for SFOs
- The UK is the leading centre in Europe, especially London while Germany has the most family-owned businesses that are now transitioning to the Next Gen (*MittelStand*). France was subject to adverse regulation, which hampered FO formation.
- 70% of billionaire families in Asia are investing in venture, which is higher than what we’re seeing in the U.S. and Europe, where that number is kind of sub-60%
- Over 30% of Asia’s family businesses will go through a generational change in the coming 5 years



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FAMILY OFFICES & PRIVATE EQUITY



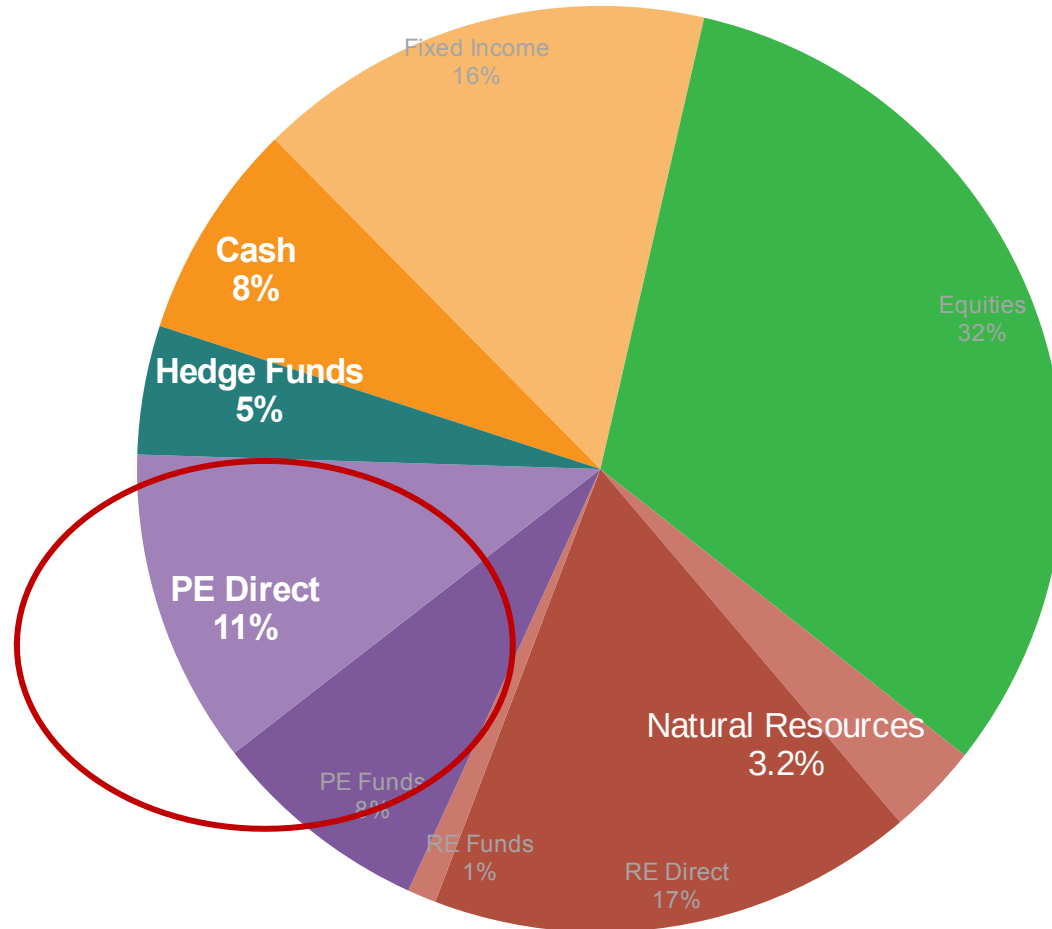
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Asset allocation

Campden Wealth



Notes: Number of participants: 360; Avg AUM of participants \$917m



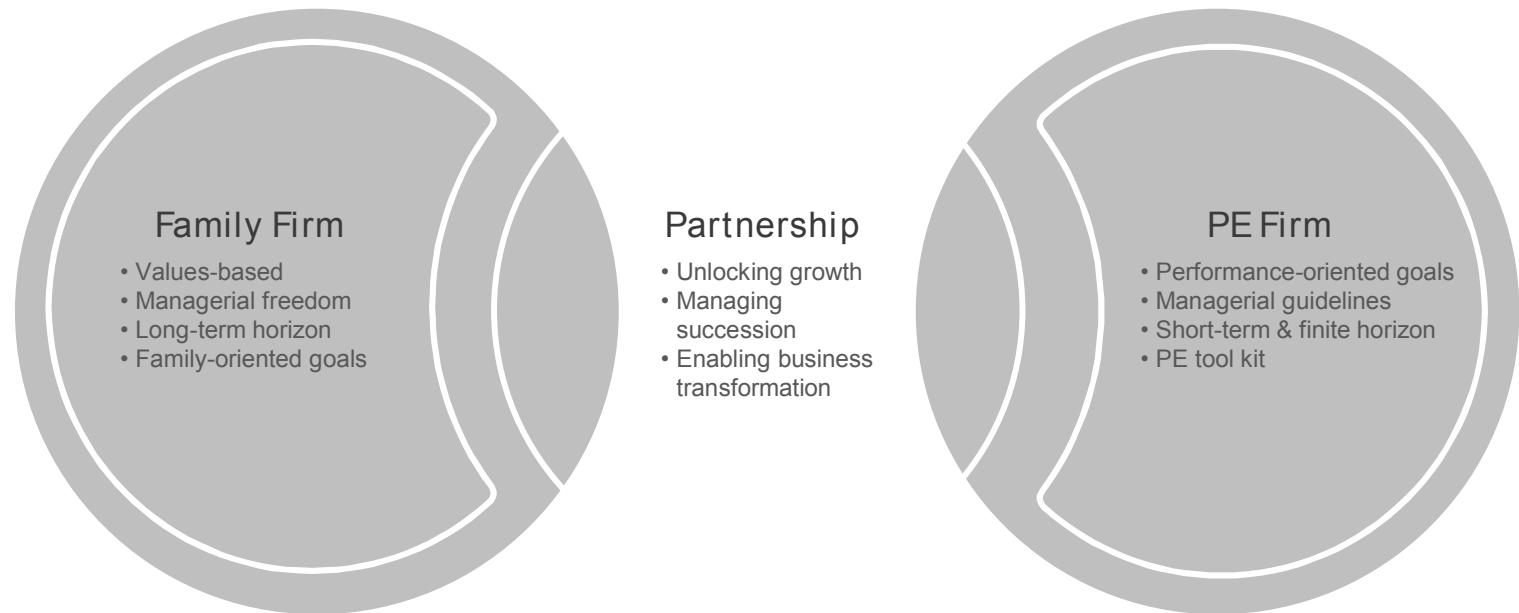
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When interests converge...

Natural Overlap between family businesses and PE funds

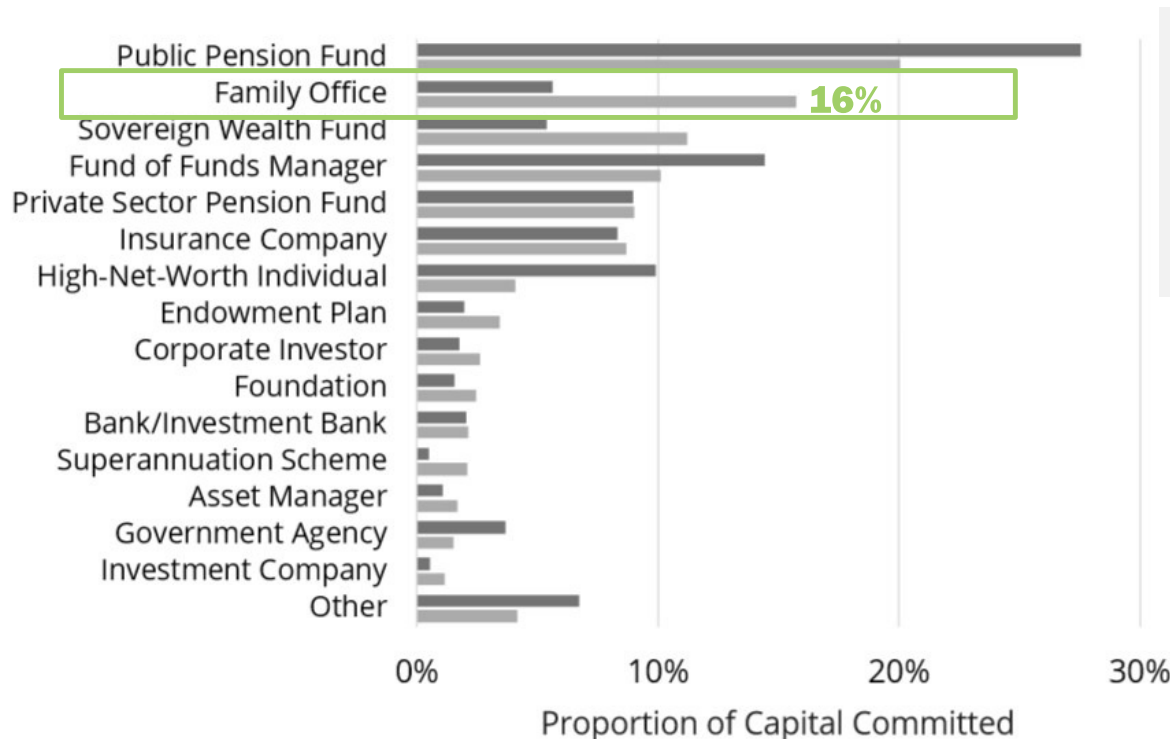


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It leads to this FO allocation to PE



Although family offices represented only 2% of total capital currently invested in PE, they represent 16% of capital raised by funds closed in 2015-2017, most significant investor after public pension fund.

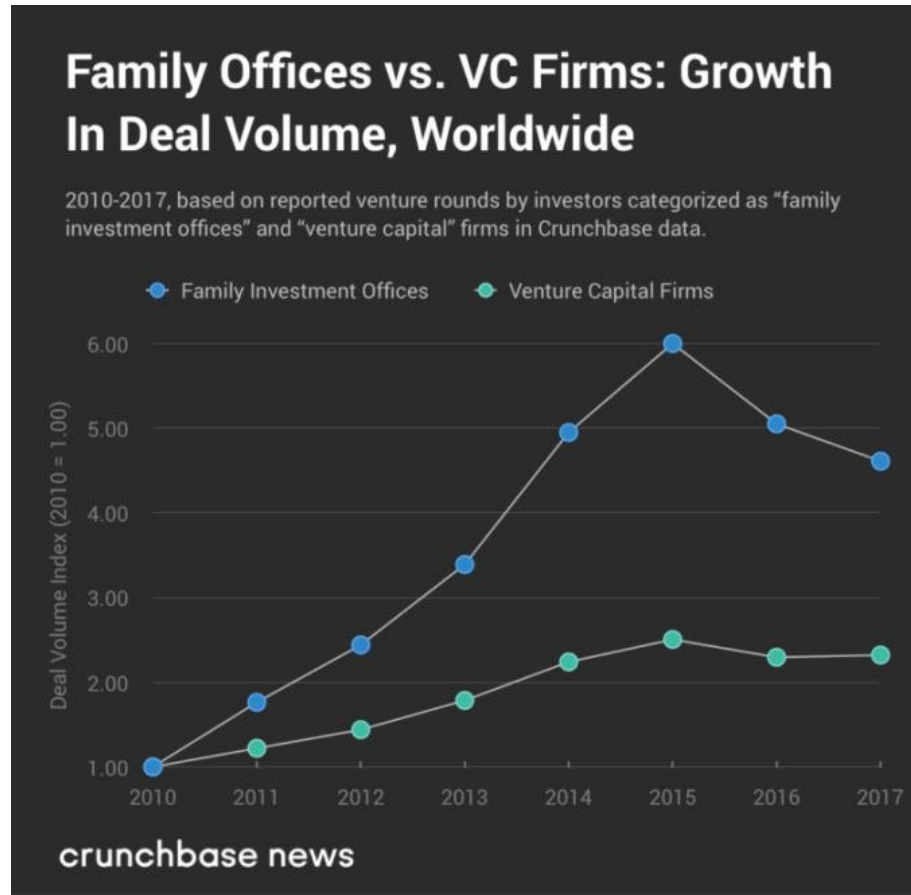


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But... Venture investments by FOs now outpaces VC funding



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So when it comes to PE... its getting "complicated"

PE fares the best of all asset classes for family offices, achieving an average return of 16% for direct investments and 11% for funds-based investing



“Think about the difference between our owning a business for 15 years and that same business being owned by three different PE firms with five-year hold periods. The same business would likely look significantly different”

(P. Carbone, Pritzker Private Capital)



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Where FOs –can- bypass PE funds

- Much of FO wealth stems from operating businesses, so direct corporate ownership is familiar and sector expertise can be deep
- Flexibility in the set-up provides an inherent competitive advantage to FOs as shareholders v PE funds, eg holding period or legal structure
- Many are now raising third-party capital to invest directly in family-owned businesses or others
- BUT this is not for every FO, it takes stamina and ammunition + the right talent



THE INNER WORKINGS

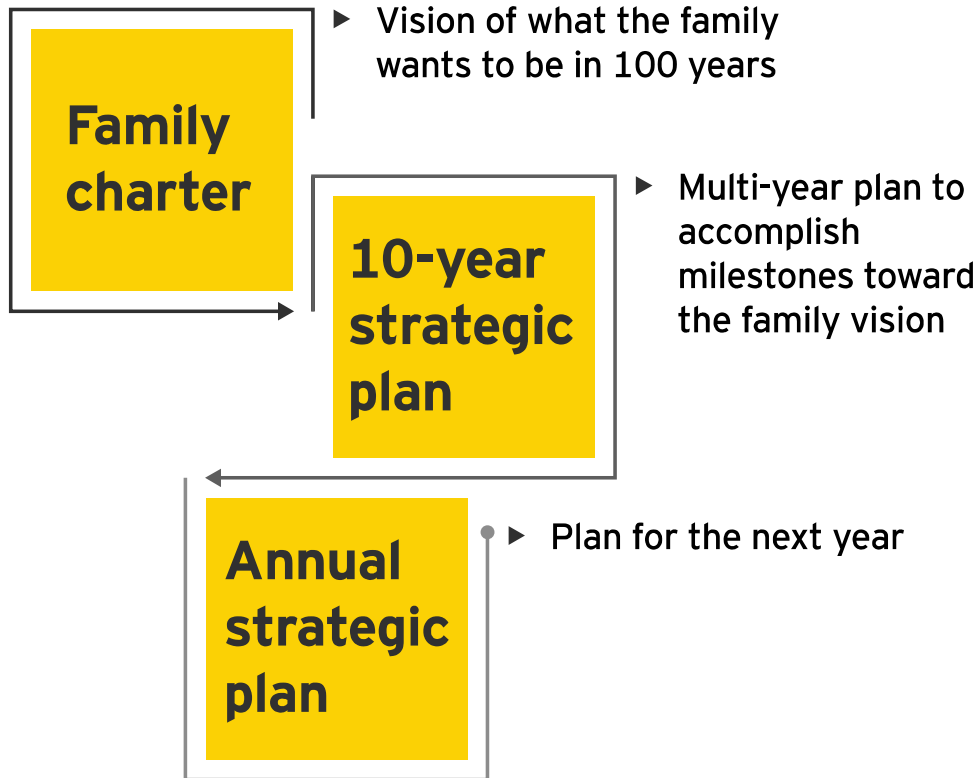


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Structuring the Family Office



- Long term focus
- Transparency
- Process-oriented
- Value-centric



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How it works

Setting up a single-family office



© FOSS Family Office Advisory | www.family-office-advisory.com

Source: FOSS

Factors influencing the setup

Family	Low Complexity (25%)	50 th Percentile (median)	High Complexity (75%)	Average
Family Branches	1	2	4	3
Adult Households	3	4	8	13
Operating Business(es)	1	2	4	3
Family Trusts	1	3	9	35
% of Assets Held in Trust	5	27	85	43
Philanthropic Entities	1	1	1	2
Legal Jurisdictions where Family Members Live	1	1	2	2

Source: FOX Family Exchange

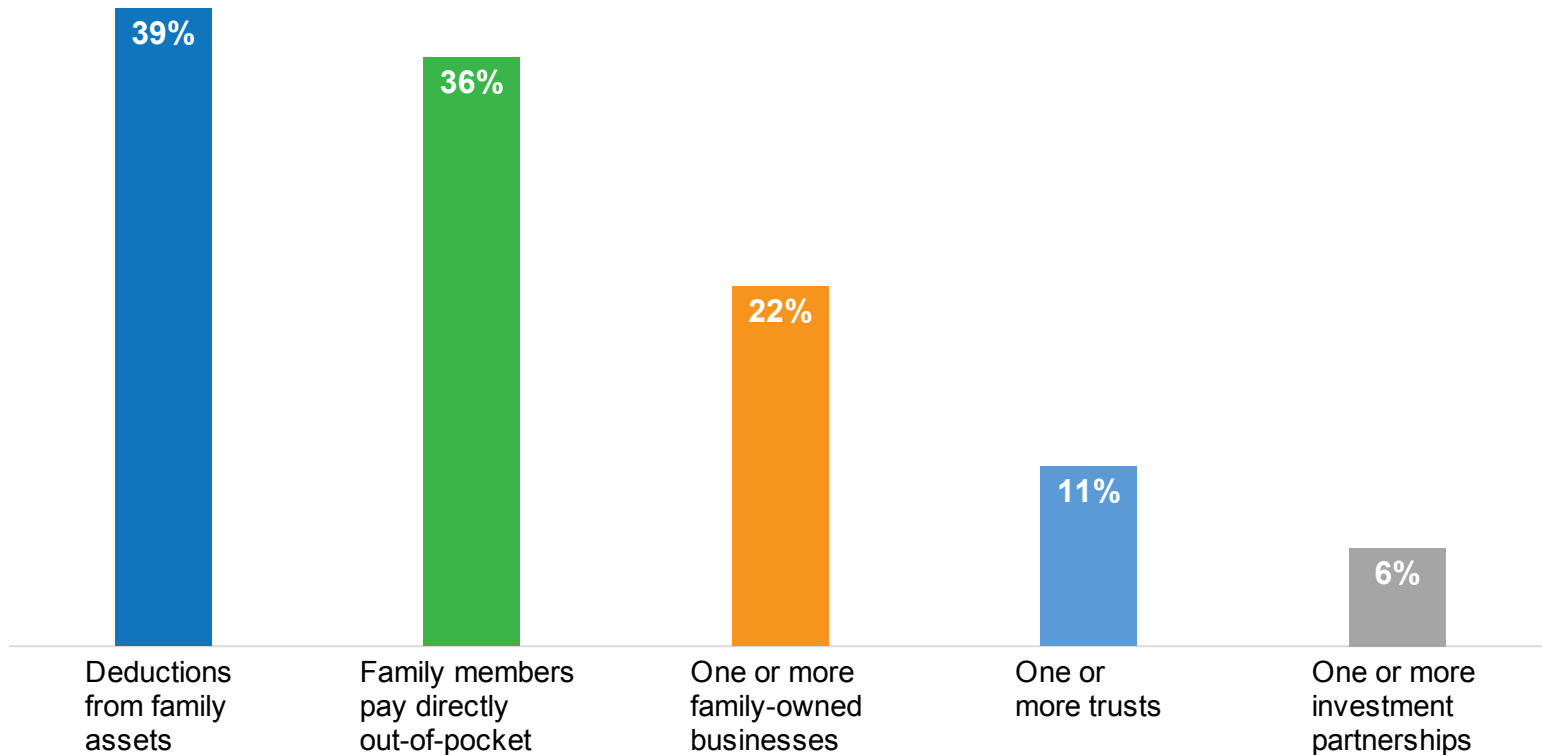
Cost overview

Figure 3.1. Family office types based on assets and costs

Family office type	Assets (US\$m)	Overhead cost per year (US\$m)
Administrative	50 to 100	0.1 to 0.5
Hybrid	100 to 1,000	0.5 to 2.0
Fully integrated	> 1,000	1.0 to 10.0

Source: *The Global State of Family Offices*, Cap Gemini, 2012.

Cost coverage models



Source: FOX Family Exchange

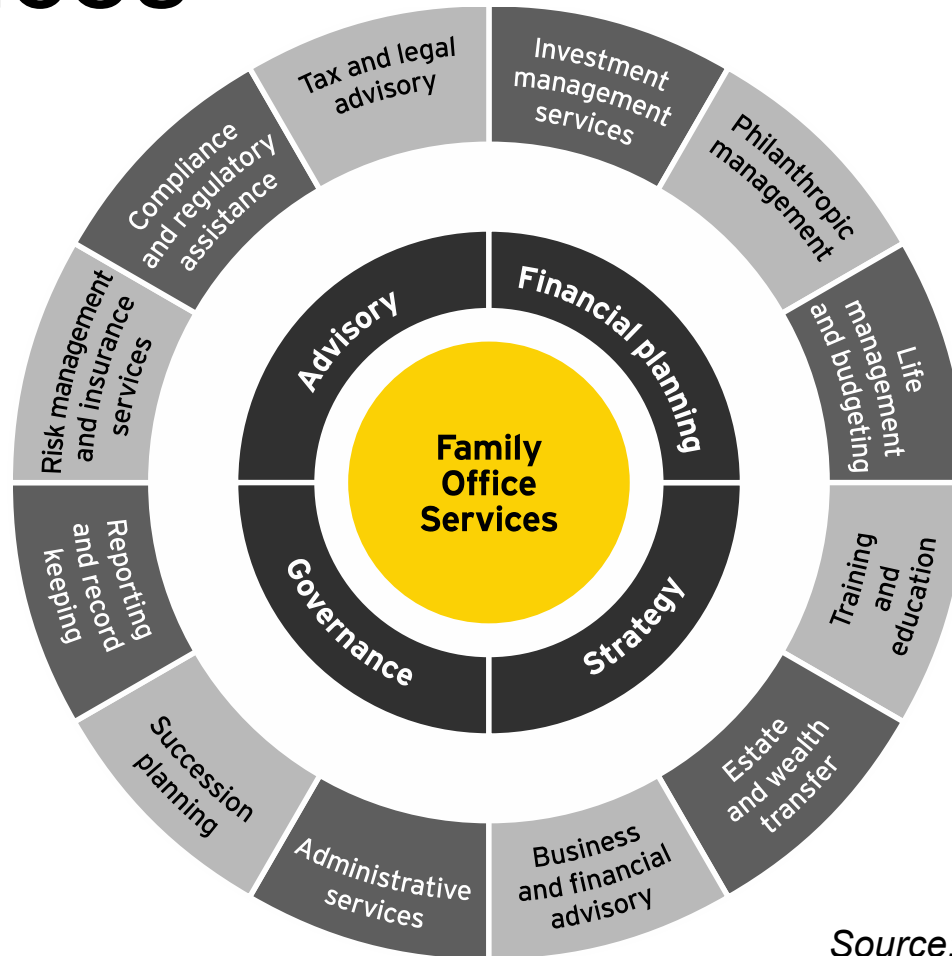


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The scope of Family Office services



Source: EY Report on Family Offices



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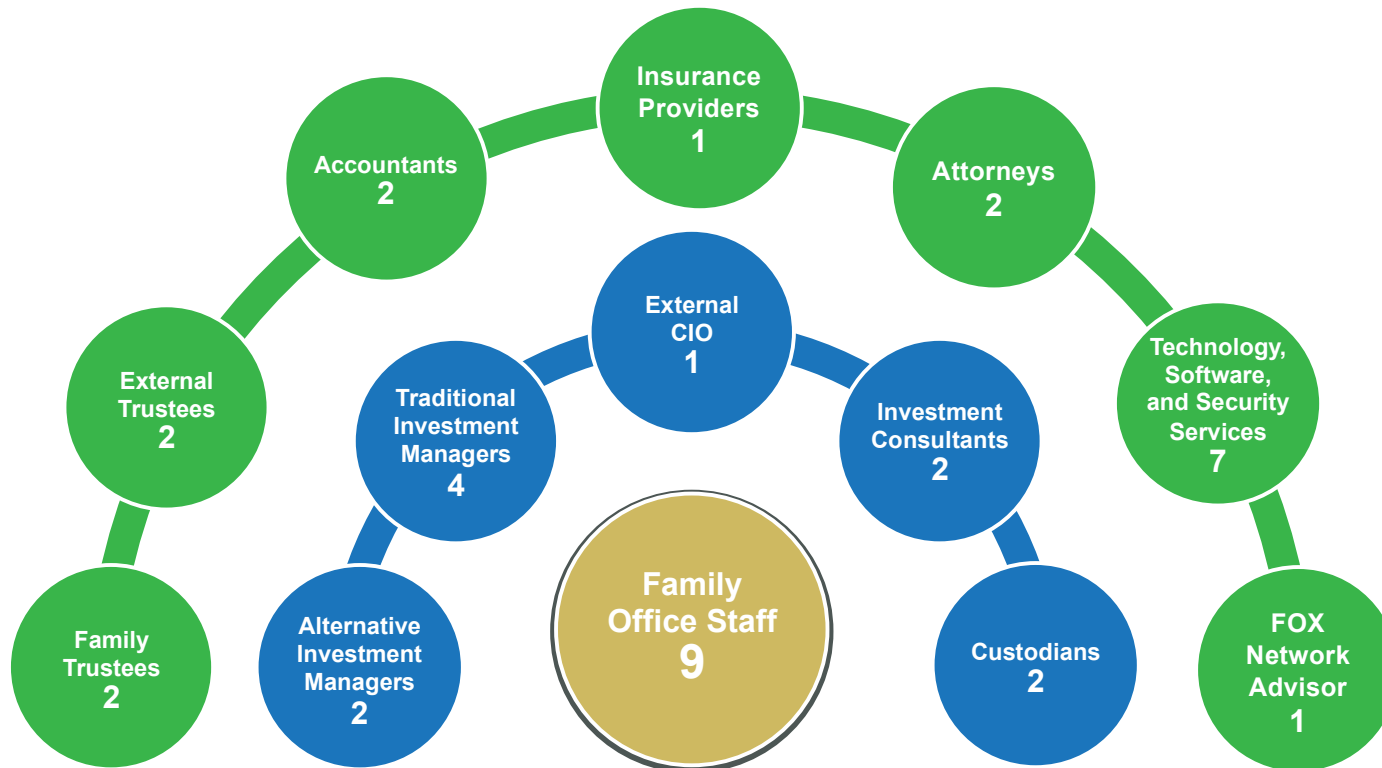
Advisor ecosystem

The Family Office and Advisor Ecosystem

n=17

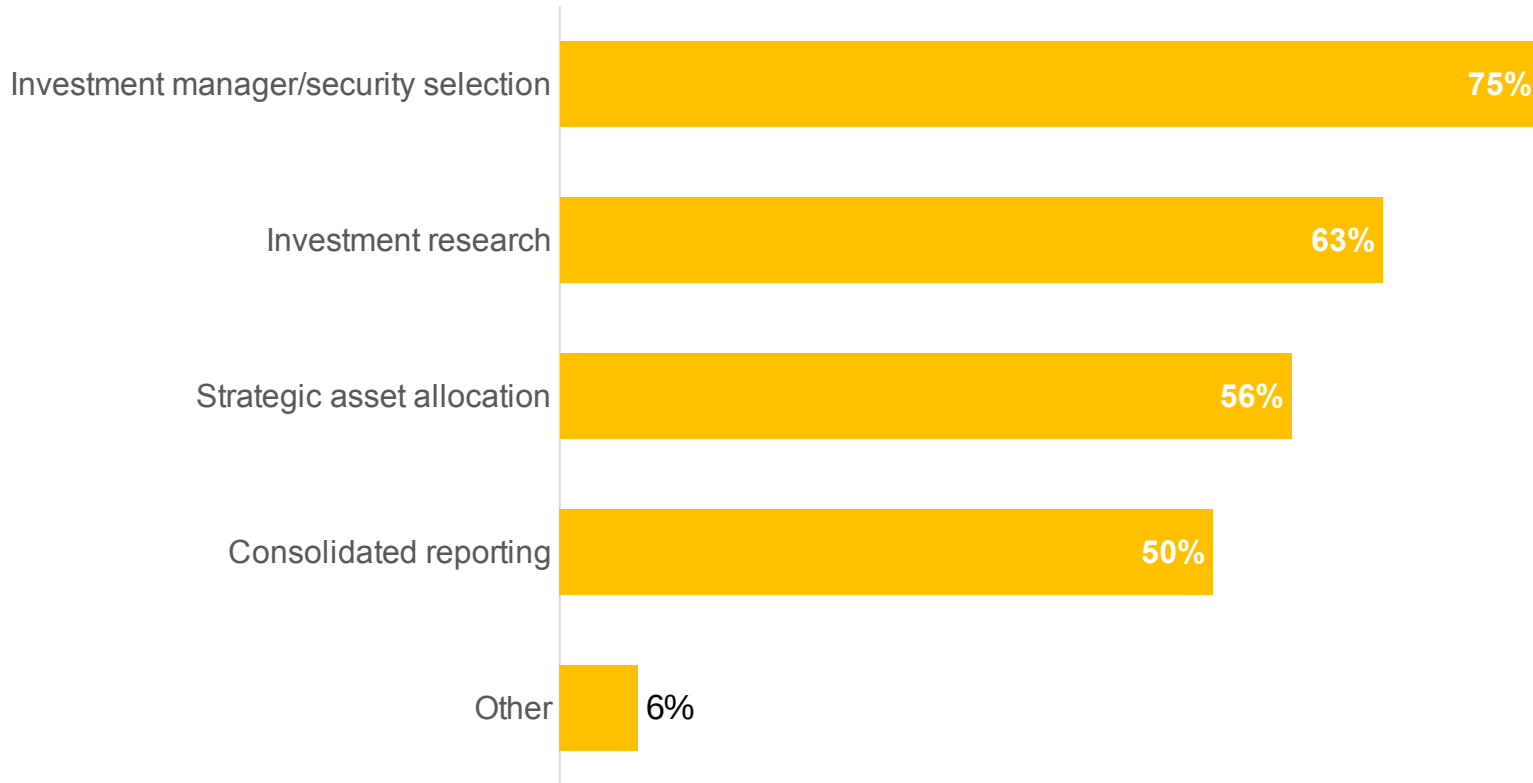
28+

The typical family office executive engages with 28+ service providers to effectively run the family office.



Source: FOX Family Exchange

In-house v outsourced services



Source: FOX Family Exchange

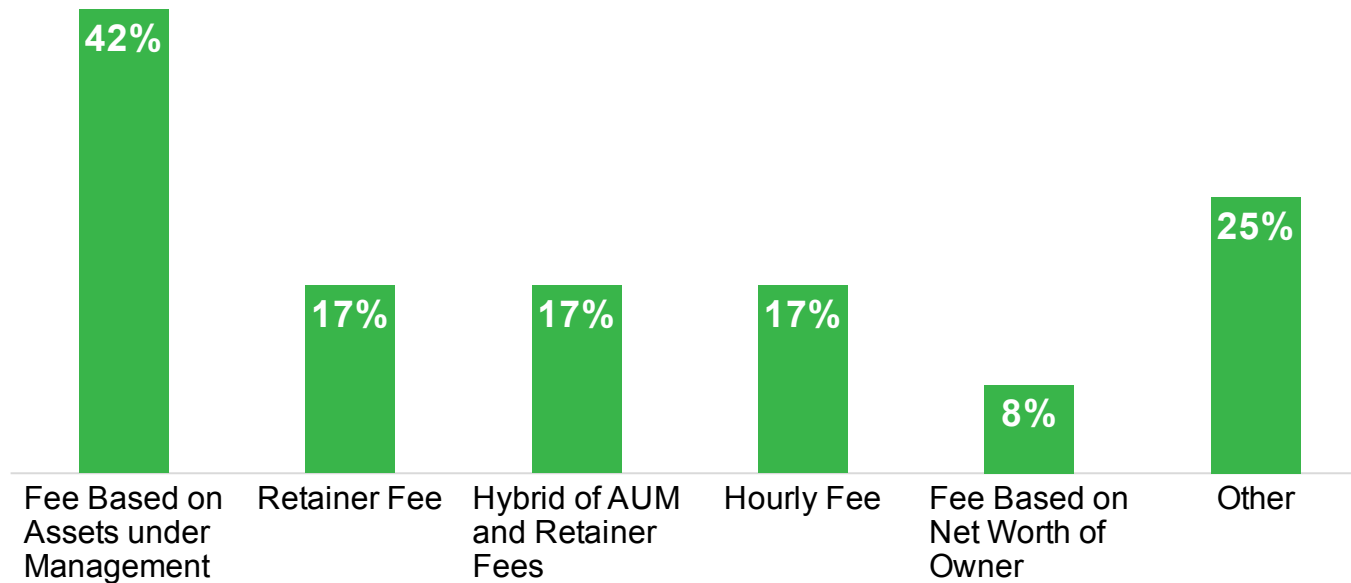


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How the Family Office Charges Family/Clients for Services



Source: FOX Family Exchange



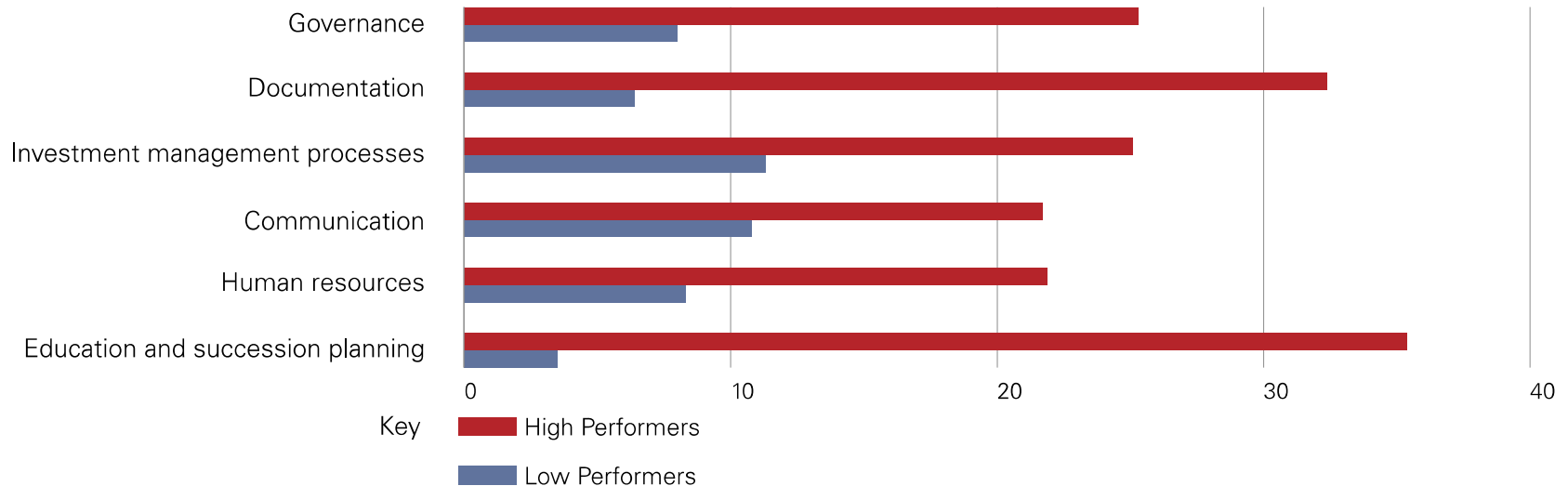
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What drives performance

Figure 11 - **Expense-Adjusted Quality Index (Mean Comparison)**



Source: Wharton Global Family Office Alliance

SOME LOCAL FLAVOUR



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Luxembourg perspective on FOs



Family office activities have been regulated in Luxembourg since legislation was passed in December 2012 to create a legal framework for the sector. Under the law, family offices may be operated only by members of certain regulated professions, including investment advisers, wealth managers, lawyers, notaries, accountants and specialist family office professionals.

This legislation principally deals with multi-family offices, which are currently the most common form of family office in the grand duchy, offering services to a restricted number of families. Family offices created by or serving a single family do not fall within the scope of the law, nor does it cover activities relating to non-financial assets, such as the management of buildings or artworks.



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Selection of (M)FO-focused players



COMPAGNIE FIDUCIAIRE & DE GESTION



BELAIR HOUSE

Family Office & Investment Management



THE LUXEMBOURG VOICE OF PRIVATE CAPITAL



FAMILY PARTNERS



L A F O

MFO

My Family Office



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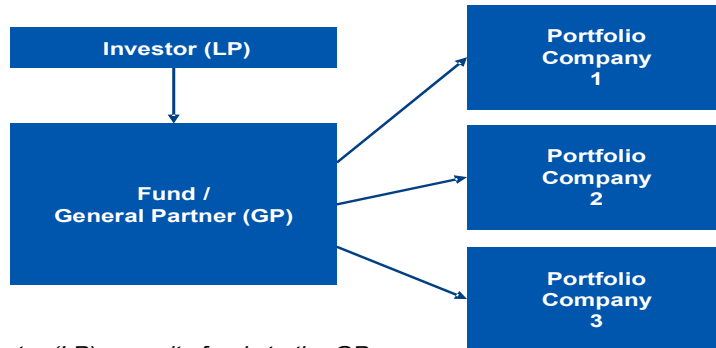
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Structuring considerations

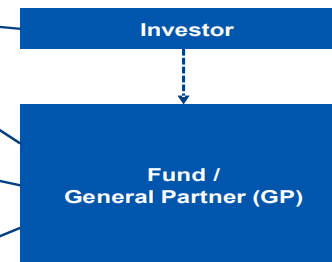
Family Offices can easily set up SPVs to host their PE investments

Traditional Model



Investor (LP) commits funds to the GP. The GP then pools capital from multiple LPs and selects end investments.

Co-Investment Model



Investor makes direct investment in portfolio company, typically alongside a another investor or a GP with whom it also invests.



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Luxembourg and comps

OFFSHORE

- Channel Islands
- Monaco
- Liechtenstein
- Malta

ONSHORE

- London
- US
- Switzerland
- Cyprus

Jurisdiction: Tax and legal

Cost considerations

Availability of staff

Political climate

Proximity to family home(s) and culture

Lifestyle (for family principals)



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LOOKING AHEAD



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Drivers for the future



- **Market volatility...** Hedge Funds converted into SFOs
- **Regulation..** Tax havens declining, AML, FATCA, CRS, RBO
- **Tech-preneurs...** New kind of wealth
- **NextGen....** The rise of Impact standards
- **Digitalisation...** Driving efficiency without jeopardizing confidentiality; instant access and transparency
- The role of Family Offices are **social stewards..?**



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November 15, 2018

Family Offices: The New Deal Masters?

[PDF: Family Offices: The New Deal Masters?](#)

[RSS Feed](#)

THE New Banks

These people move fast: Wealthy families are speedy dealmakers, and they're beating private equity at its own game

Bloomberg Markets Special Report | Family Offices.
January 11, 2018

PORTFOLIO

The Hot Asset Class for Family Offices

Institutional Investor

As the number of family offices grows, so does their clout in venture capital.

July 10, 2018

Do-it-yourself deals are all the rage among rich investors

Ultrawealthy look beyond hedge funds and private equity to making direct investments in businesses

Sep 14, 2018 @ 1:38 pm

By Bloomberg News

Wealth

Billionaire Families Reshape Silicon Valley's Venture Terrain

By [Tom Metcalf](#)

31 October 2019, 15:22 CET

- ▶ SVB's Jacqueline vonReichbauer runs the family office practice
- ▶ Older industries 'facing disruption' from VC-backed companies



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Markets Magazine

Wealthy Families Are Winning Deals Away From Private Equity

October 20, 2017, 4:00 AM EDT

6,680 views | Nov 5, 2019, 06:25pm

Wealthy Families Using 600-Year-Old Plan To Disrupt PE



Eli Bouffis Contributor @
Hedge Funds & Private Equity
I write about private equity.

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POINTERS FOR THOSE INTERESTED



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Where & how to find & keep a job at a SFO

- Gain experience in relevant functions with advisers: custodians; asset managers;
- Network with or work for their advisers
- Take time to understand the culture and values
- Rely on word of mouth and survey LinkedIn and other job postings, they re more numerous than we think
- Check Agreus: www.agreusgroup.com

“I rarely come across situations where a family office is firing someone because they are incompetent and cannot do the job, especially at the higher level. Most of the time it’s about their inability to get along with the principal or not understanding that it isn’t a nine-to-five job or even a nine-to-10 job, but it is about serving the family’s needs and wants, whatever that may be”



What it takes to work for a SFO

- **What they say: TRUST above all** – depends on front v backoffice roles – but CONFIDENTIALITY is paramount
- Depends on how organized / structured the SFO is
- Roles can be all-encompassing or focused on one function, but in most cases multi-jurisdiction
- Soft skills: Versatility; Communication; Flexibility; **Patience... LOYALTY PAYS OFF**
- When / if Beneficial Owners are involved, a degree of informality can be expected
- **Expect the unexpected... at all times**



“Someone who is used to climbing that corporate ladder and having a sense of gratification from being promoted has to change what drives them because those types of promotions don't exist in the family office environment—there is a glass ceiling where they cannot replace a family member,”



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Additional resources

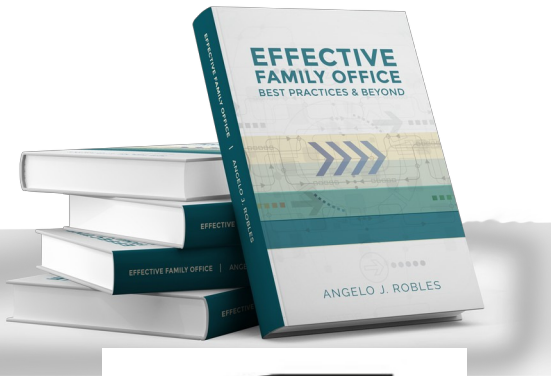


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http://affo.fr/assets/files/Publications/A_la_d%C3%A9couverte_du_FO_VF.pdf



<https://www.aurep.com/formations/certificat-metiers-du-family-office/>



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Thank you!

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