FOMC - News

Newsletter – Q1 2012, 01 January 2012

In response to the increasing demand for information within the family office market, Family Office Management Consulting publishes its quarterly newsletter as well as ad-hoc briefing notes on various subjects relating to the family office theme. The selection of topics results from the experience in working with families, entrepreneurs and family offices on a daily basis, current developments in local and international markets and requests by clients.

2011: Weathering storms in preparation for strategic change?

Regardless of 2011's turbulent market conditions, which have shaken portfolios and given family officers certainly more than one sleepless night, it has still not been the year of substantial strategic change for the majority of family offices, but, aside from trying to weather the storms and uncertainties, rather a year of reflection and first and foremost preparation. A multitude of family offices used the time where day-to-day investment operations proved to be rather difficult, to go into consideration on long-term orientation in regard to investment strategies, overall portfolio structuring and operational set-ups; and as such it has been a productive year, 2011, with substantial changes in the family office world emerging on the radar, and implementations being started.

In regard to investments, core aspects were not only international diversification, but also further exploring new investment regions and fields such as SRI and impact financing. Even more remarkable is however the newly emerging willingness and desire to expand networks, in particular investment networks, and this beyond current borders and accustomed circles. Renown family offices, well-established in the traditional European markets, are spreading their wings more extensively than ever before to new regions. It is here not only the emerging markets, with Asia certainly still being on top of the list, followed by Latin America, but also (investment) ties to North America are gaining again in importance; and these are not one way streets – Entrepreneurial investors from India, Singapore as well as increasingly China and Japan are seeking "safe" investment opportunities in Western markets, although the investment focus remains on direct stakes, private equity and real estate projects; Germany being currently one of the most popular destinations. Well-established German family offices and business families are regarded as precious partners for such venture and co-investment projects.

2011 has also been a year of change in regard to the selection of asset managers including custodian relationships as well as the asset management itself. While a number of family offices including some of the largest and notable ones, decided to take management entirely in their own hands and hire in-house portfolio managers and analysts, others selected smaller independent asset managers, starting to work with multi-family offices or have simply diversified across managers.

2012: The beginning of a new family office era?

It has not only been the turbulences of 2011, but it was rather ever since the financial crisis of 2008 that family offices have started to reflect on strategic changes seeking to established state-of-the-art structures and learn from past mistakes in an effort to be better prepared for future uncertainties. Predicting and particularly mitigating risks has become and will continue to be a core theme in the family office world, as we have already discussed in our November special.

Also the trend of "joining forces" on the investment side combined with a greater level of transparency and exchange in the family office world, where important milestones have already been established in 2011 and previous months, will certainly continue in 2012 and beyond. Here not only platforms for deals on a one-to-one basis as for instance the matching of two to three like-minded investors, be it via well-structured and more or less formal investment committees, "hybrid" family office structures or private investment funds, will be relevant, but also roundtables and "investor clubs".

Family offices have and will continue to take on roles that banks and other investment managers are unable to fulfil, mainly as a result of increasingly stringent regulation and the associated liability risks, but also due to their inexperience with strategic assets as such. Family offices nowadays are able to perform their own due diligence, respectively have access to a well selected and handpicked network of advisors which they can rely on whenever needed. And it is exactly such expertise and networks where other international family offices and investors can and should plug in; cost efficiencies being certainly an additional plus.

Another good example are financing deals which are increasingly taking place amongst family offices as well; while the room for manoeuvre for financial institutions is narrowing, family offices are not only willing, but eager and more flexible to enter such deals, one example being the financing of "family buy-outs". The own background and experience combined with the perception of being at "equal eye height" provides security and trust, and even more importantly, potentially strong investment partners in the long term.

Such trends have reached even the emerging markets; not only are circles being set up in Miami, New York and Brazil for the Latin American markets, but also Hong Kong and even mainland China are inviting international (family) investors to join forces to co-invest as well as to learn from each other.

Family offices will certainly continue to shape the investment world with this year, despite all its uncertainties, further preparing the ground for remarkable change.

Family Office Management Consulting Ltd.

33 St. James's Square London SW1Y 4JS Telephone +44 (0)20 3170 5966 Fax +44 (0)20 3170 5967 contact@fo-mc.com www.fo-mc.com