Family Office Management Consulting

FOMC - News

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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.

International developments in direct investments – Which are the strongest markets and biggest trends?

Following up on our first newsletter of the year back in January, we wanted to take a glance on the investment activities in the family office and private investor sphere since then and check on how far previously stated outlooks on developments at the international level and on the alternative investment side are actually materialising. As expected, we continue to see family offices increasing their allocations towards direct investments, particularly in regard to strategic private placements and private equity stakes, closely followed by investments in real estate.

With the exception of strong activity in local markets such as for instance in Asia, for cross-border investments, Europe continues to be currently the most frequent destination for international private, family and family office investors, and this despite the uncertainties in the EU. While Asian investors are taking their first steps into investing in privately-held companies across Europe, with Germany, France and Italy being favourite destinations, Latin American, Eastern European and Middle Eastern family offices are beginning to follow the Asian trailblazers, although slowly, their focus so far having been international real estate investments.

The other way around – from the Western world into the emerging markets – actual investment flow is rather slow, at least in comparison, while however the stream of information has picked up quite substantially with many European family investors and their family offices currently focusing on due diligence operations as well as the establishment of long-lasting ties in the still to some extent unknown regions; all in an effort to not only start investing in real estate, so far already happening in Asia, as well as land and agriculture, mainly in Latin America, the latter being a trend picked up by European and U.S. family investors already over the past decade, but also to invest in promising private equity and venture projects. So far only very few pioneer family offices and entrepreneurial investors have dared to take on strategic stakes in emerging markets, notably Brazil or Mainland China.

While family office investors are focusing on taking majority stakes when it comes to the portfolio of strategic direct investments in their own region - not only in order to exercise control, but more importantly to be able to bring in their entrepreneurial mind and skill sets, thereby directly influencing long-term returns, a similar approach is likely to be seen in regard to investments in the (yet) unknown territories as global family office ties are strengthening. Compared to their institutional counterparts, family offices have a number of advantages: Family capital is perceived as “sticky”, “families are in for the long term”, while at the same time, they bring along not only the capital, but also the flexibility to take timely decisions; and their risk appetite, or rather risk tolerance, appears to be insatiable; although the latter being the case

mainly due to the fact that coming from the business side, "entrepreneurial" investments are not perceived as being as risky as the financial markets.

How to establish strong ties across borders, joining the "right" investors' circles while at the same time mastering the challenge of maintaining a successful balance between internal know-how and external partners, are questions commonly posed to FOMC in our daily consulting work and will also be a subject which we will be exploring in one of our upcoming briefing notes.

Compensation & Family Offices: a "taboo" topic that needs to be addressed – now more than ever

The family offices of today are run as investment companies, boutique asset or even hedge fund managers, thereby not only being increasingly perceived as strong players on global markets, but also as interesting employers. With financial institutions continuing to struggle, on asset, wealth and investment banking sides, bankers, portfolio managers as well as M&A, private equity and other specialists are eagerly exploring employment opportunities with single and multi-family offices.

While family offices certainly welcome this inflow of strong talent, the question of compensation becomes a pressing one. Unlike their institutional counterparts, family offices and here particularly single family offices (SFO), cannot afford any fluctuations, neither at management nor at associate levels, or at least not to the extent that is common in the financial market place. Family officers stay for the long term or at minimum for one generation, as the trusted advisor having access to substantial information on wealth and personal sides. However, as active investment management, even though the latter may be restricted to the direct investment and alternative portfolios, and required in-house expertise are growing, how can family offices attract and especially retain top market talent and players?

While so far, base salary premiums were commonly paid by SFOs in order to compensate for the somewhat "capped" career path, family employers are nowadays not only requesting benchmarking studies from Family Office Management Consulting for the fix and bonus compensation blocks in order to remain competitive, but are also reconsidering additional incentive schemes in an effort to retain key staff for the long term as well as to exercise risk control. In this way, the annual discretionary bonus scheme seems to be a relict of the past, or at least in its original form. As part of FOMC's advisory work on compensation, matrix bonus schemes with additional quantitative performance measures, including, for instance, risk-weighted returns are being requested and successfully implemented; as are vested bonus plans – a development confirmed by the most recent study of CampdenFO and the international executive search firm Sulger Buel & Company according to which "performance and bonus are computed over a three-to-five-year period with clawback options more common".

Strong compensation schemes are particularly important for SFOs as they often manage similar asset bases as multi-family offices, but have limited possibilities to offer incentives via partner structures or equity/investment participation plans. While phantom stock option plans continue to be restricted mostly to the family business side and have only in rare cases been implemented within family offices, and moreover the majority of family office employees not even wanting to invest alongside their employers, even if given the opportunity, it is the qualitative performance measures that are gaining in importance as well.

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