ACUMEN, CAPITAL AND PURPOSE: FAMILY OFFICE PRIVATE EQUITY INSIGHTS FOR 2021

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Family offices can act as reliable providers of direct company equity and debt funding to successful private businesses who are finding it difficult to find sustainable sources of efficiently priced capital from institutional providers currently caught up with responding to Covid liquidity requirements for public companies and governmental agencies.

Our work in advising family offices has shown us that family offices can bring a number of advantages and additional strategic competencies, as well as a useful network and a governance model that is more aligned with the needs of a private business owner looking to reconfigure their business to reflect better stakeholder engagement, fashion a 21st century ESG response and undertake the level of spending required to effect an appropriate level of digital transformation. Family office principals are also not afraid to roll their sleeves up and take board positions so that they can monitor and steer the progress of their investments.

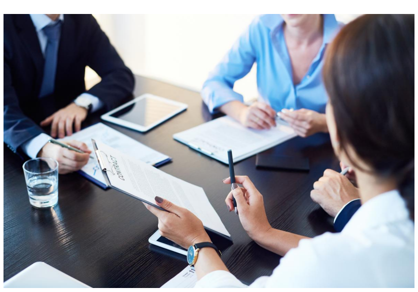
Family offices who are interested in this area need to identify and specifically highlight the contribution they can make to a private business and work with their professional advisers to find and secure the opportunities. Key to success is the development of an effective governance framework which delivers effective capital spending controls, appropriate incentivisation of key employees, a succession or exit plan, institutional quality audit and financial reporting and most importantly a non-supine board.

“Key to success is the development of an effective governance framework”

Family offices need in the due diligence process to review closely the existing capitalisation table and shareholder rights and propose and negotiate a model that will enable the company to achieve the level of future growth that is required. This is a difficult process, but it is essential to buy out shareholders who no longer contribute value at a fair price and redistribute equity to reflect the contributions of the shareholders and employees who do.

It is also critically important to put in place a succession plan for the founder to transition the business to the right leadership and to ensure that the assets of the family are separated from the business.

We see many founder-owned businesses stuck with these issues and believe that a family office consortium with sufficient capital and drive could institute this as an investment strategy.



Family offices as power houses

Family offices are establishing the private equity models of the future. They are not tied to the 5-7 year fund cycle, do not need to get on the road to raise capital and can tap into their networks to source deals.

They can pick up the phone to their trusted network and create and use permanent capital vehicles such as investment trusts.

We are seeing many experienced dissatisfied mid-level private equity professionals who are disillusioned with the level of control the founders of the firm continue to exert and with the amounts they are paid.

Family offices could develop an equity incentive plan which properly incentivises investment professionals as well as provide them with the opportunity to have input into the strategic direction of the investment firm.

RIT Capital Partners PLC, originally set up by Jacob Rothschild, is a good example of what a group of family offices could do if they were to collaborate together.

Bridging the gaps

The purpose of wealth is under scrutiny like never before. Family offices need to be alive to this and need to demonstrate a link between wealth they administer and its wider social benefit.

This scrutiny has in part been driven by the current succession of wealth to the next generation. The next gen recipients of this wealth are typically millennials or of Generation Z and are increasingly likely to possess a values-driven mindset compared to their forebears. The opposing views of generations risks the next-gen feeling disenfranchised with this wealth, which, left unchecked, will eventually lead to its fragmentation.

“Next-gens are increasingly likely to possess a values-driven mindset compared to their forebears”

The challenge for family offices is to balance the differing needs and demands of multiple generations. Family offices are already grappling with this by allocating their investment portfolios to sustainability, driven, in part by the demands of the next gen.

Bridging the generational and values gap starts with the family themselves, by developing and agreeing a set of shared ethical values. These shared values can then be taken forward by the family office and epitomised through their underlying investments and trading businesses.

As well as internal communication, this agreed shared purpose also needs to be communicated externally. This will also aid the ability of family offices to proposition themselves as reliable providers of private equity as family offices will often lack a clear ethical purpose, unlike their private equity counterparts. Achieving 'total impact' demonstrates the integrity of the family office towards its ethical credentials.

Family offices who able to manage the succession of wealth so that they properly engage their next gen are ideally placed to help craft the post-Covid crisis economy by working with private companies to help them accelerate and navigate the much needed digital transformation and assist the commercialisation of the latent bioscience developments and technological innovations that this crisis has highlighted.

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