FAMILY OFFICE & RIA DATA INTELLIGENCE

5 Family Office Trends To Watch For in 2022

2022 looks promising for the private wealth management industry and more specifically, single and multi-family offices. As the leading Family Office and Registered Investment Advisor (RIA) Database provider, FINTRX continues to monitor the strategies and investments of these groups. Here, we dive into five prominent family office trends heavily shaping the alternative wealth space.

1. Allocating to Digital Currencies

Family offices are becoming more involved in digital assets, with a growing number allocating to cryptocurrency, bitcoin, and blockchain companies. With large pools of capital and a long-term horizon, family offices are increasingly looking to digital assets for several reasons. Rising inflation and low-interest rates have many private wealth groups seeking opportunities in digital assets as they often provide diversification to investment portfolios. Because family offices have a long-term investment horizon, they often take greater risks and have more flexibility to invest in nontraditional asset classes.

"Some family offices are considering cryptocurrencies as a way to position for higher inflation, prolonged low rates, and other macroeconomic developments following a year of unprecedented global and fiscal stimulus." - Stephen Van de Wetering

Cryptocurrencies often provide growth in a volatile market environment. Historically, family offices have typically demonstrated a higher tolerance for volatility compared to other investors. Some family offices consider cryptocurrencies' positions in order to hedge against inflation. Other reasons include the desire to keep up with new investment trends, increase investment diversification, and ultimately gain the inherent investment value behind cryptocurrency.

"According to BNY Mellon Wealth Management, 64% of family offices surveyed said that cryptocurrency speaks to the aspirations of the next generation of investors, while 45% indicated that interest from future family office leaders is a major motivation for them to get more involved in the new asset class. Other key reasons include the desire to keep up with a new investment trend and the underlying investment value behind cryptocurrency." - Hannah Zhang

As more private wealth groups recognize the advantages associated with digital assets, we will likely continue to see an influx of family offices investing in cryptocurrencies in the months ahead. In fact, President Joe Biden signed an executive order, calling on federal agencies to implement a strategy for policies and regulations on digital assets, including crypto. Many investment professionals interpret this as "long overdue," and an "acknowledgment that crypto is here to stay."

5 Private Wealth Groups Investing in Digital Currencies

2. Spiked ESG Interest

While Environmental, Social, and Governance (ESG) investing has gained traction over the last few years, it is clearly an idea that has now made it to the forefront. Because ESG is an area filled with potential, a majority of family offices and high-net-worth investors are using proprietary data platforms such as the FINTRX Family Office and RIA Database to identify private firms with a growing ESG focus.

"Whether you consider equities or fixed income, one of the things that we have learned over the last decade is that when properly applied ESG does not negatively impact the performance or risk of a portfolio. In fact, it could be additive from a risk perspective." - Michael Hunstad, Head of Quantitative Strategies, Northern Trust Asset Management

ESG investors not only aim for strong financial performance, but also believe these investments should be used to contribute to advancements in social, environmental, and governance practices. Oftentimes groups will actively seek out investments — such as community development funds or clean tech portfolios — that will likely provide important societal or environmental benefits to their communities as well as long-term capital gains. This means a continued increase in allocations to companies that emphasize social impact and communities.

ESG investing spans a wide and growing range of asset classes, embracing not only public equity investments (stocks), but also cash, fixed income, and alternative investments such as private equity, venture capital, and real estate. Sustainable investing strategies work to encourage responsible business practices and allocate capital for social and environmental benefits across the economy.

We have also seen an uptick in next-generation family members allocating to ESG opportunities, as they are often more willing to collaborate in the decision-making process. Millennials managing family offices have a greater social awareness and a willingness to make sustainable and impact investments.

"Family offices are in near-universal agreement that Next-Generation family-office leadership will be more focused than current teams on decentralized and more socially responsible investments, even if it means forgoing some profit for the sake of social good." - Hannah Zhang

Selecting investments according to long-term sustainability goals means more families and individuals feel empowered to allocate capital in places that make a difference. With that said, we believe 2022 will continue to see the concepts of ESG and value-based investing spread throughout the industry.

3. Growing Interest in Emerging Markets

Emerging markets are attractive to family offices as they often provide high growth rates, fewer government restrictions, and less competition. According to Forbes' latest report, there are now 66 more billionaires worldwide than a year ago. In fact, emerging markets such as Brazil, China, India, and Russia feature the most billionaires, while Africa, Europe, and the Middle East have all seen impressive rises as well.

While foreign investment has certainly played a part in the rise of these emerging markets, it is not wholly responsible for these developments. Technological advances and online businesses have significant scope for growth across emerging markets. In South Korea for example, a leading internet search company has become one of the largest e-commerce players in the country. China has also served as a pioneering business model in e-commerce, online payments, and other services that other markets have adapted to succeed. Regulatory changes in China have led to a reset in the market's growth expectations for some of its largest internet companies.

In many cases, family offices will hold their businesses indefinitely. Doing so ultimately builds upon the legacy originally created by the founder.

"Many business owners are drawn to family offices over private equity firms, for a number of reasons including the longer hold periods that family offices can typically support... For these reasons, more of our deal teams are establishing relationships with family offices in key industries to enrich the buyer lists they create for our clients. If you are entering the market without professional M&A guidance, you should seriously consider adding family offices to your list of targets." - Generational Equity

The countries that make up the emerging world are hubs of entrepreneurial activity. China, South Korea, Taiwan, and other markets with deep technology capabilities are well-positioned to drive the next wave of advances. Emerging markets have also been increasing their push for electrification and renewable energy. Because emerging markets are in the midst of evolution and progress, we expect family offices to continue seeking companies outside the United States that exhibit strong competitive advantages.

4. Family Offices Investing in Real Estate

The real estate market has shown impressive economic staying power even in a pandemic. Throughout the second half of 2021 and the first few months of 2022, real estate has roared back to life with assets, portfolios, and transactions not only recovering but often exceeding pre-pandemic levels. Overall, the pandemic magnified an ongoing shift away from expensive downtown markets and shifted it towards smaller, more affordable ones.

"Since the onset of the pandemic, banks have pulled back on lending for many ground-up development projects, and family offices are stepping in to help fill the void." - Dan Bsharat, Hudson Hill Partners

Because family offices have a need for wealth preservation and desire to achieve long-term value, real estate - across residential, industrial, office, hotel, and retail assets - continues to be a driving force for private wealth groups and the alternative investment space at large. Now, more families that generated their wealth through other industries are putting their money into real estate, allowing them to create and maintain true generational wealth.

Even with some significant tax overhauls implemented under a new administration, physical properties have become increasingly attractive for family offices as stocks and bonds become less reliable. With the growing need for housing around the US, multifamily rentals remain the preferred property type for the bulk of family offices, according to industry experts. Many family offices are also looking for the chance to buy housing at steep discounts.

5. Growing M&A Activity

Today's M&A environment is fast-paced and multifaceted. Increasingly, family offices are becoming an essential part of the investment community, ultimately fuelling M&A activity. Investors are focused on capabilities-driven transactions or deals that fill portfolio gaps or provide a scalable business model. Many groups are seizing opportunities to invest in new platform companies and add-on acquisitions for existing portfolio companies as well.

"Record levels of deal-making in 2021 were evident across three regions, reflecting the strong bounce-back in the global economy. Europe, the Middle East, and Africa showed the greatest growth in deal volumes over the prior year, with an increase of 34%, followed by the Americas, at 22%." - Danielle Valkner & Harry Gruits

Family offices will likely continue to play a larger role in acquiring assets among privately held, family-run businesses, as many remain focused on portfolio optimization, building resilience in the face of economic shifts, and ultimately capitalizing on a favorable deal-making environment.

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"After a record year for M&A, everyone's asking what's next? Deal-making will likely remain robust in 2022, with fierce competition among corporates, PE and SPACs, but it's feasible that the top may come off the market, given increasing macroeconomic and regulatory headwinds." - Brian Levy, Global Deals Industries Leader, Partner, PxC US

We expect M&A volume to continue on pace with current levels, fueled by active debt markets, successful capital-raising, and a desire to complete transactions ahead of potential policy changes. Additionally, an increase in new disruptive business models and technological advances will continue to drive family office M&A decision-making.

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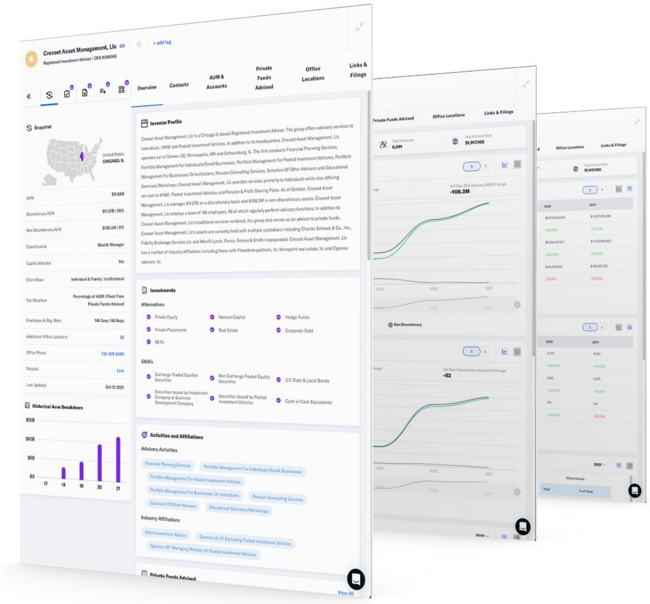

FINTRX is a private wealth data intelligence platform that provides global financial firms a single point of access to draw insights on vast amounts of family office and registered investment advisor data.

FINTRX is designed specifically for investment professionals to source accurate and relevant data while increasing efficiency and saving valuable time.

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