



**FINTRX**  
INDUSTRY BRIEFING SERIES

PART TWO

# Analyzing Family Office Direct Investment Activity

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## INTRODUCTION

Dear Reader,

Welcome to the second edition of our Industry Briefing Series in partnership with Charles Schwab.

Since inception our FINTRX research team has remained dedicated to providing the highest-quality Family Office data and research to our global client base. In early 2018, our firm expanded the parameters of our Family Office research to include the direct investment activity throughout the ecosystem. After years of extensive research dedicated to the process of uncovering and analyzing these transactions, we are excited to present our Family Office direct investment commentary.

Our Part II Brochure has been compiled, in its entirety, from data derived by the FINTRX research team. A multifaceted, bottom up methodology was used to harvest the research from an array of sources. This practice consists of aggregating information from a number of public filings, proprietary data sources, strategic industry relationships, data mapping, among other origins. Using a cross section of our complete data set to provide what we believe to be the most accurate representation of the global Family Office market, we present the following commentary on the direct investment activity within the Family Office landscape.

On behalf of FINTRX, I would like to thank Paul J. Ferguson and the entire Charles Schwab team for taking the time to assist us in completing this report.

Thank you,

**Dennis M. Caulfield Jr.**  
Vice President of Research



FAMILY OFFICES - SINGLE VS MULTI

Total Family Offices  
**2,823**

Family Offices are entities, established to manage and invest the wealth of individuals and families of substantial net worth. As their names suggest, Single Family Offices (SFOs) manage the wealth of a single family or individual. Multi Family Offices (MFOs) are designed to provide similar services to their Single Family Office counterparts but to a number of wealthy families. By leveraging the services of an existing Multi Family Office, these wealthy families can limit the time needed to establish their own wealth advising entity. At FINTRX, we estimate there are approximately **3,500-5,000** Family Offices throughout the world that have one or more employees and some form of external investment activity. At the current time, we estimate that **39%** are Single Family Offices and **61%** are Multi Family Offices.

**61%**  
Multi-Family  
Offices (MFOs)



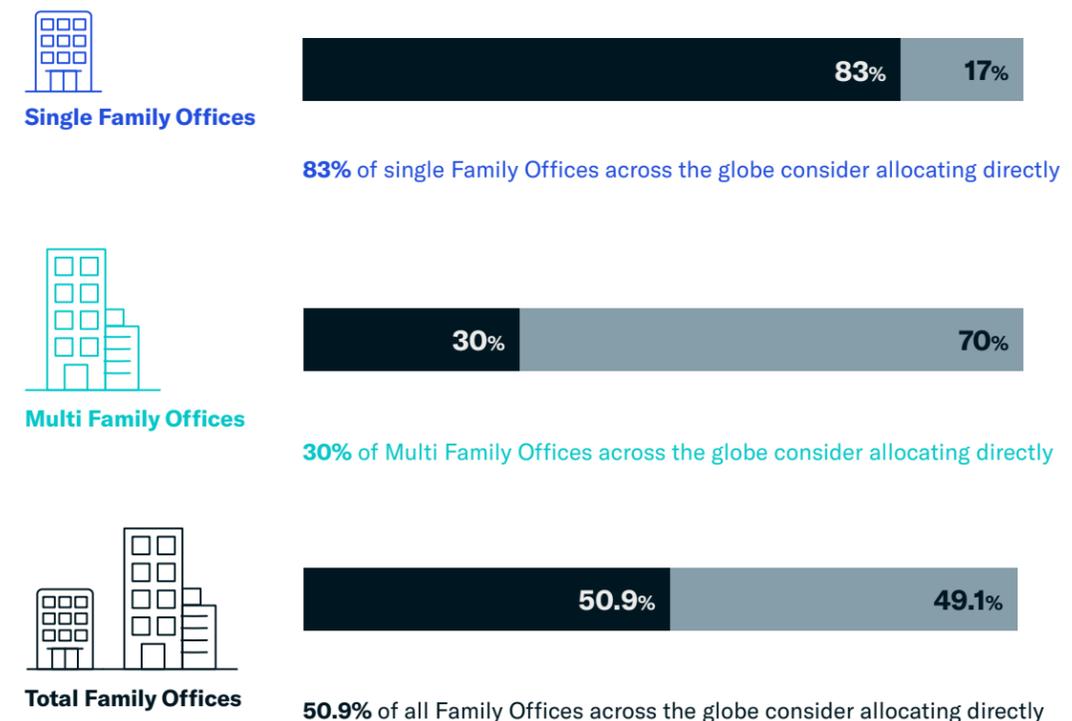
**39%**  
Single Family  
Offices (SFOs)

FAMILY OFFICES MAKING DIRECT INVESTMENTS

Direct Investments have become increasingly common throughout the Family Office space, particularly within the Single Family Office ecosystem. We attribute this trend to a number of changes, none more influential than the increase in sophistication of Family Office vehicles themselves. Over the past decade, Family Offices have accumulated the assets and talent required to effectively allocate capital directly into the private space. The result of this trend is more than half of all family offices allocating capital directly to some degree.

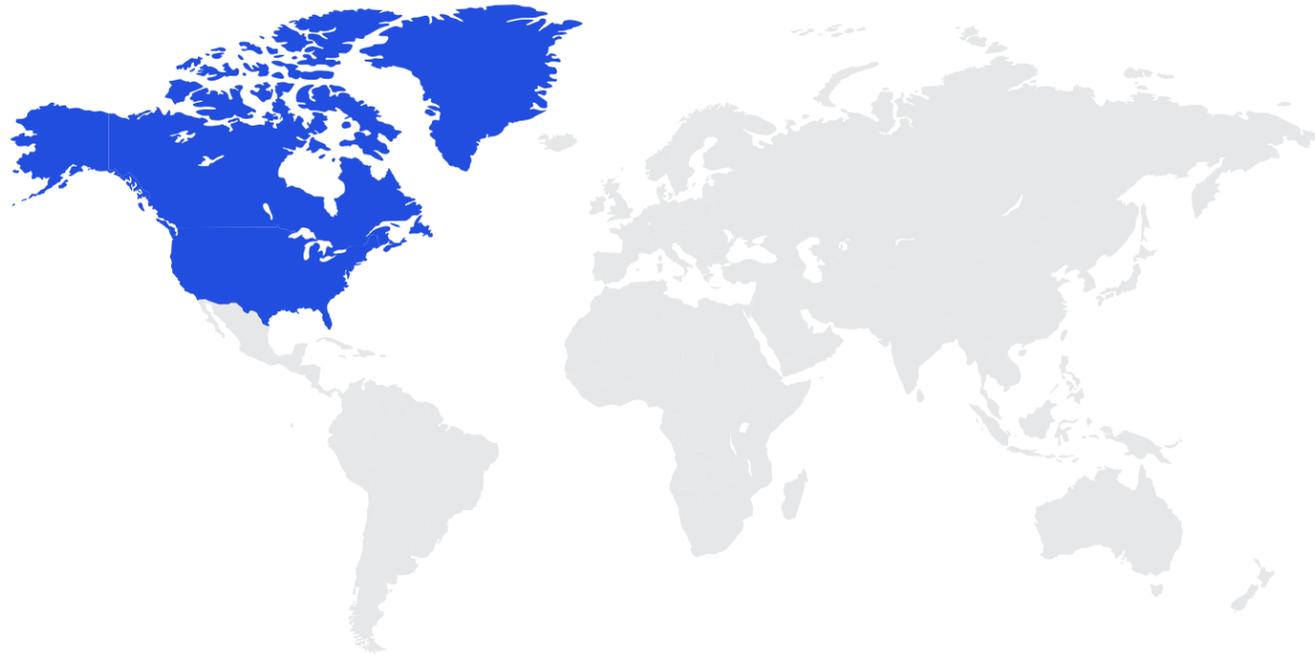
**50.9%**  
of Family Offices across the globe consider making direct investments

Direct Investment Breakdown by FO Type



■ Making Direct Investments    ■ Not making Direct Investments

NORTH AMERICA BREAKDOWN



**82.1%** SFOs making Direct Investments



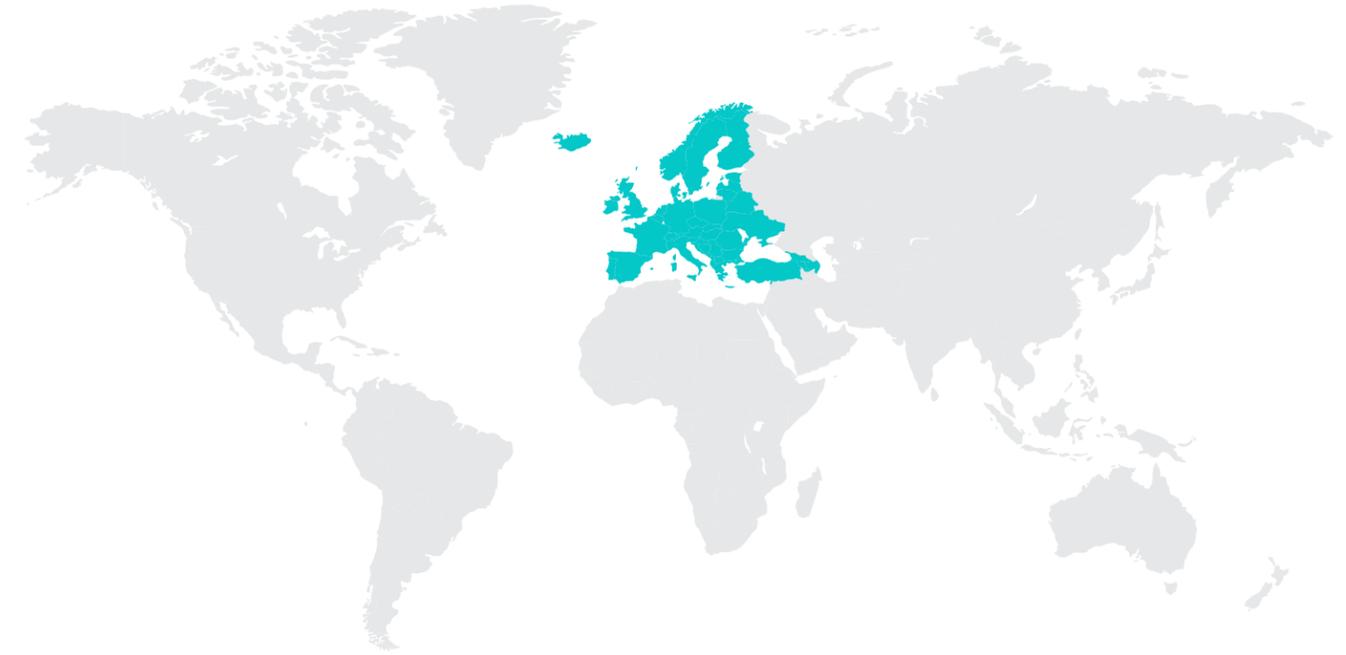
**26.7%** MFOs making Direct Investments



**49.7%** Family Offices making Direct Investments



EUROPE BREAKDOWN



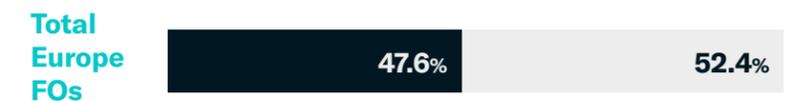
**83.3%** SFOs making Direct Investments



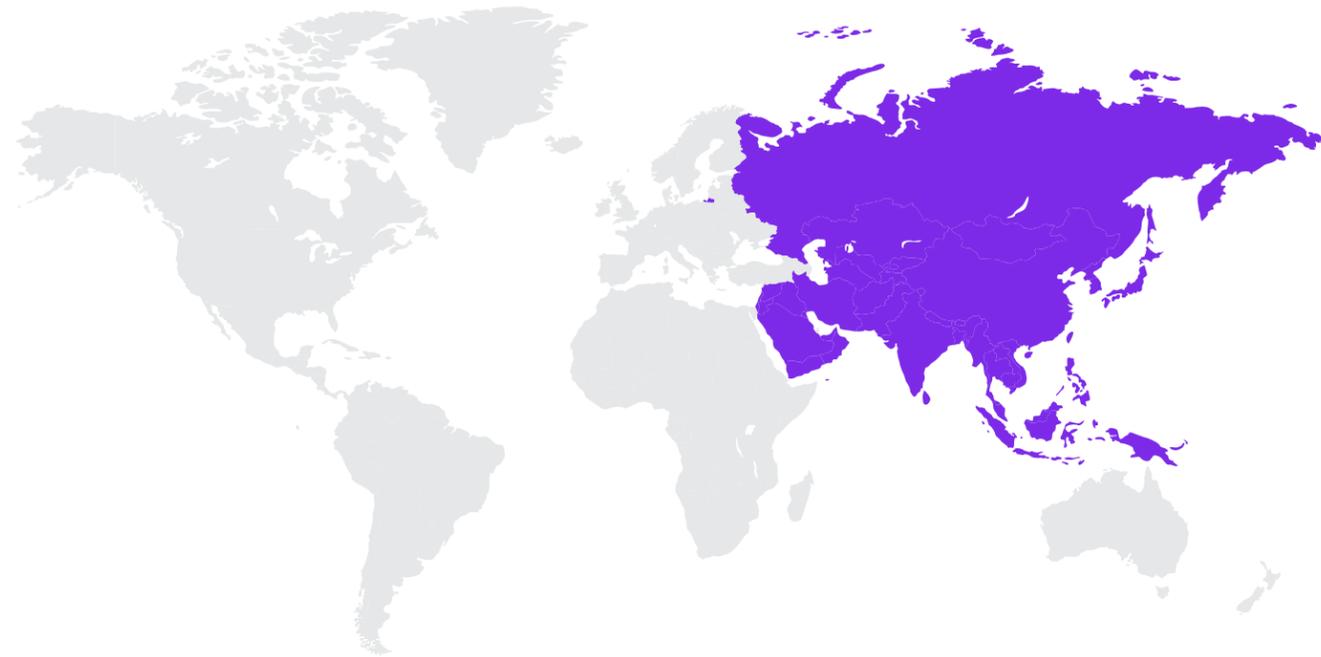
**30.2%** MFOs making Direct Investments



**47.6%** Family Offices making Direct Investments



ASIA / MIDDLE EAST BREAKDOWN



**88.5%** SFOs making Direct Investments



**55.3%** MFOs making Direct Investments



**70.1%** Family Offices making Direct Investments



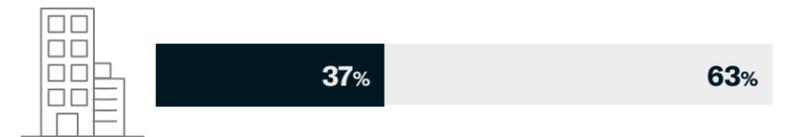
REST OF WORLD BREAKDOWN



**87.5%** SFOs making Direct Investments



**37%** MFOs making Direct Investments

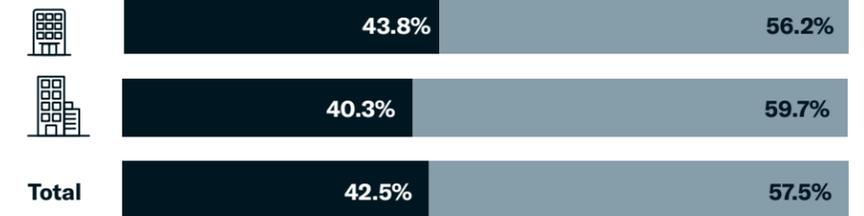


**56.4%** Family Offices making Direct Investments

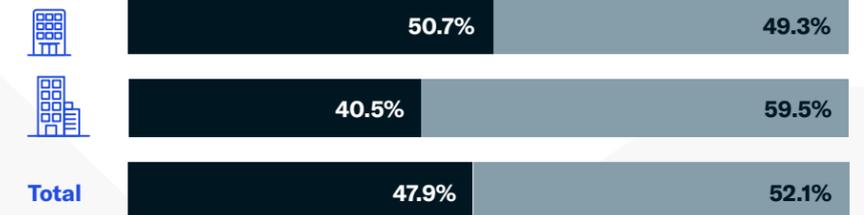


GLOBAL FAMILY OFFICES CO-INVESTING BREAKDOWN

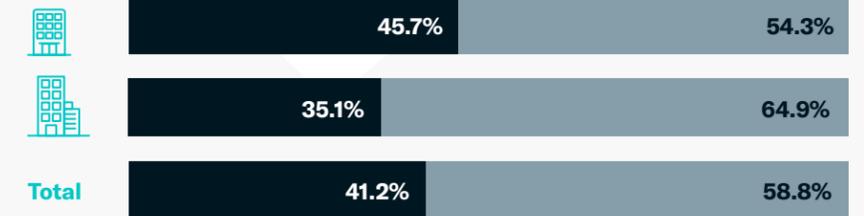
Global



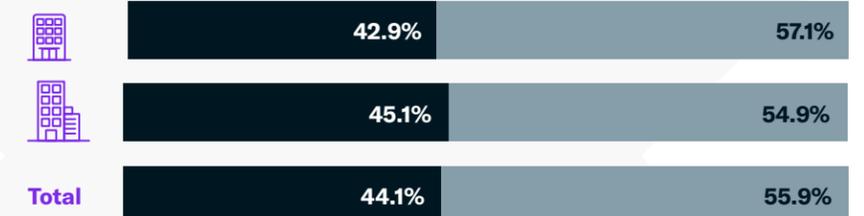
North America



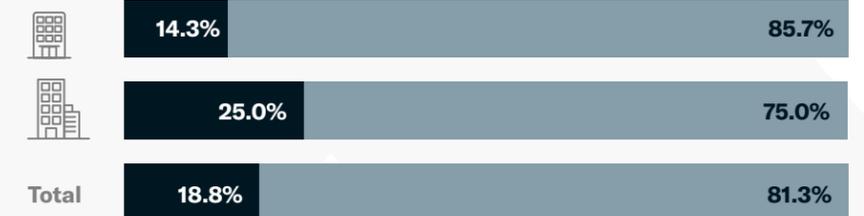
Europe



Asia / Middle East

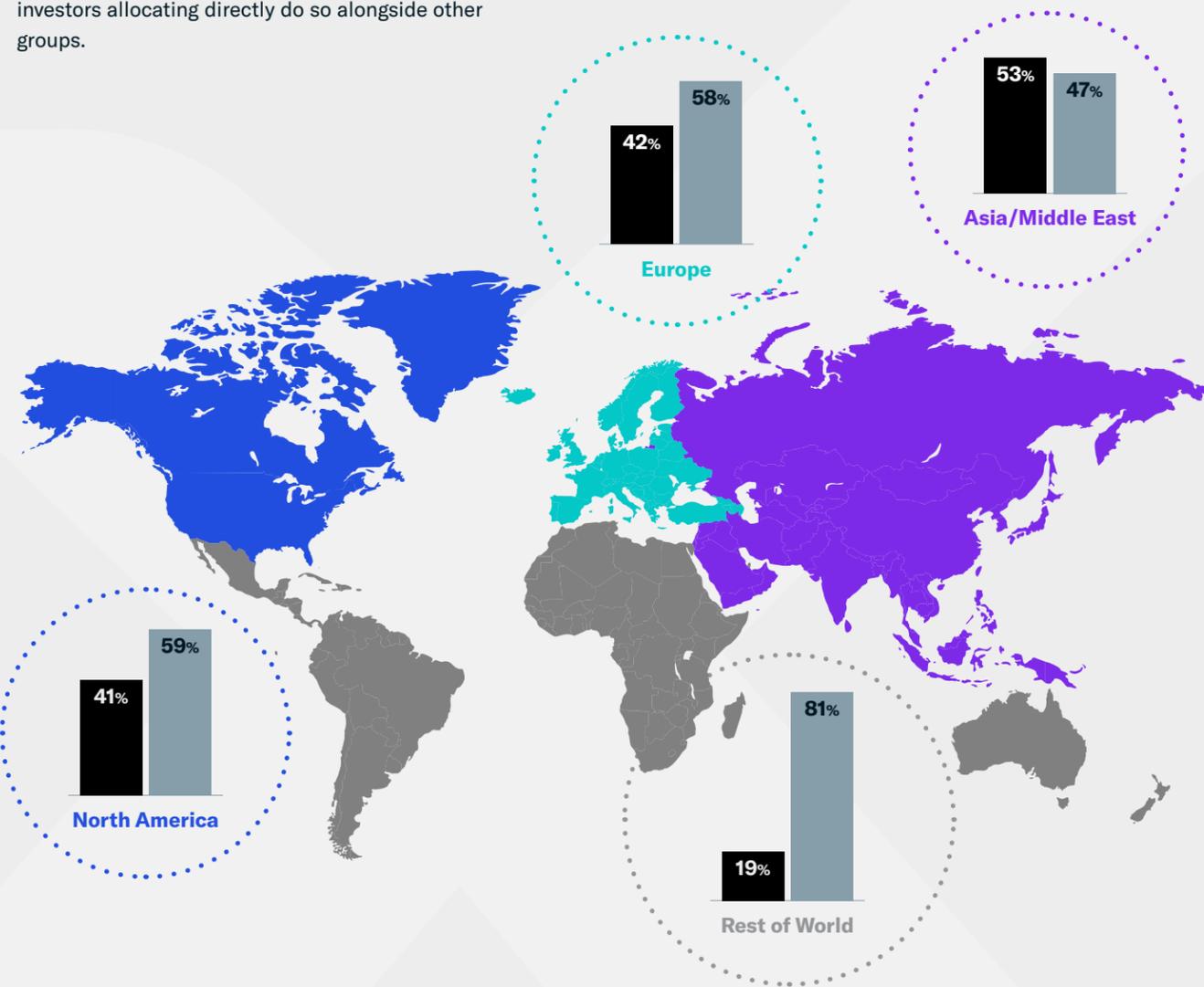


Rest of World



GLOBAL FAMILY OFFICES CO-INVESTING

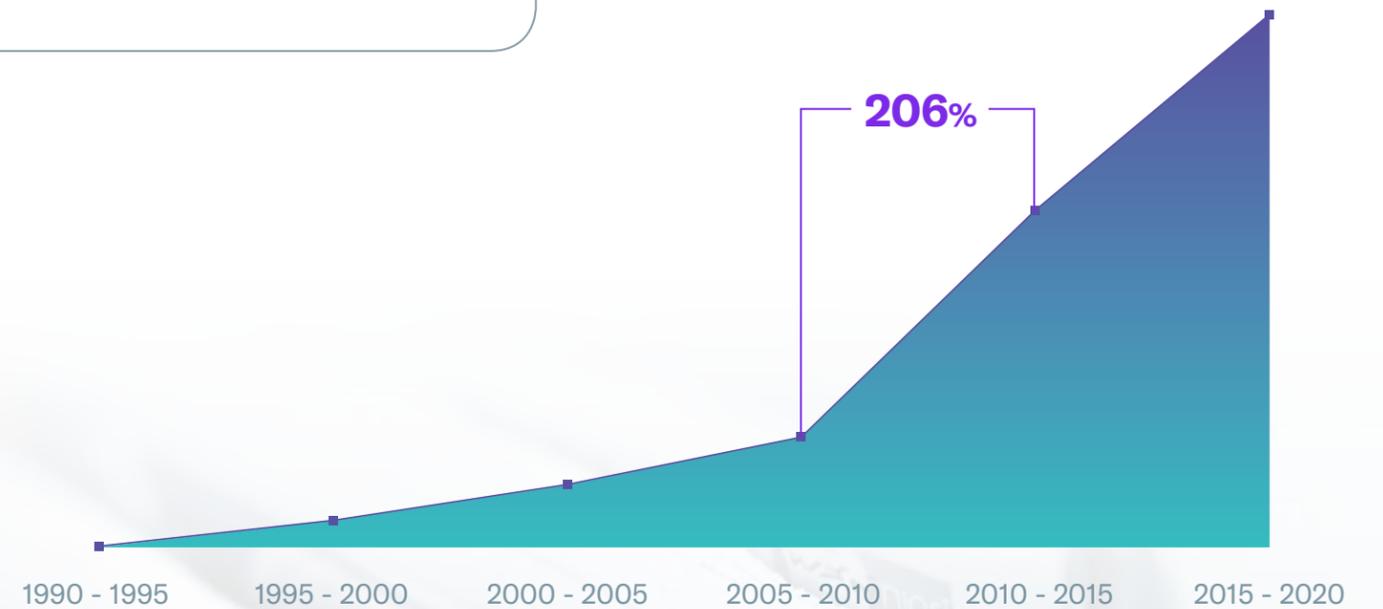
Alongside an increased interest in investing directly, the desire and need to co-invest in such opportunities in partnership with like minded entities has grown significantly. Our analysis indicates that approximately **42%** of Family Offices that allocate capital directly do so alongside other Family Offices, venture capital, private equity and real estate investors. Further analysis highlights this tendency as most prevalent among North American-based Single Family Offices, wherein approximately **51%** of investors allocating directly do so alongside other groups.



■ Making Direct Investments & Co-investing ■ Making Direct Investments & not Co-investing

YEARLY INVESTMENTS

**2010-2015** resulted in the largest % increase in direct investment activity of any 5 year period since 1990



Though investing directly has long been an option and consideration for Family Offices, the frequency of doing so is a relatively new phenomenon. Throughout the early 2000s, several sophisticated Family Offices partook in the practice however, between 2010 and 2015 an increase in Family Office entities, alongside an appetite of for investing directly, led to a spike in direct transactions. The number of investments made per year continued to grow throughout 2018.

**FAMILY OFFICE BY YEAR OF ESTABLISHMENT**

**Family Offices making Direct Investments  
1980-2020**

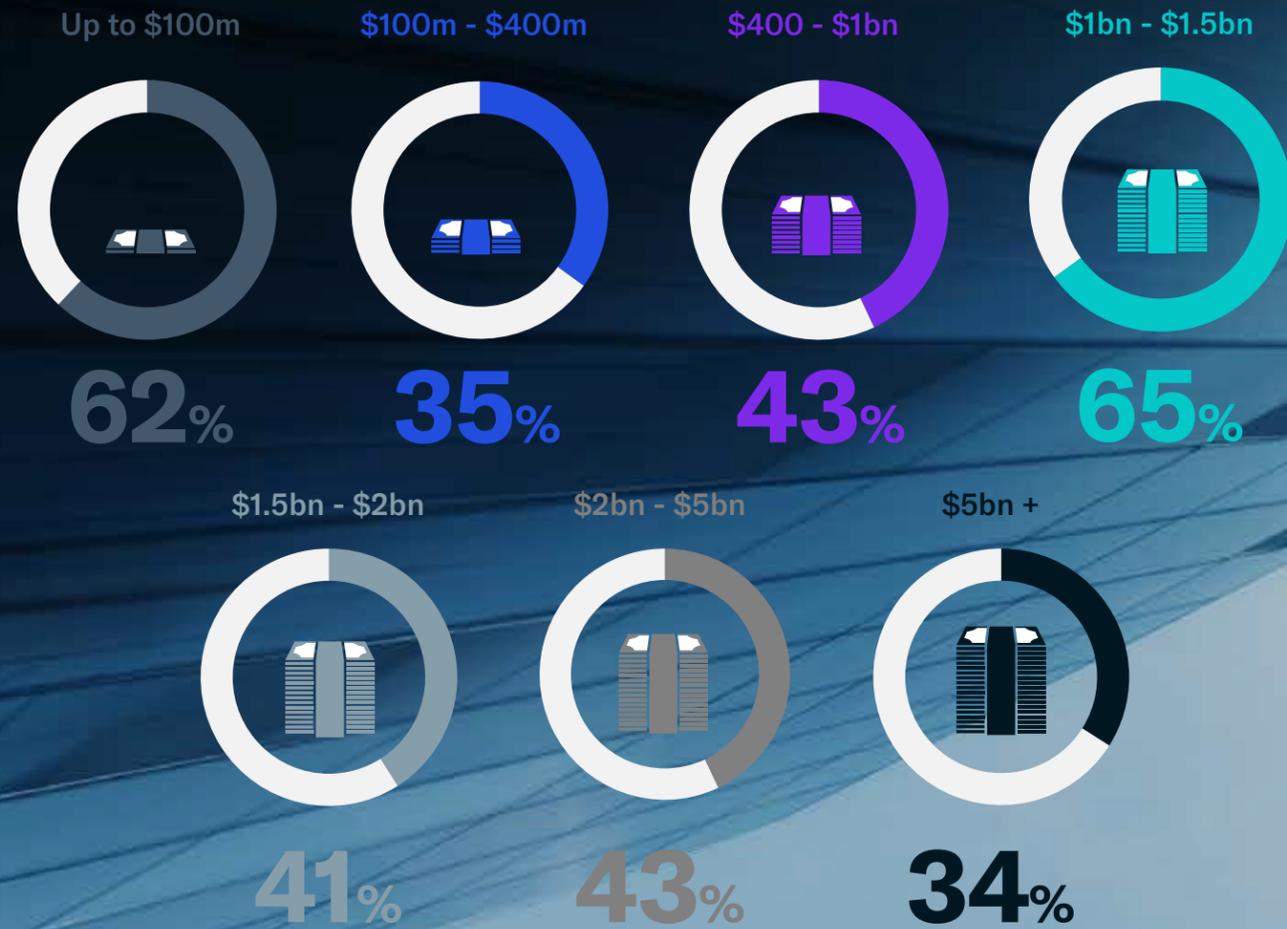
Several factors contribute to the prevalence of direct investments across the Family Office vertical. Data shows Family Office entities founded in recent years have an increased inclination to invest in opportunities directly. More than two thirds of Family Offices founded after 2015 are actively participating in direct investment opportunities. In contrast less than a quarter of groups founded prior to 1985 are actively making direct investments. This phenomenon is likely attributed to several factors including the confidence of self-made entrepreneurs in their ability to effectively identify quality investment opportunities. Family Offices whose patriarchs and decision makers have personal experience in successfully operating businesses, innately possess the know-how necessary to highlight quality opportunities.

In contrast, Family Offices whose decision makers are generationally removed from first-hand involvement, more often than not, require the services of experienced investment professionals. Additionally, Family Offices established in recent years have been forged in an environment where direct investments are evermore present. Opportunities to allocate directly are more prevalent now than ever, and the Family Office is seen as a viable source of capital for companies seeking investors.



ASSETS UNDER MANAGEMENT

Family Offices making Direct Investments



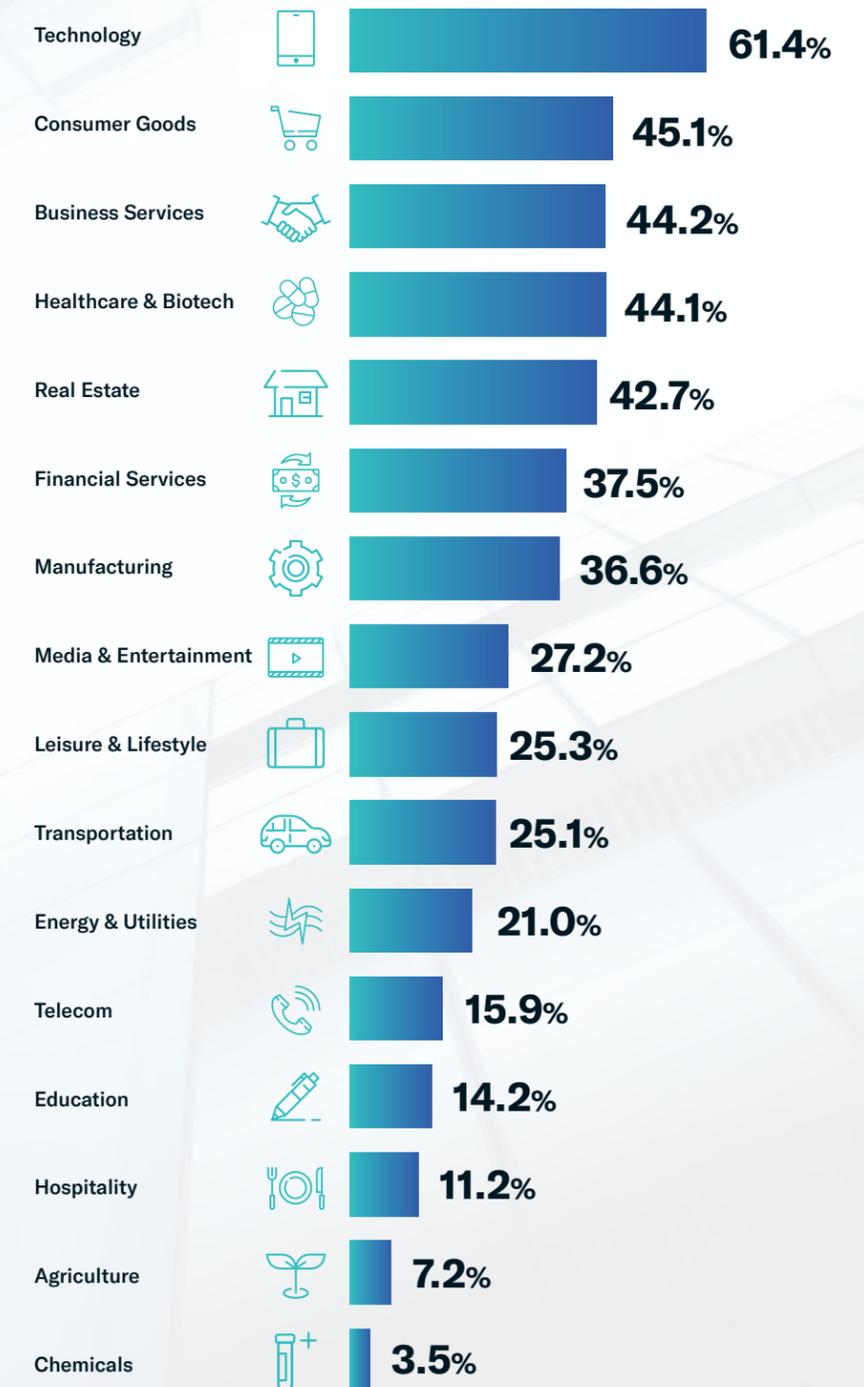
Research indicates compelling trends in Family Offices' direct investment activity, based on the group's asset profile. A breakdown of entities by assets under management highlights an outsized exposure to direct investments for entities between \$1bn and \$1.5bn. This can be attributed to several factors, including the barrier of hiring experienced professionals capable of identifying and addressing quality investment opportunities. Groups with the resources necessary to retain qualified in-house investment teams are likely more inclined and

capable of making direct investments. It is also worth noting, a slightly outsized percentage of North American-based, Single-Family Offices fall into the \$1bn and \$1.5bn asset range.

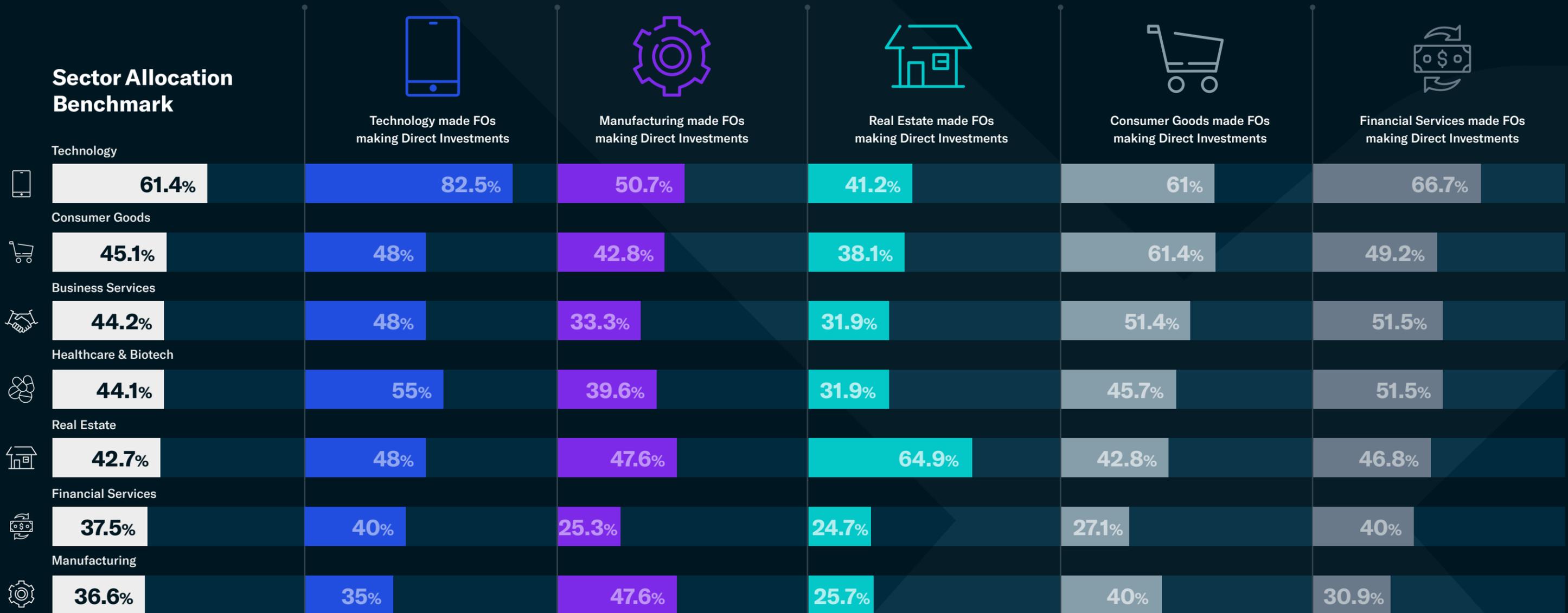
FAMILY OFFICES INVESTING IN INDUSTRIES

The Family Office Market represents a highly diversified cross section of the private wealth landscape. As expected, their direct investment interests vary greatly. Macro data highlights several tendencies with regard to industry preference, including the majority of Family Offices transacting within the technology industry.

As outlined, **61.4%** of global Family Offices that actively allocate directly, do so to some degree within the technology industry. Subsequently, **45.1%** invest in Consumer Goods, **44.2%** within the Business Services industry and **44.1%** to the Healthcare and Biotechnology sectors.



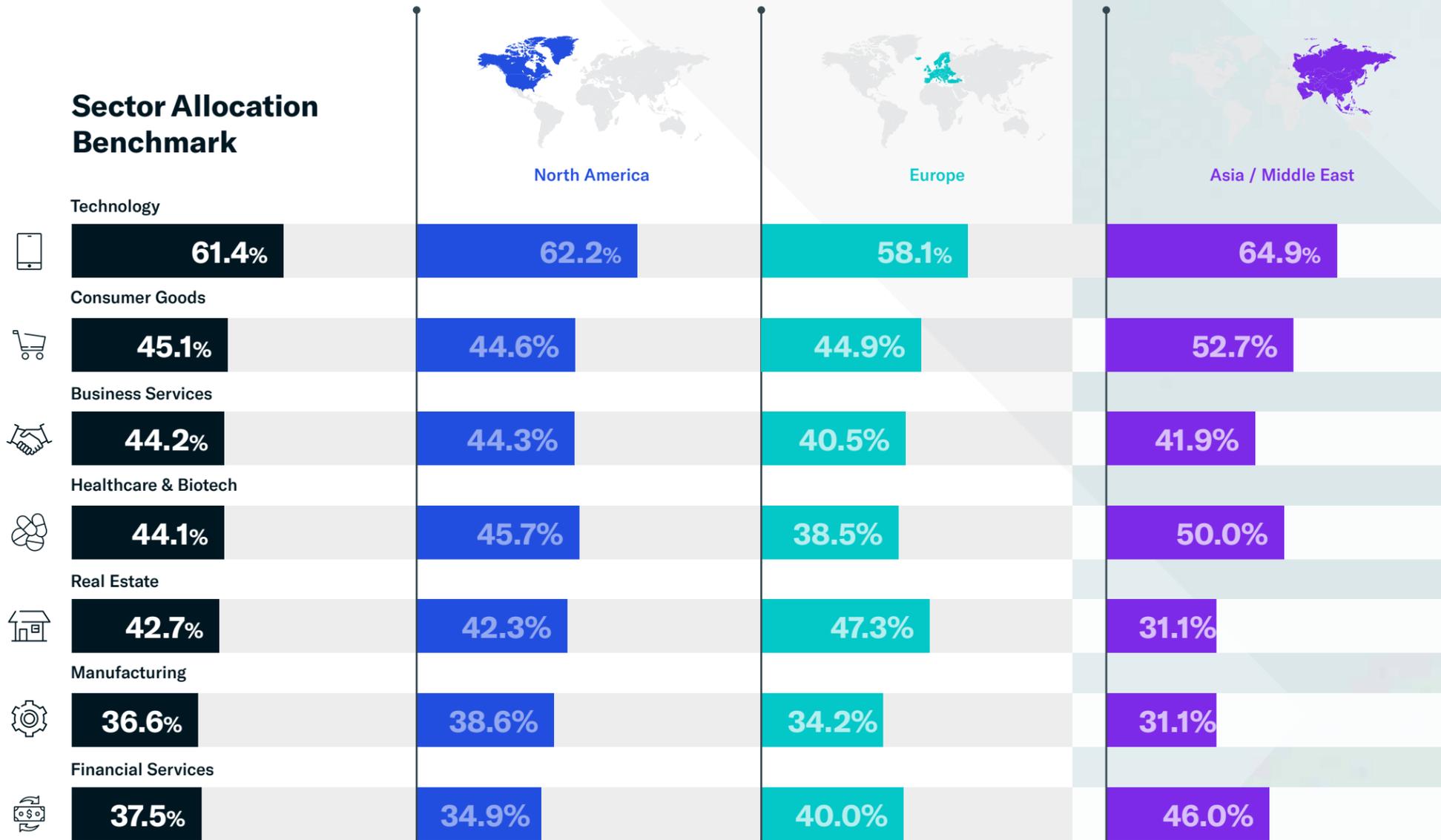
INDUSTRY ALLOCATION BY ORIGIN OF WEALTH



Given the private nature of Family Offices, these entities allocate capital with fewer restraints in comparison to other investment groups. As expected, research clearly shows the primary factor contributing to sector and industry preference of Family Offices is the ability of such investments to generate alpha. However, several additional variables play a part in the types of investments these entities make. One of the more prevalent patterns elucidated by our

research is the connection between industry of wealth origin and industry of investment interest. As outlined, there is a clear tendency for groups to invest in opportunities throughout familiar industries. Analysis of Family Office entities broken down by the industry in which the family created its wealth, highlights a consistent and distinct preference to invest in the familiar.

SECTOR ALLOCATION BY REGION

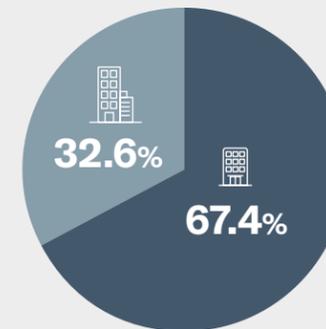


As with industry of wealth origin, geographic location appears to play a role in the direct investment preferences of Family Offices. Macro research highlights correlations among the percentages of Family Offices allocating to certain sectors based on where they are domiciled. In particular, Asian-based Family Offices show an outsized preference to opportunities within the consumer goods, healthcare, biotech and

financial service industries. In contrast, European-based Family Offices show partiality to hard assets and real estate investments.

FAMILY OFFICES INVESTING BY FINANCING ROUND

All Stages



Research highlights the majority of direct investments are executed by Single Family Offices regardless of funding round or type. Furthermore, the majority of investments made by family offices occur throughout early rounds of funding, as **29.5%** of allocations are made in earlier stage seed and venture rounds. Additionally, Multi Family Offices make acquisitions and buyouts with greater frequency than they partake in other stages of investments.

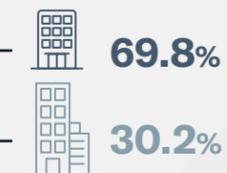
Family Office Investments by Stage



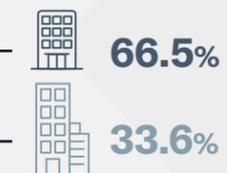
Seed & Venture



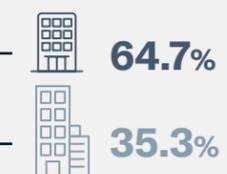
ABC Rounds



Later Stage Funding



Acquisitions



## AN INTERVIEW WITH PAUL FERGUSON

**Taking a smart approach to direct investment**

With Paul Ferguson, Managing Director at Schwab Advisor Family Office

**Q: Could you tell us a little bit about yourself and your experience with direct investments?**

**A:** I've been lucky enough to be in the family office and ultra-high-net-worth (UHNW) business for close to 27 years and with Schwab Advisor Family Office since April of last year. My experience in tax and estate planning, private equity, and running a multi-family office has allowed me to see the industry from a number of angles.

Prior to joining the family office team at Schwab, I worked at a middle-market buyout private equity firm, which acquired operating businesses and invested \$50 million to \$400 million in each. Before that, I led a multi-family office (MFO) that had numerous single-family office (SFO) clients focused on direct investing. Understanding how SFOs and UHNW families think about private equity funds, co-investments, and direct investing has helped me lead a team of family office relationship management professionals who work with family offices every day.



**Paul Ferguson**

Managing Director at  
Schwab Advisor Family Office

**Q: How have you seen the role of private equity and direct investing changing at family offices?**

**A:** Historically, private equity funds were the primary vehicle for UHNW families to invest in privately held businesses. This allowed family offices the potential for significant returns and a valuable way to diversify across industry, business lifecycle, and geography.

As this industry briefing shows, we're seeing direct investment in privately held companies becoming more popular. We believe this is the result of broader industry trends towards investors wanting greater control, more transparency, and lower fees.

When a UHNW family invests in a private equity fund, they can control the level of their commitment and potentially negotiate certain terms, but they do not generally have control over the companies purchased or timing of capital commitments and distributions.

Direct investment, by contrast, enables the SFO to focus on buying companies of a preferred size or industry. Then the SFO receives more transparent financial information—receiving it from the company directly instead of through a fund sponsor.

In addition, direct investments come without the 2% annual management fee and 20% carried interest associated with most hedge fund structures. These fees can substantially affect returns over time. Direct investments generally have no sponsor, although an investment banker may earn a commission for the sale of the company.

**Q: What should family office investment advisors ask themselves when considering direct investing?**

**A:** SFOs and MFOs should ask themselves three questions about direct investing.

**1. How are we going to access the private markets?**

Private markets can be accessed through fund investing, co-investment, and direct investments.

To invest in funds, you need to hire or outsource to someone skilled in performing due diligence on fund sponsors. For co-investments and direct investing, the due diligence needs to focus on the underlying company. As it's difficult to staff up for the correct type of due diligence on every industry, many family offices specialize in a single sector where they have deep expertise and a network of established relationships.

**2. How are we going to source investments?**

Private equity funds, family offices, strategic acquirers, and others are all searching for companies to buy. That competition can change the economics and complexity of the purchase. Finding the right deals takes a strong network with deep relationships.

**3. How much control are we willing to give up?**

Family offices can broaden their access to deals if they're willing to partner with other family offices or private equity funds. This type of co-investment can also provide quality due diligence in industries outside of one's direct expertise. The drawback is a lack of full autonomy over the purchased company. Thus, it's important to know how much control the client needs in order to be comfortable with their position.

**Learn more about Schwab's exclusive offer for family office professionals. Call 877-687-4085 to talk with a Schwab representative.**

**About Schwab Advisor Family Office**

With more than three decades of serving ultra-wealthy families and investment advisors, Schwab Advisor Services™ has the deep experience and extensive resources needed for today's single- and multi-family offices. As an industry leader, we combine experts who deliver high-touch service with modern technology. It's why 284 single- and multi-family offices custody with Schwab and why we are entrusted with \$382 billion in UHNW household assets.

Our mission at Schwab Advisor Family Office is to be the most trusted partner to investment advisors and family office professionals serving the ultra-wealthy community. Our dedicated team of experts is highly specialized in providing what is most critical to the modern family office. We offer subject matter expertise, curated thought leadership, and bespoke events to fuel the success and ensure the sustainability of the family office firms we serve.



Advisor Services

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## ABOUT FINTRX

Launched in early 2014, FINTRX is the preeminent Family Office data and research solution.

Our platform combines over half a million data points on 11,000+ Family Office professionals and more than 3,000 unique Family Offices globally. Built with the asset raising professional in mind, FINTRX features state-of-the-art data exploration and visualization tools, engineered to provide the most efficient and effective means of targeting Family Office LPs.

Today, FINTRX serves hundreds of clients globally via a myriad of cloud based solutions.

By providing detailed insight into each Family Office - including background, contact information, origin of wealth, investment interest, AUM and more, FINTRX is continuously updated, guaranteeing the most comprehensive and accurate data at your fingertips.

In addition, FINTRX provides detailed investment transaction history alongside insightful analytics on amount invested, stage of investment, sector and industry and more.





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