Why Family Offices Continue to Shift Towards Direct Investments

Family offices continue to reassess traditional approaches to asset allocation, ultimately shying away from the conventional methods of portfolio construction. At an increasing rate, these savvy wealth vehicles are plunging into direct investment opportunities to utilize the many advantages they permit, such as having greater control over investments or saving on costly fees paid to intermediaries. As we continue to monitor the direct investment activity within the family office landscape, we have highlighted a dramatic shift from private equity fund allocations to direct investments.

Advantages of Allocating to Private Equity Fund Managers

Private equity firms around the world are often known for one distinguishing feature: adding value for their investors. Often regarded as viable vehicles to gain increased exposure to private investments, private equity fund managers make it possible for accredited individuals and institutional investors to directly invest in and acquire equity ownership in promising companies.

> *"The firms' standard practice of buying businesses and then, after steering them through a transition of rapid performance improvement, selling them. That strategy, which embodies a combination of business and investment-portfolio management, is at the core of private equity's success."*
>
> **Felix Barber & Michael Goold, Harvard Business Review**

Prior to the tech boom, family offices were considered highly attractive to investors and entrepreneurs, as they were the primary resource (at the time) with the intricacies necessary to improve management, logistics and other essential components of a business which often takes years to develop. To provide fruitful turnarounds for developing ventures, private equity funds are well-equipped with the knowledge and resources needed to enhance operations and ensure successful investment returns.

Many investors prefer opportunities in the private market as opposed to the public market given the overall inefficiencies of the space. These inefficiencies provide investors with greater opportunity to generate above-market returns.

Why has there been a shift from private equity fund allocations to direct investments?

In the past decade or so, family offices around the world have begun reassessing their investment approaches with enhanced demand for transparency and control. This has since led to a greater emphasis on making direct investments in private companies. In utilizing the **FINTRX Buy-Side** product, which offers full transparency into the direct investment activity of nearly **3,000** family offices worldwide - we continue to see an upward shift in the direct investment activity of these private wealth entities.

This shift is largely due to family offices becoming larger and more sophisticated, as many are able to adopt in-house, the services and advantages of traditional private equity funds - and then some. With an increased number of first-generation family offices entering the space, these entities are less removed from entrepreneurial experience. This direct exposure to creating and growing successful businesses has since resulted in the family office ecosystem being more adept in making smart private investments. Their deep-rooted domain knowledge leads to higher-quality investments and an increased volume of deal flow.

What makes direct investments so appealing to family offices?

As family offices increasingly allocate directly, they are given more control over their investment portfolios. Circumnavigating traditional private equity funds gives investors the chance to directly determine which companies to invest in. This method eliminates costly fees charged by intermediaries with an increased opportunity to target companies whose values, experiences and philosophies closely align with that of the families or individuals involved.

Family offices look to identify lucrative, disruptive opportunities to deliver guidance, strategic introductions and capital. Seeing that family offices do not have limited partners to answer to (with wide ranging objectives and demands) they are able to deploy the patient capital necessary for companies to evolve and expand. This ultimately aligns the best interest of all parties involved.

> *"Family offices are keen to use their permanent-capital status to more fully align their interests with investment strategies that deliver true cash-on-cash value maximization rather than shorter-term internal rates of return metrics."*
>
> **The Stephens Group, LLC**

Learn the reasons behind why family offices make ideal investors...

Family office funding is desirable thanks to its freedom from institutional mandates, long-term staying power, frequent potential for add-on fundraising and general flexibility. Understanding the reasons behind what makes family offices ideal investors can be a game-changer in terms of wealth preservation and wealth expansion.

Download our 4-pager to read further and see the main reasons why family offices and their distinguished nature make for incredible investors.

10 Reasons Why Family Offices Make Great Investors

DOWNLOAD

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FINTRX is the leader in providing comprehensive family office intelligence - engineered to help you identify, access and raise family office capital.

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