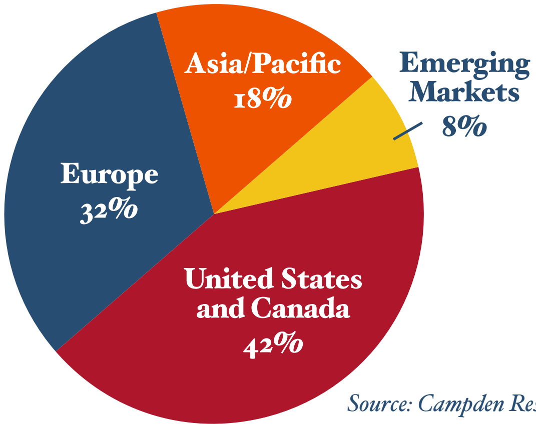
I. FAMILY OFFICES INCREASE GLOBALLY

The number of family offices continues to increase. Current estimates indicate that the total assets managed by family offices is currently $5.9 trillion globally. There are currently 7,300 Single Family Offices (SFOs) worldwide, with nearly 75% based in North America (42%) and Europe (32%). Since 2017, the number of family offices has seen a global increase of 38%. UBS recently surveyed 311 global family offices and found that the global average of assets under management (AUM) for family offices was $808m. The average AUM for a Single Family Office in 2018 was $697m, compared to $1.4bn for a Multi-Family Office (MFO).

Chart I: *Single Family Office Distribution by Region 2019*



Source: Campden Research

Investment Returns on the Rise

Recent data shows that family offices achieved a 15.5% return on investment in 2017, more than double the 7.0% return in 2016. The Asia-Pacific region reported the highest annual investment return at 16.4%, followed by North American family offices at 15.9%. This rise was due to increased investment in public and private equity investment. According to EY Wealth Management, family offices and high net worth individuals are projected to return 4.67% annually through 2021, which could result in a 25.6% increase in total AUM.

II. PROFESSIONAL INVESTMENT MANAGEMENT

There is a significant trend towards professional (non-family) managers of family office assets. According to a survey, 59% of family office CEOs, 78% of CIOs, 88% of COOs, and 85% of all CFOs were non-family members.

One of the best examples of professional family office management is the Riemann family's JAB Holding Company, named after family patriarch Johann Adam Benckiser. Following the January 14, 2019 retirement announcement of Chairman Bart Becht, JAB Holding Co., has chosen CEO Olivier Goudet and senior partner Peter Harf to lead the company. Since 2012, JAB has made more than $58bn in acquisitions, including high-profile buyouts of Krispy Kreme, Keurig Green Mountain, Panera Bread, Pret A Manger and the Dr. Pepper Snapple Group, which was completed in July 2018.

In order to match the returns of JAB, family offices will need to find professional managers with the experience and expertise to develop and execute a sound investment thesis on a global scale. The family must then overweight its holdings towards illiquid investments, which have a significant advantage over traditional private equity firms which are constrained by a ten-year fund cycle.

Venture investment, as a direct allocation, has been growing substantially. Family offices with large venture arms include Launch Capital, an arm of the $6.5bn Pritzker/Vlock family office based in New Haven, Connecticut. Launch Capital, managed by founder and Chairman Elon Boms, has approximately $3bn in AUM. Notable investments include Snapchat, Spotify, Digg and EquityZen. A similar allocation to venture investments, both direct and indirect, has been pursued by some of the largest multi-family offices as well, such as ICONIQ Capital, which manages a portion of Facebook founder Mark Zuckerberg's wealth.

III. HEDGE FUNDS CONVERTING TO FAMILY OFFICES

The trend of successful entrepreneurs, especially hedge fund managers, converting their funds to family offices has continued in recent years. The trend began in 2011 when George Soros announced that he would return approximately $1bn in external capital and transform Soros Fund Management into his personal family office with $24.5bn in AUM. Carl Icahn and Stanley Druckenmiller followed suit in 2013. For those hedge fund managers with multi-billion dollar fortunes, a family office structure grants them freedom from the stringent reporting and oversight requirements set forth by the Dodd-Frank Act in the USA.

In January 2019, billionaire John Paulson was reported to be considering a conversion of his hedge fund, Paulson & Co., into a family office. In May 2019, David Tepper became the latest hedge fund manager to announce plans to convert his $13bn hedge fund Appaloosa Management L.P. into a family office.

IV. CO-INVESTMENT

For decades, single-family offices have been co-investing within general partnerships and other family offices. Motivations to co-invest include the creation of a trusted network with more investment opportunities, the ability to collaborate with both like-minded investors, and reduced investment risks through sharing of diligence. Recently, a growing number of family offices have teamed up with private equity funds and hedge funds to capitalize on unique opportunities. Family offices have more patient capital which can benefit private equity funds and hedge funds. In a recent survey, 67% of family office respondents indicated that family office co-investments will increase.

Many family offices choose to co-invest through trusted advisers who originate direct transactions and club deals. Club deals offer an opportunity for managers to invest with like-minded individuals, utilize their industry expertise, and leverage contacts on behalf of the companies they are investing in to create value.

According to surveys, 58% of private equity fund managers offered investors the opportunity to make co-investments, representing a significant increase over the past five years. In order to deliver a similar service to family offices through a traditional fund structure, firms such as Carlyle Group Inc. and Blackstone Group LP have developed longer-term investment vehicles for larger investors seeking to appeal to family offices.

V. ESG INVESTMENT

Another major trend is the increase in ESG or social impact investment. ESG is a form of direct ethical investment related to environmental, social or corporate governance causes. These funds combine investment return with social objectives. Sector focuses include education, healthcare, environmental conservation, sustainability production, technology, and emerging markets infrastructure and development. Overall, education, housing and community development, and women's empowerment are the most common areas to invest. The purpose of ESG investment is to not only generate a financial return, but to have a significant beneficial social and environmental impact. Approximately one-third of family offices are reported to be invested in impact investing funds. Globally, there are currently 1300 ESG funds, 268 of which are located in the United States. This fund sector has current investments estimated at $23 trillion, a 600% growth in the last ten years. In 2018, a report by the Global Impact Investing Network found that a majority of impact investors were located in the U.S. and Canada (47%) or Western Europe (30%) and that over 50% of impact investors made their first investment in the last decade, signaling the growing popularity of social investment strategies. Roughly 64% of investors targeted risk-adjusted, market-rate returns, while the remainder sought either below-market-rate returns (20%) or returns commensurate with capital preservation (16%). Social investment comes in many forms including the provision of start-up capital to minority enterprises or disadvantaged persons and projects in developing nations and the inner city.

VI. PRIVATE EQUITY INVESTMENT

In 2018, private equity investment continued to grow, accounting for 22% of the average family office portfolio. Additionally, 80% of the private equity holdings either met or out-performed expectations. Over the last year, the average private equity investment return for family offices has increased from 13% to 18%. Private equity funds raised $426 billion in new private equity capital in 2018. Fundraising was driven by mega-funds with at least $4bn in AUM. A significant portion of this was driven by increased investment from family offices. One of the advantages to family office investors is that their investment is not restricted to ten year fund cycles and they can provide more patient capital. There are a number of new funds in the market including venture capital and infrastructure which are structured under longer holding periods.

VII. GROWTH OF FAMILY OFFICE INVESTMENT IN SPACS

Special Purpose Acquisition Companies (SPACs) are publicly traded company acquirers that raise capital through a public listing with the purpose of acquiring one or more existing companies. The capital is raised through a public offering and held in trust until it is released to fund a business acquisition. SPACs will often target a specific sector in which the SPAC sponsor has significant business experience or operating knowledge to create future value. SPACs will typically have 18-24 months to make an acquisition following a capital raise. The acquisition must be approved by shareholders or the funds must be returned to investors.

Since 2017, there have been approximately 90 SPAC offerings that have collectively raised $24.5bn in the United States, many of which have been founded by family offices or the recipient of family office investment. SPACs give family offices the ability co-invest with similar investors and allow them to compete with private equity groups for larger and more attractive deals. There have been a number of recent SPACs that were formed by family offices.

In April 2019, two of the wealthiest families in Latin America, the Safras and Wertheins, announced their listing of Replay Acquisition Corp (NYSE:RPLA). The SPAC raised $250m on the New York Stock Exchange and is targeting businesses in Argentina and Brazil in the consumer, telecommunications, energy, financial services and real estate sectors. Other SPACs that are backed by family offices include Nomad Foods, which is backed by the family offices of Noam Gottesman and Martin Franklin, and One Madison Corporation which is backed by the family office of Jonathan Soros.

VIII. CONCLUSIONS

- Family offices will continue to accumulate wealth at a potentially rapid pace and leverage private assets for future acquisitions in direct control investments.
- Co-investment for family offices will continue to grow as a means of sourcing potential higher than market return investments internationally with reduced management fees and costs. Funds which offer both limited partnerships and co-investment vehicles will continue to be attractive.
- Total funds invested by family offices into private equity will continue to increase as long as private equity significantly outperforms other alternative asset classes.
- SPACs will continue to be an area of focus for family offices since they act as an avenue for additional capital investments, sourcing on larger deals and additional income in the form of fees and carried interest.

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For further information, please visit our website at **Winchester Capital Family Office Services** or contact Dr. David Bowen, Managing Director at **David.Bowen@Winchestercapital.com**.

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