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# Family Offices – A Growing Breed of Investor

Over the past few years we've witnessed a heightened global, inter-generational wealth transfer.

According to Knight Frank's "The Wealth Report" (see side-bar), globally, there were 193,500 UHNW individuals, almost 24,000 Centa-millionaires and 2,000 billionaires. In Canada there were some 4,110 UHNW individuals, 483 Centa-Millionaires and 35 billionaires in Canada last year. Over the past decade, UHNW numbers grew 42% globally, but 50% in Canada.

This has resulted in increasingly greater amounts of family wealth being channeled into investment structures called "family offices".

**<u>But what are family offices?</u>**

Family offices consist of one or more individuals dedicated to managing the personal fortunes of wealthy individuals and families. Although the concept has quietly existed for years, the rapid build-up of wealth by tech entrepreneurs and emerging market families over the past decade has created a greater demand for family office services with the activity becoming a sector unto itself. A sign of the increasing presence of family offices is the growth of a dedicated support industry offering a proliferation of services.

There are now three types of family offices: the SFO (single family office) consisting of one or more professionals dedicated to managing one particular family's investments; the MFO (multi-family office), an independent firm specializing in managing several family office funds, and, the sovereign/royal family offices which are large organizations.

**<u>Evolution</u>**

Family offices were originally passive investors, preferring to allocate capital to third party managers and private equity funds, but this has considerably changed over the past decade. Faced with diminished returns, high management fees and the need to reinvest their money as funds reached their end of lives, many discovered that they had sufficient capital to manage their own fund.

Wealthy families have realized that by hiring their own talent, allocating the right resources and taking a portfolio approach to active investment, they can better manage their reinvestment risk, minimize management fees and retain all of the upside. As most family offices were created on wealth generated by persons who owned and operated businesses, the migration of skills to other businesses suddenly does not appear that complicated after all.

With the transgenerational transfer of wealth now taking place, more and more family offices are being organized. As their numbers increase, more opportunities are presented to them. Family offices are now becoming an integral part of the universe of financial providers.

## Global Wealth Census

According to Knight Frank's 2017 edition of "The Wealth Report", in 2016, there were almost 15 million individuals worldwide whose wealth exceeded US$1 million. The following table shows a breakdown by country in three categories*:

| 000's of individuals | Millionaires | UHNW | Centa + |
|---|---|---|---|
| Canada | 347 | 4.1 | 0.5 |
| USA | 4,582 | 69.0 | 8.7 |
| Europe | 4,068 | 49.7 | 6.1 |
| Asia | 3,417 | 46.1 | 6.4 |
| Mid East | 426 | 7.4 | 1.1 |
| Australasia | 434 | 4.2 | 0.5 |
| Lat America | 584 | 7.6 | 1.4 |
| Africa | 152 | 2.3 | 0.4 |
| Russia | 159 | 3.2 | 1.0 |
| Totals | 14,168 | 193.5 | 25.9 |

Between 2006 and 2016 the average growth rates were:

- Millionnaires – 40%
- Ultra-high-net-worth – 42%
- Centa-millionaires – 44%

*Categories:

- Millionnaires – US$1 - $30 million
- Ultra-high-net-worth - $30 - $100
- Centa-millionaires + - $100 and above

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# Family Offices –
# A Growing Breed of Investor

**Characteristics**

As we explained in one of our previous newsletters, Family Offices look to invest longer-term money. Although they are not necessarily interested in managing the business, many tend to focus within the sector from which the family originally earned its wealth.

Family Offices are typically willing to take slightly higher risks, but rather than profit on a mid-term "flip", their goal is to obtain a steady income stream. They prefer all-cash, as opposed to highly leveraged deals, in order to gain a few extra points on their return. They look for historically healthy businesses but they do not require control. Participation usually does not extend beyond board level.

For a business looking for financing, some of the advantages are fewer committees, direct contact with decision makers and more flexibility in terms of deal structure. This can prove to be very appealing as they tend to invest more in the partner than in the company itself.

**Choosing the Right Family Office**

Question to ask a family office before accepting a commitment:

- Does the family have experience in your sector?
- Do they want to play an active role?
- Do they want a current return?
- How long do they want to hold the investment?
- What will the reporting requirements be?
- What latitude will have I on capital expenditures and acquisitions?
- What happens if I want to sell the business?

As always, Cafa would be happy to help you present your capital needs to the family office most likely to invest in your particular sector.

## Recent Transactions

**Logistec Corporation**
has acquired a majority interest in
**FER-PAL Construction Ltd.**
The undersigned acted as financial advisor to Logistec in this transaction
Cafa Corporate Finance

**Groupe Europlastiques Canada Inc.**
a subsidiary of G.E.P. S.A.S. (France)
**(Groupe Europlastiques)**
has acquired 50% of
**IML PlastX Inc.**
The undersigned acted as Financial Advisor to Europlastiques for this transaction
Cafa Corporate Finance

**Altima Canada Inc. and Altima North America Inc.**
subsidiaries of
**Altima S.A.S. (France)**
have merged with
**Konversion (NBS Marketing Inc.)**
The undersigned acted as financial advisor to Altima S.A.S. for this transaction
Cafa Corporate Finance


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