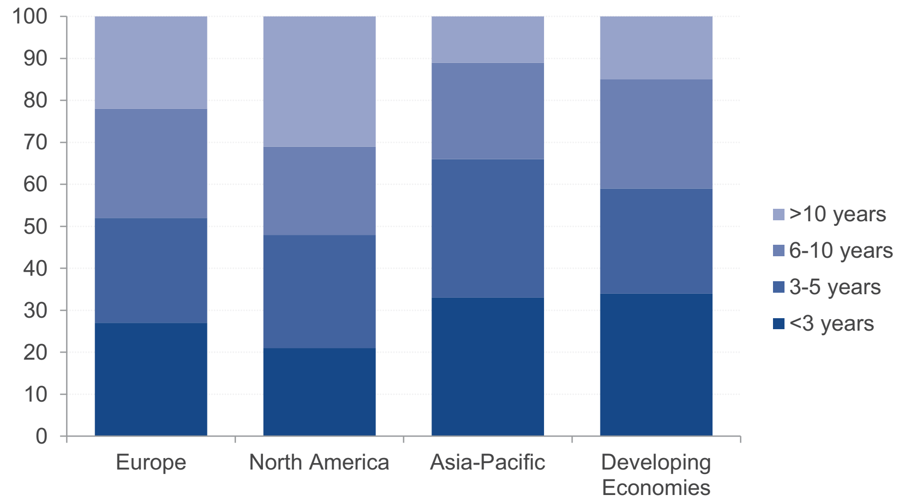
INVESTMENT HORIZONS

How Family Offices Differ From Other Institutional Investors

Martin Graham, chairman of **Oracle Capital Group**, speaks to Bloomberg's Darshini Shah about how family offices tend to be more flexible than institutional investors when it comes to investment horizons, which can be helpful in the pursuit of attractive returns.

Average Investment Horizon of a Family Office Portfolio



Source: Global Family Office Report 2014

BloombergBriefs.com

Q: Do investment horizons or returns matter to family offices?
A: Family wealth is known for drying up over three generations. So, returns matter. Refreshingly, for those accustomed to the city's obsession with short-term reporting, family offices are more focused on long-term value generation and wealth preservation. Many wealthy individuals remain skeptical about the prospects for large scale growth and very few family offices are looking for capital growth, as opposed to capital preservation. Our clients would rate investment returns in their top five priorities, but not usually as number one. This means clients tend to be happy to lock money up on a medium- to long-term basis, but they need enough cash to live on and this must be taken into account by their advisers.

Q: How does this differ from institutional investors, e.g. pension funds?
A: Family offices tend to be more flexible in what they'll consider than institutional investors, which can be helpful in the pursuit of attractive returns. A family knows it's got the responsibility to not just preserve the wealth, but also to take care of the next generation. So, families are very happy to be in three- to five-year projects. They're almost custodians of assets. Generally, families are very happy to look over their portfolio once a year. Pension funds on the other hand look at quarterly performance figures. So these sort of institutions have a different, more short-term type of thinking.

Q: So what would a typical portfolio for a family look like?
A: Many of our clients tend to be self-made entrepreneurs and have made their money in a particular sector or country. So, they tend to want to diversify their wealth globally. They are very cautious about preserving the money they've made. They're also looking for absolute returns rather than relative returns. For those who are focused on capital growth the choice is obvious — the main asset classes providing long-term capital appreciation are equity, real estate and high yield bonds. Those asset classes performed well, particularly in developed markets, until recently. Family offices had to invest in these areas if they were interested in positive real returns. Now the focus is shifting ever more towards emerging markets.

So, what we see in most portfolios would be 80 percent of assets in public fixed income and equities, utilizing options to manage some of the risk around that. They're looking for fairly safe returns and so the kind of equities we will invest in will be those with established franchises, good growth, strong balance sheets. Families are also looking for things with quite a high level of income to finance their lives. So they'll use corporate bonds for the income.

Q: What about the remainder of the portfolio?
A: About 10 to 20 percent of the portfolio will be in alternative investments. These will be things like co-investments and private equity funds. We even have a wine fund that some clients invest in.

Q: What do you mean by co-investments?
A: For example, we have some property development projects we do and our clients invest in those projects. Our clients are very happy to re-invest some of the money, often in the industry they initially made their money in — they like to keep some skin in the game. They'll invest in a sector where they've got deep knowledge.

Q: But investment portfolios are not the only way to realize meaningful returns on assets.
A: No. Careful wealth structuring can itself lead to significant savings and tax efficiencies as well as helping to preserve, distribute and pass on wealth. Another secure option clients may opt for is the use of trusts or foundations in order to provide maximum protection for the assets involved.