



FOs Bypass Managers, Turn to Direct Investing

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In an environment of high fees and low returns, family offices are trying to bypass traditional fund structures by turning their attention to direct investing.

“We’ve been seeing an increasing presence of single family offices move beyond fund structures into making direct investments,” Nick Leopard, CEO and founder of financial counseling firm Accordion Partners, told PAM. “It’s becoming more and more common among family offices to build themselves an infrastructure, source deals on their own, and set up lending relationships on their own.”

“They’re acting as multi-strategy firms,” Leopard added.

Rather than go through a fund involving a manager and a fee, family offices are becoming more independent and investing directly in companies where they see potential for growth. Many times a family office is already investing in a growth company through a fund, but want to increase their exposure in the company by going direct, according to Leopard.

“They’re able to say ‘We’re able to not pay 2% on the management fees.’ From there they can eliminate some of that drag and cherry pick some of the deals,” Leopard said.

The companies many family offices are investing in directly are often growth companies rather than large established players. “They [family offices] aren’t going after the \$500bn dollar companies they are paying their GPs to go after, instead they’re looking at first-time institutional companies, they’re looking to add value and evolve a large buyout into something larger,” Leopard said.

The question family offices are asking now is “how do we take a \$30m company and make it into a big one?” Leopard said.

“Family offices are going from primarily fund investments to more direct investments because to be frank, the returns in the hedge fund world haven’t been particularly worth it,” Michael Felman, president of MSF Capital Advisors, a global multi-family office and merchant bank, told PAM, citing one family office in Boston that has re-allocated to an 80% position in direct investments.

“Our position has been more on the direct side as well,” Felman added.