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The family office is not a new concept, but it has proven to create some confusion in the investments industry. Capital raisers are looking to have a better understanding of this entity, and how they can benefit the family office, and vice versa. A better understanding of the family office is pivotal to successfully reaching them with any marketing efforts.

I’ve been around the world, talking about and providing training on capital raising and marketing to investors, and have found the family office space to be one of great interest, and great opportunity. With the right tactics and tools, a capital raiser can do very well and be very successful in the family office space.

With my background in capital raising and marketing, I wanted to share some of my best tips here in this quick, easy-to-read guide. I also wanted to share some information on who the family office is to assist you in your marketing ventures.

After consulting many sources from experts throughout the family office industry, this book is a culmination of my own experience with the family office, and what others have found to be important things to know about the family office. Take what you need, and utilize some of what we
offer here to ensure that your marketing efforts are successful.

Best of luck to you in your capital raising efforts and I truly hope this book is a great resource for you.

RICHARD WILSON
Founder, CEO
Family Offices Group
Portland, OR
June, 2011
CHAPTER 1

WHAT IS A FAMILY OFFICE?

“Family offices are typically viewed as being somewhat of an enigma.” – Preqin Family Offices Survey 2010

Definition and Concept – The Family Office

The wealth management industry has many varying definitions of the family office. They are, simply put, wealth management firms. They do a number of things for their clients (the family or families), and typically have fewer clients than a normal wealth manager.

This lack of consensus on a definition can likely be attributed to a number of factors, namely the changes wealth management has seen over the past few decades and the fact that no two family offices are alike.

Though there is no consensus on the definition of a family office, there is agreement upon the services they offer. Services normally include assistance with taxes, estate planning, charitable giving, foundation formation, and even budget issues. A family office can also provide wealth transfer planning, financial record-keeping and compliance, and client education, among other
traditional wealth management services (FOX “Frequently Asked Questions).

According to The Family Office: Advising the Financial Elite, family offices also provide these “support services”: family security; concierge services; medical concierge; philanthropic advisory; formal family education; managing fine art and collectibles; and property management (qtd. in Bloomfield: 3).

And finally, in their recent proposal to define a family office, the Securities and Exchange Commission (SEC) notes that:

Family office services typically include managing securities portfolios, providing personalized financial, tax, and estate planning advice, providing accounting services, and directing charitable giving, in each case to members of a family. Some family offices even provide services such as travel planning or managing a family’s art collection or household staff. (SEC 3)

The family office may also provide access to a more sophisticated view of portfolio construction with the ability to use alternative investments. Many of the financial services a family office offers to clients can be outsourced, but it’s the personal touch and attention to detail that the family craves and needs that the family office provides.
The costs associated with managing a family office are typically higher than utilizing a traditional wealth management office, the reason being that a family office is usually run by the family, whereas a wealth management firm may be managed by a third party and serve many clients with little overhead cost per client.

In a family office, however, the family gets more personal, comprehensive services. For the Journal of Wealth Management, Jon Carroll, founder of Jon Carroll and Associates, wrote on the topic of costs associated with running a family office, noting:

[a] simple but technologically sound family office should cost about $1 million per year. That breaks down to roughly $750,000 for compensation of personnel, and $250,000 for other operating expenses, such as rent and systems. [...]With these kinds of numbers, a family office probably only makes economic sense where family assets are greater than $200 million. (27)

Raphael Amit, a management professor at Wharton, says “a family needs at least $100 million in assets to make it worthwhile to establish an SFO, which typically costs about $3 million a year to operate” (Knowledge@Wharton).

Family offices vary in terms of size and, as aforementioned, the services they offer to their
clients. These variations make it a challenge to create a single, concise definition of a family office.

According to Barbara Hauser in her article *The Family Office: Insights into Their Development in the U.S., a Proposed Prototype, and Advice for Adaptation in Other Countries* for the Journal of Wealth Management, "[e]very family is different, and their needs and interests vary considerably. There is no one perfect design" (16).

The number of family offices in existence is even in question, though sources like the Family Office Exchange and the SEC estimate there are anywhere from 2-3,000 in the US, and roughly 6,000 internationally (SEC 2, and FOX FAQ). Hauser adds in her article that "[t]he [number of family offices in operation] seem[s] to change every month" (15). She also indicates that there is an estimated 4,000 family offices in the US. (15)

Hauser continues on to say that the definition of a family office is "vague enough to cover everything from a one person part-time assistant to a full-service private trust company with a staff of dozens. Indeed at the present time a number of enormous financial institutions are trying to represent themselves as being a family office also" (15).

To make matters even more confusing, the SEC’s proposed definition of a family office was released in October of 2010. With the passage of the Dodd-
Frank Act in 2010 (effective July 2011), advisors and wealth managers needed to evaluate how their firms would be affected by the repeal of current exemptions.

The SEC’s proposal has defined the family office as:

[F]amilies established by wealthy families to manage their wealth, plan for their families’ financial future, and provide other services to family members. Single family offices generally serve families with at least $100 million or more of investable assets. Industry observers have estimated that there are 2,500 to 3,000 single family offices managing more than $1.2 trillion in assets. (3)

Later in the proposal, the SEC elaborates on the family office definition, writing:

(b) Family office. A family office is a company (including its directors, partners, trustees, and employees acting within the scope of their position or employment) that:

(1) Has no clients other than family clients...
(2) Is wholly owned and controlled (directly or indirectly) by family members; and
(3) Does not hold itself out to the public as an investment adviser. (36)
Before the Dodd-Frank act, family offices meeting specific criteria were able to avoid registering with the SEC so they could "resolve disputes internally without the involvement of the Commission", and maintain the privacy of the family members. The SEC explains that exceptions are currently made for:

any adviser that during the course of the preceding 12 months had fewer than 15 clients and neither held itself out to the public as an investment adviser nor advised any registered investment company or business development company. (4)

The only problem with this proposal is that it continues to exclude many offices doing the same thing as these smaller offices. Many family offices use outside sources of securities management, which this definition does not include.

The Dodd-Frank act was put into place to make this exclusion no long available for anyone, fund or family office. As noted in the SEC's proposal:

The primary purpose of repealing this exemption was to require advisers to private funds, such as hedge funds, to register under the Advisers Act. But another potential consequence, which Congress recognized, was that many family offices that have relied on that exemption would be required to register under the Advisers Act or seek an exemptive
order before that section of the Dodd-Frank Act becomes effective. (6)

The definition of the family office from the SEC doesn’t appear to have been created to bring a consensus to the industry on what a family office is. Rather, it seems it was meant to protect the select few family offices that meet the criteria, and make it easier for them to do more without the "involvement of the Commission".

Rules and regulations are put in place to protect the average American, the people who make up the country the SEC says they serve. However, this exemption only serves the people “with at least $100 million or more of investable assets” and who fit the criteria laid out in the proposal. This is not the general public or the average American family.

The definition they propose has generated a lot of talk in the financial and family office space. Others in the industry, working with families and offering their services to family offices, know that this definition is very limiting. Though it is hard to define what a family office is, it is easy to see that the SEC does not capture the full definition.
Single Family Office (SFO) vs. Multi-Family Office (MFO)

As seen above, the family office is difficult to define. Though the SEC definition touches on what most in the space would define as a single family office (SFO), it excludes all of the offices that may have begun as a single family office and are now offering their services to other wealthy families, as FOX suggests many multi-families have done. A Multiple Family Office (MFO) is:

[A]n organization that provides family office services to more than one family group. Many MFOs begin as a dedicated office serving one family group. The decision to "open their doors" often happens in response to requests from the family to offset the cost of the office or to enhance the group buying power (FOX).

Brian Schuyler from the Business Journal notes that "[t]he multi-family office evolved from the concept of single-family offices, offices that manage the wealth of one wealthy family" (Vogel).

The multi-family office was a logical transformation from the single family office, and with the associated costs and time requirements of a single family office, multi-family offices make more sense for families looking for the services of a single family office, but the convenience of a larger office.
To corroborate that definition from FOX, Wharton management professor, Raphael Amit, says that “individuals and other groups of families often form similar entities known as multi-family offices (MFOs) which, according to Amit, number in the thousands.” (qtd. in where the wealthy are investing)

Quoted in Schuyler’s article, Kevin Sheehan from FOX noted that “The multi-family office concept is growing because the market is wide open. Recent studies pegged the number of households in the country with assets greater than $20 million at about 32,000” (qtd. in Vogel).

The definition proposed by the SEC does a great job of summarizing a small, single family office, though even that limits the size of a family office to serve just 15 family members. The problem therein is the fact that families grow, and lineage can continue on for generations.

Additionally, according to a study done by Wharton, “the average SFO in the Wharton sample serves 13 households within the same family group, covering 40 family members and two to three generations” (Knowledge@Wharton). This makes it extremely difficult for even single family offices to meet the criteria imposed by the SEC’s definition proposal.

The reality, however, is that a family office can be a single family office or a multi-family office. This
means that (despite the number of clients per family) there can be one family the office manages affairs/wealth/accounts for, or there can be many families. The size of their assets can vary greatly, and there is not set rule as to what that figure needs to be. (According to the SEC, it is generally at least 100 million or more of investable assets.)

According to Lauren Foster’s article in Financial Times, however, families today "with at least $20m in liquid assets are turning to multi-family offices, which look after the investments of handfuls of families. The choice is whether to join an independent MFO or one within a large institution" (Big or boutique for super-rich).

There is an average size, however, for the family office client that seeks the services of a MFO as opposed to a SFO. Thomas Liverpool, founder and CEO of the Family Wealth Alliance, as quoted in Foster’s article, said:

MFOs typically serve families that are too large for traditional wealth management firms but too small to have their own dedicated staff. These families are in the $20m to $200m range, although the upper limit is rising. (The ultra-wealthy often handle their financial affairs through dedicated SFOs.)

The definition from FOX of a multi-family office seems to be agreed upon by others in the industry,
namely Dr. Steen Ehler, Managing Director of Ferguson Partners Family Office, who writes:

In a generic sense, families like the Rothschilds and other families and dynasties had their “family offices”. The “old” banking houses/families acted as entrepreneurs, i.e. they were the forebearers of today’s multi-client family offices (MFOs), as they offered their services to others, beyond their own families – for a fee (Ehler 2).

While there are stark differences between the SFO and the MFO, there are many similarities that make them very closely related, and really just larger and smaller variations of each other. They serve a great purpose, and with the economic changes and growth of wealth around the globe, they will likely continue to be a necessity.

In a Forbes Media article titled Your Own Family Office, Keith Bloomfield and Russ Alan Prince make an observation that “[a]s the very wealthy continue to expand their fortunes, family offices are likely to continue to multiply” (3). This indication of future (and continued) growth is promising for money managers and fund managers alike.
Family Office Growth – Domestic and Abroad

As mentioned before, the wealthy will continue to expand their wealth, and family offices will continue to grow in numbers. With that growth comes growing needs and wants for wealth management services. Around the globe, more and more wealthy families are looking for something similar to the family office seen in the US.

In 2000, the Family Office Exchange (FOX) released some information on the global family office, comparing the family office in the US and the family office in Europe through select interviews with 40 of the leading family offices. Some interesting findings from that study include:

a.) The amount of young offices in Europe as opposed to the US. 39% of European offices from the study shared that their office was 1-10 years old, whereas 26% of the US offices indicated that their offices were more than 50 years old.

b.) The larger assets in Europe. 55% of the offices from Europe shared their liquid asset size was in excess of $1 billion. Just 30% of the US offices replied the same.

c.) The largest expenditure (three fourths of the family office budget) is allocated to personnel. (Research on the Global Financial Family, 2)
Factors Encouraging the Growth of the Family Office

While the number of family offices around the world is unknown, it is known that more and more family offices are being created every day. There are many benefits to having a family office, and FOX lists just a few that they say encourages the creation of family offices:

- “One central source for information on, advice about or oversight of all of the family’s financial matters. We call this integrated financial services.
- Pooled purchasing power across a family group, resulting in better service for a better price than individual family members could attain on their own.
- A dedicated team of professionals who are focused on client goals in a completely confidential manner.
- Continuity from generation to generation on issues of family heritage, the family trusts, family values, or family philanthropy.
- Access to professional advisors who can educate family members about their responsibilities [sic] of ownership and participative governance.” (FOX FAQ)
Trends Affecting the Family Office Industry

The Growing Number of High-Net-Worth and Ultra-High-Net-Worth Classes Around the World

In most developed nations, the wealthy are accumulating assets more rapidly than the middle class. At the same time, many emerging economies are thriving, with annual growth rates of 4-10%. Others, according to Economy Watch, are growing at an even faster rate. Ghana’s economy is growing at a blistering 20.15%. It’s a $23.4-billion economy (Economy Watch).

Many experts have noted that by 2015-2020, China’s upper class will be larger than America’s middle class, especially with an estimated GDP growth rate of 10.3%. (CIA-The World Factbook)

Growth in countries such as China, Brazil, India and Russia will ensure that the family office format of wealth management services continues to grow in popularity over the next five to seven years.

Transformation from the SFO to MFO

As mentioned before, the financial space and wealth management industry has seen a lot of change, especially in the past decade. Some of the biggest players in this change include the large costs associated with managing a family office,
and the consolidation of the banking world. Additionally, the growing wealth of the world, as mentioned above, is playing a key role, as well.

According to a Rothstein Kass press release, Richard J. Flynn, head of the Rothstein Kass Family Office Group:

Research suggests that individuals and families with $20 million in net-worth are increasingly gravitating to the multifamily office model rather than the more traditional single-family office structure. However, determining the ideal structure remains a customized process considering factors that can vary greatly from family to family.

Hauser writes:

As the costs of staffing increase, the financial burden becomes an issue to the family, who may begin to wonder whether they are in fact saving money by funding their own office. Family and office staff alike will soon begin to consider whether overhead costs can be reduced by adding other families who would share those costs. This is what has led so many family offices to market actively for additional clients. At this point, though, the original benefit of having a personally dedicated office will be gone. Also, the new families will tend to feel that they are
additions and not quite as important as the original founding family. (19)

Though some families may feel like they get less attention, the appeal of the multi-family office is still present, and the need for them to be is also present. Ken Evason, president and CEO of Jacobus Wealth Management Inc, a multi-family office in Wauwatosa that evolved from a single-family office, noted that "The growth (in the multi-family office business) has really been from families recognizing the need for conflict-free advice" (qtd. in Vogel).

This driving force behind the allure of a family office will likely continue to affect and encourage the further growth of the industry.

**Competition from Larger Institutions**

Many firms, seeing the benefits of adding a family office services department, have done so. As such, "large banks, investment houses, and insurance companies are presenting themselves as family offices as well" (19). Their ultimate goal is to capture a piece of the market and some of the available funds to manage.

Where there were many private banks in the past accommodating the needs of the wealthy in Europe, there are now numerous larger institutions attempting to offer the same services. This is a result of the mergers taking place in the
financial space. “The services these [smaller] institutions had provided to wealthy families in Europe had in many ways been similar to the role of the family office in the United States” (Hauser, 20).

Due to the changes experienced in the financial and wealth management spaces, “[there] has been a sharp decrease in the number of small, independent private banks.” (Hauser, 20) European families are now looking for something similar to what the US family office was, and an alternative to the larger institutions.

Something playing into both the change from SFO to MFO and the change from private to institution is the consolidation of private banks. “[F]amilies with sophisticated financial needs have fewer financial institutions from which to choose. Small advisory firms have been wooing private clients and many single-family offices have opened their doors to other families” (Foster).

While this can be beneficial for families not wanting to take on the financial burden of running and operating a family office of their own, many of these institutions, banks, and investment houses were not created for the same reason a family office would be created, and thus will not be as successful in the family office market. “They need to understand the importance of the old-fashioned values of caring and understanding, coupled with
reliable and consistent availability, [because] [t]he investment skills can be outsourced"(19).

As Hauser covered in her Journal of Wealth Management article, many institutions are adding services to their offerings, and trying to capture a piece of the family office market. This, however, is somewhat contrary to the main reason the family office was created: personalization, and control.

When larger institutions come into the family office space, that personalization and control are lost to the family, as well as the benefit of and driving force behind the creation of the family office. Though some may see the growing MFO space as beneficial to families everywhere, making these service available to a larger number of people, Stephen Martiros and Todd Millay have a different point of view.

In their paper, *A Framework for Understanding Family Office Trends*, they offer another take on the MFO and how it may be affecting the family office space.

Commercial service providers are beginning to adopt the words “family office” in two distinct ways: to describe the quality of their services or to describe their target market.

In the former case, companies desire to portray a superior level of service or expertise. These companies are often
positioning themselves to serve families with assets of $5 to $50 million or more in a “family office-like” manner. These providers are often referred to as multi-family offices or “MFO’s.” Many registered investment advisors (RIA’s) are re-positioning themselves as multi-family offices (MFO’s) to provide “bespoke” services to the most discerning clients.

In the latter case, companies are forming dedicated business units to serve the single family office niche.

These business units are often designed to provide single family offices with special services, pricing, and dedicated experts. Banks, insurance, private aircraft, security, technology, and investment consulting companies, among others, have recently begun to establish “family office” business units. (2-3)

**Profitability**

This is a growing challenge for family offices. As populations amass greater wealth, large wealth management firms are competing on a cost basis and moving a larger portion of their core services online. While the average person might appreciate saving hundreds or even thousands of dollars in fees each year, many affluent individuals would much rather spend $20,000 to $100,000 a year to ensure that experienced professionals are
managing their investments and taxes to fit their specific financial goals and risk tolerances.

Many of these individuals run businesses or have complex wealth management or tax-related needs, and they require a team of experts to help manage their finances. Family offices are becoming the common answer to that demand, remaining highly profitable while also serving the unique needs of the ultra-affluent.

**UHNI Have Different Needs**

Ultra-affluent clients are demanding highly professional financial services. While there are no set rules on what services a family office can or cannot offer, as was shown in the first chapter, there are common investment and finance-related services that most of them provide for their clients.

Many of these advanced services are not available within a private banking or traditional wealth management setting, simply because they are affordable only for the most affluent clientele.

Family offices also offer superior expertise on constructing or selecting alternative investment portfolios and products. Many have invested heavily in systems, reporting and institutional consultants to help select the most appropriate alternative investment managers and products for their high-net-worth clients.
CHAPTER 2

FAMILY OFFICE ACTIVITIES: ALLOCATIONS & PORTFOLIO INVESTMENTS

The main purpose of the family office is to provide comprehensive solutions for the family. Family offices will take the time to see to it that their clients are well taken care of. While families have options for other avenues of wealth management, investment advisory, or estate planning, the family office is meant to consolidate services and create a holistic approach to overall management of a family’s wealth.

Family office employees are often experienced and sophisticated enough to understand unified managed accounts (UMAs), and will be able to explain them to clientele so they can be employed where appropriate. A UMA is a “professionally managed private investment account that is rebalanced regularly and can encompass every investment vehicle (e.g. mutual funds, stocks, bonds and exchange traded funds) in an investor's portfolio, all in a single account” (Investopedia).

Ultimately, family offices are known for working harder to make their clients happy because they often work with a smaller group of core clients. Though this is changing with the onset of larger institutions adding family office sectors to their
businesses, the family office will likely never be replaced. The services and attention available to families through a family office will supersede the benefits of cost savings that larger institutions offer to clients, as opposed to funding a personal family office. (Hauser, 19)

Family offices, unlike other institutional investors, often experience more flexibility in the way their assets are allocated. As a family office survey respondent mentioned in a Preqin survey conducted in 2010, “[p]ension funds, insurance companies etc. have parameters and targets they have to stick to; family offices can be more flexible” (qtd. in Preqin, 2).

Many family offices use alternative investments, and will find an individual manager that fits them best, if they do not already have one that they work with. Family offices might work with investment managers internally who are hired as a full time employee of the office, and other times they will have outside firms managing their client’s investments.

To effectively market to a family office, it may be wise to create a marketing campaign that will speak to both types of offices, those that manage investments internally, and those that utilize outside managers. According to the Wharton Global Family Alliance, “[i]n Europe, 63% of SFOs perform asset allocation in-house vs. 47% of SFOs
in the Americas.” This figure gives an idea of how family offices work, especially in reference to the single family market. MFOs may operate similarly, though with reduced costs allocated to each client, an in-house team of investment managers may be a more ideal set-up.

In addition to having good marketing or capital raising techniques, it is imperative to understand where family offices are investing, where they prefer to allocate their assets. There are many factors that will come into play for each office, and, to reiterate from previous chapters, no two family offices are the same. There are trends, however, that will affect the entire investment community, and trends that can affect the family office industry as a whole.

Though useful and rich in information, there are very few studies and reports available to better understand the family office. One in particular comes from the Wharton Global Family Alliance that aims to shed some light on the little-covered area of single family offices.

According to their study conducted in 2006-2007, “geography, size and age all affect how SFOs decide to allocate their assets. The study found that families in the Americas invest more in equities, while European families invest more in principal investments and real estate. Principal investments and private equity allocations are
more prevalent for SFOs serving first generation families” (5).

A large player in the differences seen in asset allocation was the geographical location of the family office. WGFA’s study found that

[When comparing billionaire and millionaire SFOs in the Americas to those in Europe, we find even greater differences. European billionaire SFOs invest on average 11% in real estate; in the Americas only 4% is invested in real estate investments. Comparing millionaire and billionaire SFOs on the two continents, there are also differences in investment mix, be they equities, hedge funds, private equity, and principal investments in companies.

Though knowing where family offices invest their funds is important, it’s also important to understand why, and the amount of risk a family office is willing to take. Some assets are considered to be higher in risk, though offer an opportunity for a larger return, and some are more conservative. According to the WGFA study, they found that

Contrasting investment objectives with asset allocation of billionaire SFOs to millionaire SFOs reveals that while 50% of billionaire SFOs say they favor a balanced approach to investment objectives, they tend to commit a
greater percentage of their assets to hedge funds and principal investment in companies, which are more volatile asset classes. (28)

Also important to take into account is the size of the SFO. How many generations does the office serve? The WGFA study found that that, too, affected the way the family office allocated assets.

The number of generations that are served also has a substantial impact on asset allocation. When asked about their objectives with respect to investment, it seems that first generation SFOs are more aggressive with respect to investments. (28)

The WGFA Report continued on to say that,

Although, on average, asset allocation is very similar across first- and later-generation SFOs, there is a significant difference with regard to principal investment in companies. In our survey, among first generation SFOs, 10% (median) of the wealth is allocated toward private equity, while later generation SFOs allocate only 5% (median). First generation SFOs allocate on average 14% of their wealth to principle investment in companies, while later generations allocate 9%. (29)

The WGFA’s study included offices that serve an average of 13 households, 40 family members
and two to three generations. The median SFO serves four households and eight family members” (10).

Though this sample may not be a large portion of the entire SFO industry, WGFA did address this earlier in the study report, stating that while the sample size is “not enough to make detailed comparisons among subsets of SFOs”, it is “intended to illuminate family office structure and practices—particularly investment strategies, not to evaluate how well a given type of family office performs relative to another.” (4).

Additionally, while the study focused on SFOs only, similar factors and trends that affect SFO’s can likely be said to influence the single family when a part of a larger, multi-family office. There are other factors that come into play in a MFO, however, namely the fact that most MFOs are for-profit, whereas a SFO may likely be a not-for-profit office, and working instead to manage and maintain wealth of the founding family.

An analysis done by The Capital Express found that family offices also place a large emphasis on how the investments’ industry is performing, and what sort of management is seen in the fund. For example, DMS, a SFO in the US, said that their firm places a high value on management and company culture. DMS is flexible regarding industries in which it will invest. Like most
investors, DMS prefers businesses in industries which have good growth potential, which have high barriers to entry, which enjoy superior and consistent margins, which are non-cyclical and which have stable customer relationships and defensible market positions (qtd. in The Capital Express Blog).

However, contrary to their preferences, DMS has seen other businesses “operated very profitably by talented management teams in industries not meeting these criteria. While DMS does generally avoid certain industries, it is generally willing to consider a wide variety of industries provided the right management partners will be involved” (qtd. in The Capital Express Blog).

Another SFO in the US interviewed by the Capital Express, Thoma Family Office, noted that the office prefers “established funds and management teams”, and noted that they invest in venture capital, private equity, distressed assets, and real estate. (The Capital Express Blog)

According to the Preqin survey, family offices are looking to invest and are willing to invest with people they don’t know. Preqin writes that “[a]pproximately 69% [of the survey respondents] told us that, in the next 12 months, they would consider investing with managers they had not previously committed capital to” (4). This is crucial to keep in mind as family offices continue
to grow in numbers, and as fund managers continue to market in an effort to raise capital.

Though a family office may prefer a certain asset class, be open to the idea of investing with people they don’t know, and have the assets to invest, you need to be prepared to actively market your product to them, and in a way that will resonate with their needs and wants. This way, you can directly speak to their core goal and mission as a family office. Chapter 3 will delve into this topic more as we cover raising capital from family offices.
CHAPTER 3

HOW TO RAISE CAPITAL FROM FAMILY OFFICES

Raising capital from family offices is a difficult task. Like capital raising from other investors, you need to quickly share how your offering is beneficial to the particular investor you are talking to. This requires that you understand how family offices work, why they are in operation, and what their goals are, and more importantly, how this differs from family office to family office. With differences in family offices come differences in investment preferences and needs.

Family offices are just as different as families themselves are. Needs differ, desires differ, and why the family office is in operation differs. This translates to their investment decisions as well, as they will use all of this when evaluating a potential investment, making it difficult to target and market to this segment of investors.

According to Preqin’s 2010 Family Office Survey introduction, fund managers often lack a good understanding of the family office, and what their needs are. Because the family office is hard to define, fund managers are often ill-prepared and under-informed.
“[Family offices] are, by nature, a reclusive and private set of investors, which can result in fund managers failing to understand or fully appreciate their specific investment needs. Family offices represent a key – at times underappreciated – source of capital for private equity fund managers, however” (Preqin, 1).

A large component of successful capital raising lies in simply knowing who your target is. Knowing who the family office is as an investor group is vital for fund managers looking to secure capital and/or commitments from family offices (Preqin, 5).

Due to the opportunity to source capital from family offices, many funds and fund managers target the family office, but often do so without first preparing themselves. Preqin went on to say that “[t]his is particularly true for firms managing funds at the smaller end of the scale, for whom the building and maintenance of family office relationships can be crucial, but it has also become the case for all private equity firms as the difficult fundraising climate persists” (Preqin, 1).

Not only are family offices difficult to reach and difficult to capture the attention of, difficulty in fundraising is expected to continue, and “the search for new sources of capital is likely to intensify. Private equity firms, both large and small, have found it necessary to look beyond
long-established relationships for investors with capital to commit and family offices are one investor group that are likely to receive greater attention” (Preqin, 2-3).

With the opposing competition, your initial point of contact can make or break your success. Capital raising, or marketing, relies heavily on your understanding of the recipient of your marketing materials. Your product will be of no interest to your target market unless you know how it will benefit them. Since most fund managers are better equipped and more experienced in managing funds, their marketing expertise may be limited.

In talking about one of their recent events, The Association for Corporate Growth® (ACG®) said “Family offices and high net worth individuals remain one of the most fruitful sources of capital for today’s private equity fund managers -- if you can get their attention.” Expressing how you can help the family office (by either solving a problem, offering a great opportunity for returns, etc.) is one way to get their attention through your marketing efforts.

On the ACG® event homepage, they also go on to share the importance of being up-front with family offices when raising capital:

...family office managers are demanding much more disclosure from GPs than in the past. So if you make it to the door, you can expect initial
skepticism, demands for transparency, and close scrutiny of every number. (MasterClass™)

Though it is ideal to have a good idea of who each family office is that you want to target, it can be a bit overwhelming and unrealistic to do when trying to raise capital, and when trying to do it quickly. What you can do, however, is to familiarize yourself with the family office industry as a whole to better understand what most offices have in common.

The first thing to know is why family offices are being created. There are many reasons, the biggest being the growing wealth of the world and its concentration in families. From that growth follows the need to control and manage the wealth, as well as the desire to keep the wealth growing, and in the family.

In their article, *Your Own Family Office*, Keith M. Bloomfield and Russ Alan Prince drive this point home with their findings that "there are a variety of reasons for the exceptionally wealthy to create family offices, the primary reason being 'control'" (2). In their text, *The Family Office: Advising the Financial Elite*, Bloomfield and Prince also delve into this topic as it relates to SFOs and MFOs, noting that MFOs have a need for control, but their primary motivation for being in business is the lure of profit (69).
Another drastic difference from SFOs and the MFOs is that the latter group is looking to increase their client size, whereas the SFO does not operate with the intent to expand or add clients (other families). The move and transformation of the SFO to the MFO will affect this, of course, but not while the two entities are separate (Russ, 69).

Addressing this need for control (in both the SFO and the MFO) is a great way to resonate with the family office and a great way to indicate that you understand what they are trying to do, and what their needs represent.

Wharton’s 2007 report, “Single Family Offices: Private Wealth Management in the Family Context” confirms this theory stating “the family’s most important objective for the SFO is trans-generational wealth management and the key benefit of having a SFO is to have the SFO operate more as a consolidation function of family wealth management and control” (12).

Susan Keats, Fidelity Investments Corporate Archive Manager, was quoted in Fidelity’s “Creating a family history to help preserve the legacy”, saying “One of the reasons people have a family office is to have an organization that helps keep the family together and maintain their values and principles” (1).

In addition to why the family office was created is the important factor of what the family office
hopes to do. Russ, Grove, Bloomfield and Flynn note that there are two “groups” here: the wealth creators, and the wealth preservers (Russ, 55). This is crucial to pay attention to when you address the various family offices, as the wealth preservers will think very differently from the wealth creators.

This difference in thinking will affect everything the family office does, from the services they offer their own clients to the investments they choose. In their study of family offices, Russ, Bloomfield, Grove, and Flynn found that of 825 offices, 68% were investing in alternative investments, but just 38% of those offices considered themselves to be Wealth Preservers. That means that Wealth Creators are much more prone to take on any additional risk that alternative investments may pose (Russ, 117).

According to Hauser, family offices in the US are usually created for one of a three main reasons. One is out of necessity for a successful entrepreneur, prime examples being Rockefeller and Carnegie. Another reason is the sale of an operating business where the wealth was originally earned for the successful entrepreneur, and lastly, a family office is often created for the quick wealth accumulation of young entrepreneurs, as was seen in Silicon Valley and the Northeast Corridor (Hauser, 16).
Also important to note is how the economy affects family offices. Aforementioned were some insight into how regulations and rules can affect family offices, and how that might affect your marketing approach.

As FOX mentions, the concept of the family office in Europe and "is just evolving, but new family offices are being formed monthly in these areas" (FOX "Frequently Asked Questions"). The growth the family office space is seeing equates to great opportunity for capital raising, and with more and more offices opening each month, the market to raise capital from is continuously expanding.

Knowing why family offices are created and what affects them is just half the battle of raising capital, however. Just as is important is the knowledge of how to properly work with a family office based on some of their preferences, and again based on their needs.
**Important Things to Note when Marketing to Family Offices**

Here are a few tips for working with them effectively so as to create a win/win relationship with them and the clients they represent:

- **Differentiate the fund and yourself.** Many family offices are called daily by asset managers looking to build relationships. Try to be local, different, more professional, or more organized when meeting or working with family offices. This can create a lasting impression.

- **Differentiate your team.** Focus on providing details on your team, your competitive advantage and risk management process. A 7+ year track record will set you apart from many other firms offering products or services.

- **Wealth Creators vs. Wealth Preservers:** Similar to many other types of investors, capital preservation and consistency will usually take precedence over volatile high returns, especially in the family office space. Families want longevity and consistency. Conversely, the wealth creators are open to investing more and
in higher risk investments, so ensure that you know who you’re talking to.

- **High performance returns alone does not gain you any ground** with a family office; in fact, too high of returns may simply appear as risky. Typically, the most inexperienced fund managers will concentrate their relationship development efforts on touting their high performance returns.

- **There are more than 3,000 family offices in the United States** alone. If you have gained some traction within this space it would be wise to allocate 30% of your time to this distribution channel and assign someone to help grow assets here. There are so many family offices to grow relationships with that anything less than a concerted effort using a dedicated professional and database of family offices may not be worth it.

- **Communicate through multiple channels.** Sometimes sending a folder on your company, a well thought out but very concise email and then a phone call can be most effective while building a new relationship. Using these other marketing tools instead of just simply blasting out emails or calling everyone
can make for a more productive relationship.

- **Avoid calling a family office that you would like to work with on a daily basis.** They are relatively small organizations and do not have the time to work with groups that do not provide them with the professional consideration and space to reply in time to incoming requests.

- **Lastly, remember that family offices require a higher level of privacy.** If you plan to work with these family offices, know that they will require more privacy and confidentiality than your other clients.

- **Though confidentiality is a key reason family offices are created,** the most important benefit of the family office is wealth management and control, as we went over earlier.

While good performance is not the only thing that a family office looks for, it is one of the most important things. When asked in Preqin’s survey, respondents indicated a “greater interest in the history of [GP] firms than the actual strategies employed by those firms or their location. Approximately 82% told us that they look for managers to have a good record in [their] market,
while 69% said that they value the amount of experience firms have in the asset class” (Preqin, 5).

This information is especially important to those looking to raise capital from family offices, and emerging managers. “As well as indicating that family offices might not be receptive to first-time and emerging managers, this also underlines the need for family offices to have access to information about the history and past performance of management teams” (Preqin, 5).

Despite the desire for more experienced managers, family offices tend to have a varying interest in terms of what companies they invest in.
How to Market to Family Offices

Marketing to a family office can be a tricky art to perfect. Here are a few tips to marketing to family offices:

- Family offices have well established due diligence procedures, often involving consultants or internal analysts that do nothing but look at hedge funds or alternative investment products. This is also a service that a family office may outsource, so keep this in mind when marketing your products or services.

- Financial advisors are often much more sensitive and motivated by how they will earn a commission or income from the transaction. Many family offices charge enough in fees that this is less of an issue when looking for investments or products.

- Recall, too, that family offices were created to provide holistic, comprehensive services to their clients. They are meant to be there for everyone and do everything for them (Hauser, 22). They are not there to simply make a commission or create the most returns. Often, family offices are concerned with the preservation of wealth and the
avoidance of taxes. Know how you can better serve those needs so as to market your offerings more effectively.

- Family offices often take 18-24 months just to complete their due diligence and committee meetings. It is a very long sales process, so know that your time and resources will be invested there for a majority of the relationship building process.

- Family offices require genuine relationship-building efforts, tenacity, and honesty. Be aware of how you present yourself. Know that the privacy and confidentiality they require will affect their decision to do business with you, and the relationship you build with them will affect their level of trust in you.

- 90% of family offices only seriously consider investing in hedge funds with at least $75M-$100M. Many require $250-$300M or even $1B in assets under management.

- Family offices are tight-lipped. It will take a lot of effort to develop a relationship, meet in person and get clear feedback on why or why what you are offering is a good fit for what they are looking for.
• Family offices are difficult to identify. Some may advertise, but many stay below the radar, and often purposefully don't even have a website. With regulation exemptions like those that the Dodd-Frank is repealing, many family offices were not required to even register with the SEC, making it easy for them to work behind the scenes.

**Due Diligence definition here or why this is relevant to capital raisers and family offices.**

To help reiterate the above information, and to add a few more helpful tips, below is a transcript of an interview between Richard Wilson and Tim Mohr of BDO Consulting. Tim will talk about due diligence in regards to capital raising, and how to be

**Richard Wilson:** Tim, thank you for joining us today.

**Tim Mohr:** My pleasure, thank you.

**RW:** Great, well, just to start with, how did you first break into doing due diligence on individual hedge fund managers and members of hedge fund teams, how did you first get started down that road?

**TM:** I’ve been conducting and/or managing investigations as a whole for, in excess of 20 years,
starting my career with an int’l private investigative company, and from there moving on to a large commercial bank where I was in charge of investigations by the time I left, and found my way into the public accounting world. I’ve always been providing investigative due diligence services, either as a part of an investigation or as a stand-alone piece of itself.

The world of alternative investments has always been a piece that we’ve done work in and that we’ve provided the investigative due diligence services in, and that would be along the lines of looking into matters with regard to private equity, fund of funds, and hedge funds themselves. And the work that we do, the investigative due diligence services that we provide with regard to fund managers are on behalf of the investors or fund of fund, so either institutional investors, endowments, or fund of funds.

We’ve been doing that at BDO for the past 6-7 years. I would say that of our total investigative due diligence practice, it’s probably a 60-40 split; 60% [of our practice] we’re doing for other transaction based or investigative needs where we’re looking at backgrounds of individual entities, and the remainder in the alternative investments field.

RW: Are there certain things that, when doing investigations on managers or research on a
manger that someone might invest in, are there
certain things you look for to make sure that that
HFM has invested enough in their own business?
Is that ever part of the research process?

**TM:** That’s not a part of our process. What we’re
looking for is really tailored to the client or the
individual requesting the background to be done.
For the most part, to put it in very general terms,
we’re looking for publically available information
as well as other reputational information so that
the investor and/or client has a full picture of the
people who are going to be making the investment
decisions.

**RW:** What type of reputational information is
being analyzed by these institutional investors
and fund of funds? I think many hedge fund
managers would expect a background check, but
besides checking on whether they got their degree
or not, I think most would be in the dark of what
reputational factors would be investigated.

**TM:** So, we’re looking at a few different things.
We’re looking to see 1: is the info that they
present about themselves, things that are
contained in a bio, a CB, or even in some instances,
a questionnaire, the information that they are
providing, we are checking the veracity of that
information to see whether or not it’s truthful. You
mentioned education, we look at that information,
we look to see if they received the degree they
said they received, we look at employment history, and we then also look to see if they are license, are they required to be license, did they ever hold a license, either through FINRA or other regulatory agencies, and if they did have a license with any of those agencies, were there any issues, was anything filed under that license, or against that individual, so we're looking to see what's the background in regards to that licensing.

From there, and moving more into additional public areas, we're looking at criminal record history; we're looking at civil history; how many times have they been a named party in an article of litigation, either as a defendant or as plaintiff? What is the nature of those suits? Do they have a personal bankruptcy in their background?

The entities they were involved with, or, maybe where they had started their careers or maybe in other places where they've been in during their careers, have those places been involved in issues, not necessarily with them themselves, but have they been associated or affiliated with some sort of entity that has been involved with some negative press. Then we look at media: we look at press reports, media reports; we look to see what is being publicly said about the individual. That's really exhausting the public record side.

From the reputational side, we start with the references; everyone can provide a reference, and
the reference you provided usually is probably saying nothing but good things about you, so we try to develop references; we look for additional people, people that the manager may have crossed paths with during their career that might be able to give us additional information about their background, and then you try to corroborate that information if you can. The important thing for us is everything we present back to a client is corroborated, and it can stand alone. If it ever reaches the level of somebody questioning what was in the report, it can stand-up to that question.

RW: It sounds like one lesson that someone who’s running either a smaller or mid-size hedge fund could take out of that is that they should probably treat every current, potential, and past investor with a lot of respect and honesty, even if there is a conflict at some point or a disagreement. It sounds like you definitely don’t want to burn any bridges in this industry, as it can come up in this type of research, most likely.

TM: That’s correct. And look, everybody, me and yourself included, have a footprint in the public record. We’ve all been involved in issues, not always negative, but there’s things that happen, and that’s normal. And that’s fine; there’s nothing wrong with that. The important thing is that if you’re asked information about your background, don’t leave things out because that just opens up the next question, “why did you leave this out?”
Now if it was something dated and you forgot about it, it’s explainable, but you want to make sure that the information that you provide is to the best of your knowledge and that anything that happens within your career, you just want to, if you act in a manner that’s treating people with respect, you’re not burning your bridges, look, nothing’s going to be perfect, and people are going to be upset. I’m sure on the investment side of things there are going to be people that are upset, and you can’t control that, but you operate in a way that you can go to bed at night and feel that you did everything above board and proper, and if people are upset, there’s nothing you can do about that, then there’s really nothing to be concerned about.

**RW:** What about other types of public records, like credit history or driving records, is that too detailed for what you guys are looking at, or is that something that, where somebody has horrible credit, they should be worried that maybe that’s going to hurt the research that’s done by research firms like yourself?

**TM:** Well, credit reports is an interesting piece, because we’re not going to look at credit reports unless we have authorization to do so from the fund manager, so we’re going to be asking for a lease to be signed before we do anything more like that. Your credit reports: yes. I’ll take a step aside for a second and tell you that each investor, each
fund of fund has their own risk tolerance. So what may be of concern to one is most likely or may not be a concern to someone else. And that risk tolerance steps up the level of depth in background information that we’re going to gather and report.

So for example, you mentioned driving records. Well, for some, driving records is not important. For others, it’s going to be extremely important because, what if there’s a driving history that shows a tendency for recklessness? Some people may make a decision, “I don’t know that I want to put my money with someone who acts in that manner.” Others may say “Ok, it goes with the territory.” Or for whatever it may be; they may come up with some other reason why it’s “not a big concern of mine”.

One of the things that come up and that you see, I wouldn’t say often, but more often than other issues, is DUIs, or driving under the influence charges. It happens, but how often did it happen, when did it happen? Was it when you were 18 years old and in college and you did something foolish, and you haven’t done anything since then, or did it happen 4 times in the last three years? Those are going to affect people’s decisions differently. You take things that you find as they come in, and as each individual, and deal with it as an individual issue.
You can’t make general statements that “anybody with DUIs I’m not going to do business with”. There’s always a reason why maybe you should. Not to talk lightly about driving under the influence, because it’s something that should not be done, and it hurts people, and it hurts other, and it hurts family members and yourself, but with that said, some people have different tolerances. So a blanket statement of what you will accept is usually hard to live by.

**RW:** What about social media pages? Maybe somebody has a Facebook page and they’re a hockey coach for their son, and they talk with their family there. Should a hedge fund manager be worried about a personal Facebook page which doesn’t market their hedge fund at all, but when it comes to due diligence research, is something like that or some comment that someone else makes on their wall going to hurt them in the social media space?

**TM:** I would use this simple thing: if you don’t want someone to see it, you shouldn’t be putting it on any social media. You shouldn’t be putting it on LinkedIn, you shouldn’t be putting it on Facebook, you shouldn’t be putting it on MySpace, and you shouldn’t be putting it on Twitter. If you don’t want anyone to see it and it’s something that is going to affect your business or you personally, don’t put it out here. You know, are the social media sites searched? Yes. It’s very simply. Stuff is
put out there and you have to take the approach that “if I put it out there, somebody’s going to see it”.

So just think about it. It’s like a 7-second delay. Think of it that way. Before you hit send, read and think about whether or not you want it out there. Somebody sends you a friend request and you haven’t seen that person in 15, 20, 30 years. Think about it. Do you want to accept that friend request? How is it going to affect you when somebody looks into your background and sees this type of a friend? You just have to think that through. You may be thinking “it’s my personal life; it has nothing to do with my business side, and this is something I want to do to be able to keep in touch with friends.” Just keep in mind and understand what can happen with that.

**RW:** That makes sense, and it’s obvious when you think about it. I think maybe people don’t realize how easy it is to find those types of online social media type conversations, and they show up everyone on Google and everywhere else.

**TM:** We’ll, think of one other piece though. You’re on your FB page and you’re a fund manager and you have a hobby of flying. You like to fly, and you’re constantly seeing pictures on there and you’re seeing posts. Now, posts all have timestamps on them, and all your status updates have timestamps on them. Somebody looks at
those files and sees a lot of time spent up in the air flying, they may be thinking, “how are they managing money if they’re doing that?” Those are the types of things that I don’t think people think through.

**RW:** I had a client once who ran a hedge fund; it was growing somewhat successful, but he was a little self-conscious about the fact that even though he was good at what he was doing, he never graduated from high school. In your research, education would obviously come up, as you mentioned earlier. Do you see clients, many times, that find that unfinished education is a huge ding? Do they look at the whole picture? I wonder how big of an impact that has on the due diligence process, typically?

**TM:** For us, it’s a piece of information, and we don’t make the decisions. We present the information to the client, and the client makes the decision as to what they’re going to do with it. The only thing that I can say is that some people look at this like a job interview. You come in, you don’t have a college degree; does that mean you can’t do your job? No, but that may be a qualifier, a qualifying piece of information that they want to have. So I think some people treat it differently. My own personal is that you take the package as a whole. But I have not heard of someone dinging somebody for not finishing their college degree or they didn’t move on to get their masters, or that
they didn’t even finish high school. I haven’t heard of it and we’re not involved in that decision.

**RW:** I can’t imagine a DDQ doesn’t ask for the full education or the bios of the team, but say for example, a fund of fund made an investment decision off a very brief DDQ, and they did ask some DD questions, they do have a phone call but they never explicitly ask something like, “did you get a college degree, did you graduate from high school”, or perhaps it’s something else in the background that you would bring and you wouldn’t lie about it, but weren’t asked about it.

From your perspective, because you’re the one doing a lot of this investigative due diligence, it always better just to bring out that skeleton up front, whether they would have ever found that out? Is it much better to have that out there, and be 100% up-front, or is it such a competitive industry, and though the client might not have cared about it anyways, but now that you’ve brought it up, it’s now a negative thing they look at whether to invest with you or not? What would be your advice in that area?

**DDQ Definition here?** It might make more sense to just briefly describe it in the interview question about, like, “I can’t image a (whatever it stands for), a (whatever it is), doesn’t ask for...” It would seem more natural and not interrupt the interview. It would also make sense to put the
definition in the section above this interview where we’ll talk about why due diligence is important and what it has to do with family offices.

TM: I know it’s a cliché, but honesty is always the best policy, and putting it out on the table is best. Because we start to look, and then we come up with, and it becomes an issue, for a lack of a better term, that you now have to deal with, and though it’s not on our part because we don’t do this, the client then starts to wonder, starts to speculate as to why they didn’t tell us.

So it’s better to lay it out on the table, and say “this is who I am”. Of course, this needs to be done in the right context. If it’s the first meeting you have, I wouldn’t come out saying “by the way, I never graduated from high school or college”. It’s not relevant at that point. If you’re getting down to the point where you say to a prospective, “Look, we’re going to conduct a background investigation on you”, ask the question “Is there anything you need to tell us now before we start so that we can address it up-front?”

What happens often with us is we find stuff, and we’re in constant communication with our client. I can get an assignment this morning, find something this afternoon, and be back on the phone with the client this afternoon, and I’m telling him, “Look, we found this, we corroborated
it. Do you want us to chase it down? Do you already know about it?” And we’ll get the response, “Yeah, we heard about it, we talked to them about it, we’re not worried about it. Keep going.” Or, we’ll hear “No, we didn’t know about it; put the brakes on, stop, that’s a deal breaker for us.” So laying everything out on the table, when the time is right, when you’re discussing backgrounds, it that’s what’s happening, lay it out on the table.

If someone’s going to make a decision to not invest in you, and your track record is impeccable, no scars, no skeletons, and you’ve always laid everything out on the table, and someone’s going to make a decision not to do that based on some small piece of information, move on. There’s nothing you’re going to be able to do, and hiding it, it’s going to come out, and then you’ll look worse.

**RW:** Right. I’m trying to go through some of the tips you provided here, to make a short check list that hedge fund manager could do, that are hard working, generally committed to their business, and they’re not trying to game your research, but maybe they didn’t pay attention to or didn’t realize that credit history could ever impact them running a hedge fund. So I’m trying to come up with a list for people to actively prepare for this type of intense scrutiny that will be cast upon them when they approach more institutional investors. I have:
1. Clean up your social media footprint. If you haven’t thought about that in the past, maybe you need to go through and delete some things, make some things private, or just be more aware of what you’re saying and not say things that need to be deleted in the first place.

2. Develop honest and respectful investor policies, no matter how nasty or unfair an investor is, or makes claims against you, try to solve things in a way that doesn’t leave them with a horrible taste in their mouths, and treat people fairly.

3. Come up with policies with your whole team in regards to social media and what you post online, as well as how you manage your whole online reputation.

4. Honesty is always the best policy. Once you’re going through a research or due diligence process, your credit history could make an impact, so pay attention to that, and just remember that they may ask for that at some point. Perhaps review your own name on Google within the search engine results so you can see and manage your own online reputation.

   There may be some things that you maybe forgot about, so knowing about those, you can better prepare a way to explain it clearly or find a way to clean up that issue so that it’s not being posted online about you.

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Is that a good list, you think, for people to pay attention to?

**TM:** It is, and I think I’d make two points, which you addressed on your first item: when you’re talking about social media, I would not recommend people go back and clean up their social media, I would recommend that people go back and look at it and know what’s there. If you posted it, you posted it. Be cognizant of what you’re putting out in the public record.

The other piece I would add to this in more of a general thing: understand what’s in your background. You don’t want to go and change your background, and you’re not going to be able to remove things from the public record, there are things that happened in the quarrel where certain things could be sealed, but that’s not really applicable here. Just understand what’s in your background. If you understand what’s there, then you can address it.

If there’s anything negative in your background, have an answer for it. I wouldn’t automatically go on the defensive about it, but have an answer about it. It may be in the best interest for a hedge fund manager to have a background conducted on themselves to see what’s out there, because what’s coming back as related to them, because all the identifiers hit: same jurisdiction, this is where they live, where they grew up, the name is a
match, there’s a match on the date of birth; it may not be you. And if it’s not, you want to address it and deal with it. You may have the same name as your father, and so, this is recent in one that’s ongoing now where the father and the son have the same name. Credit reports got merged, and they’re in the same business, so trying to distinguish between the two has become very difficult. So understand your own background and where there’s fixes that can be made because a credit report may have been merged with someone else, fix it.

I would recommend everybody, every 6 months, to look at your credit report. Make sure that what is on there is either yours or not yours, and go through the process available to you to get it off. So, just understand your background and doing a background on yourself is great, and Google is a great tool, but just recognize that it’s a tool.

We see this stuff every day. And because it’s on Google and because it’s on a blog, we treat that as just pieces of information that are either going to be corroborated or not. And taking information off blogs, good; good source of information, but check it out and make sure it’s right. If you get something in a media report, make sure it’s correct. So, I would just recommend knowing what’s out there on yourself.
**RW:** Something that I recommend for hedge fund managers, for example, if they have a 5 year track record, and in year two they had a style drift or some securities got a little bit oversized in the portfolio, those type of issues may come up, but you may not want to put them in your pitch book, as that is your first impression.

I do encourage managers, if it’s a complicated situation, to have a one-page explanation, maybe a diagram or a chart, of what happened and a well-thought-out answer as to what was done to correct it, because you know it’s going to come up in one of every four due diligence processes or conference calls, and you should be able to quickly reply to it with a complete, well-researched and cited answer that is compliance approved. That might be a little over-kill for a few of the things that might come up in your background history, but it does remind of something we usually suggest a hedge fund manager do in regard to their hedge fund overall.

**TM:** It's a good suggestion. If you know what your background looks like, and you have something in there something in there that has an explanation, because everything does, think of the way you're going to explain it, and bring it out in the open and explain it.

**RW:** We’re getting down to the end of the interview here, but our program, our team has
spent over a hundred ours putting it together and making sure that we covered a lot of best practices, and also interviewed a lot of experts in hedge fund marketing, what we're trying to do is make sure that everyone who goes through our programs, comes to our events, or reads our books gets at least $10,000 worth of value, whether that be a savings of $10,000 in consulting fees, or saving $10,000 of their time, of that this advice here helps them to raise at least $10,000, that’s our internal goal here.

So, from your perspective, as you’ve looked at a lot of hedge fund managers, I was just wondering if you have one tip for someone looking to raise institutional capital now, or sometime in the near future, that you would consider being worth $10,000 because it’s so valuable to remember and stick to as long as you’re running a hedge fund or coaching professionals running hedge funds? You may have already said it, or perhaps it’s something new, but do you have one really powerful tip that people should take away from this interview?

**TM:** The best thing, and I’m going to speak solely in the area of backgrounds and investigations, is sincerity and honesty; ethics and integrity. If you don’t have ethics, you don’t have integrity, and if you’re not honest or sincere in dealing with other people, you may have a short-term gain, but it will not be a long-term gain. You may recognize something or a benefit early on in being a little
unethical in or fudging your integrity a little bit, but in the long-term, it will do nothing but hurt you. It will likely, too, come back to you, probably stronger than it did good, so just be ethical, honest, sincere, and show integrity. You can go to bed every night, and not have any worries.

RW: That’s a great piece of advice, and it’s different from the “#1 tip” we’ve heard from other professionals, so thank you for sharing that. Thank you again for your time, Tim; we really appreciate all of the advice you shared here today.

TM: Thank you, it’s my pleasure.

If you’d like to learn more about Tim Mohr, you can read more about him or his firm’s practice, you can do so at the BDO Consulting website at www.bdoconsulting.com.
CHAPTER 4

MARKETING TACTICS: ACQUIRING FAMILY OFFICE CONTACT DETAILS

Family offices can be hard to not only identify, as we’ve explored in Chapter 1, but they can also be hard to contact. There are services out there, like third party marketing firms, that can assist you in your marketing efforts, but often times marketing and capital raising is done in-house.

There are many techniques used in capital raising, and as there are differences in family offices, there are also differences in the way companies raise capital. However, one thing will always be the same: you need some information about your target in order to contact them. That’s where databases come into play.

Internally, teams can create their own databases by compiling data and researching on their own, though this takes time and effort that could be spent on cultivating relationships and marketing products. An alternative to this is finding a reliable source for information, a provider of contact details.

When choosing a family office database for your capital raising needs, there are many things to consider. This can include evaluating the company your database will come from, the sort of service

Commented [AW2]: This chapter could probably use some more expansion, though I’m not sure how long someone wants to read about this process w/o actually hearing how we found the information.
they provide, what sort of refund they offer, etc. These are all important factors to weigh when choosing the right database for your needs.

Finding the Right Database

Here are 5 tips to finding the best database for you and your company:

1. **Do your homework.** This means doing two types of research: researching your needs and what the company selling the database can offer to you. What are others saying about the database online? What does their website look like? Are they open with who they are and what they offer? Do they offer other products? Really get a feel for the main players offering databases and evaluate their products against each other.

   More importantly, use this step to really define your needs, what the “perfect” database includes, and what you are capable of, including your budget.

2. **Know your budget.** Before you can (or should) go shopping, you must know what you can spend. Also, be sure to plan for future database purchases or updates to the data you initially receive. More importantly, see what the company offers in terms of updates or discounts to future versions. This can be an area where you can save money in the long run, which is more important than doing so
in the short run. Most quality databases will cost more than $800 but less than $2,000.

Just remember that your budget can transcend into future quarters if you have to replace the database you purchase due to quality or need to update it in the future. What sort of budget do you have to set to take those realities into account?

The budget is more of an internal issue, somewhat apart from the companies you evaluate, but know that it can limit or hinder your ability to find useful data. Knowing your budget leads to the next point:

**3. Look at all the factors, not just price.** Putting price as the deciding factor above everything else is a mistake that could be costly and take a great amount of time when searching for a replacement database. A company may offer a relatively low (or high) price, but that is not the only point of comparison that you need to evaluate. Look at the quality of data, the service they offer in addition to the database and the potential for ROI (return on investment). Consider what needs you have that must be met, which database works best for you, and the one that offers the best price once you’ve considered the other factors.
Other Factors to Consider When Purchasing a Database

a.) How the database is accessed. Is the database only available online? That can be a problem when you need 2-3 professionals accessing the database at a time. Moreover, what happens if the company goes under or takes the database down? You’ve lost your investment.

b.) Frequency of updates made to the database. How often is the data being looked at, updated, and added to?

c.) What is their definition of a family office? If they don’t list this, ask them to ensure you know what you’re buying.

d.) What is their definition of a contact? Is their number reflective of offices or simply contacts? Did they include the secretary in their database from a large, well-known family office?

e.) Do they include just family offices, or do they include private equity firms?

f.) Do they include contacts with incomplete listings? Know the percentage here.

4. Try to avoid buying more than you need.
Some databases offer thousands of contacts. The quickly changing data within a family office database may be useless before you can get to the remaining prospects. Know what your capabilities are and what you can realistically utilize from a
database. How many leads do you need? Consider that the data may change every 6-12 months; how quickly can you get through the data you purchase?

5. **Know the benefits of purchasing a database from a particular company.** For example, some companies may not offer a refund, whereas other companies may offer a refund of the purchase price, or even a 2 times or greater refund. Keep in mind that this data changes so frequently, so remember to find a company that will recognize and cater to your need for up-to-date information.

Remember, too, that even the best databases will have a 2%-3% error margin for their data. Find companies that can help you work with these errors and hedge the risk of making a large purchase for a product that loses its value quickly because the information is no longer good.

Also, keep in mind the backing of the company; does any sort of association or group back them? Are they transparent in who they are and their knowledge, or do they offer a generic email address with no personalization? If their level of service to you is so poor with you not even being a customer yet, imagine what their level of service will be once you are a customer.

When choosing a directory to use in your capital raising ventures, you must choose wisely. This
requires you to make an educated decision that is based on research, an understanding of where your firm stands, and an understanding of what you are actually purchasing.
3 Mistakes to Avoid

Here are the 3 top mistakes that companies make when buying a directory:

1.) Paying too much. This deals directly to the budget you set for yourself. Do not delude yourself or convince yourself that you have more to spend when in reality you do not. Be realistic and do your research. Evaluate companies and their products against one another to really weigh and measure the pros and cons associated with each directory versus its cost.

Also in relation to cost, know the refund policy of the companies you research and list as potential providers of the directory you seek. Do they offer any sort of refund? This can be the best way to ensure your purchase is a smart one and to ensure the information you receive is up-to-date, valuable, and relevant.

2.) Buying a directory that is not backed by great service. Many companies offer a great directory, but end their service there. They do not offer anything of value to buyers, such as free reports, free updates to the directory their clients purchase, or free information on a blog.
Furthermore, most companies offering a directory do not offer a networking event for hedge funds, private equity firms, CTA funds, real estate investment trust, investment banks, institutional consultants, and third party marketers to connect and communicate with family office professionals.

3.) *Buying a directory that can only be accessed online.* While this may be convenient in the beginning, this sort of access does not allow for you, as the buyer, to use the information therein to its full potential. Data available online can be difficult to upload or add to a CRM program or be shared between multiple team members if access is restricted to one user at a time.

Moreover, if the company decides they no longer want to offer the service, you are left without the product you paid for. Buying a directory that comes to you as a hard copy, or even better, an electronic copy, allows you to share the information with others on your team to utilize their skills and use the directory to its full potential. You are also able to use the information until you find it is no longer useful, not when the provider feels it is no longer useful to offer.

Lastly, you do not have to pay to access the data, access that may be cut off at one point or
another due to a subscription ending or data being moved. When you purchase a directory that is fully delivered, you do not have to worry about the information being taken away.

Choosing a directory can be an expensive investment that requires you to really give it some thought and serious consideration in regards to you and your company's needs.

Do you need a directory that you can access whenever you need to? A directory that you can have open on 2 computers at once, or a directory that you can take with you on the plane where you may not have Internet access?

Weigh your options and know that most companies ought to be transparent in the way they market their directory, the support they offer, and their policies. If something is unclear, simply email or call the company or firm to see if they can answer your questions; it is better to be safe than sorry.

Overall, remember to be smart and to make an educated decision. There are many things to consider, and keeping the above in mind can help you to make a better decision in the long run. Ask questions, do your research, and compare companies to see who offers a better product, can
meet your requirements, and does so within your budget.

Ask Richard for more tips here on how to raise capital.
APPENDIX:

RESOURCES


GLOSSARY OF TERMS

**Accredited Investor** – Normally a wealthy investor who meets certain Securities and Exchange Commission requirements for net worth and income as they relate to some restricted offerings. An accredited investor can be an institutional investors, company directors and executive officers, high net worth individuals, ultra-high net worth individuals, and other entities. Some angel investor networks or limited partnerships accept only accredited investors, so being accredited can be beneficial.

**Adviser** – An individual or organization employed by a fund to give professional advice on the fund’s investment and asset management practices. Is also referred to as an investment adviser.

**Alternative Investments** – An alternative investment is regarded as any investment product other than traditional investments such as stocks, bonds, money markets, and/or cash. This can include private equity, venture capital, hedge funds, and real estate. Alternative assets are generally more risky than traditional assets, but they should, in theory, generate higher returns for investors if invested in properly. As such, individuals and families with more wealth and a higher risk tolerance often times prefer alternate investments.
**Angel Investor** – Angels or Angel Investors are individuals who provide capital to one or more start-up companies. Unlike a partner, however, the angel investor is rarely involved in management of the firm. Angel investors can usually add value through their contacts and expertise, and will, at times, have non-executive directorships in the companies in which they invest.

**Asset** – Anything owned, such as real estate, cash, etc., that has monetary value.

**Asset Allocation** – This is the process of allocating or distributing assets in a portfolio to maximize the potential return in accordance with a particular level of risk from the asset owner. Asset allocation does not guarantee against loss, and is instead a method used to help manage the risk inherent in investments.

**Asset Class** – A category of investments with similar characteristics, making them part of a class.

**Asset Management** – The process of controlling and managing assets and liabilities to achieve high returns and minimize risk/loss.

**Assets/Capital Under Management (AUM)** – The amount of capital/assets that a management team oversees and often times allocates to investments.
Balanced Mutual Fund – A mutual fund whose main objective is to create a balance of stocks and bonds. Balanced funds tend to be less volatile than stock-only funds, due to the fluctuation from changes in the market observed by a mutual fund. Additionally, shares of stock, when sold, may be worth more or less than their original cost.

Bear Market – A term used when the market is experiencing a prolonged period of declining stock prices.

Bond – Evidence of a debt in which the issuer of the bond promises to pay the bondholder(s) a previously established amount of interest and to repay the principal at maturity, or the end of the bond period. Bonds are usually issued in multiples of $1,000, though this can differ.

Bull Market – A descriptive term used when the market is experiencing a prolonged period of rising stock prices.

Capital Gain/Loss – A capital gain is experienced when the sale price of a capital asset exceeds the purchase price. Conversely, a capital loss arises if the sale price of a capital asset is less than the purchase price.

Capital Market – A market for securities where companies and the government can raise long-term funds. The capital markets include the stock
and bond markets and consist of primary markets and secondary markets.

**Capital Raising** – Refers to the active effort to obtain capital from investors or venture capital sources.

**Cash Alternatives** – Short-term investments, such as certificates of deposit (CDs), U.S. Treasury securities, or money market fund shares that have a high liquidity.

**Certified Hedge Fund Professional (CHP®)** – a 100% online hedge fund training and certification program completed in 6-12 months. The CHP program is the most popular and trusted certification program built exclusively by and for hedge fund professionals to continue education and improve hedge fund performance.

**Closing** – The final stage in the investment process at which time all legal documents are signed and funds are transferred. This is also a term used in sales, similar to capital raising, where the customer (here, the investor) has agreed to purchase (invest) and the transaction (investment) is completed.

**Common Stock** – A type of stock that normally entitles the owner the right to vote at shareholder meetings and to receive dividends that the company pays out.
**Common Trust Fund** – Maintained by a bank or trust company, this fund is managed exclusively for the collective investment of money for trust customers.

**Convertible** – Designed as an added incentive to invest in stock, convertibles are corporate securities, usually preferred shares or bonds, that can be exchanged for a set number of another form, usually common share, at a pre-stated price. These are appropriate for investors who want a higher income than is available from common stock and greater appreciation potential than a regular bond offers.

**Cost Basis** – The reference point of an asset when determining capital gains or losses, the cost basis is the original cost of an investment.

**Coupon Rate** – The interest rate percentage that an issuer of a debt security promises to pay over the life of the security.

**Discretionary Portfolio Management** – Portfolio management where a professional manager has discretion or control over investments made on behalf of a client. The portfolio manager, then, assumes responsibility for all investment decisions, and reports back to the client on a regular basis. The portfolio manager will discuss the client’s requirements (in terms of risk, liquidity, etc.) and will manage the portfolio in accordance with these requirements and
preferences. Once the client has chosen a discretionary portfolio manager, little interaction or involvement in the portfolio is needed on their part, making this (as opposed to non-discretionary portfolio management) an ideal choice for busy individuals.

**Distressed debt** (or Vulture Capital) – A form of finance used to purchase the corporate bonds of companies that have either filed for bankruptcy or are assumed to do so. Private equity firms and other corporate financiers who buy distressed debt don’t usually asset-strip and liquidate the companies they purchase. Instead, they see the opportunity to make good returns by restoring them to health and ultimately prosperous companies. They first become a major creditor of the target company, which gives them leverage to play a major role in the reorganization or liquidation stage.

**Diversification** – A risk management technique that mixes a variety of investments in a single portfolio. Designed to reduce the volatility of the overall portfolio performance, diversification involves investing in different companies, industries, or asset classes in an attempt to limit overall risk. Diversification may also include the participation of a large corporation in a wide range of business activities. Successful diversification is dependent on the investor or investment manager truly finding and investing in
different asset classes to offset the rise and fall in prices of each asset, offsetting losses and gains with the intent to minimize loss.

**Due Diligence** – Performed by investors or external parties, this is the process of investigation and evaluation into the details of a potential investment or manager. It can include the examination of operations and management, and usually requires the corroboration of material facts. Investing successful at a fund or company level requires thorough investigation. When considering a long-term investment, it is crucial to review and analyze all aspects of the deal and fund prior to signing an agreement or commitment to invest. Capabilities of the management team, performance record, deal flow, investment strategy and legality concerns are other examples of areas that are examined during this process. (For more information on due diligence, please see Tim Mohr’s interview in Chapter 3.)

**Due Diligence Questionnaire (DDQ)** – Richard to define?

**Equity** – The value of an individual’s ownership in real property or securities. It is also the market value of a property or business after deducting any claims and liens against it. The formula then is: total assets - total liabilities = owner’s equity (or net worth/book value). In real estate, it is the difference between what a property is worth and
what the owner owes against that property for example, the difference between the house value and the remaining mortgage or loan payments on a house). It also refers to ownership interest in a corporation in the form of common stock or preferred stock.

**Family Limited Partnerships (FLP)** – A sophisticated financial planning technique that enables a family to efficiently hold and manage their wealth. An FLP can be an ideal mechanism for retaining the operating direction or control of the family business or investment assets by the senior family members or for developing a succession plan for the future management of the enterprise. It can also assist in the transferring of family assets between generations at the lowest permissible cost in estate and gift taxes.

**Family Office** – A wealth management firm created to serve a family or families and structured to offer integrated, interdisciplinary services to these ultra-high net worth individuals. Services can include wealth management, investment management, succession planning, estate planning, tax planning, and other support services, such as education, concierge, administrative, or accounting services.

Initially created as a single family office serving a single family, many SFOs are opening their doors and going the route of larger firms, offering
services to other families/clients. A family office offers more personalized services and attention to clients, though with the growing trend of single family offices turning multi-family, this personalization and targeted attention is in decline. (See Single Family Office and Multi-Family Office.)

**Fee-Only** – A planner or advisor who, in all circumstances, is compensated solely by the client, with neither the advisor nor any related party receiving compensation that is contingent on the purchase or sale of a financial product or investment made. Fee-only advisors or planners do not receive commissions, rebates, awards, finder’s fees, bonuses, or any form of compensation from others.

**Federal Deposit Insurance Corporation (FDIC)** – “The Federal Deposit Insurance Corporation (FDIC) preserves and promotes public confidence in the U.S. financial system by insuring deposits in banks and thrift institutions for at least $250,000; by identifying, monitoring and addressing risks to the deposit insurance funds; and by limiting the effect on the economy and the financial system when a bank or thrift institution fails... The FDIC insures deposits only. It does not insure securities, mutual funds or similar types of investments that banks and thrift institutions may offer.” *(Who is the FDIC?)*
**Federal Income Tax Bracket** – A range of income that is taxable at a certain rate dependent on the amount of income earned.

**Fiduciary**: A person, bank, or trust company who has been placed in a position requiring them to be faithful and trustworthy, and to perform their duties in the best interest of the beneficiaries and in accordance to fiduciary law.

**Financial Statements** – Written documents reporting on the financial condition of a company. These include the balance sheet, income statement, statement of changes in net worth and statement of cash flow. Public companies listed on a stock exchange (who have shareholders) are required by law to issue these financial statements on a regular basis, and ensure that the information provided is accurate.

**First Stage Capital** – Money provided to entrepreneurs who have a proven product. This capital is provided to assist in the beginning of commercial production and marketing, not to cover market expansion, de-risking, or acquisition costs.

**Fixed Income** – An unchanging amount of income earned from Social Security benefits or investments, such as CDs, pension benefits, some annuities, and most bonds.
**Foreign Exchange (FX) Market** – Where currency trading is facilitated. Purposed with this facilitation of trade and investment, FX transactions normally involve one party (for example, banks, currency speculators, corporations, governments, etc.) purchasing a quantity of one currency in exchange for paying a quantity of another. Today, it is one of the largest and most liquid financial markets in the world.

**Fund Administration Services** – I can’t find a good definition for this term...

**Fundamental Analysis** – An evaluation of the stock market in order to determine the favorability of a specific investment. Factors – such as the return on equity, price-to-earnings ratio, yield, or variability – are used to determine this favorability.

**Fund Of Funds** – A collective investment in securities (also referred to as a mutual fund) whose assets are invested in other mutual funds, as opposed to investments made directly in shares or bonds.

**General Partner** – The top-ranking partners at a private equity firm. It can also refer to the private equity fund’s managing firm.

**General Partner Contribution/Commitment** – The amount of capital that a fund manager contributes to its own fund. This is an important
way for limited partners to ensure that their interests are aligned with those of the general partner. Though the legal requirement of the general partner to contribute at least one per cent of fund capital was recently revoked by the US Department of Treasury, this is still the usual contribution of fund managers.

Gift Taxes – A federal tax (indexed for inflation) imposed on the transfer of assets as a gift. This tax is paid by the donor. The first $13,000 (per year) from a donor to each recipient is exempt from tax. Often times, states also impose a gift tax.

Hedge Fund – An aggressive, alternative investment fund whose management objective is to obtain the best possible output for the funded capital, though these funds are often considered more risky than other types of investments. With that risk, however, comes the opportunity or possibility of higher returns. Hedge funds invest in diverse assets, and may use techniques such as arbitrage, long or short positions, the buying and selling of undervalued securities, trade options or bonds, etc.

High Net Worth Individuals – An individual with a high net worth. These individuals are usually defined as having investable assets (capital/financial assets) in excess of US$1 million.

Investment Advisory Services – Services offered by a firm or individual who specializes in
providing investment advice. All advisers of an advisory service must be registered with the Securities and Exchange Commission.

**Investment Category** – A broad class of assets with similar characteristics. (Also referred to as an asset class.) There are many investment categories, including cash alternatives/equivalents, fixed income (bonds, debt), equity (stocks), mutual funds, and alternative investments (options, futures, real estate, etc.).

**Institutional Investors** – Usually insurance companies, pension funds, or investment companies collecting savings and supplying funds to markets. This can also include other types of institutional wealth like endowment funds, foundations, family offices, etc.

**Index** – An unmanaged collection of securities whose overall performance is used to indicate stock market trends. An example of an index is the often quoted Dow Jones Industrial Average, which tracks the performance of 30 large U.S. company stocks. The index also serves as a reference or benchmark for comparing and evaluating stock performance. The benchmark most often used for stock market performance is the Standard & Poor's 500® index, established in 1957, that measures the average performance of 500 widely held, large-company stocks.
**Interest Rate Risk** – Risk measured by/based on the possibility of already issued bonds losing value due to the rise of interest rates, resulting in a loss if they are sold before maturity.

**Investment Grade** – This refers to the quality of a company’s credit. This rating/grade is issued to companies to assist investors and to estimate or predict the risk associated with that company, and the probability of a company repaying its issued debts (or, the investor experiencing a loss). Grades are based on two bodies, the S&P and Moody’s.

S&P grades are: AAA, AA, A, BBB, BB, B, CCC, etc., and Aaa, Aa, Aa, Baa, BA, B, Caa, Ca, C are Moody’s grades. These grades are similar to one another, and anything under an A rating of some sort indicates a higher risk, though the single “A” from the S&P also indicates moderate risk. Anything beyond the moderate risk rating (BBB for S&P, B for Moody’s) is often considered a “junk bond.”

**Investment Policy Statement** – A document noting the investment plan and commitment to a disciplined strategy. This should contain a well-explained purpose of the policy statement, a review of the objectives for the investment program, specific asset allocation policies, securities guidelines, money manager selection criteria, and specific money manager performance monitoring procedures. Like a business or
marketing plan, this will help everyone to keep up-to-date with what the goals are, and how success is measured.

**Investment Portfolio** – See Portfolio.

**Leverage** – A process where various financial tools and instruments are implemented to increase the potential return on an investment. This also refers to the amount of debt a company has borrowed to finance (or invest in) business operations, which has the opportunity to increase value to shareholders. Though this is a benefit to both the investor and the company, it also constitutes more risk because while leverage can increase (or magnify) gain, it can also magnify loss.

**Limited Partners** – Institutions or individuals that contribute capital to an investment of some sort. LPs can typically include pension funds, insurance companies, asset management firms, and fund of fund investors. These firms often perform due diligence (or should) to find a fund or investment to contribute capital to.

**Limited Partnership** – A form of partnership that involves one or more general partners and one or more limited partners. The partnership pools the money of investors to invest as a whole, and limited partners are only liable for the amount they invest. Limited partners do not have the same management or liability requirements as general
partners, as GPs assume full liability for debts. This is a frequently used structure for hedge funds, private equity funds, and real estate. There are no assurances that the stated investment objectives will be reached, however, and at redemption, the investor may receive back less than their original investment.

**Liquidity** – The characteristic of an asset that refers to the speed in which it be converted into cash without a significant loss of value.

**Management Fees** – Fees that are paid to an investment advisor for their investment portfolio management and services.

**Maturity Date** – The date a bond will mature, resulting in the principal borrowed to be repaid to the current owner/buyer of the bond.

**Mezzanine Debt** – Subordinated debt that incorporates equity-based options, such as warrants, and is only prioritized above common stock.

**Money Market Fund/Account** – A mutual fund that specializes in investing in short-term securities. A main goal of a MMF is to maintain a constant net asset value of $1 (meaning, if you invest $1, you expect to get $1 back). Despite this goal, it is possible to lose money when investing in a money market fund. These funds are neither insured nor guaranteed by the Federal Deposit...
Insurance Corporation (FDIC) or any government agency.

**Multi-Family Office (MFO)** – A form of the family office that serves more than one family or client. In general, the MFO aggregates and focuses resources to facilitate a common interest in asset protection, cost control, financial education, family philanthropy, in addition to a host of other needs. MFOs have historically provided customized service levels and confidentiality not available from larger product-driven financial institutions, though with more clients, personalization is often lost in the shuffle. (See *Family Office and Single Family Office*.)

**Multi-Strategy Account** – A variation on a separately managed account (SMA), this account uses the investment strategies of multiple managers to run an investor’s portfolio. As such, different sub-accounts can be created and run separately by managers with that relevant expertise. This allows investors to get professional investment management and asset diversification in the same account.

**Municipal Bond** – A debt security issued by municipalities, a state or local government, government agencies, or other subdivision, such as a school or hospital. These are often created to finance a specific project or purpose, and the income from interest earned on these bonds is
usually exempt from certain income taxes. If you sell a municipal bond at a profit, you are subject to incur capital gains taxes. The principal value of bonds fluctuates with market conditions. Like other normal bonds, if these are sold prior to maturity, they may be worth more or less than their original cost.

**Mutual Fund** – A collection of stocks, bonds, or other securities purchased and managed by an investment company with funds from a group of investors. The return and principal value of mutual funds fluctuate with changes in market conditions, and as with any investment, shares when sold or redeemed may be worth more or less than their original cost. Mutual funds will have a fund manager that trades pooled assets on a regular basis.

**Net Asset Value** – Used most often when referring to mutual funds, this is the per-share value of that mutual fund’s current holdings. The net asset value is calculated by dividing the net market value of the fund’s assets by the number of units, or in this example, shares. Essentially, this is the market value of a mutual fund’s total assets after deducting liabilities, divided by the number of shares outstanding.

**Net Worth** – In reference to the net worth of an individual or company, this is the remaining dollar value after liabilities (what you owe) are deducted.
from assets (what you own). For example, a firm with $1,500,000 in assets and $1,750,000 in liabilities has a net worth of ($25,000).

**Pitch** – An activity (or activities) intended to persuade, convince, or encourage someone to take a specific course of action, such as making a purchase or making a commitment to invest. This process is used when capital raising or marketing of a fund/investment.

**Portfolio** – The collection of investments, a list of group of financial assets, held by an individual, bank, or other financial institution (such as an RIA). This could be held in a mutual fund, for example.

**Portfolio Management** – The management of a list of financial assets (portfolio). Depending on the needs and investment goals of the portfolio owner, the portfolio can be managed by a private bank, a wealth management firm, a fund manager, or by the owner of the portfolio itself.

**Preferred Stock** – When held, preferred stock gives the holders guaranteed priority in dividend payments, but does not give the stock holder any voting rights.

**Preservation of Capital** – An investment objective that aims to maintain the principal value of your investments. Typically, investors with this objective are interested in investments that have
historically demonstrated a very low amount of risk of loss of principal value.

**Price/Earnings Ratio (P/E Ratio)** – This ratio is frequently used to as a measurement and analysis tool of a stock’s worth. This ratio is the market price of a stock divided by the company’s annual earnings per share.

**Prime Brokerage** – A special package/group of bundled services offered by securities firms or investment banks (brokers) to hedge funds or other professional investors. These services can include (but are not limited to) portfolio reporting, leveraged trade executions, cash management, capital introductions, securities lending, compliance and risk management, and others.

**Principal** – The amount of money that is invested in a security, excluding earnings. In a debt instrument, such as a bond, it is the face amount.

**Private Equity** – Equity securities of unlisted companies. Private equities are generally illiquid, and much less liquid than publicly traded stock. It is also often thought of as a long-term investment and not subject to the same high level of government regulation as stock offerings to the general public.

**Prospectus** – A document provided by investment companies to prospective investors
giving necessary information to investors in order to make informed decisions prior to investing in a specific mutual fund, variable annuity, etc. The prospectus should include information on the company’s past performance and objectives, relevant expenses (such as fees, sales charges, etc.), any minimums on investment amounts, the company’s risk level, and a description of the services provided to investors in the investment company.

**Real Estate** – Normally refers to land, property on land, such as permanent structures, and any accompanying rights or privileges, such as crop productions or mineral rights.

**Realized Capital Gains** – When a stock increases in value and is sold for a higher price than the original purchase price, a capital gain is realized. This gain is taxable if the stock was held in a taxable account.

**Registered Investment Advisor (RIA)** – An entity who, for compensation (of any kind), engages in the business of advising others, either directly or indirectly, of the value of securities or of the advisability of investing in securities. They receive a management fee and do not receive commissions. To become a Registered Investment Adviser you must register with the Securities and Exchange Commission (SEC).
**Return on Investment (ROI)** – The profit or loss resulting from an investment transaction, usually expressed as an annual percentage return. This ratio helps to easily show the net benefits of a project verses its total costs.

**Risk** – The probability that an investor will lose all or part of an investment due to market changes or fluctuations affecting that investment.

**Risk Management** – Actions taken (such as the purchase of insurance) to protect against catastrophic financial losses (for instance, disability and liability). Risk management is an important investing requirement for any investor.

**Risk Tolerance** – An investor’s personal ability or willingness to withstand declines or losses in an investment caused by one or more of the different types of investment risk. This risk tolerance can be limited by the investor’s disposition as well as his/her goal objectives and investment time frame. For example, goals set far into the future allow for a higher risk tolerance, where as short-term goals may have a lower risk tolerance.

**Securities** – Stocks and bonds.

**Securities and Exchange Commission (SEC)** – A federal agency whose goals are to promote full public disclosure about investments and protect the investing public against fraudulent and manipulative practices in the securities markets.
**Seed Capital** – Seed Capital is the money used to purchase equity-based interest in a new or existing company. This seed capital is usually quite small because the venture is still in the idea or conceptual stage.

**Separately Managed Accounts (SMA)** – A portfolio of assets under the management of a professional investment firm. In the U.S., the majority is referred to as Registered Investment Advisors (RIAs). One or more portfolio managers are responsible for day-to-day investment decisions, supported by a team of analysts, operations and administrative staff. Unlike a mutual fund, each portfolio in an SMA is unique to a single account.

**Single Family Office** – Though there is no "one-size-fits-all" definition here, a family office can generally be defined as a comprehensive, full-service wealth management firm created to manage, invest, and grow the assets of its client, the family. The single family office was a necessity created for ultra-high-net-worth wealthy individuals, and was created to service their unique needs as a family with common goals and succession wants. See Family Office and Multi-Family Office.

**Strike Price** – A fixed price that an option owner can purchase or sell an underlying security or commodity, regardless of the market price.
Stock – A security that represents a unit of ownership in a corporation, and signifies an ownership position (called equity) in a corporation. Stock (whether preferred or common) also represents a claim on its proportional share in the corporation’s assets and profits (referred to as dividends). Ownership in the company is determined by the number of shares owned by an individual divided by the total number of shares outstanding.

Stock Picking – The selecting of shares according to their prospects for inherent results rather than their belonging to a specific branch of industry. Performances of the selected shares may be higher than those of the market index.

Tax Credit – The most appealing type of tax deductions, these credits are subtracted directly, dollar for dollar, from your income tax bill, resulting in a lower amount owed on income earned.

Tax Deferred – Interest, dividends, or capital gains that grow untaxed in certain accounts or plans until they are withdrawn.

Tax-Exempt Bonds – Under certain conditions, the interest from bonds issued by states, cities, and certain other government agencies is exempt from federal income taxes. (For example, a municipal bond.) If a tax-exempt bond is sold at a profit, capital gains taxes could be incurred. The
principal value of bonds fluctuates with market conditions, and if sold prior to maturity, a bond may be worth more or less than the purchase price.

**Total Return** – The total of all earnings from a given investment. This includes interest, dividends, and any capital gain earned after selling.

**Trust** – A legal entity created by an individual where one person or institution holds the right to manage assets for the benefit of another individual. There are various types of trusts, including living trusts, testamentary trusts, etc.

**Revocable Trust** – A trust in which the creator reserves the right to amend or terminate the trust. Conversely, an irrevocable trust is a trust that cannot be modified or terminated by the trustor after it is created.

**Trust Company** – A separate corporate entity owned by a bank or other financial institution, law firm, independent partnership, etc. Its function is to manage trusts, trust funds, and estates for individuals, businesses and other entities. The trust company acts as the trustee for the client (individual, company, etc.) and carries out the objectives and strategies laid out in an agreement, such as managing a portfolio, financial planning, etc.
**Trustee** – An individual or institution appointed to administer a trust for its beneficiaries. This can also be a bank or trust company that must perform in a manner based on the conditions set forth in a trust agreement.

**Ultra High Net Worth Individuals** – Individuals or families that have at least $30 million in investable assets. This minimum can change depending on the institutional investor, wealth management firm, or bank handling their assets.

**Unrealized Capital Gains** – When a stock price exceeds the cost for which the stock was purchased, the stock holder experiences an unrealized capital gain. These are not taxable until the stock is sold, turning the gain into a “realized capital gain”.

**Venture** – A term often used to refer to a risky start-up or enterprise company. While the risks are usually higher in these types of investments, UHNWIs are drawn to these investments because of their excess assets to invest and the possible high return on investment.

**Venture Capital Firm** – An investment company that invests its shareholders’ money in startups and other risky (but potentially very profitable) ventures.

**Venture Capital Funds** – A collection of investors seeking private equity stakes in small and
medium-size enterprises with strong growth potential.

**Vertical Spread** – A strategy used in options by simultaneously carrying out the buying and selling of two options of the same class and with the same due date but different strike prices.

**Volatility** – The range of sharp price fluctuation/swings of a security or market over a specific period of time. This constitutes an indicator of risk; the higher volatility, the higher the risk.

**Wealth Management** – A type of financial planning that provides high net worth individuals and families with not only investment management, but also estate planning, legal resources and tax planning expertise, with the goal of sustaining and growing long-term wealth. A main objective of wealth management is not only to preserve wealth but to grow it for future generations.

Wealth Management is a term used in the banking industry to describe a bank, family office, or other institution that provides banking, financial, and other wealth management services (such as investment services, tax planning, etc.) to private individuals who are considered UHNWI or HNWI.

**Yield** – Normally, this is the amount of current income realized by an investment. For stocks, the
yield is calculated by dividing the total of the annual dividends by the current stock price. For bonds, the yield is calculated by dividing the annual interest by the current price. The yield is distinguished from the return, which includes price appreciation or depreciation.
**WHO IS THE FAMILY OFFICES GROUP?**

The Family Offices Group (FOG) is a global networking association for family offices and investors, serving as a networking tool to connect and communicate with other members in the family office space. The FOG provides information on family office events and conferences in the industry, as well as information on the investments industry and factors that affect the family office market.

As a member of the networking association, individuals can find free resources on the Family Offices Group website and access to a member’s only forum. Founded by Richard Wilson in 2007, the FOG now has more than 21,600 members. After working in risk consulting, third party marketing, and capital introductions, creating the FOG was an easy decision, and it has been growing ever since.

The FOG serves as more than just a networking association, offering resources and tools for those looking to work in and with family offices. Those resources include the Family Offices Group blog (at the FOG site - familyofficesgroup.com), a free Family Offices Book (available for download on the Family Offices Group website), and capital
raising tools for the investor looking to work with family offices.

The FOG sponsors the Family Office Database, a database filled with comprehensive contact details on a portion of the family offices in business. As this book shows, there are thousands of family offices in existence, the exact number very much unknown. With many offices not considering or identifying themselves as family offices, this number is even more difficult to define.

The FOG’s Family Office Database contains 1,000 offices from around the world with contact details and information on the office, like what they invest in, when they began managing wealth, and who is involved in the office.

Also seen above, working with family offices can be a difficult task, and having all of the tools available to you to assist can make all the difference. A tool like a database of contact information can be helpful, but it is just that: a tool. The real work and "magic" made can be seen when actually creating relationships, doing further research on the offices you’d like to target, and by targeting offices correctly.

As can be seen in other marketing, offering things that are relevant and important to people is an important part of the puzzle, and requires knowledge, intuition, and an understanding of that target to really speak to them and make an impact.
Databases like the Family Offices Database will be the first step in a process of relationship building that will cut hours out of your workload, but it will not do the work for you. We’ve spent the better part of the past three years doing the research for you and compiling into a user-friendly database in Excel that is easy to export and easy to sort, making your life easier, and allowing you more time to focus on the important part of marketing, which is relationship and rapport building.