

# HOW FAMILY OFFICES ARE POSITIONING THEMSELVES FOR THE FUTURE



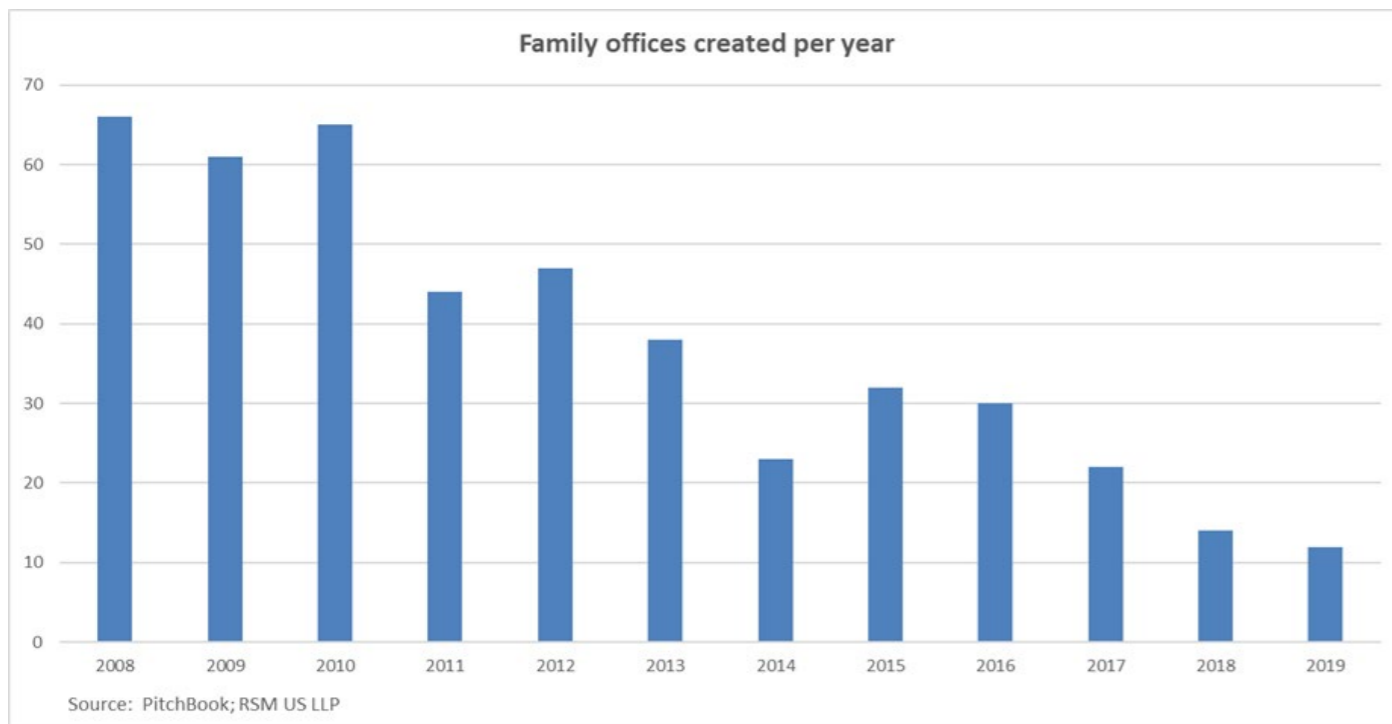
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**A**s the human and economic toll of the coronavirus mounts, no sector of the economy has been immune from the downturn, and this includes family offices. With all this uncertainty in markets, there is an opportunity for family offices to position themselves strategically to withstand the noise from the virus and invest for the future.

The reasoning is because this public health emergency, as severe and costly as it is, will eventually pass. Even if other sectors of the economy take longer to recover, the rebound for family offices could very well come in the form of a V-

a quick, sharp rebound. It is all the more reason why family offices should consider leveraging the rare opportunity to make investments at values not seen in years.

According to PitchBook, a research firm that compiles data on private investment and tracks family offices, there are more than 1,800 family offices around the globe, with more than 800 within the United States alone. However, it is likely that this number is higher, because some family offices simply do not register and are not captured in PitchBook's data. According to a study by Campden Wealth, an independent research company, family offices manage about \$4 trillion globally.



## Managing a crisis

Depending on the size and scope of the family office, there are a number of factors that need to be considered in navigating these treacherous times:

- **Human capital management:** As the old saying goes in the investment business, a firm's most valuable asset goes out the door every night. In family offices, this means placing a priority on taking care of employees and key executives who work in the office handling the administrative, investment, or risk functions. These individuals are critical to making sure the office runs smoothly and is able to handle the family's needs during times of crisis. In some cases, outsourcing key back-office functions with third-party providers has provided that temporary transition while the office prepares for remote operations. Reviewing and memorialising succession plans will be necessary to prepare for the time when they are activated.

- **Liquidity and credit management:** Depending on portfolio allocations, alternative investments may have a number of restrictions that will prevent the family from withdrawing capital. Investments with a hedge fund or with private equity managers may include a mandate of a lock-up period from when the original investment was made. In addition, investments in fine art, real estate, yachts, private jets or other illiquid assets may take some time to liquidate. Managing both sides of the balance sheet, reviewing budgets and cash flow are all functions that should be monitored. Working with a relationship banker to ensure access to lines of credit or other sources of financing will be important to help the family through these difficult times.

- **Information sharing and data management:** The financial markets in recent times have led many investors to make irrational decisions based on unverified data. Family offices with complex structures may have issues getting

verified, timely data on their investments or businesses. Consider investing in business intelligence tools or hire outside consultants to gain a different perspective that the office would not normally have access to such resources.

- **Cybersecurity and technology management:** As offices close down to help slow the spread of the virus, confirming the strength of the information technology infrastructure, bandwidth and records management will help reduce any office disruptions as office personnel work from home. Cyber criminals may try to find opportunities to penetrate key reporting systems during this period of vulnerability. In addition, social media platforms could be subject to possible phishing or social engineering campaigns by criminals against family members to gain access to private data. The digital transformation is happening all around us and may encourage some families to move away from the traditional office and convert into a virtual office.

- **Business continuity plans, insurance, and regulatory management:** In times of crisis, like the spread of the coronavirus, families need to review their disaster recovery plans on how the office will function when the office is closed for an extended period of time. Plans might include where members of the family will safely reside, travel restrictions, initiation of backup plans to outsource all functions of the office to a third party provider, use of private security, or oversight of wealth by an institutional trustee. Also, review insurance coverages in connection with general liability, disaster, life, kidnapping, real estate, investments, personal assets, and data breaches. Family offices registered with regulatory agencies like the Securities and Exchange Commission need to review communication plans and reporting to maintain compliance during this period of disruption. Documented plans regarding communications with outside investors will help

facilitate discussions and calm anxiety.

## Positioning for the future:

A family office that has considered some or all of these factors may be best positioned to invest in the depressed equity and credit markets.

- **Cash is king:** According to Bloomberg LP, more than a third of family offices boosted their cash reserves last year as they bet on a global recession in 2020. Family offices are sitting on the sidelines as markets continue to fluctuate, and they will be ready to invest. As credit spreads tighten, family offices might be a good avenue for other businesses looking for liquidity in a down market.

- **Impact investing and sustainability:** As equity prices have taken a tumble and financial conditions tighten, families questioning sustainable or impact investing in the past might find the lower market values an attractive opportunity to invest in this space. A 2019 survey completed by UBS reported that the average family office portfolio allocates 19% to sustainability. In that same survey, 25% of family offices globally engaged in impact investing.

- **Private direct investing:** Families looking to invest in technology and health care businesses might have an opportunity to invest at a lower price compared to before the spread of the virus.

- **Increasing allocation to hedge funds or other alternatives funds:** As interest rates hit record lows, this will be a good opportunity for family offices to deploy capital with hedge fund or other alternative managers that have historically generated stronger returns in depressed markets. Private credit and distressed debt are some examples of strategies that will see more attention from investment managers as businesses struggle to service debt

or maintain solvency. According to Goldman Sachs, the 2020 market turmoil has given investors more confidence with hedge funds as they have outperformed prior year performance and outpaced other asset classes. Hedge funds or other alternative funds should have no issue attracting capital from investors, especially family offices, looking for that much needed diversification in an uncertain world.

**The takeaway**

This is a good time for family offices to review key policies and procedures as it safely waits for the Coronavirus and recession to fade away. With proper planning, family offices will be well positioned to preserve capital, transition into the digital economy, invest in undervalued assets and equip the next generation of family members with the right tools to drive future success.



## COVID-19 – Is your Family Office at risk?

In this challenging and unpredictable environment, Family Offices have had to quickly adapt – making both strategic and operational changes.

But now is the time to step back and assess the resilience and longevity of your Family Office, through evaluating your infrastructure and contingency plans, to overcome new challenges.

At RSM, we can help you and your Family Office to do just that.

We develop multi-generational relationships by providing tailored advisory services, to help sustain your family's vision in a constantly changing, digitally driven world.

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