GreenHills Ventures Wealth Management – Family Offices Team Up Taking Page from Private Equity

MARGARET COLLINS

Katie Kalvoda's interest was piqued when the 40-year-old money manager for a group of ultra-wealthy families heard about a startup urban farm that grows produce in vertical greenhouses.

Kalvoda knew early-stage investments in private companies can be risky. She eventually took a stake in the venture this year with some reassurance. The chief investment officer at Newport Wealth Management in Newport Beach, California, joined a handful of fellow family offices in an alliance that gave them more muscle to get a better price, expanded access to research and broader expertise to track the investment.

"We don't have this wall of secrecy that we had at one time," said Kalvoda, who previously worked at fund-of-hedge-funds Collins Associates Inc. and Citigroup Inc. "We're a block of investors working together with more scale."

The deal illustrates a recent trend among family offices, the little-known money managers that run the fortunes of the world's richest individuals including computer maker Michael Dell and Microsoft Corp. co-founder Bill Gates, to team up with likeminded peers for direct investments in companies. They're trading in some of their traditional secrecy, pooling assets and knowledge to make venture capital and private-equity deals much like buyout firms do in so-called club deals, while circumventing the fees charged by those firms.

Sometimes, the companies they back are local business seeking to make a difference in the community, other times they're purely financial investments.

High Fees

It's a departure from how family offices traditionally invested outside the public markets, which was by committing capital to intermediary fund managers who picked the opportunities, set the terms of a purchase or sale and oversaw the progress. Such third-party firms usually charge management fees of 1.5 percent to 2 percent, keep 20 percent of profits and require lockups of committed money for as long as 10 years.

"This is a relatively new phenomenon," Raffi Amit, a professor of entrepreneurship at the University of Pennsylvania, said of families that collaborate in direct deals. "The jury is still out on whether this will lead to higher returns on investment capital."

Single-family offices hold about $1.2 trillion in assets and multi-family ones manage about $500 billion, according to Bob Casey, senior managing director for research at consulting firm Family Wealth Alliance.

Big Enough

Many made their money by building their own businesses and are big enough to operate like a pension fund or endowment, with a staff to pick investments. Family offices also typically provide additional services including accounting, estate planning and concierge products.

CONFIDENTIAL INFORMATION – ***INFORMATION CONTAINED HEREIN IS CONFIDENTIAL. ALL INQUIRIES OR REQUIRES PRIOR WRITTEN CONSENT AND APPROVAL BY BOTH GREENHILLS VENTURES AND THE COMPANY. GREENHILLS VENTURES HAS THE SOLE RIGHT AND DISCRETION TO PROVIDE CERTAIN CONFIDENTIAL INFORMATION ONLY UPON WRITTEN REQUEST. FOR INFORMATION REGARDING THIS ARTICLE CONTACT GREENHILLS VENTURES AT (212) 907-6483.***

There's little data available yet on the investment returns of these collaborative deals by family offices, said Amit, who is chairman of the university's Wharton Global Family Alliance, which researches family-wealth management. Families usually don't publicize their stakes or performance.

According to a 2012 Wharton study of about 100 single-family offices, about 16 percent said they had 10-year returns, net of taxes and fees, of more than 10 percent annually. About 18 percent of respondents had returns between 7 percent and 9 percent. Among the group surveyed, 42 percent didn't answer questions about their performance, the data showed. The Standard & Poor's 500 Index of stocks gained 2.9 percent annually while the Barclays U.S. Aggregate bond index saw annualized returns of 5.8 percent.

Extra Value

The appeal of investing together or forming a partnership to take a stake is that fees are lower and families can better understand the business they invest in, Casey of the Family Wealth Alliance said. Family offices involved will divide the due diligence by interest and expertise to increase efficiency and maximize their resources.

"Since the financial crisis there's been a question about whether the value-add from an intermediary fund is worth the cost," said Ashby Monk, executive director of the Global Projects Center at Stanford University, which studies the movement of financial assets globally. "For these big families there was this perception that they were often getting screwed by Wall Street."

Kalvoda, whose firm serves as the investment office for a group of related family members, can rattle off the details of the San Diego farming company including how its vertical-greenhouse technology isn't dependent on soil, how it offers Californians local food they love like cilantro, and how it creates jobs in the community and benefits the environment.

About GreenHills Ventures
GreenHills Ventures, LLC., established in 2001 as a private investment holding company and General Partners for GHV Fund I and GHV Fund II, (GHV Fund), an early stage venture fund and GHV Wealth Management Holding, LLC. (GHVWMH), a wealth management firm focused on alternative investments for its single and multi-family offices and institutions. For more information visit www.greenhillsventures.com

CONFIDENTIAL INFORMATION – ***INFORMATION CONTAINED HEREIN IS CONFIDENTIAL. ALL INQUIRIES OR REQUIRES PRIOR WRITTEN CONSENT AND APPROVAL BY BOTH GREENHILLS VENTURES AND THE COMPANY. GREENHILLS VENTURES HAS THE SOLE RIGHT AND DISCRETION TO PROVIDE CERTAIN CONFIDENTIAL INFORMATION ONLY UPON WRITTEN REQUEST. FOR INFORMATION REGARDING THIS ARTICLE CONTACT GREENHILLS VENTURES AT (212) 907-6483.***