
SINGLE FAMILY OFFICES AND PRIVATE EQUITY

The ultra-private organizations that help the world's wealthiest families oversee their financial and personal affairs—single-family offices—are long time investors in private equity.

Moving forward, allocations to private equity from current and first-time investors are expected to increase on the heels of strong performance in both funds and direct investments.

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NETWORK

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KEY FINDINGS

Six out of ten single-family offices are currently investing in private equity. Of those that invest, more than 90% use funds and about 40% invest on a direct basis.

The primary reason that single-family offices invest in private equity is the **potential to achieve superior investment performance.**

About 90% of single-family offices allocate 10% or more of their total portfolio to private equity investments; within that group there is a smaller population that allocate at much higher levels in keeping with an endowment-like strategy.

The large majority of single-family offices report that they have achieved strong performance results via private equity, with roughly 70% saying their PE funds outperformed other investments within their portfolios and three-quarters saying their direct investments outperformed other holdings.

More than half of the single-family offices that are currently investing in PE plan to allocate more to the asset class, while nearly 30% of those that aren't investing are planning to do so in the future.

SINGLE-FAMILY OFFICES ARE BOUTIQUE ORGANIZATIONS CATERING TO THE FINANCIAL AND LIFESTYLE NEEDS OF AN ULTRA-WEALTHY FAMILY. THE TREMENDOUS INCREASE IN PRIVATE WEALTH HAS PRODUCED A CORRESPONDING INCREASE IN THE NUMBER OF SINGLE-FAMILY OFFICES. THIS IS A WORLDWIDE PHENOMENON AS ILLUSTRATED BY OUR RESEARCH; THE UNITED STATES AND EUROPE ARE AT THE FOREFRONT, BUT WEALTH CREATION IN ASIA, AUSTRALIA, AFRICA, AND SOUTH AMERICA IS FUELING THE EXPANSION OF THIS COHORT GLOBALLY.

A well-run family office can be expensive to staff and operate and can carry considerable administrative burdens. The primary reasons most families choose to establish their own family office—rather than relying on a combination of private banks, investment managers, attorneys and other professionals—is to have maximum control and privacy over their personal and financial affairs.

A critical function of most, but not all, single-family offices is the management of the family's liquid wealth. There are a number of approaches a family office can take to invest its assets, ranging from outsourcing the entire process to acting as a manager of managers to maintaining an in-house investment committee and personnel. It's not uncommon for single-family offices to employ a combination of these approaches in a way that suits the family members and the family's overarching goals.

One asset class that is getting considerable traction among single-family offices is private equity, which includes everything from venture investments to later stage opportunities, and is accessed on a direct basis and through professionally managed funds.

The strength of recent and long-term performance—as reported by investment research providers¹ and the families themselves—is prompting many family offices to consider increasing their allocations to private equity.

A critical function of most single-family offices is the management of the family's liquid wealth.

¹ According to an analysis from Cambridge Associates, US private equity funds have produced net returns of 13.0%, 10.2%, and 13.5% over the last 10, 15 and 20 years, respectively. Cambridge Associates US Private Equity Fund Index as of March 31, 2015: End-to-End Pooled Net Return. Past performance is not indicative of future results.

BENCHMARKING SINGLE-FAMILY OFFICES AND PRIVATE EQUITY

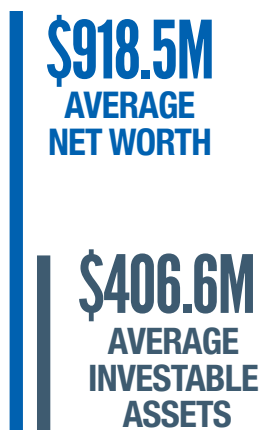
To help establish a benchmark for how single-family offices invest in private equity, iCapital Network partnered with R A Prince & Associates, Inc. for its long-standing experience conducting primary research in the high-net-worth markets. Their research operation has studied family offices consistently over the past 30 years and the firm's principal, Russ Alan Prince, worked with us to build and analyze a custom data set from their proprietary database.

In this report, we share data collected from 162 single-family offices between 2013 and 2014. This data set allowed us to examine how single-family offices invested in private equity over the previous two calendar years, with particular attention to their portfolio allocations, preferred ways to access, performance results and future plans regarding the asset class.

The single-family offices surveyed provided a perspective of significant, global wealth, with the responding organizations representing families from four continents with average net worths of approximately US\$900 million and investable assets of approximately US\$400 million (Exhibit 1). More than half of all the single-family offices we surveyed were based in the United States, approximately 20 percent of the respondents were from the Europe and Asia, respectively, and fewer than 10 percent were from South America (Exhibit 2).

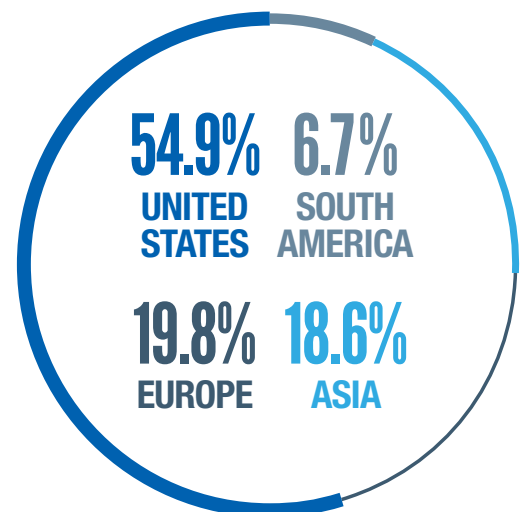
DATA
COLLECTED
FROM
162
SINGLE
FAMILY
OFFICES

EXHIBIT 1 | Wealth of Single-Family Offices Surveyed in \$US Millions



N = 162 SINGLE-FAMILY OFFICES

EXHIBIT 2 | Exhibit 2: Location of Single-Family Offices Surveyed

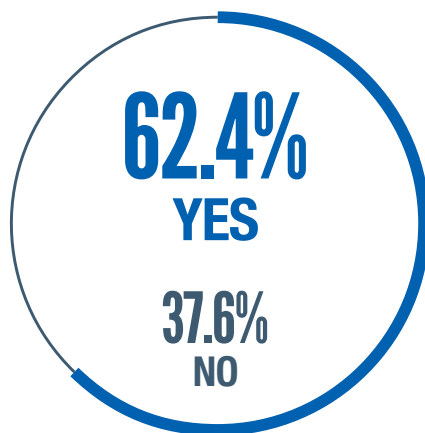


N = 162 SINGLE-FAMILY OFFICES

USE OF PRIVATE EQUITY

Private equity investments are common among the majority of single-family offices. Almost two-thirds of single-family offices surveyed were actively investing in private equity in one way or another during the past two calendar years (Exhibit 3). It's worth noting that these figures are consistent with, while also indicating a slight increase, over the 56.7% of single-family offices that reported investing in private equity in Prince's 2010 book *The Family Office: Advising the Financial Elite* (Charter Financial Publishing Network).

EXHIBIT 3 | Investing in Private Equity

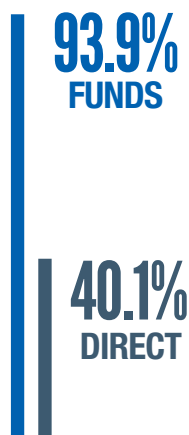


N = 162 SINGLE-FAMILY OFFICES

Private equity can be accessed in a number of different ways and single-family offices are taking advantage of multiple vehicles and structures. Of the group that invests, more than nine out of ten respondents invested in funds while about 40 percent were also investing directly in companies, which may include co-investing alongside managers and 'club' deals with other family offices (Exhibit 4).

EXHIBIT 4 | Ways SFOs Invest in Private Equity*

* Respondents could select more than one answer



N = 101 SINGLE-FAMILY OFFICES

"The private capital market can be an important component of a large, well-diversified portfolio. Sourcing and evaluating private equity investments can be a complex and challenging process since there is such a broad cross-section of strategies and structures available. Many single-family offices are resource constrained and seeking ways to facilitate the process without compromising their diligence efforts."

– **Lawrence Calcano**
Managing Partner,
iCapital Network

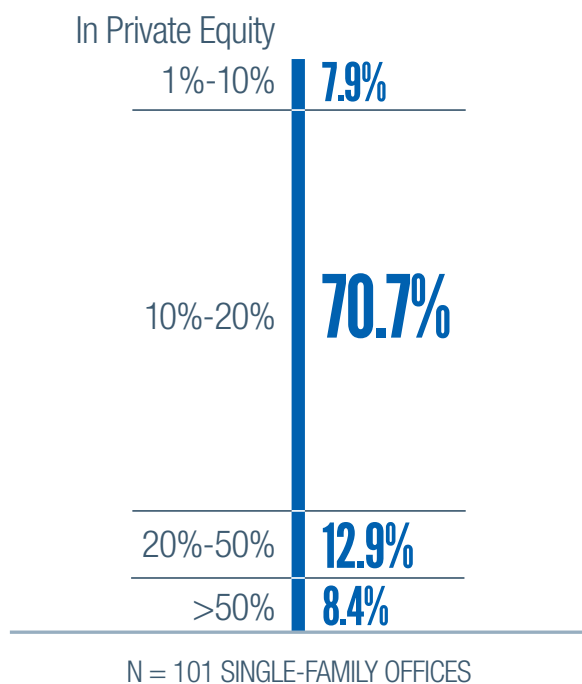
"Longer-duration private equity is attracting more assets, a trend that affects family offices in a few ways. Investment professionals must possess the unique skills required to diligence, structure and oversee these investments through an extended timeframe, which differs dramatically from what is required in other areas of investing. Additionally, incentive plans must be designed to support and reinforce the time horizon while ensuring that the family's interests and the professional's interests are mutually aligned."

– **Bruce Benesh**
National Partner in Charge,
National Benefits and
Compensation Consulting,
Grant Thornton LLP

USE OF PRIVATE EQUITY (continued)

The nature of family offices means they are customized to the needs and preferences of the family members. This also means it can be difficult to identify standards for investment strategy and asset allocation, and this is reflected in the private equity allocations of the survey respondents. Roughly 90% of single-family offices that invest in private equity maintain allocations of 10% or more, which is consistent with the target allocations of many kinds of institutional investors (Exhibit 5). Interestingly, about 20% of single-family offices maintain allocations of 20% or more, and almost 9% allocate to the asset class at levels above 50%, which could be a result of the family's investment strategy, a significant privately held asset or a combination thereof.

EXHIBIT 5 | Private Equity as a Percentage of Investment Portfolios



“Single-family offices have the autonomy to invest in the ways that best suit the underlying family and its long-term goals. This can be seen in the relatively high allocations to private equity, which parallel the approach used by many large endowments to manage downside risk and increase return potential over extended periods of time.”

– **Hannah Shaw Grove**
Senior Vice President and
Chief Marketing Officer
iCapital Network

“Interest in private investments is very high among the ultra-affluent right now. Many significant wealth holders, along with their advisors, are actively considering larger allocations to both private equity and private debt investments in an effort to capture the unique growth opportunities in private companies and complement the portions of their portfolios that are invested in the public markets.”

– **Keith M. Bloomfield**
President,
Forbes Family Trust

APPEAL OF PRIVATE EQUITY

Private equity is a unique type of investment that doesn't suit everyone. There are, however, some key reasons why it holds considerable appeal for certain types of investors. Using a statistical method called factor analysis, Prince helped us further mine the results of studies conducted over a five year period between 2009 and 2014 to identify the top three motivations for single-family offices to invest in private equity.

1 Potentially superior investment returns.

A large percentage of single-family offices say they have achieved strong performance with their private equity investments, especially in contrast to the other vehicles and asset classes held in their portfolios. As such, it is the single most influential factor in why private equity is viewed so favorably by single-family office investors these days.

2 Family involvement.

A somewhat distant second factor is the option for family members to take a hands-on role in managing or supervising the investment in some way. This pertains almost exclusively to direct investments and there are times when the family can provide valuable insights and leadership drawn from their own experiences as business owners.

3 Negotiating power.

A relatively small percentage of single-family offices cite preferential terms as a meaningful benefit of investing in all forms of private equity. Often this is the result of working in conjunction with another family office to source investments and pooling their assets to maximize their negotiating position. It's worth noting that proportionately few single-family offices operate in this way, but that is likely to change as these organizations become increasingly professionalized.

"Private equity investing done well pushes out a portfolio's efficient frontier and can help generate alpha, but there are other reasons why family offices may allocate time and resources to this asset class. Many families have entrepreneurial DNA—private equity investments reinforce that background and give the family opportunities to add value and industry expertise to companies and funds that they partner with. It can also be a constructive way to engage the next generation because it enables them to invest in areas and initiatives that align with their interests."

– **Michael Sidgmore**
Vice President
iCapital Network

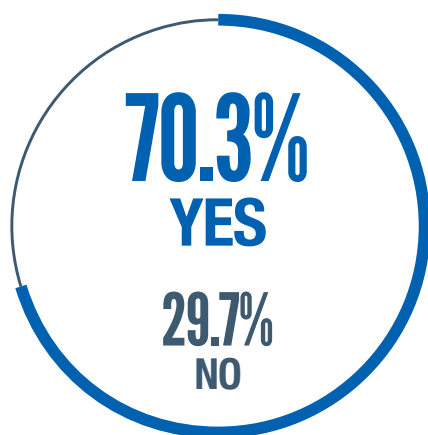
"A lot of relevant networking happens within the family office community. They are eager to learn from one another's experiences and get feedback from someone who shares their standards, goals and interests. It's not uncommon for this type of informational exchange to result in collaborative deal making and investing between several families when the right opportunity emerges."

– **Usha Bhate**
Head of the Institutional Investor
Family Office Network

PERFORMANCE OF PRIVATE EQUITY

Seven out of ten single-family offices investing in private equity reported that they had better returns in their PE investments as compared to their traditional portfolios comprised of instruments such as stocks, bonds, equity and fixed income mutual funds and separate accounts, exchange-traded funds and other indexed vehicles (Exhibit 6).

EXHIBIT 6 | Performance of Private Equity Funds Better Returns than Traditional Portfolio

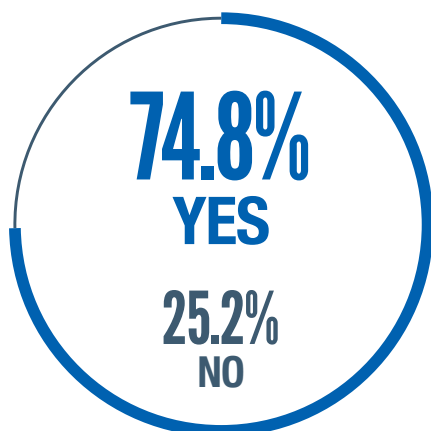


N = 95 SINGLE-FAMILY OFFICES

Past performance is not indicative of future results. Results are the opinion of respondents only and are therefore subjective and may be inaccurate or incomplete.

Along the same lines, single-family offices are having success as investors in small and middle-market companies as well. According to three-quarters of single-family offices that do direct deals, the returns from these investments have outperformed the other holdings in their broad portfolios, whether it's done on a direct basis, as a co-investment with a private equity firm or as part of a syndicate of similar investors. (Exhibit 7).

EXHIBIT 7 | Performance of Direct Investments Better Returns than Traditional Portfolio



N = 40 SINGLE-FAMILY OFFICES

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"Many wealthy families take a longer term investment approach and understand that the premium for illiquidity comes from allowing companies to pursue strategies that often require four to six years to execute as well as additional capital. These families also appreciate the active role that fund managers play, working closely with their portfolio companies to achieve their goals – that alignment and consistent engagement typically does not exist in the public markets."

– **Nick Veronis**
Co-Founder and Managing Partner,
iCapital Network

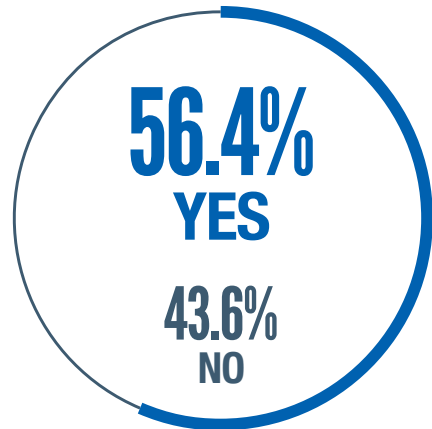
"Our membership, comprised of 1,000 corporate transactional professionals, agrees that family offices are seeing a great deal of success investing directly in the middle-market. We attribute it to the following three things—a willingness among family offices to be flexible around deal structure, their ability to extend holding periods if conditions warrant and increasingly strong access to operational resources."

– **Martin Okner**
Chairman of ACG New York
and Managing Director of
SHM Corporate Navigators

LOOKING AHEAD

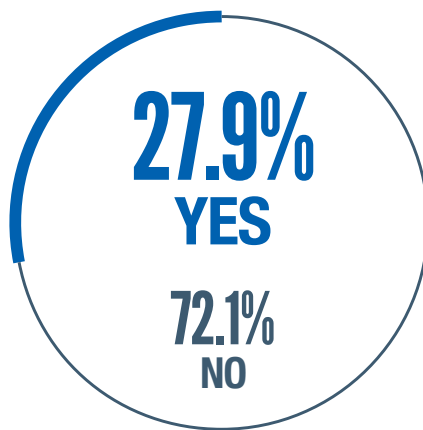
Of the single-family offices currently investing in private equity, more than half expect to increase their allocation in the next two years (Exhibit 8). Of the group that was not investing, nearly 30 percent plan to allocate to private equity in the coming 24 months (Exhibit 9).

EXHIBIT 8 | Increase Allocation to Private Equity in Next Two Years



N = 101 SINGLE-FAMILY OFFICES

EXHIBIT 9 | Invest in Private Equity in Next Two Years



N = 61 SINGLE-FAMILY OFFICES

Many single-family offices are experienced private equity investors and have achieved strong returns in both funds and direct investments. As a result, the appetite for private equity among family offices and other high-net-worth advisory organizations is much greater today than we've seen in the past and the demand for interesting and exclusive deals and high-quality funds is escalating. These factors signal a shift in how significant private wealth will be deployed moving forward and the growing need for best-in-class tools to facilitate informed decisions.

"Performance opportunities and favorable sentiment will likely prompt fundraising professionals to intensify their efforts with family offices. We can also expect the number of funds and bankers focused on the channel to increase, making for a more competitive, and more arduous, capital raising environment. Efficiency and effectiveness in reaching and communicating with qualified prospects will be tantamount to success."

– **Dan Vene**
Founder and Managing Partner,
iCapital Network

"Private equity is growing in importance to many family office investors, which is, in turn, changing and expanding the traditional interactions they've had with fund managers. Both parties prioritize confidentiality and security in their business relationships and will derive benefits as these shifting dynamics naturally, and by necessity, lead to innovations and improvements in how business is transacted."

– **Meghan McAlpine**
Director of Product Marketing
for Alternative Investments,
Intralinks

IMPLICATIONS

In addition to providing a useful snapshot of how single-family offices are investing in and thinking about private equity at the present time, the research data in this report may have some future implications for a broader group of professionals.

Single-Family Offices

As single-family offices continue to embrace private equity as a meaningful component of their investment portfolios, these types of organizations and the underlying family members will benefit from having **systematic methods of sourcing and conducting due diligence on new opportunities**.

Wealth Advisors

Succeeding as a partner (or outsourced provider) to single-family offices and ultra-affluent families usually calls for a special mix of sophisticated products and high-touch services, and may require certain wealth advisory professionals to **offer access to high-quality private equity funds and direct investments** in order to compete effectively.

Private Equity Fund Managers

Single-family offices and wealthy families represent a serious and extensive pool of capital for private equity fund managers. **Reaching these types of investors, and aggregating and administering their commitments, entails specialized processes and mechanisms** that may be different from what is in place at most private equity firms.

ABOUT THE SAMPLING METHODOLOGY

When conducting research with limited and hard-to-reach populations (like single-family offices and high-net-worth individuals) it is virtually impossible to rely on probability sampling, which involves random selection. In these cases, it is accepted practice in applied social science research to employ non-probability sampling. The research data presented in this report was collected using a non-probability purposive sampling approach called snowball sampling, wherein qualified research subjects act as “recruiters” for other research subjects with similar demographics, psychographics and other defined criteria. Despite the use of statistical controls, the risk of this approach is that subgroups in the target population that are readily accessible may be overweighted.

Research Director

Russ Alan Prince is President of RA Prince & Associates, Inc., a globally-recognized research and consulting firm specializing in the study of private wealth creation and management. Mr. Prince is the author of 49 research-based books including the widely acclaimed *The Middle-Class Millionaire* (2008), *High-Net-Worth Psychology* (1999), *Cultivating the Affluent* (1995) and *The Seven Faces of Philanthropy* (1994). He is a Co-Founder and the Executive Director of *Private Wealth* magazine and writes the *Serious Money* blog for Forbes.com. Prince received an MBA with distinction from Columbia Business School and an MA in sociology with a concentration in research methodologies from the State University of New York at Stony Brook. www.russlanprince.com



Contributors

Lawrence Calcano is Managing Partner of iCapital Network where he is responsible for the firm's Investor Network and business development. Mr. Calcano was a partner at Goldman Sachs, most recently serving as the co-head of the Global Technology Banking Group of the Investment Banking division. He serves on the board of 1-800-FLOWERS.com, Mental Health Association of New York City, Capitol Acquisition 2 and Bite Tech and was named to the Forbes Midas List in 2001, 2002, 2004, 2005 and 2006.



Hannah Shaw Grove is Chief Marketing Officer at iCapital Network where she oversees the firm's marketing, education and thought leadership initiatives. Ms. Grove is the author of 11 books and a Co-Founder of *Private Wealth* magazine, where she served as Executive Editor for eight years. Previously, Ms. Grove was managing director at Merrill Lynch Investment Managers (merged with BlackRock) and held strategic management roles at Prudential and Fidelity Investments. She is a member of the Hedge Fund Association's high-net-worth advisory board.



Michael Sidgmore is Vice President at iCapital Network where is he responsible for introducing the company's solutions to family office investors. Prior to iCapital, Mr. Sidgmore was the Director of Institutional Investments at Mosaic, a financing platform for clean energy infrastructure projects, and an analyst with Goldman Sachs' Principal Strategic Investments team in London. Mr. Sidgmore is a Special Advisor to Panorama Point Partners, the Founder of NextGenEngage and selected to be a World Economic Forum Global Shaper in 2012.



Nick Veronis is Co-Founder and Managing Partner of iCapital Network, where he leads the firm's due diligence and origination efforts. Mr. Veronis spent more than a decade at middle market private equity firm Veronis Suhler Stevenson as managing director responsible for originating and structuring investment opportunities in the business information services sector, spearheading VSS's investment strategy in the financial software and data sector. He is an operating advisor to Atlas Advisors, an independent investment bank based in New York.



Dan Vene is Co-Founder and Managing Partner of iCapital Network, where he leads the development of the firm's proprietary technology, including integration with major industry platforms and white-label solutions. Prior to founding iCapital, Mr. Vene was head of private real estate capital raising at Fir Tree Partners and a partner responsible for real estate and real asset fund origination, structuring and distribution at Eaton Partners. Previously, Mr. Vene was founder and CEO of Earnings.com, which was acquired by Thomson Reuters.



Contributing Partners

Bruce K. Benesh is the Partner-in-Charge of the Compensation and Benefits Consulting practice at Grant Thornton LLP, an independent provider of audit, tax and advisory services, where he works with companies ranging from closely held family businesses to multinational corporations.
www.grantthornton.com



Usha Bhate is an Executive Director of Institutional Investor and the head of its Family Office Network, a global private membership group for single-family offices that provides a confidential environment to share knowledge around operational issues, governance and investment opportunities.
www.thefamilyofficenetwork.com



Keith M. Bloomfield is President of Forbes Family Trust and an Advisory Director to LGL Partners (formerly the Lenfest family office). The two organizations have formed a strategic alliance to operate as a multifamily office, offering a full range of integrated services to a select group of goal-oriented families and individuals.
www.forbesfamilytrust.com



Martin L. Okner is chairman of the New York chapter of the Association for Corporate Growth, an industry group for middle market dealmaking and corporate professionals, and **managing director of SHM Corporate Navigators**, an advisor to middle market private equity firms and their portfolio companies.
www.acg.org/nyc/
www.shmcnglobal.com



Meghan McAlpine is Director of Product Marketing for Alternative Investments at Intralinks, a trusted provider of easy-to-use, enterprise strength, cloud-based collaboration solutions that enable the exchange and control of information between organizations securely and compliantly.
www.intralinks.com



iCapital Network provides a financial technology platform that bridges high-net-worth investment capital with private investment opportunities. The comprehensive investment platform enables qualified investors, advisors and family offices to review private equity funds that are currently raising capital. It offers powerful research tools, comprehensive diligence support and access to a curated selection of in-demand private equity funds. Additionally, the platform streamlines and automates administrative and reporting requirements such as fund commitments, capital calls, distributions, tax reporting and fund statements.

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For general inquiries, please contact:
212-994-7400 | info@icapitalnetwork.com

For investor relations, please contact:
212-994-7333 | ir@icapitalnetwork.com