montana capital partners

Press release:

Family offices to increase exposure to private equity - research

- 45% of family offices have upped their allocation in last year
- 33% will increase private equity allocation in the next 12 months
- Secondaries remain an important strategy for family offices, especially niche strategies
- Majority are concerned about "mispriced risk" in capital markets

Family offices and foundations have increased their allocations to private equity in the past year and plan to do so again next year, according to new research.

The second *Annual Family Office and Foundation Private Equity Survey*, produced by montana capital partners and PEI and now in its second year, details the strategies and opinions of this very active investor segment.

Almost half of the 64 family offices and foundations surveyed (45 percent) said they had increased their private equity allocation in the last 12 months, compared to just 13 percent who said they had decreased their allocation. Furthermore, a third of respondents (33 percent) said they would increase their allocation within the next twelve months. Very few family offices said they intend to move away from the asset class; just 11 percent said they will decrease their allocation in the next 12 months.

Family offices, which are private institutions managing the assets of either one or a small number of wealthy families, have always been active investors in private equity and their prominence is increasing. In contrast to larger institutional investors, family offices are often driven by a pure risk-return approach. Regulation and market trends do not usually affect their investment behaviour.

"Family offices and foundations play an ever more active role in the private equity landscape," said Christian Diller, partner and co-founder of montana capital partners. "As banks and insurers have stepped away from the asset class – primarily for regulatory reasons – family offices have proven to be a stable investor group and have evolved into major providers of new capital to private equity funds. In addition, their often entrepreneurial DNA means they have a natural affinity with the asset class."

At a time when many investors in private equity have narrowed the number of fund managers they work with, family offices have been, and continue to be, open to new relationships. In the last 12 months almost half of the respondents (44 percent) increased their number of manager relationships. Around a third (31 percent) intend to continue doing so in the next 12 months.

Strategies: co-investing, direct investing, funds of funds and secondaries

As well as committing money to primary private equity funds, family offices and foundations have a positive attitude towards co-investment, whereby they invest money alongside fund managers into certain deals. Only one-in-five respondents (20 percent) said they avoid co-investment, with all other respondents saying it is either an established part of their strategy (20 percent), something they have done opportunistically (44 percent) or something they intend to start doing in the next year (15 percent).

Family offices and foundations are also well disposed towards direct investing, whereby they acquire a company directly without necessarily partnering with another investor. 70 percent agreed that direct investment "is part of the DNA of a family office", with the remainder believing it is not a necessary part of the family office skill set.

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Funds of funds, meanwhile, have only a small place in family offices' portfolios, with investment teams being sceptical of the added value that the strategy offers; 82 percent of respondents say they either plan to get out of their existing funds of funds or define their relationship with the strategy as 'marginal'.

Underscoring their position as sophisticated market participants, family offices have a strong interest in the secondary market, with 79 percent of those surveyed already active in the market in some capacity and almost half (46 percent) already invested in secondary funds. Deal volume in the secondary market is at a historic peak and the overwhelming majority (79 percent) of family offices surveyed predicted the volume would continue to trend upwards over the next 12 months. Within the secondary market, respondents thought that a specific focus or niche strategy offer the best risk-return profile these days: small secondaries, direct secondaries, single fund transactions and more complex secondaries were mentioned.

Marco Wulff, partner and co-founder of montana capital partners adds: "The secondary market continues to offer great investment opportunities in specific areas with many benefits for investors due to the shorter holding periods and lower risks. On the other hand the active market also offers potential sellers new opportunities in managing their portfolio. This effect is especially pronounced in small and complex transactions."

Investor-manager relations
Opinion among family offices and foundations is mixed as to whether the upheaval of the global financial crisis has forced managers to better align their interests with those of their investors. Roughly a quarter (24 percent) does not think alignment of interests has improved much at all, while around 40 percent of respondents believe it has improved and will continue to do so.

However, in a sign that the private equity limited partner landscape is changing, two-thirds (66 percent) of respondents said that family office and foundation money is now more highly valued by general partners than it used to be.

Scrutiny of fee charging practices and wider regulation
Most family offices welcome the recent SEC investigations into fee charging practices: specifically alleged irregularities relating to fees and expenses levied to their investors and portfolio companies. Two-thirds (64 percent) believe such scrutiny is "long overdue" and that fee charging practices need to be "cleaned up", while the remainder consider it to be "unnecessary". However, 64 percent also said that regulation has made life in the asset class more costly and difficult for everyone, including family offices and foundations.

Investment outlook: risk is now mispriced
The majority of family offices (59 percent) are beginning to be concerned about the favourability of capital markets for private equity investments, stating that investment risk is "beginning to be mispriced". Only 19 percent of respondents think that today's capital markets offer favourable conditions for investing, while 23 percent believe the investment climate represents the number one risk they face.

The two most popular private equity strategies cited by respondents are: mid-market private equity and distressed/turnaround investment. Large buyout is the least favoured strategy and the two most widely favoured sectors are consumer goods and healthcare.

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About montana capital partners:

montana capital partners (mcp) is a Swiss asset manager focused on attractive niches of the private equity secondary market. The team provides liquidity solutions for investors, both restructuring and investing, through its own fund product with an innovative structure and an established investment strategy as well as high quality investment & risk management services. The team is supported by recognised private equity professionals represented on the board of directors and advisory board.

mcp offers specialized investment funds in attractive niches of the secondary market such as smaller and more complex transactions which are directly sourced. montana capital partners has successfully raised its secondary funds and closed each of them at the hard cap. The established investment strategy has proven to be successful and provides numerous benefits for the investors.

montana capital partners' goal is to assist investors in managing their portfolio in an efficient manner and to strengthen their internal position, hence providing new and attractive restructuring options for sellers. To support investors in restructuring their portfolio, mcp invests in single fund positions, small portfolios, fund of funds, tail-end portfolios, co-investments and more complex structured transactions. The close relationship to the sellers opens up the possibility of providing customized solutions for investors to reshape and optimize their portfolios due to regulatory and strategic reasons, risk reduction or cash flow optimization through structured solutions.

In addition, mcp provides innovative solutions in primary investment and risk management advisory. Through our investment management services we assist investors in finding attractive primary investment opportunities as well as support them in implementing high-quality risk management systems.

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