

Two related trends have characterized the management of family assets in the LatAm region over the last decade, and particularly since the beginning of the global financial crisis in 2008. One is that wealthy families have grown dissatisfied and disillusioned with the large private bank model and have turned increasingly to the single or multi-family office model for managing their wealth. As Carol Pepper, CEO and Founder of Pepper International, a New York-based family office serving international clients, explains, “Ultra high net worth families and individuals, particularly since the

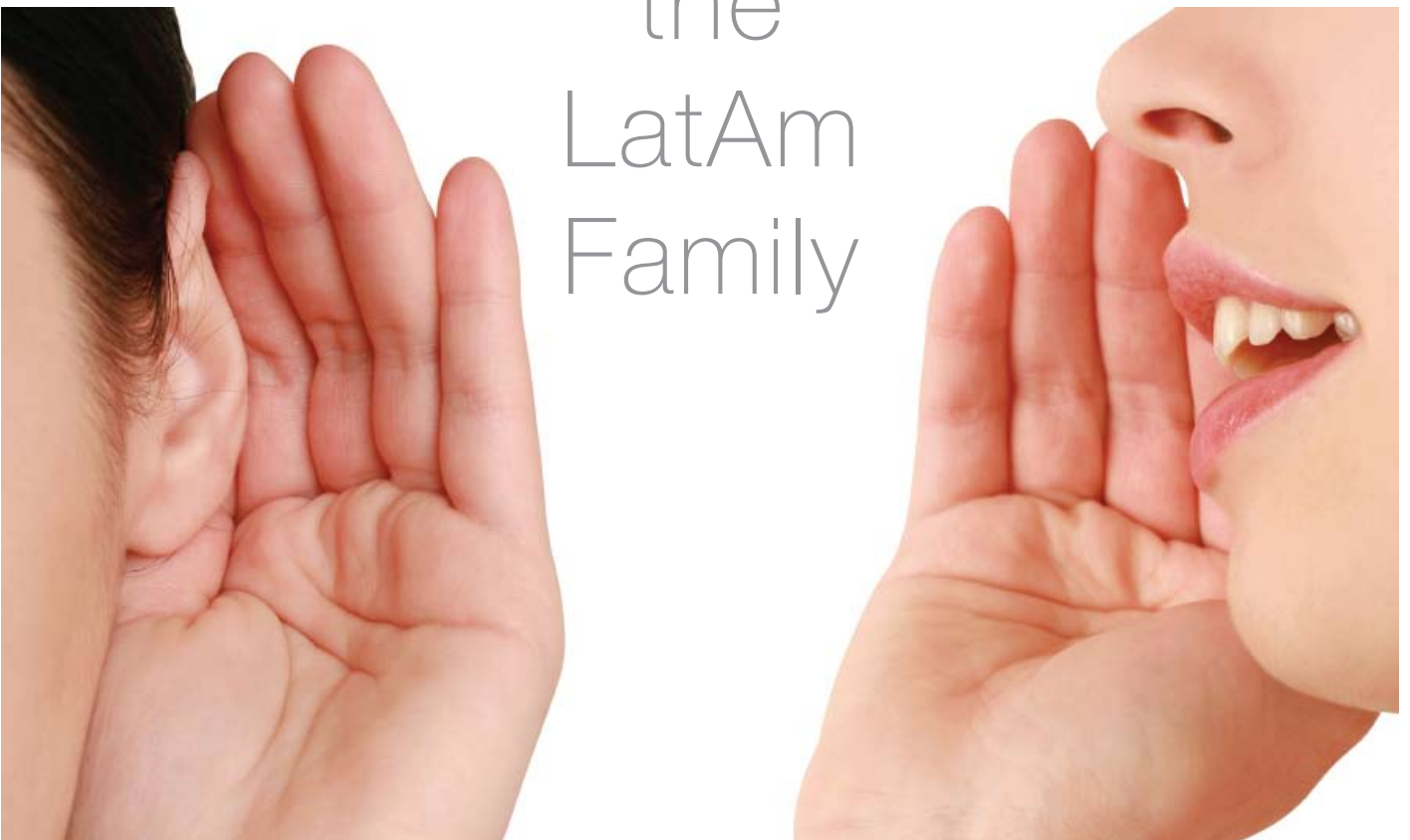
crisis, are definitely becoming more interested in the family office model, because they recognize the inherent conflicts of interest in the investment banks and the large broker dealers. They still want to work with these people but they realize that banks and brokers cannot be their independent advisers. You would not ask a Mercedes Benz salesman to send you to a Lexus dealership, and in the same way your guy at Goldman is not going to recommend products at J.P. Morgan. There is a need for an additional unbiased advisor who is only paid by the family and doesn’t take any compensation from the products the family invests in,

in order for the family to have truly objective advice.”

The second trend is that brokers and advisors from these larger banks are splitting off to start their own boutique offices – whether they be single or multi-family offices or consultancy firms – and bringing their clients with them. According to Rick Higgins, an independent family office advisor whose expertise is in back-office operations and technology, “The advisors are trying to maintain their level of exposures and trust with the family by disassociation with some of the big names out

Advising

the
LatAm
Family



there.” He adds that what is important now is no longer merely the “investment vehicles necessary to maintain the wealth, but the soft issues that have come along with that family, like governance, understanding legacy, stewarding the money and not just investing it for growth. The family offices that are focusing on those areas are doing exceptionally well, and frankly I think the big banks have missed the boat in that respect.”

Lisa Gray, the founder of graymatter Strategies LLC, which specializes precisely in such soft issues, also remarks on the disillusionment with private banks. “Even before 2008, the big institutions were losing a lot of family clients. There’s been an effort to use the term ‘family office’ as a kind of marketing word, and families have gone into relationships with these institutions expecting a certain experience and have gotten quite a different one.” She adds that the crisis has only fomented those trends. “Bad as [the crisis] was, it helped families really look at what their offices were designed to do, what the purpose of their office is, the advantage of having one over the typical financial institution or private bank.”

As these trends have come to redefine the global family office space, there has been a spike in demand for expert advisors. Ms. Pepper, Ms. Gray, and Mr. Higgins are examples of advisors with global clientele who are helping wealthy families and individuals navigate the new reality. Ms. Gray advises mostly on matters of family governance, family dynamics and generational perspectives and while Ms. Pepper’s firm, aside from managing client assets, also assists clients with establishing their own family offices. Mr. Higgins, whose background is in family office-related technology design, advises on questions of back-office management, a particularly important area as independent boutique offices spring up around the globe without the back office resources of those large institutional banks.

■ The Essence of the LatAm Family

With their global perspective, these advisors agree that LatAm families are, in some important respects, just like families anywhere in the world. “There really is no difference”

between LatAm families and those in other regions, says Ms. Pepper “No matter what part of the world you’re in – whether LatAm, Asia, Europe, the U.S. – all of the families have the same main concerns: they’re concerned about preserving their wealth, transitioning that wealth to the next generation successfully, transparency, risk and return on investments, and fees.”

Yet they also agree that that most LatAm families share some distinguishing characteristics. One is the premium they generally put on security – of assets, of information, and of the family members themselves. “LatAm families are highly security conscious,” says Ms. Pepper, “largely because the kidnapping risks are higher in that region than in the rest of the world. They’re determined that the information about their wealth not be available to anyone, anywhere. And this creates a challenge for a family office that is trying to aggregate information for them, and it’s one of the reasons they often choose to put that family office out of their home country.”

Mr. Higgins agrees, saying that information security in particular is a top priority. “That’s absolutely paramount. In the old days, the family would fly into Miami or New York to meet with all of their advisors, look at the necessary paper work, and then fly back down and have no communication with their advisors for six months or a year. The new way is to provide access via the internet, on a daily basis, using all the industry standard techniques to secure the data. I’m more of a realist than to say it can be protected 100%, but the security in place is very good, and there are a lot of ways of protecting information from those that shouldn’t be seeing it.”

There is also a marked distinction between generations within the region, as many younger LatAm investors have been educated at top business schools and universities, often in the U.S. or Europe, and returned with a more sophisticated sense of how to preserve and enhance their family wealth. As Mr. Pepper explains, this has created the ironic situation where the younger, savvier generation is often more conservative than the older one. “This is very typical of second or third generation of wealth creation, because the wealth creators took tremendous concentrated risk,

either starting one company or investing in one or two things, and that’s how they made that fortune, while the second generation comes along and realizes that in order to preserve that fortune they need to manage risk.”

■ What LatAm Family Offices Want in a Manager

In light of these characteristics and their overall sophistication, Ms. Pepper enumerates certain basic qualities that her LatAm clients and their advisors are looking for in managers.

“Before they even get to a manager’s investment expertise,” she says, “which is of course critical, they want to see that the operation of the firm is very sound; they want to see great auditors, great accountants, a very robust back office and infrastructure, and enough money either raised or in the hands of the founders to know that the operating expenses of the fund can be met easily, so that even if the fund experiences a drawdown and loses 25% or 30% of its investors, it’s not just going to disappear.”

Next, she says, come experience and track record. “I look for funds with at least a ten year track record on the hedge fund side, or on the private equity side funds that have had several good previous funds. My clients are not looking for startup funds. These are people who are already wealthy and they’re not investing in these funds to get wealthy but to preserve their capital and grow it. So we want to see track records, a team that knows what they’re doing and has had repeated and repeatable success.”

She adds, finally, that the quality, quickness and regularity of reporting are extremely important these days and are a serious part of the decision whether or not to invest. “The days of being 60 or 90 days late getting numbers to your investors are gone. More and more families are investing in consolidated reporting systems or may be using a global custodian and want to be able to get a monthly snapshot of how their investments are positioned. Also, nobody wants to be waiting around for their K-1 in order to file taxes at the end of the year. So if you can’t produce reasonable K-1 in a reasonable amount of time, people are going to lose interest in investing with you, especially if you are a hedge fund.”