Rich Families Cut Back on Buyout Firms for Direct Deals

Family offices and wealth management companies are cutting back from routing their investments through private equity and hedge funds. More and more families are relying on direct investments in private companies and real estate. Exorbitant fees charged by hedge funds and private equity funds are one of the primary reasons for this shift. Need for efficient control over their investments is another reason why families are making direct investments. Daniel Lubin, chairman of Upsher Asset Management - a single family office, explains that traditionally, the fees charged by many private equity and hedge funds is 2 percent of assets and 20 percent of profits which knocks-off a significant part of their returns. Lubin rues, *"That doesn't make any sense. There's got to be a better way."*

Investing directly, also helps the families avoid any conflicts of interests that the intermediaries may have. It also counters the declining returns from funds. *"There are profound changes that occurred as a result of the 2008 and 2009 economic recession and financial crisis,"* confirmed Raphael Amit, chairman of the Wharton Global Family Alliance (WGFA). In a study conducted by the WGFA, based on a survey of 106 families from 24 countries, it was found that the direct investments made by wealthy families in art collections and precious metals have witnessed a fivefold increase. The families reduced their average outlay for private equity funds. The study also found that single-family offices are now more careful in selecting investment managers and closely monitoring their performance.

Source: Bunsinessweek.com, October 18, 2012