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Family offices look to private equity

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Family office investors currently prefer private equity to hedge funds, according to a survey which found a wide discrepancy in allocation plans between the two asset classes.

The poll of 51 family offices by advisory firm Somerset Capital found 46% planned to increase their allocations to private equity, compared with just 14% looking to invest more in hedge funds.

Private equity made up an average allocation of 23% among the surveyed firms and more than a third, 37%, said they would not be changing this, while just 6% looking to decrease their allocations. The remainder said they did not know.

Among the key areas of interest were mid-market buyouts, which was highlighted by 59% of respondents, and growth equity, which was listed by 67%. Large buyouts were the least popular investment area, with 15% preferring such deals.

Hedge fund investments stood at an average of 6% of overall allocations. More than two-thirds, 71%, said they did not plan to change this.

Family offices – privately-run wealth managers that advise high net worth individuals – are becoming an increasingly important source of investment for the private equity industry. Despite accounting for just 5% of all investors in the asset class, they are known for having a bigger appetite for private equity than other types of investors.

Globally, family offices had an average of 24.5% of their assets under management committed to the asset class as of June 2012 – nearly double that of endowment plans, which were ranked as the second most active private equity investors, according to data provider Preqin.

Meanwhile, respondents to the Somerset survey that were interested in hedge funds were most interested in strategies such as fundamental value, long/short funds and global macro funds. The report said: “The survey bears out what we are hearing anecdotally, that family office investors do have cash to deploy and they are looking to increase their exposure to equity strategies, as well as global macro.”

Other investment areas of interest for the family offices were equities, where 48% said they would be increasing their allocation, and "real assets", which includes property investments, where 50% said they would be increasing allocations. However, bonds were unpopular, with just 6.5% vowing to raise allocations and 52% planning to decrease them.

The survey comes after a difficult period for family offices. In December, research by UBS and Campden Wealth found wealthy European families that turned to cash and real estate to avoid volatility in the securities markets had seen their returns drop to five-year lows. The poor performance was partly the result of attempts to diversify portfolios away from bonds and equities, the report said.