

Global FO Trends and Where Australian Family Offices are Investing

Introduction

Our direct reach to principals of 350 single family offices (SFOs) and executives of 50 multi-family offices (MFOs) with a total wealth of \$473.5 billion as at December 2016 - across Australia, New Zealand and the Indian subcontinent, has provided great insight into the family office sector in Australia.

Our observations of the family office space has been consistent with these emerging global trends:

1. Growing number of ultra high net-worth (UHNW) individuals around the world, especially in the Asia-Pacific region (10% rise from 2015);
2. More affluent families seeking out experienced professionals to manage their wealth to fit their specific financial goals and risk tolerances;
3. UHNW individuals demanding professional and customised financial services.

Globally, it is estimated that there are approximately 4,000 to 5,000 family offices, of which only 3 to 5% are based in the Asia-Pacific region, suggesting a significant growth potential over the next 5 to 10 years for the family office sector, and the wealth management industry in the region. According to 2016 global research by PwC entitled, 'Great Expectations: The next generation of family business leaders, the next generation of family business leaders'; in the next five years, 40% of family businesses globally will prepare to hand over the business to a new generation. With predictions of a massive transition of wealth between generations in coming years, the race to stay ahead of their needs will trigger a new role for the family office and their wealth advisors.

We are starting to see several financial service players positioning themselves accordingly, such as Evans & Partners, Escala, Koda, Findex and Crestone.

- Crestone acquired UBS Wealth Management in Australia and partnered with firms including Commonwealth Bank of Australia, UBS, platform provider Avaloq, and Credit Suisse.
- Mutual Trust appointed Nasdaq-listed Northern Trust to supply global custody services for a portfolio of international assets, and recently expanded into Sydney.
- Myer family's MFCo has lowered its forward expectations because of lower than expected global labour force expansion and ongoing technological disruption that continued to cut profit margins for incumbent firms.
- Keystone Private and EWM Group - between them oversee a significant chunk of Queensland's richest families private wealth.

- Melbourne wealth management firm Escala Partners is making its first step into Sydney through a merger with Family Office Research and Management (FORM), which handles investments for wealthy families. Escala was established two and a half years ago by a group of former UBS advisers. It now manages \$2.2 billion for more than 400 clients.

UHNWs are engaging family offices to avoid embarrassing and costly family feuds, such as that suffered by mining magnate Gina Rinehart. Legal firms have also played a significant role, such as the James and Gretel Packer settlement carried out by Baker & McKenzie. At the same time, accounting firms are pushing back, offering fully fledged wealth management and investment services to high net worth individuals.

Here are some of the family office investment highlights, which have been shared in the public domain over the past 12 months:

- **Acorn Managed Investments** - invests into Follow it (two-sided platform which provides a Facebook-like real-time feed of listed properties), a Sydney startup combining social media and real estate has closed a \$2 million funding round valuing the company at \$20 million as it prepares to roll-out its communications platform nationally.
- **Allan Moss Investments** - Allan Moss has recently invested into India Equities (India Avenue Investment Management), Chimp Change (ASX:CCA) at Pre-IPO stage and start-up Expert360 (online consulting).
- **Bangarra Group** - Bennelong Funds Management is the Group's incubator of boutique funds management businesses, currently managing over \$6 billion in Australian equities (small caps, ex-20 and large caps), as well as market neutral and absolute return hedge funds for both retail and institutional investors.
- **Burnham Group** - recently entered the funds management incubator space, alongside Challenger, Ascalon, Pinnacle, and Bennelong.
- **Ellerston** was a "pre-IPO" investor in two consumer goods stocks that have become stellar sharemarket successes – Bellamy's and BWX. That was largely due to insights of the listed fund managers at Ellerston who owned Blackmores and experienced the demand potential from China firsthand. Recently the Ellerston Ventures fund invested in an Australian start-up called Better Caring (online platform to match patients in need of home care with those qualified to provide it), Friendsurance (German peer-to-peer insurance company that has set up in Australia).
- **Elphinstone Group** - Dale Elphinstone owns William Adams (Caterpillar mining truck and equipment distributor in Tasmania and Victoria) and a large stake in Engenco (rail and machinery maintenance and engineering businesses). He has invested in: Senex Energy (oil and gas explorer), Atrum Coal (explorer with holdings in western Canada),

Seven Group Holdings (which via its WesTrac business is the sole Caterpillar dealer in Western Australia, NSW and the ACT, and in north-east China), Seven (which also holds a substantial stake in Seven West Media), Emeco (mining services company), Thorney Opportunities (Alex Waislitz's investment vehicle), WPG Resources and Venture Minerals (which has deposits in north-west Tasmania and projects in south-east Asia).

- **Hoperidge Capital** - Rod Jones holds the following investments: Navitas - ASX:NVT (education provider education provider), Pioneer Credit (financial services firm), Spookfish - ASX:SFI (geospatial imagery company), Updater Inc - ASX:UPD (develops technology to improve the consumer relocation process), 4DS Memory - ASX: (data storage company), Digital X - ASX:DCC (blockchain payments solutions firm), Acacia Coal - ASX:AJC (which has a coal tenement in Queensland's Bowen Basin), Cradle Resources - ASX:CXX (which is mining for niobium – used in the production of quality steel – in Tanzania), MZI Resources - ASX:MZI (mineral sands explorer), Enerdrill (Australia's largest onshore oil and gas drilling company), Merredin Energy (open-cycle gas turbine power station owner) and WelleCo (Elle Macpherson's global health food company).
- **Keystone Private** has backed India Avenue Investment Management aiming to put some distance between India and the emerging markets basket. Keystone has put equity into India Avenue as well as co-investing in the fund.
- **Kin Group** - (Geminder Holdings - include investment entity Bennamon, commercial printing outfit P'Auer and property group Centralbridge), Raphael Geminder along with his wife Fiona (one of two daughters of the late Richard Pratt): own 44% of Pact Group (ASX:PGH), 44% Pro-Pac (ASX:PPG) and 16% Colorpak (ASX:CKL). Outside the packaging industry, invested into Academies Australasia Group (education company), Closed Loop Environmental Services (installs composting units in restaurants and takes the compost to establish city gardens, grow vegetables and sell them back to restaurateurs).
- **M.H.Carnegie** - Mark Carnegie has invested in TwoPointZero (part of The Career Insight Group, which owns executive outplacement providers Directioneering and Audrey Page) a career coaching business aimed at 16 to 30-year-olds to help them transition from education to employment.
- **MFCo** - Myer family Investments (MFI), the holding company for the Myer family's investment portfolio, invested \$5 million in Sydney start-up accelerator Blue Chilli, which takes minority shareholdings of up to 30 per cent in local start-ups in exchange for seed capital, creating the technology product and access to a start-up development program. It plans to more than double its portfolio to 100 start-ups over the next two years. MFCo has also back Paradise Investment Management's Global Small Mid Cap Equities fund, which invests in stocks outside of Australia and New Zealand with market capitalisations of less than \$5bn.

- **Sandbar Investments** - Darren Smorgon, along with Wingate Group and Tony Faure have poured \$25 million into a startup that pumps digital advertising into doctors' waiting rooms, digital advertising company Medical Channel is looking to corner the market by acquiring its biggest rival, The Community Network.
- **Silverfern Group** invests in Waste Services Group, a Leading Australian Waste Management Company, in Partnership with The Riverside Company.
- **Small Giants** - family office of Daniel Almagor and Berry Liberman has backed Melbourne-based Impact Investment Group's (IIG) Giant Leap Fund has made its first two investments: Sendle (disruptive and rapidly growing parcel delivery and postal service that is challenging Australia Post with a convenient, affordable, trackable and fully carbon offset pick-up and delivery service) and YourGrocer (offers same-day delivery from local small businesses including butchers, green grocers, bakers and delicatessens).
- **Spotlight Retail Group** (SRG) owners Zac Fried and Morry Fraid, is part of the Home Consortium, a group of wealthy business owners and private families who claimed the 61 Masters stores and 21 development sites as part of an \$830 million deal with Woolworths. Other members of Home Consortium include Chemist Warehouse Group (Mario Verrochi and Jack Gance), and Aurrum Group (UBS banker David Di Pilla). The Consortium is hoping to turn the sites into massive homemakers centres.
- **Thorney Invest** – Marc Besen and Frank Costa have backed Alex Waislitz's latest listed investment company, Thorney Technologies listed on the ASX in January 2017 after raising about \$42 million from investors, led by the billionaire Waislitz himself. The company has been seeded with stakes in six listed technologies companies: Adacel, OneVue Holdings (funds management wealth platform provider), Anatara Lifesciences (which makes products to fight gastrointestinal diseases in animals and humans), HUB24 (Superannuation and investment platform), Updater Inc (company that offers services to help people update their details when they move house), Dubber Corp (Cloud based call recording software). Thorney Technologies will also invest in venture capital and pre-IPO firms with a focus on technology primarily in Australia, the United States and Israel. Waislitz has built his wealth via canny investments that include biotech company Mesoblast and Liquefied Natural Gas. Waislitz's Thorney Investments, began with shares in Amcor, other investments include: Webjet (online travel booking company), Adacel Technologies (which sells air-traffic control systems and simulators), Mayne Pharma and AMA Group (auto accessories business). Thorney Opportunities' two biggest holdings are in Money3 Corporation and Service Stream.
- **Tulla Group** - Maloney family office has backed Capital Pitch (funding platform that helps startups connect with venture capitalist), to the Investment Platform to “screen, nurture and curate” early-stage technology investments. Tulla Private Equity Group has direct investments in global mining companies, drilling companies, software

companies, technology companies, digital agencies, festivals, lifestyle firms and even a thoroughbred stud. An example of a recent tech investment Mobecom (deploying a Blockchain loyalty currency called AirBux onto the Blueshyft platform, which will allow clients to use loyalty points to buy with and earn points from everyday items).

- **Besen** - also has a shareholding in poppy processing company TPI Enterprises, in which Waislitz is also a shareholder.
- **Costa** - Frank Costa has also listed his family investment firm in July 2015, Costa Group Holdings.
- **Flannery** - Brian Flannery is an ERA shareholder and holds several other small mining stocks or other good-performing companies across several industries: Energy Resources of Australia (uranium miner), Alara Resources (has a zinc and copper project in Saudi Arabia and a copper-gold exploration under way in Oman), McPherson's (health and beauty products company), WPP (advertising and marketing firm), DWS (Software company), White Energy, Ishine Resources International (tiny resources explorer, which has a variety of exploration projects underway around Australia, including a copper holding near Mt Isa and several tenements in Western Australia), Aveo (listed retirement village company) and also owns KTQ Developments along with his wife (Private property group, projects include Brisbane apartments, hotel project in Byron Bay and childcare investments).
- **Harris** - Geoff Harris (founder of Flight Centre) invested into the Boost Juice chain, Fonda (Mexican eatery) and Gavli (start-up technology that puts real estate auctions live online - app allows property buyers and browsers to search a map, select a property that is using the technology and then view its auction either live or later).
- **Morris** - Chris Morris (founder of Computershare), has a string of technology investments that he has become more closely involved in during the past few years as he gradually stepped away from Computershare, such as Smart Parking (which sells technology such as real-time sensors, radio frequency and number plate identification and apps to track cars in car parks and charge vehicle owners appropriately) and DTI Group (surveillance systems company). Morris also owns pub, hotels, tourism assets in Queensland, including the Townsville casino, Orpheus Island and the Daintree Eco Lodge.
- **Pherous** - Jamie Pherous (founder of Corporate Travel Management), recently emerged on the top 20 shareholders list of recently listed Graphitecorp, Heemskirk Consolidate (oil and gas explorer with assets in Canada), Contango Income Generator (investment firm which buys stocks in the mid- to small-cap sector), Barrack Street Investments (company that holds shares in small and mid caps).

- **Teoh** - David and Vicky Teoh (founders of TPG Telecom) became a substantial shareholder in the listed Vita Life Sciences (which sells over-the-counter pharmaceuticals, pills and other health products in Australia, and across south-east and east Asia). The Teoh family has dabbled in other sharemarket investments, including a small shareholding in Millenium Minerals (small gold explorer), held by son Shane Teoh. Their other investments include: Cadence Capital (investment manager).
- **St Baker** - Philip St Baker, the son of former list member and ERM Power founder Trevor St Baker, led Graphitecorp, which plans to develop a graphite project at Cloncurry in Queensland, to a listing on the Australian Securities Exchange last December.
- **Atlassian** has acquired the following tech start-ups: StatusPage, Hall,Blue Jimp, doctape, Wikidocs, HipChat, SourceTree, BitBucket; all had undisclosed terms, but their latest acquisition - Trello was its largest buy (US\$425M). Mike Cannon-Brookes (co-founder of Atlassian) has directly invested at IPO into H2Ocean (irst publicly-listed venture capital company in Australia), Grok Ventures, Spaceship (technology-focused superannuation fund for millennials) and Tyro (provides credit, debit, EFTPOS card acquiring, Medicare and private health fund claiming and rebating services as well as a transaction and deposit account integrated with Xero cloud accounting). Scott Farquhar (co-founder of Atlassian) has invested directly in SafetyCulture (an app that provides companies with a digital health and safety checklist and accompanying data analytics to help businesses detect and prevent serious problems before they occur), closed a \$30 million capital raise in 2016, led by Index Ventures, valuing it at \$160.