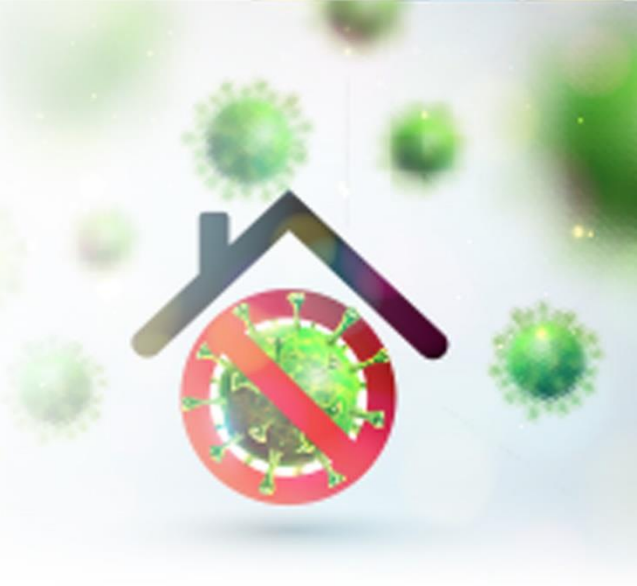
Understanding the implications of COVID-19 for family offices



The novel coronavirus (COVID-19) outbreak has disrupted businesses and markets around the world. In many ways family offices (FOs) are facing the same challenges as other businesses. Depending on the size and scope of an FO, there are different issues that need to be considered by its family members and executives. The issues relating to the roles and functions of an FO include investment and liquidity, information technology and cyber security as well as plans for business continuity, business recovery, and philanthropy. There are also issues relating to the structure and operation of an FO for long-term sustainable growth, whether in good times or bad.

Wealth preservation and liquidity are key in uncertain times

The COVID-19 pandemic has caused a lot of uncertainty and disrupted investment plans of many FOs who control a massive amount of private capital in the market. While many will hold back on new investments, it is critical for FOs to take immediate action to review their existing funding strategy and determine how their current portfolio will be affected. These considerations should cover the liquidity required to maintain their family assets and business during the pandemic and to prepare for the future market in the recovery period.

In the short term, many FOs, like other businesses, will try to maintain strong liquidity. They should therefore first review their investment portfolio and rank the assets by types of volatility and liquidity. Real estate, luxury assets and certain types of investment funds with a lockup period are illiquid, while there will be a cost for maintaining the assets. During this difficult time there will be an obvious shift of investment to more liquid assets or instruments with lower risk and stable returns.

For those FOs with strong cash flow, they could be looking for an opportunity to acquire stressed assets in the market. For example, landlords with constrained financial resources may need to offload assets to generate cash to meet their various commitments in a buyer's market like the current one. The offloaded property could be available at below-market valuation.

"With so much at stake in these unprecedented and uncertain times, family business owners in Bahrain must focus on protecting the value of the family enterprise while simultaneously looking out for the well-being of employees and stakeholders."

Harish Gopinath
Partner and Head of Enterprise

Spotlight on Family Offices

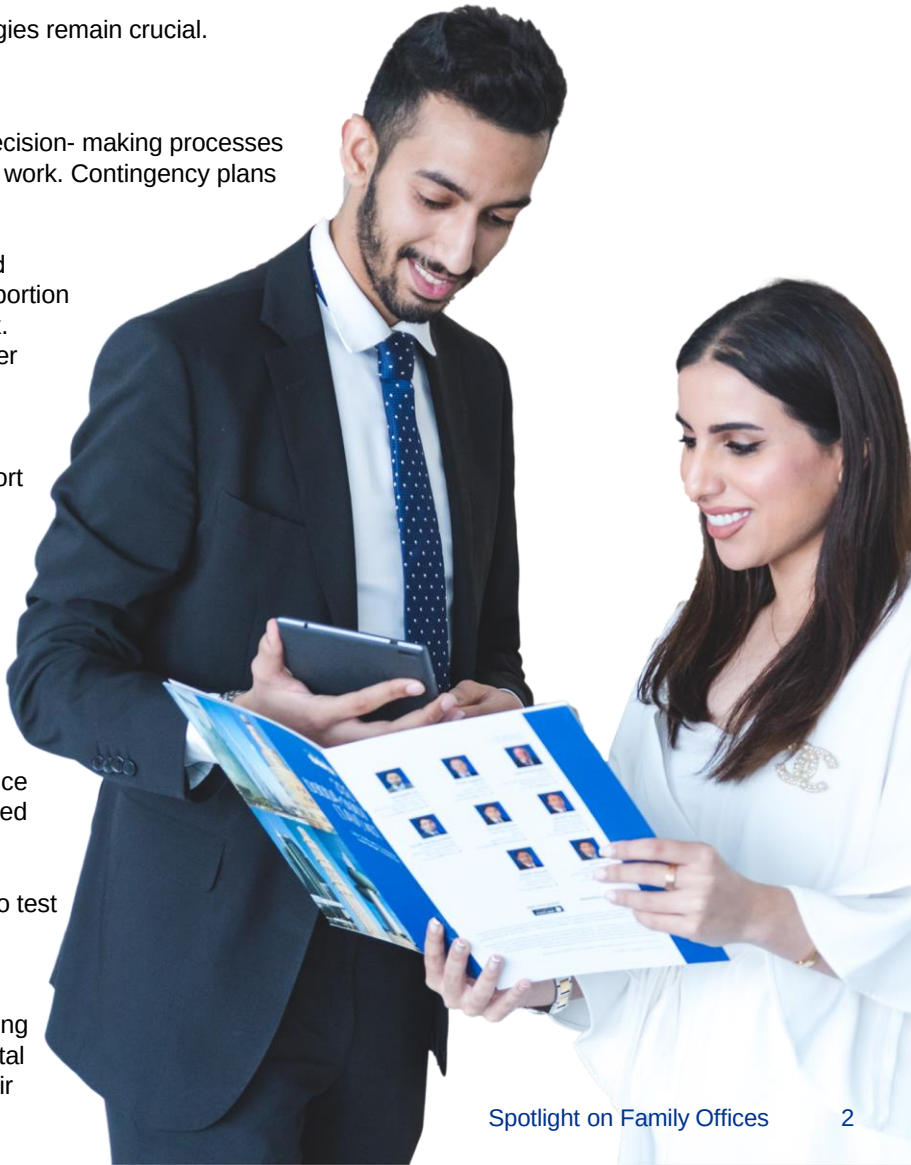
In the midst of this unpredictable environment, there are potential strategic and operational risks to Family Offices to be considered as part of an immediate risk management response and contingency planning for the future.

Strategic Considerations for Family Offices

- The family's shift in priorities from growing the wealth to wealth preservation and asset protection requires careful consideration and potential restructuring with an emphasis on flexibility.
- Market volatility presents challenges and opportunities. Private capital is the fastest-moving, and nimble Family Offices are well-placed in this regard.
- There is a myriad of considerations, including supply-chain issues, inventory and contractual where trading businesses are an important component of the underlying wealth managed by Family Offices.
- Board governance and clear communication strategies remain crucial.

Operational Risks

- Key management risks include the need for new decision- making processes and controls when pivotal employees are unable to work. Contingency plans and quick responses are critical.
- Maintaining the Family Office's daily operations and administration can be challenged due to a high proportion of employees who are unexpectedly unable to work. Those with virtual family offices are likely to be better positioned to respond due to a higher level of operational de-risking.
- IT infrastructure must be sufficiently robust to support the operations, staff working from home, and the need for virtual business meetings due to travel restrictions and social-distancing requirements.
- Operational costs continue, with the potential addition of medical sick-pay, while predictable revenues may be in question. Cash flows should be reviewed as a priority.
- Health and safety considerations for the Family Office employees require careful consideration as do related legal matters.
- An atypical environment is created, which is likely to test the staff motivation mechanisms in place.



Now is the time for FOs to stress-test the governance mechanisms they have implemented for decision-making and communication, to assess the durability of the digital and human infrastructures, and test the strength of their contingency plans.

Spotlight on Family Offices

The pandemic will arguably have a long- term impact on the way we live and how business is being conducted. This will likely change many FOs' investment strategy. Here are several tips for FOs to consider when evaluating future investments:

Co-investment strategy

FOs often come across opportunities to co-invest with other FOs or higher-volume funds for large-scale investments. Advance agreement on investment structure, decision-making and proceed allocation mechanisms is vital to success and to reduce potential conflict of interest with one's partners along the investment cycle.

Re-valuation strategy

Investment activities and valuations are hugely impacted by the COVID-19 pandemic. Assumptions, forecasts and valuation methodologies are expected to be heavily challenged by the interested buyers to seek a better deal. It is vital for both the buy side and sell side to realise the impact on valuation caused by the pandemic to either take advantage of or be prepared for such challenges respectively.

Creating value via M&A

Backed by family businesses, FOs are putting more focus on assessing synergy creation through M&A. It is becoming even more important that the target bring value to family businesses and vice versa. As most businesses look to change their traditional business model after COVID-19, this will bring uncertainty. Understanding additional value creation through M&A will give you more chips in the negotiation.

Transaction activities are expected to pick up gradually

We note that some FOs or private businesses are recapitalising their existing portfolio in line with their new investment strategies. We expect investors will likely act fast to seize opportunities in the current situation. Therefore, it is important for FOs to discuss investment strategy and directions early, particularly when the decision-making process is more protracted. Now is a good time for FO managers to start reviewing their portfolio and talking to their advisors to plan ahead for any buy-and-sell initiatives.

KPMG Private Enterprise

Drawing on our knowledge and experience in audit, tax and advisory, the KPMG Private Enterprise team helps FOs as they address sustainable corporate governance, risk management, asset protection, tax compliance and much more. We hope you find this newsletter insightful, and we look forward to supporting your needs. Please reach out to us if you wish to discuss further.

If you have any questions about the matters discussed in this publication, please feel free to contact the following partners or your KPMG contacts.

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