



Spotlight on Family Offices

A newsletter series by KPMG China's Private Enterprise team sharing insights on developments in the family offices market

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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.

In this series, we will share our observations and insights on issues involving FO executives to help you navigate this challenging moment.

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.

In this historic moment, most of us are experiencing a new way of living. 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.

Family offices to comprise greater share of M&A market

COVID-19 has accelerated the application of new business models, especially in sectors such as healthcare, logistics, automation, virtual offices, entertainment, retail, and education. In addition, big data will be more widely used for public well-being, especially for tracking, analysing, and supporting timely public decision-making. All these areas could represent significant investment opportunities for FOs. However, the valuation of these types of business will likely be higher in the coming period.

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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