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Family offices in the Gulf – an ongoing evolution

For many investment professionals focused on the Middle East, family offices have overtaken sovereign wealth funds (SWFs) as their number one target. With oil prices static or in decline, SWFs have paused many of their strategic investment programmes, while family offices have been shifting their attention to assets and investment vehicles outside their home region. Whilst this has no doubt been prompted in part by social unrest and political uncertainty at home, for example, in Saudi Arabia where the wealth of high profile businessmen has recently come under particular scrutiny, it comes at a time when many families are looking to formalise their wealth management structures and plan for the succession of younger generations.

It is universally acknowledged that no two family offices are the same, varying as they do by factors such as size, structure, outlook and investment strategies, among others. So for those asset managers looking to target the sector, it can be a challenge to build the resources and networks that will allow them not only to select the family offices they wish to target, but also to ensure they are well prepared for any engagement. While there is no shortage of family office-themed conferences and events the sector is all too often seen as a 'black box'.

The aim of this article is to look at some of the key facets of family offices that we at Diligencia believe are important, based on the research and analysis we have conducted since we started providing in-depth coverage of the sector five years ago.

Family office evolution

Looking back over the last four or five decades, it is possible to discern a growth cycle in how family offices in the GCC were first formed, then began to establish more formal and professional structures, and subsequently (a more recent phenomenon) splinter to allow the next generation to take over.

For many, there may not even have been a conscious decision to form a family office as such, and these have stemmed from the establishment of holding companies – often entirely owned by family members – set up to manage a diversified portfolio. A good example of this is Al Dabbagh Holding Group Company. From there it is a natural next step to make investments in related or adjacent sectors, but in an ad hoc manner and often driven by a single family member or by informal teams.

Based on Diligencia's research into 96 family offices in the Gulf, we found that the average year of establishment in the region is 1994. There is some regional variation, with family offices in Saudi Arabia (sample size: 45) typically being founded in the early 1990s, and those in the UAE around ten years later.

Frequency of family offices/holding companies established per decade in the GCC

Disentangling a family group's day-to-day business activities from family wealth which is invested for the longer term requires a change in mindset as much as organisational structure. This does not always mean setting up a separate entity; in fact, during our research only a third of family groups we looked at had registered their wealth management operation as a separate entity, such as the Jeddah-based Zahid Group Holding, or the Riyadh-based Zahran Holding Company in Saudi Arabia. The key cultural change that comes with understanding investment objectives, gauging risk appetite and engaging external parties, is only likely to happen once external investment professionals are brought on board, and an investment committee is formed.

The role of the investment committee

When looking at decision-making within private family offices in the Gulf, it is perhaps natural to focus on the Chief Investment Officer (CIO), or equivalent position. This role is generally taken by an investment professional with many years of experience in the private banking sector or other advisory capacity.

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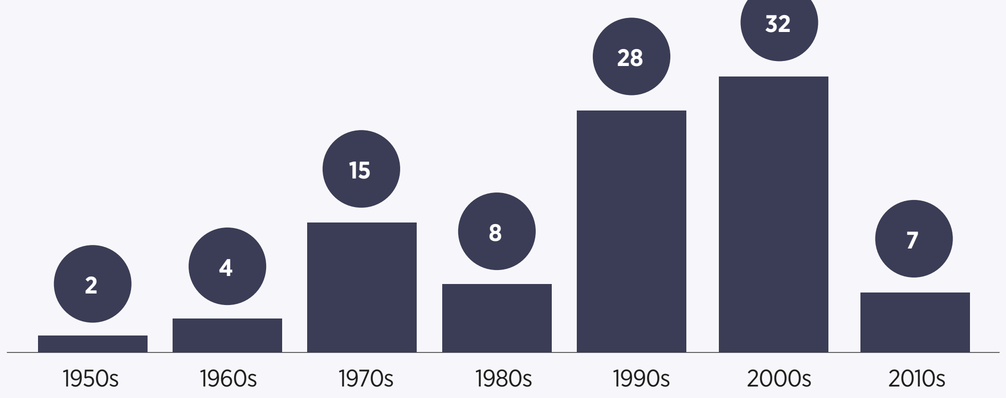

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The CIO can often be seen as a gatekeeper figure, responsible for meeting asset managers and being the public face of the family office, although the appetite within these organisations for publicity is clearly limited.

Based on our research, it is clear when it comes to determining investment strategy decisions are generally put to an investment committee. We have found that these tend to be chaired by a key family member – unlikely to be the head of the family, but possibly a son or close relative – along with the CIO and sometimes several other trusted advisers. For those looking to engage with family offices, prior research into the composition of the investment committee, the backgrounds of the various personalities involved, along with their collective investment preferences and strategy, is vital.

At what price discretion?

We can all understand that where family affairs are involved then sensitivity and discretion are called for, and this is no different to any family office anywhere in the world. However in the Gulf, where issues such as corporate ownership are still regarded in some circles as purely private matters, the culture of secrecy can be self-defeating. When an institutional investor wants to engage with a regional family office and are told that ultimate beneficial owners will only be revealed once an MOU is signed, this is clearly a barrier to open and efficient deal-making. There are clearly opportunities for family offices to collaborate and increase deal flow, based on shared values and investment objectives, if more information about them is known.

The next generation of Middle East family offices

As noted above it is around 30 years since the first family offices were established, so the simple arithmetic dictates that any founders of Gulf family businesses formed in the 1990s will likely be preparing to hand over the reins to the next generation.

This is a critical moment in any family business, one that comes with a mixture of risks and opportunities, such as succession planning, upholding family values and managing expectations, and maintaining an edge against new competitive forces.

Much has been written about succession planning, and the aim is not to address this topic in full here. One nascent trend worth monitoring however is when family offices split into two or more entities, as we have seen with Lootah Group of Companies LLC and Saeed Ahmed Lootah and Sons Group PSC for example. Elsewhere we have seen a desire from the family's second generation to free themselves of the constraints that come with a huge family-owned conglomerate, and have the latitude to pursue alternative investment methods in sectors such as technology with which older generations of the family would perhaps not be so comfortable.

If this trend continues, not only will this change the size and shape of the family office landscape, but also its outlook and risk profile of its investments – ensuring that the sector remains dynamic and alluring for years to come.

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Diligencia is a provider of reliable and accurate entity data for the Middle East & Africa. Via our proprietary online platform www.ClarifiedBy.com we aim to provide a clear view of the facts and a solid foundation for our clients' decision-making. Our Family Offices dataset is a meticulously verified and growing collection of identified family businesses which form the cornerstone of economies in the MEA region.

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