

# Family offices: How do India's ultra-rich make investments?

As per an EY report, UHNIs are proactively exploring the family office route to manage their wealth

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In the last few years, the spate of initial public offerings and acquisitions created a new category of first-generation ultra high-net-worth individuals (UHNI), according to an EY report on family offices in India. The report also highlights that these UHNIs, as on December 2021, are proactively exploring the family office route to manage their wealth.

A family office is an entity created by high net-worth individuals to manage their money-related matters including investments, succession, taxation and legal aspects.

At Mint's Mutual Funds Conclave 2022, a panel on 'Family Offices: How do ultra-rich invest?' discussed how family offices and UHNIs are allocating their money. Amrita Farmahan, MD & CEO, wealth management, Ambit Private Ltd; Munish Randev, founder & CEO, Cervin Family Office; Nikhil Chandak, managing director & head investments (family office), JM Financial Ltd; and Nishant Agarwal, senior managing partner and head of family office, ASK Private Wealth; discussed this and other trends in the private market's investments space. Edited excerpts from the panel debate:

## What is the investment motive of UHNIs in India?

**Nishant Agarwal:** The concerns and issues are around wealth creation and accumulation followed by the transfer of wealth to the next generation. It's about leaving good legacies, contributing back to society or creating institutions and businesses that last beyond one's lifespan.

**Munish Randev:** The complexity and the problems they face are very different. This includes making sure that the succession plan for their wealth is clear and clarified for the next generation. Further, they also provide for the worst-case scenario of their businesses going bankrupt and how they and their family members could still maintain the same lifestyle for the next 5-8 years, at least till the time they find some footing on the ground. There is also a need to beat lifestyle inflation and lastly also create more wealth.

**In India, what's the typical minimum net worth when somebody can think of setting up a family office that works in favour of the family head in terms of cost-benefit analysis?**

**Nikhil Chandak:** The family office concept has gained ground in India in the past 8-10 years. In the Indian context, a net worth of around ₹250 crore is something that we would look to consider a family office.

**Nishant Agarwal:** For a family office, the salary cost would easily come to about ₹2-3 crore annually for good analysts. It would double when other incidental costs are added. That cost could be justified only if you have about \$100 million kind of a family office (the cost will be about 0.5-1% of the assets being managed).

Those with a lower AUM could consider a multi-office structure, which provides similar services as single-family offices but at a shared cost, since the expenses will be distributed across multiple clients.

**What are the asset classes that UHNIs invest in?**



Satya Sontanam of Mint talks to Munish Randev, founder & CEO, Cervin Family Office; Amrita Farmahan, MD & CEO - Wealth Management, Ambit Pvt Ltd; Nishant Agarwal, senior managing partner and head of family office, ASK Private Wealth; and Nikhil Chandak, MD & head - investments (family office), JM Financial

## Their views

### INVESTMENT MOTIVE OF UHNIS?

To provide for the worst-case scenario of bankruptcy, and to beat the inflation

**MUNISH**

To give back to the society and creating a long lasting legacy

**NISHANT**

To have a trusted manager to take care of their wealth

**NIKHIL**

### WHAT ASSET CLASSES DO THEY INVEST IN?

Public markets with largest allocation, private markets including unlisted companies, PE/VC funds, structured credit and distressed assets.

**AMRITA**

### WHAT CAUSED INTEREST IN PRIVATE MARKET INVESTMENTS?

**Munish:** Next generation involving in family office and maturing private market space

**Amrita:** Recent exits in 2021 at decent returns has been providing visibility

### GLOBAL ASSETS PREFERENCE

**Nikhil:** Mostly US, MF route is an option if LRS limits are breached

**Amrita:** Real estate (house in London/Dubai/US etc), one of the early investments

**Nishant:** A few investments to obtain residency in some jurisdictions

### ONE OBSERVATION ABOUT UHNIS

**Amrita:** People with more money, generally passionate

**Munish:** Detail oriented

**Nishant:** Smart people who can gauge human emotions

**Nikhil:** Expect a trusted advisor with ethical standards

**Amrita Farmahan:** The investment asset mix depends on the size of the family office and also to a large extent from where the family office derives its income. For example, in case of technology billionaires, who earned money from tech businesses, we find that a large part of their wealth actually goes back into alternate and private markets, sometimes more than 50-70%. There could be outliers in terms of asset allocation; but, family offices, on an average, maintain a balanced portfolio. Family offices are very forward-looking, investing in what's going to work in the next five to seven years, not necessarily what has worked in the past. We find that most family offices are open to exploring multiple investment opportunities including public markets with largest allocation, private markets including unlisted companies, PE/VC funds, structured credit and distressed assets. Over the past few years, hybrid assets viz. REITs and InvITs have seen a reasonable allocation in portfolios.

**Does their need to preserve capital lead to a conservative portfolio?**

**Nishant Agarwal:** Quite contrary, in fact. The inclination towards

growth investing in listed and unlisted equities has gone up. Over the last more than two decades of my experience working with HNI families, the first trend I have been witnessing is that the whole affinity towards investing in real estate is slowly and steadily diminishing. Secondly, I have seen keenness to exploring assets outside India. Lastly, there is openness to taking measured and calculated risks through start-ups, VCs and alternate space investing.

**As per the EY report, over 40% family offices have doubled their allocation to private markets in the past five years. What's causing this increased interest?**

**Munish Randev:** There are predominantly two or three reasons. One, because of the next generation coming in, who are educated abroad and who can understand the whole innovation ecosystem. They add their flavour when they become active in the family office. Secondly, we are seeing venture capital or private markets, private debt market space mature compared to what it was five years back and this leads to a sense of comfort. And lastly, on a lighter note, when somebody can't discuss the latest product in a social gathering, the

FOMO (fear of missing out) that comes with it brings people to invest in the growing asset classes, which is private markets in India.

**Amrita Farmahan:** One of the biggest problems in private markets in India in the last 10-15 years is getting an exit. In 2020-2021, the private markets matured and you started seeing exits. India has seen approximately \$16 billion worth of exits in 2021, which were either to public markets or secondary liquidity events. Exits provided visibility and that's what's caused a lot of the family offices to see this as a viable proposition to realize decent returns in the 7-10-year timeframe.

**In the private market space, are the investments typically made at the early stage or the pre-IPO stage?**

**Munish Randev:** So far, the active part of the investments has been at the early stage or in the pre-series-A financing. This is because the ticket size is smaller at this stage. Also, one will have multiple opportunities of exit from this point onwards, starting from series B and later.

**Amrita Farmahan:** There would be a higher velocity of deals in early stage, but the quantum of funds invested is relatively small compared to the money invested in the growth/late stage assets.

**In the case of single-family offi-**

**ces, do they prefer investing directly in alternative asset classes or go for a fund/co-investing route?**

**Nikhil Chandak:** I can speak for what we do. Our focus is to try and do it directly, but there could be different options. There are pros and cons to each model. For any specific investment, if specialized domain of expertise is required, we tend to collaborate with a lot of private equity funds and venture funds people whom we know well over the years and whom we can trust with their judgment. We occasionally also see opportunities where venture capital funds and private equity funds approach us to evaluate being a co-investor. They believe that having a strong, well-respected and experienced name on the cap table would be an added advantage to the start-up to realize its full potential in the long run.

**When it comes to international diversification, what are the global assets that family offices look at?**

**Nikhil Chandak:** The US is by far the most preferred location when it comes to global investing. From the perspective of innovation, disclosure, global scale, transparency and from ease of access to management, I think the US scores the best. However, one has to invest within the LRS (Liberalised Remittance Scheme) limits of \$250,000 per annum. One more option (which is not available for the time being) is investing through the several Index Funds and ETFs launched by Indian Mutual Funds which invest in US equities.

**Amrita Farmahan:** In terms of assets, real estate is one of the early investments, if not the first, globally. Indians UHNWIs have residential properties in places like UK, UAE and the US. Family offices have increased their international allocation recognizing embedded home bias, currency risks and tech disruptors. For example, companies in the digital and technology space, where there is no replication, are an automatic interest.

**Nishant Agarwal:** There is also growing interest in investments to secure residency in a foreign jurisdiction like the US, Portugal and Dubai which have investments linked residency schemes.