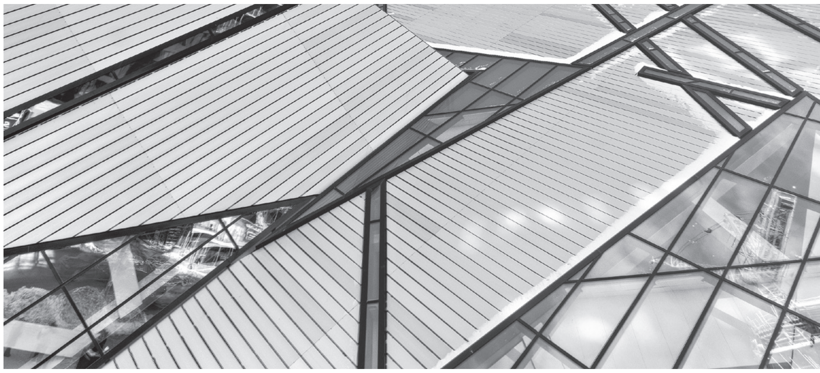
THE WEALTH ENTERPRISE BRIEFING
INFORMATION FOR WEALTHY FAMILIES
AND INDIVIDUALS

WE STANDS FOR WEALTH ENTERPRISE.



OUR APPROACH TO INVESTING IN PRIVATE MARKETS

Santiago Ulloa, *Chief Investment Officer and Managing Partner, WE Family Offices*

In the first few months of 2018, we have experienced a significant shift in the financial markets; we've gone from an era of plentiful liquidity provided by global central banks through highly accommodative financial policies, historically low interest rates, and low volatility to one in which central banks are less accommodative, interest rates are rising, and volatility is increasing. Our core investment thesis for some time has been that families with significant capital that exceeds their need for liquidity could find more attractive opportunities, over the long term, in the private securities markets than in public markets.

In addition, in recent years more value has been created in the private markets than the public markets, as companies have stayed private longer before going public, giving their private investors more of the return than public market investors. This is true not only in private equity and venture capital but also in private credit where banks have pulled out of some markets, offering attractive returns to private debt investors, and in real estate to those willing to accept the risk and illiquidity.

The private markets (private debt, private real assets and private equity) have long been a focus of institutional investors and sovereign wealth funds. As interest in private investing has grown, the large private investment firms that catered to institutional investors and sovereign wealth funds have broadened their efforts to focus on private investors, hiring teams to focus on fundraising from wealthy families and family offices. In addition, the private wealth management groups of major financial institutions have focused on increasing the number of private investment opportunities they offer to their private clients, often giving them access to the large private investment funds through feeder funds and other structures.

For several years, WE Family Offices has been focused on helping the families we work with access attractive private market opportunities. As we approach the marketplace to source opportunities on behalf of the families we serve, we use the following rules of thumb to guide our efforts.

1. We **generally avoid feeder funds** as a way to access private investment opportunities. Feeder funds are typically put together by the private client groups of large global financial institutions to give their clients access to the fund offerings of the large traditional private investment firms. The reason being that private clients often cannot meet the stated minimum "bite size" put in place by the general partner of the fund – often $5 million or more. These feeder funds often charge, in addition to the underlying fund fees of the manager (which are typically 2% management fees and 20% of the profits) an upfront placement charge of 1-3% and an annual "administrative fee" of 0.50-0.75%. These added charges can reduce the total return on the investment by 8-10%! Our approach is to avoid feeder funds, and their extra fees, and use the collective buying power of the families we represent to leverage better terms for our clients, such as smaller minimum investments.

2. We **prefer to look for opportunities with smaller managers** that are not on the radar screen of the broad wealth management market. These are managers who have a strong track record of value creation and because these managers are not running large funds with significant capacity, they tend to be off the radar screen of the traditional wealth management firms who need to direct their clients' capital in much larger amounts and therefore to larger, more traditional funds. It's also the case that the larger funds are paying a distribution fee or offering some form of shared economics to the wealth management firms. This introduces material conflicts of interest with the firms selling private investments to their clients and making a commission from the fund they are selling. We prefer to avoid these types of investments and conflicts and prefer smaller off-the-radar funds.

3. We **tend to avoid direct investments in individual companies** unless they are co-investments in which a general partner of a fund we know well and are invested with is also investing. The challenge with direct company investing is that it's hard to build and manage a diversified portfolio of direct private investments (sourcing and diligence). This is the core skill set of private investment manager. We feel that so long as manager and investor interests are aligned properly, that it makes sense to pay the manager to source, select and monitor direct investments in a single company.

4. We **look for strong alignment of interests** between the general partners of the investment fund and the limited partners in the fund (the investors). Investing in private markets has two defining characteristics: illiquidity (i.e. an investor cannot simply sell his investment on the open market and walk away) and long timeframes (it typically takes at least 7-10 years for a private investment fund to be fully realized). Over this time period there are bound to be some tough moments and critical decisions to be made. It is essential to have confidence that the general partner will confront these decisions with a mindset of close alignment with his or her investor, making decisions that put the interests of their investors above their own. It is for these reasons we tend to recommend investment opportunities in which we or someone in our network has experience and a relationship with the general partner. In addition, we typically look for funds in which the general partners invest a meaningful amount of their own capital in the fund, giving them a strong alignment of interest with the limited partners in their funds.

5. We **are aligned with our clients.** WE is a fee-only adviser, and our personnel invest in the same private funds we recommend to our clients - on the same terms as the clients.

Investing in the private markets requires a dedicated effort of sourcing, diligence and manager selection. It requires time, patience and specialized resources familiar with the nuances and unique characteristics of the private markets. WE Family Offices has dedicated private market investing resources, and most importantly, access and insight derived from our own efforts and our client families' networks. We leverage all of this to find compelling, high quality, aligned private market investment opportunities for the families we serve.

For more information, please contact WE Family Offices at 305.825.2225 or email info@wefamilyoffices.com.