More family offices are eschewing the traditional tendency to keep things close to the vest and all in the family, as it were, by joining investment clubs, where they can share insights and strategies. The trend is partly motivated by next-generation members who want to network more aggressively with other family offices, Amy Guttman reports.

Also in this issue, Mission Throttle’s Phillip W. Fisher talked with impact-investing pioneer Sir Ronald Cohen about his personal journey — from his family’s flight from Egypt and his work with the British government on reducing poverty, to the importance of transparency and the appeal of green bonds.

Want to join the conversation? Our reporters at Crain Currency are always looking to talk with knowledgeable people about wealth and family offices. If you’d be interested in occasionally talking with one of our reporters about an upcoming story, please take a minute to fill out this confidential survey. We promise that we will only reach out on your terms and only about the topics you’re interested in.

And as always, we’d love to hear any comments, ideas and insights that would make this newsletter more useful. Please forward your comments to Executive Editor Frederick Gabriel at fred.gabriel@crain.com or me at marcus.baram@crain.com.

Marcus Baram

HANDPICKED

More family offices, wealthy investors attracted to investment clubs

By AMY GUTTMAN
After Austin, Texas-based entrepreneur Nick Gray sold his startup, Museum Hack, for seven figures in 2019, he joined a peer network of high-net-worth individuals and family-office members. Applicants who pass a vetting process are invited to join the existing 1,200 members for a fee of $30,000 per year.

Gray’s choice, TIGER 21, seemed obvious because it was conceived to fill the very same need Gray had: Learn how to preserve and grow newly created wealth within a trusted and objective group of peers. It is part of an ever-crowded field of investment clubs forming to meet the needs of a growing number of individual investors, family offices, and next-generation family-office members who are taking more active roles.

Dennis Caulfield, vice president of research at FINTRX, which gathers private-wealth and family-office research and data, has witnessed the demand. “You’ve got a totally new generation coming into decision-making seats at these family offices, and they’re taking a new approach,” Caulfield said.

“One of those things is networking more aggressively with other family offices.”

In 1999, Michael Sonnenfeldt and six other founders, all of whom had just sold their businesses, set up TIGER 21 to create a forum to share advice and knowledge. TIGER 21 has grown to encompass more than 90 groups of about a dozen members who meet for a full day each month in more than 40 cities.

The club provided Gray a regional network of high-net-worth peers, access to deals and education that helped him set up his own family office.

Critical to Gray was TIGER 21’s cornerstone: its mandatory annual portfolio defense, in which each member discloses and defends the allocation of all of his or her assets in a presentation to a small group. The defense includes the member’s investment philosophy, criteria and in-depth analysis and is guided by a 20-page questionnaire. For Gray, it was what set the club apart.

“One of the most valuable benefits of being a member is the portfolio defense,” he said. “It’s straightforward, but it’s rigorous; you have to disclose every dollar you own, where it’s invested, how you acquired it and your allocation plans.

“Many people say the biggest benefit of membership is simply the preparation. There aren’t a lot of places like it.”

LEARNING FROM PEERS

Clubs operate differently, with overlapping offerings and various business models. Some are structured to collect membership fees, while others charge commissions on club deals. Other clubs generate revenue through advertising and selling services to members. Though some are strictly offering co-investment opportunities, many are structured to provide a combination of networking, education and best practices, along with access to vetted club deals.

“There is something intrinsically valuable about working with peers instead of those generating a salary from an investor’s wealth.”

— Swen Lorenz, Sarnia Asset Management

Swen Lorenz, CEO of Sarnia Asset Management, a fund manager serving high-net-worth individuals and family offices, said demand is partly driven by pragmatism.

“There is something intrinsically valuable about working with peers instead of those generating a salary from an investor’s wealth,” Lorenz said. “There’s also value in being able to follow someone more inclined to take the lead investor role than yourself, spreading the share of risk and getting access to expertise from people who created entrepreneurial success rather than being an employed analyst.”
Data gathered this month by FINTRX found that the number of single-family offices globally that are considering co-investing alongside other family offices is up from 43.8% in 2020 to 47.5% for the year to date.

Increasingly, Caulfield said, newer family offices are looking toward groups that have more experience with direct investing and share their investment principles, which are typically longer-term than those of funds.

“In 2020, just over 5% of all direct transactions that took place were co-investments by two or more family offices,” Caulfield said. “This past year alone, we’ve seen that rise to about 7%, which is fairly substantial when you consider that this is all transactions across direct real estate and all industries. We’re seeing co-investments grow hand in hand with direct investments.”

RBC Wealth Management’s 2021 Family Office Report said that the average family-office portfolio of direct investments included 10% club deals and 24% co-investments, which includes investing alongside a fund.

Growth in club deals and co-investing prompted Tim Draper to go beyond his VC fund, Draper Associates, to develop Draper Decentralized, a platform for networking, co-investing and accessing vetted deals. “Family-office investment clubs are popular because they’ve wanted to avoid paying a fee to VCs,” Draper said, “so we figured out a way to bring them direct deals. Some of them have not done well and have come back to Draper Associates. But some of them say, ‘I can do it, I’ll create my own deal flow.’ ”

**CLUB DEAL CHALLENGES**

The challenge of sourcing, evaluating and managing direct investments can be daunting. A 2022 survey by First Republic reports that while family-office co-investment is increasing, only 35% of those polled have the in-house resources and infrastructure to vet and monitor co-investments.

Lorenz of Sarnia Asset Management cautions those seeking club membership to conduct the same due diligence applied to investing. “Over the past 20 years, I have seen more hot air and even fraud in this sector than I can keep track of,” he said. “Few of them truly have the membership base, operational platform and access that they claim to have. Go for established names, and do your homework.”

Deals done through even the best clubs, Lorenz said, carry risk. “Investment clubs are incredibly useful,” he said. “I run an informal network of this kind myself, but investing successfully is incredibly hard, no matter what model you choose.”

Sage advice for a trend set to continue. “Investment clubs are here to stay,” Caulfield said. “The family office is a lonely place. There aren’t really any other investors who can really relate to the positions that a lot of these family offices are coming from.”

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**FROM OUR PARTNERS**

Readers in the Midwest are invited to a one-day event Oct. 25 in Birmingham, Michigan:

"Finding Security in Insecure Times"

The event will focus on the intersection of commercial real estate investing, financing and social impact. Topics include present-day approaches to equity, debt, financing, structure, compliance, tax strategies, family-office concerns, social impact and strengthening communities, and more, across several real estate asset classes. The program is designed for high-net-worth investors, family offices and real estate developers. Produced by Focus Media, the one-day event will bring more than 20 speakers from 10 cities, including managing partners of major firms in the real estate ecosystem, including:

**Speakers include:**

- Gideon Pfeffer, CEO of The GSH Group in metro Detroit and Tel Aviv, with $1 billion AUM and 7,000 residential units in five states.
- Developer Scott Goodman of Chicago-based Farpoint, which is launching a $3 billion Qualified Opportunity Zone project that includes urban farming, energy grids and data centers.
Family-office tax strategist Randy Abeles of RSM.
Award-winning architect Michael Poris of McIntosh-Poris.
Author Tom Wheelwright, founder of Wealthability.com and author of “Win Wealth Strategies.”
Award-winning producer S.J. Murray, who will talk about social impact and the power of story for families and communities.

Crain Currency is one of a dozen sponsors, including Verimatrix, Lex Markets and Good Seed Capital. Family-office registrants can apply for complimentary access. For others, the fee is $495, including breakfast, lunch and more. Hotel discounts available at The Daxton Hotel in downtown Birmingham.

For more information, visit the FOCUS Summit 2022 website or FocusMediaMarketing.com.

Q&A:
SIR RONALD COHEN

Sir Ronald Cohen is considered by many to be the father of impact investing and European venture capital. In 2020, his book Impact: Reshaping Capitalism to Drive Real Change, made the Wall Street Journal bestseller list. Cohen was knighted by Queen Elizabeth in 2001 for his two decades of leadership in developing the venture capital industry in the United Kingdom. In April, he was awarded the 2022 Perlmutter Award for Global Business Leadership at Brandeis University.

What were the forces that launched your journey into impact investing?

I had gotten into venture capital because I felt I could do good and do well at the same time. I could create jobs in the UK, where 3 million were unemployed, and I could also make gains. I knew I would have to look after my parents. My parents lost everything in Egypt — we left with a suitcase and 10 Egyptian pounds each in 1957. That was a way for me to do good and do well. I realized that in many ways, the efforts we were expending in helping people who came from nothing to become wealthy were also not solving the issue of the gap between rich and poor. And so when I got a phone call from [UK] Treasury in 2000 to look at how we deal with poverty by leading a new task force [UK Social Investment Taskforce 2000-2010] I immediately said yes. The government was concerned that however much money it throws at social issues, it doesn’t seem to make a lot of progress. That call in 2000 set me off on the journey which brings us here today.

Why do you believe impact investing is critically important?

I realized, as a result of the work of the Social Investment Taskforce, that the reason we hadn’t made more progress in tackling social issues was that we had failed to bring investment capital to fund those who want to improve other people’s lives. The conclusion of the task force was that we need to innovate and develop effective ways to invest in bringing solutions to social problems. Now, 22 years later, we can see why we have failed to tackle climate issues and to close the widening gap between rich and poor.
Black Lives Matter and the *gilets jaunes* [*yellow vest* protests in France] have once again brought social issues to our consciousness, this time alongside our urgent environmental challenges.

**How has the field evolved over the past two decades?**

For about a decade now, we have realized that we can change our system by bringing transparency to the impacts created by investors and businesses. When you begin to measure impacts on people and the environment, when you translate them into monetary terms, when you compare them with other investors and businesses, you change norms. You make it unacceptable for somebody to say, “I’m going to make a ton of money, but I’m going to destroy the environment in the process.” You’ve been able to get away with that when the only information available was your financial performance. But if your impacts are in plain sight and measured in monetary terms, and everyone can see that your business creates more damage than profit, all sorts of things begin to happen to you. You don’t attract talent, customers or investors. Instead, you attract regulation and taxation [like the carbon tax].

**What do you envision the field to look like in the next two decades?**

If you attend a board meeting, at the end of the decade, you will be analyzing not just your financial accounts but also your impact statement. Your audited impact statement will show, in monetary terms, your revenues, your costs and the different impacts you’ve created. You will analyze the monetary value of your environmental and social impacts — and strive to improve your impact and financial performance at the same time. You will quantify the investments you need to make in order to improve your environmental as well as human-impact performance. You will identify specific investments needed to improve it. For example, you will invest in your workforce to reduce diversity differences in employment, pay and advancement. You will also pinpoint ways to eliminate discrimination against gender or ethnic groups. You will do the same for your product impact and for the impact of your supply chain.

**How does a socially conscious person get started in impact investing?**

We need people to ask themselves, “How can I invest to create a positive impact as well as to realize attractive financial returns?” To do so, I would look within my investment portfolio at its different asset classes, identifying which companies are delivering the least negative impact or preferably the greatest positive impact. I would strive to hold green and sustainability linked bonds. Within my public equity portfolio, I would seek managers that take impact into account. The name of the investment game today is how you use impact to deliver *superior investment performance*; how you analyze companies according to risk, return and impact.

*Interview by Phillip W. Fisher, founder of *Mission Throttle* in suburban Detroit, dedicated to accelerating philanthropic innovation in communities; and Douglas Bitonti Stewart, executive director of the *Max M. & Marjorie S. Fisher Foundation*, whose mission is to enrich humanity by strengthening and empowering children and families in need.*

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**LOOSE CHANGE**

**ESG backlash builds steam:** South Carolina became the second state in recent weeks to pull its money — $200 million — from BlackRock over concerns about the asset management behemoth’s commitment to sustainable investing policies. Last week, Louisiana’s treasurer announced that the state was taking back $794 million invested with BlackRock over similar concerns, *Pensions & Investments* reports.

**Asia’s second-richest person turns to Singapore:** Reliance Industries Chairman Mukesh Ambani is following the lead of several other billionaires by setting up a family office in the island city-state, *Bloomberg News* reports. Others who’ve made the move are Graphite India Chairman Krishna Kumar Bangur and potentially 500 ultrahigh-net-worth investors from China who are reportedly considering permanent residency options in regulation-friendly Singapore.

**Even as assets grow, efficiency lags:** Family-office professionals surveyed by *Wealth Briefing Asia* say that 42% of the workweek is wasted on manual processes that could...
be done more efficiently with accounting software. And the tools they use tend to be crude, with 53% of respondents saying they use nonspecialist general ledger accounting software, which can be a huge disadvantage as the investing climate gets ever more complex.