

# FAMILY OFFICES IN MEXICO

INVESTORS LEADING  
THE FUTURE



Mexican Association of PE & VC Funds  
**AMEXCAP**  
Asociación Mexicana de Capital Privado A.C.

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# Preface

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**T**he magnitude of resources managed by Family Offices (FO) has made them relevant instruments for prosperity and economic growth. There is a global trend towards professionalization of FOs and Mexico is no exception.

Our interest to improve and promote FO services in Mexico, led us to invite 32 Mexican Family Offices to answer a survey during the last quarter of 2018; 25 answered all the questions, and we dove deeper through qualitative interviews with some of them. Their participation has allowed us to develop this first study where we found that some of the most important concerns to FOs are the generational transition, diversification of portfolios, the trend towards international investments, the need to increase philanthropic services and investments with impact, the need for strategic plans and a growing demand for risk measurement instruments.

As Mexican FOs continue to increase their level of professionalization and institutionalization, they will enhance families with successful businesses, to leave legacies that will transcend their entrepreneurial projects and spread to a wider society.



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# Introduction

Something that has become popular, without generalizing, is the following saying «The first generation builds, the second maintains and the third destroys», and therefore we believe that many challenges Family Offices lie in the generational transition.

In the financial services industry, Family Offices (FO) have become prominent, and are calling on a wide variety of experts not only to offer solutions and orientation to Family Offices to multiply their financial legacy, but also – and specifically – solutions in social, cultural and environmental areas. Therefore, the last three categories reflect the awareness of new generations, who care not only for the financial return but also the social return of their investments. These young generations are trying to honor the memory of those that shaped their family's future while giving back to society through a positive impact in their community.

Typically, FOs offer services in several areas, such as family financing to sponsor and do philanthropic work aside from their investment portfolios and other expert services to manage the funds that have given their family name prestige.

Although FOs participate in preserving their family interests when faced with unexpected situations or turbulent political and economic times, they are also active investors in causes that have an impact, because they have the flex-

ibility to determine where to invest depending upon their interests, affiliations and passions.

Unlike funds and banks, Family Offices do not have to be accountable to third parties and have a greater capacity to be daring when making investments. An example of this can be seen in the investments made into increasingly popular Start-ups, in all sectors of society. These investments are often seen as attractive destinations for capital, especially by younger generations that are starting to control family power.

It is therefore logical to think that FOs merge their values and principles, integrity and personal convictions with their investment portfolio, generating benefits for other people ... other cities ... to an entire nation ... how? by investing for society's common good.

## FAMILY OFFICES IN MEXICO

There is little information in Mexico about how national FOs work and, therefore, what are the Mexican market specific needs.

For more than a century Family Office groups have accumulated considerable wealth through efficient investment processes.

In our country FOs have existed now for more than twenty years, but their evolution is just starting because not only there are more now, but they are also more professional and institutionalized.

**Highly Liquid Family Businesses  
aspire to professionally  
invest their wealth and they  
pursue the following:**

1

Maintain  
the family wealth.

2

Diversify and invest with returns  
pursuant to their risk appetite.

3

Guarantee or facilitate generational  
transition in the most efficient, legal,  
fiscal and financial way

4

Generate a legacy to perpetuate the  
family philosophy and values.

5

Create social impact in Mexico  
and the communities where they  
generated their businesses either  
with philanthropic activities  
and /or investments in new  
businesses that have a  
social impact component.

The number of FOs has considerably increased due to several reasons: liquidity events generated by the sale of family-owned companies to large national or multinational corporations, the retirement of the first or second generation in family companies and the development of new business groups which have created new family fortunes.

We consider that generation changes in wealthy families are another factor that promote the creation of FOs in our country. Thirty years ago, large Mexican companies used to be managed by the «family patriarch» who, if he had not founded it, had led the corporation to generate the family patrimony. These patriarchs were or continue to be, the creators of family wealth and as such, they are excellent operators, strategists and leaders of their industries and the business environment in our country.

However, it is uncommon that these new entrepreneurs are also good financial investors. Therefore, the family's strategy for the education of their sons and grandsons focuses on the family business, but also includes a more global perspective that frequently includes post-graduate programs in Mexico or abroad. To a greater extent, these generations have tried to professionalize more the wealth management

of their FOs with external financial professionals.

The effects of these kind of investments may be reflected in the degree of innovation, productivity and competitiveness of their companies. Due to the confidentiality required by the nature of FOs, there is no more detailed information about the growth of their investment portfolio companies, although it is a fact that they have invested in private equity funds and they normally co-invest jointly with these funds.

We believe the factors mentioned have increased the number of FOs in Mexico to more than 50, and their structure is primarily dedicated to investment management. Even family groups who don't have formal FOs learn from the way their peers focus on investing their funds. Many of these FOs or family groups are interested in investing in Mexico to benefit from its potential and to contribute to its development by creating jobs and market value. Hence they are an important vehicle to contribute to development efforts and to increase the wellbeing of the population.

Regardless of the altruistic and philanthropic roles Mexican FOs have as families, by investing in Mexico, they very efficiently return resources to a society that allowed them to be successful.

# Executive Summary

## 1. Family Offices plan to invest more in private capital and they carefully adopt strategies due to the uncertainty of the business environment.

The Mexican FOs portfolios we chose for this survey focused on growing at a higher than the inflation rate and in general they hope to have lower than 15% returns - aligned with global FOs expectations.

The FOs preferred assets are stocks and alternative investments. When we asked them about their future strategies, we saw a marked trend to increase their investments in private companies through private equity funds' instruments and venture equity funds.

When, in the last quarter of 2018, we asked them about their future intentions - marked by an uncertain environment due to the change of government in Mexico - they mentioned their intention to increase their amount of cash in the portfolio and adjust the geographic distribution of their investments. Both movements are low-risk due to the current national and global re-definitions.

## 2. Philanthropy begins to be supplemented by impact investments with the future challenge to more visually detect the opportunities and better define the impact obtained.

Most of the FOs surveyed carry out philanthropic activities focused on generating sustainable opportunities for people at the base of the socioeconomic pyramid, especially through education projects.

Approximately half of the FOs are making «impact investments» — a concept that started in Mexico only a few years ago — that champions investing in projects that generate positive social and environmental outcomes in addition to financial returns.

Amongst the more common impact projects are those focused on increasing access to financial services (savings, payments, credits and insurance) to persons who live outside the formal economic system and those that are aligned with «green» investments such as: renewable energy, water management, control of pollutants, efficient transportation, reduction of residues and organic agriculture.

The proposal offered by the FOs analyzed is that to increase impact investments, it is important to better define how the long-term impact will be measured, besides the direct results obtained, and to make more visible current opportunities available for this kind of investments.

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### 3. The tactical business operations still significantly influences the decisions made by the Mexican FOs analyzed.

The number one concern of the sample analyzed in this study is to institutionalize the FOs management.

According to our survey, there is a relationship between the occurrence of a relevant liquidity event, coming from the total or partial sale of the operating business, and the institutional strengthening of the FO. This happens because wealth management no longer plays a secondary role to business operations and it becomes the center of the family's attention.

If we consider that nine out of every ten families of the sample participate in the business operations (most of them have a more than 50% participation), a possible mitigating factor of the growth in FOs institutionalization is that operative businesses still demand a lot of attention and effort from the families.

### 4. Some areas of opportunity to strengthen FOs as institutions are better planning processes, the decisions making and risk management.

There are three key processes in the path to institutionally strengthen Family Offices.

First, translate the patrimony objectives they want to achieve (preservation or growth of the patrimony, the social, environmental impact and the different dimensions of the family legacy) in a formal strategic plan with temporary horizons and success indicators. One third of the FOs sampled stated that they do not follow strategic plans.

Second, balance the decision-making process between the relatives and external professional consultants, considering some surveys show FO performance tends to improve when the family control is moderate and allows more participation of external experts. The weight of the patriarchs' and of the Family Councils' voice must be analyzed, while exploring the benefit of strengthening the Investment Committees so that the two sides are more balanced.

Third, professionalize the risk management mechanisms. Besides the risks associated to the investments made, a financially successful family is a natural target for attacks such as theft of confidential data and reputational blows. Amongst the good practices identified to manage risks are the following: hedging foreign exchange risks, portfolio diversification, privacy policies, cyber-security plans, scenario analysis and administrative controls.

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## 5. Sucession planning and the third-generation challenge are some of the most important future challenges for FOs.

Popular wisdom through phrases such as «wealthy grandfather, noble father, poor grandson» (*Shirtsleeves to Shirtsleeves in Three Generations*) refers to the «three generations rule» that states few families are able to extend patrimonial success beyond the third generation, because the latter tends to prioritize the maintenance of a high standard of living over continuing to generate revenues.

In the Mexican FOs sample, 70 % are managed by the first or second generation. The transition to the third generation is a very significant priority for some FOs.

The Mexican FOs that work on the generation transition challenge say that the following are good practices: train the successors, establish protocols for the family to respect future contingencies and to communicate the family and business values to future generations.



**01**

# How Family Offices Invest

Successful families share the characteristic of defining themselves by values unrelated to having money. Therefore when an FO is incorporated, the family can thoroughly ponder the legacy it wants to leave behind.

According to Family Office Exchange, this legacy has four main dimensions:

<p><b>1. Business Legacy</b></p> <p>The future of the company whose success generates jobs and value to consumers.</p>	<p><b>2. Financial Legacy</b></p> <p>Security to present and future generations.</p>	<p><b>3. Family Legacy</b></p> <p>Define its identity, where it comes from and where its footprint is headed based on what the family wants to leave behind.</p>	<p><b>4. Philanthropic Legacy</b></p> <p>The transcendent contribution of the family through their social impact and support to the community</p>
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If this multidimensional legacy is clear, FOs must translate it to an investment strategy that defines two factors: what are the objectives to be pursued and the instruments to be used.

One of the FOs tasks is to build an investment portfolio with different risk values that collectively aligns with the family objectives.

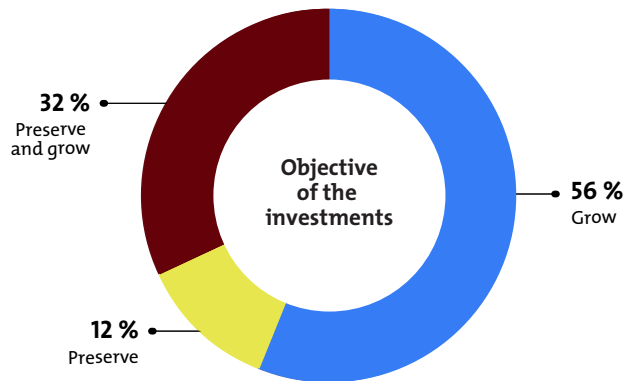
**THE GOALS TO GROW HIGHER THAN THE INFLATION'S RATE**

For the purposes of this study, we define two kinds of investment bets: the riskier one's objective is to grow higher than the inflation rate; and the safest ones are to preserve the value of the assets that fluctuate with inflation.

The Mexican FOs sampled in this study have portfolios focused on the first type of bets. 88 % of them focus their investments on growing more than the inflation rate and two thirds of those have all their portfolio oriented towards this objective.

**Chart 1:**  
**Family Offices' investment objective.**

Source: Survey of Family Offices in México 2018.  
Note: 25 FOs answered this question.



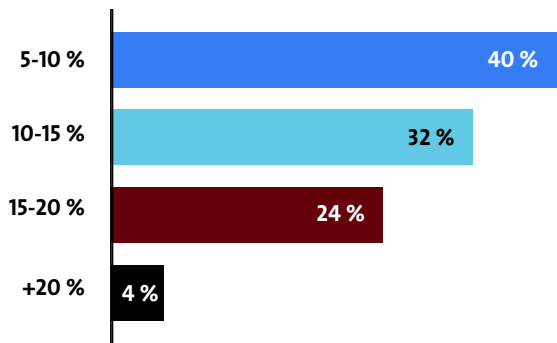
**BUT RELATIVELY MODERATE RETURNS ARE EXPECTED**

Once an FO has the investment portfolio's objective clear, based on how much should be preserved for safe bets and how much they can risk to grow, the flip side of the coin is the definition of how to measure the investments success.

The standard concept used to measure the success of an investment is the Internal Rate of Return (TIR, per its name in Spanish).

Of the FOs survey sample, 72 % expected a lower than 15% IRR (TIR, per its Spanish name) and a little more than half expected growth at a slightly higher than inflation rate.

**Chart 2:**  
**Expected annual return of investment in USD (IRR).**



Source: México 2018 Family Offices Survey .  
Note: This question was answered by 25 FOs.

It is no simple task to describe what is a good IRR (Internal Rate of Return). A Family Office may measure it absolutely, by comparing how it increases from one period to the next, or relatively, comparing it with a sector's, industry's or group of companies' growth rate.

In 2017 the Average Internal Rate of Return (IRR) in the world was 15 %. In comparison, the S&P 500 stock index's return that in the same year was 21.8%, which would suggest the performance of Family Offices was not so good.

But given that on average FOs around the world invest 28% in stocks<sup>1</sup> the results are not necessarily bad; it shows that FOs have diversified their investment instruments to balance risk and return, which in itself, is a responsible strategy.

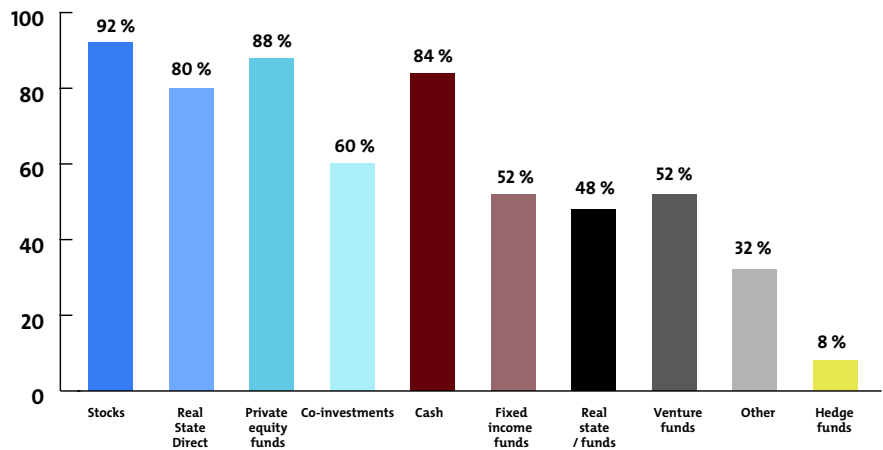
**MANY INSTRUMENTS THAT FAVOR ALTERNATIVE INVESTMENTS ARE USED**

Of the Mexican FOs sample in this survey 80 % invest in five or more different instruments and half of those in seven or more. The five instruments most frequently used are: stocks, real estate, private capital funds, co-investments and cash.

1. Chibber, K. (2018). *How to invest like a sixth-generation billionaire*. Quartz. Recovered from: <https://qz.com/1412024/how-to-invest-like-a-billionaire-tips-from-family-offices/>

**Chart 3:**  
**Most used instruments.**

Source: Survey of Family Offices in México 2018  
\*Agriculture and infrastructure, amongst other.  
Note: 25 FOs answered his question.



When considering the mean composition of the Mexican Family Offices' portfolios included in the sample, the most commonly used tool was alternative investments with the highest average (51 %) — real estate, private capital funds, venture capital, co-investments and hedge funds — and behind them are the stocks (31 %), fixed income funds (7 %) and cash (7 %).

When comparing the average distribution of FO portfolios at global level, what stands out is that in Mexico the highest proportion is invested in real estate (22 % versus 17 % in the world) and in stocks (31 % versus 28 % in the world). A smaller percentage is invested in fixed income (7 % versus 16 % in the world) in hedge funds (1 % versus 6 % in the world).

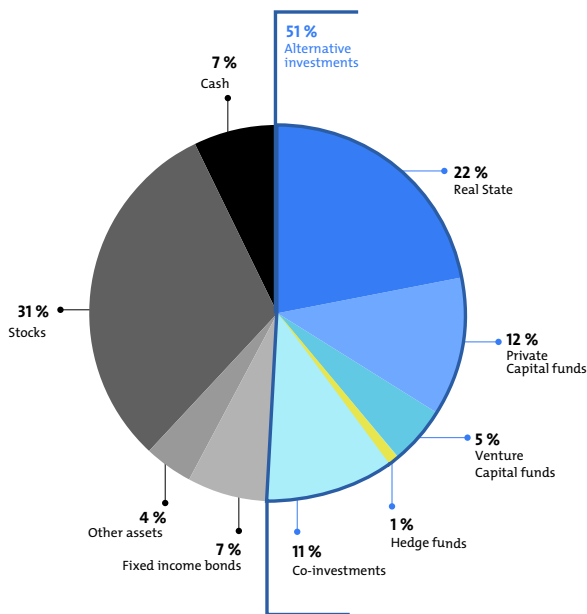
**FUTURE BET OF PRIVATE CAPITAL... AND CASH**

Considering the future, FO will likely consider publicly-traded stocks as less important in their portfolios - the weight is reduced 3.4 percentage points (pp)— and investments will increase in private companies, hence increasing the weight if private capital funds increases to 3.100), co-investments (increases 3.5pp) and venture capital funds (increases 0.4pp).

This shift will allow FOs to add more value to the competitiveness of the country's companies.

On the other hand, one can foresee a cash increase (up 2.6pp) to be at a 10 % ratio of the portfolio. Cash is an instrument that gives immediate access in case there are no unforeseen movements or if there are opportunities to be captured. The increase in the cash percentage in the Mexican FO portfolios may be a conservative strategy given global and national uncertainty.

**Chart 4:**  
**Current Average composition of the investment portfolio.**



Source: Family Offices Survey in Mexico 2018.  
\*Agriculture and Infrastructure, amongst other.  
Note: 25 FOs answered his question.

**Chart 5:**  
Current and future percentage variation of investments.

Kind of investment	Current average percentage	Future average percentage	Percentage Change
Stocks	31.3 %	27.9 %	-3.4 ↓
Fixed income Bonds	7.5 %	5.1 %	-2.4 ↓
Alternative Investments	50.7 %	53.4 %	2.7 ↑
Real State	22.2 %	18.3 %	-3.9 ↓
Private Capital Funds	12.2 %	15.3 %	3.1 ↑
Co-investments	10.9 %	14.4 %	3.5 ↑
Venture Capital Funds	4.4 %	4.8 %	0.4 ↑
Hedge Funds	1.2 %	1.0 %	-0.2 ↓
Cash	7.4 %	10.0 %	2.6 ↑
Other assets*	3.5 %	3.8 %	0.3 ↑

Survey of Family Offices in México 2018.

\*Agriculture and infrastructure, amongst other.

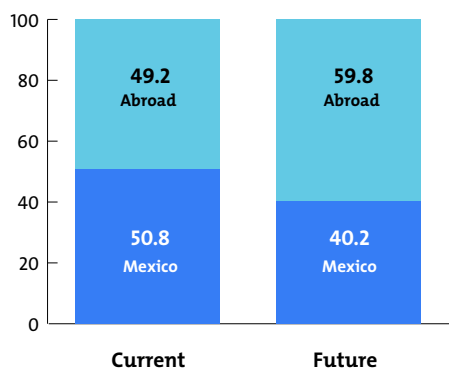
Notes: The variation in the number of Businesses is not presented because there are differences in the number of answers obtained.

### ADJUSTMENTS IN THE GEOGRAPHICAL DESTINATION OF INVESTMENTS

The average weight of investments in México is relevant to total asset allocation because almost 50 % of the portfolio is invested domestically.

Given the low-risk attitude of the Mexican FOs in the sample of this survey and considering the survey was made during the transition period between two administrations, we identified the possibility of a 10% adjustment in the portfolio's diversification away from Mexico investments and toward international ones.

**Chart 6:**  
Percentage Allocation of investments in México and abroad, current and future.



Source: Survey of Family Offices in México 2018.

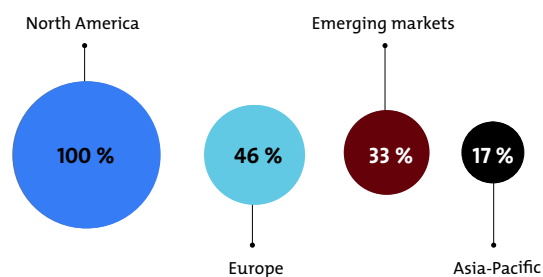
Note: For the current location 25 FO answered, while only 24 for the future.

**A larger private capital investment is good news for the companies benefiting from that investment because it represents an opportunity to grow and strengthen its innovation capacity.**

The most frequent investment destinations abroad are North America (where all the FO invest) and Europe (where close to half of the FO invest). It seems natural since these are regions with more developed financial markets that offer more alternatives and relatively stable economies.

One third of the FO are venturing and investing in emerging markets with higher returns because they are in countries with high growth rates, but also more risks since they are more susceptible to unpredictable economic movements.

**Chart 7:**  
**Countries in which FOs have investments.**



Source: Mexico 2018 Family Offices Survey in.  
Note: Only 24 FO answered for their location and the percentage is calculated on the total number of respondents.

# 02

## What is the impact of Family Offices

The world is in a stage of deep social and economic challenge. During the last three years, the common element in the speeches of winning politicians is that it is urgent to take care of economic inequality.

These trends are influencing thoughts on the legacy of families through their FO, especially amongst the new generations who are every day more conscious of the world they are inheriting.

**PHILANTHROPY, PREFERRED OPTION TO GENERATE SOCIAL IMPACT**

70 % of the FO surveyed carry out philanthropic activities that through donations to third party organizations or the management of their own foundations, try to generate a positive social impact in the country.

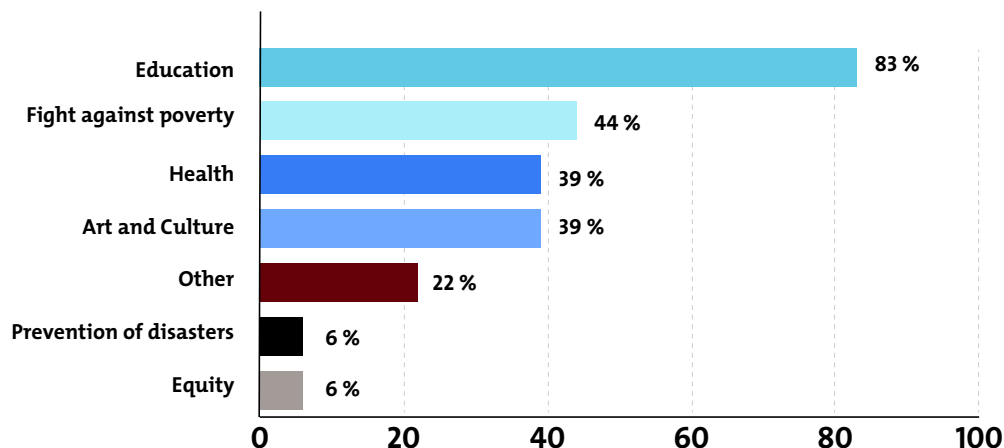
Philanthropy is an option that has always been used by successful families to turn part of their wealth into sustainable generation of opportunities for people that need it. As has been well identified by Amartya Sen, Nobel Prize in Economics in her book «Development as Freedom»<sup>3</sup>, poverty is not only an income problem but also a lack of freedom in fundamental areas such as health, education and housing that psychologically impact the self-esteem of the people that suffer from it.

According to the 2018 Latinbarometer,<sup>2</sup> only 12% of the population in México believes the distribution of wealth is fair.

FOs understand the close relationship of equitable access to quality education in the early stages of and poverty<sup>4</sup>, which is why 83% of them that carry out philanthropic activities support education projects.

The three issue areas of 1) fight poverty (44 %), 2) health (39 %), 3) art and culture (39 %) are the undisputed focus of the FO sample philanthropic activity, focused on taking care of the needs of persons on the base of the socioeconomic pyramid.

**Chart 8: Philanthropic Activities Sectors.**



Source: Family Offices survey in México 2018. Note: This table is presented in accordance with the 18 FO that answered that they did philanthropic activities.

\*The answers marled as "Other" were: honesty, tourism, values and religion and finally, development of skills and housing.

The sum is not 100 % because the participants chose several answers.

2. Latinobarometer 2018. Recovered from: [http://www.latinobarometro.org/latdocs/INFORME\\_2018\\_LATINOBAROMETRO.pdf](http://www.latinobarometro.org/latdocs/INFORME_2018_LATINOBAROMETRO.pdf)  
 3. Sen, A. (1999). *Development as freedom*. Oxford: Oxford University Press.  
 4. Equity in Education. (October 23, 2018). OECD. Recovered from: <https://www.oecd.org/education/equity-in-education-9789264073234-en.htm>



**INVESTMENTS WITH IMPACT, INCREASED USE AND WITH MORE POSSIBILITIES**

The Global Impact Investing Network (GIIN) defines «impact investment» as all investments made to generate a positive and measurable social and environmental impact, while at the same time looking for a financial return.

It emerged in 2007 as a more efficient alternative to philanthropy to grow impact projects, giving them the same incentives and standards as any other initiative that seeks to be self-sustaining and profitable.

According to an annual survey made by GIIN in 2018<sup>6</sup>, impact investing doubled between 2016 and 2018 – with assets under global management going from 114 billion dollars to 228 billion dollars.

Close to half of the Mexican FOs of the sample survey are already making inroads into what they consider impact investments.

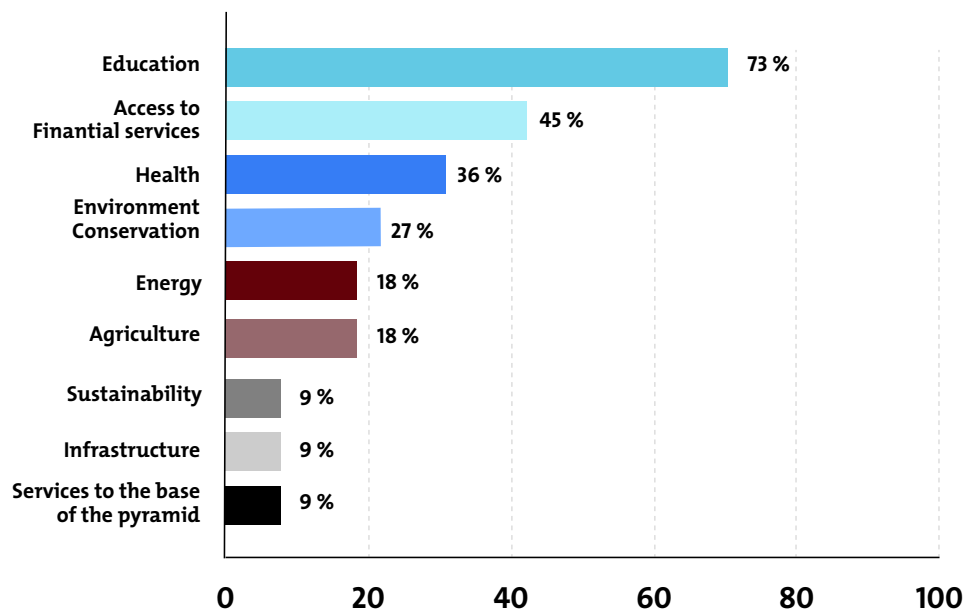
Although — just like in philanthropic activities — education and health are amongst the main destination sectors of impact investments, FO are also investing in other sectors hard to approach from a philanthropy vehicle.

Close to half of the FO that make impact investments have projects oriented to increased access to financial services. In the last decade, financial inclusion has been identified as one of the most efficient mechanisms to create opportunities for people who live at the margin of formal economic systems. Increased access to financial services such as savings, payments, credits and insurance may completely transform the options a person has to prosper.

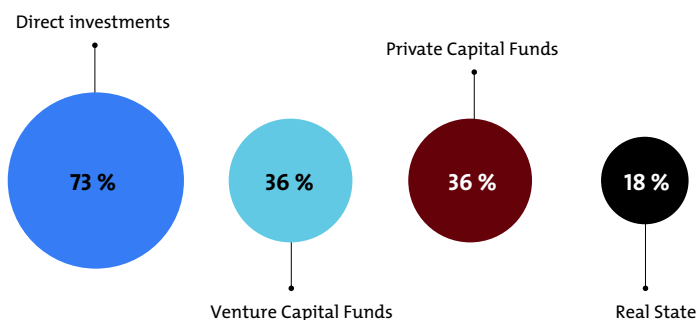
A little more than one fourth of the FO that make impact investments take on environmental conservation projects in energy, agriculture and sustainability. Collectively, these sectors are identified with the trend of «green» investment that includes projects such as: renewable energy, water management, pollutants control, efficient transportation, waste reduction and organic agriculture.

**Chart 9: Impact Investments Sectors.**

Source: 2018 México Family Offices Survey.  
 Note: This table is presented in accordance with the 11 FO that answered that they do have impact investments.  
 The sum is not 100% because the participants could choose several answers.

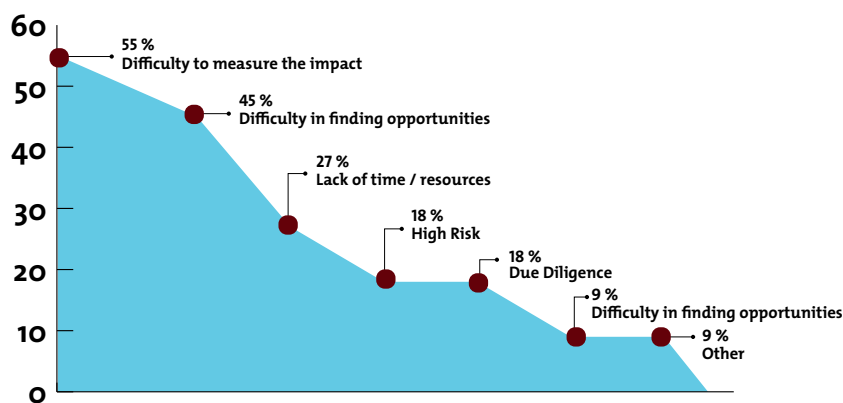


**Chart 10: Type E impact investments assets.**



Source: Family Offices Survey in México 2018.  
 Note: This table is presented in accordance with the 11 FOs that answered that they do have impact investments. One FO that has impact investments did not answer on the kind of assets. The sum does not give us 100 % because the participants could choose several answers.

**Chart 11: Difficulties in making impact investments.**



Source: Family Offices Survey in México 2018.  
 Note: This table is presented in accordance with the 11 FOs that answered that they do have impact investments. "We mentioned "others" because it is related to the difficulty of finding profitable opportunities with a real measurable social impact.

Similarly to their general investment portfolio, the surveyed FO preferred to invest directly in their impact projects. Three quarters of the FO sampled that make impact investments used this approach.

A little bit more than one third invest through either private capital or venture capital funds.

**FUTURE CHALLENGES: TO BETTER MEASURE THE IMPACT AND INCREASE THE VISIBILITY OF OPPORTUNITIES**

What is the stopping FO from making more impact investments? The number one barrier —identified by more than half of the FO surveyed - is the difficulty to measure the impact.

Alnoor Ebrahim, a scholar and expert in social impact measurement, identified in 2013 in an article in the Harvard Business Review<sup>7</sup> that a large part of organizations that receive impact investment capital, do not have enough resources to carry out the sophisticated research required to measure the long-term impact. What they do is measure the direct results (e.g. persons surveyed, products distributed, infrastructure built) and then they generate hypothesis of what could be the long term impact (e.g. increase in the level of education, income level improvement).

The second obstacle to make impact investments identified by the FOs is to find attractive opportunities. In Mexico, the investment ecosystem is still too new. The Alliance for Impact Investment in Mexico (AIIMx, as per initials in Spanish) was just created in 2015, and one of its main goals is to visualize investment options and document the success stories.

7. Ebrahim, A. (March 13, 2013). *Let us be realistic about measuring impact*. Harvard Business Review. Recovered from: <https://hbr.org/2013/03/lets-be-realistic-about-measur.html>

# 03

## How Family Offices are organized

The objectives of Family Offices are different from those of an operating company. On the one hand, family dynamics have a critical impact on the decisions made. On the other hand, the construction of a good FO may have a family grouping effect that guarantees its continuity between generations and their different legacies.

To integrate a team of trained consultants and professionals that manage the family equity represents a challenge due to the high trust level demanded from the persons involved. However, that approach has a highly positive potential impact because they make visible new ways to manage businesses and assets and facilitate the search for consensus amongst family members <sup>8</sup>.

**SMALL STRUCTURES IN ABSOLUTE TERMS, NORMAL IN RELATIVE TERMS**

FOs in the world measure the cost of their structures in two ways: absolute in millions of dollars and relative as a percentage of the total assets being managed.

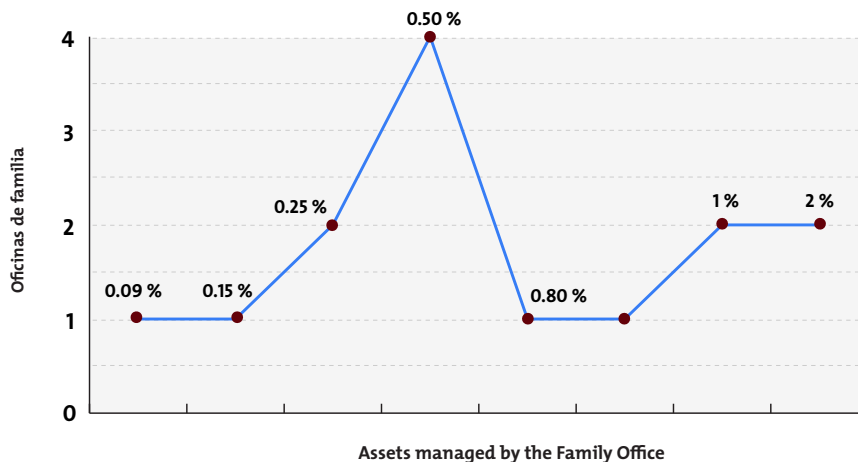
In 2018, FO had an average operating cost of \$6.7 million dollars globally that increases to \$11.4 million if outsourcing rates and fees are included.

The average operating expenses of the Mexican FO in this survey's sample<sup>9</sup> is \$940,625 dollars in a range between \$150,000 and \$5 million dollars. Although not all FOs clearly differentiate operating cost and external rates as is done by worldwide FOs in a standard manner in this survey, we can clearly see Mexican FOs are smaller in absolute terms.

In relative terms, the average operating cost globally in 2018 for FO was 0.67 % of total assets under management or AUM in accordance with the initials in English.

The Mexican FO's average operating cost in this sample<sup>10</sup> was 0.75 % of AUM with a median of 0.5 %. Although in absolute terms the Mexican FOs of the sample are smaller than the global average, when compared with the total assets they manage, the size is in line with the global average.

**Chart 12:**  
Percentage of the FO's cost between the percentage of assets.



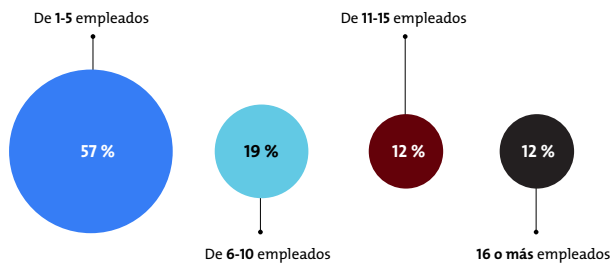
8. Reay, T.; Pearson, A & Gibb, W. (1 of September 2013) *Advising Family Office: Examining the Role of Family Firm Advisors*. Family Business Review. Book: 26. Issue: 3. Pages: 209-214. Recovered from <https://doi.org/10.1177/0894486513494277>  
 9. In order to do the analysis atypical values of the sample provided are excluded, leaving only 16 families in the analysis.  
 10. In order to be able to run the analysis of these figures, three answers that were atypical to the average answers were excluded, leaving only 16 families for the analysis.

When translating the size in terms of number of employees, we can confirm that FOs in Mexico have small structures. The FOs globally have an average of 11 employees while 77% of the Mexican FOs in this survey's have ten or less employees.

**STRATEGIC BALANCE BETWEEN IN-HOUSE SERVICES AND OUTSOURCED**

Since the teams that operate FO are small, to decide which FO services are performed in-house or outsourced to third party suppliers becomes a strategic issue to optimize costs and maintain a profitable structure.<sup>11</sup>

**Chart 13:**  
**Number of employees in Family Offices.**



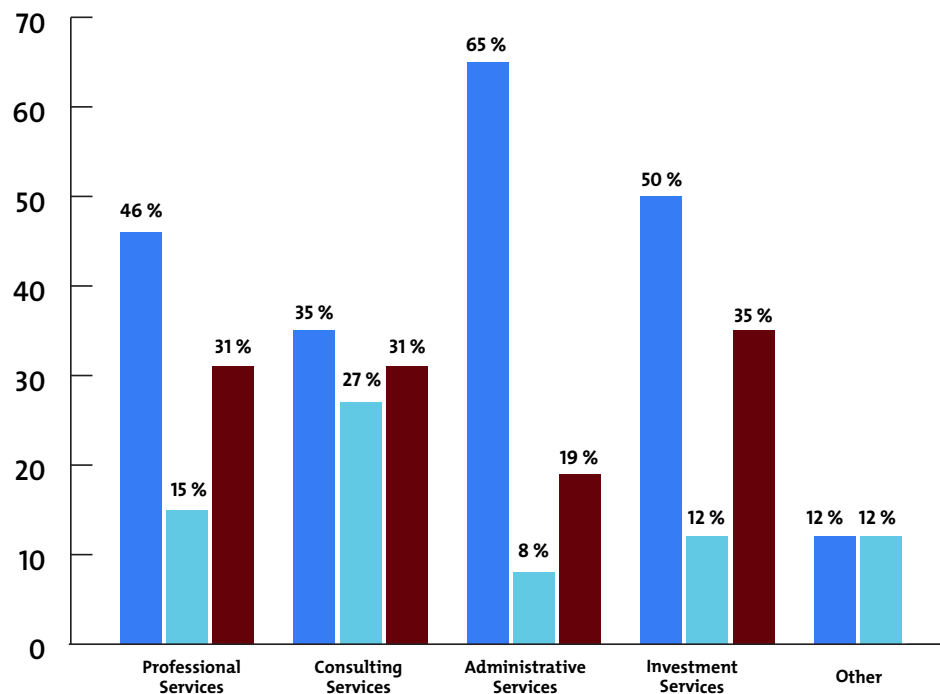
Source: Survey in Family Offices in México 2018.  
Note: 26 FO answered this question.

Globally, FOs tend to manage their own professional services related to family issues that require a lot of privacy such as the management of high value assets, support to new businesses and projects, succession planning or consulting on family matters. Instead, there are other less-sensitive issues that are outsourced such as outside consulting (legal, fiscal, real estate) and some administrative services.

**Chart 14:**  
**Services that fees cover as percentage of the total.**

Source: Survey of Family Offices in México 2018.  
Note: This question was answered by 26 FOs and the "Not Applicable" answers are omitted in this table. The percentages are calculated on the total FOs that answered.

- Internal
- External
- Both



11. Ernst & Young and The Center for Family Offices (2016). *The dynamic path to successfully manage the patrimony and the family.* (Whitepaper). Credit Suisse AG.

The Mexican FOs of this sample prefer to keep the office’s administrative services and the investment services internally; whereas consulting services are more distributed among in-house staff and external consultants. It will be interesting to explore in the future what consulting and professional support services for the family should be offered to personnel related to the Family Office and which ones makes more sense to subcontract.

**GOVERNMENT CHALLENGES:  
INSTITUTIONALIZATION AND GENERATION  
TRANSITION**

The Mexican FO’s in this sample had two priority issues to settle about governance. The first one mentioned by almost 70% was to introduce processes that would allow them to strengthen the organizational structure of the Family Office. The second one expressed in different ways is related to caring for the inter-generational dynamics to educate and prepare family members in order to guarantee successful successions.

This prioritization is consistent with opinions from FOs around the world, and additionally they identify the preservation of the endowment between generations as a key element. They also state that perfecting information flow and risk management are issues to be improved in the way Family Offices are governed.

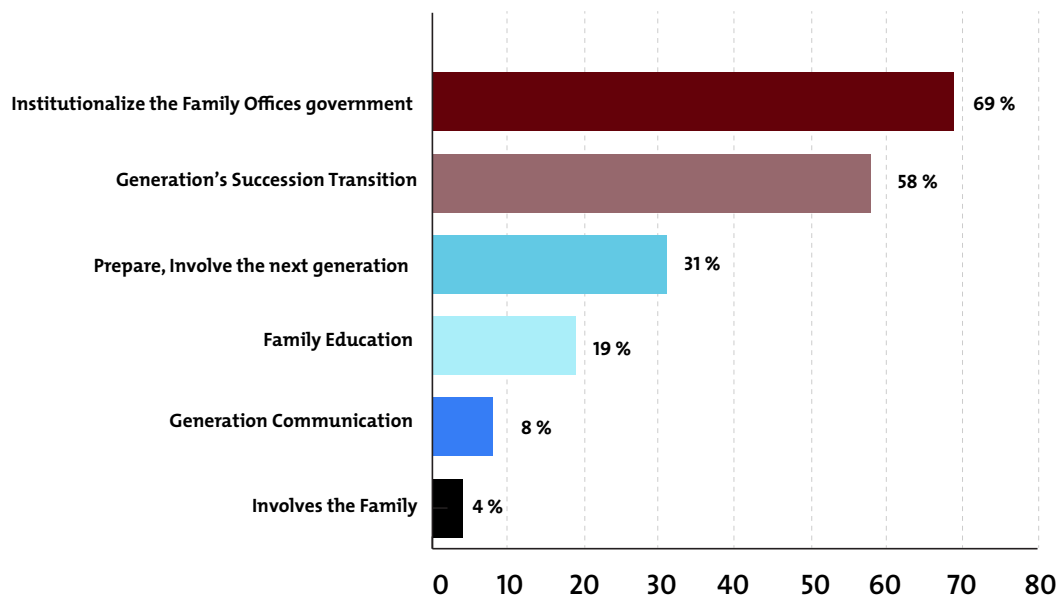
**THERE IS NO CLEAR DIFFERENTIATION  
BETWEEN THE OPERATING BUSINESS AND THE  
FAMILY OFFICE**

A relevant liquidity event, resulting from the sale of all or an important part of the operating business, changes the pace of governance of a Family Office. It increases the family interest in managing the endowment well and therefore incentives are generated to have a more professional Family Office, well balanced with external consulting.

In the Mexican Family Offices sample survey, this distance from the operating business does not exist because almost 9 out of every 10 companies maintain a participation in the family business and of these, 81% represents a majority percentage of the business.

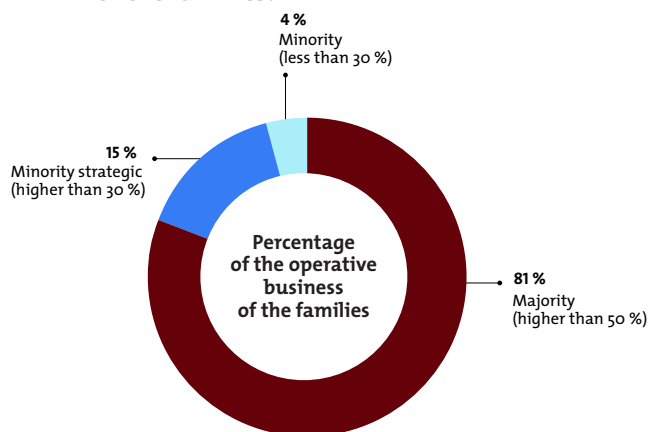
**Chart 15:  
Governance  
priority topics.**

Source: Survey of Family Offices in Mexico 2018.  
Note: 26 FO answered this question.  
The sum does not total 100 % because the participants could select several answers.



This seems to attenuate the institutionalization process of Family offices because they start to play a secondary role in the operational business.

**Chart 16:**  
**Percentage of the operative business of the families.**



Source: Survey of Family Offices in Mexico 2018.  
Note: Only those that said that they do have a business in operation, or say 27 FB.

#### **AREAS OF OPPORTUNITY IN PLANNING, DECISION MAKING AND RISK MANAGEMENT.**

To increase the institutional strength of an FO can mean many things. In this study, we have identified three processes that may make the difference between good and weak governance.

Planning is the first step. The chapter in this survey that deals with how FO invest mentions the importance of clearly defined objectives to pursue for the preservation or growth of endowment, the social, environmental impact and the several dimensions of the family legacy.

These objectives must be translated into an official document, as a strategic plan that allows communication with FOs directors and staff who want to have different investment horizons and to identify ways to measure success<sup>12</sup>. Two thirds of the Mexican FO do prepare strategic plans.

The second principal process to strengthen the FO as institutions is to decision-making protocols. Some studies state that the performance of an FO or family business tends to improve when the family control softens in favor of an increased participation and influence of professional external consultants<sup>13</sup>.

The decision making process may be carried out in the Family Councils where naturally the voice of relatives has a bigger impact, or in Investment Committees where the voice of expert third parties is included in a more formal and professional discussion.

The patriarch's<sup>14</sup> role is more prominent in the decision-making mechanisms. In many cases his voice is more important than any other, and this can hinder balanced discussions, which are ideal in a more institutional decision-making process.

The data provided by the Mexican FOs upon which this study is based, is not conclusive on the kind of decision-making body that is more used, which points out an area of opportunity.

The third process that contributes to strengthen the FO is risk management. Besides the risks associated to the investments made, a financially successful family is a natural target of attacks such as robbery of confidential data and reputational blows.

12. Ernst & Young and The Center for Family Business (2016). *The dynamic way for the successful management of the patrimony for the successful Management of the patrimony and the family.* (Whitepaper). Credit Suisse AG.

13. Poza E. (2016) How do the leading families manage the patrimony challenges. (Whitepaper). Credit Suisse AG.

14. Idem.

The Mexican FO in the sample stated the highest concern (in the last quarter of 2018 when the survey was made) about global and systemic risks that could happen in the following twelve months; in the second place, the financial risks associated to their investments; and in the third place, cyber security, given the sensitive data managed in the FO.

The data collected in this survey in which this study is based, is not conclusive on the level of preparation the FO have in Mexico to anticipate and manage risk.

The FO that do manage risks regarding the kind of actions that they perform, mentioned

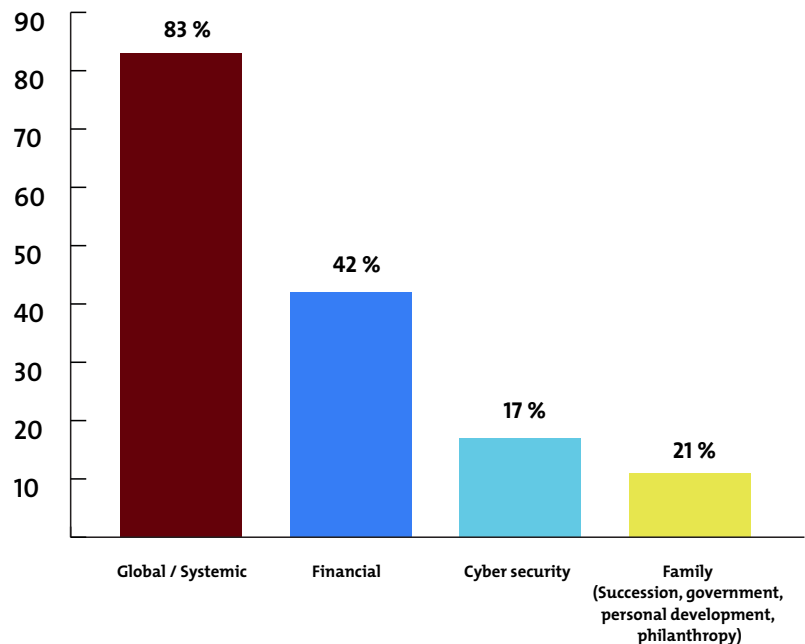
the following as relevant: hedging foreign exchange risks, portfolio diversification, privacy policies, cyber security plans, analysis of scenarios and administrative controls.

**MOST OF THE FO FACE THE CHALLENGE OF PREPARING A THIRD GENERATION**

Popular wisdom through slogans such as “rich grandfather, noble father, poor grandson” refer to the «three generations rule» that establishes that few families can extend the patrimonial success beyond the third generation, because it tends to privilege more the maintenance of a high standard of living than the continuity of the generation of income.

**Chart 17:**  
Main risks to be faced in the next 12 months.

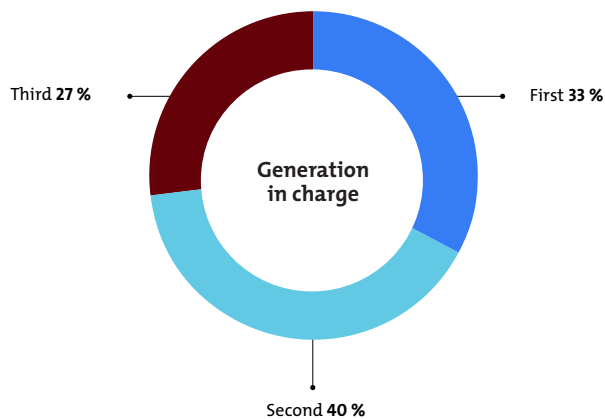
Source: Survey of Family Offices In México 2018.  
Note: 24 answered this question. The sum is not 100% because the participants could choose several answers.





**Only 29 % of families  
in the world have a  
formal transition plan.**

**Chart 18:  
Generation presiding the FO.**



Source: Mexican 2018 FO survey.  
Note: 31 FO answered this question.

Of the Mexican FOs sampled, 70% are managed by the first or second generation, which seems to prove that effective wealth management seems to be less common after the third generation, and on the other hand, explains why the generation transition is such an important priority for most of the FOs.

The longevity of family offices is deeply related to family transition planning<sup>15</sup>.

The Mexican FOs that are adequately managing this challenge mention the following as good practices: training of successors, protocols so that the family respects future contingencies and passing family and business values to the next generations<sup>16</sup>.

15. Campden Wealth Limited & UBS Switzerland AG (2017). *UBS: Global Family Office Report 2017*. UK: Campden Wealth Limited. Recovered from: [www.campdenwealth.com](http://www.campdenwealth.com)

16. Gaona, L.; De la Garza, P. y Hernández, R. (2014) *The successor key figure in the success of a Family Office*. International Magazine of Administration and Finance (Revista Internacional de Administración y Finanzas) (RIAF). Volumen 7, No. 3, 2014. Recovered from: <https://www.theibfr.com/es/revista-internacional-administracion-finanzas-riaf/>

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# Calls to contribute

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**W**e live in a new business boom, the result of intrepid entrepreneurs who, with technical developments, conceive innovative business models for a purpose: solve social needs in a relevant manner.

In this globalized era, where everything moves at an exponential pace, between global warming, fake news and economic disparities, society is demanding different ways forward. It is the duty of companies and those that lead them, to offer: new learning, better reflections and especially, investment in opportunities that generate a relevant social impact since unequal distribution of wealth has increased inequality amongst the world population.

Any action that allows us to contribute to minimize this inequality will be extremely valuable in building a better future. Considering that one of the objectives of FOs is to contribute to the prosperity of society by doing intelligent investments, they will become a fundamental vehicle in the well-being of the population and a key to drastically reduce this inequality if they make sure that each investment they make distributes wealth with justice.

In December 2018, The Economist published an article that considers FOs an emerging power investor. With the title «How the 0.001 % invest»<sup>17</sup> it shows us how the «super rich» decide

on how their FOs are going to invest, «new global finances power very few people have heard about», integrated by professionals in their decision making and managing process.

It is a reality that global finances increase with the wealth of families who continue to look for investment opportunities. This search for investments has great potential to find projects and causes that promote common good. The FOs, aside from managing the fortunes of those who have successfully built companies, are called to create a new path for money to generate a positive impact and favorable changes in this planet. This is our home and we must ensure that with good decisions, we are worthier every day of calling ourselves «human».

Although society has not fully realized the potential of the phenomenon of FOs, they do know it and recognize themselves as agents of change committed to the development of communities by investing in social growth and well-being. Proof of this is the consistency of the family values, where coherence between ethics and investments is the engine of concrete actions.

Besides being a family cohesion factor, expectations are that FOs become a gentle change of course of the needs of our time: to channel investments to promote sustainability, social development and care of the environment.

## Methodology

The study of Family Offices in México requires being closer to these institutions to understand the conditions and characteristics of their current operations. Given that there is little information available on Family Offices and their current characteristics, AMEXCAP and IPADE's Centro de Investigación en Iniciativa Empresarial EY (EY Research and Business Initiative) undertook the task of consolidating the databases of professionals linked to these activities in México.

The approach to this investigation was presented through an informational quantitative analysis, using a survey of FOs in Mexico and also semi-structured interviews to FO professionals that would allow them to complete a vision of the current situation of these offices.

A general questionnaire was designed to carry out a quantitative research that included 31 questions divided in 5 global topics: 1) Characterization of FOs in México, 2) Investment portfolio they manage, 3) Corporate organization and government, 4) The activities of social and environmental impact, and 5) Risk Management.

A small pilot test with an FO was carried out in order to test the effectiveness of the questionnaire, and the questionnaire was modified based on that pilot so that it would be clearer to the interviewees.

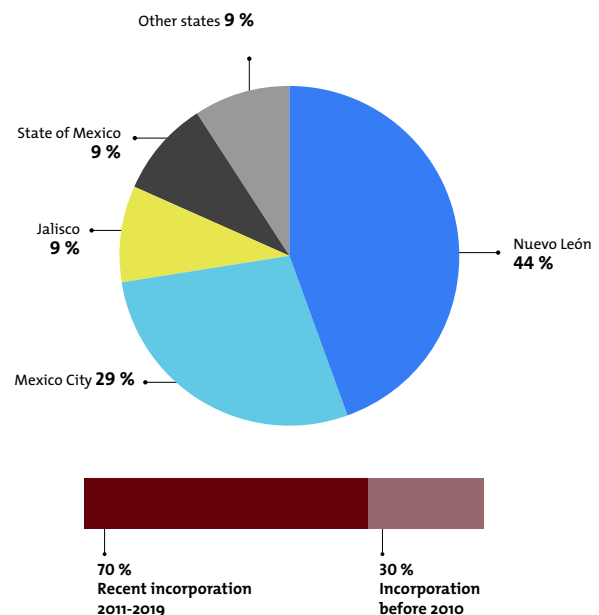
This questionnaire was placed on line in the Survey Monkey platform to be answered anonymously. Personal invitations were sent to directors of family businesses identified with the survey link that was on line from October 29 through December 7. Four reminders were sent to the surveyed guests.

A total of 35 surveys were obtained in this manner and of them only 25 were completely answered, while in seven cases some questions were omitted by the persons surveyed.

A semi-structured interview script was designed for a qualitative research intervention and four FOs were interviewed to thoroughly understand the analysis gathered from the survey.

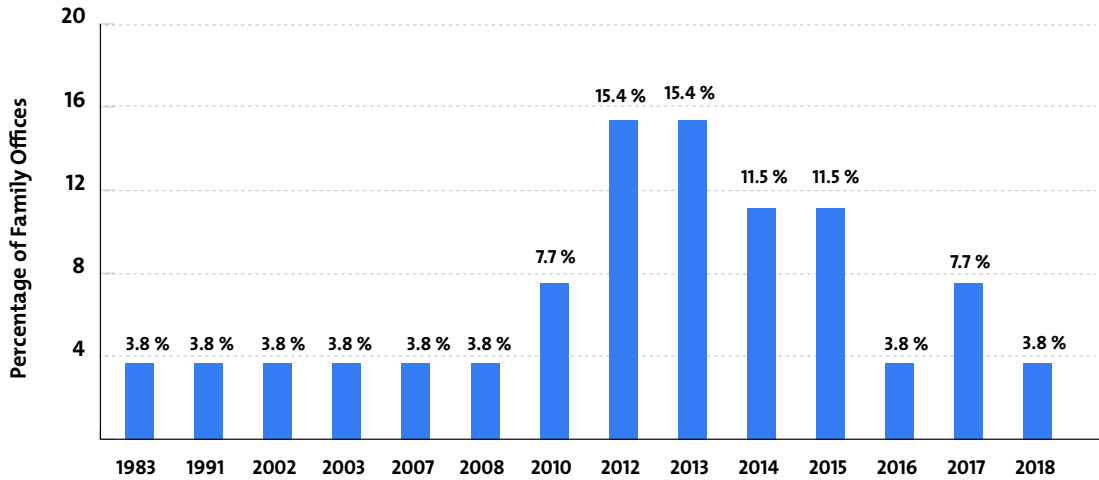
Most of the FOs interviewed are in the states with a higher Gross Domestic Product, such as Nuevo León, Mexico City, Jalisco and the State of Mexico, while the other FOs are distributed in the other states. It is important to note that 72% of the FO surveyed are in Nuevo León and Mexico City.

**Chart 19:**  
**State of FOs.**



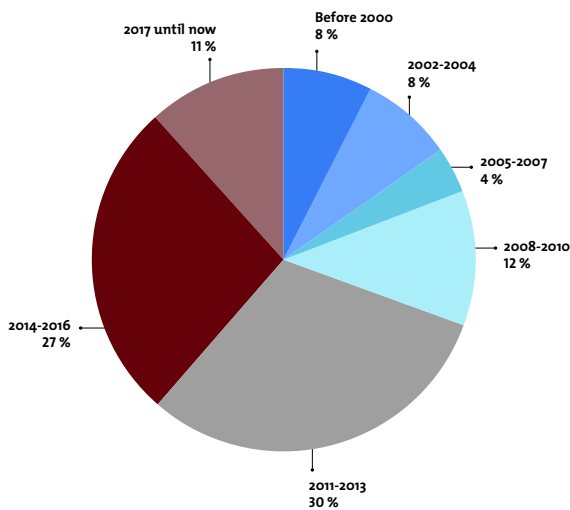
Source: Survey of Family Offices in México 2018.  
Note: 32 FOs answered this question.

**Chart 20:**  
Year of incorporation of the Family Office.



Source: Survey of Family Offices in México 2018.  
Note: 26 FO Answered this question

**Chart 21:**  
Year of incorporation of the FO.



Source: México 2018 Family Offices Surveyed.  
Note: 26 FOs answered this question.  
\*Years were grouped for this analysis.

In general, 70 % of FOs surveyed were recently organized - incorporated between 2011 to the present. The remaining 30% were incorporated before 2010.

The average number of years incorporated among the 26 businesses interviewed was 5.4 years.

On the other hand, 23 % of the FOs were organized between 8 and 16 years ago and only 8 % of the FOs that answered were organized between 24 and 35 years ago respectively.

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