



The Fundamentals of Family Office Legacy Assets

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Over four years ago, I founded Emissary Partners on the intuition that, as family offices globalize, they will face particular challenges dealing with cross-border investment risks.

While all investors with a global asset allocation should, in principle, face the same sets of market conditions and risks, family offices are different for, among other reasons, their governance structures, privacy imperatives, and leaner teams. So, the questions followed, how were family offices grappling differently with cross-border investment risks, and specifically the risk of disputes?

We now know the answers to these questions. Family offices typically experience global risks in the illiquid portfolio in the form of legacy assets. Through discussions with 150+ single family offices, 20+ multi-family offices, and hundreds more advisors, we have found that the overwhelming majority of family offices will have at least five percent of their portfolios vested in legacy assets.

After four years of advising family offices on legacy asset workouts, and several hundred off-the-record discussions in this space, we have come to understand how universal (if quiet) legacy asset issues are.

OUR RESEARCH

How do family offices grapple with cross-border investment risks, and specifically the risk of disputes?

20+

Multi-family offices

150+

Single family offices

OUR FINDINGS

5%

of family office AUM typically in legacy assets



The Fundamentals of Family Office Legacy Assets

I had the privilege recently of presenting our findings at Club B, the global single family office forum, in Barcelona, Spain. If legacy assets represent roughly five percent of global family office AUM, then it is important that family offices and their advisors understand the basic principles of this “sub-asset class”:

90%

of family offices acknowledge having legacy assets

Virtually all family offices have legacy asset issues. In our experience, around 90% of family offices acknowledge having legacy assets in the portfolio.

They might also describe the same issue as “run off”, “long tail”, “cigar butts”, “stray dogs”, or “stranded assets.” Everyone in the family office world — and I mean everyone — struggles with these issues in private, even if they are more guarded in public. Using the term “legacy asset” provides a softer nomenclature for a hard issue.

4

ways to exit a legacy asset

There are four ways out of a legacy asset: negotiated exit, legal action, secondary sale of interest, or write off.

The problem in governance and decision-making over legacy assets is that clients typically don’t have all these options laid out in comparable terms. This option set will take some work to map out and should be presented on a risk-adjusted net present value (NPV) basis.

Improvement of the legal and sale options creates a higher bar for negotiated exit.

5%

of family office AUM typically in legacy assets

Legacy assets are long-dated alternative investments, where another party is impairing an exit.

This issue normally represents 5%+ of AUM across family offices. The typical legacy asset story involves an alternative investment made 7+ years ago, where a manager, counterparty, stakeholder, or government is standing in the way of realizing value from the investment. The family office typically has low visibility into the current condition of the investment and underlying value because information has been withheld.

7+

years typical age of investment

The starting point in every legacy asset decision is visibility.

In order to develop precise exit options, you need accurate information on the current condition of an investment. Often the party impairing the investment will have taken some effort to obscure information about the investment. Information is power for family offices and enables clearer decision making.

For family offices, it is always about more than the investment.

Legacy asset issues are not just financial decisions; they have impact on reputation which is sometimes a greater driver than financial impact. For principals, they are also about intergenerational family relationships and transitions. As a consequence, the role of the advisor is to empower the client with information, options, and the ability to execute a plan, as opposed to driving toward a specific outcome.



Market Conditions Creating a Sense of Urgency

In 2023, family office CIOs and principals are spending more time trying to solve the puzzles presented by legacy assets. In our experience, we see three reasons why family office leaders feel a greater imperative to deal with legacy issues this year:

Monetary Policy

Global monetary policy has raised the opportunity cost of not dealing with legacy asset issues as interest rates are the highest since the Global Financial Crisis.

Geopolitical Factors

Geopolitical conflicts and tensions are bringing cross-border investments under pressure and creating a sense of urgency to exit legacy positions in countries such as China.

Legacy Issues

Principals and CIOs are taking a fresh look at legacy issues as intergenerational succession proceeds within many family offices, including Millennials entering greater positions of leadership and responsibility.

For our part, we are continuing to build Emissary Partners as a premier global special situations firm dedicated to the needs of family offices and institutional investors. We are helping clients (i) gain better visibility into their legacy portfolios, (ii) develop clear options for exit and recourse, and (iii) execute the most efficient recovery strategies. It is meaningful work that involves thinking globally, answering hard questions, and building deep and trusted relationships with our clients.

Thank you to our clients, colleagues, and friends

I want to thank you — our clients, colleagues, and friends — who continue to help us grow our firm and pursue our work with the greatest possible impact. We look forward to continuing to partner with you this year and will be in touch with more news and insight from Emissary Partners. In the meantime, please reach out if we can be of service to you or your network.