My Family My Business

Family Offices

A driving force for social and economic development in Nigeria

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Family Offices are making their mark globally, the opportunities for Nigeria's wealthy families are still under-exploited

Traditionally, family offices have focused on asset management and wealth preservation. This has taken on different forms such as passive investment, limited partnership in private equity deals, direct holdings in a few companies and appointing a trusted expert or family member to manage the family assets. However, with increasing wealth and globalisation today, family offices are evolving. Many modern-day family offices have begun to professionalise themselves by setting up governance structures and pursuing more direct investing opportunities. This often provides family offices an opportunity for more direct control, reduced fees versus the passive approach and increased net returns.

Direct investing also plays well to the strength of the advanced family office by offering local entrepreneurs a source of capital which has a longer time horizon for investments and potentially an opportunity to benefit from an older generation of entrepreneurs who have often built their fortunes in the private market.

Globally, the transition of family offices from more conservative forms of investment to direct investors in a wider asset mix has produced high calibre investment vehicles, with substantial assets under management. For example, the AUM of the Walton family, of Walmart fame.

Rank	Family Office	AUM	Owner	Region
1	Walton Enterprises LLC	$ 224,500,000,000	The Walton Family	North America
2	Cascade Investment	$ 170,000,000,000	Bill Gates	North America
3	Bezos Expeditions	$ 107,800,000,000	Jeff Bezos	North America
4	Mousse Partners	$ 89,000,000,000	Chanel Inc	North America
5	Ballmer Group	$ 85,000,000,000	Steve Ballmer	North America
6	Waycrosse	$ 65,200,000,000	Cargill	North America
7	Fedesa	$ 55,000,000,000	The Ferreros	Europe
8	The Woodbridge Company	$ 53,900,000,000	Family of Roy Thomson	North America
9	Pontegadea Inversiones	$ 53,800,000,000	Amancio Ortega	Europe
10	Dubai Holding	$ 35,000,000,000	Sheikh Mohammed bin Rashid al-Maktoum	Middle East

Source: Sovereign Wealth Fund Institute

Compared to other regions, Africa has the lowest number of family offices in the world, and none rank in the top 10 in terms of assets under management. The family office landscape in Nigeria is largely undeveloped. However, they are beginning to professionalize in a way that is consistent with global trends.

According to PwC Nigeria's Family Business Survey 2021, we can expect a big shift in governance over the next 5 years as Nigerian family businesses expect to move from owner managed/ family managed (97%) to family controlled/ family owned (externally managed) 59% - FBS Survey 2021, Nigeria.

With the transition to externally managed family businesses, the time has come for Nigerian wealthy families to consider a professional managed family office that provides them a platform to not only preserve wealth but also grow multi-generational wealth in Nigeria. With the right support and decision-making, leading family offices are well placed to make an impact that is comparable to the Walton family.

According to the 2021 Africa Wealth Report released by South Africa-based AfrAsia Bank, Nigeria's Ultra High Net Worth Individuals (UHNWI), number about 9,100 (Networth >$1 Mn), owning a combined total wealth of approximately $207 billion, as of December 2020. In the next 5 years, predictions are that there will be an 11% growth in Ultra High Net Worth Individuals (UHNWI) in Africa (KnightFrank Wealth Report 2022). However, a large percentage of wealth management is carried out internationally, with BusinessWire reporting that Nigerian UHNIs held 16.8% (US$17.2 billion) of their wealth outside their home country in 2015.

While the tendency to invest outside of Nigeria is understandable, we believe that family offices should look locally to create optimal value in terms of both investment returns and social and economic impact. This is most obvious when examining the opportunities for venture capital investment.

Nigeria's family offices can develop the tools and know-how to drive venture capital investment to produce returns and wider social and economic impact

With family offices bringing in venture capital for entrepreneurs to scale their business, there will be a ripple effect on the economy of the nation, as more financial resources are retained within the system. This will ultimately lead to economic prosperity for the many.

Typically, family office direct investing strategies work very in sectors where the family fortune was made, or in related industries. This is because deep knowledge of the sector gives the family office an unparalleled advantage in evaluating and executing on the investment opportunity. Nowhere is this more validated than in the Igbo apprenticeship system, a model that is fundamentally Nigerian that has the potential to be institutionalized in the structure of modern family offices.

The Igbo Apprenticeship system (IAS)

Nigerian Igbos run one of the oldest venture capital industries in the world, as well as one of the most advanced business incubation systems in the world. The IAS is a prime example of how “initial seed capital” provided by established family groups has been used to develop small scale industries.
End to end, the IAS is a three-phase system that begins with the master identifying and recruiting a few apprentices to assist him in his business. Young boys are then introduced into the business.

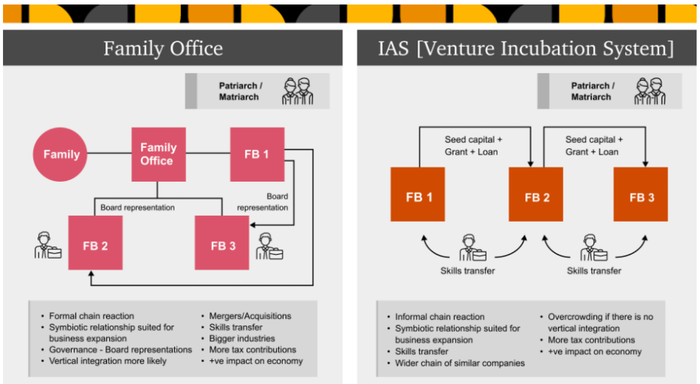
The second phase of the system is the incubation phase where the apprentices are given the opportunity to learn the business model. They are trained and nurtured on sales and marketing, customer service, business accounting, and other vital parts of the business.

The third phase is the settlement at the end of the apprenticeship process. In this phase, the apprentices receive a cash infusion and social capital from the master to support or kick-start their own businesses. If the master was holding a 15% market share in a particular region, at the end of settlement, he might be holding on to just 10% to 12%, giving away the remaining to his apprentices. This way, a model of shared prosperity for the benefit of all is embraced.

With the IAS an informal system, it is very similar to the family office investing model described in table one and represented in graph form below.

	Item	Igbo Apprenticeship system	Family Office
1.	Capital	Provision of seed and social capital to the new business.	Family offices provide angel investment for entrepreneurs.
2.	Shared Wealth	Philosophy of shared prosperity and wealth distribution.	Provide a pathway for mutual prosperity for investors and entrepreneurs.
3.	Ecosystem impact	Helps build business ecosystems based on aligned values and shared culture.	Alignment in values contributes to the building of the targeted investment portfolio.
4	Skills impact	Skills transfer through period of service to family patriarch or matriarch	Skills development through board participation, mentoring of younger entrepreneurs.

By learning from and adapting the already existing IAS, family offices in Nigeria can position themselves as a bedrock of economic growth and development in the country. As it is estimated that over N298 trillion or about 86 per cent of the projected investments in the National Development Plan (NDP) 2021-2025 will come from the private sector, greater institutionalization of existing business development and growth practices can serve to enhance investment opportunity.



Venture Capital investments will create more value if executed locally

In 2021, Nigerian entrepreneurs raised over US$1.6billion from investors outside the country despite the challenges of raising funds from external sources. This is a goldmine waiting to be tapped. Local family offices will have an advantage in this space given the considerations around currency matching and providing a platform for local entrepreneurs to benefit from an experienced older generation.

It’s an exciting opportunity to grow Nigeria’s emerging businesses and stimulate innovative kinds of local economic development.
Family offices in Nigeria are well kitted out to exploit this opportunity for three key reasons. Firstly, family offices have more flexibility to deploy risk capital than do traditional lenders and investors. While it certainly would not be recommended for any form of wealth preservation to have a strictly venture-based strategy, a family office is not constrained by fiduciary duty to the same extent as retail banks, mutual funds, insurers, or pension funds and this makes it easier to allocate some assets to investments that are considered to be too risky by other investors.

Secondly, local family offices have a special interest to invest in future entrepreneurs and businesses. Not only do family offices represent successful earlier generations of entrepreneurs and so have a deeper affinity for those who are building businesses from scratch in the face of extreme challenges, they also have a direct interest in the success of those businesses, as they represent future economic growth and hence the legacy of existing enterprise.

Finally, family offices are able to define an investment agenda that focuses not only on wealth management but also one that is consistent with their values and ambitions for Nigeria’s growth and development. The phenomenon of younger generations working through their family offices to seek social and environmental impact through their investments is a trend across the world. Nextgeners in Nigeria are no different. Importantly, a values-based investment agenda can become amplified through public discourse and has the potential to lead to engagement and positive change on issues that may otherwise be ignored.

Conclusion and Next Steps

The opportunity presents itself for family offices to leave a mark in the sands of time through their contribution to sustainable development. By moving from charitable donations and philanthropy (which is limited and exhaustible) to intentionally investing for impact, family offices can leverage on their financial resources to generate returns which can then be recycled into the economy. This creates a long term, recurring, and sustainable impact for the society.

It is also noteworthy that allocating a percentage of capital to higher risk entrepreneurial development should not compromise returns in the long run. Rather, it is an opportunity to make a significant difference to entrepreneurial development and growth at the foundational level and to create a strategy that aligns returns with economic and social development. Focusing on specific entrepreneurial themes or issues also creates a chance to send a message about an offices’ vision for Nigeria’s future that goes far beyond direct investment.

Before venturing into a family office set up, there are critical questions to be had. Your first step should be to decide what’s important to the family. Based on those choices you can then apply a purpose lens to everything you do, including looking at how your ethical standards of behaviour align with your value set. The family values statement is a great compass in guiding investment decisions because it provides a basis for identifying the sectors/themes you want to focus on.
The opportunity to make a mark is here. It just needs to be seized.

Contributors

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