Bloomberg Markets

Q1 2018

Special Report

Family Offices

These People Move Fast

Wealthy families are becoming speedy dealmakers, and they're beating private equity at its own game *p 22*

Alternatives to a Prenuptial Agreement: 5 Tips for Protecting Your Assets at the Start of a Marriage

IN THIS DAY and age when the divorce rate is trending up, one can never be too prepared. In the absence of certainty, planning for the unknown and learning your options are the next best thing. There are several measures that may be taken in place of executing a prenuptial agreement that will help preserve one's separate assets should the relationship result in separation and divorce.

Open new financial accounts after getting married.
This practice clearly separates marital assets from your separate assets and facilitates the payment of marital expenses and marital acquisitions. Any contributions to or purchases made from these accounts will be considered marital property.

Keep separate property distinctly separate and in your individual name only.
Avoid adding any marital funds to your separate property accounts. Adding property or funds acquired during the marriage, such as earnings, to these separate property accounts results in comingling, which will taint all the property in such an account. Whether you file your tax returns jointly or separately, keep track of your portion of your tax liability separately.

Consider setting up a revocable trust to keep separate property separate.
As a separate legal entity, this structure would add another layer of protection. Keeping your separate funds in a separate entity may help reduce the administrative tasks of tracing acquisitions and provide another hurdle to comingling assets.

Keep diligent records.
This will be crucial for those who wish to preserve their separate property without a prenuptial agreement, since the burden of proof will be on the spouse wishing to establish separate property. Good records will show that any acquisitions made from separate property funds are actually separate property. During the marriage, clear records should also be kept of any inherited property or gifted money from a third party. These properties and funds should be added to separate property accounts.

Keep in mind that post-marital appreciation of pre-marital separate property can be considered marital property.
The deciding factor will be whether the asset appreciates actively or passively. For example, appreciation on rental real estate actively managed by you, even if owned in your individual name only, may be subject to a claim by your spouse due to your efforts on this property during your marriage. Consider hiring a property manager.

While the methods outlined above should help in the preservation of your separate property, they are not iron-clad. Aside from the preservation of separate property, a prenuptial agreement may accomplish other objectives, such as an estate waiver, removing your spouse from your residence, waiving alimony, and ensuring that the appreciation of each spouse's separate property will remain separate property. These additional benefits, unfortunately, are not available in the absence of a prenuptial agreement. Please visit www.anchinprivateclient.com for more information on our matrimonial advisory and other private client services.

ANCHIN
Private Client

Jared Feldman, CPA
Leader - Anchin Private Client
jared.feldman@anchin.com

Ehud "Udi" Sadan, CPA, CGMA
Leader - Anchin Private Client
ehud.sadan@anchin.com

For more resources, please visit www.anchinprivateclient.com.

Contents

BLOOMBERG
MARKETS SPECIAL REPORT

Q1 2018

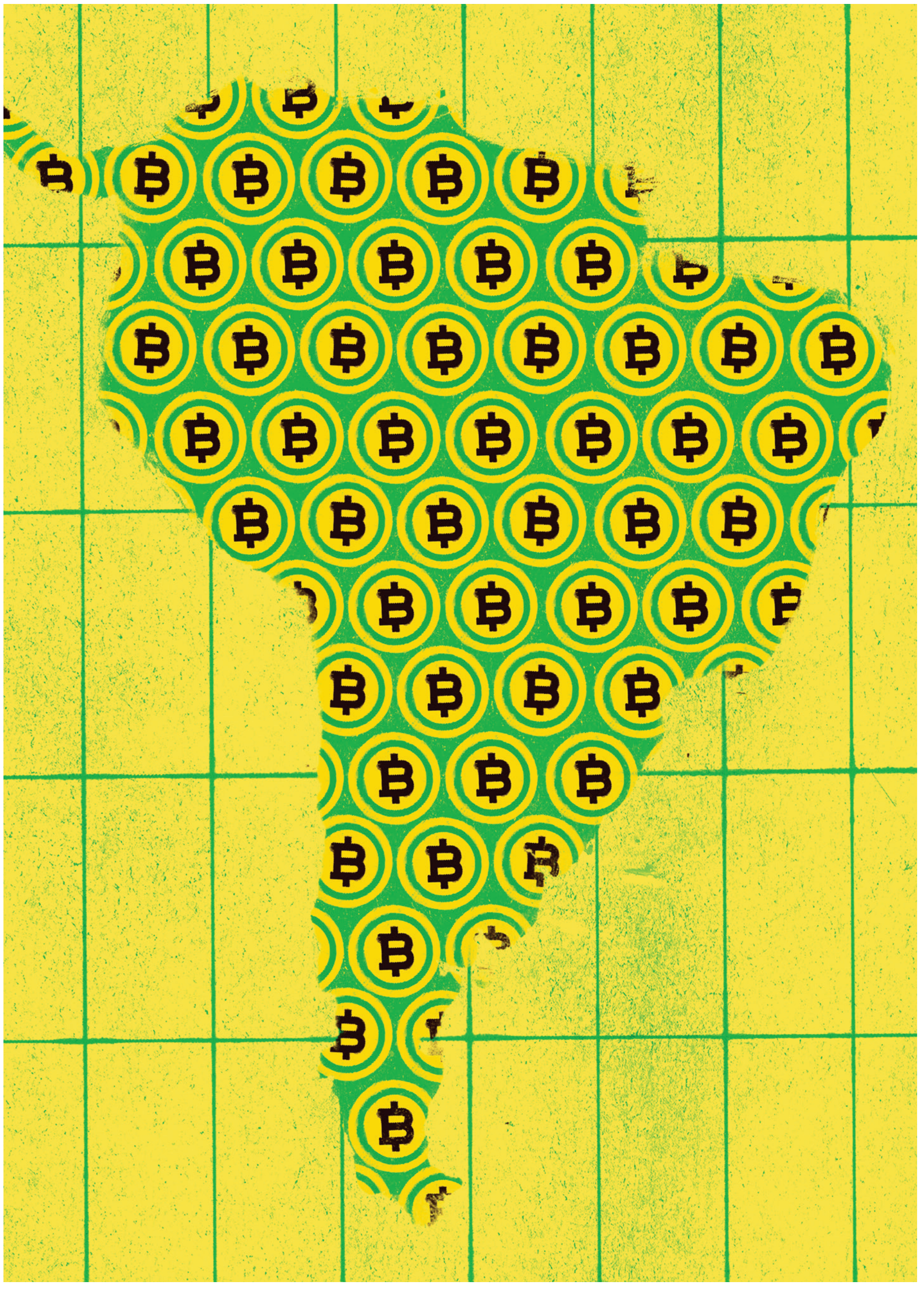
Harvest Volatility Management's Rick Selvala

PHOTOGRAPH BY DEVIN YALKIN

Latin America's Rich Are Buying Up Bitcoin

By CAMILA RUSSO AND KATIA PORZECANSKI

ILLUSTRATION BY YAREK WASZUL



THE VENEZUELAN BOLIVAR, Carlos Mosquera Benatuil will begrudgingly admit, is a "real" currency. Bitcoin isn't—it's basically just a very long line of computer code. Yet there's no question which the 35-year-old Caracas native prefers.

Mosquera is one of Latin America's many bitcoin believers, scarred by the hyperinflation that's ravaged the economies of Brazil, Argentina, Bolivia, Peru, and now Venezuela. The region's tech-savvy middle class, he says, began adopting bitcoin a few years ago to protect their savings from rising consumer prices and currency controls. Now, Latin America's wealthiest investors want in on the action. The growing interest from them could help propel investments in the currency going forward.

At least two cryptocurrency funds catering specifically to this set opened in 2017 as demand for digital assets in the region grows. Family offices make up the great majority of the funds' clients, according to recent interviews with the funds' founders. "Latin America is very volatile," says Rome-based Mosquera, whose hedge fund, Solidus Capital, invests in the eight biggest cryptocurrencies and digital assets sold via initial coin offerings. (He won't disclose the size of the fund or its performance.) "Cryptos are turning into a new haven for these families."

Two funds is a small number, to be sure; more than 100 hedge funds are focused on cryptocurrency globally. But these modest beginnings also speak to bitcoin's drug-dealing, money-laundering notoriety, which scared off Latin America's risk-averse family offices. Then came 2017. Even the region's billionaires haven't been able to ignore bitcoin's gravity-defying climb into ▸

finance's rafters. The cryptocurrency surged from a low near $750 in January to a high-water mark above $16,000 in early December, with plenty of dramatic moments along the way. Nor have the wealthy been immune to Latin America's recent patch of anemic growth. Family offices in emerging markets fared worse than anywhere else last year, with average gains of 6.2 percent vs. North America's 7.7 percent, according to a UBS/Campden Research report.

Mosquera says his clients are interested in more than the spectacular returns. They're also betting on the underlying blockchain technology, which cuts third parties out of money transfers and records transactions in a tamperproof online ledger. For his part, he first became enamored with bitcoin in 2013, when it traded for about $70; he saw it as a viable solution to the skyrocketing prices eating into Venezuelans' savings and spending power. Bitcoin also provided a way to skirt the government's tightening controls on access to U.S. dollars—"the most prized asset in Venezuela," Mosquera says. "If you have dollars, even if you don't have a lot, inflation makes you rich in little time."

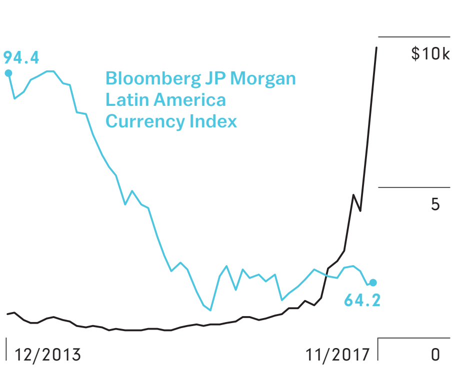
Two years later, with the country's economy continuing to unravel and the government becoming increasingly wary of cryptocurrencies, he took advantage of his European passport and escaped to Rome. Mosquera focused on trading before starting Solidus, and he began accepting funds from family offices based in Central America, Mexico, and the Caribbean about seven months ago.

Roberto Ponce Romay says 12 family offices make up the majority of the investors in his Miami-based Crypto Asset Fund, which he opened in September. "We're convinced this will become a new asset class, just like stocks and bonds," says Ponce, who founded private equity firm Invermaster Ventures 10 years ago after quitting his job as a manager at consulting firm Bain & Co. Argentine investors make up a third of the current fund, Colombians and investors from other Central American nations make up another third, and the rest is split among families from other Latin American countries, Ponce says.

Invermaster's Crypto Assets Fund, which has $15 million in digital coins under management, acts like a passive index fund, with the weighting of each coin corresponding to its market capitalization. Ponce says by 2018 he plans to open a second cryptocurrency fund, CAF 2, which will be more actively managed. His goal is to increase CAF to $50 million under management and to raise $100 million for CAF 2, which he'll invest entirely in cryptocurrencies.

WHY LATIN AMERICA IS WILLING TO GAMBLE

U.S. dollars per bitcoin at month's end



Source: {XBTUSD Curncy <GP>}; {LACI Index <GP>}

Of course, Latin America's crypto boom extends far beyond funds for the wealthy. Jorge Farias, the Venezuelan chief executive officer of Panama-based digital currency exchange Cryptobuyer, says his clients use cryptocurrencies for everything from sending money to faraway relatives to buying apartments. Western Union Co. charges heavy fees and takes several days to send a cash payment, he says, while immigrants can send money home through bitcoin almost instantaneously using Cryptobuyer's ATMs. Unlike with Western Union, remissions sent through a platform such as Cryptobuyer can remain in bitcoin, say, and then get withdrawn in a local currency as needed—helping to slow the erosion caused by inflation in a place such as Venezuela, where price increases could top 2,000 percent next year, according to the International Monetary Fund.

Cryptobuyer transactions in Venezuela have tripled since the beginning of the year, according to Farias. And it's not just about a young man in Madrid sending money to his mother in Caracas anymore. Farias's clients include engineers, freelancers, and web designers who demand to get paid in cryptocurrencies from their employers abroad, he says. It's all been an important development for the so-called unbanked—those without bank accounts who keep their money in cash. Because of the growing penetration of smartphones in the developing world, cryptocurrencies offer a mechanism for savings and money transfers outside the realm of the banking industry.

“There are countries today without potable water where everyone has a cellphone,” says Farias, who hopes to install 200 crypto ATMs throughout Latin America. “Anyone who has a smartphone can have a bitcoin account, which is something that couldn’t happen before. So its niche really is the whole world.” Farias says the appeal is widening to mainstream companies in places such as Panama, including hotels, as more and more of their clients inquire about using the cryptocurrency as an alternative to cash.

Obviously, bitcoin isn’t without its detractors. While JPMorgan Chase & Co. CEO Jamie Dimon famously called bitcoin a fraud and a fad that “won’t end well,” he’s said resorting to crypto might make sense in a country such as Venezuela. Vanguard Group Inc. founder Jack Bogle recently ratcheted up the rhetoric when he said to “avoid bitcoin like the plague.”

Trading volume in cryptocurrencies has increased and risen faster in countries with capital controls and weakening currencies. In Venezuela, for instance, bitcoin’s weekly trading volume spiked to a record in April when antigovernment protesters and police started clashing in violent riots.

In Argentina, volume climbed to an all-time high in June, when former President Cristina Fernández de Kirchner—whose policies, including strict capital controls, left the country mired in a recession—said she would run in legislative elections.

Not all investors in the U.S. are as skeptical as Dimon and Bogle. Even hedge fund manager Mike Novogratz, who’s called bitcoin “the biggest bubble of our lifetimes,” is starting a $500 million cryoptocurrency fund; billionaire venture capitalist Mark Cuban has also said he’s invested in bitcoin and ICOs. So much enthusiasm has made companies scramble to set up everything from regulated exchanges to derivatives trading and private-key vaults, which could also make the exotic assets more palatable for institutional investors. What makes family offices unique is their ability to quickly jump into the market, as they have fewer regulatory and bureaucratic hoops to go through than mutual funds and hedge funds.

As the world’s wealth transfers to younger tech-native generations, there may be less skepticism about virtual currencies as well, says Crypto Assets Fund’s Ponce. “You have the grandfather who is looking at this with a lot of skepticism and fear,” Ponce says from his office in Costa Rica. “Then you have the younger generation—the 35-year-old who’s come back from getting a master’s degree abroad and is very intrigued.”

But even the biggest crypto bulls advise caution because digital currencies are probably the most volatile tradeable assets out there. “This is an asymmetric investment where we recommend putting in 1 percent of the portfolio,” says Solidus’s Mosquera. “If there’s a doomsday scenario and in three years you lose 1 percent of your assets, you can make up for that with the 99 percent in a couple of months. But the potential upside of that 1 percent can be much greater than what the 99 percent can do in a decade.”

Russo covers cryptocurrencies and blogs at {MLIV<GO>} for Bloomberg News. Porzecanski is a hedge fund reporter.

Editor
Joel Weber

Art Director
Lee H. Wilson

Special Reports Editor
Siobhan Wagner

Graphics Editor
Mark Glassman

Photo Editor
Donna Cohen

Bloomberg Markets *utilizes the resources of Bloomberg News, Bloomberg TV,* Bloomberg Businessweek, *Bloomberg Intelligence, and Bloomberg LP.*

Editor-in-Chief
John Micklethwait

Deputy Editor-in-Chief
Reto Gregori

Advisory Board
Tracy Alloway, Chris Collins, David Gillen, Christine Harper, Madeleine Lim, Joe Weisenthal

Family Office Advocates
Charles Ching, Christine Davis, Bronte Golding, Boris Grozev, Anita Khalili, Chris Kilbey, Ariel Maguire, Lee O’Dwyer, Gonzalo Rico, Claire Sun, Shu Yi Tan

Creative Director
Robert Vargas

Photo Director
Clinton Cargill

Managing Editor
Kristin Powers

Copy Chief
Lourdes Valeriano

Copy Editors
Brennen Wysong, Barry Maggs

Production Associate
Loly Chan

Head of U.S. Financial Sales
Michael Dukmejian / 212 617-2653

Head of EMEA Sales
Viktoria Degtar / 44 20 3525-4026

Head of APAC Sales
Mark Froude / 65 6499-2818

Production/Operations
Debra Foley, Dan Leach, Carol Nelson, Steven DiSalvo, Bernie Schraml

Global Chief Commercial Officer
Andrew Benett / 212 617-8225

Global Chief Revenue Officer
Keith A. Grossman / 212 617-3192

comments@bloombergmarkets.com


Nilla
wafers
simple goodness.
strawberry shortcake kabobs
NABISCO
APPLE JACKS
Kellogg's
WHOLE GRAIN
VALUE SIZE
AARP
Charitable Support Statement
Nesquik
CLASSIC FRIED CHICKEN STRIPS

GREGG SEGAL

Trash as Treasure

HERE'S A LITTLE-KNOWN FACT: Bill Gates owns a lot of trash. The world's second-richest person's investment managers began buying shares of Waste Management Inc., the top U.S. waste processor, more than 15 years ago. In 2008 they started amassing an even larger stake in competitor Republic Services Inc. All told, the Bill & Melinda Gates Foundation Trust and Cascade Investment LLC—Gates's personal asset management company—own more than $9 billion of stock in the two businesses.

If you're wondering why Gates's moneymen see treasure in other people's trash, look no further than Bloomberg Intelligence's insights about these publicly traded waste companies at **{BI <GO>}**. "The biggest attraction is that the industry is rational and disciplined," says Scott Levine, an analyst for Bloomberg Intelligence. "These companies have a history of competing on price, but they play well now. They're willing to forgo bad business to stay disciplined." So much so that the two companies have provided steady growth in free cash flow, which has contributed to capital returns through share buybacks and expanded dividend payouts.

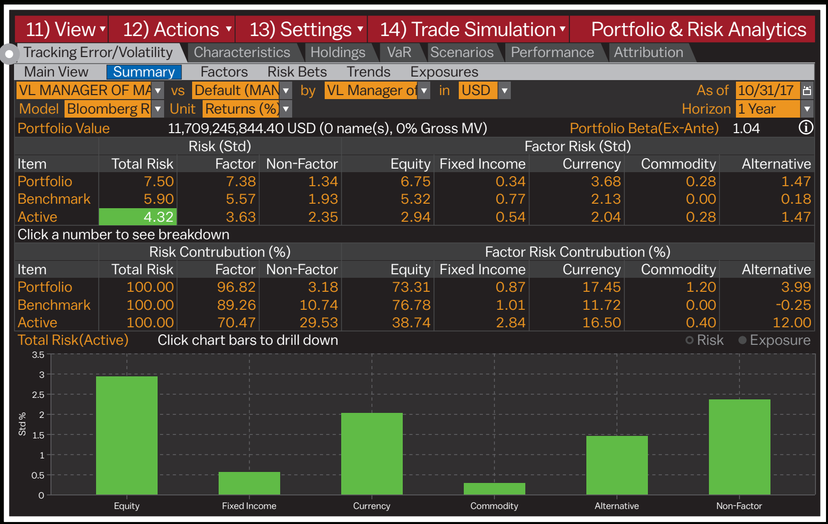
Trash may not be pretty, but Republic Services and Waste Management give portfolios reliable, recession-proof income streams. Plus, they've outperformed the S&P 500 index over the last 3-, 5-, 7-, and 10-year periods. "Their commercial and residential contracts don't tend to have volume specifications," Levine says. "When the economy is down and people are buying less, that doesn't usually impact their pricing."

Even a good idea, it seems, can be total garbage. —*Brandon Kochkodin*

What's Your Worst Nightmare? Here's How to Find Out If Your Portfolio Is Ready for It

By VICTOR F. LEONG

Run **{PORT <GO>}** to view risk in your portfolio.



Tracking error is the difference between the portfolio's returns and the benchmark it was intended to replicate or beat.

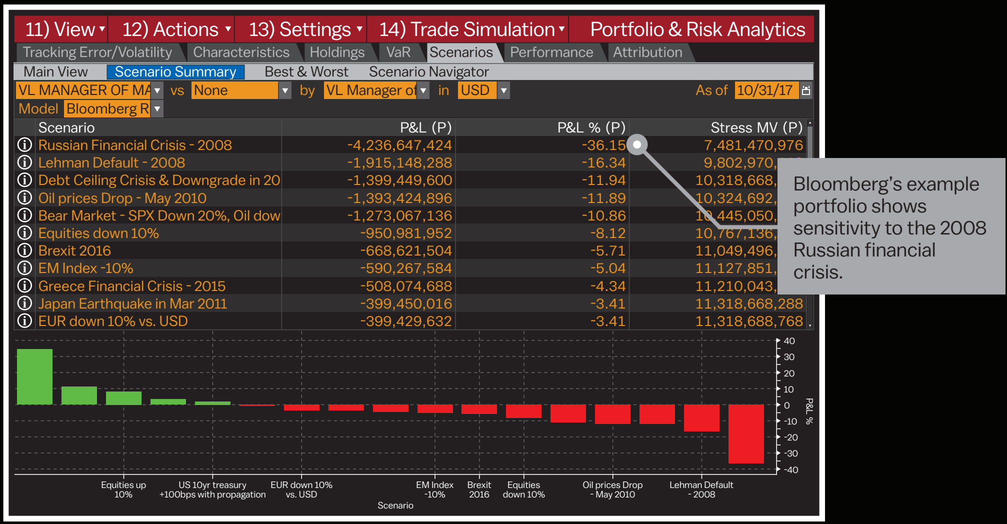
FAMILY OFFICES NEED TO BE STRATEGIC about asset allocation, because the right diversified approach can help mitigate losses in stressed markets. Investment managers and regulators are relying increasingly on scenario analysis as a means to expose potential risk.

Traditional tools to assess risk, such as value-at-risk, have shortcomings. VaR calculates the worst-case loss that won't be exceeded with a given level of confidence. For instance, depending on the model employed, VaR assumes that asset returns are normally distributed. Additionally, it doesn't quantify the potential magnitude of losses when a loss threshold is exceeded, nor does it take into account cross-asset correlations that likely break down in times of market stress. Scenario analysis, on the other hand, helps you gain a quantitative understanding on portfolio impact.

For example, what would happen to your portfolio with an upward shift of 100 basis points in U.S. interest rates or a 20 percent rise in oil prices? Or how would your current portfolio have fared in the depths of a 2008 subprime crisis? These types of tests can help uncover inordinate risk concentrations within a portfolio and flag a needed change to investment strategy.

Bloomberg's scenario analysis tool in PORT can help determine a portfolio's sensitivity to a single risk factor or understand a portfolio's response to the effect of simultaneous moves in a group of risk factors. Importantly, the analysis spans across multiple asset classes, from traditional equity and fixed-income securities to more esoteric credit-default swaps, hedge funds, and private equity.

Scenario analysis spans across multiple asset classes.



In a sample family office portfolio created by Bloomberg, not only are exposures captured, but the amount of risk sourced from those exposures is also quantified. For example, allocations to alternatives are generating 3.99 percent of the risk in the portfolio and represent 12 percent of the portfolio's tracking error. An exhaustive list of asset-class coverage can be found on the PORT Help page.

Additionally, PORT's scenario analysis capabilities encompass both risk factor modeling and full-valuation methodologies. The former uses Bloomberg's multi-asset risk factor models and incorporates the correlation of different asset classes to propagate moves in one factor to all other factors in the model for a given scenario. The latter, which is appropriate for instruments that can be priced using a model, shifts the instruments' underlying curves and reprices the securities. Bloomberg's example portfolio shows particular sensitivity to the 2008 Russian financial crisis and less to the 2008 Lehman Brothers Holdings Inc. subprime event. Users can also create their own draconian scenario to analyze.

Many times asset allocators will understand the risk/reward relationship of a single investment manager or asset class. The main advantage of PORT's application is a holistic depiction of a portfolio's dynamics, considering the amount allocated and correlation among all invested asset classes. ●

Leong is an equities specialist at Bloomberg in New York.

Alphabet Soup of Regulation Affects Family Offices, Too

By LISA ROITMAN

FINANCIAL INSTITUTIONS BEAR DIRECT responsibility for compliance with a veritable alphabet soup of regulation. Unfortunately for investors and allocators, the long arm of the regulations stretches well past financial institutions and directly into the backyards of family offices, putting a strain on resources, increasing cybersecurity risks, and slowing down the deployment of capital.

At the core of many of these regulations is a requirement for financial institutions to understand the authority, capacity, and suitability of the individuals and companies with whom they transact. This takes place at initial account opening but is actually repeated or refreshed periodically, and in some cases each time there are movements of money or assets. These requirements even extend past entity and trust structures to beneficial owners.

All of this means that family office staff should be prepared to provide the following:

• Basic entity information and documents (including trust agreements) sufficient to prove the authority required to transact and make decisions.

• Evidence of location of residence, which may include executed tax forms, passports, driver's licenses, and utility bills or other documents that contain date of birth, primary and secondary address, tax identification numbers, or other more complicated tax identification numbers such as global intermediary identification numbers and legal entity identifiers (known commonly as GIINs and LEIs, respectively).

• Identification of beneficial owners, which in some jurisdictions is tested at a 10 percent ownership level. (The U.S. is moving to a two-pronged test: 25 percent ownership and those individuals or entities who "control" decisions or management.)

The challenge in complying with all these requests for information arises because this is mostly a manual process that needs to be repeated time and time again, institution by institution, stretching lean staffs and decreasing efficiency. That there is typically no clear paper trail for this process further complicates the matter, as staff members may need to repeat tasks with no ability to prove compliance through an audit trail. The continued burden on operations materially affects deal velocity and the ability to deploy and realize return on capital.

Then there is the risk of the inadvertent disclosure of all that sensitive information. Cyberattacks are a "when," not "if," risk to every business, especially when sending information through email or other unencrypted channels. A cyberbreach is costly, and those related to the release of sensitive information—such as specimen signatures, dates of birth, home addresses, and tax ID numbers—are particularly susceptible to identity theft.

Leveraging technology solutions in response to these requests provides family offices with control over their data and documents. Technologies that focus on keeping information organized, secure, and easily transferable can make a difference in seizing investment opportunity.

Bloomberg provides a number of tools that can help family office staff satisfy Know Your Customer requests for data, documents, and information. One such solution is Entity Exchange, a secure web-based platform that enables parties to exchange the data and documents necessary to buy and sell assets, maintain trading accounts, and accelerate the deployment of capital. Sensitive information is permitted in an encrypted environment, with auto-match and auto-population of forms and questionnaires. A full audit trail, the ability to provide redacted documents, and version control provide further operational efficiency. For more information, go to ee.bloomberg.com or **{KYC <GO>}** on the terminal. ●

Roitman is a business strategist for regulatory compliance technology at Bloomberg in New York.

You've Got 250 Research Analysts Ready to Help With Your Big Idea

By IAN McFARLANE

Run **{BI AUTMG <GO>}** to see information on car industry trends.

Click on Earnings under Data Library to compare automotive companies by EPS, net income, Ebitda, and sales.

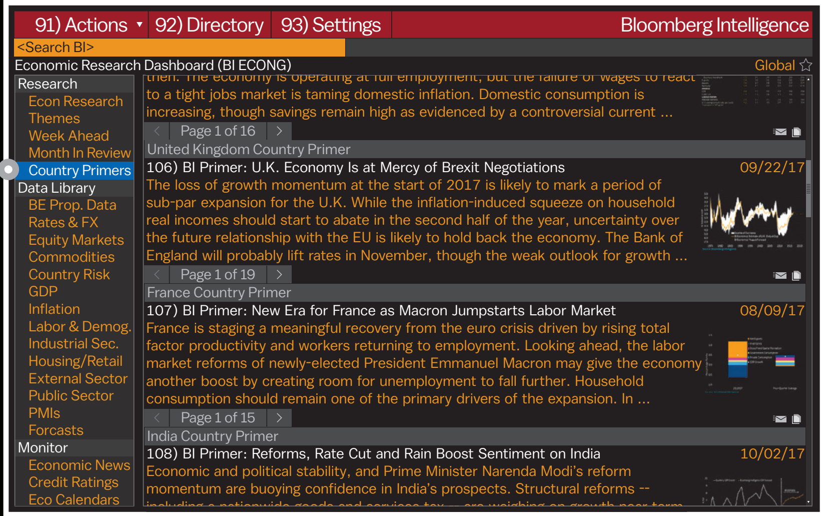
TODAY, INVESTORS ARE CONSTANTLY trying to get a leg up on understanding how companies are affected by industry trends and external pressures as well as credit; government; litigation; and environmental, social, and governance factors in order to gain insights for their portfolios.

Bloomberg offers an independent research solution to help investors with this challenge. A complement to your existing research, Bloomberg Intelligence delivers analysis and data covering 10 major sectors, 135 industries, and more than 1,800 companies globally—all powered by 250 research professionals around the world. Senior analysts have, on average, 20 years of experience on Wall Street.

BI analysts explain how government, credit, litigation, and economic factors will have an impact on any given industry or company. All research is backed by Bloomberg proprietary data and 300-plus third-party data sets—at no additional cost. This includes, among other things, weekly drug prices from Symphony Health data and oil rig counts from RigData.

On the terminal, **{BI <GO>}** research is structured into industry dashboards that deliver analysis and data on the high-level themes and the underlying companies that make up an industry. For example, the Automobiles Dashboard **{BI AUTMG <GO>}** provides research on auto trends; analysis on companies such as Ford Motor, Tesla, and General Motors; and proprietary data sets from resources such as Edmunds.com that allow you to perform your own analysis.

Run **{BI ECONG}** to see Bloomberg Intelligence's economic research.



Click on the Country Primers to view macroeconomic trends by country.

In addition, BI produces primers on companies, countries, commodities, and thematic topics. A library of primers, available at **{BIP <GO>}**, is designed to get you up to speed quickly for idea pitches and client conversations.

BI recently introduced a daily morning note for the Americas, Europe, and Asia-Pacific regions featuring the best research from BI analysts, strategists, and economists. Bloomberg users can subscribe by clicking on 101) Best of Bloomberg Intelligence Morning Note on BI <GO>. Scroll down to the bottom of the page and click on the blue link that says Get the Best of BI Daily Research Note in Your Mailbox to receive it.

BI also has 23 dedicated chat rooms, administered by BI analysts, for discussing industry specifics. The forum provides a space for sharing research and commentary discreetly. (The names of inquiring participants aren't visible.) To access the chat rooms, load BI <GO> and then select 92) Community. This page also shows BI's upcoming seminars and webinars.

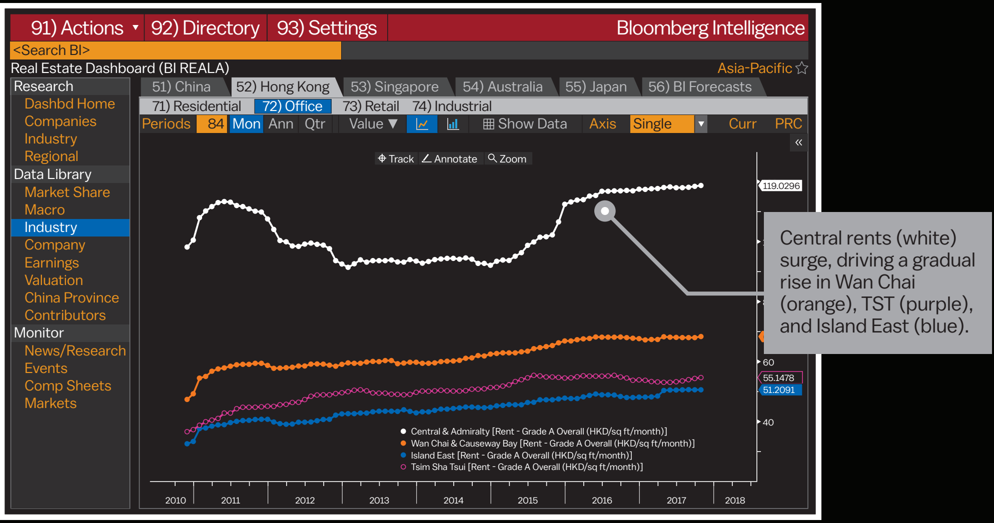
If you need help navigating the data or would like to speak to an analyst, go to BI <GO> and choose 91) Actions. In the drop-down menu, select Directory. This gives you access to all available BI analysts. The expert you need is just one phone call, IB, or email away. ●

McFarlane is a BI advocate in the sales department at Bloomberg in London.

Grittier Hong Kong Districts May Prove Alluring to Wealthy Investors

By PATRICK WONG and MOHSEN CROFTS

Compare Hong Kong rental prices using BI's Asian real estate dashboard at **{BI REALA <GO>}**.



AS HONG KONG TYCOONS sell office space in Central, the island's business and retail hub, wealthy investors may do better to look for buying opportunities in less prestigious areas such as Island East.

Mainland Chinese corporations keen to give a good first impression to global customers have been bidding up rents in Central, home to botanical parks, colonial landmarks, and skyscrapers such as the IFC building featured in Batman and Lara Croft movies. That's driven law firms and hedge funds to residential areas such as Island East's Quarry Bay, named after the Hakka stonemasons who took rocks from its hillsides, or once-seedy shopping and nightlife districts such as Tsim Sha Tsui (TST), and Wan Chai and Causeway Bay.

The Bloomberg Intelligence Real Estate Dashboard shows how rental yields in the central business district are falling below those in some peripheral districts, as soaring rents fail to keep pace with rocketing real estate prices. The property arm of billionaire Li Ka-shing, dubbed "Superman" by Hong Kong media for his business acumen, sold his stake in the Center, one of Hong Kong's tallest skyscrapers, in Central in November for HK$40.2 billion ($5.1 billion) to a consortium led by state-owned China Energy Reserve & Chemicals Group Co. Other developers are also raising funds before an expected rise in U.S. interest rates.

To see a chart of the divergence in Hong Kong's rental yields, run **{BI Real Estate Asia <GO>}**. Under the Data Library menu on the left, select Industry, then choose the Hong Kong tab at the top of the table, followed by the Office tab underneath. In the Rent column, choose Central & Admiralty and click on the green-and-red symbol to the right to pull up a line chart. At the bottom right, choose the Select Additional Data button. At the top right, go to the amber Axis drop-down menu and select Single. Check the left-hand boxes for Wan Chai and Causeway Bay, Island East, and Tsim Sha Tsui. At the top left, go to the amber box for time periods and change to the maximum 84; select Mon (for months) to the right. Click the chevrons to the left of the data fields line for a full-screen chart. The chart shows the roller-coaster ride for Central & Admiralty rents (white) as they reached HK$119 per square foot per month, according to data compiled by Bloomberg on Nov. 22. Island East (blue) has seen gradual appreciation, yet it's still less than half that cost, ►

Hong Kong neighborhoods can also be compared by rental yield.

at about HK$51.2. When taking into account soaring Central property prices, these neighboring business districts can offer more attractive rental yields.

To see how rental yields have changed over time, select the menu at the top of the screen to return to the last page. In the column with Hong Kong districts, select Yield—Grade A Overall % (the third white option), then click on the chart symbol beside Central & Admiralty. Choose the Select Additional Data button at the bottom right. Change the Axis box to Single, look for Yield in the menu, and check the boxes for the same regions as above. Change the Period to the maximum 48, then choose Qtr. Click the chevrons for a full-screen chart.

While all the rental yields are slumping , the yields for Island East (blue) are still above 4 percent, compared with almost 3 percent for Central & Admiralty (white) and 2 percent for Wan Chai and Causeway Bay (orange), according to data compiled by Bloomberg on Nov. 22.

To see the sharp increase in rental prices, go back to Menu, select Average Price (per sqm) near the bottom, and click on the chart symbol beside Grade A—Central. Hit Select Additional Data, change the axis to Single, and select Tsim Sha Tsui, and Wan Chai and Causeway Bay. Click the chevrons.

Prices for Grade A properties in Central surged as high as HK$559,000 per square meter this summer, far above those in Wan Chai and Causeway Bay, two and three stops away, respectively, on the mass transit railway.

Meanwhile, office construction is picking up outside Central. Office buildings to be completed over the next 18 months include Swire Properties Ltd.'s One Taikoo Place in Quarry Bay and New World Development Co.'s Victoria Dockside in Tsim Sha Tsui. Co-working offices could also support demand. WeWork Cos. has offices in Wan Chai and Causeway Bay and is expanding in the bar district of Lan Kwai Fong.

All that means the decentralization of offices in Hong Kong may be far from over. ●

Wong and Crofts are Bloomberg Intelligence senior analysts covering Asia real estate in Hong Kong.

WHEN RELYING ON THE FAMILY FOUNDATION ALONE IS NOT ENOUGH TO ACCOMPLISH YOUR PHILANTHROPIC GOALS, OR TO PROTECT YOUR PRIVACY.

"JCF gave us the flexibility to not only focus on today, but on the future. And, it gave us a tax structure and platform that's helpful for any family."

—CIO, Second-generation SFO

A donor advised fund can help engage the next generation.

High Net Worth families are increasingly using a Donor Advised Fund alongside (or in lieu of) a traditional family foundation to manage their charitable giving with ease, flexibility and confidentiality. Let Jewish Communal Fund (JCF) make your charitable giving efficient, and free of the administrative burden of the private foundation. Establishing multiple JCF funds can empower family members across the generations to make a positive impact on the issues they are passionate about.

JEWISH COMMUNAL FUND Your personal connection to charitable giving®

Since 1972, JCF has managed donor advised funds that enable families to set aside money for charitable purposes when it is most advantageous and make grants to the charities of their choice.

For information, please contact Ellen Israelson at **212.752.8277** or **ellen@jcfny.org**, or visit **jcfny.org**.

If You've Got $5 Million to Invest, Here's Your Volatility Play

By BRANDON KOCHKODIN

PHOTOGRAPH BY DEVIN YALKIN

RICK SELVALA STANDS UP FROM a conference room table in the Graybar Building above Manhattan's Grand Central Terminal and starts drawing up his play on the glass walls of the office: Sell S&P 500 index call and put spreads. Generate cash flow in a tax-efficient manner. Limit downside and liquidity risk.

It looks simple. Decades of practice have that effect.

Harvest Volatility Management LLC, the firm Selvala co-founded in April 2008, targets family offices and wealthy individuals with more than $5 million in liquid assets. Once known for focusing on accounting and tax planning, family offices have come to resemble boutique investment firms. That transformation has allowed the offices to reap premium hedge fund talent who've sought an escape from an industry beset by poor performance. Harvest, which has more than $10 billion in assets under management, has positioned itself as an outside resource for adding incremental returns by trading options.

Selvala was previously the co-head of Volaris, formerly a volatility management unit of Credit Suisse Group AG. The group, he says, was primarily known for writing covered calls for clients with big concentrated stock positions. When he left to start Harvest, he decided to focus on ways to take advantage of market volatility without forcing clients to root against their own stocks. What he created, he says, was a market-agnostic strategy to generate incremental yield by trading S&P 500 options.

The basic construct of Harvest's Collateral Yield Enhancement Strategy (CYES) is to create so-called iron condors, an industry term that refers to the birdlike image produced when you graph the strategy's profit/loss. Harvest aims to set its spreads so the index price will remain in a "fairway" created by selling a put contract below the current S&P price and selling a call above the current price. Selling each of those contracts creates an immediate net credit in an investor's account, generating cash flow into the portfolio. Risk is mitigated by buying cheaper out-of-the-money puts and calls to rule out substantial losses. The team then continually recalibrates by staggering positions and using different expiration dates and strike prices to adjust to ongoing market changes.

The condor approach allows Harvest to produce returns regardless of whether the S&P is up or down, or if the Cboe Volatility Index (VIX) is hammered below 10 or spiking to 40, as it did in August 2015 when the Chinese government devalued the yuan. While this year has seen record calm in the U.S. equity market, volatility surged from an all-time low in November on concern over prospects for tax reform.

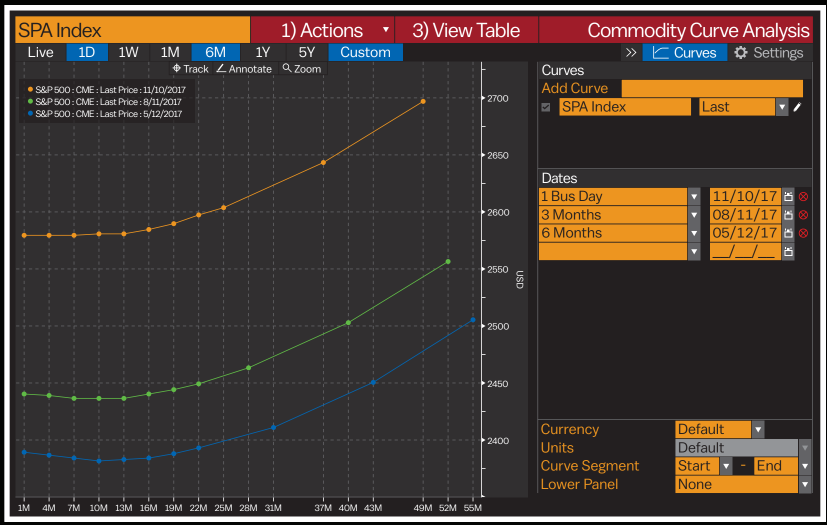
"For anybody who thinks adding 2 percent doesn't really move the needle, well, most of these portfolios are pretty conservatively managed," Selvala says. "If these portfolios are targeting 4 to 6 percent with mid-single-digit volatility, you add 2 to that, that's a meaningful pickup. And it's all cash. It's cash that can be reinvested, spent, or used for philanthropic purposes."

Harvest's best clients tend to have a history in trading options, according to Selvala. Anybody can trade options, he says, but clients quickly realize it's cheaper and more efficient to offload management of the strategy to Harvest. That's because the firm's volume has allowed it to get close to midprice execution with its brokers, and its relationship with advisers such as Merrill Lynch, Morgan Stanley, and UBS makes it simple to integrate Harvest's strategy with an existing portfolio.

The tax-efficient strategy qualifies for a 60-40 capital-gains treatment: 60 percent of the gain or loss can be treated as a long-term capital gain regardless of whether the position was held for more than a year. That's because options on broad-based indexes are considered nonequity under Internal Revenue Code Section 1256.

Part of Harvest's risk-mitigation strategy is to keep a lookout for the known unknowns. That means tracking how known events with unknown outcomes are influencing implied volatility. To do that, the team uses Bloomberg functions such as **{TOP <GO>}** to track current news coverage. With early warnings about major events that could potentially wreck markets, ►

Compare futures curves over time. Load up **{SPA Index <GO>}** and run CRV.



Harvest can completely unwind its positions. In the runup to the 2016 presidential election, the team decided to get out rather than face a potentially unpredictable market. “It’s quite common for us to take off our positions, at least 25 percent, in front of the unknowns,” Selvala says. “For the presidential election it was 75 percent of our positions to limit risk.”

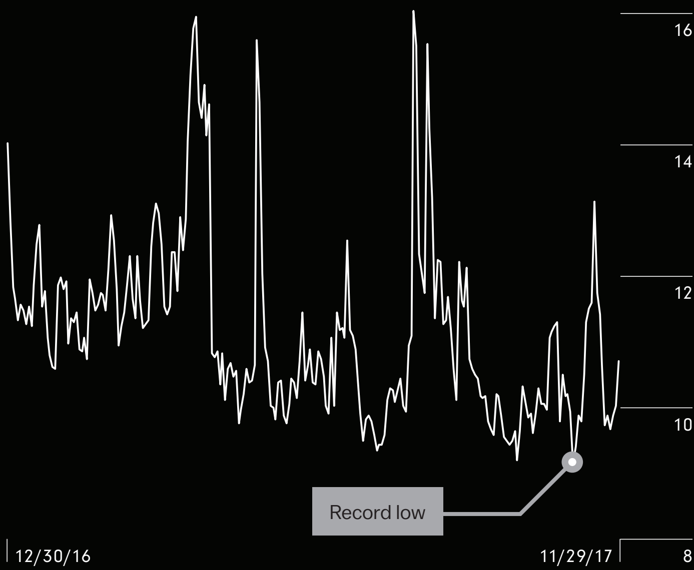
China’s devaluation of the yuan in August 2015 resulted in the S&P 500 falling about 10 percent over the course of a week while the VIX exploded to 40, making put and call options much more expensive to buy. That August, Harvest ended up taking a loss of a little more than 1 percent, its worst monthly return in the past five years. But by staying on top of implied vs. realized volatility and checking functions such as **{VCA <GO>}**, the team was able to recoup more than 70 basis points that September by selling puts and calls at an elevated price, while banking on volatility to settle back to historical norms.

The Harvest team can adjust to changing events quickly because it’s trading deeply liquid options. The result has been a track record of 8 positive years out of 10. “We don’t chase the last nickel over a cliff,” Selvala says.

The strategy isn’t perfect. It resulted in annual losses for the firm of 0.6 percent in 2013 and 2014. The latter year, in particular, was marked by several V-shaped market moves. V-shaped moves

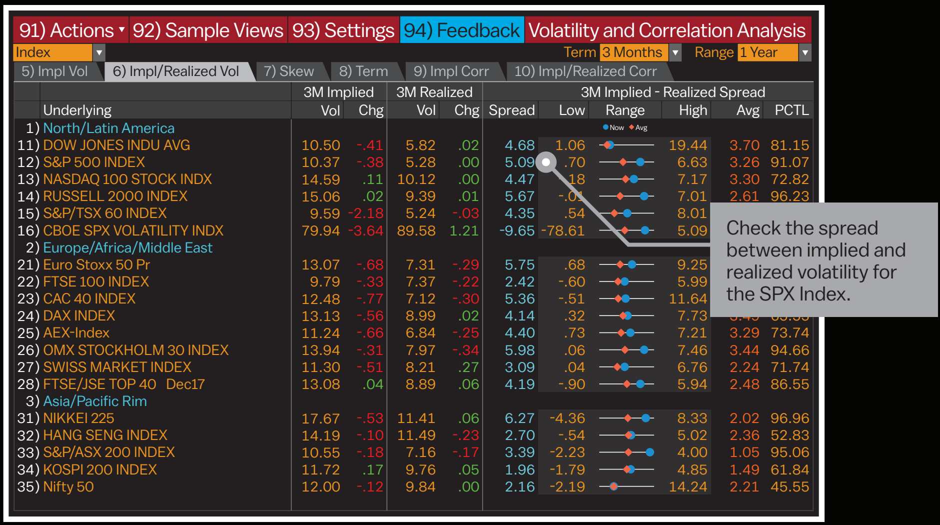
WILD RIDE

Cboe Volatility Index



Source: {VIX Index <GP>}

Run **{VCA <GO>}** to see how implied volatility stacks up against realized volatility.



91) Actions ▾ 92) Sample Views 93) Settings 94) Feedback Volatility and Correlation Analysis

Index ▾ Term 3 Months ▾ Range 1 Year ▾

5) Impl Vol | 6) Impl/Realized Vol | 7) Skew | 8) Term | 9) Impl Corr | 10) Impl/Realized Corr

	3M Implied		3M Realized		3M Implied - Realized Spread					
Underlying	Vol	Chg	Vol	Chg	Spread	Low	Range (● Now ◆ Avg)	High	Avg	PCTL
1) North/Latin America										
11) DOW JONES INDU AVG	10.50	-.41	5.82	.02	4.68	1.06		19.44	3.70	81.15
12) S&P 500 INDEX	10.37	-.38	5.28	.00	5.09	.70		6.63	3.26	91.07
13) NASDAQ 100 STOCK INDX	14.59	.11	10.12	.00	4.47	.18		7.17	3.30	72.82
14) RUSSELL 2000 INDEX	15.06	.02	9.39	.01	5.67	[illegible]		7.01	2.61	96.23
15) S&P/TSX 60 INDEX	9.59	-2.18	5.24	-.03	4.35	.54		8.01	[illegible]	[illegible]
16) CBOE SPX VOLATILITY INDX	79.94	-3.64	89.58	1.21	-9.65	-78.61		5.09	[illegible]	[illegible]
2) Europe/Africa/Middle East										
21) Euro Stoxx 50 Pr	13.07	-.68	7.31	-.29	5.75	.68		9.25	[illegible]	[illegible]
22) FTSE 100 INDEX	9.79	-.33	7.37	-.22	2.42	-.60		5.99	[illegible]	[illegible]
23) CAC 40 INDEX	12.48	-.77	7.12	-.30	5.36	-.51		11.64	[illegible]	[illegible]
24) DAX INDEX	13.13	-.56	8.99	.02	4.14	.32		7.73	[illegible]	[illegible]
25) AEX-Index	11.24	-.66	6.84	-.25	4.40	.73		7.21	3.29	73.74
26) OMX STOCKHOLM 30 INDEX	13.94	-.31	7.97	-.34	5.98	.06		7.46	3.44	94.66
27) SWISS MARKET INDEX	11.30	-.51	8.21	.27	3.09	.04		6.76	2.24	71.74
28) FTSE/JSE TOP 40 Dec17	13.08	.04	8.89	.06	4.19	-.90		5.94	2.48	86.55
3) Asia/Pacific Rim										
31) NIKKEI 225	17.67	-.53	11.41	.06	6.27	-4.36		8.33	2.02	96.96
32) HANG SENG INDEX	14.19	-.10	11.49	-.23	2.70	-.54		5.02	2.36	52.83
33) S&P/ASX 200 INDEX	10.55	-.18	7.16	-.17	3.39	-2.23		4.00	1.05	95.06
34) KOSPI 200 INDEX	11.72	.17	9.76	.05	1.96	-1.79		4.85	1.49	61.84
35) Nifty 50	12.00	-.12	9.84	.00	2.16	-2.19		14.24	2.21	45.55

Check the spread between implied and realized volatility for the SPX Index.

make it difficult to set fairways because the market's momentum changes too quickly, requiring a more dramatic recalibration, which can be costly. Indeed, 2014 was a roller coaster from the start. The S&P 500 was at 1,844 on Jan. 22 , then fell 5 percent over the next two weeks. Just as quickly as it tumbled, by the end of February the index regained all it had lost. There were four of these swift reversals in 2014. For comparison, no such V-shaped move in 2017 has been higher than 2 percent on either leg.

Those limitations are exactly what Harvest clients such as Arcus Capital Partners LLC, an investment adviser, are looking for in an income-generating strategy. "By and large, it's been a very attractive alpha generator for our clients," says Ross Singletary, managing partner at Arcus Capital. "In theory, we can do this, but it would necessitate having an entire team to trade this every day. I'm a big believer in specialization of labor and believe Harvest does a great job doing this."

Track Volatility

The Harvest team uses the terminal function **{VCA <GO>}** to see how implied volatility stacks up against realized volatility. When implied volatility, an estimate of future volatility, is higher than realized volatility, options premiums are possibly overvalued. In this case, Harvest might sell an option at the inflated premiums created by expectations of higher volatility and buy further out-of-the-money options to limit its risk. To check the spread between implied and realized volatility for an index, go to **{VCA <GO>}** and select the second tab, 6) Impl/Realized Vol. Then select Index under the drop-down menu in the upper left corner. Set the Term drop-down in the upper right corner to 3 months and the Range to 1 year. The term sets the length of the option, and the range is the period of comparison.

To view changes in the forward curve, the team regularly checks Bloomberg's Commodity Curve Analysis. Type "SPA Index" into the terminal command line and select it from autocomplete to load up the S&P 500 futures contracts. Then run **{CCRV <GO>}**. In the upper right corner, select Curves, and in the drop-down menus under Dates, select which curves you'd like to include. On the bottom right, switch Curve Segment to Start and End to see the full curve. Then go to the Settings tab in the upper right and switch to Generic Month under Change X-Axis. This will line up the futures curves to make for an easier comparison. Comparing how futures curves have changed over time is an easy way of visualizing changes in market sentiment. ●

Kochkodin is a managing editor at Bloomberg News in New York.

THESE

PEO

MOVE

PLE

FAST

Wealthy families are speedy dealmakers, and they're beating private equity at its own game

By SIMONE FOXMAN

PHOTO ILLUSTRATION BY JUSTIN METZ

MICHAEL GOTTDENKER glimpsed the future over a bowl of pasta earlier this year, and he liked what he saw.

The chief executive officer of Hargray Communications, a telecommunications company servicing South Carolina and Georgia, was having lunch with billionaire Jim Davis, founder of family office Redwood Capital Investments, and his adviser David Watson. Over the previous week, the two had taken a liking to Gottdenker's company. "I didn't think that family offices would make direct investments," Gottdenker says, looking back, "or if they did, I thought that it would be a lot of work to get their interest." And yet, between bites of Italian food at a restaurant in Columbia, Md., he came to realize that he could be speaking with the new owner of Hargray, which he'd helped turn into a half-a-billion-dollar company. He shared the story of an employee who'd worked her way up in the business—all the way from the company's call center to management.

Gottdenker's story, which highlighted the potential he saw in his employees, seemed to resonate with Davis, who'd made his fortune as the co-founder of a staffing and recruitment company. And so, not long after they finished their coffee, Davis communicated to his would-be partners—two other family offices working to buy Hargray—that he wanted in on their deal to acquire the company. There were other potential suitors waiting in the wings. In order to succeed, Davis and his partners would need to beat private equity, not to mention other strategic acquirers, at their own game.

Families were once regarded as slow-moving and inexperienced investors, but that's all changed in the past few years. Looking beyond traditional investments in stocks, bonds, or even alternatives such as hedge funds, many family offices—vehicles that manage the investments and affairs of the wealthy—have pursued direct investments in companies and real estate. The most sophisticated ones are turning into investment giants, leveraging their patient capital and regularly pitting their checkbooks against private equity firms. They're also going so far as to hire away top talent, scouring the country to beat other players to attractive targets and competing with them for big-ticket deals in companies worth hundreds of millions, or even billions, of dollars. And perhaps most surprising of all, they're winning. That's because one of the biggest advantages families can have over traditional private equity is speed.

This was particularly effective in the case of Hargray; its sale to Davis and his partners became official on March 7. Its private equity owners, Quadrangle Group LLC, had periodically been seeking to sell the company as it wound down its Quadrangle Capital Partners II fund. In the fall of 2016 several attractive offers began to emerge. One came from a member of the company's board: Kevin Wilcox, a managing director of Stephens Capital Partners, a single-family office that oversees the wealth of businessman Warren Stephens. They sought a partner and soon caught the eye of the Pritzker Organization, the Chicago-based investment firm for Thomas Pritzker. The two firms quickly started due diligence. After two months they had the outline of a deal, but the price they'd have to pay was steep. They needed to recruit a third partner, and with other buyers looking at the company, they had to move fast. That's where Davis came in.

Davis's Redwood reveals little on its sparse website, except that it can complete deals quickly. In just a few days, Davis's firm

PREVIOUS SPREAD: PHOTOS: GETTY IMAGES

“I didn’t think that family offices would make direct investments, or if they did, I thought that it would be a lot of work to get their interest”

was able to comb through research completed by the other families, conduct some of its own, and catch up with its new partners. Less than two weeks after Redwood first heard about the deal—Hargray announced that the consortium of families, led by Pritzker, would buy the company. The terms weren’t disclosed, but Hargray took out a $450 million term loan to fund the buyout, according to a person familiar with the matter, suggesting the company was valued at least that amount.

“There’s a network that’s growing of the big family offices who do these kinds of deals,” says Joseph Gleberman, managing director for the Pritzker Organization. “I was in the private equity business at Goldman for a long time, and it’s not dissimilar to what it was like 20 years ago, when you started to see Blackstone do a deal with KKR or Goldman do a deal with Warburg Pincus.”

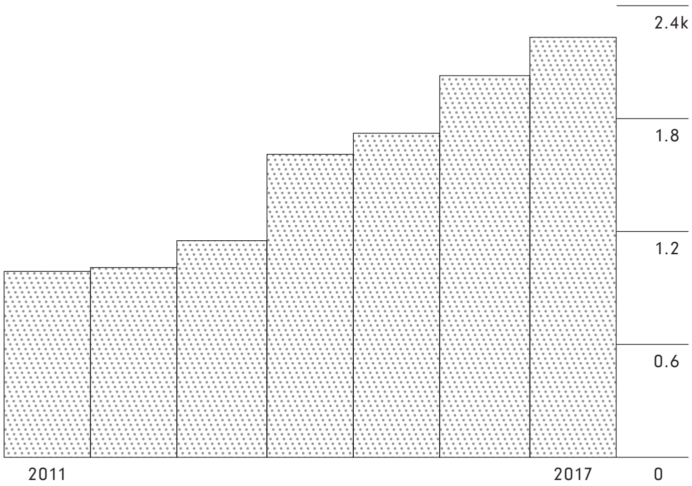
(Members of this group often insist on the terms “family capital,” “family investment firm,” or “permanent capital investors” rather than “family office,” in an effort to avoid being associated with the more mundane details of family upkeep, like arranging a billionaire family’s travel schedule or even paying their taxes.)

For Gottdenker, the difference in management style is already apparent under Hargray’s new ownership. “We’re talking about our plans in ways that are different today,” he says. “Private equity is thinking of where we’re going to be in three to five years. Now we can talk about what we want to look like in 2030.”

He’s not the only one who feels that way. For Ben Livingston, CEO of plastic container manufacturer Ring Container Technologies, finding a long-term buyer was so important that the company included only a handful of family offices and long-haul private equity funds in its sale process, ruling out strategic ►

A GROWING CLIENT POOL

Number of billionaires



Source: Credit Suisse Global Wealth Databooks

“Private equity is thinking of where we’re going to be in three to five years. Now we can talk about what we want to look like in 2030”

buyers and most private equity. Ring announced on Sept. 14 that its chairman, Carl Ring, would sell his stake in the firm to MSD Partners, which invests the assets of Michael Dell and his family.

“Our interest was to find a buyer that would preserve our culture and essentially keep our leadership in place, because I think that’s a large part of our success,” says Livingston, who’ll keep an ownership share in the company. “We were focused on finding a buyer that would preserve those things.”

Family capital can offer benefits a run-of-the-mill private equity firm can’t, including experience operating a similar company or regional expansion. And unlike private equity, which is forced to exit investments after five to seven years as their funds expire, capital from families doesn’t come with a fixed expiration date. This also allows them to spend money more freely on acquisitions.

There are softer selling features, too. Family capital can be more willing to offer existing owners a way to remain part of the business and can be more open to letting management continue to operate than a private equity firm might be. “Family-owned companies like the idea of a like-minded family owner because they like that notion of stewardship and continued legacy,” says Susan Elolampi, head of the family coverage group for North America at JPMorgan Chase & Co.’s investment bank. “They would like to have a long-term, patient owner, who might be less likely to move the business from its hometown, fire workers, or make decisions that may be good for a company’s near-term valuation but harmful for its long-term prospects.”

Certainly part of their success has to do with the ability to stomach steep price tags. TBG AG, the investment arm of the Zurich-based Thyssen-Bornemisza family, wasn’t the only buyer interested in DTN, a unit of Schneider Electric SE and a provider of weather, fuel, and agricultural data and analysis. Strategic acquirers and private funds were also knocking on the door when Schneider put the unit up for sale, according to Jerre Stead, DTN’s executive chairman and TBG board member. TBG ultimately came out ahead, acquiring the business this year for $900 million.

Stone Canyon Industries, a firm backed by the wealth of former junk bond champion Michael Milken, paid $2.4 billion when it bought packaging company BWAY Corp. In April, Stone Canyon persuaded the private equity owners of another packaging company, Mauser Group NV, to drop an initial public offering and enter into an acquisition through BWAY at a valuation of $2.3 billion.

Although it resembles a private equity firm on its face, Stone Canyon appears more interested in building than the traditional private equity firm; in the BWAY-Mauser tieup, it paid top dollar to combine already massive packaging companies to strengthen their bases in the U.S. and Europe.

Los Angeles-based Stone Canyon, formed in 2014 by James Fordyce and Adam Cohn, targets companies valued from $100 million to $2 billion that are the top one or two players in industries in which it invests, according to a person with knowledge of its executives’ thinking. Because these companies are so large already, it’s easier for them to make strategic acquisitions, relying on Stone Canyon’s dealmaking, investment prowess, and economies of scale.

Bankers, advisers, and family office employees who’ve been part of these sorts of deals provide conflicting estimates of how many family offices are capable of such acquisitions, ranging from a half-dozen to several hundred. What's clear is that they're getting better at working together to pool capital in a short time frame to go after deals and compete on price.

The amount of capital moving around has ballooned as well. Family offices did $100.6 billion in deals in 2016, compared with $25.1 billion in 2011, according to figures compiled by PitchBook Data.

Sensing the change, private equity firms have begun offering new perks as part of a marketing pitch to large family offices that make direct investments. Fifty-eight percent of private equity fund managers offered investors the opportunity to make co-investments—or to invest directly in a company alongside one of their funds—in 2016, up from 45 percent in 2014, according to data from Preqin. And even the largest and best-known of these private equity funds have gone to great lengths to draw family office clients, in some cases allowing them to co-invest without already being a client. Firms such as Carlyle Group Inc. and Blackstone Group LP have also been crafting longer-term investment vehicles, seeking to appeal to more permanent investors such as families, endowments, and sovereign wealth funds.

Families aren't cutting private equity out of the action entirely. That was the case when the partners of Blue Water Worldwide LLC, a holding company capitalized by several families to buy and operate businesses, hatched a plan to buy distressed stone quarries in 2009. Even working with the family of John Baker II, former CEO of Florida Rock Industries Inc., they knew they didn't have enough money to do it themselves.

And so the families turned to Lindsay Goldberg, a now-$13 billion private equity firm that focuses on deals with family-owned businesses, to put up the majority of the cash necessary to fund the entity and provide dealmaking expertise. Called Bluegrass Materials Co., the group started purchasing assets in late 2010. Building materials company Martin Marietta Materials Inc. announced this June that it would acquire Bluegrass for $1.625 billion.

"We knew we needed access to a significant amount of capital," says Benjamin Griswold, a member of the eighth generation of the family that formed investment bank Alex. Brown & Sons in 1800. Griswold and his stepbrother William Whitridge founded Blue Water in 2007. "Capital calls and scalability are a real advantage for private equity and an Achilles heel for families," Griswold says.

Robert Blabey, chief investment officer of family office advisory firm Align Private Capital, who works with Blue Water consulting on investment and corporate strategy, adds: "The benefit to working with private equity firms is it's one partner and it's one static capital pool, so if they make a commitment, the money is guaranteed." Then again, permanent capital is a strong allure. "If you can find like-minded families that have the same priorities," he says, "and if the stars align, then that can be a pretty powerful combination."

Foxman covers hedge funds and family offices at Bloomberg News in New York.

The Family Way

By SIOBHAN WAGNER

■ The average investment portfolio of a family office had an annual return of 7 percent in 2016, compared with 0.3 percent in 2015, according to a report by UBS Group and Campden Wealth. And among the latest trends for the world's richest families is direct investing, ICapital Network found in another recent report. How are families investing their money? Here's a glimpse.

Equities Are a Staple

27.1%

The percentage that stocks represented in family office portfolios in 2017—the highest proportion among asset classes.

Co-Investing on Decline

9.4%

The share of allocation to co-investing in 2017. This is down from 15 percent in 2016.

Penchant for Green

41.7%

The share of family offices that support environmental causes. This was an 8.4 percentage-point leap from 2016.

Love for PE Continues

87.5%

The percentage of single-family offices that maintained or increased private equity exposure over the past year.

Direct Investing Gains

66%

The percentage of single-family offices that said they will participate in more direct investments.

Retreat From Hedgies

55.7%

The percentage of single-family offices that decreased hedge fund allocations from last year.

The UBS Group and Campden Wealth report (left column) is based on a survey of 262 families from February to May with an average wealth of $921 million. The ICapital report (right column) is based on a survey of 157 single-family offices in the last half of 2016 and the first half of 2017, most of which managed more than $500 million.