Paul Karger of Twin Focus Capital Partners

LatAm has the highest density of high and ultra-high net worth individuals per capita of any region in the world, and as their numbers and fortunes have swollen in recent years, many have turned to family offices to manage their wealth. The independence and versatility of the family office model attracts them, especially in the face of recent volatility in the global markets. While some family offices outside the region have won LatAm clients, the numbers and sophistication of local family offices has been growing rapidly, as well. As Paul Karger, a co-founder and managing partner of Twin Focus Capital Management, LLC, a Boston-based multi-family office with LatAm-based clients, says of the LatAm local family office market, "The opportunities are massive. People need independent advice."

Mr. Karger, whose firm provides advisory services for over $1 billion USD in assets belonging to select group of families in LatAm, the Middle East, Asia and the U.S., explains that his firm tends to work with LatAm entrepreneurs who have built and sold businesses and now have substantial cashing holdings they wish to invest. Many of which have amassed their fortunes in a concentrated way and are now looking for diversification away from an idiosyncratic country, regional or asset class risk. "As wealth has proliferated around the world in the last ten years," he says, "people are starting to look at things differently and realize that we do live in a globalized world. Things are so interconnected now, money is so fungible and moves in and out of corners of the global via capital markets, and there's a significant need for looking at things differently. These [LatAm high net worth] families and individuals are more educated about the markets now and realize that if they have all their money invested in reais, for example, they're still subject to the volatility of global currency markets. So increased and methodical exposure to various asset classes is definitely something our clients are looking for."

And yet it is not merely a question of asset classes, he says. "When you live in the world we live in today," he adds, "sophisticated wealthy families are seeing the problems the big banks have had and are realizing that they need they need global diversification not just across assets but across custodians and banks." He describes his firm's main task as "developing one-off customized solutions for complex situations that wouldn't fit on a bank platform."

It is the independence, flexibility, and integrity the family office model allows that Mr. Karger says is so attractive to high net worth individuals and families, many of whom have become disillusioned with the bank model. "I think all the bad press about banks [in recent years] has been great for more independent shops that have a different story to tell, that are completely, truly independent and allow their clients to decipher the various layers of fees embedded in a product. When you're an independent advisor, you're making recommendations based on what you think is right for the family, instead of getting lost in convoluted compensation structures and the way clients pay for things." He says that the distinction between models becomes clearer during downturns and crises. "In upward trending markets," he says, "everybody looks like a hero; but then, all of the sudden, as Warren buffet says, the tide goes out and you see who's swimming naked. In the last couple of months, people have realized that you can't just make money by following the consensus."

Mr. Karger says that his clients tend to vary across regions in their approach to investing. "There are definitely idiosyncrasies in any region, and certainly in LatAm the families we work with are very institutionalized; our families are multi-billion dollar families who have significant infrastructure in place and understand why they need global diversification and that it's not just about getting 50% returns."

Yet, though there are some well established family offices, Mr. Karger thinks there is immense room for growth in the region, singling out Argentina and Colombia as two ripe markets. "In Buenos Aires there is a huge opportunity, because there aren't a lot of family offices there today; a lot of the assets are captured by private banks, unlike in Brazil, where there's a family office on every corner. There are lots of other markets out there in LatAm, such as Colombia. The opportunity is very significant and will only continue to grow. Individuals just need to decide if they want to institutionalize, and then decide whether to hire a multi-family office advisory or build one the solution themselves."

As a multi-family office from outside LatAm that invests globally, Twin Focus's business also represents another prevailing global trend: that of investors and managers, including those from LatAm, increasing their exposure to LatAm markets. Mr. Karger says that 20% to 25% of his clients' emerging market exposure is in LatAm assets. In his firm's view, he says, Brazil is best of the BRIC countries, with a large, well developed, and deep market with good regulatory control and transparency, whereas he and his team have a negative thesis for China in the next decade. They have also changed the balance of the asset classes they invest in. "We made a big shift at the end of last year," he explains, "where we basically reallocated our emerging market beta into emerging market alpha, wiping out our index and long exposure in emerging markets and hiring what we believe to be talented hedge fund managers in specific regions – specifically for Brazil exposure, as well as pan-LatAm, Asia, and frontier market exposure."

In seeking these local managers, Mr. Karger explains that his firm is interested in expanding his firm's capacities and transcending the limitations of geography. These managers, he says, "often have limited liquidity, not great transparency, and probably poor tax efficiency for U.S. onshore investors, so we need to make sure they're doing something that we can't do in-house. We have a very smart team here that can figure out how to put on various trades, but I want a manager that has an edge, that's doing something we can't do. I want a manager in Brazil that's really grabbing exposure to the 50 million emerging consumers coming online, for example, as opposed to more broad based exposure, which is mostly commodity based."