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**From:** David Stern [REDACTED]  
**Sent:** Saturday, March 31, 2012 12:14 PM  
**To:** Jeffrey Epstein  
**Subject:** Fwd: Friday Letter: Too tough to crack

[REDACTED]  
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Skoll will be in Istanbul. Will introduce you

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From: [REDACTED]  
Sent: Saturday, March 31, 2012 1:42 AM  
To: V-Nee Yeh  
Subject: Friday Letter: too tough to crack

=omment

With \$4.6 trillion between them, the world's billionaires are bigger than the entire hedge fund industry put together, but ultra high-net-worths and family offices are probably never going to be hugely important to fund sponsors. =o:p>

Much has been published about the combined wealth of the world's billionaires and family offices, but is this group ever really going to be a huge attraction to fund managers?

This week, Capricorn Investment Group, a Palo Alto- and New York-based private investment vehicle of eBay co-founder Jeffrey Skoll and other families, rolled into London and essentially said that it does not love private equity real estate funds. Instead of committing to another commingled blind-pool fund, Capricorn was in town to announce a commitment to a European club investment vehicle to be managed by a new firm, Family Office Real Estate Partnership. =o:p>

At the event, Stephen George, the very smart and likeable co-founder and chief investment officer of Capricorn, went on to say that family offices were "yearning" for a new model - a "more direct model that one couldn't get in a fund." He also noted that the global financial crisis had "revealed issues" in the fund model, and in real estate funds in particular,

with “lots of fees” and a lack of transparency. He added that the industry had become “product-erised,” leading to a change in the basic dynamic of what investors are trying to accomplish with such investments. </p>

Of course, George wasn’t necessarily trying to speak on behalf of every family office on the planet. The thing is, even if family offices en masse are anti-private equity real estate funds, the fund industry may not shed a tear.

Yes, there are at least 6,000 family offices around the world, and perhaps as many as 10,000. And yes, it seems undeniable that the combined wealth of billionaires is colossal. According to Forbes magazine, there are 1,126 such people in the world with \$4.6 trillion between them – that’s larger than the entire hedge fund industry, which has \$2 trillion in assets.

In addition, it is true that family offices are capable of writing out some very large cheques to real estate funds. Those that want to be in funds don’t mind taking a call from a manager or placement agent, and they can be less cumbersome than some institutions. For example, there may be just one guy in charge of investment decisions for the family office, making the decision-making process clean cut if he likes the strategy.

Nevertheless, in reality, it is rare for a fund sponsor to base its fundraising around family offices. The sponsors know that family offices tend to have a different agenda to institutional investors, and they are a guarded and difficult group to get in with in the first place.

Also, the notion that their collective heft can be harnessed in some significant way by fund managers seems a tall order. There’s little chance that many of the family offices within that capital pool of \$4.6 trillion share a collective approach, given the individuality inherent in the notion of a family office in the first place.

There is a right way to approach them and a wrong way, but the average size of cheques these guys write, at the end of the day, might not even make all the effort worth it, especially as the family office can be so much more demanding when it comes to the level and frequency of communication and information required from the manager.

For these reasons and more besides, fund sponsors should continue to target the institutional market, even if that has become just as demanding.

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