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“Families Investing in Families” An interview with Francois M. deVisscher

Barbara Hauser has known Francois for many years, and interviewed him for the Journal, about his family office development of “Families Investing in Families.”

Q: Francois, with your family history in Belgium, what brought you to the United States?

A: I studied finance and economics at the University of Louvain in Belgium. So when I was preparing to launch a career in Finance, my uncle, at that time CFO of our family group Bekaert, advised me to learn accounting first. Good advise, so I accepted an offer from Coopers & Lybrand, to work in their Brussels office as a public accountant. Coopers and Lybrand (now PWC) had me transfer to New York, for a three-year program to get CPA and MBA degrees . I fell in love with New York and the States, so I decided to stay and took a job as an international investment banker at Smith Barney.

Q: What was the attraction of New York?

A: Having been brought up as part of a large family group in a small country like Belgium , I was intrigued by the entrepreneurial spirit in the city and the ability to make it on my own . I was also fascinated by New York as the financial capital of the world . In my mind , New York was the best place to learn corporate finance and Smith Barney was a terrific opportunity to do just that ! Family enterprises was always a passion of mine , particularly given my background . So, when I became a partner at Smith Barney , I formed the first group on Wall Street focusing on providing financial advise to family offices and family businesses . Mind you that I that time , most people on Wall Street viewed family enterprises as small “ mom and pop “ businesses.

Q: I understand you are in the fourth generation of the original family business, based in Brussels. How did the business begin, and what is it like today?

A: The business began as a single hardware store in Belgium, in 1880 by my great-grandfather on my mother’s side. He was orphaned at age 12 and his aunt helped him run the store. It began small. One day a customer brought in a piece of barbed wire and asked if my great-grandfather could make some. He worked all night, a story the family can complete in great detail, to twist wires and insert nails. Now the Bekaert Group specializes in steel wire and coatings, with sales of $5 billion and factories in 120 countries. Today , Bekaert is the largest independent manufacturer and coater of steel wire in the world and still controlled by the family. Twenty years ago , the family made a decision to remove most family members from management positions at the family company , letting outside management run the business and form a family office . The Board of the company is controlled by the family with several outside directors to assist in the corporate governance . The goal was for the growing family to become responsible shareholders , using the family office as the custodian of the family’ patient capital , separating the corporate governance from the family governance. Today , the family is composed of several hundred family shareholders across 3 generations .

Q: Were there conflicts in the different family branches?

A: One of the reasons for removing family from the management was that at the third generation -the generation of my parents – many family members were involved in management , which created enormous conflicts and discord in the family and hampering the effective governance of the business . The tensions in the family became so severe that one branch of the family sold out. This was a sad day for a united family like ours . When my generation came to the helm , we wanted to avoid the experience of the past and therefore separated the family business from the business of the family and hence formed the family office as a tool for communication , education and wealth management of the family shareholders . Concurrently , we went public to provide capital for growth and shareholder liquidity .

Q: Have you wanted to take an active role in Bekaert?

A: Early on in my career , I was approached by my uncle , then Chaiman of the Group to join the ranks of management . After long deliberations , I decided that my interests and competencies would be best suited as a guardian and a custodian of the family's patient capital. With intense competition for top quality management , I was also of the opinion that Bekaert would be better served by recruiting top management from the outside . Hence , I joined the Board and later also became active in the family office . After 25 years on the Board , I have recently stepped down, to make room for fifth generation. My nephew who is a managing director at Bain Capital in London has taken my place on the board.

Q: Back in New York, what led you to start your own advisory firm in 1990?

A: As I mentioned , I started the Family Business group at Smith Barney in the mid-eighties . The mission was to provide specialized financial advisory and consulting services to family enterprises by designing solutions for the capital, liquidity and governance needs of family companies and their shareholders . As a pioneer in the field , the group and its services were very well received and we were blessed to very rapidly work with many families around the world . However , as Wall Street started to move away from advisory services and focusing more on transactions , it became increasingly difficult to maintain an unbiased approach in our advisory services. Our family clients were more interested in receiving neutral advise and not being " pushed " in transactions . Hence I felt that the new "transaction culture " of Wall Street was not aligned with the real needs of family enterprises , looking for transparent unbiased financial advice. That is when I decided to leave Smith Barney to form de Visscher & Co. as an independent advisor to family groups.

Q: How did you start "Families investing in Families?"

A: "Families investing in Families " is a trademark of our firm . It started in two different ways . From my own personal experience and from working with many family companies around the world , I learned how important it is for family businesses to find like-minded and long-term outside capital to finance growth and/or liquidity Mindful of avoiding conflicts with our existing advisory business , we formed a separately governed private equity fund called "Family Capital Growth Partners , LLC "which was funded entirely by family offices to finance the long-term growth and liquidity needs of family companies . It was the first partnership between family businesses and family offices . The fund was very successful but when it became time to raise an other fund, I realized that single family offices were more interested in investing directly into family companies than through a private equity fund . Family offices were frustrated by the fee structure , the potential conflicts of interest and the lack of transparency of a private equity fund . Family offices looking to build wealth on a trans-generational basis were also disenchanted by the relative short-term nature of private equity funds and the lack of flexibility of exit . So instead of raising another fund , we created in 2008 "Family Capital Partners" as a network of single family offices interested in partnering with other families and family businesses on a direct basis . Today , Family Capital Partners has 400 single family offices in the network.

Q: How is the Family Capital Partners different from private equity funds?

A: Private equity funds have several flaws when partnering with family businesses. The managers of private equity funds are incentivized by collecting management fees and carried interests on the exit of the investment . The quicker they can exit an investment , the quicker they can collect their profits and recycle the capital from investors into another fund. The shorter the exit , the better IRR! But ,when seeking a partner , family business are looking for long-term “patient” capital, which a typical private equity fund cannot provide . Furthermore , the fiduciary obligation of managers of private equity funds is to the investors , not the companies the fund invests in . And there lies the conflict issues . Lastly , private equity funds are not equipped to deal to the specific structural and governance particularities of family businesses.

Family Capital Partners is totally different . When a family office partners with another family business or family office , it is a “principal to principal “ partnership . This is not “other people’s money “ …a family partners with another family as principals ! As family offices are looking for sustainable wealth building , Family Capital Partners investments are also for the long term. In fact , one of our families commented recently that in their family office , they didn’t really have a good definition of “long term” but “short term” investments for them was 50 years!!! Given the long-term nature of those partnerships between families , trust and cultural fit among the families are almost as important as financial returns on investment . Hence the process of putting two families together in a partnership involves significant family due diligence in addition to the business due diligence . What is the culture of the family ? What is the family governance ? How do the family governance match ? Are their any looming liquidity needs in the family ? Who in the family will be involved ? The “get to know “ the family and the cultural fit among families is often the secret sauce for a successful sustainable family partnership.

Q: Do you see an increase in direct investments by family offices?

A: Definitely. I saw a global study that in the next five years , family offices intend to double their direct investments allocation at the detriment of hedge funds and private equity funds . With the growth in single family offices around the world and the rapidly rising generational transitions in family enterprises , we see family offices as the main source of capital for family businesses.

Q: Many of your partners are in other countries. How did that begin?

A: We began establishing family partnerships in the 1950’s . My grand-uncle who at that time ran our family group was a co-founder and member of an association of Catholic CEOs from around the world, called UNIPAC. In that group , he came to know many members from Catholic countries in Latin America. In order to expand our presence around the world , he developed partnerships with family businesses in many countries of Latin America such as Chile, Columbia, Ecuador and Peru. Many of those partnerships still exist today as our and our partners’ families have transition to successive generations of ownership. As I have learned, and strongly believe, partnerships of any sort are successful only when they are based on strong personal relationships. The partners need to trust each other and to have the same goals.

Q: What are you doing to prevent conflict within the family?

A: That was another important lesson we learned from the disruptive branch conflict in my parents’ generation. We are very motivated to prevent such conflict in the future. To help with this , our family office spends enormous energy efforts and money on governance, transparency and communication within the family . We have regular shareholders information meetings , we have a family website and we have educational programs for the next generation . This creates the bond necessary to maintain the patient capital of the family . Additionally , liquidity options for family shareholders are also critical to maintain cohesion in the family . Patient capital is not “trapped capital “! Providing shareholders options to exit or sell shares reinforces the glue among a growing number of family shareholders . I remember that 10 years ago , we were approached by a family in the US to assist in buying out one branch of the family who was disengaged from the family and the business and expressed an interest in being bought out. Without seeking outside capital for a buy-out , we set up a redemption program to provide all shareholders with an ability to sell shares annually at some pre-determined formula price . Ten years later , the program has never been used and the disenchanted branch of the family are now participating in the governance of the family office , clearly reunited with the rest of the family. The patient capital of the family is now under way for the next generations !!!

Q: Speaking of transgenerational attitudes, do you have children who might join your business?

A: Not sure yet. Our older son is enmeshed in the movie industry in New York, but the younger son is working with an internet company in Boston and we often talk about my business. For me, it is more important to raise our children as responsible owners for their and for future generations.

Q: What is on the horizon?

A: I am very passionate about developing global partnerships among families. As families and their businesses become increasingly global, global partnerships among family offices will ,in my opinion be the greatest engine of business growth and personal development in the private wealth arena. I am actually in the midst of putting together a high-level advisory board from a number of key countries. We all learn from each other, especially when we take the time to develop trusting relationships, which are so valuable.