

Peer Insights

R E P O R T

Q&A with Eric Saucedo

Partner, Tricap Partners & Co.

Principle Series:

Family Office Insights sits down with Eric Saucedo, partner of Tricap Partners & Co. to discuss how the family office community, pension funds and endowments view alternatives and direct investing.



Family Office Insights is a voluntary, “opt-in” collaborative peer-to-peer community of single family offices, qualified investors and institutional investors.

Learn more at:
FamilyOfficeInsights.com

Q: Why is the high-net-worth and family office community enthralled with both the world of alternatives and direct investing?

A: If you go back to the financial crisis, some endowments and institutional investors historically had a large allocation to alternatives, thus they tended to come out of the financial crisis relatively unscathed. For high-net-worth investors and family office groups, it's all about capital preservation and not so much about identifying the highest return. If you were to look at the historical data on alternatives and how they are employed in overall asset allocation, there is the potential for higher returns. The more significant benefit, however, is less volatility and lower correlation to the public markets.

Family offices specifically are more focused on alternatives now more than any other time in history. But a contradictory issue still remains. We continue to see many family offices with a healthy allocation to private equity funds but we're also seeing them doing direct investments by themselves or with other family office groups. Many of them are saying: "Why am I paying 2 and 20 fees to these funds?" They very often have better operational experience than the funds, so naturally, they are placing more importance on doing direct deals.

Q: While direct investing remains a hot topic, what are the types of issues family offices have when investing in such deals?

A: Not every family office has the capability to make direct deals and many times they can get hurt if they don't have the capacity to do it. While it is a hot topic, it's not for everybody. One of the issues they face is that they typically don't have access to the right deal flow. Successful private equity funds are very good at being in the deal flow circuit and having the focus be on the exit. The typical private equity structure and professionals tend to be better at this. However, there are also many good examples of family offices that are doing it right. AUA, the fund run by Andy Unanue of the Goya Family, is probably one of the better funds equipped for investment opportunities in both the food and Hispanic markets. They've gone from a family office to a fund and are now managing outside money that allows them to do bigger deals while establishing the institutional framework needed to do them.

Q: Who is your ideal client?

A: We work primarily with private equity funds, family office groups and early-stage and middle-market companies, most of which are portfolio companies of these same funds and family office groups. To a lesser extent, we also represent pension funds and insurance companies with respect to alternatives in general.

On the corporate side, more often than not many of these early stage/middle market companies need a lot of operational help in addition to capital to maintain their growth cycle. Jack Smith one of our other operating partners does an exceptional job for our clients in this area. It can be a difficult thing to tell a CEO that valuation is not the most important aspect of a financing, as many CEOs tend to put too much emphasis on their pre-money valuation. Therefore,

the ideal client is one who is receptive to the operational help that we bring to the table as well as one who is less focused on valuation. Of course valuation is important, but the issue of valuation is heavily outweighed by the importance of bringing in the right partner. You want to bring in capital that will help you grow in the most efficient manner and that can provide you added value, like operational expertise, industry contacts, capital structure, and the focus on an exit. The long term growth objectives of the company always outweigh the short term focus on valuation.

We also deal with family office clients, where we can help them on the buy side buying or investing in companies and understanding the long term perspectives of the business. For example, we have a Latin American client looking for distribution into the United States. The ideal clients, and this one in particular, understands that it's a marriage; you have to get into the right company with the right management team. The ideal client knows that it can be a long process to identify the right opportunity and close a deal with the right transaction structure, the right level of capital and the right management. Again, it's a marriage, so you shouldn't rush to the altar after the first or second date.

Q: Why do you focus on early and middle market growth companies? Why can this specific niche prove challenging for eager investors?

A: Most of our business activities are in the middle markets in the United States and Latin America. Many of the partners here at Tricap Partners have come from private equity in both of these regions, so we are just very comfortable in it. When dealing with many family-owned companies, there can be a lack of understanding as to how they can benefit from bringing in private equity investors. If you're an early-stage or middle-market company and you want to bring in outside capital, there are certain things that you need to do. And getting these companies on board can often be a challenge. They need capital, but they also need a lot of operational help, which is where we come in.

Q: Why is long term investing and taking a long-term perspective so paramount to what you do?

A: We deal with privately held companies and we're focused on growing them. This is not a function of any short term objective; it's more of a big investment of capital and time to be able to transform these companies from a \$100 million to a billion dollar company. It's definitely not day trading.

Q: What other types of services do you provide to your clients?

A: There are two sides to our business. First, the merchant banking side provides buy-side advisory services for private equity funds and family offices. We have a private equity mindset of growing good companies. Secondly, we also focus on general alternative assets, such as private equity funds, hedge funds and real estate. We've been working with some family offices for over 25 years helping them identify investments and guiding them through their allocation into alternatives. We help them manage their capital, but only for their alternatives piece of their portfolio.

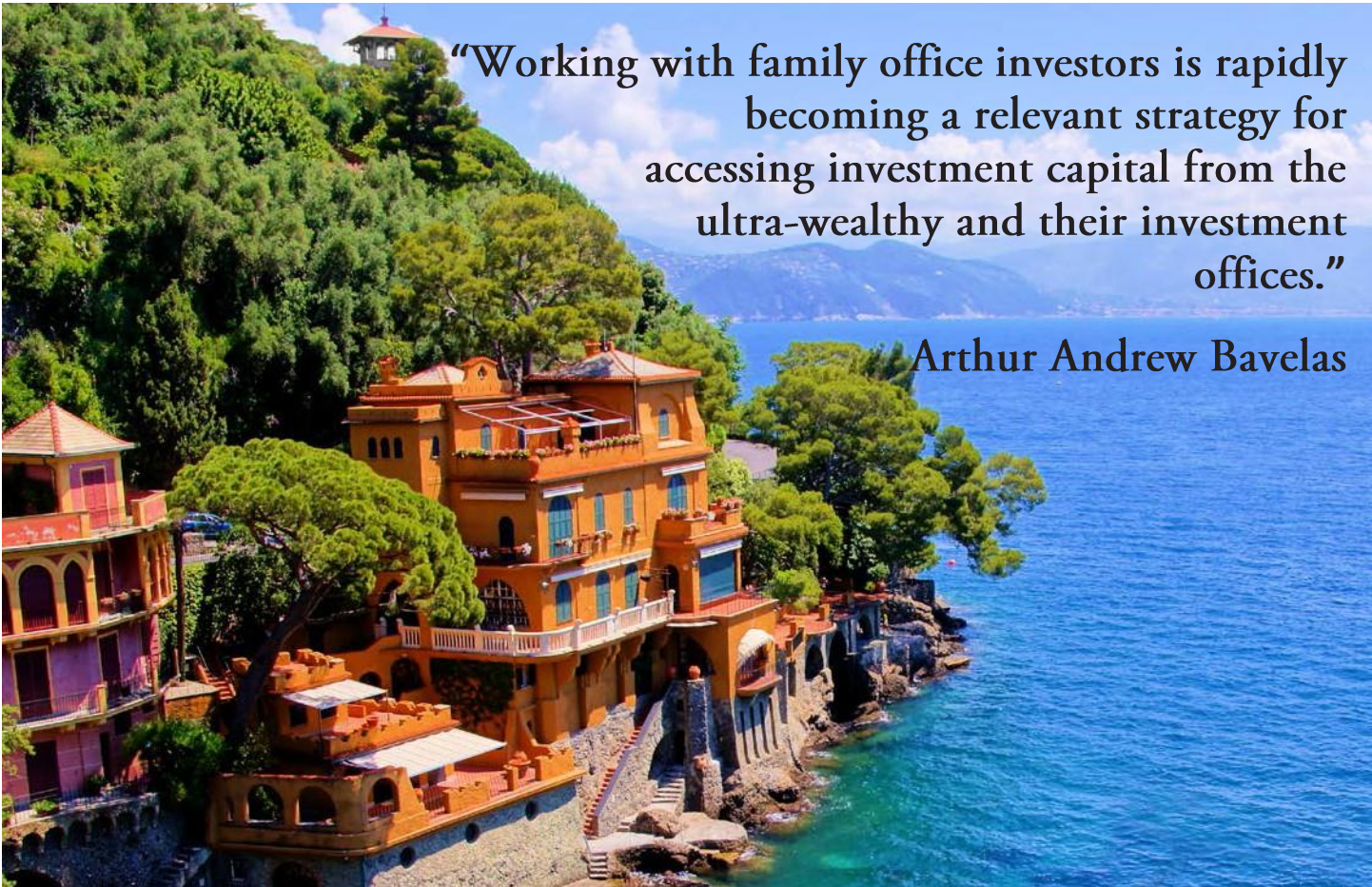
Q: What is Tricap's overall mission?

A: We strive to be a high-end service provider for alternative assets. We don't try to work with everyone. We look to work with a limited number of clients to help them manage and execute their alternative investments. Our focus is on alternative assets and working with family offices, smaller pension funds and endowments.



Eric Saucedo

Eric Saucedo is a Partner at Tricap Partners & Co. He has extensive experience in both investment banking and private equity investments and has many years of experience in the due diligence and execution of numerous public and private transactions, including many private equity investments in the United States, Europe and Latin America. For more information, please visit <http://www.tricappartners.com> or email Eric at esaucedo@tricappartners.com.



“Working with family office investors is rapidly becoming a relevant strategy for accessing investment capital from the ultra-wealthy and their investment offices.”

Arthur Andrew Bavelas