The evolution of the family investment model: Pritzker's committed club structure

by David Bain

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To get an insight into the evolution of the family investment model, the various private offices linked to the Pritzker family is an excellent place to start. There are many investment groups run by the extended family – one of the world's richest – and most of them are at the forefront of the deployment of family capital in private equity, venture, and impact.

Arguably within that universe, Pritzker Private Capital (PPC) is one of the more prescient examples of this evolution. This is particularly in respect to how the Chicago-based family investment group works with third-party capital in private markets.

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Set up last year as a stand-alone entity separated from brothers Tony and J.B. Pritzker's family office, The Pritzker Group, PPC deploys the family's capital alongside money from other families. With this pool of capital, PPC targets minority and majority stakes in middle-market companies, many of them family owned.

PPC is in many ways, a classic deployer of family capital in a patient way. But it mixes this with a team of savvy private equity investors to help it come out top in its deal-making in a competitive market.

"We saw a significant flow of opportunities," says Paul Carbone, president and managing partner of PPC, who spoke exclusively to *Family Capital*.

“We were faced with the fortunate circumstance of trying to figure out how to deploy the family’s money in all the opportunities and to take full advantage of them. But we wanted to do it in a risk-managed way.”

He adds: “Today’s market is massively competitive. It’s an overcapitalized market. And even though our capital is advantaged and preferred by certain sellers, speed and certainty are critical to compete, and win in the market.”

Carbone says these factors coincided with families knocking on their door wanting to partner with the Pritzkers.

“We drew all this together and decided to bring in outside capital.” The model to do that is what Carbone calls a committed club structure.

“Families have always passed the hat, but we found that process difficult,” he says. “It was a cumbersome and a slow process and didn’t allow us to necessarily move with the speed and certainty we needed to, especially when we were doing larger deals.

“So what we decided to do is work with third-party capital and form a committed club, where, as opposed to a deal by deal approach, we created a small group of like-minded partners.”

Carbone is quick to say the structure isn’t like a typical private equity fund, where outside money is treated as limited partners.

“We emphasize the partner in this arrangement. We could have taken a lot more capital from a lot more families, but we aren’t asset gatherers. We want a club of like-minded partners who bring more than just capital; they also bring relationships."

The Pritzker name and track record in private market investing are big reasons why other families want to co-invest with PPC. Combine this with PPC's committed club idea and the appeal for families is strong.

But in a fiercely competitive market, those reasons might not always be enough. You also need to draw on the services of the best staff available. So the other bit of the equation for PPC is its staff, which comprise around 40 professionals.

"A staff of 40-plus people in today's world gives us the scale, presence, and capability to compete," says Carbone. Like Carbone, who has a top-notch background in private equity and investment banking, many of the staff at PPC look like they've come from the top echelons of one of the best private equity houses.

Of course, to gather this level of expertise and experience doesn't come cheap. And this is where the fee structure of PPC's committed club offering kicks in.

Asked whether other family investment groups are using PPC's co-investment model as a template, Carbone says you need to ask other family offices to find out. But there is no doubt PPC's approach to third-party capital has its appeal, and other sizable family offices are likely to consider the model when they look to gain a more competitive edge in the market.

Of course, to work with third-party capital can open a family investment group up to a new set of challenges, as Ryan Harris, a partner at law firm Kirkland &

Ellis says. “To bringing in third-party capital, whether through special purpose vehicles or by offering co-investing arrangements may bring in more regulatory oversight,” he says. “It will depend on how the opportunities are structured, and the family office may or may not need to become a registered advisor.”

Harris adds many family offices are grappling with the issue of third-party capital. Some like the idea but others are more content to stay as classic single-family office structure with no outside capital.

“The issue of opening up to third-party capital is a real one for families to think through,” says Harris. “Does the family office want to take advantage of some of the benefits of using third-party capital, or do they want to maintain the holistic nature of the single-family office?

“And for many years, single-family offices were very distinct on their viewpoint on this – that is they weren’t interested in third-party capital,” says Harris. “But that is changing, and now there is tremendous interest in the subject.”

As that interest grows, the appeal of PPC’s committed capital approach will likely rise.

This is first of an occasional series on the evolution of the family investment series, where *Family Capital* will look at how the model is evolving from an investment and structure perspective.