Jack Daniels, Ferrari and Heineken are family-owned businesses

FAMILY-OWNED FIRMS DESERVE YOUR INVESTMENT

The relative merits of many small businesses often go unnoticed — it may be time to pay attention

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Saturday March 07 2020, 12.01am, The Times

Heineken, LVMH and Rémy Cointreau are world-famous brands, but they are also family-owned businesses. Investors can underestimate family businesses, thinking them rather dull and far from cutting-edge, yet they are actually some of the most successful and durable businesses of all.

At the annual meeting of Nick Train's company, Finsbury Growth & Income, last week, a clued-up shareholder might have asked about Train's fondness for family-owned businesses. No fewer than 13 of the 22 stocks driving the growth of his fund are ones in which families have a significant stake. Train's biggest winners, which have helped to propel Finsbury to a ten-year return of 301 per cent and top place in the performance tables, have been family affairs.

The two stocks that have multiplied Train's money most — sevenfold — are **AG Barr,** the Scottish maker of Irn Bru, and **Fuller's**, the London-based pubs and hotel business. Both are family-owned, as is **Young's**, another pub and hotel business, which was started in London and has produced a fivefold rise in value since Train bought into it. Other big winners that fall into this category are **Heineken**, the Dutch brewer; **Rémy Cointreau**, the French spirits maker; **Celtic**, the Scottish football club; and **Rathbones**, a wealth manager. All have multiplied Train's money twofold.

Train told *The Times*: "We have been well rewarded over the years for backing the shares of companies that have significant family shareholdings. It seems that there are two factors at work.

"First we agree with the idea that family shareholders have different time horizons from other investors and that they are more willing to support 'difficult' short-term decisions, like sacrificing near-term profitability, in order to ensure the long-term health of a company.

"Second, and more subtly, family-controlled businesses tend to be more difficult, or impossible, to take over. This means that family companies with wonderful brands or franchises are available to invest in, when non-family companies with similar assets have been taken over decades ago. We think of Heineken, **Jack Daniel's** and Rémy Martin, brands anyone can still invest in because their family owners have refused to sell out."

Uncovering high-quality companies trading below their true worth means looking in areas of the market where others don't. Historically, some of the best of these overlooked stocks have been family-controlled holding companies, says Joe Bauernfreund, the portfolio manager of the AVI Global investment trust.

He says: "Family holding companies suffer from a lack of research and low investor interest. With the meteoric rise of US technology companies, investor attention has been drawn elsewhere. This in turn has led to the mispricing of assets and has created opportunities for canny investors."

As well as being a less well researched area, these companies are predominantly found in Europe and Asia, and Europe's recent slow levels of growth have meant there may have been low levels of investor interest. However, Bauernfreund says, “the reality is that many of these companies are being unfairly penalised. They are, in fact, global in nature, owning attractive quality assets around the world.”

As an example he points to **Investor AB**, the Swedish company controlled by the Wallenberg family and which holds sizeable stakes in other Swedish companies, including Atlas Copco, the industrial group; Astra Zeneca, the Anglo-Swedish pharmaceutical company; and Ericsson, the telecoms company.

Bauernfreund says: “Investor AB has owned many of these companies for decades. It has an eye for the genuine long-term rather than the next set of quarterly earnings and takes an active part in decisions affecting the businesses. It trades at about a 20 per cent discount to the real value of the companies it holds, so is on a very attractive valuation.”

Another stock he favours is Exor, the investment company of Italy’s Agnelli family. It’s probably not a name that means much to UK investors, but it holds controlling stakes in listed companies such as **Ferrari**, **Fiat Chrysler** and **CNH Industrial**, as well as **PartnerRe**, a reinsurance business.

Another investment house that actively favours family businesses is Stewart Investors, which has a strong Asian element to its operations. David Gait, the manager of the Stewart Investors Asia Pacific Leaders fund, says Asia is home to a large number of family-controlled companies and they offer a number of advantages for investors.

Gait points out that Vitasoy, a Hong Kong-based soya milk company, started selling into mainland China in the 1980s and persisted, even though it was loss-making for more than 20 years. Mainland China now accounts for 40 per cent of its business.

Their longevity means that members of the business can develop long corporate memories, which enable them to navigate future crises with greater assurance.

However, there are also drawbacks, says Richard Umpleby from the wealth manager Brewin Dolphin. If too many senior members of the management team come from the same family, it could lead to an element of “groupthink”, or a lack of new ideas in the business. More junior members of a family might find it difficult to challenge more senior members, leading to conservative decision-making.

Some people don’t like the idea of family-owned companies because it means that outside investors are minority shareholders and will never be able to compel a family to take a course of action they don’t want to take. This may be reinforced by a two-tier system of share classes, where family shares have greater voting rights than ordinary shares.

“Some companies have acted in the interests of the family rather than outside shareholders,” Bauernfreund says. “So if you are going to invest in these stocks, you have to have a clear idea of the controlling family’s approach and be comfortable with it.”