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Despite COVID-19, Family Offices find the future of venture investing bright

Since its inception in 2015, SVB Capital’s Family Office Practice has focused on providing insights – as well as unrivalled access to the most promising investments – to family offices around the globe who are passionate about investing in the innovation economy.

As part of our commitment to serving family offices, we have partnered with Campden Wealth, the world leader in Family Office research, to create the first-of-its-kind, in-depth report on family offices investing globally in venture capital.

We’re pleased to present this inaugural issue. It is our intention that you find the report contains useful information to help you succeed in 2020 and beyond.

Our findings underscore a few key themes. Sixty-three percent of family offices said their capital allocation to venture will stay the same or increase, despite the pandemic. That said, they may deploy capital more slowly and place greater emphasis on quality fund managers. While every family office has a unique portfolio, on average, they are allocating 54% of their venture portfolio to direct investments and 46% to funds. Strikingly, 61% of family offices believe the highest returns in the next decade will come from funds managed by emerging managers.

From our perspective, as part of SVB Financial Group, which banks 50% of all venture-backed technology and life science companies in the U.S. and more than 2,000 venture capital firms, we, too, are confident that the future of venture investing is bright.

But investing in venture is not always easy. Family offices told us that they find it challenging to access quality funds, with both established and emerging managers. That is one of the areas where SVB’s Family Office Practice aims to help.

On behalf of SVB Capital’s Family Office team, we encourage you to let us know what you think of the report, and to reach out to us if you’re interested in discussing how we can help you access the global venture ecosystem. Until then, keep well.
Dear reader,

Campden Wealth delivers proprietary intelligence directly from families – guided by the principle that peer-to-peer learning can be extremely effective, and is increasingly pertinent as the investment landscape becomes more complex. The ambition is to provide reports which constitute a meaningful resource – helping families to benchmark their activities and navigate through uncertainty. In this regard, Family Offices Investing in Venture Capital 2020 is no different, and we have garnered valuable insights from a total of 118 family offices with experience in venture capital investing for the benefit of the whole community.

With that said, I am delighted to release this report, in which families have expressed considerable interest. Many of our members, across the globe, have built their own companies from scratch, have an affinity for investing in private companies, have played a crucial role in funding startups which went on to have an immense impact on the economy and wider society, and have a predilection for collaborating and investing alongside each other.

It is also a very timely study. In the last decade, family offices have become more prominent and sophisticated venture capital investors. Furthermore, as many families told us, COVID-19 has re-iterated the appeal of investing in technology and will likely present exciting investment opportunities. For family offices considering entering the asset class or expanding their operations, the shrewd advice from experienced investors includes starting with relatively small allocations and diversifying across vintages and sectors. In direct investing, adopt a focused approach and commit adequate resources to due diligence and, in co-investing, ensure there is alignment between the partners. In fund investing, access is key, and families must invest in research and capitalise on networking opportunities.

I would like to express my gratitude to the families and executives who took part in this study for their generosity with their time and for sharing their thoughts, experiences, and advice. I would also like to thank our partner, SVB Capital, and the Campden Wealth research team for their hard work to bring this research to life.

I hope you enjoy the read.

Yours faithfully,
1. Executive Summary

Family offices (FOs) around the world continue to be optimistic about investing in venture capital. This report examines how FOs are taking advantage of investment opportunities in venture. It explores their motivations for investing in venture, investment strategies and performance (for both fund and direct investments), how they source and select deals, where they see opportunities, their response to COVID-19, and more.

In a first of its kind, the report summarises information provided by a total of 118 representatives of UHNW families around the world with experience in venture investing. Most of the data was collected between October 2019 and February 2020, pre-COVID-19 (110 survey participants, including 16 interviews). To capture the impact of the coronavirus pandemic on FO venture investment activity, an addendum survey was sent, and additional interviews were conducted in Q2 2020 (35 surveys from original participants, plus 8 interviews with new ones).

**Key Findings**

**Family offices’ venture capital investment is on the rise**

Family offices have been more active participants in the venture ecosystem over the past decade, many times leading investments in early-stage venture rounds. The primary impetus is strong historical venture capital returns.

**Average VC returns: 14%**

For survey participants, their venture portfolios generated an average 14% internal return of return (IRR, in the 12 months prior to data collection). Fund investments generated 16% returns, and direct deals where the FOs had minority stakes 17% IRR. These returns met or exceeded expectations for 85% of respondents. Future return expectations are being revised downwards given current market conditions.

**Average VC allocation: 10%**

Typical composition: 8 funds, 10 direct deals

Every family office is unique and has a different venture portfolio composition. On average, however, VC investments constitute 10% of participants’ overall portfolios, divided between direct investments (54% of the average VC portfolio) and fund investments (46%). On average, participants hold 8 funds and 10 direct investments. The average investment is $6.1m per company and $7.9m per fund.

**FOs are most active in early stage venture**

Ninety-one percent of family offices said they are active in the early stage of venture investing (Seed, Series A), where valuations are lower. This strategy has delivered strong returns and resonates for FOs with patient capital.
Most are active in direct deals

A notable 76% of family offices invest directly in companies, and it is most common for them to source their own opportunities (26%). Deal hotspots include North America (81%) and Europe (53%), with significant interest in Israel. Pre-COVID-19, the main barriers to direct investing were competition for deals (28%) and high valuations (22%).

Significant and growing interest in impact / ESG investment

Nearly half (47%) of participants engage in impact / ESG VC investment. Interest is growing, particularly amongst the Next Gen, and as family offices appreciate that returns are not necessarily compromised.

Co-investing, a favoured route

Family offices actively seek co-investment opportunities, with 92% investing alongside other families and/or venture funds in order to share expertise and due diligence. Co-investments comprise 19% of the average FO venture portfolio. Families reported 15% returns from their co-investments, compared to 10% IRR from direct investments where they have a majority stake.

Family offices provide patient capital and smart money, perfect for startups

Startups are looking for patient capital and smart money, and family offices provide strategic guidance (72%), participate on the board (70%), and facilitate connections to other investors (70%).

Funds provide exposure to venture, but the barrier is access

Eighty percent of family offices invest in funds, which are an efficient way to outsource deal flow and due diligence. Sector-focused funds (in which 80% of FOs with allocations to funds invest) and sub-$100m funds (71%) are most popular. Pre-COVID-19, the most significant barriers to fund investing were access to compelling managers (23%) and valuation levels (18%).

Highest returns expected from emerging / breakout fund managers

Pre-COVID-19, 61% of family offices believed the highest returns in the next decade would come from emerging managers.

Despite COVID-19, FOs are optimistic about venture investing

Sixty-three percent of FOs said capital allocation to venture will stay the same / increase, despite the pandemic. However, family offices may deploy capital more slowly, place greater emphasis on quality managers, and move further towards sector diversification.
Introduction
2. Introduction

Over the last 20 years, technology companies have increasingly taken a leading position in the global economy. Furthermore, over the last decade, there has been massive growth in capital invested into the innovation economy by non-traditional investors, including family offices, corporate venture capital arms, sovereign wealth funds, and mutual funds.

In 2000, the total market capitalisation of the top five companies in the S&P 500 totalled about $1.6 trillion, with Cisco being the only technology-first enterprise on the list. In 2020, each of the top five companies in the index are tech-first companies; four out of five have hit $1 trillion in market cap, and the total market cap stands at about $6 trillion.

In the 2010s, unprecedented levels of wealth were invested in venture capital. At the start of the decade, VC investment amounted to under $50 billion; at the end of the decade, it reached $250+ billion. In 2018 and 2019, the annual value of deals with at least one non-traditional investor surpassed $100 billion, and from 2009 through 2018, the volume of these deals grew at an annual average rate of 11.5%. In 2019, non-traditional investors participated in more than 85% of the 252 deals over $100 million.

Family offices have long invested in venture funds and startups. Decades ago, they helped seed some of the first VCs in Silicon Valley, e.g., Greylock Partners was founded in 1965 with $10 million in seed capital from a group of six families. In recent years, however, the pace of FO participation in venture has been unprecedented – with a 6x increase in the number of venture deals from 2009 to 2019.

These trends call for a closer examination of family office investment in venture capital. COVID-19 has only made this research more pertinent. Many investors view technology as a safe-haven; many of the exciting innovations in life sciences and biotechnology have become even more relevant, and, in short, crisis is the mother of invention. Over half of the companies on the 2009 Fortune 500 list began during a recession or bear market, and the list of companies founded during or slightly after the Global Financial Crisis includes Airbnb, Cloudera, Convene, Dropbox, Flipkart, GitHub, Glassdoor, Groupon, Mailchimp, Mongo, Square, Twilio, Uber, Whatsapp, and Yammer.

This report explores family offices’ motivations for investing in venture, their investment strategies and performance (for both fund and direct investments), and how they source venture opportunities. It also sheds light on their investment criteria, involvement with portfolio companies, the challenges and barriers they face, where they see opportunities in the future, and their response to COVID-19. The report, a first of its kind, has numerous insights for families with experience in venture investing, as well as those just starting out. It will also be valuable for venture funds and startups looking to raise capital from family offices.
Figure 1
Total number of venture deals + capital invested, globally

- **Capital invested ($ billion)**
- **Deal count (k)**


Figure 2
Total number of direct venture investments made by family offices, globally

- **# VC deals by FOs**
- **VC deals by FOs as % of global deals**

Source: PitchBook and SVB analysis.

Note: Deal count captures investors that self-identify as family offices. Many FOs with established ‘single LP funds’ do not self-identify as family offices with Pitchbook, so the numbers presented will underestimate actual FO investment activity. Excludes all investments made into funds as LPs.
Some of the important findings are:

**Getting into venture:** For many family offices, the primary motivation to invest in venture capital is the relative historical returns this asset class has delivered. In addition, for families who have built their wealth by founding and operating businesses, investing in private companies feels natural. For new entrants to the venture asset class, FOs should start with small allocations in different years, i.e., vintages. They can further diversify by investing across stages of venture capital (seed, early, growth), and type of fund (established or emerging). Emerging (or breakout) fund managers, for the purpose of this report, are those who have fewer than three funds and each fund is less than $100 million. Families should carefully consider their liquidity requirements and the higher risk. Once comfortable, families, on average, allocate about 10% of assets to venture investments. Although the families surveyed reported healthy returns from their venture portfolio (average of 14% IRR in the 12 months prior to our data collection), future return expectations are being revised downwards given current market conditions.

**Direct deals:** Most family offices invest directly into startups, looking for quality management / founding teams. FOs are a patient source of capital and offer speed / flexibility with investments. Most take active roles in their investments, e.g., providing strategic guidance, participating on the board, and facilitating connections. For FOs, the main barriers to direct investing are access to and competition for quality deals. As such, many FOs are realising the importance of building a brand that attracts startups. Experienced FOs underscore the resources and expertise required to invest directly, and recommend a focused investment thesis. A significant number of FOs co-invest alongside other families and / or venture funds, which allows them to share resources and expertise. However, families must ensure there is alignment, and this is not easy to find.

**Funds:** Investing through venture funds is an efficient way to outsource deal flow and due diligence. Experienced family offices appreciate the accelerating pace of innovation, and they need to rely on dedicated fund managers with relevant domain expertise and access to the venture ecosystem. The top criteria for fund selection are reputation of the General Partner(s) (GP) and historical performance. For family offices, the most significant barriers to fund investing is access to top-tier managers. FOs need to invest time and resources to build a network in order to identify and reference compelling fund managers. Pre-COVID-19, there was consensus amongst families that emerging / breakout fund managers would deliver the highest returns. In the COVID-19 environment, the wisdom of focusing on quality managers and ensuring diversification across sectors / industries is underscored.

**Methodology**

This study used a mixed methods approach to data collection. The quantitative component involved procuring data from ultra-high net worth families with experience in innovation and venture capital investing, through a questionnaire designed to explore a range of relevant topics. The aim was to capture a truly global perspective. The core questionnaire was live between October 2019 and February 2020 and, in total, 110 families submitted responses.

In the midst of COVID-19, additional data and insights were collected to understand how family offices were responding to the pandemic, as it relates to their venture capital engagement. In April and May 2020, a supplementary questionnaire was completed by 35 of the original participants.

In order to provide context and greater insight into the quantitative findings, in-depth interviews were also conducted with 24 families.
Overview of participants
3 Overview of participants

3.1 Family office fact file

Insights are from family members and senior FO officials; SFOs around the world are represented

In total, 110 family offices participated in our survey. They were represented by a range of officials and employees: 42% are either a principal (23%) or family member (19%); 53% either sit on the board (30%) or serve as its chair (23%), and 31% serve as the CEO / President of their family office (Figure 3).

Eighty percent of participants represented a single-family office (SFO), which is either independent from the family business (57%) or embedded within the family business (22%), and a small number (2.7%) came from a single LP fund / family fund. Eighteen percent represented a multi-family office (MFO), which is either private (10%) or commercial (8.2%) (Figure 4).

Figure 4
Types of family office represented

The family offices are headquartered across 35 countries, with 45% being in North America, 29% in Europe, 14% in Emerging Markets (encompassing the Middle East, Central and South America, and Africa), and 13% in Asia-Pacific (Figures 5 and 6).
Figure 5
Family office headquarters by region

- North America: 45%
- Europe: 29%
- Central and South America: 14%
- Africa: 8.2%
- Middle East: 1.8%
- Asia-Pacific: 3.6%

Note: North America was emphasised in our data collection. Figures may not sum exactly to 100% due to rounding. Not every participant provided answers to every question.

Figure 6
Countries represented

Note: Countries are listed in descending order of representation.
Recent expansion of family offices

While under a third of the family offices were founded prior to 2000 (30%), over a third were founded in the first decade of the millennium (38%), and one-fifth were founded in the last six years. These figures align well with those in the Campden Wealth Global Family Office Report 2019, which reported that 68% of family offices were founded in 2000 or later, reflecting the relatively recent expansion of the family office space (Figure 7).

Figure 7
Period in which the family office (in its current form) was founded

<table>
<thead>
<tr>
<th>Period</th>
<th>Single-family office</th>
<th>Multi-family office</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before the 1990s</td>
<td>17%</td>
<td>13%</td>
</tr>
<tr>
<td>1990-1999</td>
<td>14%</td>
<td>10%</td>
</tr>
<tr>
<td>2000-2005</td>
<td>24%</td>
<td>10%</td>
</tr>
<tr>
<td>2006-2010</td>
<td>11%</td>
<td>10%</td>
</tr>
<tr>
<td>2011-2013</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>2014-2016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017-2019</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Figures may not sum exactly to 100% due to rounding.

Average AUMs: SFO $797m, MFO $1.5bn

The average assets under management (AUM) for the SFOs is $797 million, while the average AUM for the MFOs is $1.5 billion (Figure 8). These figures also align well with their counterparts in the Global Family Office Report 2019 – $802 million and $1.5 billion, respectively.

However, 45% of the SFOs manage between $100 million and $250 million, while 15% manage over $1 billion. The median AUM is $376 million. Thirty-five percent of the MFOs manage between $100 million and $250 million, while 39% manage over $1 billion. The median is $881 million.

With the MFOs serving 20 families on average, they manage $76 million for each. Twenty percent of the MFOs serve more than 50 families.

Figure 8
Family office assets under management

<table>
<thead>
<tr>
<th>Type</th>
<th>Average AUM ($m)</th>
<th>Average number of families served</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single-family office</td>
<td>797</td>
<td>-</td>
</tr>
<tr>
<td>Multi-family office</td>
<td>1,518</td>
<td>20</td>
</tr>
</tbody>
</table>


The SFOs in Europe manage the most in assets (on average, over $1 billion), followed by those in North America ($789 million), Asia-Pacific ($717 million), and Emerging Markets ($402 million) (Figure 9). The considerable figure for Europe partly reflects the fact that the largest family offices in our sample are European. Adjusting for these, the average AUMs for Europe and North America are similar.

Figure 9
SFO AUM, by region

<table>
<thead>
<tr>
<th>Region</th>
<th>Average AUM ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>1,010</td>
</tr>
<tr>
<td>North America</td>
<td>789</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>717</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>402</td>
</tr>
</tbody>
</table>

Note: Emerging Markets encompass the Middle East, Central and South America, and Africa.
The rise of the family office

In interviews, family members and FO executives elaborated on the motivations for establishing a family office. They said the recent expansion of the FO space is related to:

**Post-Global Financial Crisis concern about fiduciary responsibility:**

> In the United States, after the financial crisis, the sentiment emerged that financial managers had not exhibited enough fiduciary wherewithal. Wealthy families came to appreciate that they needed to develop their financial literacy. In many cases, they found resources internally. In my family, I was able to say to my dad, ‘I know more about leveraged finance than many advisers. Let’s handle everything in-house.’
>
> Head, SFO, North America

**The long bull market, beginning in 2009, which prompted families to consider more systematic management of their assets:**

> There has been a big bull market and a great deal of technological success on the venture capital side. As wealth grows, you need to think about consolidating your assets, tracking performance and exposures, and about spending, succession, inheritance, and legacy.
>
> Head, SFO, North America

**A shift in focus towards private investments, which the FO structure facilitates:**

> There is a trend – it used to be a family business, now it is evolving into a family office as well. In terms of leaning towards alternatives, it is easier to make direct property or venture capital investments through a family office holding structure.
>
> Founder, MFO, Asia-Pacific
The average FO has nine staff members

The average family office staff consists of nine members, including three family members, four investment professionals, and one venture capital (VC) specialist.

Prior to the outbreak of COVID-19, participants expected the total number of staff to rise to 12 members within the next five years, as more investment professionals and VC specialists were brought on board (Figure 10).

**Figure 10**
Family office staff numbers

<table>
<thead>
<tr>
<th>Staff type</th>
<th>Average (at present)</th>
<th>Average (in five years’ time)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family members</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Investment professionals</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Venture capital specialists</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>9</td>
<td>12</td>
</tr>
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**FOs grow with increasing comfort in VC and systematisation of approach**

Our interviewees explained, as they have built up experience and achieved success, they have become more comfortable with venture capital and have started to consider a more systematic approach. In turn, they have started growing their VC teams:

> “Over several years, family offices have become progressively more comfortable with direct investments. We have been involved since our inception, but we realised it requires some in-house resources. We started to hire a small team but are now planning to increase in size because we like the space, have been successful, and are ready to go bigger. More and more FOs are trying to develop their internal expertise, and that is why they want to hire more people and build a unit... Sometimes, families manage with a lean team with a network of partners with whom they can co-invest. But the moment the family starts to generate deal flow, it needs to hire more staff; it needs a team.”

Founder, SFO, Asia-Pacific

> “We have five years of experience in investing in VC funds. We are now trying to be more systematic. It has involved growing our data team – to help analyse risks and returns and make more efficient allocation decisions within the asset class, and keep track of our investments and exposures... We are also starting to invest internationally. We considered making some hires, but, for now, we’re going to rely on partnerships.”

CIO, SFO, North America

3.2. Family background

**Companies in materials and diversified financials commonly underpin family wealth**

Nearly two-fifths of the families made their wealth primarily in four industries – materials (e.g. metals / mining, paper / forest products, chemicals) (14%), diversified financials (e.g. asset management) (12%), real estate (8.1%), and retail (7.3%). The balance is spread across, at least, 18 other industries.
Fifteen percent of the families made their wealth primarily in technology-related industries: software and services (5.6%); pharmaceuticals, biotechnology and life sciences (4.0%); technology hardware and equipment (4.0%); and telecommunications (0.8%) (Figure 11).

**Figure 11**
Primary industry in which family wealth originates

The average age of the generation in charge of family wealth, 58 years

The generation currently in charge of family wealth is typically between 55 and 64 years old, while the average age is about 58 years (Figure 13).

**Most families have retained a stake in their operating business**

Most of the families represented have retained a stake in their original operating business: while 42% have either complete ownership (25%) or a majority stake (17%), 17% have a minority stake (Figure 12).

**Figure 12**
Operating business ownership

The average age of the generation in charge of family wealth, 58 years

The generation currently in charge of family wealth is typically between 55 and 64 years old, while the average age is about 58 years (Figure 13).
3.3 Next Gens

**Next Gens are active in philanthropy and venture capital**

Amongst the variety of roles Next Gens play in their family offices, they are most often active in philanthropy (35%) and VC investment (33%). A notable proportion also hold managerial (32%) and governance roles (with 30% sitting on the board). Only 18% play no role whatsoever (Figure 14).

These are recurrent findings. For example, in the Campden Wealth Global Trends and Strategic Time Horizons in Family Philanthropy Report 2020, 81% of participants – i.e., Next Gen members – were either actively involved (42%) or somewhat involved (39%) in their families’ philanthropic activities.

There are few significant regional differences, but Next Gens in North America are more commonly involved in philanthropy (41%) and venture capital investment (39%) than Next Gens in the rest of the world (31% and 28%, respectively). Next Gen involvement in venture capital is lowest in Europe; although, owing to the small sample size, this finding should be treated with caution. While interviewees in North America emphasised that the most mature VC ecosystems are in the US, interviewees in Asia-Pacific pointed out that Next Gens in that region tend to be inspired by their parents’ entrepreneurial achievements:

> In families that have had wealth for three or four generations, it’s common for younger members to be involved in philanthropy. It helps develop leadership and organisational skills … Venture capital is another area where younger family members are involved … I think it’s more common in America: philanthropy is an offshoot of capitalism, and there is a long tradition of family philanthropy. The US VC industry is the biggest and most mature in the world, and an engine of growth … Our family has offices in other countries, too. There is a very strong VC culture in parts of America. Living in San Francisco, venture investing is like a drug: it’s hard to say no to because it’s everywhere.
>
> Family Member, SFO, North America

A lot of the wealth in Asia was only built in the last few decades by entrepreneurs who are still active. Family structures are strong, and the Next Gen have grown up around their parents’ businesses. Many of them studied abroad and have work experience in asset management, which helped them build their networks. They are a very entrepreneurial generation as well and there is a big appetite for venture capital.
>
> Family Member, SFO, Asia-Pacific

Similarly, there are few significant differences between AUM bands, but it is somewhat more common for Next Gens in larger family offices to be involved in philanthropy (38%, AUM $501m+ versus 30%, AUM $101-$500m) and to sit on the board (38% versus 26%). Conversely, it is more common for Next Gens in smaller family offices to be involved on an ad hoc basis (32% versus 21%).

**Figure 14**

**Next Gen current involvement in family office operations**

<table>
<thead>
<tr>
<th>Involved in philanthropy</th>
<th>Venture capital investment activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>35%</td>
<td>33%</td>
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</table>

<table>
<thead>
<tr>
<th>Management role / executive role</th>
<th>Sit on the board</th>
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<tbody>
<tr>
<td>32%</td>
<td>30%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Some involvement (e.g. on project-by-project basis, work experience)</th>
<th>Investment research / analysis, excluding venture capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>30%</td>
<td>27%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>No involvement at all</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>18%</td>
<td>3.2%</td>
</tr>
</tbody>
</table>

| Not applicable | 8.8% |

Note: The sum of the figures may exceed 100% because participants can select multiple options.
The Next Gen view: VC investments are more tangible, innovative, and relatable than traditional investments

According to our interviewees, there are three closely related reasons for Next Gen involvement in FO venture capital investment activity:

VC investments tend to be more tangible / less abstract and more straightforward than public companies with multiple products / services:

“Venture opportunities are much easier to relate to than public companies. If I say to someone with limited analyst training, my friend who likes snowboarding has a company which makes snowboards that he sells to his friends in Val d’Isère, it is easy, at the outset, to relate. In contrast, sitting down with the numbers for a large corporation is virtually an academic exercise for which one needs to have a certain rigour.

Former Head, SFO, Europe

VC investments tend to be more current / innovative:

“The next generation is looking largely at venture capital and venture philanthropy. It is just a matter of how generations evolve. The Next Gen finds these ‘futuristic’ asset classes more exciting than traditional real estate and public equities. Globally, technology, sustainability, and social impact are the dominant themes and growth areas.

Founder, MFO, Asia-Pacific

Next Gens and founders / CEOs of startups are often in the same peer group:

“It is not that private companies are easier to understand or value. Obviously, they are less transparent, have less of a track record, and carry more risk. The key is that the founders / CEOs of startups tend to be much younger than the CEOs of publicly funded, larger, old economy companies. The products and services are ones Next Gens appreciate and will use in their own lives.

Founder, MFO, Asia-Pacific

Thus, Next Gens can more easily relate to VC investing. Families appreciate that Next Gens can add value in this area, and they view their involvement as an important component of succession planning:

“My parents are very experienced in real estate, fixed income, etc. Where I add value is venture capital. I am more familiar with the technology and – through college, experience working in the alternative investments industry, and my own ventures – I’ve built a global network in the scene.

Family Member, SFO, Asia-Pacific

With venture capital, you are not investing in the company – you are investing in the person. Who better to invest in than family members you want close, or offspring that need guidance? No doubt, there are some kinks you have to work out. Otherwise, you will give your son or daughter X amount, and before long he or she will say, ‘The money’s gone. It’s venture capital’.

Head, SFO, North America

Venture capital is also a great tool to promote engagement amongst the generations – especially when they do not get along. The generations are very different now, and we are starting to see some breakdowns in communication and tolerance.

Backing the ventures and helping in a business capacity, especially when the next generation is interested, I am seeing it a lot now. It is an important part of succession planning.”

Head, SFO, North America
Getting involved in venture
4 Getting involved in venture

Summary

- For many FOs (24%), the primary motivation to invest in VC is the relative returns the asset class has delivered.

- For others who built their wealth by founding and operating businesses (23%), investing in private companies feels natural. Families must carefully consider the relevance of their experience and understand they will have far less control in portfolio companies.

- In attracting talent, FOs frequently emphasise their ability to invest both in direct deals and as LPs in funds.

4.1 Motivations

Primary motivations include returns and family history with private companies

Participants in our study were asked to rank the top three reasons which motivated their family office to invest in venture capital.

The primary reason was returns, with 24% of respondents citing it as the #1 motivation (Figure 13). In pre-COVID interviews, several families mentioned their move away from traditionally conservative portfolios and increasing VC exposure for fear of missing out on returns:

“There is real interest amongst families in venture capital. Many are seeing the multiples that have been earned, and some are concerned that, if they persist with their conservative portfolios, they will miss out on great growth.”
Director, SFO, North America

“Many families, like ours, come from the industrial world; after success in whatever industry, they sold the family business or made a few large transactions, and then started to invest and manage their wealth. The idea was to be conservative – and, in the past few decades, on the whole, family offices have been very conservative. Venture was seen as a risky asset class, and most of us have been in real estate or things the family really understands. It is only now that returns are relatively low and public markets are so volatile, that family offices are prepared to take a bit more risk and enter into venture capital.”
Managing Partner, SFO, Europe
Top motivations also include that investing in private companies is natural, given the family DNA (23%) and diversification (19%). Interviewees told us:

“My grandfather built our original family business. But, after he died, my dad went in a totally different direction. It’s fair to say, where we are today, is really from what my dad built. I joined the business about 10 years ago: I’ve been building our international reach … I have also founded a couple of companies myself … We understand building companies and helping them take off … We feel comfortable with the investments. Our family office makes, maybe, two or three big investments in a year.

Family Member, SFO, Asia-Pacific

Five years ago, when I joined the family office, we began slowly investing in venture capital. There were three impetuses. First and foremost, I’m a big believer in the endowment model, in diversification. Second, I believe that portfolios need to have a growth element. Third, technology and biotech are two things that we excel at in America and two of the greatest growth sectors.

CIO, SFO, North America.

While this report has recognised Next Gens’ active involvement in venture capital investment, using VC to involve younger family members (0.9% of the #1 rankings) or encourage entrepreneurialism in younger family members (1.7%) are not key motivations (Figure 15).

There are few regional differences, but one motivation which is more common in North America is that investing in technology is natural, given the family DNA (12% versus 1.6% for the rest of the world). In contrast, family offices in the rest of the world are more likely to be motivated to invest in venture capital in order to diversify their portfolios (27% versus 10% for North America).

<table>
<thead>
<tr>
<th>#1 ranking</th>
<th>#2 ranking</th>
<th>#3 ranking</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return</td>
<td>24%</td>
<td>20%</td>
<td>21%</td>
</tr>
<tr>
<td>Investing in private companies is natural, given the family DNA</td>
<td>23%</td>
<td>17%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Diversification</td>
<td>19%</td>
<td>11%</td>
<td>13%</td>
</tr>
<tr>
<td>To obtain access to innovation and technology</td>
<td>8.7%</td>
<td>6.4%</td>
<td>13%</td>
</tr>
<tr>
<td>The wave of opportunities</td>
<td>7.8%</td>
<td>14%</td>
<td>10%</td>
</tr>
<tr>
<td>Investing in technology is natural, given the family DNA</td>
<td>6.1%</td>
<td>8.2%</td>
<td>13%</td>
</tr>
<tr>
<td>Opportunities to further family’s philanthropic goals through impact investing</td>
<td>3.5%</td>
<td>7.3%</td>
<td>3.8%</td>
</tr>
<tr>
<td>To obtain access to managers or entrepreneurs</td>
<td>2.6%</td>
<td>3.6%</td>
<td>7.7%</td>
</tr>
<tr>
<td>Fear over the impact of innovation on the family’s core operating business</td>
<td>1.7%</td>
<td>3.6%</td>
<td>2.9%</td>
</tr>
<tr>
<td>To encourage entrepreneurialism in younger family members</td>
<td>1.7%</td>
<td>2.7%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Risk</td>
<td>0.9%</td>
<td>1.8%</td>
<td>1.0%</td>
</tr>
<tr>
<td>To involve younger family members</td>
<td>0.9%</td>
<td>4.5%</td>
<td>6.7%</td>
</tr>
</tbody>
</table>

Figure 15
Top 3 reasons which motivated the family office to invest in venture capital

Note: This table shows the shares of the #1, #2, and #3 rankings captured by each motivation. The figures in each column may not sum exactly to 100% due to rounding.
Transitioning from business owner to VC investor

For families who have built their wealth by founding and operating businesses, investing in private companies feels natural. However, as interviewees explained, families must carefully consider the relevance of their experience to each venture opportunity, and understand they will have far less control in portfolio companies:

“Families who own and operate private businesses are in control of that business; it is in an industry with which they have intimate familiarity and usually decades, if not generations, of expertise. When investing in venture-type businesses, you do not have control; you probably do not have anything like the degree of understanding or expertise you have in the business you come from, and there is much more risk.

Of course, if you have somebody who made his money in medical devices, okay, he may know what he is doing when it comes to investing in venture in the medical device space… But, generally, families should be careful about the jump from operating a business to venture capital investing.

Head, SFO, the Middle East

“\n
In contrast, if your family had been active on the acquisition front, and was comfortable buying into businesses; if it had that internal talent within the family, and within the professionals of the operating company, there could be a very good transition to a family office and VC investing. If you keep the same team intact, you can buy companies, help grow them, and ultimately exit.

Some families who were more operators than acquirers, however, have a good club, or a good network of other business owners who have the required skills. They can come in, but probably in a limited partner fashion, as opposed to a general partner.

CEO / CIO, MFO, North America
Getting started

According to FOs experienced in VC investing, new entrants to the asset class should start with small allocations in different years, i.e., vintages. They can further diversify by investing across stages of venture capital (seed, early, growth), and type of fund (established or emerging). Established funds such as Bessemer Venture Partners, Kleiner Perkins, Sequoia Capital, etc. are the pioneers of venture capital. For new entrants, it may be difficult to get allocations to invest in established funds since they tend to be oversubscribed. However, one way to get access is through fund of funds which, in some cases, have allocations to the established funds.

Many family offices deploy capital into emerging (or breakout) fund managers, i.e., those who have fewer than three funds with each fund being sub-$100 million. It is slightly easier to get allocation into emerging funds; however, it does require significant effort to meet funds, and conduct due diligence on the GPs and investment thesis. The advantages of emerging funds, besides access, are lower management fees (vs. a fund of funds or top tier funds that command premiums), opportunities to co-invest in direct deals alongside the fund (which can also be a great way to see the fund’s investment process), and potential for higher returns (at higher risk).

4.2 Talent

FO VC staff often have investing or operating experience

While few FOs have dedicated VC experts on their teams, over half of those surveyed report their VC staff have past family office experience, and the same proportion report venture capital fund / fund of funds experience (51%). Experience in small- and medium-sized enterprises, in startups, and as an entrepreneur account for between 41% and 46%, while the professional services of investment banking and strategy consulting account for 47% and 32%, respectively (Figure 16).

Figure 16
Experience of family office venture capital staff

<table>
<thead>
<tr>
<th>Experience</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family Office</td>
<td>51%</td>
</tr>
<tr>
<td>Venture capital fund / fund of funds</td>
<td>51%</td>
</tr>
<tr>
<td>Investment banking</td>
<td>47%</td>
</tr>
<tr>
<td>In small and medium-sized enterprises</td>
<td>46%</td>
</tr>
<tr>
<td>In startups</td>
<td>44%</td>
</tr>
<tr>
<td>Entrepreneurial</td>
<td>41%</td>
</tr>
<tr>
<td>Strategy consulting</td>
<td>32%</td>
</tr>
<tr>
<td>Accounting</td>
<td>29%</td>
</tr>
<tr>
<td>Legal</td>
<td>21%</td>
</tr>
<tr>
<td>Other</td>
<td>7.5%</td>
</tr>
</tbody>
</table>

Note: The sum of the figures may exceed 100% because participants can select multiple options.
Average total compensation of principal VC investors at FOs: $310k

For family offices that have a salary plus bonus remuneration structure for their principal venture capital investor, the average base salary is $234k + 32% bonus (as a percentage of salary), i.e. total compensation of $310k (Figure 17). Compensation varies significantly from one family office to the other, with base salaries ranging between $75k and $650k, and bonuses between 10% and 100%. The average total compensation reported for Chief Investment Officers (CIOs) of FOs in the Global Family Office Report 2019 was $400k.

Pre-COVID-19, the average salary was expected to rise to $268k and the average bonus to 42%. Thus, the average total compensation was expected to rise by about $72k, or 23%, to $382k.

For family offices that have a fees-based structure, the average management fee (as a percentage of assets) is 2.0% and the average performance fee (as a percentage of profits) is 13%. In the next two years, management fees are expected to drop to 1.7%, while performance fees are expected to remain constant (Figure 17).

To attract talent, FOs emphasise the ability to invest in direct deals and as an LP in funds

Participants in the study were asked to rank the top three benefits emphasised in attracting venture capital talent to their family office.

The most significant benefit is the ability to invest in direct deals and as an LP in funds, which accounts for 47% of the #1 rankings. The fact there is committed evergreen capital, i.e., no need to raise capital in the future, is another significant benefit (10%) (Figure 18).

Compensation and location are least emphasised to attract talent. Some interviewees suggested that FOs should include performance-related compensation or co-investment opportunities to secure top talent:

“One of the attractive things about a VC fund is, if you are senior enough, you get shares in all these companies. Some FOs offer only a salary, but the good ones do provide a bonus structure as well.”

Director, SFO, North America

Another interviewee based in Asia-Pacific spoke about the talent shortage:

“VC talent is in short supply. In addition to providing a fully professional platform to function, FOs need to incentivise employees by giving them a venture capital-type structure which includes a carry as well, allowing them to share the upside. In general, FOs in Asia are not as large as they are in the US, and there is not yet a suitable optimum scale for fully-fledged VC fund managers to want to join the industry.”

Founder, MFO, Asia-Pacific

Figure 17
Principal venture capital investor’s annual remuneration

<table>
<thead>
<tr>
<th>Salary + bonus</th>
<th>Average (at present)</th>
<th>Average (in the next two years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base salary ($)</td>
<td>$234,000</td>
<td>$268,000</td>
</tr>
<tr>
<td>Bonus (% of salary)</td>
<td>32</td>
<td>42</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management + performance fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management fee (% of assets)</td>
</tr>
<tr>
<td>Performance fees (% of profits)</td>
</tr>
</tbody>
</table>

## Figure 18
Top 3 benefits that are emphasised in attracting venture capital talent to the family office

<table>
<thead>
<tr>
<th>Benefit</th>
<th>#1 ranking</th>
<th>#2 ranking</th>
<th>#3 ranking</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability to invest in direct deals and as an LP in funds</td>
<td>47%</td>
<td>13%</td>
<td>14%</td>
<td>25%</td>
</tr>
<tr>
<td>Committed evergreen capital (i.e. no need to raise capital in the future)</td>
<td>10%</td>
<td>22%</td>
<td>7.8%</td>
<td>13%</td>
</tr>
<tr>
<td>Family’s philanthropic / impact focus</td>
<td>10%</td>
<td>7.6%</td>
<td>5.2%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Family’s unique deal flow</td>
<td>10%</td>
<td>15%</td>
<td>10%</td>
<td>12%</td>
</tr>
<tr>
<td>Flexibility (i.e. sector / stage agnostic)</td>
<td>8.4%</td>
<td>14%</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Reputation of the family</td>
<td>8.4%</td>
<td>7.6%</td>
<td>19%</td>
<td>12%</td>
</tr>
<tr>
<td>Work / life balance</td>
<td>6.0%</td>
<td>2.5%</td>
<td>14%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Compensation</td>
<td>1.2%</td>
<td>3.8%</td>
<td>9.1%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Location</td>
<td>0.0%</td>
<td>7.6%</td>
<td>5.2%</td>
<td>4.2%</td>
</tr>
</tbody>
</table>


Note: This table shows the shares of the #1, #2, and #3 rankings captured by each benefit. The figures in each column may not sum exactly to 100% due to rounding.
Attracting talent

In interviews, family members and FO executives emphasised a range of benefits the industry can offer top VC talent:

Unique deal flow:

“Families have access to unique deal flow. Owing to their traditional business, families have unrivalled industry experience, and it is with that – their industry knowledge and positioning – that they can help the entrepreneur or startup unlock value. Entrepreneurs / startups appreciate the value families can bring and are willing to make them strategic partners / investors early on – i.e., at a comparatively low valuation. Talent is drawn by this deal flow – the opportunity to see, assess, and invest in exciting opportunities.”

Founder, MFO, Asia-Pacific

“One of the main benefits of my job is the deal flow I have access to. For family offices, the door is open: they can learn about really interesting early stage companies and access great deal flow ahead of others. I will add, however, FOs need to be good at networking and need to position themselves correctly. In my experience, not all family offices are actually good at that.”

Director, SFO, North America
FO organisational structure and room to manoeuvre:

“Family offices such as ours are able to attract talent because they operate with far fewer constraints than classical VC funds. VC funds are structured in quite a hierarchical way, and the good ones are large, and you are only one amongst many others. In family offices, the structure is less hierarchical and there is much more room for entrepreneurship. If you want to attract relatively young people, which we believe is key, you need to provide something different, flexibility, and the potential to grow.”

Managing Partner, SFO, Europe

Balance of work:

“Venture capital funds have to raise money every time they have a new fund, and when you are fundraising, everybody is fundraising. Even if your job is to look for portfolio companies, it is usually all hands on deck. In contrast, for family offices, the money is already there. You can focus on finding the best companies and making deals.”

Director, SFO, North America
Venture portfolio
5 Venture portfolio

Summary

• On average, family offices allocate 10% of their overall portfolios to venture capital.

• Their venture portfolio is comprised of direct investments (54% of the average family office VC portfolio) and funds (46%). Direct investments include co-investments (19%), minority stakes (14%), majority stakes (9%), and other (12%). Funds are split into direct funds (34%) and fund of funds (12%).

• In the 12 months prior to our data collection, family offices reported their venture portfolios delivered an IRR of 14%. For over 85% of participants, directs with minority stakes (17% return) and funds (16% return) met or exceeded expectations.

• Ninety-one percent of FOs said they are active in early stage deals (Seed, Series A) and 87% invest in growth stage (Series B onwards).

• The average VC portfolio consists of ten direct investments and eight funds.

• There is significant engagement in impact / ESG VC investments (47%). Interest is growing, particularly amongst the Next Gen, and as FOs appreciate that returns are not necessarily compromised.

5.1 Strategy and portfolio allocation

FOs comfortable with medium / above average volatility

Fifty percent of participants in this study reported that their family office has adopted a balanced investment strategy, 42% that they have a growth-oriented approach, and 8.0% that they focus on preservation (Figure 19).

Figure 19
Overall investment strategy

Balanced
(You strive for appreciation of your assets in the long term while accepting medium volatility of asset value)

Growth
(You strive for substantial appreciation of your assets in the long term while accepting above average volatility of asset value)

Preservation
(You strive for value preservation of your assets in the long term while accepting low volatility of asset value)


Note: Figures may not sum exactly to 100% due to rounding.

The Global Family Office Report 2019 found that 25% of family offices have a growth-oriented approach. The discrepancy is explained by the fact that the present study targeted FOs with experience in venture capital investing and hence are more comfortable with above average volatility.
Family offices outside North America tend to value asset preservation more than their counterparts in North America (11% for the former versus 3.7% for the latter). Lower volatility is also preferred by smaller family offices (11% for offices managing up to $500m versus 5.9% for offices managing more in assets) and the newer ones (11%-13% for offices founded after 2000). This is in contrast to older family offices (established prior to 2000) that prefer average / above average volatility: none of these respondents cited a preservation investment strategy (Figure 20).

### Figure 20
**Investment strategy by region, AUM band, founding period**

<table>
<thead>
<tr>
<th>Region</th>
<th>Strategy: Balanced</th>
<th>Strategy: Growth</th>
<th>Strategy: Preservation</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>50%</td>
<td>46%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Europe</td>
<td>47%</td>
<td>42%</td>
<td>11%</td>
</tr>
<tr>
<td>ROW*</td>
<td>51%</td>
<td>37%</td>
<td>11%</td>
</tr>
<tr>
<td>AUM BAND</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$101-500m</td>
<td>47%</td>
<td>42%</td>
<td>11%</td>
</tr>
<tr>
<td>$501m+</td>
<td>50%</td>
<td>44%</td>
<td>5.9%</td>
</tr>
<tr>
<td>FOUNDRING PERIOD</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pre-2000</td>
<td>54%</td>
<td>46%</td>
<td>0.0%</td>
</tr>
<tr>
<td>2000-2010</td>
<td>51%</td>
<td>38%</td>
<td>11%</td>
</tr>
<tr>
<td>2011-2019</td>
<td>44%</td>
<td>44%</td>
<td>13%</td>
</tr>
</tbody>
</table>

Note: Figures may not sum exactly to 100% due to rounding. * Rest of the world.
When you’ve seen one family office, you’ve seen one family office...

Portfolio asset allocation varies significantly from one family to another. While some FOs specialise in venture capital investments, others are more nascent to the asset class. There are further differences in how FOs participate in venture capital, e.g., through funds, fund of funds, direct investments, etc.

The average FO allocates 10% to venture capital

Based on the survey data collected between October 2019 and February 2020, the average family office allocated 10% of its overall portfolio to venture capital. Twenty-nine percent of the average portfolio was allocated to public equity, and 25% to private equity. Over nine percent (9.4%) was held in cash, and the balance (28%) was held in a range of other assets (Figure 21).

In the UBS Global Family Office Report 2020, it was reported that family offices allocated: 29% to public equity, 17% to fixed income, 13% to cash, 16% to private equity (9% direct investments, 7% funds), 14% to real estate, 5% to hedge funds, 3% to precious metals, and 3% to arts and antiques.

Thus, our respondents – i.e., SFOs with $797m in AUM and MFOs with $1.5bn AUM, and families with a long history of founding and operating businesses and experience in VC and tech investing – make greater allocations to private equity (including venture – 35% versus 16%) and smaller allocations to fixed income and the other alternative assets.
Prior to the COVID-19 pandemic, 32% of family offices planned to increase their allocation into venture capital over the next 24 months, while 18% said they would decrease their allocation (Figure 22).

**Figure 22**

**Overall portfolio asset allocation plans for the next 24 months**

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Decrease</th>
<th>Keep the same</th>
<th>Increase</th>
<th>Net increase (pp)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public (Equity)</td>
<td>21%</td>
<td>50%</td>
<td>29%</td>
<td>-7.1%</td>
</tr>
<tr>
<td>Private equity direct investments</td>
<td>10%</td>
<td>45%</td>
<td>45%</td>
<td>0%</td>
</tr>
<tr>
<td>Private equity funds and fund of funds</td>
<td>19%</td>
<td>59%</td>
<td>22%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Venture capital direct, funds, fund of funds</td>
<td>18%</td>
<td>50%</td>
<td>32%</td>
<td>14%</td>
</tr>
<tr>
<td>Cash or cash equivalent assets</td>
<td>11%</td>
<td>54%</td>
<td>29%</td>
<td>-3.4%</td>
</tr>
<tr>
<td>Other assets e.g., fixed income, real estate, REITS, hedge funds, and commodities</td>
<td>28%</td>
<td>48%</td>
<td>24%</td>
<td>-4.4%</td>
</tr>
</tbody>
</table>


Note: This study was targeted towards FOs with experience in VC. Therefore, these numbers do not necessarily reflect wider FO asset allocations. Figures may not sum exactly to 100% due to rounding. * Data collected pre-COVID-19.
Family office VC allocations

In the early days of the coronavirus pandemic, family members and FO executives expressed a range of views on future family office venture capital allocations.

Ten percent VC cap for most FOs, and wariness about valuations

Several interviewees said, for most family offices, VC allocations should be capped at around 10%, and several indicated wariness about increasing allocations given the then-current valuations:

“Irrespective of how they describe themselves, most family offices are in the capital preservation game. If so, from an asset allocation perspective – that is, considering it a proper asset class – venture capital should be capped at about 10% of aggregate net worth. Note that, amongst the SFO participants in the Global Family Office Report 2019, average net worth was 1.6x average AUM.

With VC, while governance can be simpler than with PE – skewed towards the CEO rather than the majority shareholders – valuation can be incredibly tough. Furthermore, in the last few years, there have been some well-known IPO flops and, at present, there is a question mark over exit strategies. Money is tied up for years, and then there is capital gains tax, too.

Founder, SFO, North America

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With VC, while governance can be simpler than with PE – skewed towards the CEO rather than the majority shareholders – valuation can be incredibly tough. Furthermore, in the last few years, there have been some well-known IPO flops and, at present, there is a question mark over exit strategies. Money is tied up for years, and then there is capital gains tax, too.

Founder, SFO, North America

It is a little late in the cycle for us to increase our allocation to venture capital. Valuations are very high. It is a risky asset class where the return distribution is very broad. Mind you, sometimes what happens is, when some things are at the end of the cycle, people pile up. Many people also believe innovation is a safe haven.

Founder, SFO, Asia-Pacific

Fundamental appeal – risk / return, disclosure, and leverage

Other interviewees emphasised the fundamental appeal of venture capital – the risk / return profile, better disclosure, and less leverage – and the scope for growth in FO allocations to the asset class:

“Most families create wealth through the holdings of illiquid assets, whether it is a family business or private real estate. For some reason, especially after the great financial crisis, advisers directed families to increase their liquidity. That is not always a good thing.

When you are an investor in the VC markets, there is much more disclosure. When you look at the risks around, the big LBO firms have a lot of risk. Most venture capital, especially late stage growth equity, tends to be either non-levered, or have much lower leverage ratios.

Being able to call capital at the right time; deploy it to help a business grow through management and connections; and exit at the right time – either publicly or through an acquirer – is a skillset that is value-added and repeatable. If you are a top-quality VC investor or with the top-quality managers – that offers a better return spectrum, for the risk, relative to the public markets.

So, it is a very attractive area and, especially as the next generation realise family wealth was created through illiquid assets, I believe the VC side will grow.

CEO / CIO, MFO, North America
Similarly, other interviewees added:

“We are on the path of proving we can bring superior returns for the risk you bear with this type of investment. So, we are entering discussions at the board level and with the family to say, why not launch a bigger fund in the next few years; today, we are a late stage fund, why not do an early stage fund as well? There is, for us at least, appetite to grow in that space, definitely.”

Managing Partner, SFO, Europe

“The allocation to VC is rising in Asia. It is a function of what is happening globally. The public markets are extremely volatile; the equity bull run is petering off, and a lot of the chips have been taken off the table. A lot of that money is going into VC – in India, South East Asia, and China.”

Founder, MFO, Asia-Pacific

Start with small allocations and multiple vintages, sizing according to fund stage and GP quality, and be prepared for significant capital loss

For FOs entering the asset class, interviewees recommended a cautious approach:

“We started with an initial asset allocation target of 5% to VC. Over a few years, we raised it gradually – first to 7% and then to 10%. We’re very mindful of vintage diversification, and we’re trying to invest with really talented managers.”

CIO, SFO, North America

Number one, we have been through, at least until recently, a golden period where rising tides lifted all boats in any kind of equity-related asset. Number two, venture really performs best, or the best venture capital funds perform best, when businesses get started in tough times ... But, certainly, we have been through a period which has led lots of people to think it is all plain sailing, and it definitely is not. Families should be starting off with small allocations and getting into multiple vintages, sizing carefully according to the stage of fund they are investing in and the relative quality of the GP.

Good venture firms in good vintages will outperform just about any other asset class, but that comes with associated risk. In venture, if you are lucky, you can make five times your money, net. There are some outlier funds and outlier GPs that have done even better than that. But, in order to achieve those returns, you have to be prepared for 50% or 60% loss of capital. Venture is a particularly capital-constrained asset class, so, it is very hard, particularly for new entrants, to access the best players.”

Head, SFO, the Middle East
5.2 Direct deals and funds

Preference for direct investments over funds; co-investments and minority stakes over other direct deals, and funds over fund of funds

The average family office’s venture capital portfolio is comprised of direct investments (54%) and fund investments (46%). The largest share of direct investments is in co-investments (19% of the VC portfolio), followed by direct deals in which a minority stake is acquired (14%). Direct investments with a majority stake and club deals constitute 9.1% and 7.7% of the average sub-portfolio, respectively, while secondaries account for only 3.9% (Figure 23).

Interviewees said they are more comfortable with co-investments and minority stakes because investors bring complementary skills and the burden of due diligence is shared:

“We have had very positive co-investing experiences. Putting two heads to work is better than one. If you have a co-investor who has been there from day one – through due diligence, valuation, sitting on the board, etc. – it is a far more productive way of investing compared to being on your own. It is also psychological; it is less lonely if you have a bouncing board during the life of the investment. But VC investing is not an easy ride, and a co-investor is always someone you trust and respect, and what you want is someone with complementary knowledge.

Co-investing is becoming very popular in Asia; in fact, in some cases, family offices do not invest unless they have got someone else who is going to be part of the deal as well.”

Founder, MFO, Asia-Pacific

The average allocation to venture capital direct funds (funds that invest directly in startups) is almost three times the allocation to fund of funds – 34% versus 12%.

Family offices in North America, on the one hand, and family offices in the rest of the world, on the other, exhibit, on average, the same split between direct investments and fund investments and only relatively small differences in the compositions therein. Direct investments with minority stakes are somewhat more popular in North America (17% versus 12%), and the allocation to funds is a bigger multiple of the allocation to fund of funds (4.5x versus 2.2x) (Figure 24).

Only marginal changes were expected

Participants in the study were also asked to provide their expected allocations in the next 24 months. Overall, pre-COVID-19, FOs did not indicate a material change in their venture portfolio allocation strategy. However, FOs in North America expected to allocate 7.1% more to funds over direct investments, and FOs in the rest of the world expected to allocate 5.4% more to direct investments over funds (Figure 24).

Figure 23
Current venture capital sub-portfolio asset allocation

Figure 24
Current and expected VC sub-portfolio asset allocation, by region

VENTURE CAPITAL FUND INVESTMENTS

<table>
<thead>
<tr>
<th></th>
<th>Overall</th>
<th>North America</th>
<th>ROW*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Direct funds</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td>34%</td>
<td>38%</td>
<td>31%</td>
</tr>
<tr>
<td>Next 24 months**</td>
<td>35%</td>
<td>43%</td>
<td>29%</td>
</tr>
<tr>
<td>Change (pp)</td>
<td>1.2%</td>
<td>5.5%</td>
<td>~2.4%</td>
</tr>
<tr>
<td><strong>Fund of funds</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td>12%</td>
<td>14%</td>
<td>11%</td>
</tr>
<tr>
<td>Next 24 months**</td>
<td>11%</td>
<td>14%</td>
<td>11%</td>
</tr>
<tr>
<td>Change (pp)</td>
<td>0.2%</td>
<td>0.7%</td>
<td>~3.0%</td>
</tr>
</tbody>
</table>

Note: Figures may not sum exactly to 100%, or net exactly to zero, due to rounding. * Rest of the world. **Data collected pre-COVID-19.
Families are invested in early and growth stage deals

Family offices are most active in the early stage of venture investing (with 91% indicating investment in this stage). This is closely followed by growth/expansion stage deals (87%). Far fewer indicated involvement in late stage deals (55%) (Figure 25). Interviewees explained that early stage returns are strong and FOs have patient capital, and growth stage opportunities are de-risked:

As a family office, we have a long-term view and can wait for returns. What we want to do is get in early and capture incredible growth. The return to early-stage investment has been very strong, compared, for example, with the public markets.

Head, SFO, North America

We moved into venture in 2006. We did this through fund of funds, which, we felt, allowed us to write one cheque and get exposure to multi-stage venture. Five years ago, we adopted a data-driven approach to investing, which led to a number of findings. First, the fund of funds were raising larger and larger funds, and deploying capital later and later in the asset class. Second, late stage venture returns were similar to buy-out and growth equity, which are lower risk and which we already allocate to. Third, early stage venture returns were unique and extremely appealing. We started to allocate all of our venture dollars to early stage funds ... We take a very generalist approach: outliers drive returns and are difficult to predict, and the next Facebook or Airbnb may be in a sector that does not even exist today.

CIO, SFO, North America

If you are starting in VC, and you are at seed, your time horizons are usually about 10 years to actually see a deal get consummated, because you have got all the other funding rounds. Coming in at the growth equity side, the revenues are typically $50-$100 million already, and they are growing at 50-100% a year. A lot of the operations have been de-risked. It is a lot more exciting and fun to be riding a winner, even if your return may go down slightly because you are not in at the seed round. There is traction; you see what is going on, and returns have been very, very good at growth equity.

CIO, MFO, North America

However, as a Managing Partner in an SFO based in Europe added:

We entered VC as a way to diversify our portfolio. But we are large enough. We are only investing in companies that are producing revenues, so we pay a high price. Smaller family offices might not be able to access growth stage investments, and might be obliged to be early-stage investors in tech. So, there is an interesting phenomenon, where the bigger you are, the less risk you will take. I think we will see increasing interest from family offices in VC, but we will also see a natural selection where quite a number will drop off either because they will not be able to execute or because they will be obliged to take too much risk.

Participants were also asked to indicate whether they were actively interested in the various stages, and the highest proportional interest is also in early and growth stage deals (87% and 86%, respectively) (Figure 26).
Family offices in North America are more active in angel / seed stage deals (87% versus 73% in the rest of the world), and FOs in the rest of the world are more active in late stage deals (58% versus 51% in North America). Across AUM bands, larger family offices are more active in late stage deals than smaller ones (70% versus 50%) (Figure 26).

**Figure 25**
Investment stage(s) invested in / actively interested in

<table>
<thead>
<tr>
<th>Stage</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angel / Seed Stage</td>
<td>80%</td>
<td>20%</td>
</tr>
<tr>
<td>Early Stage</td>
<td>91%</td>
<td>8.8%</td>
</tr>
<tr>
<td>Growth / Expansion Stage</td>
<td>87%</td>
<td>13%</td>
</tr>
<tr>
<td>Late Stage</td>
<td>55%</td>
<td>45%</td>
</tr>
</tbody>
</table>

Family offices in North America are more active in angel / seed stage deals (87% versus 73% in the rest of the world), and FOs in the rest of the world are more active in late stage deals (58% versus 51% in North America). Across AUM bands, larger family offices are more active in late stage deals than smaller ones (70% versus 50%) (Figure 26).

**Figure 26**
Investment stage(s) invested in, by region and AUM bands

- **North America**
  - Angel / seed stage: 87%
  - Growth / expansion stage: 90%
  - Late stage: 89%
- **ROW***
  - Angel / seed stage: 73%
  - Growth / expansion stage: 92%
  - Late stage: 85%
- **$101-500m**
  - Angel / seed stage: 79%
  - Growth / expansion stage: 91%
  - Late stage: 82%
- **$500m+**
  - Angel / seed stage: 81%
  - Growth / expansion stage: 93%
  - Late stage: 90%

Note: *Rest of the world.
The average family office venture portfolio consists of ten direct investments and eight funds

The average family office venture capital portfolio consists of ten direct investments and eight funds (Figure 27). These numbers are fairly representative: they are close to the median numbers, and there is little difference between regions and between AUM bands.

**Figure 27**
Number of funds and direct investments held

<table>
<thead>
<tr>
<th>Venture funds</th>
<th>Direct venture investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average number held</td>
<td>8</td>
</tr>
<tr>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>


**Deal activity: 8.7% of fund pitches and 4.7% of company pitches are successful**

In the 12 months before our data collection, the average family office sat through 41 fund pitches, made four fund commitments, and committed a total of $28 million to funds. Thus, 8.7% of fund pitches were successful, and the average fund investment was $7.9 million.

Over the same period, the average family office also sat through 72 company pitches, made three commitments, and committed a total of $21 million to companies. Thus, 4.7% of pitches were successful, and the average company investment was $6.1 million (Figure 28).

**Figure 28**
Deal-related activity in the last 12 months

<table>
<thead>
<tr>
<th></th>
<th>Funds</th>
<th>Directs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume i.e., number of commitments made</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Value i.e., aggregate $m commitments made</td>
<td>28</td>
<td>21</td>
</tr>
<tr>
<td>Pitches i.e., number of pitches sat through</td>
<td>41</td>
<td>72</td>
</tr>
<tr>
<td>Volume / Pitches %</td>
<td>8.7</td>
<td>4.7</td>
</tr>
<tr>
<td>Average investment $m</td>
<td>7.9</td>
<td>6.1</td>
</tr>
</tbody>
</table>

Source: The Campden Wealth / SVB Family Offices Investing in Venture Capital Survey 2020. Note: The calculated figures cannot be exactly derived from the other figures presented due to rounding.

Prior to the COVID-19 pandemic, between 44% and 51% of family offices expected that, in the next 12 months, deal-related activity in funds would stay the same, and far more expected it to increase (between 39% and 47%) than decrease (8.8% to 11%).

Fewer expected deal-related activity in direct investments to stay the same (between 24% and 37%), and the difference between the numbers who expected it to increase and decrease was greater (between 44% and 66% versus between 10% and 19%).

Fifty-five percent expected volume in directs to increase, and 66% expected deal value to increase (Figure 29).
5.3 Performance

The average VC portfolio returned over 14%

For survey participants, venture portfolios generated an average 14% internal rate of return (IRR) in the 12 months prior to data collection. Direct deals where the FOs had minority stakes generated 17% IRR, fund investments 16%, and co-investments 15%. Other sub-asset classes returned between 9.0% and 11% (Figure 30).

The Cambridge Associates Global Venture Capital Index shows annual rates of return ranging from 11.8% to 15.9% (with the top two quartiles ranging from 18.0% to 22.1%), depending on time horizon (i.e., 3-year to 15-year periods). Meanwhile, the S&P 500 average returns range from 8.8% to 14.7%.

With expectations being revised downwards, performance met or surpassed expectations

Between 62% and 88% of participants reported their sub-asset class returns either met or surpassed expectations.

Directs with minority stakes and funds provided the most welcome returns (with only 13% and 15%, respectively, reporting underperformance). Meanwhile, 38% reported that secondaries underperformed (Figure 30).

Interviewees said FOs have been revising VC return expectations downwards:

Family offices are not expecting the kind of returns that were earned in the early 2000s. They are expecting a much more moderated return – 10% to 20%. So, in the last 12 months, I would say, returns have been satisfactory.

Head, SFO, North America

Expectations are being revised downwards. As interest rates have come down, multiples have gone up. But if you spend the time, do the work, and find the top-quartile managers, they are still generating 20% plus.

CEO / CIO, MFO, North America

\(^1\)Cambridge Associates. [https://www.cambridgeassociates.com/insight/venture-capital-positively-disrupts-intergenerational-investing/]
5.4 Family offices on the cap table

**FOs to feature more prominently**

Prior to the coronavirus pandemic, we asked the participants in the study for their thoughts on the composition of the capitalisation table in 10 years’ time.

Traditional venture capital investors were expected to constitute 48% of the average cap table, family office investors 23%, and strategic / corporate venture capital investors 28% (Figure 31).

**Figure 31**
Capitalisation table in 10 years

Note: Figures may not sum exactly to 100% due to rounding.
In our conversations with them, some family members and FO executives reined in expectations about increasing FO prominence on the cap table:

> The numbers being suggested imply venture firms are going to be significantly pulled back. I do not see it. There is a fight to get on the cap table between good quality value-added venture capital firms. Perhaps in the later-stage capital in these companies, but I am sceptical.

Head, SFO, the Middle East

Generally, interviewees emphasised that family office investors would have growing percentages of ownership:

> Family offices – both SFOs and MFOs – are becoming increasingly experienced and prominent in the VC space. We do a lot on the private debt side, throughout the different levels in the capital stock … It is a trend that is going to keep growing over the next decade or two, both on the equity side and debt side.

Head, SFO, North America

We will see the growth of family offices in the cap table for two reasons. One, family offices will become even more sophisticated in this space. Two – and what I already see today – there is so much money going around that it is no longer the investor who selects a startup, it is the founder who selects the investor. While I am doing my due diligence, founders are asking me, ‘Why should I choose you as an investor; what is your contribution?’ So, you need to develop a contribution proposal to be at the table. But, I think, founders like family offices more and more because there is a more long-term view; we have more flexibility, and we can follow on investment in the future, through good and bad times.

Managing Partner, SFO, Europe

5.5 Impact and ESG

**Significant engagement and growing interest**

Although the majority of family offices indicated they are not engaged with impact or Environmental, Social and Governance (ESG) venture capital investments (53%), a significant cohort is engaged (47%) (Figure 32). While the data does not show much regional difference – with the proportion in North America trailing that in the rest of the world by about five percent – the responses suggest engagement is relatively highest in Europe.

**Figure 32**

Engagement with impact or ESG venture capital investments


Note: Figures may not sum exactly to 100% due to rounding.
According to interviewees, most families are open to these investment approaches, especially as the Next Gen is integrated into family wealth management, but there needs to be better and more detailed information flow in the industry:

“In our community, ESG is still a relatively novel concept. Many families still see it as a whole basket of causes to be supported – or restrictions imposed – and it can seem like too much to bear. But we are going to get there. It is what the next generation is talking about and it is where they are going. Moreover, when they point out things that are not right in the world, I generally agree with them. I think that is what people are geared towards, a more ethical form of capitalism.

Founder, SFO, North America

I can give you so many examples of companies that are doing positive things for society and, at the same time, generating attractive returns. I have taken opportunities to families I know well, and they’re always interested. Obviously, they need to see exactly what impact is being made – it needs to matter to them.

Some families happen to be operating in an industry that, by its very nature, isn’t very sustainable. But here’s the opportunity to invest with a fund manager that can create a diversified portfolio of funds and / or companies that are in a multitude of different industries and are enhancing sustainability. As families become more aware, there is going to be a lot of growth in this area.

Founder, SFO, North America

In North America, healthcare and wellness is the most popular area; in the ROW, it is energy / sustainability

Amongst all the family offices engaged with impact or ESG VC investments, the most popular areas are healthcare and wellness (65%), agriculture and food (63%), and energy / sustainability (63%).

In North America, healthcare and wellness is the top area of interest (74%). According to one interviewee:

“The one thing that is lacking in America, one of the richest countries in the world, is an adequate healthcare safety net. Many people are coming to view healthcare as a right, not a privilege. I think many family offices are showing some support for better healthcare provision in the country through their impact / ESG venture capital investments.

Founder, SFO, North America

Climate change and ethics / compliance are also proportionately more popular in North America (63% and 21%, respectively) than in the rest of the world (41% and 3.7%, respectively).

In the rest of the world, energy / sustainability is the top area of interest (67%). Education, diversity & inclusion, and housing and community development are also proportionately more popular in the rest of the world (59%, 33%, and 26%, respectively) than in North America (42%, 21%, and 16%, respectively) (Figure 33).

That is what people are geared towards, a more ethical form of capitalism.
### Figure 33
**Impact / ESG areas of interest**

<table>
<thead>
<tr>
<th>Category</th>
<th>Overall</th>
<th>North America</th>
<th>ROW*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthcare and wellness</td>
<td>59%</td>
<td>65%</td>
<td>74%</td>
</tr>
<tr>
<td>Agriculture &amp; food</td>
<td>61%</td>
<td>66%</td>
<td>66%</td>
</tr>
<tr>
<td>Energy / sustainability</td>
<td>58%</td>
<td>63%</td>
<td>67%</td>
</tr>
<tr>
<td>Education</td>
<td>42%</td>
<td>52%</td>
<td>59%</td>
</tr>
<tr>
<td>Climate change</td>
<td>41%</td>
<td>50%</td>
<td>59%</td>
</tr>
<tr>
<td>Job creation</td>
<td>32%</td>
<td>37%</td>
<td>41%</td>
</tr>
<tr>
<td>Diversity &amp; inclusion</td>
<td>21%</td>
<td>28%</td>
<td>33%</td>
</tr>
<tr>
<td>Housing and community development</td>
<td>16%</td>
<td>22%</td>
<td>26%</td>
</tr>
<tr>
<td>Data privacy &amp; security</td>
<td>20%</td>
<td>21%</td>
<td>19%</td>
</tr>
<tr>
<td>Social &amp; labour conditions</td>
<td>15%</td>
<td>16%</td>
<td>15%</td>
</tr>
<tr>
<td>Arts &amp; culture</td>
<td>13%</td>
<td>11%</td>
<td>15%</td>
</tr>
<tr>
<td>Work health &amp; safety</td>
<td>13%</td>
<td>16%</td>
<td>11%</td>
</tr>
<tr>
<td>Ethics &amp; compliance</td>
<td>11%</td>
<td>16%</td>
<td>21%</td>
</tr>
<tr>
<td>Anti-bribery &amp; corruption</td>
<td>6.5%</td>
<td>11%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Other</td>
<td>4.3%</td>
<td>5.3%</td>
<td>3.7%</td>
</tr>
</tbody>
</table>

Note: The sum of the figures may exceed 100% because participants can select multiple options. *Rest of the world.
We cannot just stand still

One family’s story with impact / ESG VC Investments

Twelve years ago, we exited completely from the historical family business and started the family office. The objective was not just to put together an asset allocation-focused FO – just managing and reporting. We wanted to build businesses again. Having the luxury of planning for the long run, we also thought we should use the assets for a purpose – in sectors where capital was needed and where there was a benefit to society.

We did not – and do not – consider the assets to be ours as such. We see ourselves to be more like stewards, and we have more than enough for school fees and food. I would say, it is the family tradition and legacy to be useful to society. Moreover, fast-forward thirty years and we will have to report to our children – and they could say, ‘you had a choice, what have you done?’ We were concerned with resource depletion and the direction in which the environment was heading. Now, everything is converging, but, at the time, it was different, and we decided to focus on environmental sectors. We thought, we cannot just stand still.
I know, a few years ago, some people thought it was like running with weights – the investment universe is smaller. Now, after some of the major corporate environmental scandals, I think the risks to society and the damage is more visible, and people are starting to not want to invest in those companies. So, there is a cynical argument for people to go into ESG, even if they do not believe in it – there will be outflows from non-ESG strategies into ESG strategies. You cannot fight the tide. Incidentally, we do not actually think we are harming performance; but, even if there is a risk, the question is, what is success? I would ask families who are concerned about return, ‘Why would you invest in something you were not proud of? To make more money? For what?’ It cannot just be about the numbers; it has to be something more.

Having said all of this, I understand that some people do not have the choice we have. I also understand some people want to achieve the absolute maximum return, and they can say, ‘I’ll do more charity with it’. It is a different approach. For us, it is about defining our mission: we want to help the transition to a more stable economy. We want to prove investing into those sectors works, and we are also keen to persuade others they can manage and grow their assets while still making a positive impact on the environment.

Founder, SFO, Asia-Pacific
6

Direct deals
Summary

- Over three-quarters of FOs invest directly into startups. The primary motivation is the greater return potential (for 38% of FOs). Families also like to work closely with operators (17%) and look for synergies with their core operating business (8.7%).

- Startups are looking for smart money, and most family offices provide strategic guidance (72%), participate on the board (70%), and facilitate connections to other investors (70%).

- Pre-COVID-19, the main barriers to direct investment were competition for deals (28%) and high valuations (22%).

- Co-investing allows families to share expertise and due diligence, and is a very popular option for family offices (92%).

- The key investment criteria are the quality of the management / founding team (24%) and alignment with the core operating business (17%).

- FO investors present a unique offering, and a key feature is that they can be, and often are, a patient source of capital (36%).

6.1 Engagement

Over three-quarters of FOs are engaged in VC direct deals

Seventy-six percent of family offices surveyed have invested in direct deals. There is some regional variation: family offices in North America, which has one of the more mature venture ecosystems, invest directly more commonly than FOs in the rest of the world (83% versus 70%). (The data collected suggests the proportion of family offices engaged with direct deals is lowest in Europe). There is also some variation based on founding period: family offices established prior to 2000 (81%) or after 2010 (78%) invest directly more commonly than FOs established between 2000 and 2010 (69%) (Figure 34).

The primary motivation is the greater return potential

The primary motivation for investing directly (vs. investing in venture funds) is the greater return potential, which accounts for 38% of the #1 rankings. Other key reasons are that the principal / a family member likes to work closely with operators / get involved with operations (17%) and the ability offered to pick the best deals (14%) (Figure 35).
**Figure 34**
Engagement with venture capital direct deals

<table>
<thead>
<tr>
<th>Region</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>76%</td>
<td>24%</td>
</tr>
<tr>
<td>North America</td>
<td>83%</td>
<td>17%</td>
</tr>
<tr>
<td>ROW*</td>
<td>70%</td>
<td>30%</td>
</tr>
</tbody>
</table>

Note: Figures may not sum exactly to 100% due to rounding. *Rest of the world.

**Figure 35**
Top 3 reasons which motivated the family office to invest in venture capital direct deals

<table>
<thead>
<tr>
<th>Reason</th>
<th>#1 ranking</th>
<th>#2 ranking</th>
<th>#3 ranking</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater return potential vs. fund investing</td>
<td>38%</td>
<td>8.8%</td>
<td>6.3%</td>
<td>18%</td>
</tr>
<tr>
<td>Principal / family member likes to work with operators / get involved with operations</td>
<td>17%</td>
<td>16%</td>
<td>9.4%</td>
<td>18%</td>
</tr>
<tr>
<td>To be able to pick the best deals</td>
<td>14%</td>
<td>18%</td>
<td>19%</td>
<td>17%</td>
</tr>
<tr>
<td>Synergies with other businesses</td>
<td>8.7%</td>
<td>18%</td>
<td>4.7%</td>
<td>10%</td>
</tr>
<tr>
<td>To avoid external management and performance fees</td>
<td>8.7%</td>
<td>4.4%</td>
<td>14%</td>
<td>9.0%</td>
</tr>
<tr>
<td>To have more control and flexibility</td>
<td>7.2%</td>
<td>13%</td>
<td>7.8%</td>
<td>9.5%</td>
</tr>
<tr>
<td>To obtain greater transparency on underlying investments</td>
<td>2.9%</td>
<td>8.8%</td>
<td>9.4%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Tax benefits</td>
<td>1.4%</td>
<td>1.5%</td>
<td>7.8%</td>
<td>3.5%</td>
</tr>
<tr>
<td>To take a longer-term horizon</td>
<td>1.4%</td>
<td>12%</td>
<td>16%</td>
<td>9.5%</td>
</tr>
<tr>
<td>History of poor performance with traditional VC fund managers</td>
<td>0.0%</td>
<td>0.0%</td>
<td>6.3%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

Note: This table shows the shares of the #1, #2, and #3 rankings captured by each motivation. The figures in each column may not sum exactly to 100% due to rounding.
Most of our interviewees advised that the decision to invest directly was a complex one, and that, while return is the ultimate motivator, the reasons presented above are closely entwined:

“\nFor us, and for other families we know, direct investing is about having more control as compared to investing through a fund; it is about really being in touch with the entrepreneur, playing an influential role on the board, being able to influence the strategies, having greater transparency, and unlocking the synergy in a business with your own family business.\n
Many families are just more comfortable with this, and the potential returns are obviously perceived to be higher when all these factors are at play.\n
Of course, in a fund, you also have to pay fees, whereas with direct investing, you keep all that as well.\n
In general, families feel a great deal of comfort being able to say, this is the operating model, these are the fees, this is where they go. The transparency in direct investing builds up trust, and the ability to transition wealth across generations goes up dramatically.\n
Managing Director, SFO, North America\n
Direct deals concentrated in North America and Europe; notable interest in Israel\n
Family offices have direct venture capital investments in North America (81%), Europe (54%), and Asia-Pacific (ex. China and India) (40%). Pre-COVID-19, they were also interested in growing their portfolios in these regions, with 75%, 60%, and 43% indicating interest, respectively. The sentiment to invest in direct deals has changed significantly since COVID-19. In our conversations, many said they were focusing on their existing portfolio companies and were more bullish on investing in funds.\n
While fewer FOs have existing direct investments in Israel (23%), China (25%), and Central and South America (25%), there was interest in growing exposure in these countries / regions, with 43%, 38%, and 38% indicating interest, respectively (Figure 36).\n
Several interviewees discussed their interest in Israel, in particular: \n
“\nIsrael is a country we are targeting. It is a country, an ecosystem, we understand well because of the family business heritage. It has a very strong technology sector, and a very established venture sector. People in Israel have been, and are still, excellent at creating businesses that have a market value, at growing and scaling up companies rapidly, without costs spiralling out of control. One problem for Israeli startups is recruiting talent in their own ecosystem. In any case, everybody is having the same thought as us, a lot of money is flowing over there, from family offices and other investors, and prices are hitting the roof. All the tech giants have offices there.\n
Managing Partner, SFO, Europe\n
North America continues to lead in the number of new venture fund deals in the world primarily due to its mature and fertile innovation ecosystem. However, certain cities in Asia-Pacific are seeing dramatic growth in the number of startups, namely Shanghai and Beijing in China, and Bangalore and Mumbai in India. In Europe, London, Berlin, and notably Tel Aviv, are hotbeds of new venture activity.
Figure 36
Regions / countries in which the family office has direct venture investments, and those in which it is interested in growing its direct venture portfolio

<table>
<thead>
<tr>
<th>Region / Country</th>
<th>Invested</th>
<th>Interested in investing</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>Yes: 19%</td>
<td>Yes: 81%</td>
</tr>
<tr>
<td></td>
<td>No: 25%</td>
<td>No: 75%</td>
</tr>
<tr>
<td>Europe</td>
<td>Yes: 46%</td>
<td>Yes: 54%</td>
</tr>
<tr>
<td></td>
<td>No: 40%</td>
<td>No: 60%</td>
</tr>
<tr>
<td>Asia-Pacific ex. China and India</td>
<td>Yes: 43%</td>
<td>Yes: 40%</td>
</tr>
<tr>
<td></td>
<td>No: 57%</td>
<td>No: 60%</td>
</tr>
<tr>
<td>Central and South America</td>
<td>Yes: 25%</td>
<td>Yes: 75%</td>
</tr>
<tr>
<td></td>
<td>No: 38%</td>
<td>No: 62%</td>
</tr>
<tr>
<td>China</td>
<td>Yes: 25%</td>
<td>Yes: 75%</td>
</tr>
<tr>
<td></td>
<td>No: 38%</td>
<td>No: 62%</td>
</tr>
<tr>
<td>Israel</td>
<td>Yes: 23%</td>
<td>Yes: 77%</td>
</tr>
<tr>
<td></td>
<td>No: 43%</td>
<td>No: 57%</td>
</tr>
<tr>
<td>India</td>
<td>Yes: 23%</td>
<td>Yes: 77%</td>
</tr>
<tr>
<td></td>
<td>No: 27%</td>
<td>No: 73%</td>
</tr>
<tr>
<td>Africa</td>
<td>Yes: 18%</td>
<td>Yes: 82%</td>
</tr>
<tr>
<td></td>
<td>No: 19%</td>
<td>No: 81%</td>
</tr>
<tr>
<td>Middle East ex. Israel</td>
<td>Yes: 15%</td>
<td>Yes: 85%</td>
</tr>
<tr>
<td></td>
<td>No: 15%</td>
<td>No: 85%</td>
</tr>
</tbody>
</table>

Note: Figures may not sum exactly to 100% due to rounding.

Figure 37
US VC deal activity

<table>
<thead>
<tr>
<th>Year</th>
<th>Deal value ($ billion)</th>
<th>Deal count (k)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>3.4</td>
<td>4.4</td>
</tr>
<tr>
<td>2007</td>
<td>4.4</td>
<td>4.8</td>
</tr>
<tr>
<td>2008</td>
<td>4.6</td>
<td>5.5</td>
</tr>
<tr>
<td>2009</td>
<td>5.5</td>
<td>6.9</td>
</tr>
<tr>
<td>2010</td>
<td>6.9</td>
<td>8.0</td>
</tr>
<tr>
<td>2011</td>
<td>8.0</td>
<td>9.5</td>
</tr>
<tr>
<td>2012</td>
<td>9.5</td>
<td>10.8</td>
</tr>
<tr>
<td>2013</td>
<td>10.8</td>
<td>11.2</td>
</tr>
<tr>
<td>2014</td>
<td>11.2</td>
<td>9.8</td>
</tr>
<tr>
<td>2015</td>
<td>9.8</td>
<td>10.6</td>
</tr>
<tr>
<td>2016</td>
<td>10.6</td>
<td>11.0</td>
</tr>
<tr>
<td>2017</td>
<td>11.0</td>
<td>11.9</td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020*</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

FOs have investments across a range of tech industries

The tech industries in which the largest number of participants indicated they have direct venture investments are frontier technologies (72%), followed closely by life sciences / healthcare (69%), and then by consumer technologies (65%) and enterprise technologies (65%). Post COVID, several families indicated they were spending time coming up to speed on life sciences / healthcare.

The data aligns with what FOs are interested in investing in across all industries, except in the case of blockchain / crypto, in which 35% expressed interest (Figure 38).

FOs are recommending sector focus

Several of our interviewees underscored the experience, expertise, and resources required to make direct investments across different industries, and urged FOs to be cautious:

“I only want to deal with a few certain industries. For example, I would not personally invest in the medical device VC world. It is eccentric, and I am not going to sit around and hope something takes off after Series F financing. But, if one looks at how medical devices work, how they come to market, if they are in the right regional business cluster, etc., it can be a worthwhile investment. One needs to be a seasoned medical device venture capitalist. With venture capital, you cannot take each industry for each industry.”

Founder, SFO, North America

If you made your wealth in textiles, that has little relevance for AI or machine learning.

Figure 38

Tech industries in which the family office has direct venture investments, and those in which it is interested in developing its direct venture portfolio

<table>
<thead>
<tr>
<th>Industry</th>
<th>Invested</th>
<th>Interested in investing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Frontier technologies</strong></td>
<td>Yes 28%</td>
<td>No 72%</td>
</tr>
<tr>
<td><strong>Life Sciences / healthcare</strong></td>
<td>Yes 31%</td>
<td>No 69%</td>
</tr>
<tr>
<td><strong>Consumer technologies</strong></td>
<td>Yes 35%</td>
<td>No 65%</td>
</tr>
<tr>
<td><strong>Enterprise technologies</strong></td>
<td>Yes 35%</td>
<td>No 65%</td>
</tr>
<tr>
<td><strong>FinTech</strong></td>
<td>Yes 38%</td>
<td>No 62%</td>
</tr>
<tr>
<td><strong>Blockchain / crypto</strong></td>
<td>Yes 16%</td>
<td>No 84%</td>
</tr>
</tbody>
</table>

Note: Figures may not sum exactly to 100% due to rounding.
If you made your wealth in textiles, that has little relevance for AI or machine learning. If you have invested a lot in education or have a legal background, fine, focus on EdTech or some new legal tech that is coming around. We have a background in healthcare, so we are looking at biotech and medical devices. You have to narrow it down. Funds that have a particular focus tend to do well, and if family offices have a particular focus, they tend to do well, too. Unless you have a team of 100+ people, how could you possibly have the knowledge, go through each deal properly, do the due diligence?

Director, SFO, North America

Although family offices clearly have a penchant to invest directly into startups across geographies and sectors, they are not seen as a primary source of capital amongst founders. SVB’s 2020 Startup Outlook Report showed that only 5% of the 1,100 respondents (founders and executives from technology and healthcare startups based in the US, the UK, China, and Canada) used family offices as their primary source of capital in 2019.

Figure 37
Primary source of funding for startups

<table>
<thead>
<tr>
<th>Source</th>
<th>Venture capital</th>
<th>Friends and family</th>
<th>Corporate venture investors</th>
<th>Angel group</th>
<th>Private equity</th>
<th>Family office</th>
<th>Other*</th>
</tr>
</thead>
<tbody>
<tr>
<td>SVB, Startup Outlook Report</td>
<td>16%</td>
<td>5.0%</td>
<td>7.0%</td>
<td>12%</td>
<td>7.0%</td>
<td>11%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Note: *Other includes seed venture firm, accelerator / incubator, government grant, bank debt, crowdfunding, ICO and IPO.

6.2 Investment process

Investing in direct deals involves sourcing deals, conducting due diligence, selecting the investment, and helping the team post-investment.

FOs primarily generate their own deal flow

The primary source for potential investments is FOs’ own networks (26%). Other popular sources are networks of founders / operators (17%), GPs of venture funds (14%), and professionals (e.g., investment or private bankers, and lawyers, 13%) (Figure 39).

There are few differences between AUM bands. However, FOs managing $500m+ generate deals on their own (32% versus 21% for smaller FOs) and also rely on GPs of venture funds (21% versus 6.9%). Meanwhile, FOs managing under $500m rely on networks of professionals (17% versus 5.2% for bigger FOs).

Figure 39
Primary source of deal flow

| Source: The Campden Wealth / SVB Family Offices Investing in Venture Capital Survey 2020. Note: Figures may not sum exactly to 100% due to rounding. Owing to the sample size and the number of options, the figures should be treated with caution. | Self-generated | 26% | Network of founders / operators | 17% | GPs of venture funds in network | 14% | Network of professionals – e.g., investment or private bankers, lawyers | 13% | Network of family offices | 11% | GPs of venture funds where FO is an LP | 8.6% | Portfolio companies | 4.3% | Family’s core operating business | 2.9% | Consultants | 2.9% |
Most don’t use deal-sourcing consultants

Most family offices do not use deal-sourcing consultants and have no plans to use one (67%) (Figure 40).

Some interviewees said they only invest in deals that come through their network:

* * *

> For us, the family business is the focal point. The family office only writes cheques for deals which we source through our network – which we built through our operating business.

Family Member, SFO, Europe

* * *

> We don’t do a ton of direct deals: we don’t have the expertise and there’s a fair amount of risk. We tend to do them when family members bring them.

CIO, SFO, North America

* * *

One interviewee said his family office does not need to use consultants because it has been able to hire enough in-house talent, and explained that his family is reluctant to incur an additional layer of costs:

* * *

> Our family office is always trying to compete for top talent. We have something different to offer: more flexible terms, more flexible investment horizons, and a different kind of network. Therefore, we have been able to put together a strong team of people to source deals, and do not need a deal-sourcing consultant. We also do not like the idea of, in a way, paying twice. But I can fully appreciate some people prefer a light and lean structure, and to have an ad hoc consultant rather than a permanent team. But, for us, not one plus the other.

Founder, SFO, Asia-Pacific

The remaining FOs use consultants or plan to use one (33%) (Figure 40). Some family offices explained they had difficulty generating adequate deal flow. Consequently, they have turned to deal-sourcing consultants, and believe this will be a trend. One interviewee added:

* * *

> I have actually been that person – the external consultant. It makes sense. You need as much information as you can get, from as many sources. Sometimes families hire directly, internally; sometimes they outsource, and sometimes they do both.

Director, SFO, North America

* * *

**Figure 40**

Use of external deal-sourcing consultants

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>67%</td>
<td>Do not use a consultant, and have no plans to use one</td>
</tr>
<tr>
<td>17%</td>
<td>The family office uses a consultant</td>
</tr>
<tr>
<td>16%</td>
<td>Do not use a consultant, but will use one</td>
</tr>
</tbody>
</table>


Note: Figures may not sum exactly to 100% due to rounding.
The key investment criteria are the quality of the management / founding team and alignment with the core operating business

Participants were asked to rank the top three criteria for selecting investments.

The primary consideration is the quality of the management / the founding team, which accounts for 24% of the #1 rankings. Other important considerations include alignment with the core operating business (17%), business model differentiation (11%), and market size / opportunity (also 11%) (Figure 41).

FOs are taking active roles in their investments

The role of families is more than just capital; startups are increasingly looking for smart money / strategic investors who can help them on their journey. Most family offices indicated that, post-investment, they provide strategic guidance (72%), participate on the board (70%), and facilitate connections to other investors (also 70%).

Family offices also provide financial guidance (48%), facilitate connections to new customers (47%), and provide operational guidance (41%), amongst other things (Figure 42).

Segmenting the data by region reveals that family offices in North America are twice as likely as their counterparts in the rest of the world to be involved in recruiting talent (38% versus 19%) and more than twice as likely to be involved in product development (22% versus 9.4%).

While the data has to be treated with caution owing to the sample size, there is evidence to suggest FOs managing $500m+ are more likely to be involved in facilitating connections to new customers (59% versus 35% for smaller FOs), providing operational guidance (52% versus 24%), providing marketing guidance (30% versus 12%), and facilitating connections to suppliers (37% versus 12%).

Figure 41
Top 3 considerations in selecting investments

<table>
<thead>
<tr>
<th>Consideration</th>
<th>#1 ranking</th>
<th>#2 ranking</th>
<th>#3 ranking</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of management / founding team</td>
<td>24%</td>
<td>17%</td>
<td>16%</td>
<td>19%</td>
</tr>
<tr>
<td>Alignment with core operating business</td>
<td>17%</td>
<td>1.5%</td>
<td>1.5%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Business model differentiation</td>
<td>11%</td>
<td>7.6%</td>
<td>7.4%</td>
<td>8.5%</td>
</tr>
<tr>
<td>Market size / opportunity</td>
<td>11%</td>
<td>17%</td>
<td>10%</td>
<td>13%</td>
</tr>
<tr>
<td>Product or technology differentiation</td>
<td>9.1%</td>
<td>9.1%</td>
<td>5.9%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Personal ability to add value</td>
<td>6.1%</td>
<td>11%</td>
<td>10%</td>
<td>9.0%</td>
</tr>
<tr>
<td>Personal interest in product / technology</td>
<td>6.1%</td>
<td>4.5%</td>
<td>13%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Environmental and social concerns</td>
<td>4.5%</td>
<td>1.5%</td>
<td>4.4%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Reputation of existing investors</td>
<td>4.5%</td>
<td>9.1%</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>Revenue growth</td>
<td>4.5%</td>
<td>6.1%</td>
<td>7.4%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Personal industry experience</td>
<td>3.0%</td>
<td>7.6%</td>
<td>5.9%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Product / market fit</td>
<td>0.0%</td>
<td>9.1%</td>
<td>2.9%</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

Note: This table shows the shares of the #1, #2, and #3 rankings captured by each consideration. The figures in each column may not sum exactly to 100% due to rounding.
Families add value through business know-how and networks; but have to be realistic about their capacity for involvement

Families, traditional VC investors, and entrepreneurs have come to appreciate that families can bring much more to the table than their money, most notably their business know-how and networks. For families, active involvement means better information and enhanced portfolio management:

“We only make investments in companies that link back to our operating business. That’s where we’re comfortable making assessments, and it’s also how we add value. We’ll know if the projections and other numbers make sense. We understand the competition, costs, pricing, hiring, trends, regulation, etc. We speak the same language, and we can get involved and really help the company.”

Family Member, SFO, Asia-Pacific

“Obviously, families want their portfolio companies to succeed. They are realising they can add a great deal of value besides their money. They have incredible connections. They look at the companies and say, ‘I can introduce you to this person, or I can help out with that’. While they have these connections at their fingertips – they can just pick up the phone – for the companies – trying to get to a client, a supplier, or an investor – it can take them weeks or months. The families can arrange a very valuable warm introduction.”

Director, SFO, North America

---

Figure 42
Family office post-investment involvement in direct venture capital holdings

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic guidance</td>
<td>72%</td>
</tr>
<tr>
<td>Board participation</td>
<td>70%</td>
</tr>
<tr>
<td>Connection to other investors</td>
<td>70%</td>
</tr>
<tr>
<td>Financial guidance</td>
<td>48%</td>
</tr>
<tr>
<td>Operational guidance</td>
<td>41%</td>
</tr>
<tr>
<td>Recruiting talent</td>
<td>28%</td>
</tr>
<tr>
<td>Marketing guidance</td>
<td>25%</td>
</tr>
<tr>
<td>Connection to suppliers</td>
<td>23%</td>
</tr>
<tr>
<td>Product development</td>
<td>16%</td>
</tr>
<tr>
<td>Other</td>
<td>6.3%</td>
</tr>
</tbody>
</table>

Note: The sum of the figures may exceed 100% because participants can select multiple options.
FAMILY OFFICES INVESTING IN VENTURE CAPITAL — GLOBAL TRENDS & INSIGHTS 2020

FOs present a unique offering, and a key feature is that they are a patient source of capital. According to 36% of participants, the primary difference between family offices and other venture capital investors is that families are a patient source of capital. For 21%, it is their speed / flexibility with investments, and for another 21%, the primary differentiating feature is family offices’ credibility (i.e., with other investors).

Overall, fewer participants emphasised that family offices have no liquidity requirements (12% of the #1 rankings) and that they can provide strategic operating expertise (10%) (Figure 44).

When we started, we were even more corporate. We thought we would do only majority deals; we would create an ecosystem. We did some CEO / CFO forums. But things started to get too complex, and we are now doing something a bit more flexible. We do some minority deals. But, definitely, we are still very active. We always have very regular contact with management teams. We like to understand what is going on and we like to add value by leveraging our network for each business. We think it is how we can monitor our portfolios better, decide to reinvest or exit, and help companies succeed.

Founder, SFO, Asia-Pacific

Selecting the right deals is critical

According to 51% of participants, deal selection is the most important stage of investing to improve returns. Families spend significant time and resources on conducting due diligence on a deal, including reference checks. Deal sourcing and post-investment actions are the primary consideration for 32% and 17% of respondents, respectively (Figure 43). In interviews, while many family members and FO executives reiterated the importance of deal selection, they were keen to also recognise the other stages:

Dealsourcing and selection are extremely important. There is only so much you can do with poor deal flow, and it is difficult to make up for an original mistake. But post-investment is also important. We do not have a very diversified portfolio. We have six portfolio companies today, and aim for between eight and ten. We want to find the right balance between not having too big an investment, but still being able to be very involved, follow-up, and add value. It is all important.

Founder and Managing Partner, SFO, Asia-Pacific

**“**

**Figure 43**
Ranking of deal stages in terms of importance in generating returns for venture capital investments

<table>
<thead>
<tr>
<th>Deal Stage</th>
<th>#1 ranking (most important)</th>
<th>#2 ranking</th>
<th>#3 ranking (least important)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deal selection</td>
<td>51%</td>
<td>39%</td>
<td>11%</td>
</tr>
<tr>
<td>Deal sourcing</td>
<td>32%</td>
<td>24%</td>
<td>44%</td>
</tr>
<tr>
<td>Post-investment actions</td>
<td>17%</td>
<td>36%</td>
<td>45%</td>
</tr>
</tbody>
</table>

Note: This table shows the shares of the number 1, 2, and 3 rankings that is captured by each deal stage. The figures in each column may not sum exactly to 100% due to rounding.
Based on our conversations with family members and FO executives, some participants interpreted this question more in terms of how family offices are perceived, rather than how they perceive themselves. For them, strategic operating expertise is more important than suggested by the results above. For many of the family offices, it is the combination of features which is important:

“We are often asked, it is such a competitive space, how do we win deals against the big VCs that have a reputation? It is because we are a bit more long term, closer to entrepreneurs, we come from industry, we know what it means to skill-up companies, and we are very hands-on. We have less pressure to buy, less pressure to sell, and we have very deep pockets. It is a unique offering.”

Managing Partner, SFO, Europe

### 6.3 Barriers

**Pre-COVID-19, the main barriers were competition for deals and high valuations**

Pre-COVID-19, families said the most significant barriers to direct venture capital investing were the abundance of capital chasing the best deals (which accounts for 28% of the #1 rankings), the then-current valuation levels (22%), and the lack of internal resources / domain expertise (19%) (Figure 45).

Interviewees added:

“...It has been more than a decade with a lot of cash around and hyper-growth in the venture capital market. Corporate VCs are involved; family offices are involved. I don’t mean there are no good opportunities. There are many companies with strong fundamentals. But there is so much competition, and valuations have been at an all-time high.”

CIO, SFO, North America
In Asia, the ecosystem has been expanding: more family offices, venture capitalists, private equity firms, and more entrepreneurs, startups, and companies. It is not a question of the quality of deals; the barrier is the competition for good deals, the valuations … Many family offices do not have the requisite networks. They are not institutionally branded platforms … The way it works is, if you can show people you can bring strategic value to the table – for example, based on your traditional business, based on your local knowledge – you will see the deals early on. They all know people who can just bring capital.

Founder, MFO, Asia-Pacific

Some interviewees also urged FOs considering moving into direct deals to be realistic about their liquidity requirements, the relevance of their expertise, and their capacity for post-investment involvement:

Families have to be realistic about how much liquidity they need. If they are not prepared to have the money tied up for a long period of time, often it is best to stick with managers. If you put in enough money and you are on the board, are you prepared for the day-to-day involvement with the company? Are you prepared to help resolve issues when they inevitably arise? It is time consuming. Domain expertise is so important.

Director, SFO, North America

---

Domain expertise is so important.

---

**Figure 45**

**Top 3 barriers to direct venture capital investing**

<table>
<thead>
<tr>
<th>Barriers</th>
<th>#1 ranking</th>
<th>#2 ranking</th>
<th>#3 ranking</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abundance of capital chasing best deals</td>
<td>28%</td>
<td>12%</td>
<td>13%</td>
<td>18%</td>
</tr>
<tr>
<td>Valuation levels</td>
<td>22%</td>
<td>28%</td>
<td>23%</td>
<td>24%</td>
</tr>
<tr>
<td>Lack of internal resources / domain expertise</td>
<td>19%</td>
<td>77%</td>
<td>27%</td>
<td>18%</td>
</tr>
<tr>
<td>Illiquidity</td>
<td>12%</td>
<td>20%</td>
<td>8.3%</td>
<td>14%</td>
</tr>
<tr>
<td>Disappointing returns</td>
<td>9.0%</td>
<td>11%</td>
<td>6.7%</td>
<td>8.9%</td>
</tr>
<tr>
<td>Poor deal flow</td>
<td>4.5%</td>
<td>9.2%</td>
<td>5.0%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Reached limit on VC allocation</td>
<td>3.0%</td>
<td>3.1%</td>
<td>12%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Political scrutiny and regulatory risks</td>
<td>1.5%</td>
<td>4.6%</td>
<td>5.0%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Prohibitive venture capital staff remuneration</td>
<td>0.0%</td>
<td>4.6%</td>
<td>0.0%</td>
<td>1.6%</td>
</tr>
</tbody>
</table>


Note: This table shows the shares of the #1, #2, and #3 rankings captured by each barrier. The figures in each column may not sum exactly to 100% due to rounding.
**FOs are starting to build brands to improve deal flow**

About two-fifths of the family offices reported they are attempting to build a brand in the market in order to improve venture deal flow (38%). They participate in industry events (69%), take on speaking engagements (69%), have web presence (54%), and publish a list of their portfolio companies (54%) (Figures 46 and 47).

**Figure 46**
**Whether the family office is attempting to build a brand in the market in order to improve venture deal flow**

![Pie chart showing the proportion of family offices attempting to build a brand]

Source: The Campden Wealth / SVB Family Offices Investing in Venture Capital Survey 2020. Note: Figures may not sum exactly to 100% due to rounding.

**Figure 47**
**How the brand is being built**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participating in industry events</td>
<td>69%</td>
</tr>
<tr>
<td>Building a website</td>
<td>54%</td>
</tr>
<tr>
<td>Publishing a list of portfolio companies</td>
<td>54%</td>
</tr>
<tr>
<td>Actively engaging in public relations efforts</td>
<td>42%</td>
</tr>
<tr>
<td>Marketing to founders as a venture fund rather than a family office</td>
<td>31%</td>
</tr>
<tr>
<td>Other</td>
<td>7.7%</td>
</tr>
</tbody>
</table>

Source: The Campden Wealth / SVB Family Offices Investing in Venture Capital Survey 2020. Note: The sum of the figures may exceed 100% because participants can select multiple options.
Brand building: necessary to improve deal flow and attract top talent

Several family offices explained that in order to improve deal flow and attract top talent, families will have to move away from operating in the background and start building brands. It is a difficult and long process, which will require: devising a suitable strategy; building a dedicated unit and hiring qualified staff; committing adequate funding; signing marquee deals; assuming a higher level of risk, and being part of success stories. The Founder of an SFO based in Europe said:

On the one hand, as a family office, we have a culture of not talking too much, of keeping a low profile. But, in the VC space, we have learned, if you want to be a serious player, increase the quality of your deal flow, and co-invest with top-tier VCs, you absolutely have to develop your brand. That is what we are trying to do. We have a dedicated unit. We have a dedicated website. We are talking at conferences and attending events. This business is about visibility and relationships. You need to play like any other VC – otherwise, you are not in the ecosystem and you are not credible.

Of course, all this will only take you so far. The brand cannot be limited to the website; if you do not do anything serious, it does not work. You need to make deals, make exits, and ensure your engine is successful. Only then, you build credibility. But this takes time, and it takes money as well. We are doing it one step at a time. We are still relatively low profile; but, as soon as we make some major exits, we will brand ourselves much more. I think you will see this a lot in the family office space.

Similarly, the Founder and Managing Partner in an SFO based in Asia-Pacific said:

We used to be very much under the radar. We used to have three mandates, three different names, with very little information available. But, two or three years ago, we took the decision to gradually come out of the woods. We have only one identity now and we are building the capacity to become more visible. We are building a communication strategy which is focused on being an employer of choice and generating good deal flow.

It involves attending selective conferences and being on panels. We did that a little bit already, but it was not part of a systematic plan, it was more opportunistic. We also want to have more presence on the social networks, including through our portfolio companies, to attract deals. That is more the public side. The private side includes being a bit smarter at identifying the key co-investment partners in our ecosystem, which we would like to work with, and maintaining an active relationship so we can act quickly when there are opportunities.

The Founder of an MFO also based in Asia-Pacific added:

I know several FOs here that are out to build a brand. Many are also creating their own asset management platforms. They want to raise capital and manage money for other families. I think they need to show they have the financial muscle and have significant skin in the game.

A Director in an SFO based in North America concluded with a word of advice (pre-COVID-19, i.e., in a world where face-to-face meetings were still the norm):

You have got to travel, attend conferences, meet people, and let everybody in your community know what you are doing. But some people are good at that, and some people are not. You need to remember people and leave an impression. It takes a great deal of effort and willingness to learn. Families who are willing to do that can be successful in the space, but they need to be realistic – new entrants cannot assume expertise, that is where so many mistakes are made – and it is crucial they hire the right people.
6.4 Syndication and co-investment

Fifty-six percent of FOs engage in syndicated deals, most commonly to share risk

Fifty-six percent of participating family offices reported that they engage in syndicated deals, i.e., where single-deal funds or special purpose vehicles (SPVs) are created by a syndicate lead to invest in a single startup. The most popular motivation is risk sharing, as indicated by 33%.

Family offices outside of North America are more likely to engage in syndicated deals than ones in North America (63% versus 50%), and smaller family offices are more likely to engage in such deals than larger ones (60% versus 46%) (Figures 48 and 49).

Figure 48
Whether the family office engages in syndicated deals

Note: Figures may not sum exactly to 100% due to rounding. *Rest of the world.
**Figure 49**
The main reason which motivated the family office to syndicate

![Pie chart showing the main reasons for syndication](chart)

- Risk sharing: 2.5%
- Complementary expertise: 7.5%
- Access to larger deals: 15%
- Access to future deals: 20%
- Capital constraints: 23%
- Avoidance of fees: 33%

Note: Figures may not sum exactly to 100% due to rounding.

**FOs are not looking to go into deals by themselves; they want partners with complementary skills**

Participants were asked about the ideal makeup of the cap table. Fifty percent ranked family office + corporate / strategic + traditional VC investors as the ideal makeup, and 29% picked family office + traditional VC investors. For the vast majority, 100% family office investors was the least preferred (Figure 50).

**Figure 50**
Ranking of capitalisation table makeups as it relates to a direct venture investment made by the family office

<table>
<thead>
<tr>
<th>#1 ranking (ideal)</th>
<th>#2 ranking</th>
<th>#3 ranking</th>
<th>#4 ranking (least ideal)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family office + corporate / strategic + traditional VC investors</td>
<td>50%</td>
<td>20%</td>
<td>17%</td>
</tr>
<tr>
<td>Family office + traditional VC investors</td>
<td>29%</td>
<td>23%</td>
<td>40%</td>
</tr>
<tr>
<td>Family office + corporate / strategic venture investors</td>
<td>15%</td>
<td>29%</td>
<td>46%</td>
</tr>
<tr>
<td>100% family office investors</td>
<td>66%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: This table shows the shares of the #1, #2, #3, and #4 rankings captured by each capitalisation table makeup. The figures in each column may not sum exactly to 100% due to rounding.
While FOs want partners with complementary skills, they are mindful that there must be alignment of interest:

"The FO can synergise through its experience in industry. One of the other advantages is that FOs are not time-bound by a fund structure, so, they can invest for many years – it is patient capital. The VC is the professional dealmaker. The VC will orchestrate the next round of funding or the exit. The VC is probably far more experienced and skilled in unlocking value, whether it is taking the company public, a strategic sale, or whatever. It is about having a good blend.

Founder and Managing Director, MFO, Asia-Pacific"

"It is the same when you create any team – be it a football team or a team in the office – you need some diversity; you need complementary skills. The board shapes so much of the future of startups. The way you take the best decisions is to have people who see a problem from different angles. If you have a mix of strategic, institutional, and family office investors, we all think differently and that is what we bring to the table. We have made investments with only family offices and investments where there are only big VC firms from the valley. It is very, very different. Now, having complementary skills etc. is one thing, but alignments of interest is also crucial.

Managing Partner, SFO, Europe"

Different FOs prioritise different factors in syndicate partner selection

There are a handful of factors in selecting syndication partners: value creation track record (26% of the #1 rankings), alignment of values / objectives (also 26%), trusted relationship (23%), and industry-related experience (20%).

Few family offices place much weight on operational skills and co-investment experience (both 0.0%, although these do appear in the top three of a handful of participants) (Figure 51).

**Figure 51**
Top 3 factors in selecting partners to syndicate with

<table>
<thead>
<tr>
<th>Factor</th>
<th>#1 ranking</th>
<th>#2 ranking</th>
<th>#3 ranking</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value creation track record</td>
<td>26%</td>
<td>12%</td>
<td>29%</td>
<td>22%</td>
</tr>
<tr>
<td>Alignment of values / objectives</td>
<td>26%</td>
<td>18%</td>
<td>11%</td>
<td>18%</td>
</tr>
<tr>
<td>Trusted relationship</td>
<td>23%</td>
<td>18%</td>
<td>23%</td>
<td>21%</td>
</tr>
<tr>
<td>Industry-related experience</td>
<td>20%</td>
<td>24%</td>
<td>2.9%</td>
<td>15%</td>
</tr>
<tr>
<td>Financial alignment</td>
<td>5.7%</td>
<td>24%</td>
<td>16%</td>
<td>16%</td>
</tr>
<tr>
<td>Co-investment experience</td>
<td>0.0%</td>
<td>2.9%</td>
<td>14%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Operational skills</td>
<td>0.0%</td>
<td>2.9%</td>
<td>5.7%</td>
<td>2.9%</td>
</tr>
</tbody>
</table>


Note: This table shows the shares of the #1, #2, and #3 rankings captured by each factor in selecting partners. The figures in each column may not sum exactly to 100% due to rounding.
Co-investing is widespread

Most of the relevant family offices participate in co-investment opportunities (92%), i.e., where they invest in the same funding round of a company alongside another family or venture fund. Prior to COVID-19, almost one-half expected their co-investment activity to rise in the next 12 months. Only 13% expected a decrease (Figures 52 and 53).

Figure 52
Participation in co-investment opportunities

Note: Figures may not sum exactly to 100% due to rounding.

Figure 53
How the family office’s co-investment activity is likely to change in the next 12 months

Note: Figures may not sum exactly to 100% due to rounding.
Co-investment: promising, but hard work

Co-investing has numerous potential benefits, including being able to share another family’s infrastructure and expertise. However, significant groundwork must be performed. FOs must clearly establish each party’s:

• Objectives, including return target and investment horizon;
• Expectations, including level of control and involvement, and
• Ability to add value – e.g., through operational skills and industry contacts – and participate in subsequent funding.

The key is to determine whether there is alignment between the families. The process is intense and must be performed for each investment opportunity. Trusted relationships are extremely helpful.

In the case of an SFO based in Europe, as told by its Former Head:

We have discussed co-investment on many occasions; but we decided against it. What percentage is going to be from each family? If it is 50/50, you potentially get into deadlock situations. If you go 60/40, one or the other is the boss. Many families are not too comfortable with that.

A Director in an SFO based in North America told us:

I see a great deal of interest in co-investing in the family office world. It is nice to know there is another family involved that has expertise in the area. For example, we had a family who said they would never do an early stage, never do medical devices; then they co-invested with us in just that. They said, ‘You thoroughly explained it; you showed us how this is going to work, and you have a track record. We will invest alongside you’. It means they can get into deals they would otherwise not have known about.

The relevance of the history and depth of the relationship between the families depends: if a family is looking to be just an investor and receive a quarterly update, then it does not matter much. But, if they are going to be hands-on, then you want to make sure you know these people and can get along with them.

The Head of an SFO based in the Middle East explained:

You need to be very close to someone in order to feel comfortable with investing with them. You have to understand how they think; you have to be comfortable with their abilities as operators. With GPs, this is what they are doing; they are in business to invest, to buy companies. With other families, you need to know what you are doing with whom and how they are going to operate afterwards. Does the other family – does whoever is leading this deal – have the operational skills; do they have the investment judgement; do they have the same outcome horizon and expectations as I do? Maybe they view themselves as owning the business forever, and maybe I want to be out in five years.

There are people out there, but there should be, in my view, a very limited number of people who any given group would be willing to co-invest with. If I were a $200 million family office, I would be looking more at funds rather than deals with other families.

For a Managing Partner in an SFO based in Europe:

In many cases, small family offices should get together. That is, instead of investing in a VC fund, here and there, and being too remote, and considering the risks and required resources and relationships for independent direct investing. They should get together if they want to participate in the story, bring
their industry knowledge. A handful of small investors becomes a medium one, and then they can play. In our next fund, we will try to get together with some other families that are smaller, but have a reputation. They can contribute based on their industry experience, and we can provide the basic machinery.

It does require a great deal of commitment – to reach out to other FOs that already have a structure, to understand the dynamics of this world and what works and what does not. There is a danger smaller family offices just want exposure, and move too quickly and put money into a syndicate that is not suited to them. They need to be clear about their objectives. In many cases, I think they should rely on the classical VCs and be passive, so the job becomes to select a VC.

We try to identify people who understand a certain minimum about tech. There is some triage – who wants to be passive, who wants to be reactive, etc. The different approaches are all fine – what is important when you select your co-investors for a particular deal is that there is alignment of interests. It is about managing expectations and shooting for the same objective. Family offices that join the table for VC investment really must understand they can lose money.

We also invest with some big VCs and some small ones. It is the same thing. Some of them around the table entered very early and they have an incentive to sell as soon as possible because they have made their return. We, being the last ones to enter, want to grow the company and create more value. Sometimes there can be disruption at the board level that can crush the startup. So, alignment is extremely important.
Fund investments
7 Fund investments

Summary

• 80% of FOs are engaged with venture funds; it is an efficient way to outsource deal flow and due diligence (69%).

• The top criteria are GP reputation (24%) and fund performance (21%). Investment strategy is an important secondary criterion (18%).

• 80% of FOs invest in sector-focused funds and 71% in sub-$100m funds.

• Pre-COVID-19, 61% of FOs believed the highest returns in the next decade would come from emerging managers.

• The most significant barriers to venture capital fund investing were access to compelling managers (23%) and valuation levels (18%).

7.1 Engagement

**80% of FOs are engaged with venture funds; it is an efficient way to outsource deal flow and due diligence**

The vast majority of family offices are engaged with venture capital fund investments: 80% with funds and 28% with fund of funds. Twenty-two percent are engaged with both, and only 14% are not invested in either (Figure 54).

The main reason that motivated the family offices to invest through funds is it is an efficient way to outsource deal flow and due diligence, as indicated by 69% of participants (Figure 55).

**Figure 54**

Engagement with venture capital fund and fund of fund investments

<table>
<thead>
<tr>
<th>Overall engaged</th>
<th>Funds</th>
<th>Fund of funds</th>
<th>Neither</th>
</tr>
</thead>
<tbody>
<tr>
<td>80%</td>
<td>28%</td>
<td>14%</td>
<td></td>
</tr>
</tbody>
</table>


Note: The sum of the figures may exceed 100% because participants can select multiple options.
Several interviewees advised that fund manager fees are often not as expensive as they seem:

“We have been able to find good third-party managers in the technology space. We have most of our VC investments, which are really comprised of growth equity, in the tech sector. But these firms have impact teams of 70 to 80 people, that can go in, help companies grow, help management grow. They may seem expensive, but we have been very happy with the performance on an IRR and a multiple basis.

For instance, we did a couple of thousand hours of due diligence on cryptocurrencies. We found ways to invest directly into bitcoin, but we also looked at the VC side of it, whether there were creations of exchanges, custody, or research analytics. There were lots of interesting growing businesses in that space, but we had to put the time and effort in. I do not think a lot of people want to do that 60 hours a week, as a firm, for a couple of years, to find out what is there. If they do not have that time or inclination, then they need to find a firm that will put that time and due diligence in.

CEO / CIO, MFO, North America

There is no doubt that interest in direct VC deals in the family office space is on the rise. I talk to a lot of relatively small FOs that have started to hire some people. My fear, however, is that a number of them will quickly fail. They will come to fully appreciate the importance of deal flow, of due diligence, and decide to go indirect, to invest in VC funds.

Managing Partner, SFO, North America

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Figure 55
Main reasons which motivated the family office to invest through venture capital funds

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficient way to outsource deal flow and due diligence</td>
<td>69%</td>
</tr>
<tr>
<td>Improves network in the venture ecosystem</td>
<td>44%</td>
</tr>
<tr>
<td>Insufficient internal resources and expertise required to conduct due diligence and analyse direct deals</td>
<td>38%</td>
</tr>
<tr>
<td>Interest in leveraging relationships with GPs to get direct deal flow / co-investment opportunities</td>
<td>37%</td>
</tr>
<tr>
<td>Insufficient internal resources and expertise required to monitor and support direct investments</td>
<td>37%</td>
</tr>
<tr>
<td>Adequate deal flow, but concern about when and which deals the family office investor is shown relative to other investors</td>
<td>27%</td>
</tr>
<tr>
<td>Poor direct deal flow</td>
<td>10%</td>
</tr>
<tr>
<td>Illiquidity of direct investments</td>
<td>2.8%</td>
</tr>
<tr>
<td>Poor success with direct deals</td>
<td>5.6%</td>
</tr>
<tr>
<td>Other</td>
<td>7.0%</td>
</tr>
</tbody>
</table>

Note: Figures may not sum exactly to 100% due to rounding.
7.2 Investment process

Investing in funds involves sourcing fund managers, conducting due diligence, selecting the investment, and lesser post-investment involvement (vs. in direct investments).

The top criteria for fund selection are GP reputation and past performance

The top criterion for selecting funds is GP reputation (which accounts for 24% of the #1 rankings). Other important criteria include performance (21%), access to founders (14%), and investment strategy (11%) (Figure 56).

That GP reputation ranks top is understandable, given that it is based on several factors, including experience, past performance, network and differentiated access to direct deals, and advocacy from other GPs, LPs, and founders.

For the CEO / CIO of an MFO based in North America:

“A lot of times, it is track record to a significant degree; but, with startup funds, we look at what the management team did prior. Have they bought and sold businesses? Is raising capital the only thing they have not done before?”

IRR is the most popular fund performance metric

When evaluating venture capital fund performance, for 43% of the participating family offices, the preferred metric is the Internal Rate of Return (IRR). Roughly equal numbers of family offices prefer Total value to paid in capital (TVPI) and Distributions to paid in capital (DPI) (25% and 24%, respectively) (Figure 57).

Figure 56
Top 3 criteria for selecting funds

<table>
<thead>
<tr>
<th>#1 ranking</th>
<th>#2 ranking</th>
<th>#3 ranking</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>GP reputation</td>
<td>24%</td>
<td>14%</td>
<td>6.9%</td>
</tr>
<tr>
<td>Top performing funds</td>
<td>21%</td>
<td>5.6%</td>
<td>6.9%</td>
</tr>
<tr>
<td>Access to founders</td>
<td>14%</td>
<td>5.6%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Investment strategy</td>
<td>11%</td>
<td>18%</td>
<td>15%</td>
</tr>
<tr>
<td>Prior relationship / experience</td>
<td>8.5%</td>
<td>8.5%</td>
<td>8.3%</td>
</tr>
<tr>
<td>Co-investment opportunities</td>
<td>5.6%</td>
<td>13%</td>
<td>8.3%</td>
</tr>
<tr>
<td>Sector focus that aligns with family’s interests</td>
<td>4.2%</td>
<td>7.0%</td>
<td>8.3%</td>
</tr>
<tr>
<td>Deal sourcing process</td>
<td>2.8%</td>
<td>5.6%</td>
<td>6.9%</td>
</tr>
<tr>
<td>Fees and carry structure</td>
<td>2.8%</td>
<td>2.8%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Firm brand</td>
<td>2.8%</td>
<td>4.2%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Recommended by trusted partner</td>
<td>2.8%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Fund size</td>
<td>0.0%</td>
<td>1.4%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Fund terms and conditions</td>
<td>0.0%</td>
<td>2.8%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Opportunistic by vintage year</td>
<td>0.0%</td>
<td>1.4%</td>
<td>4.2%</td>
</tr>
</tbody>
</table>

Note: This table shows the shares of the #1, #2, #3, and #4 rankings captured by each criterion. The figures in each column may not sum exactly to 100% due to rounding.
7.3  Barriers

**FOs finding access challenging**

The most significant barriers to venture capital fund investing were limited access to compelling managers, with 23% respondents ranking it #1, followed by valuation levels (18%) (Figure 58).

**Figure 58**  
Top 3 barriers to venture capital fund investing

<table>
<thead>
<tr>
<th>#1 ranking</th>
<th>#2 ranking</th>
<th>#3 ranking</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited access to compelling managers</td>
<td>23%</td>
<td>16%</td>
<td>16%</td>
</tr>
<tr>
<td>Valuation levels</td>
<td>18%</td>
<td>24%</td>
<td>22%</td>
</tr>
<tr>
<td>Illiquidity</td>
<td>17%</td>
<td>14%</td>
<td>10%</td>
</tr>
<tr>
<td>Disappointing returns</td>
<td>15%</td>
<td>11%</td>
<td>16%</td>
</tr>
<tr>
<td>Lack of internal resources / domain expertise</td>
<td>15%</td>
<td>11%</td>
<td>10%</td>
</tr>
<tr>
<td>Prohibitive fees</td>
<td>5.6%</td>
<td>8.6%</td>
<td>9.0%</td>
</tr>
<tr>
<td>Reached limit on VC allocation</td>
<td>5.6%</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>Political scrutiny and regulatory risks</td>
<td>0.0%</td>
<td>4.3%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Note: This table shows the shares of the #1, #2, and #3 rankings captured by each barrier. The figures in each column may not sum exactly to 100% due to rounding.
7.4 Types of funds

80% of FOs invest in sector-focused funds and 71% in sub-$100m funds

Participants were asked whether they make investments in a range of GPs and funds and, if not, whether they are interested in doing so. Sector-focused and sub-$100 million funds are most popular – with 80% and 71% indicating investments, respectively – while $1 billion+ and secondary funds are far less popular – 32% and 23%, respectively. Between 37% and 46% are invested in the other kinds of GPs / funds listed.

Pre-COVID-19, while most FOs did not hold investments in funds with female GPs or in secondary funds, 33% indicated they were interested in investing in each of these types of funds. The least interest was in $1 billion+ funds (11%) (Figure 59).

The Former Head of an SFO based in Europe explained:

"The barrier to fund investing is access. Good funds tend to have a base of investors, who they will go to first. You have got to be invited to the party.

Some of our interviewees added very valuable nuance to the statistical findings. In particular, they emphasised the difficulty in disentangling the different barriers. For example, an issue with fees can be easily wrapped up with the judgement that there is limited access to compelling managers. The CEO / CIO of an MFO based in North America explained:

"Many families that do run into top-quality managers become fee sensitive. I would suggest, when comparing those managers, compare them to a public company. For some public companies which, in the last 30-40 years, from a return standpoint, have been very successful, two-thirds of gross profit goes in overheads. So, in the end, shareholders only keep one-third. You compare that to a well-run private equity fund, especially on the VC side, and you are keeping three quarters of the return. You need to look at the fees as the cost of operating the business; as long as that ratio relative to the return makes sense, and also makes sense compared to the public markets, I think you go ahead.

On obtaining access, the interviewee added:

"For the last decade, we have built an extended network. We have been able to attend investment events, and have also spoken at large events, globally. You slowly get to see what is going on. We also have a significant budget for manager research and due diligence. You need to put the time and the capital, both financial and human, into seeing what is available and getting access to the best of the best."
61% of FOs expect highest returns to come from emerging fund managers

Prior to the COVID-19 pandemic, views were fairly spread out about where the highest returns would be generated in the next decade. However, breakout / emerging managers (sub-$100m) based in the US was the most popular option (33%), followed by breakout managers based elsewhere (28%). Established fund managers based in the US was a close third (25%), and established fund managers based elsewhere was the least popular option (14%).

While 50% of family offices in North America said the highest returns would come from breakout / emerging managers based in the US, 18% of FOs in the rest of the world agreed. While none of the participants in North America chose established managers based outside the US, 26% of FOs in the rest of the world picked that option (Figure 60).

Figure 60
Where highest returns are anticipated to be generated in the next decade

Note: Figures may not sum exactly to 100% due to rounding. *Rest of the world.
Impact of COVID-19
8 Impact of COVID-19

8.1 Trends

The pace of activity has slowed...

As a result of COVID-19, family offices are more cautious. They need to spend time assessing where existing investments stand, where cash might be required, and the extent to which the post-pandemic world will be different. Some industries have seen tailwinds and others have seen headwinds from the pandemic. Family offices need to form a view on how long these will persist, and how much of performance is attributable to systemic factors and to idiosyncratic ones, i.e., management.

Each of our interviewees explained, family offices with portfolios devoted to late stage venture are most likely to see reductions in valuations in the near term. The runway to IPOs has extended and, while there might be some M&A activity, it would likely be at a discount.

The link between public markets and VC valuations is somewhat nebulous, but the last two recessions did coincide with corrections in the private markets. This time around, valuations are yet to fall meaningfully, perhaps due to larger deals already in the works closing (Figures 61 and 62).

Figure 61
Valuation trends in past bear markets

![Valuation trends in past bear markets](image)


Figure 62
Recent VC activity

![Recent VC activity](image)

Thirty-eight percent of late stage deals involve non-traditional investors, such as family offices and private equity firms, that have more sensitivity to public market performance. Furthermore, later stage companies are more comparable to public peers for benchmarking valuations.

Since 2014, company formation has declined and the number of VC firms has increased, which gives entrepreneurs more power. The current environment is expected to put downward pressure on startup valuations due to weaker growth expectations (Figure 63).

Physical distance has caused both FOs and VC firms to temper their investment activities:

"In conducting due diligence of a new company, you want to assess the quality of the management; their vision, dedication, discipline, ability to lead, and ability to execute. Investors prefer to see the whites of the eyes across the table. It’s difficult to do at a distance. The process has been slowed down and, at the margin, it’s caused some deals not to happen."

Founder, SFO, North America

Generally, FOs and VC firms are still open for business. But FOs are focused on top-tier managers and co-investments with those managers, and VC firms are focused on deals in their networks.

… but venture retains its appeal, and FOs are bullish on seed / early stage deals

Families are long-term investors and, for the majority, their investment strategies will remain in place, with VC an important part of their overall portfolios. Within their venture allocations, some family offices were diversified, and the ones we spoke to who were concentrated still have strong conviction in their sectors. Some weaker portfolio companies will, no doubt, fail; but that was likely anyway.
Interviewees reiterated, in the midst of crises such as this one, there are opportunities. Several expect increased investment in secondaries: investors will need liquidity and will be willing to sell their stakes, and there will be GP restructurings. Moreover, there will be exciting opportunities in early stage venture. Companies will be innovating, and FOs can benefit from attractive entry valuations. For interviewees, experienced families will recognise the accretive value of putting money into early stage venture now and will continue to invest over the next couple of years.

Moves to funds, quality managers, and diversification

There are, however, some indications that family offices might:

- Rein in plans / be slower to deploy capital particularly in the direct investment space;
- Place greater emphasis on quality managers;
- Be more hesitant to act on prior interest in expanding exposure to female and / or ethnic minority GPs / founders, and
- Further diversify investments across sectors / industries.

In the words of interviewees:

“We will likely see a relative shift into fund investments. Families started going direct alone or by partnering with other families, in part, because they didn’t want to pay fees. Some of those deals will turn out not to have done so well. With the coronavirus causing a lot of consternation, families will likely feel more comfortable putting money with a proven venture capital firm.”
- Founder, SFO, North America

“Families will likely feel more comfortable putting money with a proven venture capital firm.”

We think investors are going to go with more historically typical startup founders now – i.e., from Stanford or Harvard – and, very unfortunately, that means females and ethnic minorities will see less funding.
- CIO, SFO, North America

Families can still have the lion’s share of their venture allocation to the industry where they have the most knowledge. But many are going to see it makes sense for them to become more diversified. If they want exposure to the venture capital asset class in general, they may invest in a number of different funds or in a fund of funds that is very diversified by industry and sub-industry.
- Founder, SFO, North America

Family members and FO executives expressed a range of views on other developments in the VC markets:

- Some FOs see fees likely to decline as capital becomes scarcer. Others said fee structures tend to be stable in the industry and any change will be marginal, while acknowledging that FOs may look harder for value.
- Some interviewees see a shakeout in the manager universe, pointing out the huge growth in the space in the last couple of decades, but others think it is too soon to comment.
- Some say the desire to invest internationally, particularly in certain emerging markets, may be dampened for some time, but others are eager to find ways of continuing to invest or now building some exposure.
8.2 Statistics

Looking at the statistics, when respondents were asked what changes they expected to see in their VC investment and operational activity post-COVID-19, a number of interesting findings emerged:

- **Returns are expected to change, but there is no consensus in the direction:**
  While 76% of respondents now have different return expectations from venture capital, 41% have lower expectations and 34% have higher expectations.

- **There is a decrease in enthusiasm for making new direct investments:**
  Forty-one percent of respondents expect to decrease the number of direct deals they are involved with (versus 24% increase), and 34% expect to decrease the average size of direct deals (versus 10% increase).

- **FOs are building more concentrated direct investment portfolios where they will be more involved:**
  Forty-six percent expect to increase their post-investment involvement in direct VC holdings (versus 7.1% decrease).

- **There is a decrease in interest in emerging managers:**
  Forty-six percent of respondents expect to decrease the number of investments into new / emerging fund managers (versus 14% increase), and 39% expect to decrease the size of investments into such managers (versus 7.1% increase) (Figure 64).

---

**FOs are concerned about the exit environment; they see a market correction within three years**

Nearly three-quarters of respondents stated they are either concerned (59%) or very concerned (14%) about the current exit / liquidity environment for venture capital (Figure 65).

For 65%, there will be a systemic private market correction over the short and medium term – i.e., in up to three years (Figure 66).
### Figure 64
**Changes in VC investments and operations**

<table>
<thead>
<tr>
<th>Category</th>
<th>Stay the same</th>
<th>Increase</th>
<th>Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital allocation to venture investments</td>
<td>42%</td>
<td>21%</td>
<td>37%</td>
</tr>
<tr>
<td>Number of direct deals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Avg. size of direct deals</td>
<td>10%</td>
<td></td>
<td>55%</td>
</tr>
<tr>
<td>Number of fund investments</td>
<td>18%</td>
<td></td>
<td>52%</td>
</tr>
<tr>
<td>Avg. size of fund investments</td>
<td>14%</td>
<td></td>
<td>66%</td>
</tr>
<tr>
<td>Number of investments into new/emerging fund managers</td>
<td>14%</td>
<td></td>
<td>39%</td>
</tr>
<tr>
<td>Avg. size of investments into new/emerging fund managers</td>
<td>7.1%</td>
<td></td>
<td>39%</td>
</tr>
<tr>
<td>Number of co-investments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of secondary deals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return expectations from venture investments</td>
<td>24%</td>
<td></td>
<td>34%</td>
</tr>
<tr>
<td>Post-investment involvement in direct venture capital holdings</td>
<td>7.1%</td>
<td></td>
<td>46%</td>
</tr>
<tr>
<td>Exposure to debt</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of investment professionals focused on venture investing</td>
<td>11%</td>
<td></td>
<td>75%</td>
</tr>
</tbody>
</table>


Note: Figures may not sum exactly to 100% due to rounding.
**Figure 65**
Sentiment on the current exit / liquidity environment for venture capital

![Chart showing sentiment on the current exit / liquidity environment for venture capital.](chart)

Note: Figures may not sum exactly to 100% due to rounding.

**Figure 66**
Expectations regarding a systemic, private market correction

![Chart showing expectations regarding a systemic, private market correction.](chart)

Note: Figures may not sum exactly to 100% due to rounding.
8.3 Family office conversations

8.3.1 Case study 1: Taking stock
Conversation with the CIO of a single-family office based in North America, 8 May 2020

Portfolio performance
The impact of COVID-19 on FO portfolios is unknown, the situation is still unfolding

"At the moment, everyone is busy triaging their companies. Most VC firms are saying the companies are liquid, other investors are standing firm, they’re cutting costs, and whoever makes it through this downturn is going to come out stronger.

I think people are hesitant to prognosticate, or even make statements about what the current situation is. We don’t know what the exit trajectory is going to be. There’s been some theoretical general impairment. But depending on the trajectory coming out of this, the impairment may be small or large."

Current approach and investment activity
FOs are assessing existing holdings; they are cautious on new investments, especially given the move to video meetings, but are still open to top-tier managers

"We have been meticulously building a diversified portfolio. So, fundamentally, things haven’t changed much.

In terms of new investment, in a situation like this, there is no reason not to take a little more time. Although, if certain top-tier managers said, ‘We’re closing this fund next month, do you want in or not?’ Well, we’re writing a cheque. This situation would not preclude me from making a no-brainer investment in a direct deal either. So, it’s not a total halt.

On deal flow, part of my problem now is just getting my arms around existing funds, and the flow of economic and market news. That is, understanding where existing investments stand. Then, being inundated with distressed credit opportunities swells out my bandwidth for having video-conference meetings with new venture capitalists."
8.3 Family office conversations

8.3.1 Case study 1: Taking stock

Opportunities

The pandemic has underscored the appeal of opportunities in certain sectors, including biotech.

"First, there’s a ton of dry powder in venture capital. People who manage their portfolios appropriately leave reserve room. This should be an interesting episode. Even though it’s a sharp recession, there should be clear light at the end of the tunnel. Second, a significant amount of our VC focus is in biotech. A lot of the companies are likely to be somewhat pandemic-resilient, which is nice. But the growth attributes preceded this pandemic and will continue after it. I think the best returns are going to be in biotech venture capital, irrespective of fund size. The pandemic has only reinforced that judgement."

FO brand building

Some FOs now see greater impetus to build brands in the market.

"If your effort to penetrate opportunities was to create a family office brand, people pulling back capital and being more cautious should make you push forward in that, rather than pull back."
Barriers to VC investing

Access to top-tier managers is still the key challenge.

The main barrier to VC investing has been access to top-tier managers. I’m hopeful this now changes; but, I think, it’s only going to change marginally. If you’re one of the top-tier venture capitalists, and one or two of your guys sits out the current fund, most of your other investors would love to take additional capacity. They keep a waiting list. I don’t know how many people actually pass on the next round with one of the really top-tier guys. The thing that annoys me is a lot of the capacity is taken up with fund of funds. I think that is a flawed business model. I assume it will decrease over time; but it doesn’t seem to be happening quickly.

In terms of a shakeout in the manager universe, with the underperforming ones dropping out, I think it’s still early, and this situation could ameliorate faster than a lot of the hand wringers fear. The public equity market is certainly taking that position.

Future family office engagement with VC

COVID-19 does not undermine the long-term motivations to invest in VC.

Returns are now going down in real estate, private equity, credit, etc. In the public market, the technology and life sciences sectors have held up better than the broad market. At the end of the day, it might not be that different in venture capital.

I don’t think the pandemic is going to last long enough or be impactful enough to deter families that, pre-pandemic, found reasons to increase their emphasis on the asset class. That is, an asset class that targets some of the best sectors in America and greatest areas of growth. So, yes, catch your breath. Capital did become a little scarcer and a little more expensive near term. So, you can negotiate slightly better terms now. But, with regard to long-term motivations, I don’t think they will change.
8.3.2 Case study 2: Long-term view

Consultation with the venture capital team of a single-family office based in North America, 1 May 2020

Asset allocation

We think FO interest in the asset class will persist. We currently allocate 10% to venture capital and expect that to either stay the same or grow. When you invest in early stage venture, as long as that seed capital has funded the company well, that company is not going to exit for seven to ten years, and the macro environment is going to be completely different. Having said this, family office engagement will happen at a slower pace, where FOs need to be more strategic.

Direct investing

We've had quite a few follow-on opportunities, but have not done much. We are in the process of looking into it. The hardest part in our venture experience was getting transparency. We built a ‘transparency portal’ to be able to see exactly which sectors, stages, and geographies we’re exposed to. Then, when follow-on or direct opportunities come through, we can be strategic about it. We can invest in companies that potentially have tailwinds to COVID.

Post-COVID, families may still be interested in direct investing, but even more won’t follow through, unless it’s strategically beneficial for their operating business.
Before this crisis, we were somewhat concerned about our portfolio. We expected a much higher rate of failure than we were seeing. We actually think it’s a good thing we’re now seeing an event that will cull the herd. Some of these companies shouldn’t be getting any additional capital. There’s also a lot of intellectual horsepower that goes into supporting them, and that should be used on companies that are actually going to be great companies in the future.

We think there will be a slowdown in startup formation. So, fewer startups to fund. But, in 2021, we can see that picking up again. A lot of talent is going to be released and will go work for another startup or start their own companies.

For startups, recessions and bear markets are almost like a launch pad. Half the Fortune 500 companies started during such periods. You can look at some of the consumer unicorns that started slightly before, during, or in the recovery period from the Global Financial Crisis. A crisis such as the present one is an opportunity for pivoting, innovation, and disruption. We’re long-term focused. We look for these kinds of opportunities, where great companies are being formed, and want to invest as early as possible to take advantage of that exponential growth.

In terms of geographies, in the next few years, the highest returns will be generated in the US. For the past 25 years, early stage venture has returned over 50% IRR, which is huge. But early stage venture in China has definitely started to compete, and we think China is going to be a close second.

On valuations, we think there is going to be a reset at all stages of venture, with the largest reset in the later stages. But, as you are in the crisis and heading out, in early stage and especially pre-seed and seed, you get to take advantage of the valuation decline. GPs also believe they can capture a lot more ownership of startups.

On portfolio construction, an interesting tailwind is building a diversified versus a concentrated portfolio. You have to be very lucky if you’re concentrated – to be in absolutely the right sectors during a particular crisis. If you’re diversified, it doesn’t matter. There are going to be some winners and some losers; but the winning sectors and companies will overcome all the losing ones.

In terms of sectors, some of the losers from COVID-19 are obvious: tourism, restaurants and bars, hotels, fitness facilities, and transportation. Sectors that are going to receive tailwinds include video conferencing, online education, virtual event technology, at-home delivery networks, at-home workout companies, video games and virtual reality, and air purification and sanitation.

We think life science is going to be very interesting for the next decade, not only because of the pandemic. The innovation is really strong. Life science has consistently produced outliers. It’s one of the only sectors that even now is producing IPOs.
8.3
Family office conversations

8.3.2
Case study 2: Long-term view

Although GPs are still open for business, at this point, the only deals they’re comfortable doing are ones in their networks. There is a slowdown in deals happening: last year, there were, maybe, two-plus deals per quarter; now, it is one to two.

Some GPs have talked about the possibility of stronger venture ecosystems – like New York, the Bay Area, and Los Angeles – surviving, while the weaker ones perish. There are fewer VCs in those ecosystems; they may need to raise smaller funds, and they have less capital to deploy into those ecosystems.

Over the past few years, the pace of fundraising has significantly increased, especially in seed. It’s been, on average, about 2.2 years. This can make it difficult to invest for the long term, to allocate your dollars appropriately to the GPs in future investments. We think there’ll be a reset in the fundraising cycle to what we used to see in, maybe, the 2008 to 2012 vintage years, which was more like three to four years.

Terms were also becoming far more GP friendly. We underwrite GPs and expect, at least, a 3x net return. Carry was starting to creep up to the point where GPs were asking for 20% to 25% up until 3x. Then, their carry would go up to 30%+. We thought this was aggressive. To both emerging and established managers whose portfolios take a hit, LPs are simply going to say, ‘Why are you charging me so much?’. At some point, GPs are going to need capital – not want it like before, where they had the flexibility to turn away LPs because there was so much capital in the market. We think terms will become more LP friendly. Just like the advantage on pricing used to be in the founder’s favour and is now becoming more in the GP / LP favour. With fund sizes becoming smaller, maybe management fees are going to get adjusted as well.

We want exposure to each vintage year. We don’t want to miss out on opportunities. If we’re unable to meet GPs in person, we’ll work through virtual diligence. We’ve readjusted our process to do a lot more reference calls up front.

A major challenge for FOs looking for VC exposure will be access to quality GPs. Not being able to travel has been really difficult. FOs will find it difficult to identify GPs with a quality LP base that are not going to have LP defaults. They will find it difficult to identify which managers are institutional quality, who are going to be successful and give you access to the startups pools you want. It’s hard to integrate yourself into the early stage venture world without having a network there or visiting San Francisco, or Los Angeles, or China.
Pre-pandemic sentiments on the market

FOs were expecting some downward adjustment in the market, but were still active

We’re long-term investors. But we were coming out of a long bull market and, we thought, something was going to soften up. We weren’t that active going into this. We had already pulled back on some of the new tech investments and were actually looking for some liquidity. Having said that, we were still investing.

Asset allocation

The pandemic is not affecting FO VC strategic asset allocations

We aim to keep our venture allocation under 10% of our total liquid net wealth, and it’s a relatively hard line. Our portfolio consists mainly of direct investments. COVID doesn’t affect this.

Current approach and investment-related activities

FOs are waiting for the dust to settle. Several suggest adjusting to virtual networking will take time

Now, we pretty much have a moratorium on investment. Some of my family members are quite scared about this whole thing, so they’re having a hard time getting on board with new investments; then, there are others who think, risk/return-wise, they just don’t have enough clarity. But, generally, we still believe in technology. This pandemic has only proven its value. We just want to see how things shake out.

I put a lot of energy into networking. It’s how I get my deal flow. The lockdown has obviously changed the way I network. I can’t do it in person, and some of the events I usually attend have been cancelled. There is some movement to video-conferencing; but, it’s just not the same.
8.3 Family office conversations

8.3.3 Case study 3: Staying the course

Portfolio performance and surprises

Weaker companies are being weeded out, which is not necessarily a bad thing

“Some of our companies have done well, some have flailed, and some have failed altogether. We invest heavily in health and wellness. Those companies are doing very well. We’ve also shifted our ethos somewhat. Take the food delivery apps. We had thought this was a low margin business that probably wouldn’t succeed over time.

What we’ve found is, some of the companies that were barely hanging by a thread have fallen to the wayside – which is not necessarily a bad thing. I had already written some of them off. Some of the companies that were just chugging along were in the right place at the right time. There have also been some surprises about founders. With early stage investing, a lot is betting on people. Some founders who I thought were the real deal, when this thing hit, just threw in the towel; then there’s others who were fast to pivot; they’ve shifted their business to where they’re doing extremely well and showing their true colours.

Longer term prospects

“I’ve seen a bunch of deal flow recently where people are trying to create gimmicks, and I’ve been doubtful.

More generally, has the paradigm shifted? How long are we going to be in this quasi-lockdown stage, with the virus floating around? My guess is, definitely in the short term; probably in the medium term, and, long term, hopefully, business goes back to normal. Before things resume, however, there will be this grey area where many of these technologies – e-learning, video conferencing, food delivery – will prosper. Take e-learning – it’s a great service and I’m glad it’s happening. But actual school is a wonderful thing and kids will go back. There are problems with spending too much time on a screen. There’s also the social aspect, which is arguably even more important for kids than it is for adults. Perhaps the technology will end up augmenting the learning experience. But I don’t know about the long-term efficacy.”
Social and environmental considerations

The pandemic has raised awareness, and can propel engagement in impact / ESG investing. We were actually early adopters of some of the approaches which attempt to reconcile social and environmental concerns with profitability, and we lost a lot of money. We decided, we’re not going to get over-complicated on what ESG or SRI is. We’re just going to say, good people do good things for the world. We’ve now made a lot of money in healthy beverages and in clothing companies that have challenged warped ideas about body image. Through this pandemic, people have become much more conscious of being healthy and well, and I think that will persist.

International investment

For some FOs, the drive to invest internationally, particularly in certain emerging markets, has been dampened for the time being. Let’s take China as an example. I’ve always thought it was difficult to invest in, so, I left it to the funds. We were starting to consider investing directly, but that’s off the table now; we were also thinking about allocating more money to funds, but that’s on the backburner. We have to focus on our own geographies. Generally, I think it’s going to become even more challenging to invest in China. There is also the possibility people will become a little more closed-minded. We’ve already seen the blame game going on. The globalisation of the last few decades was already unwinding before the outbreak of the virus.

Family post-investment involvement

Families are keen to be involved with their portfolio companies, but, at the moment, their time is being taken up by their operating businesses. Families tend to be actively involved in their direct investments. When family offices started investing in the space, some founders thought it was ‘dumb money’. In fact, families can be more strategic than venture capitalists. They made their money in the industry, and their networks can be super helpful. There is better alignment. Some venture capitalists seem only concerned about themselves and their LPs. Family money is more long term. I look at my involvement with the portfolio companies. I try to roll up my sleeves, get my hands dirty, and help them in any way I can – whether that’s in raising more capital, making strategic decisions, or making introductions for business purposes.

But, right now, I don’t have a huge amount of time. Our operating business is in commercial real estate. It’s been a tough two months. I am spending the majority of my time putting out fires in emergency board meetings and investment committee calls – trying to get us out of this thing.
8.3 Family office conversations

8.3.3 Case study 3: Staying the course

Balance of power

"Take Airbnb: the founders have had unlimited control. Now, they need money, and the power shifts. Some of the hubris we’ve seen is probably going to fade, and it becomes more of an equal playing field. But I think it’s a case-by-case issue. There are still companies that can – right now – raise as much money as they want."

Exit environment

"We were early investors in a retail company that was worth a couple billion dollars. There were plans for going public, but that’s not going to happen any time soon. In another case, we were trying to do a secondary deal, but it fell apart because of this whole thing. So, I’m highly concerned. But I will say, if valuations come down to where I think, we’ll see more M&A."

Barriers to direct investing

"The main barrier has been competition and valuation levels. As I said, between 2012 and 2019, anybody could have been a venture investor, and many investors made money, if only on paper. Now, as valuations come down, there’s a reality check. I think there should be, and there will be, a movement towards funds. That’s how we started, built our network, and started getting deal flow."
Direction of the private market

“\n
It’s difficult to say where things stand – whether there has been much of a downturn – and certainly to comment on a recovery. The public markets fell and then rebounded quickly. With the private markets, there is a lag. Except for a few companies which have gone under, and certain industries which have clearly suffered, I haven’t seen much. When do people start allocating money? There is a lot of money on the fine lines, and many venture companies will have to put their money to work. So, it may not be very long.

Direction of the economy

“\n
Ultimately, we will be left to face the economic damage. I think we’ll see low growth for some time, maybe even negative growth. I’m going to be more selective, and that includes looking for opportunities that have more of a technological moat around them.

Future FO engagement with VC

“\n
In the last few years, there was the rise of the ‘tourist venture capitalist’. Some family offices basically became venture funds. It made me worry because many didn’t necessarily have the expertise. It’s hard to vet and value some of these technology companies. It needs a certain skillset. We saw huge deals for companies we couldn’t see making money. That’s part of the reason we backed off last year. Right now, I think valuations are still high. In the short-term, I think a lot of companies will lose value and a lot of family offices will feel the pain. But, longer term, technology will come out of this just fine. I just look at what I use every day and it’s all technology products, especially when at home. Sometimes, these washouts are good for the industry. I think out of it we will see some spectacular next generation tech companies, perhaps in artificial intelligence or virtual reality. Many family offices are probably thinking the same thing and will continue to put money to work, selectively.
8.3.4 Case study 4: Active

Conversation with a GP in a VC fund, who is also a principal in an SFO based in North America; 7 May 2020

“Portfolio companies

Healthcare investors have seen tailwinds for portfolio companies, and sales compression

We are early-stage healthcare investors, and we believe that, to deliver care at scale, throwing more bodies at the problem is not the answer; that will not give you the force-multiplying effect required. What you need to do is look at infrastructural solutions.

Frankly, we’ve seen some COVID tailwind for our portfolio companies. Out of 21 companies, 19 have explicit COVID offerings. Their core infrastructural solution is able to accommodate a specific use that’s very relevant for the anti-COVID effort: be it microbial genomics reference platforms doing data calls for testing for therapeutics and vaccines, or clinical trial recruitment marketplaces creating patient registries for COVID clinical trials.

We’re also seeing a good amount of sales compression. Pre-COVID, the conversation used to be with the data analytics teams, and took three or four months. Now, there’s urgency; we’re seeing the conversations go straight to the CEO, and they’re taking three or four days.”
Deal making

Key trends: several funds are waiting to deploy capital, and a lot of funds are pulling back on net new investments. On the flip side, there is better discipline in the market, i.e., less chasing of momentum.

We have seen three trends in the market. First, several funds have pulled back: they’ve said they’re not going to invest for the next one or two quarters. They want to be able to see founders in person and visit company sites.

Second, a lot of fund managers are also pulling back from net new investment because they want to reserve their capital for follow-ons of their existing portfolio companies. We’ve seen this behavioural pattern before – in the ’01 and ’08 downturns. People start hoarding cash to make sure their existing portfolio has the reserves, if other downstream follow-on investors aren’t going to be leaning into their portfolios.

We are not doing this; we’re very actively looking at new deals. We’re looking in specific target areas – where the impetus pre-dated COVID; where the need has been underscored by the pressure-testing against the system by COVID, and where there is durable relevance in a post-COVID world – and we’re doubling down.

For example, right now, you’re not going to create a new therapeutic for COVID; you’re going to have to revisit existing drugs. You also need to be looking at ways to conduct clinical trials when patients are remote. But we already knew this was going to be the case because of the broader trend towards personalised medicine.

The third trend is that the chasing of momentum deals has come to a screeching halt, and we’re seeing better discipline across the downstream and co-investor ecosystem. In the last few years, many investors were chasing momentum – think about WeWork or SmileDirectClub – and we were untrendy in that we had a very concerted eye towards gross margins. In the last few weeks, three of our portfolio companies received follow-ons at mark ups. Investors are starting to say, margins matter; unit math matters; we don’t know when this downturn is going to be corrected, so we need to actually back businesses which are not reliant on subsidies from venture capital, the actual native business needs to make sense.
8.3 Family office conversations

8.3.4 Case study 4: Active

Due diligence

Investors are focusing on quality companies and intensifying their use of the resources at their disposal. Travel limitations are encouraging local deals.

"At the moment, we’re doing a deal where we’ve never met the founder in person or visited the office. It’s a software solution, so very on-theme for us. High margin, proven co-founding team that has previously exited a business, good revenues last year, already booked substantial revenues this year, and big logo customers, one of which just expanded their contract.

One of our syndicate partners has a partner who’s also in New York, so he and the founder are meeting at a park, sitting six feet away from each other. We’re going to double back with the partner, and will, of course, triangulate on things like customer diligence and market diligence, really getting a sense of the tech stack of the business.

That we’ve been unable to meet the founder, and he was able to meet New York-based firms in person, was a disadvantage to us. We won it only because of our sector knowledge and some of the customer introductions we were able to do as part of our diligence."

Surprises

Generalists are turning to specialists for input. Given the uncertainty, companies that have cash in the coffers are, nonetheless, going back to the market to raise capital at a discount.

"We’re an unbranded specialist fund, and we’ve never wanted to compete with broader branded platforms. What has surprised us is that a good chunk of the portfolio companies of those investment firms are now coming to us, and some of those partners are coming to us to ask for our opinions to help triage their portfolio companies.

It’s also been interesting to see companies that have a fair amount of cash already from previous raises going back to the market to do a top off. It really speaks to the insecurity … If you ended your post-money with the previous round at an undue valuation that has no alignment with your fundamental metrics, new money is not going to come in at that nose-bleed valuation. The existing investors know that and are supporting the founders who want to go back and do it at a discount to the previous round rate."
**Direct investing**

FOs can make deals directly in areas they have elevated sophistication. Direct investing is fraught with challenges, and FOs should recognise that fund managers have differentiated access and subject matter expertise.

> During a bull market, you don't have to get so involved with portfolio companies: rising tides lift all boats. Without those subsidies, however, companies' structural weaknesses are laid bare, so it makes sense that family offices will want to lean in more.

> More fundamentally, why are family offices in direct deals at all? When there’s a lot of frothiness in the market, families, endowments, foundations, and other investors often say, ‘we have the capital; why can’t we do it ourselves?’. But there are a number of obstacles. The tools you need to suss out an operating company are simply not the tools you need to suss out a fund manager. There is a completely different vocabulary, and different analytic frameworks. Even if you have made money in venture, generally the staff that you have hired do not have the experience.

> I do understand families doing direct deals when they're going to go in super late – at Series C, D, E. But then you're buying at the top of the market. Even pre-COVID, 50% of Uber's capital was under water, and WeWork was discounted by 90%. The family offices that went in super late are the ones holding the bag.

> I think investing directly can make sense if you’re doing deals in the space you know. But families can’t do direct deals across everything. First, there is a negative selection bias of direct deals that a family will see. Fund managers are a very competitive set of people. If there’s a good deal to be done, they’re not going to show it to a family office that they don’t have a strong relationship with. Second, even if you are a branded family office, you’re never going to have a better lead on the market than someone who's spent their entire time looking at that market. How is a generalist family office ever going to do better than a fund that’s highly focused on agriculture tech, water tech, payment tech, or retail e-commerce? The broader commentary is that, even pre-COVID, there was a trend towards fragmentation, where you see a constellation of very focused managers.

> What I do as a family office is look at managers who have domain expertise across of bunch of different markets. I have healthcare covered, but I also know macro-wise that there are so many markets that are going to have lasting value in the next decade plus. I want to find managers who really understand the hard science around, for example, agriculture tech and water tech.

**Opportunities ahead**

Patient investors who turn to specialist and disciplined managers can benefit from the opportunities the downturn will present.

> To people considering cutting their venture allocations, I would say, first, businesses take a long time to grow, mature, and exit: the average venture-backed business takes 8.7 years to exit from seed. Investors who have invested across cycles understand that, and they know that you buy when the market’s down, at better valuations. Second, the companies that survive are going to have such a strong survivor bias - they're pressure-tested, excellent operators.

> In terms of managers, those that have a true north in their strategy, and have discipline in what prices they buy in at, are going to do well. Some generalist investors that did crossover investing in healthcare tech are going to fade to black. They’re not making new investments and are having to spend time salvaging their existing portfolios. Also, I think that, unless you really understand the healthcare market, it’s very hard to identify what is a flash in the pan, and what has more lasting relevance. As those guys pull their capital out of the market, it’s going to get less competitive. You look at other downturns, and some of the best businesses were anointed then at great valuations, because of the lack of competitive capital.
Recommendations
Recommendations

The family offices surveyed as part of this study make several recommendations to new entrants into the venture ecosystem:

Start small, build up

FOs looking to enter the VC asset class should start off with small allocations and multiple vintages, sizing according to fund stage and GP quality. Liquidity requirements and higher risk need to be carefully considered. Once comfortable, families on average allocate 10% of assets to venture investments.

Focus

For success in direct investing, a focused / bounded investment thesis is critical, e.g., sector, geography, etc. In addition, while families will want to add value by being deeply involved in portfolio companies, they need to be realistic about their time and other resource constraints.

Spend time on due diligence

Selecting the right deal is critical to generate returns. FOs need to ensure enough time and resources are committed to due diligence and reference checks. Alternately, co-investing alongside other families or funds allows FOs to outsource part of the research.

Participate in platforms / networks that provide access to fund managers

The main barrier to fund investing is access to top-tier managers. FOs need to invest time and resources into sourcing and researching fund managers. They need to network and attend events. Post-COVID-19, they need to adapt and become more comfortable with virtual meetings and making more reference calls up front. Experienced FOs suggest looking at fees as the cost of operating the business.

Co-investing is beneficial, but choose partners carefully

Co-investing has numerous potential benefits, including being able to share another family’s infrastructure and expertise. However, FOs must clearly establish each party’s objectives, expectations, and ability to add value. Alignment between families is not easy to find and, often, investing through venture funds may be easier, and more professional.
Sweeten the pot to attract top talent

While FOs can offer a unique package – including the opportunity to invest in direct deals and as an LP in funds – consider a venture-like compensation structure with carry or co-investment opportunity to attract top venture talent.

Be mindful in the jump from business owner to VC investor

For many families who have built their wealth by founding and operating businesses, investing in private companies feels natural. But families must take into account they will have much less control with portfolio companies. Each family should carefully consider its particular business history in determining how to engage with VC investment. Did the family focus on operating one business, or was it active on the acquisition front? For many, clubs, co-investments, and funds make good sense.

Consider VC as a vehicle for succession

Families planning for succession should take into account that Next Gens tend to find VC investments, compared with traditional investments, more tangible, innovative and relatable. Involvement is excellent training and, often, Next Gens can add value in the area.

Post-COVID-19, focus on quality managers and diversification

Post-COVID-19, it is understandable for FOs to adopt a ‘wait and see’ approach. But the current market environment is likely to present opportunities, which FOs should be ready to capitalise on. The current environment also underscores the wisdom of focusing on quality managers and ensuring diversification across sectors / industries.
About Campden Wealth

Campden Wealth is a family-owned, global membership organization providing education, research and networking opportunities to families of significant wealth, supporting their critical decisions, helping to achieve enduring success for their enterprises, family offices and preserving their family legacy.

The Campden Club is a private, qualified, invitation-only Members Club representing 1,400 multi-generational business owning families and family offices across 39 countries. The Club provides peer networking on a global scale, bespoke connectivity around aligned objectives, shared knowledge & best practices, co-investment opportunities with qualified liquid investors and support for the NXG. Campden Club Members also enjoy privileged access to generational education programs held in collaboration with leading global universities.

Campden Research supplies market insight on key sector issues for its client community and their advisors and suppliers. Through in-depth studies and comprehensive methodologies, Campden Research provides unique proprietary data and analysis based on primary sources.

Campden Wealth owns the Institute for Private Investors (IPI), the pre-eminent membership network for private investors in the United States founded in 1991. In 2015 Campden further enhanced its international reach with the establishment of Campden Family Connect PVT. Ltd., a joint venture with the Patni family in Mumbai.

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Founded in 1999, SVB Capital is a global venture capital investment firm with $5.5 billion of assets under management. SVB Capital is the premier partner for accessing the Innovation Economy, with a particular focus on technology and life sciences. As a division of SVB Financial Group (NASDAQ: SIVB), the firm has unparalleled data, insights, sector expertise, and relationships with leading venture capital firms and startups as a result of Silicon Valley Bank’s established position in the venture ecosystem.

Within SVB Capital, the Family Office Practice works with qualified family offices to provide curated, exclusive access to private investment opportunities both within SVB Capital and with emerging fund managers and early stage companies that are clients of SVB Financial Group.

For more than 35 years, SVB Financial Group and its subsidiaries have helped innovative companies and their investors move bold ideas forward, fast. SVB Financial Group’s businesses, including Silicon Valley Bank and SVB Capital, offer commercial, investment and private banking, asset management, private wealth management, brokerage and investment services and funds management services to companies in the technology, life science and healthcare, private equity and venture capital, and premium wine industries. Headquartered in Santa Clara, California, SVB Financial Group operates in centers of innovation around the world.

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