The family offices using venture capital to involve younger members

'Younger family members . . . get excited by the opportunities . . . focused on AI or blockchain'

Matthew Vincent OCTOBER 19, 2018 0

Family dynasties can be reluctant to give the young control of the purse strings.

In 1481, Prince Richard, despite being made fifth Duke of Norfolk, was not allowed to inherit the accompanying estate straightaway on the grounds of immaturity. But, then, he was only eight years old, and soon to be locked in the Tower of London with his brother, so he probably did not need too much pocket money. A decade or so later, Lorenzo de' Medici, at 43, was still deemed too young to become the titular prince of Florence. Renaissance mortality rates caught up with him before he could make full use of grandfather Cosimo's wealth. Even Alexandre de Rothschild, scion of the 18th century banking family, was reported to be too young at age 29 to take over from his father. And that was in 2010.

But there are signs that this is changing. Family offices that manage money for multiple generations say that involving the young can have advantages — particularly in one area: private equity and venture capital investing.

Chris Ivey, head of the European private client practice at Cambridge Associates, advises wealthy families and foundations — and finds all age groups have a role to play. "We take family clients to see the best private equity managers and venture capitalists in Silicon Valley — Palo Alto and Menlo Park. One time, I thought: 'Oh wow, I've got someone in their twenties coming along!' What I found is that when talking to younger family members, the VCs strike up a rapport really quickly. There is an affinity and mutual understanding of technology and the latest trends."

He suggests it is a generational thing. "VCs are getting younger, so they find younger family members have a lot in common [with them] and are more often on their wavelength."

That can help the family office and its advisers, too. With the best venture capital funds able to pick and choose their investors, they are likely to enjoy working with younger people who might stay with them for longer. "Partners at VC firms, who are often in their 30s, find it easy to relate to the newer generation — and of course recognise a potential source of investment for many fund cycles to come," Ivey says.

Another adviser who runs money for wealthy families suggests the outcomes are good for the young as well: “The uplift to returns to locking money up for a long time is one area where it is simpatico.”

Often, though, it is the nature of the investment, not just the numbers, that enthuses the 20- or 30-year-olds. “Older family members are often comfortable in their own sector,” explains Vikash Gupta, founder of multifamily office VAR Capital. “Younger family members or the next generation are more open to partnering up with professional PE and VC houses so they can get exposure to interesting companies . . . [they] get excited by the opportunities in VC sector that are focused on the latest technology companies, such as AI or blockchain.”

These technologies are closer to their experience and day-to-day lives, points out Wethered. “The young are certainly more likely to have a cryptocurrency wallet than the older investor — millennials are also more likely to have a fintech account such as Revolut.”

That can make tech “incubators”, such as Telefonica’s start-up accelerator Wayra, which seeds, launches and guides young entrepreneurs, a focus for families’ younger generations.

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Adam Wethered, co-founder of Owl Private Office, suggests the longer timescales and multiple stages of private equity and venture capital investment are well-suited to younger family members. “Private equity needs to be understood for its inherent nature,” he argues. “It is a long-term, illiquid financial commitment, usually requiring investment of more money at a later stage to grow, or save, the enterprise.”

Environmental and societal concerns are growing areas of interest, as well. Eirian Jones, head of investments at Wren Investment Office, is seeing a growing enthusiasm for impact investing. "Younger family members are expressing a desire for their capital to have a positive impact on the environment and society," he says. "So we work with them to understand the extent to which they want to blend financial return expectations with environmental and societal outcomes.

Still, this does not mean sixtysomethings are having any less say in families' private equity decisions. One adviser to two wealthy families says, pointedly: "Influence of the younger generation? I have not actually seen that. High net worth individuals, generally, get on with private equity because they have the ability to get their heads round businesses."

He points out that the heads of wealthy families are often people who made money from a business and so they find private equity investment in specific, individual ventures more understandable than a merger arbitrage hedge fund, for example. "There is increasing sector specialisation in private equity," he observes, "because if a guy made money in retail, he will say: 'Find me a fast-growing retail business I understand'. And private equity guys can find them in Asia."

Ivey agrees that family members can more easily relate to businesses backed by private equity than to retail investment products. "For some, private investments are also more tangible — in meetings they hear about real companies, rather than funds and benchmarks."

For those nearer the sixtysomething end of the scale, it helps to maintain a connection to business. "When they sell their family company, they like investing in private equity, as they believe private equity is connected to the real economy and their own experiences," says Maite Lacasa, partner at MdF Family Partners. "Private equity is something they understand and something they think they can replicate with the same success they had in their previous venture."

They can replicate higher returns, too, as family offices' ability to lock up money in private equity over long periods delivers an illiquidity premium. A paper from UBS Asset Management last year on The Value of Illiquidity cited a study of nearly 1,400 private equity funds over a 24-year period: their median return net of fees outperformed their public equity market counterpart — the S&P 500 index — by more than 3 per cent per year.

Mads Ryum Larsen, partner and head of investor relations at IK Investment Partners, suggests this is ultimately the appeal, no matter how old or young you are: “Family offices have been consistently increasing their allocation to private equity and other illiquid asset classes, as they have found that the return premium that they’re achieving within those asset classes outstrips any negative consequences from lack of short-term liquidity.”

Put this premium together with the risk appetite of youth and it is little wonder the age of Ivey’s Californian travel companions is coming down — if not yet to 15th-century levels.