

Private equity and direct investments are the new favourite asset classes among family offices globally, particularly the Greater China region.

Industry surveys and the media have consistently reported private equities and direct investments as particular favourites among family offices not only across Asia, but internationally.

These assets, which inherently feature relative illiquidity and a longer time horizon (and potentially significantly rewarding returns once exit events happen), are observed to fit into the investment objectives of many family offices, which are not in the market for necessarily immediate or short term returns.

Family offices not only tend to be investors with more patience. Another obvious flexibility available to family offices is the ability to go for investments that might not be picked purely to maximise profits but rather to pursue opportunities that are meaningful on a personal level to the family.

Strong Vision

Increasingly, I have seen Asian families backing entrepreneurs and ideas they believe in as angel investors and investing in social impact funds as an alternative to traditional hedge fund investments.

For family offices that are ready to take the more “personal” initiative to the next level, business incubation and venture philanthropy might fit in even better and provide more satisfaction.

If permitted or sometimes led by the head of the family, a family office can provide more than just capital but also other forms of support and resources to start-ups or other ventures aimed at creating positive social impacts.

The family office would be responsible for screening and assessing the proposed investment. A dedicated team can take over the post-investment project management.

When the patriarch has a strong vision for a certain sector or industry, a cause that brings positive value to the society at large, or an emotional or aspirational alignment with the incubated project and the entrepreneurs, he (and his family office) would be prepared to put in not only potentially a large sum of money for a sustained period but also other intangible capitals such as personal time, advisory, connections and reputation.

Generating Impact

A typical example is for the patriarch to be a board member or a spokesperson, to establish a dedicated fund and hire personnel with the relevant expertise, or even to mobilise family resources to increase the awareness of and lend credibility to the business or venture.

I want to use the term “archangel investing” to describe such a devoted, impact-generating approach to supporting a business or project, which would be funded and executed best by a well-organised family office.

There is really no boundary to archangel investing but innovation in finding solutions to existing issues is often a key ingredient. While investment by family office is thought to be related to projects bred by entrepreneurs who are not related to the family, the concept of archangel investing can be extended to include an enhanced version of internal incubation programmes provided to family members.

Typically, internal incubation is usually to encourage the future generations to build their own businesses.

Some families have rules in trust documents or family office bylaws that reflect the wishes of the family to support new ventures in certain industries to strategically complement or avoid competition with the core business of the family. Some families require that the incubated entity be owned exclusively by the family member and the family trust until a later stage of capitalisation or even the pre-IPO round. Some are more open to funding the family member by just providing a loan interest-free or at a lower-than-market interest rate and do not insist on taking a stake in the incubated business.

Archangel investing in internally incubated business means going beyond the provision of funding. It entails deeper, more extensive support to the family member, including helps with giving advice to the business plan, making connection with potential strategic collaborators and even permitting the use of office or work space in family-owned premises.

Venture Philanthropy

Besides business incubation, archangel investing includes the support of venture philanthropy. Unlike traditional philanthropy where a charity approaches donors for one-off or regular contributions, this new form of philanthropy enables business and charity to be combined to produce truly sustainable, positive social impact and revenue to help the project self-sustain.

From an internal perspective, family offices can provide support to family members who want to start their own or lead existing venture philanthropy projects. The process of funding application would be similar to an internal incubation project. Family members have to apply for funding and other support under the family office and go through the same assessment for incubated entities but using a different set of parameters adapted specifically for venture philanthropy.

Both the donation committee and the investment committee would be involved. The enhanced version of post-investment support can be available. The profitability expectation might be different, but it is still more demanding from an economic perspective compared to conventional donations.

This article originally appeared in *Offshore Investment Magazine*, April 2017.

Contact

Patricia Woo

Partner, Hong Kong

T +852 2103 0322

E patricia.woo@squirepb.com