OPINION

EVOLVING INVESTMENT STRATEGIES FOR EMERGING REGIONAL FAMILY OFFICES: INSIGHTS FROM ROUNDTABLE

GCC & supra-regional families are increasingly institutionalizing their wealth, adopting formal wealth structuring tools for asset protection, business continuity, and legacy planning. Concurrently, **there is growing awareness**, particularly among the next gen, of the importance of **wealth preservation and intergenerational wealth creation.**

However, **many families lack the necessary knowledge and experience to invest directly into private equity and venture capital (for example)** without the support of a specialist fund manager, making investment a high-risk endeavour if done blindly.

Support is needed to guide families on why, where, and how to invest. Relying solely on traditional asset allocation (equities, fixed income and cash) can lead to missed opportunities for higher returns and increased vulnerability to market volatility, hindering intergenerational wealth creation.

To address this gap, M/HQ co-hosted a roundtable discussion earlier this year titled together with **Odin Financial Advisors "Leveraging Private Equity for Family Office Evolution,"** held in the ADGM.

The event brought together industry experts and family office ("**FO**") representatives to delve into the evolving landscape of private equity ("**PE**") and venture capital ("**VC**") investments. The roundtable highlighted several critical insights and provided a suggested roadmap for emerging regional family offices to optimize their investment strategies.

Leveraging private equity for family office evolution roundtable participants, May 2024, ADGM

ALLOCATION TO ALTERNATIVE INVESTMENTS

A key observation from the roundtable was the **significant under-allocation to alternative investments among early stage/developing GCC family offices (with the exception of real estate)**. Traditional asset classes like real estate, equities, and fixed income dominate, with private equity comprising only a small portion. By focusing on these asset classes, families risk missing out on higher. This leaves families vulnerable to market volatility and hinders intergenerational wealth creation.

There is however, growing recognition of the need to diversify into alternatives like private equity, venture capital, private credit, hedge funds, and digital assets. This shift is essential for higher returns and risk diversification, driven by second and third-generation decision-makers aiming to enhance intergenerational wealth creation.

Indeed, the UBS Global Family Office Report 2024 indicates that among Middle Eastern respondents representing mature and sophisticated regional family offices, approximately 51% of investment portfolios were allocated to alternative investment classes[1]. This demonstrates that as regional family offices become more institutionalized, their strategic asset allocation are likely to evolve to include a greater proportion of alternatives, enhancing their growth and stability.

ADDRESSING ALLOCATION AND RISK MANAGEMENT AMONG EARLY-STAGE FAMILY OFFICES

The underweighting of alternatives is part of a broader issue of suboptimal allocation and risk management practices. Many family offices lack a nuanced understanding of portfolio risk across various levels, often resulting in missed opportunities for upside potential and wealth creation.

[1] ubs-gfo-report-2024-single-pages.pdf

BUILDING A SUCCESSFUL VC STRATEGY

The roundtable emphasized a phased approach to VC strategy. Direct investing can be risky for inexperienced family offices, leading to unfavourable outcomes. Starting with indirect investments via funds managed by experienced VC general partners (GPs) is advisable. Engaging with GPs and accessing detailed portfolio information can help family offices gradually build expertise and confidence in direct investing, as well as providing valuable direct co-investment opportunities. "shorter holding period and co-investments are also two other factors to consider in portfolio construction"[2].

SMART ALLOCATIONS

To maximize returns, family offices should adopt a disciplined VC allocation approach, investing by vintages, balancing investments between established and emerging GPs, and leveraging existing knowledge and connections.

Consistent investment stage focus simplifies portfolio management and optimization.

"[T]here is a need for a broader .... and more efficient allocation in private markets as well as the development of proprietary strategies. Wealth growth can be enhanced through an institutional approach to allocating capital. Many high net worth individuals, wealth managers and family offices don't have the capacity to invest in private markets on a standalone basis and instead prefer investment through partnerships and MFOs with a special focus on private capital.

The need for personalization and curated portfolios has never been greater. Each investor brings unique goals, risk tolerances and preferences to the table. This makes a one-size fits all approach insufficient. The use of technology will play a critical role for this given the vast intergenerational wealth transfer."

- Stergios Voskopoulos, roundtable participant, CEO and Founder of AltNovel

[2] Stergios Voskopoulos, roundtable participant, CEO and Founder of AltNovel

WHAT ABOUT CLUB DEALS?

Club deals offer a way for emerging family offices to pool resources and invest collectively, accessing a broader range of deals and leveraging collective deal origination capabilities. This strategy also reduces fund GP costs, but, according to Mr Voskopoulos, should always be considered in the context of an overall diversification strategy.

"Private capital has been moving toward greater alts allocation for some time - a trend that has only accelerated post 2022 and which shows no signs of abating. PE and VC are major components of global family office asset wealth, with private equity allocation now representing 22% of global family office asset allocation.

Direct deal making by family offices is a fast-rising component with much to recommend, with the growth in club deal making also a major theme. For good deals to be optimized and bad deals avoided, however, its vital that deep sector knowledge and investment execution expertise is leveraged. For emergent alts investors, working with top-tier institutionalized multi-family offices with successful PE/VC track records, communities of like-minded allocators and deep merchant banking capabilities from origination, diligence and structuring, can be an invaluable resource."

- Andrew Dalton, roundtable participant and Founder and CEO of Aument Capital

THINK LOCAL AND LEVERAGE YOUR KNOWLEDGE

Family offices should leverage local and global deal sources to capitalize on the expanding innovation landscape. In addition, for those without deep expertise in specific sectors, investing through funds rather than direct investments is advisable.

KEY TAKEAWAYS

Many **early-stage family offices lack the knowledge and expertise** in optimised asset allocation and, are **inexperienced as direct investors** in alternative asset classes.

There is a need for families to have **greater access to experienced VC/PE experts to foster a deeper understanding of these critical investment avenues.** This could be delivered through a private sector community and/or with the support of family office associations or chamber of commerce. Multi-family office setups can also add value by outsourcing parts of their allocation.

In terms of an **investment strategy**, families should consider:

1. **investing in their own education and knowledge** of investment options and bringing in experts or developing their own inhouse talent to develop a clear investment strategy;
2. consider **increasing allocation to alternatives** under the care and guidance of experts for better asset picking and structuring, risk management;
3. taking a **phased approach to VC investing** starting with indirect investments to build knowledge and gradually move to direct investments which are aligned to the family's investment strategy;
4. **focus on investing in sectors aligned with existing expertise.** Where knowledge and expertise in a particular sector is lacking, investing in funds may be a safer option;
5. **form or join syndicates** with other family offices for broader deal access; and
6. **leverage local and global investment opportunities.**

Family offices must remain agile, continuously evolving their strategies to keep pace with the dynamic global investment landscape.

Developing expertise in investment allocation goes hand in hand with the evolution of family offices.

M/HQ stands ready to support, offering the expertise and resources needed to build the right wealth and governance platform to adopt and implement an investment strategy and enhance intergenerational wealth creation.

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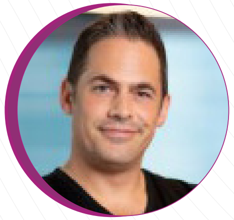

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M/HQ is a multi-services platform catering to financial institutions as well as single family offices and sophisticated private investment companies. Our one-stop-shop offering is unique in the Middle East: a holistic and cross-disciplinary blend of a leading corporate services firm, a private client specialist team, and a regulatory & compliance services practice, all through one single platform.

We have extensive experience advising on a broad range of wealth structuring and legacy planning issues. We particularly assist in establishing and servicing **family-and group-holdings, single- and multi-family offices, foundations,** and other asset consolidation/protection and intergenerational wealth management structures.

For financial institutions, we provide tailored solutions that address complex regulatory and compliance requirements, ensuring that operations are both secure and efficient.

Headquartered in the UAE, we are an entrepreneurial firm for entrepreneurial clients.