



IMPACT

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Chief Executive Officer
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Foreword

Welcome to the latest issue of **WMI Impact: The Family Office Journal**.

In our previous edition, we highlighted the essentials of good governance for family offices. A clear framework for investment strategies, philanthropy, succession planning, conflict resolution, and decision-making is not only crucial for achieving family objectives but also for fostering harmony among family members.

Building on the importance of governance, in this issue, we explore the **connection between governance and investment strategies**. Making sound and purposeful investment decisions is central to family office operations. As family offices professionalise, the role of investment committees also becomes increasingly crucial.

Anchoring this issue is the speech delivered by **Mr Lim Chow Kiat, WMI Chairman and CEO of GIC Private Limited**, at our Global-Asia Family Office (GFO) Summit in September 2024. His speech reflected the significant global shifts that are challenging established norms and creating uncertainty in the investment landscape. These shifts require family offices to evolve their investment decision-making processes in anticipation of a volatile and uncertain world.

Our next section consists of rich insights from two of our GFO Circle members. First, **UBS** examines the evolution of family office investment committees and what family offices need to take note of to build

a resilient, capable and trustworthy committee. It is not uncommon that when the first-generation wealth creator makes all the decisions, governance may take a backseat, leading to unstructured investment management. However, as families grow, structured communication and decision-making becomes vital. Investment committees oversee strategies, prepare family members for leadership and transition, while encouraging collaboration and inclusivity.

Second, **Schroders** discusses alternative investments in the face of uncertainties. By diversifying beyond traditional equities and bonds, family offices can incorporate resilience into their portfolios while pursuing growth in volatile markets.

Rounding up the issue is a deep dive into tech venture investments and its potential as an alternative investment. In this piece, the WMI team shares key takeaways from some of the GFO Summit Masterclasses, focusing on how family offices can effectively leverage such investments to diversify their portfolios.

I hope you find this issue enlightening and enjoyable. WMI Impact, in collaboration with our GFO Circle, will continue to provide you with valuable insights, tools, and best practices to navigate the complex family office space. Stay tuned.

Investing for More Resilient Future Generations

By Lim Chow Kiat, CEO, GIC; and Chairman, WMI

01

The profound changes we are witnessing in the world surpass cyclical fluctuations and predictable structural trends, presenting both risks and opportunities for investors.

02

Pitfalls include the evolution of the world order, with an increasing focus on resilience and security over efficiency, rising income disparity within countries, inequalities in AI adoption, and the physical impact of climate change.

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To navigate this landscape, investors must anchor themselves to their unique purpose and risk preferences, while prioritising price discipline, diversification, and long-term partnerships.

03

Conversely, windfalls can be found in the restructuring of supply chains, the financing of the climate transition, and AI's potential productivity boost.

Global-Asia Family Office Summit 2024

OWNER'S SYMPOSIUM - OPENING ADDRESS



▲ This is an edited transcript of the keynote speech GIC CEO and WMI Chairman Lim Chow Kiat gave at the Wealth Management Institute (WMI)'s Global-Asia Family Office (GFO) Summit 2024. It has also been made available on GIC Thinkspace

Profound changes are happening in the world. They go beyond cyclical fluctuations such as periodic economic contractions and expansions, and beyond predictable structural trends such as demographics and urbanisation. Cracks are appearing in the foundations on which we have been building for decades, such as the post-War world order, globalisation, and market-based economies; or even for millennia, in the case of climate. These cracks have been forming unnoticed for a long time but are now making headlines.

These cracks come with a great deal of uncertainty. There is a wide range of possible outcomes. One can win big, or lose big, with comparable probabilities. **In other words, pitfalls and windfalls await in equal measure.** They are also rare occurrences, making it quite challenging to assess and prepare for them.

Today, I will briefly discuss three sets of them. I will start with the pitfalls.

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The pitfalls

The first pitfall relates to the **evolution of the world order** as we know it, including its market-based economic and financial architecture. Geopolitical forces are slowly but surely fragmenting the world, creating competing blocs. Consequently, there is increasing focus on resilience and security instead of efficiency.

This new reality is likely to produce more event risks, including military conflicts. In the last few decades, acute geopolitical events tended to create buying opportunities, such as the Gulf Wars and 9/11. Financial markets marched on after some initial declines. Today, the situation is less clear-cut. These events are just as likely to produce permanent losses, as seen with the Ukraine War.

Equally important are the chronic changes, such as the realignment of global supply chains. Businesses are shortening and onshoring their supply chains, as well as diversifying their suppliers and customers. “Just in time” has become “just in case”, leading to increased costs.

A key force behind this evolution is the rebalancing of powers – the rise of the rest. Income gaps between countries have narrowed in the last few decades, with the Asian middle class chalking up significant absolute and relative gains.

This puts pressure on the prevailing order.

This pressure is further fuelled by **rising inequalities within countries**, exacerbated by rising living costs in recent years, particularly in advanced economies where the real earnings of the middle class have already stagnated for many years. The reasons for

this trend are complex and may include factors such as national endowments, economic policy, technological change, globalisation, and labour mobility. However, the political outcome is clear: the rise of anti-establishment sentiments and the weakening of the political centre. This can lead to the politicisation of issues around regulations, taxes, immigration, trade, and foreign investment – issues of great importance to investors and businesses.

Looking ahead, with AI on the horizon, inequalities are likely to worsen. This is the second pitfall. The IMF notes that the productivity gains of generative AI tend to accrue to those already equipped with the infrastructure, workforce, and skills.

By its nature – general purpose, high entry barriers, network effect, and speed – **AI increases the likelihood of a winner-takes-all outcome**, benefitting a few while leaving the rest behind.

The third pitfall comes from the climate crisis. Last year, new records were set for the hottest year and fastest sea level rise.

The **physical and financial impact of climate change** is now difficult to ignore. According to the Potsdam Institute for Climate Impact Research, global annual damages caused by climate change will reach US\$38 trillion by mid-century – six times higher than the mitigation costs required to keep global warming below 2 °C.

Investors must face up to these risks.

The windfalls

However, where pitfalls lurk, so do windfalls. For those with the foresight and conviction, today's challenges may be tomorrow's great opportunities.

The first windfall is found in the **redrawing of supply chains**. The “China plus one” strategy is already shifting investments to Mexico, India, and Southeast Asia, creating opportunities for investors who are alert and agile.

The second windfall is **AI's potential productivity boost**, estimated to translate into a 7% increase in global GDP (~US\$7 trillion) in the next ten years, according to a recent Goldman Sachs report.

As more use cases are rolled out, we can anticipate significant cost savings, efficiency gains, and new business models.

For investors, it is a matter of value capture. At GIC, we find it useful to look at the value chain as comprising:

1. Enablers, which benefit from capex spending, including semiconductor firms, cloud platforms, and tooling companies.
2. Monetisers, which provide AI-infused products and services, including software companies.
3. Adopters, which are businesses that integrate AI to improve their processes.

The third potential windfall arises from **financing the climate transition**. Based on GIC's research, the decarbonisation and climate solutions supply chain could add US\$5-11 trillion in investment value by 2030. Sectors such as electricity networks, sustainable vehicles, EV charging infrastructure, solar, wind, lithium, hydrogen, and building heating are big opportunities. Most of them are in fact mature solutions readily investible today.

The response

How are investors to navigate such an uncertain landscape? **The starting point is to know ourselves** – our unique purpose, specific risk tolerance and risk preferences, return objectives, horizon, strengths, and weaknesses. In a fast-changing world, this is easily forgotten.

We often ask: “What has changed?” It is equally important to be clear about: “What has not changed?” Only then can we remain steady in the face of volatility and uncertainty. Only then can we survive and enjoy long-term compounding of returns.

Let me briefly discuss three other points – **price discipline, diversification, and partnerships.**

Maintaining price discipline delivers steady compounding of returns. This involves carefully weighing the risk-reward prospects of each investment, ensuring that we are adequately compensated for the risks we take. Family offices, with their long time horizon, are well-positioned for this.

In addition to finding gains, it is equally important to avoid losses. It may be useful to “invert” to think about the causes of losses so as to avoid them. Historically, permanent losses typically come from poor operating results, over-leverage (losing key to creditor), exogenous shocks, and fraud.

Less obvious but equally devastating are permanent losses from exceedingly high investment costs, or paying too much for investments. This can result in many years of poor returns, akin to permanent loss, such as buying the Nikkei in 1989 or the Nasdaq in 2000.

Diversification is also crucial for dealing with uncertainty. The benefit of diversification was first mathematically recognised in Harry Markowitz's 1952 Modern Portfolio Theory, which later won him a Nobel Prize. The theory suggests that the risk/return profile of individual assets matters more as portfolio components than on their own. Through this lens, diversification offers lower risk at the same return, or higher return at the same risk.

Obviously, if one had perfect foresight, there would be little need to diversify. In the past two years, holding just US stocks would have done quite well, or better still, concentrating on the Magnificent 7 stocks. But short of perfect foresight and in times of profound uncertainty, diversification is needed for more reliable portfolio returns.

Lastly, we need more partners. Partners give new perspectives, act as sounding boards, and offer new networks of opportunities. Good partners offer wise counsel and inspiration. This is a key reason why WMI places so much emphasis on convenings such as today. At the end of this Summit, I hope you take away not just good ideas but many valuable connections.

On that note, let us recognise the unique position we occupy. We are stewards of capital with the power to influence the future direction of the global economy. This is both a privilege and a responsibility.



The evolution of the family investment committee

by UBS





The evolution of the family investment committee

By Mark R. Tepsich,
Family Office Design and Governance Strategist UBS Family Office Solutions



When the first-generation wealth creator controls and makes all decisions, governance is an afterthought. This dynamic can result in a lack of professionalized investment management. As families evolve to be multigenerational in nature, they reach an inflection point. These inflection points often highlight the need for a more coordinated communication function, decision making mechanism and forum to bring the family together. When family ownership and leadership roles are transitioned to the next generation, family members must have experiences that prepare them for these roles. Family governance is often not built to support family member development to meet these challenges and opportunities.

Role and overview of the family investment committee

The family investment committee provides oversight and monitoring of stakeholders who are delegated with implementing investment policy. The family office staff, as well as external investment advisors, are those stakeholders who are often delegated execution of the investment strategy. The investment committee develops the investment strategy, often in discussions with the family office and external investment advisors and memorialises it in a well-thought-out investment policy statement (IPS).

Additional investment committee responsibilities, in collaboration with the family office staff, include:

- ✔ Choice of external investment advisors, often through an Request for Proposal (RFP) process
- ✔ Review and negotiation of advisory fees
- ✔ Review and choice of custody platforms
- ✔ Termination of investment advisors

The family office often has responsibility for:

- ✔ Due diligence and monitoring of direct investments
- ✔ Relationship management and oversight of external investment advisors
- ✔ Facilitating meetings and agenda setting of the family investment committee
- ✔ Data gathering and reporting
- ✔ Overall risk monitoring of entire family investment portfolio

The external investment advisors often have responsibility for:

- ✔ Implementation and execution of the non-direct investment strategy
- ✔ Third-party investment manager due diligence, selection and monitoring
- ✔ Capital movement and custody
- ✔ Portfolio rebalancing, often at the direction of or in consultation with the family office staff
- ✔ Collaborative and active due diligence on direct investments with family office staff

Evolution of the family investment committee

Professionalising investment management

First and foremost, the investment committee should seek to professionalise the family's investment management function. If the family investment committee is focused on its role as an oversight body, rather than an operational body, it will delegate the investment management execution function to professionals. In providing oversight, the investment committee will monitor those investment professionals. Defining stakeholder responsibilities and delegating accordingly enhances role clarity.

Incorporating key behaviours in design process, operations and investment committee meetings

The design and build as well as the operational dynamics of the investment committee should deliberately incorporate principles and behaviours to foster inclusivity, collaboration and transparency. These principles and behaviours should enhance professionalism,

governance relevancy and serve to develop family members. Collaborating with each other and other stakeholders serves to educate and develop all family members. Transparent practices help inform the broader family as to how the investment committee makes decisions. This should lead to family members having greater confidence in their investment function.

The goal is not to create investment professionals; it is to create sufficient competency that the family has insight and understanding of the investment management process. This should also result in family members who can hold others accountable for their performance, which is a key element of effective ownership.

Incorporating principles and behaviours that foster inclusivity, collaboration and transparency results in a family that is more capable of making thoughtful decisions together. Family social capital is strengthened through collaborative environments and through shared decision-making. A greater number of family members should also become more confident in how to navigate the future enterprise, individually and collectively.

Governance horizon

In finance, assets must generally match the goals and purpose for which they will be used. With respect to family governance, when a portfolio, business and foundation are to last generations, the younger generation should be incorporated into family governance bodies that match the horizon of the family enterprise.

Enterprise literacy

The family investment portfolio provides a window into other parts of the family enterprise and how they are linked together. To illustrate, the family investment portfolio is often comprised of family business distributions or from its partial or total liquidity event. The investment committee is often deeply involved in conversations with family business leaders about reinvesting proceeds in the business or distributing them into the family investment portfolio.

The investment committee must also be aware of the amount and timing of family business distributions. This is crucial as the family looks to allocate investment capital. The investment committee also needs to understand how portfolio outflows affect investment compounding. Trust structures must also be sufficiently understood to determine appropriate asset location. These conversations touch upon income taxation, especially considering any potential transactions. In short, the family investment committee sits at the nexus of the business, portfolio, fiduciary, family consumption and taxation issues, to name a few. This nexus also incorporates the understanding of goals for each part of the enterprise.

Trust and alignment

Trust often results when the investment committee is collaborative, participative, inclusive and transparent. The family becomes more trusting when a broader set of family members participate in family governance. Inclusion in governance bodies also says the family trusts the members to act responsibly toward furthering the family's shared vision, mission, goals and objectives. Family alignment is enhanced as the governance evolution fosters participation and seeks a wider perspective of voices.

Family office role

While much of the above is general and not specific, that is the intent. Each family should discuss and decide what is appropriate for them. The investment committee design should not be off-the-shelf. However, this does not mean that there should be a completely blank slate in its design and build. Indeed, the family office can inform the discussions and present options, so that the investment committee can have productive meetings and make decisions. The family office can facilitate the work of the working committee, helping to schedule meetings, as well as build meeting agendas. It can communicate with the broader family on the design and build. The family office can also take the lead in drafting documents that result from investment committee discussions. Whatever the design chosen, it must be through an inclusive, transparent and collaborative process and the investment committee itself must not be an artifice to perpetuate the status quo.

The family office can also support more robust operations of the investment committee both prior to, during and post meetings. The family office can help keep the family investment committee meeting consistently throughout the year, from creating a meeting calendar, building agendas and gathering materials before the meeting for the committee to review. Additional support can include data gathering, as well as analysis to help support the investment committee in their decisions. The family office can and should also play a role in enhancing communications between the investment committee and the broader family. Additionally, the family office should play a role in communicating with the external investment advisors in furthering the work of the investment committee.

Challenges to evolving the family investment committee

Evolving the family investment committee remains a challenge for a variety of reasons. Disrupting long practiced governance dynamics is challenging. For the family office executive, there is the question of how to broach this governance evolution with the family, specifically, if parts of the family are reluctant to change.

At times, the senior family members practice command- and-control style leadership. Other times, they may be protective, attempting to alleviate any burden they think the next generation might not be ready for. Other times, they may be both protective and fearful, working to shield the next generation from the family enterprise, often thinking that exposing the next generation to wealth will disrupt their intrinsic motivation. At times, the challenge is that family leadership does not know how to develop the next generation.

The next generation may also be reluctant, unsure of what new responsibility might entail, out of fear or apathy. Other times, the next generation clamours for insight into the family enterprise, a change in governance practices, a voice and seat at the table to contribute. Because of all these dynamics, the senior leadership often looks to the family office executive to engage and help prepare the next generation.

In attempting to evolve family governance practices, the entire family must understand the complete process and its rationale. All family members must be aligned with the goal of authentic change and all family members, particularly the senior generation, must be on board with the evolution. Without family member buy-in, actual change will be difficult to implement. The family needs to understand that the repositioning of the investment committee, as well as its benefits, is not a quick fix.

However, it becomes challenging for the family office executive to evolve governance practices while also managing the disparate interests of various family stakeholders. If the family dynamic is too sensitive or fraught, it is often prudent to engage a neutral third party, chosen by the broader family, to facilitate these governance conversations. This neutral party can have more frank conversations with the family than is often possible with the family office executive. The process is often the same highly collaborative process as described above.

Practical challenges

There are of course practical challenges that include the additional time it will take to build and operate the investment committee. However, the investment committee can be designed in less than a year and then quarterly committee meetings can follow with the annual or semi-annual update to the broader family. The extra time spent during the process is valuable, as it should make the governance body more relevant and better positioned to meet the demands of the future. These can include geographic dispersion, disparate time zones and achieving alignment with often dozens of family members who may have a tenuous connection to each other.

Also, the family's engagement with the investment committee will ebb and flow. At times there will be high engagement, often on the heels of market volatility. Other times the family will be disengaged because of family business initiatives or other life events. Not every meeting will yield a breakthrough in family dynamics or create more sophisticated investment thinking. However, every meeting, over time, will serve to advance the family. Over time, the family should become more collaborative, understand the investment process and be better positioned to meet challenges and seize opportunities.

Summary

The evolution of the family investment committee should be driven by collaborative, participatory and transparent behaviours. These behaviours should result, over time, in a family that is more informed and confident in their investment management process and in a governance body that is designed to support family member development.

The evolution of the family investment committee, as well as other governance practices, should coincide with a more robust evolution. Perhaps this means that the family collaboratively designs and memorializes a family constitution. Governance must evolve across the balance of the family enterprise if the family is to create confident and effective family members who are capable of being co-owners, as well as of holding others accountable.

Progress, from the initial design to the ongoing collaboration and meetings, should be measured in years, not days or months. Governance is never static, and progress is never final as the family and its enterprise will forever evolve. While optimizing governance won't solve every challenge, it is a significant factor in the family's overall resilience over time.

If the family investment committee can help drive outcomes such as enhancing communication, strengthening family connections, developing financial literacy and fostering family development, why can't other family governing bodies be leveraged to do the same?


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Family Office Asset Allocation by Schroders





How family offices should think about asset allocation^{ch.}

Jason Lai, CEO, Asia,
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Schroders

Given their time horizon and sophistication, family offices are able to make higher risk and more complex investments than many other investors. However, diversification should still be a central part of their approach.

In early August 2024, Japanese stock markets experienced their worst one-day decline in nearly 40 years. Long-term global investors, including family offices, have been increasing their allocations to Japan in recent years. As a result, the impact of the recent downturn would have been felt widely. For some family offices, it may have caused significant discomfort; for others, it may have presented opportunities. The key differentiator, in this and other market shocks, is whether an investor has an appropriately diversified investment strategy.

Diversification is ultimately about improving a portfolio's risk and return profile—in other words, achieving a higher level of return for the same level of risk, or the same return for a lower level of risk. The classic diversified portfolio is known as the “60/40,” with 60% invested in equities (to deliver capital growth) and 40% in bonds (to provide income and capital protection). This combination has historically delivered attractive returns over the long term, with lower volatility than equities. This remains true even after 2022, when high inflation caused most equity and bond markets to experience double-digit percentage losses.

The Importance of Having a Diversified Portfolio

Many family offices operate with a multi-generational time horizon. In theory, this allows them to disregard volatility and benefit from the historically high returns delivered by equities. In practice, however, this approach is often inappropriate. Much depends on the structure of the family office, the nature of the family it serves, and the family's other business and charitable interests.

To begin with, it is unlikely that a modern family office consists of just one portfolio. They are often structured to manage a core pool of family assets alongside portfolios for individual family members and associated charities and foundations. The ability to manage diversified portfolios is crucial to meeting the objectives and needs of each of these groups.

Core family assets may include shares in the family's operating business(es) as well as commercial real estate. If these assets are illiquid, in a volatile sector, or highly leveraged, it may be appropriate for other investments to have a lower risk profile to reduce the family's overall exposure.

Even when a family no longer controls a significant operating business and has more liquid capital, they may still favour a diversified approach. One client of Schrodgers Family Office Service allocates most of its liquid wealth to public markets with a medium-to-high risk profile. The family views this capital as a long-term safety net, protecting it from excessive volatility. This gives them the confidence to take more risk with a concentrated portfolio of direct investments in private companies as well as private equity funds.

For individual family members, a high-risk or illiquid investment strategy may be appropriate in some cases. In others, family members or related charities may rely on regular income from a portfolio, making a medium-risk strategy with a range of income-generating assets more suitable.

An active approach

In addition to helping achieve the right level of risk and return, diversification can enable family offices to adopt a more active approach to asset allocation. At its simplest, this involves rebalancing portfolios in response to market movements and keeping them aligned with strategic targets.

A family office's long investment horizon could also allow for more aggressive approaches to tactical asset allocation. They may be well positioned to take advantage of short-term dislocations, such as the recent fall in Japanese markets or the upheaval in UK markets following Liz Truss's unfunded Budget in 2022. They may also be able to capitalise on longer-term trends. In recent years, we have seen many examples of sectors or countries

falling deeply out of favour, creating attractive opportunities for investors with a higher risk appetite. For example, sentiment towards the energy sector was extremely negative in 2020 and 2021 but has since recovered significantly. It is far easier for an investor to capitalise on these opportunities if they hold a diversified portfolio that includes some more defensive assets.

What does a diversified portfolio look like?

For a modern family office, a diversified portfolio is likely to differ significantly from the traditional 60/40 portfolio. For one, if they are managing a portfolio with a long-term time horizon, they may opt for a higher level of equity risk. They would likely also allocate a substantial portion to alternative assets—potentially half or more of the 40% traditionally allocated to fixed income.

Figure 1 The diversified portfolio provides better risk-adjusted returns

	Annualised Return (Nominal)	Annualised Returns (Real)	Volatility	Return/Risk (Nominal)	Return/Risk (Real)
US Equities	10.4%	6.3%	16.8%	0.6	0.4
US Governments Bond	6.8%	2.8%	10.0%	0.7	0.3
60/40 Portfolio	9.2%	5.2%	11.4%	0.8	0.5

Source: Schroders, Robert Shiller Dataset, Refinitiv Eikon. Data as of 30 December 2022, dating back to 31 December 1969. US Equities refer to S&P 500 and US Government Bonds refer to US 10-years Treasury Bonds. Average annual inflation used to derive real returns. 607606

Recent thinking has emphasised the important role that alternative assets can play in diversifying portfolios. As demonstrated in 2022, they can be particularly effective when inflation is high. Given our view that three long-term structural trends—deglobalisation, decarbonisation, and demographics—are likely to keep inflation above target in the coming years, we believe that alternatives should be an essential component of a diversified portfolio.

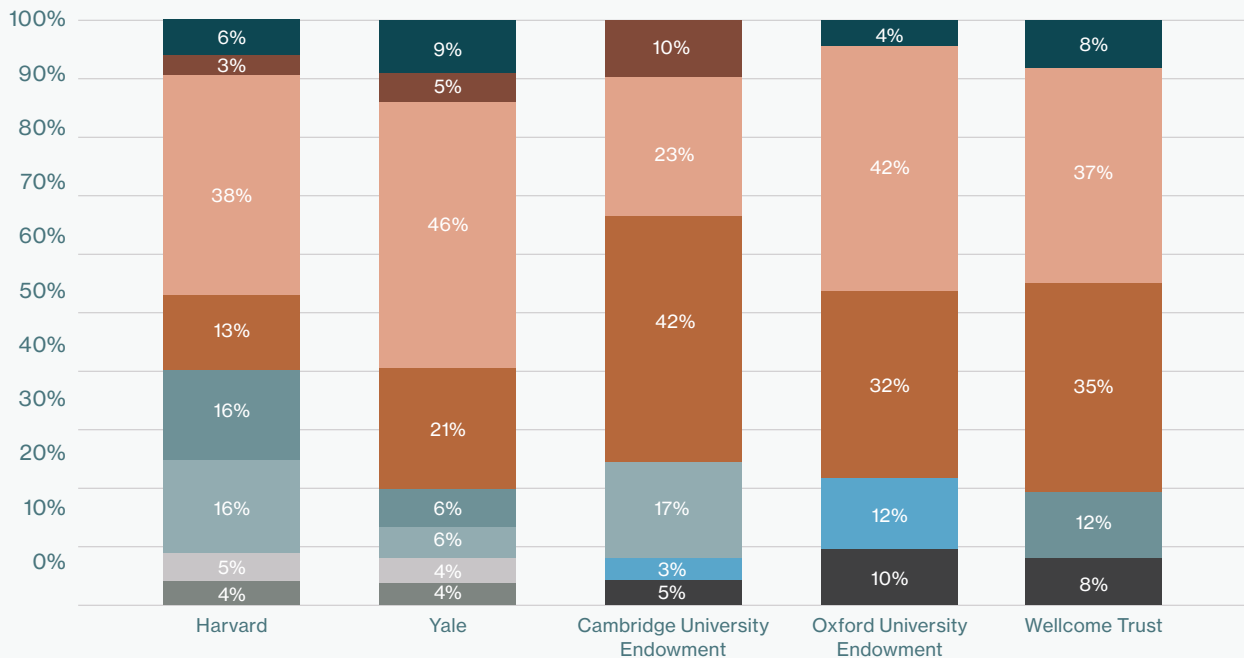
Alternatives

The importance of alternatives was underscored in 2022, when both bonds and equities fell in tandem. Many alternative assets performed far better and helped protect portfolios during a challenging year. Following the invasion of Ukraine, commodities delivered positive returns. Many hedge funds and infrastructure investments maintained their value, providing capital protection.

Many investors include private equity and private credit as alternative investments. These assets are not subject to daily repricing, so their reported values typically do not move in line with public markets. On this basis, they can be considered diversifying assets. However, their fundamental economic drivers are the same as those of public equity and debt markets, so it makes sense to also consider them as part of the equity and fixed income allocation.

Regardless of how they are classified, we believe that family offices should tap into opportunities in private markets. As sophisticated investors with long-term time horizons, they can benefit from the higher returns often associated with less liquid and more complex investments (commonly referred to as the illiquidity and complexity premiums). The pioneers of this approach were American universities, who developed what is now known as “endowment investing.” They leveraged their unusually long-time horizon to make significant allocations to illiquid asset classes, such as private equity and real estate. The results have been impressive. Today, the proportion of assets that large endowments allocate to illiquid assets varies significantly – but, as the table below shows, in many cases, it exceeds 30%.

Figure 2 Asset allocation of major endowments



Source: Partners Capital 2023

■ Real estate Real assets
 ■ Private equity
 ■ Global equities
 ■ Hedge equities
■ Absolute return
 ■ Fixed income
 ■ Cash
 ■ Credit
 ■ fixed income

High-net-worth families and family offices generally have lower exposure to illiquid assets compared to large endowments and may therefore have scope to increase their allocations. Where appropriate, we encourage these investors to steadily deploy capital into less liquid assets over time. This approach allows them to diversify across “vintages”, industries, and sectors, building broad exposure throughout the economic cycle. The largest share of the allocation will typically be directed towards private equity, but it could also include allocations to infrastructure, real estate, and private credit.

Direct investments vs funds

Within asset classes, a diversified portfolio will include investments across a range of geographies, sectors, and sub-asset classes (e.g., corporate vs. government debt).

Many family offices have the scale and expertise to achieve this through direct investments in equities, bonds, and some alternative assets. This approach involves minimal additional expenditure on third-party management and can provide concentrated exposure to high-conviction ideas. It also offers a high degree of transparency around investments.

However, the benefits of funds should not be overlooked. Many ETFs are low cost, highly liquid, and allow investors to gain diversified market exposure quickly. Regardless of how well-resourced they are, family offices are unlikely to possess expertise in every market, and there will be areas where external expertise is valuable—such as structured credit, convertibles, or emerging and frontier markets. Funds are also likely to form part of even the most sophisticated investors’ toolkit when it comes to alternative asset classes, such as infrastructure and private equity.

Sustainability and impact

Many family offices are increasingly interested in aligning their investments with the values of the families they serve. This encompasses a broad range of sustainable investment approaches. Some family offices avoid investing in industries with negative social or environmental impacts, such as fossil fuels. Others actively seek investments that contribute directly to positive change in areas they are passionate about, such as renewable energy or affordable housing. These approaches can be applied across the entire family office portfolio or within specific portfolios, such as those managed on behalf of a charity.

Significant progress has been made in recent years in understanding the sustainability characteristics of investments across asset classes, including equities, bonds, and alternative assets. This enables family offices to invest sustainably without compromising the diversification of their portfolios.

How do family offices get started on creating a diversified portfolio?

Creating a diversified portfolio should begin with a conversation about the family office's structure, objectives, and approach to sustainability. Crucially, this conversation should encompass the family's total wealth, including operating businesses, property, and other significant assets. We believe families and family offices can benefit substantially from taking independent, holistic advice on their strategy in the context of their overall asset base.

These discussions will help determine an appropriate asset allocation across the asset base and within individual portfolios. They will also guide the approach to investment implementation. For example, if a family has recently sold a business, it may have significant cash that can be invested in a diversified public market portfolio within a relatively short timeframe. Other families may have more complex needs, such as transitioning existing investments or gradually exiting from business or property interests. We have advised on a wide range of such scenarios.

There are additional considerations when it comes to private market investments. Identifying the right funds is particularly important, as there is a wide dispersion in returns between the top and bottom managers—much wider than in public markets. Private market investments also require significant due diligence, administration, and portfolio monitoring. We can assist with all these aspects.

Family offices should also consider their reporting requirements early on. Ideally, they should be able to view details for individual portfolios as well as "consolidated reporting" across the family's asset base. The right reporting framework can facilitate communication and engagement with the individuals served by the family office.

Conclusion

Family offices should leverage their long-term investment horizon and sophistication while ensuring that diversification remains central to their strategy. Although the traditional 60/40 portfolio still has its merits, we believe that long-term asset owners, including family offices, should also incorporate alternative assets to enhance risk-adjusted returns and mitigate volatility.

By diversifying across equities, bonds, and alternatives, family offices can better protect and grow their wealth, responding effectively to market opportunities and disruptions. This approach also provides the best chance of meeting the specific needs and goals of the families they serve

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Family Office Perspectives on Investments

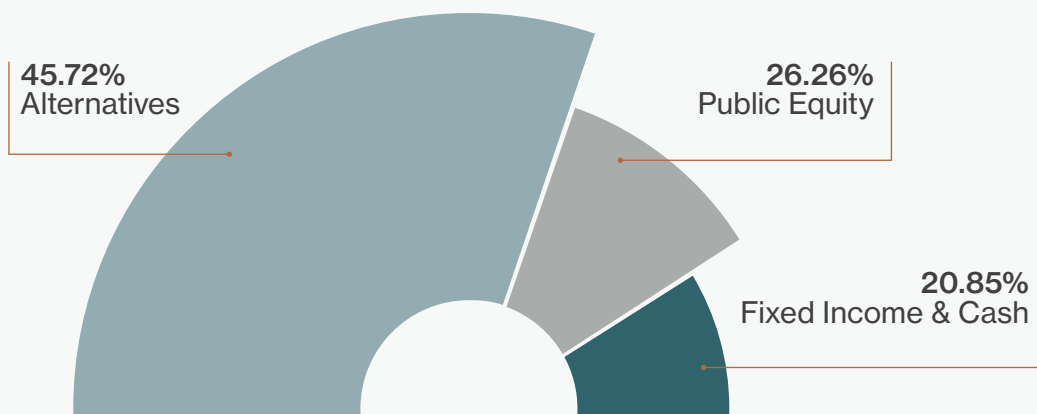
by WMI

Tech Venture Capital & Family Offices^{ch.}

Asia Centre for Changemakers, WMI

Alternative investments have historically been a tool for family offices to diversify their portfolio holdings. A comprehensive assessment in J.P. Morgan's Family Office report in 2024 highlighted family office on average allocate 45.72% of their investment holdings in alternatives.

Figure 3 Average Asset Allocation of Family Offices



Source: J.P. Morgan 2024 Global Family Office Report

Venture capital has emerged as a popular investment avenue with Q2 2024 seeing an estimated US\$94 billion across 4500 deals¹, a 5% improvement on a quarter-to-quarter basis following 2022's decline. Global trends such as the pivot towards environmental, social, and governance (ESG) compliance and innovations including blockchain technology and advancements in artificial intelligence (AI) have spurred venture opportunities for consideration.

¹ Bain & Company, 2024, <https://www.bain.com/insights/global-venture-capital-outlook-latest-trends-snap-chart/>

Yet, venture capital only accounts for 4.85%² of private equity investments by family offices globally. While much of this apprehension can be accounted by the approximately 75% of venture capital investments failing³, part of venture capital's low allocation is also due to the merits of other private equity investments. The stable income generation afforded by real estate private equity, buyout funds that target established and performing companies and the lower risks seen in growth equity investments can entice investors away from venture capital.

Venture Capital and Technology

Regardless, the high risk-high reward nature of venture capital positions itself as a unique investment vehicle. One study even suggests that each year in the US, less than 0.5% of startups have venture capital but account for 50% of companies that go public⁴. While uncommon, finding a “hit” company will result in a significant windfall for investors.

One potential reason behind such performances today is the ubiquitous nature between venture capital and technology. Technology is a permanent engine for the global economy. In just the past 5 years, venture capital investments in artificial intelligence (AI) companies alone have surged significantly, totalling approximately **US\$362.5 billion**⁵ globally. Within today's more dynamic tech-centric world, the potential to invest directly into cutting-edge innovations and disruptive technologies that will impact virtually all industries offers investors a first-mover advantage. Traditional investments rarely provide investors the unique opportunity for such trailblazing.

Tech Hype

Many families have experience in building businesses from scratch and may have a continued interest in investing in new startups—an attractive proposition for venture startups who need such patient capital. However, a fundamental challenge all family offices face with venture capital is an **information asymmetry**.

² J.P. Morgan 2024 Global Family Office Report

³ Private Equity List, 2024, <https://blog.privateequitylist.com/untitled-4/>

⁴ Lerner, Josh, and Ramana Nanda. 2020. “Venture Capital's Role in Financing Innovation: What We Know and How Much We Still Need to Learn.” *Journal of Economic Perspectives*, 34 (3): 237–61.

⁵ WEF, 2024, <https://www.weforum.org/agenda/2024/05/these-5-countries-are-leading-the-global-ai-race-heres-how-theyre-doing-it/>

What is the technology?

Many tech investments, especially in emerging fields like deep tech, **involve complex technologies that can be difficult to understand.** For example, large learning models (LLMs) that are featured in ChatGPT are technically only a subset of narrow AI (AI specialised in specific tasks, akin to a highly optimised algorithm) and not actual AI, a nuance lost to most. In contrast, other alternative investments such as real estate are conceptually easier to grasp. Investors who lack a technical background may struggle to evaluate the feasibility and scalability of these innovations⁶. It is common to find institutional investors creating entire tech verticals within their operations to understand and evaluate potential venture capital opportunities.

However, such verticals are unlikely to be accessible to most family offices except for the largest. Investors from family offices (and even some larger institutional investors) are often reliant on personal ties to tech researchers and entrepreneurs within these startups to understand the technology being invested in alongside the management team running the startup in the first place. Such imperfect due diligence can pose significant risks to investors.

Tech Washing

The hype surrounding technology investments can lead to inflated valuations.

Tech or AI washing has become a common practice even among established companies, let alone those within the venture capital space. Evaluations by the U.S. Securities and Exchange Commission (SEC) have shown 40% of S&P 500 companies have indicated some form of technology or AI-related integration within their reports with circumspet evidence at best⁷. Coincidentally, independent auditors such as MMR Ventures have indicated that 40% of European AI startups barely have AI.

For family offices lacking familiarity with technology, due diligence is a difficult endeavour. With many companies obfuscating technology capabilities within their operations and products, the challenge to identify sound tech investment opportunities has only gotten difficult.

⁶ BCG, *An Investor's Guide to Deep Tech*, 2023

⁷ Finra, 2024, <https://www.finra.org/investors/insights/artificial-intelligence-and-investment-fraud>

Overcoming the Information Asymmetry

Successful tech startups and venture capitalists generally point to four key factors that prospective investors should look out for:

Commercial Viability

A real danger of investing into tech ventures is a lack of market. Some technologies, while intriguing and potentially revolutionary, have little to no commercial application. And even if they are viable, investors must consider the necessary timeframe for these technological products to be “go-to-market” ready. For the more risk-averse family offices, entering post seed-funding stage where ventures are more stable would be a prudent decision.

Competitive Edge

Like any other venture, tech ventures must be able to demonstrate its clear advantage over would-be competitors, whether said competitors already exist or are entering the market. Within the tech space, a combination of proprietary and publicly available software presents a challenge. For example, both ChatGPT-4 and CoPilot using GPT-4 and support full functionality of GPT-4 with the key differentiation being the different training models. This is where unfortunately; technical expertise is necessary to differentiate these nuanced differences.

Technology Application

A unique facet of tech ventures is the integration of deep technologies within the business operations. Even without a detailed expertise in the subject, it should be clear how and what benefits do these technologies bring to the venture. For example, Xinterra, a featured tech venture during the GFO Summit, demonstrated the role of its AI application in determining the best material composition for different scenarios⁸. The use case is clear—AI value adds to product quality and delivery.

⁸ Xinterra, 2021, <https://xinterra.tech/services/>

Team Composition

Somewhat risky and yet common is the relationship between the management teams of tech ventures and investors. It is common for investors to have a more integrated approach the management of tech ventures. Investors will likely seek to understand the technical and business capabilities of the founding team, providing strategic and mentoring advice where necessary. This does create a moral hazard, necessitating robust investment committees within family offices to manage the relationships and investments.

VC Funds – An Alternative to an Alternative?

When speaking to investors and tech startups, **the creation of trust through due diligence** is often cited. This is not exceptional as due diligence is the cornerstone of any good investment decision. Given the potential operational and knowledge restrictions some investors from institutions and family offices face, venture capital funds that specialise in tech investments is a potential solution to the issue of information asymmetry.

Figure 4 50-50 Split between Venture Capital Funds and Direct Investments by Family Offices

	Global	US	Europe	Middle East	Asia-Pacific	North Asia	SEA
<i>Alternative asset classes</i>							
Private equity	22%	35%	22%	28%	19%	18%	18%
Direct investments	11%	21%	11%	10%	9%	8%	10%
Funds/ funds of funds	11%	14%	11%	18%	10%	10%	8%

Source: Adapted from UBS Global Family Office Report 2024

Why VC Funds

Evidently, the scale in which venture capital funds can invest would outstrip the financial capabilities of most family offices. However, arguably more important is the **ability for venture capital funds to hedge against uncertainty**. Large VC funds such as Sequoia Capital or Tiger Global Management have had a strong history in identify good investment opportunities within the venture capital space. For family offices⁹ participating in venture capital funds instead of direct investments, the security of access to expert fund managers who can navigate the dangers of tech/AI-washing to find commercially viable investments is a tempting one.

Venture Capital funds may not necessarily be the most suitable option for certain family offices. Some investors may prefer a more hands-on approach to their venture capital investments, **committing both finances and strategic guidance** to their startups. Venture capital funds would be ill-suited to these types of family offices. When investing through a fund, investors typically have limited control over individual investment decisions¹⁰. The fund managers, with their domain expertise, make decisions on behalf of the investors, which can lead to a disconnect between the investors' goals and the fund's strategy.

Selecting a Good VC Manager

Investing via VC funds does address some information asymmetries but also creates new concerns. Rather comically, there are more American private equity and venture capital funds¹¹ alone (approximately 18,000) than there are McDonald's outlets¹² (13,500) in the US alone. **Picking a good fund manager is another facet of due diligence** for family offices.

Certain attributes such as track record, performance metrics and risk management expertise are universal expectations for VC fund managers regardless of industry. However, as VC managers continue to specialise¹³ in specific sectors, technology is a sector in which VC managers can not only **demonstrate domain expertise but also domain participation**. Technology is where VC managers can in effect, practice what they preach.

9 Concentric, 2024, <https://concentric.vc/news/family-offices-venture-capital-the-shift-from-direct-investments-to-partner-funds/>

10 Spectup, 2023, <https://www.spectup.com/resource-hub/pros-and-cons-of-venture-capital>

11 US Securities and Exchange Commission, 2021, <https://www.sec.gov/newsroom/speeches-statements/gensler-2021-05-26>

12 Statista, 2024, <https://www.statista.com/statistics/256040/mcdonalds-restaurants-in-north-america/>

13 Cambridge Associates, 2022, <https://publishedresearch.cambridgeassociates.com/wp-content/uploads/2022/01/2022-01-US-PE-VC-Benchmark-Commentary-1H2021-Data.pdf>

AI, specifically narrow AI, can be **integrated into the decision-making process** of VC fund managers¹⁴. Much of the predictive analysis done by VC managers involves quantitative and statistical data, information that can be quickly analysed with the aid of specialised AI. Through the inclusion of specific rulesets, VC managers can also use AI to improve deal sourcing and identify promising opportunities in a timely manner.

While the list of avenues in which AI can be used by VC managers is extensive, the true measure family offices should look out for is the **synergy between technological use with human judgement**. While AI provides valuable data-driven insights, human judgment remains crucial for understanding market nuances and startup potential. Much like tech ventures, family offices should be wary of VC managers that only show that they are using the shiny new AI technologies without meaningful integration. It is through the combination of AI analytics with human intuition enhances decision-making quality in venture capital.

Conclusion

Venture capital, particularly within the tech space today, remains a compelling yet risky proposition for family offices seeking portfolio diversification. With most ventures end up being misses, the potential windfall from a “hit” company difficult to ignore. With technological progression and integration into all industries, tech ventures will continue to be a viable option for institutional investors. However, the key issue of information asymmetry, particularly with the technical elements, should be top of mind for investors as they consider their risk appetite.

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¹⁴ Blackstone, 2024, <https://pws.blackstone.com/apac/education-insights/article/manager-selection-is-key-in-private-markets/>

About the Asia Centre for Changemakers

Established by the Wealth Management Institute, the Asia Centre for Changemakers (ACC) aims to build capacity and nurture a strong pipeline of active and informed changemakers with a focus on Asia. Our mission is to empower these individuals to deploy their resources, skills and passion for a better tomorrow. As Asia's foremost learning lab for philanthropy and impact capital, the ACC is committed to guiding family principals, professionals, advisors and social entrepreneurs in moving up the learning curve, through three key initiatives: Building capabilities, talent, and professionalism in the impact sector; fostering a community of practice; and shaping and sharing Asian-grown thought leadership. The ACC is supported by Temasek Trust and the Philanthropy Asia Alliance.

Within ACC sits the Impact Philanthropy Partnership (IPP), a joint initiative between WMI and the Private Banking Industry Group (PBIG) with support from the Monetary Authority of Singapore (MAS). The initiative aims to drive awareness and momentum towards more purposeful and impactful ways of giving, by bringing together family principals and offices to tackle society's most pressing challenges and issues.

About the Wealth Management Institute

Established in 2003, the Wealth Management Institute (WMI) is committed to building capabilities for investing in a better tomorrow. Founded by GIC and Temasek, our vision is to be Asia's Centre of Excellence for wealth and asset management education and research. WMI has been appointed as Singapore's Lead Training Provider for Private Banking by the Institute of Banking and Finance Singapore (IBF) and supported by the Monetary Authority of Singapore (MAS).

WMI provides a comprehensive suite of practice-based certification and diploma programmes and collaborates with leading universities for master's qualifications. With over 20,000 annual enrolments, WMI provides training in asset management, wealth management, compliance, risk management, family office, as well as the development of the next generation across more than 130 programmes.

WMI helms the Global-Asia Family Office Circle, a network platform that fosters a trusted environment to build capabilities and community in the family office sector.

