

Venture capital and private equity investing: creating a roadmap for family offices

By Bruce E Roberts, Managing Director, Roberts Mitani, LLC

As we move into the fourth quarter of 2011, it is becoming increasingly clear that the world economy must grow out of its problems. Driving economic expansion by investing in new growth businesses may be the best way for families to secure their legacies in uncertain times. New ventures urgently need to find new sources of capital. At Roberts Mitani, we have been specializing in financing the growth economy since our founding almost twenty years ago. We work closely with family offices and professional wealth managers, in addition to VCs and private equity funds. We see a big opportunity as well as a growing need for family leadership in this arena.

For full year 2010, 157 venture capital funds raised \$12.3 billion, the fourth consecutive year of declines and the slowest annual period for venture capital fundraising since 2003, according to Thomson Reuters and the National Venture Capital Association.

At Roberts Mitani, we continue to see a gap in the marketplace being filled by two sources – strategic corporate investors and family offices. Having suffered market losses since 2008 from investments in other asset classes, families are making sure they maintain allocations to venture capital and private equity. Rather than relying on external managers, the families are now investing themselves, rapidly becoming a critical source of new venture capital. In fact, six of the last seven venture deals we've closed at Roberts Mitani involve family

backed investment vehicles.

Why invest directly? For many family offices run by the first generation founder, this allocation is a natural extension of the entrepreneurial drive that created the wealth. These investments afford a chance to build a legacy in areas of societal importance, such as healthcare and the environment, while also pursuing big upside. For the next generations, these investments offer a chance for heirs to hone their own entrepreneurial skills and instincts, as well as transfer operational expertise from the family to these new businesses.

Successful family players in the venture and PE space equip themselves for this type of investing at the outset, as part of their overall portfolio strategy. Consider the following steps:

- **Organize Institutionally:** Often, direct family investment in private equity has been an ad hoc pursuit than a sustained institutional strategy. On the other hand, investors who build a more visible institutional profile derive dividends, such as deeper, more diversified deal flow. Moreover, because the company will view their investment as “validating,” the family can negotiate attractive terms and assume an active role on the board.
- **Take a Lead Role:** Once investors identify a company in which they want to invest, they may find that the management would like them to be a “lead” investor, who negotiates the term sheet and sets the price for all investors in the financing.

Historically, the lead role was played by a fund, but a new strategic or institutional investor from a family office is increasingly welcome. If families wait for another lead investor to step up, they may miss an opportunity.

- **Build strategic partnerships:** Family investors bring a unique ability to engage with strategic investors, who also share their long-term view. As M&A advisors, we often structure deals integrating family office and strategic investors; the result can be a level of cross-fertilization that fosters outstanding commercial opportunities for the company.

We recommend a long term and consistent approach. The great family players in venture capital and private equity – such as the Rockefellers – deployed capital over decades and in the process, built new industries. The current environment abounds with opportunities.

About the Author: **Bruce E Roberts**

(broberts@robertsmitani.com) is managing director, Roberts Mitani LLC, a global investment banking and strategic advisory firm based in New York and Tokyo. The firm advises family offices and family-managed enterprises on venture capital and private equity investing.



Contacts:
Roberts Mitani, LLC
145 West 57th Street, 21st floor
New York, NY 10019, USA

T. (212) 582-9800
Fax (212) 582-9789
www.robertsmitani.com