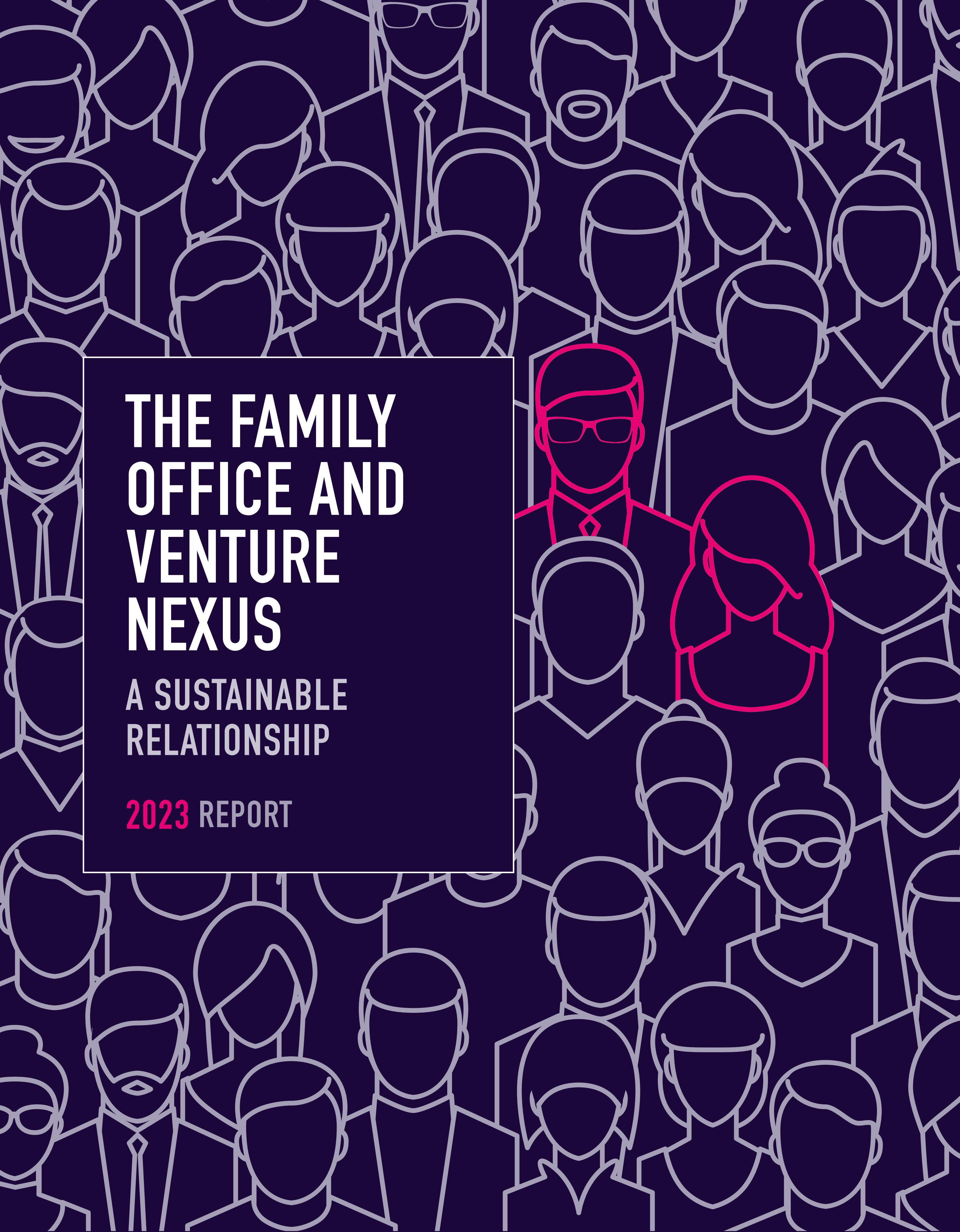

THE FAMILY OFFICE AND VENTURE NEXUS

A SUSTAINABLE RELATIONSHIP

2023 REPORT

Family Capital

octopus investments
A brighter way

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FOREWORD

Chris Hulatt
Co-Founder, Octopus Group

Octopus Investments recently partnered with *Family Capital* to carry out a study to determine the attitudes and appetites of family offices towards venture capital (VC). Historically, VC has been an asset class favoured by this group of investors, but we were keen to dig deeper, to see if this was still the case and whether recent market conditions may have changed asset allocation plans. Taking place between June and December 2022, with almost 90 family offices surveyed across Europe, North America and beyond, we are pleased to now reveal the findings in this report!

The main conclusion that we can draw from the findings is that the family office love affair with VC continues. The majority of family offices surveyed increased their allocations to VC, despite the difficult economic backdrop over the last 12 months, with the average family office now allocating 26% of their portfolios to VC. The contribution of family offices is particularly important as backers of VC in Europe, given the broader lack of institutional capital coming from other European allocators, especially in comparison to the US.

Of those family offices investing in VC, 35% have explored investing in a venture secondaries strategy, with the main reason behind this being that it provides them with the ability to acquire stakes in venture-backed companies at a discount. The European VC Secondaries market represents an interesting opportunity for investors and a less risky point of access to European tech as an asset class, relative to traditional venture investing.

One of the other things that I was interested to see in the report was that family offices are moving ever more towards sustainable and impact themes. In response to the question 'Do you think you might be driven more by impact-led type venture investing in the future?' One family office answered: ''Of course – it is very important to consumers, industry, and regulators alike, everything now needs to be understood from that angle to ensure we help build a sustainable world for future generations''.

Considering future generations is something very close to the heart of what we are trying to achieve at Octopus Investments. We believe that it's possible to reimagine and redesign how huge sectors of the global economy function, so that we can help build a future that we, and our children, can be proud of. Given the nature of family offices and the importance of intergenerational wealth planning, it makes sense to see the emphasis they have on impact increase.

In the following pages we'll go through these themes in more detail, diving into the data and providing some further analysis of the trends we're seeing among family offices when it comes to the world of VC.

We hope you find it helpful!

Chris Hulatt
Co-Founder
Octopus Group

TOP FINDINGS AT A GLANCE

16% of all the deals, both direct and indirect, were done by family offices in 2021

Family offices allocate, on average, 26% of their entire portfolio to venture capital. This includes direct and indirect investments

Total allocation to venture funds was 37% of family offices entire venture capital portfolio

Those with more than $1 billion portfolios allocate between 80% to 100% towards direct venture investments. Those with portfolios less than $1 billion allocated much more to funds, between 70% to 100%

In 2022, despite an economic slowdown in most of the major economies, 58% of family offices increased venture allocations, and only 18% reduced them

82% of family offices said life sciences were among their top choices for venture investing

Cryptocurrencies are the least favoured investment option

More than half of family offices saw seed stage as the most popular category of venture investing

European family offices are particularly driving venture investing in their home markets

35% of family offices had explored the secondary market for venture investing

63% of family offices allocate between $50,000 to $1 million to direct deals, but allocate more to funds

North America was viewed as the most popular place to invest when it comes to venture, followed by Europe

Family offices have become more purpose-led in their investment focus in the last five years

FAMILY OFFICE VENTURE COMMITMENT

BACKGROUND

The importance of family offices in the development of venture capital

Family offices have had a long relationship with the venture sector and, in many ways, fuelled its success from the 1970s onwards. For example, two of America's most storied families – the Rockefellers and the Phipps – saw the early potential of venture capital and were instrumental in the sector's growth in the early days of Silicon Valley. The Rockefeller family set up venture capital group Venrock in 1969, and the Phipps set up Bessemer Venture Partners in Silicon Valley in 1975.

Direct investing has grown, but funds are still popular

"FAMILY OFFICES HAVE BEEN CRUCIAL TO THE SUCCESS OF THE VENTURE SECTOR AS THE EARLY PIONEER INVESTORS WERE PRETTY MUCH EXCLUSIVELY THESE GROUPS."

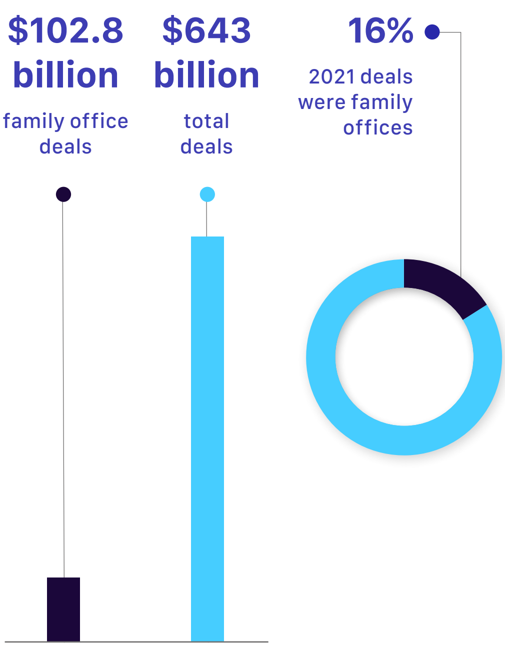
Most of the early relationship between family offices and venture was limited to funds, whereby family offices invested in funds sold by institutional groups to invest in the sector. Funds remain a cornerstone of how family offices invest in the sector. But since the financial crisis of 2008, many more family offices have invested in the sector directly and taken stakes in venture-type businesses. There is some anecdotal evidence in the second half of 2022 and into 2023 that family offices have moved back into funds and away from direct investing.

Size of the commitment to venture

Family offices' commitment to the venture sector has multiplied over the last ten years. According to *Family Capital* Analytics, PitchBook and Crunchbase data analysis, 16% of all direct and indirect deals were done by family offices in 2021, representing around $102.8 billion in monetary terms. The total amount of deals done in monetary terms in 2021 was $643 billion, according to PitchBook, which was the highest amount on record.

To get to the family office numbers, the analysis uses a broad definition of a family office, including family/principal-backed funds and family holding groups, both listed and private (See Box 1 on page 9).

Figure 1 – Family office commitment to venture



CASE STUDY: GULLSPANG INVEST/GULLSPANG RE:FOOD

Gullspång Invest is a family office owned by Sweden's Brandberg family. Their family office was built on the success of Christer Brandberg, an investor and businessman.

The family office sets out to invest in energy, food, water, health and education – and much of that investment is in venture-type startups and businesses.

Family member Gustaf Brandberg says Gullspång Invest is a family office partnering with entrepreneurs to create progress. "We invest in food, energy, and resource efficiency, and historically, we have also invested in education and healthcare."

"In 2020, we set up the subsidiary Gullspång Re:food to improve our ability to drive transformative change in the global food system. Gullspång is the biggest investor in Re:food, but since 2021 we also invest other long-term money from a pension fund and entrepreneurial families behind global enterprises."

What was the thinking behind setting up Gullspång Re:food?

"We had made a few food investments, such as Oatly, and realised the tremendous need – and potential – for change in the food system. While there are other long-term investors in the food and agriculture venture sector, we did not see anyone taking a structured approach to systems-level transformational investments. When I met Peter Odemark, our managing director, with a long and successful career in the food industry and similar observations, we decided to create Re:food together."

"We have based much of our thinking on the work of the Stockholm Resilience Centre, the Framework For Strategic Sustainable Development (FSSD), and scientific reports on the food system, such as the EAT-Lancet Commission Report. Using our experience in building and scaling global enterprises, we identify the founders of innovative companies at the right leverage point in the food system to drive transformational change and solve structural problems in the food system. We describe this approach in 'Food is Solvable', a report we have made available on our website."

"An important detail about Re:food is our evergreen structure; we do not want an artificial end-of-life date impacting our company ownership decisions. Instead, our guiding principle is that we should stay as owners of the company as long as Re:food is the best possible financial partner to the company."

Gullspang and Impact

"There is a common misconception that impact investments automatically mean lower financial returns. We have a contrarian view: the world is in dire need of change, and the companies that possess the keys that unlock that change will become immensely valuable.

That said, although financial returns are important, they are not our primary driver. Money is the fuel of our investment company, and the more fuel we have, the more entrepreneurs we can help. But, what really motivates us is the vast potential to create a meaningful change in the food system for future generations.

Gullspång's tagline is 'We partner with entrepreneurs to create progress'. We have always wanted to help solve important problems. The only thing that has changed over the years is the magnitude of the ambition of the companies we back – today, we take much bolder bets."

Gullspang and Venture

"We began as business angels, investing up to a hundred thousand dollars in early startups, sometimes even at the PowerPoint stage. Over time as we exited some portfolio companies, we have been able to invest gradually larger tickets.

So, venture stage investing was in the DNA of Re:food from the start. The only difference from the early days is that seed-stage companies are too early for us. Our sweet spot is now the early growth stage. Our recent investments in Motatos and Planted are follow-on investments as a part of our model to support our portfolio companies over time."

Gullspang on direct and fund investing

"Re:food mainly makes direct investments in companies that have found their product/market fit and have started to scale. As a complement, we have invested in two seed-stage funds, FoodSparks in Europe and FTW in the US, that help us stay informed about the new frontiers in innovation. Still, our fund investments are just a few percentages of our total portfolio."

Gullspång's overall investment decisions

"Since we get a substantial inflow of opportunities every week, we have, by necessity, built an efficient and structured process to quickly filter out the companies that are not a good fit with what we can offer.

The first questions we always ask are regarding the potential for impact. Does this company address a root cause problem in the food system? Does it have a clear strategy for overcoming the barriers to transformative change? Are we sure that it, at scale, will not cause any significant adverse side effects? To determine this quickly, we spend considerable time doing our homework. We have a good relationship with the Stockholm Resilience Centre and other researchers, which help us understand the food system, its hidden connections, and the most potent leverage points for change."

Gullspang - levels of investment

"We usually write checks of five to ten million dollars each, with the capacity to double or even triple down on each investment."

Gullspang and secondaires

"We have a broad mandate and do buy secondaries from time to time. Often it can be a helpful tool to clean up the cap table and set the company up for success."

BOX 1:

FAMILY CAPITAL EXTENDS FURTHER THAN FAMILY OFFICES

Traditionally, family offices have been either single - they manage the money of one family/individual - or multi - they manage the money of multiple families/individuals. But family and individual capital, as opposed to institutional capital, is broader and more complicated.

One of Europe's top venture groups is EQT Ventures. The Stockholm-based venture group raises external funds, but the Wallenberg family launched it, and they remain a cornerstone investor. Exor Seeds is owned by the Agnelli family, but has raised funds. Venrock in the US is similar, backed by the Rockefeller family, but also raises funds.

There are also non-listed family businesses, which have corporate venturing arms, like Bonnier Ventures; Burda Principal Investments, the corporate venture group of the privately controlled Hubert Burda Media Holding, which is majority-owned by Hubert Burda; and Hearst Ventures in the US. Listed-family-owned investment and holding companies are also channels of family capital, and these groups include A.P. Moller Holding, Icahn Enterprises, and Sofina.

When family capital is looked at in this broader and more accurate definition, the role of family capital in global private markets is much bigger than just that of single-family offices. That is also why family capital plays a much bigger role in the venture sector than other research has highlighted in the past. Therefore, this report has used this broader definition to measure its value in the venture world.

For more information on the breakdown of family capital, please go to **https://analytics.famcap.com**

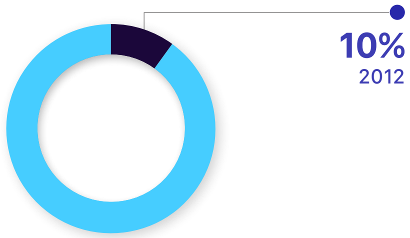
PORTFOLIO ALLOCATION - FAMILY OFFICES ALLOCATE MORE THAN A QUARTER OF THEIR PORTFOLIOS TO VENTURE

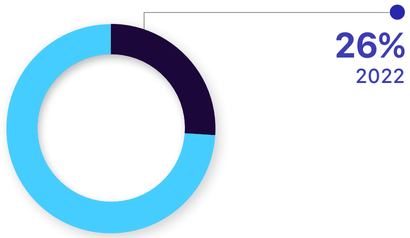
Family offices allocate, on average, 26% of their entire portfolio to venture capital. This includes direct and indirect investments.

Although the portfolio allocations for family offices ten years ago aren't definite, back then very few were allocating much more than 10% to venture capital. Allocations tend to move upwards the bigger the size of the family office, so some billion-dollar-plus family offices are allocating as much as 30% to venture capital.

Charts allocation to venture capital

Figure 2 — Popularity and growing allocation in portfolios





"VENTURE HAS PROVIDED US WITH GREAT OPPORTUNITIES WE MAY NOT HAVE GOTTEN OTHERWISE."

"THE SECTOR HAS BEEN A CHALLENGE FOR US - SO WE AREN'T ALLOCATING MORE ASSETS TO IT."

DIRECT VS INDIRECT - DIRECT CONTINUES TO GROW, BUT FUNDS REMAIN POPULAR...ESPECIALLY WITH SMALLER FAMILY OFFICES

Over time, family offices have allocated more to private markets directly, but funds still command a sizable share of the total amount. For example, the total allocation to venture funds was 37% of their entire venture capital portfolio. Direct investment, therefore, accounted for 63%.

Figure 3 — Total allocations - Direct v. Funds

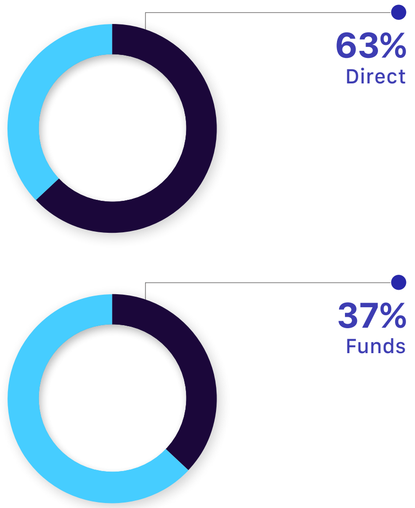
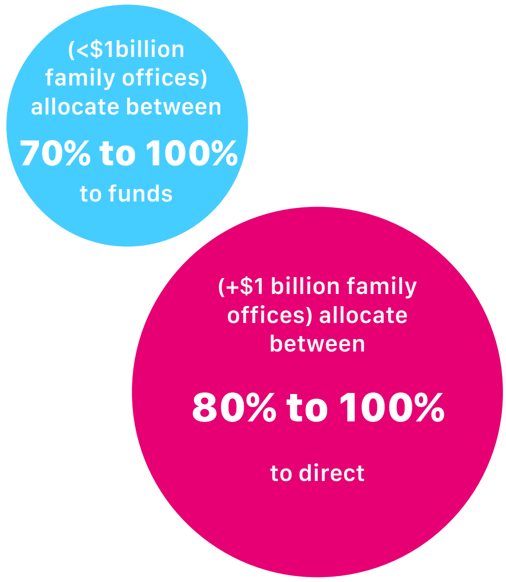


Figure 4 — Size of family offices and allocation Direct v. Funds



Allocations to direct investment in the sector increased with the size of family offices. Those with more than $1 billion portfolios allocate between 80% to 100% towards direct venture investments. Those with portfolios less than $1 billion allocated much more to funds, between 70% to 100%.

Resource issues are behind these decisions. Billion-dollar-plus family offices are more likely to be able to afford in-house expertise to facilitate direct deals. Sub-billion-dollar family offices, less so, and, as such, will seek out funds more.

Although the research found that more family offices allocated directly to the venture, it would be wrong to expect the direct investment trend will dominate as time goes on. Funds are still very popular with family offices, and as the report said earlier, there is some evidence funds have regained momentum, whereas direct efforts have begun to stall.

Obviously, the two have their benefits and drawbacks. Funds provide a much cheaper way of accessing venture capital, but don't offer the control that direct does. Direct is expensive, requiring usually in-house expertise, but, if the investment pays off, the returns can be much more lucrative than funds.

"OUR ROI ON DIRECT VENTURE IS HIGH. WE ANALYSE WELL, SCRUTINISE THE MANAGEMENT, AND STAY CLOSE TO THE COMPANIES."

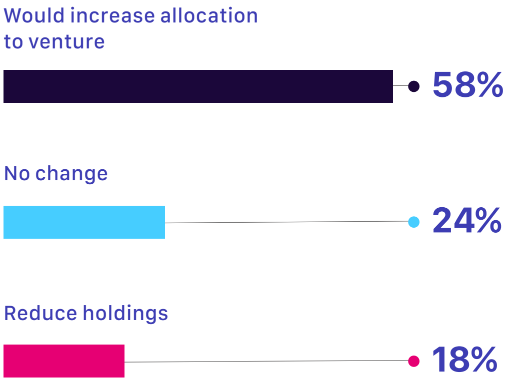
"WE HAVE A DEDICATED TEAM WITH LONG EXPERIENCE IN THE SECTOR. WE ARE A DIRECT-ONLY INVESTOR AND FIND OUR INVESTMENT MODEL GIVES US THE BEST RETURNS AND FLEXIBILITY."

"HAVING THE EXPERTISE IN-HOUSE TO DO DIRECT DEALS WOULD REPRESENT A HUGE COST FOR US; THAT'S WHY WE FAVOUR FUNDS."

CURRENT ALLOCATIONS AGAINST MARKET TURMOIL

Despite some deterioration in economic conditions during 2022, family offices remain upbeat about the sector. More than half, 58%, of family offices said they would increase their commitment to the venture sector, and 24% said they would make no changes to their commitments. Only 18% said they would reduce their holdings.

Figure 5 — Family offices remain bullish towards venture



BOX 2:

PATIENT CAPITAL AND FAMILY OFFICES - HOW LONG DO THEY HOLD ONTO INVESTMENTS?

Do family offices hold onto investments longer than institutional investors? Yes, and No.
The "family" part suggests these investors have a family business long-term mentality towards investing - willing to wait longer for returns. To some extent, this is true, but it usually depends on how the principal/family made their money.

Those linked to financial fortunes might be less likely to wait for long-term returns. In contrast, those linked to a family business might hold onto their investments longer because that is how they have run their operational business. Of course, there are exceptions. Some financial fortunes might set up family offices with a desire to hold onto investments longer, and vice versa for non-financial fortunes linked to family businesses.

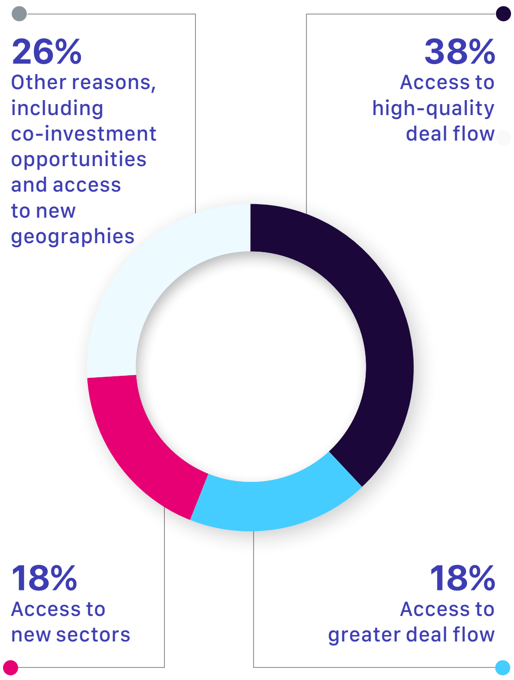
That said, the long gestation periods of ventures in life science have benefitted from the support they've received from family offices over many years. This is because these types of investments are long-term in their nature, and family offices with a patient capital mindset have been the cornerstone of many of them.

REASONS DRIVING FURTHER ALLOCATIONS

When asked what would inform their selection criteria for allocating more funds to venture, family offices said the biggest reason was access to high-quality deal flow — with 38% saying this was the primary reason.

That was followed by access to greater deal flow (18%) and access to new sectors (18%). Other reasons also given here were: access to co-investment opportunities and access to new geographies.

Figure 6 — Selection criteria for allocating to venture

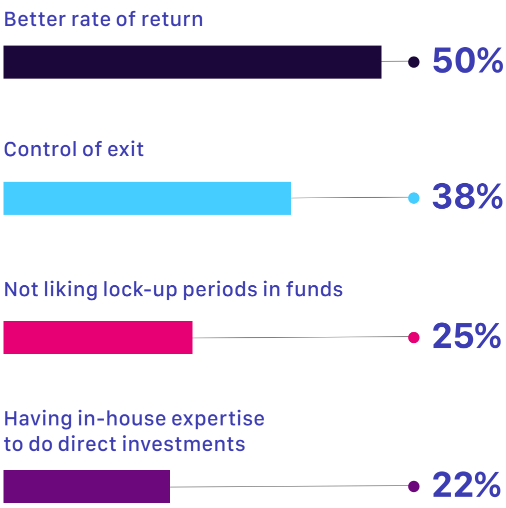


"WE SEEK INNOVATORS, WHICH LEADS TO EXTRA DEAL FLOW."

THE MAIN DRIVERS OF DIRECT INVESTMENT

Family offices are increasingly attracted to direct investment in venture capital for several reasons. But a better rate of return was given as the number one reason, with 50% saying this was the biggest reason. The second most popular reason was to control the exit through direct investment (38%). Other reasons were not liking the lock-up period (25%) and having a big enough team (22%) to make direct investments well.

Figure 7 — What's driving direct investment



"WE ARE NOT AGNOSTIC ON DIRECT INVESTMENT AT ALL."

"OUR SUCCESS WITH A FUND APPROACH HAS LED US TO MAKE DIRECT INVESTMENTS LATER IN THE STARTUPS IN THE FUND."

The fund followed by a direct approach

Most family offices use funds as a first step towards venture capital, using the knowledge they gain through the fund to move towards direct investment. These direct investments are often in the startups the fund has already invested in, but often at a growth capital investment stage. Even seasoned venture investors will still use funds in sectors they don't know well and might transfer to a more direct approach to these startups at a later date.

CASE STUDY: RINKELBERG CAPITAL AND SFO ALLIANCE

Rinkelberg Capital is a single-family office, and SFO Alliance is a London-based association of single-family offices.

How do you view the overall venture sector right now? Are you still allocating more to it, or pulling back?
"There are some amazing opportunities out there, but most people are explaining to their principals where it all went wrong. These principals first want the current portfolio back in shape, with many of their investments in dire need of additional capital before adding additional resources to the space."
SFO Alliance

Having said that, there are some real issues out there. It's less, I think, about making new general partner commitments and more about how to deal with the current portfolio – and the fact that some assets might have lost value. If a family office is looking for other families to co-invest with in this current environment, I think that is a luxury issue because many families are holding off right now."
Lex van Dam, Rinkelberg Capital

Do you prefer funds or direct when it comes to venture investing?
"At Rinkelberg we focus on direct investments in the space. We support founders on their growth trajectory with capital and guidance, born from a long period of expertise in running and allocating to early-stage companies."

Are you doing anything in the secondaries venture market right now, or might you be in the future?
"There are several great opportunities here, but SFOs are currently very selective. They will only invest if the underlying companies are focused on profitability and a real understanding of their clients as opposed to growth at any price."
SFO Alliance

Are there any sectors you prefer more when it comes to venture?
"We like Web 3.0, but there are only very few high-quality companies there, so in a way, it is a complicated space; on the other hand, this makes investing a bit easier. Also, climate tech is very important, and we spend a lot of time in that space. And we quite like WFH technology. All of these have secular growth."
Lex van Dam, Rinkelberg Capital

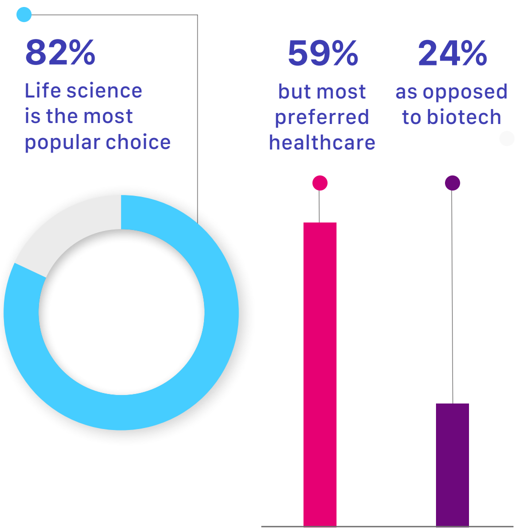
Do you think you might be driven more by impact-led type venture investing in the future?
"Of course – it is very important to consumers and industry and regulators alike, and everything now needs to be understood from that angle to ensure we help build a sustainable world for future generations."
Lex van Dam, Rinkelberg Capital

PREFERRED SECTORS TO INVEST - LIFE SCIENCE IS THE TOP PRIORITY

When it comes to the venture sector, family offices have traditionally been big investors in life science startups. That investment preference was driven by family offices' willingness to take more risk on board and wait longer for returns than many institutions.

Some have also speculated there is a more ephemeral reason behind the commitment to life science – many principals of family offices, at least until quite recently, are in the later years of their lives and are interested in extending their lives through medical innovation.

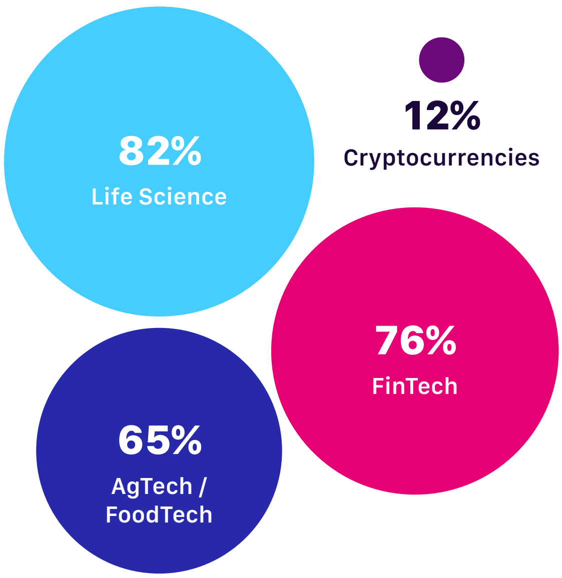
Figure 9 – Life Science is the most popular venture choice



Indeed, one of the world's biggest family-backed investment groups, F-Prime Capital, invests most of its assets in life sciences. Many others – Dolby Family Ventures, Boxer Capital, Invus, and Euclidean Capital – commit at least half of their venture portfolios to life science.

The preference towards life sciences (healthcare and biotech) remains, with 82% of family offices saying the life sciences was among their top choices regarding venture investing. Healthcare was the most popular choice in life science, with 59% of family offices preferencing the sector. Biotech was somewhat less popular, with 24% of family offices saying it was a top investment priority for them in venture investing.

Figure 10 – Most popular and least popular sectors to invest in



FINTECH CONTINUES TO CAPTURE THE IMAGINATION OF FAMILY OFFICES...

Fintech, one of the most popular choices in venture investing, is also a top choice for family offices. For example, 76% of family offices viewed fintech investing as a top priority in their venture portfolios. Prominent fintech investing family offices include Horizons Ventures, Picus Capital, and EQT Ventures.

...AgTech/FoodTech is also popular

Family offices also preferred AgTech/FoodTech investing, with 65% saying they prioritise the sector regarding venture investment. AgTech and FoodTech are increasingly popular as both aspects overlap with sustainability and impact priorities that have become more important for family offices in the last five years. Prominent investors in these categories include the Grosvenor Group, Emerson Collective, and Aglaé Ventures.

But cryptocurrencies were the least popular choice for family offices...

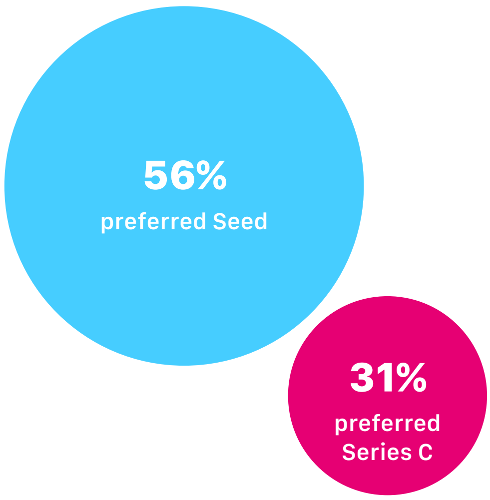
Perhaps not unexpected given the crash in the prices of cryptocurrencies in 2022, family offices least favourite investment in the venture sector was cryptocurrencies, with only 12% seeing the sector as a desired investment opportunity. That said, 41% of family offices felt the blockchain was an investment priority. That might be explained by blockchain technology being used by many trading platforms often linked to cryptocurrencies. Big family office Investors here have included Winklevoss Capital, Thiel Capital, and Pareto Holdings.

ROUNDS - SEED WAS THE MOST POPULAR CHOICE OF INVESTMENT CATEGORY

Family offices have traditionally been early investors in the venture sector, and many prefer the Seed stage, with 56% of family offices opting for this investment category. Nevertheless, Series C upwards – often referred to as growth capital – was the second favoured investment round, with 31% opting for this investment category.

Individual family offices said they were happy with any level of investment as long as the actual opportunity was a good one from their perspective.

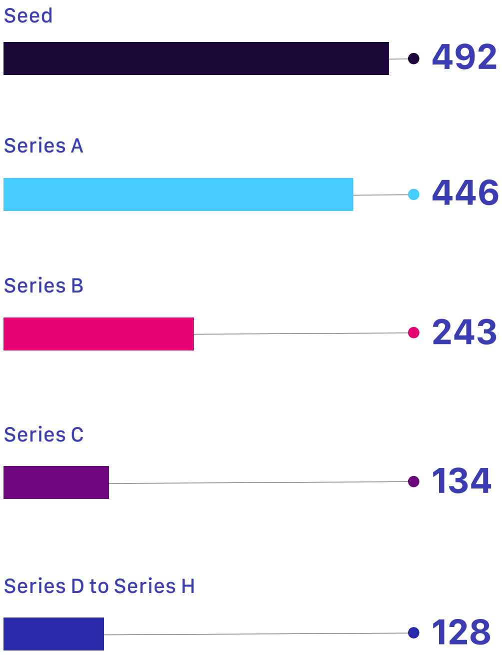
Figure 11 – Seed is the most popular level of investment...



"IT DEPENDS MORE ON COMPANY, VALUATION, AND OTHER FACTORS THAN THE STAGE WE CHOOSE FOR INVESTING."

According to *Family Capital* Analytics, 492 investments from family offices were made into seed stage companies in 2022, compared with 446 in Series A, 243 Series B, 134 Series C, and 128 Series D to Series H.

Figure 12 – The Capital Stack in 2022 among family offices - FamCap Analytics



CASE STUDY:
DEEP TECH AND WHY FAMILY OFFICES ARE INVESTING MORE IN THE SECTOR

Deep tech, where true innovation lies, is a sector of the venture world that has captured the imagination of family offices. Many of them see it as an appealing part of the venture world to deploy patient capital and improve the world we live in simultaneously.

"Family offices have the willingness towards patient capital and often with a desire to tackle broader societal and environmental challenges," says Octopus Ventures' deep tech specialist Zoe Reich. "At the same time, deep tech has the potential for compelling returns."

Another appeal to investing in deep tech for family offices is that institutional investors have yet to win out in the early stage of this part of the venture world, says Reich. This makes it easier for investors like family offices with smaller pools of capital to gain entry at a lucrative stage.

Reich says deep tech encompasses a piece of innovation with a substantial research effort behind it. "But most of all, it creates a step change in benefit to the end customer." It can be anything from quantum computing to strawberry-picking robots. But with deep tech, Reich says, if you hit X technology milestones, you have that route to adoption. And she adds that it has even more appeal during these chasten economic times.

"Due to the difficult economic conditions, we're seeing a concentration of capital towards essential tech, like deep tech, which isn't so influenced by interest rates and consumer trends."

Reich adds: "Buyers of deep tech are often big corporations who have to innovate; they have ten-year plans and will take a long-term approach towards ensuring they stay competitive with innovation. So deep tech is often seen as a protected sector."

Octopus Ventures has been at the forefront of developing deep tech in Europe. The venture group works with all the leading university departments in the UK and the rest of Europe. "We run our own customer discovery programme, which tackles one of the greatest challenges of deep tech, which is finding the market fit at an early stage," says Reich.

Europe is at the forefront of deep tech innovation, particularly at the fundamental research level, says Reich. "The continent has more five-star research institutions in deep tech than the US and China. For example, 84% of our research in the UK is considered world-leading or of international significance."

Octopus has been deploying capital to deep tech since 2008 and it has worked with many deep tech founders at a very early stage. "More than 85% of deep tech founders are first-time founders," says Reich. "We often work right at the start, even to the extent of putting a business plan together around an intellectual property concept and helping to find the route to market, which could be as long as three years before you even invest in the business."

OCTOPUS VENTURES INVESTMENTS IN DEEP TECH

Quantum Motion
A London-based quantum computing company

Touchlab
An Edinburgh-based robotics company developing electronic skin technology to give robots the power of human touch

ORCA Computing
A London-based quantum computing company

ORBEX
Orbital launch services for small satellites

Dogtooth Technologies
Smart robots for harvesting soft fruits

Automata
Automation solutions for labs

SECONDARIES – AN INCREASINGLY POPULAR CHOICE FOR VENTURE CAPITAL INVESTING

Secondaries' investment in venture has grown in the last few years on the back of the success of the private equity secondaries market. The rapid growth of the venture capital market in the previous ten years makes a VC secondaries market much more viable, and several institutional managers have launched secondaries venture funds in the last year.

Secondaries' investing provides investors like family offices access to more mature companies, often with shorter exit horizons and higher IRRs, limiting the risk of backing unproven startups.

Another reason is that tech companies are staying private for longer, leading to an increasing need for liquidity among all stakeholders in the tech ecosystem. This is exacerbated by close-ended fund structures in venture capital and the current market conditions that are characterised by a rotation away from growth stock, leading to a drop in tech IPOs and intensified pressure for liquidity in venture capital.

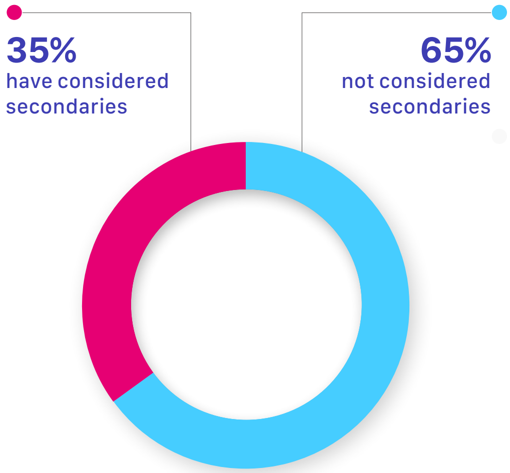
Although secondaries in private equity have grown, there are also some unique features that make secondaries in venture appealing to investors.

The venture capital secondaries market could be more compelling than private equity secondaries given the broader opportunity set, as the need for liquidity is not just coming from LPs and GPs - the key players in PE secondaries - but also from angels, early investors, employees and founders which you don't get in private equity.

Good discounts also make the secondaries' market more attractive, and given the turmoil in the world economy during 2022, discounts have been growing.

That said, family offices were still getting to grips with the secondaries' venture market, with 65% saying they had yet to explore the market.

Figure 13 — More than a third of family offices have explored secondaries



"AS THE BID-ASK SPREADS BETWEEN SECONDARIES BUYERS AND SELLERS KEEP NARROWING AS THE RESET IN VALUATIONS IN THE VENTURE CAPITAL ASSET CLASS CRYSTALLISES, WE ANTICIPATE A STRONG PIPELINE OF SECONDARIES TRANSACTIONS COMING TO MARKET OVER THE NEXT 12-24 MONTHS."

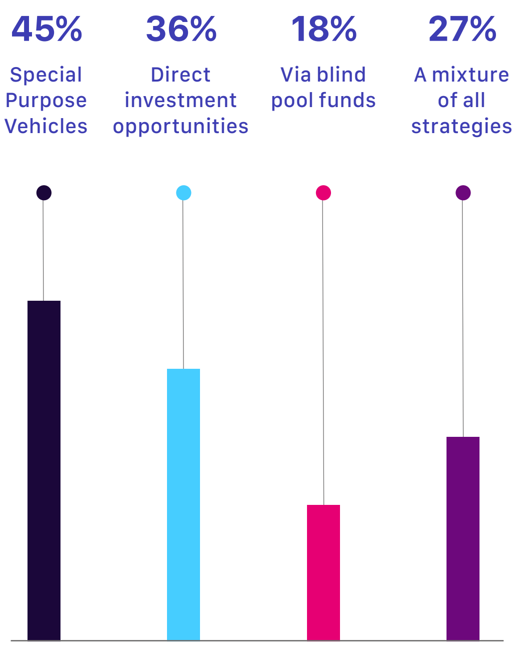
"I HAVE ANALYSED THE MARKET, BUT DID NOT INVEST. RETURNS LOOK GOOD, THOUGH."

FAMILY OFFICES WERE ASKED IF THEY ALLOCATED TO SECONDARIES' STRATEGIES: HOW DID THEY DO IT?

The most popular method when accessing secondaries was through special purpose vehicles set up by third-party managers for one specific investment, with 45% saying this was their preferred method to invest in the market.

SPVs, which are the most popular method to access secondaries, are typically provided by fund managers who give existing LPs priority access.

Figure 14 — Popular secondaries' strategies



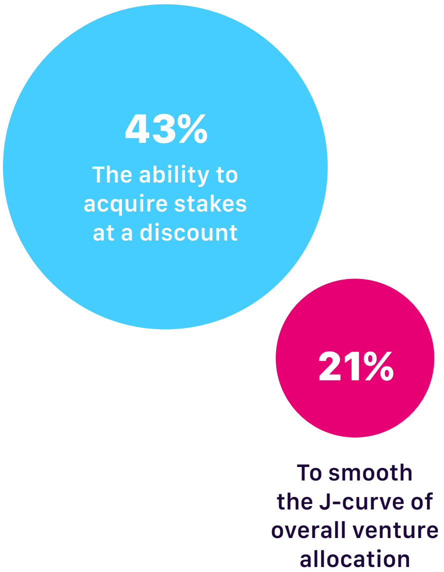
But family offices were pretty spread out among the other three options, with 36% saying they liked investing via direct investments in venture-backed companies and 18% saying they liked investing via blind pool funds managed by third-party managers.

In addition, 27% said they liked a mixture of all strategies when investing in secondaries' strategies.

FAMILY OFFICES WERE ASKED WHAT WOULD CONVINCE THEM TO INVEST IN THE SECONDARIES' VENTURE OPPORTUNITIES IF THEY HADN'T ALREADY

Again, the responses were spread relatively evenly between the options, although 43% said the ability to acquire stakes in venture-backed companies at a discount would convince them the most. In addition, 21% said supporting their primary venture strategy and using venture secondaries to smooth the J-curve of their overall venture allocation would also help.

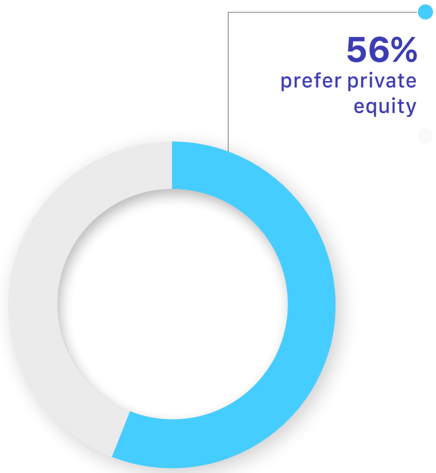
Figure 15 — What would convince family offices to invest in secondaries



More family offices invest in private equity secondaries' strategies

Family offices are marginally more likely to invest in private equity secondaries' strategies than venture capital secondaries' strategies, with 56% saying they prefer the former.

Figure 16 — Slight preference for private equity secondaries' investing

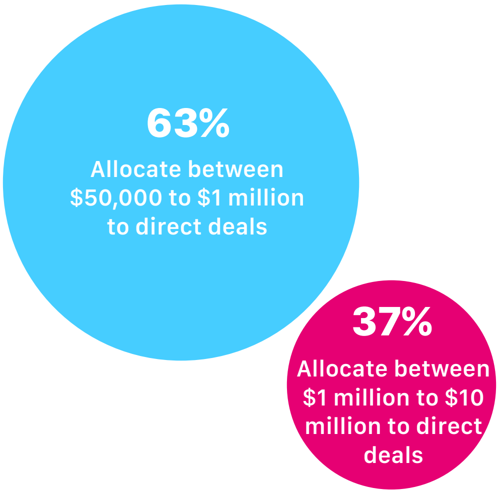


"WE ACHIEVE BETTER TERMS AND CONDITIONS WITH PRIVATE EQUITY SECONDARIES' STRATEGIES THAN VENTURE ONES."

HOW MUCH DO FAMILY OFFICES ALLOCATE TO VENTURE CAPITAL

Most family offices allocate at most $1 million to any direct deal, with 63% saying they allocate between $50,000 to $1 million to direct deals. Within this level, 25% say they allocate between $200,000 and $500,000 and 18.5% allocated $500,000 to $1 million.

Figure 17 — Monetary allocation to venture - direct



But 37% of family offices allocate between $1 million to $10 million to direct deals, which shows an appetite for bigger deals largely because of higher assets under management of the funds. Our survey respondents said they allocate at most $10 million to direct deals.

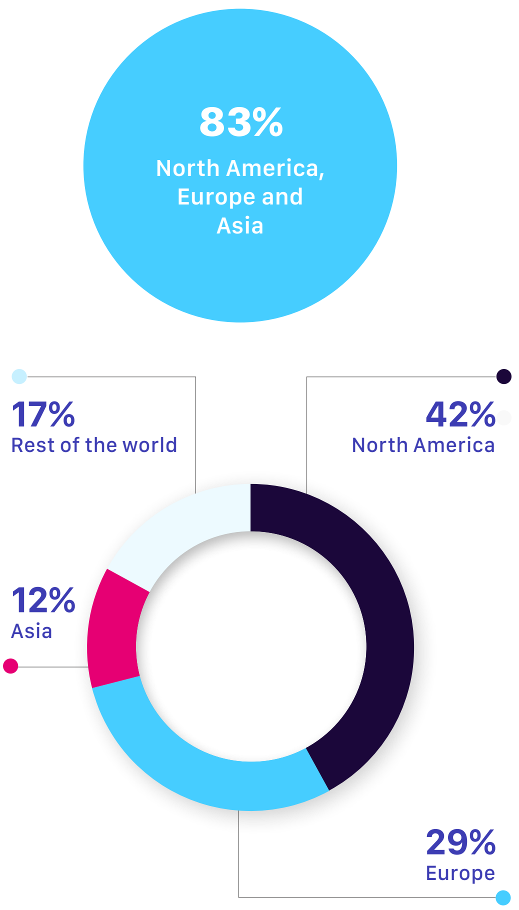
"WE CAN CONSIDER HIGHER DIRECT INVESTMENT IN VENTURE, BASED ON MANAGEMENT, GEOGRAPHY AND RISK LEVEL OF THE DEAL, BUT ON THE WHOLE PREFER SMALL DEALS."

GEOGRAPHICAL PREFERENCES - NORTH AMERICA AND EUROPE DOMINATE PREFERENCES

Participants of the survey came mostly from North America and Europe, with some from Asia-Pacific and the Middle East, but North America was viewed as the most popular place to invest when it comes to venture.

North America, Europe, and Asia comprised 83% of all venture deals done by family offices, with North America making up the majority, with 42%. Europe represented 29%, and Asia 12%. Australia and Brazil were countries respondents also said were popular in terms of venture investing.

Figure 19 — Geographical preferences



Venture investing in Europe tends to be more driven by family offices than institutions, whereas, although family offices play a very important role in venture investing in the US, institutions are more dominant in the sector. This is the case for both funds and direct.

PURPOSE-LED INVESTMENT STRATEGIES AND VENTURE

Purpose-led investment strategies have been a theme in the family office sector for some time. Many have pursued these efforts through venture investing in areas like clean tech/energy, and funds and direct investments that feature a gender and race diversity theme, as well as other social betterment ventures.

BOX 3:

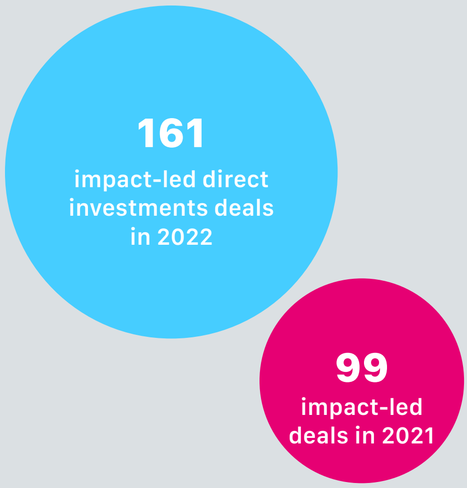
FAMILY OFFICES AND PURPOSE-LED INVESTING

Some family offices have argued that all venture investing is impact focused because it changes people's lives for the better. But there are clearly different degrees along the betterment spectrum when it comes to investing.

Clean energy and technology are arguably the most potent impact-led venture investing, given the immediacy of climate change. And here is where family offices/principal investment offices are making real changes, more than institutional investors. But improving educational outcomes in deprived areas and developing economies have also proven popular with family offices.

In 2022, family offices made at least 161 impact-led direct investments, according to *Family Capital* Analytics, compared with 99 in 2021. The growth in 2022 is even more significant because of the overall downturn in venture investing during the year.

Figure 20 – Impact Investing and family offices

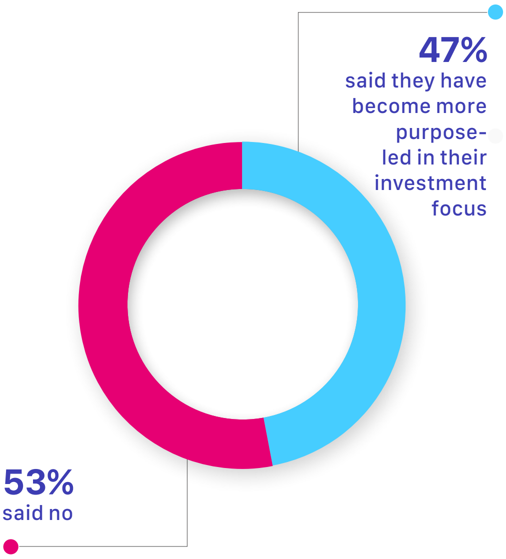


Today, impact investing is mainstream, rather than on the fringe of venture five years ago. Indeed, as Environmental, Social, and Governance-led initiatives have come under greater scrutiny in the last few years, the credibility of impact investing has grown. Family offices and similar groups are major drivers of that credibility.

PURPOSE-LED INVESTMENT

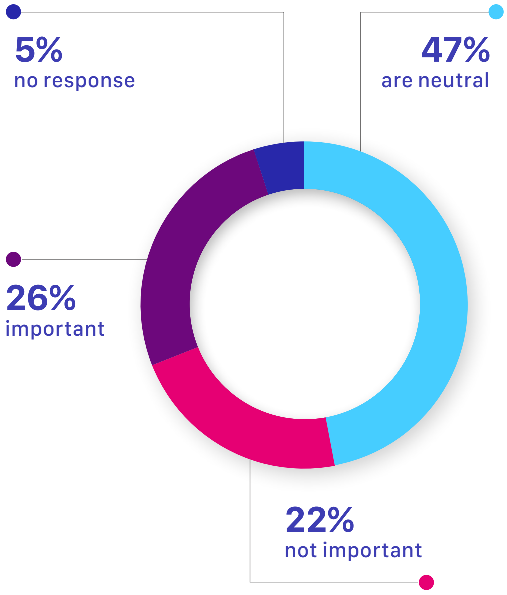
Family offices were asked if they had become more purpose-led in their investment focus in the last five years. 47% answered yes, but the rest said no, which suggests many family offices still see environmental and social-led investing as not mainstream to their overall investment strategy.

Figure 21 – Purpose-led investment objectives



Nearly half (47%) of family offices were neutral on the importance of diversity when it comes to the business they were investing in, and 22% felt it wasn't important at all. That said, 26% of family offices did see it as important.

Figure 22 – Importance of diversity in investment decision making



CONCLUSION
A LASTING PARTNERSHIP

Family offices played a seminal role in the growth of the venture sector, arguably more than institutional capital. Of course, institutional groups now comprise a significant part of the capital flowing into the sector, but family offices remain very important to the venture ecosystem. As this report shows, this significance will continue despite the recent turmoil in the venture sector and the broader world economy.

Life sciences will remain uppermost in venture investment strategies of family offices – the link between the often patient capital of family offices and the long gestation periods of life science ventures is an important nexus between the two. But other areas will also draw capital from family offices, such as transformative innovations associated with deep tech, particularly if this part of the venture world remains somewhat immune from economic disruption.

Family offices will focus on direct investment at early-stage investments such as Seed and Series A. That said, growth capital investing shows signs of becoming more popular, as the risk profile of early-stage investing grows with the current economic turmoil. There is also mounting evidence that venture funds have regained popularity due to the higher costs associated with direct investing.

There will remain a divide in ways to invest among the big institutional family offices with more than $1 billion in assets – sometimes referred to as famitutionals – and the sub-billion dollar family offices. The famitutionals will invest more directly in venture with institutional-level capabilities, whereas the smaller offices will invest primarily in funds.

Despite strong economic growth in Asia and the Middle East, North America and Europe will remain the main focus of family office venture investing. Europe, certainly at the seed stage, will generate strong interest from family offices. At the growth capital stage, the famitutionals will continue to allocate capital, particularly in North America, where there are more big family offices.

Purpose-led investment strategies, which have gained enormously popular among family offices in the last five years, will continue to be pursued enthusiastically. But much of this growing investment sentiment will likely be driven by environmental concerns and less about diversity priorities.

RESPONDENTS

Family Capital surveyed family offices between June and December 2022, with 86 family offices and family-backed investment groups participating in the survey.

62% of respondents were from European family investment groups, 35% were from North America, and the rest were from Latin America, Asia, and the Middle East.

More than one-third (34%) of the family investment offices had more than $1 billion under management. In addition, 21% had assets between $500 million and $1 billion, and 15% had assets between $100 million to $500 million. The remaining 30% didn't disclose their assets under management.

ABOUT US

About Octopus Investments

Octopus Investments, part of the Octopus Group, is an investment company that invests in the people, ideas and industries that will change the world.

We manage investments for retail and institutional investors, investing the £12.4bn they have entrusted to us in areas where we believe it will have the greatest impact. These areas breakdown into five specialist asset classes: renewable energy, sustainable infrastructure, real estate, healthcare and venture capital.

More than 85% of the money we manage across the business is invested in line with one or more of our three investment themes: empowering people, revitalising healthcare and building a sustainable planet. It is our goal that by 2030 we will have made £50 billion of investments into these businesses, that have the power to transform the world in which we live.

Beyond positive impact, we believe the best investment returns will come from the companies which solve society's biggest problems. The investments we make through our venture capital team are key to that belief. Our team's size, activity and heritage in the UK and Europe are unique. We backed our first billion-pound business, Zoopla, in 2009 and have supported some of Europe's biggest success stories across the past 15 years from Evi, the technology powering Alexa, to pre-loved clothing marketplace Depop and Elvie, the world's leading creator of technology to improve women's health.

We're now one of the UK and Europe's largest and most active venture capital investors. Our team brings together expertise in B2B software, climate tech, consumer tech, deep tech, fintech and health, with an emphasis on investing in diversity, both in our team and in our investments. This has enabled us to make more investments into female led businesses than any other major VC investor.

We also believe that how a company behaves is just as important as what it does. In today's hyper-transparent and connected world, the walls companies used to build around themselves have been ripped down. People — employees and customers — now hold the power. These people will assess the companies they work for, or buy from, as much by how they behave as what they do. The most successful companies will therefore not only solve society's biggest problems but will also behave in a way that is reassuringly human.

This is one of the reasons why in 2021, we became a B Corp, a certification that requires a company to meet the highest standards of social and environmental consideration, transparency and accountability, to balance profit and the impact they have. Our B Corp certification demonstrates our commitment to a better way of doing business. We consider all our stakeholders (employees, customers, communities, environment and shareholders) in every decision we make.

This approach extends to our investment process where we want to be a catalyst for change. We've developed an engagement tool with B Corp that forms part of our investment process. It's a call to arms for companies that believe in our vision for the future. The answers help us make informed investment decisions while providing our investment companies with tools and guidance that will help them build more responsible, valuable, businesses.

To hear more about our investment approach, our venture capital business, or how we work with family offices, please contact:

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About Family Capital

famcap.com

Family Capital is a daily online publishing company dedicated to the global family enterprise sector. Our name is inspired by an idea. People often say that emotional, human or intellectual capital enhance a business, or a person's abilities. We think that being a family is also an asset, and we call this "family capital".

Family Capital has three missions. Firstly, it is a modern, online "house magazine" for family enterprises, providing a service for those working in the sector by looking at the issues and stories that touch on their careers and lives.

Secondly, we believe there is a growing relationship between family enterprises (family offices and family businesses) and global capital markets. And Family Capital believes we are the only publication that covers this growing relationship.

Thirdly, we will be an advocate for family ownership. We think family businesses' long-term focus and attitude are good for financial stability, and yet the huge global influence of family firms is often overlooked by the mainstream press.

We want to help people understand just how important business families are, both in the context of family offices and family businesses. If it doesn't sound too grand, Family Capital aims to change the way its readers see the world of business.

We think the best way to achieve these two aims is with a high-quality, straight-talking journalistic voice — something the sector currently lacks. While we support family enterprises we will not be mindless cheerleaders for them, and we will not shy away from criticizing them when we think it is justified.

As well as daily updated analysis of the biggest family office and family business stories, and interviews with big names, watch out for our in-depth reports on aspects of the family enterprise sector, which you will be able to download from www.famcap.com.

Please feel free to contact Family Capital
contact@famcap.com

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