The struggle for old money locked away in Family Offices continues. Who may get it?

For family offices, startups, historically, have not been their preferred investment vehicle. During the last 10 years, they carefully tested the waters, mainly through investments in VC funds. But after a challenging 2022, their interest in new startup / VC allocations plummeted, since it started to exceed their 10-15% benchmark and they experienced sharp declines in startup valuations. Approaching family offices in 2022 with proposals to invest in venture capital was almost futile.

$6T of capital is controlled by family offices. This is more than all the VC funds in the world. But the way they function is not always understood.

With their portfolios' VC share returning to suggested levels of 10-15%, family offices may consider new venture investments

In 2023, interest in venture deals gradually returned. While some experts believe that family offices will continue to be cautious and avoid venture investments in 2024, I see the situation beginning to change, even if I do not expect it to immediately return to previous levels.

Here are the main reasons why, from my perspective, family offices will make more deals in 2024 than in 2023.

- The venture market is healthier. Family offices have access to top founders, something they didn't have before.
- Family offices are not fond of hype and were less eager to enter the venture scene when it was at its peak. In the current low cycle, they are effectively applying the principle of "buy when it's cheap."
- Family offices have always been fond of real estate, but in today's world of high interest rates and still-high inflation, such investments have become less attractive. The same goes for private equity deals, since they usually involve leverage. This is an opportunity for venture capital, which could take their places.

Nevertheless, it will be a cautious return. Those without prior venture experience might consider allocating 3-5% of the family office's capital, while those who historically profited from venture investments will willingly return to 10-15%.

Long-term projects in slow industries with a solid impact will be the first to be considered

Family offices are now looking at projects based on megatrends. They prioritise long-term horizons that extend far beyond the average 7–10-year lifespan of a typical VC fund. After two challenging years, they scrutinise what truly constitutes a trend and what does not.

During a family office conference, a seasoned participant told me, “Every year, they pitch us with new game-changing trends: marijuana investments in 2017, 3D printing in 2018, crypto in 2019-2020, Web3/Metaverse in 2021-2022. I’ve got a feeling that sometimes they can’t see the real trends.”

What else can help to be considered? High-impact ideas, since they can bring pride to the family and/or unite them. These could be, for example, an innovative AI, greentech or a healthtech startup. Additionally, they may consider local projects as it’s an opportunity to showcase their support for local priorities to high-level authorities.

What won’t work: “AI is the future” and quick IPO promises

While American VCs value ambition in founders and love stories of reaching a ten-billion-dollar valuation in several years, with family offices, it’s exactly the opposite. Virtually no family office accumulated their wealth effortlessly and in a short time. Hence, the promise of a 10x return within three years is likely to elicit an ironic smile, especially now, when the first charm of the venture industry is gone.

Also, family offices have become well-versed in VC terminology, and are no longer intimidated by concepts like ARR, Series B, or SAFE. This means that pitching concepts like “self-driving is promising” or “AI is the future” doesn’t suffice anymore. Now, you need to present concrete figures and details, like generating a revenue of 10 million ARR, being EBITDA positive, and so forth.

Another thing is that FOs now have comparison points. If a typical VC receives ten thousand projects a year, at least 3,000 of these projects are already within FO’s radar, and this amount will double next year. They have evaluated the initial 500-800 technology projects, and have reviewed fundraising decks from over 100 funds. They can discern differences.

Thirdly, it’s essential to align your pitch with the specific type of business the FO is willing to allocate funds to. While before they allocated 10-15% to venture capital and startups in general, now, that 10-15% will go to specific segments based on precise filters, perhaps 5% directed towards B2B software, 2% in mobility-focused funds, and so on.

Personal touch remains crucial. To secure investments, building connections is vital, especially in situations where everyone is seeking funds. Establishing rapport, generating interest, and making a positive impression are key. Be prepared to invest time, effort and money into building these relationships.

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