

## GreenHills Ventures Wealth Management360

### Investment Banks' Perspective on the Family Office Direct Investment Trend

APRIL 29, 2013 | MAX KLIETMANN

The entry of family offices into direct investments in biotech and medtech is one of the most promising trends in the life science financing environment today. I have been in dialogue with a few investment banks that deal specifically with this type of transaction to get their perspective on the trend.

The general consensus is that it is a combination of objective and subjective factors. On the objective side, family offices are aware that from an economic standpoint the sector is too big to ignore: It is a significant piece of GDP, and there is powerful growth in demand as population ages.

On the subjective side, the family may have had a direct experience with disease or medical treatment, which strongly motivates them to make a difference. Their activism may commence with charitable giving or the funding of early stage research, and as their network and knowledge grows, they begin to see more pure investment opportunities and elect to pursue them.

But I was curious to learn more about the ways in which family offices should approach this move on a tactical level. How should family offices orient themselves to be successful in this pursuit? Here are the three keys to success:

#### Institutionalize

Often, direct family office investment in private companies has been an ad hoc pursuit rather than a sustained strategy. However, investors who build a more visible institutional profile are at an advantage for two reasons: First, by making direct investments into life science companies an integral investment strategy, the family office benefits from diversified investments. Second, by establishing a track record of effectively moving science forward, the family office stands to benefit from better deal flow and more attractive terms going forward. This institutionalization can be done in house, or via a strategic advisor such as an investment bank.

#### Lead the Deal

Once investors identify a company in which they want to invest, they may find that the management would prefer them to be a "lead" investor, one 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. However, being a lead investor does require a capacity for diligence, syndicate building and post-deal monitoring via board seats, which cannot be created over night. A strong outside advisor can shorten the path and avoid costly mistakes.

## Co-Invest with Strategics

Family investors share a long-term orientation with strategic investors such as big pharma corporate venture. In the current environment, we will likely see more financings in which corporate venture funds invest alongside active, institutional family offices, who are systematically investing in life sciences. The family office benefits from these structures by leveraging the diligence of the strategic investor. However, these relationships can become complex, so success depends on getting the other two pieces in place.

The general perspective among those close to this investor category is that the family office will become an increasingly sophisticated player in the life sciences arena. Those family offices seeking to enter the space have a great deal of opportunity, and can learn from the mistakes and successes of others by following the guiding principles laid out above – Institutionalize, lead the deal, and team up with the big strategic players. This ensures a compelling portfolio, top-notch deal terms, and the ability to move science forward efficiently over time.

### **About GreenHills Ventures**

GreenHills Ventures, LLC., established in 2001 as a private investment holding company and General Partners for GHV Fund I and GHV Fund II, (GHV Fund), an early stage venture fund and GHV Wealth Management Holding, LLC. (GHVWMH), a wealth management firm focused on alternative investments for its single and multi-family offices and institutions. For more information visit [www.greenhillsventures.com](http://www.greenhillsventures.com)

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