The Private Market Monitor

by

trica

a LetsVenture company

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The Private Market Monitor

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Co-founder and Managing Partner, AZB & Partners

"As recently as a decade ago, it was commonplace to find UHNIs and well-known business families with no comprehensive plan for their personal wealth, often with unfortunate consequences. Thankfully, the tide is now shifting as has been illustrated in 'The Private Market Monitor' by trica. As Family Offices take a better organised and concerted view of building and preserving their assets, this report is a comprehensive guide on understanding and allocating capital to private market opportunities."

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"2021 was an exceptional year for the startup space with 50% of India's unicorns created in the first 11 months of this year. Perceiving these market dynamics, we took the opportunity to partner with LetsVenture's trica for preparing 'The Private Market Monitor' on how Family Offices and UHNIs in India are allocating their assets in the private market and their major concerns. The report brings together historical trends, delves into the decision-making process, and highlights how investments are evolving in the private market."

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EXECUTIVE **SUMMARY**

ASSET ALLOCATION

The growing importance of startup investments

Private market investments remain the alternative investment of choice with allocations to startups and VC funds comprising 18% of the overall pie. This is quite aggressive when compared to a 15% allocation to other alternatives, 20% allocated to fixed income and 36% to listed equities.

The top motivating factors for participating in startups have been non-linear returns, direct exposure to technology companies and strategic interest along with an ability to add value to early stage entrepreneurs. A small proportion of respondents saw this as an avenue to engage the next generation of the family.

ACCESS MATTERS

Growing propensity to invest directly into startups

With over 40% respondents having doubled their allocation to private markets in the past 5 years, the interest of larger cheque writers to have a direct participation in a startup's cap table is increasing. Respondents had their private market portfolio comprising 47% direct startup investments, 32% exposure to PE/VC funds and 11% to venture debt funds.

Interestingly, when asked about the highest conviction opportunities over the next 3-5 year period, direct startup investments tied with Indian public equities; this was followed by PE/VC allocations and developed market equities.

RISK AND REWARDS

Time is right to get a cross stage exposure

While a cool 50% of family offices surveyed preferred the seed to Series A stage to enter a startup investment, 40% preferred late to pre-IPO transactions. A large portion of India's family offices and UHNIs have been late to participate in the startup boom. The cap tables of present Indian unicorns are dominated by global VC and PE funds and this has meant lower exposure of family offices to tech startups that are in the IPO pipeline.

But digital platforms are now making it easier for founders of large companies to run more frequent liquidity transactions in a simple and scalable manner. In fact, 39% respondents preferred secondary opportunities versus 46% who prefer primaries and 15% who actively explore convertibles.

BUILDING STACKS

Fintech and enterprise SaaS

Fintech and enterprise tech were the top two sectors of choice by a clear majority. For fintechs, a massive opportunity has been opened by Aadhaar, UPI and the Account Aggregator framework and we have seen the fastest pace of unicorn creation in this space.

Enterprise tech is riding the wave created by the large number of Indian software product companies that have successfully gone global — the recently Nasdaq listed Freshworks being the poster boy of Indian SaaS. A surprise was seeing muted conviction for the consumer tech space and this preference being tied to frontier tech opportunities.

Sudhir Kapadia
EY India Tax Leader

FOREWORD

Sudhir Kapadia, EY India Tax Leader, is a Chartered Accountant with over three decades of vast experience in advising clients on their tax strategies and efficiencies. He is an expert in matters relating to taxation and its impact on business and economy. He has advised Indian and foreign multinationals on cross-border investments and transactions, cutting across sectors like private equity, financial services, technology, and entertainment. Sudhir is the past President of Bombay Chamber of Commerce and Industry and chairs its Tax Committee. He is a regular speaker at noted national and international events and contributes to thought leadership related to taxation and policy.

2021 was an exceptional year for the startup space. With people and businesses starting to bounce back after the pandemic, the year opened doors to new avenues of business, and we saw a meteoric rise in investments and the success of startups and tech companies. These changing business dynamics look promising, especially for India. Over 50% of unicorns were created in India in 2021, taking the count to 78 in November 2021.* Reports suggest that India is likely to have 150 unicorns by 2025 and about 10,000 Ultra High Net worth Individuals (UHNI) with a cumulative wealth of $700 billion by 2024. The numbers are staggering, and investment opportunities are higher than ever.

Perceiving these market dynamics, we took the opportunity to partner with LetsVenture's trica for preparing this detailed report — 'The Private Market Monitor' on how family offices and UHNIs in India are allocating their assets in the private market and their major concerns. India currently has 140+ formalized family offices that invest, grow and transfer UHNI wealth, but not all UHNIs operate through a Family Office. The report brings together historical trends in this space, delves into the decision-making process, and highlights how investments are evolving in the private market.

The survey brings to fore that listed securities, fixed income and startups/VCs are the main areas where family offices and UHNIs have allocated their assets. Vis-à-vis investment in private market space, we see a steady increase and optimism. FinTech, Enterprise Tech and Consumer Tech are frontrunners for current and future investments, which is no surprise considering the digital transformation the pandemic has accelerated.

Along with direct investment into startups, many family offices channelize their investment into the startup space through VCs, for better due diligence. Insufficient internal resources and low success with direct deals have prompted them to rely on VCs. In our engagement with several family offices, we have gathered that most of them are becoming self-reliant and investing in digital tools for more informed decisions. Through 'The Private Market Monitor' survey, family offices and UHNIs have expressed their concern over regulatory issues including growing tax complexity and uncertainty in the wake of the pandemic.

Most family offices use operating costs and percentage growth in AUM as the two main metrics to measure their performance. Additionally, we see a rise in family offices deploying several strategies to optimize and measure non-financial performance. They are planning to secure their legacy in multiple ways, and many are making investment decisions based on environmental, social, and governance (ESG) factors.

The family offices in India have a long way to go to improve their non-financial factors, but they have their mind set at the right place. They have recognized the importance of ethical impact and sustainability. However, the time is now, and family offices should have a concrete plan in place.

With the steady rise in the number of family offices in India, economists believe that they will play a vital role in reviving the economy. We sincerely hope that this Survey report brings you insights to these changing market dynamics and the survey findings render thinking points for future consideration. We are grateful to the participants of this survey, comprising leading family offices and UHNIs, for their cooperation and sharing with us their perceptions and opinions.

The next five years look favourable, and we may get to witness a substantial growth in the technology startup space. With the proper market infusion, India may be on a similar path as the US. With more family offices and UHNIs moving away from traditional investment routes, the private market shows potential with high returns.

(Supported by KT Chandy and Surabhi Marwah, Partners and India co-leaders, EY Private Tax)

**Source: Venture Intelligence Unicorn Tracker*

Zia J. Mody

Co-founder and Managing Partner,
AZB & Partners

THE RISE OF FAMILY OFFICES IN INDIA

Zia J. Mody, Co–founder and Managing Partner of AZB & Partners, is one of India's foremost corporate attorneys. Zia is widely acknowledged for her expertise, ranking No. 1 in Fortune India's 'India's 50 Most Powerful Women in Business' list in 2018 & 2019 on which she has consistently ranked in the top 10 since 2011. According to the RSG India Report, clients praise Zia as a "problem solver," who is "meticulous," "thorough" and "accessible," and comes highly recommended for "any complex legal matter." Zia is dually licensed to practice law in India and the United States, holding an LL.M. from Harvard and having passed the New York State bar.

Family offices are an idea whose time has come. Several factors have led to their increase, both in terms of absolute numbers and the scope of activities carried on by them, over the last few years. Previously, it was commonplace for business families to co-mingle business and personal assets, in addition to adopting unhealthy governance practices such as evergreening of loans. Since the introduction of creditor friendly laws such as the Insolvency and Bankruptcy Code in 2016, families are particular about the safety of personal assets and keen to put in place structures to preserve and grow them. The pandemic has also provided an impetus to families to organise themselves and their wealth better, which in turn has provided a boost to family offices in India.

Another factor contributing to their growth, has been the recent spate of initial public offerings and acquisitions, which have created a new category of first generation ultra-high net-worth individuals. These individuals are frequently young and first-generation entrepreneurs who are willing to evaluate evolving concepts such as the family office. Therefore, family office structures, which help business families and ultra-high net worth individuals professionalize and institutionalize the management and holding of personal wealth, are in demand like never before. By some estimates, there are over 200 family offices in India today[1], and by 2025 it is estimated that around 30% of the estimated $100 billion to be raised by startups shall be invested by family offices.[2] These are numbers that are only expected to grow.

How family offices are structured

In their traditional form, family offices were entrusted merely with the management of wealth. However, in their modern and more expansive form, they are responsible for a much broader range of activities such as lifestyle management for their clients, managing the education requirements of their children, assisting with rent collection etc. How each family chooses to accomplish these objectives, and the structures which they adopt, depends on the specific needs and preferences of the relevant family. Families in the early stage of planning frequently begin with an embedded family office model, where they identify persons who are already within their organisation or who are well known to the family, to begin managing the family's personal wealth. While this option does offer the comfort of familiarity to the family, it may not always be possible for families to find

suitably qualified specialists for their specific requirements. The choice then is between setting up a single-family office model versus opting into a multi-family office model. If the family wealth is significant, and if the family prefers to set up a dedicated structure for family requirements, they may put together a single family office team to manage family wealth. This team would be given the limited responsibility of financial management, or a broader set of responsibilities such as estate and succession planning, philanthropy, family governance etc. depending on family requirements. Alternatively, the family may work with a multi-family office setup which offers the same services, in the capacity of a professional advisor, to multiple families.
This option comes with the advantage of providing access to large and qualified teams of professionals for the various requirements that a family may have at different points in time, in addition to the benefit of experience that the team may have in the course of working with other families who may have similar issues. Multi-family offices are also frequently less expensive.

Families contemplating the choice between single and multi-family offices are frequently concerned about hidden costs that may arise if a third party is entrusted with wealth management.

In this context, it is relevant to note that in July, 2020, the Securities and Exchange Board of India (SEBI) introduced regulations governing registered investment advisors, whereby it barred providers from offering advice and distribution services to the same client. Through these regulations, SEBI also prohibited non-registered advisors from referring to themselves as wealth advisors or independent financial advisors. Reputed multi-family offices now operate on a fee only basis, and some have been doing so since much before the introduction of regulations by the capital markets regulator.
When families look to set up a single family office, they sometimes do so through the setup of a separate entity where the family office functions are housed, in addition to assets being held from a succession planning perspective. This entity is frequently set up as a private trust, and occasionally set up as a limited liability partnership ("LLP") where different family members/branches may have a share. In setting up any kind of dedicated structure, families would first need to decide the objectives to be fulfilled by such a structure – whether the professionalization of personal wealth management, succession planning and seamless transfer of wealth to the next generation, centralization of decision making in relation to

family assets, protection against future estate taxes etc., based on which the most appropriate structuring option maybe decided upon.

How family offices invest

Traditionally, business families tended to prefer investing in fixed income assets, real estate or gold, or setting up new family businesses. The professionalisation of personal wealth management over the last decade, combined with the growing role played by next-gen family members and developments in the economy, has led to business families and high-net worth individuals looking at alternative categories of investments as well. They are now actively participating in the securities market, investing in startups, setting up or investing in alternative investment funds or other Indian or global venture capital and private equity funds, looking at areas such as impact investing and even evaluating asset classes such as cryptocurrency and art. As this Survey Report finds, listed securities account for almost 36% of the total asset allocation, followed by fixed income assets at 20% and startups/venture capital assets seeing an 18% allocation in 2020-21.

Interestingly, the offices surveyed consider direct startup investments/Indian equities, venture capital investments and developed market equities to be the top three highest conviction opportunities in the next three to five years. Some family offices are also examining debt investment opportunities, especially in cases where there is a reputable issuer with a good track record, if there is also an offer of a decent return and terms. In deciding on the choice of investments, families primarily base it on a well thought out investment strategy that best meets their specific requirements, while also keeping in mind the various laws applicable to different kinds of investment structures as well as jurisdictions.

For example, families looking to diversify their investments outside India, are often limited by the applicable outward remittance by individuals which is only USD 250,000 a year, under the Liberalised Remittance Scheme route. An alternate route, known as the overseas direct investment ("ODI") route, does allow an Indian company or partnership to send out a higher amount – up to four times its net worth, based on the last audited financials. However, the ODI route is only available for specified kinds of investments in a joint venture or wholly owned subsidiary which carries on an eligible business activity. This route cannot be used to make investments into listed securities, for instance, or any activity considered to be in the nature of real estate business or financial services.

Mature family offices also look to set up alternative investment funds ("AIFs") to pool private family capital. AIFs set up in India are permitted to invest in equity or equity linked instruments issued by venture capital undertakings outside India, subject to a maximum limit of 25% of the AIF's investable capital being invested overseas. The permission to make such investments is granted to SEBI registered AIFs on a first come first served basis, and is subject to other conditions such as the investment being permitted only in entities with some form of Indian connection, which is expected to generate indirect benefits to India. When it comes to Indian investments, AIFs are commonly considered as a way for multiple family branches or UHNIs to come together to share risk and costs and mutually benefit from underlying investments, while also pooling funds to enable the hiring of high quality professional talent.

Even as families consider different structures and ways to diversify, this Survey Report finds that direct startup investments and venture capital/private equity investments make up 47% and 32%, respectively, of the total private market portfolio of family office investments. More than 83% of family offices surveyed believe that in the next five years, private markets would account for over 10% of their overall asset allocation. Recent economic developments are proving them right to focus on these areas. As of November 2021, India has 78 unicorns and over 55,000 startups with some of the most successful ventures emerging in the technology space. As the Survey Report also notes, financial, enterprise, consumer and frontier technology industries are likely to be the sectors which are of the highest interest to family offices.

It is already common to see marquee family offices co-investing along with well-known venture capital and private equity funds into the startup space. Sometimes, we see family offices also being preferred to venture capital funds, as providing more patient capital and strategic benefits to the investee company. At the same time, family offices are also evolving to realise that these investments are uncertain and risky with 20% of those surveyed terming the perception of high-risk associated with such investments as being one of reasons for not venturing in private markets.

The Bottom Line

As recently as a decade ago, it was commonplace to find ultra-high net worth individuals and well-known business families with no comprehensive plan in place for their personal wealth, often with unfortunate consequences. Thankfully, the tide is now shifting. Families are now consciously taking out time to discuss important issues relating to family governance, intergenerational transfer of wealth, business succession planning as well as the management and preservation of their assets. This is a timely and necessary shift.

This is because, India ranks third in the world in the list of countries with the highest number of family-owned businesses, the majority of which are in their third generation. Evidence from other countries also shows that most family businesses split up beyond the third or fourth generation, which often results in a loss of value.

Family offices are both a much-needed intervention as well as an indicator of the seriousness with which families are now considering the issues of succession and personal wealth planning. These structures enable families to get the best advice together, from legal, tax and accounting professionals as well as finance professionals, so as to decide the most suitable financial and governance strategies for the goals of the family, in addition to getting the basic housekeeping in place in relation to family assets, such as nominations for financial assets, preparation of a personal balance sheet, updated wills for all key family members and a cataloguing of material assets which are not in the nature of liquid assets or real estate. Hopefully this will enable families to transition their wealth better to the next generation, and assist in preservation of long-term harmony.

(Supported by Shreya Rao, Partner & Co-Head of the Private Client Practice at AZB & Partners)

[1] https://cfo.economictimes.indiatimes.com/news/growing-trend-of-family-offices-in-india-and-the-need-for-family-cfo-services/84334078
[2] https://www.fortuneindia.com/enterprise/family-offices-thrive-in-tech-savvy-startup-world/105590

83%

Family offices surveyed believe that in the next five years, private markets would account for over 10% of their overall asset allocation.

Nimesh Kampani
Co-founder and CEO, trica

INDIA'S PRIVATE MARKETS ARE OPEN

Nimesh Kampani is the co-founder and CEO of trica - a LetsVenture company. He is an alumnus of Harvard Business School and a Chartered Accountant with more than two decades of experience in banking, financial services and capital markets. Prior to joining LetsVenture, Nimesh led the Investor Relations function at Kotak Mahindra Bank, the seventh largest company in India in terms of market capitalization ($40 B). In his 18 years with the Bank, he held various roles ranging from proprietary investment desk, management and reporting to piloting expansionary projects. Nimesh is also the founding venture partner for the recently launched revenue based financing fund N+1 Capital, Axis AMC's Growth Avenues Fund and advisor to Campus Fund.

Is the India story big? Yes, and it has been big for many years now but the question I believe we need to really ask: Is it deep enough?

The answer is not yet. And therein lies the opportunity. We have a long way to go to really create value and wealth by investing in India's technology startups; let me present to you the following stack:

	India	China	USA
Population	1.39B	1.44 B	330 M
Smartphone Penetration	31.8%	81.6%	63.8%
Unicorns	71	277	402

**Source: Counterpoint Research, Venture Intelligence (as on Oct 2021)*

But… the times they are a-changin'.

When we look back, I do believe 2021 will be recognised as the tipping point. For one, 33 of India's 71 unicorns were created this year (as of Oct 2021). Most reports have pegged India as having 150 unicorns by 2025; I reckon this number will be revised upwards in the next edition of these reports. Now one may argue that a combination of low interest rates globally and the US money printing press has made liquidity ubiquitous in both the public and private markets and that has led to never-seen-before dollops of dollars flowing into India. I'll be the first to admit that this is absolutely right. This capital has precipitated a bull run like we haven't seen since the late 1990s and like all bull runs this one too will come to an end; and at that time what every prudent investor will need to do is sit on time. That's the nature of capital markets.

But what this capital flowing into India has also done is that it has put money into the hands of young, hungry entrepreneurs who are ensuring that the digital adoption, which has hitherto been very low in India, changes rapidly.

These technology first businesses have much going for them over and beyond the capital that has come their way.

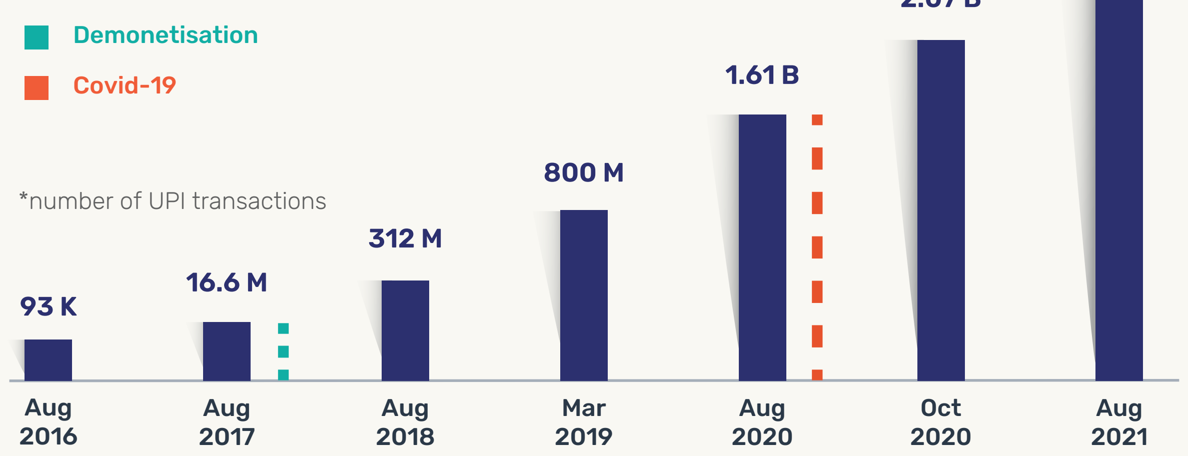
They are now reaping the positive impact of two black swans that India experienced in the past five years. The first black swan was demonetisation of November 2016 which proved to be a tipping point for digital payments and the second black swan was the March 2020 COVID-19 lockdown which really accelerated the pace of adoption of not just e-commerce but also digital services especially in the education, healthcare and enterprise productivity space.

Here's the story in 3 charts

From a mere 93,000 UPI transactions in August 2016 over a one year period that saw the demonetisation-led disruption, the number of UPI transactions had jumped to 16.6 million. By August 2020, a period that saw the worst of the COVID-19 led lockdowns, transaction numbers were at 1.61 billion and as of August 2021 we are well over 3.55 billion in number of transactions. And mind you UPI is just a part of the overall digital payments bucket.

As per the EY Global Fintech Adoption Index, this massive pace of growth of digital payments in the past five years has placed India alongside China as the country with the highest consumer fintech adoption rate in the world at 87%; where the global average is 64% and USA stands at #46.

#1 Digital payments take off

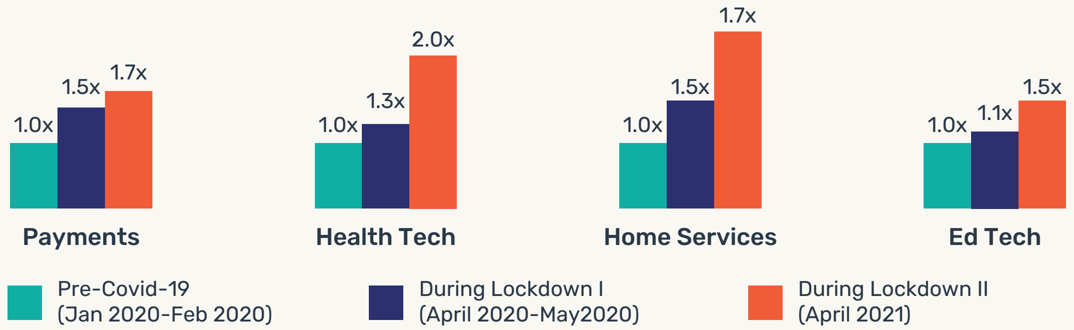


Source: NPCI

EY defines fintech as "organizations that combine innovative business models and technology to enable, enhance and disrupt financial services" and adoption rate as "consumers who have used at least one non-traditional financial service from a bucket of money transfer, payment, financial planning, savings and investments, borrowing and insurance."

With these tailwinds, and India Stack 2.0 which has given us the account aggregator framework to ensure better risk evaluation and recovery, the playground for India's fintechs is indeed very large.

#2 E-commerce and digital service adoption takes off



Source: Bain Report: How India Shops Online, 2021

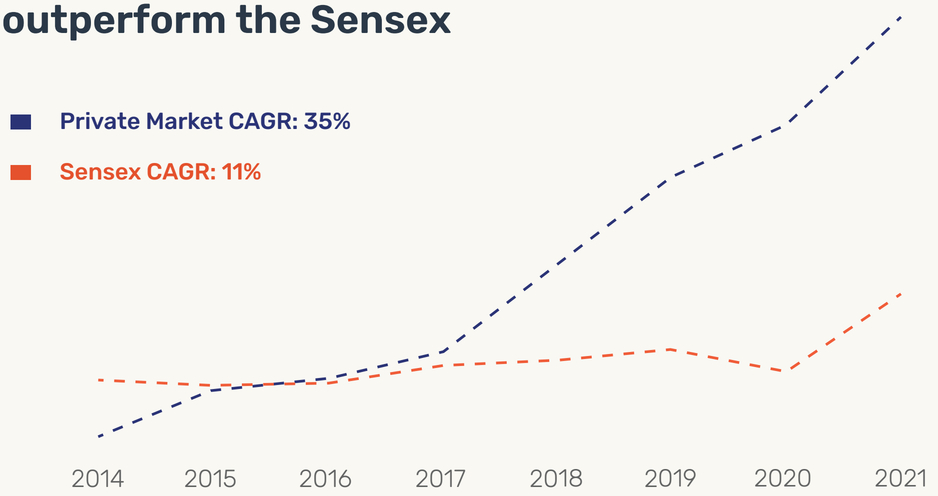
**Lockdown MAUs indexed to pre-COVID numbers*

India is home to the third-largest online shopper base of 140 million, only behind China and the US. However, the market is still massively untapped. There is immediate potential to reach India's large Internet user base of approximately 675 million people. And the multiple COVID-19 lockdowns have accelerated the pace of bringing this user base online.

While for the fiscal ending March 2021 India's overall retail market shrunk by 5%, the e-retail market surged by 5% to reach $38 billion. More importantly, frequent-use categories like groceries, personal care, healthcare, and education saw rapid growth. These habit-forming categories, which have a high share of repeat purchases online, also benefited from a concerted push to accelerate digital sales by leading brands. *But what really stood out is that the share of tier II and small towns to new customer growth in e-commerce post March 2020 stands at 80%. In addition to small towns, women and older shoppers have gained prominence in the online shopper base over the last year, and this trend is expected to continue.*

But despite the 12-month acceleration in e-retail penetration, by the end of FY21 we are only at 4.6% coverage. And it's this unfulfilled potential that is giving our recently listed consumer tech companies the kind of P/E multiples that are unheard of.

#3 Private technology companies outperform the Sensex



A study in the US showed that in the technology space, the age of a new company to go public has gone from 4.5 years in 1999 to more than 12 years in 2020. As more tangible examples, Uber and Airbnb, two of the 10 largest-ever tech IPOs, waited 10 and 12 years, respectively, before going public, long after they had disrupted the industries in which they operate. The same has been true for India with Zomato, Freshworks, Paytm, Nykaa and others.

In the present pipeline of tech startup IPOs we are seeing category and sector leaders listing. These are the best companies for retail investors and even institutional investors to decode metrics and figure out new dynamics of evaluating these companies. *If there is one thing we have learnt to focus on when evaluating any private tech company it is this — in the triumvirate of user, usage, and monetisation where does the business stand, and what moats does it have in each bucket.*

To my mind the listing of companies like Nykaa, Zomato, Policybazaar — large consumer internet companies — mark the end of the last cycle; the creation of unicorns like Moglix, Browserstack, Infra Market, Zetwerk, Innovacer — solid B2B or enterprise tech companies — marks the beginning of a new cycle. Our survey seconds this with fintech and SaaS topping the charts as sector picks by a mile.

The bottom line is that there is value and wealth creation that will take place in both the public and private markets for the patient investor who believes in the technology and digital disruption story. It's just that the private market because of its incumbent illiquidity actually provides some great behavioural nudges. When investors don't view prices daily, they may be more patient with the investment, hopefully realizing its full potential value over a longer time horizon.

On that note, I present to you the first edition of trica's The Private Market Monitor.

KEY FINDING #1

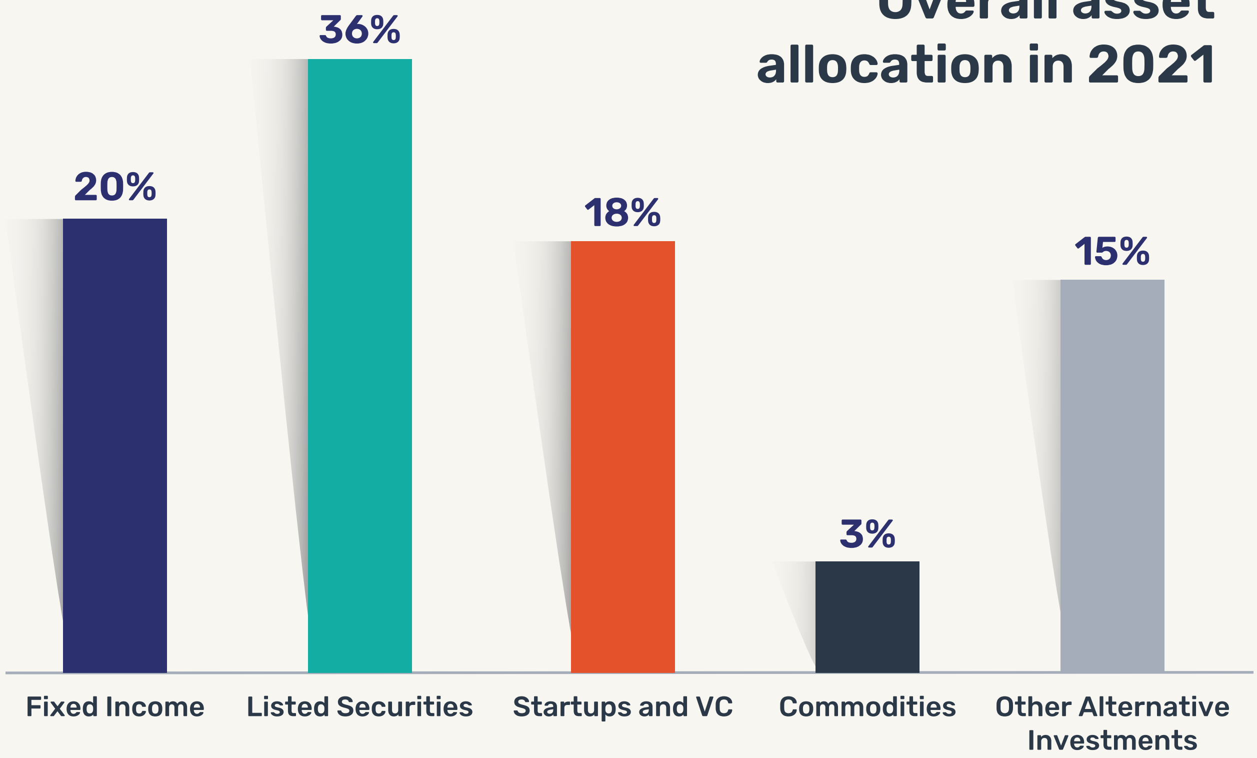
ASSET ALLOCATION

THE GROWING IMPORTANCE OF STARTUP INVESTMENTS

1.1 Private market investments remain the alternative investment of choice with allocations to startups and VC funds comprising 18% of the overall pie. This is quite aggressive when compared to a 15% allocation to other alternatives (real estate, infrastructure, art, etc.), 20% allocated to fixed income and 36% to listed equities. What's also important to note is that over 83% family offices have an allocation to private markets which is over 10% of their overall asset distribution and this number has been steadily increasing over the past 5 years for 50% of all respondents and has doubled for 40% of the participants.

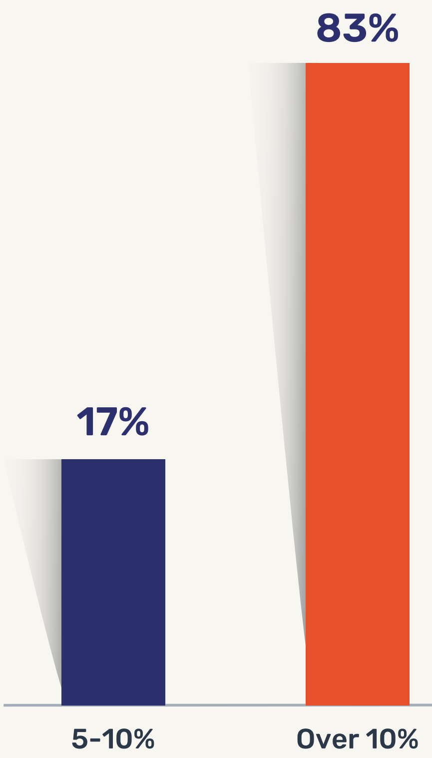
> *I believe innovation happens at the grassroots level. Startups give me direct access to the innovations which make a deep impact on society. From digital wallets to cab-hailing to food delivery, investment in every new sector has paid off in the past few years. My experience is that you will have to be cautiously optimistic while leaving the comfort zone. I'm very bullish about the startup scenario in India and will continue to invest.*
>
> *- Ex-MD of a Global Financial Services Leader*

Overall asset allocation in 2021



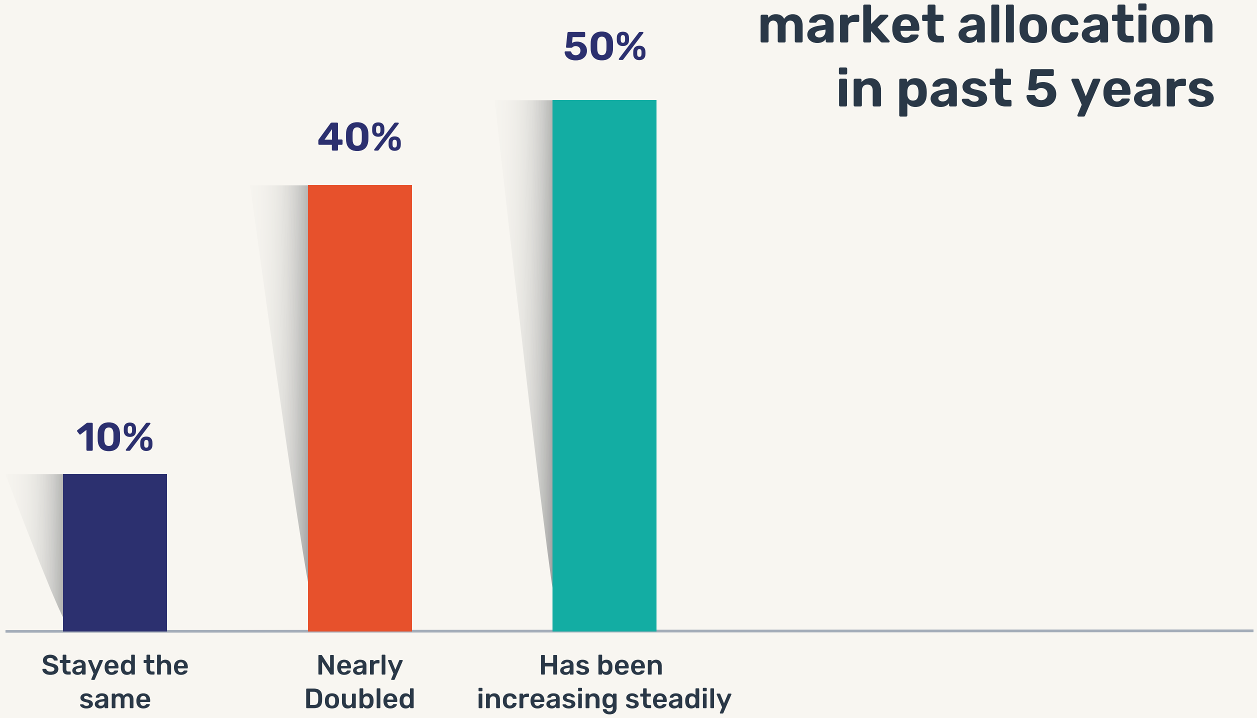
**Source: trica's survey of family offices and UHNIs*

How much of your overall asset allocation would private markets make up?



Source: trica's survey of family offices and UHNIs

Change in private market allocation in past 5 years

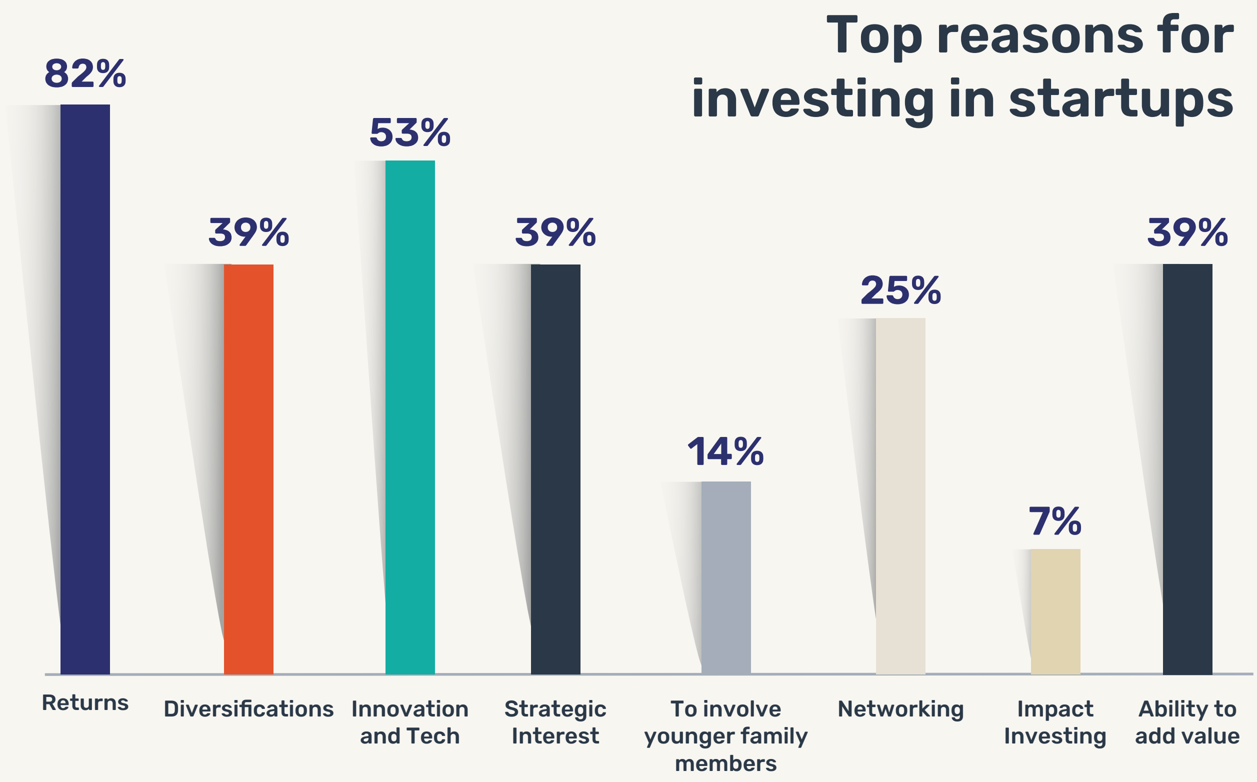


**Source: trica's survey of family offices and UHNIs*

1.2 The overwhelming majority of family offices chose non-linear returns as the top reason for participating in startup investments; this was followed by the motivation of getting direct exposure to technology companies and thirdly as a means of gaining strategic alignment with their core business with the ability and willingness to add value to an early stage entrepreneur's journey. Some of the other reasons cited to participate in this asset class included networking, involving younger family members and lastly creating social impact.

In the past five years we have increased allocation to private markets. But we haven't done this by cutting down our public markets allocation or exposure to real estate, and so on. We've ploughed back gains from our early startup investments back into the private market itself and in that sense, the capital has been recycled. We've grown a relatively small amount of initial capital into something that's become quite significant because returns on our private market investments have been much better than public markets.

- Sohil Chand, Chand Family Office



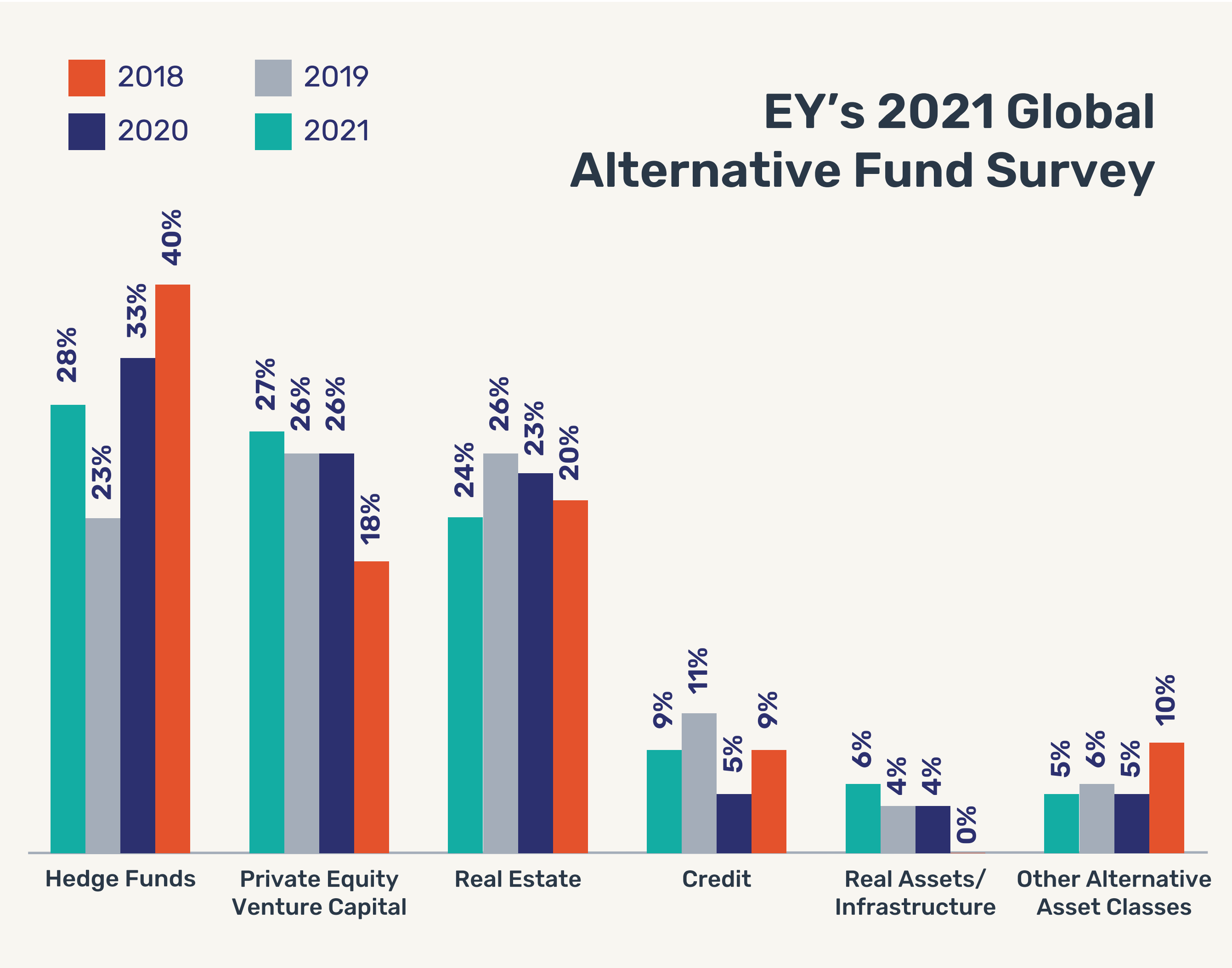
**Source: trica's survey of family offices and UHNIs*

trica take

This broader trend — of an increased allocation to private equity and startups and being overweight on this sector due to non-linear return profile of the asset class — is in line with global outperformance of private equity compared to public equity markets. This is coupled with the fact that private equity has also outperformed other alternative investments in the last decade. As private technology companies stay private longer, the quantum of wealth and value creation that takes place in the private sphere is disproportionately higher to what was happening a few decades ago. For family offices who typically have a very long term horizon for investments and wealth management, participating in this part of the market provides an opportunity to create truly exponential growth.

In fact, the EY Global Family Office Guide 2021 suggests that the primary drivers of this trend have been found

- *A search for better investment control*
- *Attractive risk-adjusted returns that have limited public market correlation*
- *Lower price volatility*


2018
2019
2020
2021
EY's 2021 Global Alternative Fund Survey
28%
23%
33%
40%
27%
26%
26%
18%
24%
26%
23%
20%
9%
11%
5%
9%
6%
4%
4%
0%
5%
6%
5%
10%
Hedge Funds
Private Equity Venture Capital
Real Estate
Credit
Real Assets/ Infrastructure
Other Alternative Asset Classes

KEY FINDING #2

ACCESS MATTERS

GROWING PROPENSITY TO INVEST DIRECTLY INTO STARTUPS

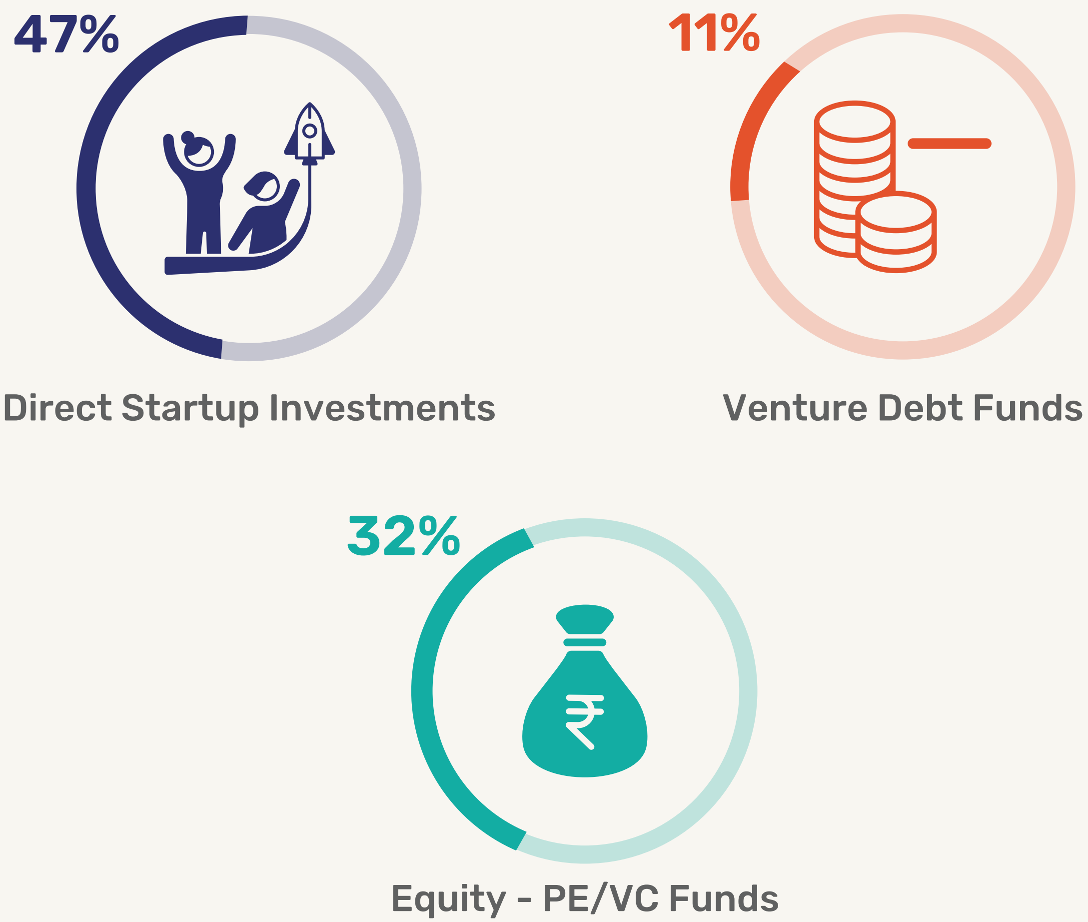
2.1

With over 40% respondents having doubled their allocation to private markets in the past 5 years, the interest of larger cheque writers to have a direct participation in a startup's cap table is increasing. Respondents had their private market portfolio comprising 47% direct startup investments, 32% exposure to VC/PE funds and 11% to venture debt funds.

When we started out exploring the private market space close to a decade ago access was available primarily through funds, now with the advent of platforms like LetsVenture and trica access to deal flow across stages is quite efficient and this to my mind has been a game changer.

- Ex-MD, Global Financial Services leader

Composition of the private market portfolio



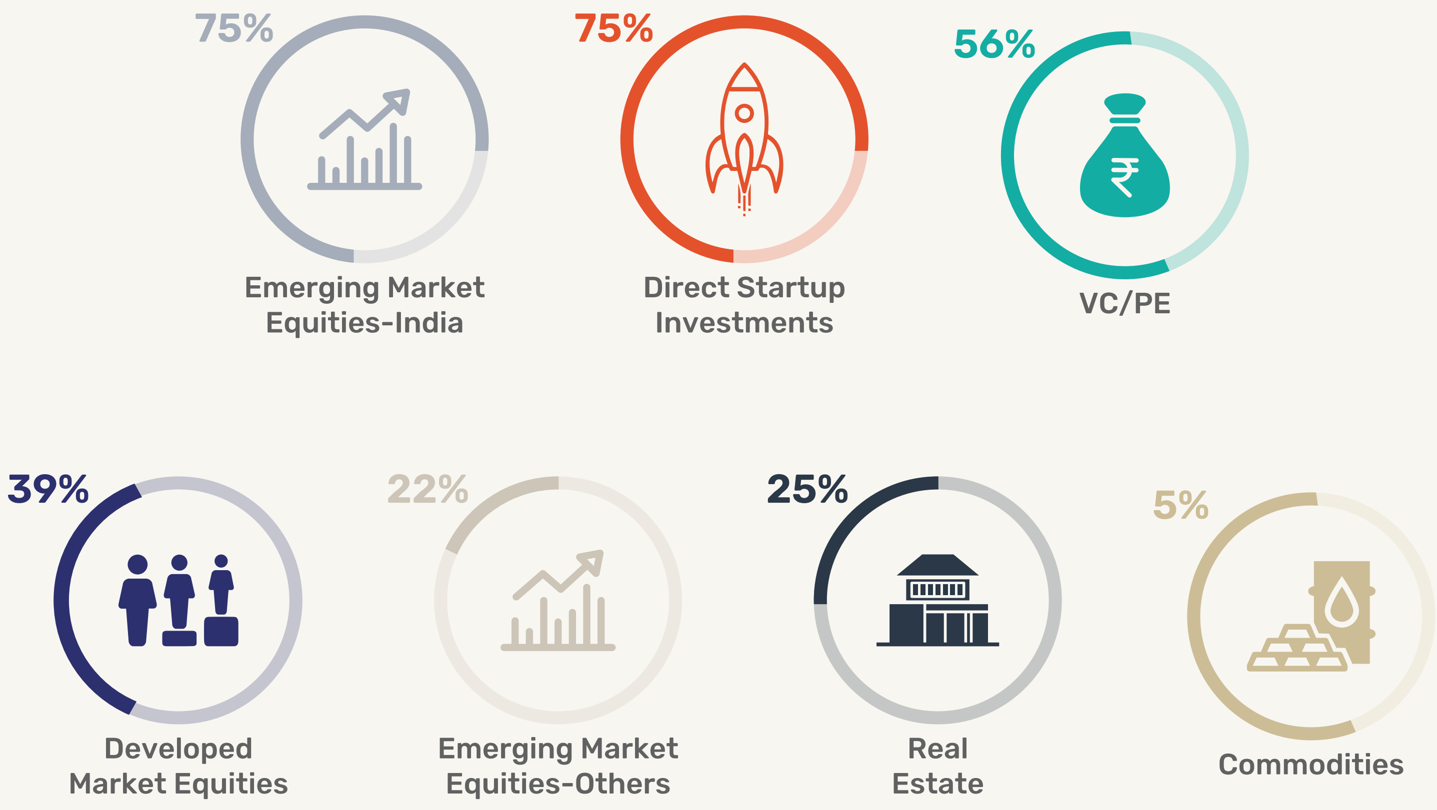
**Source: trica's survey of family offices and UHNIs*

2.2 Interestingly, when asked about the highest conviction opportunities over the next 3-5 year period, direct startup investments come out right at the top alongside Indian public market equities. The on-par conviction for the two reflects the optimism investors have about the relatively newer startup investment asset class. Even here we saw allocations to VC/PE come in lower down in the pecking order followed by interest in developed market equities.

75%

Investors see direct startup investments as the highest conviction opportunities in the next 3-5 years

Highest conviction opportunities in the next 3-5 years



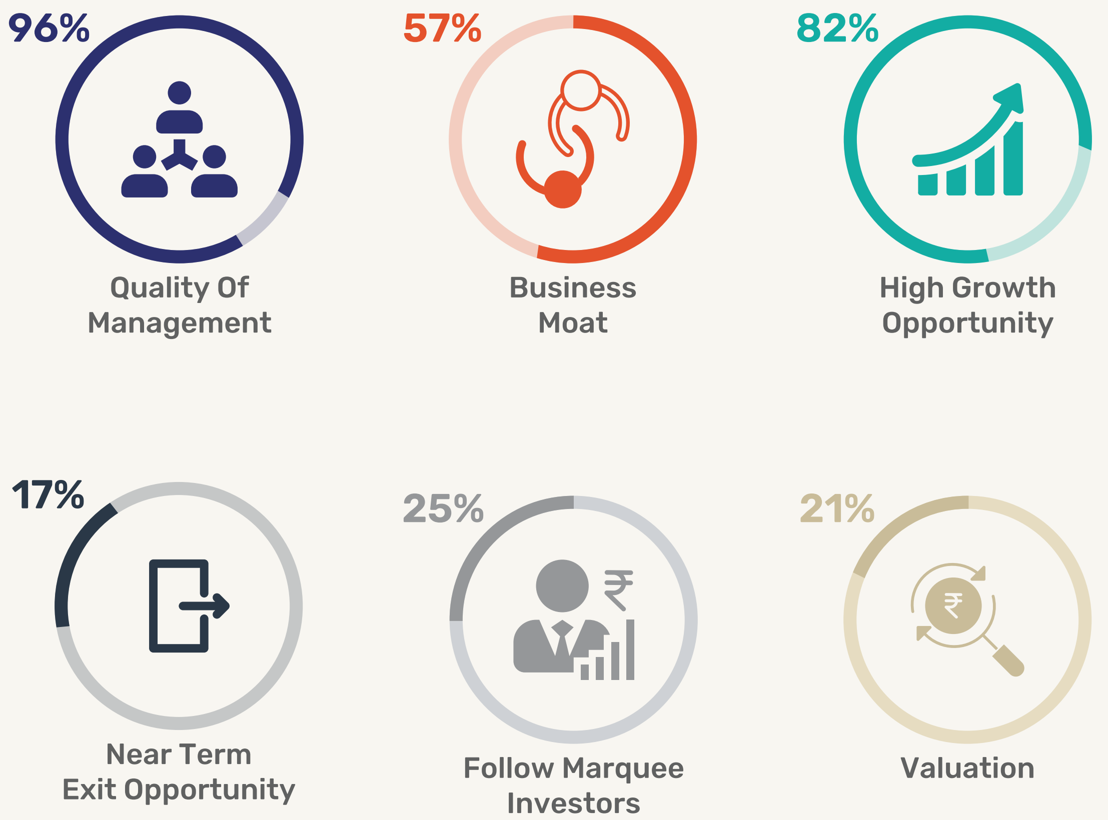
**Source: trica's survey of family offices and UHNIs*

2.3 For investors evaluating large quantum of direct deal flow, the top factors to take into consideration when investing were quality of leaders, high growth market opportunity and the presence of a strong business moat. Marquee co-investors or follow-on investors, valuations and near term exit opportunities were not very compelling reasons when writing direct cheques into startups.

Too many investors when they start out are focused on valuations; and I think that's the wrong end of the stick. Founders have to build a good business - whether it is finding the right kind of customers or creating a need for something that does not exist right now. Valuation of the company will be a function of this, not the main driver of business. So we consciously do not support businesses, which are based on pure valuation, or on growth at any cost. These two business models we don't engage with at all.

- Sunil Kant Munjal, Chairman, Hero Enterprises

Top factors to consider when evaluating direct startup investments



**Source: trica's survey of family offices and UHNIs*

trica take

Preferring direct startups investments is a trend in line with what family offices have done globally. Literature and reports show that typically family offices have started on their journey of private market investments by first allocating to fund of funds, then VC/PE and venture debt funds; and as they have gained insights and understanding of how the market works, how diligence is conducted; they have dipped into direct investments.

For family offices that have long established credentials and presence in the market, "deal flow" tends to be inbound but direct opportunities are also being increasingly sourced from digital platforms and as co-investments alongside VCs.

Interestingly, when we asked family offices why they preferred the VC route for investments the top three reasons were:

- *To outsource deal analysis and due diligence*
- *Insufficient internal resources and expertise to conduct DD and manage the transactions*
- *Interest in leveraging relationships with GPs to get direct deal flow*

This trend we see in India is in line with how global family offices operate as suggested in the 'EY Global Family Office Guide 2021'. An excerpt from the guide:

Private direct investing requires the implementation of a formal investment committee process to identify, vet and execute new opportunities as well as manage ongoing portfolio needs. Some family offices have chosen to team up with other family offices to pursue this strategy as a club. This offers attractive synergies in infrastructure, deal sourcing and idea sharing but also creates governance issues with investment selection and ongoing management. For small to mid-sized family offices, the club approach may also enhance their overall competitiveness in the marketplace by increasing the capital available to pursue new opportunities. This is an important criterion in winning a competitive deal. While family offices often possess the foundation needed to create a successful direct investment strategy, investment gaps can exist at each phase of the process. Family offices, like traditional asset managers, often rely on outside professionals to assist with specific services that are not carried out in-house (Ex: M&A advisory, capital markets advisory, legal advisory, tax advisory, accounting). This is particularly true as a family office platform initially begins pursuing the private direct investing strategy. Over time, however, as it gains experience and builds out its infrastructure, many of these professional services can be brought in-house.

KEY FINDING #3

RISK AND REWARDS

TIME IS RIGHT TO GET A CROSS STAGE EXPOSURE

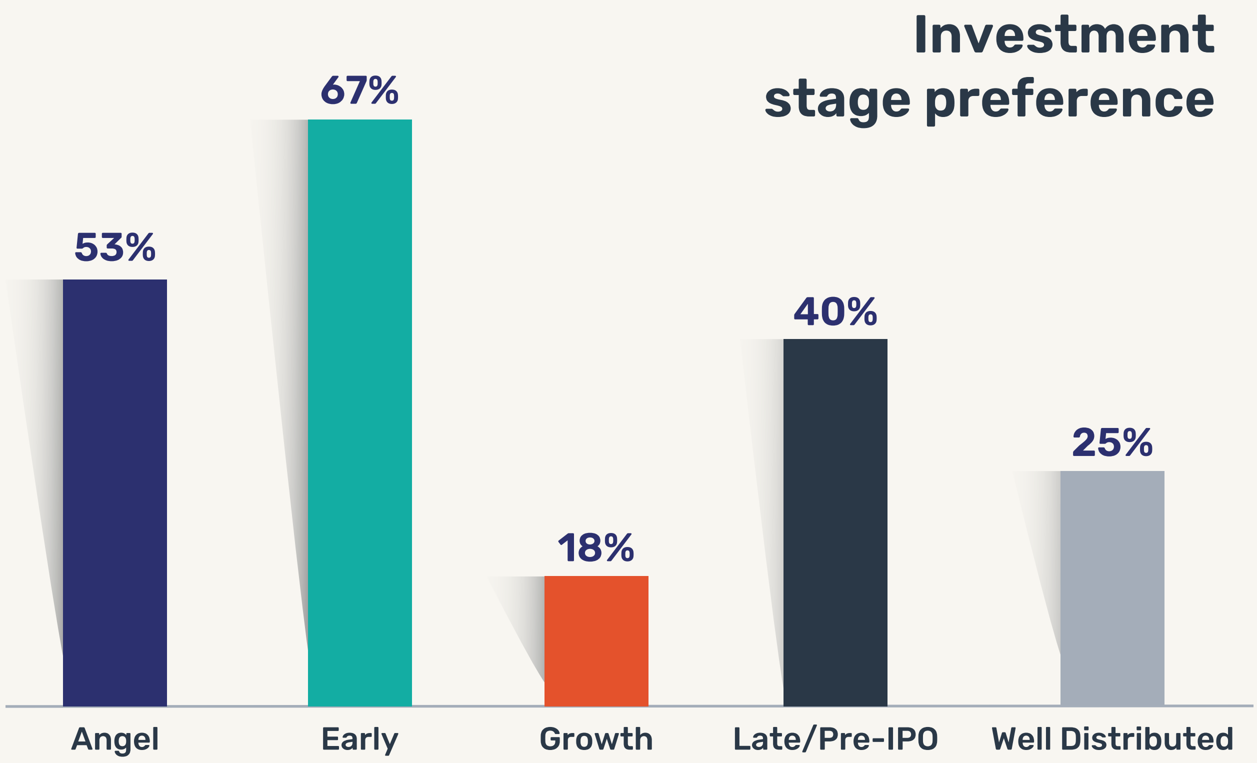
3.1

A cool 50% of family offices surveyed preferred the seed to Series A stage to enter a startup investment, 40% preferred late to pre-IPO transactions while 25% stated a preference for having a well distributed portfolio across stages.

From a broader market perspective, a August 2021 report by EY and the Indian Private Equity and Venture Capital Association (IVCA) — 'State of Indian Markets: Investment Environment (Startup) Report' finds that late-stage technology deals at an all-time high in India with a total of 500 deals attracting venture capital funding to the tune of $17.2 billion in the first half of 2021 compared to a total of $11.1 billion in 2020. There were 245 early stage deals up until September 2021, compared to 498 deals in the same time in 2020.

Early-stage investments give us time to think of long-term strategy and give an opportunity to evaluate our risk appetite as well. The startup scenario in India is more conductive today than ever before. There are more and more sectors such as renewable energy, e-waste management, SaaS, fintech, biotech that are opening up and presenting a lot of opportunities. We look at companies where technology is the biggest moat and our preference is to invest early and stay invested.

- MSPL Family Office

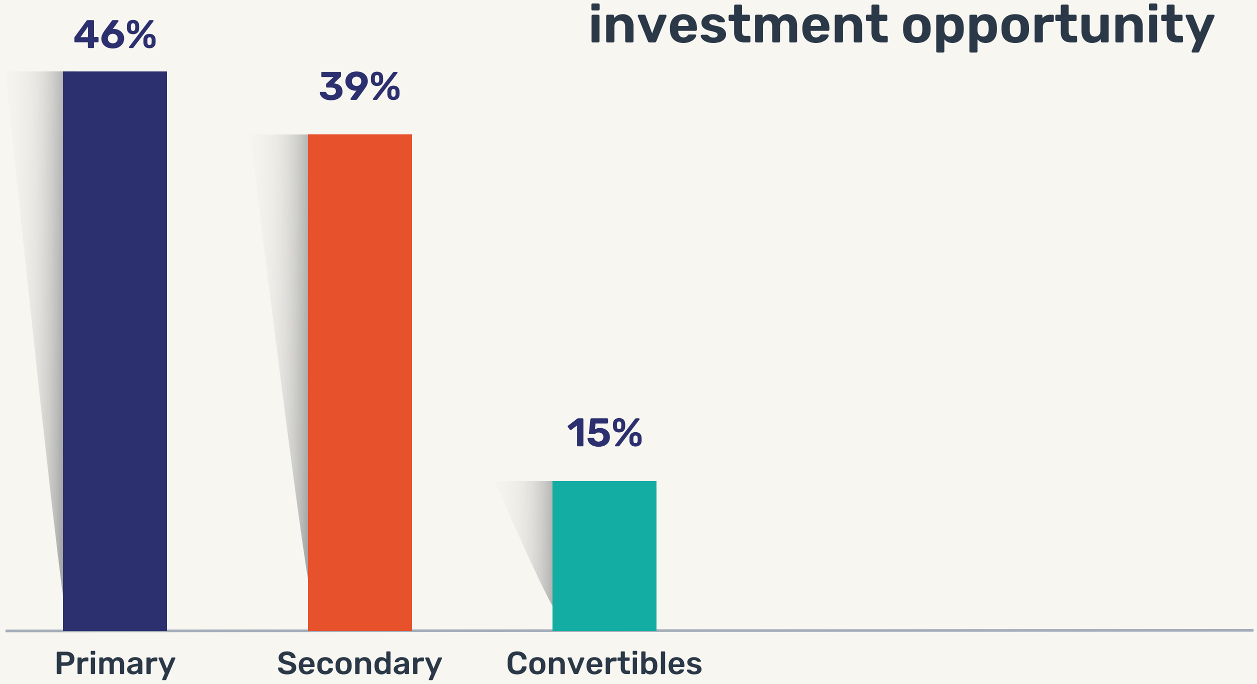


*Source: trica's survey of family offices and UHNIs

3.2 What was also noted was an inclination for family offices to enter growth stage transactions via secondaries while keeping a higher allocation for early stage primary transactions. Investors were also comfortable with convertible instruments indicating that right of participation is perhaps becoming more important than valuations and shareholding per se.

> *India has seen a record number of companies attain the unicorn status in 2021. And almost all the companies in this group were extremely good players at the growth stage (post Series B stage) as well. From a risk distribution point of view I do believe investing in growth stage startups is extremely important and this strategy has served us well over the years."*
>
> *- Mumbai based family office*

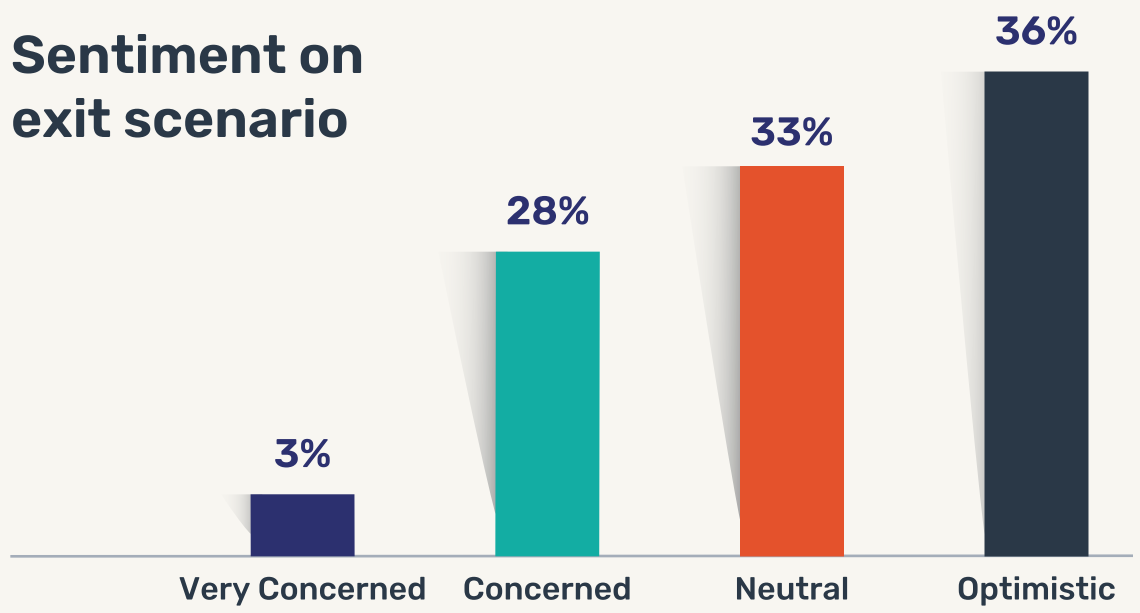
Preference for type of investment opportunity



Source: trica's survey of family offices and UHNIs

3.3

Most investors took a favourable view on the exit scenario with 36% and 33% in the optimistic and neutral zone and 28% having some concerns. As a percentage of respondents those with higher VC/PE holdings expressed greater concern than investors with a larger direct holdings portfolio.



Source: trica's survey of family offices and UHNIs

trica take

A large portion of India's family offices have been late to participate in the startup boom. The cap tables of present Indian unicorns are dominated by global VC and PE funds and this has meant lower exposure of family offices to tech startups that are in the current IPO pipeline. But digital platforms are now making it easier for founders of large companies to run more frequent liquidity transactions in a simple and scalable manner. This in turn is leading to family offices, UHNIs and funds being able to more easily participate in secondary transactions in a 100% compliant and secure manner. Investors are now able to spread out their risk exposure across stages and take predominantly return-based bets in the later stage of the market.

While, exits were less of a concern for investors, the other concerns raised by investors were:

- *Changing tax laws in India and the lack of parity in the treatment of capital gains in the public and private markets*
- *Complexity of tax compliance across global jurisdictions*
- *Equity market volatility globally*

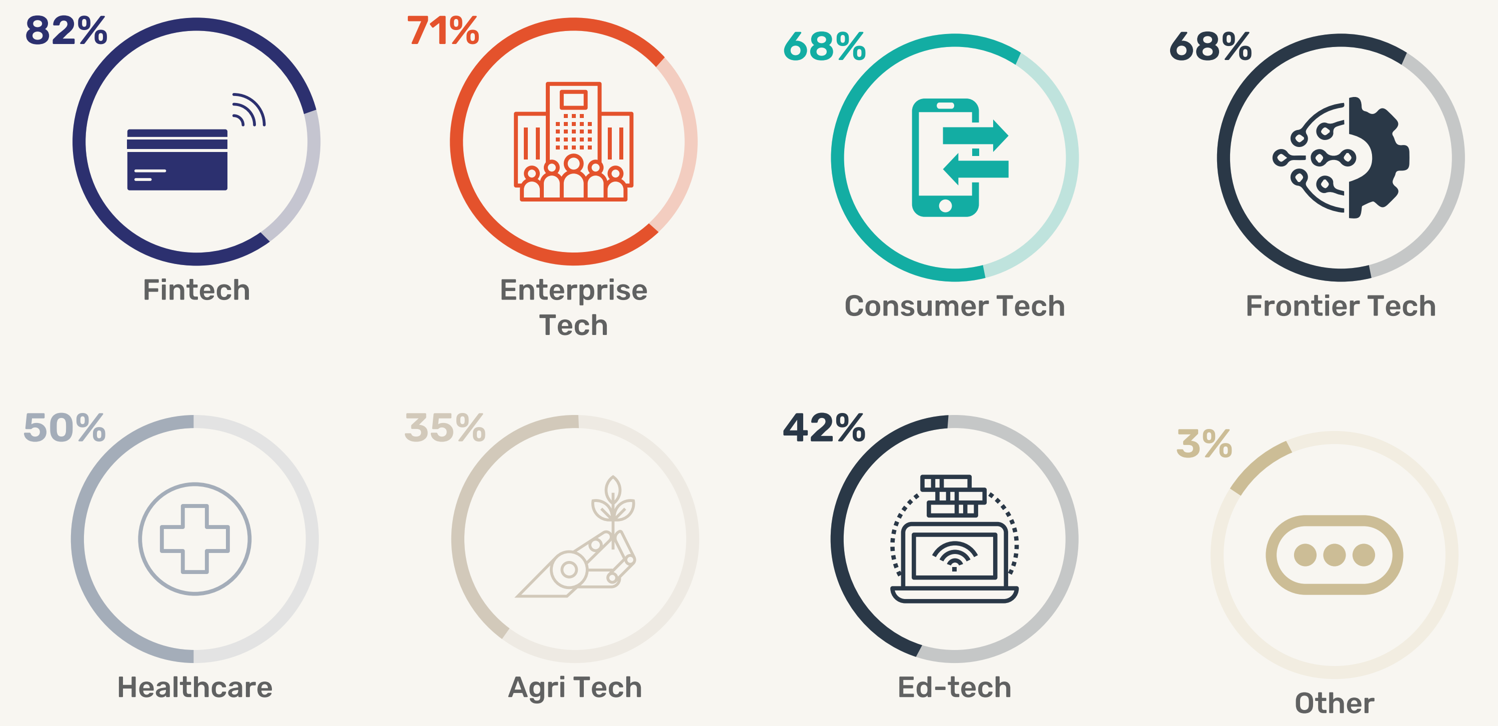
KEY FINDING #4

BUILDING STACKS

FINTECH AND ENTERPRISE SAAS

Fintech and enterprise tech were the top two sectors of choice by a clear majority. For fintechs, a massive opportunity has been opened by Aadhaar, UPI and the Account Aggregator framework and we have seen the fastest pace of unicorn creation in this space. Enterprise tech is riding the wave created by the large number of Indian software product companies that have successfully gone global - the recently Nasdaq listed Freshworks being the poster boy of Indian SaaS. A surprise was seeing muted conviction for the consumer tech space and this preference being at par with frontier tech opportunities.

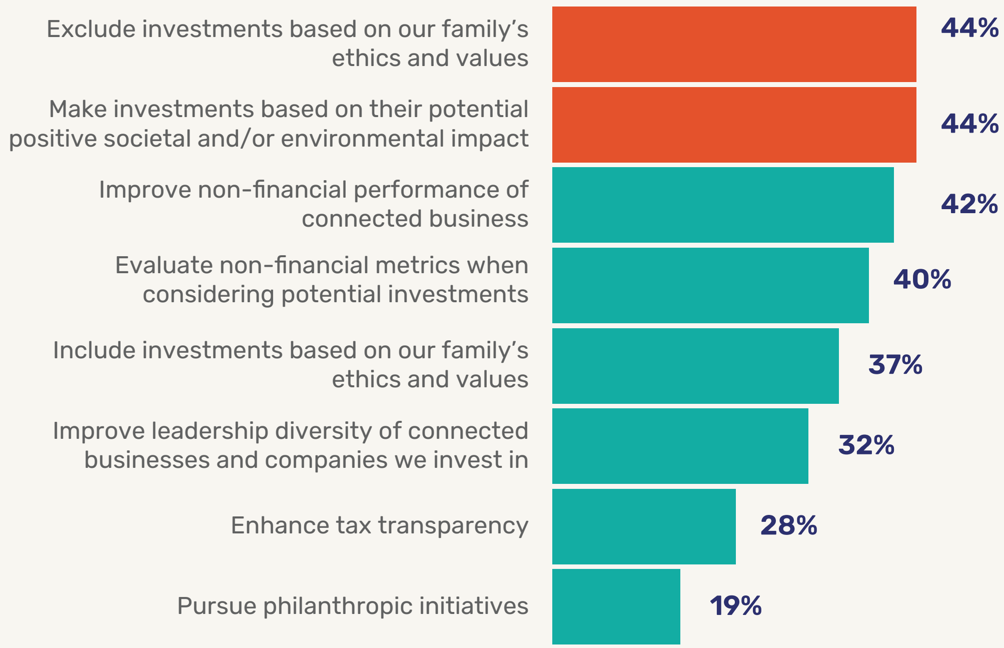
Sectors of interest



**Source: trica's survey of family offices and UHNIs*

Interestingly, the EY Global Family Office Guide 2021 also found that family offices are deploying a number of strategies to optimize and measure non-financial performance. Family offices plan to optimize performance and secure their legacy in multiple ways, and many are making investment decisions based on environmental, social and governance (ESG) factors. Over the next 12 months, 76% of family offices globally plan to implement at least three initiatives listed in the chart.

Strategies to optimize and measure non-financial performance



**Source: EY Global Family Office Study 2021*

Sunil Kant Munjal
Chairman, Hero Enterprises

STRAIGHT SPEAK

Sunil Kant Munjal is one of the founder promoters of the Hero Group, India's premier automotive manufacturing group that has evolved from being the world's largest bicycle-maker to the largest two-wheeler maker. He is now the Chairman of Hero Enterprise, with interests in insurance distribution, steel-making, real estate, corporate training and an active Investment Office. The Investment Office has made strategic investments in several areas ranging from e-commerce to hospitality. Mr. Munjal also supports startups in digital learning, community transportation, healthcare, women empowerment, education, financial services, consumer-facing businesses, etc. The Investment Office runs a portfolio of structured debt, public market investments and private equity investments in India and global markets.

Let us begin by very simply understanding why you angel invest?

To be honest we do not do a lot of startup investments now, at least not at the pace that we were doing earlier. At the time that we started investing in startups there was actually very low access to risk capital, almost none actually. My belief was that in a country like India, with so many young people with such amazing ideas it is a shame that we are not able to facilitate them taking ideas to reality. So we promoted a few initiatives for angel investments like seeding the Indian Angel Network and once there were enough of them around, we moved up to the next level, doing venture level funding. And then once they were enough domestic venture funds seeded we moved up to slightly larger investments – the single ticket size grew. We started looking at steady state businesses that were seeking either growth capital, or an acquisition or some major restructuring. But the very point of starting anything at all was to encourage and help startups as a culture and strengthen entrepreneurship in the nation. Worldwide, a lot of the energy in the economy comes from startups, some of the best ideas worldwide are actually coming from startups, even for the use of the large established companies, and we saw no reason why India should be left behind. So that was actually the reason for us getting into the private markets.

When we look at private markets, there are three primary things investors use to evaluate startups – team, innovativeness of the product and the market size. What weightage do you give each of these?

Most investors will have a financial criteria they look at as well. But financial modelling is frankly exactly what it says – it's just a model. It doesn't quite mean anything and in almost all cases, reality tends to overtake these plans. So, what we look at is the passion of the founders; because passion has a magic quality, which allows people to do much more – to find solutions when things don't work out.

The second thing we look at is, have any of them dealt with failures and have they actually learned from failures. Next, we look at the business and ascertain if they are providing a social good or if there is a definite positive social impact — for us this is a necessary ingredient to support any business.

We don't just write a cheque and walk away, we actively support and mentor founders, we help them no matter what the area of support is — technology, branding, distribution and marketing. Having run businesses of all sizes, I guess we have a little bit of an advantage of hindsight of not just knowing what works, but in most cases and more importantly, what does not.

So ultimately, it is about the team and execution and not chasing valuations... Yes, I think too many entities when they start out are focused on valuation. And I think that's the wrong end of the stick. They have to be able to build a good business — whether it is finding the right kind of customers or creating a need for something that does not exist right now — and doing this efficiently. I think valuation should be a function of this, not the main driver of business. If you run a good business, profit and value will come, it's a natural fallout. So one of the things that we have done, by the way, is that we have actively not supported businesses, which are just based on pure valuation, or on growth at any cost. These two business models we don't engage with at all.

Valuation is an outcome and not the input. But let me ask you how you arrive at some of the answers. Is there a question that you double down on when you are evaluating a business idea for investment?

The one thing I like to ask any founder is: do you know who and where your customer is? Because very often, you have built a fantastic business model based on something which is in your head. You think this is a great idea, without actually testing it out. Is there an actual customer out there who's going to consume this and pay for it? This applies to both direct consumer business and B2B businesses. This granularity is unfortunately always missed out.

Let us just zoom out a bit. How do you arrive at asset allocation as a family office?

Asset allocation is going to be unique to each family depending on the stage of development of the family office. It also depends on what the needs are and what is the surplus that can be allocated, either on a one-time or regular basis. Broadly, it's a three way split — 1/3 where you can take high risk for high returns, 1/3, which you want to keep quite safe and 1/3, which is middle of the road. Of course, what we do is much finer — identify many micro categories and allocations, because our investments are across the board — all the way from RBI bonds to startups.

In the private market bucket — how do you split between funds and direct startup investments?

We have actively supported several funds but like many family offices are saying globally, we want to take hold of our own destiny. A recent study has shown that 48% of investments from family offices are now becoming direct investments and another showed that number to be as high as 62%. *Essentially the thinking is — I will make the investment, I will build the expertise. And this is natural because principals in these family offices have run businesses, they have the organisational capability and the ability to understand risk already exists.* Remember, when we were investing in startups it was quite uncommon and we literally had the pick of the crop. But we have always been picky — we get lots of offers every month but we take our time. Ours is patient capital — we're not answerable to anybody else to give them a return in two years or seven years and so we are able to take the decisions, which are just the right decisions, regardless of how long it's going to take. We also have a very strict criteria for selection and approval. We try to make it objective and disciplined as possible before we lay the final subjectivity on top of that.

The other area to which family offices also allocate capital is philanthropy and here the lens can be varied — promoting the family's culture, nation building, environment and ecology and so on. More and more family offices are therefore investing in companies and businesses which address these issues or actually working directly in these areas. It's no longer only about funds, there is an added layer that has come in, especially in the last five years.

Could you elaborate on this a little more?

It is now being seen as a responsibility, or a new contract between business and society and business and government. There is a new understanding that if you're not playing a bigger role beyond your business, then you're falling short of the expectations of you. So in many cases, the family offices have started to play an active part of that role, while the operating companies play some of it, but more of it has shifted to family offices because here you can allocate serious time, resources and talent.

Would it be fair to say that there is a thin line between philanthropy and value investing? Is there no expectation of returns?

We have invested in some impact investment funds but we actively support other initiatives where there is no return expected. But those foundations, those charities, those institutions, have to become self-sustaining at some time. Especially the ones we promote and run ourselves - to all of them the brief is very clear that we will fund them when there's large capex required, or there's a problem but they have to go out and become self-sustaining over a period of time.

Is there any advice that you would like to give some of our largest companies that are heading for an IPO? What are the top three things that come to your mind?

The first one is discipline in process. Second, is discipline in reporting. Because these companies are so busy building their business, they sometimes forget to have a formal reporting system to talk about what's going on. And third, some of them actually try to hide the negative stuff, which is very dangerous. So that's the one discipline that the listing will bring that you have no choice but to share everything. Having said that, our regulations are so stiff for listing. And it's not just in India, the listing in London, for example, is even tougher, if you go to New York Stock Exchange, it gets even tougher. All of them have pretty stiff requirements of how you run the board — the governance models, the distinction between governance and management. This is something one should think about very carefully before opting for the listing, because it does tend to change the way you will run your business.

What amazes you when you see the startups of today and what disappoints you?

What amazes me is the number of brilliant new ideas each time you walk into a meeting. What certainly scares me and sometimes disappoints me is this mad craze for the valuation that has now crept into company after company after company. And the other one, is the unpreparedness for failure — not being ready with a safety net or a second option to change course. In some cases the company becomes so rigid that it would rather break than shift or bend.

Jamshed Jeejeebhoy

Director, BJ Limited

STRAIGHT SPEAK

With a family legacy of land ownership and philanthropy, the Jeejeebhoys have helped build Mumbai into what it is today. With India entering a new phase in its history, the family business group is now trying to do their part by contributing long term capital to new age businesses whilst keeping the foundations built on integrity, sustainability and giving back to society intact. The group's vision is to re-align the family wealth from land assets to financial assets, and the goal is to build a professionally run family office with diverse investments. The group's current venture portfolio consists of investments into various early stage and a few late stage B2C tech companies, B2B product companies and funds. The group prefers to work closely with fund managers and make direct investments into companies, including equity and debt / asset financing. We caught up with Jamshed Jeejeebhoy.

Let us start with the broader outlook - from the point of view of the family office, how do you approach the private markets from an asset allocation perspective. What are the qualifiers to make this allocation?

I think it would be wrong to say that we have to look at private markets from a financial allocation or risk perspective. The primary reason that we look at private markets, and especially early stage companies, is that we believe that in India, and globally, there is a tech-tonic shift in the way businesses are being created, built, run and of course valued. This is in line with the needs and behaviours of individuals and corporations in today's world. *If we as a family are to stay relevant in the future, then we have to be in touch with the companies of tomorrow. And these companies are being incubated today.*

What guides the distribution between VC / PE funds and direct startups?

It is always our aim to eventually work directly with founders and companies, however, there is no question of the value and guidance provided by top tier funds to investors and founders alike. We aim to work with companies alongside funds, rather than seeing them as a separate channel. But of course families do have to be cognisant of fees and expenses as a leakage in the overall portfolio performance.

While every family office has its own prerogatives as far as investing and managing money is concerned - what are some of the principles that have held you in good stead?

We try to read a lot and form a view of the world around us. We try to work with the best people, and at the same time try to be good people to work with. We set as high a benchmark for diligence in our investments as a team our size is capable of. We try to understand problems from the bottom up — you could say first principles thinking. We also understand that to build a successful family office will take time, it is a marathon and not a sprint, and therefore being patient and being able to stay in the game is important. We also understand that luck can play a large part of success, but we try hard to be in the right place at the right time.

Any key learnings along the way on setting up and building the investment office?

The best learning is through experience. There are no rules to success and each journey will be necessarily different. *I would say the most important thing in the early days is to stay open minded, nimble, and not be resistant to different ideas.* Create a team of people who think differently and challenge each other. This will bring about the best qualities in each member of the team. With time and expertise, natural advantages will emerge upon which families can take more concentrated positions.

How important is the ESG lens for your family office?

We don't necessarily label ESG as a focus point, but we do see these factors along with any others in assessing risk. I would hazard to say that all the private companies we work with impact society positively in some way, and we actively stay away from private and public companies with any ESG shortcomings. Having said that, I think we must do better in building a framework to quantify ESG standards for ourselves and for our investments. It is the need of the hour, globally.

Generally is there a preference for strategic investment plays versus optimising for financial returns? How does one strike a balance between the two?

This would not apply to us as much as it would to families who are running heavily operational primary businesses. In terms of our land and real estate business, we actively stay away from investments in that sector, as one of our aims is to diversify and reduce concentration in that sector.

You spoke about why direct startup investments are relevant and important, let's now discuss the hows. There are many factors that go into evaluating startups for investments but what are your top guiding principles?

We have a market and team led approach, we must like the market opportunity (size, but as importantly, timing) and it should be a scalable idea, with an energetic founder and team, not necessarily from the domain, but who can really take us to the bottom of the problem/ opportunity. If the market has to be created by the founding team, then the founders have to appear to have the ability to raise a lot of funding to fuel their vision. Timing is very important in venture investing, as different sectors tend to go through funding cycles, so we look for tailwind sectors. We look for natural advantages in the skill sets or personalities of the team as suited to their venture.There are many other factors depending on the businesses, but one important question we also always ask is 'from where and why the deal has come to us.' And we have learned to never fall in love with a product! It is many times the smaller factor in building a successful business.

The other aspects to base an investment decision on are returns, risk and diligence. Do you have specific teams or criteria to measure this?

We do exit analyses for all our businesses, it is a critical tool to assess our assumptions in the future and can be used to pinpoint where our assumptions went wrong. Risk is too complicated a topic to quantify, and is very subjective. We try to form a composite view and decide whether we can tolerate the major risks for the business as against the potential rewards from the exit analysis. If the probability is that we can overcome the risks based on the founding team's capabilities, we go ahead. We try to do as much diligence as we can upfront.

Your take on the top dollar M&A that is now taking place between India's largest business houses and "startups" - Reliance Jio has acquired several mid-stage startups, the Tatas have acquired category leaders like Big Basket, 1 MG at top dollar without drumming down valuations... How do you read this? What does this signal to you?

On the valuations, fantastic! It is one more proven channel for exits for well built companies, and will give another boost to entrepreneurs and investors alike. On the operations, I am a bit sceptical. Businesses have historically failed to innovate through acquisition, there are exceptions of course. But integration with large institutions is commonly known to be challenging, from process to culture.
I hope I am wrong though, and that the

ecosystem develops positively.
process to culture.

Your thoughts on how the transition of some of our largest private companies to the public markets will pan out

Cyclical – we are in a state of heightened euphoria and FOMO! This is bound to change. But in the long term, these companies are changing the landscape in India. They will surely make up the Nifty in the future. It happened in the US, in China, it will happen in India.

I cannot imagine an India without Zomato, Swiggy, Ola, Flipkart, Paytm, Policybazaar, Urban Company, to name a few consumer platforms.

Do you see the pace of exits increasing in the next decade and what impact will this have on allocation to the private market?

Unless there is a structural systemic change in India, I don't see the pace of exits decreasing. *Allocation to the private markets will only increase, and the perception of this being an alternate investment is already changing. This will become a key part of any portfolio.*

Sohil Chand

Chief Investment Officer, LC Nueva AIF

STRAIGHT SPEAK

Sohil Chand is the Chief Investment Officer of LC Nueva AIF* and principal at Yukti Securities, the investment office of the Chand Family that was established in 1997. Sohil was part of the founding team of Norwest Venture Partners India and co-led the VC fund's investments for over 13 years. Prior to joining NVP India, Sohil was an Executive Director in Goldman Sachs' Asian Special Situations Group, a balance sheet investing group with over $4 billion under management. Yukti Securities since 2010 has focused on early stage startup investments across sectors and the Chand family has recently partnered with global wealth and asset management company Lighthouse Canton to create an AIF that will double down on portfolio outliers at growth stages.

Yukti Securities was set up in 1997, can you tell us about how the investment office has evolved over the years?

The initial proceeds to set up Yukti came when my father exited the IT services business he had set up in the mid-1990s. Initially, the capital was used to buy stakes in operating businesses, manage those, with a view to liquidating them. But over time this evolved to backing great entrepreneurs, and working with them as they built their businesses. Some of our early successes were with companies like Veeba, Bakers' Circle and Biryani By The Kilo. What also helped was my personal background in private equity and venture capital since the 2000s, first with Goldman Sachs and then with Norwest Venture Partners in India.

Now for the past few years, my brother (Ashish Chand) and I have been running the family office on a full time basis, investing in a very systematic way with a lot of diligence. Our thesis is to go early so that we can get a meaningful stake in the business for relatively small amounts of capital, and to work with the entrepreneurs to build out the business. We invest for the long term and unlike a fund we do not have exit pressures but we do like to churn capital; we consistently look to exit our performing investments and reinvest in other early phase businesses.

We've not invested in PE/VC funds and wouldn't look to do that because we have that expertise ourselves, so why pay someone else to manage our money unless there was something really dramatic that they're doing? We don't see that in India yet.

But what we have done this year is set up an AIF in partnership with Lighthouse Canton (a global wealth and asset management company) with the objective of having more power to play. As a family office our focus will always be on early stage investments but with the outliers we would like to participate in later rounds as well – to ride out winners.

In the 20-odd years that your investment office has been active and your own ringside view of the venture and startup ecosystem in India, how would you say the approach of family offices and UHNIs to private markets has evolved?

When we started, it was mostly one off investments, some via networks like Indian Angel Network, etc and initially the capital allocated to private investments was extremely small — private market investing has become serious business for us only in the past five years or so when we massively increased the allocation to private markets.

But we haven't done this by cutting down our public markets allocation or exposure to real estate, and so on. What we've done is plough backs gains from our early startup investments back into the private market itself and in that sense, the capital has been recycled. We've grown a relatively small amount of initial capital into something that's become quite significant because returns on our private market investments have been much better than public markets. We've also fortuitously caught the right crests of the capital market cycles.

On a more general note what I have seen is that today family offices and UHNIs are willing to take more risk and make very early stage investments compared to the VCs. Most VCs today have a minimum cheque size of $5-10 M and are therefore playing in the mid-stages and the UHNIs are concentrated in the seed to Series A+ rounds.

You've made about 20-odd investments in the past few years, is there an investment thesis at play?

Some of our early bets were in the consumer space with an idea to diversify our allocation given that hitherto most of our private and public investments were in the IT and technology space. Today, if I were to summarise our investment thesis in a line it would be to say: we back non-linear growth businesses with really strong entrepreneurs.

My biggest learning has been that you just cannot discount the importance of the founder and the team, no matter what the business. We look for teams that can play the long game in a large market.

We look at businesses that will have the ability to grow long non-linearly without continuous capital infusion. Scale should beget scale. Scale cannot be exclusively a function of capital.

Lastly, we want to have meaningful positions in companies, 5 to 15%, so that we have enough skin in the game to actually spend time with these companies.

One of the things that you also spoke about earlier was finding an optimal time to exit some of the businesses and then churn that money back into other startups. What has been your biggest learning in creating exits for yourself and having the gumption to not keep waiting for a larger upside?

This is a matter of philosophy—we don't have to maximize the last dollar. I truly believe that's a losing strategy. Nobody can really time the market. We look at the opportunity cost to our capital at all points in time. When we see business growth slowing down or actually the valuation growth slowing, we would rather start taking money off the table and invest it in a business that's growing much faster.

Valuations from seed to Series A and even Series B, really leap manifold and then as the business hits a certain size and scale, it's going to normalize; and at that point, we are happy to let somebody else with a different risk-return appetite take that upside.

Having said that would you say that it has been easier in the last few years to actually come by exits?

A bigger investor always wants to write a big cheque so there are always exit opportunities available along the way if you want to take them.

There is today a lot of euphoria around the private markets. Your advice to UHNIs and family offices looking to enter the private markets now?

Number one, you can't do this as a hobby, or on a whim; one must have an organized approach and run it like a business if one is investing from one's own balance sheet. It needs time, effort and a good amount of diligence. Double down on diligence, this has been my biggest learning from meeting multiple companies—for every deal that we do, we pass on 20 or 30 of them. When someone is new to this space, they get really excited with every deal and want to give money to every business; but you must know that most of them don't work.

If you don't have the time, you must bring in a professional who has done this before or tap into your network and lean on the expertise of someone who works in the industry.

I think the most efficient and effective way of getting started in private market investing is via a fund. This gives you access to a number of deals to co-invest in and access to expertise which you can then build on to start doing more deals by yourself.

Your thoughts on the listing of some India's largest technology startups and the pipeline. The single biggest complaint of global investors for the past two decades has been the lack of exits.

This has been really, really important for PE/VC funds that have been under tremendous return pressure. What all the recent listings have shown is that India can produce exits and this has really energized the ecosystem; we will see more money flow into PE/VCs and more companies will get funded.

Obviously not every IPO is going to be a blockbuster but at this point, I don't think that's important. I think what's important to remember is that these businesses didn't exist 10 years ago, and now you have multiple $10 billion companies listing. These industries did not exist 10 years ago. Can you imagine the massive value creation that has taken place in India? These IPOs are a testament of that grassroots level value creation taking place for customers and investors!

** LC Nueva AIF ("Fund") is an Alternative Investment Fund that is currently awaiting approval from Securities and Exchange Board of India ("SEBI"). The Fund will be launched once necessary regulatory approvals are obtained.*

GV Keshav Reddy

Managing Partner, Reddy Futures Fund

STRAIGHT SPEAK

The Reddy Family Office, belonging to the Reddys of GVK, began investing in startups as an asset class through their Reddy Futures Fund in 2015. Their model is a pure play fund that invests alongside some of the best angel investors and VCs (globally) in technology startups. Keshav Reddy is an entrepreneur and investor and runs the Reddy Family Office's Reddy Futures Fund which has a portfolio of 30 investments with five unicorns namely Cred, Upstox, Khatabook, Chipper Cash and Hive. Keshav sits on the board of his family's Aragen Life Sciences, which is India's second largest contract research organization (CRO). Keshav has a MBA from MIT and a BSE degree from Michigan.

Why did you choose to run your investments in startups as a venture fund (Reddy Futures Fund) as opposed to strategic direct investments or merely being an LP in other VC funds?

If you look at our family asset allocation, capital has already been allocated to real estate, equities, bonds and group companies. Technology investments as an asset class were under allocated due to its inherent risk and illiquidity. *As technology investments were so uncertain, becoming an LP in a fund that was allocating to this asset class seemed risky in the early days. We decided that we wanted to structure ourselves as a fund where we have the option and right to invest in interesting companies as and when we wanted to.* As an LP in a fund, you have less flexibility – there's no liquidity and if you catch the wrong cycle of the fund then you're in trouble. You can't easily sell out your position in a fund to anybody.

Today, if we find something 'off' in a direct investment, I just have to find a secondary buyer and leave – thankfully I haven't had to do that in any of our investments. Today, I have the flexibility to invest in 8-10 companies a year and I am still allocating the same amount of capital that I would have as an LP.

How has your asset allocation to private markets changed over the years?

We have allocated close to 20-25% to private markets and from what I've understood this is on the higher side. But what I have also seen is that when you have a relatively smaller base, then you're going to take larger or outsized bets. Even the cheque sizes today are much larger – some closer to $2 M per startup versus about $500K when we started.

What are the most important things you look for when investing in a startup?

A startup must show signs of a very strong competitive advantage and you have to be able to see that with early product market fit. We also try to focus on good founders and large markets, because at the end of the day it is also a lot about the right time and right place. You don't have to always be the smartest guy; you have to be able to hack your way. Having said this, *our guiding principles have always been to invest only in software and go super long term.*

Do you look at startups that align to the GVK Group's strategic interests?

That's really not a part of our consideration at all. Startups and large corporate houses work in very different ways and the Group's strategic and M&A requirements are dealt with separately.

You started Reddy Futures Fund in 2015, can you give us a snapshot of the evolution of the fund over the last 5 years. How different is your thesis today from when you started?

In 2015 and 2016, Reddy Futures Fund had a 10 person team that invested in startups. We had a tie up with the e-cells of 6 IITs and in fact I had four IITians in my team. The thesis was that all the best startups were coming from IITs so why not be part of that ecosystem. The working model was that we took a large stake in the venture and provided the entrepreneurs with all the resources they needed in addition to capital – think of it as the Rocket Internet model. But we realised that wasn't sustainable and scalable. Moreover, entrepreneurs didn't have that fire in the belly to succeed because they had a quasi-job of sorts at their own startup. Although we were able to get a large 50x exit in one of our portfolio companies, we changed our strategy thereon.
From 2017, Reddy Futures Fund co-invests passively with the best venture capitalist funds and angel investors into software companies that have exceptional founders, signs of early product-market fit, massive market opportunities and early signs of competitive advantages. Reddy Futures Fund aligns exceptionally well with founders as we don't seek early exits because we have only our family capital to manage and we are huge believers that value creation takes time.

You mentioned 5 unicorns in your portfolio today - tell us a little about some of these companies and your thesis around those investments?

Let me talk about three companies, across geographies - Cred in India, Hive in the USA and Chipper Cash in Africa. We invested early on in Cred and today the company is valued at $4 billion. What they have done really well is to find a way to keep users really engaged and addicted to the platform - a platform that essentially helps you manage your money better. What the founder Kunal Shah is doing is that on a relatively small user base (India's affluent class which is a small fraction of the population) but he is building a very valuable business; because the spending power of his consumers will stay intact and only keep increasing in a faster than usual cycle.

Another exciting company is Hive.AI in the USA. We invested back in 2017 and today the company is valued upwards of $2 billion and what they do is create APIs to help enterprises and social platforms with image recognition and content moderation. This company has insane metrics and is going to be a very large company. We fully support the founder Kevin Guo in his journey of building one of the largest AI companies in the world. Our latest investment in an African fintech startup called Chipper Cash which operates out of seven countries on the continent and enables remittances, P2P lending and if I may say so, is building out the UPI of Africa. This is an opportunity, like the others that we got access to via our network of US-based VCs with whom we generally co-invest. This company just got valued at $2 billion.

On the question of co-allocation along with VCs - do you seek a certain percentage holding in the company when the round is structured?

We consciously never lead the round, even if it is a very early round so we are never in a position to dictate terms. Secondly, we don't actually want to manage large holdings in companies because I do not want to build out a business of managing large portfolio teams. Today I have a team of three people and we analyse the deal flow that comes to us via our network of VCs and once we invest, we are passive unless of course the founders reach out for help or assistance — for that we are available 24X7. Helping founders professionally or personally by making connections via our networks in India, USA or any other part of the world — that's the real value we bring to the table.

As a family office, I reckon most family offices do not have the interest or inclination of sitting on startup boards and being involved on a quarterly basis with the company.

How did 2020 pan out for you?

Our biggest priority in 2020 was working with and helping out our portfolio companies and founders. Much like any VC that pumped money into their existing portfolio, so did we and we consciously stayed away from making any new investments in 2020. But we did double down on public equities in 2020 and built some very strong positions from a long term perspective.

In contrast, in 2021 we see a massive bull run in both public and private equities? What do you see as the opportunities and challenges?

A combination of low interest rates and economies printing money has made liquidity the default and people are bullish on the equity markets both private and public.

This trend is going to allow a lot of private market players to list or go IPO but when the crash comes it's going to hurt because today, I do believe that the asset class is grossly overpriced on average. Some category leaders deserve the valuations, but not all that we see can justify such high valuations. The correlation between the US market and India, especially for VC/PE investments is very tight because a large portion of all the capital coming into India is from US funds. *I do see a slowdown or correction being at least 12-18 months away and, in the meanwhile, a large pool of domestic capital would have opened up to investing in private markets. What will support this is the number of large technology companies that are listing in India, exits are suddenly very possible and that will be a driver of growth for Indian private market investments.* Today when you look at the top 10 listed Chinese companies, a large number of them are technology conglomerates and in that respect, I do see the same happening in India over the next 10-20 year horizon.

About trica

trica is a unified technology solution for equity management and transactions. Everything we do is tech-enabled and with our proprietary personal touch. With a suite of world class products and deep network with Indian startups and investors, trica is your gateway to India's private markets.

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trica comes from the house of LetsVenture (2013) which has created India's most active and trusted online investment platform for early stage startups with a portfolio value of over $3 billion and an Angel AIF with an AUM of over $64 million.

trica's investors include Accel, Lighthouse Canton, Secocha Ventures and marquee angels and family offices.

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Methodology

trica's The Private Market Monitor combines data aggregated from an extensive online survey completed by 103 family offices and UHNIs as well as in depth interviews with multiple investors. These were conducted between July and October 2021 and all responses relate to that period. We have supplemented this data with intelligence derived from both EY, AZB & Partners and our proprietary research.

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