From Private Office 2.0 to CATALYST

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IN a data-driven society where community is the new currency, pervasive 360' innovation across all segments of society is central to our people's future. Everything we do is in their service. That's why the Office of Sheikha Latifa M.B.M. conceived AFAQ Group with a question:

How can the Private Office of a PEP/Ruling Family Member be more innovative, thereby adding more value to society?

Or, how can we reinvigorate the benevolently patronal yet reactive operating model of the traditional Private Office (not to be confused with Family Office)? The answer we deduced was by being a *catalyst of innovation within the private-sector investment firms whose capital is powering most societal development*. At AFAQ Group, to become such a driver, we're bridging voids between ourselves and the HNWI's, Family Offices, and Sovereign Wealth Institutions in our circle. And that's made us as much as -- or even more of – actively present in the finance arena than other known Private Offices today. It's there we saw complacency and inertia.

We couldn't leave it at that. If, through such closer links with private capital our falcon began to resemble more of the ones it soars in tandem with, we started thinking about how we can prompt innovation sustainably, *from a strategic investor's lens*. This was no straightforward exercise, given that larger equity houses & holdcos are pulled between being unable to derive more returns from their holdings via cost cutting (driving them to want to invest in innovation for more revenue), and between a natural avoidance to banking on ideas that have yet to be predictably established in known markets (a tricky long-term endeavor to do). Somewhere, change needed to happen. Hence we further asked:

Should Investment Firms be innovative themselves… besides funding innovative companies?

What, if anything, compels them to plan and execute on investments in new ways? What are they missing in their investment ethos & thesis? What is outside the tunnel their vision is restricted to? Where is the dogma? We found even more dated thinking in our search for answers. Wealth-preservation conservatives argue that our question is a non-question – innovation is only a facade when it comes to successful finance firms. Their prevalent belief is that they run on a textbook investing framework that is too sacrosanct to sustainably reward straying outside one's investment parameters after the occasional goose.

We, conversely, notice that it is more a factor of their comfort zone than an absolute constant. The reality is that we need to become better at being the change itself, or change will hit us like a tsunami. Closing one's firm off to challenging its industry's reliance on one lucrative formula is risky in and of itself, as the world has seen in 2009. And, as the world has seen on the political stage in 2016, anything is indeed possible. WSJ just heralded our entering a 'post-private equity world' wherein large, cashy, public corporations are expanding their in-house finance capabilities to actively own the playing fields of their industries (through both equity and debt) in order to better control patents and estates… presenting a tectonic shift for banks and investors globally whose operating holdings are perceived as a threat or of routine interest.

Furthermore, as observed by Blackstone's CEO, small companies today are curating platform ecosystems that together eclipse the value of mid-market ones, leverage is more nuanced, and regulations or peer best-practices are incentivizing socioeconomic value-generation by companies vs. purely increasing financial valuation. The very nomenclatures of PE vs. VC vs. Angel are outdated as the lines between them are disappearing. We see this between Capitalistic vs. Impact Investment too. And many are terrified of radical disruption by Fintech.

Moreso -- within our unique region -- society is evolving. Hello to GCC Tax & Post-Oil. Capable firms who view educational & public factors as 'not invented here' are denying themselves of the opportunity to be a change agent by steering the development of an ecosystem in their favor to seed a reliable, resilient, and multi-streamed future dealflow for them. Our sentiment is that -- at the very least -- while historically lucrative for all of us in booming clusters like BRIC and GCC, trying to box all plays into propco/opco, equity/ETF/hedge mix, local/overseas, majority owner/minor stakes, or other categories alone is an unsound logic in today's uncertain times. Some boards exude a confidence that they and their management team are on the pulse to sense when the winds change, and are nimble enough to adapt mindsets when what is working today no longer does. We humbly flag that DNA is a hull; it takes longer to turn than the sail, and rocky waters are nigh.

How can Investment Firms be more authentically innovative?

Consider how inoculation with as large amount of a viral or bacterial agent as our bodies can handle immunizes us against epidemics that can kill us. Without vaccines, we would have been wiped out by Rabies. Likewise, instead of altogether avoiding alien and incomprehensible investment worlds, tango with them. We need to expose ourselves to a multitude of currents to learn to swim on any wave; the powers of adaptability and versatility come from curiosity and experimentation.

Although no one has been spared being 'burned' through stakes in uncharted territory, the solution is not to retreat fully back into familiar waters, as no place is safe. What was safe yesterday is not necessarily presently so, and we have no way of telling. No amount of scenario planning or predictive analytics can factor outlying variables in the nature of chaos, which will penetrate the most isolated player. Even new AI robo-traders replacing HF algorithms are beat by this enigmatic law.

In concordance, the fundamental benefits of a diversification strategy are lost if a firm reduces all decisions to a few human-reasoned parameters (well-intentioned as they are as a tool to derive high returns with low risk), often narrowing its focus. While focus is laudable because of the need for a habitual forte in order to repeatedly succeed, today's holistic age has ushered in a paradoxical system wherein two alternative facts are right enough. The other fact is to diversify or decay. Diversification isn't limited to portfolio allocation, but encompasses a firm's overall investment strategy(/ies) and tactics within an industry.

In addition, quantum finance (econophysics) can hint that the staging of early startup-to IPO-to post-public growth is not necessarily the only capitalization continuum, and that it is not necessarily a chronologically linear one… prompting an open mind and fresh exploration of niche or new collaborations, supplementing investment terms with springboards to new domains, and other internal business model experimentation.

Ergo, what investment firms *can* simply do today is to respond to stimuli compelling them to dabble in and discover new growth areas, regions, instruments, or asset classes that are alien to them or that have not delivered success due to too few attempts, repelled by past failures. Doing so does not mean spray & pray; there is a plethora of diligent consultative experience out there. One can join forces with partners who have specialized expertise in de-risking these particular spaces. It is here that AFAQ Group orchestrates fortuitous exchanges between unlikely allies, then glides with them, lighting steps with its Eminence.

While uneasy, a practical step is to *cautiously go further into* previously avoided opportunities by eyeing targets that have a visionary team and creative design component, trusted opportunities abroad, established (albeit longer-term) academic R&D commercialization, short-term (albeit less-proven) tech revolutions, or alternative commodities with new data points, while insulating one's firm from wild gambles.

Perceiving a New Investment Horizon

INNOVATION happens everywhere, agnostic to whether a company is a risk-prone founder or his/her risk-averse funder. Hence it need not be correlated with risk, cost, or time… if its value is understood. It can simply reflect how progressive any firm is in its dexterity of creating rules and breaking them in its mainstream activity, and also maintain a secondary sandbox where 'no rules' is the norm, encouraging prolific business model experimentation. Eventually, investors realize they do not exist outside the very markets or companies they are fueling and changing for value appreciation through product/service innovation. ◆

> *'The old mantra 'if we build it they will come' is over. To survive, we need to shift to 'if we build it together, we'll be one'." –Sheikha Latifa Mohammed M.B.M.*