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HD **Old world bracing for disruption**

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The sunny streets of Palo Alto in the heart of California's Silicon Valley are a world away from the corridors of Melbourne's No 8 Exhibition Street, the headquarters of the Myer family.

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Yet in March those two worlds will unite when Myer Family Investments chief executive Peter Hodgson, the man who oversees the family's multi-billion dollar investment portfolio, will spend a week in Silicon Valley.

Hodgson will join executives from five of the world's most powerful family offices from Europe and North America — what is known as the Wigmore Association — to explore more opportunities for old world money to back the best and brightest ideas of the new.

"This will give us an early-stage view of the venture capital and emerging technologies coming out of the US,'' Hodgson tells The Weekend Australian.

"I would hope to get some good ideas and even potential investment opportunities but most importantly some insight into what is going on the ground.'' Earlier this year the Myer family invested $5 **million**, along with telecommunications entrepreneur Simon Hackett, in Sydney start-up accelerator Blue Chilli.

Blue Chilli takes minority shareholdings of up to 30 per cent in start-ups in exchange for seed capital, creating the technology product and access to a start-up development program.

It plans to more than double its portfolio to 100 start-ups over the next two years. "Blue Chilli gives us a very good perspective across a range of technologies. We get 100 perspectives of things emerging across that space that we can potentially participate in,'' Hodgson says.

And while the Myer family is one of the nation's most patient long-term investors, Hodgson is conscious that it must be involved in the opportunities to invest in disruptive technologies.

"You have to be conscious now of which businesses and which industries can be disintermediated,'' Hodgson says.

"And while we are focused on longer-term investments, some things will come along in the interim that will disrupt''.

The Myer family approach is being echoed by other family offices and high net worth individuals as an unprecedented number have stormed into the nation's venture capital scene this year, filling the funding gap that has been increasingly left by governments and larger corporations.

Many are making so-called "series A" investments in technology start-ups, a realm previously reserved for Silicon Valley venture capital firms.

And it is little wonder, given the findings of KMPG's latest Global Chief Intelligence Officer Pulse Survey, which reveals just how unprepared established businesses are for disruption.

Only 36 per cent of companies represented in the survey currently have a digital business strategy in place in one or more business units. Only 8 per cent have a digital business strategy that is enterprise-wide.

The poll surveyed more than 115 information technology and other management consulting professionals with KPMG member firms worldwide. "Very few businesses have yet worked out what their digital business strategy is and how you respond to the need to be much more agile to get products out to the market quicker,'' says Guy Holland, KPMG Australia's head of digital consulting. "Most organisations have got very smart people who can come up with ideas but it is how you move that through a cycle of development to production. Most are constrained by how they do things today.'' Holland says KPMG is working on both sides of the fence (in separate deals to avoid conflicts) — with established businesses and high net worths — to get the former more focused on disruption and to give the latter the best investment opportunities.

"The high net worth individuals are pretty savvy in the bets they are taking,'' he says, noting many have learnt from the experiences of the tech boom.

"The investors are this time being much more savvy about the research they will do into organisations before they put their money at risk. The analysis of business models is more rigorous than it was 15 years ago." After being burnt in the high-profile collapse of fledgling telco One.Tel in the aftermath of the tech boom, James Packer and News Corporation (publisher of The Weekend Australian) have again united, this time to invest in the financial services sector. A month ago they joined Seven television network owner Kerry Stokes in contributing $20m in **equity** funding to back three-year-old "peer to peer" lender SocietyOne, which they hope will super-charge its plans to challenge the big four banks.

Earlier this year Serial technology investor and former Microsoft executive Daniel Petre joined with former SEEK and Carsales director and Ellerston Capital adviser Martin Dalgleish to bankroll taxi booking app Ingogo.

In May, one of Australia's richest telco entrepreneurs, Dodo founder and Melbourne property developer Larry Kestelman, launched a competition to foster new start ups.

The venture, called Big Pitch, allows entrepreneurs to bid every six months to work with Kestleman on their idea, with about $50m available for investment.

In October Glenn Poswell's boutique investment group Gannett Capital partnered with Melbourne technology investor Justin Liberman and Gabriel Radzyminski's Sandon Capital to take a cornerstone **stake** in Brisbane-based Onthehouse, which operates a property website that is Australia's equivalent of booming US property website Zillow.

But few firms better encapsulate the increasing trend of high net worths to back disruptive technology than Melbourne-based Square Peg Capital.

The **firm** — backed by Packer, Seek co-founder Paul Bassat and the **billionaire** Liberman family — in October revealed plans to invest up to $100m a year on new investments in Israel and the US in its biggest push on to the global stage.

Since its launch almost three years ago, Square Peg Capital has spent more than $50m on more than 20 investments in a range of start-up companies, largely in Australia.They include taxi booking app goCatch, global advertising data venture Standard Media Index, travel website Wego, US e-commerce group Shipping Easy and online beauty products supplier Bellabox.

One of its more recent larger investments was in digital marketing **company** Rokt, made late last year with Lachlan Murdoch, **Hong Kong** hedge fund manager John Ho and Carsales chief executive Greg Roebuck. Rokt is run by former Jetstar chief executive Bruce Buchanan.

Square Peg co-founder Bassat, who is also a Wesfarmers director, says the increasing interest of high net worths in disruption is illustrated by the increased number of investors in the **firm**.

"Our number of investors has increased in the past 12 months by 50 per cent to 15-20 individuals — and a handful more will come on next year,'' he says. "Our model allows them to be more involved in a hands-on way than simply just writing a cheque for the fund.'' Three months ago Square Peg co-founder Dan Krasnostein moved to Tel Aviv to spearhead the **company**'s expansion plans on the ground there and Bassat reveals the **firm** has now made its first major investment in Israel in a **firm** called Feedvisor, the world's first algorithmic pricing and business intelligence platform for online retailers.

The $US6m ($7.3m) in series A funding was led by Square Peg and followed a $US1.7m seed round in October 2013 by JAL Ventures, Oryzn Capital and Micro Angel Fund, who also participated in the latest round.

Bassat says Square Peg has also just made another investment in Israel that will be made public soon and that there are three to four other opportunities under consideration. Square Peg is also looking at two opportunities in the US and one in Europe.

Bassat says while high net worths are keen to make money from their venture capital punts, he says they also have a broader social aim. “There is an altruistic element here in that people understand that having a thriving tech scene is vital for the future of the Australian economy,’’ he says. “But they want it done with extreme rigour to ensure they are good investment decisions.” Credit Suisse managing director and head of the banks’ ultra high net worth group, Shane Galligan, says the moves by wealthy investors and family offices into disruptive technologies is partly compensating for the lack of spending on innovation by established businesses.

“Innovation requires a certain agility to foster and implement creative ideas. As developed companies in developed markets battle a series of economic and regulatory issues, investor demand for innovation is falling the way of fresh companies venturing with disruptive technologies,’’ he says.

“The macro environment is ripe for innovation and as such early-stage companies that are able to bring new ideas or new perspectives to market have a tail **wind**, especially as the Internet of Things takes hold.’’ Tech-focused Australian venture capital fund OneVentures is seeking entrepreneurs to back with second-stage start-up funding. The group — which is backed by Sidney Myer of the Myer Family **Company**, former Seven Group chief executive officer Peter Gammell, Carlyle Group’s Australian boss Simon Moore and Caledonia Investments’ Mark Nelson — recently announced the first $60m close on its Innovation and Growth Fund II.

It hopes to increase that number to $100m over the coming months. Importantly, the money will be invested in businesses beyond the start-up stage, into series **B** and C stages where they are able to build scale and profitability. iiNet founder Michael Malone is one entrepreneur who made his money in telecommunications but is now putting his money into the cyber security space. Malone ended 20 years at the helm of the internet service provider in March after starting the **company** in 1993 with a loan from his parents and the use of their garage.

Today the **company** is one of Australia’s largest internet service providers with close to a **million** fixed-line broadband customers.

Now his IT security service provider, Diamond Cyber, is aiming to bring “discipline, governance and leadership” found within the Australian Defence Force to cyber security for the private sector.

“Walmart and Sony have shown the damage to business can be quite significant,’’ Malone tells The Weekend Australian.

And Malone says he, like other entrepreneurs who made their money over the past few decades, wants to help the next generation.

“One thing I have been surprised at since I left iiNet is how healthy the venture capital space is, especially in Sydney. In Surry Hills and Pyrmont, you are seeing a lot of these start-ups in there.” OneVentures chief executive Michelle Deaker says high net worth individuals who have made their money in traditional industries are keen to invest in new sectors such as technology to help broaden the base of the Australian economy.

“We’ve noticed that high net worth individuals and family offices in Australia have a strong appetite for opportunities in high growth technology-based companies including those in the life sciences, as these ventures will increasingly fill the void left by manufacturing and **mining** as traditional drivers of economic growth and job creation,’’ she says.

It is a view backed by Paul Naphtali, one of the founders of Rampersand, a venture capital **firm** established last year to invest in Australian start-ups. Another of its backers is Paul’s father Michael Naphtali, who was managing director of the Pratt paper and packaging empire for 15 years. “Future wealth will not be generated by digging things out of the ground. It will come from technological innovation across traditional industries like retail, banking, media, etc,’’ Paul Naphtali says. “For the families there was a period of consolidation and conservatism over the past decade. But we are moving out of that now. There is a sense they can add value to the industries that they know through technology. Their capital can be deployed in a highly efficient and value adding way.’’ In June Rampersand joined with Square Peg and the Kahlbetzer family-backed early-stage venture capital **firm** Tank Stream

Ventures to inject $2m into Australian start-up **company**, School Places. The group offers an online enrolment process for schools.

Tank Stream Ventures is run by Markus Kahlbetzer, the younger son of German-born land baron John Kahlbetzer, whose family is said to be worth well over $1bn.

Kahlbetzer's investment **company** BridgeLane was the **lead** Australian investor in mobile virtual network operator amaysim and online marketplace Airtasker.

Paul Naphtali agrees that investing in technology that transforms an industry does not necessarily need to be "disruptive'' to drive advantage. "It might not be disruptive at all, it might be consolidatory,'' he says.

Ruslan Kogan, who was named a debut entrant on the BRW Rich List 2014 with a $320m fortune, says Australia's richest individuals have finally over the past two years realised the internet is here to stay and they can make money from it.Kogan, who started online retailer Kogan Technologies in 2006 by selling TVs out of his parents' garage in Melbourne, has expanded the **firm** from selling electrical and computing goods into sporting,outdoors and homewares. His wealth has multiplied more than 20 times in half a decade.

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