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Merged Investment House Trumpets Asia "Smart Cities" Appeal

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It is often noted that the private equity industry has more than \$2.0 trillion of “dry powder” – capital yet to be put to work. It is giving a few observers cause for concern. The challenge, then, is finding homes for this money in a way that doesn’t compress yields.

Family offices and other ultra-high net worth economic actors who are able to take a long-term investment view still like the private equity and the venture capital space. In Asia, a sign of how to fix the problem of finding attractive investment destinations emerged when .

Venturous, which is building a \$1.0 billion capital pool, was founded in 2013 by Benson Tam who has 25 years’ experience in the venture capital and private equity space. Lioncrest Global was founded in 2016 by a group of three individuals from UBS Wealth Management: Peter Tung, head of UHNW Greater China, Valerie Chou, head of Global Family Office for Asia Pacific, and Johan Riddergard, head of APAC CEO Office.

As far as Venturous is concerned, there’s great potential in the emerging field of what are called “smart cities” – a term applied to digitally integrated cities where services from hospitals to traffic lights operate in sync rather than, as is all too often the case in many places, in separate units and at odds with each other. By 2021, spending on smart city tech is forecast to hit \$135 billion, according to International Data Corporation.

These cities and similar projects are hungry for capital, and carry significant asset-backed attractions – given the role of real estate – which long-term investors want, Tam told this publication in an interview.

The matter at stake is not the volume of cash in the market, but the fact that a lot of investment opportunities are unattractive on a risk-reward basis, Tam said.

Smart cities

Tam talked about technology, such as fast communications and internet-powered transit, energy and medical care services, for example, which can operate as one rather than as a set of separate systems often working at odds with each other. He gave the example of how a person diagnosed as having a heart attack could be whisked to hospital, with technology systems adjusting traffic lights, alerting surgeons and doctors, removing traffic obstructions, and informing families, all as part of a single process.

The idea of “smart cities” reflects a big rise in China’s living standards and an expanding middle class. These technologies require a lot of capital, Tam said. “I need to load up and build a war chest.”

“The first Smart Town project is already in progress outside Beijing. It is a two kilometre square lot half-way between downtown Beijing and the Winter Olympics site, about 20 minutes from Beijing with the new high-speed train. It will be a mix of commercial and residential development, with schools, hospitals and other facilities, in a green environment to make it very attractive for residents and companies alike to work and live in this new town of the future. Multiple technology companies have already committed to move their offices and staff members there,” Tam said.

A related tech idea is that of the “digital twin”, a term relating to how modern tech enables a city authority or city operator to provide an exceptionally detailed “map” of different utilities, such as electricity switching stations, railway tracks, domestic heating equipment, hospitals, schools, police stations, factories, greenhouses and logistics plans. All of these networks can be understood and mapped digitally. This also enables massive increases in automation and efficiency.

Inevitably, all this talk about smart cities and digitalisation raises civil liberties questions.

Tam said fears are unfounded. He gave the example of user-activated, portable tracking devices, which can be temporarily activated, so that if a person arrives home from a party later than usual, their friends and family will know that they are safe.

"Smart cities and smart tech involve everything from smart connectivity, smart governance, smart services, smart automation, smart health to smart mobility, with cyber-security forming the foundation of each smart city. Research shows that the introduction of smart city technology improves quality of life," Tam said.

Tam and his investment colleagues give figures from McKinsey's showing that crime incidents can go down by as much as 30-40 per cent following the introduction of the relevant applications.

Asset-backed

Venturous Group's capital pool consists of Venturous Hero Fund LP, which is a \$200 million fund, and \$800 million of future co-investment opportunities. The minimum investment commitment for Venturous Hero Fund LP is \$10 million per investor.

"Our fund is a hybrid fund with a balanced and synergistic mix of Smart Town real estate development and technology companies. That means that about half of the fund will be deployed to buy land for Smart Town real estate development," Tam said.

"That land has a value which will increase as we, together with our collaboration partners, lay the digital infrastructure and do the town planning before awarding sub-lots to real estate development partners for the actual real estate development. As a result, the fund ends up being backed by assets in the form of land - starting with "raw" land with basic physical infrastructure, and gradually higher value land once the digital infrastructure is put in place together with the overall town planning, and later by ownership stakes in the property development projects themselves. The increase of the value of the land, the real assets, will minimise the risk for potential losses for the fund as a whole," Tam said.

The investment should be able to generate at least seven to 10 times in terms of returns, Tam said.

During the same interview, Riddergard spoke about the case for teaming up with Venturous. He said that he realised that investors wanted access to individual investment deals; the firm is, therefore, involved in sourcing and locating funding for individual venture capital opportunities (rather than funds) as well as real estate projects.

Riddergard said that sometimes it is quite hard to make the model sustainable because it is challenging to be always on the look-out for the best deals.

Lioncrest Global merged with Venturous to form Venturous Group because Lioncrest Global can provide access to capital, and Tam and his team at Venturous have access to deal flow, such as technology opportunities in China, he said.

Tam, meanwhile, has been involved in Asian venture capital projects for 25 years and for the past 20 has been involved in the China VC space. Referring to the partnership merger, he said: "I have the deals and they have the money."