BlackRock | Illuminas

Seizing opportunities in times of change

2022 – 2023 Global Family Office Report

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Foreword

2022 marked a fundamental shift away from the market regime of the past 40 years. We are moving from an era of steady growth, low inflation and low interest rates to a new market environment defined by heightened volatility, rising interest rates, geopolitical tension and rising protectionism. In response to these risks and complexities, family offices are re-evaluating their exposure across every asset class.

Higher rates have fundamentally changed fixed income and cash markets; geopolitical volatility and supply chain constraints have compelled investors to reassess their geographic exposures; and a growth slowdown and higher market volatility have led many investors to reevaluate their growth exposure across public and private markets.

To better understand how family offices globally navigated a tumultuous year and their outlook for 2023 and beyond, BlackRock partnered with Illuminas[1] at the end of 2022 into 2023 to conduct a survey of family offices' priorities, challenges and portfolio positioning.

Between November 2022 and January 2023, we surveyed 120 single-family offices that collectively oversee assets under management of U.S. $243 billion.[2] We complemented this with a series of in-depth interviews with chief investment officers (CIOs) and key decision-makers at family offices around the world to provide deeper insights.

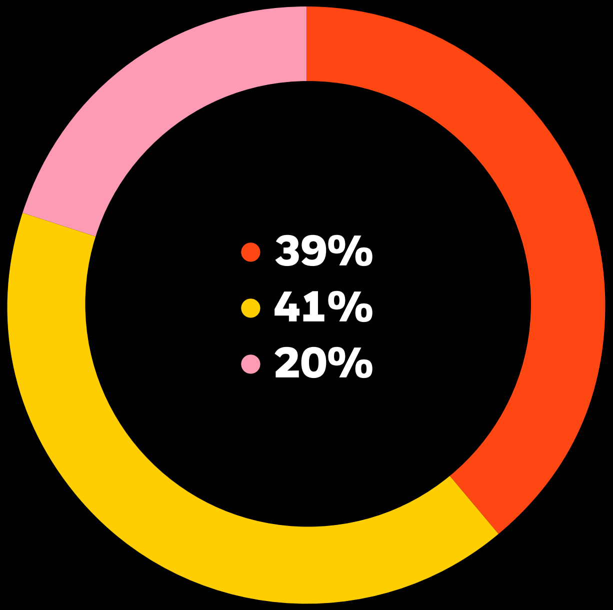
Thank you to the family office investors around the world who took the time to participate and contribute their insights to the survey.

Respondents by region

Respondents by AUM

Respondents by decade established

Exhibit 1: Respondents by region



Please note survey results were collected before the recent disruptions in the banking sector.

Source: BlackRock Global Family Office Survey, January 2023.

Note: Values reflected in USD.

1 Illuminas is a full-service, research consultancy dedicated to delivering strategic marketing intelligence across B2B and consumer markets. **2** Source: BlackRock Global Family Office Survey, January 2023.

Executive summary

Inflation and geopolitical concerns are leading family offices to revisit their approach.

While family offices are fundamentally long-term investors, our survey reflected a desire to refine their approach in today's changing economic and geopolitical landscape. While family offices recognize the importance of being nimble in today's evolving environment, survey results revealed there's no one-size-fits-all solution. Some family offices are weighing rebalancing their portfolios away from illiquid assets to capture opportunities in the public markets (for example, 70% of respondents reported increasing allocations to investment grade public debt), while others are taking a view that long-term returns have more promise in private assets. Either way, 87% of respondents view volatile markets as opportunity for generating alpha, and many are repositioning to capture those.

Family offices are pursuing more tactical opportunities to capture alpha from an evolving market landscape, which is driving more frequent portfolio reviews and external input.

Nearly half of family offices intend to make more tactical adjustments to their portfolio allocations in response to the current market environment. The need to be more agile and opportunistic in search of fresh ideas and emerging opportunities for alpha is driving family offices to review portfolios or positions more frequently (76%) and to increasingly seek more input from external partners (64%) and peer networks (61%). Fixed income and private credit have emerged as key areas of focus, where the evolving rate environment is reshaping the opportunity set.

High-return alternative investments continue to be a focus, but family offices are looking to diversify their private market allocations.

The sharp fall in public markets in 2022 exacerbated the denominator effect, pushing many institutions to reduce their private market allocations.[3] In contrast, family offices continue to show a strong preference for private markets, with most looking to maintain or increase and diversify their allocations. Performance of alternatives allocations in 2022 was viewed positively, except for hedge funds, which underperformed for over a third of the respondents. Private markets will remain critical during the current business cycle, just as they were during the pro-growth cycle of the 2010s, but the weight of emphasis on different themes is likely to shift. Infrastructure is an area of particular focus, with 42% of respondents intending to increase their allocations to this subsector. This is followed by private credit (28% of respondents intend to increase allocations), private equity direct deals (23%), private equity funds (22%) and real estate (8%).

With liquidity likely to continue to command a premium in private equity and private credit markets, family offices are also looking for opportunities to put their large capital pools to use in areas that offer compelling yield profiles.

Family offices are seeking external resources to unlock opportunities.

Family offices cite a number of key challenges when investing in private markets, including getting access to the best direct deals and managers (41%), high fees (40%), liquidity constraints (35%) and lack of transparency (30%). Family offices recognize that internal resourcing and technology are key constraints and are the areas they need the most assistance with. As such, many are looking to external partners to help them capture opportunities across a broader range of potential investments.

3 Source: *Global Private Markets Review*, McKinsey, March 2023.

Investment outlook

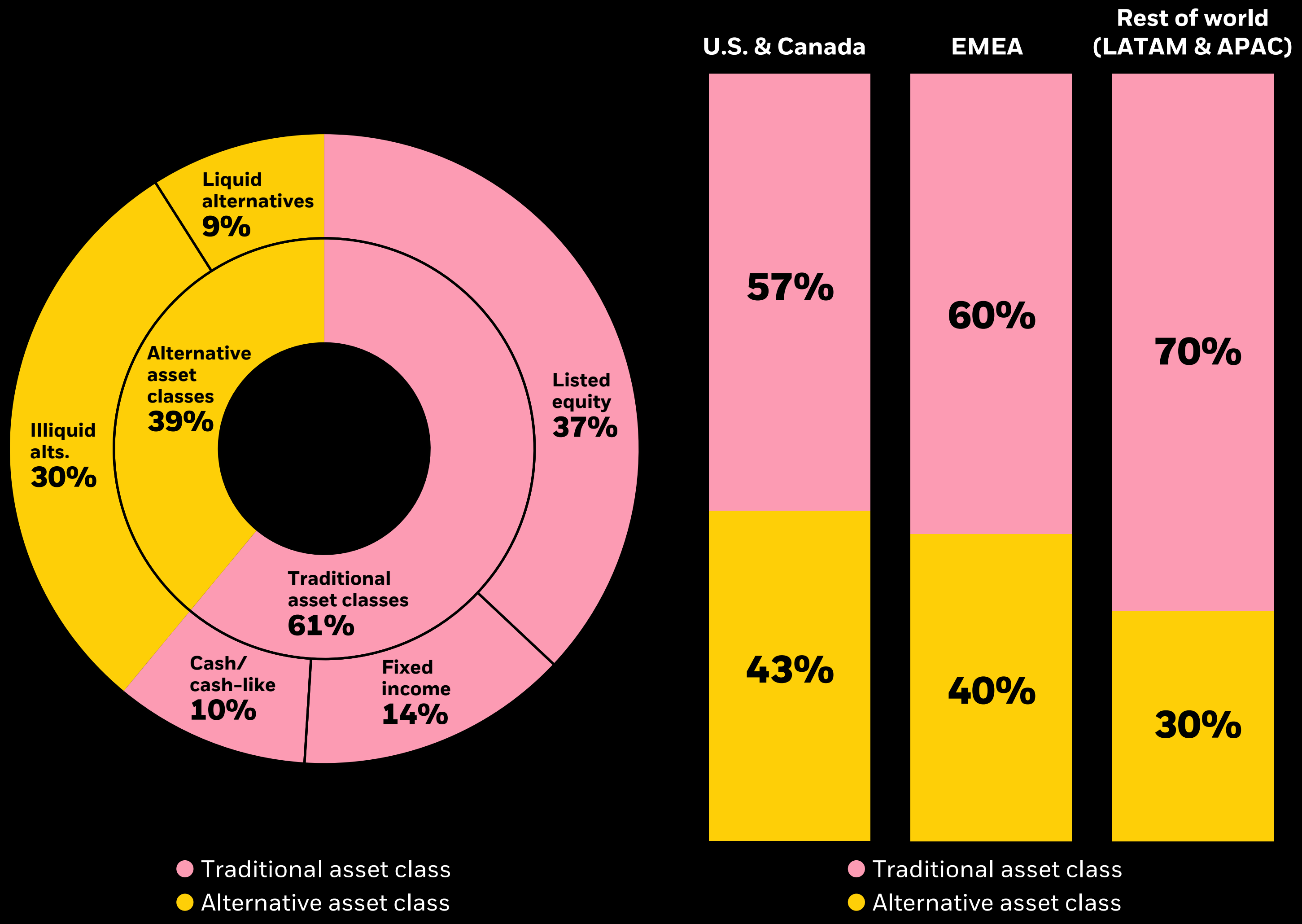
Family offices approach a challenging environment opportunistically

The new market regime has reshaped the opportunity set, prompting many family offices to revisit their strategic and tactical investing approaches. This is playing out in several ways, such as building in greater flexibility to capture alpha in more volatile markets and increasing allocations to income-producing assets given higher rates globally. The most significant strategic shifts look to be in fixed income and private markets allocations.

The 2010s saw explosive growth in private markets, while the number of listed public companies fell. These trends were reflected in our survey results where private markets continue to be a cornerstone in portfolios, with allocations to alternatives (39%) exceeding allocations to public equities (37%). U.S. family offices lead in allocations to alternatives at 43%, a reflection of the maturity of U.S. venture and private equity sectors.

> **"More companies delisting, or for that matter never going public at all, or going public so much further down that the opportunities within the private markets are growing while the opportunities in the public markets are shrinking. Not like there aren't plenty in both."**
>
> **– Josh Miller, President and CEO, Acadia Management, U.S.**

Exhibit 2: Portfolio allocations of respondents



Q. How are your portfolios divided among different asset classes?

Source: BlackRock Global Family Office Survey, January 2023. Numbers may not add up to 100% due to rounding.

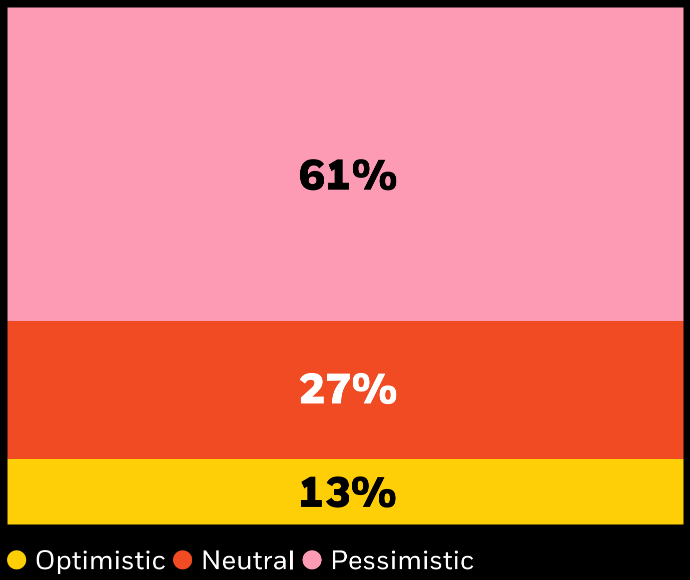
Safeguarding wealth for future generations and providing consistent returns form the strategic basis of family office investment principles, reflected in the top priorities of survey respondents, with 82% prioritizing sourcing alpha-generating investments and 69% focusing on diversifying concentration risks.

However, macroeconomic factors also hold significant influence over the perspectives of family offices. During our last Global Family Office survey in August 2020, the world was in the early stages of the global pandemic, yet a majority of respondents remained optimistic about the macroeconomic outlook, likely due to the significant monetary and fiscal support provided to the global economy.

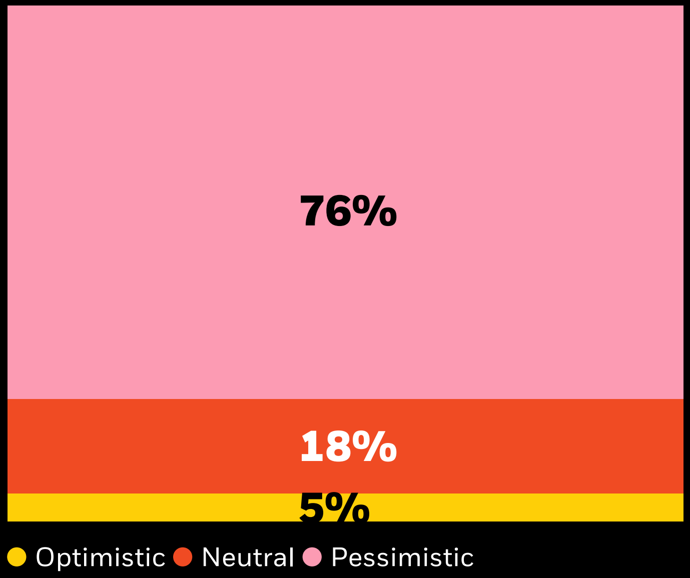
By contrast, in 2022 most family offices were pessimistic about the global macroeconomic outlook. Interestingly, family offices with $1 billion or more assets under management were less pessimistic (44% of respondents) compared to family offices with less than $1 billion of assets under management (74% of respondents). Likewise, family offices based in developing markets were generally more positive on the economic outlook than those in developed markets, possibly reflecting the performance of their domestic economies.

Exhibit 3: Sentiment on global macro-outlook by region and size of AUM

Global | U.S. & Canada | EMEA | Rest of world (LATAM & APAC)



Less than $500M | $500M-$999M | $1B or more



Q. How optimistic, or otherwise, are you feeling about the current global macro-outlook?

Source: BlackRock Global Family Office Survey, January 2023. Numbers may not add up to 100% due to rounding. Note: Values reflected in USD.

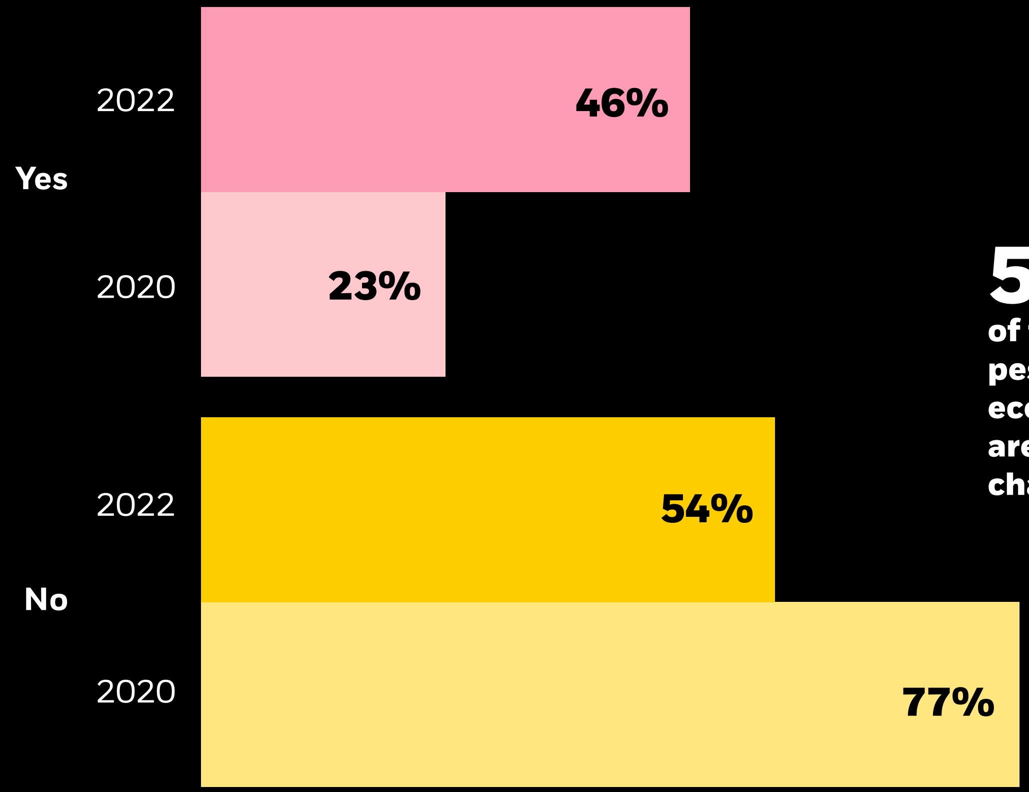
> **“Last couple of years have been very challenging, especially 2022. I think that being a long-term investor in a bull market, it’s quite easy. When the stocks are going up, everyone is a long-term investor. When you have certain periods of volatility you realize who are the real long-term investors, right? We as a fund know that being in and out of the markets is not the way to preserve capital. So, we know the best approach is to stay in the markets, stay focused, stay positive.”**
>
> **– Manuel Nuñez, CFO, OIG, Mexico**

The impact of macroeconomic, monetary and geopolitical factors on negative sentiment varies across regions. Family offices in North America were most concerned with inflation and quantitative tightening while respondents in Europe, the Middle East and Africa (EMEA) were more attuned to geopolitical factors, particularly the Russia-Ukraine conflict and tensions between China and the U.S. over Taiwan. “You’ve got to try and factor in some form of escalation of the war in Ukraine and what’s going to happen post-Putin,” said **Ashe Windham, COO, Hurstbourne Family Office, UK.**

Among those that are pessimistic about the economic environment, 56% are looking to make changes to their portfolios in some way. Overall, the number of family offices that intend to make changes to their investment strategy or portfolio allocations has doubled from 23% in our 2020 survey to 46% in 2022. Positioning for higher inflation and rising rates were key drivers of repositioning.

The high-rate world is new terrain for many family office investors. Nearly 60% of the family offices we surveyed were established during the lower-for-longer environment that followed the Global Financial Crisis.

Exhibit 4: Intent to change investment strategy in response to market environment



56%
of family offices who are pessimistic about the economic environment are looking to make changes to their portfolios

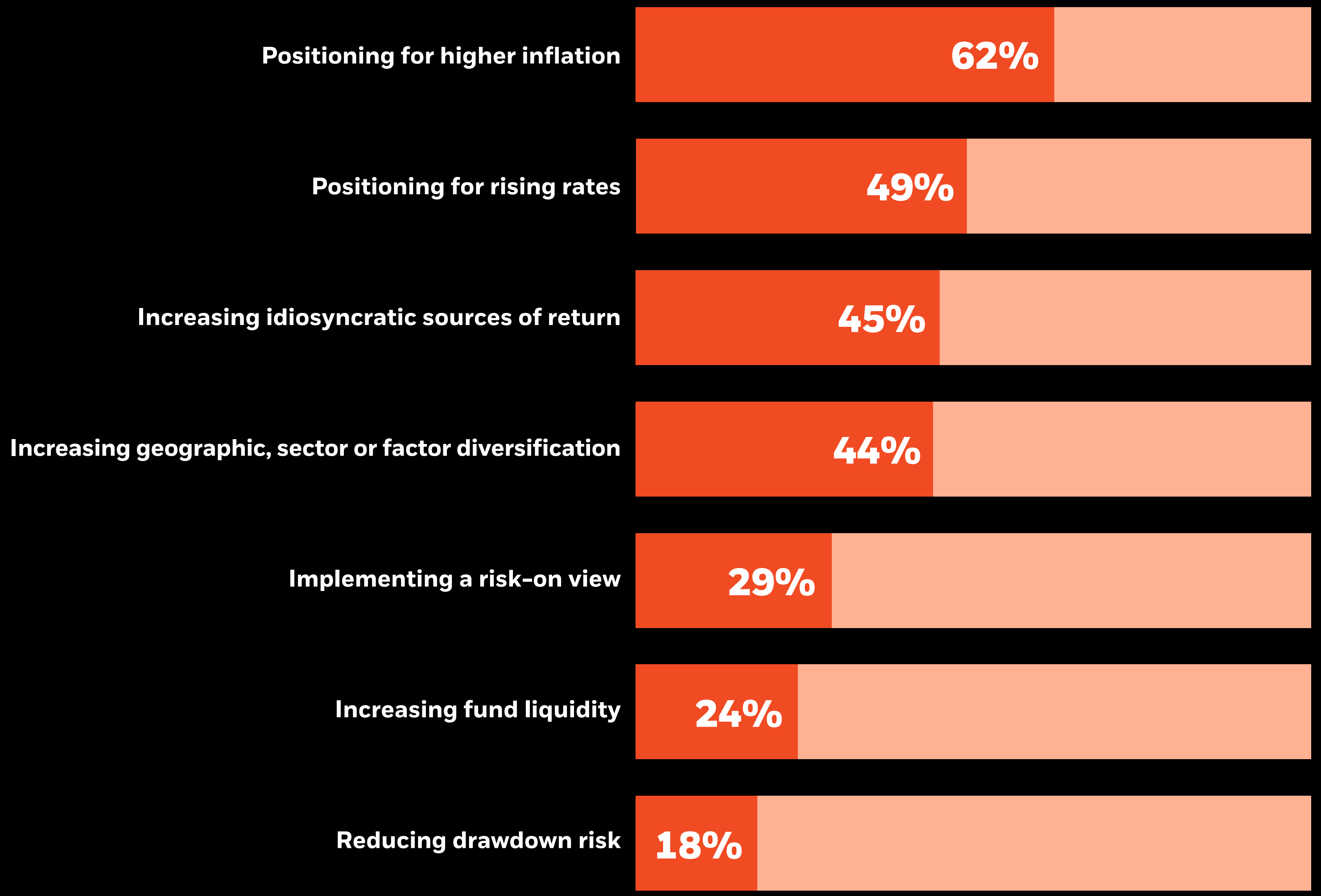
Q. Do you intend to make changes to your investment strategy or portfolio allocations in response to the market environment?

Source: BlackRock Global Family Office Survey, January 2023.

"Everybody probably had different expectations at the start of last year versus how things turned out," noted **Yuan Ji, from a Hong Kong-based family office.** "We are all used to this Fed super-cycle that we've seen the last 15 years. That's not only a risk on the macro side but it's a risk on the markets side, that the disciplines in the market are not really familiar with this new kind of reaction function of the Fed. People can make mistakes. People will make mistakes."

After over a decade of navigating a yield-starved environment, tightening monetary policies have changed the narrative for fixed income. Despite last year's significant drawdown in public credit markets, one in three family offices surveyed said they were looking to change their fixed income allocations. Although some remain skeptical as to whether fixed income is yet able to offer both real returns and diversification versus equity beta, there is greater appetite among many family offices than there has been for years, perhaps decades. "For the first time in at least 20 years, we're actually getting a return from fixed interest investments," **Ashe Windham, COO, Hurstbourne Family Office, UK** reported.

Exhibit 5: Key anticipated changes to investment strategy in 2023

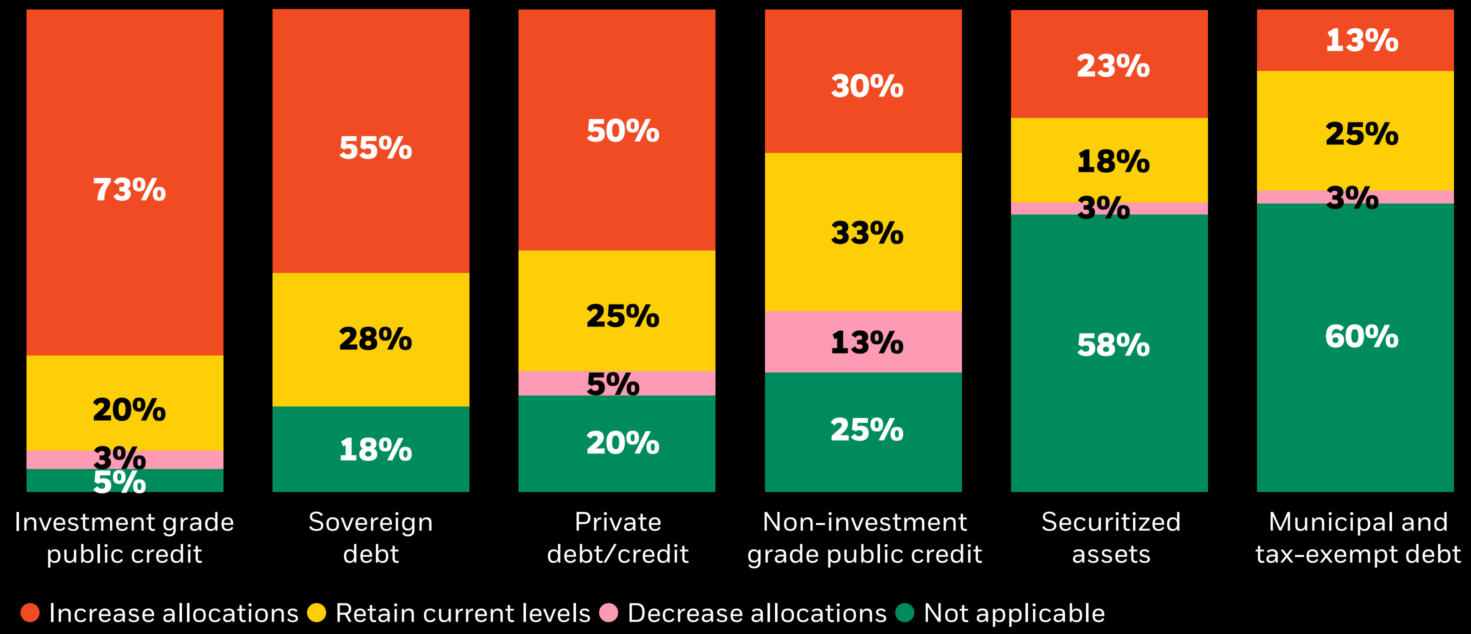


Q. What key changes do you anticipate making?

Source: BlackRock Global Family Office Survey, January 2023.

Nearly half of family offices in EMEA (47%) say they expect to adjust their fixed income allocations in 2023. We believe repositioning will likely hinge on macroeconomic conditions and central bank actions, which remain difficult to predict against the current backdrop. While the Federal Reserve has been (and was at the time of the survey) consistent in its target rate trajectory, leaving some family offices open to new ideas, there is still potential for divergence in views between major central banks regarding the management of duration and convexity in the changing regime. With open questions as to the dollar's trajectory adding complexity, some family offices were looking simply to hold long-dated U.S. credit to maturity. Others were looking to barbell long-duration investment grade and sovereigns against higher-yielding private credit exposures, with loan portfolios rather than mortgage-backed exposures of interest to those looking to diversify real estate exposures.

Exhibit 6: Changes to fixed income allocations



Q. In which categories of fixed income do you think you are likely to increase and decrease allocations in 2023?

Source: BlackRock Global Family Office Survey, January 2023.

> **Having those levels of yields, now it's a really good time to invest in fixed income. Also, because we have this kind of downside protection now with those levels... investment grade, high yield — we can get some additional return there."**
>
> **– Investment Officer, German-based family office**

BlackRock Perspective

Rick Rieder, *Chief Investment Officer of Global Fixed Income and Head of Global Allocation Investment Team*

Capitalizing on higher rates with a nimble approach

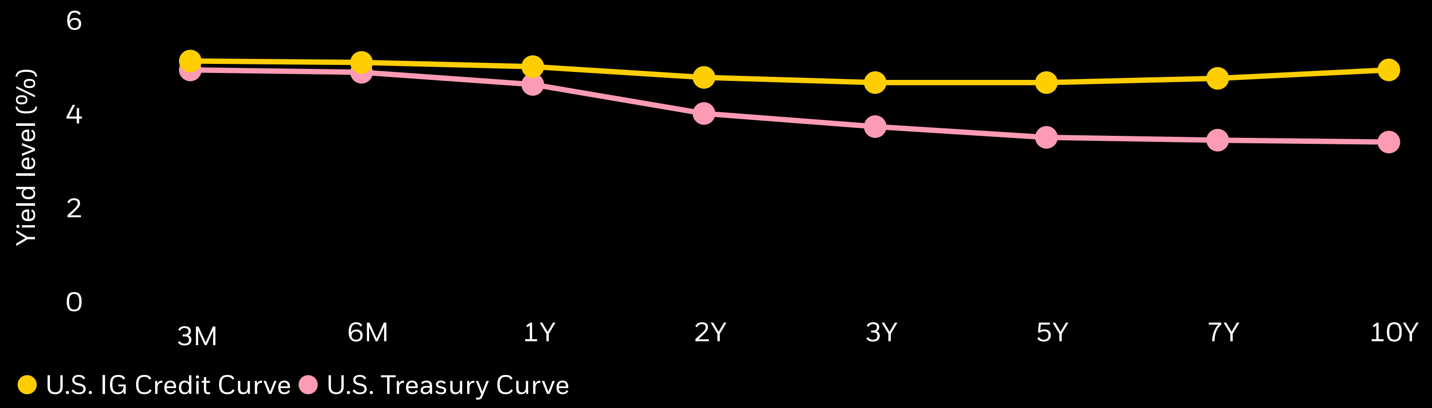
Yields on fixed income assets are at levels that we have not seen in over a decade, creating a generational investment opportunity. The S&P 500 earnings yield is on par with the yield of short-term investment grade fixed income assets for the first time in decades.[4] And today, investors can hit a near 6% yield target with a high-quality investment grade portfolio, whereas just a year ago investors needed to take meaningfully more risk to achieve that target.[5] This all means that given the recent repricing in risk-free rates, high-quality fixed income can become the dominant fixture of an attractive diversified portfolio.

As markets and economies continue to absorb the impact of higher rates and elevated inflation, assets are re-pricing and new investment opportunities are emerging. In our view, this shifting backdrop warrants a fresh look at portfolio exposures and investment approaches. Within fixed income markets, our highest conviction view is that the present environment of heightened volatility is best met by an active and unconstrained approach to investing — one that is not tethered to benchmark constraints, maturity limits or other biased risks. By seeking maximum flexibility and leveraging a broad toolkit, portfolios can pivot nimbly across duration, regional and sector exposures in response to rapidly shifting conditions.

In this uncertain environment where the full impact of Fed rate hikes has yet to be seen, we continue to favor high-quality liquid exposures in fixed income. The front end of the investment grade corporate space continues to look compelling given yield curve inversion. Additionally, intermediate bonds are looking increasingly attractive as a portfolio hedge as the Fed reaches the latter stages of the hiking cycle. We are also starting to see some high-quality global opportunities emerging including European sovereigns and emerging market local rates. While fixed income valuations are solid, we still think it's necessary to maintain some liquidity or "dry powder," especially as new investment opportunities may emerge as markets continue to absorb tighter financial conditions.

The Global Family Office survey emphasized the importance of barbelling less liquid exposures with more liquid public market allocations. We think this is a critical moment to take a fresh look at more flexible fixed income strategies, as we navigate the most volatile inflationary episode and steepest hiking cycle in decades, ahead of what is likely to be a generational return opportunity in fixed income.

Exhibit 7: Attractiveness of the front-end yield curve



Source: Bloomberg as of April 21, 2023. The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.

4 Source: Bloomberg as of April 31, 2023. **5** Source: Bloomberg data from Refinitiv as of April 6, 2023.

Tactical opportunities arising from macro changes

The Federal Reserve's rapid rate hikes, the most significant in four decades, have resulted in dispersion within and across asset classes, among other consequences. This can create enormous opportunity for family offices who are able to be opportunistic and dynamic in their asset allocation. The survey shows that 87% of family offices view market volatility as an opportunity to generate alpha, and family offices are looking to increase the frequency of portfolio reviews and seek additional insight from both investment managers and peers to better capitalize on this volatility.

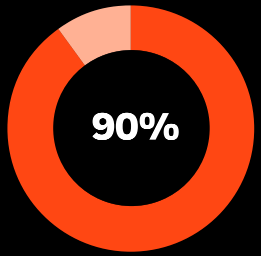
EMEA-based family offices were significantly more likely to seek input from investment managers rather than from their peers in contrast to U.S. and Canada family offices, which have access to more robust and cohesive peer networks.

> **"My day-to-day job is constantly out there trying to communicate and talk to other families and other people and get a sense of what they're looking at, what they're afraid of, where we see opportunities and dislocations in the market that we can potentially benefit from," shared Jay Rogers, CEO, Four Thirteen LLC, U.S.**

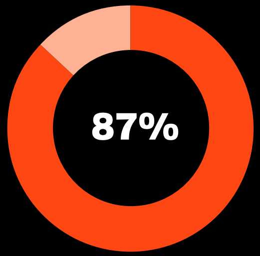
Exhibit 8: Investor views on market volatility

Global | **U.S. & Canada** | **EMEA** | **Rest of world (LATAM & APAC)**

We are a long-term investor, and are less focused on near-term macro disruption.



Market volatility is an opportunity for alpha and to add to high conviction areas of the portfolio.



Q. To what extent do you agree or disagree with the following?

Source: BlackRock Global Family Office Survey, January 2023.

Exhibit 9: Responses to the current macro and market landscape

Global | **U.S. & Canada** | **EMEA** | **Rest of world (LATAM & APAC)**

76% **Reviewing portfolios/positions internally more frequently**

64% **Actively seeking more input from investment managers**

61% **Actively seeking more input from family office peers**

Q. How are you responding to the current dynamic macro and market landscape?

Source: BlackRock Global Family Office Survey, January 2023.

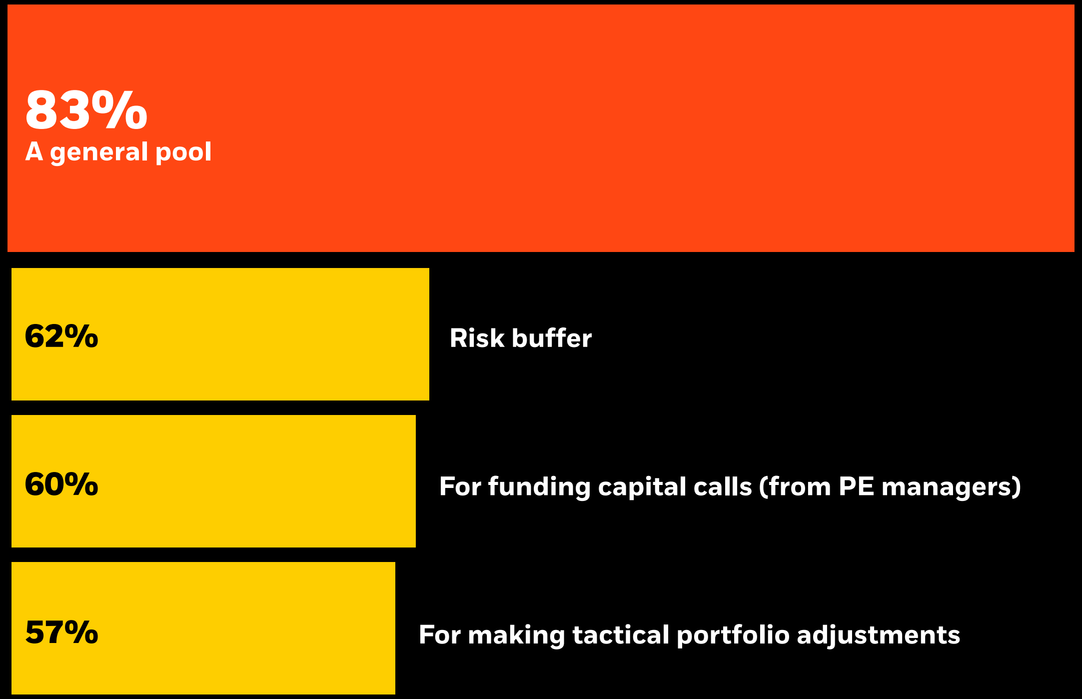
Family offices also appear to be taking an opportunistic approach to their cash allocations, with the vast majority (83%) saying they are reserving their cash allocations to capture emerging opportunities and 57% also using cash to make tactical portfolio adjustments. Two-thirds, however, did acknowledge the importance of cash as a risk buffer.

“Seeing the volatility in the markets, you can understand that there must be other ways to generate wealth, and that’s what we’re exploring right now,” said **Ricardo Boue, CIO, BN Oficina Corporativa, Mexico.** A **U.S.-based family office** told us, “We have put ourselves into a position where we have relatively more liquidity at this time in the markets than we had five years ago, and we plan on redeploying it.”

Higher yields have also drastically changed fixed income and cash markets, and many investors are looking to do more with their cash allocations. As we saw after the recent banking sector volatility, investors poured $300 billion into money market funds in the weeks after Silicon Valley Bank’s collapse.[6] **Yuan Ji from a Hong Kong-based family office** we spoke to told us, “The new rate environment offers opportunities across the yield curve. However, we are only conservatively extending duration and going down the credit scale, both of which have a higher opportunity cost by moving away from cash. We are therefore likely to stay closer to the front of the curve for a longer period of time. And we can see us going into more paper to ballast our direct positions, our growth exposure.” The **CIO of a Luxembourg-based family office** told us that to be more fully invested in the market, they moved their cash into a short-duration fixed income fund. “When it’s invested, it’s invested, but if it is in cash, it’s in a cash deposit.”

6 Source: Bloomberg.com, March 30, 2023.

Exhibit 10: Role of cash and cash-like instruments within respondent portfolios



Q. What role does cash or cash-like instruments play within your portfolios?

Source: BlackRock Global Family Office Survey, January 2023.

Alternatives allocations

Family offices look to alternative investments for alpha

Survey findings reinforced the fundamental importance of alternative assets to family offices, as respondents are turning to alternatives for new sources of alpha, while also broadening their allocations into different corners of the market. As private markets mature and evolve with market regime shifts, family offices are adapting their approach to alternatives. **Ricardo Boue, CIO, BN Oficina Corporativa, Mexico,** told us, "This environment is going to open a lot of opportunities for the private markets, for the alternative markets, so we understand that maybe 2023, 2024 and 2025 are going to be really important years for the private equity markets... We're trying to get some more cash to be ready for these investment opportunities that the private markets are going to give us in the next 24 months."[7]

Family office investors are deeply embedded in private markets. Many were founded with entrepreneurial capital, and the culture of nurturing innovation and opportunity is fundamental to family offices' DNA. In our interviews, some family offices detailed how the specialized knowledge and relationships they have built, sometimes over decades, can provide an edge on very local opportunities in private markets. For example, one **Mexican-based family office** told us, "We are benefiting from nearshoring because we have different industrial real estate assets in areas where nearshoring is driving up demand for land." As markets pivot, we believe those advantages will be ever more important.

Respondents generally maintain diverse alternative asset allocations, with capital deployed across multiple private market exposures. Family offices hold on average four alternative asset classes, with the most common being private equity funds, direct private equity investments, real estate and private credit.

7 There is no guarantee that any forecast made will come to pass.

Exhibit 11: Current alternative asset class allocations

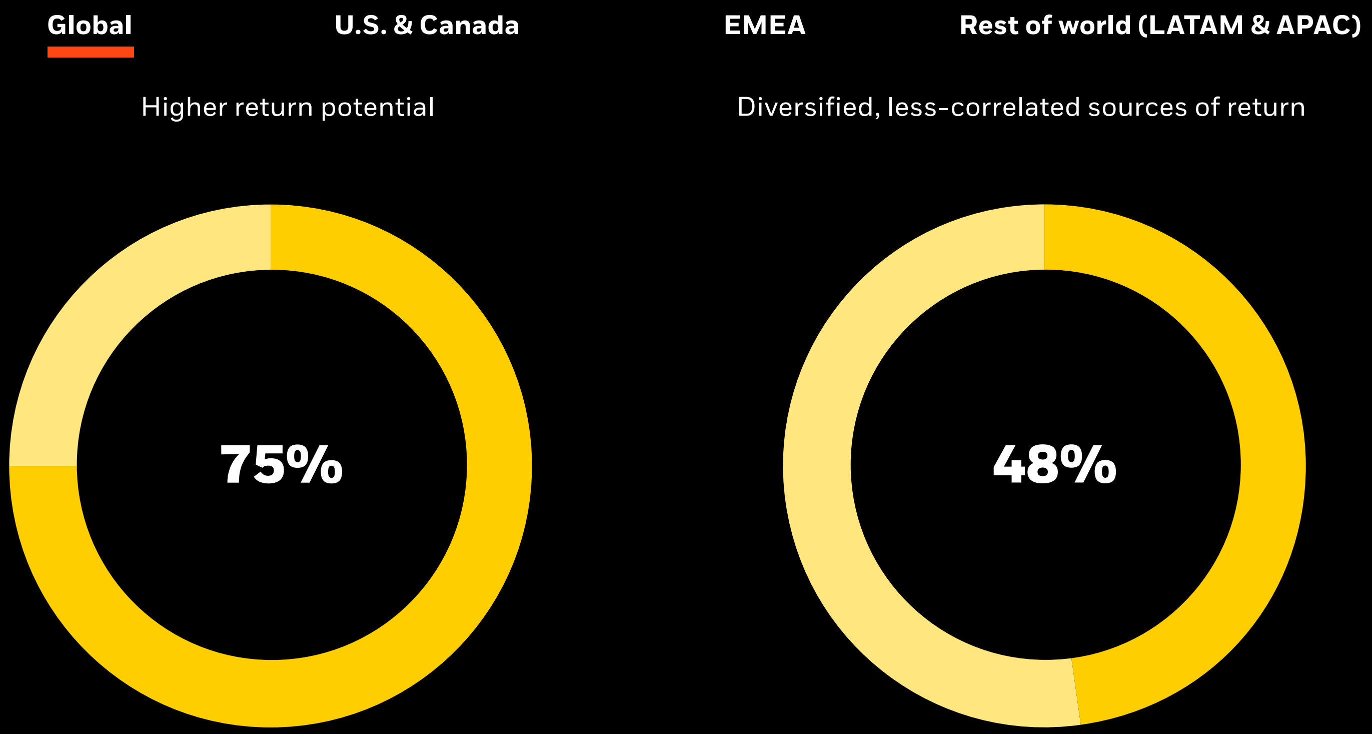
Q. To which of the following alternative asset classes do you allocate?

Source: BlackRock Global Family Office Survey, January 2023.

Family offices' alternatives exposures and their objectives vary by geography. Family offices in North America and EMEA have higher overall alternatives exposures than their counterparts in other regions, and they are more focused on the return potential available in these asset classes. By contrast, family offices in developing markets tend to have less exposure to alternatives and instead view private markets as a compelling source of diversification. These nuances speak to the maturity of alternatives programs across regions, deal access and how objectives shift as alternatives allocations grow in importance in portfolios.

Family offices expressed overall satisfaction with the performance of their private market investments thus far, with positive sentiment towards private equity, private credit and infrastructure. However, the outlook for the future appears to be more nuanced and complex. Family offices may need to be more agile than they have been in previous cycles and look to different ideas — whether different investment themes, different credit markets or simply different parts of the J-curve — to continue to drive returns. With many expected write-downs — some significant — across growth-focused private equity books, and with the denominator effect pushing at the boundaries of their asset allocation constraints, new ideas should be considered.

Exhibit 12: Most compelling reasons for respondents to invest in private markets



Q. What do you consider to be the most compelling reasons to invest in private markets?

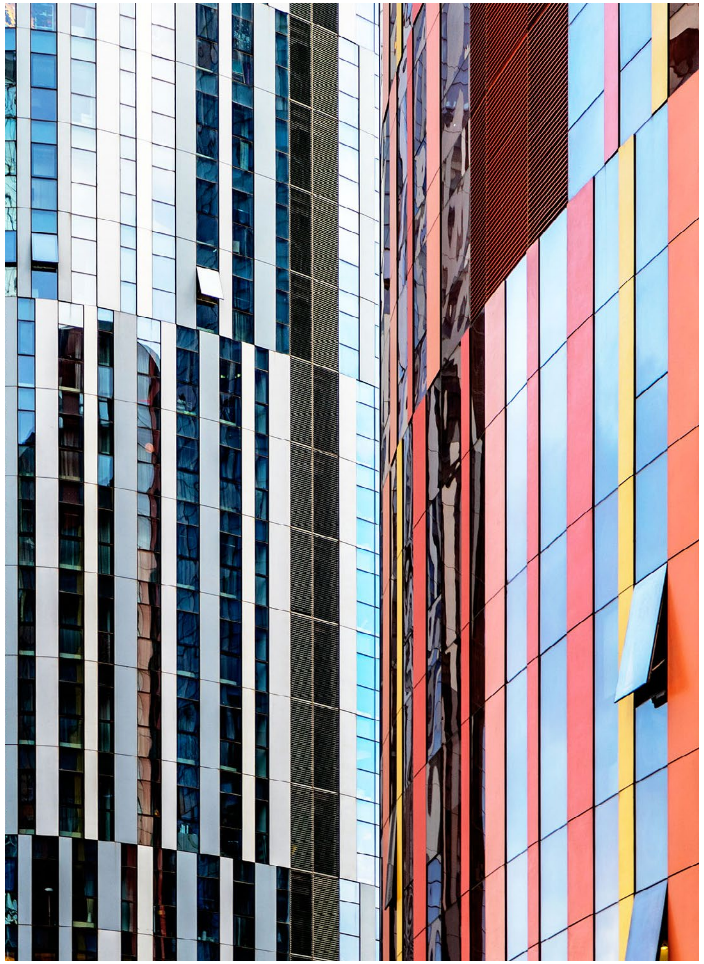
Source: BlackRock Global Family Office Survey, January 2023.

Larger family offices in particular are seeing opportunities to take advantage of forced selling in areas such as distressed issuances, direct lending, real estate debt and special situations. "The portfolios are starting to get exposure to distressed events, special situations managers, that haven't done much for a long time," said the **CIO of one U.S.-based family office**.

By contrast, enthusiasm for hedge funds was more limited, with 38% of respondents expressing disappointment with performance. One family office pointed out that they weren't receiving the same level of diversification benefits. "There's a lot of equity long/short, which is just equity beta. We pay a lot for it; it hasn't helped us. So, we've spent a lot of time really thinking about the beta and the characteristics of that diversifying part of the portfolio, and then… building a lot of private allocations to give us that diversification and market exposure," the **CIO of one U.S.-based family office** reported.

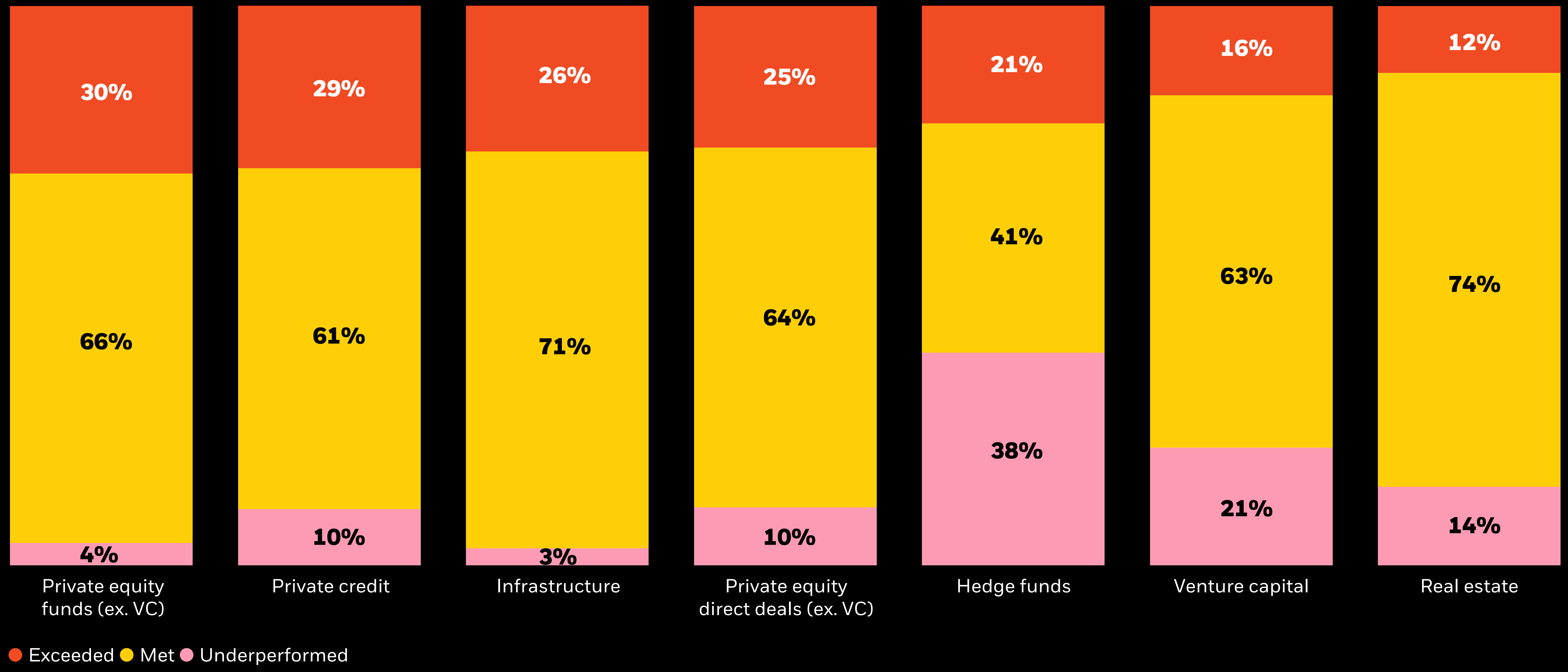
Venture capital was another area where family offices were less positive on return potential as rising rates slowed startup funding and with valuations in growth sectors beginning to correct as the prospect of a growth slowdown or recession has taken shape. With 2022 seeing a 33% decline in the Nasdaq composite index[8] and with the ARK Innovation ETF off 67%[9] across the same period, public markets were bearish on tech, and many family offices had little reason to assume that venture valuations had not declined by at least those numbers by the end of 2022. Challenges in the venture ecosystem may keep family offices away over the near term, but there is little evidence to suggest such a shift will be permanent. "Based on where we are in the cycle right now, we're doing nothing in venture capital," said **Jay Rogers, CEO, Four Thirteen LLC, U.S**. "I anticipate at some point in the next couple of years, we will use specialty managers to do venture capital investing."

Real estate investments are facing pressures due to rising interest rates and slowing demand, particularly in commercial real estate, which remains unrecovered in many markets since the pandemic. Opportunities nevertheless remain in certain niche segments — BlackRock real estate strategists highlight logistics, student housing, childcare and senior living — driven by demographic trends that are expected to continue despite macroeconomic concerns.



8 Source: Nasdaq.com, December 30, 2022. **9** Source: ark-funds.com, March 31, 2023.

Exhibit 13: Performance of alternatives allocations over the past 12–24 months

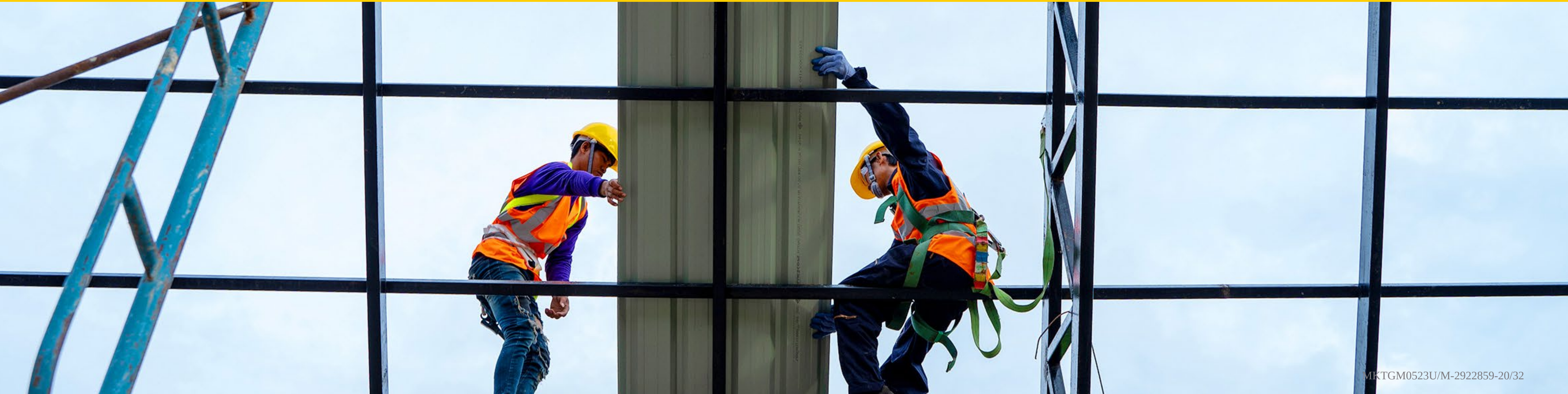


Q. Have your allocations exceeded, met or failed to meet your performance expectations in the past 12–24 months?

Source: BlackRock Global Family Office Survey, January 2023.

Opportunities in alternatives

Infrastructure, private credit and secondaries are gaining traction

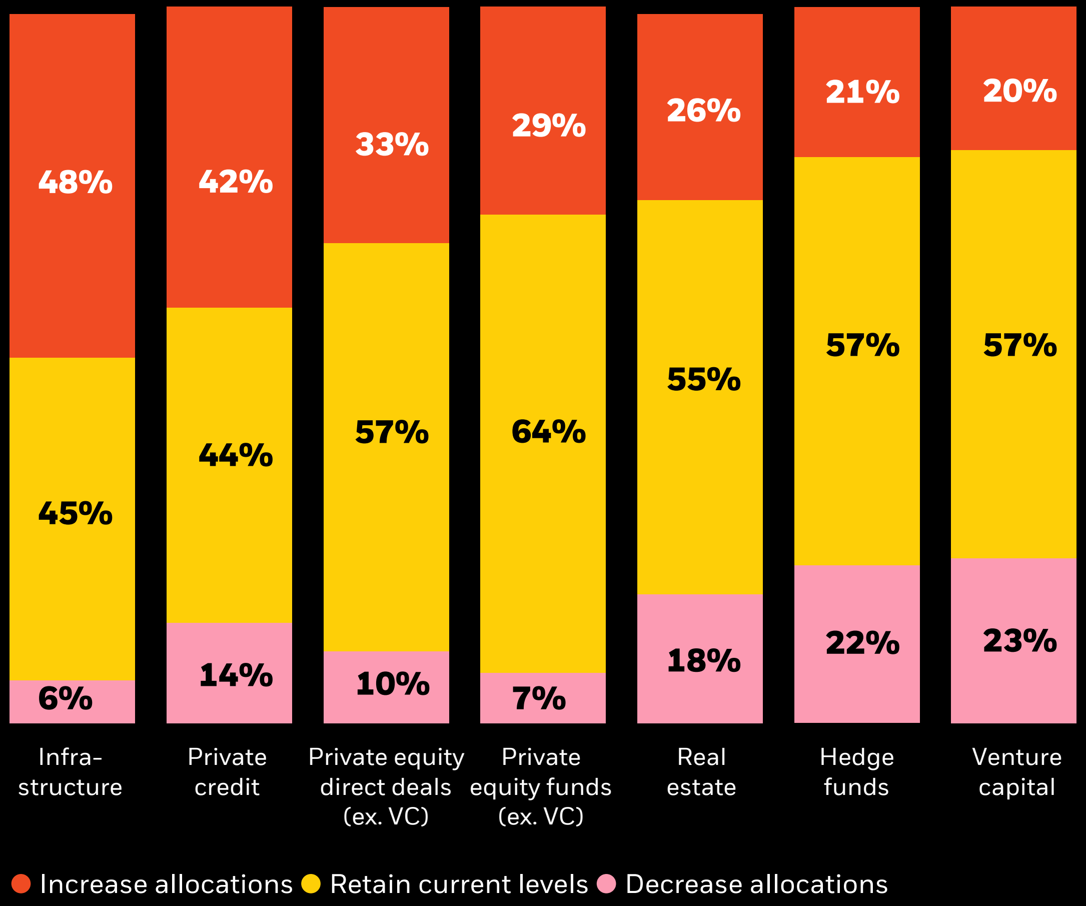


Looking at 2023 and beyond, family offices are bullish on infrastructure as an asset class, historically recognized for income, inflation protection, and diversification, which can help address the top challenges faced by family office investors in a volatile market with rising rates and inflation. Nearly half of family offices expect to increase allocations to this asset class in 2023, while only 6% intend to decrease infrastructure allocations. That net increase of 42% is significantly higher than in any other alternative asset class represented in our survey.

We believe there could be more positive momentum ahead for infrastructure investments, supported by historically large policy initiatives such as the U.S. Inflation Reduction Act and the European Commission's Green Deal Industrial Plan. During our interviews we found that many family office investors are excited about the asset class given its broad societal benefits and critical function in powering the global economy. The enthusiasm for infrastructure in part reflects the ways it has expanded beyond roads and bridges to include everything from power generation to waste management to food storage to digitalization, as well as the numerous opportunities to support the maintenance and modernization of long-standing projects such as airports, real estate and agriculture. One family office with whom we spoke underscored the broad impact of their infrastructure investments: "We are operators, not just investors. We employ people, we have factories, we need infrastructure, so for us, it's important to see how the political situations develop, how governments will support the big investments required in the Energy sector where we are making strategic moves as business owners and investors." - **Tatiana Fafaliou, CEO, Folloe Capital Investors, Switzerland.**

Transition to a lower-emission economy was another recurring theme in our interviews. In this context, many sustainability-oriented family offices look to technologies and infrastructure to support powering the transition away from carbon. A **Denmark-based investor** we interviewed said "Our focus on energy transition is an area where we expect to build strong positions."

Exhibit 14: Expected changes to current alternative allocations in 2023



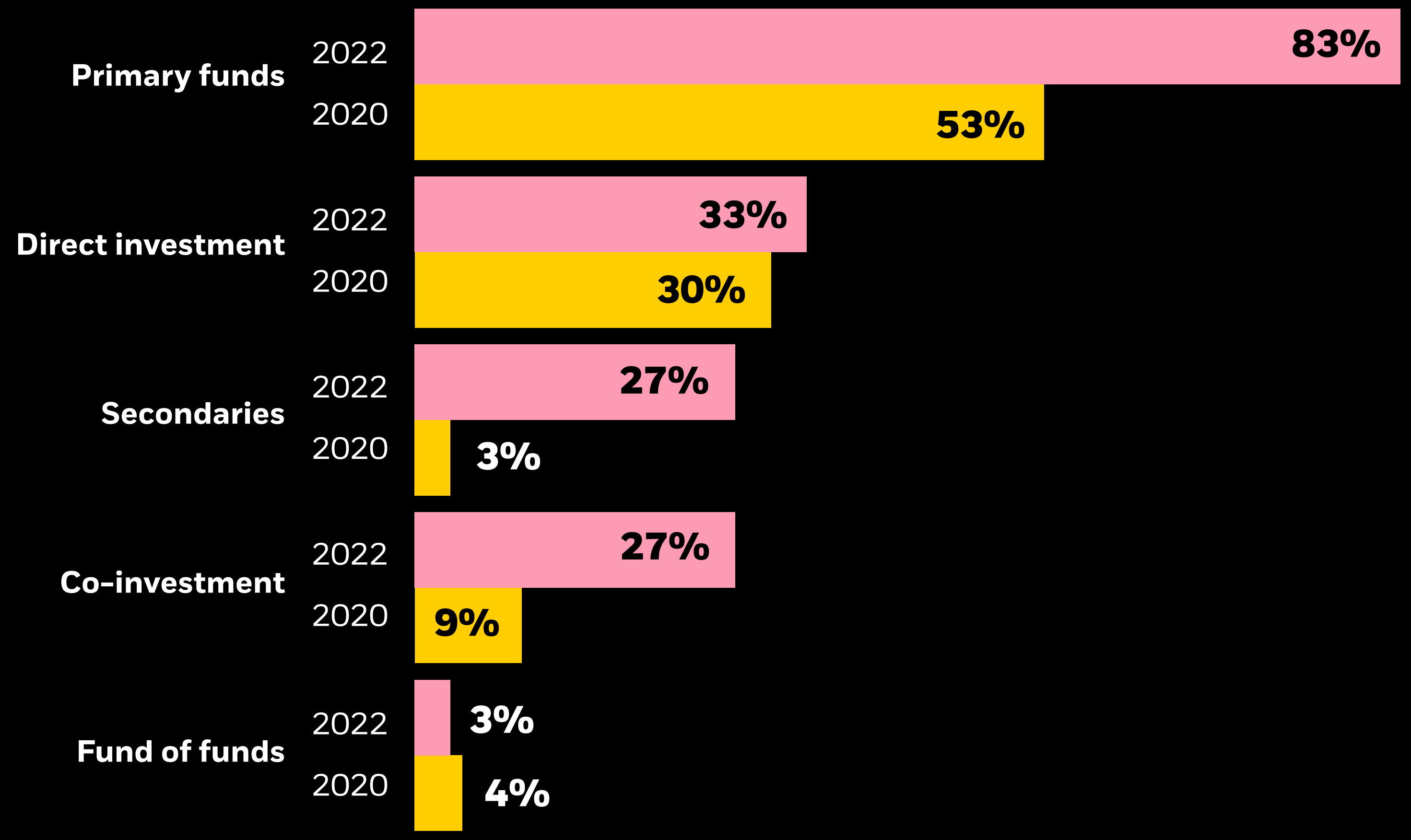
Q. Where do you expect to increase, decrease or retain current allocations in 2023?

Source: BlackRock Global Family Office Survey, January 2023.

Family offices have also intensified their focus on private credit. These markets may present opportunities to boost yields by locking in higher rates and coupons and providing liquidity to corporations that may not have access through public markets. Interest in primary, secondary and co-investment debt/credit structures has risen substantially among family offices since we surveyed them in 2020. Monetary conditions had tightened considerably at the time of our survey last year, and that trend has continued as central banks have implemented additional interest rate hikes and the banking system has come under pressure.

Family offices also express growing interest in secondary private equity investments. Like private credit, secondaries may be attractive to investors who are positioned to provide liquidity and pick up deals at attractive prices from forced sellers. Family offices may be attracted by the prospect of investing further along the J-curve, potentially avoiding the initial dip and capturing greater annual returns than they might generate by committing to capital calls from the beginning. In addition, we believe secondaries offer an opportunity for quicker return of capital than primary funds. “You’re obviously buying it halfway through the J-curve,” said **Jay Rogers, CEO, Four Thirteen LLC, U.S.** “After two or three years in, you have a better sense of which ones are the winners, which ones are the losers.”

Exhibit 15: Preferred investment structures for private credit



Q. Which investment structures do you typically prefer for private credit?

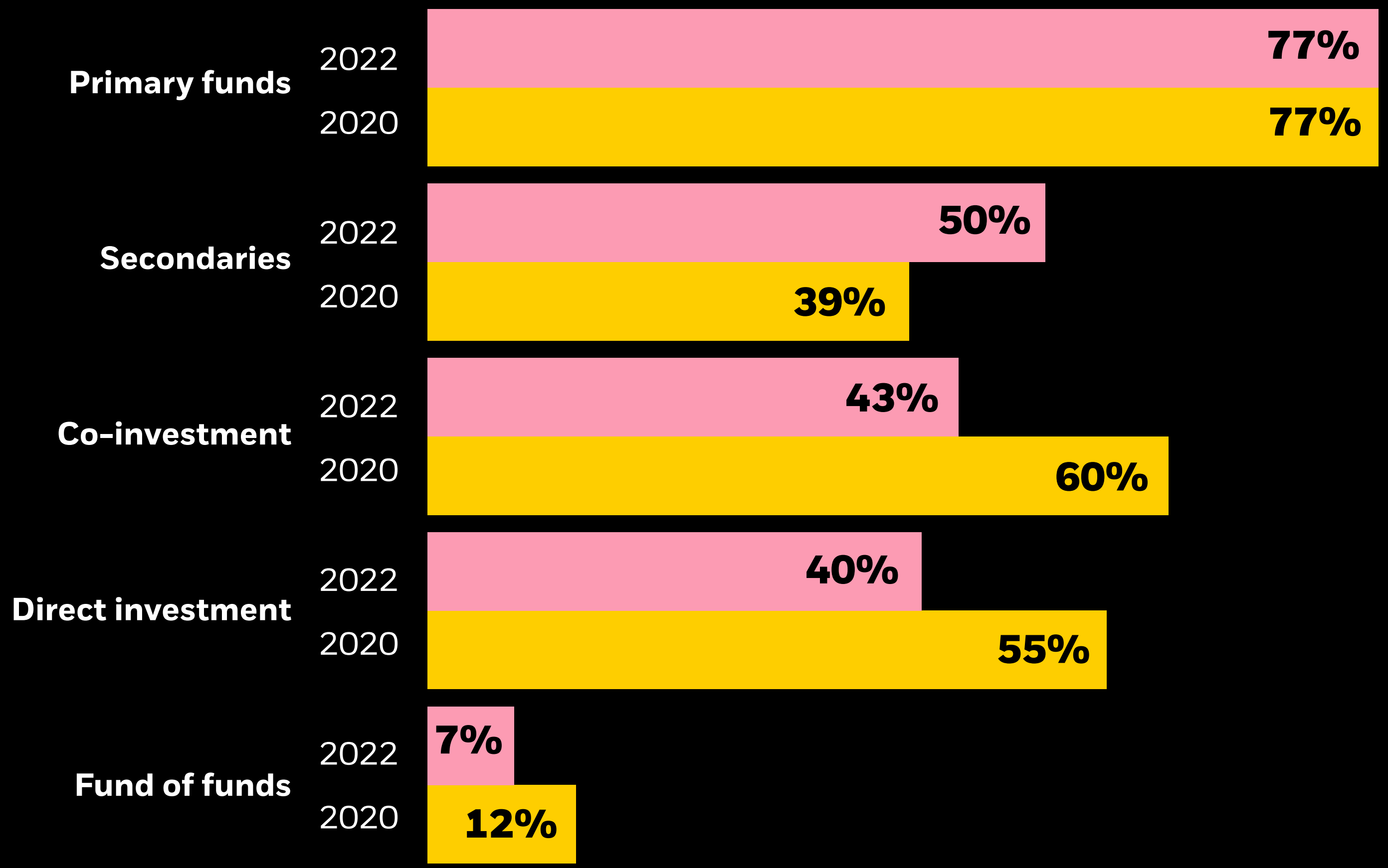
Source: BlackRock Global Family Office Survey, January 2023.

As one **investor from a U.S.-based family office** put it, "There will be an over-rotation of things like valuation, and there will be companies that are good solid companies that get caught in not being as prepared as they might have been for what's going to occur. They're going to have liquidity issues. They're going to have capital issues. They're going to have valuation issues."

Notably, our survey uncovered a shift within family offices' private equity mix. Respondents appear to be scaling back on resource-heavy structures like directs and co-investments, with 43% of respondents favoring co-investment structures versus 60% in 2020. Similarly, 40% of family offices indicated a preference for direct investments versus 55% in 2020.

> **"Maybe there's going to be an opportunity — maybe next summer, maybe next fall, maybe going into '24 — where all these people are underwater and they just want to sell. We can go and pick and choose their portfolio with some of the winners and buy it for pennies on the dollar. There's a conversation about, 'Hey, let's get two or three families to put together maybe $50 million/$100 million. Let's go find a few diamonds in the rough and pick these things up.'"**
>
> **– Jay Rogers, CEO, Four Thirteen LLC, U.S.**

Exhibit 16: Preferred investment structures for private equity



Q. Which investment structures do you typically favor for private equity?

Source: BlackRock Global Family Office Survey, January 2023.

BlackRock Perspective

Lynn Baranski, ***Global Head of Investments for BlackRock Private Equity Partners***

Private equity encompasses various stages, industries and transaction types that meet investors' needs across market and economic cycles. Because different strategies and transaction types shine at different times, the most prudent private equity allocations maintain steady and consistent deployment throughout time. We encourage investors, then, to adopt this investment approach while still maintaining optionality for tactical tilts considering the potential opportunities presented by current market conditions.

Primary funds typically serve as the foundation of successful core private equity programs, a point underscored by family offices' sustained conviction in this delivery method. Respondents' relative decrease in co- and direct investment exposure is interesting, however, as we believe the current reset in valuations may lead to compelling co-investment and direct investment opportunities. We see many family offices (who may otherwise de-emphasize co-investments and direct investments due to the resource-heavy nature of these investment types) partner with external managers to put capital to work efficiently and who have the expertise, knowledge base and network to source, underwrite and — of particular importance during times like these — monitor portfolio companies.

Another key potential area of opportunity — which indeed was noted by survey respondents — is secondaries. We agree now is an exciting time in the secondary market, as the ability to drive attractive pricing is incredibly valuable. With increasing investment risks, secondaries allow investors to target potentially higher returns to reflect a wider range of potential outcomes. Additionally, as we continue to see a disconnect between private and public market valuations, secondaries offer investors an attractive tool to help bridge that pricing gap. We expect this flexible and tactical nature of secondary investing, combined with secular long-term tailwinds, to continue driving the consistent long-term performance secondaries have delivered over the past 20 years.

2022 was the second-highest year on record for closed secondary volume ($108 billion), fueled by both limited partner (LP) and general partner (GP) liquidity needs.[10] An increasing supply of opportunities driven by the long-term primary fundraising market currently outpaces secondary capital demand, resulting in approximately one year of dry powder currently available for deployment today. This secular market imbalance is further exacerbated by rising liquidity requirements stemming from numerator/denominator effects and a slowing exit market. As both LPs and GPs turn to the secondary market for liquidity, we expect a "buyer's market" to continue throughout 2023. By offering the ability to deploy capital rapidly and efficiently through a highly diversified strategy, secondaries rise to the top as a preferred access point for private markets.

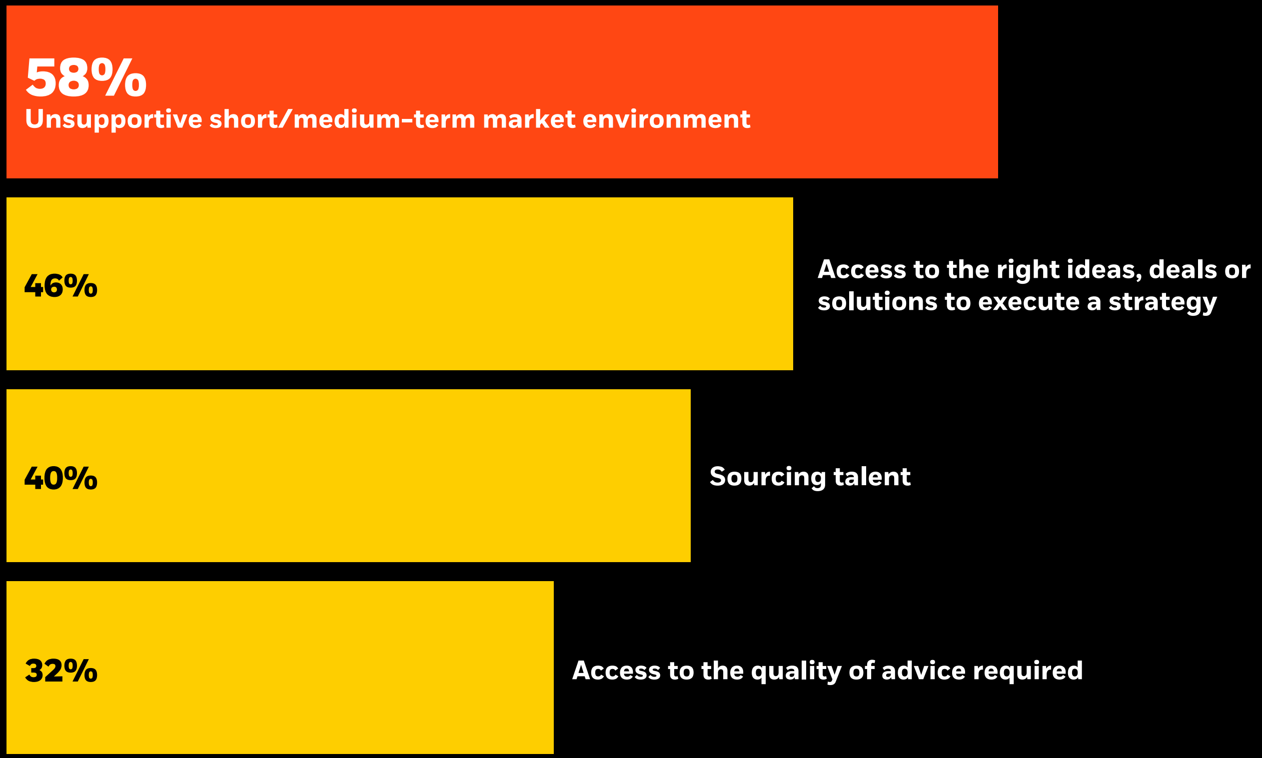
10 Source: *Secondary Deal Volume Fell to $108 Billion in 2022,* WSJ, January 2023.

Governance

Family offices seek out resources to unlock opportunities

Exhibit 17: Major challenges or barriers to achieving investment goals

Global | U.S. & Canada | EMEA | Rest of world (LATAM & APAC)



Q. What are the major challenges or barriers you face in achieving investment goals?

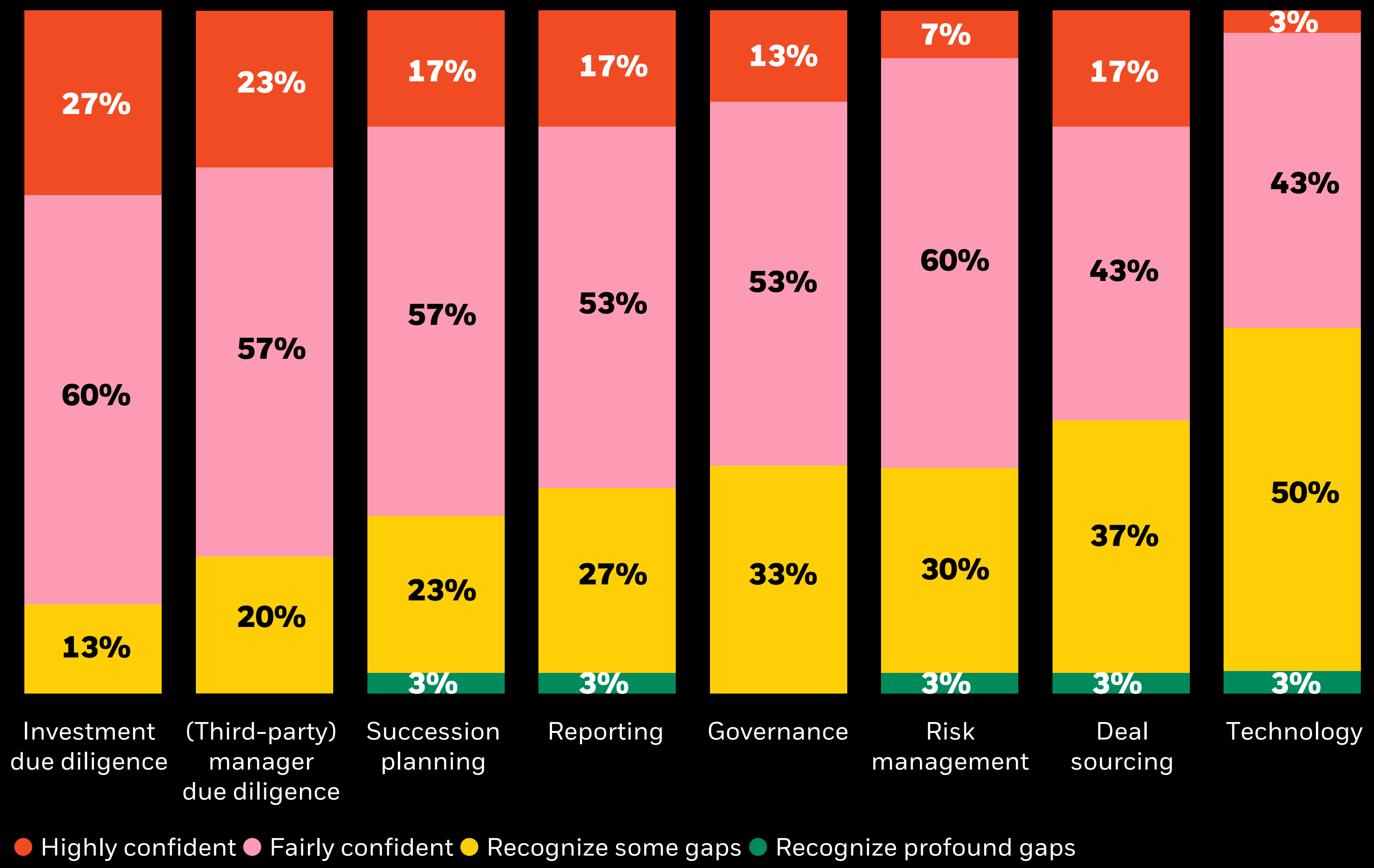
Source: BlackRock Global Family Office Survey, January 2023.

Family offices have not been immune to the challenges of tight labor markets and increased competition across the business landscape. In addition to a difficult market environment, accessing the right ideas, deals and solutions and sourcing talent are significant strategic concerns. Nearly half (46%) cite a lack of access to the right ideas, deals or solutions as a barrier, while 40% find it difficult to source talent.

Growing demand and complexity in private markets has made deal sourcing more competitive and difficult to navigate. When asked what challenges they anticipate facing, 57% of family offices said they anticipate difficulty sourcing or accessing the high-performing managers who could help them navigate certain markets. Another 51% expressed concern about balancing liquidity and overall portfolio risk.

These concerns stem in part from gaps in resources. More than six in 10 family offices say deal pipelines, tactical ideas and institutional investment firm resources will be critical to achieving their strategic investment goals. At the same time, family offices recognize that they are under-resourced in key areas, especially technology, deal sourcing and risk management.

Exhibit 18: Confidence surrounding respondents' access to resourcing and expertise



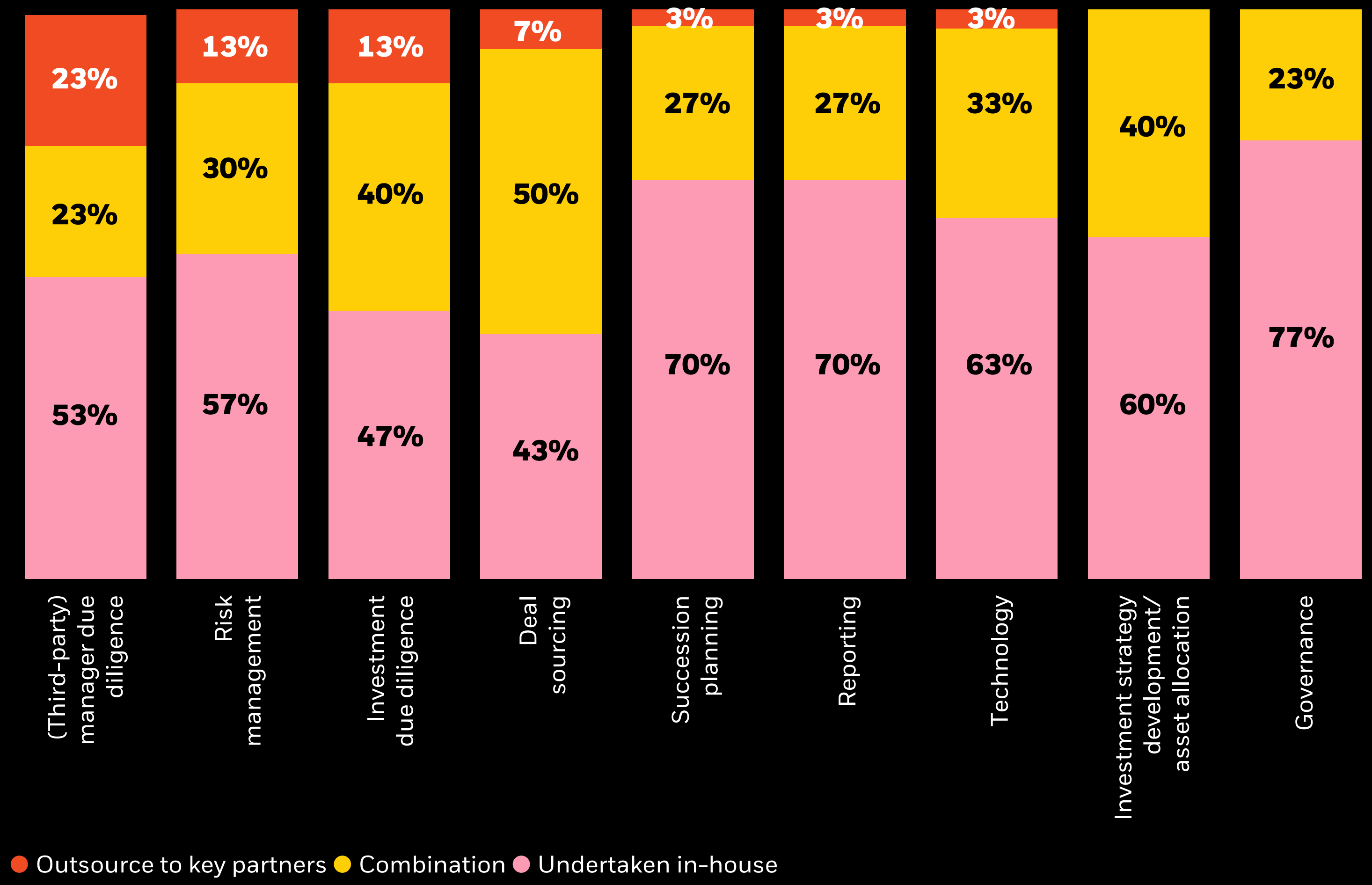
Q. How confident are you in the resourcing and expertise to which you have access?

Source: BlackRock Global Family Office Survey, January 2023.

Respondents were fairly confident around their resourcing and expertise needs. However, as family offices expand their investment horizons, especially into alternative assets and unfamiliar regions, there might be a shift in their reliance on external guidance compared to internal resources. Currently, family offices tend to handle these duties in-house rather than outsourcing. Likewise, 43% of family offices perform deal sourcing entirely in-house, but more than half (57%) anticipate challenges sourcing or accessing high-performing managers.

"The difference between what we have in-house and externally is what we have in-house is primarily as a European family office, European-based investments," said an **investment manager from one German-based family office.** "When we want to have exposure to the U.S., or maybe other places that are more geographically distanced from us, we typically tend to use external people. We have private equity funds to get that exposure and also manage the account on quoted equities that can manage emerging market exposure and so on. The closer it is, the more we tend to do it actively ourselves."

Exhibit 19: Internal versus external resource breakdown



Q. Do you outsource to external partners or resource internally, or a combination of both?

Source: BlackRock Global Family Office Survey, January 2023.

Given the persisting inflation and volatility and the possibility of a broader economic downturn, investment success may rely on nimble and opportunistic moves that can capitalize on opportunities across all markets. These resources will be particularly important for family offices founded after the 2008 financial crisis because they are navigating these market dynamics for the first time. Of this group, 44% said better advisory support would be key to achieving their goals.

To meet their return objectives, we believe family offices will need the resources, flexibility and agility to take advantage of displacements along sectors, regions and sub-asset classes, particularly in alternatives. Leveraging strategic external partnerships that offer support for internal staff and improved access to private market opportunities may prove critical. A **U.S.-based family office** shared, "It's an insource/outsource model, and the way we talk to the family is, 'What are the characteristics of your family assets that require us to uniquely design a management style?'"

> **"Some of the portfolio is managed by third-party professionals, like BlackRock who manages a part of our family office's resources, and some of them are managed internally."**
>
> **– Mexican-based family office investor**

BlackRock Perspective

Pierre Sarrau, ***Co-Head and CIO for Multi-Asset Strategies and Solutions***

Alan McKenzie, ***CIO for U.S. Family Offices, Multi-Asset Strategies and Solutions***

2022 drastically shifted the investment landscape for family offices. With central bank policies easy for years, many had relied on a handful of reliable trades: technology stocks, U.S. companies and private markets.

But greater volatility and heightened geopolitical tensions have meant many families are having to chart a new course to maintain stable portfolios. Having an investment partner may help them pivot from being more defensive to crafting a whole portfolio right for them.

The trades that thrived in 2021 likely won't work in 2023, and as market correlations unwind, it's important that family offices forge new sources of alpha. At BlackRock, we believe three themes might help families find success or better outcomes in 2023:

- Higher allocations to fixed income
- Diversified exposure within global equities
- Agility in private markets

Fixed income

Before 2022, conversations with clients about fixed income typically centered around the low-yield environment and what to invest in *as an alternative to fixed income.*

Today, that conversation goes very differently: We're encouraging family offices to actively reexamine fixed income. As rates and yields have moved higher, investors can return to the bond market to generate returns.

And families can capture opportunities without having to be too adventurous. Balance sheets for corporate credits look strong, and clients can buy short-dated bonds with low duration and meaningful yields.

Equities

With public equities, the template for success today looks different from the years prior to 2021, when returns were anchored in U.S. and technology stocks.

We propose families broaden the net geographically and look at Europe, Japan and even emerging markets for equity-market exposure. We're seeing these trends trickle through in earnings.

While the U.S. market is experiencing negative revisions, many companies in Europe are posting positive earnings surprises. Add on top a U.S. dollar that has likely peaked, and all this should be a tailwind for European equities.

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Private markets

Alternatives and private markets continue to be popular with family offices. The limitation they often hit, however, is getting access to high-performing managers in this space. Having an investment partner with greater institutional resources may be the solution to this issue.

Here are some areas within private markets that may be attractive to family offices:

- **Secondaries:** The sell-off in public markets last year caused alternative allocations at some institutions to balloon. This, in turn, has created opportunities as forced sellers unload private-market holdings.
- **Private credit:** Many non-bank institutions have gotten into middle-market lending. With interest rates higher, some companies may struggle to maintain balance sheets, leading to potentially interesting deals in private credit and direct lending. Distressed and special situations may also provide attractive entry points.
- **Infrastructure:** In our survey, 42% of family offices said they planned to increase allocations to infrastructure. This is another area where an investment partner can help clients gain this exposure through global funds, as the infrastructure market tends to be more mature outside the U.S.

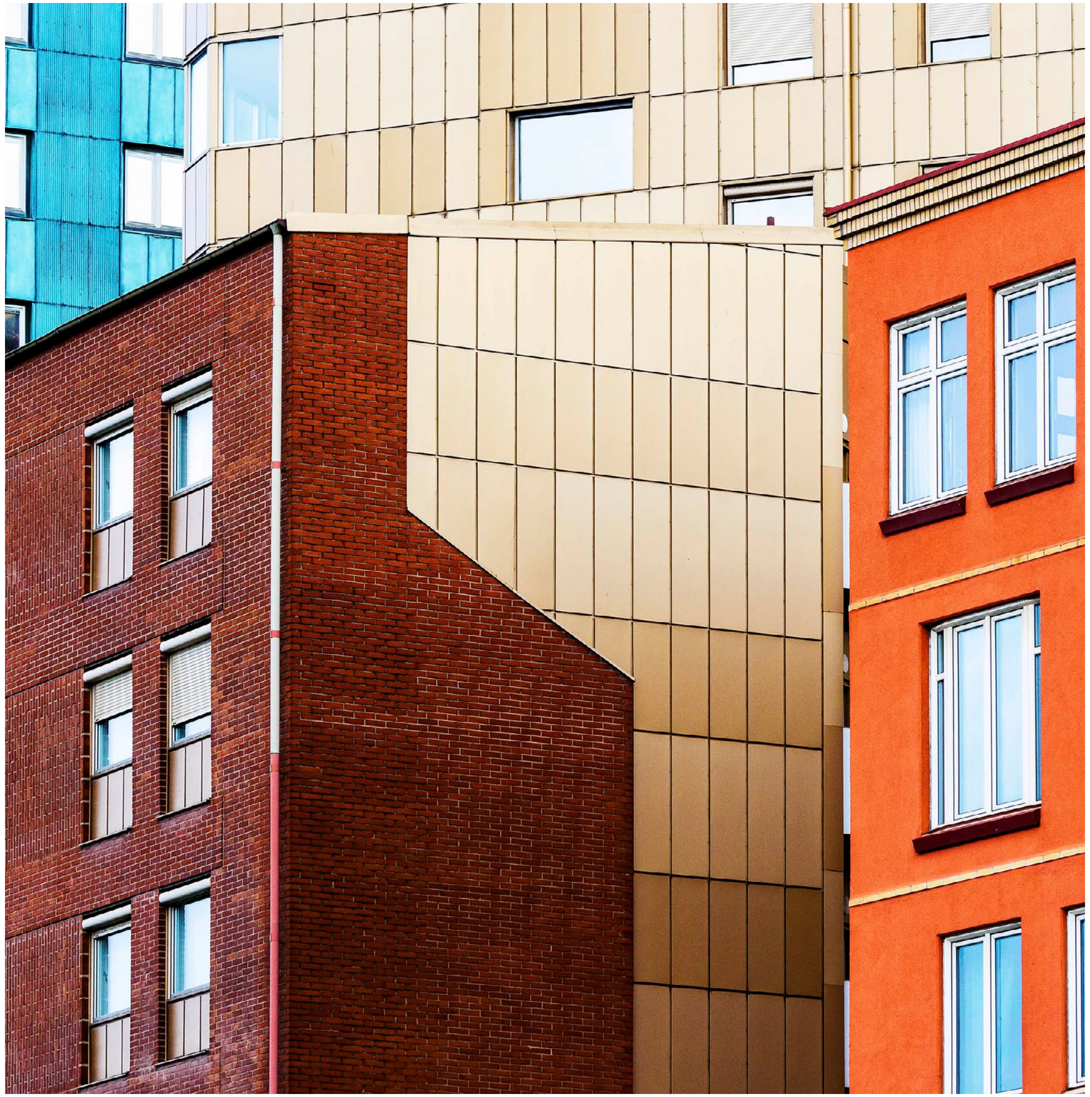
As we saw in March 2023 with the banking sector volatility, family offices may need to vet and make portfolio changes based on fast-moving dynamics. Thus, having an investment partner who can help manage liquidity profiles and get access to strategic investments can be crucial.

When it comes to timing and agility, a partner can also help families be more strategic, such as knowing when to buy assets and when to raise dry powder. For instance, a family office may want to be opportunistic by holding on to a corporate credit without much duration risk and good yield, then rotate into a private market deal that pops up.

Yes, the days when central banks pumped liquidity into the system and the cost of capital was next to nothing are behind us. But we believe inflation will cool; the odds of a policy mistake are declining; and if there is a recession, it'll be mild. All reasons for families to be optimistic.

Conclusion

The new market regime of higher volatility is uncharted territory for many family offices and there is widespread recognition that not everything that worked in the past will weather future storms. However, rather than throwing out the whole investment playbook, family offices are refining their approach. The survey results clearly show a strong preference for fixed income, diversifying alternative investments and adding more tactical capabilities to capture alpha from market dislocations. Now more than ever, family offices recognize the need for strong partnerships across investment managers and peer networks to improve access, information flow and investment ideas.



Important survey notes
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