Special Report

The Evolving Role of Family Offices in the GP-LP Landscape









Family offices expect private equity to be a core component of their investment strategies over the next two years, reflecting a growing influence of family offices in private markets and a preference for fund-based investments

Recent investment allocation trends adopted by global family offices to balance their risks and returns:

- Family offices are placing greater emphasis on strategic asset allocation to preserve wealth over the long term.
- There's a notable shift toward private equity and alternative assets, as family offices seek higher returns and diversification beyond traditional markets.
- Family offices have increased their exposure to developed market equities to tap into long-term structural growth opportunities, while also increasing their allocations to private debt.

Strategic Asset Allocation by Asset Class | 2024



Family offices often prefer fund-based investment strategies over direct investments due to several key factors:

Diversification

- Investing in funds allows family offices to spread their capital across a range of assets, sectors, and geographies, thereby mitigating the risk associated with any single investment.
- This approach contrasts with direct investments, which may concentrate risk in a limited number of ventures.

Liquidity & Exit Strategies

- Many funds have defined exit strategies, making it easier for family offices to redeem their investments.
- Direct investments can be highly illiquid, requiring long holding periods and complex exit planning.

Access to Expertise & Co-investment Opportunities

- They leverage deep due diligence, active management, and strategic insights to generate superior risk-adjusted returns.
- By investing in funds, family offices often gain access to coinvestment opportunities, allowing them to participate in select highquality deals alongside the fund at lower fees.

Operational Efficiency

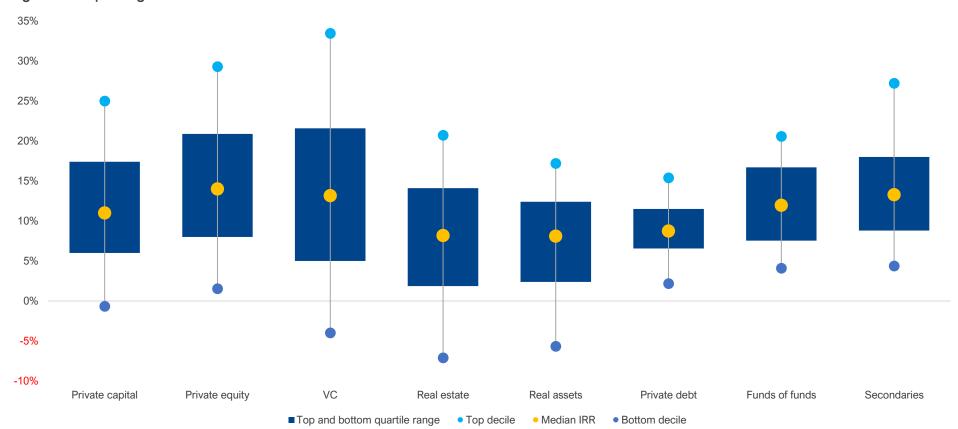
- Managing direct investments requires substantial resources for sourcing deals, conducting due diligence, and overseeing operations.
- By investing in funds, family offices can leverage the fund manager's infrastructure, allowing them to focus on broader wealth management strategies.

Source: UBS. PWC. Barrons. Aranca Research



Navigating Alternative Investments: Understanding Fund Performance Dispersion for Informed Strategy Selection.

Fund Performance Dispersion by Strategy Figures in % | Vintage Years 2005-2019

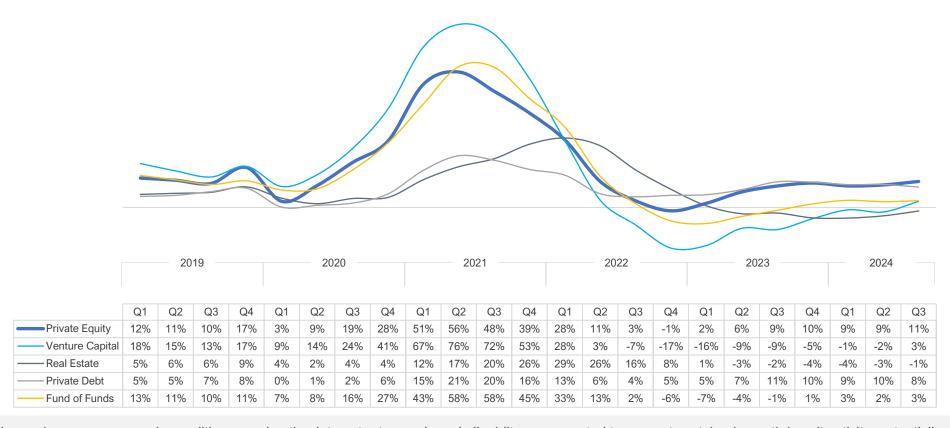


Given that global family offices are increasingly allocating capital across alternative assets, this data can provide insights into risk-return profiles for different investment strategies. In addition, they can use this data to refine their investment strategy, manager selection, and portfolio construction.

Source: Pitchbook, Geography: Global

Rolling Returns: Unveiling Performance Trends Across Alternative Investment Strategies.

Rolling one-year horizon IRRs by strategy Figures in % | 2019-Q3 2024

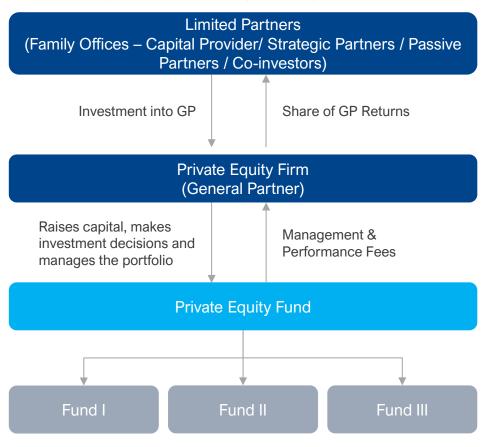


Improving macroeconomic conditions, moderating interest rates, and ample liquidity are expected to support sustained growth in exit activity, potentially leading to an increase in returns over the coming quarters.

Source: Pitchbook, Geography: Global

Leveraging Patient Capital: The Strategic Role of Family Offices in Private Equity.

A family office can own the shares in the General Partner (GP), which manages the Limited Partner (LP) and contracts on behalf of the investors,, often the family members, providing the family office with a level of control similar to that of a fund manager in a private equity fund.

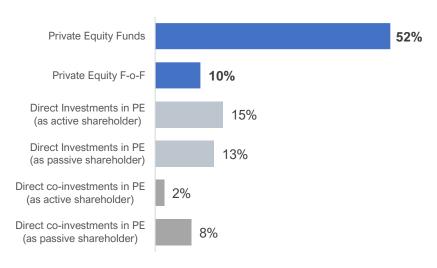


- This structure allows key family office employees to be remunerated in a way that mirrors industry fund managers, aligning their interests with the families whose assets they manage.
- Family offices can access a range of investment opportunities, including private equity, real estate, and hedge funds, by pooling their resources and potentially investing in assets that may not be available to individual investors or small firms.
- The LP structure can offer flexibility and customization, allowing them to tailor investment strategies to meet their unique needs.
- Family offices can structure themselves to potentially avoid limitations on deductions by claiming status as an active trade or business, but this requires careful planning and may be subject to scrutiny by tax authorities.
- Family offices must balance allocations and consider asset allocation strategies to ensure wealth preservation and growth across market cycles.
- Family offices play a crucial role in educating younger family members about wealth management and instilling an appreciation for their wealth. They help maintain family unity and prevent discord over money issues between generations.



Why GP-LP Structures Are Gaining Traction Among Family Offices

Private Equity (PE) investments are mostly allocated to funds Manner of investing (Family Offices with PE Investments in 2024)



- · While Family Offices invest in PE mainly through funds, and funds of funds, which offer the benefits of diversification and GP expertise, allocations to direct investments represent 38% of their PE portfolio, according to a UBS study on global Family Offices.
- · Family Offices with AUM of more than \$1Bn allocate more of their portfolios to PE funds (17%) than to direct investments (14%) and are more than twice as likely to invest in private equity funds than those with less than \$1bn in AUM.

Family offices are well-positioned for private equity, leveraging a long-term outlook and substantial capital to drive growth.

Long-Term Investment Horizon

Family offices can maintain investments over extended periods, enabling them to potentially capture higher returns.

Investment Alignment and Incentives

This structure allows key family office employees to be remunerated in a way that mirrors industry fund managers, aligning their interests with the families whose assets they manage.

Access to Exclusive Opportunities

Family offices often gain entry to unique, early-stage investments with high growth potential, typically inaccessible to the broader market.

Flexibility and Customization

The LP structure can offer flexibility and customization, allowing family offices to tailor their investment strategies to meet the family goals.



Considerations for Family Offices in GP-LP Investments



Challenges

- Private equity investments are inherently long-term and illiquid, and the capital remains locked over the full term.
- This results in portfolio inflexibility and opportunity costs associated with market downturns and the inability to reallocate capital to more attractive opportunities.
- Private equity funds often have high minimum investment requirements, limiting access for small or mid-sized family offices and reducing their ability to diversify across managers and strategies.
- This can lead to over-concentration risk and limited negotiating power on fees or co-investment rights.
- Committing to private funds means dealing with unpredictable capital calls and long lock-up periods (often 8–12 years).
- For family offices with significant wealth tied to operating businesses or real estate, this liquidity mismatch can become a key concern.
- Family offices must evaluate not only past performance, but also team stability, deal sourcing capabilities, investment philosophy and transparency of reporting.
- Family offices often prefer access to deal-level data and open communication, which is not always the standard in traditional GP-LP setups.











How They Are Addressed

- Maintain liquidity buffers through allocation to liquid assets (e.g., money market, public equities)
- Stagger commitments across vintage years and fund types (e.g., secondaries, co-investments) to smooth out liquidity timelines.
- Use NAV-based credit lines or structured finance options.
- Family offices can access Private Equity through feeder funds, co-investments, or multi-family platforms to lower minimums and improve diversification.
- Partnering with niche or emerging managers may also offer favorable terms and increased access.
- Strategic cash flow planning and capital call facilities can meet commitments without disrupting other holdings.
- Allocation to short-duration or hybrid strategies can improve overall liquidity and flexibility.
- A thorough evaluation of GPs, including performance, team stability, and transparency, is critical.
- Leveraging advisors, prioritizing managers with deal-level access, and open communication can enhance oversight and alignment.

Source: UBS, PWC, Barrons, Aranca Research





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