

Special Report

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

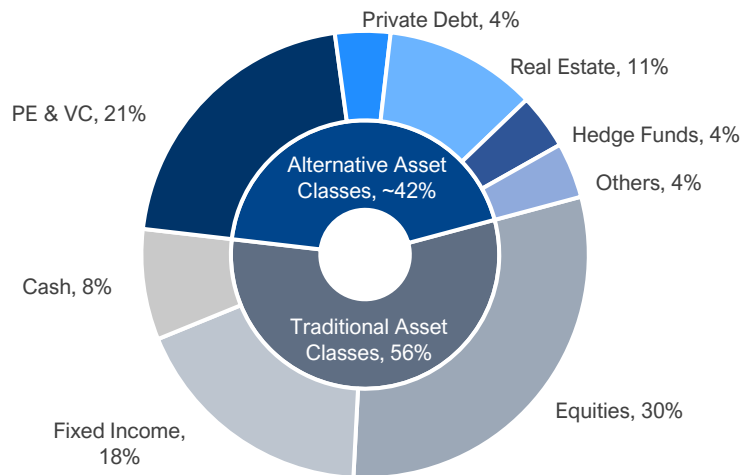


Family offices expect private equity to be a core component of their investment strategies over the next two years, reflecting a growing influence of family offices in private markets and a preference for fund-based investments

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 co-investment opportunities, allowing them to participate in select high-quality deals alongside the fund at lower fees.

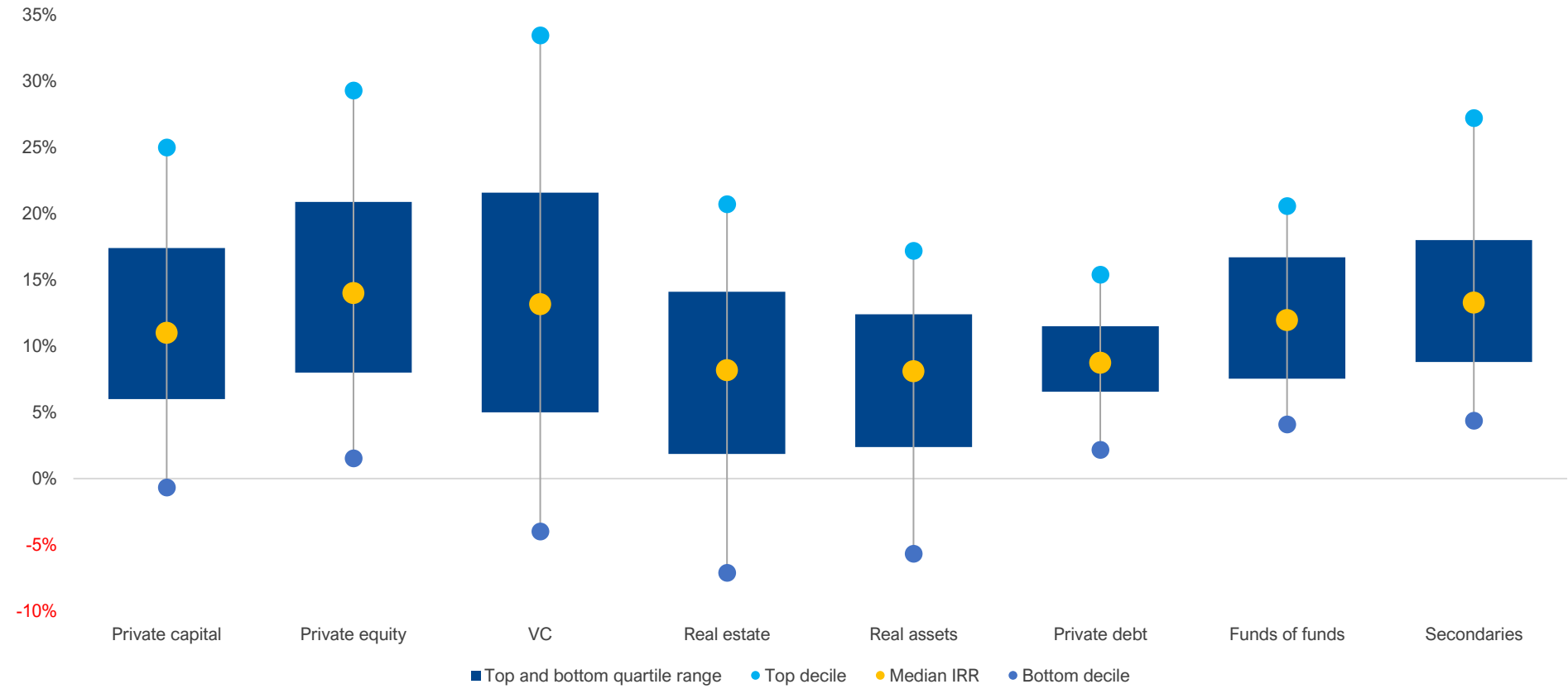
Operational Efficiency

- 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

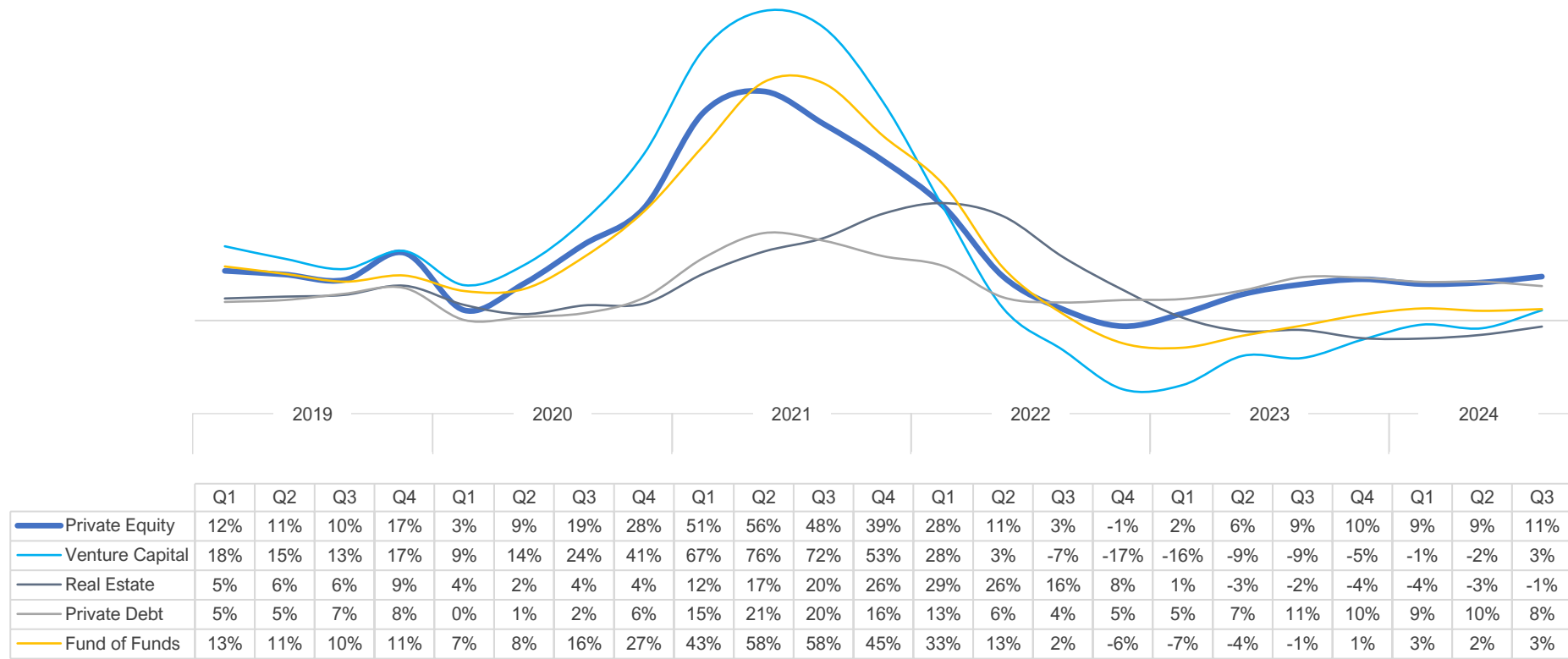


Given that global family offices are increasingly allocating capital across alternative assets, this data can provide insights into risk-return profiles for different investment strategies. In addition, they can use this data to refine their investment strategy, manager selection, and portfolio construction.

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

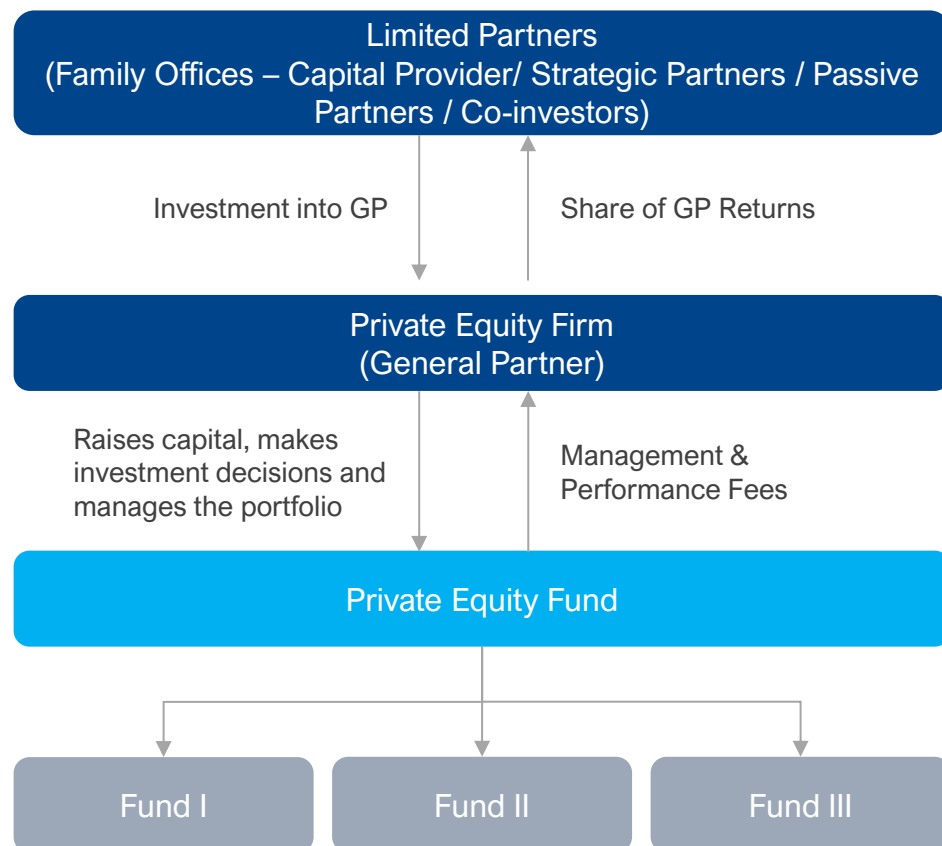


Improving macroeconomic conditions, moderating interest rates, and ample liquidity are expected to support sustained growth in exit activity, potentially leading to an increase in returns over the coming quarters.

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.

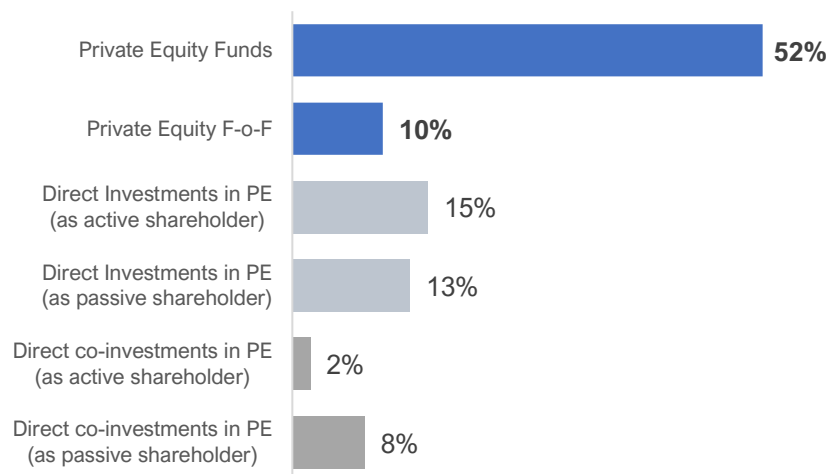


- This structure allows key family office employees to be remunerated in a way that mirrors industry fund managers, aligning their interests with the families whose assets they manage.
- Family offices can access a range of investment opportunities, including private equity, real estate, and hedge funds, 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.

Source: UBS, PWC, Barrons, Aranca Research

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

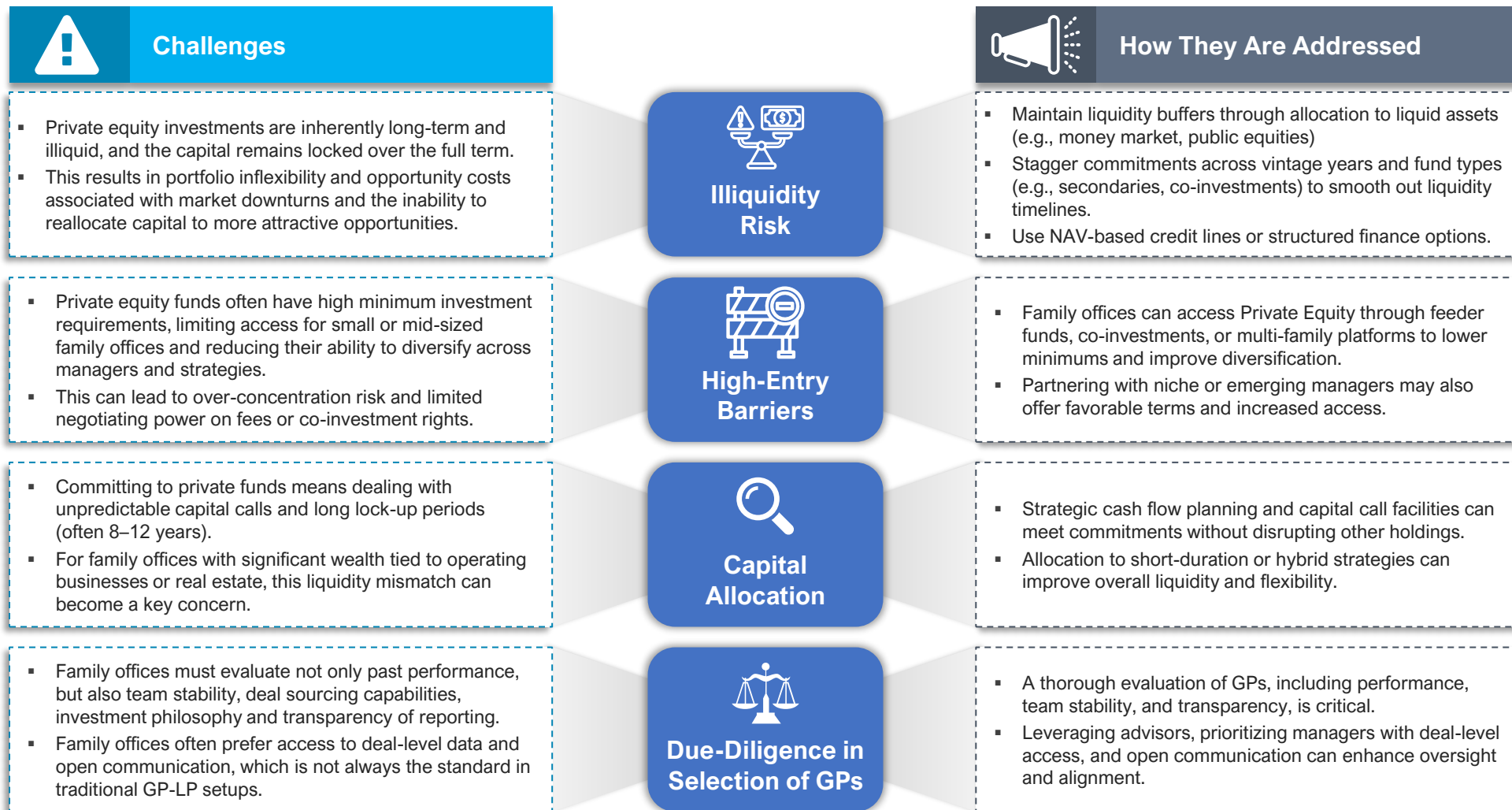
Family offices often gain entry to unique, early-stage investments with high growth potential, typically inaccessible to the broader market.

Flexibility and Customization

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

Source: UBS, PWC, Barrons, Aranca Research

Considerations for Family Offices in GP-LP Investments



Source: UBS, PWC, Barrons, Aranca Research



2500+

Global Clients

500+

Strong professional team across
multi-disciplinary domains

120+

Sectors and sub-sectors
researched by our analysis

80+

Countries where we have
delivered projects

ABOUT ARANCA



Growth Advisory & Procurement

CXOs in Strategy, SBUs, Sales, Marketing, CI/MI, Innovation



Technology | IP Research & Advisory

R&D, Tech Scouting, Open Innovation, IP Teams, Product Development



Valuation & Financial Advisory

CFOs in Start-ups, PE/VC Firms, Corporate M&A Teams, Mid-market Companies



Investment Research & Analytics

Brokerage, Hedge Funds, IRPs, I-Banks, AMCs, Investor Relations

For more details: www.aranca.com | <https://www.linkedin.com/company/aranca> | <https://www.aranca.com/knowledge-library>

Connect with our Team



Vatsal Dalal

Senior Analyst,
Investment Research

+91 223937 9999
vatsal.dalal@aranca.com



Manan Kumar

Assistant Manager,
Investment Research

+91 124668 9999
manan.kumar@aranca.com



Akash Khairnar

Senior Manager,
Investment Research

+91 223937 9999
akash.khairnar@aranca.com



Avinash Singh

EVP,
Investment Research

+91 124668 9999 (ext. 951)
avinashg.singh@aranca.com

For more details: www.aranca.com | <https://www.linkedin.com/company/aranca> | <https://www.aranca.com/knowledge-library>

Decide Fearlessly

From startups to the Fortune 500, private equity and global financial firms, Aranca is the trusted research and advisory partner for over 2500 companies



www.aranca.com



This material is exclusive property of Aranca. No part of this presentation may be used, shared, modified and/or disseminated without permission.
All rights reserved.