NEUBERGER BERMAN

Family Office Digest

Welcome to the latest edition of our NB Family Office Newsletter.

What We Are Hearing From Family Offices

There's been a lot driving markets this year – capital is scarce and investors are uncertain, but the big theme we're hearing is that there may be opportunities to capitalize on stress and dislocation. During May, we hosted our EMEA Family Office Forum for 40+ clients at our offices in London. The half-day event covered everything from the current macro backdrop and the private equity market, to the trade-offs between public and private debt. These were the key takeaways:

- **The average Family Office is up 2-3% YTD. Risk was taken off last year, specifically in equities, so this year's rally hasn't helped. Macro concerns are the debt ceiling, U.S. recession, China-Taiwan and high valuations.** Family Offices are broadly in three buckets:
    - a) Did too much in the last four years, so want to take a breather, consolidate and re-underwrite risks
    - b) Believe credit is cheaper than equities and are doing the work on it across the risk spectrum
    - c) Looking into opportunistic and tactical situations such as Secondaries, Distressed and Capital Solutions because of stresses caused by the higher cost of capital and elevated macro concerns.

- **Limited interest in public equities.** Most think equity markets are too expensive and want a correction before deploying. Still biased to U.S. equities when the correction occurs. Europe, Japan and China appear potentially cheap, but family offices wonder how much they can really deploy there. There is an obvious preference for value over growth. The search for alpha continues.

- **Beginning to be interested in liquid credit, but still need 8-10% yield to get excited.** The focus is on tactical strategies higher up the risk curve, otherwise most are happy to sit in short-dated treasuries and money market funds. Another way the desire for a stable 8-10% is manifesting itself is through absolute return, event-driven and macro funds.

- **Biased to private debt over public debt**. We were really surprised by how much preference there was for private over public credit. Even though clients are over-allocated to private markets, many like the pricing, and the lack of mark-to-market volatility. They don't mind sponsor-backed lending, but there is a lot of capital in the market. There is a preference for ideas that either shorten portfolio duration or take advantage of stress.

Our view is that in this market, while it is choppy and somewhat rangebound, great opportunities remain for nimble allocators. In the session dedicated to these ideas, Niall O'Sullivan, our EMEA Multi-Asset CIO suggested family offices apply the Mauboussin BAIT framework: i.e. they should leverage their behavioural, analytical, informational and technical advantages. Given most family offices represent unregulated, perpetual pools of capital, we believe that they should lean into the "B" and "T" advantages here.

For a full overview of the family office event, see below:

Agenda – Neuberger Berman Family Office Forum

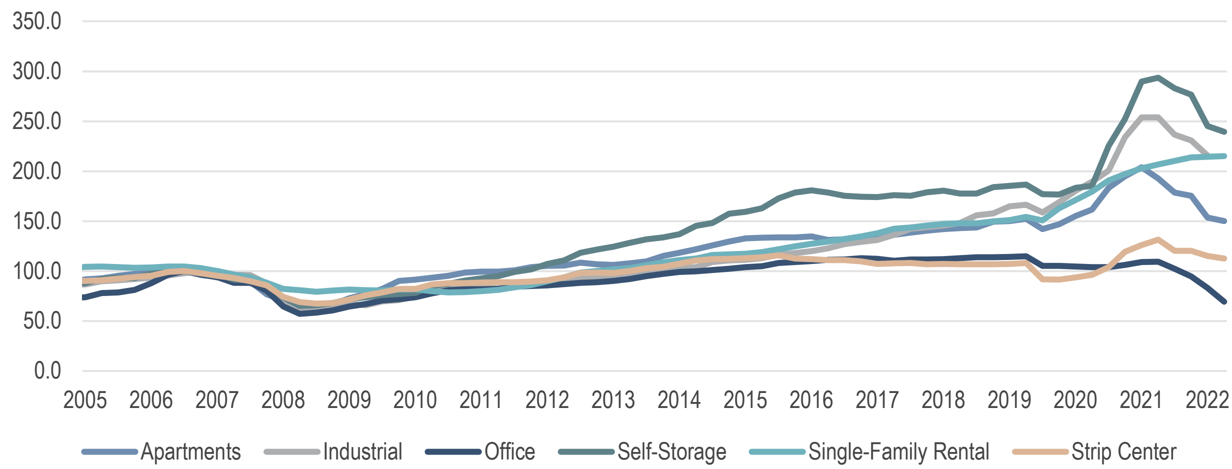
13:00-13:30	**Arrival & Registration**
13:30-13:45	**Introduction & Welcome** **Dik van Lomwel** – Head of EMEA & LatAm **Ahmed Husain** – Global Head of Family Offices
13:45-14:30	**Turning Not Returning: Portfolio Opportunities During & After The Hiking Cycle** **Niall O'Sullivan** – EMEA Multi Asset CIO
14:30-15:15	**Global Private Markets Landscape** **Joana Rocha Scaff** – Head of Europe Private Equity
15:15-15:45	**Break & Refreshments**
15:45-16:30	**Scarcity of Capital: Creative Solutions To Capitalize On Stress & Dislocations** **David Stonberg** – Deputy Head of Alternatives & Head of Co-Investments **Benjamin Harrison-Carter** – EMEA Faily Office Coverage
16:30-17:15	**Client Panel: How Family Offices Are Navigating 2023** **Moderated by Ahmed Husain**
17:15-18:00	**Private Debt vs Public Credit** **Manuel Kalbreier** – Head of Alternative Specialists EMEA **Robert Dishner** – Portfolio Manager (Fixed Income) **Rebekah McMillan** – Multi-Asset Investments
18:00-18:15	**Closing Remarks** **Ahmed Husain** – Global Head of Family Offices
18:15-20:00	**Drinks Reception**

How Worried Should We Be About Real Estate?

One of the major potential areas of distress is the commercial real estate space, particularly in developed markets. The combination of higher interest rates, post-COVID dislocations, and commercial bank retrenchment means that real estate is being hit from many angles.

Take offices: As of 30 March 2023, European office occupancy rates stand at 55%, behind a pre-pandemic average of 70%[1]. The picture is similarly poor in parts of the U.S.: vacancy rates stand at around 18.6%, with elevated vacancy predicted for the duration of this year[2]. This paints a troubling picture; if these spaces become obsolete and we don't see a return to office, the sell-off in office values and its effect on bank lending could have material implications for investors. The problem is also not confined to offices: values are decelerating across most sectors in the private markets[3].

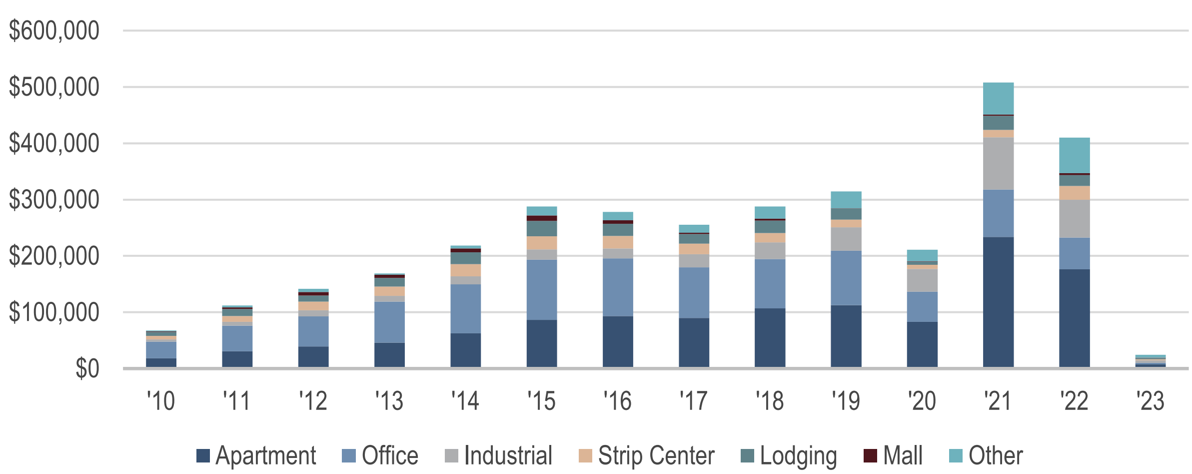
Commercial Property Indices (CPPI)



Source: Green Street as of 31 March 2023.

And we have also seen a sharp decline in transaction volumes in 2023[4]:

Transaction Volume By Sector ($mm)



Source: Green Street. 2023 YTD figures represent 1 January 2023 through 8 March 2023.

These dynamics raise questions for family offices, who are typically major owners of residential and commercial real estate, globally. On one hand, there is a need to understand where the big problems lie and how big they may be. However, as opportunistic investors, while others step out of the market, there may be an opportunity to step in. We agree.

Whilst the problems in real estate are pronounced and potentially material, the economy has remained strong. Despite valuations being down, they are still sitting at relatively normal levels. This may create an opportunity for well positioned managers to step in and acquire deeply discounted quality assets. We think there are two approaches that family offices should consider: GP stakes and real estate secondaries.

GP Stakes

Over the past decade, GP-stakes investing has become a much more institutionalised, mature investment strategy. As the private equity industry has grown, fund sizes have increased, GP co-commitments have got larger and the capital requirements of sponsors have increased. **For investors, this creates a unique opportunity to gain exposure to three differentiated return drivers: fee-related income (i.e. a pro rata share of a GPs management fees), carried interest and balance sheet income (i.e. the returns that come with capital invested as a GP co-commitment).** This approach has been successful for many, but so far it has largely been confined to the private equity buyout market.

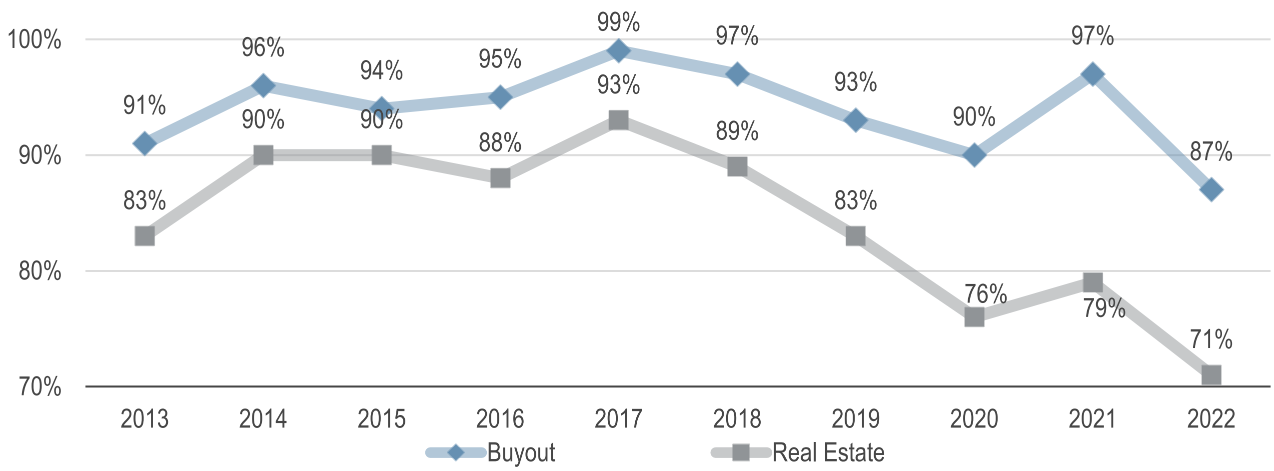
One area that we think offers a compelling opportunity is within real estate. The addressable market is large (real estate fund sizes have doubled over the last 20 years[5]) and there are currently very few dedicated real estate GP-stakes managers. For investors looking to achieve a meaningful cash yield, diversification and some downside protection, this may offer an opportunity. In a market that is increasingly starved of capital, having a dedicated strategic partner may have many benefits, with potential returns of high-teen/low-twenty IRRs for GP-stake allocators.

Real Estate Secondaries

Another strategy that has been traditionally very popular in buyout land is secondaries (i.e. LP interest acquisitions, or select GP-led fund recapitalizations).

We believe LPs (and GPs) that are not getting liquidity directly from their private real estate holdings will increasingly turn to the secondary market to realise liquidity. This dynamic creates an opportunity to take advantage of these illiquid situations, to gain exposure to top-quality assets at attractive prices. **Here, we believe the opportunity for liquidity providers is pronounced: whilst the average secondary discount (to NAV) for a buyout fund portfolio was around 87% at the end of 2022, for real estate, the discount was much wider, at 71% (see below[6]).** This, coupled with the increase in LP-led transaction volume, driven in part by the denominator effect, has created a unique opportunity for investors to capitalise on ‘forced-seller’ dynamics.

Average Secondary Discounts Over Time



Source: Jefferies Global Secondary Market Review, January 2023.

Whilst great uncertainty remains across the private equity and real estate landscape, as stress and scarcity continue to be prevalent, we believe that this represents an attractive solution for family offices to achieve buyout-like returns, with a more conservative risk profile.

Upcoming Events

We host regular events for our family office clients. We aim to bring people together across our hive mind, to exchange investment ideas, as well as market views and insights. These are our events:

- **"Ask the Investor"** – We aim to gather investment professionals from family offices, to learn about an asset class that we see interest in from clients. These are interactive sessions, full of Q&A, where investors can dive deep into a specific topic with one of our PMs and their peers.
- **Family Office Round Table** – This is an interactive forum where clients can share their "best ideas". Similar to a hedge fund idea dinner, these round tables are an opportunity for clients to discuss their thoughts on markets and gain insight from their peers. All topics are welcome; we've discussed everything from African venture capital, gaming and crypto, to rates, inflation and uranium.

Event Schedule 2023	Date	Time (EST)	Time (CET)	Time (UK)
Ask the Investor – Real Estate Opportunities – ZOOM	6 June	10:00 – 11:30	16:00 – 17:30	15:00 – 16:30
Ask the Investor – Private Equity Co-Investments – ZOOM	13 June	10:00 – 11:30	16:00 – 17:30	15:00 – 16:30
Ask the Investor – Japanese Equities – NB Offices	29 June	N/A	N/A	12:00 – 13:30
NextGen Family Office Round Table – ZOOM	6 July	10:00 – 11:30	16:00 – 17:30	15:00 – 16:30
Ask the Investor – Insurance-Linked Securities - ZOOM	11 July	10:00 – 11:30	16:00 – 17:30	15:00 – 16:30

We would love it if you could come along!

1. Savills as of 30 March 2023
2. Cushman & Wakefield as of Q1 2023
3. Green Street, as of 31 March 2023
4. Green Street, 2023 YTD figures represent 1 January 2023, through 3 August 2023
5. Preqin as of 31 December 2021. Excludes fund with less than $100mm of aggregate commitments
6. Jefferies Global Secondary Market Review, January 2023