NEUBERGER BERMAN

Family Office Digest

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

SECTION 1: WHAT FAMILY OFFICES ARE THINKING ABOUT

Across Europe and North America, we observe that the median family office portfolio return is up around 6 – 8% in USD terms.(*)

Despite recent **market volatility**, most clients' **equity portfolios** have provided significant upside YTD and **high yields** across **fixed income** have also helped to boost returns. Conversely, **in private markets, client portfolios have remained mostly flat, with lagging distributions posing challenges**.

Family offices typically remain in three buckets:

1. **Bucket One**: Sitting in cash, T-Bills or high-quality credit. Investors here are fighting fires and re-underwriting what they own.
2. **Bucket Two**: Maintaining that credit offers a better risk-reward payoff vs equities. Family offices want to talk about everything from direct lending and capital solutions, through to CLOs, corporate hybrids, and high yield.
3. **Bucket Three**: Looking to capitalize on stress and dislocation - mostly focused on GP-led secondaries, real estate, co-investments, distressed debt and special situations.

Other big questions we're hearing are:

- **How do I build a private market portfolio from scratch?** What is the right approach – fund of funds, evergreen vehicles, separate accounts?
- **How can I more effectively co-invest with GPs?**
- **What do I own that isn't improving my portfolio?** How can I efficiently clean up my equity book?
- Given the path of monetary policy is clear, but the timing uncertain, **how should I think about allocating to fixed income?**

* Source: Neuberger Berman.

SECTION 2: PRIVATE EQUITY AND THE POLLS

2024 has been a pivotal year for democracy, **with around half of the world's population going to the polls**. Whilst the results of some major elections are now clear (e.g. the UK, France), **uncertainty remains in 2H24**.

As we approach the November 2024 US elections, **many family offices are keen to understand how electoral outcomes might influence their portfolios.** Our Head of Private Markets Research, Dr. Ralph Eissler, dug into the evidence on electoral cycles and private equity returns. Here were our findings:

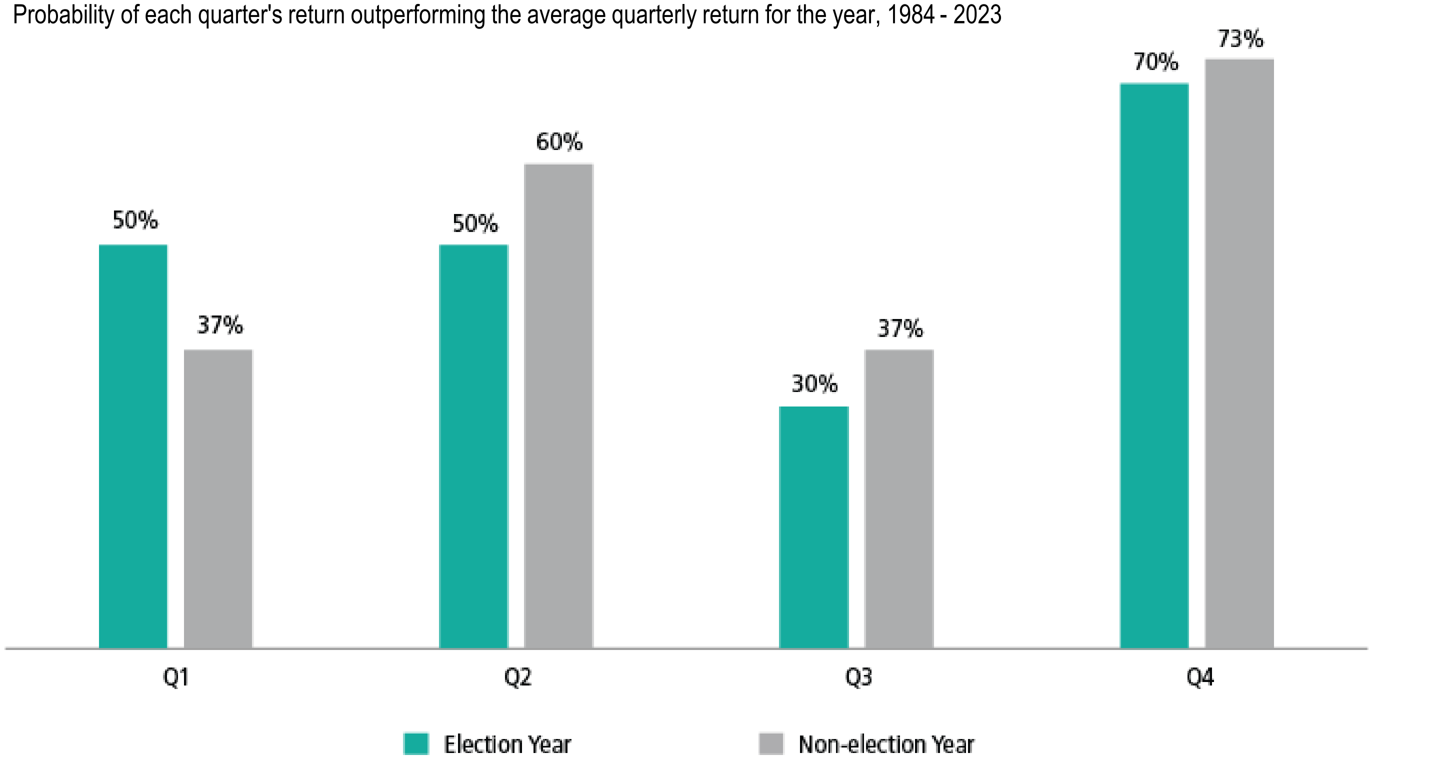
- **Election-year volatility is more attributable to economic and market events than the elections themselves**.
- **Election vs non-election years have exhibited similar average PE performance** (17.8% vs. 17.3%)(**), **though election years featured higher volatility** (8.36% vs. 6.34%). Notably, the volatility spike post-2000 aligns with market events like the dotcom bubble, the 2008 financial crisis, and the 2020 pandemic, rather than electoral cycles.
- Interestingly, **the fourth quarter consistently shows stronger PE performance**, irrespective of election years. This pattern aligns **with heightened public market activity and increased distributions** from PE funds during Q4. Annual audits and the drive to meet year-end targets likely contribute.
- **Different administrative regimes haven't notably impacted PE returns**. While stock markets have historically performed better under Democratic presidents (the "Presidential Puzzle") this is largely owed to the prevailing economic conditions of the period.
- Despite potential sector-specific impacts, there is little historical evidence that U.S. elections exert a predictable effect on broad equity market performance, public or private**. Investors should focus on their strategic private market allocations and consider the broader economic backdrop** rather than attempting to time the market based on electoral cycles.

** Source: PE and the polls whitepaper, 15 July 2024, Neuberger Berman.

If you want to dive deeper, you can watch a video summary of the report **here** and read the full report **here**

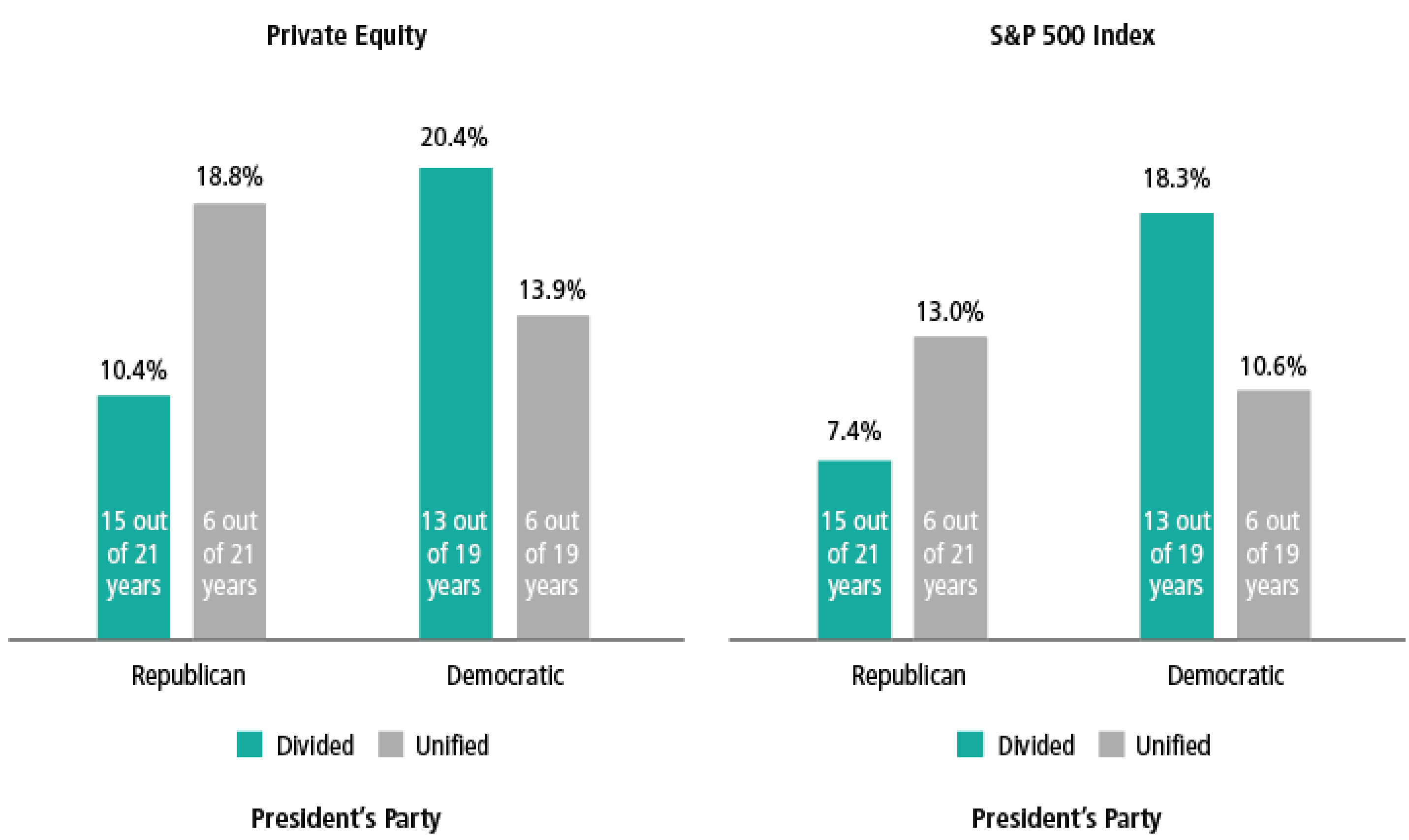
There is Something About Fourth-Quarter Returns, But it's Not U.S. Elections

Probability of each quarter's return outperforming the average quarterly return for the year, 1984 - 2023



Source: Burgiss, Neuberger Berman. Data as of May1, 2024.

Average Calendar-year Returns Under Retrospective Administrative Regimes 1984 - 2023



SECTION 3: WHERE ARE WE SEEING VALUE?

One of the fastest growing areas in private markets is **the rise of evergreen vehicles**.

While they are gaining popularity among some institutions, as well as the broader wealth market, many family offices haven't yet made an allocation to these structures.

We think that these perpetually offered funds **provide a compelling alternative to traditional private fund structures**, with several advantages including:

- **Immediate Deployment:** Instant diversification into private markets, eliminating uncertainty of capital calls and distributions.
- **Consistent Investment Levels:** Maintains target investment levels, reducing risks of over or under-allocation.
- **Internalised Cash Management:** Automatically reinvests net inflows and realisation proceeds, removing the need to hold external cash reserves.
- **Ease of Portfolio Management:** Enables periodic rebalancing through tenders or redemption features, avoiding hassle of re-underwriting investments.
- **Complementary Structure:** Ideal for a diversified private market program or core allocation, especially in private credit strategies.

Due to liquidity buffers, one of the primary criticisms of evergreen vehicles is their typically lower return profile compared to traditional funds. **However, our institutional client solutions team ran an analysis looking at four scenarios:**

1. PE program built from scratch
2. PE program at steady stage
3. Evergreen funds with liquidity buffer
4. Evergreen fund without liquidity buffer

The return analysis, over a 10-year period (assuming PE returns 14.2%), found **that for many investors, evergreen vehicles may be a more appropriate solution than traditional PE programs**:

Return Analysis (10-Year Period)[1]	IRR	MOIC	Value of $100 After 10 Years
Traditional PE Program (Build from Scratch)	11.8%	3.0x	$300
Traditional PE Program (At a Steady State)	13.7%	3.6x	$360
Evergreen Fund (0% Liquidity Buffer)	14.2%	3.8x	$380
Evergreen Fund (15% Liquidity Buffer)	12.7%	3.3x	$330

1. Source: Neuberger Berman. Under all four scenarios, we assume that PE returns 14.2%. Importantly, the underlying investment content of each vehicle is the same, and the structure does not change PE return assumptions. In traditional program and evergreen funds, we include the return of liquidity in our analysis. As traditional program investors have the agency to invest the liquidity portfolio as they see fit, we assume that the liquidity in the traditional program returns 8.0%. Typically, we observe evergreen fund managers taking a conservative approach to liquidity management, often investing in highly-rated bonds; we assume that the liquidity in the evergreen fund returns 4.0%.

SECTION 4: UPCOMING FAMILY OFFICE EVENTS

We host lots of parties for family offices. This is what we have coming up throughout the rest of the year:

Event	Format	Date	Time (UK)	Time (EST)	Time (CET)
London AGM	In-Person (London)	17th September	11.45-18.00	UK-event	UK-event
“Ask the Investor” – CLOs	Zoom	24th September	15.00-16.00	10.00-11.00	16.00-17.00
The Opportunity in AI and Quantum Technology	In-Person (London)	3rd October	12.00-13.30	UK-event	UK-event
“Ask the Investor” – Japanese Equities	Zoom	8th October	14.00-15.00	09.00-10.00	15.00-16.00
“Ask the Investor” – Italian Private Equity	Zoom	15th October	14.00-15.00	09.00-11.00	15.00-16.00
“Ask the Investor” – Capital Solutions	Zoom	7th November	15.00-16.00	10.00-11.00	16.00-17.00
Family Office Forum – North America	In-Person (New York)	19th November	NA-event	12.30-20.00	NA-event
“Ask the Investor” – GP-Led Secondaries	Zoom	21st November	15.00-16.00	10.00-11.00	16.00-17.00
Family Office Christmas Drinks	In-Person (London)	10th December	17.30-21.00	UK-event	UK-event

CONTACT US

Ahmed Husain
Global Head of Family Offices
ahmed.husain@nb.com
+44 20 7355 7208

Fekko Ebbens
Benelux
fekko.ebbens@nb.com
+31 70 777 9536

Charles Soullard
France & Monaco
charles.soullard@nb.com
+33 187 164 288

Christian Puschmann
Germany & Austria
christian.puschmann@nb.com
+49 69 36 507 5901

Fabio Castrovillari
Switzerland
fabio.castrovillari@nb.com
+41 44 219 77 55

Benjamin Harrison-Carter
United Kingdom
benjamin.Harrison-carter@nb.com
+44 20 7390 4145

Laith Khaleq
MENA
laith.khaleq@nb.com
+971 4 428 8456

Marianne Schoenleber
Germany, Austria & Switzerland
marianne.schoenleber@nb.com
+49 69 36 507 5908

Adriaan Van Gerrevink
Benelux
adriaan.vangerrevink@nb.com
+31 70 777 9552

Eva Toledano
France & Luxembourg
eva.toledano@nb.com
+33 187 164 289

Mirko Mertens
Germany
mirko.mertens@nb.com
+49 69 36507 5904

Sven Duevel
Switzerland
sven.duevel@nb.com
+41 44 219 7757

Daria Uchenik
Israel
daria.uchenik@nb.com
+972 73 391 2910

Mauricio Barreto
Latin America
mauricio.barreto@nb.com
+57 1 794 3067