Allison Nathan: Family offices that manage money for the ultra rich are exerting a great force on the global investment landscape, so how are these institutions allocating their cash?

Sara Naison-Tarajano: We're seeing a much more barbell approach to investing. If you hold 45% of your assets in alternatives, you're going to need to have another
part of the portfolio that provides liquidity, not only for your operating expenses but also to be able to act on market dislocations without being a foreseller of your other assets.

**Allison Nathan:** I'm Allison Nathan, and this is Goldman Sachs Exchanges.

Family offices have long managed the financial affairs of the world's wealthiest families, but little is known about theirs privately owned, typically discreet firms. On today's episode, I'm delighted to be joined by four of my colleagues -- Meena Flynn and Sara Naison-Tarajano from our asset and wealth management business and Ken Hirsch and Tony Pasquariello from our global banking and markets business -- to shed light on family offices' investing strategies. Meena, Sara, Tony, and Ken, welcome back to the program.
Tony Pasquariello: Thanks, Allison.

Sara Naison-Tarajano: Thanks for having us.

Ken Hirsch: Great to be here.

Allison Nathan: So we last had all of you on this podcast in 2021 when you had just released your inaugural survey on family offices. Earlier this year, you released your second survey on this investor base. Given the shifts in financial conditions and I would say just the macro conditions more broadly over the last couple of years, how have family offices changed the way they invest? Meena, maybe you can start us off.

Meena Flynn: Sure. And I would just start with saying the reason why we do this survey and the reason why we did it last time is because there isn't a lot of collective information. And people do really want a glimpse into the thinking of large family offices, how they're investing, how that's changed with the market environment, what they're thinking about their operating business, and what's really top of mind.
And given that it is multigenerational, long duration capital, I would say that their thinking, what you've seen in the numbers, is that it hasn't really changed. They do have the opportunity to be opportunistic and nimble, but they're really steady and strategic in their approach. And so when we look at what these allocations look like in totality, they tend to take a barbell approach and have a relatively high allocation to alternatives and cash versus other client types.

And so similar to what we saw in our previous survey, you have a 44% allocation to alternatives, you had a 28% allocation to public market equities, and a 22% allocation to cash and fixed income. And this survey was over 160 family offices from global representation with more than 70% having a billion dollars in assets.

**Allison Nathan:** Tell us a little bit more about that allocation to alternatives.

**Meena Flynn:** One of the areas that we thought was interesting when we did our first survey and continues to be is just how large that alternative asset allocation
number is, call it 45%. And while I say that they are strategic in nature, even within this 45% allocation, it's how do you allocate on a year-by-year basis, which is where they can really be opportunistic and nimble?

And just to give you a little color on that side, where we're seeing clients put more capital to work right now is in things like private credit, private real estate credit, and secondary private equity. And the other area that I would note is that, of the different types of alternative sub asset classes, the sub asset class that families cited being the most prevalent in their portfolios -- not in terms of total allocation of dollars but in terms of being in the portfolio -- was growth capital.

Allison Nathan: Let's just take a step back. When many of our listeners think about family office investing, they think it's just a very niche corner of the market. Sara, maybe you can talk to us a little bit about the relevance of family offices for the broader investing public.

Sara Naison-Tarajano: Yeah, I think family offices are becoming an increasingly important client base for the capital markets overall, and part of that is due to just the
increase in numbers of family offices. We estimate that there are at least 10,000 global family offices controlling close to $10 trillion. And one of the really interesting things about our survey is more than half of these family offices were incorporated since 2010.

And I think one of the reasons we have this effort and spent so much time here is because we've seen this proliferation of family offices. It has a lot to do with the activity in the capital markets over the last two decades -- IPOs, M&A that have these wealth creation events where people ultimately want to have organizational structure around their capital. And I think there are a few reasons why they're so important.

One is they're a very patient and nimble client base, and they have the ability to come in and act when other investors may be running away because of redemptions. Family offices are typically answering to a specific family or a set of family members. They can really weather different economic cycles. They're not worrying about people asking for their funds back and lets them come in on dislocations in a way that's more challenging for other investors. We saw that in the great financial crisis. We even saw it in
2020 with the dislocations around COVID of family offices really coming in and being capital providers in a super interesting way.

And I'll just add these are families who not only own whole pieces of company and sit on cap tables, but they're on boards all over the world, both corporate boards and philanthropic boards. And they're a client base that we pay a lot of attention to. They have an enormous amount of global influence.

**Allison Nathan:** And Meena, as you look at the survey, what were these family offices telling you about their main concerns in this very different macro environment today?

**Meena Flynn:** Not surprisingly, their top concerns were the known unknowns. So we really think about that and what they cited was recession, geopolitics, and inflation. And how do I position my portfolio for what could each one of those scenarios mean? And so from a recessionary perspective, we think it's a coin toss if we get a recession or not. But the thing is that these investors have had more than a year to prepare for a recession. And over that year, what they've done and what you've seen
from the change from the prior survey is they have actually elevated their cash and their fixed income balances, whether that's in US treasuries or whether that's in private credit. And that's an area where I would say these investors are going to do just fine irrespectively of what happens because they do have that buffer and they do have the opportunity to also use that cash to invest in more aggressive opportunities to the extent that they get more confident.

Geopolitics, I would say this is the area that most of our clients in Asia cited as their number one concern. And it's really the China-US relations, the deglobalization, and what's going to unfold from that vantage point. And I think the main thing that people are doing from that standpoint is really thinking about where am I placing my assets. So it's not just about asset diversification, but it's where my assets are actually being held.

And then from an inflation perspective, we have seen it moderating. We continue to expect it to moderate. But here, just given the amount of exposure that these families have to risk assets like equities, like real estate, which also tends to perform relatively well in inflation, they are
protected from that vantage point. And I would say the majority of families, their goal is to preserve their capital and grow their capital. But preserving your capital means beating inflation, and that's how you avoid taking a permanent loss. And so beating those inflation numbers is one of their benchmarks.

**Allison Nathan:** Let's stick to that point on cash for a moment. Sara, it's my understanding that typically family offices hold more cash than the normal institutional investor. Is that true? And if so, why is that true?

**Sara Naison-Tarajano:** Yeah, it absolutely is true. You saw from our survey they have 12% of their assets in cash and cash equivalents. We see a much more barbelled approach to investing. I think there are a number of reasons for this. If you hold 45% of your assets in alternatives, you're going to need to have another part of the portfolio that provides liquidity, not only for your operating expenses but also to be able to act on market dislocations without being a foreseller of your other assets.

I think it's also worth noting that this is a client base that doesn't use a whole lot of leverage. And when we look at
the survey, 42% do not employ leverage, and I think this is also on the back of the global financial crisis. Family offices realize that one of the biggest risks to their goals of preserving and growing their capital and permanent loss. And really, when you are levered and force to meet calls, it's very hard to avoid permanent loss. And I think that contributes to the overall barbelled approach of higher assets in alternatives, higher allocations to cash, and staying away from an over-levered portfolio. So I think that's part of it.

And by the way, there was a large allocation to cash even in 2021, so that hasn't changed that much. It's increased by a couple percentages, but that's been a pretty consistent theme. I would say the difference today is the amount of time and conversation that is happening around that cash. So I think, when interest rates were basically at zero and you weren't earning anything on your cash, they viewed it as a cost of doing business, having this kind of cash on hand for all the reasons I mentioned and also to meet capital calls. Because if you think about what it's like to invest in that percentage of alternatives, you have to be prepared for all the calls that whom with it.
I think today, so many of our conversations -- I joke I spent a decade of my career in derivatives and never thought I would spend so much of my time talking about treasuries. The amount of conversation about rolling short-dated treasuries, you know, when you can get almost 5.5% on a 6-month treasury, we're talking about it a lot and we're really trying to figure out when do you go out a little further in duration? Because right now there's just not much that can beat that and particularly that we've gone through all the debt ceiling discussions, etc., and ended up on the other side. I think we're going to start to see in the next 6 to 12 months clients extend that duration a little bit.

**Allison Nathan:** And so I think I saw that roughly 35% of respondents actually are planning to reduce their allocation to cash in the next 12 months, so, Tony, let me bring you into the conversation. How are they planning to deploy that?

**Tony Pasquariello:** So the word choice we often use when describing this investor type is “uniqueness.” There's a real uniqueness. And in this context a real front footedness I think to their intentions. And I think perhaps unlike other long-duration, permanent capital-type
investors, to your point, Allison, over 1 in 3 identify as saying they're going to put some of that cash to work now. Where?

48% plan to increase their allocation to public equities, which, as we sit here today, unequivocally was the right judgment. S&P's up 12% on the year. NASDAQ's up a full 33% on the year. So that was well called.

41% plan to increase their allocation to private equity. Private equity tends to be a mainstay of family office portfolios. Think funds. Think directs and co-invests.

And then we think this is really interesting. 30% said they plan to increase their allocation to private credit, which was mentioned earlier in the conversation. It's a low starting point at just 3% of current assets under management. We think the attraction is the prospect of double digit returns, top of the cap stack, floating rate exposure, and the perception, particularly in the context of the regional banking issues of the year, the perception there'll be a gap to fill.

**Allison Nathan:** And how about across different
Tony Pasquariello: So in the context of geography, two really clear patterns emerged from the survey. The first is our cohorts are very overweight the US. Again, that's been the right judgment in the COVID era. It's really been the right judgment, I think, in the entire post Lehman Brothers era. And so just to put numbers on it, nearly two thirds of family office AUM sits in US assets. The rest of that was basically split call it 21% to non-US developed markets, and then the balance is 17% to the emerging markets.

The second clear pattern was this notion of home bias or home field bias. And for example, America's based family offices hold the larger percentage of their assets in the US as compared to the US asset weighting of, say, a European or an Asian family office.

And then finally, we just add that there seems to be an ongoing or forward bias towards the US, and then the DM complex relative to the EM complex, which probably reflects this kind of up-in-quality bias we see all over our
client franchise.

**Allison Nathan:** And family offices are also playing a larger role as venture capitalists. Ken, what does that mean for the VC landscape?

**Ken Hirsch:** Sure. The family office role in the venture capital landscape has been large and long standing, and it’s been driven by their desire to be exposed to attractive long-term secular themes and, frankly, just by the wealth creation that's occurred in the space. And so we do see their role getting larger, but we should start by saying it’s already large. And just to dimensionalize that a bit, 85% of family offices globally are invested in venture capital as an asset class, and they invest roughly 7% of their overall portfolios to the asset class. So already large.

In terms of why we see it getting larger, there's just so many interesting areas to invest around today. And when you have a stable, long-term orientation, as family offices do, you can look past temporary market dislocations or pull backs from growth and say, “How do I want to be exposed to the most interesting investment themes that are occurring over the long term?” And family offices are
attracted to everyone to investments today around AI. There are ongoing interest in areas like cybersecurity or life sciences or sustainability as other examples.

The current market environment is a bit of an opportunity for family offices around venture capital, and we say that and see that as other LPs who are over committed in this space pull back. It's an opportunity for family offices to leverage their profile as attractive partners, whether that's bringing that stable, long-term orientation that I talked about earlier or operating expertise that they may bring from their own businesses or their ability to leverage themselves as trusted partners.

**Allison Nathan:** Another topic that you dug into quite a bit in the survey was family-owned operating businesses. Talk to us about why that's a topic of interest and what the survey revealed about it.

**Ken Hirsch:** Sure. Family-owned operating businesses, in my view, are inextricably linked to family offices, and they're often the source of the wealth creation that led to the creation of the family office. What we've found in the recent survey was that more than three
quarters of the family offices we speak with support families that have operating businesses. And so just to dimensionalize that link, almost half of the family office decision makers define and describe their role in terms of what they do within the family office as being actively involved with those operating businesses. So it's a central part of how they are organized, and it's a central part of their behavior in terms of leveraging family assets to support operating businesses.

I should also note that family offices, many of them, fully one third of those that we speak with, cite investing in family-owned operating businesses as central to their investing philosophy. And we're seeing more and more family offices that are organizing themselves with the resources and the people and the skills to be in a position to take direct private stakes which involves industry expertise. It involves diligence capability. It involves governance capability. And they're really in a position to lean on their differentiation as buyers or owners because they have their own ability to appeal to the sense of legacy as family owners when interacting with other family owners and in terms of added layer of privacy that they bring just by definition of who they are.
Allison Nathan: And if you think about the structure of this, obviously some of these families can decide to sell their operations at some point. Some of them will pass them down to future generations. Does that tend to have implications for M&A activity?

Ken Hirsch: It does. Maybe before getting to the implications for M&A activity, I would just again dimensionalize a bit. A third of family offices plan to hold their businesses in perpetuity. What we're really talking about in your question is the other two thirds and who will of course look to sell at some point. And I like to think about it in terms of what are the motivations or triggers that will cause a family office to think about selling a stake in a family-owned business? And who are they going to prefer as buyers? And we found some interesting things in our recent survey.

In terms of the motivations, it may not be surprising, but valuation is far and away the number one trigger or motivation for a sale of an interest. And there are lots of other reasons, including diversification of the family's assets or succession or estate planning or a desire for
liquidity and on and on. Valuation tends to drive the decision. And in terms of who family offices are looking to sell these stakes to, this might be a little surprising but it's corporate and strategic buyers. It's effectively our investment banking client base. And that again is by far over other institutional buyers and even other families, which creates an interesting contrast to the centrality that so many of these family offices place on investing in family operating businesses.

You asked about implications for M&A. M&A activity levels we all know broadly have been significantly lower in the current environment. Family offices are no exception. We expect that to pick up for family offices along with markets as they pick up more broadly. But I think what I would say is just, given the size of the assets under control of family offices, we expect them to be a significant factor in the M&A markets for years to come.

**Allison Nathan:** If we switch gears for a minute, another area that you dug into, as I recall, in 2021 was family offices' interest in crypto. You asked about it again this year. It's obviously been a space that's seen a lot of volatility in the recent period. Sara, what surprised you
most about the responses there?

**Sara Naison-Tarajano:** Yeah. Actually, I think it was one of the more surprising parts of the survey as I think my colleagues have discussed. Actually, many parts of the asset allocation really haven't changed much over two years despite a very different macro backdrop, but crypto has. And what I would say about crypto is that clients have really made up their mind. And so when we did this survey in 2021, only 16% were invested in crypto. Today, that number is 26%. You may take that to mean more are interested, but, in fact, the really interesting stat is who is interested in investing for the future. That number was almost 50% in 2021. Today, that's 12%.

And I think what it shows is there's a group of investors who are comfortable with crypto. They tend to have more of a trading background. They're highly comfortable with a great degree of volatility, and they've stayed invested. I would say that other families have chosen to stay away from crypto and are really thinking more about digital assets, and they're thinking about digital assets actually a bit separately from crypto. And I would say a particular focus on blockchain and how it's going to change how we
live and work from supply change management to healthcare systems to capital market transactions, even thinking about real estate transactions. It is a different picture, and we spend a lot of time talking about it.

**Allison Nathan:** And Meena, you mentioned real estate earlier as an area of focus. It's often an area of focus for family offices but another sector that has some opportunities and parts of it also under duress. What are you seeing in terms of family offices' real estate investments at this point?

**Meena Flynn:** Yeah, so families have usually had a significant allocation to real estate. Most families have one. And that has been long standing. It's the third largest asset class outside of equities and fixed income, and it has proved to be a significant inflation hedge. The reason why families have also gotten comfortable is, when they are in a location, they can do the underwriting diligence much better and much easier. They feel more comfortable with it. And they'll buy buildings directly. And those buildings could be for any purpose. It could be to multifamily. It could be logistics. But they feel comfortable owning that building in perpetuity, really
multigenerational, and they'll do it directly.

And so 60% of families, plus, hold their real estate directly, and then they also invest in funds. And that's really to give them the diversification across geographies as well as the sub asset classes within real estate.

And as you've highlighted in your previous exchanges over the last couple of months, there is a tremendous dislocation that's going on in real estate right now, given where interest rates are, given where, you know, the economic environment is, and also the banking in turmoil. And so when you put all of that together, this an opportunity that these families will likely use for their cash, they will be looking to allocate that and are looking to allocate that to real estate. And we anticipate that's going to start on the real estate credit side. We've got over a trillion dollars of real estate credit coming due over the next couple of years. They are going to be a meaningful differentiator in the market, I think, in helping this normalize and stabilize.

And then as, call it, prices settle to a normalized level, we will see them more active in the equity side of the capital
structure. What the survey told us is that these families did want to continue allocating to both residential and industrial. And even before the turmoil, they were looking to decrease office and retail. And we do anticipate this will continue, but I would say that these families know, even if it is an office, even if it is in retail, not all real estate is created equally and they're going to do their diligence and find opportunities there.

I would also separately just pick up on one of the points that you asked on emerging technologies in businesses from Sara in terms of crypto. The area that families are really focused on right now, not surprisingly, is artificial intelligence and how to use artificial intelligence actually in their workflows so that their own teams start to get comfortable with what that means. And we're getting a lot of questions that I know Tony can also speak to as it relates to how to invest in this theme. And broadly, what we're discussing with clients right now is, of course, you can get that exposure via mega cap technology. They've been investing there. They've got huge cash balances. They can do the R&D.

But we're also talking about who are the companies that
have access to large pools of unique data that is private that they can re-purpose with these large language models? As well as companies that are going to take advantage of the productivity gains? And they're willing to do this in both private and public markets. And so they're spending an enormous amount of time looking at opportunities here.

**Allison Nathan:** I don’t think there is an investor out there that is not focused on AI in some way, shape, or form now. And Tony, Meena already began to talk about the themes that are driving a lot of the investment strategies of some of these family offices, hitting on the AI theme. What other themes are family offices focused on at this point as they look ahead?

**Tony Pasquariello:** So when you get under the hood and you get down to the sector level, there's really two spaces that stand apart from the rest of the pack. The first is technology. So 43% of these clients identified as overweight technology. Again, it's been the right judgment. It's been the right call. Likely a reflection of a desire for potential growth, secular growth, as well as leveraged to the innovation theme, just to underline what Meena said about AI, for example. There's also probably a reflection of
Silicon Valley and the boom that's been created in essentially a local family office community who obviously have bona fides in the space.

The second standout sector would be healthcare. So 34% identify as overweight healthcare. Again, like tech, elements of secular growth, plus the innovation draw. In particular, we see demand for exposure to the life sciences theme. We see that manifesting in public equities, in their venture portfolios, as well as in their philanthropic commitments.

**Allison Nathan:** Thanks very much, Sara, Meena, and Tony and Ken.

**Meena Flynn:** Allison, thanks for having us today.

**Tony Pasquariello:** Thanks, Allison.

**Sara Naison-Tarajano:** It was great to be here. Thank you.

**Allison Nathan:** And thanks to all of you for joining us again. And before you go, we'd like to introduce a new
podcast from Goldman Sachs Exchanges. It's called The Markets. Each week, in just 10 minutes or less, we'll be breaking down the key issues moving markets that week, giving you the information you need to stay ahead. June 16th is the last day The Markets will be on our Exchanges feed, so make sure to search for “The Markets” and follow its new feed wherever you get your podcasts.

Thanks for joining us for another episode of Goldman Sachs Exchanges, recorded on Friday June 9th, 2023. If you enjoyed this show, we hope you follow on your platform of choice and tune in next week for another episode. Make sure to share and leave a comment on Apple Podcasts, Spotify, Stitcher, Google, or wherever you listen to your podcasts.