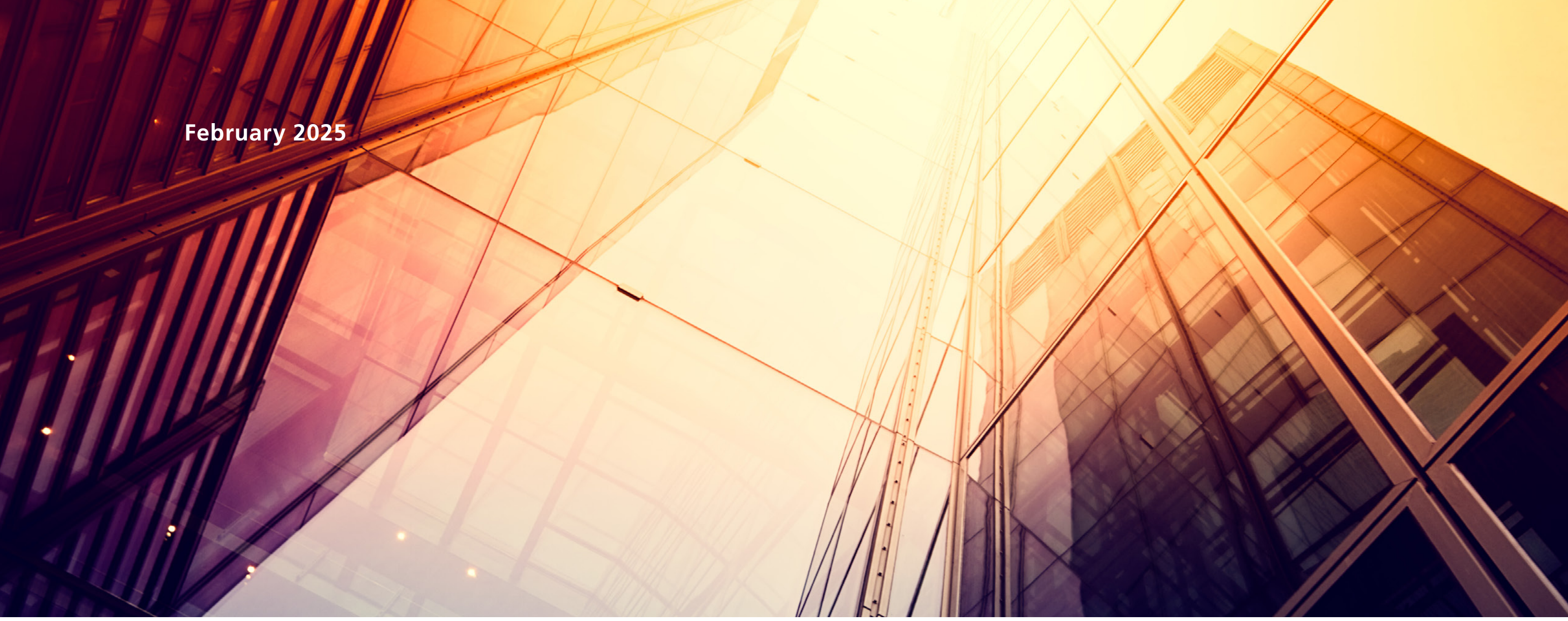

February 2025

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NEUBERGER BERMAN

Family Office Digest

We're excited to share the latest edition of our family office newsletter with you.

SECTION 1: WHAT FAMILY OFFICES ARE THINKING ABOUT—THE YEAR AHEAD[1]

In our conversations with family offices, we are hearing:

Public Equities

Family offices are scratching their heads around their public equity allocation.

The S&P has been a hard benchmark to beat the last few years, and some family offices are starting to ask whether they should stop trying.

Consensus view: Passive US exposure; whilst valuations are rich, many family offices are asking is there an alternative.

Contrarian view: Active managers globally; Europe, China and the UK are all areas of focus for family offices.

[1] Source: Neuberger Berman, conservations with family offices, their consensus and contrarian views.

Fixed Income

Family offices tend to be underweight traditional fixed income relative to other institutional investors. This is driven largely by their higher absolute return targets and limited liabilities.

Consensus view: Family offices are looking to remain underweight; spreads across the complex (High Yield, Investment Grade) are tight and forward-looking return estimates are relatively low.

Contrarian view: All-in yields in certain areas (CLOs, Hybrids, Contingent Convertibles, Broadly Syndicated Loans) remain relatively high. We have seen family offices tactically allocate here and maintain a cash allocation to take advantage of dislocations.

Private Equity

Generally, PE has been the largest allocation across family office portfolios; it's also been a ballast in times of market stress. Whilst some investors are starting to see distributions, many are still waiting for sponsors to return capital.

Consensus view: Given the return profile and high exit optionality family offices are looking at lower mid-market PE in North America.

Contrarian view: Venture Capital, European GPs, GP-led Secondaries are piquing the interest of some family offices.

Private Credit

Where family offices have a credit allocation, it tends to be in private markets.

Consensus view: Traditional direct lending is crowded and return compression is a challenge, as are deteriorating credit standards. Most family offices are simply re-upping with their existing managers.

Contrarian view: Some family offices think that Capital Solutions and Alternative Private Credit can be good tools to diversify their credit allocation, provide yield premium and get access to less crowded corners of the market

Liquid Alternatives / Hedge Funds

Hedge funds have generally disappointed in portfolios, particularly when family offices allocated to global macro, or L/S equity managers.

Consensus view: Family offices are looking for large multi-strategy managers, although getting a full allocation can be challenging.

Contrarian view: Some family offices are reviewing Credit, Long/Short and ILS strategies.

Real Assets

Typically, these make up a very small portion of a family office's overall investment portfolio as most family offices invest directly.

Consensus view: Direct investment in real estate by family offices

Contrarian view: Some family offices are reviewing Office, Real Estate Debt and Infrastructure.

SECTION 2: FIVE FOR 2025—OUR BEST MULTI-ASSET CLASS IDEAS

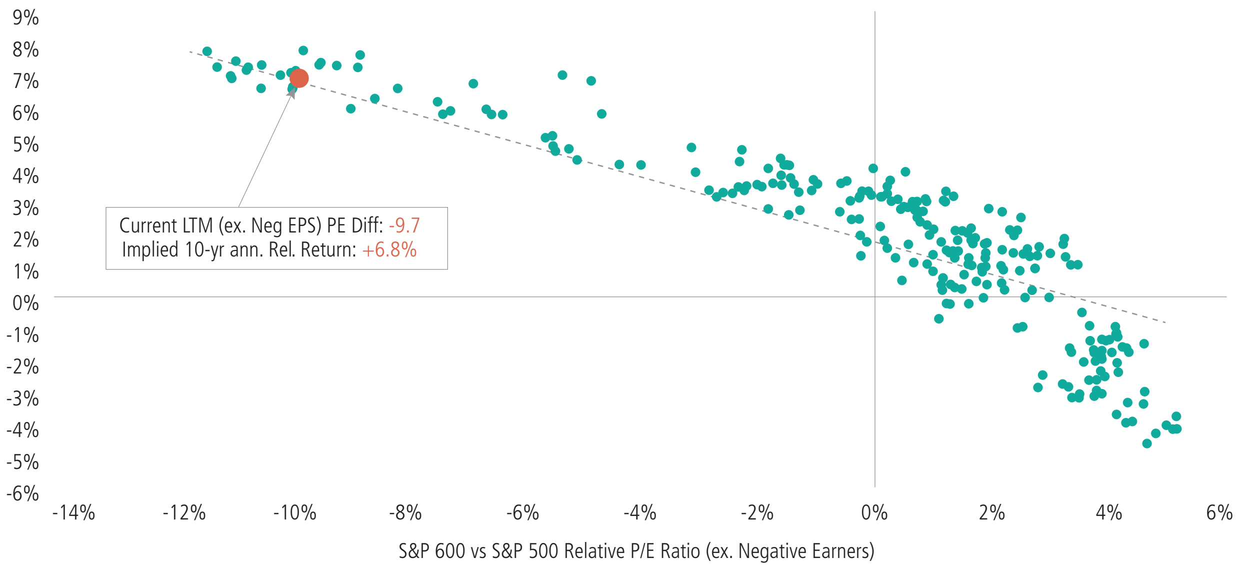
Our multi-asset team, which sits in the middle of our $500bn+[2] AUM platform and seeks to build best-ideas portfolios across both traditional and alternative asset classes, recently got together to discuss their best ideas for the year ahead.

This is their thinking:

1. **Actively Managed US Small Caps.** Deregulation, business-friendly policies and moderating inflation can provide tailwinds for small caps, particularly in an environment where the valuation differential between small-large caps is so wide. However, not all small caps are made equal, and indices tracking may not be an appropriate way to build an allocation. For example, many companies in the Russell 2000 have negative earnings, highlighting the importance of active management.

S&P 600 VS. S&P 500:SUBSEQUENT 10-YEAR ANNUALISED RETURN

1994 through December 2024

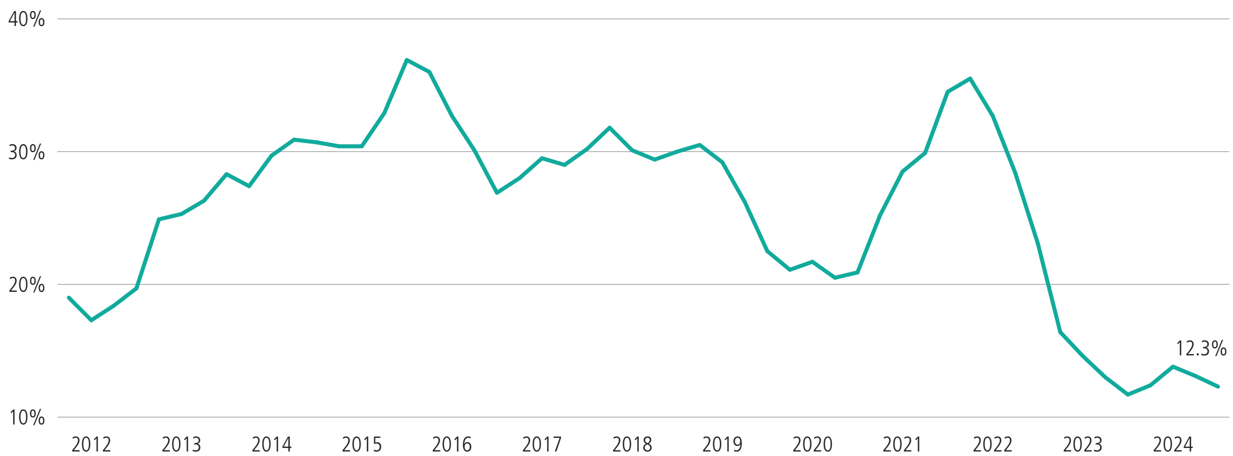


Source: Neuberger Berman Research and FactSet. Data as at 31 December 2024. **Past performance is not an indication of future results.**

2. **Private Equity Secondaries.** Higher capital costs, dampened exit activity and protracted fundraising cycles have presented private equity sponsors with a fundamental dilemma: how to balance investor demand for capital distributions with a reluctance to sell prized assets? One solution is GP-led continuation funds (CVs). These vehicles allow GPs to offer liquidity to their LPs whilst simultaneously retaining ownership of high quality, prized assets that have proven management teams and relatively predictable growth trajectories. For investors, our team believe CVs offer the potential for buyout-like returns, with a secondary-like risk profile.

[2] Source: Neuberger Berman, 31 December 2024.

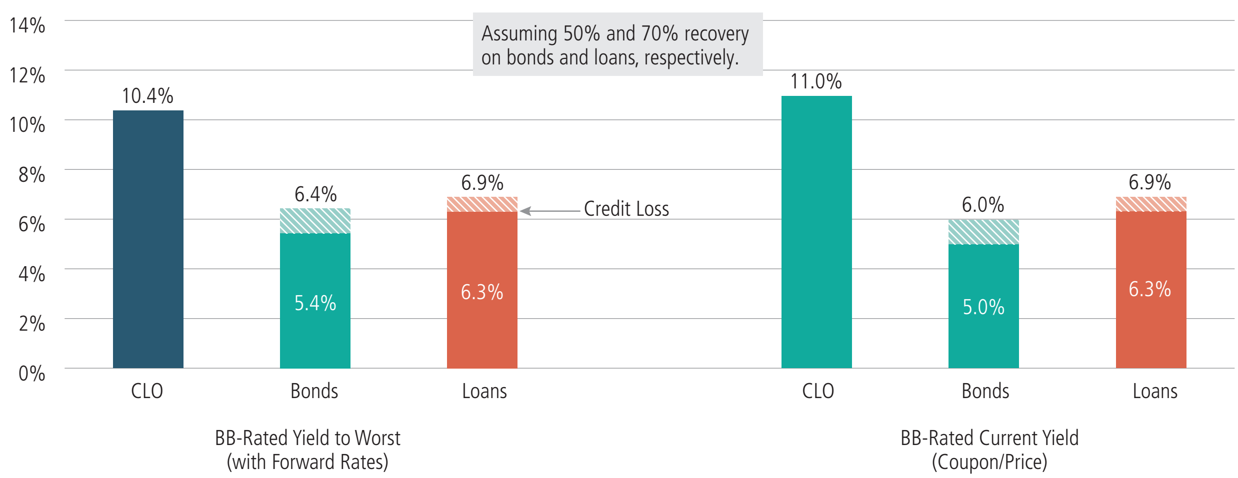
LTM BUYOUT FUND DISTRIBUTIONS AS A PERCENTAGE OF BEGINNING NAV



Source: Pitchbook as at 2024 Q3, which is the latest available.

3. **Short Duration Fixed Income & Floating Rate Assets.** Current yields for short-duration bonds and floating rate assets are looking interesting. In particular, the all-in yields on assets like CLOs can offer attractive pick-up versus comparably rated bonds, with minimal credit risk, even in mezzanine tranches, due to their structure.

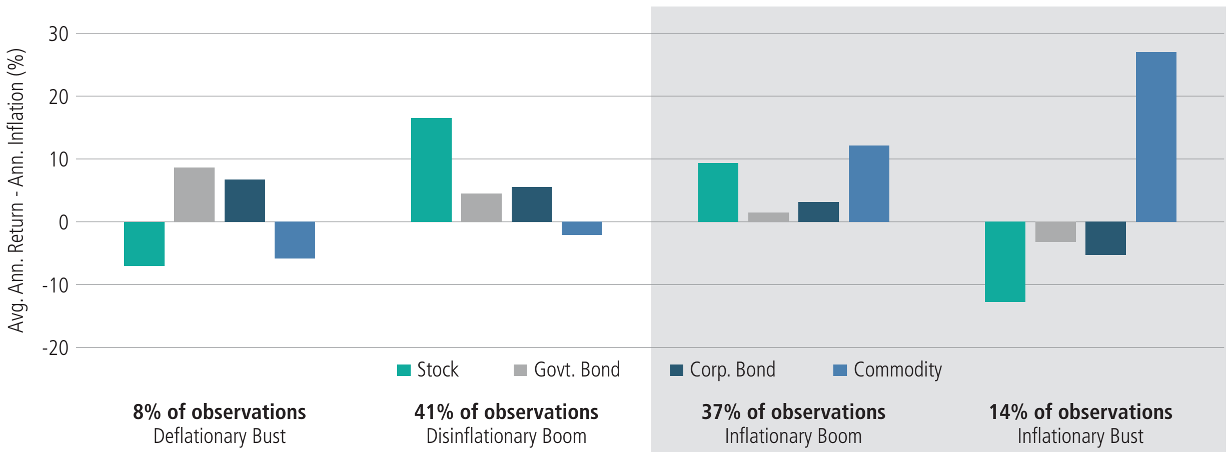
CLO DEBT CAN PROVIDE ATTRACTIVE YIELDS GLOBALLY



Source: Bloomberg, JP Morgan and S&P/LSTA Leveraged Loan Index as at 31 December 2024. Data shown represents CLO yield to maturity bond yield to worst. Benchmarks used were the BofA Corporate Bond Indices and JP Morgan CLO Index.

4. **Commodities.** Given ongoing macro uncertainty, our multi-asset team highlight the merits of commodities as a hedge against inflation spikes, growth surprises and geopolitical risk—despite slowing global demand.

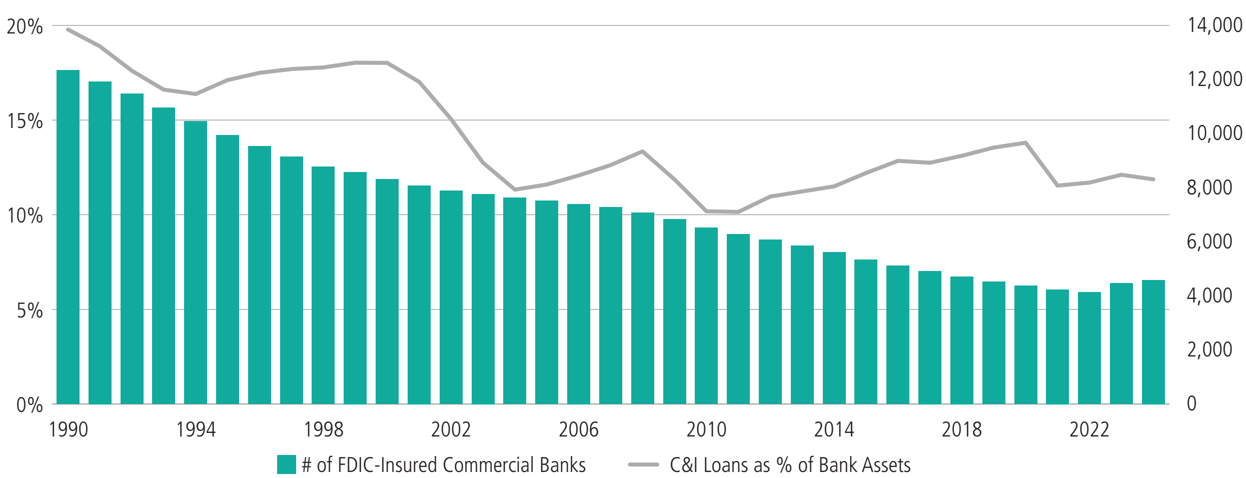
AVERAGE ASSET CLASS REAL RETURNS BY GROWTH AND INFLATION REGIMES



Source: Bloomberg and Ibbotson. Data from 1 January 1961 to 31 December 2023. Stocks are represented by the S&P 500 TR Index (backfilled by Ibbotson prior to Feb 1970), Government Bonds by the Bloomberg US Long Treasury Total Return Index Value Unhedged (backfilled by Ibbotson data prior to Jan 1973), Corporate Bonds by the Bloomberg US Long Credit Total Return Index Value Unhedged (backfilled by Ibbotson prior to Jan 1973) and Commodities by the Bloomberg Commodity Index Total Return. CPI is the year-over-year percent change in the CPI Index. Unexpected inflation is the rate of change in CPI. Bust and boom regimes are defined by the change in the level of Gross Domestic Product (GDP) compared to the previous year. If the current year-over-year (YoY) GDP minus the YoY GDP lagged one year is less than zero, it is considered a bust regime and vice versa. Inflationary and deflationary regimes are defined by the change in the level of the Consumer Price Index (CPI) compared to the previous year. If the current YoY CPI minus the YoY CPI lagged one year is less than zero, it is considered a deflationary regime and vice versa.

5. **Asset-Backed Credit.** Continued bank retrenchment has driven a growing opportunity set in alternative credit, offering investors the ability to diversify away from corporate credit. Coupled with downside protection, attractive yields and a diverse range of approaches, our multi-asset team think asset backed credit may have a role to play in portfolios.

BANK CONSOLIDATION & RETRENCHMENT FROM CORPORATE LENDING



Source: Statista Research Department, Federal Reserve as at 1 January 2024.

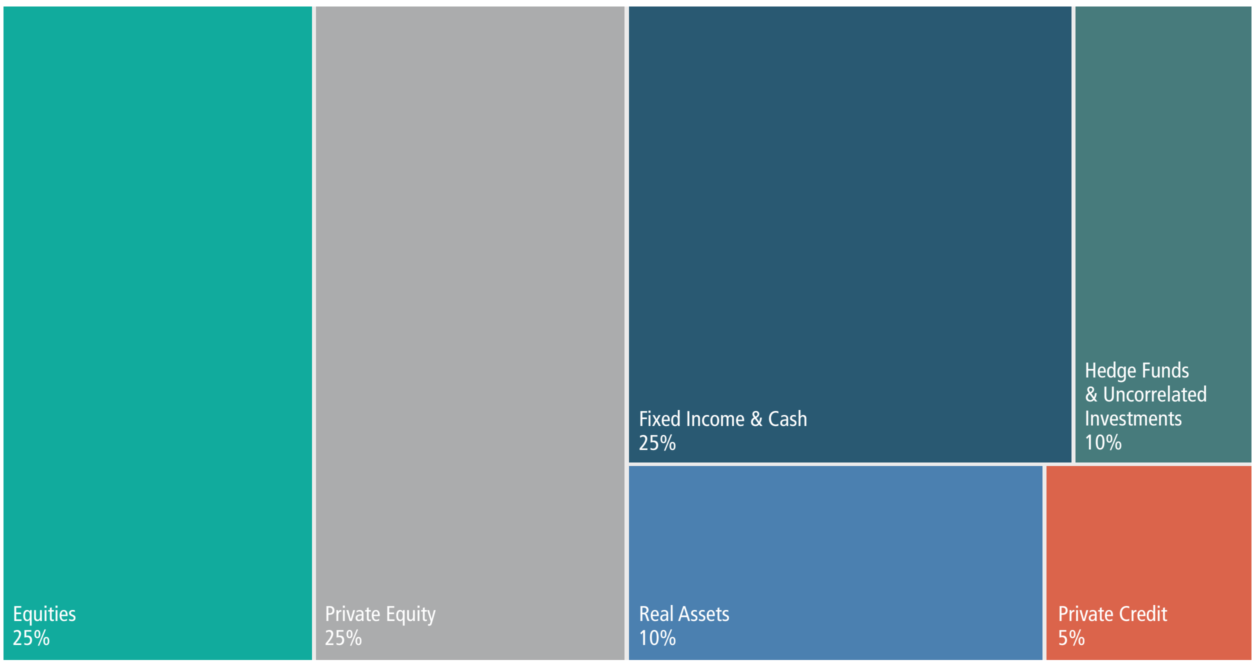
SECTION 3: THINKING ABOUT 2025, WHAT'S THE RIGHT APPROACH TO PRIVATE MARKETS?

Conversations with family offices often focus on a crucial question: how can we build portfolios poised for the future, and what does the ideal asset allocation model look like?

In our 2024 white paper*, we built a collection of hypothetical portfolios tailored for family offices with varying risk appetites. A standout theme across all these portfolios is a tilt towards private markets. Our quantitative models highlighted this, and discussions with family offices revealed a growing interest in adopting "a more active approach" here.

Interestingly, the asset allocation of a 'typical' family office[3] closely mirrors that of a large endowment, marked by a significant allocation to alternatives, notably private markets, alongside public equities.

FIGURE 1: A 'TYPICAL' FAMILY OFFICE ASSET ALLOCATION



Source: Neuberger Berman. For illustrative purposes only.

Yet, venturing into private markets is not without its challenges. These investments are often more administratively demanding compared to public markets. Allocating capital takes time, and the long-term, illiquid nature of these investments introduces considerable uncertainty regarding the timing of capital calls and distributions.

In our latest paper*, we delve into the journeys of three hypothetical family offices, each with unique objectives. We unpack the hurdles they face and propose solutions.

* If you want to dive deeper into our findings, you can read our white paper here: Mapping the Private Markets Journey for Family Offices.

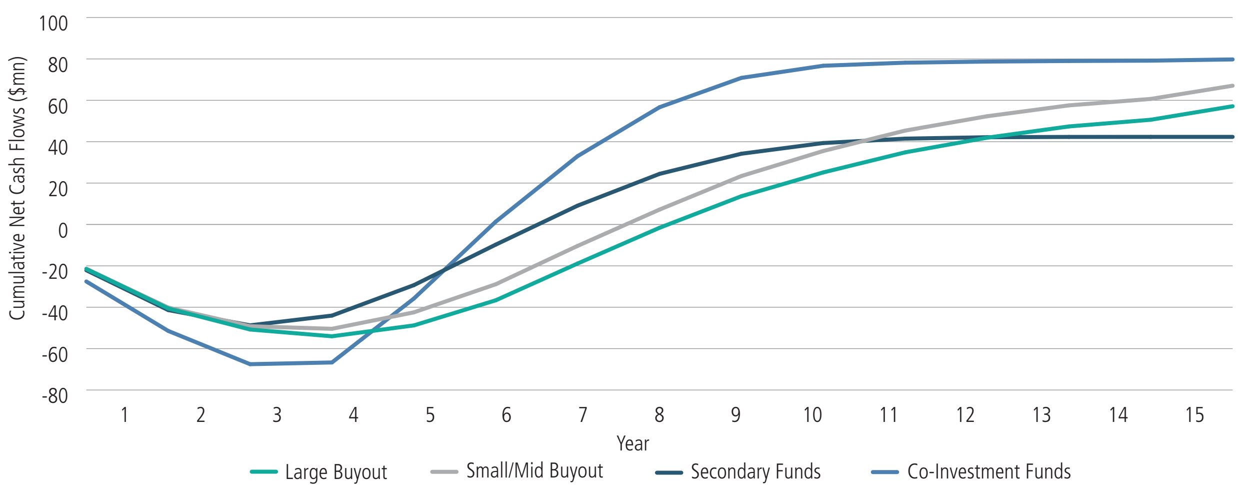
[3] The asset allocation of the typical family office is based on what we see among the 1,000-plus family offices that Neuberger Berman has a relationship with worldwide, alongside what we see reported in the sector literature.

Executive Summary

1. **Tailoring Returns and Cash Flows:** The distinct return and cash flow dynamics of primary funds, secondary funds and co-investments allow for customized blends to fulfil different goals. Advanced cash flow and return modelling is essential for identifying the optimal mix.
2. **Introducing Evergreen Funds:** Evergreen funds may offer investors a promising avenue to mitigate the J-curve effect and establish a less administratively demanding, self-funding private markets program. They may also allow investors to quickly build private markets NAV.
3. **Building In-House Expertise:** For investors considering bringing their private markets program in-house, the journey begins with selecting the right investment partner. We believe a partner with a proven track record in delivering tailored education, data access, and connections with General Partners is crucial for a smooth transition to in-house management.

FIGURE 2: THE TRADE-OFF BETWEEN CASH FLOW AND LONG-TERM RETURN

Cumulative net cash flow, mean scenario of 5,000 stochastic projections



Source: Neuberger Berman, Thomson Reuters. Neuberger Berman's stochastic model uses a Monte Carlo Simulation, projecting, with varying levels of confidence, the capital call and distribution activity and Net Asset Value ("NAV") development of private market investments, based on asset class, current NAV, vintage year and drawn amount of each investment in the portfolio, as well as additional commitments. The input and assumptions used in the model are based on information from Thomson Reuters's Thomson ONE database covering 25 years of private equity industry data. Cash flows represent the pooled cash flows of all private equity funds that report performance data to Thomson Reuters and are net of all underlying fund fees and expenses. Co-investment funds are proxied by 16 quarters of deals assuming a 1% management fee on committed capital during the first 16 quarters, changing to 1% on net invested capital and a 10% carried interest rate thereafter. The assumptions are for illustrative purposes only and are not intended as a promise or prediction of performance.

SECTION 4: NEUBERGER BERMAN'S THINKING: WHAT WE'RE READING

Every quarter, investment leadership at Neuberger Berman produce thought leadership on the topics that are top-of-mind across our investment platform. This is our current thinking:

Seeking Perspective On DeepSeek | Neuberger Berman

The Opportunities Across Private Equity's Current Liquidity Landscape | Neuberger Berman

Small Caps: To Index or Not to Index | Neuberger Berman

SECTION 5: UPCOMING FAMILY OFFICE EVENTS

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

February 27	March 11	March 18
"What's Next in... Italian Private Equity"	**"What's Next in... Equities"**	**"What's Next in... Insurance-Linked Securities"**
9am EST / 2pm UK / 3pm CET	9am EST / 2pm UK / 3pm CET	9am EST / 2pm UK / 3pm CET
ZOOM	ZOOM	ZOOM

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