THE 2025 INVESTMENT PLAYBOOK FOR FAMILY OFFICES: RISKS, OPPORTUNITIES, AND TRENDS

Private Wealth Team

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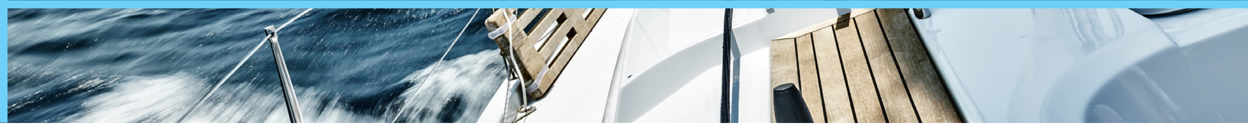

KEY TAKEAWAYS:

- With a change in administration, observers expect meaningful changes in political direction and economic and tax policy, but specifics and timing are unknown.
- Given the degree of uncertainty, we are advising clients to remain diversified and focus on both risk and liquidity management.
- Within private equity, deals that emphasize operational improvement may be better positioned than those focused on leverage and financial engineering.

The Trump administration's return to office promises to usher in significant political, economic, and taxation changes for 2025 and beyond. But while the Trump team has been quick to take action since the inauguration, the details of what will change and when remain unclear. How should wealth management strategies adapt to this era of uncertainty?

As we look to 2025 and beyond, we think caution is warranted, but that doesn't mean there won't be opportunities for growth. The strategies we are discussing with our clients include maintaining discipline in risk management, seeking investments poised to benefit from market and economic changes, and ensuring adequate liquidity to protect against potential disruptions.

SECTORS TO PRIORITIZE

The Trump administration's goals are generally seen as favorable for markets, with promises of lower taxes, deregulation, and pro-business policies. However, its broader economic and foreign policy agenda, particularly its focus on trade tariffs and immigration rollbacks, could disrupt markets in unexpected ways.

This combination of opportunity and uncertainty requires careful navigation. From an investment point of view, we believe this is the time to manage risk exposures and focus on diversification. For a great many clients, that is likely to mean scaling back exposure to the Magnificent 7 – the technology stocks that have been leading the artificial intelligence (AI) revolution.

While there is reason to believe these individual companies will continue to prosper, investment strategies with high concentrations in the Mag 7 will be highly susceptible to market volatility and economic shocks. We recommend that clients trim back their exposure to large growth stocks and rotate toward a handful of other sectors that should benefit from economic tailwinds:

- **Small-cap stocks** have become underappreciated in an era dominated by tech giants. But this area of the market offers significant innovation opportunities. Historically, small caps have benefited disproportionately from deregulation efforts.
- **Value stocks and sectors** have lagged their growth counterparts going all the way back to 2008. Growth businesses have benefited from ultra-low interest rates and cheap capital. But rates are higher now, and with the potential for economic disruption going forward, a more balanced approach that incorporate value investments could be beneficial.
- **Infrastructure stocks and sectors** could benefit from government efforts – recent and proposed – to address large-scale infrastructure needs.

MORE RESOURCES FOR LIQUIDITY MANAGEMENT

Another key challenge for 2025: a trend toward declining private equity distributions has undermined the liquidity position for private wealth investors, and we expect liquidity risks to be further heightened by coming economic uncertainties. We think it's necessary to plan proactively around liquidity so as to avoid short-term cash crunches and constraints on long-term investment flexibility.

To assist clients in this exercise, we have developed a liquidity guardrail analysis toolset. The analysis calculates liquidity metrics which are then stress-tested under a variety of forward-looking economic scenarios. This assists clients in understanding their liquidity profile and avoiding scenarios where liquidity may be constrained.

As always, we also think it wise to plan capital commitments strategically and review/revise your plan often. We have been working closely with clients to revisit private markets pacing plans for 2025, with a focus on ensuring sufficient liquidity without sacrificing long-term returns.

PRIVATE EQUITY FOCUS

Private equity remains a cornerstone of investment strategy for family offices and other private wealth clients, especially as public markets face the potential for heightened volatility. The asset class continues to deliver attractive long-term returns, making it a critical area of opportunity.

However, we believe that a higher rate environment and potential market disruptions necessitate a more cautious approach. Over the past decade, the emphasis has been on businesses that could best take advantage of low cost of capital with smart financial engineering, or use high leverage for profitable fix-and-flips. Moving forward, we recommend the following private equity strategies.

- **Emphasize fundamentals**: Look for deals that prioritize structural improvements in company operations. Businesses with efficient business models and sustainable growth potential will likely be more resilient in response to uncertainty and adversity.
- **Seek value:** Speculative growth is out; high quality at an attractive price is in. The goal is to reduce downside risk while being well positioned to capitalize on opportunities created by market dislocations.

- **Manage exposure to leverage:** As interest rates remain elevated, excessive leverage can erode returns. We advise clients to closely evaluate debt levels within private equity portfolios to manage cost and risk exposures.

CONCLUSION

To summarize, we are advising clients to ensure appropriate liquidity in the near term while also taking advantage of opportunities to enhance your long-term positioning. As the Trump agenda takes shape, a thoughtful balance of caution and opportunism will be key. Disciplined risk management, strategic diversification, and robust liquidity planning are critical components of a resilient investment strategy.

By leveraging analytical tools, such as NEPC's guardrail analysis, and maintaining a long-term perspective, we believe clients can position themselves to adapt and thrive in an evolving economic environment. While uncertainties may persist, careful planning and proactive decision-making will help ensure continued success.

IMPORTANT DISCLOSURES

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