The Skorina Letter

● Retained Executive Search ●

Our clients: visionary families, transformative nonprofits, Wall Street trailblazers
Our vision: build investment preeminence, create opportunity, enrich lives
Our work: provide talent, access, relationships, and insights

Family Office Investors: getting paid to wait

Follow the money, always follow the money – William Goldman, "All the President's Men"

Bob Dylan wrote the evocative The Times They Are a-Changin' in 1963, and sixty years later the song might just as well be a meditation on today's unsettled times.

While large institutional funds – pensions, sovereign wealth funds, endowments – continue to invest as if nothing has changed, our family office clients are preparing for a more nuanced and conflicted scenario, building liquidity and waiting for clarity.

Changing times

After a “2,000-basis-point decline in interest rates between 1980 and 2020,” the Federal Open Market Committee on March 16, 2022 finally changed the game and began the process of lifting their price controls on money.

“Nowadays,” writes Howard Marks, “the ICE BofA U.S High Yield Constrained Index offers a yield of over 8.5%, the CS Leveraged Loan Index offers roughly 10.0%, and private loans offer considerably more.”

“In other words, expected pre-tax yields from non-investment grade debt investments now approach or exceed the historical returns from equity.”

And as Marks postulates, not only has the “sea change” in rates finally put an end to our golden era of free money, it also quite possibly signals the end of private equity’s buoyant forty-year run.

“Almost the entire history of levered investment strategies has been written during a period of declining and/or ultra-low interest rates.”

Along the watchtower

One of our family clients recently asked his private banker at Citi what he saw other large family offices doing. The banker’s answer, “going to cash!”

The latest Goldman Sachs 2023 Family Office Investment Insight Report surveyed family sentiment and found that “since 2021, global family offices, on average, increased their combined allocation across cash and fixed income from 19% to just over 22% total — 12% in cash and cash equivalents, and 10% in fixed income.”

This move to liquidity and safety is hardly surprising. As we wrote a year ago, family offices have been around for centuries and weathered every conceivable storm.

From the major-domos in ancient Rome to Rockefeller and Microsoft heirs, cash has always been king. Liquidity meant power and the means to act in good times and bad.

Maybe it's also because family founders are usually operators who run businesses and in business, running out of cash is an original sin.

The clarity of hindsight

So, how are the nation's largest pensions, the really big money boys and girls ($5.19 trillion in DB assets), dealing with this historic "shift?" As nearly as we can tell, they don't have much room to maneuver.

Public pensions are still boosting their allocations to private markets despite massive amounts of dry power, intense competition, increasing rates, decreasing returns, and make-believe marks.

The $442 billion CalPERS pension, for example, announced in January that the allocation to private equity would be increased from "8% to 13% starting with the 2022-23 fiscal year."

Even if pensions wanted to alter course, however, they face performance pressures and institutional roadblocks. Not to mention funding commitments and low liquidity.

Changing course means educating boards, building expertise, and overcoming vested interests, an unpleasant and for now unlikely process. But with a snowballing funding crunch, something will eventually give.

To quote John Kenneth Galbraith, "There can be few fields of human endeavor in which history counts for so little as in the world of finance."

Fixed income, how sweet it is

Meanwhile, family offices, an area in which we spend an increasing amount of time, are changing course fast, away from interminable lockups and towards liquidity and nimble investing – more fixed income, credit, distressed, and cash.

Family offices heads are opportunistic and focused on absolute returns and they are by nature decisive and forward-thinking. They are used to making quick decisions without much regard for what outsiders think.

The broad specs for our CIO and senior manager searches, for example, moved away from classic endowment illiquidity about six months ago toward proficiency with shorter more contractual investments delivering stable cash flows. After years in the wilderness, fixed income managers are back with a roar.

Final thoughts

One prominent family office head remarked the other day that borrowing costs are increasing, businesses are squeezed, real estate is spotty, and the tide's running out for private equity.

As long as the marks were going up everyone was happy and wanted a piece of the private equity pie. But now the gates are closing and it's anyone's guess when investors will get their money back.

There's not much clarity for institutional investors at present. For us, and we assume for others, it's hard to know what the assets in a portfolio are really worth.

We don't see many arm's-length transactions in private markets. That's why we prefer to wait until these investments finally see the light of day and we have meaningful price discovery. Meanwhile, index funds and bonds are looking pretty good.

For those with cash there's no reason to hurry, with these rates we're getting paid to wait.

Investment Head for the Lewis family office

Based at the Lewis Group Of Companies corporate headquarters in Upland, California, we are looking for an experienced investor with liquid markets experience; equities, bonds, credit, and special situations.

This individual will work with family leadership to develop, implement, and manage a strategic investment program.

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We Build Legacies

Every now and then we eye our subscriber list and marvel at the folks behind our 25,000 often anonymous emails.

Our recruiting and consulting assignments come from our readers, visionary entrepreneurs, Wall Street trailblazers, and transformative nonprofits.

We support these inquisitive, creative, opportunity-engineers delivering preeminent investment talent, turning goals into reality.

Thank you for reading our newsletter.

The Skorina Letter

Each issue explores how the world's most accomplished asset managers think and invest. Original content includes profiles and interviews with industry veterans and research on compensation and investment performance.

Our insights and commentary come from our clients – board members, CEOs, chief investment officers – and the global investment community within which we work as executive search professionals.

Institutional investors operate at the crossroads of capital, talent, and ideas, shepherding over seventy trillion dollars in global assets. It's a constantly evolving spectacle and The Skorina Letter gives readers a ringside seat.

Prior issues can be found in "newsletters & archives" on our website.
