WEBINAR RECAP

Allocating in Uncertain Markets: What Family Offices Want from Alternative Managers

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Family offices remain committed to alternatives, but they are more selective than ever. They want genuine diversification, liquidity they can use when markets are stressed, strong governance, and managers whose interests are aligned with their own. That was the clear message from AIMA Canada's family office webinar, co-hosted with CIBC Capital Markets.

Lauren Cooper, Director, Head of Canada at AIMA, opened the session with a preview of preliminary findings from AIMA's forthcoming research with Marex, *Building the Modern Family Office*. She then handed over to moderator **Julia Vriend**, Director, Prime Services Group, CIBC Capital Markets, for a candid discussion with three family office investors and one hedge fund manager:

- **Andrew Hamlin**, Vice President & Portfolio Manager, Federated Capital
- **Shael Soberano**, Chief Investment Officer, Sharno Group
- **Andrew Sarna**, Portfolio Manager, Forthlane Partners
- **Sean Kallir**, Founding Partner and CIO, HGC Investment Management

Building portfolios for an uncertain market

Panelists shared a common caution about expensive, increasingly concentrated markets, with much of the opportunity set now tied to AI, from large-cap equities to venture capital, infrastructure and credit. Tight credit spreads mean investors are not being well paid to take credit risk, and a higher-for-longer rate environment remains a headwind for leveraged asset classes.

Their responses differed, reflecting each family's circumstances. Some emphasized sticking to a long-term strategic asset allocation and rebalancing with discipline rather than reacting to short-term trends. Others build portfolios around the strengths of their in-house team, using external managers where they lack expertise. Across the panel, the priority was finding genuine diversifiers.

From the manager's perspective, Kallir cautioned against relying on forecasts. The largest drawdowns tend to come from events no one anticipated, so the goal should be a portfolio that can hold up in a downturn and perform across environments.

Where hedge funds add value

The panel agreed that hedge funds have a clear role in family office portfolios, but only when they deliver something investors cannot get more cheaply elsewhere.

- **Returns that don't depend on markets.** Absolute return, market-neutral and multi-strategy funds can provide uncorrelated returns and a source of liquidity in a downturn, allowing families to redeploy capital when others are selling.
- **Exposures that are hard to build in-house,** such as rates, commodities and currencies, and specialist strategies in less crowded corners of the market, including small-cap value.

- **Pay for alpha, not beta.** Fees are scrutinized closely. One panelist's first check on any fact sheet is how a manager performed during periods of stress such as Q4 2018, early 2020 and 2022. Another described the ideal as skilled managers working in less competitive markets.
- **Insight, not just returns.** Specialist managers can also inform a family office's broader market views and act as an extension of its team.

Not every family office uses hedge funds to reduce volatility. Some are comfortable with volatility and prioritize the best risk-adjusted returns instead.

Liquidity and flexibility come first

All three family offices are leaning towards liquidity, and none believe they are currently being paid enough to give it up. Panelists cited limited evidence of an illiquidity premium in recent years, leverage pressures in some private markets, and slower distributions that have shown lock-ups in private equity and venture capital can run far longer than expected. Where families do invest in less liquid alternatives, they favour evergreen structures with institutional terms.

Overall, panelists described a shift away from broad private equity, real estate and private credit, and towards specialist, liquid and diversifying exposures, including smaller-cap value, absolute return strategies and real assets.

The next generation's influence

Next-generation family members are shaping portfolios through interest in technology and AI, specialized managers, cash-flowing investments, direct deals and sustainability. They also want a greater say in investment decisions and due diligence.

Governance is table stakes

Governance emerged as a deciding factor for every family office on the panel, both before investing and throughout the relationship. Panelists look beyond the pitch deck at:

- How the firm actually operates day to day
- Who makes decisions and who is accountable
- Conflicts of interest and independent oversight
- How the firm is structured and how people are paid

Several conduct their own reference checks beyond those a manager provides.

After investing, the focus shifts to accountability. Does the manager report on the timeline it committed to? When something goes wrong, such as staff turnover, does it get ahead of the news? As one panelist put it, governance doesn't matter until it matters. A manager's operational standards also offer insight into the discipline behind its investment process.

The pressures family offices face

AI was the pressure point everyone named first. Families are weighing the risk of being left behind against the need to protect confidential data, with early efficiency gains in areas such as memo drafting and document review. Other pressures include inflation risk, market concentration, legacy illiquid positions that have yet to

distribute, finding reporting systems that fit a family's needs, and a changing market regime in which what worked in the past may not work going forward.

What separates a compelling manager

Responding to an audience question, panelists said family offices can be more flexible than institutions on track record. They place more weight on the individual, their background, conviction and vision, and some actively back emerging managers. As one panelist said, allocators are investing in people, and the track record is just the output.

Beyond that, alignment was the dominant theme:

- **Skin in the game.** Managers investing meaningfully in their own funds.
- **Incentives that put LP returns ahead of asset growth,** and that extend to the firm's next generation of leaders, not only senior partners.
- **Focus and capacity discipline.** Size is often the enemy of returns.
- **A repeatable process,** a stable team, and institutional-quality operations.

What it means for alternative managers

1. **Be a genuine diversifier,** and expect your performance in past periods of stress to be scrutinized.
2. **Earn your fees with alpha, not beta.**
3. **Recognize that liquidity is valued,** and that flexible structures are in favour.
4. **Treat governance and operations as table stakes.** Weak reporting can end a relationship, or prevent one from starting.
5. **Show alignment,** through personal investment, incentives and capacity discipline.
6. **Emerging managers have a route in,** as family offices often weigh conviction and vision alongside track record.

AIMA thanks **Julia Vriend** and CIBC Capital Markets for co-hosting, and our panelists for a candid and insightful conversation. We will share *Building the Modern Family Office* once it is published.

To learn more about AIMA membership, upcoming events or getting involved in our programming, please contact canada@aima.org or visit aima.org/events.