

# Family Capital

**Cambridge Associates say family offices need to brace for a long, slow decline in private equity valuations**



By **Michael Foster**, 19th October 2023

Family offices should seek resilience during a downturn, but stand ready to take advantage of opportunities it throws up, according to global investment group Cambridge Associates.

Will Lawrence, managing director at Cambridge Associates' private client practice, says: "We are sort of obsessed with the importance of planning, strategy and governance. And

probably the biggest thing is liquidity - ensuring everyone has enough to fund their commitments and invest in the future.”

***In the near term, Lawrence also thinks restructuring opportunities could be developing in venture capital, where prices have collapsed due to a dearth of new funding***

Family offices need due diligence on every front, to manage risk and find opportunities. The challenge is greatest where families own a business which needs financial support. Lawrence says: “From time to time, families need to dip into investment funds to bolster their operating businesses. We build this into our planning process.”

He adds: “We are focused on resilience. On an understanding of which strategies are poised to hold up relatively well.”

Cambridge is the world’s top family office consultant, backed by [Sofina](#), a family enterprise owned by the Boël family of Belgium. Its approach harks back to Nassim Nicholas Taleb’s theories on anti-fragility, where organisations use diversity and debt restraint to deal with recession, but seize opportunities to move forward to avoid becoming fragile or rigid.

Lawrence warns family offices need to brace for a long, slow, decline in private equity valuations in the years ahead, even though their book values have only fallen marginally, so far, as capital continues to chase opportunities, with the help of funding from private credit.

“Private equity deals are still being done at relatively high valuations, and they are in the books above where they would trade in the public markets. Everyone is trying to feel their way towards a proper valuation.”

Lawrence recently came across a business changing hands at twenty times EBITDA on high leverage: “The buyers are relying on the quality of the asset they’re buying. But there’s not a lot of room for error.”

Rather than expensive “safe” assets, he says family offices could seek opportunities in the small and mid-cap sectors, capable of future growth and subsequent acquisition.

Real estate has not been loved by Cambridge for some while, but Lawrence is interested in European logistics, given the strength of underlying rents. Robots have a role to play in distribution, illustrating that tech-driven disruption is not dead, particularly in AI.



**Will Lawrence**

In the near term, Lawrence also thinks restructuring opportunities could be developing in venture capital, where prices have collapsed due to a dearth of new funding. He concedes that family offices are unlikely to lead the deals but does not rule out their involvement. You can see the direction of travel in the 12 October acquisition of software venture Loom by Atlassian for \$975 million, on a discount of 35% from its peak.

Longer term, private equity firms could be distracted by rescue deals. Many of them are trying to negotiate softer terms with lenders.

“On the basis of 12 years of performance, every private equity fund looks pretty good. But the environment is tougher, and alignments have become skewed. Maybe a certain strategy using leverage is no longer in the sweet spot. Maybe teams have moved higher up the organisation, rather than focused on deals.”

Those assets which are hard to sell could be a big distraction. There is also a spread in valuations used at different funds. One of Cambridge’s tasks is validating calculations for its clients.

Lawrence sees potential in backing teams at emerging VC firms unencumbered by the past. He also views co-investing as a way to achieve greater transparency, as well as fairer fees than those traditionally offered by PE firms.

As well as contacts, Cambridge can offer family offices access to a unit with buy-side experience, which offers advice on co-investing

“This is an interesting environment for co-investment,” says Lawrence. “I’m spending time with several families on designing programmes.” He points out several private equity managers are offering their clients co-investment deals alongside their funding programmes.

Cambridge believes performance benefits from a 40% portfolio weighting in private assets. It further believes co-investing should represent 15% to 30% of that allocation.

Lawrence says a 40% allocation to private assets has become a longer-term ambition for some clients. He advises clients to start out with a 15% weighting, adding it makes little sense to buy two private assets, and then stop, because that only creates an unbalanced portfolio.

He stresses the importance of continuing to do business with private equity funds, bearing in mind new funds will not be deployed for years. Some clients have carefully divided their private asset portfolio between co-investing and traditional funds.

“You just can’t ignore the expertise you get in the private equity sector. Time and again, I’ve seen families trying, and failing, to retain co-investing teams.”