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Positioning for the Next Cycle: Mary Jo Palermo on What's Coming in Family Office Investing

From AI disruption to the growing role of private markets, Palermo explains how long-term investors can prepare for structural change without losing sight of their goals.

By Dan Costa

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Mary Jo Palermo has built her career by anticipating what's next—and helping clients move quickly when the moment arrives. As the head of Cambridge Associates' G1/G2 single family office segment, she works with clients navigating major inflection points, from liquidity events to generational handoffs. Here, she talks to *Worth* about the underestimated impact of AI, the evolving role of real estate, and how the best investment strategy is one that's tailor-made—and relentlessly revisited.

How has your approach to constructing diversified emerging markets portfolios evolved in light of recent macroeconomic and geopolitical shifts?

This is a fun question for me. Professionally, I grew up in the emerging debt markets, primarily focused on Latin America. Watching the evolving relationships between China, pan-Asia, and Latin America, I saw firsthand how investment approaches to emerging markets have changed. China's growth was fueled by Latin American commodities. Back in the 1980s and early 1990s, we viewed emerging market debt as an equity alternative, so portfolio allocations could mix debt and equity for diversified returns. As emerging markets became mainstream, we saw the convergence of local currency debt, dollar-referenced debt, and EM equities. Finding those hidden opportunities "collecting dust in a corner" became more challenging.

For our EM allocation, we have always preferred to be out of index, focusing on small-cap, micro-cap, and even frontier markets, rather than simply investing in broad emerging markets. As this approach became more challenging, we evolved to think about EM ex-China, and China as a standalone allocation. Today, we access broad EM exposure through our global managers, while our dedicated EM allocation is regionally focused on pan-Asia.

What financial trend or structural market shift do you believe

institutional investors are still underestimating?

AI's impact on markets is still underestimated—it will transform market structure, risk, and arbitrage. I don't know if I can actually process the potential disruption that AI will bring across industries and our society!

It has always been hard for active managers to beat the market index, and advancements in technology make it much harder. Take quant strategies for example. Maintaining an edge will get harder as data grows. At what point are the innovators out-innovated? With so much data being processed, how does a manager maintain an edge? One manager we work with just shared that he needs to start trading differently. We love seeing that evolution from the managers we invest in.

Then there's private investments. Like many, I am also paying attention to the direction of those investments. I think we have yet to see and understand the implications of more dollars going into the private markets. For years fund providers have had an eye on access to "democratize" private investing. It has started, but we aren't yet sure of the implications.

In your work with family offices and endowments, what differentiates top-performing portfolios over long time horizons?

Two things:

Developing a plan that is customized to your goals and time frame.

I like to keep it simple: answer a few key questions and do the math. Ask, "What is the money for?" "When do you need it?" "In what currency?" Understanding which cash flows are variable, fixed, ongoing, or one-time can take you far in your planning. Once we understand the portfolio's purpose and cash flows, we can develop a plan designed to meet the objective or identify where challenges may arise. We have developed an asset allocation which has roots in the endowment model, but has evolved to focus on the competitive advantages of a family office.

Having a flawless governance model that allows for maximum flexibility and speed.

As I tell clients, I can bring you the best ideas, but if you don't have a process to evaluate and execute them in a timely manner, those ideas aren't worth much. Effective governance is essential. Be mindful of how many decision makers are at the table—are they committed and in it for the long run?

And of course, if your program includes private investments, you need to think in 15-year cycles.

How do you think about risk today—beyond volatility metrics—in a world of climate shocks, cyber threats, and political instability?

My view of risk hasn't changed; it's about the permanent loss of capital. We continually plan for stressed scenarios that could impact our portfolios. The amount of liability coverage you have should reflect how much risk you're willing to take. We also have ready-to-go plans for both upside and downside rebalancing—a lesson learned in 2008, when we had capital to invest but many investors hesitated to act. Now, we regularly review these rebalancing plans, allowing us to act seamlessly when needed.

What's one unconventional asset class or strategy you think deserves more attention in 2025?

For me it always starts with strategy. Strategy should drive allocation.

First- and second-generation families (G1/G2) tend to have the advantage of low spend, the ability and willingness to look different, a long-term mindset, governance models that allow for quick decision-making and very little turnover. Their scale often puts them in the sweet spot for access to emerging managers, a segment of the market that families are often interested and willing to invest in. This has led us to evolve our asset allocation to focus on roles rather than traditional asset class "buckets." We view it as a continuum focused on liquidity and correlations: where is it worth locking up capital versus accessing a theme in the public markets?

If you are in the fourth generation ("G4") of a family you may need to fund distributions across a large constituent base. That portfolio is very different from a family who just had a liquidity event, has low spending and just starting the generational journey. There isn't a right answer. It comes back to the fact that the best approach is having a plan that's tailored to the unique needs of each family and sticking to that plan when investing.

With public markets increasingly dominated by a few mega-cap stocks, how are you advising clients on equity diversification?

Fees are the only certainty, not returns. We tend to index more on the public side and use active managers where we have a better chance of understanding the sources of alpha: venture capital, growth equity, private equity, private credit, and certain diversifying hedged strategies. That's where our team focuses its efforts.

How do you see AI and automation reshaping portfolio construction or manager selection over the next five years?

In the near term, those with access to data, and the ability to interpret the stories that data tell, will have an advantage in identifying attractive investment opportunities.

As access to information becomes more readily available, that information edge gets chipped away and may lead to a narrowing of dispersions in returns.

Taking this to the extreme, the value of information may become a depreciating asset and less of a differentiator.

Where does real estate fit in today's portfolio strategy: inflation hedge, return enhancer, or ballast?

Again, it all comes down to the portfolio's strategy. In our portfolios, real estate competes with other illiquid assets like venture capital and private equity. Real estate is included in our portfolios for return. We also use real estate private credit strategies to generate strong cash flows with less equity risk and greater capital efficiency.

Most of our clients hold direct real estate outside their investment portfolios. For some, it's about the bond-like cash flow; for others, it serves as a ballast, adding stability and diversification at the enterprise level. And for clients with long-term spending needs or businesses sensitive to rising costs, real estate can act as an inflation hedge.

There's no one-size-fits-all answer—real estate's role is always tailored to fit each client's unique objectives.

How do you evaluate real estate opportunities differently when advising private clients versus institutional investors?

It's about understanding real estate's role in the portfolio, return or ballast, and considering what's already held, both inside and outside managed assets.