TOP BUSINESS NEEDS OF ASSET OWNERS IN 2025

An Institutional AI White Paper

Top Business Needs of Asset Owners in 2025: Insights by Investor Type

In a volatile, high-rate world, institutional asset owners are reevaluating their priorities. Across pension funds, sovereign wealth funds, insurance companies, family offices, and endowments, certain themes are emerging. Rising inflation and geopolitical tensions top the list of concerns, prompting renewed focus on risk management. At the same time, many asset owners are doubling down on private markets to diversify returns: nearly half of large asset owners globally increased private market allocations in the past year and plan further boosts to private credit and infrastructure in 2025. Sustainability goals are also in the mix (especially for the largest funds), although enthusiasm for formal climate targets has tempered. Below, we break down the top strategic priorities, operational challenges, and investment considerations for each major asset owner category, with a global view and an emphasis on North America.

Pension Funds: Funding Stability and Evolving Strategies

Pension funds – from corporate plans to public systems – have seen their financial position improve recently yet face new decisions on how to consolidate those gains. The world's largest 300 pension funds reached a record $24.4 trillion in assets in 2024 (up 7.8% for the year), erasing 2022's losses. In North America, rising interest rates and a tech-stock rally propelled U.S. corporate pension plans to their healthiest funding in 15 years: the top 200 corporate plans are averaging 105% funded as of late 2023. This "overfunding" has sparked strategic conversations about reopening frozen plans or enhancing benefits – for example, IBM's pension plan was recently reopened to utilize surplus assets and bolster employee retention. Public pensions have likewise benefited from strong market returns, with U.S. state and local plans' average funded ratio rising from 75.5% to ~80% in 2024. Even so, most remain below the 90% "resilience" threshold, carrying over $1.3 trillion in aggregate unfunded liabilities. In short, 2024 finds pension funds in a cautiously improved financial shape – but with pressure to lock in gains and address lingering shortfalls.

Strategic Priorities:

Preserving funding gains and securing long-term promises is priority one. Pension sponsors are pivoting from simply achieving full funding to maintaining surpluses and even considering benefit improvements. In tight labor markets, some corporations see richer pension benefits as a tool for talent retention and recruitment. Public plan trustees, meanwhile, are focused on stabilizing their systems' solvency – for example, by urging more realistic return assumptions and higher contributions where needed. De-risking investment strategy is another key theme: with interest rates at decade highs, many pensions are rebalancing toward liability-matching assets. U.S. public pensions increased fixed-income allocations in 2024 to capitalize on 5%+ yields and reduce volatility. At the same time, diversification into alternatives remains important for return enhancement – public funds now allocate roughly 28% to private equity, real estate and other alts. The largest global funds are exploring more holistic portfolio approaches; in fact, a number of top funds have adopted a "total portfolio" framework to better align assets with long-term objectives. Finally, digital transformation has hit pensions: ten of the top 20 funds reported enhancing their expertise in AI and technology for portfolio management. Embracing advanced analytics (e.g. for risk modeling and asset-liability management) is viewed as crucial to navigating a complex investment landscape.

Operational Challenges:

Pension fiduciaries face a more complex risk environment than ever. Macroeconomic swings, inflation, and geopolitical shifts were cited by multiple large funds as major concerns shaping their outlook. Managing funded status volatility is an ongoing challenge – even well-funded plans must vigilantly hedge interest-rate risk (e.g. through LDI strategies) to avoid future deficits. An inverted yield curve and higher short-term rates have complicated traditional liability-driven investing programs, forcing pension CIOs to adjust their hedging and cash-flow strategies. Governance and stakeholder management are also top of mind. With improved finances comes heightened scrutiny: regulators, plan sponsors, and beneficiaries are all "raising expectations on how pensions are managed," notes the Thinking Ahead Institute. Pension boards must balance demands for higher benefits or lower contributions against fiduciary duties to keep plans sustainable. In public systems, political and budgetary pressures can hinder needed contribution increases. There's also the operational burden of complex portfolios – overseeing allocations to private markets, for instance, requires specialized expertise in manager selection, valuation, and liquidity management. Many pension organizations are responding by bolstering their in-house investment teams or outsourcing to OCIO providers for additional support. Finally, technology integration is an operational focus. Funds are investing in systems for real-time risk monitoring and asset-liability modeling. Notably, 9 of the top 20 pensions highlight technology (like AI tools) as both a new opportunity and a risk that demands robust controls.

Investment Considerations:

The investment playbook for 2024–2025 centers on balancing risk and return in the new rate regime. Higher bond yields present an opportunity for pensions to earn safer returns; many U.S. plans shortened duration and locked in yields in 2023–24. However, pensions must also contend with persistent inflation risk eroding real returns – indeed, inflation was flagged as a key factor shaping pension outlooks this year. Diversification remains critical: while 2023's equity rally boosted funded ratios, it also reminded funds of concentration risk (U.S. large-cap tech stocks drove a disproportionate share of gains). Expect pensions to continue spreading bets across asset classes and geographies. Private markets will play a growing role, but with selectivity. Many pensions plan to maintain or increase allocations to private equity, private credit, and infrastructure, seeking illiquidity premia to bolster returns. (In fact, asset owners globally are on a private debt binge – Preqin reports the private debt market saw record fundraising in 2023 and is projected to nearly double to

$2.8 trillion AUM by 2028.) This comes with a caveat: heavy private exposure introduces valuation and liquidity challenges – e.g. nearly 28% of U.S. public pension assets are in illiquid alts that require fair-value estimates. Investment committees are accordingly focused on liquidity stress tests and pacing of commitments. Inflation-sensitive and real assets are also on the radar (e.g. real estate, infrastructure, commodities) to hedge against price level surprises – though as 2024 showed, real estate can lag in downturns, dragging on performance. Lastly, ESG and climate considerations have started to influence asset allocation. Many public pension plans face stakeholder calls to divest from fossil fuels or invest responsibly. While only a minority (roughly 14% of U.S. endowments, for example) have formally implemented ESG criteria in portfolios, the direction is changing. Some large pensions – particularly in Europe and Canada – have adopted net-zero emissions targets and are reallocating capital toward the energy transition. Overall, pension investors in 2024–2025 must juggle competing goals: securing promised benefits (liability security), achieving adequate returns, and adapting to a rapidly shifting market regime.

Sovereign Wealth Funds: Long-Term Growth Amid Geopolitical Shifts

Sovereign wealth funds (SWFs) – from oil-funded reserves to Asia's rainy-day funds – are leveraging their long time horizons to navigate an altered macroeconomic landscape. High inflation and higher real interest rates have prompted shifts in SWF portfolios: many are recalibrating away from last decade's ultra-low-rate playbook. In 2023, sovereign investors broadly increased allocations to fixed income and private credit, taking advantage of improved yields. At the same time, they continue to seek growth in risk assets, but with a nuanced approach given global uncertainties. A recent Invesco survey of 142 sovereign investors (managing $21 trillion collectively) found SWFs still view equities and private markets as essential, yet are rotating strategies – favoring certain regions and sectors like never before. Notably, emerging markets with strong demographics and stability (such as India) have "emerged as prime investment destinations" for sovereign funds looking beyond the West. Another striking development is SWFs' increasing appetite for China: nearly 60% of sovereign wealth funds plan to boost allocations to Chinese assets over the next five years, with North American-based funds especially aggressive (73% intend to increase China exposure, despite geopolitical tensions). Overall, SWFs are positioning to capture long-term growth opportunities while hedging against the immediate macro headwinds.

Strategic Priorities:

Portfolio diversification and resilience remain the north star for SWFs. These funds exist to safeguard national wealth for future generations, so their strategic priority is ensuring portfolios can withstand shocks. SWFs are actively repositioning in light of the "new normal" of positive real rates. This includes tilting back to bonds for income and stability – a notable shift after years of equity-heavy allocations. For example, sovereign funds have been upping their stakes in high-quality fixed income and private debt, seeking reliable yields. Simultaneously, they are selectively leaning into risk assets for long-term return:

many funds are increasing allocations to infrastructure and private equity, but in a more judicious manner. According to Invesco, SWFs continue to find private assets appealing, yet "performance disparities have prompted more judicious selection" – with a preference for infrastructure investments, especially renewable energy projects. Indeed, funding the energy transition has become a strategic priority for many sovereign investors (often encouraged by their government owners). SWFs are channeling capital into green infrastructure and climate solutions; renewables have shot to the top of investment agendas amid climate imperatives and geopolitical energy shifts. For example, several Gulf and Asian SWFs are leading direct investments in wind and solar ventures, and sovereign portfolios are gradually adding green bonds as well. Another strategic focus is nation-building and development goals. At least half of sovereign funds now have some form of domestic development mandate alongside return objectives. This means SWFs in places like the Middle East and Asia are investing in local projects (from tech start-ups to infrastructure) to spur economic diversification. Even new "development sovereign funds" have been established in the past decade to drive social and economic goals, often in partnership with established funds to leverage expertise. Finally, SWFs are rethinking active vs. passive management in their strategy. In stable markets, many relied on passive approaches, but unpredictability has them "warming to active management" – large sovereign funds (>$100B) in a 2025 survey showed heightened interest in active strategies to navigate volatility. This reflects a strategic desire to have more agility and tactical responsiveness in the portfolio.

Operational Challenges:

Sovereign wealth funds, while often less constrained by short-term liabilities, face unique operational hurdles. A key challenge is governance and decision-making agility. Many SWFs answer to government stakeholders and must align with national interests, which can sometimes slow decision processes or introduce political risk. Ensuring professional, independent investment decisions is an ongoing governance task. Notably, newer sovereign funds often lack the internal capabilities of older funds – bridging these capability gaps via talent development or external managers is a priority. In fact, emerging sovereign funds are frequently leaning on experienced asset managers to execute parts of their strategy while they build in-house expertise. Another challenge is managing geopolitical risk and sanctions. SWFs often invest globally, but rising geopolitical fragmentation (U.S.-China trade tensions, war in Europe, etc.) forces careful navigation. Funds must evaluate not only market risk but also the regulatory/sanction landscape – for instance, adjusting allocations if certain markets become off-limits. A recent survey noted that over a 10-year horizon, sovereign investors' top worries include global fragmentation and climate change impacts. This speaks to the operational need for risk scenario planning and diversification to mitigate such risks. Liquidity management is also crucial: while SWFs generally have long-term capital, they may be called upon in national emergencies (e.g. to stabilize budgets or currencies). Ensuring sufficient liquid assets to meet any sovereign calls – without derailing the investment strategy – is a delicate balance. Additionally, SWFs are contending with public scrutiny and ESG accountability. Civil society is increasingly aware of how sovereign funds deploy national wealth. Calls for transparency and responsible investing (e.g. not funding unsustainable industries) create an expectation for SWFs to incorporate ESG factors. Many funds are responding by publishing annual reports, integrating ESG policies, and joining forums for best practices. However, the operationalization of ESG is non-trivial – for example, verifying "green" projects and avoiding greenwashing requires new due diligence frameworks. Lastly, SWFs, like other large investors, are exploring technology and AI to gain an edge. Some funds are investing in advanced analytics to guide asset allocation or detect market signals, but adoption is cautious. A recent global poll found that while 43% of large asset owners believe AI will be a highly influential market factor in coming years, about 69% have not yet begun developing an AI policy internally. Building tech expertise while controlling risks is an emerging operational theme for sovereign funds.

Investment Considerations:

Sovereign funds are taking a long-term, contrarian view in many cases – they can afford to move against the herd. One big consideration is the global macro outlook: SWFs are positioning for a world where U.S. dollar supremacy persists (most central bank reserve managers among them still see no viable alternative for decades) yet where the investment landscape is multipolar. For instance, even amid U.S.-China tension, SWFs see strategic opportunity in China's tech and innovation sectors – approaching them with "the strategic urgency they once directed toward Silicon Valley". This reflects a willingness to invest where growth is expected, regardless of short-term politics. Private markets will continue to be a cornerstone of SWF portfolios. Sovereigns' allocations to private equity, real estate, infrastructure, and private credit have risen steadily over the past decade. These funds appreciate the illiquidity premium and have the patience to weather long lock-ups. However, performance dispersion in recent years has taught SWFs to be more selective: instead of broad private equity exposure, they are zeroing in on high-quality managers and sectors (e.g. tech, healthcare, renewables). Infrastructure is particularly attractive, aligning with both financial and strategic goals. Many SWFs are ramping up infrastructure deals – not only for stable returns but to support national interests like energy security. Renewable energy infrastructure, in fact, has "emerged as the preferred sector" for many sovereign investors. On the public markets side, active management is making a comeback. With "predictable" markets a thing of the past, SWFs are deploying active strategies to navigate volatility – whether through in-house active teams or external active mandates. We also see SWFs expanding into new asset classes: some are exploring digital assets/blockchain technology (cautiously, given regulatory uncertainty), and others are considering opportunistic plays in areas like trade finance or royalties. ESG investing is a significant consideration too. Sovereign funds, especially the largest, are increasingly incorporating sustainability into their objectives – Mercer's 2025 survey found 81% of mega asset owners (> $20B) include sustainability goals in their policies. That said, fewer are committing to formal climate targets than before; over one-third of large funds now say they are not planning to set net-zero targets, up from 29% a year ago. This suggests a more cautious, pragmatic approach to climate alignment, focusing on tangible investments (like green infrastructure) over declarative emissions goals. Finally, return expectations for SWFs have moderated. Interestingly, sovereign wealth funds achieved an average ~9.4% return in 2024 (one of their best on record), but they recognize that was aided by market rebounds. Going forward, many expect more modest returns, so they are planning accordingly – emphasizing cost control (some are bringing more investment management in-house) and efficient portfolio construction to meet their long-term real return targets (often in the ~4–5% range above inflation to support fiscal spending). In summary, SWFs in 2024–2025 are navigating between opportunity and risk – staying true to their long horizons while adapting to the immediate macro challenges.

Insurance Companies: Yield Opportunities and Risk Management Reinvented

For **insurance company** asset owners (life insurers, property & casualty firms, and others), the recent regime change in interest rates is nothing short of transformational. After a decade of yield scarcity, insurers are now benefitting from higher interest rates and repositioning their giant portfolios accordingly. The industry's general account assets (over $30 trillion globally) are seeing a shift: money is moving into higher-yielding bonds and into private credit opportunities that can boost portfolio income. In BlackRock's latest Global Insurance Report (Oct 2024) surveying 410 insurers worldwide, 69% cited interest rate risk as their most serious market concern – yet paradoxically, they are seizing the rate environment as a tailwind for earnings. Insurers today can earn 5–6% yields on investment-grade debt, strengthening their ability to meet policy obligations. Many are also expanding allocations to alternative investments for diversification: an overwhelming 91% of insurers surveyed plan to increase exposure to private markets (private credit, real estate, infrastructure, etc.) going forward. Insurers in North America and Europe generally anticipate a "soft landing" scenario – moderating inflation and eventual rate cuts – but they are positioning portfolios for resilience either way. In sum, 2024–2025 represents an era of opportunity and complexity for insurance investors: higher yields to harvest, but also higher market and regulatory volatility to navigate.

Strategic Priorities:

Doubling down on diversification and yield enhancement is a top strategic aim. Insurers are fundamentally income-focused investors – their goal is to safely earn more than the guaranteed rates promised to policyholders. With yields up, one priority is to lock in attractive spreads on core fixed-income while it lasts. Portfolios are being rebalanced toward quality bonds, and many insurers have extended duration again now that long-term rates have risen (having gone short during the rising rate cycle). Another strategic priority is redefining the asset mix to improve risk-adjusted returns. Insurers plan to continue upping their allocations to private assets: for instance, private credit has emerged as a key focus, now adopted by 73% of insurance/sovereign funds – with over half actively increasing allocations. These private loans and illiquid credit strategies offer higher yields and typically lower mark-to-market volatility, which insurers find attractive for long-term holding. In BlackRock's survey, insurers cited diversification benefits and lower volatility as reasons for leaning into private markets. ESG and sustainable investing has also risen on the strategic agenda. Virtually all major insurers have now set some form of climate or transition objective for their investment portfolio (99% in the BlackRock study). This means insurance CIOs are actively looking to tilt portfolios towards the low-carbon transition – it's no coincidence that clean energy infrastructure is the top thematic investment area 60% of insurers plan to target next. Insurers, especially in Europe, are aligning with net-zero asset owner alliances and reallocating capital to green bonds, renewable energy projects, and sustainable real estate. Regulatory agility is another strategic imperative. The insurance sector is heavily regulated (think Solvency II in Europe, NAIC capital rules in the U.S.), and changes in capital charges or accounting (like IFRS 9/17) can significantly impact portfolio strategy. In 2024, many insurers are prioritizing capital-efficient investing – e.g. favoring assets that carry lower capital charges under new rules. For example, private credit or infrastructure debt often receives favorable treatment in risk-based capital frameworks, making them doubly appealing. Finally, insurers are focusing on operational streamlining and partnership models as a strategic path. A notable trend is the outsourcing of certain investment functions: about 40% of insurers say having an investment partner who understands their business and operating model is fundamental for success. This has given rise to partnerships with asset managers (through mandates or reinsurance deals) to manage complex assets like commercial mortgages, alternatives, or to execute trading efficiently. In short, insurers' strategy is about harnessing the current favorable market winds (higher rates) and future-proofing their portfolios for sustainability and efficiency.

Operational Challenges:

Insurers' investment teams must juggle asset-liability management (ALM), regulatory compliance, and increasingly, technological transformation. A perennial challenge is interest rate and duration risk management – ensuring that asset cash flows match insurance liability cash flows. The recent rate spike was a double-edged sword: it boosted new money yields but also caused unrealized losses on existing bond holdings. Insurers have had to manage through that volatility, and interest rate risk remains the top concern globally. Many are refining their hedging programs and re-examining duration gaps to protect solvency ratios. Liquidity and credit risk are also critical, especially for life insurers. While adding private assets, insurers must ensure they can meet policy surrender or claim obligations. Thus, an operational focus is on stress testing liquidity under adverse scenarios. Another challenge is keeping up with regulatory changes and reporting. 2024 is seeing new capital rules (e.g. updated RBC factors, Europe's evolving Solvency II tweaks) and accounting standards (IFRS 17 went live, changing how insurance liabilities and assets are measured). Implementing these changes demands significant operational work – data gathering, new reporting systems, and possibly adjusting portfolio allocations to meet capital targets. On the technology front, insurers recognize they must upgrade legacy systems to handle modern demands. BlackRock found the highest-ranking tech priorities among insurers were integrating asset allocation and liability risk management, leveraging expanding data sets (like ESG data), and enhancing analytics for private assets. In practice, this means insurers are investing in portfolio management platforms that can unify asset and liability analysis (many insurers are adopting or upgrading ALM software and analytics engines). Over half (53%) specifically want better modeling capabilities for illiquid/private assets in their tech arsenal. Data management is another operational hurdle – insurers deal with massive datasets (from credit analytics to ESG scores) and need robust data governance to make timely decisions. Cybersecurity around these data is an emerging risk to manage as well. Human capital is part of the operational picture too: insurance investment teams are relatively lean, and they often need niche expertise (derivatives, structured products, infrastructure finance, etc.). Recruiting and retaining talent or effectively outsourcing specialized tasks is an ongoing challenge. Lastly, embedding ESG into operations requires building new frameworks – e.g. how to measure portfolio carbon intensity, or how to implement exclusions/engagement policies. Insurers have to incorporate these into their investment decision processes and reporting (to regulators and stakeholders), which is non-trivial but increasingly expected.

Investment Considerations:

Insurers are effectively tactical asset allocators within a long-term conservative framework. Key considerations include the interest rate trajectory – most North American and European insurers expect inflation to ease and rates to gradually fall (the hoped-for "soft landing"). This outlook influences their investment stance: many are positioning to ride out near-term rate volatility and then benefit from capital gains on bonds if rates decline. On the flip side, some Asia-Pac insurers are preparing for a "no landing" scenario (persistent inflation, sustained high rates), which would favor a shorter duration stance and higher allocations to floating-rate assets and real assets. Credit cycle awareness is crucial – default risks tend to rise in late-cycle environments. Insurers are carefully monitoring their corporate bond and loan exposures for deteriorating credit quality. Diversification into private credit has to be balanced with due diligence on borrower quality and covenants, especially as economic growth slows. The BlackRock survey noted liquidity risk was the second-biggest worry (52% of insurers) after interest rates, highlighting that as they venture into less liquid assets, insurers are very mindful of being compensated for that risk and not overextending. Climate risk as an investment factor is increasingly explicit: insurers are assessing how physical climate risks and the transition to a low-carbon economy will affect their portfolios (e.g. real estate values in hazard zones, stranded asset risk in fossil-fuel corporate bonds). Many are considering scenario analyses aligned with regulators' climate stress tests. Regulatory capital efficiency is another consideration when choosing investments – certain investments yield higher returns per unit of capital required. For instance, infrastructure debt and investment-grade securitized credit can offer juicy spreads but with relatively favorable capital treatment, making them attractive on a risk-adjusted and capital-adjusted basis. Hedging strategies also come into play. Insurers often use derivatives (swaps, options) to hedge currency risk, manage duration, or protect against tail risks. The cost and availability of hedges (e.g. higher currency hedging costs with interest rate differentials) is a factor in decisions like whether to invest more internationally or stick to domestic markets. Many U.S. insurers, for example, have reevaluated foreign bond exposures due to expensive hedging costs and are tilting back to domestic credit. Asset-liability matching considerations mean insurers favor investments that produce predictable cash flows. That's one reason private debt (like middle-market loans or infrastructure loans) is appealing: it often comes with floating rates and strong covenants, aligning well with liability needs. Finally, insurers consider the accounting impact of investments – with new accounting rules, mark-to-market volatility can hit earnings even if solvency is fine. Thus, there's a preference for assets that can be held at amortized cost or with relatively stable valuations, to avoid earnings volatility. In summary, insurance asset owners are threading a needle: embracing the best yield environment in years to strengthen their financial footing, while guarding against the risks (market, credit, climate, regulatory) that could undermine their ability to pay claims when they come due.

Family Offices: Managing Wealth Across Generations

Family offices – the investment and governance vehicles for high-net-worth families – have unique needs in 2024–2025 as they straddle wealth management, business, and family dynamics. Many family offices are emerging from a period of cautious positioning and now shifting toward optimism and growth. In North America, a recent survey of 183 family offices finds that over 40% expect their portfolios to return above 10% this year, and a majority have moved to a "balanced" investment approach (61% describe their strategy as balanced between growth and preservation, up from 56% a year ago). This suggests family offices are feeling more confident after the economic upheavals of the early 2020s and are re-risking somewhat, but still hedging bets. Private markets continue to dominate family office portfolios – in fact, private equity and private credit now make up the single largest asset class on average, about 30% of family office allocations. Families have been increasing these allocations steadily; looking ahead, 39% of North American family offices plan to boost private credit exposure further, 25% will add to private equity funds, and a third will increase direct investments in private companies. This reflects the entrepreneurial and long-term orientation of many family investors. Succession planning and next-generation preparation have become pressing issues as well, with significant wealth transfer on the horizon: 60% of family offices anticipate that the majority of their wealth will be passed to the next generation within 10 years. However, many are underprepared – only 53% of North American family offices have a succession plan in place, and just 30% have a formal written plan. This generational transition will test family offices on multiple fronts in the coming few years.

Strategic Priorities:

Wealth preservation plus growth is the perennial strategic balancing act for family offices. On one hand, families want to protect capital for future generations; on the other, they seek high-growth opportunities that can increase the family fortune. The current trend is toward balance: more family offices are explicitly adopting balanced strategies rather than an all-out growth or all-out capital preservation stance. This means setting strategic asset allocations that include a healthy dose of equities and alternatives for growth, combined with fixed income and cash for safety. Private market investing is virtually a core strategy now. Family offices prioritize access to top-tier private equity and venture funds, and many engage in direct investing (co-investing in companies or deals alongside sponsors, or even solo acquisitions). This direct investment capability is a strategic differentiator for family offices – it allows them to leverage their patient capital and often the industry expertise of family members. In 2024, as noted, a significant share of family offices plan to expand direct private equity deals. Succession and governance is another strategic priority. Families are recognizing that without a clear succession roadmap, the wealth and legacy could be at risk. Thus, establishing governance structures (family councils, trusts, boards) and educating the next generation are top-of-mind goals. Interestingly, where they exist, formal succession plans make a big difference – 79% of family offices with a plan feel prepared for succession. So, implementing these plans (or creating them where absent) is a strategic must-do over the next few years as an unprecedented wealth transfer kicks off globally. Strengthening governance in general is on the rise: 71% of family offices expect to put greater emphasis on formal governance structures going forward. This often includes bringing in outside expertise – many family offices are establishing advisory boards or adding non-family investment professionals to bring more rigor and diverse perspectives. According to Deloitte, nearly 73% of family offices worldwide have now set up boards of directors (averaging 4 members, mixing family and independent professionals). That points to a trend of institutionalizing family offices, making them more akin to professional investment organizations. Additionally, aligning investments with family values and impact is emerging as a strategic theme. Next-gen family members often drive interest in sustainable or impact investing – whether it's ESG-screened portfolios, thematic investments in areas like renewable energy or healthcare, or increased philanthropy via program-related investments. A Deloitte global study notes that 32% of family offices foresee a widespread embrace of sustainable investing and operations in the coming years. Many families are explicitly trying to align their wealth with their values, funding projects that reflect their philanthropic or environmental goals while still earning returns.

Operational Challenges:

Running a family office involves myriad operational tasks, and doing so efficiently is a key challenge. One big issue is scaling and expertise. Family offices range widely in size, but many are lean teams (often under 10 employees) managing very complex portfolios. This means each staff member wears multiple hats – from investment research to tax planning to administrative duties. In fact, family offices report spending roughly half their time on investment activities (30% on portfolio management, 22% on direct deal sourcing) and a substantial chunk (19%) on administration and compliance. Particularly in North America, regulatory compliance and admin are heavy burdens – NA family offices spend about 27%

of their time on those tasks, more than any other region. This has led many to consider a "build, buy, or partner" approach: i.e. deciding which functions to keep in-house versus outsource to specialists or fintech solutions. Technology adoption is another operational challenge that's being addressed. Historically, some family offices lagged in tech, relying on spreadsheets and legacy systems. But this is changing – 46% of North American family offices now use wealth aggregation or portfolio management platforms (up from 38% last year) to get a holistic view of their finances. And interest in advanced tech is growing: 30% of family offices indicate they want to adopt AI tools, beyond the 11% already experimenting with AI for things like investment analysis or administrative automation. Still, implementing new tech systems and ensuring data security (cybersecurity is a non-trivial risk for wealthy families) can be challenging for small teams. Privacy and security in general are operational concerns – family offices must guard not just assets but sensitive personal and financial information of family members, necessitating strong cybersecurity and confidentiality protocols. Talent acquisition is another challenge: family offices often compete with larger firms for investment talent, and they must also find trusted advisors who fit the family culture. Some family offices are addressing this by increasing compensation, offering co-investment opportunities to staff, or locating in financial hubs to access talent pools. Moreover, integrating next-generation members into the operations is tricky – younger family members may have different ideas or lack experience, so creating mentorship and governance processes to involve them without jeopardizing current operations is a careful balancing act. Finally, cost management is always on the radar. Unlike institutional investors, family offices don't have external fee income; they run on the family's dime. There's a push to keep operations lean (or justify expenses through value-add). That's one reason many are seeking efficiencies (through tech, outsourcing, or pooling resources in multi-family office setups). In summary, the operational challenge for family offices is to achieve institutional-quality investing and governance with boutique-sized organizations – not easy, but progressive adoption of governance frameworks and technology is helping close the gap.

Investment Considerations:

Family offices are often described as "patient capital" with an opportunistic streak. They can afford to take a longer view and less liquid positions than typical investors (since they often have an indefinite time horizon and no external constituents). This leads to several considerations. First, liquidity needs: while families generally have high flexibility, they still map out liquidity for major expenditures (like a business acquisition, a real estate purchase, or distributions to family members). Ensuring that enough of the portfolio is in liquid assets (public stocks, bonds, cash) to meet foreseeable needs is key, especially given the heavy tilt to illiquid alternatives. Many family offices set an internal liquidity target or maintain credit lines to cover unplanned needs. Secondly, concentration vs. diversification: family offices often have significant concentrated exposures – sometimes the legacy operating business or a particular asset class the family favors. For example, if the family wealth came from real estate, the family office may still be heavily invested in real estate. A big consideration is how to diversify away risk from the core family business or sector, without straying from areas of expertise. Increasingly, families are diversifying globally as well – looking beyond North America to Asia or Europe for investments (indeed, larger family offices frequently invest internationally, and some have opened branches abroad to access opportunities). Risk tolerance and governance play a role in investments: each family has its own return objectives and risk appetite, which must be codified in an investment policy. The challenge is often aligning multi-generational views – the founding generation might be very risk-seeking (having built the fortune entrepreneurially), whereas the second or third generation may lean conservative. Achieving consensus on risk profile is crucial, and many family offices hold regular family meetings or retreats to discuss these philosophies. Impact and values-based investing is a growing consideration: many next-gen family members want portfolios that reflect the family's values, be it environmental sustainability, social impact, or faith-based principles. This can mean incorporating ESG filters, making thematic investments (e.g. renewable energy funds, social bonds), or even allocating a portion of the portfolio to impact investments that accept lower financial returns for greater social outcome. This trend is evidenced by Deloitte's finding that aligning wealth with family values and sustainable investing is one of the top emerging priorities for family offices. Market volatility is, of course, always a consideration – but family offices often see volatility as opportunity. With no need to report to outside investors, they can be contrarian. For instance, during market dislocations, a family office can step in to buy distressed assets or provide liquidity when others can't. We saw some family offices do this in early 2020 and 2022 drawdowns, capitalizing on dislocated credit and equity markets. However, this requires sophistication and courage; hence many family offices maintain "dry powder" in safe assets to deploy in a crisis. Fees and access are also considerations: family offices are very fee-conscious and often prefer direct or co-investments to avoid hefty fund fees. Many have joined networks or platforms to source co-invest deals collectively, aiming to get institutional-quality access without the layers of fees. Lastly, intergenerational equity – ensuring the portfolio can fund not only current beneficiaries but future ones – affects investment policy. This often translates to a moderate spending rule (for those with endowment-like setups) or guidelines on reinvestment vs. distributions. Unlike an institution, a family can adjust spending more flexibly, but doing so wisely to not erode capital is a constant consideration. All told, family offices in 2024–2025 are balancing optimism (seeking higher returns via private markets and growth strategies) with prudence (preparing for succession and diversifying risks), making their investment approach both entrepreneurial and disciplined.

Endowments and Foundations: Sustaining Mission in a New Market Climate

University endowments and private foundations share the core objective of providing perpetual financial support to their institutions and causes. Coming into 2024, these investors find themselves at an interesting juncture: investment returns have rebounded strongly, yet the need for spending on institutional missions has also grown. The NACUBO-

Commonfund Study of Endowments 2024 (which covers 678 U.S. college endowments and affiliated foundations) reported an average 11.2% return for FY2024, a healthy improvement from the 7.7% in FY2023. This was largely thanks to surging public equity markets in late 2023 – in fact, U.S. equities were the best-performing asset class, so endowments with higher allocations to domestic stocks saw bigger gains. Interestingly, smaller endowments (which tend to have more of their portfolio in public equities) outperformed the larger endowments (which are more alternative-heavy) for the second year in a row. Over longer periods, however, the largest endowments still lead, owing to their diversifications into venture capital, private equity, and other illiquids that drive higher long-term returns. On the spending side, endowment support has become increasingly critical for colleges and nonprofits. In 2024, many institutions increased their endowment spending to help cover rising costs of operations and especially student financial aid. The average effective spending rate among U.S. endowments ticked up to about 4.8% of assets in FY2024 (from 4.6% the year prior), returning to the pre-pandemic high. New gifts and donations also rose, which is a positive sign – total new gifts reported jumped 21%, helping grow endowment assets to $873 billion across the survey schools. Still, the fundamental challenge remains: to support current needs without compromising future purchasing power.

Strategic Priorities:

The overarching priority for endowments and foundations is maintaining intergenerational equity – i.e. achieving returns that at least match spending plus inflation, so the fund can support today's and tomorrow's beneficiaries equally. With inflation having been elevated and spending needs rising, many endowment managers are strategically aiming to modestly boost returns or find efficiencies. This is leading to renewed focus on asset allocation strategy. Most endowments continue to follow the "Yale model" style of heavy diversification: the average asset mix is far from a simple 60/40, incorporating meaningful slices of private equity, hedge funds, real assets, and non-U.S. securities. The strategic rationale is clear: over 5-, 10-, 25-year periods, diversified endowments have outperformed a basic 60/40 portfolio, by harvesting illiquidity premiums and less correlated returns. So a priority is sticking with diversification even when it lags in short spurts. As Commonfund noted, 2024 was one of the rare years where a 60/40 outpaced endowments (because U.S. stocks soared) – but endowment CIOs are reminding stakeholders that long-term success depends on the diversified approach, especially as equity leadership can rotate. Spending policy management is another strategic focus. Endowment committees are reassessing if their spending rates are sustainable. With many now at ~4.5–5% effective payouts (plus inflation of ~3% recently), the required return to not erode principal is in the high single digits. That's ambitious, so some are considering adjusting spending rules (e.g. using smoothed market values or lower fixed rates) to protect corpus. Nonetheless, mission demands – such as financial aid in universities or grant commitments in foundations – are high, so finding the right balance is crucial. Liquidity and flexibility have become strategic priorities as well. Large endowments, in particular, manage a web of illiquid investments.

Ensuring they have enough liquidity to meet annual spending and any capital calls is a priority after some got caught in 2022 with liquidity pinches when private valuations were slow to adjust. We see many endowments refining their liquidity buckets and maybe holding a bit more in cash or Treasuries than before as a strategic reserve. Aligning investments with institutional mission is increasingly on the agenda too. Universities and foundations face pressure from students, faculty, donors, and the public about how their money is invested. Climate change is the biggest focal point: dozens of universities (Harvard, Princeton, University of California among them) have announced divestment from fossil fuels or set net-zero portfolio goals by 2050. According to Mercer, a majority of large asset owners incorporate sustainability objectives now. However, executing on this is tricky; indeed Mercer also noted a decline in those setting new climate targets, implying some hesitation. Nonetheless, endowment boards are prioritizing thoughtful approaches to ESG – be it through increasing allocations to sustainable funds (about 24% of large asset owners plan to do so in the next year), investing in climate solutions, or at least improving reporting transparency on ESG metrics. Lastly, cost management is a strategic consideration. Endowments have been scrutinizing management fees and expenses. The largest have bargaining power to get fee discounts or pursue more co-investments (to avoid full private fund fees). Some mid-sized endowments are considering consortiums or OCIO services to get scale benefits. The aim is to maximize net returns for the institution's benefit.

Operational Challenges:

Endowments and foundations operate at the intersection of investment complexity and nonprofit oversight, which brings specific challenges. Governance and stakeholder oversight is one: investment committees (often comprising trustees or alumni volunteers) must have the expertise to oversee sophisticated portfolios and make timely decisions. There's a recurring challenge of committee turnover and varying levels of investment knowledge among members. Many institutions provide education to new trustees and are formalizing investment policy statements to maintain continuity. Another challenge is managing liquidity and capital calls for the myriad of alternative investments. As mentioned, large endowments might have 40–60% in illiquid assets. Back-office teams need robust processes to monitor cash flows, plan for capital calls, and handle distributions from funds. The 2022–2023 period, where private asset valuations lagged public market declines, was a stress test – some endowments found their private allocations temporarily bloated (denominator effect) and had to pause new commitments. Now, operations teams are implementing better pacing models and contingency plans (like credit lines or secondary market sales) to ensure liquidity. Risk management and modeling is another area: Endowments use increasingly sophisticated risk models to simulate how their portfolio might behave in various scenarios (market crash, recession, inflation spike, etc.). Given the complexity (multiple asset classes, many managers), collating data and running these analytics is challenging. Institutions are investing in risk systems or tapping consultant resources to get a clearer picture of factor exposures and tail risks. Transparency and reporting have also become operationally heavier. Donors and internal stakeholders often want more insight into how the endowment is invested and performing. Many endowments now publish annual reports with details on asset allocation, performance, and even ESG initiatives. Responding to these transparency expectations requires gathering lots of data from various managers and custodians – a non-trivial task. Moreover, new accounting rules and UPMIFA guidelines (in the U.S.) influence endowment management – ensuring compliance with state prudent investing and spending laws, for example, is an ongoing responsibility. Talent and resources pose a challenge too: the biggest endowments (e.g. Harvard, Yale) have large in-house teams to manage money directly, but small-to-mid sized ones rely on outsourced CIO firms or consultants. There's an operational decision in whether to build internal capabilities (which can improve control but is costly) versus outsourcing (which is efficient but requires oversight of the provider). We've seen continued growth in the OCIO model among endowments under $1 billion. Finally, external pressures like calls for divestment (from fossil fuels or certain industries) create operational work: evaluating the impact of divestment, finding suitable replacement strategies, and communicating the approach to stakeholders. For instance, when a university decides to divest from coal, the investment office must identify which commingled funds have coal exposure and potentially negotiate or find alternatives – it's a complex, multi-year operational undertaking as reflected by only ~14% of endowments so far implementing ESG criteria broadly. All these challenges require robust processes, sufficient staffing, and strong decision frameworks to navigate.

Investment Considerations:

Endowments and foundations are arguably the ultimate long-term investors, often with infinite investment horizons, which shapes their considerations. A prime consideration is expected returns vs. spending needs. With a typical spending rate around 4–5% and an institutional desire to grow that payout over time (to keep up with needs and inflation), endowments target something like 7–8% long-term returns. Achieving that is tough in a world where traditional 60/40 portfolios might be expected to return ~5–6%. Hence, endowments feel compelled to take on illiquidity and equity risk to close the gap. That's why the average institution holds ~55% in equities (public and private) and another ~20% in real assets and alternatives, leaving perhaps ~25% in fixed income and cash. The capital market outlook (e.g. if we expect lower equity returns or higher bond yields) will influence any shifts in these allocations. Right now, higher bond yields actually present endowments an opportunity to earn nearer their targets with less risk – expect some to allocate more to high-quality bonds than they did when yields were near 1–2%. Still, most will keep equity-centric given their growth needs. Market volatility and downside risk is an ever-present consideration. Endowments worry about sequence of returns – a big drawdown early in a period can hurt because they still have to pay out 5% each year. Many use risk mitigation strategies like allocating to hedge funds that can go short, diversifying globally (so not all assets are correlated), and maintaining some reserves. The largest endowments often have sophisticated hedge fund portfolios aimed at providing uncorrelated alpha (though in aggregate, endowments have reduced hedge fund exposure somewhat compared to a decade ago, favoring private equity). Private equity and venture capital are big considerations – these have been key return engines historically (endowments' 20-year outperformance is largely attributed to illiquids). But they come with issues: high fees, J-curve effects, and volatility in recessions. Endowments are currently evaluating their pacing of new commitments, given that some portfolios became overallocated to private equity when public markets fell in 2022. There's also the question of whether the golden age of venture returns will continue; some are moderating expectations there and exploring other alternative assets like private credit or opportunistic real estate. Inflation is a unique consideration for foundations particularly: many have mandate to spend e.g. 5% of assets (for private foundations in the U.S., that's a legal requirement) – if inflation runs hot, that fixed spending rate represents a declining real payout to beneficiaries. So some foundations increase spending in high-inflation periods to maintain real support, which then requires even higher returns. Endowments (which often link spending to a percent of a multi-year average of assets) also worry about inflation eroding the real value of their distributions. This drives interest in inflation-hedging assets: real estate, infrastructure, TIPS, commodities, etc., to ensure the portfolio has some inflation protection. Many endowments boosted such assets in the past decade as part of their real asset allocations. Mission-related investing is an emerging investment consideration too – for example, some universities are considering investments that also further their academic mission (like backing campus sustainability projects or funding incubators that align with research goals). Foundations, especially, are embracing program-related investments (PRIs) or mission-related investments (MRIs) where a portion of the endowment is invested in ventures aligned with their cause (e.g. a health foundation investing in a biotech fund). While these may accept below-market returns, they amplify impact, and boards are deciding how much of the portfolio to dedicate to such purposes. Finally, peer benchmarking subtly influences endowment investment decisions. There is a well-known competitive aspect (schools often benchmark against peers or a Cambridge Associates universe). Underperforming peers or the 60/40 over certain periods can create internal pressures. For instance, after FY2024, some large endowments that returned ~9% (below the 11% average and below a 60/40)pfmam.commight face questions. However, the best practice is to focus on long-term outcomes. As one Commonfund analysis emphasizes, it's the strategic asset allocation and exposure to illiquids over decades that drive success, not one-year results. Therefore, investment committees are trying to keep stakeholders focused on long-term metrics (10-year returns, progress toward funding goals) rather than chasing short-term fads. In summary, endowments and foundations in 2024–2025 must weigh how to achieve strong, inflation-beating returns in a more uncertain market, how to provide steady funding for their mission even in downturns, and how to align their investments with the evolving values and expectations of their institutions. Achieving all that requires prudent risk-taking, disciplined spending, and clarity of purpose – truly a balancing act befitting their perpetual mission.

Conclusion:

Across all types of asset owners, from pension plans to sovereign funds to family offices, the coming 2024–2025 period is one of adaptation and opportunity. Market conditions have changed – higher interest rates and inflation present new realities – and asset owners are adjusting strategies accordingly: embracing the return of yield, refining diversification plays, and fortifying risk management frameworks. Operational excellence and governance have never been more important, as stakeholders demand more transparency, sustainability, and results. And while each category of asset owner has its own nuances, a common thread is clear: the need to stay agile and future-focused. Whether it's a pension fund considering how to use a funding surplus, an insurer deploying capital to green infrastructure, a family office preparing heirs, or a university endowment aligning with climate goals, asset owners globally are tackling the business needs of the day with innovative thinking grounded in long-term stewardship. By learning from industry insights and peer best practices – such as those from BlackRock, McKinsey, Preqin, Mercer, and the World Economic Forum – asset owners can navigate 2024 and 2025 with confidence and purpose, ensuring they not only weather the currents of change but steer toward sustainable growth and success.

Sources: *Recent industry reports and surveys underpinning these insights include BlackRock's 2024 Corporate Pensions Themes and Global Insurance Report 2024, the Invesco Global Sovereign Asset Management Study 2023, Mercer's 2025 Large Asset Owner Barometer (April 2025), Preqin's investor outlook data on private markets, RBC Wealth Management's North America Family Office Report 2024, and the NACUBO-Commonfund Study of Endowments 2024 (released Feb 2025), among others. These sources (dated 2023–2025) provide the latest evidence and trends to inform asset owners' strategic planning.*

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