

# Enhancing the Investment Power of Dynastic Pools of Capital

By Andrew Filauro, Bart Francis and Chris Gioia

For generations, families of substantial wealth have relied on structures such as closely held businesses, family partnerships and dynastic trusts to transfer assets efficiently across multiple generations. The advantages of dynastic trusts are well established: they enable wealth to pass to descendants far beyond children and grandchildren, provide protection from creditors and divorce settlements and reduce transfer tax friction among other benefits. Attorneys, CPAs and advisers typically guide families through the intricacies of legal structures (trusts, LLCs, family offices) and governance considerations (trustee selection, co-trustee roles, situs, distribution standards and beneficiary involvement). Yet, while structural and governance matters usually receive significant attention, families and trustees too often lack a clear framework for managing and investing these enduring pools of capital. The responsibility to make long-term investment decisions is critical—and many stewards are left navigating uncertainty without adequate experience or guidance.

## Long-Term Investment Horizons

Because multigenerational pools of family capital extend beyond conventional time horizons, asset allocation must be optimized for the long run. While traditional portfolios anchored in stocks and bonds remain essential, families frequently struggle to incorporate meaningful exposure to alternative asset classes. Among these,

private equity stands out as a driver of enhanced returns while uncorrelated hedge fund strategies can help portfolios compound more steadily, especially in volatile markets. Together, these allocations bring families closer to the diversified, equity-oriented strategies pioneered by institutional investors and endowments, most notably Yale's late Chief Investment Officer David Swensen whose model reshaped the field by moving beyond a reliance on public stocks and bonds.

## Aligning Investments with Multigenerational Goals

Our four decades of experience advising families has underscored a key insight: multigenerational capital serves multiple purposes. Families benefit from compartmentalizing their portfolios to address distinct goals—for example, designating certain assets for distributions and lifestyle funding while targeting others for long-term growth. With a disciplined investment policy that incorporates equities, fixed income, private equity and uncorrelated strategies, families can better align outcomes with objectives while enabling more consistent investor behavior across generations.

## Three Practical Approaches to Private Equity

Private equity is often viewed as complex or inaccessible, but families can adopt three unique approaches that provide clarity and opportunity:

1. Anchor commitments in capacity-constrained funds: Returns in private equity are disproportionately concentrated among top-quartile



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managers. Partnering with select managers in smaller, sector-focused and difficult to access funds is critical for maximizing outcomes.

2. Co-investing alongside funds and independent sponsors: By partnering directly with managers who possess sector-specific expertise, particularly in the lower middle market—families can reduce fees and enhance net returns.

3. Direct investments in operating businesses: Business-owning families and those who previously owned a business often enjoy the transparency and outsized return potential of investing directly in lower middle market businesses.

Implementing these approaches requires thoughtful planning around commitment pacing, liquidity management and risk-adjusted return targets to successfully navigate the capital calls and distributions inherent in private market investing.

## The Role of Uncorrelated Strategies

Uncorrelated strategies serve a vital purpose in long-term portfolios, particularly during periods of market

stress. By providing strong performance when stocks and bonds falter—as in 2022—these allocations can enhance compounding by reducing drawdowns and enabling faster recovery. Many families view them as “risk enablers,” providing stability that allows for greater conviction in pursuing higher-returning opportunities like private equity. Their resilience can not only dampen volatility but also preserve capital that can be deployed opportunistically during downturns.

## Preserving and Enhancing Legacies

By thoughtfully combining higher-returning asset classes with volatility-reducing strategies, families can strengthen the power and resilience of their long-term investment portfolios. This balance enhances tax efficiency across income, estate and generation-skipping dimensions while equipping trustees and family stewards with tools to preserve and grow family wealth. Today, they have a unique opportunity to transform dynastic pools of capital into engines of legacy and purpose.

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