



NAVIGATING THE DISTRIBUTION DROUGHT: WHAT FAMILY OFFICES NEED TO KNOW

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Private markets funds have become a cornerstone of family office portfolios, offering compelling long-term returns and diversification from public markets. But the payoff for investing in private markets comes via distributions, and in recent years, distributions have lagged expectations – by a lot, in some cases. We are seeing portfolio values remain strong on paper, but the cash actually returned to investors has become slower and less predictable.

The impact of this trend on family offices can hardly be overstated. Slower distributions make liquidity planning more complex and capital recycling less predictable – not to mention the concerns expressed by family principals. We believe that understanding why this is happening, and how managers are responding, can help family offices navigate through this tricky period.

WHY DISTRIBUTIONS HAVE SLOWED

The distribution slowdown was initially triggered by rising interest rates. In 2022, the Federal Reserve combatted post-COVID inflation with a series of rate hikes, pushing the federal funds rate target from 0.25% to 5.50%¹. During that period, we saw private market financing costs soar and leveraged buyout opportunities become less attractive.

At the same time, public equity market volatility constrained IPO activity and compressed valuation multiples². In this unfavorable environment, buyers started seeking pricing discounts that do not meet seller goals, which slowed down the pace of corporate exits.

Faced with unattractive exit conditions, we're seeing many general partners choose to hold assets longer, rather than harvesting positions at less attractive prices. We're also observing managers buying time through an expanded use of continuation vehicles, which extend holding periods and may undermine cash flow planning.

These dynamics have also impacted the fundraising cycle. Slower distributions have constrained the capital available for new commitments, dampening fundraising activity and tightening the feedback loop between exit markets and capital deployment.

¹ Federal Reserve Bank of St. Louis. <https://fred.stlouisfed.org/series/DFEDTARU>

² IPO Activity Dipped in Q1, But Don't Call It a Downturn. Nasdaq, April 23, 2026. <https://www.nasdaq.com/articles/ipo-activity-dipped-q1-dont-call-it-downturn>

THE IMPACT ON FAMILY OFFICES – AND THE RESPONSE

For family offices, the consequences have been felt across liquidity planning, portfolio construction, and governance. The challenges have been meaningful, but we have observed family offices respond with adaptations that can protect the interests of their principals.

Impact #1: Liquidity Limitations

When expected distributions are delayed, established liquidity plans often need to be tossed and rewritten. Without the cash infusion distributions provide, planned spending and anticipated capital commitments are subject to potentially severe cash flow squeezes. Further, families may be left unprepared for emergency spending needs or unable to take advantage of compelling investment opportunities.

Response: More conservative liquidity planning and more sophisticated stress testing

We have seen family offices responding with a more rigorous approach to liquidity forecasting. Offices are revisiting assumptions about the timing and magnitude of future cash flows and placing greater emphasis on ensuring that there is adequate cash on hand, sufficient ability to sell marketable securities as needed, or perhaps even a line of credit in place to address liquidity gaps.

Many family offices are also working with investment consultants like NEPC to apply more modern, leading-edge stress testing models to family portfolios. These models examine a wide range of variables and can identify strategies that meet liquidity needs (such as spending requirements, capital calls, and opportunistic investments) without forced asset sales. In our experience, family offices are also rerunning these analyses more frequently to get a clearer picture of how evolving trends might impact portfolio outcomes.

Impact #2: Portfolio and Allocation Pressures

In the current environment, family offices may discover that highly illiquid positions are occupying a larger share of total assets for longer than anticipated. These positions can inflate liquidity challenges, but they can also heighten portfolio risk and limit portfolio flexibility. It can be difficult to meet ongoing capital calls, for example, without being forced to liquidate other assets, potentially at poor valuations.

Response: Adjust commitment pacing and overcommitment strategies to current realities

In a less-favorable environment such as today's, it may make sense to scale back on private market exposure to manage risk and ensure liquidity. This may mean reducing overall commitment levels, but it often means recalibrating pacing plans to reflect current distribution trends, rather than historical averages.

We take the position that it's also wise to consider liquidity profile when structuring portfolio diversification. While diversification by strategy and by vintage year often gets more attention, today's distribution challenges highlight the value of building a portfolio with a range of liquidity opportunities.

Impact #3: Governance Impacts

We've seen a growing number of family offices embrace private market positions in the past decade, and many family principals are only just discovering the types of risks and challenges that private markets can present. Family offices are having to adjust their strategies at a time when family members are asking tough questions or expressing concerns. In particular, family members have become more attuned to the distinction between paper value and realized cash, driving more frequent conversations about exit visibility and liquidity.

Response: Increase transparency and provide more detailed reporting

One key approach we've seen family offices use is to address questions by providing more and better information. Families want transparent reporting and frequent discussions about liquidity and exit visibility. Family offices need to be prepared to capture and share portfolio data quickly and accurately. Running portfolio stress tests or other types of scenario analyses can also be beneficial, as it answers many "what-if" questions and prepares the family for a wide range of outcomes. Investment consultants can provide family offices with best practices, reporting tools, or templates that can meet this need.

Impact #4: Manager Relationships

For a family office, we believe manager selection is an essential part of a private markets program. Maintaining access to the best managers is highly valuable and is a consideration that should be balanced against any frustrations regarding distribution delays. Still, general partners are aware that limited partner patience has limits, and communicating with limited partners effectively is increasingly necessary.

Response: Ask questions, but maintain relationships with best managers

Family office communication around exit timing, portfolio positioning, and distribution expectations has become more proactive, in our experience, and asking questions might help alleviate serious portfolio or liquidity concerns. Managers will sometimes explore liquidity options, such as partial realizations, recapitalizations, and dividend processes, to return at least some capital in advance of a full exit. Continuation vehicles continue to be used, sometimes with liquidity options, though reception among LPs remains mixed given the trade-offs involved.

Family offices might choose to preserve relationships with their top-tier managers, but we believe the current environment has sharpened the evaluation criteria family offices apply. For example, realized track records – as opposed to paper IRRs – are receiving greater scrutiny, as are historical distribution patterns. The ability to navigate a slower exit environment is increasingly a differentiating factor, separating managers with genuine operational capability from those who have historically relied on favorable market conditions.

LOOKING AHEAD

Private markets remain a core holding for most family office portfolios, but the framework around them is evolving. Cash flow assumptions are becoming more conservative, governance and reporting standards are rising, and diversification across vintage, strategy, and liquidity profile is receiving greater attention.

The distribution slowdown is a meaningful challenge, but not necessarily a permanent impairment to the asset class. Family offices that approached private markets with institutional discipline and a genuine long-term orientation are better positioned to weather this period. For them, sound portfolio construction, liquidity planning, and manager selection provide a tested foundation that has historically led to long-term success.

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