Direct versus Fund Investing

How GCC Family Offices Should Access Real Estate and Private Markets

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Abstract

As Gulf Cooperation Council (GCC) family offices build their private markets allocations, they face a recurring strategic choice: should they invest directly in assets and companies, or through funds managed by others? The choice is not binary and not permanent, but how a family office resolves it shapes its cost, its control, its diversification, the capabilities it must build, and ultimately its returns. This paper develops a framework for the direct-versus-fund decision across real estate and private markets. It analyses the four dimensions on which the two approaches differ, cost, control, diversification and the capability required, and shows how the right balance depends on the family office capability and its typical ticket size. It examines the full spectrum from commingled funds through funds-of-funds, club deals and co-investment to wholly direct investing, and argues that co-investment is the pivotal middle path that lets a family office build toward direct investing while managing its risks. It treats the capabilities direct investing demands, the concentration and selection risks it carries, the governance and stewardship it requires, and the considerations specific to the GCC, where family offices often have deep operating heritage and a strong affinity for direct real estate. The analysis concludes that most family offices are best served by a hybrid model that combines funds for diversified, delegated exposure with selective co-investment and direct investing in areas of genuine capability and advantage. Three family-office case studies, a sensitivity analysis, an international comparison and an implementation roadmap support the framework.

Keywords: Co-investment, direct investing, family office, funds, GCC, private markets, real estate

1. Introduction

When a family office allocates to private markets, it must decide not only what to invest in but how to access it: directly, by buying assets and companies itself, or indirectly, by committing to funds managed by others. This direct-versus-fund choice runs through every private markets allocation, in real estate, in private equity, in private credit, in infrastructure, and how a family office resolves it shapes the cost it pays, the control it holds, the diversification it achieves, the capabilities it must build, and the returns it earns.

The choice is often framed as a simple trade-off, funds are easy but expensive, direct is cheap but hard, but it is richer than that. Direct investing offers lower fees, greater control and the potential for higher returns, but it demands substantial capability and concentrates risk; fund investing offers diversification, professional management and access, but at the cost of fees and a loss of control. The right balance between them depends on the family office specific capability, its scale, its objectives and the asset class, and it is not a one-time decision but an evolving balance that shifts as the family office develops.

This paper develops a framework for the direct-versus-fund decision across real estate and private markets. The central argument is that the choice should be driven by the family office capability and its typical ticket size, that co-investment is the pivotal middle path that lets a family office build toward direct investing while managing its risks, and that most family offices are best served by a hybrid model combining funds, co-investment and selective direct investing. The framework helps a family office find the balance that suits its capability and objectives, rather than defaulting to either extreme.

The paper is written for the principal or chief investment officer of a GCC family office deciding how to access its private markets allocation. It complements the companion papers on the allocation shift and on building a private credit allocation, focusing specifically on the access decision that those allocations require. The figures are modelled to illustrate the framework and are indicative, not drawn from any specific family office. The paper proceeds from the direct-versus-fund question (Section 2), through the conceptual foundations (Section 3), the four dimensions of cost, control, diversification and capability (Sections 4 to 7), the decision framework (Section 8), the access spectrum (Section 9), co-investment as the middle path (Section 10), and the application to real estate and other private markets (Sections 11 and 12), before turning to building capability, risk, governance, regional considerations, the sponsor perspective, case studies, sensitivity, the hybrid model, and implementation.

2. The Direct-versus-Fund Question

The direct-versus-fund question arises because the same underlying asset can be accessed in two fundamentally different ways. A family office wanting exposure to, say, logistics real estate can buy a logistics asset directly, or commit to a fund that buys a portfolio of logistics assets. The underlying exposure is similar, but the experience, the cost, the control, the diversification and the capability required are very different, and the family office must choose which route suits it.

Figure 1. Direct versus Fund Investing Across Four Dimensions

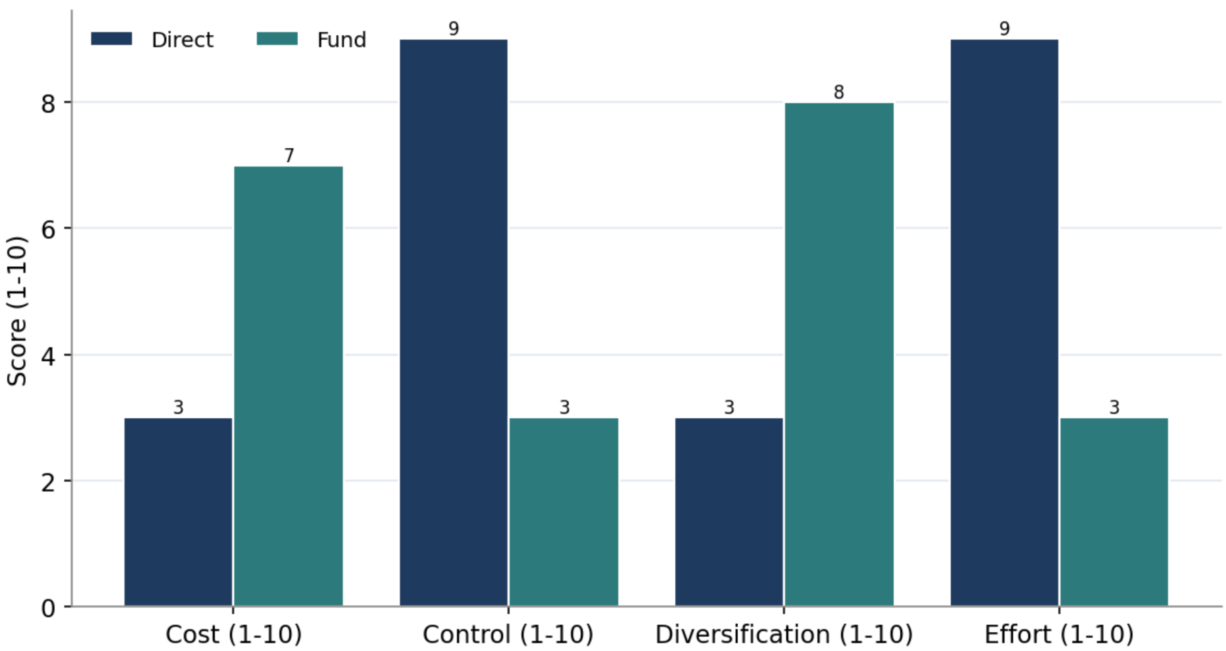


Figure 1 sets out the trade-off across the four dimensions that most distinguish the two approaches. Direct investing scores high on control and on cost efficiency, since the family office holds the asset directly and pays no fund fees, but it scores low on diversification and high on the effort and capability required. Fund investing scores the opposite: high on diversification and low on effort, but lower on control and cost efficiency. The two approaches are, in effect, mirror images across these dimensions, and the choice between them is a choice about which dimensions the family office values most.

The question is not which approach is universally better, because neither is; it is which approach suits the family office for a given allocation, given its capability, its objectives and the asset class. A family office with deep capability in a sector and a large ticket may be well served by direct investing in that sector, while the same family office may be better served by funds in a sector where it lacks capability. The question must therefore be answered allocation by allocation, in the light of the family office specific capability and the demands of the asset class, which the framework in this paper structures.

3. Conceptual Foundations

The direct-versus-fund choice rests on several conceptual foundations. The first is the trade-off between the fee saving of direct investing and the capability it requires. Funds charge fees, a management fee and a performance fee, that consume part of the return, and direct investing avoids these, capturing the full return. But direct investing requires the family office to perform itself the functions the fund manager would perform, sourcing, underwriting, structuring, monitoring, and the cost and difficulty of building that capability is the price of the fee saving. The choice balances the fee saving against the capability cost.

The second foundation is the trade-off between control and diversification. Direct investing gives the family office full control over the asset, the decisions, the timing, the exit, but it concentrates the family office capital in a few assets it holds directly, bearing the idiosyncratic risk of each. Fund investing diversifies the family office capital across the fund portfolio, reducing the idiosyncratic risk, but it cedes control to the fund manager. The choice balances the value of control against the value of diversification, which depends on the family office risk tolerance and its confidence in its own selection.

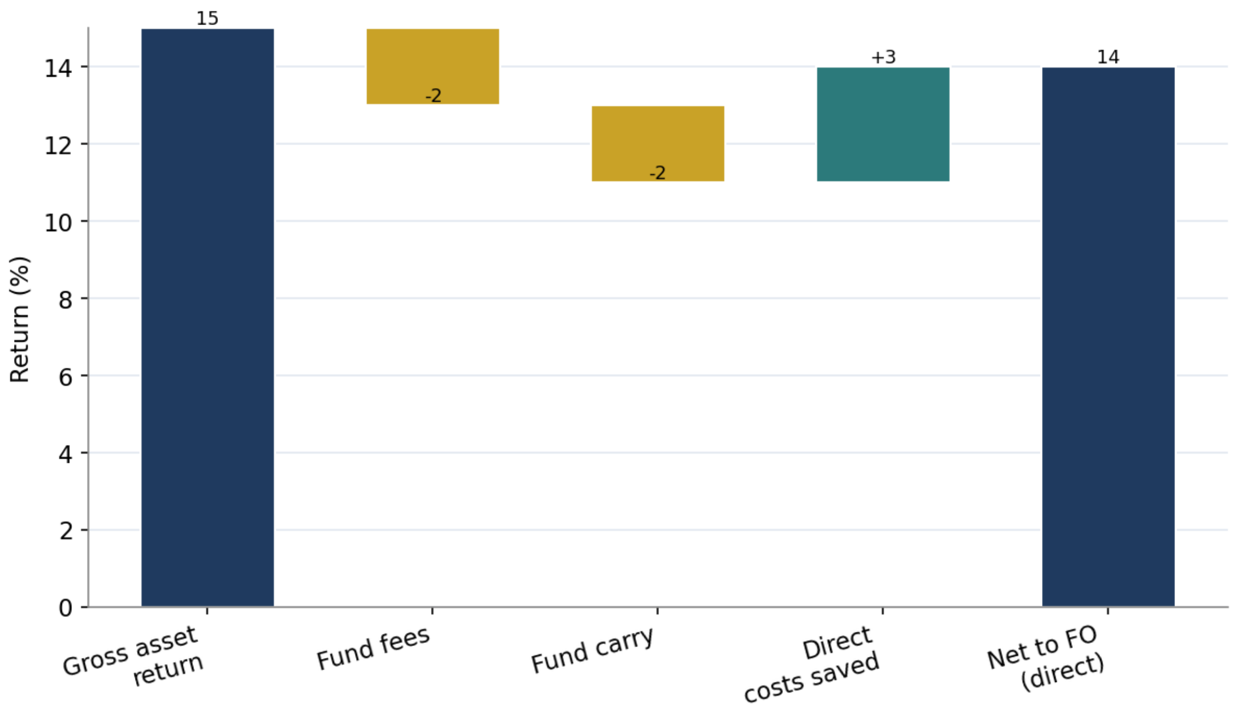
The third foundation is the principal-agent relationship in fund investing, examined in the companion papers. When a family office invests through a fund, it relies on the manager to act in its interest, and the alignment between them, through the manager co-investment, fee structure and terms, determines how well the manager does so. Direct investing eliminates this agency relationship, since the family office acts for itself, but at the cost of bearing the full burden of the functions the manager would perform. The choice therefore also balances the agency cost of fund investing against the capability burden of direct investing.

The fourth foundation is the role of capability as the binding constraint. Direct investing is attractive in principle, offering lower fees, more control and higher potential returns, but it is feasible only if the family office has the capability to do it well, and selection skill in particular, because a family office that selects poorly in direct investing concentrates its capital in poor assets and suffers. Capability is therefore the binding constraint that determines how much direct investing a family office should do, and building capability is the path to doing more, which the framework develops.

4. The Cost Dimension

The cost dimension is the most visible advantage of direct investing: it avoids the fund fees that consume part of the return. Figure 2 decomposes the difference, showing how fund fees and carry reduce the net return to the investor, and how direct investing, avoiding these, captures more of the gross asset return. Over a portfolio and across years, the fee saving of direct investing can be substantial, materially enhancing the net return for a family office that can invest directly well.

Figure 2. Net Return: Fund Fees versus Direct Investing



The fee saving must, however, be weighed against the cost of the capability direct investing requires. Building and maintaining the team, the systems and the relationships to source, underwrite, execute and monitor direct investments is expensive, and the cost is largely fixed, so it is justified only if the family office invests directly at sufficient scale to spread it. A family office that builds a direct capability but invests directly at small scale may find the capability cost exceeds the fee saving, while one that invests at scale spreads the cost and captures the net saving. The cost advantage of direct investing is therefore real but conditional on scale.

The fee saving also varies across the access spectrum, not just between the extremes of direct and fund. Co-investment, in which the family office invests alongside a fund manager in specific deals, typically carries reduced or no fees on the co-invested portion, capturing much of the fee saving of direct investing while relying on the manager sourcing and underwriting. This makes co-investment an efficient middle path on the cost dimension, capturing the fee saving without the full capability cost of wholly direct investing, which is part of why it is the pivotal middle path examined in Section 10.

The cost dimension, properly understood, therefore favours direct investing and co-investment for a family office with sufficient scale to spread the capability cost, and favours funds for a family office investing at smaller scale or lacking the capability. The fee saving is genuine and material, but it is captured only when the family office can invest directly or co-invest well and at scale, which returns the analysis to the capability constraint that runs through the framework.

5. The Control Dimension

The control dimension is the second advantage of direct investing: it gives the family office full control over the asset and the decisions. A direct investor decides what to buy, how to structure it, how to manage it, when to exit, and on what terms, holding the asset to its own timetable and strategy. A fund investor cedes these decisions to the manager, committing capital to the manager strategy and timetable, and holding only the limited rights its fund agreement provides. For a family office that values control, the difference is significant.

The value of control varies with the family office and the asset. A family office with a clear strategy, a long horizon, and confidence in its own judgement values the control to execute its strategy on its own terms, and may chafe at the constraints of a fund. A family office without a clear strategy or the confidence to exercise control may value the manager judgement and timetable more than its own control. And some assets, particularly those requiring active management or a long, patient hold, reward the control of direct ownership, while others, requiring specialised management the family office lacks, are better left to a manager.

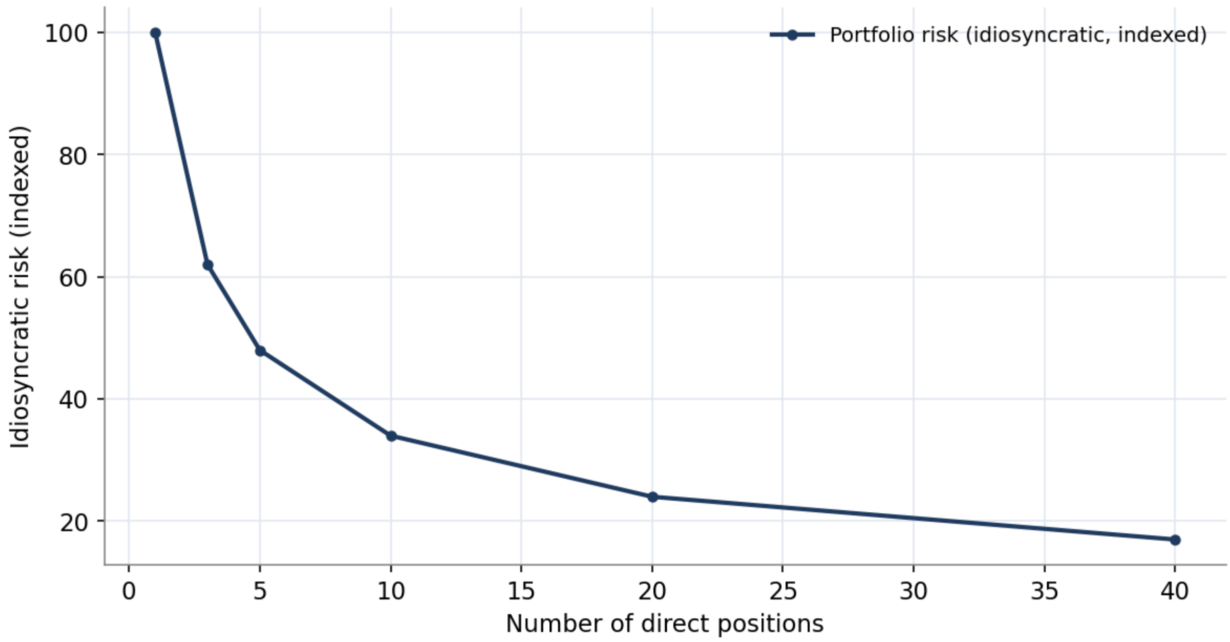
Control also carries responsibility, which is the other side of the dimension. The direct investor that controls the asset also bears the full responsibility for managing it, making the decisions, and living with the consequences, while the fund investor delegates both the control and the responsibility to the manager. A family office that values control must also be willing and able to bear the responsibility it entails, and one that lacks the capability or the appetite to bear the responsibility may be better served by delegating both to a fund, even at the cost of the control.

The control dimension therefore favours direct investing for a family office with a clear strategy, confidence in its judgement, and the willingness to bear the responsibility, particularly for assets that reward active control, and favours funds for a family office that values delegation or lacks the capability to exercise control well. As with the cost dimension, the value of control is conditional on the family office capability and circumstances, and it must be weighed against the diversification that direct investing sacrifices.

6. The Diversification Dimension

The diversification dimension is the principal advantage of fund investing: it spreads the family office capital across the fund portfolio, reducing the idiosyncratic risk of any single asset. Figure 3 illustrates how idiosyncratic risk falls as the number of positions rises, and a fund holding many assets achieves a diversification that a family office holding a few direct positions cannot match. For a family office investing at modest scale, fund investing may be the only practical way to achieve adequate diversification.

Figure 3. Idiosyncratic Risk Against Number of Positions



The diversification advantage of funds is greatest for a family office with limited capital or capability to build a diversified direct portfolio. A family office that can make only a few direct investments concentrates its capital and bears the idiosyncratic risk of each, while a fund spreads the same capital across many assets, achieving diversification the family office could not achieve directly. For such a family office, funds provide diversification that is otherwise out of reach, which is a strong argument for fund investing, particularly in the early stages before the family office has the scale to diversify directly.

A family office with greater scale can achieve diversification directly, by making many direct investments across assets, sectors and geographies, reducing the idiosyncratic risk through its own portfolio. But building a diversified direct portfolio requires making many investments, which requires substantial capability and capital, and a family office that invests directly but at insufficient scale to diversify bears concentration risk that a fund would have avoided. The diversification dimension therefore favours funds until the family office has the scale and capability to diversify directly, and favours direct investing thereafter, for a family office that can build a diversified direct portfolio.

Co-investment again offers a middle path on the diversification dimension. A family office that co-invests across many deals alongside fund managers can build a diversified portfolio of co-investments, achieving diversification while capturing the fee saving of co-investment, though it requires the access to many co-investment opportunities and the capability to assess them. For a family office building toward direct investing, a programme of diversified co-investments can provide both the diversification of funds and much of the cost saving of direct investing, which is part of the appeal of co-investment as the middle path.

7. The Capability Requirement

The capability requirement is the binding constraint on direct investing, and Figure 4 sets out the capabilities it demands across the investment lifecycle. Direct investing requires the family office to source opportunities, underwrite and conduct diligence, structure and execute transactions, and monitor and steward the investments through to exit, performing itself the functions a fund manager would perform. Each of these is a substantial capability requiring people, processes, systems and relationships, and building them is the price of direct investing.

Figure 4. Capabilities Required for Direct Investing

Of these capabilities, selection, the sourcing and underwriting that determine which investments the family office makes, is the most important, because direct investing concentrates capital in the selected assets and a poor selection concentrates capital in poor assets. A family office with strong selection capability can invest directly with confidence, while one with weak selection should not, because its direct investments will reflect its weak selection. The selection capability is therefore the threshold capability for direct investing, and a family office should invest directly only where it has genuine selection skill.

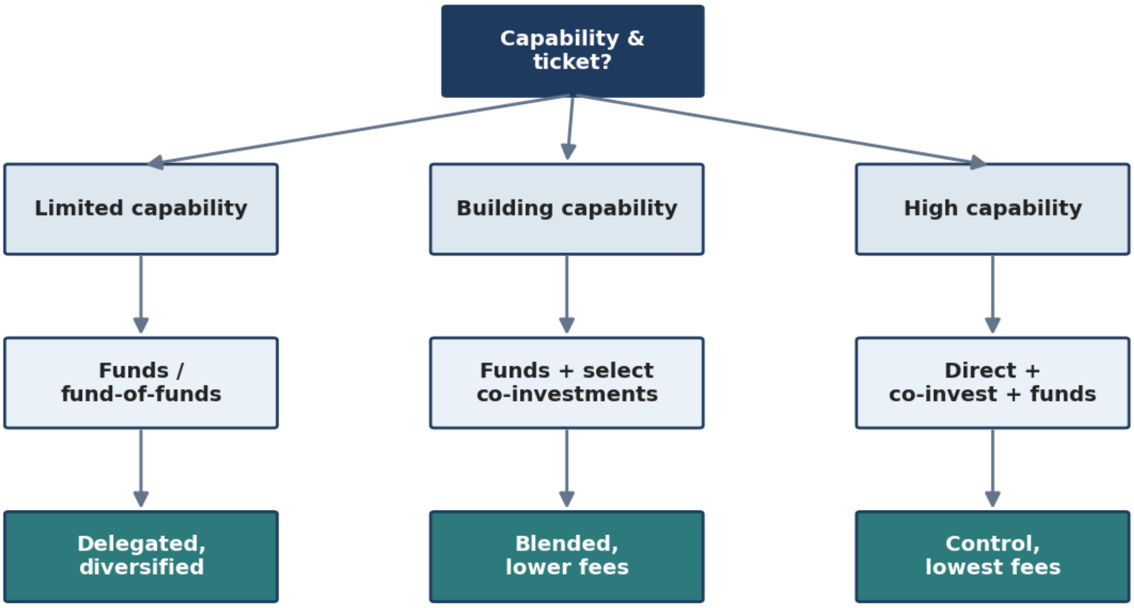
The capability requirement varies by asset class, which affects where a family office can invest directly. Real estate direct investing, for instance, may build on operating or development capability a family office already has, particularly in the GCC where many family offices have real estate heritage, making direct real estate investing more accessible. Private equity or venture direct investing requires capabilities in company assessment and value creation that a family office may lack, making fund investing more appropriate. A family office should assess its capability by asset class and invest directly where its capability is genuine, through funds where it is not.

Building the capability is the path to doing more direct investing, and it is a strategic investment a family office can make over time. A family office that wishes to invest directly can build the capability progressively, starting with co-investment that relies partly on managers, building its own sourcing, underwriting and stewardship, and graduating to wholly direct investing as the capability matures. The capability requirement is therefore not a fixed barrier but a buildable asset, and the family office that invests in building it can shift its balance toward direct investing over time, capturing more of the fee saving and control as it does.

8. The Decision Framework

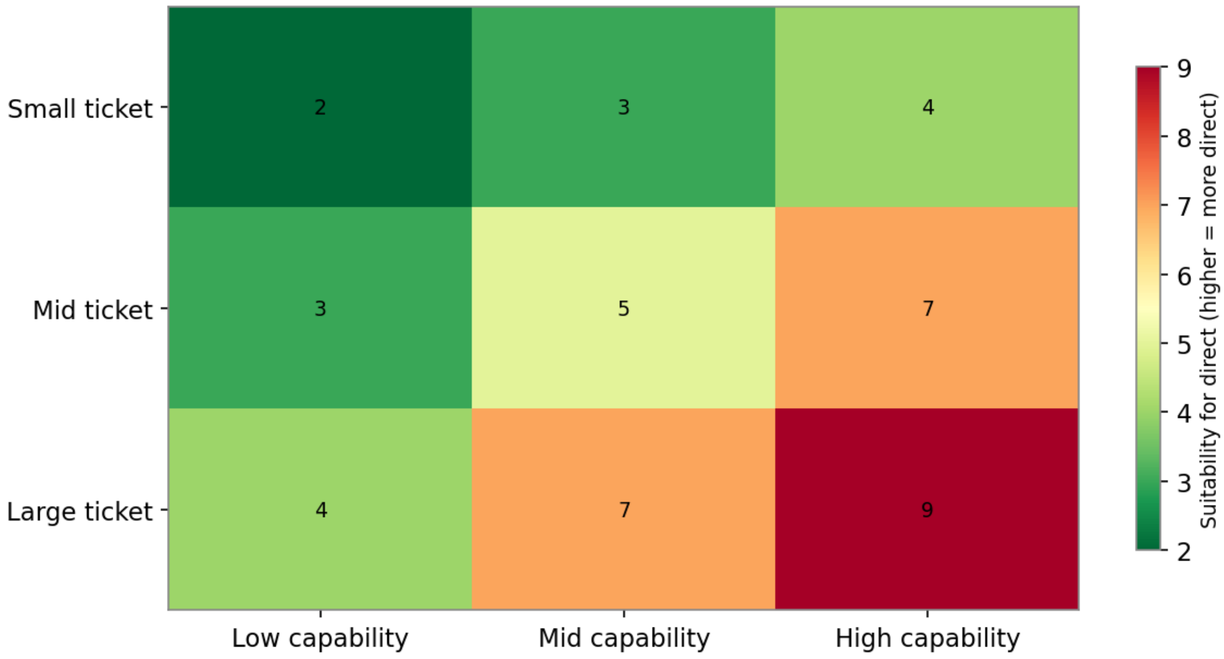
The decision framework matches the access approach to the family office capability and its typical ticket size, illustrated in the decision tree of Figure 5 and the suitability matrix of Figure 6. A family office with limited capability should access private markets through funds and funds-of-funds, relying on managers for the sourcing, underwriting and stewardship it cannot perform itself. A family office building its capability should combine funds with selective co-investment, beginning to invest alongside managers. A family office with high capability can invest directly, alongside co-investment and funds, in areas of genuine capability and advantage.

Figure 5. Access Approach by Capability and Ticket Size



The ticket size interacts with the capability, as Figure 6 shows. A large ticket combined with high capability favours direct investing, because the family office can invest at the scale that justifies the capability cost and diversifies the direct portfolio. A small ticket or limited capability favours funds, because the family office cannot invest directly at the scale or with the skill that direct investing requires. The matrix maps the family office position on these two dimensions to the appropriate access approach, providing a structured answer to the direct-versus-fund question.

Figure 6. Suitability for Direct Investing by Capability and Ticket



The framework produces not a single answer but a balance, a mix of funds, co-investment and direct investing matched to the family office capability and ticket across its allocations. A family office may invest directly in real estate where it has heritage and capability, co-invest in private equity where it is building capability, and use funds in venture where it lacks capability, holding a different balance in each asset class according to its capability there. The framework therefore produces a tailored, asset-class-specific balance rather than a uniform approach, which is the practical answer the framework intends.

The framework is also dynamic, shifting as the family office builds capability. A family office that begins with funds can shift toward co-investment and then direct investing as it builds capability, moving along the spectrum over time, and the framework should be reapplied periodically to reflect the family office growing capability. The balance is therefore not fixed but evolves, and a family office building its capability should expect to shift toward direct investing over time, capturing more of the fee saving and control as its capability matures.

9. The Access Spectrum

Between the extremes of wholly direct and wholly fund investing lies a spectrum of access structures, each offering a different balance of cost, control, diversification and capability. Understanding the spectrum allows a family office to find the point that suits each allocation, rather than choosing only between the extremes. Table 1 sets out the principal access structures along the spectrum.

Table 1. The Access Spectrum from Fund to Direct

Structure	Cost	Control	Diversification	Capability needed
Fund-of-funds	Highest	Lowest	Highest	Lowest
Commingled fund	High	Low	High	Low

Club deal	Moderate	Moderate	Moderate	Moderate
Co-investment	Low	Moderate-high	Variable	Moderate-high
Direct investment	Lowest	Highest	Lowest	Highest

The spectrum from delegated, diversified fund investing to controlled, concentrated direct investing.

At the fund end of the spectrum, funds-of-funds offer the most diversification and the least capability requirement, at the highest cost, suiting a family office wanting fully delegated, diversified access. Commingled funds offer diversification and professional management at a high cost and low capability requirement, the standard fund route. Club deals, in which several investors co-invest in a single asset, offer moderate control and diversification at a moderate cost, suiting investors wanting more control than a fund but less capability requirement than wholly direct.

At the direct end, co-investment offers low cost and moderate-to-high control, relying on the manager sourcing but capturing the fee saving, suiting a family office building toward direct investing. Direct investment offers the lowest cost and highest control at the highest capability requirement and lowest diversification, suiting a family office with full capability and scale. The spectrum allows a family office to position each allocation at the point that suits its capability, its objectives and the asset class, building a tailored access strategy across the spectrum rather than choosing only the extremes.

10. Co-investment as the Middle Path

Co-investment deserves particular attention because it is the pivotal middle path that lets a family office capture much of the benefit of direct investing while managing its risks and building its capability. In a co-investment, the family office invests directly in a specific deal alongside a fund manager, relying on the manager sourcing and underwriting but investing on its own account, typically with reduced or no fees on the co-invested portion. It captures much of the fee saving and the direct exposure of direct investing, while relying on the manager for the sourcing and underwriting it may not yet be able to perform itself.

Co-investment lets a family office build its direct capability progressively, by participating in deals alongside experienced managers, learning the sourcing, underwriting and structuring, and building toward wholly direct investing. A family office that co-invests actively, engaging with the managers analysis and the deal mechanics, builds the capability that direct investing requires, using the co-investments as a learning path. Co-investment is therefore not only an access structure but a capability-building path, which is part of why it is the pivotal middle step between fund and direct investing.

Co-investment also requires the family office to build some capability, to assess the co-investment opportunities the manager offers and to decide which to take, and the access to the co-investment opportunities, which the best managers offer to their most valued investors. A family office seeking co-investment must therefore establish itself as a valued investor to access the opportunities, and build the capability to assess them, which is less than wholly direct investing requires but more than passive fund investing. The middle path requires a middle level of capability and access, building toward the full requirement of direct investing.

For most family offices building their private markets programmes, a programme of selective co-investment alongside their fund commitments is the practical path that captures fee savings, builds capability, and provides direct exposure, while managing the risks through the managers sourcing and the diversification across co-investments. A family office that combines funds with a co-investment programme captures more of the return than funds alone, builds toward direct investing, and manages the risks better than leaping straight to wholly direct investing. Co-investment is therefore the pivotal middle path the framework recommends for most family offices building toward direct investing.

11. Direct versus Fund in Real Estate

The direct-versus-fund choice plays out differently across asset classes, and real estate is where direct investing is most accessible to many family offices, particularly in the GCC. Real estate is a tangible, well-understood asset, and many family offices have real estate heritage, operating or development capability built over generations, that gives them genuine capability to invest directly. For these family offices, direct real estate investing builds on existing capability and may be the natural approach, capturing the fee saving and control in an asset class they understand.

Direct real estate investing suits a family office with the capability to source, underwrite, and manage real estate, and with the scale to diversify across assets and the appetite to bear the concentration and management responsibility. For a GCC family office with real estate heritage, these conditions are often met, and direct real estate investing can be a core of the private markets allocation, in the family office home market where its capability and relationships are strongest. The real estate affinity and heritage of many regional family offices makes direct real estate investing more accessible to them than direct investing in other asset classes.

Fund investing in real estate suits a family office seeking diversification beyond what it can achieve directly, exposure to markets or sectors where it lacks capability, or delegated management. A family office with real estate capability in its home market may use funds to access international real estate, or sectors such as logistics or specialised real estate where it lacks capability, diversifying its real estate exposure beyond its direct holdings. The combination of direct investing in the home market and areas of capability, with fund investing for diversification and areas of lesser capability, is the typical balanced approach for a family office with real estate heritage.

The real estate case illustrates the framework general principle: invest directly where capability is genuine and the asset is understood, through funds where capability is lacking or diversification is sought. For real estate, many GCC family offices have genuine capability in their home market, making direct investing there appropriate, while using funds for international and specialised exposure. The balance reflects the family office capability by market and sector, which is the framework general prescription applied to the asset class where direct investing is most accessible to regional family offices.

12. Direct versus Fund in Private Equity and Credit

In private equity and private credit, direct investing is more demanding than in real estate, because these asset classes require capabilities, company assessment and value creation for private equity, credit underwriting for private credit, that a family office may not have built. The companion paper on private credit emphasised the centrality of manager selection and underwriting skill, and the same applies to direct investing in these asset classes: a family office investing directly must have the underwriting and assessment capability that the manager would otherwise provide, which is a high bar.

For most family offices, fund investing is the appropriate core approach in private equity and private credit, accessing the managers underwriting and value-creation capability, with co-investment as the path to building direct capability and capturing fee savings. A family office that commits to private equity and credit funds, and co-invests selectively alongside them, accesses the managers capability, builds its own, and captures the co-investment fee saving, without taking on the full burden of direct investing in asset classes that demand specialised capability. This fund-plus-co-investment approach is the practical core for most family offices in these asset classes.

Wholly direct investing in private equity and credit suits only family offices that have built genuine, specialised capability in these asset classes, through experience, hiring, or operating heritage. A family office with deep operating experience in a sector may invest directly in companies in that sector, leveraging its operating capability, and a family office that has built a credit team may lend directly, but these are the exceptions that require genuine specialised capability. For most family offices, the specialised capability that direct private equity and credit investing requires is better accessed through managers, with co-investment as the bridge.

The private equity and credit case therefore illustrates the other end of the framework spectrum from real estate: where direct investing requires specialised capability the family office may lack, fund investing is the appropriate core, with co-investment as the capability-building bridge, and wholly direct investing reserved for areas of genuine specialised capability. Combined with the real estate case, this shows the framework producing an asset-class-specific balance, more direct in real estate where capability is accessible, more fund-based in private equity and credit where capability is specialised, which is the tailored approach the framework intends.

13. Building Direct Capability

A family office that wishes to shift its balance toward direct investing must build the capability to do it well, and the build is a deliberate, progressive process. It begins with the people: hiring or developing the investment professionals who can source, underwrite, structure and steward direct investments, with experience in the relevant asset classes. The team is the foundation of the capability, and a family office cannot invest directly well without the people to do it, so building the team is the first step in building the capability.

The build continues with the processes and systems: the underwriting framework, the diligence procedures, the decision governance, and the monitoring systems that allow the family office to assess, execute and steward direct investments consistently and well. These processes embody the discipline that good direct investing requires, and they allow the family office to invest directly in a repeatable, controlled way rather than ad hoc. Building the processes alongside the team turns individual judgement into an institutional capability that can be applied consistently across investments.

The build also requires the relationships and the access: the networks that source opportunities, the relationships with managers that provide co-investment, and the standing in the market that brings the family office quality deals. Direct investing depends on access to good opportunities, and building the relationships that provide that access is part of building the capability. A family office that co-invests alongside managers builds these relationships and the access they provide, which is part of why co-investment is the path to building direct capability.

The progressive path, from fund investing through co-investment to direct investing, is the way most family offices build the capability, learning and building at each step. A family office that follows this path builds the team, the processes, and the relationships progressively, graduating to wholly direct investing as the capability matures, rather than attempting wholly direct investing before the capability exists. The progressive build is the prudent path, and it allows the family office to shift its balance toward direct investing over time as its capability grows, capturing more of the fee saving and control as it does.

14. Risk: Concentration and Selection

Direct investing carries risks that fund investing mitigates, and the family office must manage them. The principal risk is concentration: direct investing concentrates the family office capital in the few assets it holds directly, bearing the full idiosyncratic risk of each, where a fund would have diversified. A family office investing directly must manage this concentration, by building a diversified direct portfolio across enough assets, sectors and geographies to reduce the idiosyncratic risk, which requires the scale and capability to make many direct investments.

The second risk is selection: because direct investing concentrates capital in the selected assets, a poor selection concentrates capital in poor assets, and the family office bears the consequence directly. The selection risk is the reason selection capability is the threshold for direct investing, and a family office investing directly must have the selection skill to choose well, because its returns will reflect its selection. The selection risk is managed by building genuine selection capability and by diversifying across selections, so that a single poor selection does not dominate the portfolio.

These risks interact: a family office that invests directly with weak selection and insufficient diversification bears the worst of both, concentrating its capital in poorly-selected assets, while one that invests directly with strong selection and adequate diversification manages both, holding a diversified portfolio of well-selected assets. The risks therefore reinforce the framework prescription: invest directly only with genuine selection capability and at sufficient scale to diversify, and use funds where these conditions are not met, because the concentration and selection risks of direct investing are severe for a family office that lacks the capability or scale to manage them.

The risks also argue for the progressive, co-investment-led path to direct investing, because co-investment manages both risks during the build. Co-investment relies partly on the manager selection, mitigating the family office selection risk while it builds its own, and a programme of many co-investments provides diversification, mitigating the concentration risk. The family office building toward direct investing through co-investment therefore manages the concentration and selection risks during the build, graduating to wholly direct investing only when its selection capability and scale can manage the risks itself. The risk management reinforces the co-investment path.

15. Governance and Stewardship

Direct investing requires the family office to govern and steward its investments, functions a fund manager would otherwise perform. Governance is the decision-making framework: who decides what to invest in, on what authority, with what process, and how the decisions are made and reviewed. A family office investing directly needs a clear governance framework, an investment committee, defined authorities, a decision process, so that its direct investments are made with discipline and accountability, rather than ad hoc by individuals.

Stewardship is the ongoing management of the investments: monitoring their performance, engaging with the assets or companies, exercising the family office rights, and managing toward an exit. A direct investor must steward its investments actively, because it holds the assets directly and bears the responsibility for their performance, where a fund investor would rely on the manager stewardship. The family office investing directly therefore needs the stewardship capability, the people and processes to monitor and manage its direct investments through to exit, which is part of the capability direct investing requires.

The governance and stewardship requirements are part of the capability cost of direct investing, and they are functions the family office must build and maintain. A family office that invests directly without adequate governance risks poor, undisciplined decisions, and one that invests directly without adequate stewardship risks poor management of its investments, both of which can erode the returns that direct investing was meant to enhance. The governance and stewardship are therefore not optional but essential parts of the direct investing capability, and a family office should build them alongside the sourcing and underwriting capability.

For a family office with operating heritage, particularly in the GCC, the governance and stewardship capability may build on existing operating capability, an advantage in direct investing. A family that has operated businesses has experience in governance and stewardship that transfers to direct investing, particularly in sectors related to its operating heritage, giving it a capability advantage in direct investing in those sectors. This operating heritage is part of why direct investing may be more accessible to family offices with operating backgrounds, and it is a capability to leverage in deciding where to invest directly.

16. Considerations Specific to the GCC

GCC family offices have characteristics that shape the direct-versus-fund decision. The first is operating and real estate heritage: many regional family offices were built on operating businesses and real estate, giving them genuine capability in these areas that makes direct investing there more accessible. A family office with operating heritage in a sector, or real estate heritage in its home market, has a capability advantage in direct investing there, which the framework suggests it should leverage, investing directly where its heritage gives it genuine capability and advantage.

The second consideration is the strong regional affinity for direct real estate ownership, examined in the companion papers. Many regional family offices prefer to own real estate directly, valuing the tangibility, the control and the heritage of direct ownership, and they have the capability to do so in their home market. This affinity and capability make direct real estate investing a natural core for many regional family offices, with fund investing used for diversification into international and specialised real estate, as the real estate section discussed. The regional affinity reinforces the direct approach in real estate for family offices with the heritage and capability.

The third consideration is the relative youth of many regional family offices as private markets investors, examined in the companion paper on the allocation shift. A regional family office that is building its private markets capability may have genuine capability in its operating and real estate heritage but be building capability in private equity, credit and international markets, suggesting a balance of direct investing in areas of heritage and fund investing in areas of developing capability. The youth of the regional family offices as private markets investors therefore suggests a hybrid balance, leveraging heritage capability directly while building other capability through funds and co-investment.

The fourth consideration is the compliant requirement, which applies to direct investing as to fund investing. A family office requiring Shariah-compliant investments must ensure its direct investments and its fund investments are compliant, which is more directly within its control in direct investing, where it structures the investment itself, than in fund investing, where it relies on the fund compliance. The compliant requirement therefore slightly favours direct investing for family offices that require it and have the capability to structure compliant direct investments, though compliant funds are also available, as the companion papers discussed.

17. The Sponsor and Manager Perspective

Understanding the perspective of the fund managers and deal sponsors helps a family office access co-investment and direct opportunities. Managers offer co-investment to their most valued investors, those who commit capital reliably, engage constructively, and can decide on co-investments quickly, because co-investment helps the manager fund larger deals and reward its best investors. A family office that establishes itself as a valued, reliable, decisive investor can access the co-investment opportunities that managers offer, which is the path to building direct capability and capturing fee savings.

Sponsors of direct deals seek capital partners who are reliable, add value, and can execute, and a family office that establishes itself as such a partner can access direct deals alongside or instead of funds. A family office with operating capability, sector expertise, or strategic value to a sponsor may be a preferred capital partner, accessing direct deals that a passive investor could not. Building a reputation as a valuable, reliable capital partner is therefore part of accessing direct opportunities, and a family office that brings more than capital, expertise, relationships, strategic value, can access better direct deals.

The manager and sponsor perspective also informs how a family office should engage: reliably, constructively, and with the capability to assess and decide on opportunities, building the relationships and reputation that provide access. A family office that engages this way, establishing itself as a valued partner, accesses better co-investment and direct opportunities than one that engages passively or unreliably. The relationships with managers and sponsors are therefore an asset to build, providing the access that direct investing and co-investment require, and a family office should invest in building them as part of building its direct capability.

The perspective also reveals a tension a family office should manage: managers may offer co-investment in their less attractive deals while retaining the best for the fund, or sponsors may seek capital partners for difficult deals. A family office accessing co-investment and direct deals must therefore exercise its own selection, assessing each opportunity on its merits rather than assuming the manager or sponsor offering it is acting in the family office interest. The selection capability is needed even in co-investment, to distinguish the attractive opportunities from the less attractive ones the manager or sponsor may be motivated to share, which returns the analysis to the centrality of the family office own selection capability.

18. Case Studies

Three family-office cases illustrate the framework applied to different capability levels. The figures are modelled for analytical clarity and are not drawn from any specific family office.

18.1 Case A: the fund-led family office

Case A is a family office early in its private markets programme, with limited direct capability, that accesses private markets primarily through funds and funds-of-funds. It relies on managers for sourcing, underwriting and stewardship, achieving diversified exposure with low capability requirement, at the cost of fund fees and limited control. The approach suits its limited capability, providing diversified, professionally-managed exposure while it builds capability, and it lays the foundation for shifting toward co-investment and direct investing as its capability grows. The case illustrates the appropriate approach for limited capability: fund-led, diversified, delegated.

18.2 Case B: the hybrid family office

Case B is a family office building its capability, that combines fund investing with a selective co-investment programme. It commits to funds for diversified exposure and the manager capability, and co-invests selectively alongside the managers, capturing fee savings, building its direct capability, and gaining direct exposure. The hybrid approach suits its developing capability, capturing more of the return than funds alone while building toward direct investing, and managing the risks through the managers sourcing and the diversification across co-investments. The case illustrates the hybrid approach for developing capability: funds plus selective co-investment.

18.3 Case C: the direct-led family office

Case C is a family office with high capability, particularly in real estate where it has operating heritage, that invests directly in its areas of capability, co-invests in areas of developing capability, and uses funds for diversification and areas of lesser capability. It captures the fee saving and control of direct investing where its capability is genuine, builds toward direct investing in other areas through co-investment, and uses funds where its capability is lacking. The approach suits its high capability, capturing the benefits of direct investing where it has the capability and advantage. The case illustrates the direct-led approach for high capability: direct where capability is genuine, co-investment and funds elsewhere.

Figure 7. Net Return and Concentration Risk by Approach

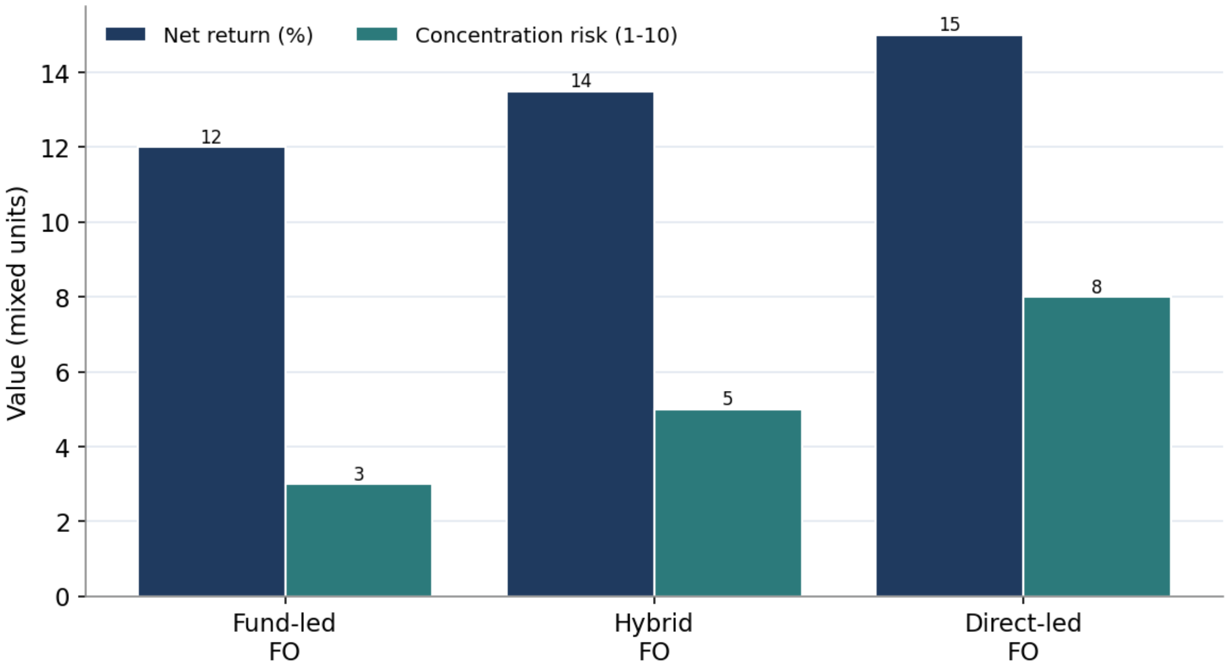
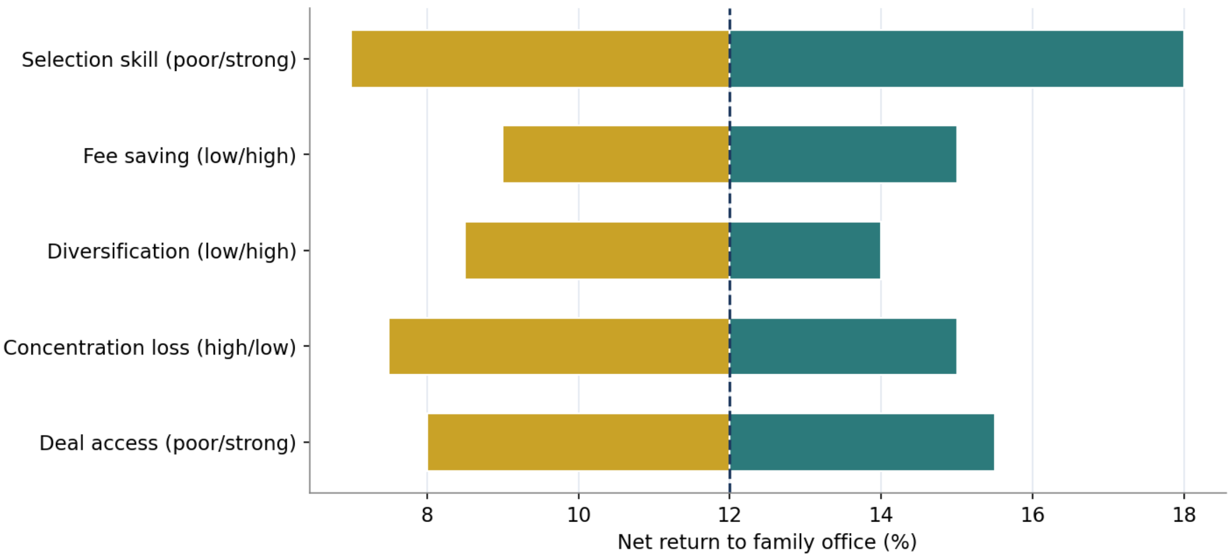


Figure 7 compares the three cases on net return and concentration risk. The direct-led family office earns the highest net return, capturing the fee saving, but bears the highest concentration risk; the fund-led earns less, paying fees, but bears low concentration risk; the hybrid sits between. The comparison illustrates the trade-off the framework structures: direct investing enhances the net return but concentrates risk, and the right balance depends on the family office capability to manage the concentration through diversification and selection, which rises with its capability. The cases show the framework producing different balances for different capability levels, each appropriate to the family office.

19. Sensitivity and Scenario Analysis

A tornado analysis identifies the variables that most influence the net return from the family office private markets allocation under different access approaches. Figure 8 presents the result.

Figure 8. Sensitivity of Net Return to Key Variables



The analysis shows that selection skill dominates the net return, with the fee saving, the diversification, the concentration loss and the deal access also significant. The prominence of selection skill confirms the framework central message: direct investing enhances the return only if the family office can select well, and a family office with strong selection skill benefits from direct investing while one with weak selection is harmed by it. The fee saving is the direct benefit of direct investing, but it is captured only with adequate selection, and the concentration loss is the risk that poor selection in a concentrated direct portfolio inflicts. The sensitivity confirms that selection skill is the binding determinant of whether direct investing pays.

Table 2. Scenario Matrix for Net Return by Access Approach

Scenario	Selection skill	Approach	Net return
Strong direct	Strong	Direct-led	~15%
Hybrid	Developing	Hybrid	~13.5%
Fund-led	Limited	Fund-led	~12%
Poor direct	Weak	Direct-led	~8% or loss

Modelled scenarios. The poor-direct case shows the danger of direct investing without selection skill.

The scenario matrix shows the danger the framework warns against: the poor-direct scenario, a family office investing directly with weak selection skill, earns the lowest return, below even the fund-led approach, because it concentrates its capital in poorly-selected assets. This confirms that direct investing is not universally better; it is better only with adequate selection skill, and worse than fund investing without it. The matrix reinforces the framework prescription to invest directly only with genuine selection capability, and to use funds where that capability is lacking, because direct investing without selection skill destroys rather than creates value.

20. International Comparison

The direct-versus-fund evolution among GCC family offices mirrors a path trodden by sophisticated family offices and institutions internationally, which offers a guide. The largest and most sophisticated family offices globally have built substantial direct investing capabilities, investing directly alongside or instead of funds, capturing the fee savings and control, particularly in real estate and in sectors of their operating heritage. They reached this capability progressively, building from fund investing through co-investment to direct investing over years, which is the path the framework describes.

The international experience confirms the framework key lessons: that direct investing rewards capability and selection skill, that co-investment is the bridge from fund to direct investing, and that even the most sophisticated direct investors retain funds for diversification and areas of lesser capability, holding a hybrid balance rather than wholly direct. The most sophisticated international family offices are not wholly direct; they are hybrid, direct where their capability is strong, fund-based where it is not, which is the balanced approach the framework recommends. The international experience therefore validates the hybrid model as the mature endpoint, not wholly direct investing.

The international experience also cautions that direct investing has destroyed value for family offices that pursued it without adequate capability, concentrating capital in poorly-selected investments, which is the danger the sensitivity analysis quantified. The cautionary international cases reinforce that the path to direct investing should be progressive and capability-led, not a premature leap, and that a family office should build the capability before shifting the balance toward direct investing. The GCC family offices building their capabilities can learn from both the successes and the cautionary cases internationally, following the progressive, capability-led path to a hybrid balance.

21. The Hybrid Model

The practical answer to the direct-versus-fund question, for most family offices, is a hybrid model that combines funds, co-investment and direct investing in a balance matched to the family office capability across its asset classes. The hybrid model uses funds for diversified, delegated exposure in areas of lesser capability, co-investment for building capability and capturing fee savings, and direct investing in areas of genuine capability and advantage, holding a different balance in each asset class according to the family office capability there.

The hybrid model captures the benefits of each approach while managing their costs: the diversification and access of funds, the fee saving and capability-building of co-investment, and the control and fee saving of direct investing, balanced to the family office capability. It avoids the costs of either extreme, the high fees and lost control of wholly fund investing, and the concentration risk and capability burden of wholly direct investing, by holding a balance that suits the family office. For most family offices, the hybrid model is the practical optimum, and it is where the framework leads.

The hybrid balance evolves as the family office builds capability, shifting from fund-led toward direct-led over time, as the cases illustrated. A family office begins fund-led with limited capability, becomes hybrid as it builds capability and adds co-investment, and becomes direct-led in its areas of strong capability as that capability matures, while retaining funds for diversification and areas of lesser capability throughout. The hybrid model is therefore dynamic, its balance shifting toward direct investing as capability grows, and a family office should expect its balance to evolve as it builds capability over time.

The hybrid model also allows the family office to match its approach to each asset class, more direct in real estate where regional family offices often have heritage capability, more fund-based in private equity and credit where capability is specialised, with co-investment bridging across. This asset-class-specific balance, within the overall hybrid model, lets the family office leverage its capability where it is strong and access others capability where it is not, which is the tailored approach the framework intends. The hybrid model, with its asset-class-specific and evolving balance, is the practical embodiment of the framework, and it is the approach most family offices should adopt.

22. Common Errors and How to Avoid Them

A recognisable set of errors recurs in the direct-versus-fund decision.

- **Direct without capability.** Investing directly without adequate selection capability concentrates capital in poorly-selected assets and destroys value. The remedy is to invest directly only where selection capability is genuine.

- **Concentrated direct investing.** Investing directly at insufficient scale to diversify bears concentration risk that funds would have avoided. The remedy is to diversify the direct portfolio or use funds for diversification.
- **Premature direct leap.** Leaping straight to wholly direct investing without building capability progressively skips the co-investment bridge and the capability build. The remedy is the progressive, co-investment-led path.
- **Defaulting to funds.** Defaulting to funds everywhere, even in areas of genuine capability, forgoes the fee saving and control direct investing would provide. The remedy is to invest directly where capability is genuine.
- **Uncritical co-investment.** Assuming co-investment opportunities are always attractive ignores the managers motivation to share less attractive deals. The remedy is to exercise own selection on co-investments.

Each of these errors is avoidable through the disciplined approach the framework encourages: invest directly only with genuine capability and adequate scale, build capability progressively through co-investment, invest directly where capability is genuine and through funds where it is not, and exercise own selection throughout. The family office that does so finds the balance that suits its capability, while the one that does not invests directly without capability, concentrates risk, leaps prematurely, defaults to funds, or co-invests uncritically.

23. Implementation Roadmap

1. Assess the family office capability by asset class, identifying where it has genuine selection and management capability and where it does not.
2. Map each allocation to the appropriate access approach using the capability-and-ticket framework: funds where capability is limited, co-investment where it is building, direct where it is strong.
3. Use funds for diversified, delegated exposure in areas of lesser capability and for diversification beyond the direct portfolio.
4. Build a selective co-investment programme alongside fund commitments, to capture fee savings, build capability, and gain direct exposure.
5. Invest directly in areas of genuine capability and advantage, particularly real estate and sectors of operating heritage, with adequate diversification and governance.
6. Build direct capability progressively, the team, processes, relationships and governance, shifting the balance toward direct investing as capability matures.
7. Review the balance periodically as capability grows, and exercise own selection on all direct and co-investment opportunities.

24. Strategic Perspective: Capability as the Driver

The deepest lesson of the direct-versus-fund question is that capability is the driver: the right balance is determined, above all, by what the family office can do well, and building capability is the path to capturing more of the benefit of direct investing. A family office that builds genuine investing capability can shift its balance toward direct investing, capturing the fee saving, the control and the higher potential returns, while one that does not should rely more on funds, accessing others capability. The capability is the strategic asset that determines the family office access strategy and its returns.

Building the capability is therefore a strategic investment that pays off across the family office whole private markets programme, enabling more direct investing, lower fees, more control, and the access to opportunities that capability provides. A family office that invests in building its capability builds a durable asset that enhances its returns and its access across asset classes and over time, while one that does not remains dependent on others capability and the fees that dependence entails. The capability build is the strategic core of the access strategy, and it is where a family office serious about private markets should invest.

The capability also connects to the family office broader transformation into a sophisticated private markets investor, examined in the companion papers. The direct investing capability, the sourcing, underwriting, stewardship and governance, is part of the broader private markets capability the family office builds as it matures, and it transfers across the access decisions in each asset class. Building the direct investing capability therefore advances the family office broader transformation, and it is part of becoming the sophisticated private markets institution that the allocation shift requires. The access decision and the capability build are part of that broader strategic evolution.

25. Conclusion

The direct-versus-fund decision shapes the cost, control, diversification, capability and returns of a family office private markets allocation, and it should be driven by the family office capability and its typical ticket size rather than by a blanket preference for either approach. This paper has developed a framework for the decision, analysing the four dimensions on which the approaches differ, mapping the access approach to capability and ticket, examining the full access spectrum, and identifying co-investment as the pivotal middle path that lets a family office build toward direct investing while managing its risks.

The central conclusions are that direct investing enhances the net return and the control but concentrates risk and demands capability, that selection skill is the binding determinant of whether direct investing pays, that co-investment is the bridge from fund to direct investing, and that most family offices are best served by a hybrid model combining funds, co-investment and selective direct investing in a balance matched to their capability and evolving as it grows. For GCC family offices, with their operating and real estate heritage, the framework suggests direct investing in areas of heritage capability, particularly real estate, with funds and co-investment elsewhere. The family office that builds its capability and finds the balance that suits it will access private markets more effectively than one that defaults to either extreme, and the frameworks in this paper are intended to help it find that balance.

26. Limitations and Directions for Further Research

This paper is framework-oriented and relies on modelled figures, and its conclusions are directional rather than precise. The cost, return and risk figures are calibrated to observable conditions but are not empirical estimates, and they vary across family offices, asset classes and markets. The capability of family offices, central to the framework, is difficult to assess objectively and varies widely.

Several extensions would strengthen the analysis. An empirical study of the returns achieved by family offices through direct versus fund investing, by capability level, would test the framework central claims. An analysis of the dispersion in direct investing outcomes by family office capability would quantify the selection effect. And a study of how family office direct investing has performed through a downturn, when concentration risk bites, would illuminate the risks the framework identifies. Each is a natural subject for a later paper in this series.

Appendix A. Base Case Assumptions

Table 3. Base Case Assumptions

Parameter	Value	Parameter	Value
Fund fee drag	~3-4%	Direct fee saving	~3-4%
Co-investment fees	Reduced / nil	Direct return (strong selection)	~15%
Fund-led return	~12%	Poor-direct return	~8% or loss
Diversification threshold	many positions	Binding constraint	Selection capability
Real estate (GCC)	Direct accessible	PE / credit	Fund-led core
Middle path	Co-investment	Recommended model	Hybrid

Modelled parameters used to generate the figures and cases. Not transaction-specific.

Appendix B. Direct Investing Capability Checklist

Table 4. Direct Investing Capability Checklist

Capability	What is required
Sourcing	Networks and pipeline to access quality opportunities
Underwriting	Rigorous assessment and diligence of investments
Structuring	Ability to structure and negotiate transactions
Execution	Capacity to close transactions reliably
Stewardship	Active monitoring and management of investments
Governance	Investment committee, authorities, decision process
Diversification	Scale to build a diversified direct portfolio
Exit	Ability to manage and execute exits
Team	Experienced professionals in the relevant asset classes
Relationships	Manager and sponsor relationships for access

A practical checklist for assessing readiness to invest directly.

Appendix C. Glossary of Terms

Table 5. Glossary of Key Terms

Term	Definition

Direct investing	Investing directly in assets or companies.
Fund investing	Investing through a fund managed by others.
Co-investment	Investing directly alongside a fund manager in a deal.
Club deal	Several investors co-investing in a single asset.
Fund-of-funds	A fund investing across multiple managers.
Idiosyncratic risk	The asset-specific risk reduced by diversification.
Selection skill	The ability to choose good investments.
Stewardship	The ongoing management of an investment.
Hybrid model	A balance of funds, co-investment and direct investing.
Capability	The skills and resources to invest directly well.

Definitions provided for reference.

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