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Beyond Private Credit: Why Family Offices Are Rethinking Portfolio Balance

Published August 11, 2025

As risks build in crowded private credit markets, family offices are rethinking how they build long-term portfolio resilience. While private credit remains a key part of many allocations, growing exposure and eroding structural protections are prompting investors to explore complementary strategies. One such strategy gaining renewed attention is life settlements, an actuarial-based asset class offering largely uncorrelated returns and unique diversification benefits.

The Case for Private Credit and the Pressure Building

Private credit has grown rapidly over the past decade, now topping $1.2 trillion in global assets under management, according to Preqin's 2024 Private Debt Report. Family offices have been drawn to its steady income, floating-rate structures, and direct influence over underwriting and terms. These features make it attractive for long-term investors willing to trade liquidity for yield and control.

But growth brings challenges. As more capital chases limited deal flow, structures are weakening. Pitchbook's Q4 2023 Private Credit Update reported that over 80% of U.S. middle market loans were covenant-lite, offering fewer protections if borrower performance declines. Payment-in-Kind toggles, allowing deferred interest payments, are also becoming more common, favoring borrower flexibility at the expense of investor downside protection.

Bloomberg reported in early 2024 that a $1 billion direct loan to a tech company included minimal covenants, deferred payments, and backloaded risk—deal terms that would have raised red flags just a few years ago. This trend reflects a shift in negotiating power and highlights a potential buildup of risk in what had previously been considered a defensive allocation.

At the same time, family office exposure to private credit is growing. Campden Wealth's 2024 Global Family Office Report found that private credit now makes up over 35% of alternatives allocations among surveyed family offices, up from 22% in 2018. With such high concentration, particularly in a strategy that's become increasingly credit-cycle sensitive, some investors are looking to rebalance before the next downturn.

Life Settlements Can Provide Diversification Through Low Correlation With Actuarial Risk to Manage

Life settlements offer a structurally different source of return, one driven by mortality and life expectancy rather than market conditions or borrower fundamentals. In a life settlement transaction, investors purchase existing life insurance policies from individuals who no longer need them. The investor assumes premium payments and collects the death benefit when the insured passes away.

Returns are actuarially modeled and typically uncorrelated with traditional asset classes. According to a 2025 report from Windsor Life Settlements, net annual returns have historically ranged from 8% to 12%, providing attractive risk-adjusted performance.

Conning's 2024 institutional survey, conducted through the European Life Settlement Association, found that 52% of investors cited diversification as their top reason for allocating to life settlements. Another 46% pointed to the low correlation with other asset classes, and 44% said they planned to increase their allocation over the next year.

Because life settlements are not tied to borrower strength, corporate profits, or GDP, they may help offset risk in portfolios that are overexposed to credit markets or economic cycles. The primary driver of return is time, specifically, the maturity of policies based on life expectancy estimates. That dynamic introduces a unique source of return that may complement income-focused strategies like private credit.

Structuring Options for Custom Fit

Today's life settlement offerings span a range of structures designed to meet different investor needs. Some are fully hedged, to ensure all premiums are covered, and offer fixed-income-like returns in the 5% to 6% range. Partially hedged strategies are designed to provide premium protection while targeting around 7% returns, with the potential for alpha. Traditional unhedged portfolios, which accept longevity risk and premium exposure, typically aim for gross IRRs of around 10% to 12%. Leveraged strategies may increase diversification and can push returns into the mid-teens but involve more complexity and risk.

Cash flow timing is another consideration. Private credit often delivers predictable distributions. Other than the fully hedged structure referenced above, life settlements pay out in lump sums upon policy maturity. For family offices already accustomed to illiquidity in alternative assets, this delay isn't necessarily a drawback, especially when the asset plays a clear diversifying role in the portfolio.

Not Without Challenges

Despite their benefits, life settlements carry real complexities that should be acknowledged. Although there is a strong legal and regulatory framework, careful attention to regulatory compliance is still needed. Sourcing policies with clean documentation, reliable life expectancy assessments, and appropriate pricing is difficult without experienced partners and infrastructure.

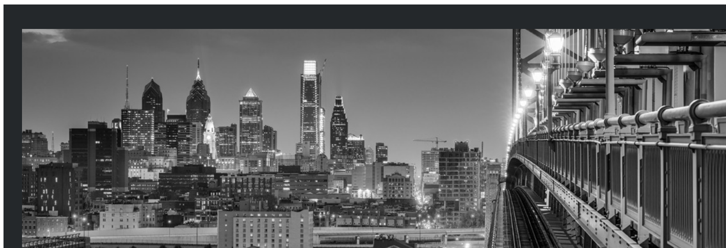
Returns largely depend on the accuracy of actuarial assumptions. Life expectancy shifts, even small ones, may affect cash flow timing and return profiles. There's also limited public data transparency compared to more widely followed alternative investments, making due diligence more resource intensive.

Still, these challenges can be managed. Institutional-grade servicing platforms now provide underwriting support, portfolio modeling, and compliance infrastructure that was difficult to access a decade ago. And unlike borrower risk in private credit, the payout in a life settlement is a senior contractual obligation from a rated insurance company. Most of these insurers are large, investment-grade-rated carriers with strict reserve requirements and long track records, adding another layer of structural stability.

Major investment firms are taking notice. According to a February 2025 article in Financial News, KKR and Apollo are allocating life settlements through affiliated insurance platforms. Their involvement signals that this market is gaining broader institutional recognition, not as a replacement for private credit but as a meaningful complement.

A Thoughtful Rebalance

The case for private credit remains strong, but so does the case for diversification. For family offices looking to reduce portfolio concentration and introduce a fundamentally different return stream, life settlements deserve serious consideration. They offer something rare in today's environment: actuarially driven returns that are largely insulated from the credit cycle and broader macroeconomic noise. Life settlements may not be for every allocator, but for those willing to do the work, they present a compelling opportunity to strengthen long-term portfolio balance.



The LifeCap Advantage

LifeCap specializes in providing institutional investors and family offices unparalleled access to longevity-oriented investments through our strategic relationships with leading companies in the secondary market for life insurance.

The LifeCap team has spent more than 20 years working alongside institutions, advisors, and individual investors alike to educate investors about alternative assets, with a focus on longevity-oriented investments.

To learn more about life settlements and how LifeCap can enable you to leverage the potential of the longevity-oriented asset class, schedule a call with us at lifecap.com.

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