THE RISK CHAIR

ISSUE 05

The Allocation Gap: What Family Offices Are Buying Into, and What They Are Missing

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THE ALLOCATION GAP

What Family Offices Are Buying Into, and What They Are Missing

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About This Paper

This is the fifth publication from The Risk Chair™. The prior four issues mapped the strategic decoupling reshaping the global economic environment, the governance gap inside institutions deploying artificial intelligence, the compliance convergence of Basel III and AI, and the physical infrastructure race that determines who can sustain AI dominance at scale. This paper addresses the capital flowing into that infrastructure from a different seat: the family office. It is written for family office principals, investment committee members, family advisors, trustees, and the legal and financial professionals who serve them. The Identify-Diligence-Govern framework introduced in this paper is a PARC Solutions proprietary framework developed through the firm's advisory practice with institutions navigating governance, risk, and operational transformation.

FOREWORD

The Highest-Stakes Allocation Shift in Family Office History

Four papers into this series, I have been writing primarily for institutions: banks, boards, CCOs, risk executives, legal counsel. People who sit inside governance structures with accountability to regulators, shareholders, and counterparties. The enforcement consequences of getting this wrong are visible and documented.

Family offices are different. The accountability runs to the family. The investment committee is often the principal themselves, sometimes a spouse, sometimes a next-generation member who inherited a seat at the table. The regulatory framework is lighter. The governance infrastructure, when it exists, was usually built for a different era. And the capital being allocated is not institutional capital with a committee of analysts behind it. It is generational wealth that took decades to build and can be materially impaired by a single allocation cycle that did not account for what was actually inside the positions.

The data that prompted this paper is striking. Two of the most rigorous annual surveys of family office behavior, from J.P. Morgan and UBS, document the same contradiction in 2026. Sixty-five percent of family offices intend to prioritize AI investments. Seventy-nine percent have zero allocation to infrastructure, despite the fact that AI's value depends on the physical infrastructure layer the prior four issues of this series have been mapping. And sixty-four percent name geopolitics as their top risk, while seventy-two percent hold no gold and eighty-nine percent hold no crypto. They are the most anxious they have ever been about the world, and the least hedged against the specific risk they are naming.

What concerns me, watching this from the practitioner seat I have occupied across public sector intelligence and three decades of financial services, is not that family offices are allocating to AI. That is the right instinct. It is that the diligence frameworks most are applying to those allocations were built for a world that no longer exists. The world they are allocating into has commercial data centers being physically targeted by state military forces for the first time in history. It has a strait that carries one-fifth of global oil and LNG on life support for six months. It has a competing power that is locking in the mineral supply chains underlying all of this at a pace the West has not matched. And it has an $83 trillion generational wealth transfer moving capital from experienced principals who built it to next-generation family members who are enthusiastic about AI themes they have not had time to fully understand.

The Identify-Diligence-Govern framework in this paper is PARC Solutions' answer to that gap. It is not complex. It requires asking the right questions before capital is committed, applying the right diligence framework to what is actually being purchased, and building governance oversight that can hold through the volatility that is coming. The families whose wealth survives this period will not be the ones that moved fastest. They will be the ones that knew what they owned.

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EXECUTIVE SUMMARY

The Allocation Gap: Three Arguments

Family offices collectively control more than $7 trillion in assets. The $83 trillion generational wealth transfer is underway. Eighty-one percent plan to adjust their strategic asset allocation in the next twelve months, the highest percentage ever recorded. They are making the largest capital reallocation in family office history in the most geopolitically volatile environment since the Cold War.

The contradiction at the center of this paper: they are doing it without the diligence frameworks the current environment demands.

> *First: The gap between what family offices say they are buying and what they are actually holding is wider than any survey acknowledges. Sixty-five percent intend to prioritize AI. Most are buying equity exposure to AI-adjacent companies. Very few are examining the physical infrastructure layer those companies depend on, including the Power, Processing, and Passage exposures mapped in Issue 04 of this series. An investment committee that approved a position as an AI theme is holding a geopolitical infrastructure thesis it has not evaluated.*

> *Second: The diligence frameworks most family offices apply to AI and infrastructure investments were not designed for the environment those investments now sit in. Commercial data centers were physically targeted by state military forces for the first time in history in March 2026. Iran published a target list of 29 US tech companies. China is systematically locking in the African mineral supply chains that feed semiconductor production. These are not background risks. They are active conditions that should be in every diligence framework for AI infrastructure allocations and are in almost none.*

> *Third: The governance gap inside family offices is intersecting with the AI allocation trend at the worst possible moment. Eighty-six percent lack a succession plan for key decision-makers. Next-generation family members are driving AI investment enthusiasm with less geopolitical context than the principals who built the wealth. The families making the largest allocation shifts in their history are doing so with the thinnest governance infrastructure relative to the complexity of what they are buying.*

Identify. Diligence. Govern.

The PARC Solutions Identify-Diligence-Govern framework is the architecture for closing this gap. Not after a loss event. Before the capital is committed.

1
IDENTIFY

Know what you are actually buying. AI equity is not AI infrastructure. Infrastructure exposure is not supply chain exposure. Most family office investment committees approved positions on a theme. They are holding a risk architecture they have not mapped.

2
DILIGENCE

Apply the right framework to the right asset. Standard financial due diligence was not designed for investments whose performance depends on Power, Processing, and Passage — the physical chokepoints the infrastructure race runs through.

3
GOVERN

Build the oversight architecture before you need it. The succession gap, the next-gen enthusiasm, and the $83 trillion wealth transfer are intersecting with the most geopolitically volatile allocation environment in decades. Governance is what holds.

PART I

The Contradiction

The Data That Should Not Coexist

The J.P. Morgan 2026 Global Family Office Report surveyed 333 family offices across 30 countries with an average net worth of $1.6 billion. The UBS Global Family Office Report 2026 surveyed 307 family offices across more than 30 markets with an average net worth of $2.7 billion. Two independent surveys, different methodologies, different client bases. They arrived at nearly identical findings.

Sixty-five percent of family offices intend to prioritize AI investments now or in the future. Seventy-nine percent have zero allocation to infrastructure, despite its role as the physical backbone of AI through power, connectivity, and logistics. Over fifty percent lack exposure to growth equity or venture capital. More than seventy percent have no infrastructure investments, even though AI's advancement depends on data centers and digital infrastructure. The top ten AI companies are already valued at approximately $1.5 trillion, meaning much of AI's future value is still being created outside public markets, in exactly the private market categories most family offices have not accessed.

The geopolitical data is equally contradictory. Sixty-four percent of family offices name geopolitics as their primary risk. Seventy-two percent hold no gold. Eighty-nine percent hold no crypto. They are naming the risk they fear most and maintaining the least hedged portfolios against it. Sixty percent plan to modify their strategic asset allocation in the next twelve months, the highest ever recorded, yet the most common response to geopolitical anxiety is diversification across currencies and regions, not the hard asset and infrastructure exposure that would actually hedge physical supply chain risk.

> *J.P. Morgan's head of international investments put the gap plainly: "To fully capture the AI opportunity, investors should look beyond the mega-cap leaders and focus on the enablers driving the supply chain — from semiconductors and power infrastructure to networking and cooling systems." The family offices that intend to prioritize AI are, by and large, not in those enablers. They are in the headline names. The enabler layer is where the physical risk lives and where the governance gap is widest.*

The $83 Trillion Transfer and Why Timing Matters

The generational wealth transfer is not a future event. It is underway. Eighty-three trillion dollars is moving from the generation that built it to the generation that will invest it, over a compressed timeline driven by demographics. The principals stepping into investment decision-making roles at family offices today grew up in the AI era. They have a visceral understanding of the technology. They have less exposure to the geopolitical environments, regulatory frameworks, and operational risk categories that the prior generation navigated.

This is not a criticism. It is a governance observation. The family office investment committee that now includes a thirty-five-year-old next-generation principal who is enthusiastic about AI infrastructure funds has a dynamic that its governance framework needs to account for. The question is not whether the next-generation perspective is right or wrong. It is whether the investment committee structure, the diligence process, and the oversight architecture are designed to incorporate that perspective within a framework that also accounts for the physical risk environment the capital is entering.

Most are not. Investment committees have formal structures. Sixty-eight percent have formal financial performance measurement processes. Sixty percent operate with investment committees. But eighty-six percent lack a succession plan for key decision-makers. The governance infrastructure that exists was built for the investment environment that preceded this one. The environment has changed faster than the governance has.

PART II

What You Are Actually Buying

The Distance Between the Theme and the Asset

The AI investment theme as most family offices have accessed it is equity exposure to companies whose revenue or narrative is connected to artificial intelligence. Nvidia. Microsoft. Google. The semiconductor companies. The cloud infrastructure providers. This is a legitimate investment thesis. These companies are central to the AI build-out. But owning equity in these companies is not the same as owning the physical infrastructure those companies depend on, and the risks embedded in each are meaningfully different.

The physical infrastructure layer, what Issue 04 of this series called the Power-Processing-Passage architecture, sits beneath every AI equity position in every family office portfolio. The data centers that run the cloud services. The semiconductor fabrication facilities that produce the chips. The energy systems that power the facilities. The mineral supply chains that feed the fabrication. The maritime corridors that move the inputs. A family office that owns Microsoft equity, a data center REIT, a semiconductor supply chain fund, and a private infrastructure vehicle may be holding four positions that all trace their underlying risk back to the same physical chokepoints.

The investment committee likely evaluated each position on its own terms. The aggregate exposure to, for example, Gulf-region energy supply disruption has probably not been mapped across the portfolio. The aggregate exposure to Chinese dominance of critical mineral refining has probably not been named. These are not niche risks. They are the central risks that Issue 04 documented in detail. They are now inside family office portfolios at scale.

China's Parallel Strategy: What It Means for Allocations

On February 14, 2026, Xi Jinping announced at the African Union's 39th Summit that China would implement zero-tariff treatment for 53 African nations with which it maintains diplomatic relations, effective May 1. The policy covers all 53 countries that recognize Beijing, not Taipei. Only Eswatini is excluded. China-Africa trade reached a record $348 billion in 2025, up 17.7%, and rose 23.7% in the first quarter of 2026.

The significance for family office allocations is specific. China is building a parallel economic architecture that operates by Chinese norms and reduces African nations' gravitational pull toward Western regulatory and trade frameworks. This is not charity. It is resource diplomacy. The minerals most critical to AI semiconductor production, cobalt, copper, and rare earth elements, are concentrated in African nations that are now more economically integrated with Beijing than with Washington. A family office allocating to AI infrastructure investments whose underlying supply chains depend on those minerals is making a bet that the Western supply chain diversification strategy succeeds faster than the Chinese lock-in deepens. That bet deserves to be named explicitly in the investment thesis.

China's underwater data center strategy compounds this. In May 2026, Shanghai HiCloud Technology launched the world's first wind-powered underwater data center, 35 meters below the ocean surface off Shanghai's Lingang Special Area. Powered by offshore wind, cooled by the ocean passively, achieving a Power Usage Effectiveness rating below 1.15 against an industry average of 1.5. HiCloud has already signed agreements for a 500-megawatt expansion. While the US is navigating transformer procurement queues, community opposition, and grid interconnection delays, China is deploying data center infrastructure that eliminates the land, water, and cooling constraints that are throttling the Western buildout. The competitive gap that family offices are implicitly betting on when they allocate to Western AI infrastructure is not static. It is being actively competed.

The Gulf Region Exposure Family Offices Did Not Know They Had

Before dawn on March 1, 2026, Iranian Shahed drones struck two Amazon Web Services data centers in the United Arab Emirates. A third commercial data center in Bahrain was hit. It was the first time in history that a country deliberately targeted commercial data centers during wartime. Five confirmed attacks on Gulf data centers have occurred since the war began. Iran's IRGC published a target list of 29 tech infrastructure sites across the region, including facilities owned by Amazon, Google, Microsoft, Nvidia, Palantir, and Oracle.

When Iran attacked the UAE's data centers, it caused widespread disruption to the local banking system. The first time data centers have been deliberately targeted for physical airstrikes in a conflict. The $2 trillion in planned US-backed tech investments in the Gulf region is now under explicit threat from a state adversary that has demonstrated both the intent and the capability to strike it.

Family offices with positions in Gulf-region data center infrastructure, Middle East technology funds, or private investments in UAE and Bahrain-based tech companies were holding this risk on February 28, 2026 without a due diligence framework that had assessed it. It was not in the investment committee materials. It was not in the valuation model. It was not in the insurance coverage. The risk arrived before any framework had named it.

PART III

The Diligence Framework That Is Missing

What Standard Diligence Was Designed For

Family offices apply rigorous due diligence outward, to managers, deals, and advisors, and almost none look inward. Investment committees review external opportunities with structured discipline. Operations get reviewed when something breaks. The families whose offices endure are not necessarily the ones with the best investment programs. They are the ones who asked hard questions before the controller gave notice, the fraud attempt landed, or the next generation inherited infrastructure they could not understand.

Standard investment due diligence for alternative investments covers financial performance, strategy, legal structure, fees, ESG, and references. It was designed for private equity, hedge funds, and real estate, asset classes whose risk is primarily financial and legal. The AI and infrastructure investments that family offices are now pursuing carry a different risk architecture. The performance of a data center fund depends on grid interconnection timelines that utility regulators control. The performance of a semiconductor supply chain investment depends on mineral access that Chinese trade policy is reshaping. The performance of a Gulf-region tech infrastructure investment depends on a maritime corridor that has been under physical attack for six months.

None of those risks appear in a standard financial due diligence checklist. The checklist was not wrong when it was built. The investment universe has moved outside the perimeter it was designed for.

The PARC Solutions Identify-Diligence-Govern Framework

PARC Solutions developed the Identify-Diligence-Govern framework through advisory work with institutions navigating exactly this kind of gap, where the investments have moved faster than the governance and oversight architecture designed to evaluate them. The framework has three stages, each with a specific question it answers.

Identify asks: what are we actually buying? Not the theme. Not the narrative. The underlying asset, the physical layer it depends on, and the risk architecture that sits beneath it. An AI infrastructure fund whose underlying positions include Gulf-region data centers, semiconductor supply chain exposure, and critical mineral-dependent hardware is not simply an “AI investment.” It is a composite of Power, Processing, and Passage exposures that need to be named and evaluated individually before the investment committee approves the allocation.

Diligence asks: have we applied the right framework to each exposure? Financial due diligence covers the financial layer. The physical infrastructure layer requires a different set of questions. What is the geographic concentration of the underlying assets? What chokepoints does the supply chain run through? What is the insurance coverage for physical infrastructure risk including, as of 2026, the category of military targeting that has now been demonstrated? What is the regulatory environment for community and water access in the jurisdictions where assets are located? What is the vendor's exposure to US export control enforcement, including secondary sanctions risk in jurisdictions where diversion enforcement is active?

Govern asks: who is accountable for monitoring this exposure over the holding period? A private market infrastructure investment is typically held for seven to ten years. The geopolitical and regulatory environment will change multiple times across that period. The investment committee that approved the position needs a governance mechanism that monitors the exposure and brings material changes to the attention of the principals without waiting for the annual review cycle. The family office that approved a Gulf data center investment in 2024 needed a monitoring mechanism that surfaced the Hormuz conflict as a material risk event in February 2026. Most did not have one.

Three Questions Every Family Office Investment Committee Should Add

Before approving any AI or infrastructure allocation, three questions should be added to every investment committee review process.

> *What physical chokepoints does this investment depend on? For every AI and infrastructure allocation, map the underlying assets against the Power-Processing-Passage framework from The Risk Chair™ Issue 04. Identify the energy source, the semiconductor supply chain, and the logistics corridor. If any of those three runs through a concentrated or contested geography, name it explicitly before the vote.*

> *Does our diligence framework cover the risks that have materialized in this asset class in the past twelve months? Commercial data centers were physically attacked. A strait carrying one-fifth of global LNG was closed for six months. A major power deepened its control of critical mineral supply chains. If the due diligence template used for this investment did not account for any of those, the template needs updating before the allocation is approved.*

> *Who is accountable for monitoring this position between now and exit? Not the fund manager. The family office itself. The principal or investment committee member responsible for this allocation should be named, along with a monitoring cadence and the specific conditions that would trigger a review outside the normal cycle.*

PART IV

The Governance Layer

The Succession Gap Meets the Allocation Shift

Eighty-six percent of family offices lack a clear succession plan for key decision-makers. This number has held relatively constant across multiple years of survey data. It is not a new finding. What is new is the environment it is sitting in. An eighty-six percent succession gap during a period of measured, incremental portfolio adjustment is a governance vulnerability. An eighty-six percent succession gap during the largest allocation shift in family office history, into the most complex and geopolitically exposed asset classes the sector has ever accessed, is a governance crisis waiting to become a loss event.

The specific dynamic: next-generation family principals are stepping into investment roles with strong AI conviction and less exposure to the geopolitical, regulatory, and operational risk categories that the prior generation developed over decades. This is not a competence gap. It is an experience gap, and experience gaps in investment decision-making are most dangerous at exactly the moments when the investment universe is shifting into unfamiliar territory.

The families navigating this well are building governance structures that intentionally bridge the gap. They are adding independent investment committee members with specific expertise in geopolitical risk, supply chain exposure, and AI governance. They are creating formal policy statements that define the diligence process for new asset class categories before capital is committed, not after. They are building monitoring frameworks that treat a material geopolitical event as a portfolio governance trigger, not just a news item.

What Governance Architecture Looks Like for AI and Infrastructure Allocations

Three elements distinguish the family offices that will manage this period well from those that will not.

The first is an investment policy statement that explicitly addresses AI and infrastructure allocations as a separate category with its own diligence requirements and risk parameters. Most investment policy statements were written for traditional asset classes. They do not address the physical infrastructure layer, the supply chain exposure, or the geopolitical risk categories that AI and infrastructure investments carry. A policy statement that does not address what the family is now actually buying is not a governance document. It is a historical artifact.

The second is an independent risk assessment function, whether internal or retained externally, with specific expertise in AI governance, infrastructure risk, and geopolitical exposure. The fund manager who is seeking the allocation is not the right source of diligence on the risks embedded in the asset. The family office needs an independent voice at the investment committee table that has no economic interest in the allocation decision.

The third is a monitoring protocol with explicit triggers. Define, before the investment is approved, the conditions that would require a review of the position outside the normal annual cycle. A military strike on assets in the same geographic region. A regulatory enforcement action against a major counterparty in the supply chain. A chokepoint disruption that affects the energy or logistics inputs the underlying assets depend on. The Hormuz conflict would have triggered that review for every family office with Gulf-region AI infrastructure exposure, if the trigger had been defined. Most had not defined it.

The Dollar Confidence Dimension

Sixty-five percent of family offices expect confidence in the US dollar as a reserve currency to weaken in the short term, driven by concerns about US debt levels. Forty-seven percent acknowledge being overly exposed to the greenback. Families seeking to hedge dollar exposure are being drawn toward hard assets and infrastructure, including AI infrastructure, as a store of value outside the dollar system.

This is a governance observation, not an investment recommendation. AI infrastructure denominated in dollars, located in dollar-adjacent geopolitical corridors, subject to US export control enforcement, and now physically targeted by state adversaries in dollar-aligned regions is not the dollar hedge it appears to be on first analysis. A family office that is reducing dollar exposure by allocating to a Gulf-region data center fund has not reduced its exposure to the US geopolitical position. It has concentrated it in a physical asset that is more vulnerable to that position than the dollar itself.

The Identify stage of the PARC Solutions framework asks precisely this question before the allocation is approved: does this position accomplish what the investment thesis says it accomplishes? In many AI and infrastructure allocations currently being made as dollar diversification plays, the honest answer is no.

PARC SOLUTIONS PRACTICE IMPLICATIONS

Closing the Allocation Gap

The Allocation Gap is specific and solvable. The diligence frameworks most family offices are missing are not complex. They require someone who has built them before, inside real institutions, under real regulatory and operational scrutiny, and who can apply that experience to the family office context without the overhead of an institutional engagement.

PARC Solutions works directly with family office principals, investment committees, and the legal and financial advisors who serve them in three specific ways.

The first is diligence framework development. PARC Solutions builds AI and infrastructure due diligence processes that go beyond standard financial analysis to address the physical chokepoints, supply chain exposures, and geopolitical risk categories that AI and infrastructure allocations carry. The output is a reusable framework the investment committee applies to every allocation in this category, with the specific questions added to the standard review process and the independent assessment function defined before capital is committed.

The second is principal and board education. The governance gap between next-generation AI enthusiasm and the geopolitical, regulatory, and operational context that shapes AI infrastructure risk is real and bridgeable. PARC Solutions designs and delivers structured education programs for family office principals and investment committees, drawing on the Risk Chair™ series and the firm's advisory practice to build the contextual foundation that makes governance decisions more informed and more defensible. This work is connected to PARC Solutions' broader certification and training program developed in partnership with academic and institutional partners.

The third is governance architecture. Building the investment policy statement updates, the monitoring protocol triggers, the succession-integrated oversight framework, and the independent risk assessment function that the current allocation environment requires. PARC Solutions develops these frameworks in direct engagement with family office principals and their advisors, treating governance not as a compliance exercise but as an operational capability that protects the wealth the family has built.

The five issues of The Risk Chair™ published in 2026 have mapped the environment these allocations are entering. The Allocation Gap is the paper where that mapping meets the capital that is moving into it. PARC Solutions is the firm that connects the two.

CLOSING

What the Families That Get This Right Will Have Done

The families that navigate this period well will not be the ones that allocated to AI the earliest or the most aggressively. They will be the ones that knew what they owned.

They will have an investment committee that asked, before the vote, what physical chokepoints the allocation depends on. They will have applied a diligence framework that accounts for the risk categories that have materialized in this asset class in the past twelve months, not just the ones that appeared in the fund manager's deck. They will have a monitoring protocol that treats a military strike on Gulf-region data centers as a portfolio governance trigger, not a news event. And they will have a succession plan that bridges the experience gap between the principals who built the wealth and the next generation that is inheriting both the capital and the allocation decisions.

None of that is complicated. It is what the Identify-Diligence-Govern framework does, in sequence, before capital is committed rather than after a loss event forces the conversation.

Issue 06 of The Risk Chair™ will explore the regulatory dimension this series has tracked from the edges: what the absence of a coherent US federal AI governance framework means for the institutions, families, and capital that have been navigating without one — and whether the guardrails being assembled from state legislation, international frameworks, and enforcement action are arriving fast enough to matter.

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APPENDIX A

Acronym Glossary

Acronym	Definition
AML/CFT	Anti-Money Laundering / Countering the Financing of Terrorism — Regulatory framework requiring detection and reporting of illicit financial activity.
AU	African Union — Continental body of 55 member states; site of Xi Jinping's February 2026 zero-tariff announcement.
BSA	Bank Secrecy Act — US law establishing recordkeeping and reporting requirements for financial institutions.
CCO	Chief Compliance Officer — Executive responsible for regulatory compliance programs.
CGO	Chief Governance Officer — PARC Solutions' proposed executive function at the intersection of AI governance, cybersecurity, regulatory compliance, and enterprise risk. Introduced in Issue 02.
DRC	Democratic Republic of the Congo — Source of approximately 70-75% of global cobalt production; central to AI mineral supply chains.
ESG	Environmental, Social, and Governance — Framework for assessing non-financial institutional risk and impact.
EUV	Extreme Ultraviolet Lithography — Advanced semiconductor manufacturing process; monopolized by ASML.
FOCAC	Forum on China-Africa Cooperation — Multilateral platform for China-Africa diplomacy and economic engagement.
GPU	Graphics Processing Unit — Specialized processor central to AI model training and inference.
IRGC	Islamic Revolutionary Guard Corps — Iran's elite military force; closed the Strait of Hormuz and published a 29-company target list of AI infrastructure sites.
KRI	Key Risk Indicator — Metric used to signal emerging risk conditions for board or principal-level monitoring.
LNG	Liquefied Natural Gas — Approximately 20% of global supply transits the Strait of Hormuz.
MOU	Memorandum of Understanding — The June 17, 2026 Islamabad MOU between the US and Iran; currently on life support.
PUE	Power Usage Effectiveness — Metric measuring data center energy efficiency; lower is better. Industry average ~1.5; China's underwater facility achieved below 1.15.
REIT	Real Estate Investment Trust — Investment vehicle for real estate assets including data center infrastructure.
UBS	Union Bank of Switzerland — Global wealth manager; publisher of the 2026 Global Family Office Report cited in this paper.

APPENDIX B

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