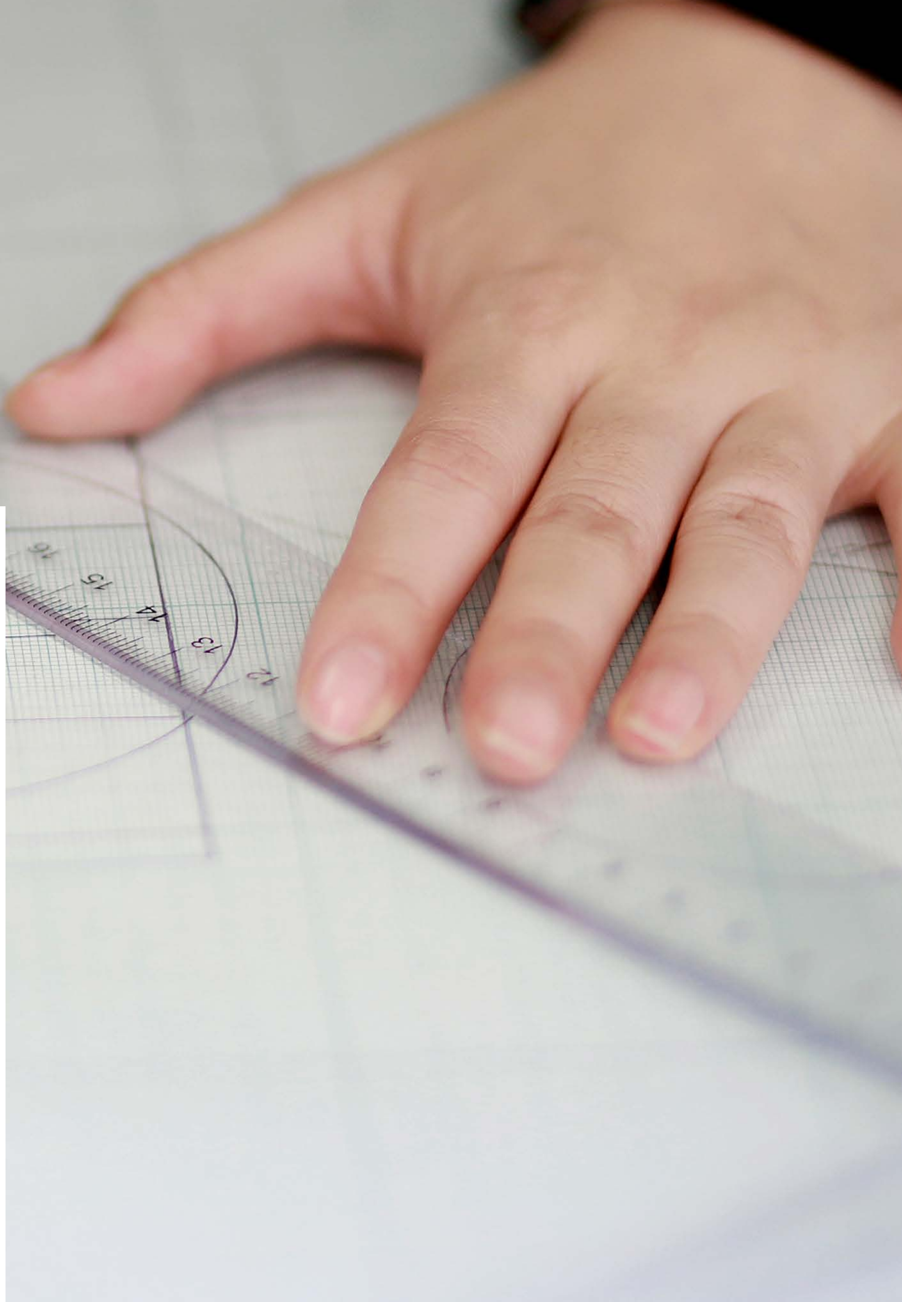

SHOOK® RESEARCH | Blackstone

Advisor Trends in Private Markets 2022

Have Alternative Investments Finally Come of Age?

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Key Takeaways from the Survey:

- More than 80% of SHOOK-ranked advisors in the survey plan to increase client allocations to alternatives over the next two years.
- Real estate, private equity, and private credit are the three most commonly cited types of alternative investments used by these advisors.
- More than half believe that alternatives help differentiate their practices.
- More than half, or 51%, cited reputation as the most important criteria when selecting a manager.

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What Top-Ranked Financial Advisors Are Saying

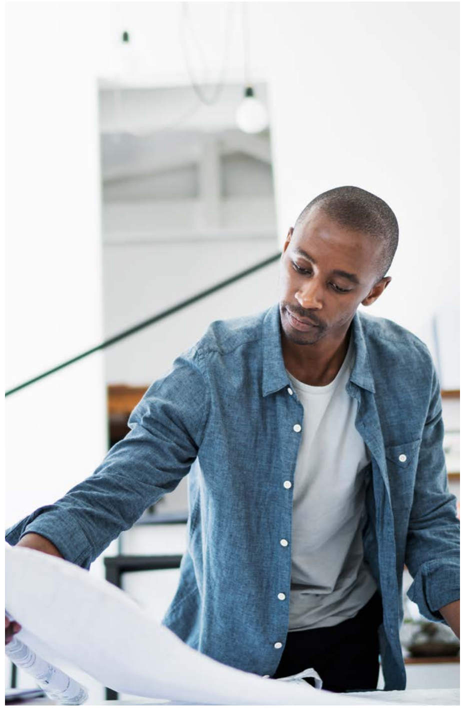
When it comes to navigating today's challenging markets, more financial advisors are looking beyond traditional investments for sources of opportunity.[1]

For many, the answer may be to reexamine private markets, where alternative investments can offer a different experience. A somewhat loosely defined alternate universe to stocks and bonds, these investments include private equity, real estate and private credit, among other asset classes. The results of the inaugural SHOOK Research survey of top-ranked[2] financial advisors underscore how alternatives have earned a place as core portfolio holdings among the majority of those surveyed—consistent with widening adoption across the industry.[3]

"Just as exchange-traded funds took time to catch on with many advisors and investors, alternatives would seem similarly poised for wider acceptance. This is for the simple reason that many types of alternatives can help advisors and investors pursue their core objectives," according to Joan Solotar, Global Head of Private Wealth Solutions at Blackstone.

"The advisors we rank are at the leading edge of industry trends," says R.J. Shook, head of SHOOK Research.

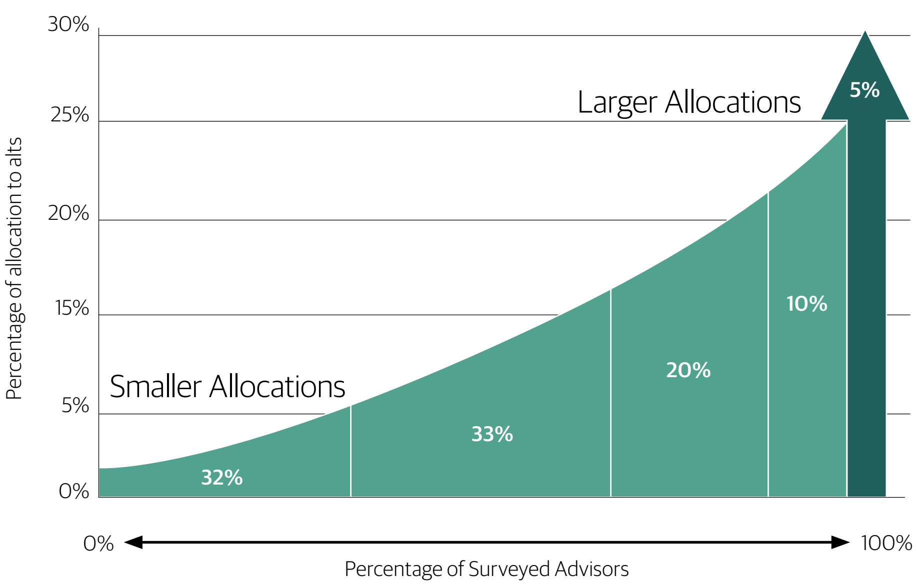
The survey results provide a snapshot of allocations to alternatives among these top-ranked financial advisors, who were selected for their current or past allocations to alternatives.[4] A majority of the surveyed advisors (nearly 70%) are allocating a larger percentage of client portfolios to alternatives than the industry average, which is in the low-to-mid single digits (Exhibit 1).[5] One-third allocate between 6% and 10% to alternatives; nearly one-third allocate between 11% and 20%. A small number



say that they allocate at even higher levels more commonly seen among pension funds and endowments, meaning more than 20%. Perhaps most telling of all: 81% of those surveyed say they plan to increase client allocations to alternatives, underscoring the field's growth potential.

> **"Many types of alternatives can help advisors and investors pursue their core objectives."**
>
> — Joan Solotar, Global Head of Private Wealth Solutions at Blackstone

Exhibit 1: Majority of Surveyed Advisors Allocate More Than Industry Average to Alternatives



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Alternatives Have Come a Long Way

For decades, institutional investors have invested in the private markets alongside stocks and bonds. The typical U.S. pension fund, for example, allocates 26% of its portfolio to alternatives, while endowments invest more than half (51%).[6] Because such large institutions can deploy capital for longer time horizons, alternative fund structures have historically reflected this investor profile, meaning high minimum investments committed for many years—trading off liquidity, or the ability to cash out in a timely manner, for higher potential returns compared to holding stocks and bonds over similar durations.

Wealthy families and individual investors have also had access to alternatives, but only over the past decade has the industry started to open up to more mass affluent investors, with significant changes to the types of investment structures offered.[7] So-called semi-liquid alternative funds are open-ended and offered perpetually, meaning investors can add and withdraw funds at shorter intervals, subject to redemption restrictions—usually quarterly or monthly—with relatively lower minimum investment requirements, in some cases reaping regular disbursements of income.[8]

On average, these investments have offered less correlated performance to public markets, meaning historically they have not behaved like stocks and bonds.[9] These differentiated investment returns have been one of the main attractions to both institutional and individual investors, especially during periods of market volatility and disruption.[10]

More advisors may be reaching the conclusion that alternative investments are simply a different way to pursue the same objectives they've already had—for instance, accessing sources of return or income, or finding ways to diversify risk. "I think there is an ongoing demystification process around alternatives. Wider adoption of the kind seen among our surveyed advisors will help convince more people to participate—that alternatives don't have to be seen as something distant or inaccessible," Shook says.

81% of those surveyed say they plan to increase client allocations to alternatives, underscoring the field's growth potential.

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Enhancing the Advisor's Value Proposition

Some advisors stressed that alternatives are accretive to their value proposition. "If you don't understand alternatives, you're not competitive," said one interviewee. "So as an advisor, that gives you an edge." More than half of surveyed advisors said their use of alternative investments helped them attract clients whom they otherwise wouldn't have. Similarly, more than half said that alternatives help differentiate their practices from those of peers who don't use alternatives.

Some also believe that those who forgo alternatives may be missing out on the kind of economic growth that occurs away from public markets. One respondent said, "The value creation that happens in modern American capitalism [today], half of it is in the public markets, but half of it is in the private markets." Added another advisor: "If you aren't participating in seed, venture, private equity, pre-IPO and the public markets, you're really not participating fully."

Finding assets capable of generating return or income potential was a common theme among interviewees. "We like real estate for those who need income and can't really get it currently in the bond market. And we think that it's a good inflation hedge," said one advisor.

Real estate was the most popular alternative asset among these advisors, at 54%, followed by private equity at 49%, and private credit at 45% (Exhibit 2). These asset classes have exhibited strong historical risk-adjusted returns compared to several commonly owned public assets (Exhibit 3).[11] A large majority of surveyed advisors, or 88%, said that alternatives complement stocks and bonds. Nearly all of them, or 94%, said that transparency was important when picking a provider. More than half, or 51%, cited reputation as the most important criteria when selecting an alternative investment manager (Exhibit 4).

Exhibit 2: Top Alternative Allocations Among Surveyed Advisors (Percentage Who Allocate)

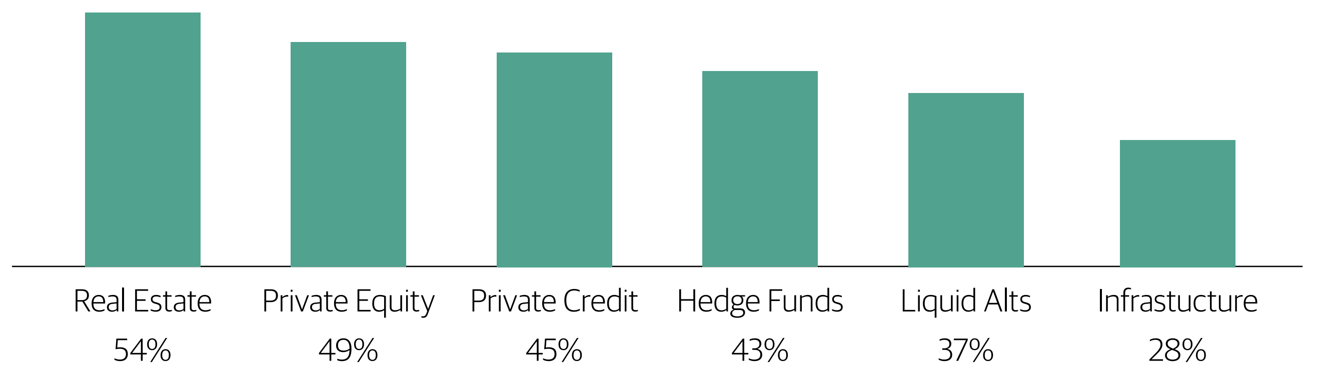

Exhibit 3: Historical Risk and Return of Select Asset Classes (2017-2021)[11]

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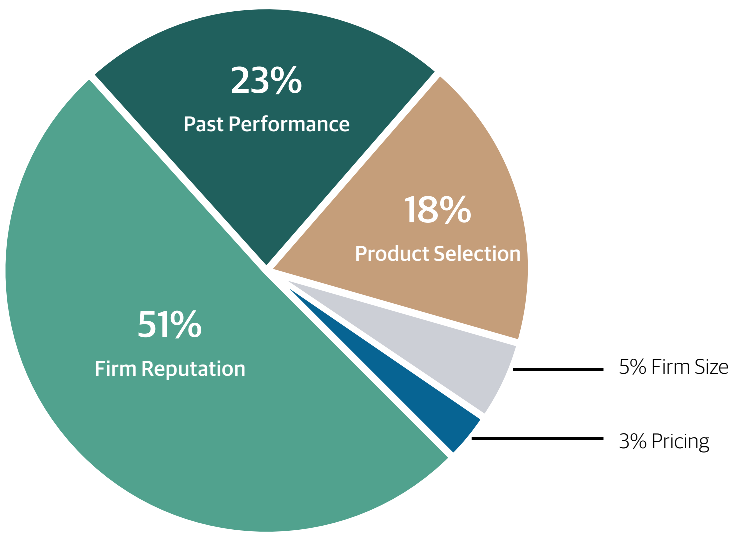
A Paradigm Shift

Exhibit 4: Reputation Matters When Picking Providers



To be sure, alternatives still face hurdles to broader adoption. Many advisors and their clients aren't familiar with how private markets work or the specific structures of alternative investments. Many worry about liquidity and fees. To that end, some alternative investment managers have prioritized education and training for financial advisors. These efforts have included investor-friendly materials for clients to help them better understand what alternative investments are, their role in asset allocation, and why they are particularly important for advisors to consider right now.

'beta' vs 'alpha'

After the financial crisis, ETFs rode the market wave of low inflation and near-zero interest rates to wide adoption.[12] Many advisors appreciated the simple selling point to clients: Passive investing in a basket of securities that could mimic a benchmark index or access specific sectors, thematic trends or geographic regions—all at low cost, with minimal intervention beyond the choice of index. Now that the tide of easy money lifting markets has receded, advisors may turn their search beyond what professionals term "beta"-driven investment instruments—meaning they may now want to look beyond investments whose returns are driven primarily by public markets.

Private markets may be part of the answer. In the post-easy-money era, the ability to actively select and manage investments to beat benchmark indexes could grow in importance. In the search for "alpha," as the industry terms the fruits of this ability, private managers have a larger value-creation toolkit at their disposal compared to their public market peers. Private capital tends to be more patient. But it's up to advisors to find experienced managers and reputable partners who can provide transparency and education.

footnote: 12.

About SHOOK® Research

SHOOK® Research is the world's only advisor research organization focusing on the quality of financial advisors. The rankings, published in Forbes and other publications, are established after SHOOK conducts extensive due diligence, including telephone, virtual, and in-person interviews. The company hosts a series of top advisor summits nationally where advisors assemble to offer insights and exchange best practices. SHOOK's mission is to foster an environment that elevates professionalism, raises client confidence and helps investors find trusted advisors. SHOOK Research's philanthropy has helped raise more than $300 million. SHOOK is independent and receives no compensation from financial advisors, their firms or companion media in exchange for ranking advisors.

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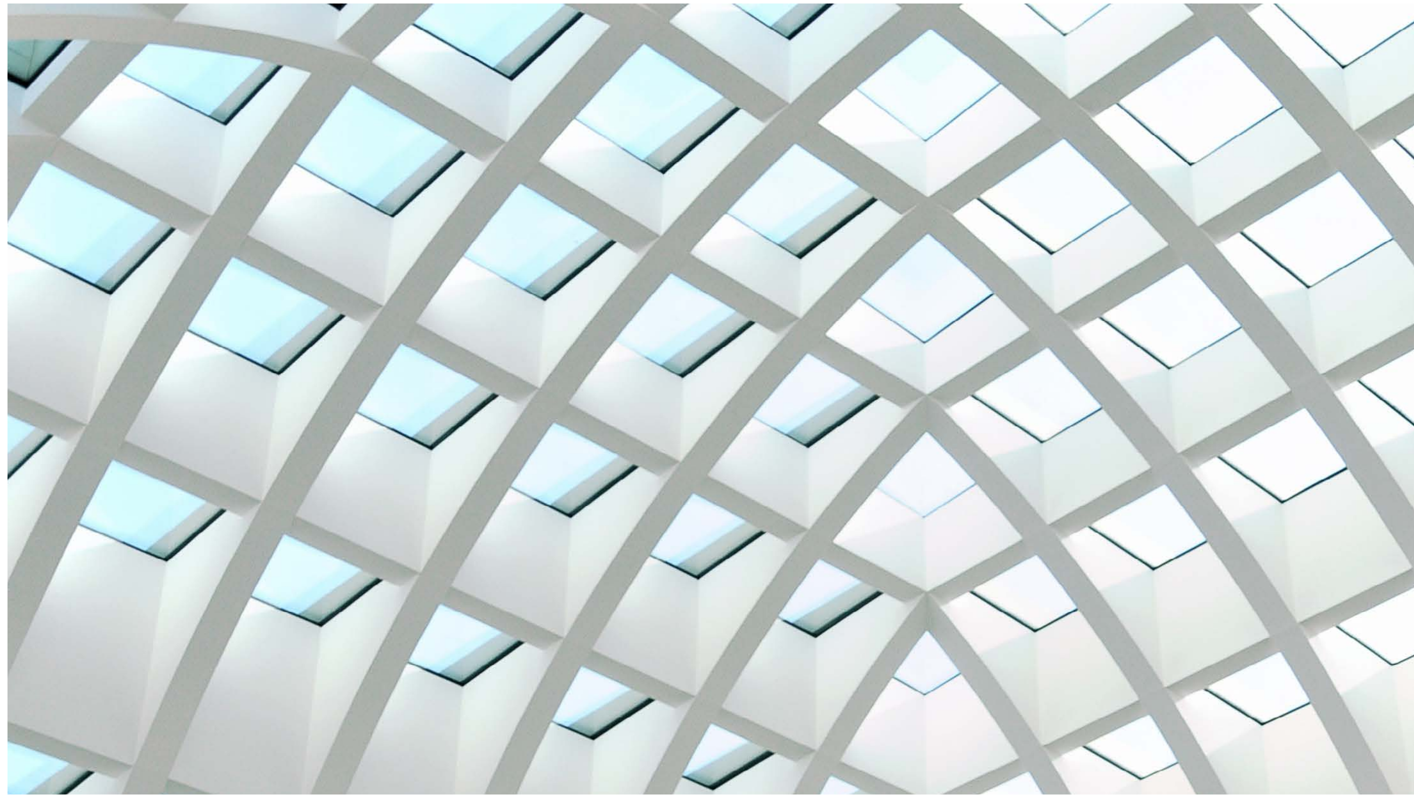

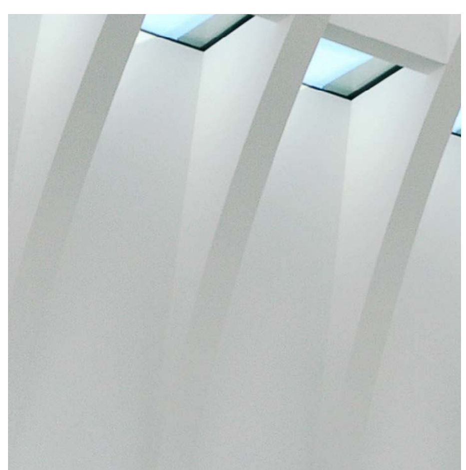

About Blackstone

Blackstone is the world's largest alternative investment manager, with $941 billion in assets under management (as of 6/30/2022). Blackstone invests across alternative asset classes on behalf of pension funds, other leading institutions, and individuals. For over a decade, Blackstone's Private Wealth Solutions team has provided its valued advisors with the support they need to invest beyond traditional asset classes and unlock differentiated opportunities for their clients.

Blackstone

Footnotes

1. Alternatives Become Bigger Slice of Client Portfolios as Advisors Seek Shelter," Investment News, April 22, 2022.
2. "Top-Ranked" as defined by SHOOK Research. For more information on SHOOK's ranking methodology, please see https://www.shookresearch.com/a-methodology.html
3. See, for instance, Money Management Institute and FUSE Research Network, "2021 Retail Distribution of Alternative Investments."
4. 225 respondents were selected from a population of 5,224 ranked advisors from the 2021 Forbes-SHOOK Best-In-State Ranking. Best-in-State is one of the ten rankings SHOOK Research compiles each year. Ranked as defined by SHOOK Research's ranking methodology. For more information on SHOOK's methodology, please see https://www.shookresearch.com/a-methodology.html. Information collected as part of the rating process, regarding advisor use of alternatives, was included when deciding what advisors would be surveyed for this study. To participate, advisors must use alternative investments today, or have used them in the past. Part 1 involved constructing a 20-question survey to measure advisors' attitudes and perceptions about both the risks and rewards of alternative investments. This portion of the project was designed to provide a foundation for lengthier, in-depth interviews that would follow in Part 2, the Qualitative Study. Part 2 of the study involved two dozen in-depth interviews with a group of top advisors who rated themselves as knowledgeable about alternative investments. It is important to note that the survey is a convenience sample of top-SHOOK ranked advisors, meaning it is not statistically significant and its findings are not generalizable to the overall U.S. advisor population, which is estimated at more than 263,000. Source: U.S. Department of Labor, Bureau of Labor Statistics, as of May 2021. https://www.bls.gov/oes/current/oes132052.htm#nat, accessed April 20, 2022.
5. Mid-to-low single digit industry average alternatives allocation estimate is based on Money Management Institute, "Retail Distribution of Alternative Investments," 2021, and Blackstone estimates.
6. Willis Towers Watson, "Global Pension Assets Study," 2021; National Association of College and University Business Officers, "TIAA Study of Endowments," 2021; Cerrulli, "U.S. Intermediary Distribution 2020," 2020. For Endowments, the alternative asset allocation is for the Public College, University or System only and represented by allocations to Other equities (includes marketable alternatives, private equity and venture capital) and Real assets (includes TIPS, REITs, commodities / futures, publicly traded Master Limited Partnerships (MLPs), public traded natural resource equities, private energy and mining, and private agriculture and timber). Averages provided are dollar-weighted. For Individuals, the alternative asset allocation includes "Alternatives" (e.g., long/short, market neutral, currency) and "Other" as defined as UITs, listed and unlisted closed-ended funds and private funds. Responses are weighted based on the average asset allocation of a moderate client.
7. "Blackstone, Other Large Private Equity Firms Turn Attention to Vast Retail Market," Wall Street Journal, June 7, 2022.
8. "It's Getting Easier to Invest in Alternatives," Wealth Management, Nov. 1, 2021.
9. Source: Morningstar Direct for the 15-year period ending 12/31/2021. Observations about returns, volatility, and correlation are based on the following indices. Public markets: for U.S. Stocks, S&P 500 Index; for Commodities: DJ Commodity Index; for Investment Grade Bonds: Bloomberg U.S. Aggregate Bond Index; ; for High Yield Bonds: Bloomberg US Corporate High Yield Bond Index. Private markets: for Private Equity, Cambridge Assoc. U.S. Private Equity Index; for Venture Capital: Cambridge Assoc. U.S. Venture Capital Index; for Private Real Estate: NCREIF ODCE Index. Past performance is not necessarily indicative of future results. There can be no assurance any alternative asset classes will achieve their objectives or avoid significant losses. These indices have been selected as generally well-known and widely recognized indices and not as a benchmark for any specific fund. Equity indices include reinvestment of dividends.
10. "The Next Decade of Alternative Investments: From Adolescence to Responsible Citizenship," CAIA Association, 2020.
11. Source: Morningstar as of 12/31/21. The returns and volatility of the asset classes presented are based on the following indices: Private Equity: Cambridge Assoc. US Private Equity Index, Hedge Funds: HFRI Fund Weighted Composite Index, Commodities: DJ Commodity Index, Investment Grade Bonds: Bloomberg US Aggregate Bond Index, Private Real Estate: NCREIF ODCE Index, High Yield: Bloomberg US Corporate High Yield Bond Index, Large Cap Equities: S&P 500 Index, Public REITs: MSCI US REIT Index. Investments in less liquid private market strategies are by nature risky and typically involve a high degree of leverage. The returns indicated above are long-term and represent well-known asset class indices and are not meant to be predictive of the performance of any particular fund, nor are they meant to suggest that all private funds result in positive returns or would avoid loss of principal.
12. "Global ETF Assets Hit $9 Trillion," Wall Street Journal, August 12, 2021.

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