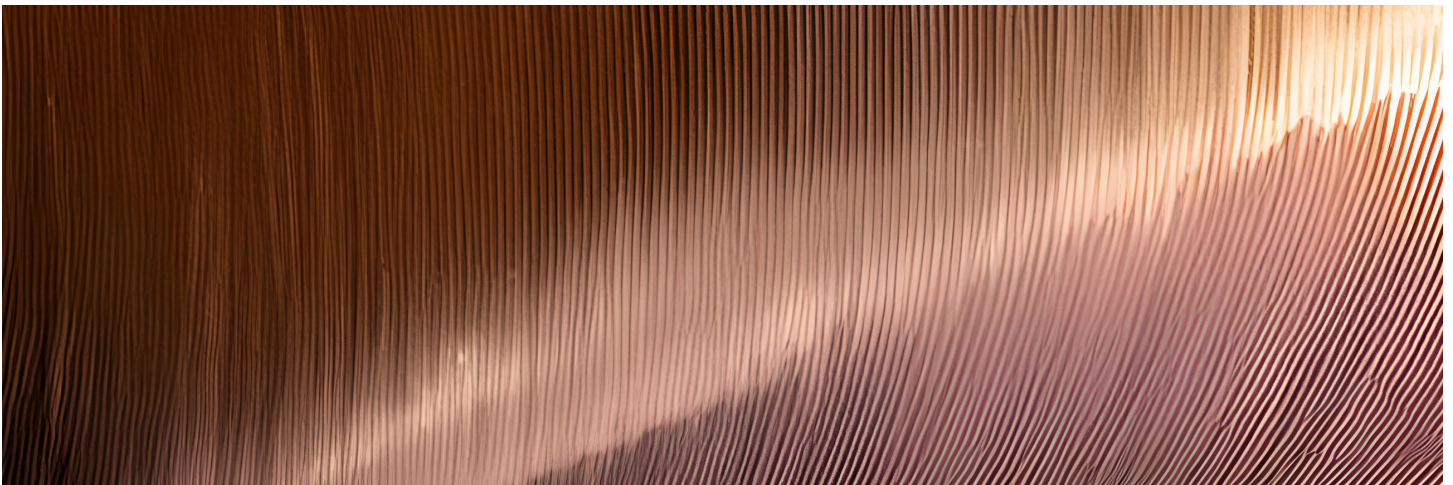


# Private Markets

Learn how assets such as private real estate, credit, and equity can fit into investment portfolios



Blackstone

Private  
Equity

Private  
Credit

Private  
Real Estate

# Need to Know

## 01 Larger Opportunity Set

Private markets can offer differentiated investment opportunities that are less correlated to public market assets.<sup>1</sup>

## 02 Long-Term Outperformance

Private markets have delivered attractive risk-adjusted returns relative to public market assets.<sup>2</sup>

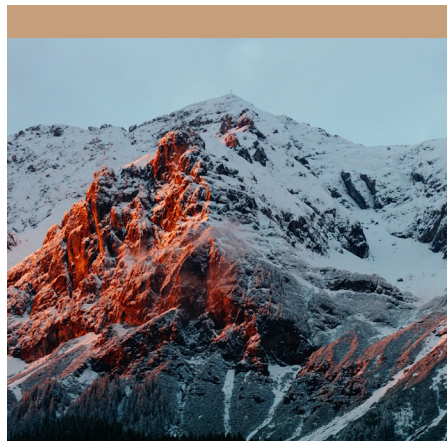
## 03 Diversification Benefits

Private market assets may provide more portfolio diversification and lower volatility than publicly listed securities.

# Private Markets – An Explainer



**Private equity funds** invest in non-publicly traded companies, ranging from startups to large private enterprises. Most companies do not trade publicly on an exchange.<sup>3</sup>



**Private credit funds** issue corporate loans and other credit instruments that don't involve a traditional bank and are not publicly traded.



**Private real estate funds** invest directly in privately held property, including a broad array of sectors, such as logistics, rental housing and data centers.



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1. Morningstar, as of December 31, 2023.

2. See Exhibit 1 on page 2.

3. Capital IQ, November 2023. Represents the share of companies based on the total number of public and private companies in North America, Europe, and Asia that have reported 2023, 2022, or 2021 fiscal year revenues greater than \$250 million per Capital IQ's company database.

# Why Private Markets?

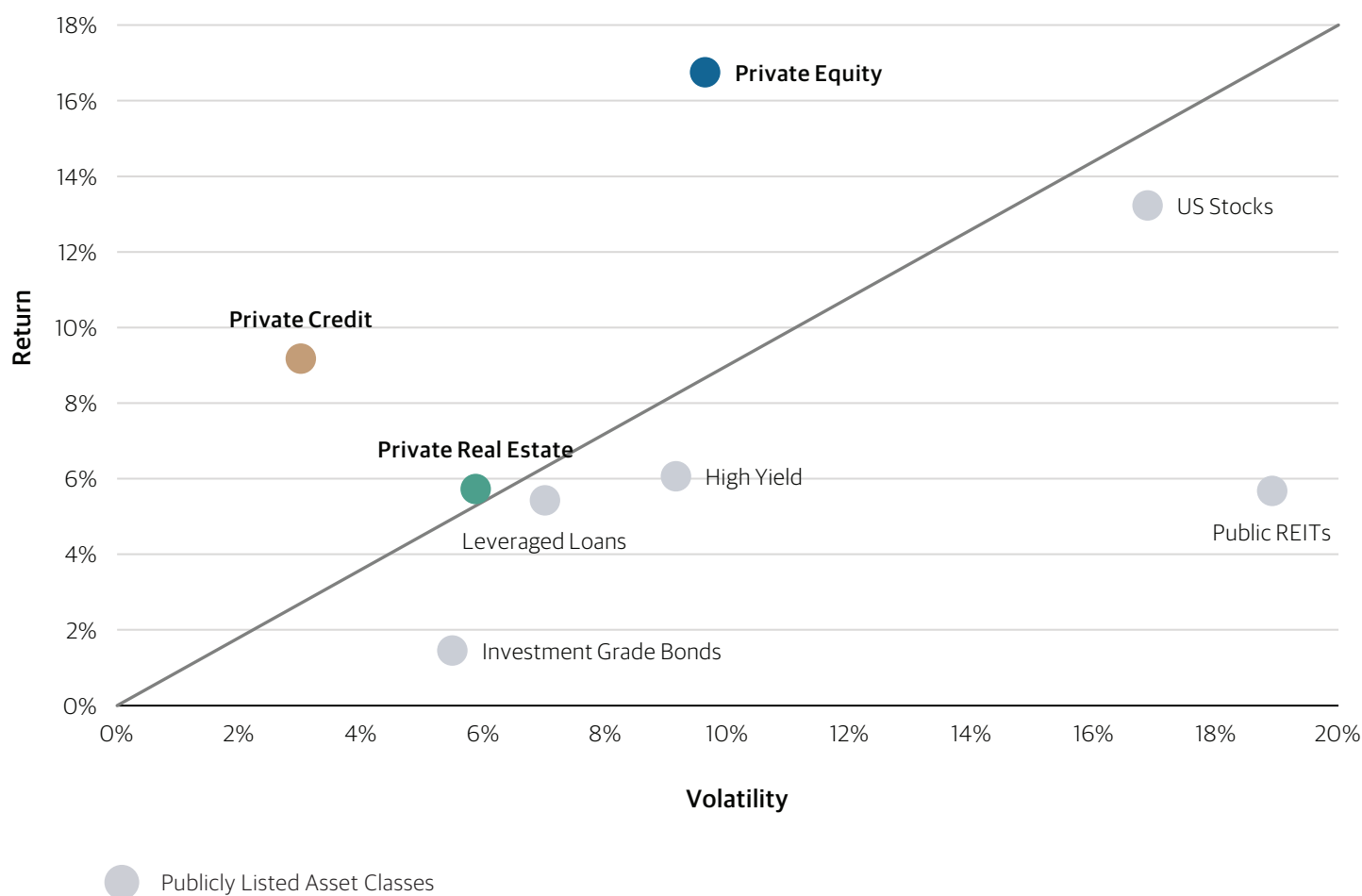
For many years, private market investments have been widely used in institutional portfolios with the aim to reduce volatility and seek to deliver consistent, long-term performance.

The democratization of private markets in recent years has allowed more eligible individuals to invest in private assets and take advantage of these potential benefits.

Exhibit 1 shows that private markets have stood out for their attractive risk-return profile vs. many publicly listed asset classes.<sup>4</sup>

## EXHIBIT 1: Risk-Returns of Select Asset Classes

2016–2023 (Earliest Common Available Data)



**Past performance does not predict future returns.** 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. Past events and trends do not imply, predict or guarantee, and are not necessarily indicative of, future events or results. Equity indices include reinvestment of dividends. A summary of the investment guidelines for the indices is available upon request. Any investment involves a high degree of risk and should only be made if an investor can afford the loss of the entire investment.

4. Source: Morningstar, over the 8-year period from January 1, 2016 to December 31, 2023. Return and Volatility are based on quarterly returns. Volatility is represented by the standard deviation. The returns and volatility of the asset classes presented are based on the following indices: Private Equity: Cambridge Associates US Private Equity Index. Public REITs: MSCI US REIT Index. Investment Grade Bonds: Bloomberg US Aggregate Bond Index. Private Real Estate: NFI-ODCE Index. High Yield: Bloomberg US Corporate High Yield Bond Index. US Stocks: S&P 500 Index. Private Credit: Cliffwater Direct Lending Index.

Traditionally, stocks and bonds have been regarded as the core building blocks of a diversified portfolio, often split 60% and 40%, respectively, to capture the growth upside of stocks and the yield and price stability of fixed income. Yet this traditional allocation approach may not provide investors with enough diversification to mitigate volatility and deliver investment returns across the economic cycle. The correlation of stocks and bonds has been unreliable over time, meaning each asset class can act as a hedge against the other only part of the time, and the timing of shifts has been difficult to predict (Exhibit 2).<sup>5</sup>

As an alternative, private market assets may provide diversification not typically available through publicly listed securities.

**Private equity** firms, for instance, work with the management of their portfolio companies as they seek to add value to the businesses that they invest in over several years.

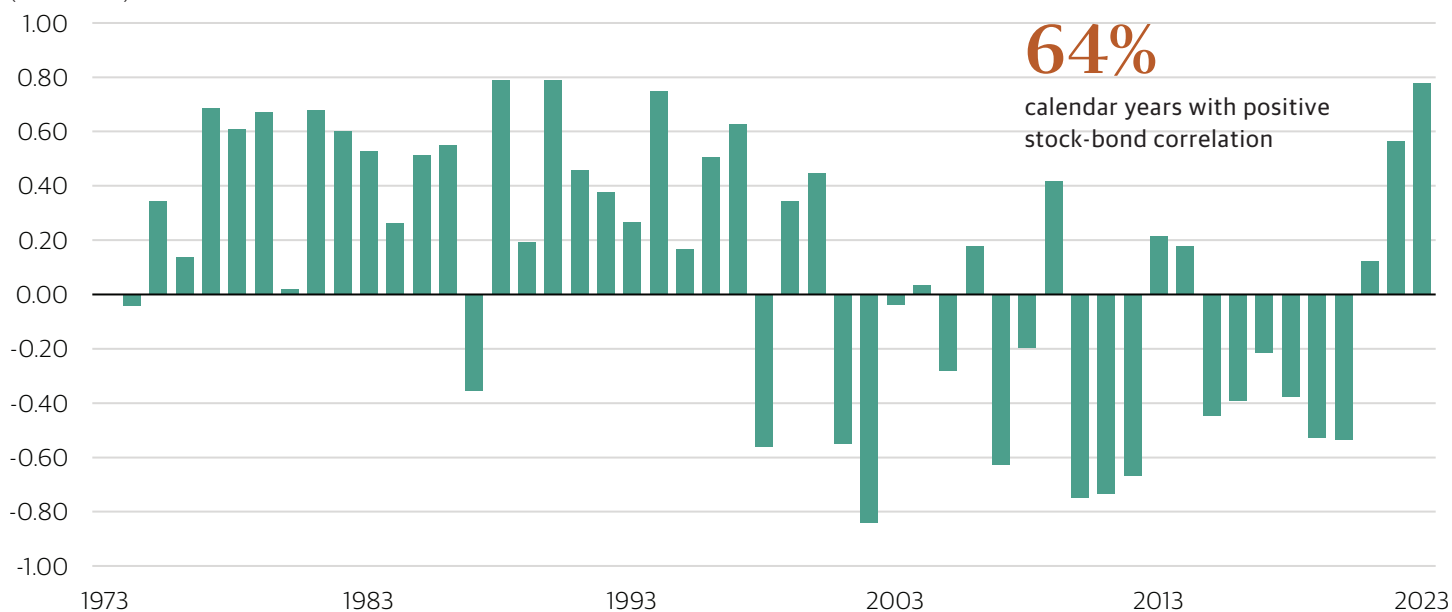
**Private real estate** has historically shown itself to be an effective hedge against inflation.<sup>6</sup> Unlike traditional fixed income, which generates fixed cash flows, income from real estate can rise over time<sup>7</sup> because leases adjust to account for inflation and/or are subject to regular rent reviews.

The same can be true of **private credit**. Key characteristics of private credit include seniority in the capital structure, which secures repayment priority in case of default, and the income potential from floating rate loans. In addition, the ability to negotiate terms directly with borrowers can ensure better structural protection, making for more defensive investments vs. traditional fixed income.

These characteristics of private market assets have the potential to create the kind of uncorrelated performance vs. publicly listed securities that aid portfolio diversification and reduce volatility (Exhibit 3).

### EXHIBIT 2: Stock-Bond Diversification Potential Has Been Unreliable over Time<sup>5</sup>

(Correlation)



**Past performance does not predict future returns.** There can be no assurance that any of the trends described herein will continue or will not reverse. Diversification does not ensure a profit or protect against losses. There is no guarantee that any product will effectively hedge inflation. Protections mentioned seek to mitigate risk but do not reduce or eliminate risk and do not protect against losses.

5. Morningstar, as of December 31, 2023. Equities represented by S&P 500. Bonds are represented by the Bloomberg Barclays US Treasury Total Return Index.

6. Green Street Advisors, as of December 31, 2023. 2023 NOI growth represents year-end estimate as of April 02, 2024. US CPI reflects Bureau of Labor Statistics data, as of December 31, 2023. NOI growth represents the average NOI growth by year across the equal-weighted average of the asset-weighted average of the multifamily, industrial, mall, office and shopping center sectors. Multifamily refers to apartment; shopping center refers to strip retail. The Consumer Price Index (CPI) measures changes in the prices paid by urban consumers for a representative basket of goods and services. NOI may not be correlated to or continue to keep pace with inflation.

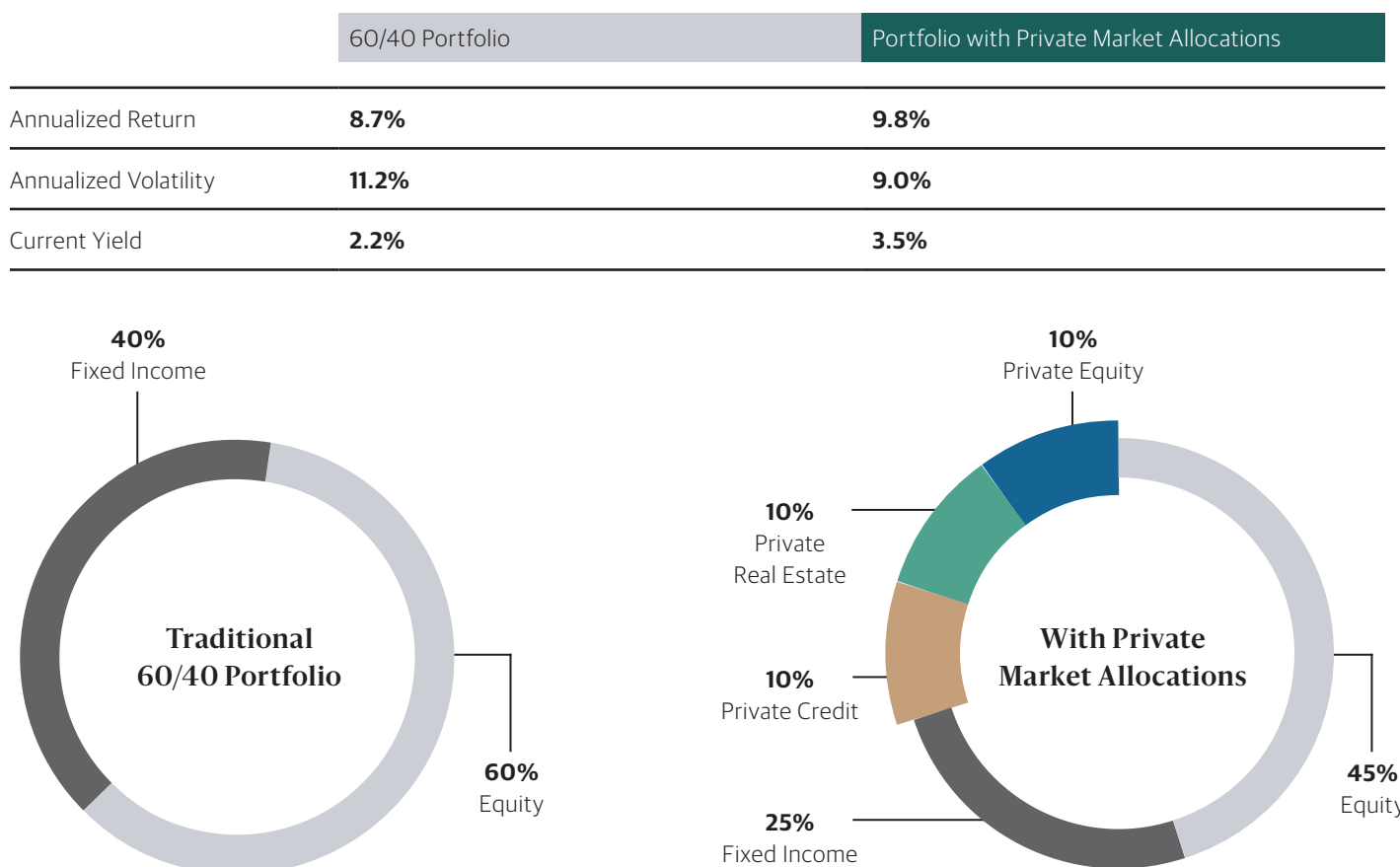
7. Income from real estate investments can also go down.

And yet, individual investors' portfolios contain a small allocation to private market assets compared to (for instance) pension funds, which often have a ~25% allocation to private markets, or endowments, which may have a ~50% allocation.<sup>8</sup>

Part of this may come down to unfamiliarity and comfort with selecting the right private market investment manager—a critical decision, given the broader dispersion of returns for alternatives compared to public markets. Key criteria to consider include **track record, scale**, and evidence of **long-term value creation**. But just as important may be how skilled managers are at meeting the needs of individual investors, which can be different from institutions.

### EXHIBIT 3: Allocating to Private Markets | An Illustration

2016–2023 (Earliest Common Available Data)



Source: Bloomberg, Morningstar, Cambridge Associates, NCREIF, Cliffwater, as of December 31, 2023. As commonly used in the industry, the 60/40 Portfolio is allocated 60% to the S&P 500 Index and 40% to the Bloomberg US Aggregate Bond index. Private Credit is represented by the Cliffwater Direct Lending Index. Private Real Estate is represented by the NFI-ODCE Index. Private Equity is represented by the Cambridge Associates US Private Equity Index. The yield on the 60/40 Portfolio was calculated using annualized S&P 500 Dividend Yield and the annualized Bloomberg US Aggregate Bond Yield. The yield on the portfolio with a private market allocation was calculated using the annualized S&P 500 Dividend Yield, the annualized Bloomberg US Aggregate Bond Yield, annualized Cliffwater Direct Lending Index quarterly income, and the annualized NFIODCE quarterly income. There is no yield from the private equity allocation, so private equity did not contribute to the annualized yield calculation. There can be no assurance that any Blackstone fund or investment will achieve its objectives or avoid substantial losses, or that alternative investments will generate higher yields than other investments. Annualized yields are as of December 31, 2023. Annualized returns and volatility are calculated based on the quarterly returns over the 8-year period ending December 31, 2023. The information herein is provided for educational purposes only and should not be construed as financial or investment advice, nor should any information in this document be relied on when making an investment decision. Opinions expressed reflect the current opinions of Blackstone as of the date hereof and are based on Blackstone's opinions of the current market environment, which is subject to change. **Past performance does not predict future returns.**

8. Thinking Ahead Institute, "Global Pension Assets Study," 2023; National Association of College and University Business Officers, "2023 NACUBO-TIAA Study of Endowments," 2023; Cerrulli, "U.S. Intermediary Distribution 2022," 2022. For Endowments, the alternative asset allocation is for the Public College, University or System only and represented by allocations to Alternative Strategies (includes marketable alternatives (hedge funds), private equity, private venture capital, and real assets). Averages provided are dollar-weighted. For Individual Investors, the alternative asset allocation includes "Alternatives" (e.g., liquid alternatives, real estate, hedge funds) 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. Percentages represents each investor type's average allocation to alternative investments.

# Private Market Access

Perpetual funds have emerged as a middle path between the long-term commitments of traditional drawdown funds and the daily liquidity of structures that primarily focus on public markets. Perpetual funds have attributes that may be appealing to individual investors:

- Capital is fully invested from the date of subscription, meaning there is no deployment lag
- Investors can periodically subscribe and redeem at the fund's net asset value (NAV), subject to limits, so investors buy and sell at a valuation that is reflective of the fund's current portfolio

Tradeoffs and challenges can include the illiquidity of underlying assets, the possibility of redemption limits, less transparency vs. public markets, and a wider range of possible outcomes compared to public markets.

**EXHIBIT 4: An Illustrative Comparison of Structures<sup>9</sup>**

	Liquid / Mutual Funds	Private Market Funds for Individuals	Illiquid Private Funds
Illiquid Asset Exposure	<15%	✓	✓
Immediate Funding of Investments	✓	✓	Over time
Investment Availability	Daily	Recurring (e.g., monthly)	Episodic
Liquidity	Daily	Periodic (e.g., monthly or quarterly, subject to limits)	Typically, none
Performance Reporting	Daily	Monthly	Quarterly
Fund Life	Continuous	Continuous	Typically, 7-10+ Years

Note: **Past performance does not predict future returns.** The information herein is provided for educational purposes only and should not be construed as financial or investment advice, nor should any information in this document be relied on when making an investment decision. Recipients should consult their own financial advisers regarding the information herein. There can be no assurance that an allocation to alternatives would yield returns or protect capital. The information presented represents what is typically seen for these fund types but variations and/or exceptions do exist. If applicable, redemptions are set forth by the general partners of the fund and are subject to other limitations (including caps) as outlined in offering materials. In exceptional circumstances, modifications, suspensions and termination of the redemption program may be implemented if deemed to be in the best interest of the fund and the fund's investors.

9. This table presents an illustrative comparison of fund types; however, other fund types exist and structure, minimum investment, liquidity, capital deployment, eligibility and spread are all ultimately set by the specific managers of each fund. This is, therefore, an overview and not a comprehensive summary.



# A Core Allocation

As the rise of perpetual funds makes clear, asset classes such as private real estate, private credit and private equity are not just for institutions. Individual investors can, and increasingly do, deploy these assets in their investment approach, including as core portfolio building blocks.<sup>10</sup>

**Blackstone has long believed that alternative investments could serve as foundational building blocks for both institutional and private wealth portfolios.”**

Joan Solotar, Head of Blackstone Private Wealth



## Manager Selection Matters

Selecting the right manager is critical to ensuring the right outcome. Key manager attributes would include scale, staying power and a long track record. As results are never guaranteed, a focus on manager selection can increase the probability of achieving intended goals, and decrease the possibility of selecting an inexperienced manager or a strategy that does not fit the objectives.

However, education is also essential. Greater availability of private market investments requires a fuller understanding of their benefits and risks, which can include their tendency to invest in illiquid assets, their greater complexity, lower transparency vs. public markets, and a wider range of potential outcomes. The right long-term partner must commit to broadening investors' understanding of private markets and what they can bring to the overall investment strategy.

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<sup>10</sup>. "Wealthy investors pile into private equity to escape stock volatility". Wall Street Journal, May 26, 2022.

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**Diversification; Potential Lack Thereof.** Diversification is not a guarantee of either a return or protection against loss in declining markets. The number of investments which a Fund makes may be limited, which would cause the Fund's investments to be more susceptible to fluctuations in value resulting from adverse economic or business conditions with respect thereto. There is no assurance that any of the Fund's investments will perform well or even return capital; if certain investments perform unfavorably, for the Fund to achieve above-average returns, one or a few of its investments must perform very well. There is no assurance that this will be the case. In addition, certain geographic regions and/or industries in which the Fund is heavily invested may be more adversely affected from economic pressures when compared to other geographic regions and/or industries.

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expected to develop. Withdrawal and transfer of interests in a Fund are subject to various restrictions, and similar restrictions will apply in respect of the Fund's underlying investments. Further, the valuation of a Fund's investments will be difficult, may be based on imperfect information and is subject to inherent uncertainties, and the resulting values may differ from values that would have been determined had a ready market existed for such investments, from values placed on such investments by other investors and from prices at which such investments may ultimately be sold.

**Images.** The Materials contain select images of certain investments that are provided for illustrative purposes only and may not be representative of an entire asset or portfolio or of a fund's entire portfolio. Such images may be digital renderings of investments rather than actual photos.

**Index Comparison.** The volatility and risk profile of the indices presented in this document is likely to be materially different from that of the Fund. In addition, the indices employ different investment guidelines and criteria than the Fund and do not employ leverage; as a result, the holdings in the Fund and the liquidity of such holdings may differ significantly from the securities that comprise the indices. The indices are not subject to fees or expenses and it may not be possible to invest in the indices. A summary of the investment guidelines for the indices presented are available upon request. In the case of equity indices, performance of the indices reflects the reinvestment of dividends.

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be met. A Fund's performance may be volatile. An investment should only be considered by sophisticated investors who can afford to lose all or a substantial amount of their investment. A Fund's fees and expenses may offset or exceed its profits.

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**Realized and Unrealized Returns.** Realized or partially realized returns represent both (i) proceeds from investments that are realized and have been disposed of and (ii) realized proceeds from unrealized investments, such as current income, financing proceeds, or partial sale proceeds. The unrealized value is based on a fair market value ascribed by Blackstone, which is verified as being reasonable by a third party to approximate the cash flow that would have been generated had the asset been disposed of as of the Reporting Date. Actual realized value of the applicable fund's currently unrealized investments will depend on, among other factors, future operating results, the value of the assets and market conditions at the time of disposition, legal and contractual restrictions, any related transaction costs and the timing and manner of sale, all of which may differ from the assumptions and circumstances on which the current unrealized values are based. Accordingly, the actual realized values of unrealized and partially realized investments may differ materially from the values presented herein. While we currently believe that the assumptions used to arrive at unrealized value are reasonable under the circumstances, there is no guarantee that the conditions on which such assumptions are based will materialize or otherwise be applicable

to the investments. Please let us know if you would like to see returns based on assumptions other than those which we have used.

**Recent Market Events Risk.** Local, regional, or global events such as war (e.g., Russia / Ukraine), acts of terrorism, public health issues like pandemics or epidemics (e.g., COVID-19), recessions, or other economic, political and global macro factors and events could lead to a substantial economic downturn or recession in the US and global economies and have a significant impact on the Fund and its investments. The recovery from such downturns is uncertain and may last for an extended period of time or result in significant volatility, and many of the risks discussed herein associated with an investment in the Fund may be increased.

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**Trends.** There can be no assurances that any of the trends described herein will continue or will not reverse. **Past events and trends do not imply, predict or guarantee, and are not necessarily indicative of, future events or results.**

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## Index Definitions

**Bloomberg Global Aggregate Bond Index:** The index measures the performance of global investment grade fixed-rate debt markets, including the US Aggregate, the Pan-European Aggregate, the Asian-Pacific Aggregate, Global Treasury, Eurodollar, Euro-Yen, Canadian, and Investment Grade 144A index-eligible securities.

**Bloomberg US Aggregate Bond Index:** The Bloomberg Aggregate Bond Index is an index of US dollar-denominated, investment-grade US corporate, government, and mortgage-backed securities.

**Bloomberg US Corporate High Yield Bond Index:** The Bloomberg US Corporate High Yield Bond Index measures the US dollar-denominated, high yield, fixed-rate corporate bond market.

**Bloomberg US Treasury Index:** The index measures the performance of US Treasury (notes and bonds) which are US Agg eligible, i.e., maturities greater than 1 year, min amount outstanding \$250 million.

**Cambridge Associates US Private Equity Index:** The Cambridge Associates US Private Equity index is a horizon calculation based on data compiled from US buyout and growth equity funds, formed between 1986 and 2023.

**Cliffwater Direct Lending Index:** The Cliffwater Direct Lending Index ("CDLI") seeks to measure the unlevered, gross of fee performance of US middle market corporate loans, as represented by the asset-weighted performance of the underlying assets of Business Development Companies ("BDCs"), including both exchange-traded and unlisted BDCs, subject to certain eligibility requirements.

**Consumer Price Index for All Urban Consumers (All Items in U.S. City Average):** The Consumer Price Index for All Urban Consumers: All Items (CPIAUCSL) is a price index of a basket of goods and services paid by urban consumers. Percent changes in the price index measure the inflation rate between any two time periods. The most common inflation metric is the percent change from one year ago. It can also represent the buying habits of urban consumers. This particular index includes roughly 88 percent of the total population, accounting for wage earners, clerical workers, technical workers, self-employed, short-term workers, unemployed, retirees, and those not in the labor force.

**Morningstar LSTA US Leveraged Loan Index:** The Morningstar LSTA US Leveraged Loan Index is designed to deliver comprehensive, precise coverage of the US leveraged loan market. Underpinned by PitchBook | LCD data, the index brings transparency to the performance, activity, and key characteristics of the market.

**MSCI US REIT Index:** The MSCI US REIT Index is a free float-adjusted market capitalization index that is comprised of equity REITs. The index is based on MSCI USA Investable Market Index (IMI) its parent index which captures large, mid and small caps securities. It represents about 99% of the US REIT universe. The index is calculated with dividends reinvested on a daily basis.

**NFI-OCDE Index:** The National Council of Real Estate Investment Fiduciaries Fund Index-Open End Diversified Core Equity, is the first of the NCREIF Fund Database products and is an index of investment returns reporting on both a historical and current basis the results of 38 open-end commingled funds pursuing a core investment strategy, some of which have performance histories dating back to the 1970s. The NFI-ODCE Index is capitalization-weighted and is reported gross of fees. Measurement is time-weighted. NCREIF will calculate the overall aggregated Index return.

**S&P 500 Index:** The S&P 500 index is a free-float weighted / capitalization-weighted index of US large-cap equities.

