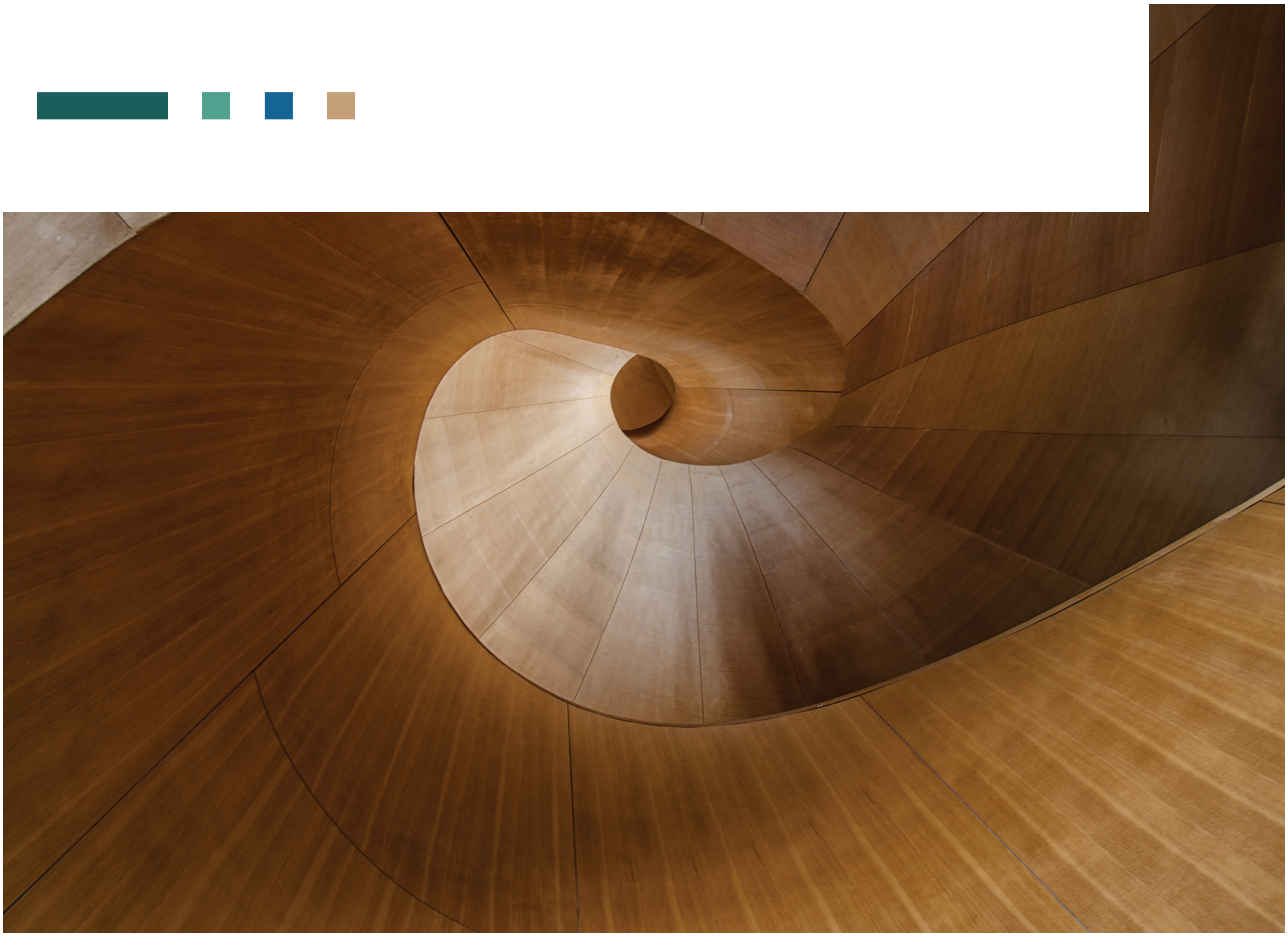
Blackstone

Essentials of Private Markets

How eligible investors can access institutional-quality private market solutions.

PRIVATE WEALTH SOLUTIONS



Need to Know

01

Private market assets may provide more portfolio diversification and lower volatility than publicly listed securities.[1]

02

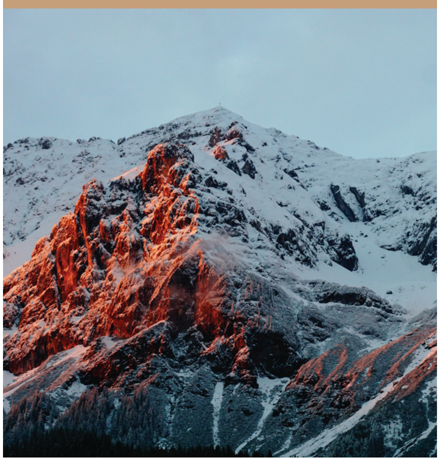
Until recently, private assets were mostly available to institutional investors, due to factors such as high investment minimums.

03

Eligible individual investors are increasingly allocating to private assets as part of their core portfolio, taking advantage of features designed for their needs like lower investment minimums.

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.[2]



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, high quality offices and data centers.

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1. Diversification is not a guarantee of either a return or protection against loss in declining markets.
2. Capital IQ; based on data available in Capital IQ's database, April 2022. Measuring companies with revenues of $100m+ annually.

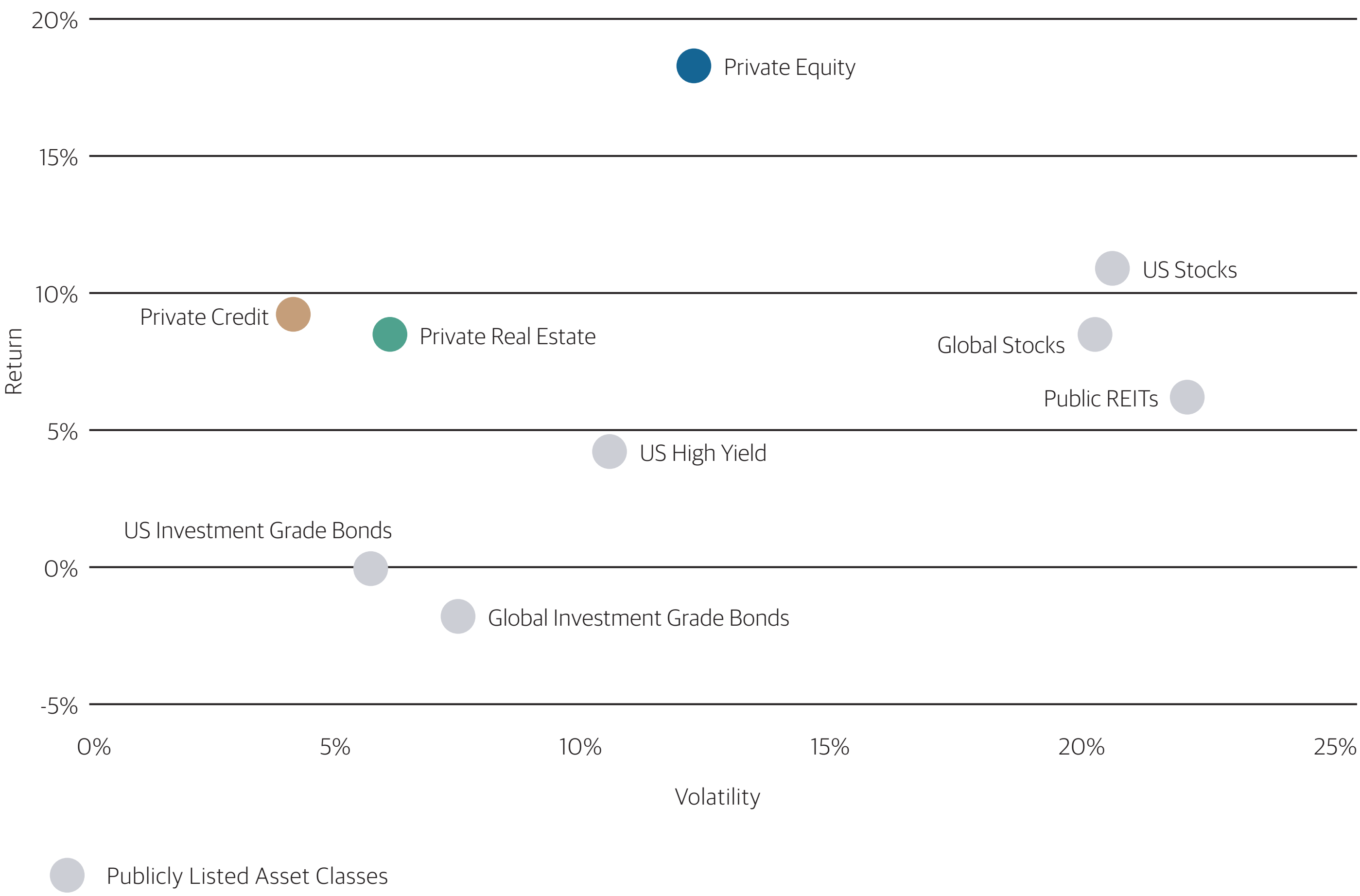
Why Private Markets?

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.[3]

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

EXHIBIT 1: Risk-Returns of Select Asset Classes (2018-2023)



3. Any investment involves a high degree of risk and should only be made if an investor can afford the loss of the entire investment. There are no guarantees or assurances regarding the achievement of investment objectives or performance and you could lose some of all of your investment. Investment performance may be volatile. An investment should only be considered by sophisticated investors who can afford to lose all or a substantial amount of the investment. Fees and expenses may offset or exceed profits.

4. Source: Morningstar Direct for the 5-year period ending 3/31/2023. Observations about returns and volatility are based on the following indices. Public markets: for **US Stocks**: S&P 500 Index; for **Global Stocks:** MSCI ACWI Index; for **US Investment Grade Bonds:** Bloomberg US Aggregate Bond Index; for **Global Investment Grade Bonds:** Bloomberg Global Aggregate Bond Index; for **Public REITs:** MSCI US REIT Index; for **US High Yield:** Bloomberg US Corporate High Yield Bond Index. Private markets: for **Private Equity:** Cambridge Assoc. US Private Equity Index; for **Private Credit:** Cliffwater Direct Lending Index; for **Private Real Estate**: NFI-ODCE Index. **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. Equity indices include reinvestment of dividends.

Traditionally, stocks and bonds have been regarded as the core building blocks of a diversified portfolio,[5] 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[6] to mitigate volatility and deliver investment returns across the economic cycle. The average 60/40 portfolio had one of the worst years in recent history in 2022[7], and the longstanding trend of rising stock-bond correlation also accelerated (Exhibit 2).[8]

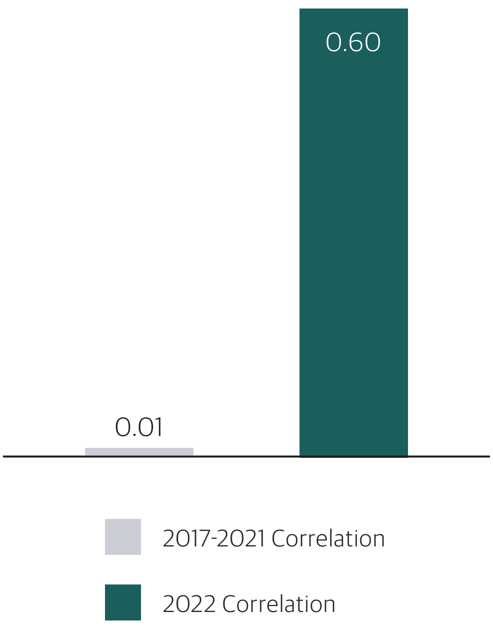
Historically, private market assets have demonstrated the ability to mitigate volatility under different types of market stress. **Private real estate**, for instance, has historically shown itself to be an effective hedge against inflation.[9] Unlike traditional fixed income, which generates fixed cash flows, income from real estate can rise over time[10] because leases are typically indexed to inflation and/or subject to regular rent reviews.

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

As an alternative, private market assets may also provide diversification[11] 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. The long holding period allows private equity managers to work with the companies in their portfolio on optimizing operational and financial efficiencies, aiming to create value and fuel rapid, sustainable growth. Private equity investors seek to benefit from the potential value appreciation, for example, when a portfolio company is eventually sold to new buyers.

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

EXHIBIT 2[8]: Stock-Bond Correlations



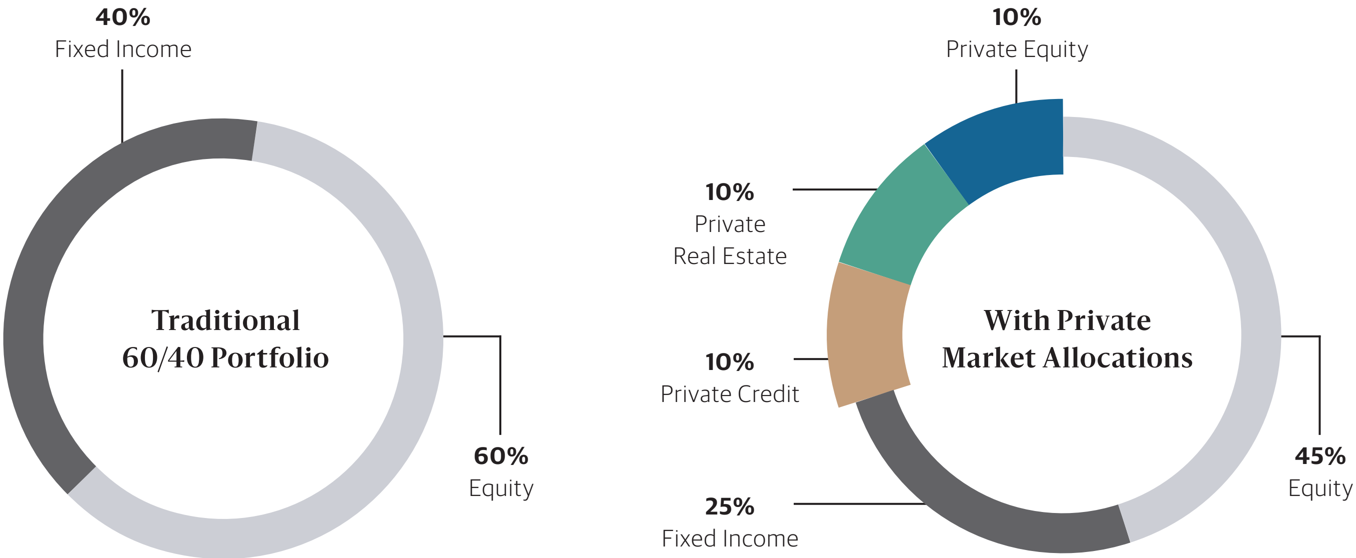
5. Institutional Investor, "Stocks and Bonds Have Moved in Opposite Directions for Decades – Here's What Could Change That," 5/6/2021.
6. Diversification does not ensure a profit or protect against losses.
7. Morningstar, 7/14/22; 2022 is only the second time in four decades to see stocks and bonds both posting losses for two consecutive quarters.
8. Morningstar, as of 12/31/2022. Stock-bond correlation represents the average trailing 12-month correlations over the indicated periods. Stocks are represented by the S&P 500 Index. Bonds are represented by Bloomberg US Aggregate Bond index.
9. As of December 31, 2021, Green Street Advisors, Bureau of Labor Statistics, measuring net operating income growth (NOI) versus U.S. inflation. 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 apartments; shopping center refers to strip center. 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.
10. Income from real estate investments can also go down.
11. See footnote 1.

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.[12]

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 Alternatives, 2018-2023 | An Illustration

	60/40 Portfolio	Portfolio with Private Market Allocations
Annualized Return	**7.3%**	**9.1%**
Annualized Volatility	**13.4%**	**11.0%**
Current Yield	**2.9%**	**3.4%**



Source: Bloomberg, Morningstar, Cambridge Associates, NCREIF, Cliffwater, as of 3/31/2023. 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 3/31/2023. Annualized returns and volatility are calculated based on the quarterly returns over the 5-year period from April 2018 to March 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.**

12. 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

Until recently, private markets attracted a relatively small segment of eligible individual investors. Investing directly in private asset vehicles came with a high investment minimum, often in the millions of dollars, which also could be locked up for 10+ years.[13]

Individual investors also had to accept the "drawdown" structure of traditional private market investing, where they would commit a certain amount of capital up front, but might wait months or years to deploy their full commitment to private assets. Let's consider how these challenges can be addressed by perpetual funds, so called because they are open to investors in perpetuity.

The Introduction of Semiliquid Funds

A growing number of individual investors are now making allocations to semiliquid funds (sometimes called "perpetual funds").[14] These funds are generally open-ended, meaning investors can subscribe and redeem at regular intervals, typically monthly or quarterly at the prevailing net asset value (NAV) of the fund and subject to limitations as outlined in offering materials.[15]

Some of the benefits of investing in a perpetual fund include the fact that:

- Investors' capital is fully invested into the fund from the date of subscription, meaning there is no deployment lag.
- Investors subscribe (and redeem) at the fund's prevailing NAV, so investors buy at a valuation that is reflective of the fund's current portfolio.
- Access to private market investments is improved through lower investment minimums and shorter holding periods.[16]

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

EXHIBIT 4: An Illustrative Comparison of Structures[17]

	Illiquid Funds	Semiliquid Funds	Liquid Funds
Investment Availability	Episodic	Monthly or Quarterly	Daily
Funding	Over time	Immediately	Immediately
Liquidity	None	Monthly or Quarterly, subject to limits[18]	Daily
Performance Reporting	Quarterly	Monthly	Daily
Tax Reporting[19]	K-1	1099 or K-1	1099
Fund Life	Typically, 10+ Years	Continuous	Continuous

13. There is no current public trading market for private assets, and Blackstone does not expect that such a market will ever develop. Private asset investments cannot generally be readily liquidated without impacting the investments' ability to realize full value upon their disposition.
14. Any investment involves a high degree of risk and should only be made if an investor can afford the loss of its entire investment. There are no guarantees or assurances regarding the achievement of investment objectives or performance and you could lose some or all of your investment. Investment 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. Fees and expenses may offset or exceed its profits.
15. Please note that the Fund Manager may have the discretion to amend / suspend unit repurchases if such action is deemed in the best interest of shareholders.
16. See Footnote 13.
17. 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.
18. An early redemption fee may still apply.
19. This row presents an illustrative comparison of tax reporting for the U.S. investor. One can and should carefully review additional jurisdictional tax considerations with one's own investment and tax advisors.

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.[20]

Blackstone has long believed that alternative investments could serve as foundational building blocks for both institutional and private wealth portfolios"[21]

Joan Solotar, Head of Blackstone Private Wealth Solutions

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 versus 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.

20. Wealthy investors pile into private equity to escape stock volatility". Wall Street Journal, May 26, 2022.

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