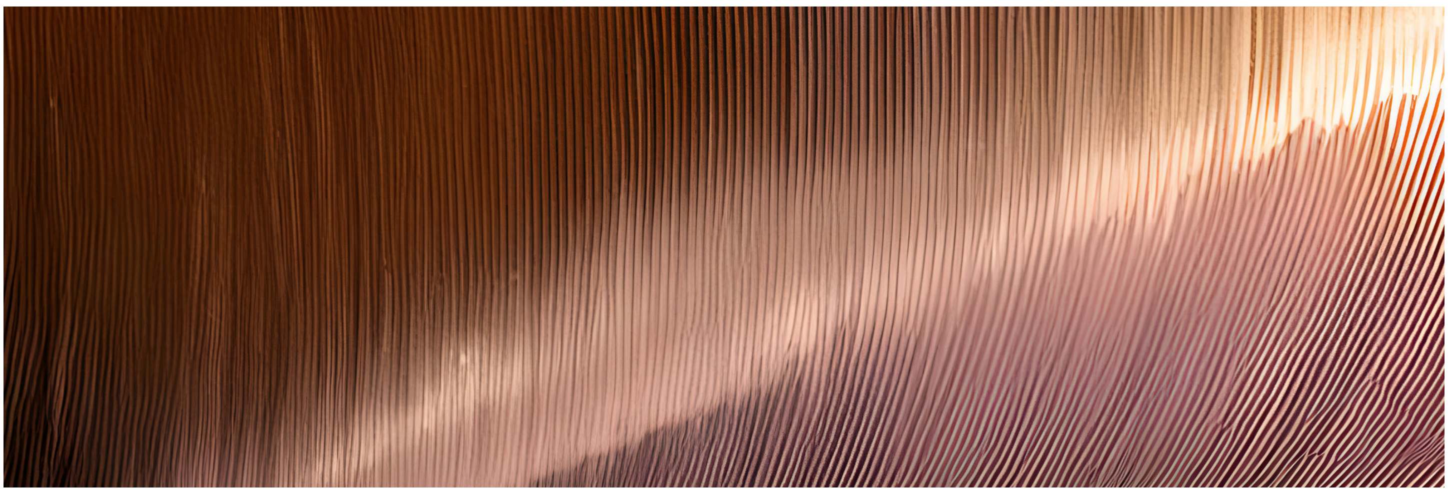
Blackstone University | Essentials

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.[1]

02

Long-Term Outperformance

Private markets have delivered attractive risk-adjusted returns relative to public market assets.[2]

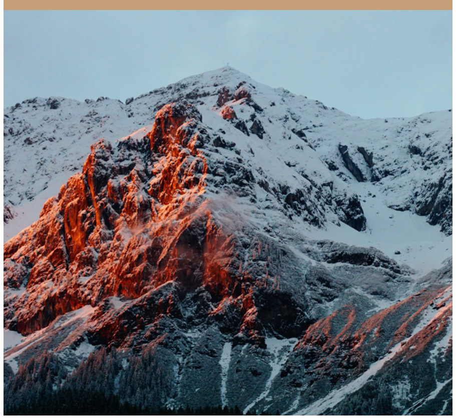
03

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.[3]



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.

At the heart of our Insights lies a wide set of timely articles, educational publications and market views. For more information, please visit our Insights page at:

www.blackstone.com/insights/

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?

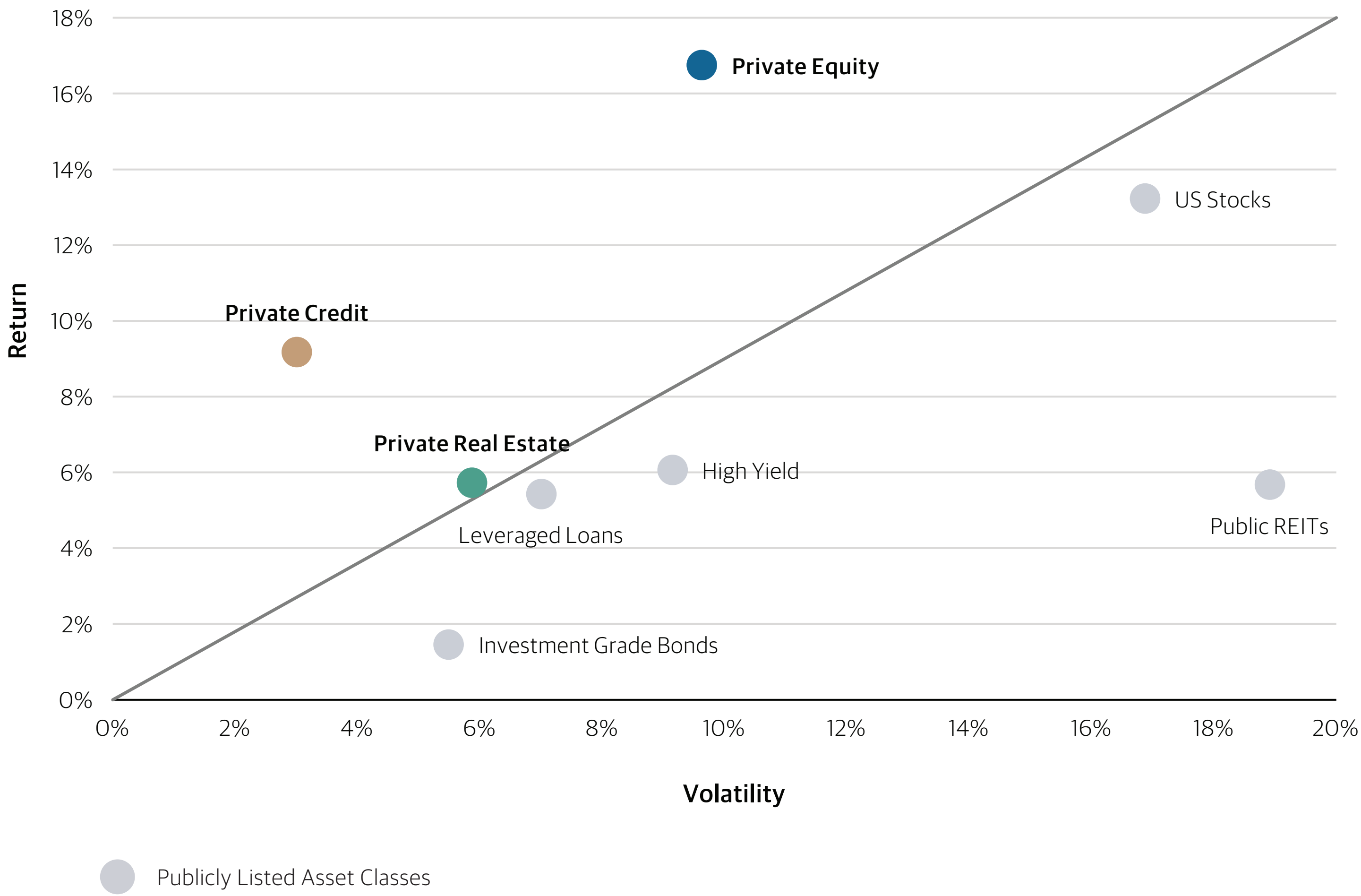
For many years, private market investments have been widely used in institutional portfolios with the aim to reduce volatility and seek to deliver consistent, long-term performance.

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.[4]

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).[5]

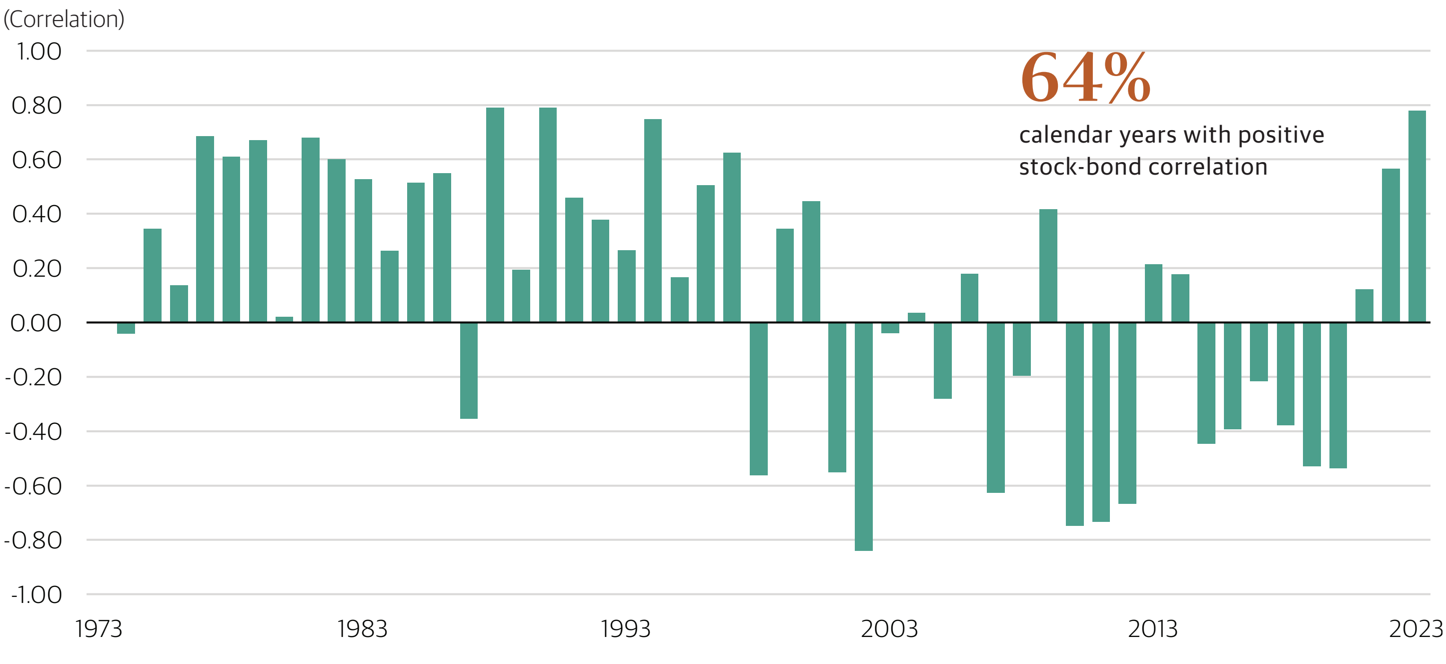
As an alternative, private market assets may provide diversification not typically available through publicly listed securities. **Private equity** firms, for instance, work with the management of their portfolio companies as they seek to add value to the businesses that they invest in over several years.

Private real estate has historically shown itself to be an effective hedge against inflation.[6] Unlike traditional fixed income, which generates fixed cash flows, income from real estate can rise over time[7] 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[5]



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.

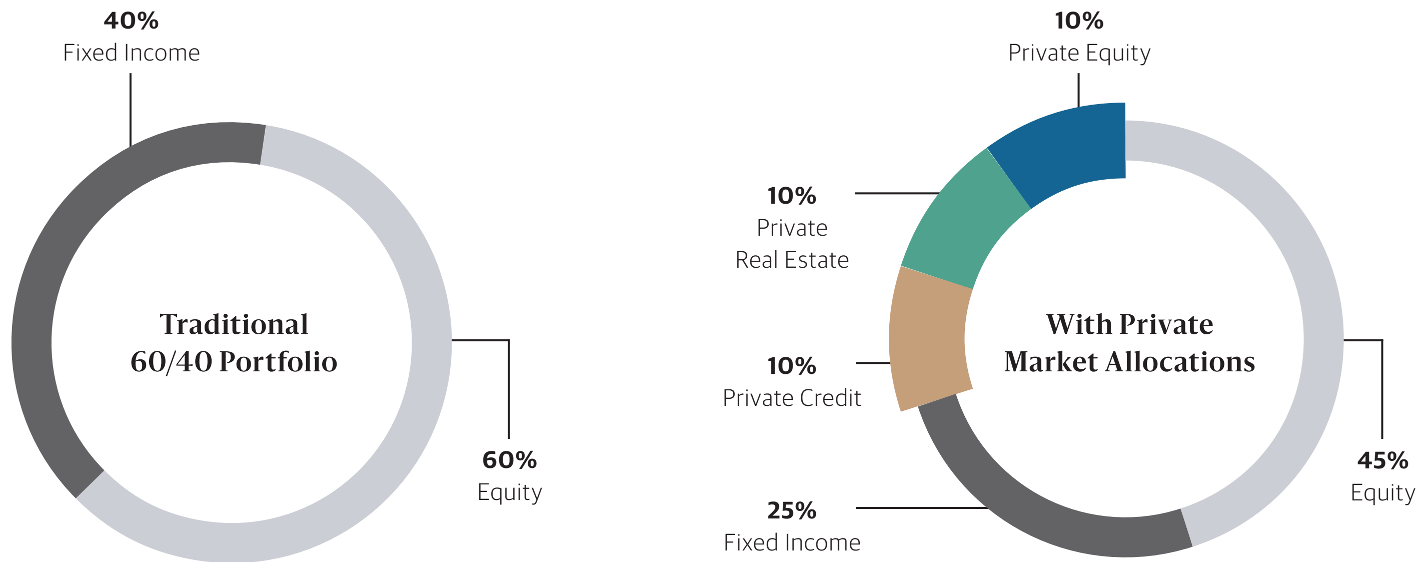
And yet, individual investors' portfolios contain a small allocation to private market assets compared to (for instance) pension funds, which often have a ~25% allocation to private markets, or endowments, which may have a ~50% allocation.[8]

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)

	60/40 Portfolio	Portfolio with Private Market Allocations
Annualized Return	**8.7%**	**9.8%**
Annualized Volatility	**11.2%**	**9.0%**
Current Yield	**2.2%**	**3.5%**



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[9]

	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.[10]

"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 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 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.

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

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This document (together with any attachments, appendices, and related materials, the "Materials") is provided on a confidential basis for informational due diligence purposes only and is not, and may not be relied on in any manner as legal, tax, investment, accounting or other advice or as an offer to sell, or a solicitation of an offer to buy, any security or instrument in or to participate in any trading strategy with any Blackstone fund, account or other investment vehicle (each a "Fund"), nor shall it or the fact of its distribution form the basis of, or be relied on in connection with, any contract or investment decision. If such offer is made, it will only be made by means of an offering memorandum (collectively with additional offering documents, the "Offering Documents"), which would contain material information (including certain risks of investing in such Fund) not contained in the Materials and which would supersede and qualify in its entirety the information set forth in the Materials. Any decision to invest in a Fund should be made after reviewing the Offering Documents of such Fund, conducting such investigations as the investor deems necessary and consulting the investor's own legal, accounting and tax advisers to make an independent determination of the suitability and consequences of an investment in such Fund. In the event that the descriptions or terms described herein are inconsistent with or contrary to the descriptions in or terms of the Offering Documents, the Offering Documents shall control. None of Blackstone, its funds, nor any of their affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein and nothing contained herein should be relied upon as a promise or representation as to past or future performance of a Fund or any other entity, transaction, or investment. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon the merits of the investments described herein and any representation to the contrary is an offense. All information is as of June 30, 2024 (the "Reporting Date"), unless otherwise indicated and may change materially in the future. Capitalized terms used herein but not otherwise defined have the meanings set forth in the Offering Documents.

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Aggregated Returns. The calculation of combined or composite net IRR / net returns takes the aggregate limited partner cash flows by actual date from inception of the strategy through the current quarter end and uses the terminal value (including unrealized investments) as of the current quarter end to comprise an overall return for the strategy. The actual realized returns on the unrealized investments used in this calculation may differ materially from the returns indicated herein. In addition, the actual returns of each Blackstone fund, account or investment vehicle included in such combined or composite returns may be higher or lower than the Aggregated Returns presented. Furthermore, no limited partner has necessarily achieved the combined or composite returns presented in such performance information, because a limited partner's participation in the applicable funds, accounts and/or investment vehicles may have varied.

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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.**

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.