SHOOK® RESEARCH | Blackstone

Advisor Trends in Private Markets 2023

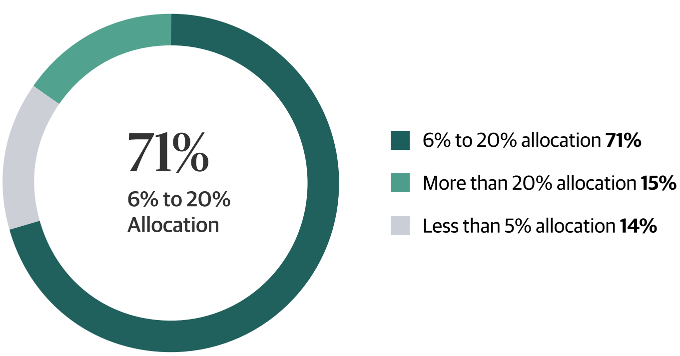
A Watershed Year for Alternative Investments

What a difference a year makes. At the start of 2022, advisors and clients faced a near-zero interest rate environment and buoyant stock and bond prices. By the end of the year, rates had soared and the traditional 60/40 portfolio of stocks and bonds closed down 16%, one of its worst years on record.[1] Many investors began to revisit long-standing assumptions about portfolio diversification.[2]

Alternative asset managers have long contended that private market investments can help investors better balance their portfolios beyond stocks and bonds, especially during periods of market volatility. No other year in recent memory tested that hypothesis as completely as 2022 did. In our second annual SHOOK Research survey, top-ranked advisors[3] said that private market alternative investments—such as private equity, private credit and real estate—were among the bright spots in their client portfolios.

Among top-ranked advisors, overall adoption of alternatives rose, with 71% allocating between 6% and 20% of client portfolios to alternatives. Our inaugural survey a year ago, which covered a similar but not identical demographic of advisors, placed 53% in that bracket. Fifteen percent of those surveyed this year said that they allocated more than a fifth of client portfolios to alts, flat from a year ago. Note that the industry average for individual investor portfolios allocating to alternatives is less than 5%.[4]

MORE ADVISORS ARE MAKING LARGER CLIENT ALLOCATIONS TO ALTERNATIVES



"Alts have been amazing the past year," said one financial advisor. "They saved my portfolio at a time when traditional stocks and bonds were down." Another advisor who said that nearly all his clients had exposure to alternatives, with an average 15% portfolio allocation, estimated that overall, his clients may have been down about 5% last year, "but compare that to the S&P being down 18%."

For many of these advisors, all of whom build alternatives into their practices to varying degrees, 2022's difficulties served to validate their belief that private assets can play a critical role in client portfolios, a view long held by institutional investors, such as pensions, foundations and endowments.

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> SHOOK-RANKED ADVISOR

"Alternatives" at the Core

For Joan Solotar, Head of Blackstone's Private Wealth Solutions division, the results support her longstanding view that more private wealth advisors should rethink their approach. "I actually dislike the term 'alternative.' I think of them as private investments, asset classes that belong inside investors' core portfolios—right there with stocks and bonds."

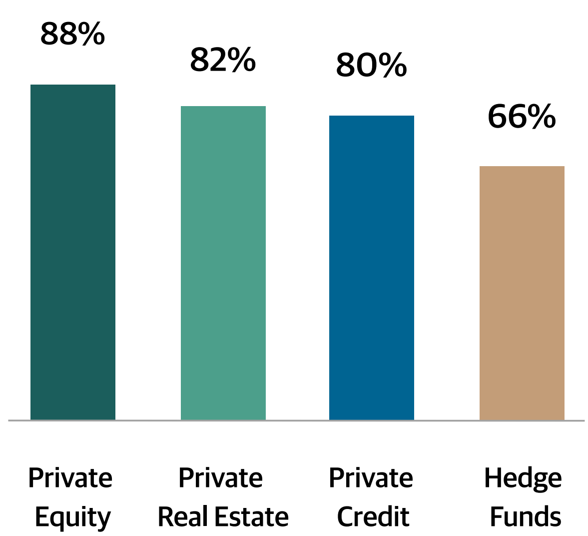
In 2022, those who thought bonds would help insulate returns in a bear market—the way they did in 2008[5]—found out the hard way that that's not always the case. "Public markets make up barely 10% of the economy, and they are at the mercy of persistent volatility. But private assets, like real estate, private credit and private equity—while not immune—can help investors build value and add diversification over the longer term, we would argue, which can make them useful in balancing a portfolio and compounding returns year after year, as you're working to build wealth," says Solotar.

1. Morningstar, as of December 31, 2022. As commonly used in the industry, the 60/40 portfolio is 60% allocated to the S&P 500 index and 40% is allocated to the Bloomberg US Aggregate Bond Index.
2. See, for instance, "Wealthy Investors Pile into Private Equity to Escape Stock Volatility," Wall Street Journal, May 26, 2022.
3. "Top-Ranked" as defined by SHOOK Research. For more information on SHOOK's ranking methodology, please see https://www.shookresearch.com/a-methodology.html
4. 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.
5. Morningstar, covering the period 1/1/2008 to 12/31/2008. "Bonds" are represented by the Bloomberg US Aggregate Bond Index.

R.J. Shook agrees. "What we've heard a lot this past year is that alternative investments really did their job," says the head of SHOOK Research. "Many advisors using private real estate and other types of private assets to deliver income and long-term value not correlated to their stock and bond portfolio found that those kinds of funds outperformed in 2022, while much of the public markets largely fell apart."

As with stocks and bonds, these advisors also tended to mix and match different types of private asset classes, depending on the needs, comfort level and risk profiles of their clients. Asked which private market asset classes they allocated to, 88% of those surveyed listed private equity, 82% cited real estate, and 80% said private credit.

ADVISORS ALLOCATE TO MULTIPLE ASSET CLASSES WITHIN ALTERNATIVE INVESTMENTS[6]

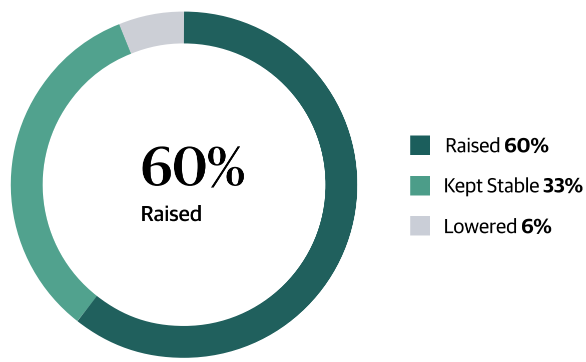


Many advisors also see alternative investments as a differentiator for their practices: "Any advisor can buy stocks, bonds, mutual funds and ETFs, and they'll be fine, but there will be a lot of volatility. With alternatives being able to beat the markets [...] it's a no-brainer," said one advisor whose team has more than $1 billion in assets under management. Among surveyed advisors, 86% said that using alternatives helped them attract and/or retain clients.

Rising to the Occasion

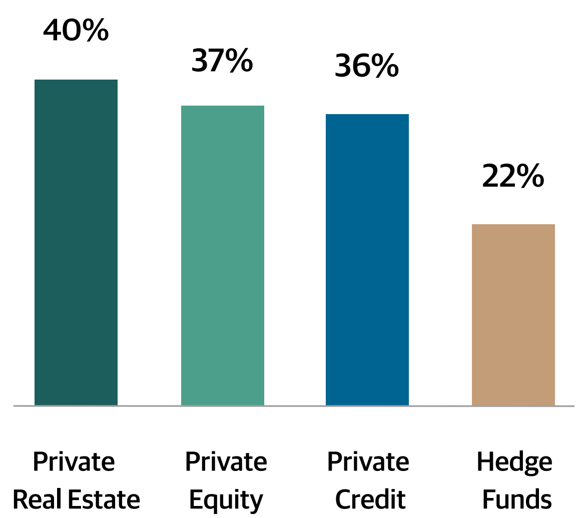
Among surveyed advisors, 60% said they raised their allocations to alternatives in 2022, while 33% stayed flat. "It's been a major benefit to client portfolios from a volatility-reducer standpoint, but also as a return-enhancer," said one advisor, whose team manages around $500 million in client assets.

HOW ADVISORS MANAGED ALLOCATIONS TO ALTERNATIVES IN 2022[7]



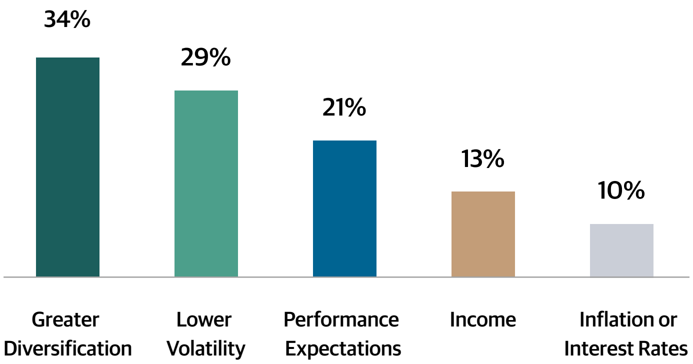
Among those who raised allocations, real estate, private equity and private credit received nearly even preference.

PRIVATE ASSET CLASSES TO WHICH ADVISORS RAISED ALLOCATIONS[6]



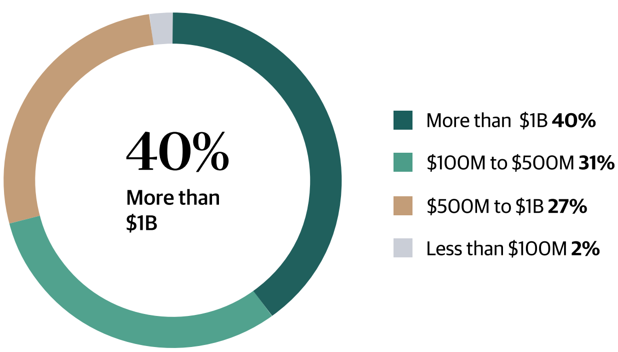
6. Percentages won't add up to 100% as survey participants were able to make more than one choice.
7. Percentages won't add up to 100% due to rounding.

TOP 3 REASONS FOR HIGHER ALLOCATIONS: GREATER DIVERSIFICATION, LOWER VOLATILITY, AND PERFORMANCE[8]



Of those who had raised allocations, 40% had over $1 billion in assets under management, 27% had $500 million to $1 billion, and 31% had $100 million to $500 million.

ADVISORS WITH HIGH AUM LOOK TO ALTERNATIVES



Some advisors tied the net worth of their clients to a greater propensity toward alternatives. Said one advisor who had clients with average net worth of around $25 million or more, "When you get clients of that size, you want to introduce a diversified approach where appropriate and where they have the risk appetite for alternatives. I'd say 50% of our clients are interested and want that kind of diversification."

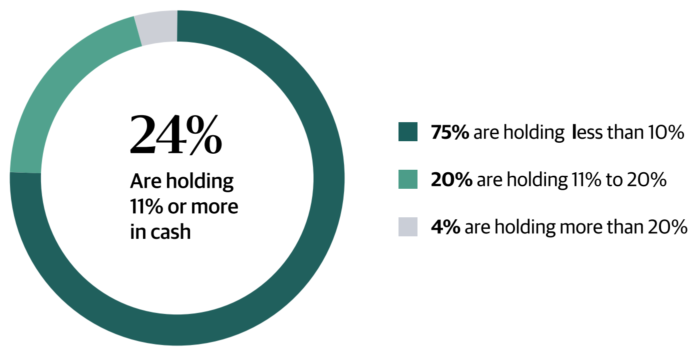
For that advisor, the case for alternatives strengthened coming out of 2022: "You look back two or three years ago, bonds weren't really yielding anything. So, we redeployed to alts, like real estate where you still get some consistent cash flow and have a hard asset underneath it—that was a better alternative to just fixed income. Now in an inflationary environment, those hard assets tend to do relatively well and that has been an effective tool."

Uncertainty Lies Ahead

In a sign of uncertain times, many advisors said that their client portfolios are holding significant cash positions. About 20% of advisors said that clients are holding between 11% and 20% of their portfolios in cash. Another 4% who held cash exceeding 20% of their portfolios were concentrated in practices with the largest AUM—suggesting extra defensiveness among ultra-high-net worth individuals.

Even among advisors who said that their clients are holding very little of their portfolios in cash, the current environment has prompted a rethink. "For the first time probably ever in my 20 years as an advisor, I am encouraging some of my clients to try to get up to six months to a year's worth of living expenses in some sort of a cash investment," said one advisor with more than 150 clients.

CASH IS PILING UP IN CLIENT PORTFOLIOS[7]



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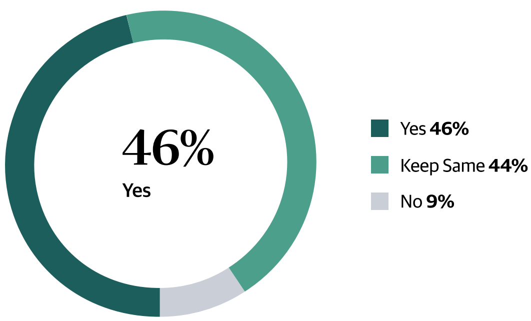
8. Only representative of the top 5 responses. Other results include the following: All of the above (8%) and Client interest/demand (5%). Percentages won't add up to 100% as survey participants were able to make more than one choice.

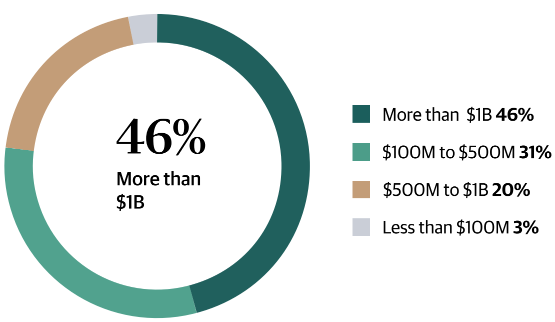
Outlook of Cautious Optimism

The macro and market road ahead remain uncertain. Yet, as any advisor is likely to opine, some of the best opportunities can be found in these moments of disruption. Some 46% of surveyed advisors are recommending that clients raise their allocation levels to alternatives, while 44% recommend maintaining current levels. Tellingly, the practices with the largest AUM are generously represented among those recommending raising alts allocations—46% manage over $1B in AUM and 20% manage $500M to $1B.

MOST ADVISORS AIM TO RAISE, OR KEEP STEADY, ALLOCATIONS TO ALTERNATIVES IN NEXT 18 MONTHS[7]



ADVISORS RECOMMENDING HIGHER ALLOCATIONS TO ALTERNATIVES BY AUM



"What we heard consistently from these advisors is: The era of low interest rates is over and all that easy credit is going away," says R.J. Shook. "And that means alpha and the active management that generating alpha requires will continue to rise in importance—especially if inflation remains high."

For many of these advisors, alternatives will likely play a bigger role in their practices—a shift that drives demand for partners who can consistently deliver strong performance. When asked what matters most when choosing a manager, reputation and performance were top of mind.

Asked what he looks for in an alternatives manager, one advisor said: "I look for track record and how long management teams have been together. I want scale that I can trust. But also, over the years, I've built relationships with these managers so that when I need to, I can just go have a discussion."

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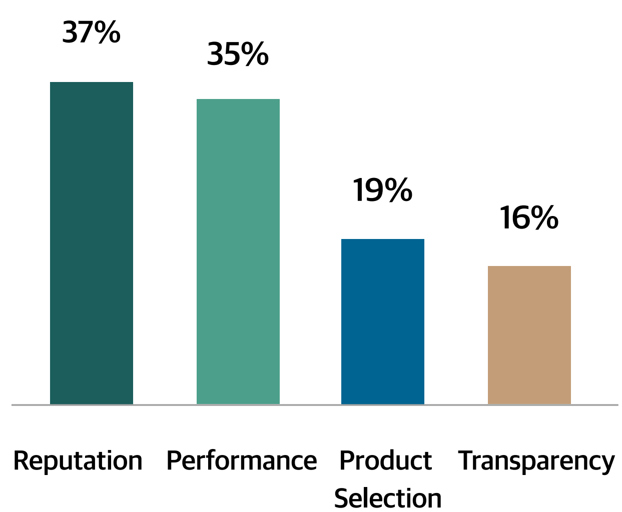
WHO YOU INVEST WITH MATTERS: TRAITS ADVISORS WANT IN A MANAGER[9]



A key part of such discussions going forward may be about how much bigger a role private market investments can play in portfolio allocations, especially as clients start to feel the pinch of inflation and decide to move more of their cash off the sidelines in search of resilient performance, defensive diversification and respite from relentless volatility.

9. Only representative of the top 4 responses. Other results include the following: Pricing (3%), All of the above (2%), and Educational materials (1%). Percentages won't add up to 100% as survey participants were able to make more than one choice.

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.

About Blackstone

Blackstone is the world's largest alternative investment manager, with $975 billion in assets under management (as of 12/31/2022). 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.

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This survey and report was prepared by SHOOK Research and commissioned by Blackstone Inc. ("Blackstone"). Additionally, Blackstone participated in the review and preparation of this report. Any views or opinions expressed herein reflect solely the views of the advisors who were surveyed in connection with this survey and, in certain cases, SHOOK Research and/or Blackstone, and such views or opinions are subject to change without notice and may differ from opinions expressed by others. Neither SHOOK Research nor Blackstone has independently verified the information received from the advisors surveyed and no representation is made as to the accuracy of such information. Any projections, expectations or other forward looking statements set forth herein are based on assumptions that are believed by SHOOK Research and Blackstone to be reasonable as of the date hereof. Neither SHOOK Research nor Blackstone has any obligation to update any such statements. Actual results are inherently uncertain and are subject to many factors, changing market conditions and general economic conditions, and may vary materially from the themes set forth herein. Nothing herein constitutes investment advice or recommendations, and this summary paper should not be relied upon as a basis for making an investment decision.

SHOOK Survey Population. 207 out of 5,224 ranked advisors from the 2022 Forbes-SHOOK Best-In-State Ranking were selected to participate in this survey. 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. Advisors who said they had no experience with alternative investments were excluded from the sample. SHOOK analysts conducted telephone interviews from January 3, 2023 to March 9, 2023. A total of 22 telephone interviews were completed. 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 12, 2023.

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