Blackstone

PRIVATE WEALTH SOLUTIONS

Understanding Private Market Investing

Investors searching for higher, uncorrelated returns have increasingly deployed capital into private market alternative investments.[1] Private investments can complement traditional strategies in a range of portfolio types. To access them, individual investors typically must overcome challenges in allocating to private markets and maintaining a diversified allocation.

Q: Why invest in private market alternatives now?

A: Reasons we believe more individual investors should consider revisiting private alternatives in today's market environment include:

Potential for Outperformance Relative to Traditional Asset Classes.[2] Interest rates near zero, a projected slowdown in economic growth and elevated equity valuations even after the COVID-driven market selloff are a few reasons some investors have lowered return expectations for traditional stocks and bonds. We believe this muted outlook naturally lends itself to exploration of other sources of return, such as private alternatives.

Building Portfolios Whose Risks and Return Sources Have Potential to be Less Correlated. After the end of the 10-year bull market in early 2020, many investors noticed for the first time the downside of imbalanced portfolio risk. Our research indicates that investors seeking to reduce their exposure to public equities – the most common source of investment risk – may want to consider a broader range of investments.[3] Private alternatives may be part of a more balanced approach.

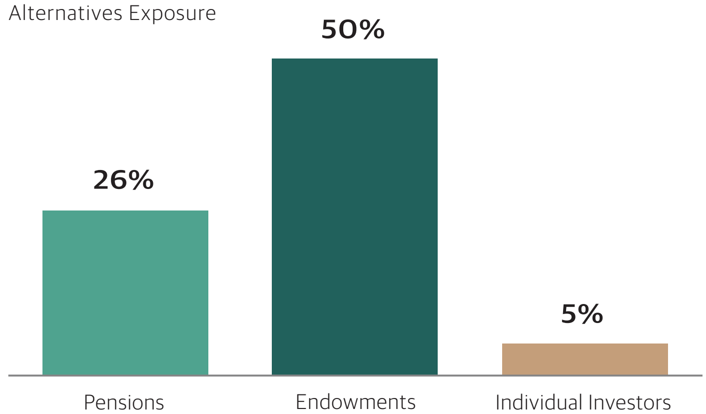
Enforcing Discipline and a Long-Term Mindset. Most investors acknowledge the benefits of creating a plan and sticking to it, but stressful market environments create the temptation to change course. Restrictions inherent in private market investments build discipline and patience through the structure of the investments themselves. Capital lockups, which some investors view as a drawback, have the potential to provide benefits when it comes to investor behavior — they reduce the risk that investors will veer off course.

Q: What are some of the challenges individuals face when allocating to private market alternatives?

A: Institutions such as pension funds and endowments with long investment horizons and known funding requirements are meaningfully invested in alternatives, with an average allocation of over 25%.[4] These institutional allocations to private markets far exceed the average individual investor allocation of just 5%.[5]

Institutional vs. Individual Allocations

Alternatives Exposure



Source: Willis Towers Watson, "Global Pension Assets Study," 2020; National Association of College and University Business Officers, "TIAA Study of Endowments," 2019; Money Management Institute, "Retail Distribution of Alternative Investments," 2017. 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), publicly traded natural resource equities, private energy and mining, and private agriculture and timber). Averages provided are dollar-weighted.

Note: There can be no assurance that any current or future Blackstone fund will achieve results comparable to those of any of Blackstone's prior funds or that such fund will be able to implement its investment strategy or achieve its investment objectives. Please see Endnotes and Important Disclosures

Whereas traditional funds can allocate capital immediately and stay 100% invested, private market funds can present a number of challenges for individual investors, such as gaining exposure, achieving a diversified allocation and maintaining an allocation over time.

Gaining Exposure: Investors typically cannot gain immediate exposure to private markets. Alternatives managers need time to identify opportunities and conduct due diligence before deploying investor capital.

Achieving a Diversified Allocation: Private fund offerings often require high investment minimums. As a result, individual investors may have difficulty achieving broad diversification across asset classes, strategies, managers and vintage years.

Maintaining the Allocation: Private market exposure decreases over time when distributions back to investors following asset dispositions begin outpacing capital calls. This means only a portion of an investor's commitment is at work at any point in time.

Historically, an investor has had to overcommit in order to reach a target level of exposure to private markets. This has been particularly true in recent years. Because distributions have historically been robust and competition for allocations fierce, our research has shown that investors have been unable to redeploy gains in a way that enables them to efficiently maintain their targets.[6]

The Investment Continuum – Extending the Allocation

Traditional, Public Markets		Alternative, Private Markets
Large, Mid, Small	EQUITIES	Long/Short Equity
Growth/Value		Venture Capital/ Private Equity (LBO)
International, EM Equities		Global PE Secondaries
Treasuries	FIXED INCOME	Senior Loans/BDC
Investment Grade		Event-Driven Credit
High Yield		Commercial RE Debt
EM Debt		Mezzanine & Distressed Debt
Traded REITs	REAL ASSETS	Private Real Estate
Long Only Commodity		Managed Futures/ CTAs
		Private Energy Investment

For illustrative purposes only.

Q: How should investors view private market alternatives?

A: Alternative investments such as private equity, private credit and real estate are less liquid counterparts to traditional investment strategies across equities, fixed income and real assets. Given similar risk and return characteristics to their corresponding traditional asset classes, private market alternatives may be best understood as natural extensions of public market strategies. These strategies typically exist to solve similar investor needs and goals.

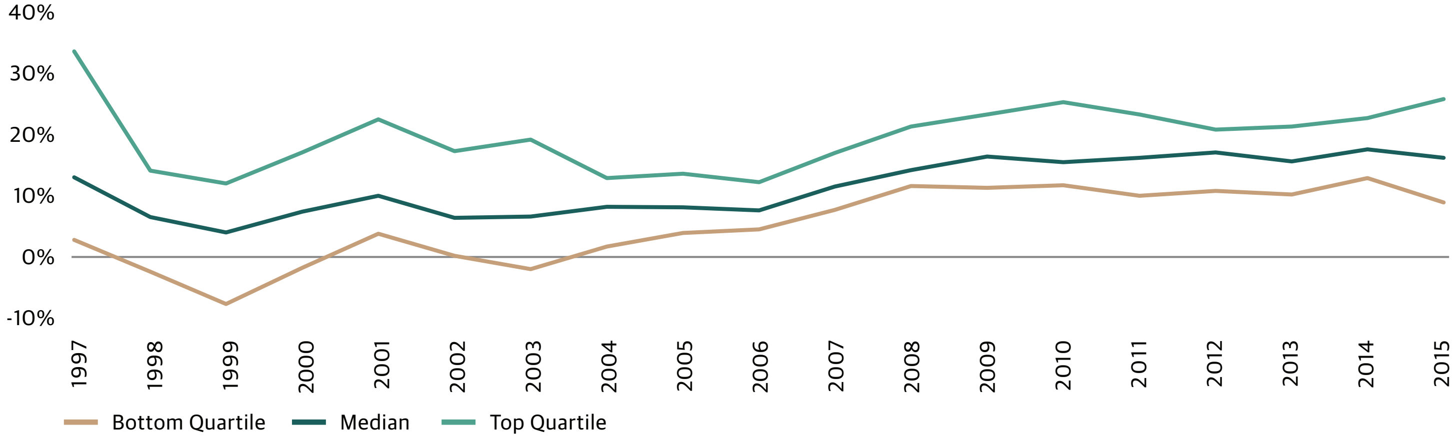
Private market allocations are often referred to as "patient capital" because — unlike fund allocations to traditional strategies — private market funds typically have a three- to six-year investment period. This longer time horizon can provide investment teams with the flexibility to be patient in identifying and sourcing investments and improving them over time. Although it can be a longer wait to realize returns, the timing and magnitude of dispositions can be better optimized to reward long-term investors for their willingness to invest in less-liquid structures.

Q: When investing in private markets, what impact does alternatives manager selection have on the investment's outcome?

A: Private market investments have historically outperformed traditional investments over longer time horizons. In addition, alternative funds with longer lockups that enable managers to invest in less-liquid holdings have, on average, earned higher returns.[7*]

* For example, over the 20-year period ending December 31, 2019, private equity returns of 11% exceeded U.S. fixed income returns of 5% and U.S. equity returns of 6%.
Note: There can be no assurance that any current or future Blackstone fund will achieve results comparable to those of any of Blackstone's prior funds or that such fund will be able to implement its investment strategy or achieve its investment objectives. Please see Endnotes and Important Disclosures.

North America–Focused Private Equity: Median Net IRRs and Quartile Boundaries by Vintage



Source: Preqin, "Private Equity Benchmark Report Q4 2018," 2019.

Alternative investment managers are less constrained in portfolio construction and management, and as a result, returns tend to be less correlated to public market beta. The potential for upside in illiquid alternatives relies more on the investment manager's experience.

For these reasons, manager selection is crucial. Managers with the most skill at navigating the investment universe tend to outperform. Returns may vary greatly between the top and bottom quartiles depending on the degree of experience, farsightedness and alignment of the manager.[8]

Investing in Private Market Alternatives

- Potential outperformance relative to traditional assets
- Lower correlation to public equities
- Enforces discipline and a long-term mindset
- Allocation can be challenging
- Manager selection key

Endnotes

1. Preqin, as of December 31, 2019. Based on the increase in private equity and private debt capital raised over the 10-year period ending December 31, 2019.
2. The Brandes Institute, "The CAPE Ratio and Future Returns: A Note on Market Timing," 2018.
3. Diversification does not ensure a profit or protect against loss in declining markets.
4. Willis Towers Watson, "Global Pension Assets Study," 2020; National Association of College and University Business Officers, "TIAA Study of Endowments," 2019. 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.
5. Money Management Institute, "Retail Distribution of Alternative Investments," 2017.
6. Bain & Company, "Global Private Equity Report," 2020.
7. **Past performance is not indicative of future results,** and there can be no assurance that any Blackstone fund will achieve results comparable to those of any of Blackstone's prior funds, special purpose investment vehicles, coinvestment vehicles, or non-fund relevant transactions, or that such funds will be able to implement their investment strategies or achieve their investment objectives or otherwise be profitable or avoid substantial losses. Certain countries have been susceptible to epidemics, most recently COVID-19, which may be designated as pandemics by world health authorities. The outbreak of such epidemics, together with any resulting restrictionsontravel or quarantines imposed, has had and will continue to have a negative impact on the economy and business activity globally (including in the countries in which the Funds invest), and thereby is expected to adversely affect the performance of the Funds' Investments. Furthermore, the rapid development of epidemics could preclude prediction as to their ultimate adverse impact oneconomic and market conditions, and, as a result, presents material uncertainty and risk with respect to the Funds and the performance of their Investments.

   Source: Morningstar, as of December 31, 2019. Benchmark assumptions: Cambridge Associates U.S. Private Equity, Barclays U.S. Aggregate Bond TR and S&P 500 TR for private equity, U.S. fixed income and U.S. equity.
8. Preqin, "Private Equity Benchmark Report Q4 2018," 2019.

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