The Alts Institute

Five Reasons to Consider Diversifying with Private Markets

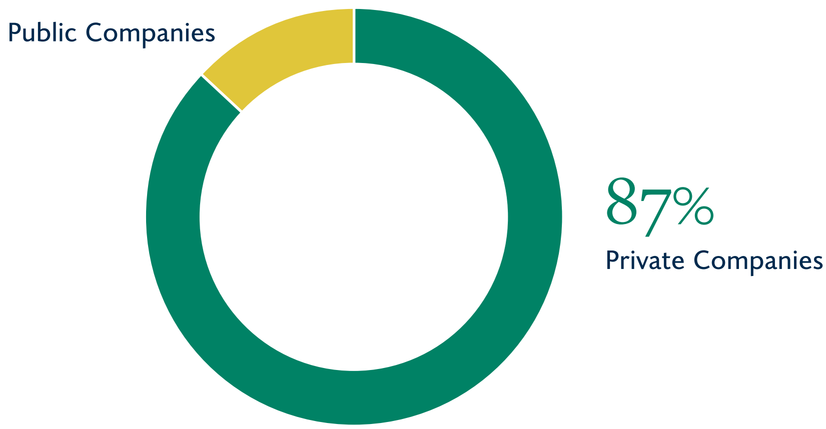
Brookfield | OAKTREE
WEALTH SOLUTIONS

Institutional investors have long embraced alternative solutions as cornerstones of their portfolios. However, while some alternatives are available in the public markets, until recently, private market solutions were largely inaccessible to individual investors. Now, a combination of demand for new investment solutions, recognition of the benefits of alternatives, and the emergence of new investment vehicles is driving interest in private market investing with individual investors.

Here are five reasons to consider private market investing.

Reason 1: Accessing private markets expand the investment universe, which can further help improve portfolio diversification. More than 87% of companies with revenues of more than $100 million are privately held. Investing in these companies, alongside their publicly traded counterparts, can be an effective way to enhance exposure to equities and thereby diversify and strengthen a portfolio.

~ 87% of Companies with Revenues of $100 Million+ Are Privately Held



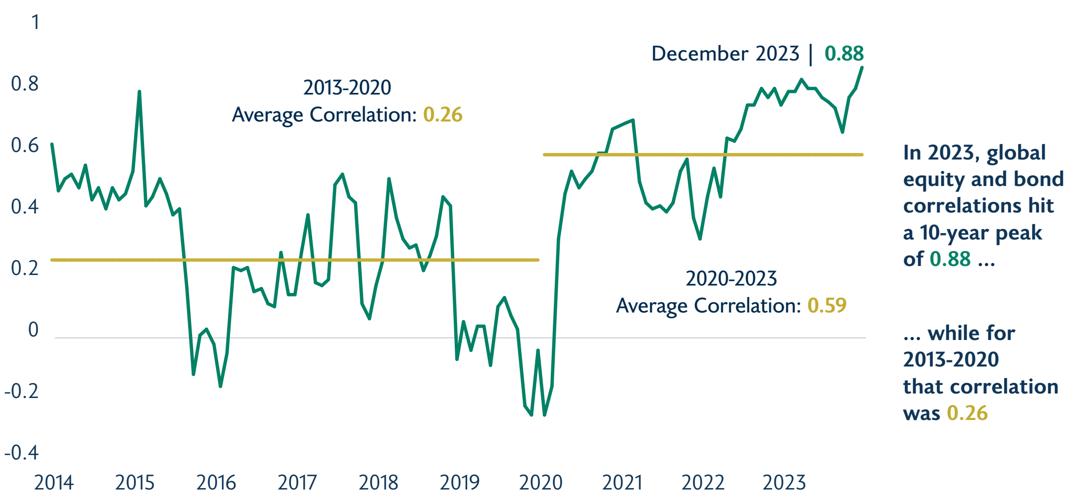
Source: Capital IQ. As of December 31, 2023.

Reason 2: Accessing private markets has become easier. Regulatory changes over the past decade have expanded access to alternative investments for individual investors, while maintaining investor protection, liquidity considerations, and transparency requirements. Meanwhile, more managers have offered new strategies and vehicles that make private markets more accessible for a growing number of investors.

Reason 3: Traditional diversification has become less effective, bolstering the need to find additional portfolio diversifiers. In recent years, traditional diversification has faced a notable challenge in the form of a sharp rise in the correlation between global stocks and global bonds. While the flurry of financial news lamenting the "death of the 60/40 portfolio" may be premature, there is little doubt that the traditional mix of public stocks and bonds has failed to offer the resilience most investors would prefer.

Correlations Between Global Stocks and Bonds Have Risen Sharply in the Past Decade

Rolling 12-month global stock/bond correlations (January 1, 2013 through December 31, 2023)



Past performance does not guarantee future results. The index is for illustrative purposes only and does not represent an actual investment. It is not possible to invest directly in an index. Global Equities represented by MSCI World Index, Global Bonds by Bloomberg Global Aggregate Index. Correlation is a statistic that measures the degree to which two investments move in relation to each other. A correlation coefficient of 1 indicates a perfect positive correlation, meaning that they move in the same direction by the same amount. A coefficient of -1 indicates a perfect negative correlation, meaning that they have historically moved in the opposite direction. Therefore, the lower the number, the better the diversification. Source: Morningstar, Brookfield. As of December 31, 2023.

Reason 4: Private markets can strengthen portfolios by providing diversification benefits. One of the main benefits of private markets is diversification, which can help mitigate risks while maintaining the ability to stay invested. Alternatives exhibit relatively low correlations with other asset classes, enhancing diversification.

Private Market Exposure Diversifies Beyond Stocks and Bonds

Correlation Analysis

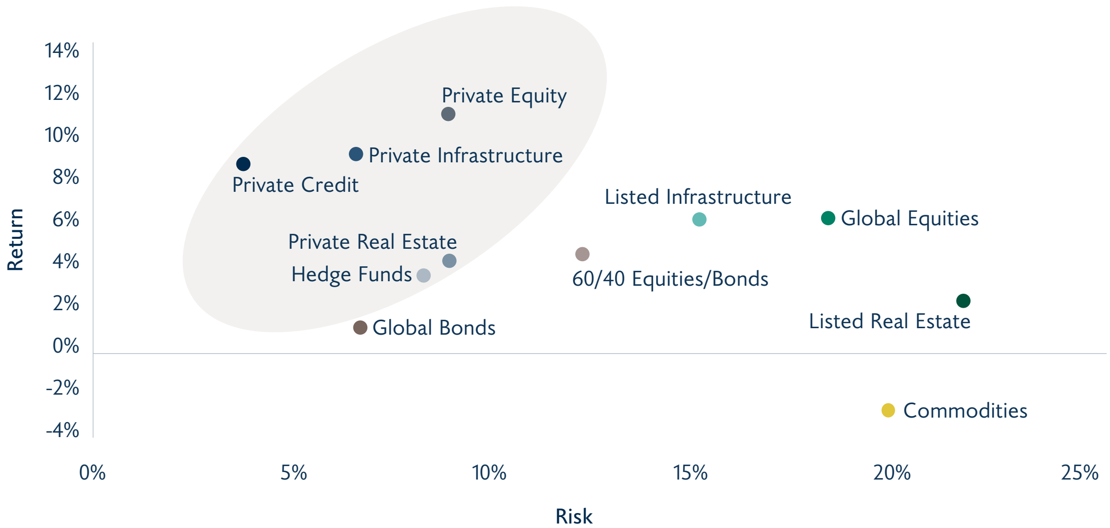
	Global Equities	Global Bonds	Listed Real Estate	Listed Infrastructure	Private Equity	Private Credit	Private Real Estate	Private Infrastructure
Global Equities	1							
Global Bonds	0.35	1						
Listed Real Estate	0.88	0.41	1					
Listed Infrastructure	0.86	0.41	0.89	1				
Private Equity	0.78	0.13	0.70	0.69	1			
Private Credit	0.70	-0.02	0.66	0.69	0.79	1		
Private Real Estate	0.38	-0.15	0.37	0.40	0.70	0.60	1	
Private Infrastructure	0.04	-0.09	0.08	0.11	0.26	0.12	0.39	1

Past performance is not indicative of future results. The index is for illustrative purposes only and does not represent an actual investment. It is not possible to invest directly in an index. For the period January 1, 2008 through September 30, 2023. Global Equities represented by MSCI World Index, Global Bonds by Bloomberg Global Aggregate Bond Index, Listed Real Estate by FTSE EPRA Nareit Developed Index, and Listed Infrastructure by FTSE Global Core Infrastructure 50/50 Index after December 31, 2014; data from July 30, 2008 through December 31, 2014 represented by Dow Jones Global Infrastructure Index. Private Equity represented by Preqin Private Equity Index, Private Credit by Cliffwater Direct Lending Index, Private Infrastructure by Preqin Infrastructure Index, and Private Real Estate by the Preqin Real Estate Index. Source: Bloomberg; Preqin; data as of September 30, 2023.

Reason 5: Private market exposure has historically improved portfolios. Our analysis shows that over the past two decades, many alternative solutions, particularly private markets, have provided attractive returns with less risk.

Private Market Exposure Has Historically Improved Portfolios

Risk-Return Analysis



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Summing Up

We believe relying solely on public markets moving forward could leave investors vulnerable to heightened volatility and risk. This further strengthens the case for including private investments in a thoughtfully diversified portfolio to achieve their potential benefits: diversification, attractive returns, income generation, inflation hedging, and risk mitigation. Investors can leverage private markets to pursue objectives aligned with their long-term financial goals.

Manager selection is especially critical in private markets, where performance dispersion is significantly wider than in public markets. Investors benefit from working with managers who have the experience and resources to capitalize on opportunities and manage risk effectively.

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Index Definitions

Bloomberg Global Aggregate Index is a measure of global investment-grade debt from 27 local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Commodity Index is a broadly diversified index that tracks the commodities markets through commodity futures contracts. The Preqin Private Infrastructure Index captures in an index the return earned by investors on average in their private infrastructure portfolios, based on the actual amount of money invested in private capital partnerships. Historical data points are not recalculated as time passes, except for the latest two-quarters available, which are preliminary. The preliminary quarters are finalized at a three-quarter lag coinciding with the full constituency for the as-at date being met. The universe of funds for each quarterly point in the index may change over time depending on data availability.

Cliffwater Direct Lending Index (CDLI) seeks to measure the unlevered, gross-of-fee performance of U.S. 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.

Dow Jones Brookfield Global Infrastructure Index is calculated and maintained by S&P Dow Jones Indices and comprises infrastructure companies with at least 70% of their annual cash flows derived from owning and operating infrastructure assets, excluding master limited partnerships.

FTSE Nareit All Equity REITs Index is a free-float-adjusted, market-capitalization-weighted index of U.S. equity REITs. Constituents of the index include all tax-qualified REITs with more than 50% of total assets in qualifying real estate assets other than mortgages secured by real property.

FTSE Global Core Infrastructure 50/50 Index gives participants an industry-defined interpretation of infrastructure and adjusts the exposure to certain infrastructure subsectors. The constituent weights are adjusted as part of the semi-annual review according to three broad industry sectors: 50% Utilities; 30% Transportation, including capping of 7.5% for railroads/railways; and a 20% mix of other sectors, including pipelines, satellites and telecommunication towers. Company weights within each group are adjusted in proportion to their investable market capitalization.

HFRI Fund Weighted Composite Index is a global, equal-weighted index of single-manager funds that report to HFR Database. Constituent funds report monthly net-of-all-fees performance in USD and have a minimum of $50 million under management or $10 million under management and a 12-month track record of active performance. The HFRI Fund Weighted Composite Index does not include funds of hedge funds.

MSCI World Index captures large- and mid-cap representation across 23 developed markets. The index covers approximately 85% of the free-float-adjusted market capitalization in each country.

Preqin Indexes

Preqin Private Credit Index captures in an index the return earned by investors on average in their private credit portfolios, based on the actual amount of money invested in private capital partnerships.

Preqin Private Equity Index captures in an index the return earned by investors on average in their private equity portfolios, based on the actual amount of money invested in private capital partnerships.

Preqin Infrastructure Index captures the average returns earned by investors in their infrastructure portfolios, based on the actual amount of money invested.

Preqin Private Real Estate Index captures in an index the return earned by investors on average in their private real estate portfolios, based on the actual amount of money invested in private capital partnerships.

A Word About Risk

Alternative investments are complex, speculative investment vehicles and are not suitable for all investors. An investment in an alternative investment entails a high degree of risk, and no assurance can be given that any alternative investment fund's investment objectives will be achieved or that investors will receive a return of their capital.

As an asset class, private credit encompasses of a large variety of different debt instruments. While each has its own risk and return profile, private credit assets generally have increased risk of default, due to their typical opportunistic focus on companies with limited funding options, in comparison to their public equivalents.

Because private credit usually involves lending to below-investment-grade or non-rated issuers, yield on private credit assets is increased in return for taking on increased risk. Investments in real estate-related instruments may be affected by economic, legal, or environmental factors that affect property values, rents or occupancies of real estate.

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