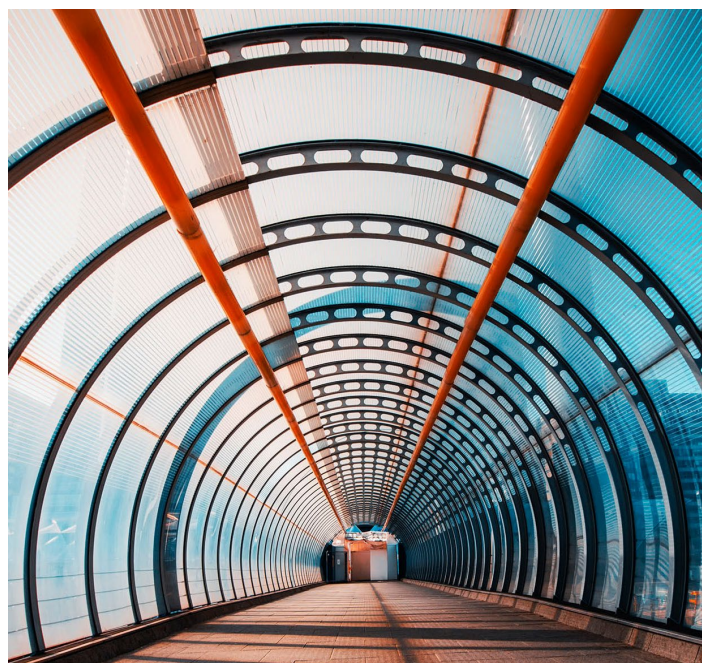


Solving the private markets allocation gap: From products to portfolio construction

September 2024

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Executive summary

Private markets have seen strong growth in recent decades and play an increasingly important role in the financing of global business.

The structural advantages of the asset class mean it's well-placed to capitalize on investment opportunities created in the new economic cycle and outperform over the long term. Investors seeking diversification benefits and broad exposure to the real economy therefore should consider including private markets in their portfolios.¹

Historically, private markets have largely been accessible only to institutional investors that can overcome the challenges of investing in products within the asset class.

While surveys show that financial advisors wish to increase how much of clients' portfolios they allocate to private markets, average private wealth holdings

are underweight relative to other types of investors. That allocation gap is due in part because it remains difficult for financial advisors to build broadly diversified exposure to different private markets asset classes for clients through the products currently available. **In this context, BlackRock and Partners Group are working together on a high-quality, diversified private markets model portfolio solution that could help meet advisor demand.**

Looking across to other asset classes, such as public markets and fixed income, there are a wide range of model portfolio options available that offer one-stop solutions for individual investors. Adopting this structure for private markets could be a game-changer, providing access to a broadly diversified set of investments while solving many of the challenges of accessing the asset class.

Source: 1. Unless otherwise noted, source for all information is BlackRock and Partners Group, as of September 2024.



Section 1

The role of private markets in the real economy

The financing of business has undergone a major transformation in recent decades, with private markets playing an increasingly important role. This trend is reshaping the landscapes of public and private markets and has huge implications for how investors allocate capital within their portfolios.

Since the 1980s, private markets have moved away from highly leveraged opportunistic strategies towards investing in more traditional businesses, whilst public markets have become more active in financing growth-oriented companies through IPOs. As a result, there has been a convergence in the roles played by both private and public markets.

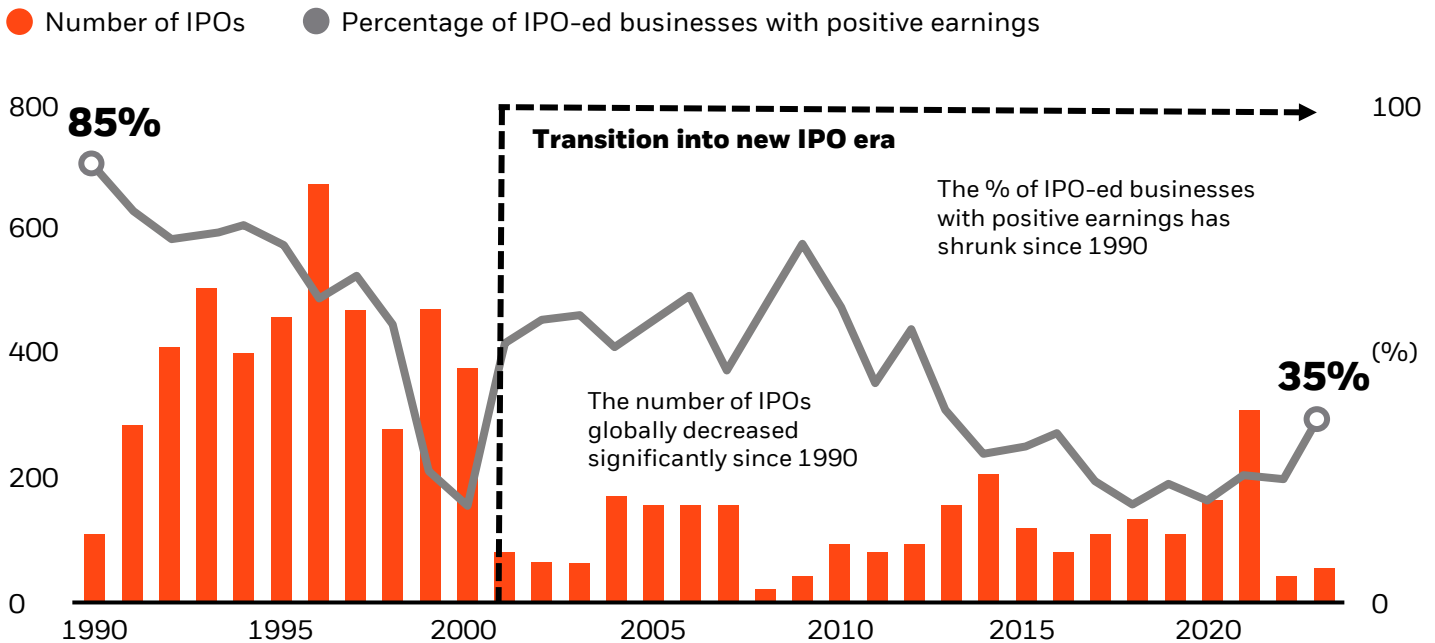
The growing role of private markets in financing the economy has increased fundraising for the asset class, which has now surpassed global public markets equity issuance each year since 2016. The companies that private markets are financing also typically represent a broader cross-section of the

economy, with around 87% of US companies that have over USD 100 million in revenue being privately owned as of last year.¹

Many private markets managers have a similar governance model to that of the leading and most successful family-run businesses. For example, in both cases there is typically a concentrated shareholder that has significant influence in driving strategy and implementing value creation initiatives. There is therefore a natural alignment between business owners and private markets managers that supports a partnership approach and the building of sustainable companies with strong growth rates.

The growth of private markets does not show any signs of slowing down. Total AUM across private markets asset classes is expected to reach USD 30 trillion by the early 2030s, up from USD 15 trillion last year.²

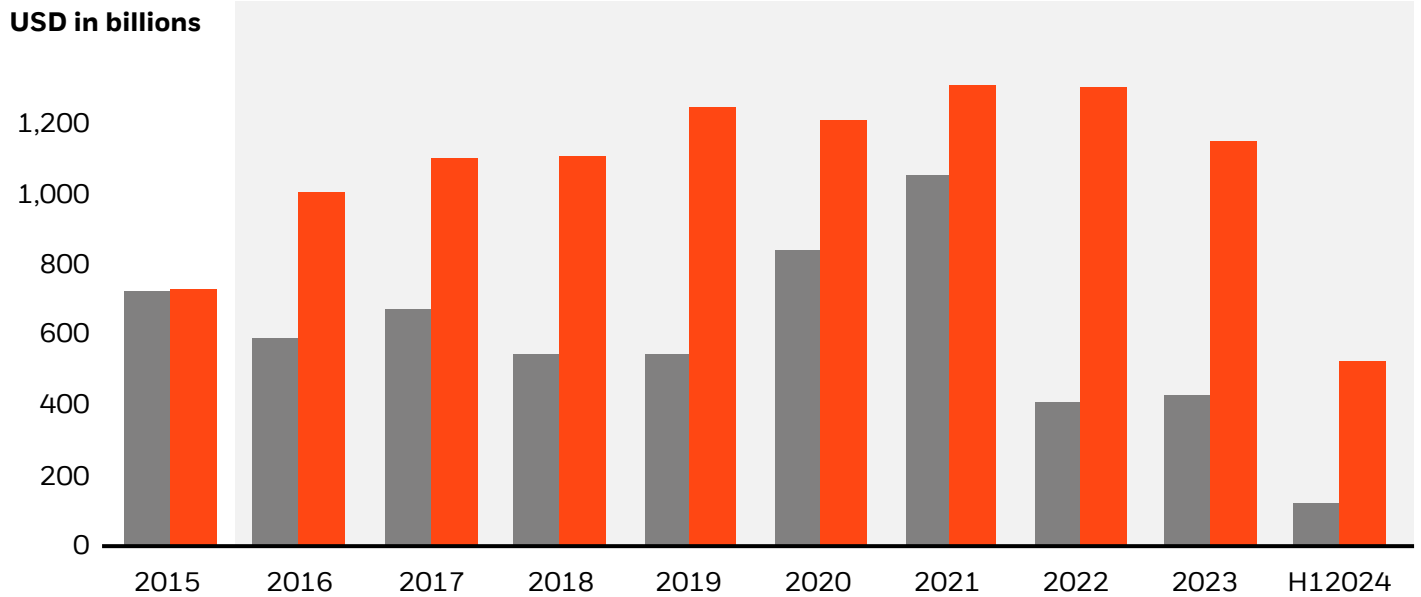
Private markets are playing a growing role in financing the economy³



Sources: **1.** Capital IQ, BlackRock as of Dec. 31, 2023. Represents the number of companies with annual revenues greater than \$100 million. There is no guarantee that any forecasts made will come to pass. **2.** Partners Group Analysis; Prequin (2023). **3.** Source: Warrington College of Business, Dr. Jay Ritter's global dataset of IPOs as of 8 March 2024. Earnings per share > 0; Annual data, 9,181 IPOs in total. Excludes IPOs with an offer price below USD 5 per share, unit offers, ADRs, closed-end funds, partnerships, acquisition companies, REITs, bank and S&L IPO, and stocks not listed on CRSP (CRSP includes Amex, NYSE, and NASDAQ stocks).

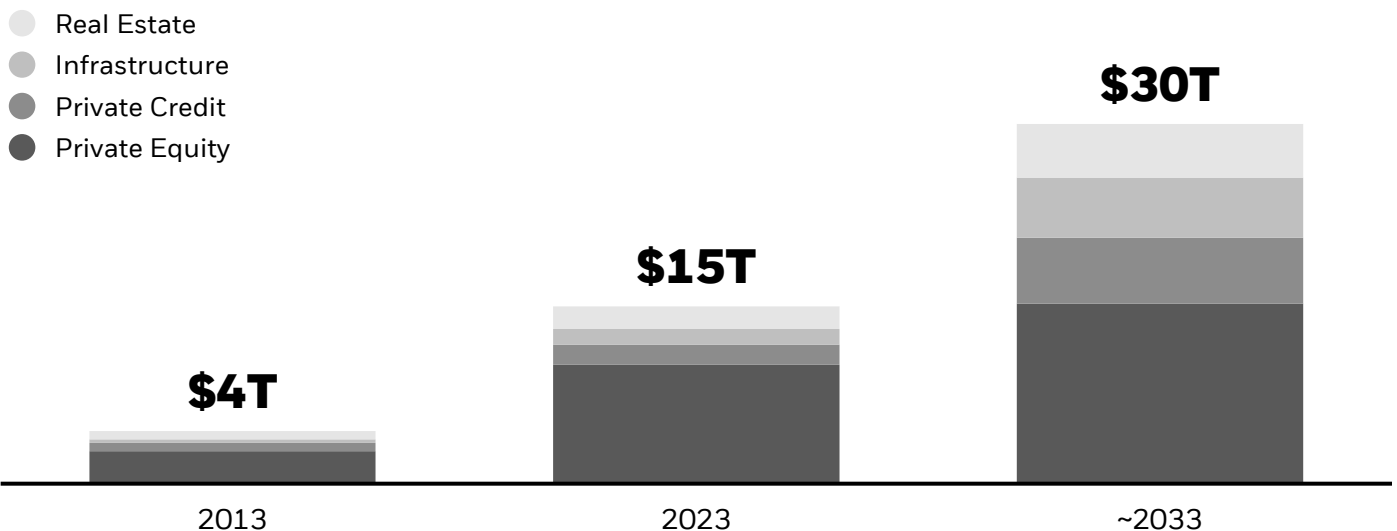
Private markets capital formation has outpaced global equity issuance since 2016

● Global equity issuance ● Private markets capital formation



Sources: SIFMA (2024), Refinitiv (2023), Preqin (2024), H1 2024 Global Equity Issuance data from Bloomberg (2024), Partners Group Analysis (2024). Global equity issuance projection based on global equity issuance which includes rank eligible, non-convertible IPOs and follow-on equity investments; excludes preferred shares, rights issued, closed-end funds, business development companies, and special purpose acquisition companies. Private markets capital projection based on global private markets fundraising includes private equity, private real estate, and private infrastructure. Projections are prepared for illustrative purposes only and should not be used, or relied upon, to make investment decisions.

There is a USD 30 trillion investment opportunity in private markets



Source: Partners Group analysis of Preqin data as of Q1 2023. Private Equity inclusive of Venture Capital. There is no guarantee that any forecasts made will come to pass.

What has driven the growth of private markets?

In recent decades, private markets have played a growing role in financing mature enterprises, building businesses, and creating value through organic growth, with different private markets asset classes contributing to this expansion.

The enhanced role of private equity in financing the economy is reflected in its changing relationship to public markets, most notably the falling number of IPOs globally and the trend towards companies deciding to stay private for longer. There has also been an uptick in the number of take-private transactions, or carve-outs from listed companies, with formerly public companies passing back into private ownership.¹

The growth of private markets has been further accelerated by the continued rise of infrastructure, which has served to broaden the general appeal of private markets to both institutions and private wealth investors as it plays an essential role in the functioning of society and has offered stable risk-adjusted returns.

Private markets are increasingly financing vital infrastructure, including grids, renewable energy, and data centers to accommodate demand for data processing and storage, as many governments face stretched state balance sheets.

The hands-on ownership style of private

markets, which requires resources and scale, also may make it ideally positioned to lead the transformation of infrastructure in line with new technological advances.

Financing the transformation of real estate is also falling to private markets, which have a much more active investment approach than traditional real estate owners, such as pension funds. Much existing real estate is in urgent need of renewal to meet changing trends around how people live, work, and consume, as well as accelerating digitization and new sustainability requirements.

Meanwhile, private credit has also contributed to the growth of private markets through taking market share from banks and public loan markets as a more flexible financing tool for companies.²

Private credit has clear potential benefits at a time when many growing and transforming businesses need tailored financing.

Looking ahead, private markets are well-positioned to invest in a new economic era, which will likely be characterized by the arrival of the next generation of technology; the recalibration of the macroeconomy; a shifting geopolitical landscape, which could lead to further de-globalization; and the need to raise productivity amongst shrinking workforces.

Sources: 1. S&P Global "Private equity take-private deals hit 16-year high" Nov. 1, 2023. 2. Cambridge Associates, "Private Credit Markets Are Growing in Size and Opportunity" Apr 2024.



The importance of private markets in investor portfolios

Numerous studies by industry groups and academics have highlighted the outperformance private markets have delivered compared to public markets. This has led many institutional investors to allocate a meaningful percentage to the asset class, and it now plays a role in almost all institutional portfolios.

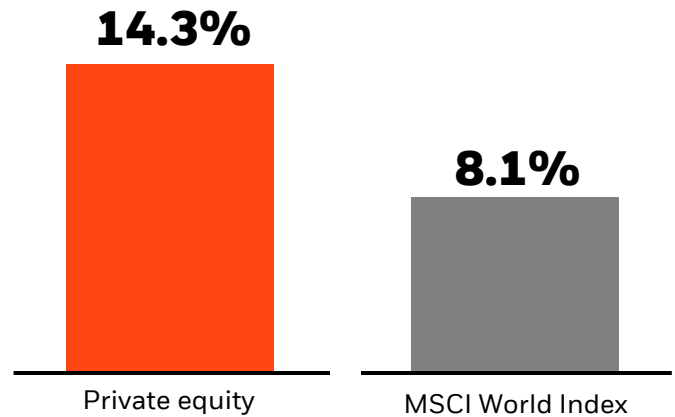
The introduction of private markets to otherwise public markets-only portfolios may provide diversification benefits and potential access to an excess return. This is driven by the following key characteristics of the asset class:

- Private markets managers typically acquire control positions in assets, which can make it easier to drive a strategic growth agenda and operational value creation plan;
- The longer expected holding periods in private markets facilitate a governance model that targets sustainable growth over the long term, which might be harder for public markets to achieve;
- In addition, often for real assets a natural inflation hedge is achieved, while for private credit assets the rate duration risk is avoided.

Private equity, for example, has delivered higher net returns than public markets over the last 20 years, as shown in the chart. This outperformance tends to be amplified in times of market stress, quantified by lower maximum drawdowns for private markets over such periods.¹ In private credit, attractive risk-return profiles have been driven by offering bespoke financing solutions, strong downside mitigation, and the robust underwriting of lending opportunities. Within real assets, stable and predictable cash flows can reduce correlation with market fluctuations.

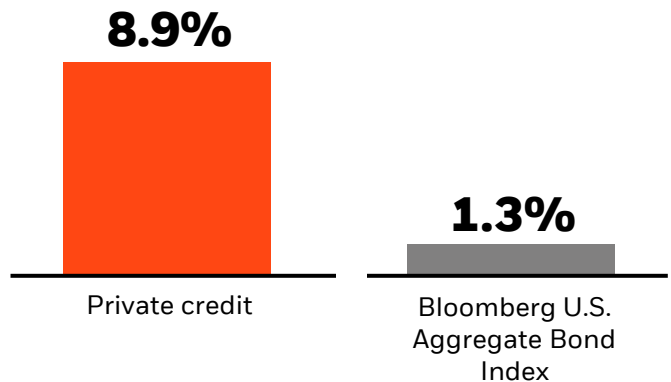
Private equity

Annualized return of private equity manager universe compared with global equities²



Private credit

Annualized return of private credit compared with U.S. bonds²

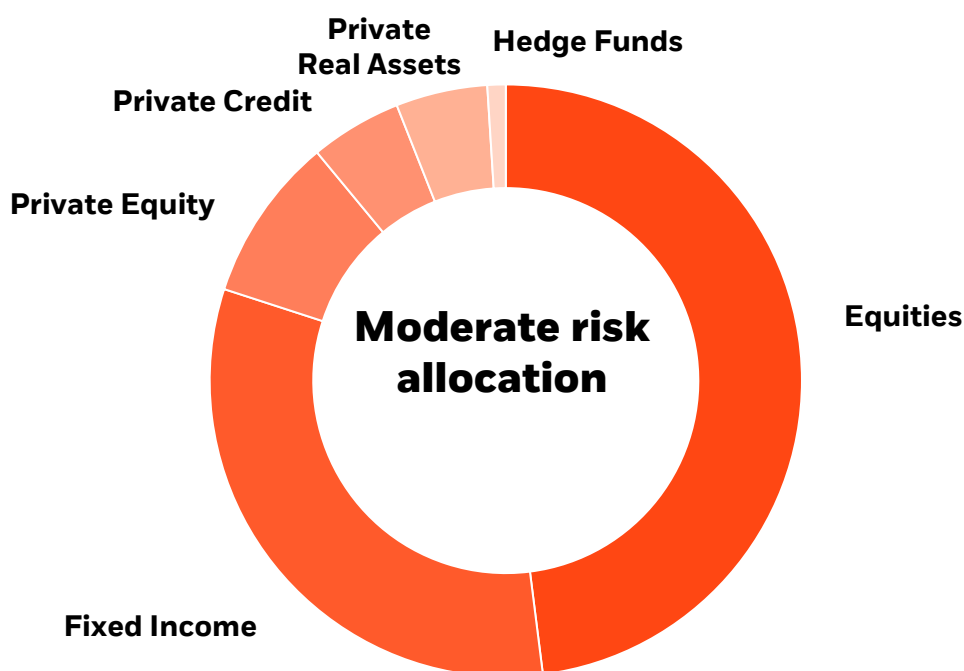


Source: **1.** Bain & Company, "Private Equity Outlook in 2023: Anatomy of a Slowdown," Feb. 27, 2023. **2.** Asset class comparison is used to demonstrate private market performance compared to public market performance during comparable time periods. There are material differences in individual index/ manager universe methodologies (both public and private) and differences in the way public and private market performance is calculated; the comparisons shown may not fully reflect these differences. In general, public market indexes are unmanaged, uninvestable, represent a group of constituent securities which may change over time, and reflect the reinvestment of dividends but do not reflect the deduction of any fees or expenses. Private market manager universes and indices often rely on self-reporting by managers. Therefore, there may be survivorship bias given that fund managers have discretion to report, or to discontinue reporting for various reasons (e.g. due to liquidation), and therefore private market manager universes and indices may reflect a bias towards funds with track records of success. Private Equity represented by the Burgiss Private Equity Manager Universe for the 20-year period ending 3/31/24. Burgiss data reflects quarterly time-weighted returns. Burgiss data is sourced from limited partners of these private funds and calculates results net of fees and carried interest, providing results that are updated and published on a quarterly basis. Private Credit represented by the Cliffwater Direct Lending Index. Private credit reflects rolling quarterly returns and most recent return from 9/30/15 (index inception) to 12/31/23 (latest available data to BlackRock). **Past performance does not guarantee or indicate future results.** Index performance is shown for illustrative purposes only.

Illustrative traditional 60/40 portfolio back test – with a 20% allocation to moderate risk portfolio

Taking a more holistic investor portfolio approach, introducing multi-asset private markets content to a traditional 60/40 client portfolio may add significant diversification benefits and improve return outcomes.

10-year period (until December 2023)	Traditional 60/40 portfolio ¹	+20% moderate risk portfolio ²
Return statistics		
Annualized net return	6.5%	7.5%
Total return	88.6%	106.5%
% positive quarters	77.5%	77.5%
Risk statistics		
Maximum drawdown	-19.0%	-15.8%
Volatility	9.6%	8.7%
Equity Beta	0.64	0.58

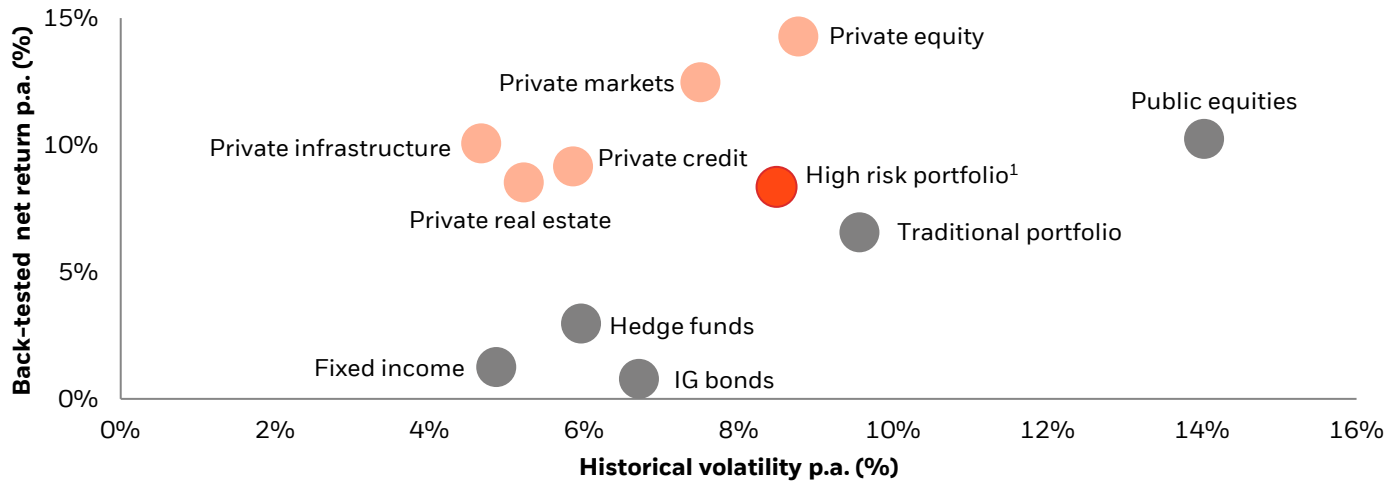


Sources: BlackRock and Partners Group, as of September 2024. **1.** 60/40 portfolio is assumed to deliver the same returns as 60% MSCI World Equity (NDDLWI Index) and 40% Bloomberg US Aggregate Bond Index (LBUSTRUU Index) over the period, management fee of 0.1% assumed. **2.** +20% moderate risk allocation consists of 45% Private Equity, 25% Private Credit, 25% Private Real Assets (17.5% private infrastructure and 7.5% private real estate) and 5% Hedge Funds. Hedge Funds returns based on Bloomberg Hedge Fund Index (BHEDGE Index). Other private markets returns based on Cambridge Associates quarterly net return data between December 31, 2013 and December 31, 2023. Private equity returns based on PE Buyouts, Venture Capital and Growth Equity universe. Private credit returns based on Global Subordinated Capital, Senior Debt, Credit Opportunities and Control-Oriented Distressed universe. Private infrastructure returns based on Global All Infrastructure universe. Private real estate based on Global All Real Estate universe. Public equities and fixed income reduced proportionally (i.e. 48% and 32% respectively). For illustrative purposes only. **Past hypothetical performance is not indicative of future results.** Moderate risk portfolio performance is calculated net of all fees. Portfolio returns do not consider currency hedging. Maximum drawdown refers to the largest consecutive peak-to-trough decline of monthly returns within the period. Volatility refers to the annualized standard deviation of quarterly returns. Equity beta refers to the volatility of the portfolio compared to global equities. For important information about back-tested portfolios, please see page 11.

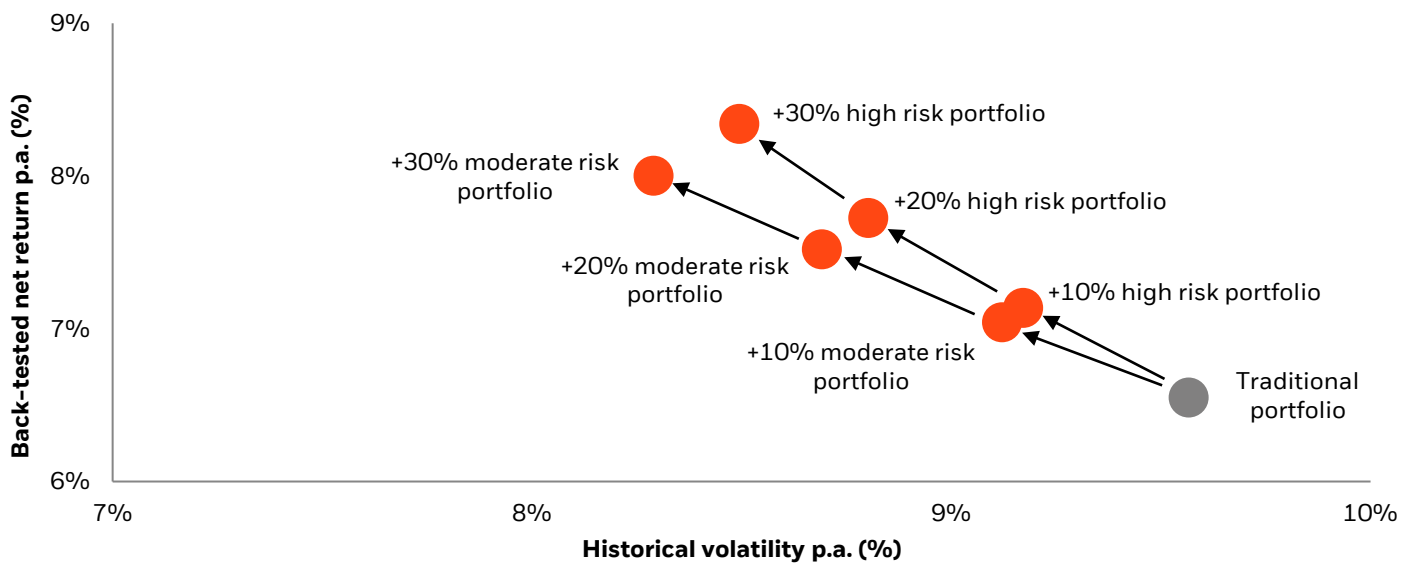
Private markets have offered attractive risk/return features that may complement a traditional 60/40 portfolio

● Blended portfolio ● Public markets ● Private markets

Back-tested risk & return per asset class



Potential impact of adding private markets



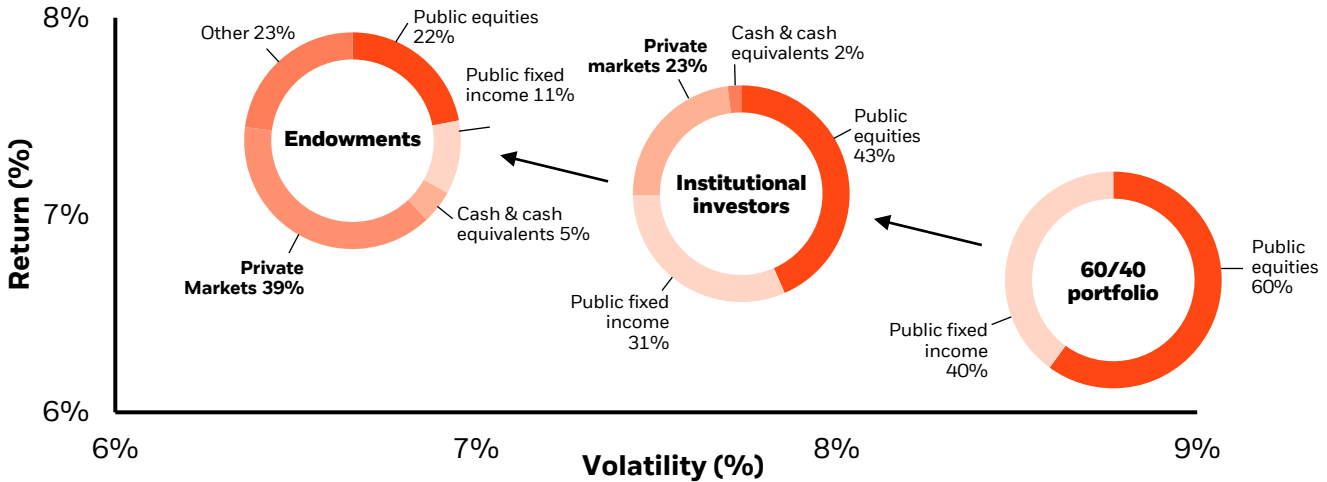
Sources: BlackRock and Partners Group, as of September 2024. **1.** The high risk portfolio indicated in the “Back-tested risk & return per asset class” chart is the +30% high risk portfolio shown in the “Potential impact of adding private markets” chart. For illustrative purposes only. **Past hypothetical performance is not indicative of future results.** Performance shown is calculated net of all fees. Data shown over a 10-year period up to December 31, 2023. Portfolio returns do not consider currency hedging. Annualized volatility refers to the annualized standard deviation of quarterly returns. Hedge Funds returns based on Bloomberg Hedge Fund Index (BHEDGE Index). Other private markets returns based on Cambridge Associates quarterly net return data between December 31, 2013 and December 31, 2023. Private equity returns based on PE Buyouts, Venture Capital and Growth Equity universe. Private credit returns based on Global Subordinated Capital, Senior Debt, Credit Opportunities and Control-Oriented Distressed universe. Private infrastructure returns based on Global All Infrastructure universe. Private real estate based on Global All Real Estate universe. Public equities refers to MSCI World Equity (NDDLWI Index), fixed income refers to Bloomberg US Aggregate Bond Index (LBSTRUU Index). Traditional portfolio assumed to consist of 60% public equities and 40% fixed income. Private markets allocation within high risk portfolios consists of 65% Private Equity, 20% private infrastructure, 5% private credit, 5% private real estate and 5% Hedge Funds. Private markets allocation within moderate risk portfolios consists of 45% Private Equity, 17.5% private infrastructure, 25% private credit, 7.5% private real estate and 5% Hedge Funds. Management fee of 0.1% assumed for all public market asset classes except hedge funds. For important information about back-tested portfolios, please see page 11.

Section 3

Private markets for wealth investors

Although institutions have been investing in private markets for decades, private wealth investors still have hardly any exposure to private markets, despite the growing role the asset class plays in financing businesses and assets across the economy and the attractive risk-adjusted returns on offer. This inequality of private markets access is illustrated in the graphic below, where endowments and institutional investors have 39% and 23% allocated to private markets, respectively.¹

The disparities in investment access: Endowments and institutions vs. individual investors



Sources: Partners Group analysis of data from: NACUBO US Endowment peer average portfolio 2023; 2023 Fidelity Institutional Insights: A Study of Allocations to Alternative Investments by Institutions and Financial Advisers; S&P Capital IQ; McKinsey Global private Markets Review 2024: Private markets in a slower era. For illustrative purposes only. Returns for hypothetical portfolios above is backtested. For more important information about back-tested portfolios, please see page 11.

The disparity in institutional and private wealth exposure to private markets may reflect the challenges investors have historically faced when investing in the asset class, including unfamiliar investment structures, illiquidity, large minimum investment sizes, the limited availability of data, and higher operational burdens.

In recent years, the private markets industry has made a considerable effort to expand access to the private wealth segment in line with growing demand. A CAIS/Mercer survey² found that nine in 10 US advisors plan to grow allocations over the same period.

In an effort to meet this expected demand, the private markets industry has recently focused on developing open-ended "evergreen" funds that meet the standard criteria of the private wealth market, including minimum investment amounts as low as USD 10,000, fully paid-in shares, and straightforward reporting. Evergreen funds tend to have monthly valuations that allow frequent subscription windows. In addition, due

to the perpetual nature of these funds, there is the option for investors to redeem at quarterly intervals, subject to certain restrictions.

The potential advantages of evergreen funds for the private wealth segment have led to a rapid rise in the number of vehicles launched in recent years. However, most evergreen funds typically cover only one asset class or a single sub-strategy and there are very few that are multi-asset class and/or multi-manager in scope.

So, while evergreen funds have been a very important advancement towards broadening access to private markets, a financial advisor seeking a significant, fully diversified private markets allocation for a client's overall portfolio would still be faced with the challenge of how to do this. In many cases, the only option available to a financial advisor has been to invest in several evergreen funds at once to build broad exposure.

Sources: **1.** BlackRock Global Family Office Survey, January 2023, Cerulli U.S. High-Net Worth and Ultra-High-Net-Worth Markets, 2023, Morningstar, BlackRock, Aladdin "Advisor Models" as of 3/31/24. The portfolios analyzed represent a subset of the industry, and not its entirety. As such there may be certain biases present in the data that reflect the advisors who choose to work with BlackRock to analyze their portfolios. The information is strictly for illustrative and educational purposes and subject to change. **2.** CAIS, Mercer, "The States of Alternative Investments in Wealth Management," December 2023.

However, this requires in-depth knowledge of private markets, ownership of manager selection, portfolio management, and portfolio oversight, as well as the ability to manage the complex subscription and redemption processes and timelines for multiple funds per investor.

This approach also raises questions around how to determine the right allocation to meet specific risk profiles, how to manage a lack of asset allocation flexibility, and how to mitigate single-product risk, which is associated with investing in multiple funds

that only offer limited liquidity to underlying investors.

For example, there can be a contagion effect when one fund held within a portfolio reaches a redemption gating level.

As a result of the limitations of investing in single evergreens and the challenges of investing in multiple vehicles at once, many financial advisors have ultimately struggled in practice to lift client allocations to private markets above a low threshold.

Section 4

It's time for a new solution to solve the private markets allocation gap

Financial advisors and their clients have long been able to choose from an array of turnkey solutions offering one-stop model portfolios or funds for asset classes such as fixed income or public equities. BlackRock and Partners Group think it's now time to bring the benefits of these offerings to private markets wealth investors and help to solve the private markets allocation gap.

Private markets continue to evolve and demand for simplified access to the asset class is growing. Even though surveys find that financial advisors expect to increase allocations to private markets, most wealth investor portfolios are relatively underweight private markets with only 10% of their portfolios allocated to alternative assets, compared with, for example, a family office, which holds about 39% on average.¹

BlackRock and Partners Group believe an effective and comprehensive solution would have the following characteristics:

- Allow financial advisors to help clients easily and efficiently balance their portfolios better, away from traditional 60/40 models and toward broad-based exposure to private markets – and to do so in scalable ways.
- Offer investors direct exposure to underlying assets, without burdening advisers with the responsibility of monitoring the liquidity of every fund, trading (and incurring the costs of doing so) or managing tax profiles and personal values.

- Provide advisors and their clients with a private markets solution designed to target the outcomes they are seeking in their public portfolios – income or growth, for example – rather than build a collection of individual asset classes that together could dilute desired outcomes.
- Allow long-term allocations to be adjusted in line with market conditions, thereby improving risk-adjusted return potential. At the underlying fund level within portfolios, managers should be able to invest according to where there are the most attractive opportunities from a relative value perspective, further supporting returns. By allocating to a variety of funds, across several asset classes, the liquidity of the overall structure is enhanced relative to a single fund offering.

We see a future for such solutions where investors can move in and out of a given portfolio with a similar experience to today's public market offerings. We also envision a world where private market model portfolios can smoothly rebalance to remain on target with investors' chosen outcomes.

Some advisors have struggled with using private market solutions because the complexity and illiquidity make due diligence, portfolio construction, and risk monitoring more difficult. As result, BlackRock and Partners Group are working on a model portfolio solution that could help advisors and their clients meet their portfolio needs.

Source: **1.** BlackRock Global Family Office Survey, January 2023, Cerulli U.S. High-Net Worth and Ultra-High-Net-Worth Markets, 2023, Morningstar, BlackRock, Aladdin "Advisor Models" as of 3/31/24. The portfolios analyzed represent a subset of the industry, and not its entirety. As such there may be certain biases present in the data that reflect the advisors who choose to work with BlackRock to analyze their portfolios. The information is strictly for illustrative and educational purposes and subject to change.

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