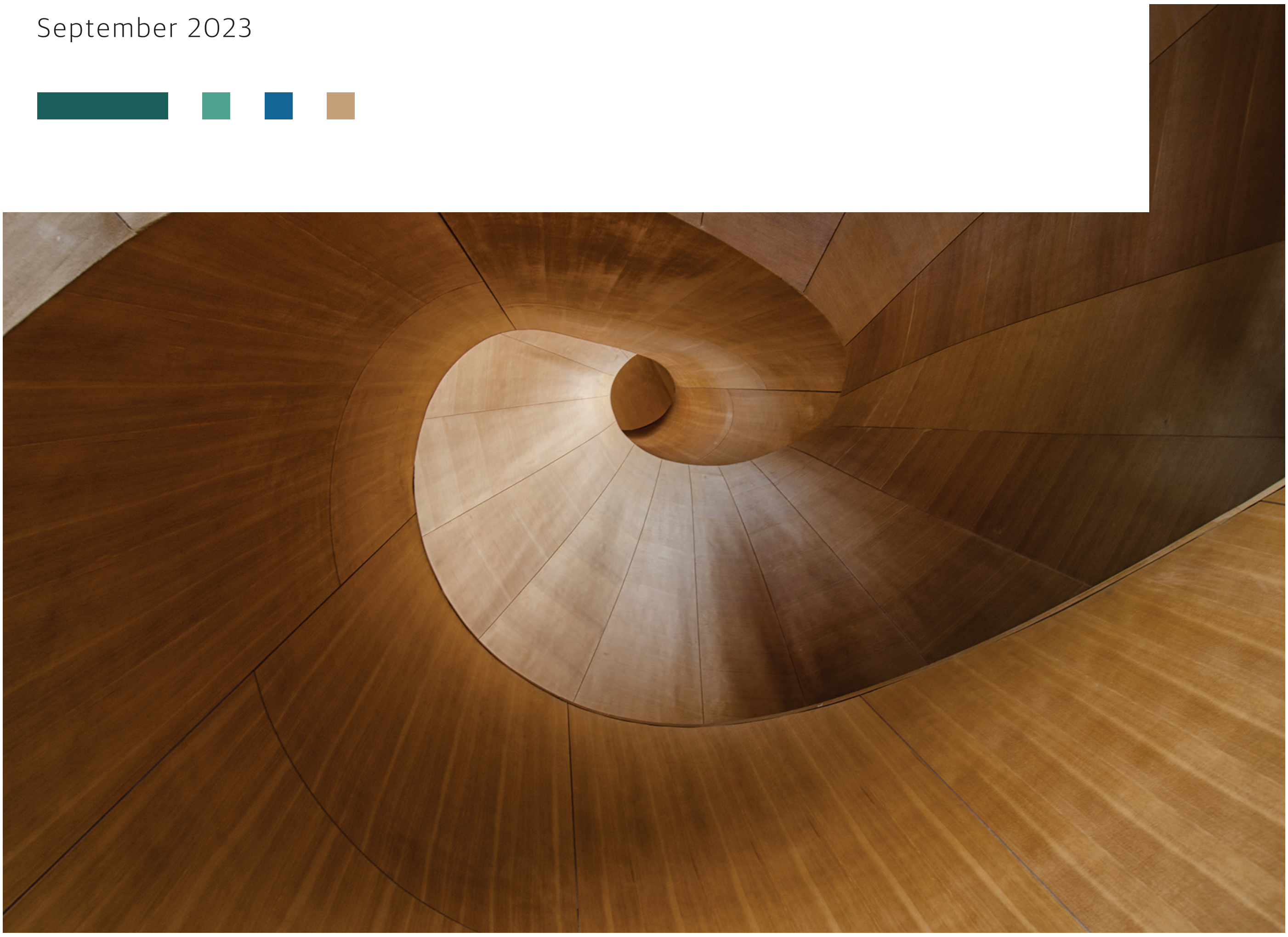
Blackstone

Essentials of Private Markets

How eligible investors can access institutional-quality private market solutions.

PRIVATE WEALTH SOLUTIONS (EMEA AND APAC)

September 2023



Need to Know

01

Private market assets may provide more portfolio diversification and lower volatility than publicly listed securities.[1]

02

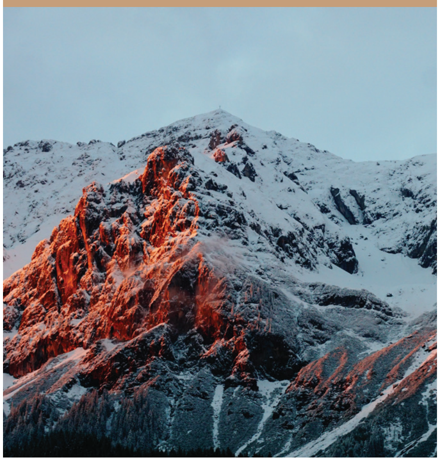
Until recently, private assets were mostly available to institutional investors, due to factors such as high investment minimums.

03

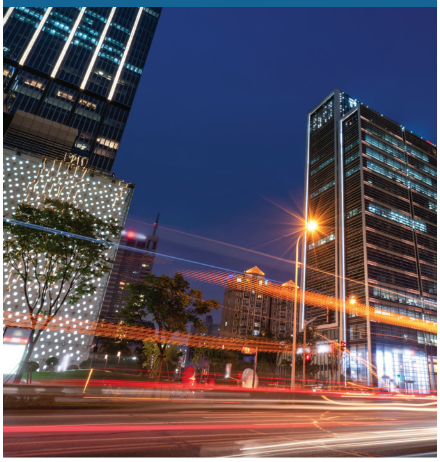
Eligible individual investors are increasingly allocating to private assets as part of their core portfolio, taking advantage of features designed for their needs like lower investment minimums.

Private Markets – An Explainer

Private real estate funds invest directly in privately held property, including a broad array of sectors, such as logistics, rental housing, high-quality offices and data centres.



Private credit funds issue corporate loans, bonds and other credit instruments that don't involve a traditional bank and are not publicly traded.



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.[2]

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1. Diversification is not a guarantee of either a return or protection against loss in declining markets.
2. Capital IQ; based on data available in Capital IQ's database, April 2022. Measuring companies with revenues of $100million-plus annually.

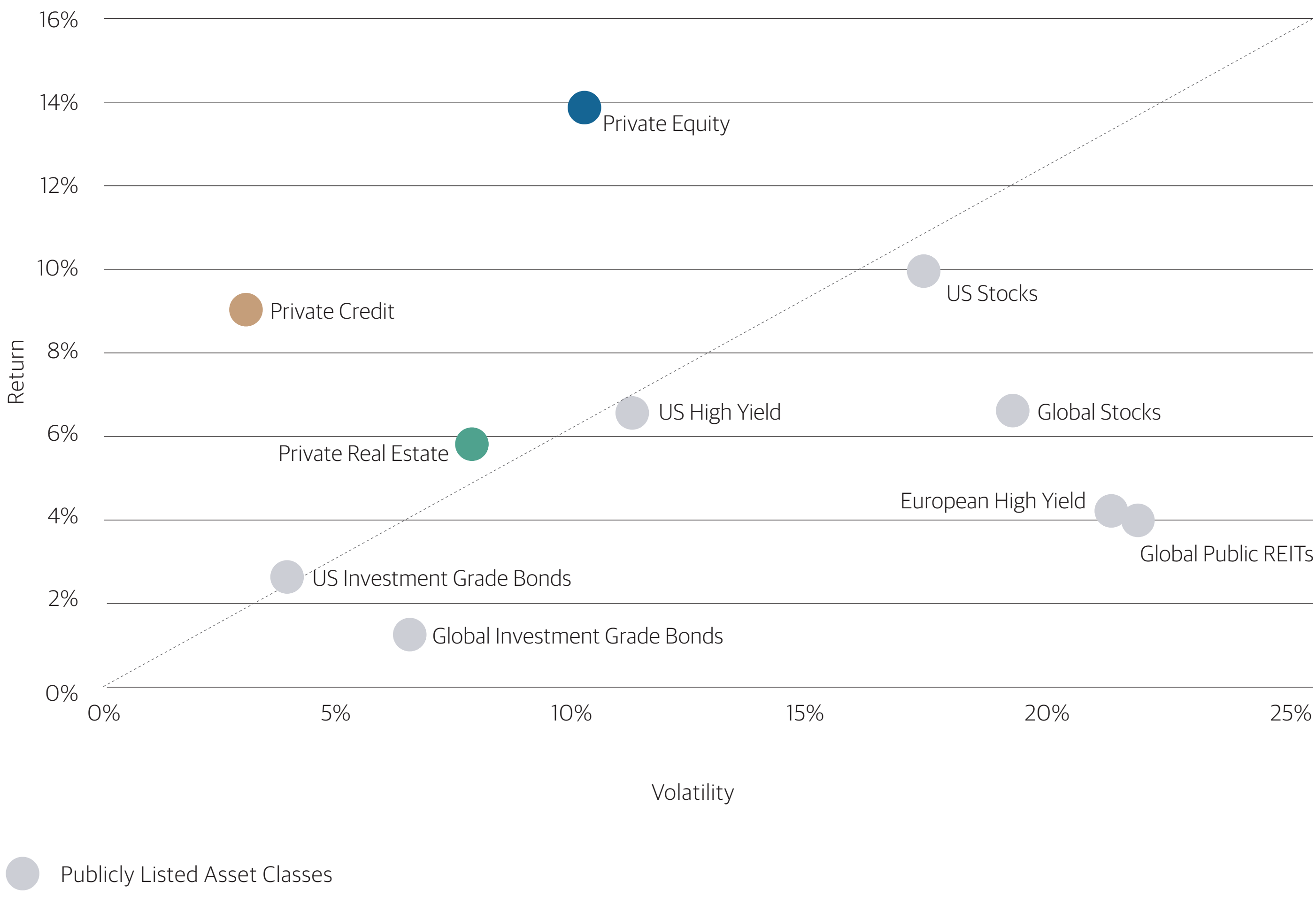
Why Private Markets?

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.

In recent years private markets have become more accessible to eligible individuals, allowing them to invest in private assets and take advantage of their potential benefits.[3]

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
(2008-2023)



3. Any investment involves a high degree of risk and should only be made if an investor can afford the loss of the entire investment. There are no guarantees or assurances regarding the achievement of investment objectives or performance and you could lose some of all of your investment. Investment performance may be volatile. An investment should only be considered by sophisticated investors who can afford to lose all or a substantial amount of the investment. Fees and expenses may offset or exceed profits.

4. Source: Morningstar Direct for the 15-year period ending March 31, 2023. Observations about returns and volatility are based on the following indices. Public markets: for **US Stocks:** S&P 500 Index; for **Global Stocks:** MSCI ACWI; for **US Investment Grade Bonds:** Bloomberg US Aggregate Bond Index; for **Global Investment Grade Bonds:** Bloomberg Global Aggregate Bond Index; for **Global Public REITs:** MSCI World Real Estate Index; for **European High Yield:** Bloomberg Pan Euro High Yield Index; for **US High Yield:** Bloomberg US Corporate High Yield Bond Index. Private markets: for **Private Equity:** Cambridge Assoc. US Private Equity Index; for **Private Credit:** Cliffwater Direct Lending Index; for **Private Real Estate:** NFI-ODCE Index. **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. Equity indices include reinvestment of dividends.

Traditionally, stocks and bonds have been regarded as the core building blocks of a diversified portfolio,[5] often split 60% and 40%, respectively. This allocation aims to balance the potential growth in value of stocks with the yield and price stability of bonds. Yet this traditional allocation approach may not provide investors with enough diversification[6] to mitigate volatility and deliver investment returns across the economic cycle. The average 60/40 portfolio had one of the worst years in recent history in 2022,[7] and the correlation between stocks and bonds has increased which means each asset class is a less effective hedge against the other in times of heightened market volatility. (Exhibit 2).[8]

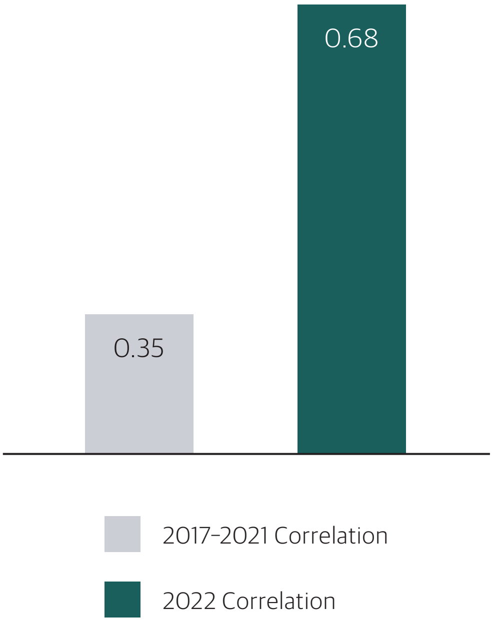
Historically, private market assets have demonstrated the ability to mitigate volatility under different types of market stress. **Private real estate**, for instance, has historically shown itself to be an effective hedge against inflation.[9] Unlike traditional fixed income, which generate fixed cash flows, income from real estate can rise over time[10] because leases are typically indexed to inflation and/or subject to regular rent reviews.

The same can be true of **private credit**. Key characteristics of private credit include the income potential from floating rate loans, which can keep pace with rising rates, and seniority in the capital structure, which secures repayment priority in case of default. In addition, the ability to negotiate terms directly with borrowers can ensure better structural protection (covenants), making for more defensive investments vs. traditional fixed income.

As an alternative, private market assets may also provide diversification[11] 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. The long holding period allows private equity managers to work with the companies in their portfolio on optimizing operational and financial efficiencies, aiming to create value and fuel rapid, sustainable growth. Private equity investors seek to benefit from the potential value appreciation, for example, when a portfolio company is eventually sold to new buyers.

These characteristics of private market assets have the potential to create the kind of uncorrelated performance versus publicly listed securities that aid portfolio diversification, reduce volatility and may assist expected returns (Exhibit 3).

EXHIBIT 2[8]: Stock-Bond Correlations



Stock-bond correlation is the return relationship between stocks and bonds. The higher the correlation, the lower the diversification benefits of holding both asset classes.

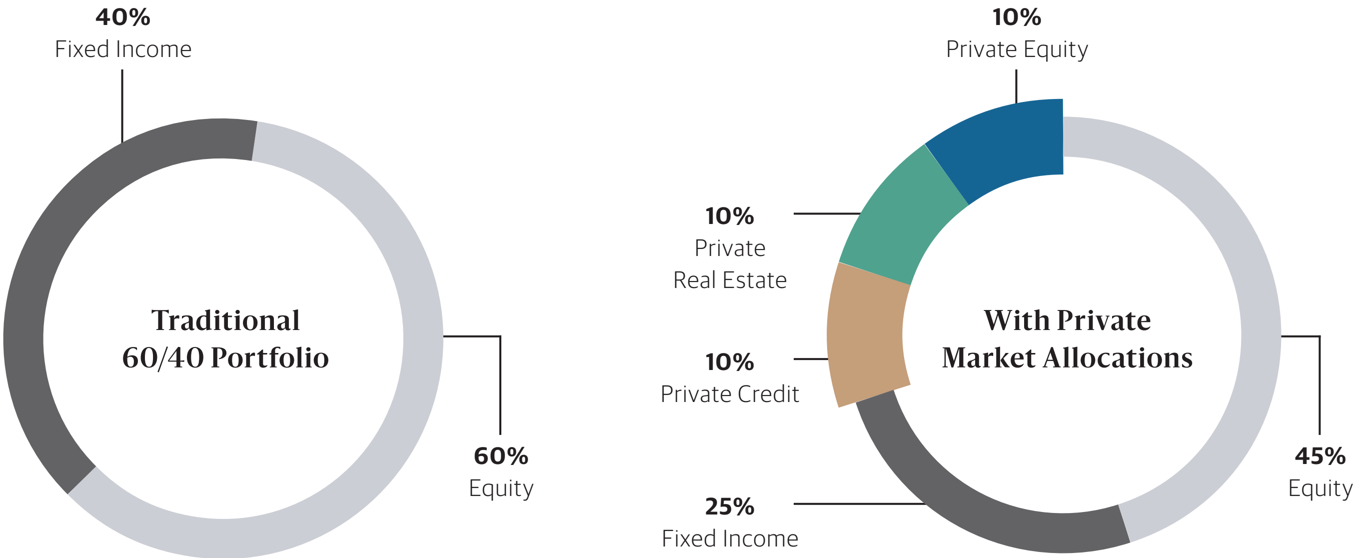
5. *Institutional Investor*, "Stocks and Bonds Have Moved in Opposite Directions for Decades – Here's What Could Change That," Change to May 6, 2021.
6. Diversification does not ensure a profit or protect against losses.
7. Morningstar, July 14, 2022; 2022 is only the second time in four decades to see stocks and bonds both posting losses for two consecutive quarters.
8. Stock-bond correlation represents the average trailing 12-month correlations over the indicated periods. Stocks are represented by the MSCI ACWI. Bonds are represented by Bloomberg Global Aggregate Bond index. 2022 data as at December 31, 2022. Annual correlations for 2017 were 0.44, 2018 0.36, 2019 0.02, 2020 0.43, 2021 0.52 and 2022 0.68
9. UK Real Estate Average Total Returns from 1978 - 1982 and 1988 - 1991 outpaced Consumer Price Index ("CPI") inflation. Sources: Knight Frank, Investment Property Data Bank ("IPD"), Office of National Statistics ("ONS"), Rosen Consulting Group ("RCG"). As of August 23, 2022. CPI in this instance represents U.K. average CPI over the period. In 1978, interest rates increased 5.5%, office total return was 22.6% and logistics total return was 28.6%; in 1979, rates increased 4.5%, office total return was 20.3% and logistics total return was 27.3%; in 1988, rates increased 4.5%, office total return was 31.1%, logistics total return was 39.3%; in 1989,rates increased 2.0%, office total return was 16.5% and logistics total return was 28.7%. **There can be no assurance that any of the trends described herein will continue in the future or will not reverse.**
10. Income from real estate investments can also go down.
11. See footnote 1.

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.[12]

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 very different from institutions.

EXHIBIT 3: Allocating to Alternatives, 2008-2023 | An Illustration

	60/40 Portfolio	Portfolio with Private Market Allocations
Annualized Return	**4.7%**	**6.5%**
Annualized Volatility	**12.6%**	**10.3%**
Current Yield	**2.9%**	**3.4%**



Source: Bloomberg, Morningstar, Cambridge Associates, NCREIF, Cliffwater, as of 3/31/2023. As commonly used in the industry, the 60/40 portfolio is 60% allocated to the MSCI ACWI and 40% is allocated to the Bloomberg Global 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 Assoc. US Private Equity Index. 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 returns than other investments. Annualized returns and volatility are calculated based on the quarterly returns over the 15-year period from April 2008 to March 2023. The yield on the portfolio with a private market alternative allocation was calculated using the annualized MSCI ACWI Dividend Yield, the annualized Bloomberg Global Aggregate Bond Yield, annualized Cliffwater Direct Lending Index quarterly income, and the annualized NFI-ODCE quarterly income. There is no yield from the private equity allocation, so private equity did not contribute to the annualized yield calculation. 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.**

12. Source: 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

Until recently, private markets attracted a relatively small segment of eligible individual investors. Investing directly in private asset vehicles came with a high investment minimum, often in the millions of euros or dollars, which also could be locked up for 10+ years.[13]

Individual investors also had to accept the "drawdown" structure of traditional private market investing, where they would commit a certain amount of capital up front, but might wait months or years to deploy their full commitment to private assets. Let's consider how these challenges can be addressed by perpetual funds, so called because they are open to investors in perpetuity.

The Introduction of Semiliquid Funds

A growing number of eligible individual investors are now making allocations to semiliquid funds (sometimes called "perpetual funds").[14] These funds are generally open-ended, meaning investors can subscribe and redeem at regular intervals, typically monthly or quarterly at the prevailing net asset value (NAV) of the fund and subject to limitations as outlined in offering materials.[15]

Some of the benefits of investing in a perpetual fund include the fact that:

- Investors' capital is fully invested into the fund from the date of subscription, meaning there is no deployment lag.
- Investors subscribe (and redeem) at the fund's prevailing NAV, so investors buy at a valuation that is reflective of the fund's current portfolio.
- Access to private market investments is improved through lower investment minimums and shorter holding periods.[16]

Tradeoffs and challenges can include the illiquidity of underlying assets, the possibility of redemption limits, less transparency versus public markets, and a wider range of possible outcomes compared to public markets.

EXHIBIT 4: An Illustrative Comparison of Structures[17]

	Illiquid Funds	Semiliquid	Liquid Funds
Subscription	Episodic	Monthly or Quarterly	Daily
Capital Deployment	Over time	Immediately	Immediately
Liquidity	None	Monthly or Quarterly, subject to limits[15]	Daily
Performance Reporting	Quarterly	Monthly	Daily
Fund Life[18]	Typically, 10+ Years	Continuous	Continuous

13. There is no current public trading market for private assets, and Blackstone does not expect that such a market will ever develop. Private asset investments cannot generally be readily liquidated without impacting the investments' ability to realize full value upon their disposition.
14. Any investment involves a high degree of risk and should only be made if an investor can afford the loss of its entire investment. There are no guarantees or assurances regarding the achievement of investment objectives or performance and you could lose some or all of your investment. Investment performance may be volatile. An investment should only be considered by sophisticated investors who can afford to lose all or a substantial amount of their investment. Fees and expenses may offset or exceed its profits.
15. Please note that the Fund Manager may have the discretion to amend / suspend unit repurchases if such action is deemed in the best interest of shareholders.
16. See Footnote 13.
17. 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.
18. At the end of the life of a fund, remaining investments are typically liquidated and proceeds are distributed.

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. Eligible individual investors can, and increasingly do deploy these assets in their investment approach, including as core portfolio building blocks.[19]

"Blackstone has long believed that alternative investments could serve as foundational building blocks for both institutional and private wealth portfolios"[20]

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 versus 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.

19. "Wealthy investors pile into private equity to escape stock volatility". *Wall Street Journal,* May 26, 2022.
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Index Definitions

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 Global Aggregate Bond Index	The index measures the performance of global investment grade fixed-rate debt markets, including the U.S. Aggregate, the Pan-European Aggregate, the Asian-Pacific Aggregate, Global Treasury, Eurodollar, Euro-Yen, Canadian, and Investment Grade 144A index-eligible securities
Bloomberg Pan-Euro High Yield Index	The Bloomberg Pan-European High Yield Index measures the market of non-investment grade, fixed-rate corporate bonds denominated in the following currencies: euro, pounds sterling, Danish krone, Norwegian krone, Swedish krona, and Swiss franc
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 2021
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	Measures the overall change in consumer prices based on a representative basket of goods and services over time
MSCI ACWI	The index measures the performance of the large and mid cap segments of all country markets
MSCI World Real Estate Index	The index measures the performance of the large and mid cap real estate (industry group) segments of world equity securities. It is constructed using GICS-Global Industry Classification Standard. The index is free float-adjusted market-capitalization weighted
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 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

Glossary

Annualized Return	The return on an investment expressed as a percentage that is rescaled to represent the 1-year return of that investment
Annualized Volatility	Typically measured by "standard deviation", annualized volatility is the magnitude of fluctuation of an investment return. Just like annualized return, annualized volatility is expressed as a percentage that is rescaled to represent the 1-year volatility of an investment
Bonds / Fixed Income	A type of investment security that pays out a set level of cash flows to investors, typically in the form of fixed interest or dividends until its maturity date. At maturity, investors are typically repaid the principal amount they had invested
Borrower Default	When a borrower stops making the required payments on a debt
Business Development Companies ("BDCs")	A type of investment company that is subject to certain restrictions and registered with the SEC. As a BDC at least 70% of assets must be certain "qualifying" assets which are generally privately-offered securities issued by U.S. private companies
Buyout	A buyout is the acquisition of a controlling interest in a company
Covenant	Covenants are clauses in the loan agreement that set certain standards that must be maintained by the borrower, potentially reducing overall investment risk
Current Yield	The income an investor would expect to receive if they were to buy a security that produces a yield (e.g. a bond) and hold it for a year
Deployment Lag	The delay between an investor committing money and the allocation / deployment of that capital to investments
Diversification	The practice of investing in a variety of investments. A diversified portfolio can be a risk management technique and contains a mix of distinct assets and investments to offset losses from any single asset class, thereby lessening the impact on the overall portfolio
Dividend Yield	A financial ratio (dividend/price) that shows how much a company pays out in dividends each year relative to its stock price
Drawdown Structure	A closed-end fund structure in which capital is committed and called upon during the investment cycle of the fund, typically over multiple years
Endowments	A managed fund dedicated to supporting an organization, typically non-profit in nature and often a college or university
Equities /Stocks	Shares of ownership in a company which are listed on an exchange
Floating Rate Loans	A loan or a mortgage, which has variable interest rate for the entire term or a specified part of its term
Global Public REITs	A global listed company that owns, operates or finances income generating real estate
High Yield Bonds	bonds that are rated below investment grade so have a higher risk of default or other adverse credit events, but offer higher yields than investment grade bonds to compensate for the increased risk
Holding Periods	The expected or recommended time that capital is committed to a fund or investment
Illiquid Fund	A fund which cannot be easily or readily sold or exchanged for cash
Inflation	General increase in prices and fall in the purchasing value of money
Inflation Hedge	Investment or financial instrument used to mitigate a decrease in the purchasing power of money (inflation)
Inflation-Linked Leases	A lease agreement linked to an inflation index, commonly used as an alternative to open market rent reviews. Rents from these contracts increase in line with increases in the contractual inflation index, sometimes with a contractual maximum and minimum increase for each indexation event. Typically, leases are indexed annually or once the inflation index has reached a certain threshold
Interest Rate	The amount a lender charges a borrower which is a percentage of the principal
Investment-Grade Bonds	Bonds with a high-quality credit rating, meaning they generally have a relatively low risk of default
Large and Mid Cap	Historically large-cap corporations are defined as those with a market capitalizations of US$10 billion and greater whilst mid-cap companies are those with capitalization between US$2 and $10 billion
Liquid Fund	A fund than can be easily converted into cash in a short amount of time, often daily
Liquidity	Refers to the efficiency or ease with which an asset or security can be converted into cash without affecting its market price

Glossary (cont’d)

Lockup Period	The period during which investors’ capital is invested in a fund and cannot be redeemed or withdrawn
Net Asset Value	Represents the value of the Fund's assets, minus the Fund's liabilities as well as expenses attributable to certain share classes, such as servicing fees, in all cases as described in the Prospectus and determined in accordance with the Valuation Policy
Perpetual Funds	An evergreen, open-ended fund which manages its capital and operates its investment strategy on an ongoing basis
Real Assets	Physical assets that have an intrinsic worth due to their substance and properties
Risk-Return Profile	Describing the relationships between investment risk and investment return
Semiliquid Fund	A fund which offers partial liquidity in terms of an investor’s ability to sell or exchange his / her position for cash
Senior Secured Loans	Senior secured loans are loans made to borrowers that are secured by the assets or cashflows of the borrower and which sit high up / are senior in the capital structure. This means that they have the highest priority claim on the collateral. Of the senior secured debt holders, first lien senior secured debt holders are paid first in the event the borrower fails to pay back the loan
Spread	The difference in yield between two debt securities of the same maturity but different credit quality
Venture Capital	A type of equity financing that investors provide to startup companies and small businesses
Yield	Refers to the earnings generated and realized on an investment over a particular period of time

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