ASSET STRATEGY

Helping you Create, Manage, Protect & Distribute Wealth®

LET'S EXPLORE THE PRIVATE MARKET UNIVERSE!

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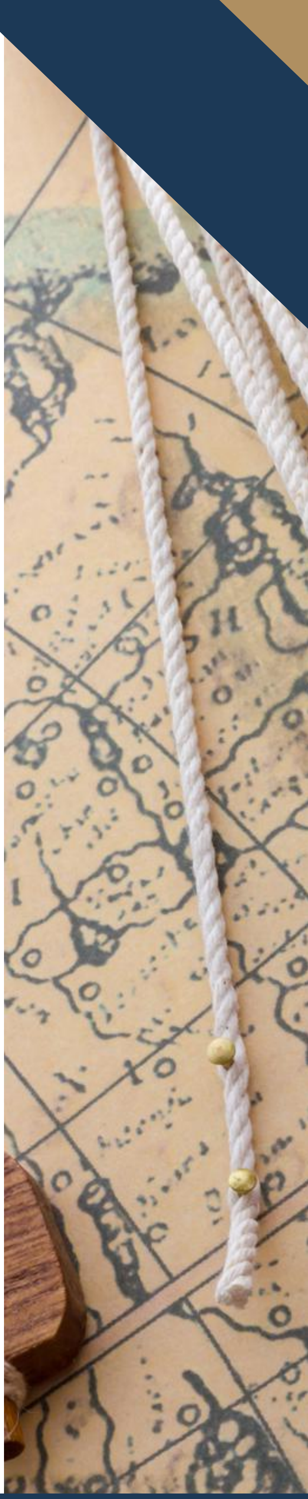


Public vs. Private Markets in the Media:

Every day, public markets, with their daily fluctuations and high-profile coverage, dominate the financial news cycle, capturing the attention of investors and the general public alike.

The constant stream of updates on indices like the S&P 500, Nasdaq, and Dow Jones create an environment where public markets seem to be the primary driver of economic health.

However, this intense focus on public markets often overshadows the significance of private markets and alternative investments.

The allure of real-time data, immediate results, and the transparency of public markets contribute to their media dominance. This leaves the more complex and less visible world of private markets underrepresented despite their potential for diversification, higher returns, and lower volatility.

Generally private markets are less volatile AND less liquid than public markets. So investors in private markets are giving up the ability to buy and sell their positions on a daily basis for a less volatile investor experience which can lead to higher risk adjusted returns over time. It is important for investors considering investing in private markets to balance out their need for liquidity to make sure they do not have too much of their wealth invested in assets they can not redeem if the unexpected happens.

In this guide, we will cover the foundations of private markets, and how they may enable investors to make more educated financial decisions.

Private Markets Overview:

Private equity is capital stock in a private company that does not offer stock to the general public. In the field of finance, private equity is offered instead to specialized investment funds and limited partnerships that take an active role in the management and structuring of the companies. Private markets enable the movement of capital in and out of privately held companies.

To understand the private market landscape, it's useful to first identify the key components involved:

In order to run daily operations and expand their businesses, private businesses and asset owners often need capital.

Financial institutions or capital providers establish and administer investment funds, which allocate resources on behalf of a pool of investors.

These private funds allow investors who seek more attractive returns, diversification/reduced risk to invest in companies that are not available on public markets.

Why Many Businesses Choose to Stay Private:

This decision is typically driven by a desire for flexibility and control. Raising capital through public markets, such as an initial public offering (IPO), entails a flurry of regulatory requirements, increasing public scrutiny, and the pressure to meet quarterly earnings projections.

These variables can occasionally shift a business's focus away from long-term growth and toward short-term performance measurements, thus jeopardizing long-term value generation.

On the other hand, private capital enables businesses to obtain the funding they require without being subjected to the swings of the public markets.

There are many investible strategies within private markets, but they can be broadly grouped into three categories:

1.	**Private Real Estate**
2.	**Private Debt**
3.	**Private Equity**

1. Private Real Estate:

Real estate can provide investors diversification, current income, capital appreciation and a potential hedge against inflation.

Private real estate is the direct investment in physical real estate outside publicly traded funds. This market encompasses a diverse range of building types, including residential, commercial, industrial, and special use.

With properly planned strategy and management, private real estate can be a consistent, inflation-resistant component of a diversified investment portfolio.

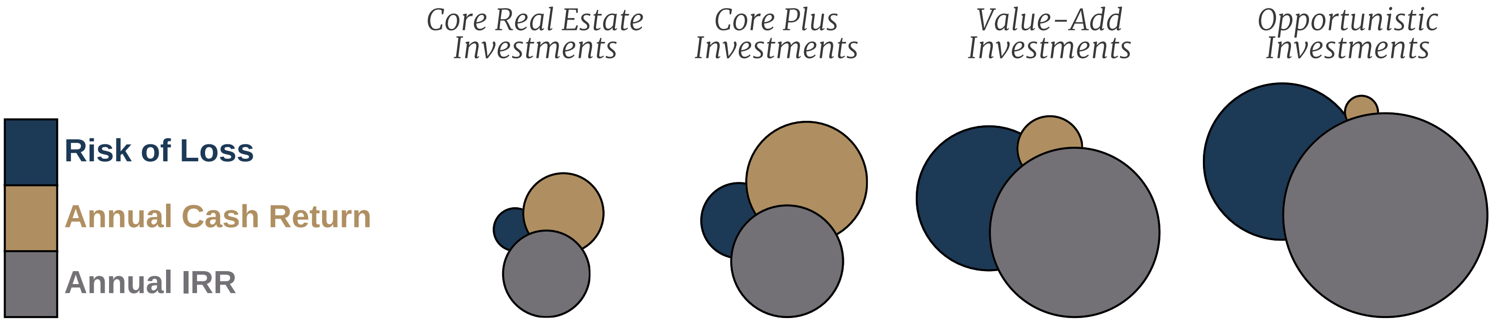
Low Correlation - Diversifying Private Real Estate - Last 20 Years (2004-2023):
Real estate's low correlation to stocks and bonds may provide significant portfolio diversification benefits.

Asset Class	Private Real Estate	Public REITs	Equities	Investment Grade Bonds
Public REITs	0.1	1.0	/	/
Equities	0.0	0.8	1.0	/
Investment Grade Bonds	-0.3	0.2	0.1	1.0

Source: Morningstar Direct, NCREIF. 20-year period ending December 31, 2023

The Four Key Strategies of Private Real Estate:

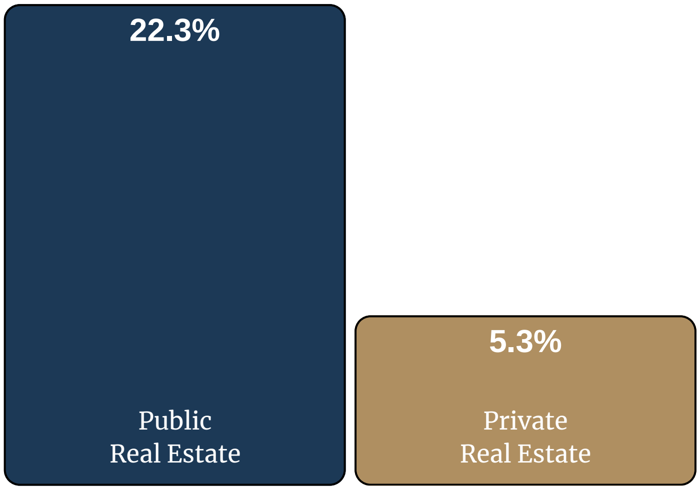
#1. Core Real Estate Investments are distinguished by their low risk and steady returns. They often feature well-located, fully leased, and high-quality properties within established markets. Core real estate investments commonly have long-term leases with creditworthy tenants, ensuring a consistent income stream. They are often financed with lower levels of debt, providing investors with predictable cash flows and minimal exposure to capital appreciation.
#2. Core Plus Investments are a slight step up on the risk scale from Core. While they remain focused on high-quality properties, these investments may require minor modifications or repairs. The goal is to generate moderately higher returns than Core by taking on a little more risk and using more leverage to fund investments.
#3. Value-Add Investments are moderate- to high-risk properties that require more active management to reach their full potential. In many situations, these properties have high vacancy rates, limited cash flow, management concerns, or major maintenance requirements. The objective is to increase returns by adding value through a variety of techniques, including property upgrades, repositioning, and lease-up initiatives. Once additional value has been generated and cash flow has improved, assets can be sold to Core or Core Plus investors.
#4. Opportunistic Investments have the highest risk and potential reward in the private real estate market. These investments focus on distressed properties, large redevelopment projects, land development, and emerging markets. The approach might include modifying the property's overall use, major modifications, or even complete reconstruction. Given the heightened risk, opportunistic investments seek larger profits.



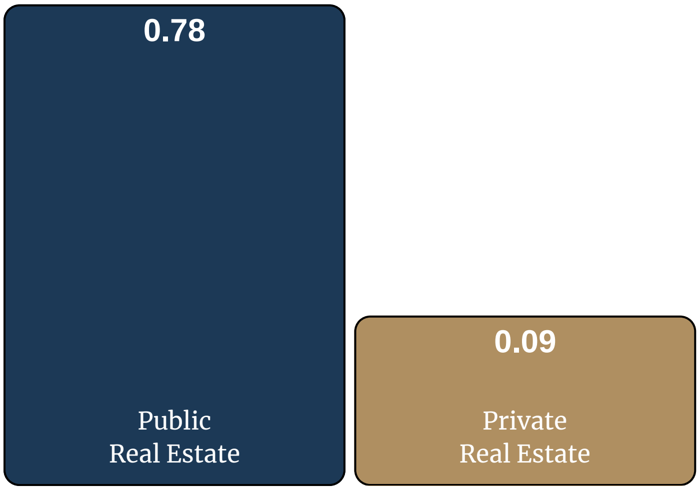
Risk of Loss:	Much Lower	Lower	Medium	Higher
Return Composition:	Current Income	Current Income + Capital Appreciation	Current Income + Capital Appreciation	Capital Appreciation
Asset Strategy:	Buy and Hold	Light Renovations Re-Leasing	Heavy Renovations Major Re-tenanting	GroundUp Redevelopment Major Rehabilitation
Hold Period:	10+ Years	5-7 Years	5-7 Years	<5 Years

Private Real Estate has Historically Provided Diversification With Lower Volatility and Correlation to Public Markets:

Last 15 Years - Volatility



Last 15 Years - Correlation to Equity



Source: Bloomberg as of 6/30/2023. Public real estate is represented by the FTSE NAREIT All Equity REITs. Private real estate is represented by the NCREIF Property Index.

Potential Benefits and Risks of Private Real Estate:

After the passage of the Employee Retirement Securities Act (ERISA) in 1974 pension funds and other institutional investors began allocating assets to private real estate to diversify their portfolios. Some of the benefits of private real estate in a diversified portfolio include: diversification with a low correlation to stocks and bonds; the potential for reliable tax advantaged current income; and a potential inflation hedge as rents tend to increase with inflation. The low correlation to stocks and bonds is also evident in the low correlation between private real estate and public REITs. Private real estate is differentiated from public REITs because private investments reflect underlying property characteristics that determine cash flows that and ultimately investor returns. In contrast, public REITs trade like stocks and reflect the pricing volatility and risk associated with public equity markets. As a result of public REITs high correlation to equities, investment in private real estate in an effective way for investors to improve portfolio diversification and overall risk adjusted returns.

2. Private Credit:

Private credit is often defined as non-banks providing credit directly to private companies. Over the last 30 years, banks' lending activity has dropped by more than 65%, leaving a slew of high-quality businesses with little access to traditional financing.

Source: S&P LCD data representing bank participation in the primary loan market as of 12/31/2022.

Private credit providers fill the vacancy by arranging and issuing different kinds of loans, and then passing on periodic interest payments to their investors through distributions. These loans are not syndicated or sold on the secondary market; instead, the lenders hold them until maturity (usually 5-7 years).

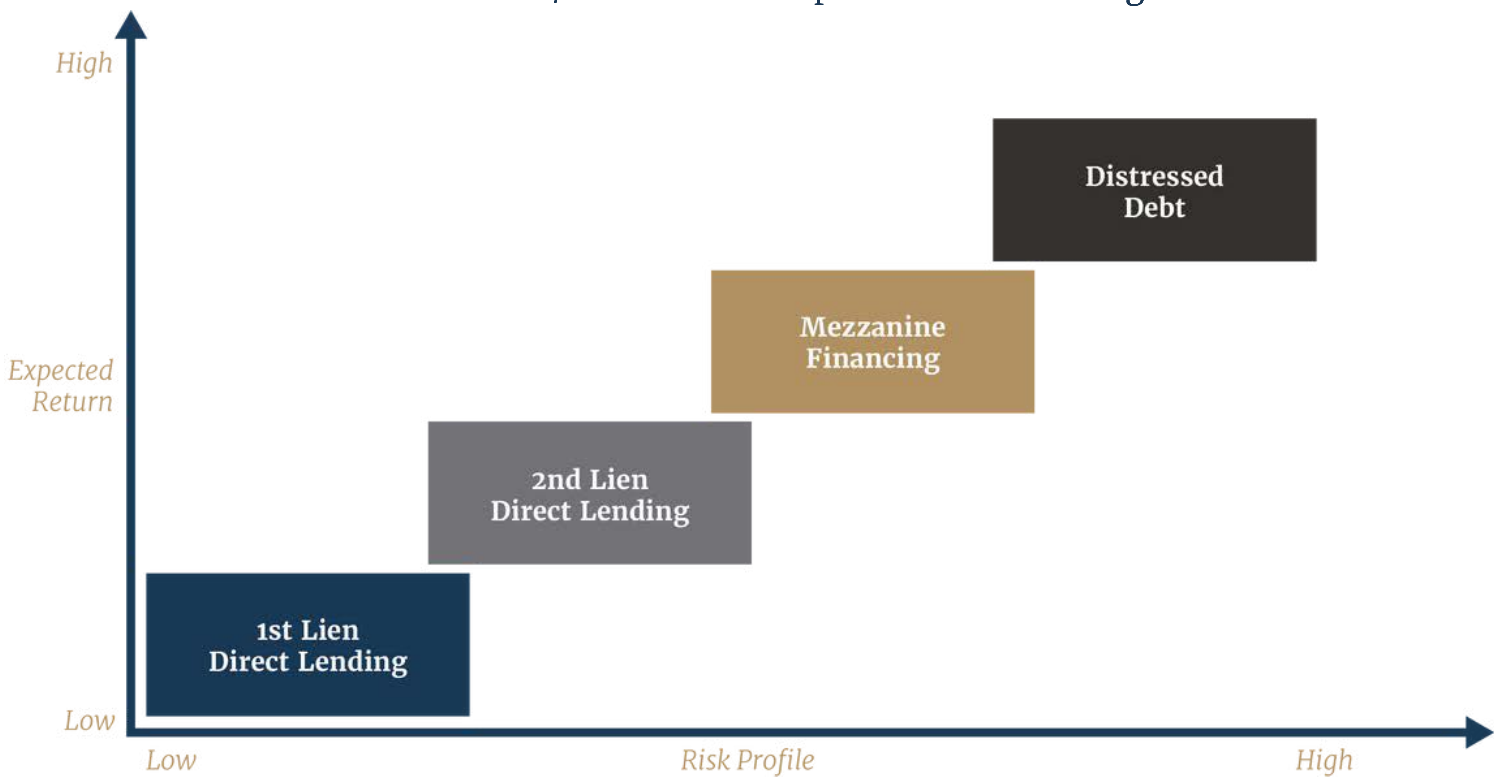
From a viewpoint of investors, private credit can provide income at a higher return than public fixed income while also being less sensitive to interest rates relative to public debt.

Similar to the mix of private equity solutions, private credit provides a variety of ways to invest in the debt of private companies.

The Three Key Strategies of Private Credit:

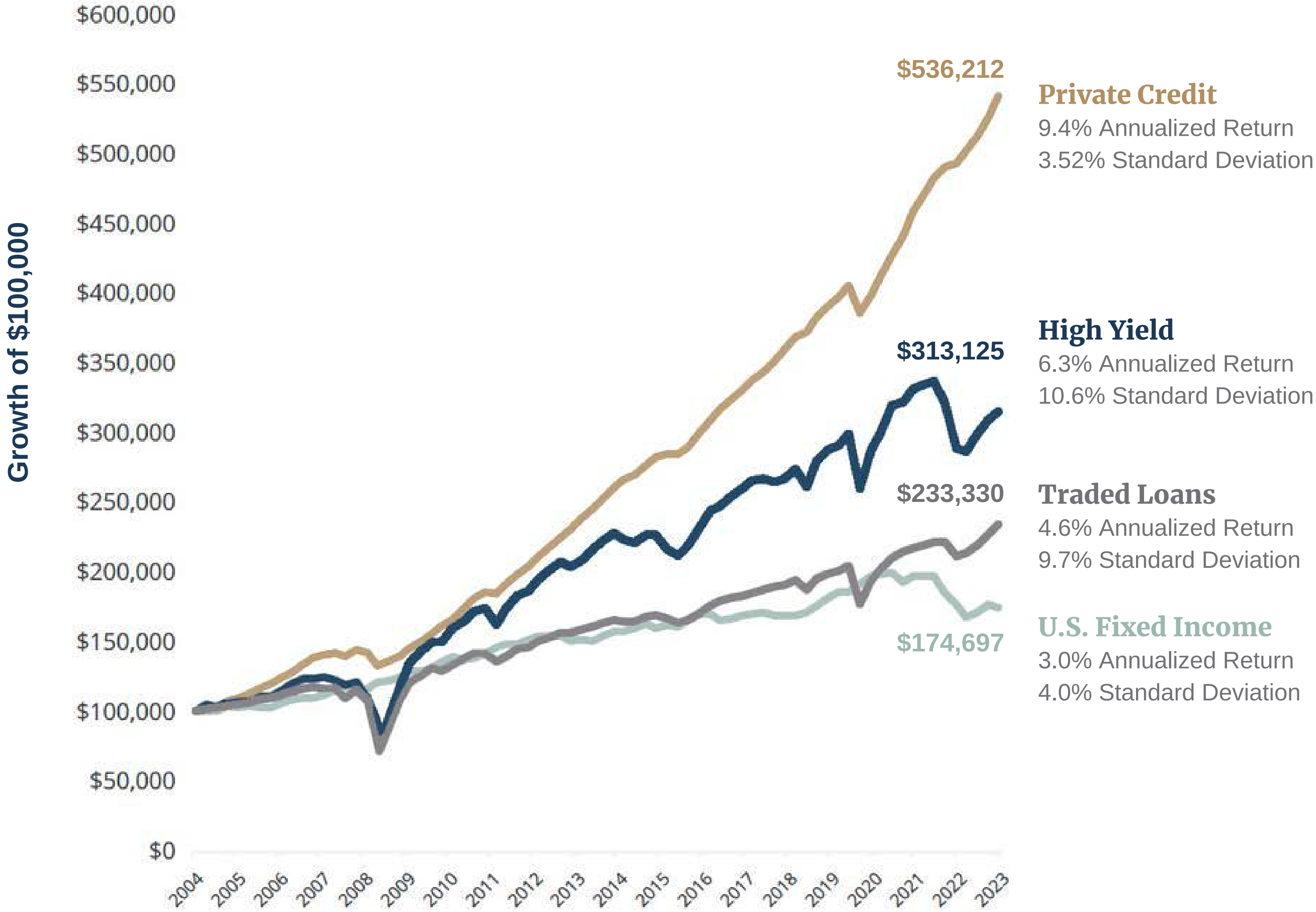
#1: Direct Lending refers to the providing of loans to businesses without the need of an intermediary, such as a traditional bank. This method has grown to be the largest and most prevalent in the private credit industry, especially when banks have decreased significantly. Consequently, private credit funds play an important role in providing loans to businesses seeking versatile capital solutions. Borrowers can utilize these loans for a number of objectives, such as debt refinancing, acquisition finance, or business expansion. Direct lenders often focus on senior debt at the top of a company's capital structure. Direct lending has recently been a popular source of funding for private equity buyouts. In many circumstances, private credit providers may offer tailored solutions, and form long-term partnerships, making them an appealing choice for buyout firms searching for capital to support their acquisitions.
#2: Mezzanine Financing is a type of hybrid capital that sits between senior debt and equity in a company's capital structure. It can offer greater interest rates than senior loans in return for additional risk because of to its subordinated position. Subordinated position means it will be paid back after senior debt in the case of a default. Mezzanine financing may also include an equity component, such as warrants or conversion rights, which enable the lender to convert debt into equity under specific conditions, possibly providing further upside if the firm performs well.
#3: Distressed Debt is acquiring debt from companies experiencing financial difficulties, or are on the verge of bankruptcy. Investors in distressed debt seek to benefit either by purchasing the debt at a substantial discount and perhaps earning a return if the business recovers, or by obtaining control of the company's assets during a restructuring or liquidation scenario.

Illustrative risk/return of select private credit strategies



Source: S&P LCD data representing bank participation in the primary loan market as of 12/31/2022.

Private Credit has Historically Provided Premium Returns, Driven by Income:



Source: Bloomberg, Cliffwater as of 6/30/2023. Private Credit is represented by the Cliffwater Direct Lending Index. High Yield is represented by the Bloomberg Barclays High Yield Index. Traded Loans are represented by the S&P/LSTA Leveraged Loan Index. U.S. Fixed Income represented by the Bloomberg US Aggregate Bond Index.

3. Private Equity:

Private equity refers to making investments in the equity of companies that are not listed on a public stock exchange.

Managers:
Private equity managers establish investment funds in which they find, research, purchase, and manage assets in private companies on behalf of their clients.

- Their purpose is to add value by actively managing or restructuring businesses over a four to seven-year period, in order to generate a profit for shareholders upon exit.

Investors:
Private equity aims to provide investors with long-term capital appreciation and less volatility than public equity.

Private equity covers a wide range of strategies, but they can be broadly classified based on the stage of the business life cycle in which target investments are made.

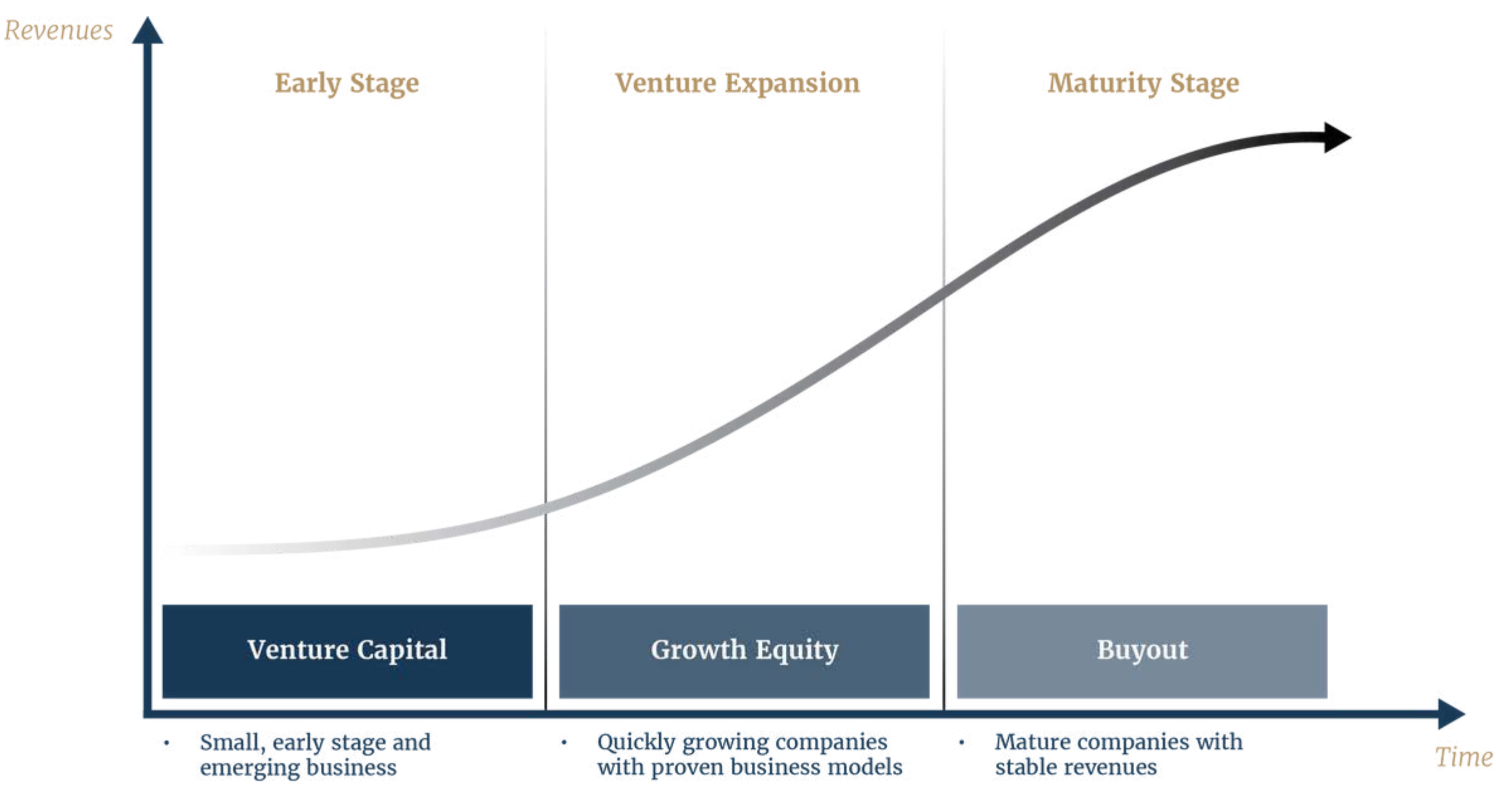
The Four Key Strategies of Private Equity:

#1: Venture Capital (VC) refers to investments in early-stage businesses with strong growth potential. These organizations are frequently in innovative areas and may not yet have a proven track record or major revenue sources, so management must consider the risk that they will not always survive. Venture capital firms present capital in exchange for equity (often a minority ownership), therefore investing in the company's future. The idea is to invest early, help the firm expand, and then exit with a significant return, possibly through a sale or an IPO.

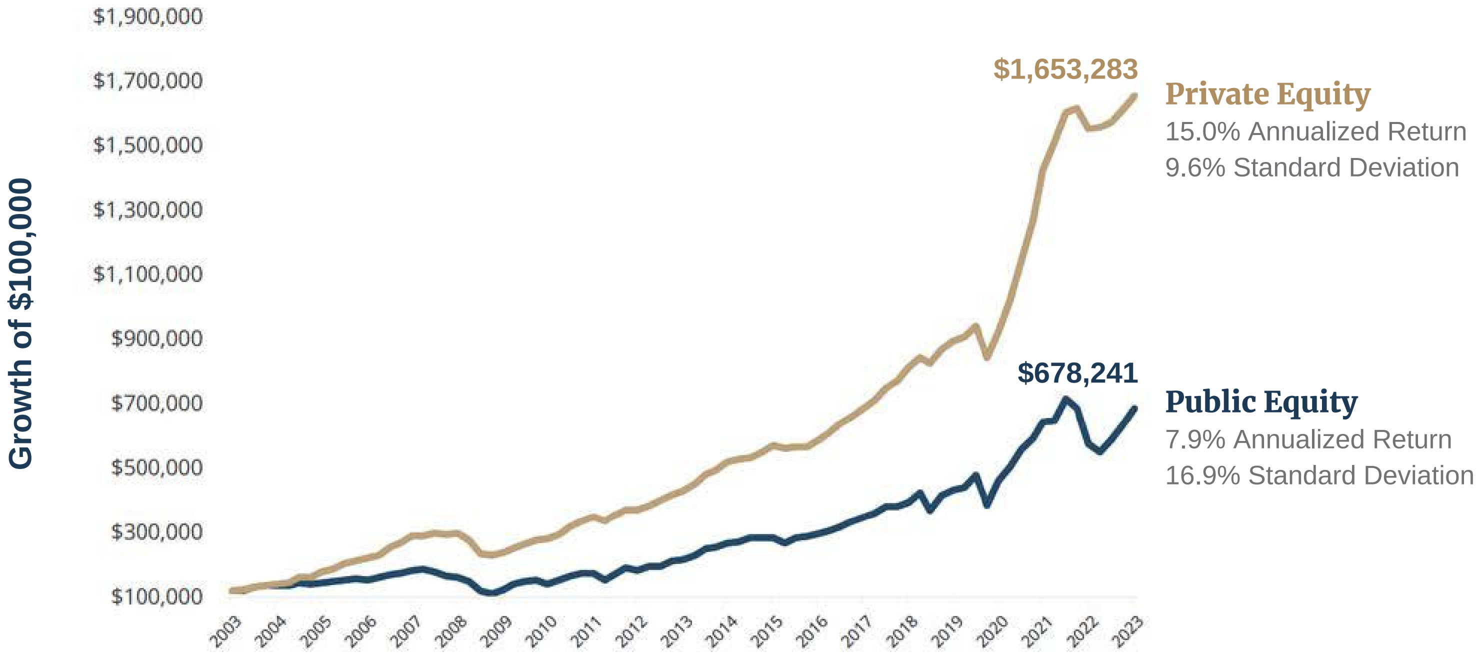
#2: Growth Equity falls between venture capital and buyouts on the investment spectrum. It entails investing in established and expanding businesses. They are frequently further along in the business cycle than standard VC targets, and may even be profitable, but they still require additional resources to scale, restructure operations, enter new markets, finance acquisitions, or accomplish the next phase of growth.

#3: Buyouts include obtaining a controlling interest in a company, usually to enhance operational improvements, and subsequently selling the company for a profit. Buyout targets are often more established enterprises with stable revenues that have the potential for future development under the leadership of a private equity management. Leveraged Buyouts (LBOs) are a type of buyout in which the purchase is funded with a large sum of borrowed money secured by the company's assets or cash flows.

#4: Secondaries *(not depicted in the graphic below)* is a newer strategy that is quickly growing as private equity managers attempt to retain their top portfolio firms beyond the life cycle of current private equity funds. By selling these prize assets to what are known as continuation funds, management may continue to create value while providing an exit for shareholders. These transactions are especially advantageous in difficult departure scenarios, keeping managers from being forced sellers of performing assets.



Private Equity has Historically Provided Greater Returns with Less Volatility:



Source: Bloomberg, Cambridge Associates for the period 6/30/2003 to 6/30/2023. Public equity represented by the S&P 500. Private equity represented by the Cambridge U.S. Private Equity Index.

Why Private Markets are Primed for Greater Growth:

There is a reason why alternative investments have been a staple in institutional investors' portfolios for decades. Private markets are robust, with numerous investable opportunities across asset classes and strategies that can provide a variety of potential benefits, including attractive returns, increased income, lower volatility, increased diversification, and the comfort that comes with long-term wealth accumulation and capital preservation.

Over the past years, Asset Strategy has seen that the drive behind the private market expansion is evident. Private equity, private credit, and private real estate are expected to add billions of dollars in assets under management in the coming years as these investments, which institutions have previously had access to with great success, become more accessible, beneficial, and organized for individual investors.

Despite the benefits private market investing offer, many investors are still unaware of these opportunities, overlooking what should be viewed as key components of a well-rounded, diverse investing strategy.

Work with a Professional at Asset Strategy:

If you're ready to explore the unique opportunities that private market investing can offer, Asset Strategy is here to guide you every step of the way. With our expertise, we can help you navigate the complexities and unlock the potential of private investments tailored to your financial goals.

Don't miss out on these exclusive opportunities—schedule your Discovery Call with us today or reach out directly at 781-235-4426 to learn how we can assist you in building a diversified and resilient portfolio. Let's work together to create, manage, and protect your wealth for the future.

Let's Talk! Schedule a 15-minute discovery call today.

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