

What are Private Market Investments?

Private market investments involve assets that are not traded on public exchanges, such as the New York Stock Exchange or NASDAQ, and are generally not accessible to the broader investing public. These include investments in private equity, private credit, and private real estate. Just as investors can access publicly traded bonds, equities, and Real Estate Investment Trusts (REITs) through vehicles like mutual funds and exchange-traded funds (ETFs), private market exposure is often achieved through specialized vehicles such as limited partnerships, limited liability companies, and private trusts.

Unlike public market investments, private investments are characterized by negotiated transactions, limited regulatory disclosure, and longer investment horizons. These structural differences allow for more direct engagement with underlying assets but also introduce greater complexity and risk. As institutional and high-net-worth investors seek differentiated sources of return and portfolio diversification, private markets have grown to represent a significant and increasingly influential segment of the global investment landscape.

Do Private Investments Belong in Your Portfolio?

Eligible investors, including accredited investors¹ and qualified purchasers,² may consider private market investments as a means of diversifying risk and increasing potential returns. However, private market investments are complex and typically suitable only for long-term investors with sufficient liquidity, higher risk tolerance and the capacity to tie up capital for extended periods. These considerations should be carefully evaluated in the context of a comprehensive financial plan before making any private market investment.

Potential Benefits of Private Market Investments

Private market investments offer distinct risk-return profiles that are difficult to replicate in public markets. Private markets can provide access to specialized opportunities and have structural advantages which contribute to a differentiated return profile. For investors seeking to potentially enhance the risk-return characteristics of their portfolio, private markets may offer key benefits across several dimensions:

1. **Income Generation** – Many private investments offer strong income potential through rent, interest payments, or distributions. These investments can provide cash flow which exceeds yields available in public markets.

¹ Accredited investors are natural persons who have earned income exceeding \$200,000 (or \$300,000 together with a spouse or spousal equivalent) in each of the prior two years and reasonably expect the same for the current year or has a net worth over \$1 million, either alone or together with a spouse or spousal equivalent (excluding the value of the person's primary residence).

² Qualified purchasers are natural persons who have a net worth of over \$5 million (excluding the value of the person's primary residence and business).

2. **Total Return Enhancement** – Historically, private market investments have delivered an attractive return profile. Investors can tap into niche growth opportunities and inefficiencies often absent in traditional public investments.
3. **Diversification** – Private market assets can exhibit low correlations with public markets. This diversification can be particularly valuable during periods of market stress, helping to reduce overall portfolio volatility and enhance stability.

Risks of Private Market Investments

While private investments may offer significant return potential and potential diversification benefits, they also carry a distinct set of risks that investors must carefully consider. These (and other) risks differ substantially from those found in public markets and require thoughtful evaluation and planning:

1. **Illiquidity Risk** – Unlike public markets, where investors have the flexibility to buy, sell, or hold securities daily, private investments typically require long-term commitments. Exit opportunities are often dependent on predefined events or timelines and may be limited. As a result, investors must be prepared for capital to be tied up for an extended period (potentially for years!), making proactive liquidity planning essential.
2. **Complexity** – Private investments are often structurally intricate, involving layered ownership, complex financial arrangements, and varying governance models. A deep understanding of industry-specific factors, legal frameworks, and operational nuances is often necessary to properly assess risk and return.
3. **Operational Risk** – Success in private markets frequently hinges on the execution capabilities of company management. Risks may arise from ineffective leadership, regulatory missteps, and/or inadequate administrative oversight (amongst others). Poor operations can erode performance even if the underlying business opportunity is sound.
4. **Transparency** – Private companies are not subject to the same rigorous disclosure requirements as public firms. As a result, investors often have limited visibility into company financials and business practices. Thorough and ongoing due diligence is critical to identify and mitigate these blind spots where possible.
5. **Fees** – Private market investors typically face higher fees than in public markets. These fees reduce returns and lead to less favorable net performance on a risk-adjusted basis.

Despite these risks and others, private investments offer unique opportunities unavailable in public markets and may present a compelling risk-return profile relative to public stocks and bonds.

Private market investments can be a powerful addition to a diversified portfolio by offering eligible investors the potential for enhanced returns, income generation, and reduced correlation with traditional assets. However, they are not appropriate for all investors. Those considering private investments should ensure they have the appropriate risk tolerance, investment horizon, and ability to conduct thorough due diligence. When approached with care and proper planning, private markets can open access to valuable opportunities that support long-term financial goals.

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