

The Portfolio Lens: Liquidity

Investor Concern

I've seen private credit in the headlines, including managers enforcing redemption limits. Should I be concerned about evergreen funds or other less liquid investments?

Evolving market conditions have brought liquidity considerations to the forefront, with investors increasingly focused on access to capital across different market environments. While these concerns are valid—particularly for vehicles with limited liquidity—we believe they should be viewed in the context of the asset class's structure and objectives. Periods of market dislocation can create attractive opportunities in private markets, where long-term capital is often better positioned to take advantage of inefficiencies.

Discussion Points

- **Discuss current market conditions:** Private credit markets are navigating a more complex environment, with tighter spreads, evolving underwriting standards and sector-specific risks weighing on performance. Coupled with increased redemption activity, these dynamics are heightening investor focus on liquidity within private markets.
- **Reinforce a long-term view:** According to our proprietary research, 86% of non-users of alts agree that they are willing to ride out volatility to achieve their long-term investment goals.¹
- **Explore the liquidity trade-off:** While evergreen investments offer less flexibility, this structure enables access to unique growth and income potential not typically available in public markets. In fact, 74% of alternatives users believe the outcomes private markets generate are worth the liquidity trade-off.¹
- **Address the cash needs disconnect:** Nearly half of high-net-worth investors believe their investment time horizon isn't long enough for semi-liquid and private alts, despite over 80% indicating that they are unlikely to have short-term cash needs.
- **Highlight manager selection:** Prioritize experienced, cycle-tested managers with disciplined underwriting and strong risk controls who can navigate periods of market dislocation.

The Opportunity

In today's markets, concerns around liquidity risk are likely to emerge, but they also create an opportunity to reassess a client's total portfolio—reinforcing the importance of a long-term perspective and identifying investments that can help reduce volatility. A broad range of alternative strategies can offer meaningful diversification benefits.

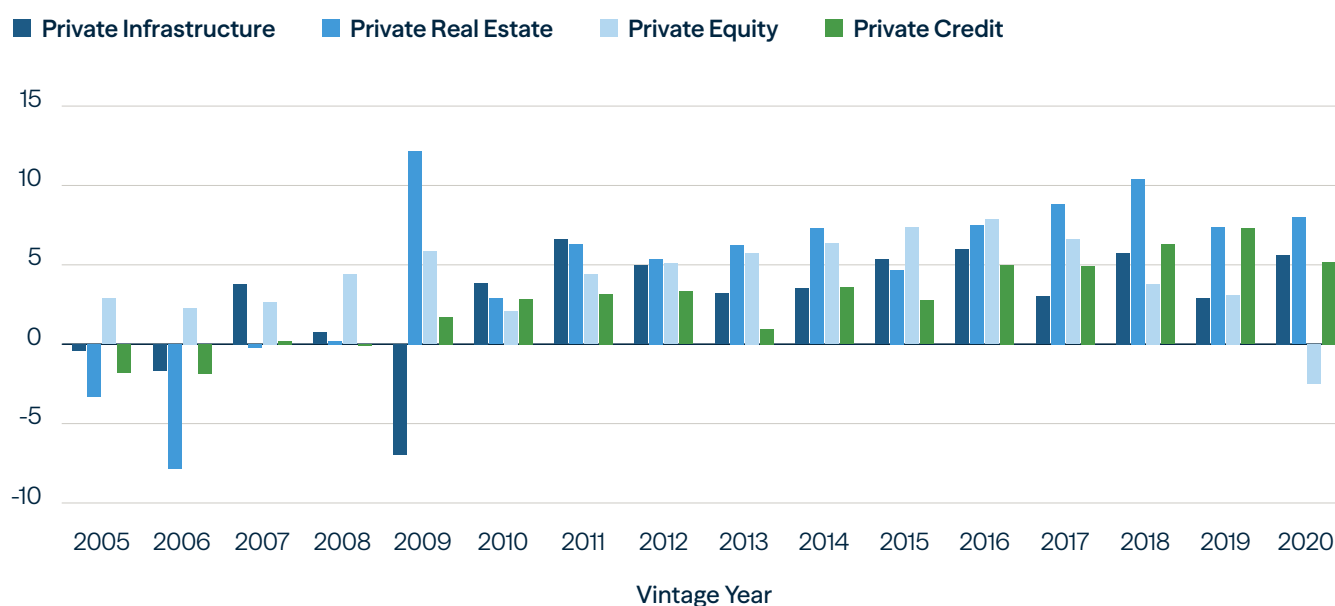
Potential Investor Benefits	Real Estate	Infrastructure	Private Equity	Private Credit
Diversification	Dark Blue	Dark Blue	Medium Blue	Medium Blue
Inflation Hedge	Dark Blue	Dark Blue	Medium Blue	Medium Blue
Risk Mitigation	Dark Blue	Dark Blue	Light Blue	Dark Blue
Income Generation	Dark Blue	Medium Blue	Light Blue	Dark Blue
Return Enhancement	Medium Blue	Light Blue	Dark Blue	Medium Blue



The Bottom Line

In today's market, alternative investments can play a meaningful role in enhancing portfolio resilience and return potential. When thoughtfully integrated, alts provide access to differentiated sources of return, including alpha and the potential illiquidity premium associated with long-term private market investing.

Private Index Return Premium vs. Public Market Equivalent by Vintage Year



Past performance is not indicative of future results. Private Infrastructure represented by Cambridge Associates Private Infrastructure Index, Private Real Estate represented by Cambridge Associates Private Real Estate Index, Private Equity represented by Cambridge Associates U.S. and ex U.S. Private Equity Index, and Private Credit represented by Cambridge Associates U.S. and ex U.S. Private Credit Index.

Source: Cambridge Associates, as of December 31, 2023.

Realizing these benefits requires thoughtful portfolio design, particularly in aligning investment horizons with anticipated cash-flow needs. The investors best positioned to allocate meaningfully to alternatives are those with sufficient liquidity to meet their near-term obligations—potentially enabling them to remain invested and to capture long-term value.

As clients consider private market allocations, The Alts Institute offers a comprehensive platform with client-friendly resources, in-depth asset-allocation insights, and best practices to support informed portfolio decisions aligned with evolving investment priorities.

Endnote

1. Survey methodology: Brookfield commissioned CoreData Research to conduct separate online surveys between April and June 2024 of 300 financial professionals in the U.S. and Canada with an average practice AUM of US\$633 million, and 625 high-net-worth investors in the U.S., Canada, Hong Kong, Singapore and Taiwan with at least US\$2.5 million in household investable assets.

Investment Risks

Alternative investments are subject to a variety of risks and limitations, including but not limited to illiquidity, lack of transparency, complex structures, and the potential for significant loss of principal. These investments may not be suitable for all investors, and there is no guarantee that diversification, enhanced income, or risk mitigation objectives will be achieved. Investors should carefully consider these risks before investing.

All real estate investments, ranging from equity investments to debt investments, are subject to some degree of risk. Due to the physical nature of real assets, investors may be exposed to a wider range of potential risks including macroeconomic, political, regulatory, environmental, or commodity risk.

Infrastructure investments are subject to various risks including regulatory changes, political shifts affecting government support, technological obsolescence, and potential illiquidity. The stable cash flows and downside protection mentioned may not be achieved in all market conditions, and infrastructure investments can experience significant losses during economic downturns or sector-specific challenges. The diversification benefits may vary depending on the specific infrastructure assets and their correlation with other investments in your portfolio.

Private credit investments, including bespoke capital solutions and rescue financings, involve significantly higher risks than traditional fixed income investments. These risks include greater illiquidity, higher default rates, valuation challenges, and potential loss of principal. The “compelling returns” mentioned are not guaranteed and reflect compensation for these elevated risks. Execution of these strategies may involve complex negotiations, extended timelines, and recovery challenges. These investments typically demonstrate higher sensitivity to economic downturns and may perform differently than expected in changing market conditions.

Private equity investments are speculative and involve significant risks, including long holding periods, limited or no liquidity, higher fees and expenses, and possible loss of the entire investment. Returns can be highly variable and depend on economic, market and manager-specific factors; past performance or historical outperformance versus public markets does not guarantee future results. Such investments may be unsuitable for investors who require current income or ready access to capital.

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Cambridge Associates Private Infrastructure Index – A benchmark that measures the pooled performance of private infrastructure investments, including assets such as utilities, transportation, energy, and communications infrastructure funds.

Cambridge Associates Private Real Estate Index – A benchmark designed to track the performance of private real estate investments, including equity-oriented real estate funds and investments across property sectors and geographies.

Cambridge Associates U.S. and ex U.S. Private Credit Index – A benchmark that tracks the performance of private credit investments across U.S. and non-U.S. markets, including direct lending, distressed debt, mezzanine debt, and other private debt strategies.

Cambridge Associates U.S. and ex U.S. Private Equity Index – A benchmark that measures the performance of private equity investments in both U.S. and non-U.S. markets, including venture capital, buyout, growth equity, and mezzanine strategies.

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