QUINTET LUXEMBOURG
PRIVATE BANK

YOUR GUIDE TO PRIVATE MARKETS:

UNDERSTAND THEIR ROLE IN PORTFOLIO DIVERSIFICATION AND HOW TO NAVIGATE INVESTMENT OPPORTUNITIES

Contents

Who are Quintet?

Quintet is a private bank licensed to provide financial services in Luxembourg. We are part of Quintet Private Bank (Europe), a group of private banks and wealth managers operating in over 30 cities across Europe.

Our values

Integrity, commitment and excellence. Our values are the foundation of our mission as a private banker. They inspire our employees every day to shape their actions and strive for long-term performance.

1 **Integrity**

A requirement for everyone to put the client first, while fully respecting the principles of transparency and confidentiality.

2 **Commitment**

The fundamental quality of our employees, who keep their promises, take responsibility and work as a team.

3 **Excellence**

Our constant ambition is to exceed your expectations by making the implementation of effective solutions our priority.

To become a Quintet client, a minimum combined investment of €1 million is required. Reserved for eligible investors. Alternative investments (including private market investments) are illiquid, high-risk and not suitable for all investors.

Private Markets – a strategic asset allocation guide

Private markets are an essential component of modern asset allocation, offering diversification, enhanced returns, and access to unique investment opportunities. We typically advise allocating 15% to private assets such as private equity, private debt, and infrastructure to complement traditional investments.

While private markets provide benefits like higher risk-adjusted returns and long-term growth potential, they also come with challenges, including liquidity constraints and complex valuations. Careful due diligence and expert guidance are essential for successful integration.

Once limited to institutions, private market investments are now more accessible to individual investors. This brochure explores their role in strategic asset allocation and how to navigate investment opportunities effectively.

What are private markets?

Understanding private markets is crucial for investors looking to diversify their portfolios beyond traditional stocks and bonds.

Private markets encompass investment opportunities that are not listed on public exchanges, such as:

- **Private equity** involves investing in private companies, often to acquire a significant stake or control of the company, with the intention of improving its value over time before eventually selling the stake at a profit.
- **Private debt** refers to lending money to private companies or buying their debt, which is not traded on public markets.
- **Infrastructure** investing consists of investments in physical systems and facilities such as roads, bridges, and utilities, which are essential for the operation of society.
- **Real estate** investments in private markets involve purchasing direct properties to generate rental income and potential price appreciation.

Why private assets are part of today's investment strategy

In the dynamic world of investing, private markets are becoming increasingly popular for their distinct advantages. Eligible investors are increasingly turning to private markets as a strategic component to bolster their portfolios.

Higher risk-adjusted returns

Private markets offer the potential for higher long-term returns compared to traditional public markets primarily due to illiquidity premium.

Figure 1 shows that private markets have stood out for their attractive risk-return profile compared to many publicly listed asset classes[1].

Risk-Returns of Selected Asset Classes (2008-2023)

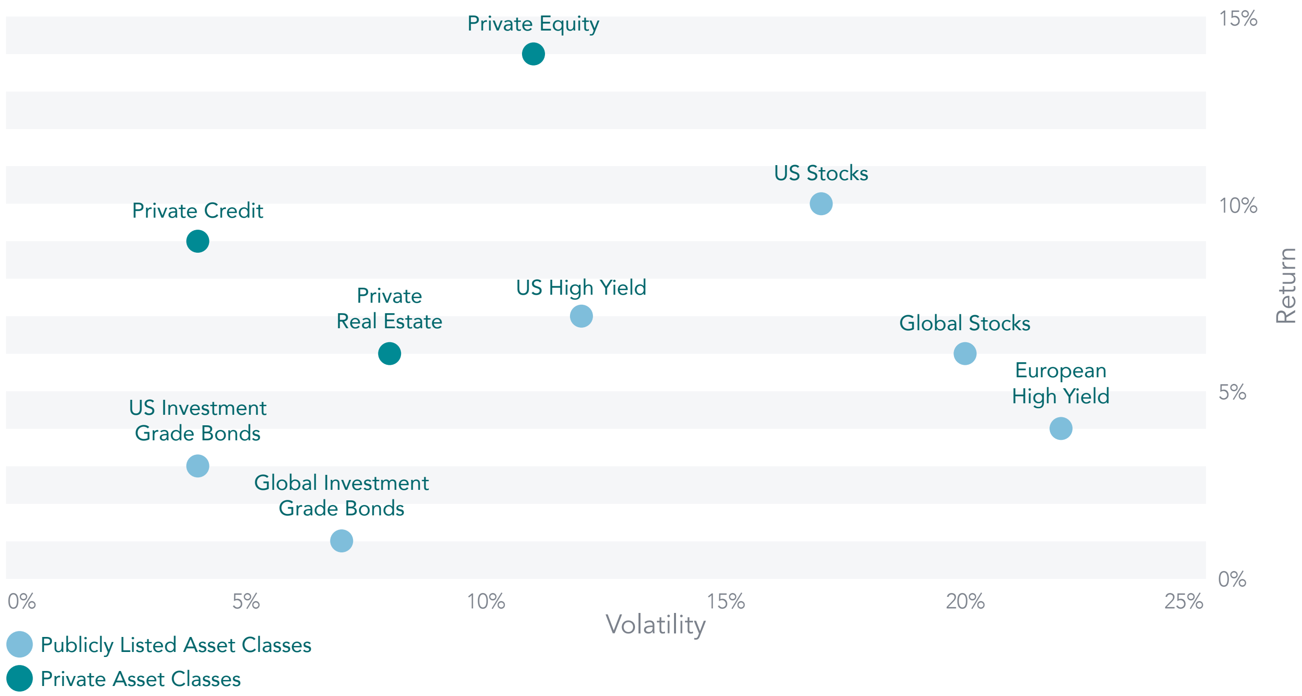


Figure 1: Blackstone, Morningstar Direct for the 15-year period ending March 31, 2023[1].
Past performance is not a reliable indicator of future performance.

[1] Source: Preqin, Future of Alternatives 2029 report, Blackstone, 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.

Opportunities you won't find in public markets

Private markets provide access to innovative companies and sectors not yet available in public markets, offering exposure to high-growth opportunities and emerging trends. The number of public companies has declined significantly, with U.S. listed firms dropping from around 8,000 in the late 1990s to about 4,000 by 2020[2]. Today, only 13% of U.S. companies with revenues over $100 million are publicly traded, while 87% remain private[3].

Enhanced portfolio diversification

The correlation between stocks and bonds has increased significantly over the past years, making each asset class a less effective hedge against the other during periods of high market volatility.

Incorporating private market investments into a strategic asset allocation can significantly diversify a portfolio. These investments tend to have lower correlations with traditional public markets, potentially reducing overall risk.

[2] Source: Schroders: The universe of stock market companies is shrinking: how should investors respond? (schroders.com).

[3] Source: Hamilton Lane: Truths Revealed: Private Markets Today | Hamilton Lane.

Balancing risk and reward – what you need to consider

While private markets offer attractive opportunities, investors must navigate several challenges. Understanding these factors allows investors to make informed decisions and optimise their private market allocations.

Liquidity constraints

Private investments are less liquid and lack a developed secondary market, requiring commitments of 5-10 years. To manage this, investors can diversify across asset classes, vintages and maintain liquidity buffers.

Long investment horizons

Private assets take time to mature, benefiting from strategic decision-making without quarterly market pressures. Successful exits often depend on strong management execution and favourable market conditions.

Valuation complexity

Unlike public markets, private assets lack frequent price updates, requiring in-depth financial analysis and valuation models that rely on assumptions about future performance.

Regulatory and operational challenges

Private investments involve less standardised reporting and intensive due diligence. Skilled managers with strong governance and risk controls are essential for mitigating these risks.

Due diligence expertise

Selecting the right managers and investment opportunities is critical. Partnering with an experienced fiduciary ensures rigorous evaluation, ongoing monitoring, and higher chances of success.

Building a portfolio that fits your needs

Private markets, once exclusive to institutions, are now accessible to eligible individual investors. Our role is to guide clients in building robust portfolios and selecting top managers based on track record, scale, and long-term value creation.

Key considerations for effectively integrating private markets into portfolios:

Investment objectives & risk tolerance

Assessing risk appetite, liquidity needs, and portfolio goals to determine appropriate allocation.

Diversification

Spreading investments across private equity, debt, real estate, and infrastructure, as well as across vintages, regions, and managers to reduce concentration risk.

Liquidity management

Balancing liquid and illiquid assets to meet cash flow needs and manage portfolio-level liquidity risks.

Allocating to private markets

To explore the appropriate allocation of private markets in portfolios, we need to model and illustrate the potential outcomes.

Portfolios with a greater allocation to private markets tend to achieve higher expected returns at the same level of volatility compared to those without alternative investments.

For example, a portfolio with 36% equity, 15% private markets, and 49% fixed income achieves a higher return with lower volatility, resulting in a better return/risk ratio compared to the traditional 60% equity and 40% fixed income portfolio.

This suggests that a diversified mix that includes a significant allocation to alternatives can offer a more favourable balance between risk and return compared to traditional portfolios dominated by equities and fixed income alone.

Open-ended Evergreen ELTIFs

Liquidity constraints in private markets is one of the key drawbacks to allocating such a large portion to private markets.

The ELTIF[4] structure provides a unique opportunity to address these challenges. It offers greater liquidity compared to previous products, as evergreen ELTIFs typically provide monthly subscription and quarterly redemption options. This new framework enhances accessibility and flexibility for investors, marking a significant shift in the democratisation of private markets.

[4] European Long-term Investment Funds, also known as ELTIFs, is a regulatory framework that focuses on long-term investments in equity and debt across the E.U.'s real economy and beyond.

Conclusion

Unique characteristics of private markets, including access to niche investment opportunities, potential for higher returns, and lower correlation with public markets, make them an attractive option for investors aiming to build resilient and well-rounded portfolios.

The illiquid nature of private market investments provides an additional layer of return potential through the illiquidity premium. Furthermore, private markets can offer exposure to innovative sectors and emerging trends not readily available in public markets, thereby allowing investors to capitalise on growth opportunities in their nascent stages.

Importantly, more and more of these investments are becoming available to individual investors as the regulatory landscape opens up. The new ELTIF framework enables retail investors to access institutional-quality deals with low investment minimums, marking a significant shift in the democratisation of private markets.

In summary, the strategic allocation to private markets is not only a prudent approach to achieving higher risk-adjusted returns but also a necessary adaptation to the modern investment landscape. By embracing private markets, investors can better position themselves to meet their financial goals and navigate the uncertainties of the global economy.

Talk to us

Private markets is a specialised area of investment. We have the fund management expertise you need to invest with confidence.

When you're ready, call one of our local offices or fill in the contact form on our website and we'll get in touch with you.

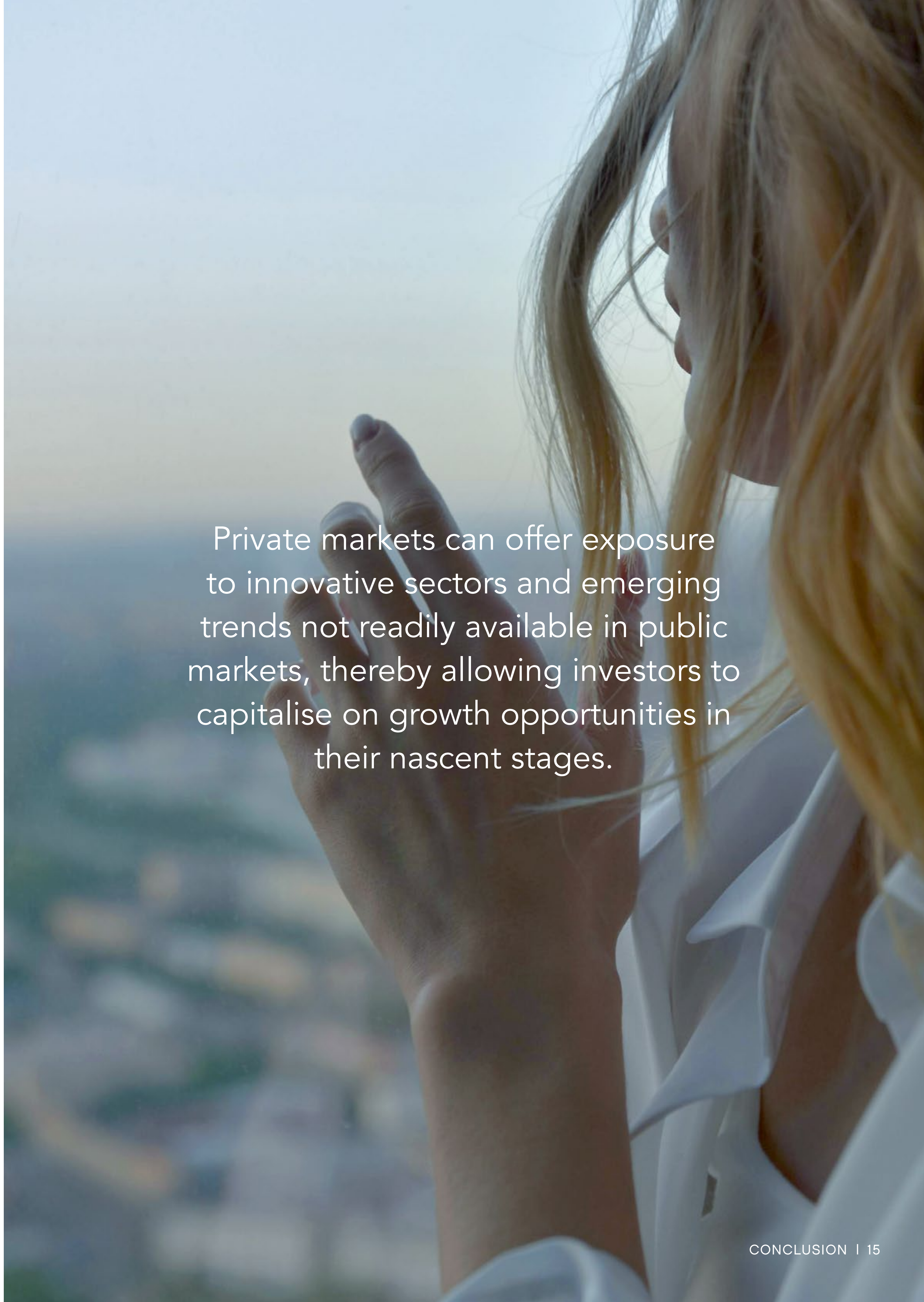
Start the conversation. We're here to listen.

Visit quintet.lu/en-lu/contact-us

Important information

- Investing puts your capital at risk.
- The value of your investments can go down as well as up, and you could lose some or all of the money invested.
- Alternative investments (including private market investments) are illiquid, high-risk and not suitable for all investors.

To become a client of Quintet Luxembourg, our services start from a combined investment amount of €1 million.



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