Maximizing the Opportunity in Private Markets

The Case for Rebalancing Private Portfolios and Secondary Market Liquidity

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Executive Summary

- Portfolio construction and rebalancing around market cycles is a widely accepted and important approach in public asset management; for similar reasons this approach can benefit alternative asset investors. Many investors in private markets have traditionally relied on fund manager skill, so-called manager selection, rather than looking more holistically at their allocations and diversifying broadly across the private asset class. Yet we know that different private fund strategies tend to outperform in certain economic and market environments; venture capital, for instance, outperformed in the late 1990s but then struggled in the dot-com correction afterwards.[1]
- Meanwhile, investing during the next five years is likely to be characterized by low nominal returns and uneven asset performance, while the hardest-hit sectors during the pandemic could benefit from a rebound in valuations. In this paper, we utilize Ben's portfolio allocation framework customized to private assets to analyze and forecast the risk/reward profile of private fund strategies. In accordance with Oxford Economics' baseline macroeconomic forecasts, our analysis suggests that private real estate and natural resource funds currently are relatively attractive portfolio overweights. However, stretched equity valuations suggest caution when allocating towards venture capital strategies in the near-term, when the industry is at record levels of investment capital and competition for deals that are priced at significant historical premiums.
- The pandemic and the Global Financial Crisis (GFC) before it highlight the uncertainty at all stages of the economic cycle. To deal with risk, we consider a conservative bear scenario around the Oxford Economics baseline. Our downside scenario envisages economic weakness that is compounded by policymakers shifting to austerity and a constrained supply of private credit to the economy. For a defensive portfolio, we foresee benefits from an overweight in private debt funds, which historically offer relative value over public debt, often without significant increase in risk based on research (Munday et al., 2018). Venture capital and private real estate, however, prove to be particularly susceptible to our downside scenario and are therefore underallocated.
- While it is difficult to predict the future, we believe a scenario-based portfolio allocation approach has great merit for all investors, including those focused on private assets. Overall, we make three broad observations based on scenario analysis: 1) there is considerable dispersion in performance between winners and losers across market cycles, certainly across individual private funds but also between private fund strategies (venture capital, private credit, etc.), 2) allocating to a specific strategy does not appear as rewarding when adjusted for risk and compared with a diversified portfolio of private assets, and 3) strategic rebalancing and tilting a portfolio towards certain fund strategies and sectors can be a source of outperformance.
- Incorporating macroeconomic and capital market forecasts into private portfolio allocation decisions is at the core of our approach and recommendations that we find particularly relevant in the current environment. We expect the trend towards greater transparency in private markets will continue to generate increased demand for early liquidity, especially as investors continue to recognize the illiquid nature of private funds as a potential source of risk.

[1] Preqin, Burgiss

Introduction

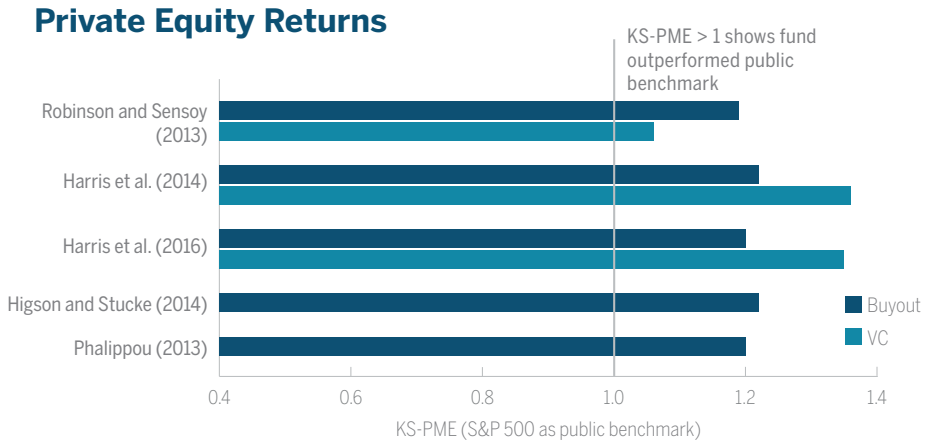
Private markets have become an essential component of institutional portfolio allocations and increasingly are being embraced by qualified retail investors and financial advisors. In the current environment, private fund vehicles have attracted record capital from investors looking to make the best out of this subdued macroeconomy.[2] Private markets have offered superior returns compared with public market benchmarks, a trend we believe is likely to continue as investors focus on manager skills and long-term investment bias of private funds, and recognize other trends such as investment in digitalization that favor private companies.

Unfortunately, we believe macroeconomic conditions are set to remain subdued in coming years despite rapid progress with coronavirus vaccines. Even before the pandemic, the global economy was contending with a demand deficit that the pandemic has further exacerbated, leading to a forecast of low inflation and low interest rates over the next few years. Monetary policy doesn't have sufficient power to lift the economy out of the doldrums on its own, and while fiscal policy might be able to, so far it isn't clear that policymakers have sufficient appetite for expansionary policy. We estimate that a watered-down version of President Biden's campaign budget proposal would only raise GDP by 1.2 ppts in 2021, and even that boost would fade in the medium term.

In the face of muted market returns, alpha (outperformance compared to a benchmark) can still be generated in several ways within a portfolio of alternative investments. It can be created by picking the top portfolio managers who have the ability to steer portfolio investments to create value add. Alpha can also be achieved by active portfolio allocation, with strategic tilts towards assets or sectors that are expected to outperform. This is an approach large institutional investors have successfully applied to harvest excellent returns versus globally balanced benchmark portfolios.

Particularly when public market returns are weak, private assets can provide investors with a way to maintain yields. The outperformance of private over public assets has been a consistent theme in the research literature, which has examined different time periods including as far back as 1980. On average, US buyout and venture capital funds have beaten the public benchmark by around 20% over the life of the fund (Kaplan and Sensoy, 2014, Harris et al., 2016) ***(Figure 1)***, allowing investors historically to earn an annual average premium of around 2%-to-3%. It should be noted that performance over time and across different funds is uneven. For example, buyout funds have consistently outperformed the public market, whereas venture capital's outperformance coincided with the tech boom of the 1990s and has underperformed during other periods.

Figure 1 – Private equity tends to outperform the public benchmark



Source: Kaplan and Sensoy, 2014, Harris et al., 2016

Private assets can be a key to achieving alpha in difficult market conditions.

[2] Preqin

Looking ahead, the macroeconomic environment is likely to favor the types of companies more prevalent in private markets. The pandemic has accelerated the trend toward digitalization, boosting companies whose capital assets are low and intangible assets are high. This isn't new. For decades, S&P 500 company balance sheets have been growing to include more knowledge-based assets. In 1975, S&P 500 companies reported that 17% of their total assets were intangible; by 2018, intangible assets had grown to be 84% of those companies' total assets.[3]

The implications for public and private markets are profound. As their focus moves to intangible or knowledge-based assets, tech companies are taking longer to go public. In 1999, that journey took a US technology firm four years on average, but more recently it has almost tripled to 11 years.[4] A number of factors influence that trend, including lower financing needs, less detailed reporting requirements while remaining private, and treatment of intangibles under GAAP. But, the implication is clear: To access fast-growing companies in the tech sector, investors must consider both private and public markets.

Evidence from private debt markets also points to greater returns than from comparable public debt markets.[5] Private debt funds often offer higher yields, but, because the loss rates can be lower in private markets, this doesn't typically come at the expense of increased risk. This is particularly the case in real estate and infrastructure markets in which private credit normally comes with security over the asset, allowing asset sale proceeds to be used for repayment in the event of default.

At the same time, due to recent headwinds, economic conditions are likely to differ from the past decade, during which public markets experienced outsize returns, leading to increasingly stretched valuations accumulating during the long bull market. The environment after the GFC allowed many markets to defy fundamentals for some time, but various asset classes are running out of road and will eventually need to reconnect to fundamentals. In our view, this makes it important to access private returns while maintaining other investment goals, such as liquidity and ongoing diversification, even if it's not easily achieved.

> **In order to fully harvest the value of private markets, we believe strategic asset allocation and active portfolio management are crucial.**

[3] Aon PLC and Ponemon Institute

[4] "To fly, to fall, to fly again," Economist, July 25, 2015, economist.com

[5] Burgiss, Ben analysis

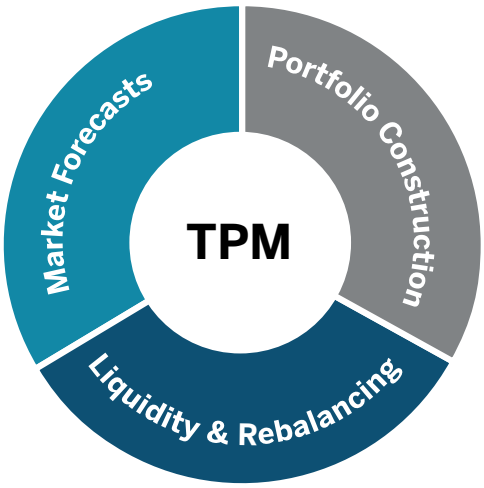
Total Portfolio Management (TPM) for Alternative Assets

In order to fully harvest the value of private markets we believe strategic asset allocation and active portfolio management are crucial. At Ben, we call this framework "Total Portfolio Management" (TPM), with capabilities extending across the private fund strategies (e.g., private equity, venture capital, private credit, real estate, natural resources, infrastructure, hedge funds, etc.). TPM employs modern quantitatively driven portfolio construction, market forecasts and risk management techniques, enabling an unbiased portfolio management style rooted in data and rigorous research. Active management allows for dynamic response to market changes and the ability to offer high quality liquidity to otherwise illiquid alternative markets. TPM framework is best understood through its individual yet highly interconnected areas:

Market forecasts and fund valuations. Incorporating global economic forecasts, market risk premiums, and fund alpha into fair valuation of alternative assets is an essential part of a coherent TPM framework. We believe that a strong integration between bottom-up research and quantitative modeling of fund dynamics creates a robust valuation process that accounts for market risk, liquidity and other drivers of fund performance such as sector and strategy focus.

Portfolio construction framework. Balancing risk/reward trade-offs within a complex portfolio of alternatives requires a systematic and data-driven multi-asset portfolio allocation framework. When a private asset is added to a large portfolio, a diversified manager using a TPM approach can extract many synergies, economies of scale, and risk-adjusted benefits. A strong integration between portfolio optimization and fund valuation capabilities enables the process to maintain balanced portfolios of illiquid assets.

Liquidity and rebalancing. Accessible and transparent secondary liquidity is a crucial component of efficient markets and necessary for investors to actively manage their rebalancing needs. While private market liquidity is not yet easily accessible, particularly to retail investors, Ben's TPM framework is designed to unlock efficiencies that can be passed to clients in the form of competitively priced offers against illiquid alternative investments.



In the next section, we examine the latest macroeconomic forecasts to draw implications for public and private market returns as well as portfolio allocations for investors in private assets.

A Close Reading of the Macroeconomic Environment

The relationship between wider macroeconomic conditions and returns in financial markets, public or private, is rarely straightforward. Nevertheless, trends in broad policy decisions and macroeconomics continue to provide vital context to investors' allocation decisions. Information on valuations and technical factors are also important. However, over longer investment horizons, macroeconomic factors should dominate investors' decision-making process.

Under the Oxford Economics baseline forecast, three key themes characterize the economic outlook:

Advanced economies are short on demand

Fiscal policy to take center stage in macroeconomic policy

The longer-term economic outlook is particularly uncertain

Advanced Economies Are Short on Demand

The coronavirus pandemic has left the economic outlook weak and highly uncertain. Beyond the initial bounce, the recovery has slowed as the threats of renewed virus waves and further social distancing measures remain until vaccines are widely distributed. As a result, we expect advanced economies, and to a slightly lesser extent the US economy, to be characterized by deficient demand and a glut of savings.

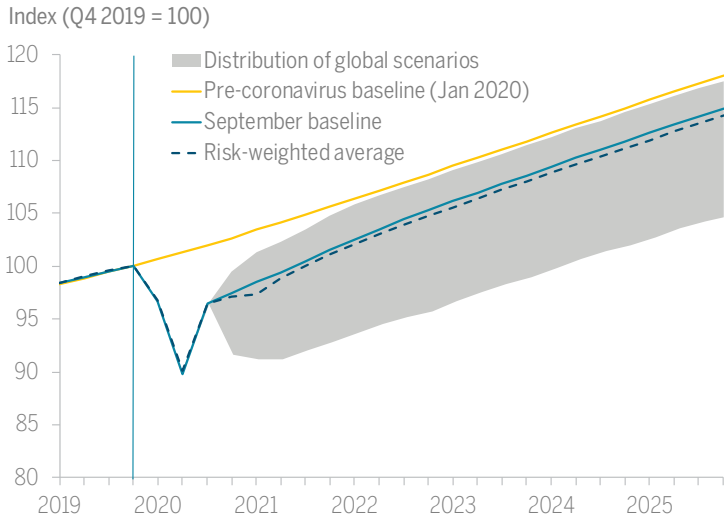
US consumers are likely to remain cautious, keeping savings elevated, as the full impact of the crisis takes time to be felt. This readily available pool of funds could be put toward productive investment, but we don't think this will be the case. Instead, firms are likely to prioritize paying down the debt taken on to survive the crisis, particularly in the US where leverage is already very high. With weak demand and already indebted firms, even ultra-low borrowing rates are unlikely to induce a sharp rise in investment.

The risks to this Oxford Economics baseline view are skewed to the downside in the early part of the recovery and then become more balanced ***(Figure 2)*** in the longer term. Risks that could drag output even lower include longer-than-expected public health restrictions, a renewed wave of infections as are currently being experienced in Europe, or mounting bankruptcies morphing into a financial crisis.

> **Evidence from previous pandemics suggests that fiscal policy is critical in determining the recovery's eventual strength.**

Figure 2 – Scenarios for the world economy

A Risk-Weighted Projection for World GDP



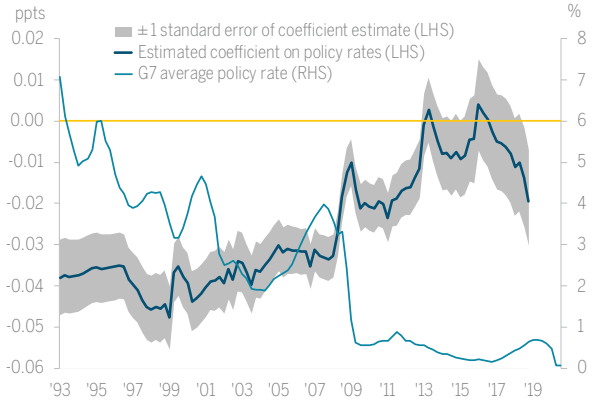
Source: Oxford Economics/Haver Analytics

Fiscal Policy to Take Center Stage in Macroeconomic Policy

Faced with a slow recovery, fiscal policymakers have a crucial role in reviving the economy. With pre-crisis policy interest rates already low across advanced economies (AEs), central banks have been left with even less room to use conventional rate cuts and quantitative easing (QE) to lift prospects. Compounding this, the efficacy of interest rates cuts has declined over the last few decades ***(Figure 3)***. This appears to be due to their low levels, and the long-term impact on bank profitability and credit supply is a key factor in monetary policy's reduced potency. Central banks have therefore again turned to unconventional policy measures such as QE, whose efficacy is subject to much more debate. And already central banks are coming up against self-imposed purchase limits.

Figure 3 – G7 average central bank policy rate and sensitivity of output to policy rates

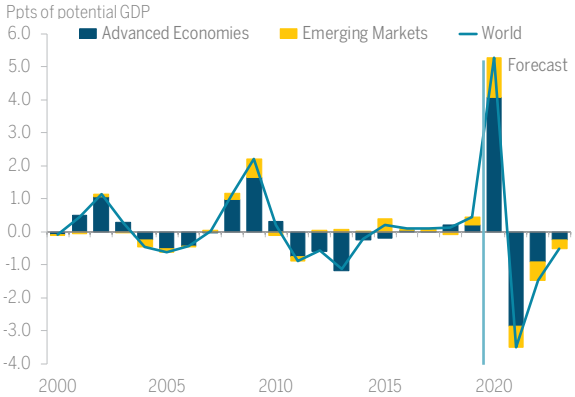
Global: Sensitivity of Output to Policy Rates



Source: Oxford Economics/Haver Analytics

Figure 4 – The current fiscal impulse is unlikely to generate high inflation

Global: Fiscal Impulse



Source: Oxford Economics/Haver Analytics

The implication is that fiscal policy will need to shoulder the burden of boosting growth. Evidence from previous pandemics suggests that fiscal policy is critical in determining the recovery's eventual strength. Output losses were contained to under 1% after five years when governments spent aggressively early on, while weak government responses resulted in losses of around 4% (Ma, Rogers, and Zhou, 2020). In contrast to monetary policy, we find that fiscal policy's potency has risen over the last two decades. In particular, with interest rates at the effective lower bound and a large negative output gap, fiscal multipliers are likely to be high. It's therefore reassuring that the global fiscal policy response has already exceeded the boost from 2009 ***(Figure 4)***, but it's a cause for concern that fiscal plans going forward are currently very timid.

Many worry that higher budget deficits and QE cannot co-exist with low inflation, but we think these fears are mainly misplaced. While we expect inflation to rise this year, in line with the cyclical recovery, overall we expect the inflation environment to remain muted and for policy rates to stay depressed. Higher inflation outcomes are certainly possible, but they are not our baseline view.

By far the most important influence on inflation over the past few decades has been overall demand. This is why supply shortages haven't led to an overall rise in prices. Instead, even with costs rising amid weak demand, firms feel unable to pass on price increases, preferring instead to compress margins. With little evidence that the fiscal response to the crisis will be sustained, upward pressure on inflation currently remains benign

The Longer-Term Economic Outlook Is Particularly Uncertain

Overall, we expect the effects of the pandemic to merely exacerbate the past decade's macroeconomic trends: deficient demand, stubbornly low inflation, and policy rates stuck close to the effective lower bound. In the near term, we would expect to see some catch up in growth and productivity after the pandemic but, the longer-term impact on underlying productivity growth, and therefore output growth, in advanced economies (AE) is more ambiguous.

On one hand, the pandemic could have a beneficial impact on AE productivity growth by making investment in labor-saving technology more attractive. That would reverse the recent pattern of firms adopting labor-intensive forms of production to avoid large sunk costs. The sharp downturn could also cull some of the "zombie" (mature but persistently unprofitable) firms that have often been blamed for the past decade's weak productivity growth.

But we wouldn't bank on either outcome. An expensive switch to labor-saving technology seems unlikely when demand and profitability are weak. Similarly, recessions tend to create zombie firms rather than destroy them. Instead, the underlying factors that have suppressed productivity growth over the past decade will continue. Subdued investment in a world of deficient demand, an aging population, and the slow diffusion of technology through the economy are all likely to keep weighing on underlying productivity growth.

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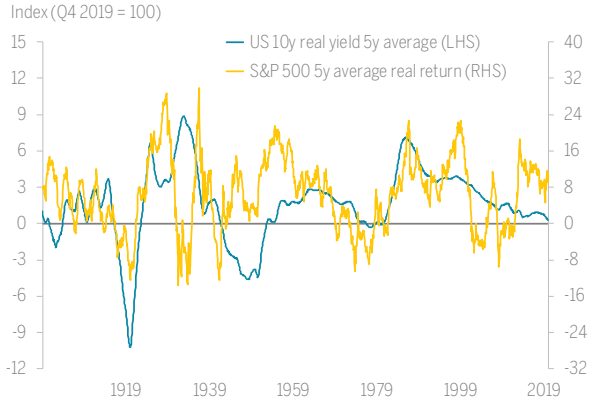
Implications for Investment Returns

Weak Macro Outlook Translates into Poor Public Market Returns

The subdued macroeconomic outlook we have described presents a challenge for investors. While the decade after the GFC saw similarly weak conditions for investors, expanding multiples resulted in strong financial market returns. The last century has seen several similar periods in which real equity returns have exceeded real yields ***(Figure 5)***. But this disconnect typically doesn't last because both are ultimately driven by developments in the macroeconomy. In all the historic examples, yields and equity returns have eventually resumed their close correlation, and we have little reason to think the recent episode will end differently. Financial markets are unlikely to continue to defy macroeconomic fundamentals over the next decade, implying that risks are heightened in public markets.

Figure 5 – Government bond yields vs equities

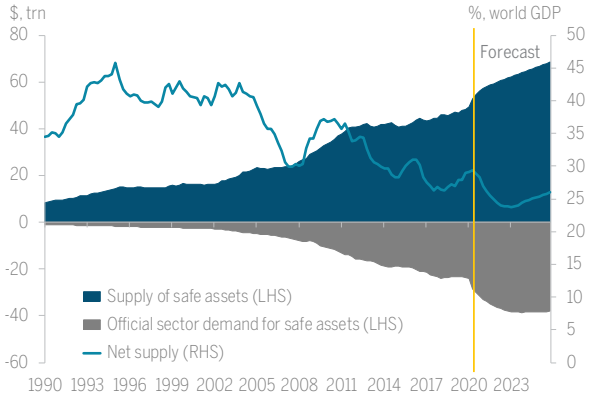
Average Real Yields and Average Real Equity Returns



Source: Oxford Economics/Macrobond

Figure 6 – Safe assets will remain scarce despite government stimulus

Global: Net Supply of Safe Assets

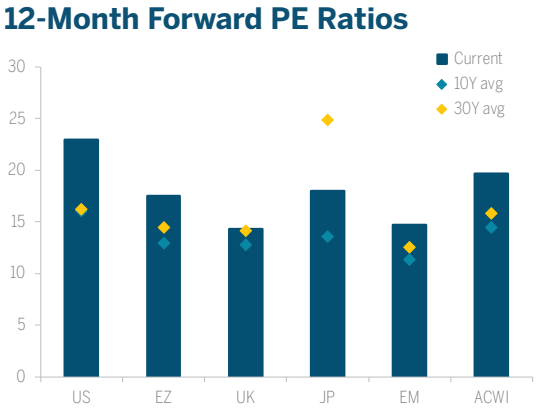


Source: Oxford Economics/Macrobond

Weak growth and low inflation mean policy rates and core government bond yields will remain low by historical standards over the next five years. With yields currently so low, the risk is mainly to the upside but we expect any rises over the medium term to be limited, keeping yields well below pre-financial crisis levels. A key additional factor putting downward pressure on safe haven yields has been the chronic shortage of safe assets. Despite record AE debt issuance to fund the fiscal response to the pandemic, we think this shortage will continue. Offsetting the increased supply of safe assets and keeping bond yields in check will be rising demand from both central banks' balance-sheet expansion and higher precautionary savings in the private sector ***(Figure 6)***.

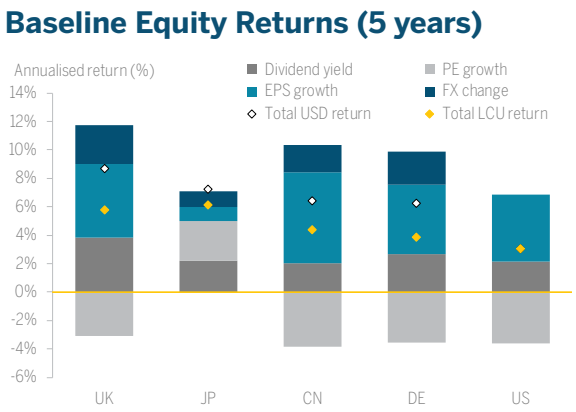
The outlook for equities is also challenging. Given our expectation of GDP remaining permanently below its pre-crisis path, stock market earnings will be lower than in our pre-pandemic forecast. Following the recent rally, multiples once again look stretched ***(Figure 7)***. Although this is partly caused by a crisis-induced collapse in earnings, we still think equities look expensive on a range of valuation metrics. With little scope for multiple expansion and a subdued macro outlook, equity returns over the next five years are set to be weak and subject to a large amount of uncertainty ***(Figure 8)***.

Figure 7 – Most equity markets remain expensive



Source: Oxford Economics/Refinitiv Datastream, data for 9th December 2020

Figure 8 – Equity returns are largely driven by EPS growth



Source: Oxford Economics

In the rest of the paper, we identify opportunities for strategic rebalancing by utilizing Ben's Total Portfolio Management framework to analyze the risk/reward profile of private assets under the forecasted market environment.

Baseline and Bear Market Forecasts

Incorporating broad capital market assumptions into private asset valuation and allocation is an integral part of Ben's TPM. Leveraging macroeconomic forecasts, we develop long-term capital market assumptions (CMA) on a quarterly basis. These assumptions in turn inform proprietary private fund models, which are tailored to each alternative asset class. In our scenario analysis we examine two forward-looking five-year projections, a baseline economic forecast and a potential downside scenario.

Our ***baseline forecast*** assumes that the global economy remains stuck in a demand-deficient rut. We assume that social distancing is relaxed while monetary policy remains accommodative with limited impact on demand and little room for further cuts. And we assume both inflation and interest rates remain lower for longer.

Our ***bear scenario*** explores the impact of a significant resurgence in the virus, associated restrictions on economic activity, a renewed wave of contraction in credit supply, and governments failing to sufficiently support the economy. The result is weak medium-term growth and poor equity market returns.

Figure 9. Private market forecasts under baseline and bear scenarios

Private Market Forecasts (5 Years)

	2007-2020	Base Forecast	Bear Scenario
Private Equity	11.0%	8.1%	6.1%
Venture Capital	10.9%	6.4%	0.5%
Private Debt	6.9%	4.7%	4.4%
Private Real Estate	4.3%	7.2%	-1.3%
Natural Resources	4.4%	8.5%	6.2%
Infrastructure	5.0%	7.1%	2.3%
S&P 500 (public)	8.0%	3.0%	0.2%

Sources: (1) Ben's proprietary expected return models, (2) Oxford Economics' macroeconomic forecasts, (3) Burgiss, Preqin and Bloomberg market data.

Under the baseline scenario, we expect natural resource funds to outperform in the next few years relative to their historical norm, thanks in part to a recovery in broad energy market prices from their recent lows ***(Figure 9)***. We also expect real estate markets to yield better results than in the recent past, due to prices recovering from the impact of the pandemic as occupancy rates rebound amid continued low interest rates and undersupply from suspended construction. That said, we don't expect private real estate to exceed private equity returns in absolute value.

Another significant takeaway from our baseline forecasts is lower expected returns in private equity, venture capital, and private debt relative to their historical norms. This is in part due to the effect on debt markets of depressed market risk-premiums and persistently low interest rates. However, we still see private debt as an important diversifier in crisis times. Investors in private debt tend to have additional security on the asset, and research on the performance of private credit funds suggests these have outperformed the public market.[6]

Optimizing Portfolio Allocations

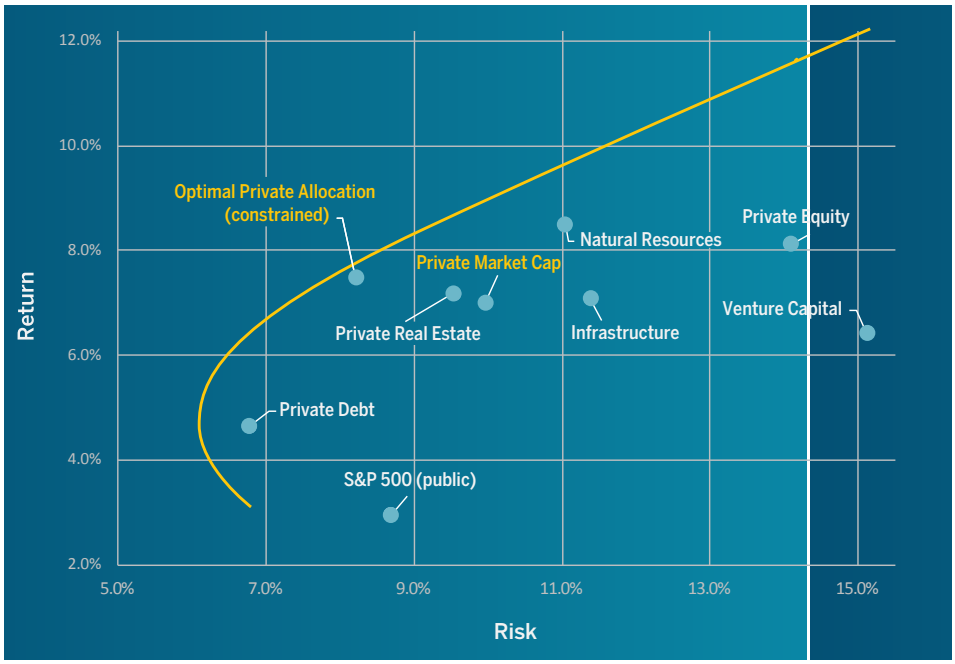
In order to demonstrate the benefits of portfolio construction in private assets we leverage our TPM framework to illustrate opportunities available to investors with access to diversified portfolios and liquidity options to execute rebalancing strategies. A key component of a healthy portfolio is the ability to actively rebalance based on available risk/reward trade-offs across market exposures, asset classes, and fund types. We examine different private fund strategies under our baseline and downside scenarios and propose how to best combine their respective characteristics to develop strategic portfolio allocations, which optimize risk-adjusted performance while remaining defensive to downside events.

It is generally advisable to assess the quality of an investment opportunity through risk-adjusted performance. The Sharpe Ratio is a widely used performance metric in traditional asset classes, and while no similarly standard measure exists for private markets, we implicitly use risk-adjusted internal rate of return (IRR) as a core performance metric because we believe it is well suited to private markets. A simple yet accurate way to compare risk/reward profiles of different portfolios is to plot them against a theoretical efficient frontier. ***Figure 10*** shows how various private investments compare to each other and a theoretically derived "frontier" using our baseline projections for both risk and return.

[6] Burgiss data, Ben analytics and Munday et al, 2018.

Figure 10 – Private markets efficient frontier

Risk-Adjusted Performance - Baseline Forecasts



Sources: (1) Ben's proprietary portfolio construction, risk, and expected return models, (2) MSCI Barra analytics, (3) Oxford Economics' macroeconomic forecasts, (4) Burgiss, Preqin and Bloomberg market data.

S&P 500 Index volatility (risk) is smoothed for fair comparison with GP based private fund longer-term valuations.

Portfolio Allocation – Baseline Market Forecast

Looking across risk-adjusted performance across private fund strategies in ***Figure 10*** one can see that despite relatively high return forecasts for private equity and venture capital funds, their risk levels are also expected to be sufficiently elevated to make these investment vehicles look expensive from a risk/reward perspective. At the other end of the risk spectrum are private debt funds, which in aggregate aren't expected to distribute as much as their equity fund variants but are significantly more risk-efficient. This can be visualized by their low risk level and relative proximity to the efficient frontier.

Despite the attractiveness of private fund returns when compared to public indexes (both historically and forward-looking), each individual fund type is relatively risk-inefficient from a portfolio allocation perspective. A more rewarding approach is to design an allocation to most fund types in proportions that respect an investor's specific goals and risk appetite. Perhaps the simplest example of such a portfolio solution is to allocate in similar weights as the **Private Market Capitalization** portfolio, an important reference portfolio for large institutional asset owners.

A less constraining and potentially more rewarding approach for most investors is to target an allocation that maximizes long-term risk-adjusted performance, which we refer to as **Optimal Private Allocation** in ***Figure 10***. This portfolio is the result of a constrained optimization routine in which we allocate to asset types in proportions that maximize risk-adjusted returns while keeping each allocation within a range from an equally weighted reference portfolio. Allocating around an equally weighted mix avoids excessive concentration risks, from both predictable sources and unknown ones. Because of the imposed constraints, the resulting **Optimal Private Allocation** portfolio is close to but not exactly on the efficient frontier; yet from a risk/reward perspective it remains a more efficient investment portfolio than any other alternatives.

Figure 11 shows the relative over/underweight of the optimal allocation versus an equally weighted allocation to all fund types. We underweight venture capital funds based on their relatively poor risk/reward profile compared to private equity (e.g., buyouts and growth capital). Another notable observation is the risk-adjusted benefit of natural resources in years to come, especially in energy funds, which we believe will benefit from an energy market rebound over the medium term (five years). Also, note that despite comparable baseline returns between private real estate and infrastructure funds, the former is overallocated while the latter is underallocated. We expect infrastructure funds to offer less return per unit of risk than real estate while also providing less diversification benefits. Modelling subtle interdependencies of different fund types and capturing the correlation structures across private assets is indeed an integral part of portfolio construction.

Figure 11 – Optimal private allocations

Optimal Allocations (Bullish, Bearish, Neutral)

	Baseline	Bear Scenario
Private Equity	neutral	+1
Venture Capital	-1	-1
Private Debt	neutral	+1
Private Real Estate	+1	-1
Natural Resources	+1	+1
Infrastructure	-1	-1
Hedge Fund	neutral	neutral

Source: Using Ben's proprietary portfolio construction & risk environment, MSCI Barra analytics, Preqin & Burgiss market data.

Portfolio Allocation – Bear Market Scenario

A baseline forecast may generate the most likely outcome, but capital markets are inherently risky and prone to unpredictable dynamics. That makes the development of an optimal allocation under a bear scenario a crucial exercise. As can be seen in ***Figure 11*** above, the suggested portfolio tilts under market stress are significantly different from the ones in our baseline expectations. Under our bear scenario, private debt funds get a significant overallocation given their relatively lower-risk profile and typical market diversification benefits. However, private real estate and especially certain sectors (e.g., hotels, offices) are susceptible to a resurgence of the virus and prolonged lockdowns. In aggregate, the optimal allocation under our bear market scenario produces slightly lower returns because of its defensive allocation. As such, it is better prepared to cope with both the expected and unforeseeable fluctuations of a potential severe global recession.

The Growing Demand for Liquidity in Private Assets

While the business case for investing in alternative assets is compelling, active portfolio management and rigorous risk management of private fund allocations is difficult to access for all but a few large institutional investment groups. Medium-sized and smaller institutions and in particular retail investors tend to be constrained by limited resources when it comes to picking top managers and allocating towards a balanced portfolio of alternative assets. Complicating the process of investing in alternatives is the limited liquidity available in the secondary market, especially for smaller deals.

At the same time, the performance of different alternative strategies has varied in different market cycles (e.g., venture capital before and after the dot-com bubble), which suggests that recent economic volatility may warrant a review and potential rebalancing of private fund allocations. Besides rebalancing based on market impacts of financial cycles, the need for liquidity in private markets also arises based on investors' personal circumstances and fund-specific events.

According to Preqin, there is over $6.5 trillion invested in private funds in 2019, yet less than ~1.4% of those assets were exchanged in secondary markets.[7] While secondary liquidity transactions in private assets have nearly doubled in the last five years, the structure of the market remains inadequate to support broad participation, especially from small-to-medium sized individual investors. This is in stark contrast to liquidity demand in public markets, where in 2018 $68.2T worth of equities transacted vs. $68.7T of total market capitalization — representing close to 99% turnover.[8]

The uneven market environment is likely to compound the need for liquidity in private assets, since during periods of market uncertainty investors are more likely to experience financial distress. For example, in the 2008/9 period, when private investors faced capital calls from their GP/fund managers, nearly 15% were unable to meet them.[9]

To fill the liquidity gap Ben has developed a unique suite of products and portfolio solutions designed to serve the needs of alternative investors who have historically lacked attractive options for early liquidity. We believe that more active and transparent secondary markets for private assets will lead to improved risk/reward opportunities and better outcomes for a wide array of private market participants.

> **Ben aims to extend the benefits of institutional-grade portfolio management to investors who have historically lacked attractive options for early liquidity.**

[7] Preqin, Setter Capital, Ben analysis

[8] World Bank Data

[9] NYPPEX, Private Client LP Delinquency and Default Rates

Conclusion

In this paper, we partnered with Oxford Economics to transmit a range of economic forecasts through Ben's Total Portfolio construction framework. We started with macro-economic projections which we then transformed into private market forecasts across the spectrum of private fund strategies. This enabled us to get a deeper perspective on the risk/reward trade-offs and efficient portfolio profiles available to investors in the coming years. Our analysis explored two core market scenarios (baseline & bear) that suggested several rebalancing opportunities to navigate the inherent uncertainties of a post-pandemic world and to position for a rebound of the worst-hit sectors. Looking ahead, we believe the space where Ben operates, offering liquidity for private assets more rapidly and efficiently, is likely to grow substantially in terms of volume and industry focus, especially as investors continue to recognize the importance of diversification and active portfolio management for alternatives.

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