Benefits of private markets

A recent global survey of 354 single-family offices by professional services firm Deloitte revealed that private equity accounted for 30% of the average family office portfolio in 2023, up from 22% in 2021. Meanwhile, public equities accounted for 25%, down from 34% in 2021.

According to the survey, 29% of family offices intend to increase private equity investment this year, more than any other asset class.

Looking further ahead, UBS, in its Global Family Office Report 2024, says 39% plan to increase allocations to direct private equity over the next five years, and 34% to funds/funds of funds.

Historically family offices have always been larger allocators to private market opportunities but these trends have filtered through to the broader wealth management channel. But why? Private market exposure can offer several benefits to retail portfolios, providing unique opportunities that are often not available in public markets.

Here we list 9 key advantages:

1. DIVERSIFICATION AND FLEXIBILITY

Private market investments, such as private equity and real assets, can diversify a retail investment portfolio. Diversification helps reduce risk by spreading investments across different asset classes, sectors, and geographies. Since private market assets often have low correlation with public market assets, they can provide a buffer against market volatility and economic downturns. Investors can also tailor their portfolios to meet specific investment objectives, risk tolerance, and time horizons. This flexibility allows for a more personalised investment approach and the ability to capitalise on unique opportunities.

2. POTENTIAL FOR HIGHER RETURNS

Private market investments can offer higher returns compared to traditional public market investments. This is because private companies are often in their growth stages, or can be turned around by experienced PE managers, to achieve significant value appreciation. Additionally, private equity firms actively manage their investments, implementing strategies to improve operational efficiency and profitability, which can lead to substantial returns.

3. REDUCED MARKET VOLATILITY

Private investments are not subject to the same level of market volatility as public market investments. Since private companies are not publicly traded, their valuations are not influenced by daily market fluctuations. This can provide a more stable investment environment and reduce the impact of short-term market movements on the portfolio.

4. AVAILABILITY OF EXCLUSIVE OPPORTUNITIES

Private markets provide access to wider investment opportunities that are not available in public markets. This could include early-stage companies, niche sectors and companies that are developing innovative technologies. Investing in these opportunities can offer significant growth potential and the chance to be part of groundbreaking developments.

5. LONG-TERM INVESTMENT HORIZON

Private market investments typically have a longer investment horizon compared to public market investments. This long-term approach allows investors to ride out short-term market fluctuations and focus on the underlying value of the investments. It also aligns with the growth trajectory of private companies, which often require time to realise their full potential.

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6. ACTIVE MANAGEMENT AND ALIGNMENT OF INTERESTS

Private equity firms often take a far more active role in managing their investments across the portfolio companies. They work closely with these portfolio companies to improve operations, implement strategic initiatives and drive growth. This hands-on approach can lead to significant value creation and enhance the overall performance of the investment.

In private market investments there is often a strong alignment of interests between investors and management. Private equity firms typically invest their own capital alongside their clients, ensuring that their interests are aligned with those of the investors. This alignment can lead to better decision-making and a greater focus on long-term value creation.

7. INFLATION HEDGE

In today's high inflation and high interest rate environment, certain private market investments, such as real estate and infrastructure, can act as a hedge against inflation. These assets often have the ability to generate income that increases with inflation, providing a natural protection against rising prices. This can help preserve the purchasing power of the investment and provide a stable income stream.

8. ENHANCED DUE DILIGENCE

Finally, investing in private markets involves thorough due diligence and a deep understanding of the underlying assets. This rigorous process can lead to better-informed investment decisions and a higher level of confidence in the investment. It also allows investors to identify and mitigate potential risks and enhance opportunities that may not be actionable in public market investments.

9. SUPPORTIVE CAPITAL

PE firms provide support to their portfolio companies in myriad ways. Their relationship is symbiotic as their success relies on each other. Portfolio companies – especially in the mid-market – value PE's management input and industry connections as much as the capital they provide.

CONCLUSION

While private market investments come with their own set of risks and challenges, the potential rewards can make them a valuable addition to a well-rounded investment strategy. By carefully selecting and managing private market investments, investors can enhance their portfolios and achieve their long-term financial goals.

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Preqin – Family Offices in 2024
Deloitte – The growing private equity market - How PE firms can use expertise, technology, and agility to exceed stakeholderexpectations
UBS – Global Family Office Report 2024"

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