

Introduction

For investors worldwide, stocks and bonds have traditionally been the go-to strategy. Yet, as financial markets continue to evolve and investors look for ways to balance risk and enhance returns, alternative investments have become increasingly appealing.

These alternatives range from private credit and private equity to real assets, such as real estate and infrastructure. They present a broad spectrum of opportunities that can enrich traditional portfolios.

Individual allocations to these alternatives are expected to grow by 12% annually over the next decade.¹

This trend is driven by several factors. New investment vehicles are making it easier for investors to access alternative assets. And investors are seeing historical performance data showing improved outcomes when alternatives are included in a portfolio.

Meanwhile, investors have been navigating a tough financial landscape marked by fluctuating interest rates, lingering recession fears, continuing inflation concerns, geopolitical uncertainties, and volatile public markets. This challenging environment has led many to question the effectiveness of the traditional portfolio and to seek alternative solutions that can provide diversification benefits and an improved risk-return outcome.

Against this background, Canadian pension funds and other institutional investors are significantly altering their portfolios by increasing their investments in alternative assets and reallocating substantial portions of their funds to areas such as private equity and infrastructure. Ten years ago, major alternative asset classes comprised less than 25% of institutional assets in Canada. By 2023, these asset classes collectively accounted for 41%.²

In contrast, individual investors have been slower to adopt these assets. However, that is changing as regulatory restrictions evolve and as more advisors gain the necessary knowledge to incorporate them into their clients' asset mix.

Executive summary

- Private investments are gaining traction, with allocations projected to grow by 12% annually over the next decade, appealing to investors aiming to enhance returns and manage risk.
- Key asset classes—private credit, private equity, real estate, and infrastructure—offer distinct benefits such as filling gaps left by traditional banks, accessing non-public firms, providing stable income, and delivering steady cash flows.
- These private assets feature characteristics such as reduced public market volatility, limited liquidity that can enhance returns, and long-term cash flows often adjusted for inflation, all while demonstrating resilience against economic risks and low correlation with traditional equities and bonds.
- In 2024, private markets are becoming more accessible, providing expanded investment opportunities.
- Investment professionals are emphasizing careful manager selection and due diligence to secure top deals, capitalizing on the shifting macroeconomic environment and aligning with long-term financial objectives.
- This evolving landscape encourages investment professionals to re-evaluate how integrating private markets into client portfolios can align with long-term financial objectives and capitalize on new growth opportunities.

¹ Bain & Company. Feb 2023 Compound annual growth rate 2022-2023

² The Coalition of Greenwich Voice of Client – 2023 Canadian Institutional Investors Study



At a macro level, private capital is benefiting Canada’s economy by supporting startups, driving innovation, and fostering economic development, underscoring the sector’s role in promoting sustainable economic growth.

Canadian successes like Shopify, Cohere and Lightspeed owe much of their early achievements to significant investments and guidance from private capital investors.

While private investments can make sense for many investors, the optimal mix will vary based on individual goals, risk tolerance, investment horizon, liquidity needs and tax considerations.

The key categories of privates

Let’s look at four private investment asset classes.

Private credit

Private credit involves non-bank lending to mid-sized companies seeking customized loan solutions beyond traditional bank offerings. As banks retreat from riskier lending areas due to increased regulation, private lenders fill the gap. These lenders often understand businesses better than banks, viewing them from an equity owner’s perspective, rather than just assessing credit risk.

Private credit can enhance returns and improve diversification by accessing a broader range of assets and sectors. Additionally, it can provide extra income for a portfolio and help reduce downside risk, as these loans are often backed by collateral.

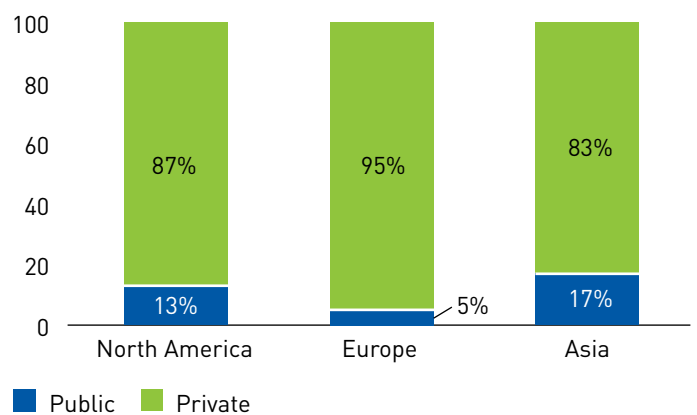
Private equity

Private equity (PE), as the term implies, involves investing in companies that are not listed on public exchanges. This field includes a range of activities from early-stage venture capital to leveraged buyouts of established companies. The typical approach involves identifying and acquiring a promising company, making strategic changes

to spur growth, and enhancing operational efficiency to boost value. Ultimately, the investor exits the investment either through an initial public offering (IPO) or by selling the investment to another party.

Compared to the publicly traded universe, private equity offers a target-rich environment. Among companies with annual revenues over \$100 million, there are 140,000 private companies versus approximately 19,000 public ones, representing an expanded opportunity set of almost 7.4 times.³

Public & Private Companies by LTM Revenue > \$100M

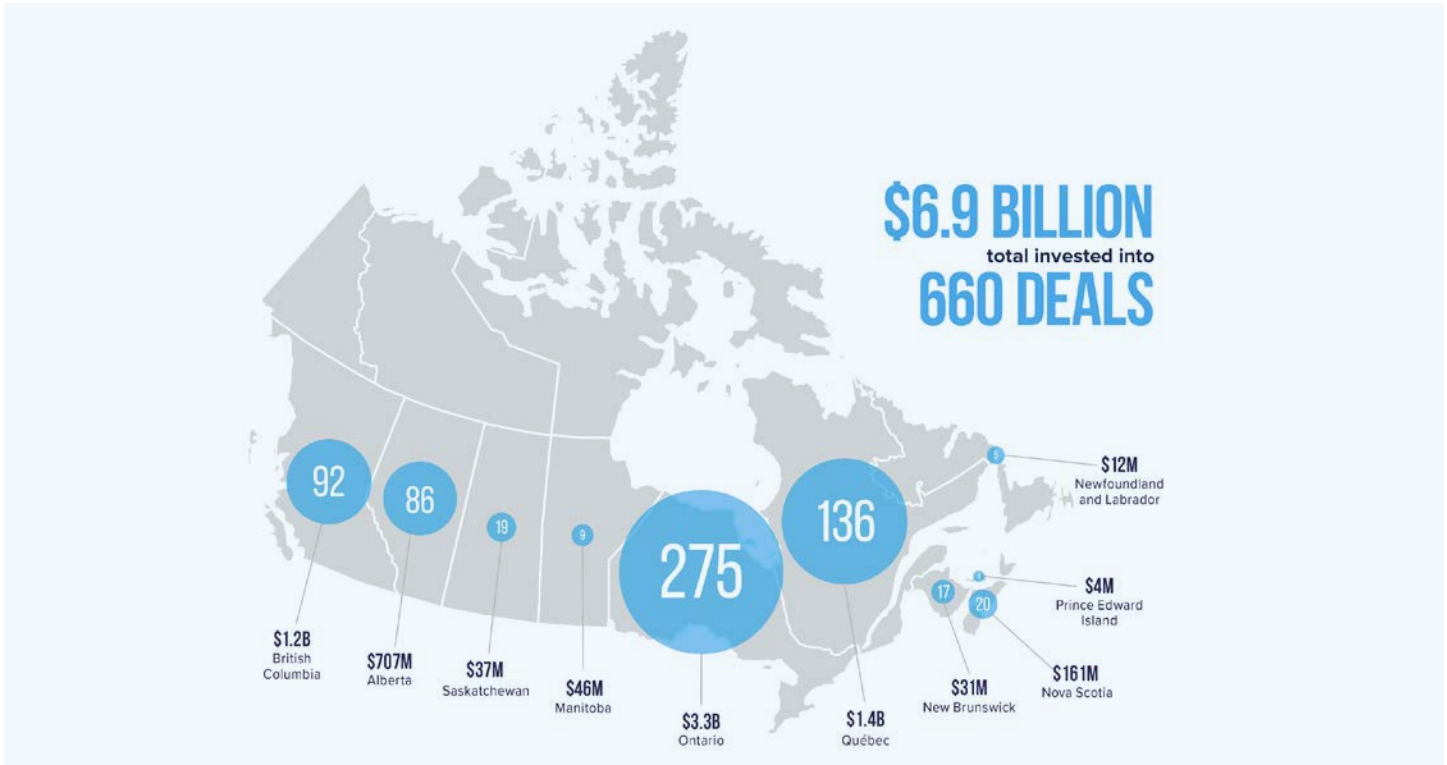


Source: Hamilton Lane; Capital IQ (Feb, 2003)

Modern private equity is not passive. Rather, it plays a major role in helping businesses develop strategies to grow. Today’s PE experts often emphasize management skills, Environmental, Social, and Governance (ESG) considerations, and the revitalization of distressed companies.

Over the past year, Canada’s PE market saw a total investment of CAD \$9.7 billion across 625 deals, which is just a fraction of the global PE market.

³ Hamilton Lane, Capital IQ (Feb 2023)



Source: CVCA: Canadian Private Equity Market Overview 2023

Real estate

Private real estate investing allows individuals to access professionally managed real estate portfolios without the rigours of property maintenance or ongoing management. It encompasses a wide range of types but can generally be categorized into residential, commercial and industrial. Each category presents distinct income, return, and risk profiles, influenced by asset type, location, and market conditions. Diversifying across these real estate sectors is often seen as the most effective strategy for building a well-rounded portfolio.

The main advantages of this type of investment are consistent income, capital appreciation, and low volatility. Additionally, the range of properties available for investment expands significantly due to pooled capital.

Infrastructure

Infrastructure refers to the essential assets that support the global economy by facilitating the movement of people, goods, commodities, and data. It covers transportation systems—such as roads, bridges, ports, and airports—utilities and power transmission networks, and midstream assets like pipelines, processing, and storage facilities. As technology advances and new demands arise, such as

renewable energy and data management, the scope of infrastructure opportunities continues to expand.

Infrastructure assets are increasingly recognized and incorporated into global asset allocations due to their appealing characteristics. These assets often function as monopolies, like electric grids which have high entry barriers due to their size and capital intensity. Their essential nature means demand remains stable throughout economic cycles, and they are typically regulated to ensure fair pricing linked to inflation. This regulatory framework, along with long-term contracts and consistent demand, results in predictable cash flows, making infrastructure investments attractive.

Infrastructure investments are increasingly moving from government to the private sector. The private sector plays a crucial role in infrastructure investment through several key functions:

- 1. Funding:** private companies often provide significant capital for infrastructure projects, either through direct investment or by partnering with public entities.
- 2. Innovation:** the private sector brings technological advancements and innovative solutions that can enhance efficiency and reduce costs in infrastructure development.



3. **Management and expertise:** private firms often have specialized skills and experience in project management, construction, and operation, leading to improved project delivery and maintenance.
4. **Risk sharing:** engaging the private sector allows for the distribution of financial and operational risks between public and private entities.
5. **Efficiency:** competition in the private sector can drive down costs and improve service quality, benefiting end users.
6. **Public-private partnerships (PPPs):** these collaborations can leverage private sector investments for public infrastructure projects, aligning public interests with private profitability.

Overall, the private sector contributes to more efficient, innovative, and financially sustainable infrastructure solutions.

Investment characteristics & benefits

In a persistently high interest-rate environment, private assets continue to offer compelling risk-adjusted returns, income, and diversification. They also share some common investment characteristics:

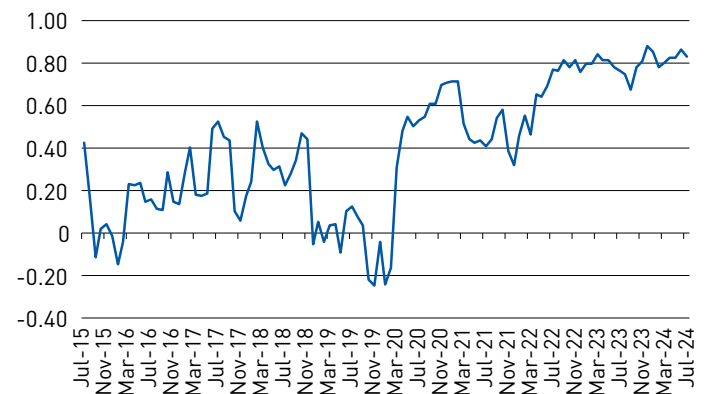
Stability	Private market pricing helps minimize public market volatility.
Return & income potential	Limited liquidity can be advantageous, with private markets often offering higher return potential compared to public assets.
Resilience	Many private real assets feature long-term cash flows with contractual payments adjusted for inflation.
Risk control	Alternatives (or private assets) can mitigate market and economic risks. Private market investments offer lower volatility versus their public counterparts.
Diversification	Private assets generally exhibit low or negative correlations with listed equities and bonds, providing additional alpha sources for a portfolio.

The importance of diversification merits a closer look.

In times of uncertainty, diversification is the traditional strategy for portfolio construction. This approach aims to reduce risk during challenging market conditions while capitalizing on growth opportunities. However, in recent years, conventional diversification has encountered challenges due to changes in the relationship between global equities and bonds.

Rising Correlation Between Global Stocks and Bonds

Rolling 12-month global stock/bond correlation (Aug 2014-July 2024)



Source: Morningstar Direct: Global Equities represented by MSCI World Index NR USD. Global bonds represented by Bloomberg Global Aggregate Index TR USD. 12-month rolling correlation measured from Aug 2014 – July 2024

The correlation between global stocks and bonds has increased in recent years, and significantly so in the financial uncertainty of a post-pandemic world. In 2023, this correlation reached as high as 0.88 (where a correlation of 1 indicates stocks and bonds move together, and -1 means they move in opposite directions), significantly higher than what had been seen as little as ten years ago. Although the notion of the “death of the 60/40 portfolio” might be overstated, the traditional mix of public stocks and bonds has not provided the resilience many investors seek.

Market dynamics have changed, with private businesses becoming a prominent driver of economic activity. However, in order to grow, this segment of the market needs active and informed capital, plus the operational expertise that private investment expertise can bring.



Expanding investor access

Historically reserved for institutional investors, private markets are becoming more accessible to a broader range of investors.

Expanding access to private capital investments has significant advantages:

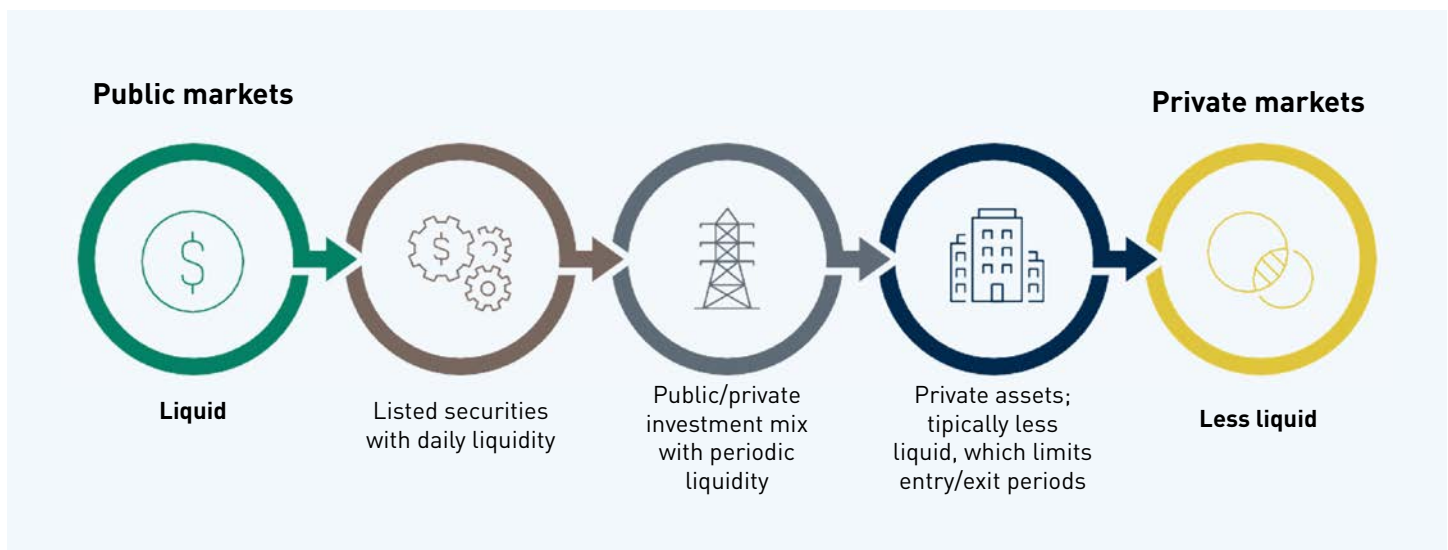
- **Increased capital pool:** enhances the investment capacity of PE and VC funds, supporting more startups and expanding innovation and economic growth.
- **Larger opportunity set:** provides broader access to high-yield investment opportunities that are usually limited to institutional investors, including unique growth opportunities
- **Fresh perspectives:** encourages a dynamic environment conducive to sustained technological advancement.

As the need for capital grows to fund promising investment opportunities, asset managers are developing and modifying investment vehicles to cater to smaller

investors. These investment vehicles are typically feeder funds that pool investor capital to invest, and can include limited partnerships (LPs), limited liability companies (LLCs), mutual funds, closed-end funds, business development companies (BDCs), etc. The good news is that due to regulatory changes and product innovation, individual investors now have more access to private market investments than ever before.

However, investors must understand the specific risks of these assets and their role in portfolios. Liquidity risk is often higher in private markets than in public ones, and private assets should generally be viewed as long-term investments.

Partnering with experienced asset managers who specialize in private markets can help investors navigate and mitigate these risks.



Source: Brookfield/Oaktree – [The Alts Institute – Understanding the Potential of Alternative Investments](#)



Other key considerations

Manager selection	<p>Not all private equity managers are the same. The experience, skill level, and track records of managers may vary greatly.</p> <p>It is critical to have a thorough diligence process in place to evaluate private asset managers.</p> <p>The top managers tend to get access to the best deals, so you want to work with the best.</p>
Liquidity	<p>Private equity funds are considered longer-term investments, typically with terms of seven to ten years.</p> <p>Non-institutional structures will allow investors monthly/quarterly liquidity</p>
Fees	<p>Private equity fund managers charge an annual management fee, typically 1-2% of assets under management.</p> <p>Fund managers also collect performance fees, known as carried interest, which traditionally represent 10-20% of any value appreciation or aggregated profits generated by the fund.</p>
Leverage	<p>Private investments may use some form of leverage, which offers the potential for higher returns, but also increases the downside risk.</p>

Why now? The macroeconomic and structural trends are supportive

The current macroeconomic landscape is expected to drive demand for private assets across various investor types. Central banks globally have prioritized combating inflation over the past year and a half, with the U.S. Federal Reserve, European Central Bank, and Bank of England raising policy rates by 450 to 525 basis points to multi-decade highs. With inflation expectations improving,

a shift in central bank policies from tightening to easing has begun. Continuation of this easing will depend on evidence such as consistently lower inflation, slower economic growth, or weakening labour markets.

Government fiscal incentives will also support private market assets. In the U.S., the Infrastructure Investment and Jobs Act and the Inflation Reduction Act are expected to direct trillions of dollars into energy and infrastructure projects. Similar measures are being implemented in Europe, Asia, and elsewhere.

These policies are expected to channel capital into sectors where private markets are active, and they are likely to remain influential beyond 2024.

Summary: expanding investment opportunities

As investment professionals, the goal is to continually broaden the range of investment opportunities available to clients by identifying and recommending additional sources of return, while also mitigating risk. In today's market environment, characterized by high valuations and global growth uncertainties, private market investing is gaining traction. Private markets offer a broader range of businesses, often in dynamic and innovative phases. With evolving fund structures making private investments more accessible to high-net-worth individuals, it's worth evaluating whether integrating private markets into a client's investment strategy aligns their overall objectives.

Avisio Wealth is proud to introduce its latest fund under the Customized Managed Portfolio (CMP) mandate: The Hamilton Lane Global Private Equity Fund. The fund's investment objective is to generate capital appreciation over the medium- and long-term through investments in private assets globally while offering monthly liquidity to investors without traditional challenges.

Speak to your advisor to learn more.

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