An Introduction to Private Markets

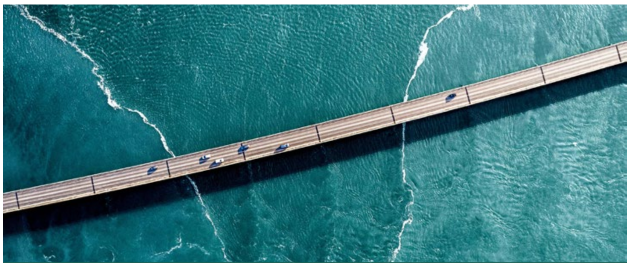
Introduction

Private markets encompass investments that are not publicly traded. Traditionally, these opportunities were reserved for institutional investors. However, recent changes in product structures have expanded access, allowing a wider range of investors to participate.

Private markets are experiencing significant growth in Australia, driven by the potential for higher returns, partly due to the reward for investing for a longer period. These investments offer compelling diversification opportunities that extend beyond traditional equities and bonds.

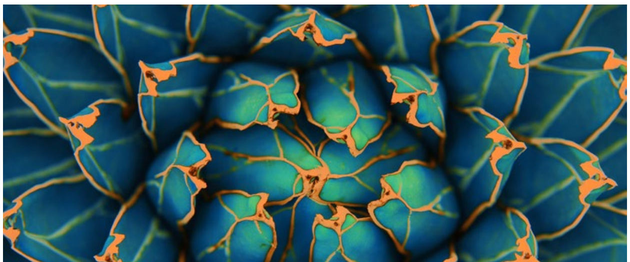
This guide is intended to provide a comprehensive overview of private markets, including their benefits, risks, and strategies for effectively accessing and navigating these investment opportunities.

Types of Private Market Investments 3

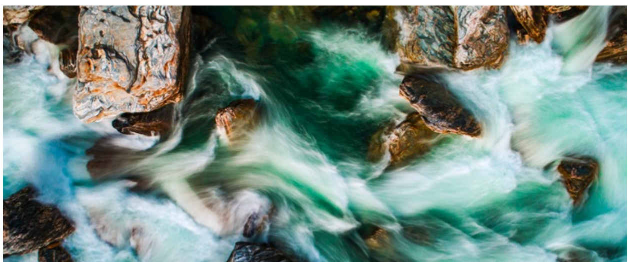


Benefits of Investing in Private Markets 4

Risks and Considerations 5



How to Access Private Markets 6



Fidante 7

Contact 8

Types of Private Market Investments

Understanding the types of private market investments is essential for navigating opportunities and selecting the right fit for your investment strategy. Different types of investments are important because they offer varying risk profiles, return potential, and strategic benefits, allowing investors to tailor their portfolios according to their financial goals, risk tolerance, and investment horizon.

Each investment type, including private equity, private credit, venture capital, real estate, or infrastructure, can provide unique opportunities for diversification, income generation, and capital appreciation.

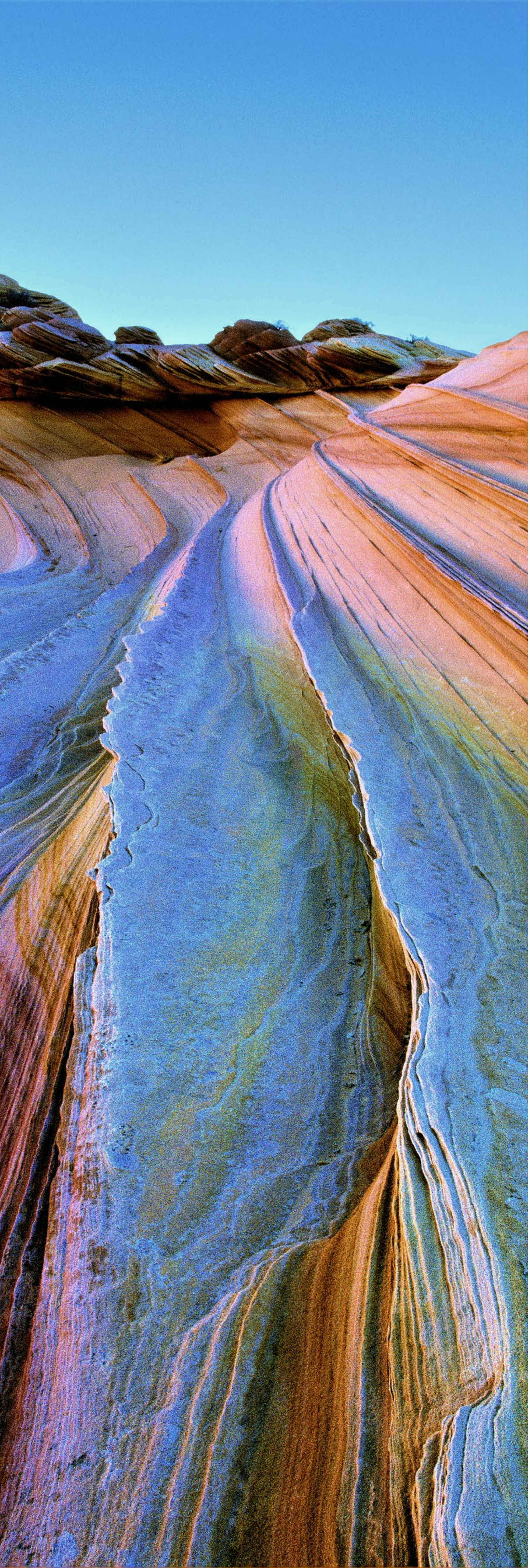
- **Private Equity:** Private Equity involves investing in private companies or taking public companies private. In addition to an ownership stake, company value can be enhanced through strategic improvements. These investments are usually long-term, aiming for significant capital appreciation, with active management and potential high returns, but come with higher risk and extended investment periods.
- **Private Credit:** Private Credit is focused on generating income. Private Credit is a form of non-bank lending where debt is not issued or traded in public markets. It can offer borrowers a more flexible capital solution than traditional bank loans. Investors earn returns via the interest payments and fees paid by borrowers. Debt sits higher in the capital structure than equity and can have varying levels of security and covenants.
- **Venture Capital:** Venture Capital invests in early-stage start-ups with high growth potential. Investors receive equity in these businesses with a goal of supporting innovation and achieving significant returns as the company grows. It carries high risk due to the early-stage nature but offers substantial potential rewards if the start-ups succeed.
- **Real Estate:** Real Estate investments involve acquiring and managing physical properties like residential or commercial buildings. Returns come from rental income and property appreciation. Features include tangible assets, diversification benefits, and potential for steady, long-term cash flows.
- **Infrastructure:** Infrastructure investments include assets like rail, roads, airports, utilities, and energy grids. These provide essential services and generate returns through long-term contracts and steady cash flows.

Benefits of Investing in Private Markets

Private markets are currently thriving in Australia due to the potential for higher returns, attractive illiquidity premiums, and increased capital flow. Private market investments can offer appealing diversification opportunities beyond traditional investments like equities and bonds.

Investors are increasingly seeking private market opportunities for several key reasons. However, it's important to recognise that these investments could include higher risks, such as limited liquidity and reduced transparency. It's important to remember that considerations will vary depending on the specific type of investment and investment manager.

- **Illiquidity premium:** Private markets provide an illiquidity premium that can compensate investors for committing their capital for longer periods. While market conditions and business performance ultimately drive asset returns, the illiquidity premium can help to boost returns.
- **Potential for higher returns:** Private markets can offer the opportunity for higher returns relative to comparable public markets. In private equity, this can be due to the potential for significant growth in early-stage companies, specialised sectors, or unique projects and the opportunity to add value to a business through strategic projects. In private credit, it can also be due to the higher interest charged to borrowers in exchange for efficiency of execution and flexible structuring.
- **Diversification:** Investing in private markets can provide valuable diversification away from traditional public equity and bonds, helping to reduce overall portfolio volatility and improve risk-adjusted returns.
- **Access to unique investment opportunities:** Private markets can offer access to exclusive investment opportunities that are not available through public markets, including private equity, private credit, venture capital, real estate, and infrastructure.
- **Less market volatility:** Private investments are less affected by daily market fluctuations, with the potential for more stable returns over the long-term and lower exposure to short-term volatility relative to public markets.



Risks and Considerations

Investing in private markets presents several unique risks that differ from those associated with public investments.

- **Illiquidity:** Private market investments are typically less liquid than public securities, meaning they may be harder to sell or exit before the investment's maturity or exit event, potentially tying up capital for extended periods.
- **Higher Risk:** Due to the nature of private investments, particularly investments in startups or middle-market companies, there is often higher risk which can be exacerbated by their illiquidity compared to traditional public investments. This includes risks related to business performance, market conditions, and economic factors.
- **Limited Transparency and Information:** Private market investments often lack the same level of transparency and regulatory oversight as public markets. Investors may have less access to detailed financial information and performance metrics, making it harder to assess the true risk and value of their investments.

While private market investments come with unique risks, they may also offer opportunities for growth and diversification. By conducting thorough due diligence and carefully assessing each investment, investors can better manage these risks and uncover valuable opportunities.

How to Access Private Markets

Direct Investment vs. Investment Funds

When considering access to private markets, investors typically choose between direct investments and investment funds, each offering distinct advantages and considerations.

Direct investment involves purchasing stakes or assets in private companies or projects directly, offering greater control and customisation but requiring significant expertise and capital. In contrast, investment funds, managed by an investment manager, pool capital from multiple investors to access private market opportunities through professional management, providing diversification and investment experience.

How to Choose a Private Markets Investment Manager

When selecting a private markets manager investors should consider their long-term track record and whether they have a robust investment strategy, deep experience, and market knowledge. With increasing demand for diversification and tailored investment solutions, it's crucial to choose a manager who can navigate market cycles, manage risk effectively, and provide access to unique opportunities.

When selecting a private markets manager, it is important to consider the following factors.

- **Track record:** Look for an investment manager with a long-term track record of successful investments across various market cycles. Experience in structuring, negotiating, and managing investments through market cycles is important.
- **Scale and capacity management:** It's important to assess how the manager handles growth and deal flow. Rapid scaling can lead to riskier investments if capital is deployed too quickly. Ensure the investment manager can maintain quality and diversification as the amount of capital they manage grows.
- **Good governance:** Transparency in fees, valuation practices, and operational processes is critical. An investment manager should be clear about fee structures and regularly update portfolio valuations to accurately reflect risks. The product offer documents will provide this information and detail how governance is managed.
- **Portfolio Diversification:** Having access to a broad range of opportunities allows managers to leverage their experience and expertise in selecting the deals offering the best risk-adjusted returns. This focus on portfolio construction can provide diversification, mitigate risk, and provide overall portfolio stability.
- **Team structure and resourcing:** Evaluate the team's expertise and resources. A well-organised team with clear roles and succession planning is essential for managing a portfolio effectively.
- **Experience and proactivity in managing distressed assets and workouts:** 'Workouts' refer to the processes involved in managing and restructuring underperforming credit instruments or distressed investments. For private markets, active management of underperforming investments or restructurings is vital. A proactive approach in dealing with challenges can significantly impact overall performance.

Fidante

At Fidante, we provide investors with access to best-in-class investment managers. We are one of Australia's largest active investors, offering institutional grade private markets investment opportunities by partnering with leading investment teams globally.

Our investment managers are chosen for their robust investment processes, deep experience in navigating market cycles, and their commitment to achieving the best possible outcomes for investors.

APOLLO

Apollo Global Management, Inc. (Apollo) demonstrates strong alignment to investment outcomes by committing to invest from its balance sheet in the Apollo Aligned Alternatives Fund.[1]

Apollo is a global alternative asset manager with AU$1,213bn in AUM.[2]

Apollo invests in private markets across equities, real assets, and credit with their size and scale allowing for opportunistic capital investments.

ARES WEALTH MANAGEMENT SOLUTIONS

Ares has a robust team of over 1,000 investment professionals, with more than 50% focused on investing in credit markets globally.[3]

Ares is a global alternative investment manager with approximately US$527bn in AUM.[3]

Ares offers investors a broad platform for primary and secondary private credit solutions, backed by 20+ years of strong risk-adjusted returns through market cycles.

challenger

Challenger Investment Management Fixed Income (CIM) is a specialist in public and private credit markets providing flexible lending solutions to support a wide range of borrowers since 2005.

CIM are value investors, rotating between public and private credit to capture the best value whilst maintaining strict price discipline.

With over $16.3bn in AUM[4], CIM's credit portfolios benefit from rigorous, independent risk oversight.

1. Apollo and its affiliates, including Athene Holding Ltd. ("Athene" and, together with its subsidiaries, the "Athene Group") committed approximately $10 billion at inception, which may increase over time to the extent the Firm's balance sheet continues to grow.
2. As of 31 December 2024. Based on AUM as disclosed in public filings.
3. As of 31 December 2024. AUM amounts include funds managed by Ivy Hill Asset Management, L.P., a wholly owned portfolio company of Ares Capital Corporation and registered investment adviser.
4. As at 31 December 2024.

Contact

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