



Guidance on Allocating to Private Markets in an Investment Portfolio

Definition and Overview of Private Markets

Private markets refer to investment opportunities that are not traded on public exchanges. These include private equity, private debt, real estate, infrastructure, and venture capital. Unlike public investments, which offer daily liquidity, private market investments are typically less liquid, with some requiring multi-year commitments. However, certain modern private market vehicles such as interval funds have emerged with quarterly liquidity features, offering a more flexible access point for individual investors.

Benefits of Private Market Investments

Private markets can offer a number of compelling benefits to a diversified investment portfolio:

- ▶ **Higher Returns:** Over the long term, private market investments have the potential to outperform public markets due to less competition, information asymmetry, and active management, and an illiquidity premium investors command for allocating to less liquid investment options.
- ▶ **Higher Income:** Many private credit and real estate strategies deliver attractive yield relative to public fixed income alternatives.
- ▶ **Lower Risk (Through Diversification):** Because private market returns are often less correlated with public market movements, they can reduce overall portfolio volatility.

These benefits, however, come with trade-offs in terms of liquidity, transparency, and complexity, necessitating careful assessment of an investor's profile before allocating capital.

Liquidity Profiles in Private Markets

Private investments generally fall into two liquidity categories:

- ▶ **Quarterly Liquidity Vehicles:** These funds allow redemptions on a periodic basis, typically quarterly, subject to fund-level gates and notice periods. They are more suitable for investors who desire partial access to their capital.
- ▶ **Locked-Up Private Investments:** These include traditional private equity or private real estate funds, which may require capital commitments over 7-10 years. They are illiquid and suitable only for investors who can afford to tie up capital for extended periods.

Investor Profile Considerations for Allocation

When determining the appropriate allocation to private markets, the following factors should be considered:

- ▶ **Liquid Net Worth:** Investors with greater liquid net worth have more flexibility to allocate to illiquid investments.
- ▶ **Investment Time Horizon:** A longer time horizon supports a higher allocation to private markets, especially those with longer lock-up periods.
- ▶ **Account Registration Type:** Qualified accounts (e.g., IRAs) may be more suitable for illiquid investments given the lack of near-term liquidity needs.
- ▶ **Account Size:** Larger accounts can bear more risk and benefit more meaningfully from private market diversification.

Investor Qualifications

Private Market offerings may be offered through SEC registered securities (e.g. interval funds) or through non-registered private placements. While some SEC registered securities require minimum qualifications from investors, typically they do not. Private placements on the other hand do typically require investors to be either accredited or qualified purchasers. Accredited investors need to meet income or net worth thresholds or hold specific financial certifications while qualified purchasers generally need a net worth of \$5 million or more in investments. Advisors are required to validate and document that their clients meet the minimum requirements depending on the nature of the investment.

Bison's Suggested Allocation Guidelines

There are a number of client specific factors outside of those described above that could lead to the appropriateness of higher or lower allocations to private markets. Notwithstanding those factors, Bison has developed the following guide and scoring system to help investors determine an appropriate allocation to various types of illiquid investment opportunities.

Each of the primary considerations mentioned above is assigned a weight and is broken into segments that are each assigned a score between 1 and 3 points. The example below has been completed for a hypothetical account.

Liquid Net Worth (40%)			Account Type (20%)		
<\$100k (1)	\$100 - \$500k (2)	>\$500k (3)	Non Qualified	Trust	Qualified
	X		X		

Time Horizon (30%)			Household/Account Size (10%)		
05 years (1)	510 years (2)	10+ Years (3)	<\$100k (1)	\$100 - \$500k (2)	>\$500k (3)
		X		X	

Client Weighted Average Score: 2.2

The score correlates to the table below with the recommended maximum allocation to securities that offer quarterly redemption opportunities as well as a separate maximum to securities that involve a lock-up period of one year or more.

	Weighted Liquidity Score			
	1.01.5	1.52.0	2.02.5	2.53.0
Max Exposure - Quarterly Liquid	0%	10%	25%	40%
Max Exposure - 1 Year + Lock up	0%	0%	5%	10%

Conclusion

Private market investments can significantly enhance a portfolio's return potential and diversification when used thoughtfully. However, the appropriate allocation depends on a detailed understanding of the investor's profile, including liquidity needs, risk tolerance, and time horizon. By aligning the liquidity structure of private market investments with an investor's overall financial situation and goals, advisors can create well-structured portfolios that harness the benefits of private markets while managing associated risks.