

**EMBARGOED UNTIL 6:00 AM EDT
ON TUESDAY, APRIL 18**

BlackRock Alternatives

Global Private Markets Survey

2023

BlackRock

200+

institutions, surveying senior executives responsible for private markets allocations*

22

countries*

US\$15T

in total AUM with US\$3.2 trillion invested in private markets*

Public pensions, corporate pensions, insurers, family offices, foundations and endowments, and sovereign wealth funds*

03

Introduction

09

Investment views

05

Private asset allocations

12

Accessing private markets

*Interviews conducted by third-party consultancy iResearch Services. Responses were received from October 2022 through January 2023.

Note: Numbers in charts may not always add to 100% due to rounding.

Rising to meet investor needs



Edwin Conway

Global Head,
BlackRock Alternatives

Welcome to the first BlackRock Alternatives Global Private Markets Survey. Over the past 20 years, we have seen private markets grow from a niche category with roughly US\$700 billion in assets to a cornerstone of many portfolios, worth more than US\$13 trillion¹.

For many investors, private credit, private equity, infrastructure and real estate are no longer considered alternative but, in fact, a core component of the modern investment portfolio. And while private markets have experienced an extended period of rapid growth, these asset classes are not immune to the conditions that have been impacting their public market counterparts over the past year or so.

Against this backdrop, we surveyed capital allocators across the globe to understand how they are constructing their portfolios in the new regime.

We learned that investors believe short-term uncertainty isn't enough to derail the growth of private markets. While the recent banking turmoil has raised new concerns among investors, the conversations I've had suggest that clients are focused on navigating the current cycle with caution and care, albeit with an eye towards capturing opportunities. Even amid heightened volatility and uncertainty, investing in areas such as renewable energy, mature private companies and direct lending – venture and middle market debt in particular – can provide a ballast to portfolios.

Sophisticated investors have long abandoned the 60/40 asset allocation model. Among our respondents, private assets represent an average 24% of portfolios. Income generation is a key allocation driver – cited by 82% of those we surveyed. The search for yield in the years since the global financial crisis, as interest rates hit historic lows, is a familiar story. The survey results tell us, however, that even with rates rising and worries about a possible recession this year, institutions continue to see private assets as essential tools to help meet their income needs.

In the following pages, we detail where respondents see the biggest opportunities across private asset classes, explore their priorities when accessing the markets and explain what they look for when choosing their investment managers.

We'd like to thank the investors around the world who took the time to participate in the survey. And we hope that you find the results both insightful and useful.

Source: 1. Prequin, June 2022.

Key takeaways



Private asset allocations

- Our respondents' average portfolio allocation to private markets is 24%.
- Income generation is the top reason for investors allocating to private markets, with capital appreciation ranked in second place.
- Investors plan to increase their allocations to most private assets this year.



Investment opportunities

- Respondents see infrastructure and real estate debt, niche real estate (such as data centers) and mature private companies as some of the biggest investment opportunities.



Accessing private markets

- Liquidity concerns are the main barrier when it comes to investing in private markets.
- Sourcing is the top priority for investors when selecting a private markets manager.

Respondents allocate an average 24% to private markets

The institutions in our survey hold a combined US\$3.2 trillion in private assets, one-fourth of the US\$13-trillion¹ global market.

As the next page shows, those holdings are set to rise as investors plan to increase their allocations across asset classes.

The **head of private assets at a U.S.-based insurer** said the growth is due to both supply and demand.

Private markets appeal to corporations, who can stay out of the glare of equity markets and are able to negotiate financing directly. And private markets offer a variety of structures for investors, he said, as they try to meet their investment goals.

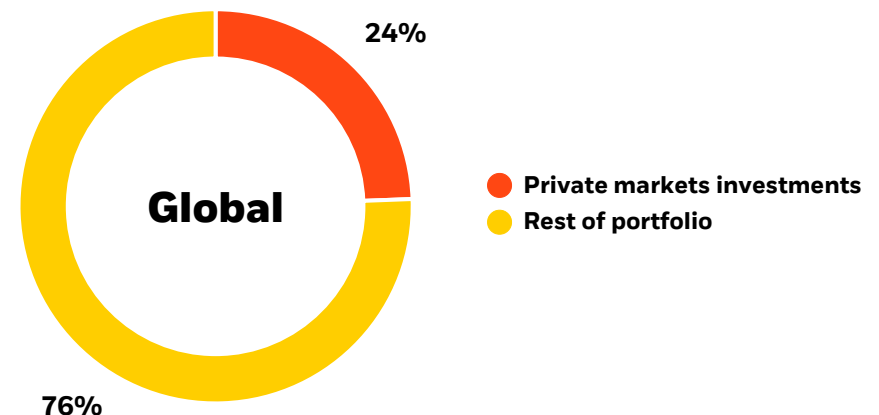
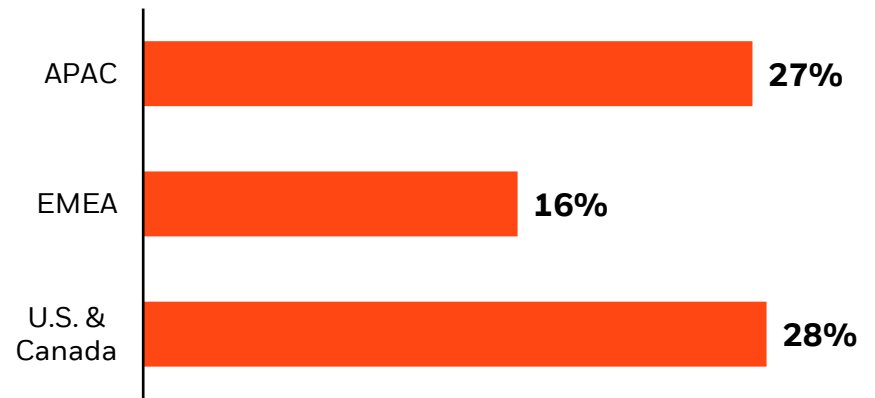
“I think you’ll have continued steady growth and flow, as there’s likely going to be emerging new subsets and types of private assets, as well as potential supply,” agreed the **CIO of a U.S. public pension plan**, whose fund has about 10% invested in private assets, but is increasing its allocation.

It remains to be seen how recent banking turmoil will affect private markets. But one investor said they don’t see it as something that will change their long-term plans.

“I don’t think anybody has really changed their plan over the next three years because of what’s happened recently. We see it as being the result of factors that are already part of our planning – rising rates, a slowing economy, higher inflation,” said a **private markets investor at a U.S. corporate pension**. “It was more a sign of ongoing trends than a new piece of information.”

Q. What percentage of your portfolio is currently allocated to private markets?

By region



Source: 1. Preqin, June 2022.

Institutions plan more private asset allocations this year

Long-term trends around corporate choices and the growth of investible assets are boosting private markets allocations. There are also more immediate factors.

“Private equity vintages that invest during downturns tend to outperform, according to our research,” said **John Seeg**, Global Co-Head of Private Equity Partners at BlackRock Alternatives. And 43% of respondents say they plan to “substantially increase” their private equity holdings this year – though it remains to be seen if recent upheavals have changed that outlook.

A **portfolio manager who specializes in alternatives at a U.S. corporate pension** said the heightened interest in private equity may also be due to the fact that many institutions had to pull back last year as public valuations plunged, leaving investors overweight in private markets.

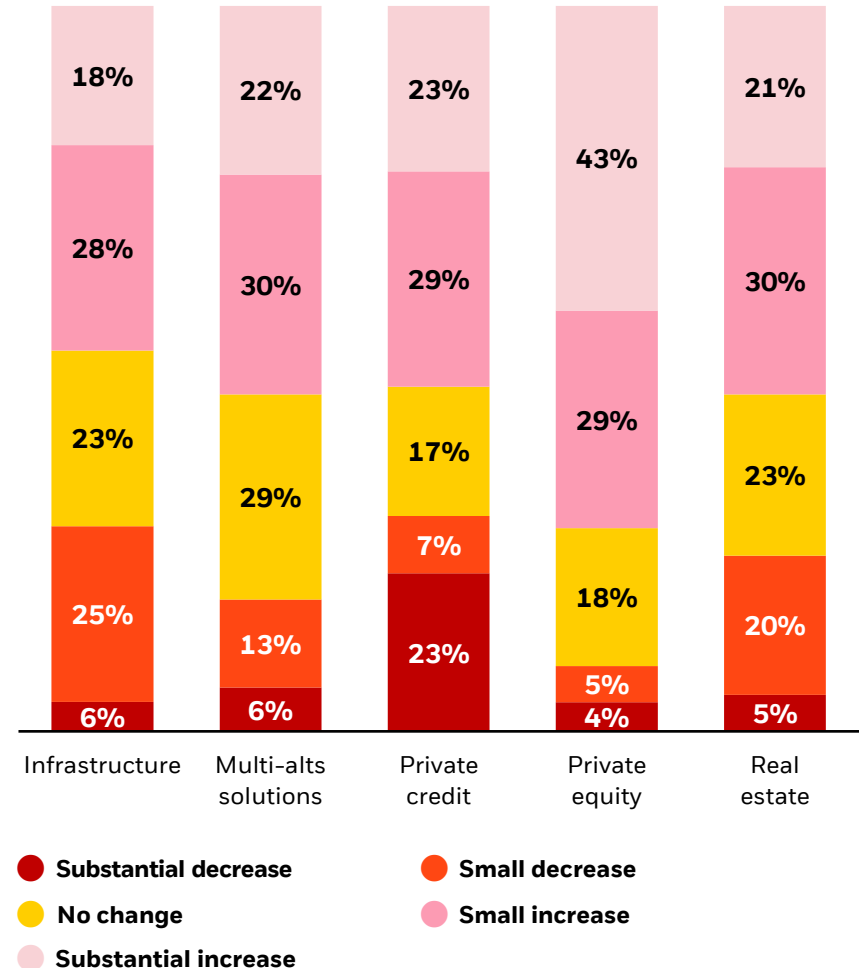
“I know from talking to my peers that the denominator effect really worked against new allocations in the space,” he said. As portfolios rebalanced – whether due to exits, revaluations of private holdings or the improved performance of public markets, “there’s more capacity this year.”

In private credit, 36% of U.S. and Canada respondents say they will “substantially increase” their allocations, while 68% of those in the Asia-Pacific region plan an increase.

A **portfolio manager at a Swiss pension fund** said he believes that private credit will take up an increasing share of investor portfolios in the years ahead.

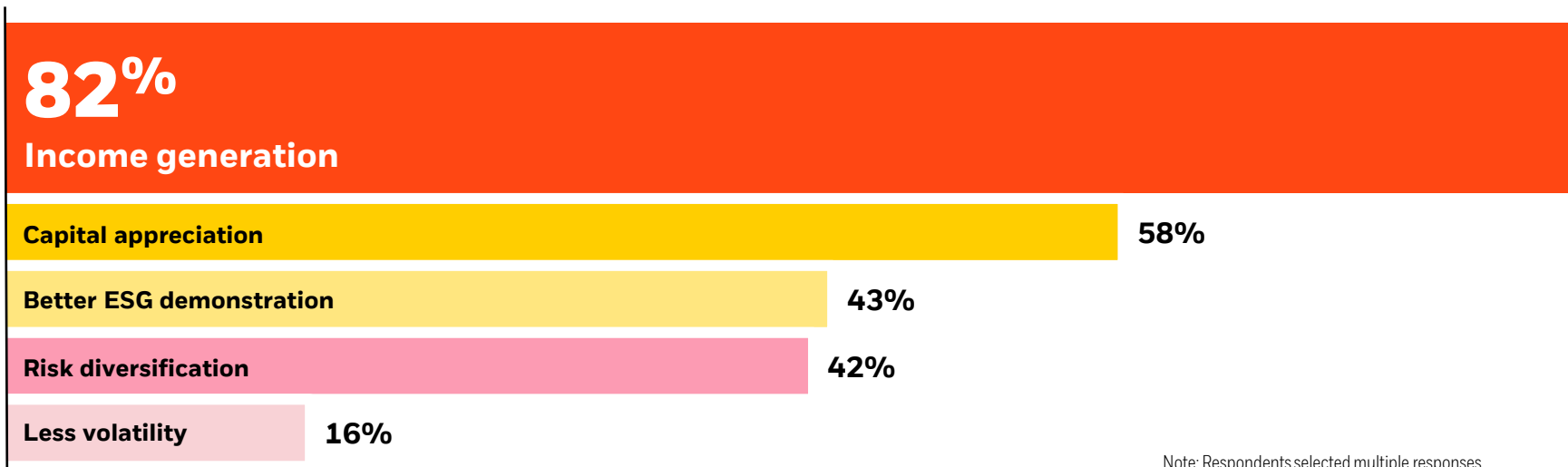
“In the same way that private equity is gaining a lot of traction and taking away from the public or listed equity allocation, I think you’re seeing that on the credit side as well,” he said.

Q. How do you see your allocations to private asset classes changing in 2023?



Income is the most important factor driving private markets investments

Q. What are the most important factors driving your allocation to private markets?



Note: Respondents selected multiple responses.

Investors have in recent years turned to asset classes such as private credit, infrastructure and real estate for income in a low-rate environment. Even as many central banks raise interest rates, the appeal of these assets persists.

And while higher rates bode well for yields in public markets, they also portend even more attractive returns for private debt holders across the spectrum of financing options.

In direct lending, for example, most deals have floating-rate structures that lead to higher yields as rates rise.

And the nature of direct lending – where investors negotiate with the borrowers – brings several other benefits to participants.

“Private credit doesn’t just help amplify income and offer diversification,” said **Phil Tseng**, Co-Head of U.S. Private Credit at BlackRock Alternatives.

“The greater ability to drive deal structures and covenants has led to stronger protections, lower defaults and higher recoveries compared with liquid markets.”

And today’s market, with rising rates and a fear of recession, is a lender-friendly environment, according to **Raj Vig**, who jointly runs the U.S. Private Credit team. “That means better terms for investors,” he said.

And while recent banking turmoil has roiled markets, it may also provide an opportunity for the addressable market of direct lending to expand, as some regional banks take a more conservative approach to lending. Direct lending may also be more appealing to borrowers given that deals aren't subject to a bank's ability to syndicate to a wide range of investors.

Meanwhile, with inflation in the U.S. and elsewhere at its highest level in decades, private assets can also provide investors with income that rises in line with broader price increases.

"Infrastructure investments are typically resilient through market cycles, and in particular during periods of increased volatility, with built-in inflation protections," said **Mark Florian**, Group Head of Infrastructure Funds at BlackRock Alternatives.

Many infrastructure-related businesses benefit from inflation-linked tariffs, as well as underlying contracts that are linked to inflation, Florian noted.

It's not hard to see the appeal of income-generating assets for major investors.

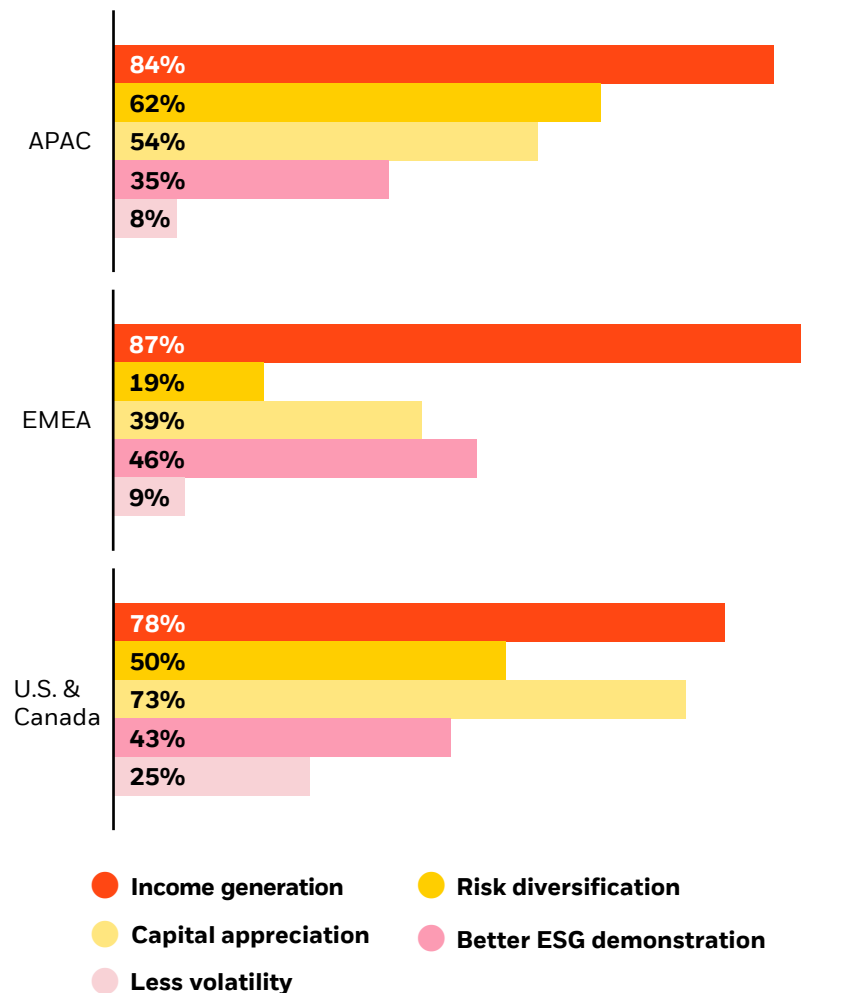
"If you think of an institution, like a pension fund that has fixed liabilities, if they have beneficiaries that need that capital along the way, timing cash flows and having cash to recycle through their system can be very important," said a **private markets specialist at a Canadian family office**.

Capital appreciation is another leading factor for allocating to private markets, according to respondents, particularly in the U.S. and Canada.

"From our point of view as a family office, having that capital appreciate is much more advantageous to us," said the private markets specialist. "In both cases, I think it speaks to the long-term view of the role of capital from private markets investors."

Q. What are the most important factors driving your allocation to private markets?

By region



Note: Respondents selected multiple responses.

The wide array of private opportunities

As they increase their private markets allocations, investors can choose from an incredibly wide selection of assets with different characteristics, from the potential appreciation of venture capital to the steady income offered by toll roads.

“Private markets encompass so many different areas that they can meet investors’ needs across the time horizon of a portfolio, and through market and economic cycles,” said **Tarek Mahmoud**, Head of Multi-Alts Solutions at BlackRock Alternatives.

“But we’re also seeing that institutions are willing to consider the opportunities presented by certain asset classes at moments of dislocation – opportunistic and distressed strategies, for example, as well as secondaries,” he said.

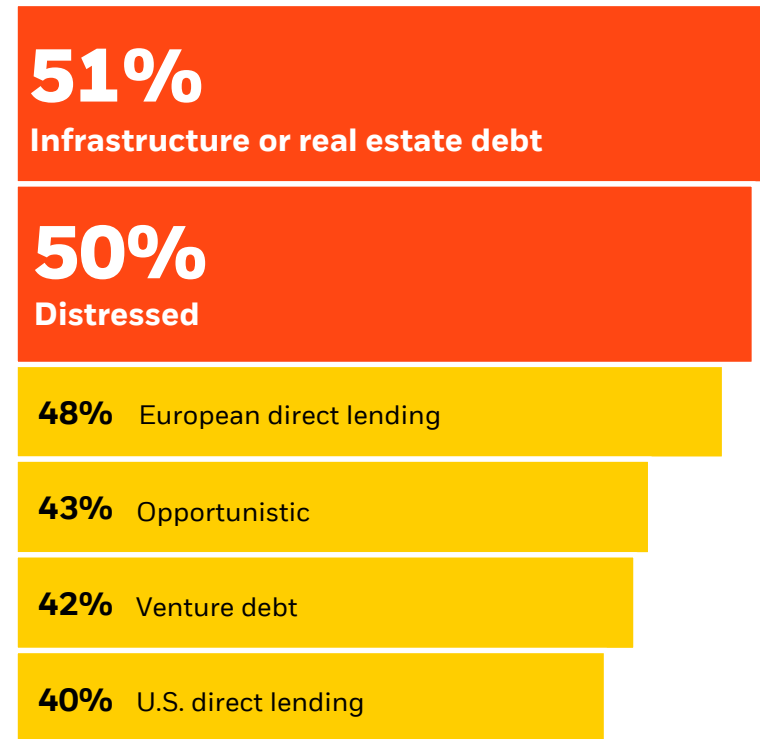
In private credit, investors see the biggest opportunities in infrastructure or real estate debt, driven by expected tailwinds from recent U.S. infrastructure legislation and what some see as a temporary dislocation in property values as a result of higher interest rates.

Distressed strategies are a close second, as many investors view a potential recession as a catalyst – especially at a time when elevated borrowing costs are pressuring corporate balance sheets across much of the globe.

Direct lending is popular in both Europe and the U.S. due to an expectation that many of the structural drivers of the past several years – including its appeal to investors as well as borrowers, and higher barriers to entry in the public funding markets – will remain in place.

Q. Where do you see the biggest opportunities in each asset class?

Private credit



Note: Respondents selected multiple responses.

Meanwhile, the best opportunities in infrastructure are emerging markets, transportation and renewables, according to our respondents.

“I think there are such tailwinds in renewables,” said a **private markets investor at a U.S. corporate pension**.

“There’s an insatiable demand for renewable energy, both from the traditional utilities, and even more so, I’d say, from corporate users – for example solar helping big tech firms trying to meet net-zero pledges.”

“There’s a wide demand set and supplies are ramping up – but it's not an established market so there are many opportunities for investors.”

In the U.S., the sector also stands to benefit from legislation passed last year, particularly the Inflation Reduction Act.

In private equity, most respondents – more than half in each region – see mature companies as the best opportunity. Venture capital is the second most-popular choice, highlighting that there’s still an appetite for risk despite the tumult.

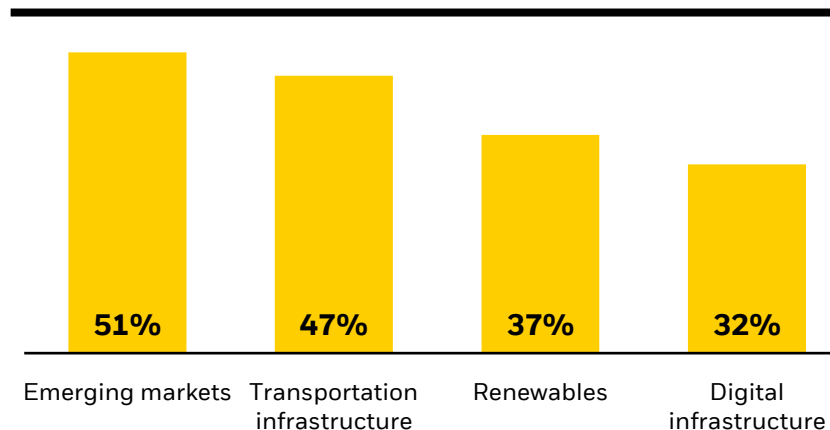
“I think people are cautious right now, so mature companies make sense, though I am a little surprised to see venture capital so high,” said a **portfolio manager who specializes in alternatives at a U.S. corporate pension**.

“But given the uncertainty we’re living with and the higher cost of capital, venture could be seen as a risky but attractive opportunity if you have the right manager and the right fund,” he said.

Speaking in general about the opportunities in private markets, the manager said rising rates may create more dispersion across asset classes.

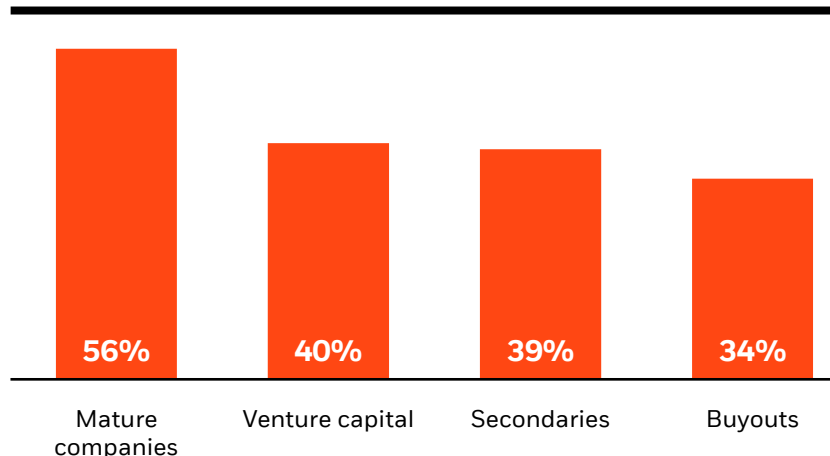
Q. Where do you see the biggest opportunities in each asset class?

Infrastructure



Q. Where do you see the biggest opportunities in each asset class?

Private equity



Note: Respondents selected multiple responses.

“I think the smart people in the space will be able to excel, but it won’t be like in a zero-rate environment where everyone can make money from it,” he said.

While niche sectors such as data centers and cold storage facilities are a hit with respondents, the least popular opportunity across all categories is the office sector.

However, even this was chosen by 26% of those surveyed – perhaps investors comfortable with higher levels of risk who are considering opportunities to redevelop buildings into modern offices or other uses, such as residential.

“It comes down to a market-share play, and I think those people with the best assets can really take market share,” said the **private markets investor at a U.S. corporate pension.**

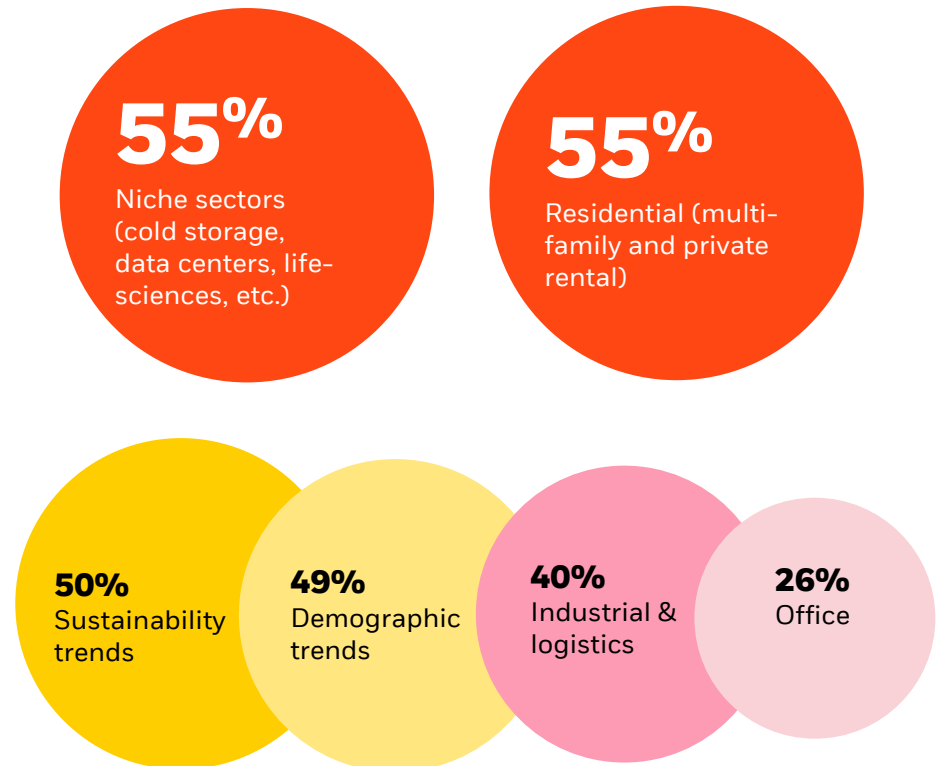
“

Within the office sector there's a huge differentiation between new, modern and energy-efficient spaces relative to generic spaces.”

Private markets investor, U.S. corporate pension

Q. Where do you see the biggest opportunities in each asset class?

Real estate



Note: Respondents selected multiple responses.

Barriers remain to investing in private markets

While private markets continue to expand, and investors plan to allocate more, there are factors hindering further investments.

Though private markets specialists shared their views prior to the recent bank failures, the survey reveals that liquidity is their single biggest barrier to investing in private assets.

Our respondents differ, however, in just how big an issue liquidity is. More than half of all pensions name illiquidity as their main obstacle to private markets, while only 40% of insurers agree.

It remains to be seen how recent banking turmoil and broader shifts in market-wide liquidity will affect private markets. But the limited liquidity of private assets can also create investment opportunities, in the form of secondaries.

The secondary market last year saw US\$108 billion of volume,¹ just shy of the record-breaking levels seen in 2021. And as LPs and GPs continue to turn to secondaries for liquidity, there will likely be more supply this year – which may mean greater discounts for those looking to buy.

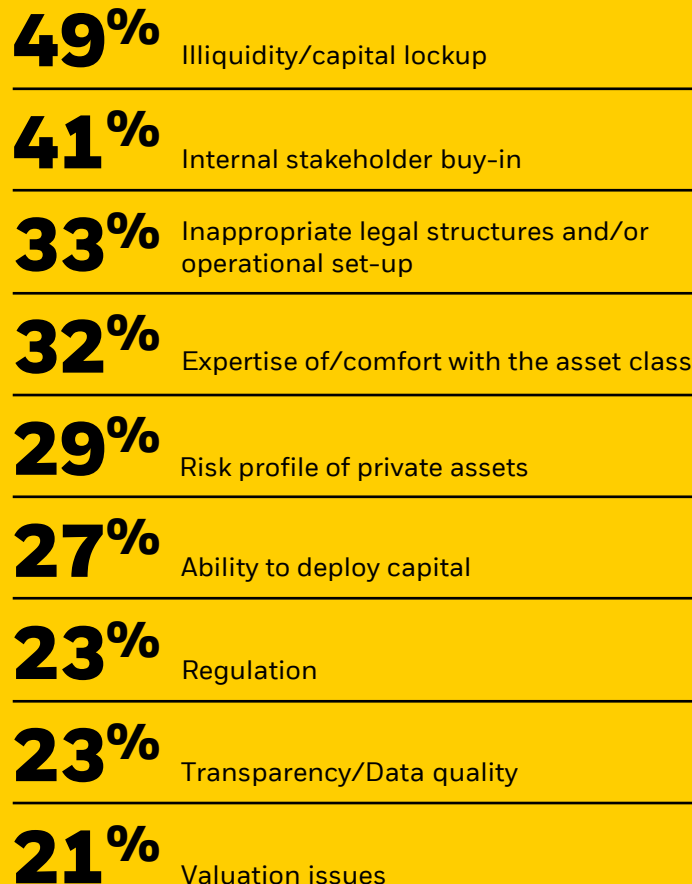
Other barriers to private markets include getting internal stakeholder buy-in and limited organizational expertise or comfort levels with the asset class.

“One way that an institution’s attitudes toward private markets could change is, for example, at the board level at pensions, which can be very top-down in their decision-making,” said the **portfolio manager at a Swiss pension fund**.

“Over time, a different generation will come in with a different focus, and a different understanding of certain principles or certain investments.”

Source: 1. Jefferies – Global Secondary Market Review, January 2023.

Q. What are the main barriers you face in allocating assets to private markets?



Investors prioritize deal sourcing when choosing a manager

Making the most of the private markets opportunities available means choosing the right manager. For our survey respondents, there was a fairly clear answer about how to make that selection.

“Sourcing is where the value gets created,” said a **private markets specialist at a Canadian family office**.

“Investment opportunities in private markets aren't uniformly distributed like you see in public markets, where there's a very transparent process and everybody gets a fair shot at the deal,” he added.

As the industry's dry powder – currently at about US\$3.5 trillion¹ – continues to grow, managers who can effectively source the best deals as they deploy capital will stand out from the rest.

“Good access to opportunities is also what enables managers to craft deals so they can negotiate better terms,” said the family office executive. “That's where a lot of the art goes along with the science.”

Having the right investment strategy is the next most-popular reason, with expertise across asset classes and/or regions next.

“Differentiated sourcing can drive excess returns or alpha,” said the **head of private markets at a U.S.-based insurer**. “I also think that when selecting a third-party manager the real issue is having alignment – alignment of interests, expertise, reputation and character.”

Source: 1. Preqin, June 2022.

Q. When selecting a private markets manager, what are your priorities?



Note: Respondents selected multiple responses.

The most important selection priority for respondents in the EMEA region is the approach to environmental, social and governance matters.

“One potential explanation why European investors focus more on these factors could be due to a more developed awareness of the risks and benefits of ESG investing,” said the **Swiss pension fund portfolio manager**.

“The U.S. is an outlier in the sense that the awareness is arguably there but, in part, due to the political landscape the topic has become polarized.”

While half our sovereign wealth respondents identify sourcing, a majority also say the investment strategies offered by money managers are a key criterion.

That response closely aligns with the approach of a **private markets investor at a financial institution in Saudi Arabia**.

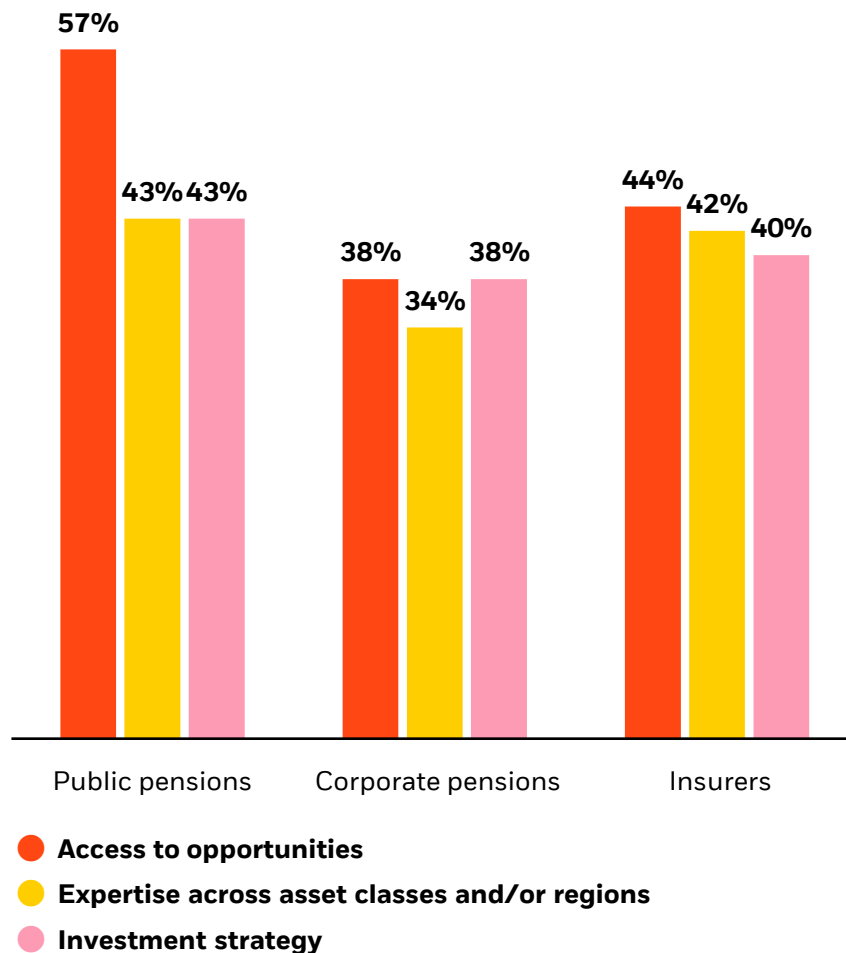
“Our priority is the fund’s strategy,” he said. “We choose managers where the fund is its core strategy.”

These results illustrate how important it is for managers to maintain the best access to deal opportunities, said **Brent Patry**, Global Head of the BlackRock Capital Markets Group and Deputy Head of BlackRock Alternatives.

“While sourcing is essential for any manager, having the right strategy, proven expertise across all of the private markets and strength in multiple sourcing channels is collectively a meaningful differentiator,” Patry said. “And the managers who can bring that experience and breadth of knowledge into genuine partnership with their investors are the ones most likely to succeed in this growing and increasingly competitive space.”

Q. When selecting a private markets manager, what are your priorities?

By organization



Note: Respondents selected multiple responses.

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