

## **How to take illiquidity risk through private markets?**

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Private markets have had a good start to this year, playing their role as a diversifier in an investment portfolio, when public markets continue to be volatile due to the geopolitical and macroeconomic uncertainties.

For investors that can take the illiquidity risk, we recommend an 11% allocation to private markets in a medium risk portfolio.

Let's dive into some of the sub-asset classes of private markets.

Private credit, and direct lending in particular, has continued to perform well this year on the back of a strong 2023, and we expect that to continue for the second half of the year.

Direct lending managers extend senior secured loans to private equity firms acquiring a company, or to companies directly.

They have benefitted from a supply/demand imbalance which allows them to extend loans at attractive terms.

Rates of those loans are floating and are currently negotiated at SOFR + 550bps to 650bps.

Defaults rates for those loans have remained very low and we don't expect any material uptick for the rest of the year.

Direct Infrastructure is another asset class within private markets which benefits from long term tailwinds.

Performance has been good so far this year and deal activities have been healthy as well.

As for Digitalisation, Decarbonisation and transition to net zero, deglobalisation and the relocation of supply chains, those secular trends continue to require significant infrastructure investments.

By allocating to direct infrastructure, investors often invest in essential assets and benefit from long term stable cash flows, mostly inflation linked.

Private equity has delivered positive performance so far this year and deal activity has been picking up. Manager selection remains more essential than ever, with dispersion between top quartile managers and bottom quartile managers very high.

In a higher rate environment, those managers with a proven operational playbook and access to financing will significantly outperform, benefitting from better market conditions, with lower valuations and less competition.

Lastly, with interest rates peaking, we are constructive on opportunistic Real Estate.

A number of good assets from stressed owners or with stressed capital structures are starting to come to market at attractive valuations.

Managers that have the operational expertise to turn those good assets into great assets are expected to perform well in the coming months and years.

Thank you.