betashares | Private Capital

Unlock the opportunities of private investing

Access new sources of growth, income and diversification

Introduction

Opportunities to invest in private markets are becoming more accessible, opening up new sources of growth, income and diversification.

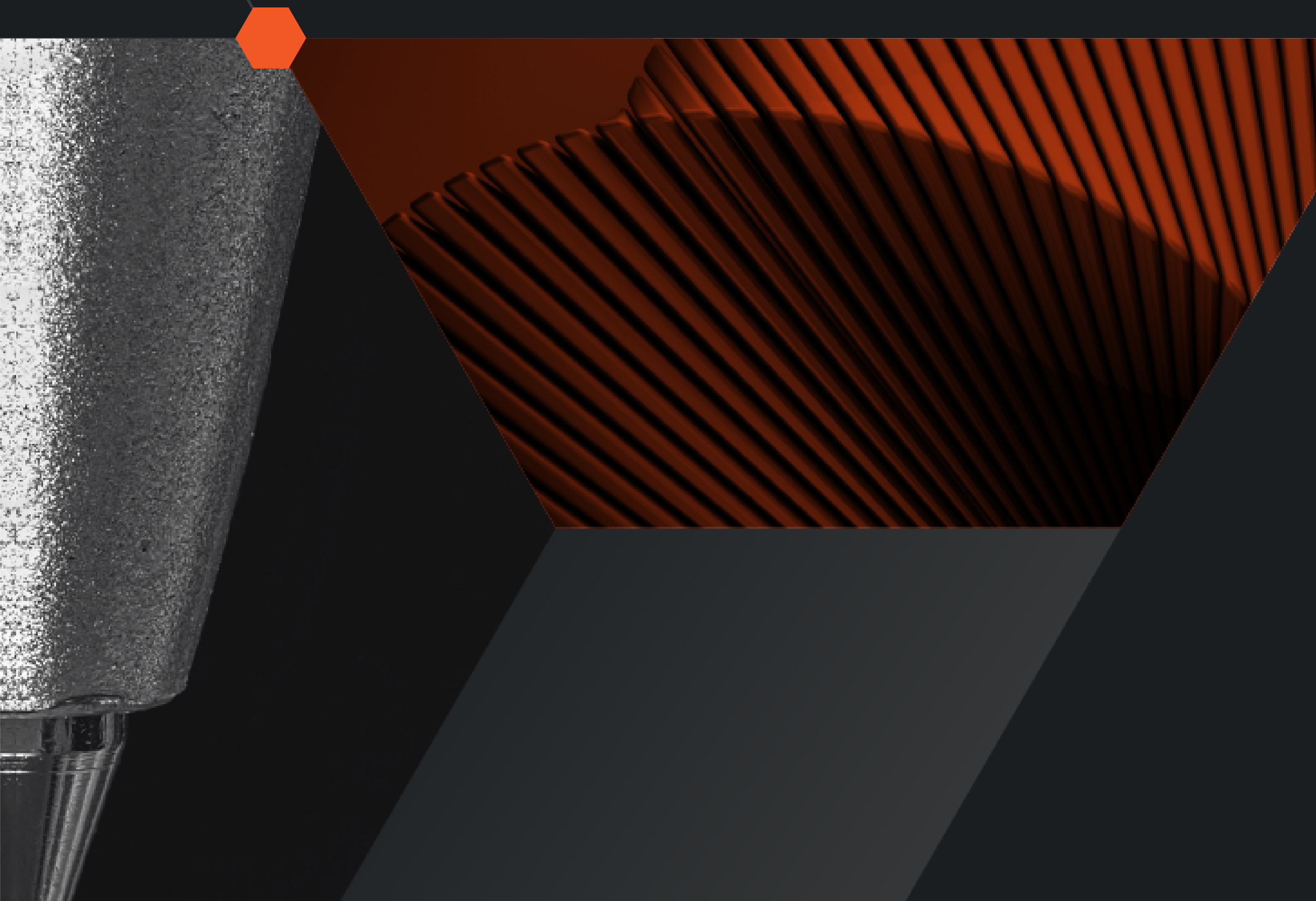
Private asset investing has been around for longer than public market investing – but access usually has been restricted to large investors such as institutions.

Public markets have been the backbone of investment portfolios for most of the last century. Portfolios typically have been built around shares listed on stock exchanges, and fixed income assets such as bonds traded on over-the-counter (OTC) markets. These markets are open five days a week, and are generally transparent and highly liquid.

Private markets, on the other hand, tend to be nuanced, opaque and less liquid given their nature.

The recent growth in semi-liquid and 'evergreen' product structures has allowed smaller investors to participate in the same investment opportunities previously open only to the largest institutional investors. At the same time, those opportunities are expanding, as the importance of private markets increases.

We believe that allocating a portion of client portfolios to private assets can help to improve portfolio returns, reduce volatility and increase diversification.



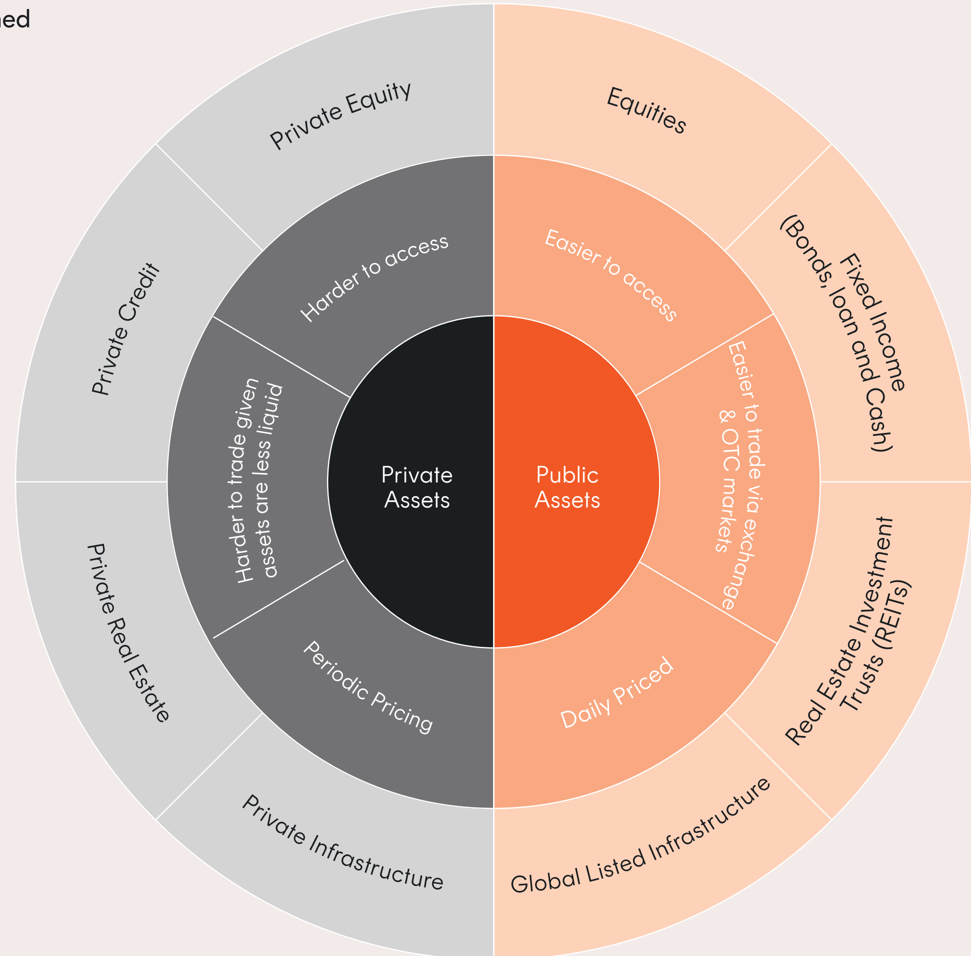
Public markets vs private markets

'Private markets' is a catch-all term covering any investments that are not traded on public markets, and that typically involve private companies. The main private asset classes are private equity, private credit and real assets. While they sound like their public market equivalents, they carry their own unique risk and return characteristics.

Public market securities include investments that are accessible through either listed exchanges or OTC markets. The most well-known public market asset classes are equities, fixed income and real assets.

The key differences between public markets and private markets are that private markets are typically less liquid, have higher risk-adjusted return potential and are harder to access for smaller investors.

Key differences explained



Large minimum investments and closed-ended fund structures historically have restricted access to most private asset classes to large institutional investors such as superannuation funds, insurance companies and sovereign wealth funds.

Recently, however, opportunities to invest in private assets have opened up to smaller investors as a result of increased accessibility relating to open-ended private markets vehicles. Of course, the risks (including liquidity risks) relating to private markets means an investment in such assets may not be suitable for all investors.

Why invest in private assets?

There are three main reasons to invest in private assets as part of a broader portfolio.

Potential for higher returns

Reduced volatility

Better portfolio diversification

Potential for higher returns

Due to their illiquid nature, private markets exhibit what is known as an 'illiquidity premium'.

The illiquidity premium

The illiquidity premium is the extra return investors demand for holding assets that are difficult to quickly convert into cash (illiquid assets) compared to more liquid assets.

Numerous studies[1] over the years have validated the persistence of this illiquidity premium across the various private asset classes (noting past performance is not indicative of future performance). One recent study found that US private equity buyouts outperformed the S&P 500 by 2.3-3.4% a year from 1986 to 2017.[2]

The private credit asset class has displayed even greater magnitudes of outperformance versus public market equivalents. For example, a recent study found that private credit outperformed public leveraged loans by an average of 6.25% each year between 2000 and 2021.[3] This outperformance was net of fees and carry charged by fund managers.

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a year from 1986 to 2017.[2]

Past performance is not indicative of future performance.

[1] BNP Study (Allocation to private assets in open-ended funds: capturing the illiquidity premium and managing liquidity constraints) and Franklin Templeton (The cost of being too liquid)

[2] The illiquidity premium in private assets markets, BNP Paribas, August 2023

[3] www.hamiltonlane.com/en-us/insight/truths-revealed/private-beats-public

Reduced volatility

Private market investments are valued periodically by professional firms, or when a transaction takes place between two institutional investors. This tends to make the market significantly more orderly, tying values more closely to fundamentals.

In contrast, daily price movements of investments traded on public markets can reflect influences that are unrelated to the fundamental value of the investment. Market sentiment, for example, can play a significant part in price volatility.

A recent study[4] of returns by Cliffwater found that private equity had an annualised standard deviation of 10.1% compared to 16.2% for the Russell 3000 stock index over the ten years to 31 December 2023. Over the same period, private debt had an annualised standard deviation of 2.9% versus 6.5% for the Morningstar LSTA US Leveraged Loan Index. In fact, the below chart shows that, over the 20 years to 31 December 2024, private markets have shown strong performance over the long term compared to other asset classes, with comparable or less volatility.

20 Year Asset Class Risk and Return

For period to 31 Dec 2024 (Standard Deviation (% p.a.), Return (% p.a.))

As at 31 December 2024. **Past performance is not indicative of future performance of any index of fund.** You cannot invest directly in an index. For the purposes of the above chart, Australian Public Fixed income is the Bloomberg AusBond Composite 0+Y TR AUD Index, Global Public Fixed Income is the Bloomberg Global Aggregate TR Hdg AUD Index, Australian Equities is the S&P/ASX 200 TR AUD Index, Global Equities ex AUS is the MSCI ACWI ex-Aus AUD Index, Private Real Estate is the Preqin Real Estate Index, Private Infrastructureis the Preqin Infrastructure Index, Private Credit is the Cliffwater Direct Lending Index AUD Hedged Index and Private Equity is the Preqin Private Equity Index. Provided for illustrative purposes only. Not a recommendation to invest or adopt any investment strategy.

[4] Private Assets Are Less Volatile Than Public Assets, As They Should Be. Cliffwater, May 2024. Private Equity represented by the Cambridge Private Equity Index. Private Debt represented by the Cliffwater Direct Lending Index. Past performance is not indicative of future performance of any index or fund. You cannot invest directly in an index.

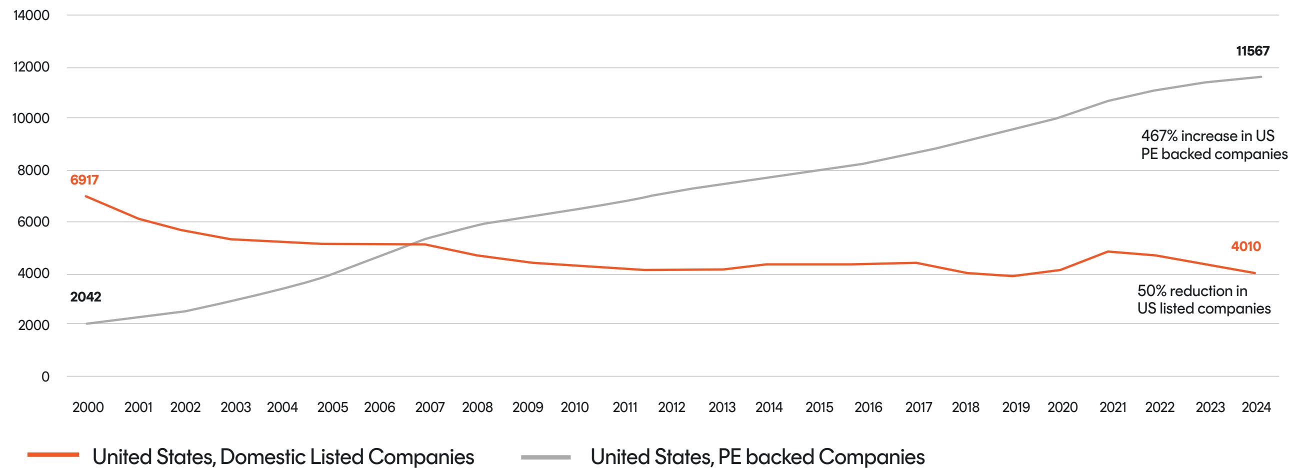
Better portfolio diversification

Over the last decade, public markets have become far more concentrated. In the US, the number of listed companies has declined from more than 6,900 in 1996 to just over 4,000 in 2024. As of 30 June 2025, the ten largest companies make up 40% of the S&P 500 market capitalisation.

In February 2025, stock-bond correlations reached 75-year highs, demonstrating that historical sources of diversification are not always guaranteed.

In this environment, investors increasingly have been turning to private markets as a source of diversification. Private markets can help to reduce concentration risk, as they are broader than public markets. In the same period that the number of public companies has dwindled, the number of private companies has soared. A significant majority of US companies with revenues greater than $100 million are private.[5]

Public vs Private US Company Numbers

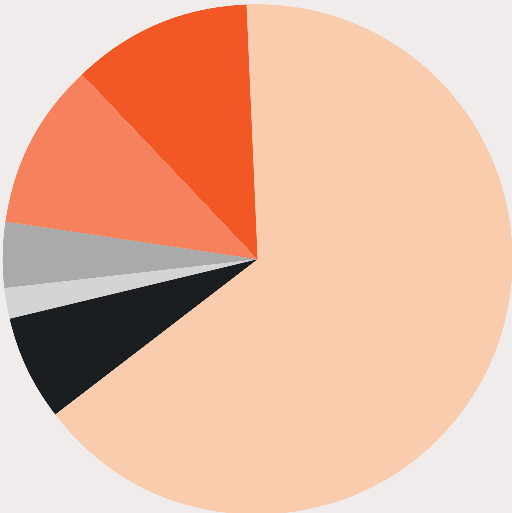


Sources: World Bank, 1 July 2025; Pitchbook, 30 June 2024.

Percentage (%) of US Companies (Revenue > $100M)

As at January 2022

U.S. Private Companies $1000M+	10.7%
U.S. Private Companies $500M – $1,000M	11.40%
U.S. Public Companies $100M – $499M	65.3%
U.S. Public Companies $1000M+	6.70%
U.S. Public Companies $500M – $1,000M	2.00%
U.S. Private Companies $100M – $499M	3.90%



Source: Private Market Investing: Staying Private Longer Leads to Opportunity, Hamilton Lane, Capital IQ, April 2022.

What are the main asset classes?

Private equity refers to ownership of a private company i.e. one not listed on an exchange - which encompasses the majority of the world's companies. The main role of private equity in an investment portfolio is capital appreciation. The main types of private equity strategies are:

Types of private equity	Typical risk level	Typical indicative return target p.a.*	Explanation
Buyout	High	15 - 20%	Investing in profitable companies with steady cash flows, that can use leverage to purchase other companies
Growth capital	High	18 - 22%	Investing in companies that have a mature product, and need capital to accelerate growth
Venture capital	High	20 - 25%	Seed, early stage and often pre-revenue investment in companies at the start of their business life
Special situations	High	20% +	Flexible capital investments in companies with unique needs

*Typical indicative return target is provided for illustrative purposes only. Actual returns may differ materially.

Private credit is the provision of a loan to either a business (corporate lending) or an asset (real estate or infrastructure). The primary role of private credit in a portfolio is income generation. There are many types or private credit available to investors. The most well-known ones are:

Types of private credit	Typical risk level	Typical indicative return target p.a.*	Explanation
Direct lending	Low - medium	8-10%	Lending to 'healthy' businesses with strong cash flows. Debt typically used for growth initiatives.
Asset-backed lending	Medium	10-12%	Financing to consumer finance companies that lend directly to consumers.
Real asset	Low to high	6 - 14%	Project-based lending to real estate or infrastructure projects. Risk level dependent on level of development required.
Distressed	High	15%+	Financing to distressed or troubled businesses with the expectation they will recover.

*Typical indicative return target is provided for illustrative purposes only. Actual returns may differ materially.

What are the main asset classes (cont)?

Real assets can be divided into private real estate and private infrastructure. Typically, their main role in a portfolio is to generate income and help protect against inflation.

Private real estate

Private real estate involves investing in privately held commercial or residential properties, such as office buildings and apartments.

Private infrastructure

Private infrastructure includes toll roads, ports, airports and crematoriums.
Risk profiles are project-specific but broadly can be categorised as:

Types of private infrastructure	Typical risk level	Typical indicative return target p.a.*	Explanation
Core/core plus	Low	7 - 10%	Assets in high-quality locations and little debt, with high-quality tenants and long-term leases. Little or no development required.
Value add	Medium	10-15%	Assets that may be in a less than desirable location, and may require meaningful capital works, typically with low occupancy but meaningful upside if new tenants are contracted. Meaningful user of debt.
Opportunistic	High	15% +	Synonymous with development or extensive refurbishment/structural works. Often highly leveraged.

*Typical indicative return target is provided for illustrative purposes only. Actual returns may differ materially.

The role of private assets in investors' portfolios

The two largest superannuation funds in Australia have approximately over 20% of their funds invested in private markets.[6] Some investment managers have indicated that alternatives could be considered for as much as 30% of a portfolio depending on client-specific objectives.[7]

In considering the appropriate allocation for portfolios, the crucial questions for investors are:

- ? **What are my investment objectives?**
- ? **What is my investment timeframe?**
- ? **Am I willing to trade?**

The chart below illustrates the effect on a portfolio's returns and volatility of allocating 10% of the portfolio to private assets, compared to a portfolio comprising 100% publicly traded assets.

It considers the simulated historical performance of six hypothetical portfolios (refer to Note 1 for more information on portfolio breakdown and other relevant information):

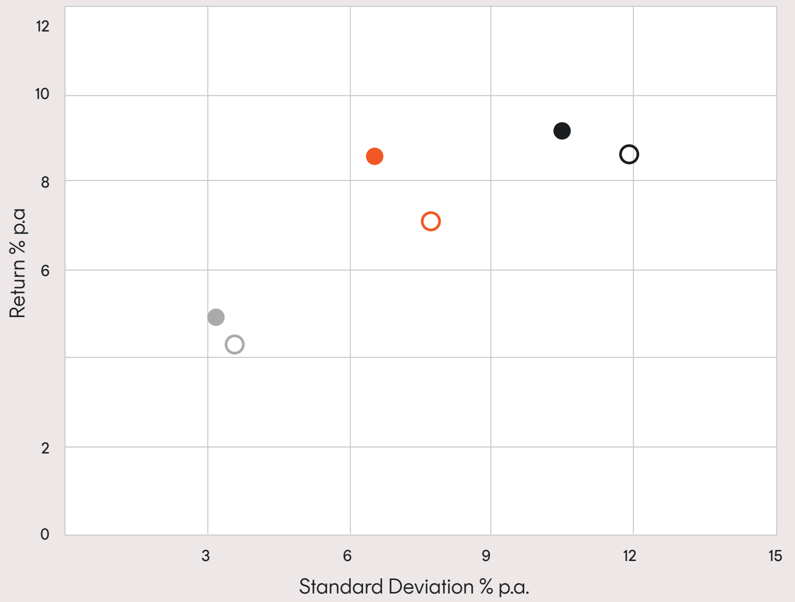
- A portfolio comprising equities only
- A portfolio comprising 90% equities and 10% private equity
- A portfolio comprising fixed income only
- A portfolio comprising 90% fixed income and 10% private credit
- A diversified portfolio comprising 60% equities and 40% fixed income
- A diversified portfolio comprising 50% equities, 30% fixed income, 10% private equity and 10% private credit.

In all cases the addition of an allocation to private assets resulted in higher returns with lower volatility.

Simulated historical performance illustration – 100% Equities vs 100% Fixed Income vs Diversified Portfolio (with and without private assets allocations) (20 years to 31 December 2024)

- ○ 100% Equities
- ● 90% Equities, 10% Private
- ● 50% Equities, 30% Fixed Income, 10% Private Equity, 10% Private Credit
- ○ 60% Equities, 40% Fixed Income
- ● 90% Fixed Income, 10% Private Credit
- ○ 100% Fixed Income

Currency: Australian Dollars



Source: Bloomberg, Betashares. Hypothetical example provided for illustrative purposes only. Not representative of actual fund or portfolio performance. Actual outcomes may differ materially. This information is not a recommendation or offer to make any investment or to adopt any particular investment strategy. Simulated past performance is not indicative of future performance of any fund or strategy.

[6] Australia's evolving capital markets: A discussion paper on the dynamics between public and private markets, ASIC discussion paper, February 2025

[7] Year Ahead 2025 - Roaring 20s: The next stage, UBS

Note 1 - simulated historical performance example

Hypotethical portfolio breakdown

Equities	
100% Equities	**90% Equities / 10% Private Equity**
50% S&P / ASX 200	50% S&P / ASX 200
25% MSCI ACWI Unhedged 25% MSCI ACWI Hedged	20% MSCI ACWI Unhedged 20% MSCI ACWI Hedged 10% Private Equity Unhedged

Diversified	
60% Equities / 40% Fixed Income	**50% Equities / 10% Private Equity / 30% Fixed Income / 10% Private Credit**
30% S&P / ASX 200	30% S&P / ASX 200
15% MSCI ACWI Unhedged 15% MSCI ACWI Hedged 20% Bloomberg Ausbond Composite 20% Bloomberg Global Aggregate AUD Hedged	10% MSCI ACWI Unhedged 10% MSCI ACWI Hedged 10% Private Equity Unhedged 15% Bloomberg Ausbond Composite 15% Hedged Bloomberg Global Aggregate AUD 10% Private Credit AUD Hdg

Fixed Income	
100% Fixed Income	**90% Fixed Income / 10% Private Credit**
50% Bloomberg Ausbond Composite	50% Bloomberg Ausbond Composite
50% Bloomberg Global Aggregate AUD Hedged	40% Bloomberg Global Aggregate AUD Hedged 10% Private Credit AUD Hedged

The Private Credit AUD Hedged Index is the Cliffwater Direct Lending Index, hedged to AUD.

The Private Equity Index is the Preqin Private Equity Index.

Important notes and assumptions:

- The example does not take into account any fund fees and costs, or any transaction costs.
- All returns assume reinvestment of dividends.
- You cannot invest directly in an index.

Conclusion

Recent innovations in product structures have opened up opportunities for smaller investors to access private investments, an asset class that previously was restricted primarily to large institutional investors.

An allocation to private assets has the potential to improve portfolio returns and diversification, while helping to reduce portfolio volatility.

Introducing Betashares Private Capital

Betashares Private Capital is a dedicated division of Betashares focused on delivering institutional grade private market investment solutions to wholesale investors, Australian financial advisers and their clients.

Betashares Private Capital offers simple, cost-effective access to professionally managed, high-quality private investments, through partnerships with leading global managers.

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