

Why private markets may be right for investors

There are many reasons for investors to consider private markets, including potential enhanced returns, possible improved income, and diversification.

Talking points

- 1** Private markets, both credit and equity, have outperformed their public market counterparts.
- 2** Private credit assets have provided higher yield potential than public fixed income.
- 3** Most private assets have had low correlations to public markets, providing diversification benefits.

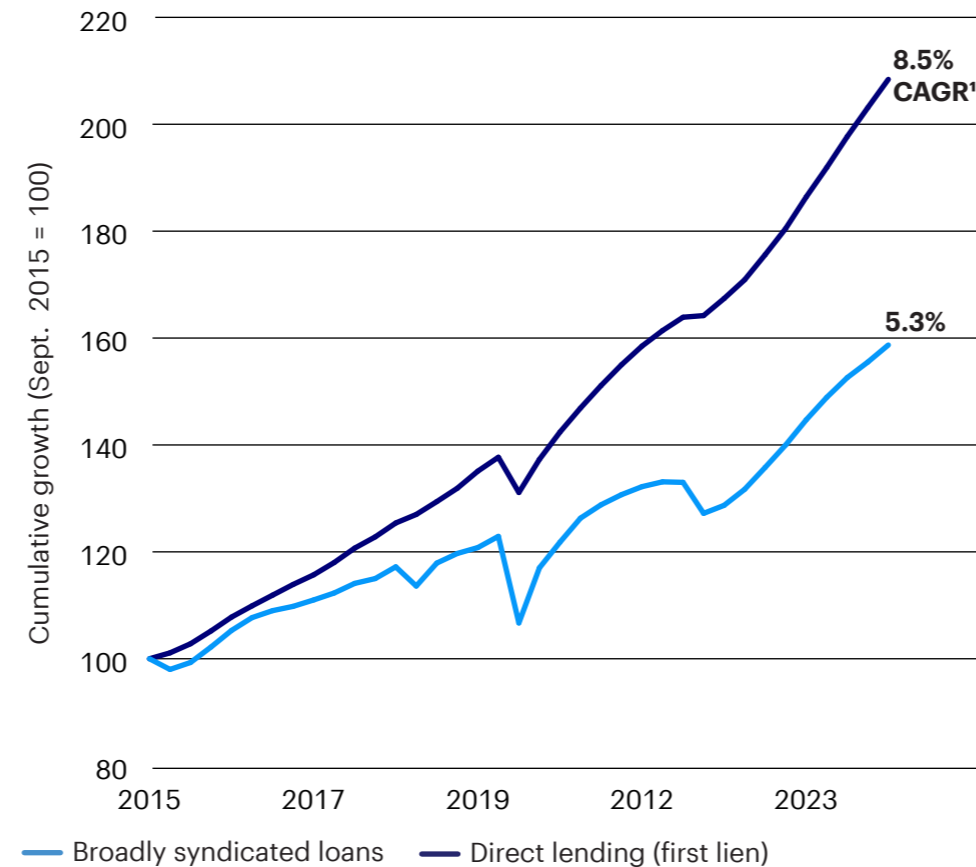
Proof points

- Both private equity (buyout) and private credit (direct lending) investments in aggregate have outperformed their public equivalents over time.
- This outperformance is commonly called the illiquidity premium, which is the compensation for locking up capital for a longer time.



Private markets, both credit and equity, have outperformed their public market counterparts

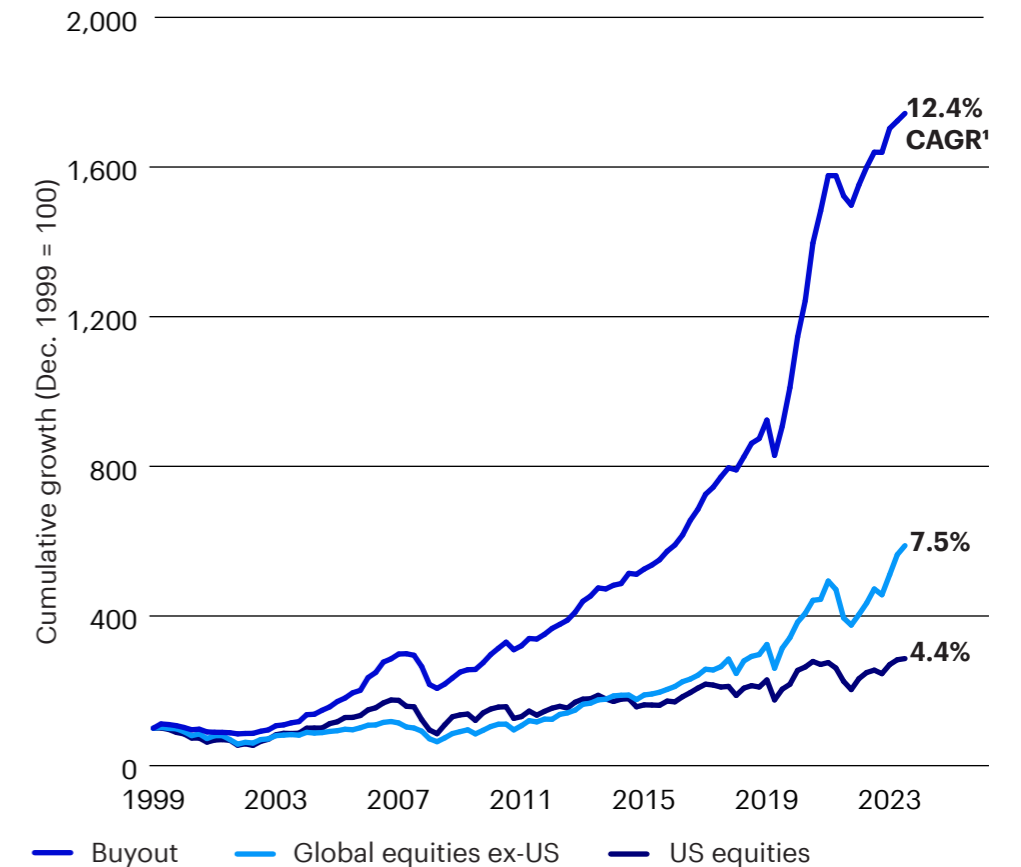
Private credit and broadly syndicated loans



1. Compound annual growth rate

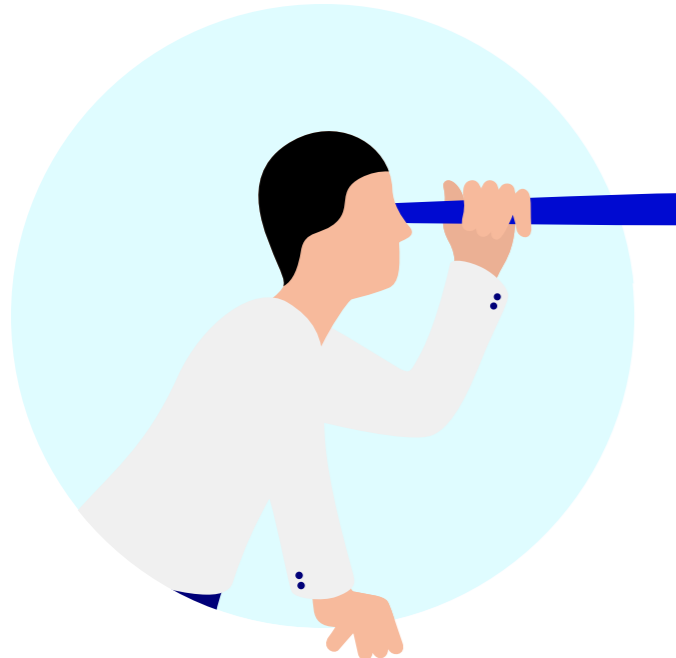
Sources: Investment growth of 100; Private credit, also referred to as direct lending, is represented by the Cliffwater senior direct lending Index and broadly syndicated loans are represented by the Credit Suisse Leveraged Loan Index quarterly from the earliest common date available, Sep. 2015 to June. 2024; Buyout is represented by the Burgiss MSCI Time-Weighted Global Private Equity Buyout Index; US equity returns represented by Russell 3000 TR index; Global ex-US equity returns represented by MSCI ACWI ex USA net TR index are gross of fees, quarterly from Dec. 1999 to Dec. 2023. Private assets are net of normative fees. Past performance does not guarantee future results. An investment cannot be made directly into an index. The compound annual growth rate is the rate of return that an investment would need to have every year in order to grow from its beginning balance to its ending balance, over a given time interval.

Private equity (buyout) and public equities (US and global ex-US)



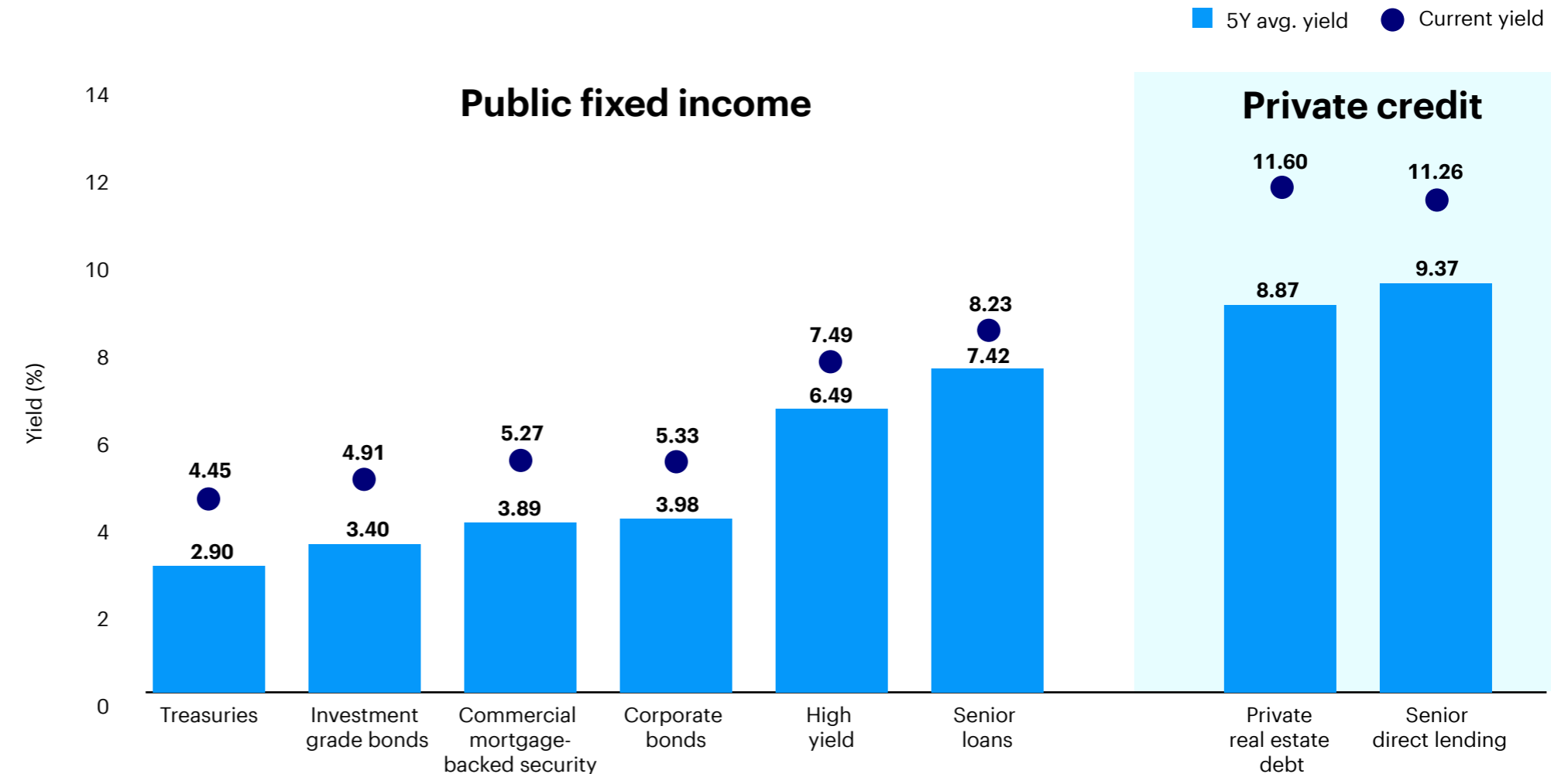
Proof points

- Yields have been generally higher in private credit markets than in public fixed income markets historically, likely because the investments are illiquid and the deals are highly customized.
- Private real estate debt has been another example of the higher yield potential found in private credit markets relative to the public fixed income markets. In this case, the cash flows are secured by the asset value of the property.



Private credit assets have provided a higher yield than public fixed income

Current and 5-year average yield (%) of public and private investments



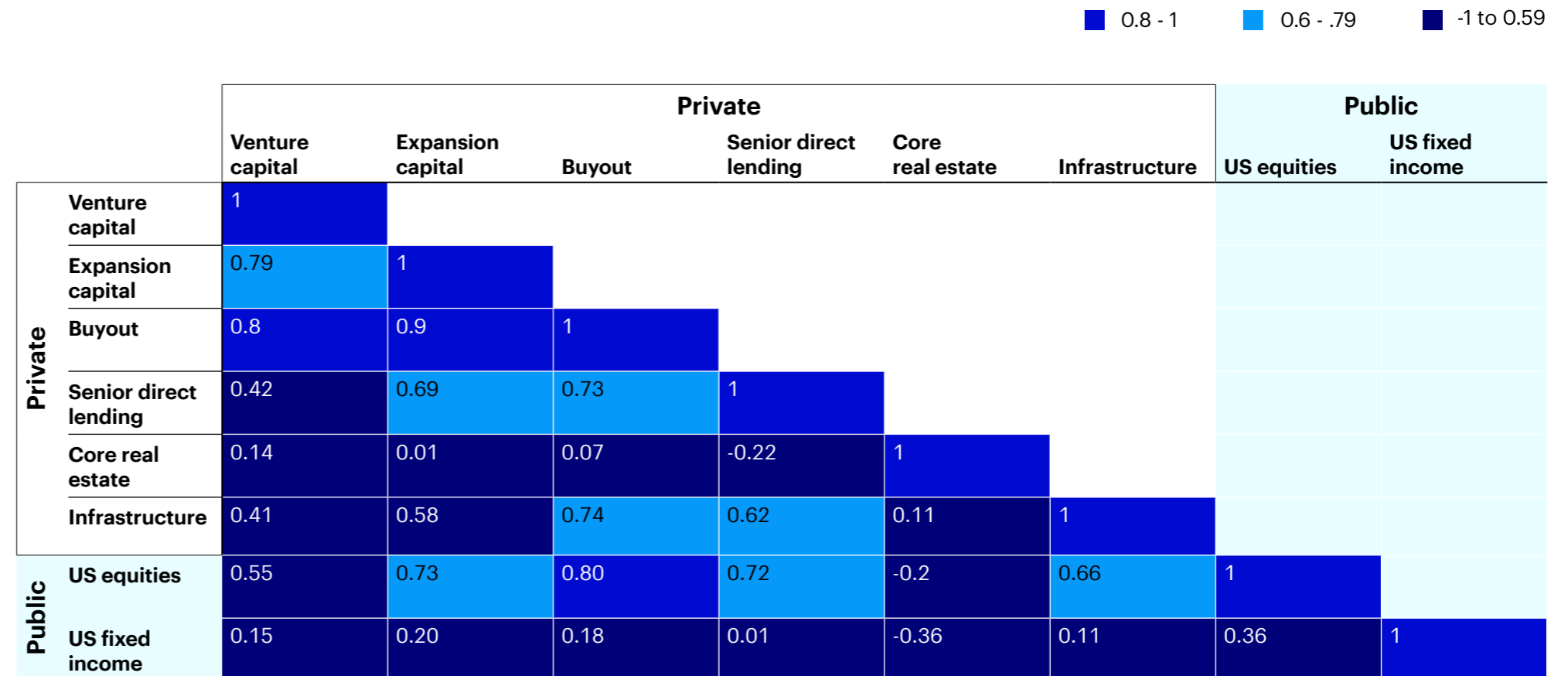
Sources: Invesco Real Estate as of Dec. 31, 2024, using yield to worst data (unless otherwise specified) from the Private real estate debt - Gilberto-Levy 2 Commercial Mortgage Index (yield to maturity), Senior Direct Lending - Cliffwater Senior Direct Lending Index (current yield), Investment Grade (IG) Bonds - Bloomberg US Aggregate Bond Index, High Yield - Bloomberg US Corporate High Yield Index, Senior Loans - S&P/LSTA Leverage Total Return Index, Treasuries - Bloomberg US Treasury Total Return Unhedged Index, Corporate Bonds - Bloomberg US Corporate Total Return Value Unhedged USD Index, CMBS - Bloomberg CMBS IG Total Return Index Value. Past performance is not indicative of future results. An investment cannot be made in to an index. Current yield is the annual income from an investment relative to its current market price. It's a percentage that's used to compare investments and determine a bond's immediate value.

Proof points

- Diversification can be measured by correlation, which is how much assets move together. Correlation between assets ranges from 1 (perfectly aligned) to -1 (completely independent).
- Some private assets have had low correlations to both public markets or other private assets, making them useful for diversification. For example, core real estate has a -0.2 correlation to US equities and senior direct lending has a near 0 correlation to US fixed income.

Most private assets have had low correlations to public markets, providing diversification benefits

Historically, private market strategies have provided diversification benefits



Infrastructure is represented by the the Burgiss MSCI Time-Weighted Global Infrastructure Funds Index

Source: Burgiss. Data utilizes quarterly return time series from Dec. 31, 2015 – Dec. 31, 2023. Dec. 31, 2015 represents the common inception date across indexes. All private asset class data aside from Senior Direct Lending and Core Real Estate are from Burgiss, and the asset classes shown are defined by the Burgiss Universe. Venture Capital is represented by the Burgiss MSCI Time-Weighted Global Venture Capital Index; Expansion Capital is represented by the Burgiss MSCI Time-Weighted Global Expansion Capital Index; Buyout is represented by the Burgiss MSCI Time-Weighted Global Private Equity Buyout Index. Senior Direct Lending is represented by the Cliffwater Direct Lending Index: Senior-Only (CDLI-S). Core Real Estate is represented by the NCREIF Property Index. Public index data is sourced from Bloomberg, L.P. US equities represented by the Russell 3000 Index. US fixed income represented by the Bloomberg US Aggregate Bond Index. An investment cannot be made directly into an index. Diversification does not guarantee a profit or eliminate the risk of loss.

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About risk

Alternative investment products, including hedge funds and private equity, involve a high degree of risk, often engage in leveraging and other speculative investment practices that may increase the risk of investment loss, can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, may involve complex tax structures and delays in distributing important tax information, are not subject to the same regulatory requirements as mutual funds, often charge high fees which may offset any trading profits, and in many cases the underlying investments are not transparent and are known only to the investment manager. There is often no secondary market for hedge funds and private equity, and none is expected to develop. There may be restrictions on transferring interests in such investments.

Investing in commercial real estate assets involves certain risks, including but not limited to: tenants' inability to pay rent; increases in interest rates and lack of availability of financing; tenant turnover and vacancies; and changes in supply of or demand for similar property types in a given market.

Most senior loans are made to corporations with below investment-grade credit ratings and are subject to significant credit, valuation and liquidity risk. The value of the collateral securing a loan may not be sufficient to cover the amount owed, be found invalid or used to pay other outstanding obligations. The loan's collateral may be difficult to liquidate, or a majority of the collateral may be illiquid.

Fixed-income investments are subject to credit risk of the issuer and the effects of changing interest rates. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa. An issuer may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating. Junk bonds involve a greater risk of default or price changes due to changes in the issuer's credit quality. The values of junk bonds fluctuate more than those of high quality bonds and can decline significantly over short time periods.

Important information

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

Yield to worst (YTW) is a calculation that estimates the lowest possible return on a bond. It's a key metric for investors to assess risk and ensure they'll meet their income goals.

Yield to maturity (YTM) is the expected return on a bond if held until it matures. It's a key metric for bond investors to assess the profitability of a bond.

The compound annual growth rate is the rate of return that an investment would need to have every year in order to grow from its beginning balance to its ending balance, over a given time interval.

Current yield is the annual income from an investment relative to its current market price. It's a percentage that's used to compare investments and determine a bond's immediate value.

The **Cliffwater Direct Lending Index** was created to measure private loan performance and better understand its investment characteristics. The **Bloomberg US Corporate High Yield Index** measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. The **S&P/LSTA Leveraged Loan Index** is a weekly total return index that tracks the current outstanding balance and spread over LIBOR for fully funded term loans. The **Bloomberg U.S. Treasury Total Return Unhedged Index** is a financial index that tracks the performance of US Treasury debt. The **Bloomberg US Corporate Total Return Value Index** measures the investment grade, fixed-rate, taxable corporate bond market with 1-3 year maturities. It includes USD denominated securities publicly issued by US and non-US industrial, utility, and financial issuers. The **Bloomberg US Commercial Mortgage-Backed Securities (CMBS) Investment Grade (IG) Index** measures the performance of investment grade commercial mortgage-backed securities (CMBS). The **NCREIF Property Index** is a quarterly index that tracks the performance of core institutional property markets in the US. The **Russell 3000® Index** is an unmanaged index considered representative of the US stock market. The Russell 3000 Index is a trademark/service mark of the Frank Russell Co. Russell® is a trademark of the Frank Russell Co. The **Bloomberg US Aggregate Bond Index** is an unmanaged index considered representative of the US investment-grade, fixed-rate bond market. **MSCI Burgiss Time-Weighted Global Private Equity Buyout Index** is based on data compiled from historical performance records of various Global Buyout funds tracked via Burgiss since 1980. **MSCI Burgiss Time-Weighted Global Expansion Capital Index** is based on data compiled from historical performance records of various Global Expansion Capital funds tracked via Burgiss since 1980. **MSCI Burgiss Time-Weighted Global Venture Capital Index** is based on data compiled from historical performance records of various Global Venture Capital funds tracked via Burgiss since 1980. The **Credit Suisse Leveraged Loan Index** represents tradable, senior-secured, US-dollar-denominated, noninvestment-grade loans. The **MSCI ACWI ex USA net TR Index** captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets (EM) countries. **Giliberto-Levy 2 High-Yield Commercial Mortgage Index** is the first and only third-party measure to monitor high-yield commercial mortgage debt performance for high-yield loans, such as mezzanine loans, preferred equity and "B" notes. The **MSCI Burgiss Time-Weighted Global Infrastructure Funds Index** is based on data compiled from historical performance records of various Global Infrastructure funds tracked via Burgiss since 1980.