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From the Desk of the CIO

Private Markets as an Opportunity to Build Portfolio Resilience

Obsiido Alternative Investments Inc. (“**Obsiido**”) is a Toronto based investment platform specializing in providing Canadian wealth advisors and their clients with private markets investment solutions through pooled vehicles, custom solutions and separate accounts.

Amidst the ongoing market volatility and sharp sell-off in public equity markets in reaction to the Trump Administration’s Liberation Day Tariffs, any portfolio that wasn’t appropriately diversified across multiple asset classes is likely experiencing significant declines in value.

Portfolio resiliency, and the role that different asset classes and investment strategies can play in an overall portfolio, has once again come into sharp focus. When added to a traditional portfolio of public equities and bonds, a well constructed portfolio of private market investments may offer considerable diversification benefits, particularly during periods of heightened market stress and uncertainty, such as the environment we find ourselves navigating today.

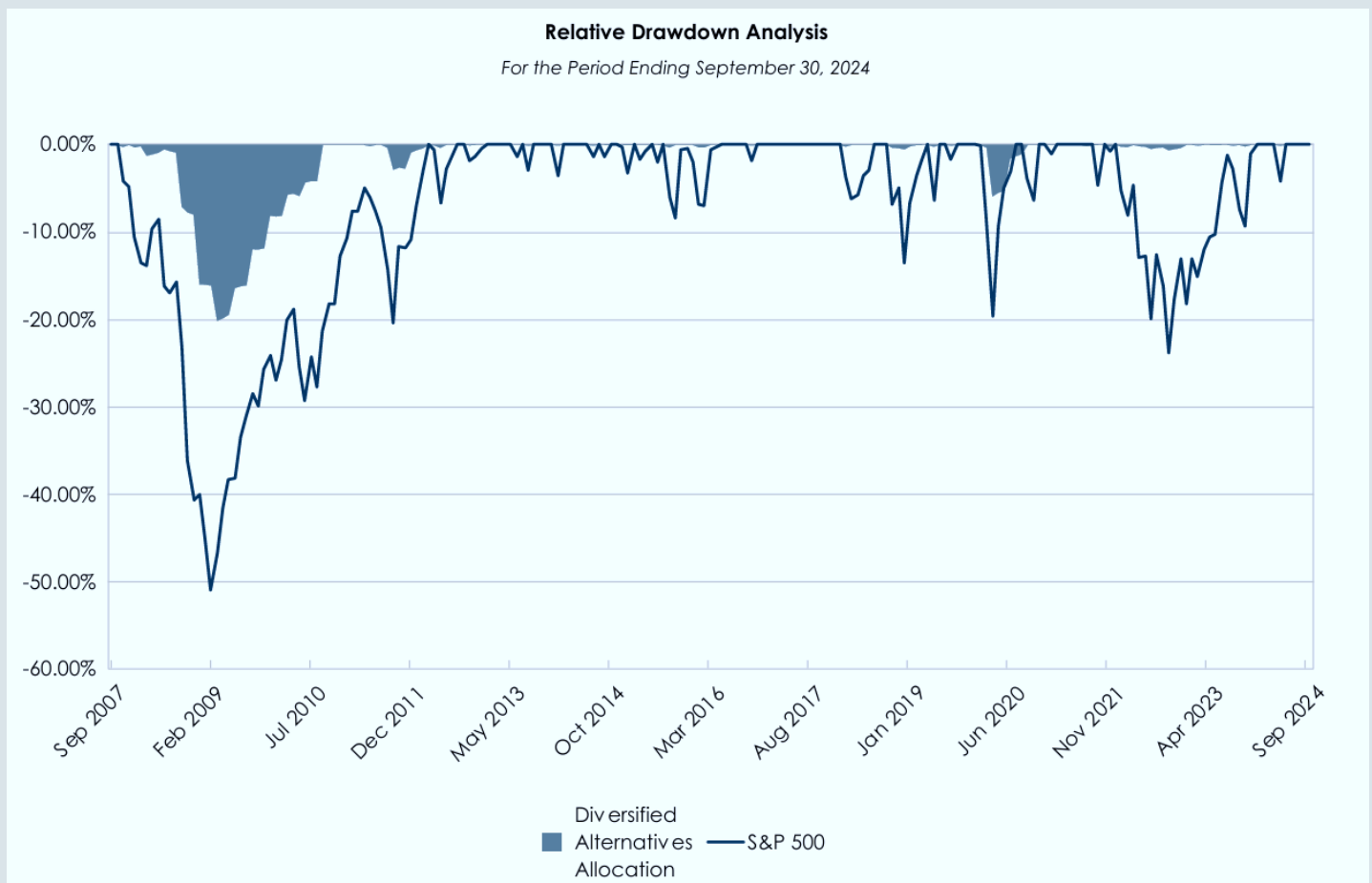
In times of market stress, public markets tend to experience immediate and sharp price movements driven by changing investor sentiment, macroeconomic uncertainty, and rapidly declining liquidity. Private markets, in contrast, are priced according to company fundamentals and not shorter-term investor sentiment and market emotion. As Benjamin Graham famously said, “In the short run, the market is a voting machine but in the long run, it is a weighing machine.”

Additionally, unlike traditional equity and bond investments, private asset classes such as private equity, private debt and real assets, are not priced in real time. They are typically valued on a monthly or quarterly basis by the manager. This has the effect of smoothing or dampening their volatility over time, which can help to insulate the investor from the distractions caused by public market volatility.

A Review of Market Drawdowns

The chart below shows peak to trough drawdowns of the S&P 500 relative to a hypothetical diversified private markets portfolio called the, Diversified Alternatives Allocation or DAA model,¹ for the 17-year period October 1, 2007, to September 30, 2024. The hypothetical DAA model includes allocations to private equity (30%), private debt (30%), real assets (10% infrastructure, 10% real estate, 10% farmland) and 10% hedge funds.²

This period includes the Global Financial Crisis (GFC), one of the most stressful periods in the history of financial markets. Over this period, including through the GFC, the S&P 500 suffered multiple corrections of more than 20%, including in March 2020 due to Covid-19, and the market sell-off in 2022 in reaction to rapidly rising interest rates.



1 The analysis is a hypothetical back-test using mixes that are not investable and is for illustrative purposes only. Past performance is not indicative of future returns. No representation is being made that any investment will or is likely to achieve profits or losses similar to those achieved in the past, or that significant losses will be avoided. The information does not constitute, and should not be construed as, investment advice or legal, accounting, financial or tax advice, nor is it tailored to the circumstances and needs of each prospective investor.

2 The DAA consists of 30% Pitchbook Private Equity, 30% Pitchbook Private Debt, 10% Pitchbook Real Assets - Infrastructure, 10% NFI ODCE, 10% NCREIF Farmland Property, 10% HFRI Fund Weighted Composite. The underlying positions in the private market indices are primarily closed-end fund investment vehicles held by institutional investors. The Pitchbook Private Equity and the Pitchbook Private Debt indexes are constructed using aggregate cash flow and net asset value based quarterly returns of private equity and private debt funds that report performance into the Pitchbook database. The NFI ODCE Net is a capitalization-weighted, net of fee, time-weighted return index of open-end commingled funds pursuing a core investment strategy operating within the United States. The Pitchbook Real Assets - Infrastructure is constructed using aggregate cash flow and net asset value based quarterly returns of infrastructure, oil and gas, timber, natural resources, metals & mining and agriculture funds that report performance into the Pitchbook database. The NCREIF Farmland Property Index is a quarterly time series composite return of investment performance of a large pool of individual privately held farmland properties. The HFRI Fund Weighted Composite is a global, equal-weighted index of single-manager funds that report to the HFR Database. The S&P 500 Index is a broadly quoted index representing the 500 largest publicly listed companies in the United States. S&P 500 drawdowns use monthly return observations whereas DAA uses quarterly observations as they are the most frequent available for the underlying indexes.

During the GFC, the S&P 500 suffered a maximum drawdown of over 50%. While certainly not immune to the severity of that crisis, the DAA model suffered a significantly lower drawdown of 20%. During the Covid-19 induced sell-off in March 2020, the S&P 500 suffered a drawdown of 20%, while the DAA model declined only 5%. And more recently in the 2022 market correction following aggressive interest rate hikes, the S&P 500 declined over 20%, while the DAA model barely declined in value.

The relatively more muted drawdowns experienced by the hypothetical DAA model could be attributed to the defensive characteristics of certain underlying asset classes that, when combined in the model, produced a compelling risk/return profile.

In private credit, return of capital, interest payments and other forms of return are bound by a legally binding contractual obligation. A well-diversified private credit portfolio focused on top of the capital structure investments in profitable middle-market companies will continue to pay attractive cash flow yields to investors, even during periods of market stress.

Real assets, such as core real estate, infrastructure and farmland, are tangible assets that play essential roles in daily economic activity. They provide significant linkage to inflation due to the nature of the underlying investments. Their unifying characteristic is that investors have access to defensible earnings streams, which often have an inflation-linked component, and/or storage of value via a direct connection to a physical asset. Private infrastructure, for example, given the essential nature of infrastructure assets and the durability of their underlying cash flows, has proven to be a particularly resilient asset class in times of economic stress.

Conclusion

While it is unclear how long the current tariff uncertainty will last, and how much further the public equity markets might correct, history has shown that, notwithstanding their differing liquidity attributes, a well-diversified private markets portfolio has been resilient in periods of market distress. Private market investments might offer the potential to provide an important ballast in a well-structured investment portfolio, that includes allocations to traditional equity and fixed income holdings to help manage volatility and enhance diversification.

Disclaimers

All information herein is as of April 7th, 2025 unless otherwise indicated.

The scenario analysis and hypothetical returns contained in this paper are based on back tested data and assumptions that may not accurately reflect future market conditions. Investors should consider these figures illustrative rather than predictive. Investors should be aware that private market investments are generally illiquid, meaning they may not be easily sold or valued in volatile markets.

Investments in private markets are generally less liquid than publicly traded securities. These investments may be subject to restrictions on transfer and limited redemption opportunities, and investors may not be able to access their capital when desired. As a result, private market investments are best suited for investors with a long-term time horizon who are comfortable with reduced liquidity and the associated risks. Investors should carefully review offering documents and consult with their financial advisor to ensure such investments align with their objectives, liquidity needs, and risk tolerance.

All investing, including the alternative asset classes discussed in this publication, involves risk. The risk and return profile for each asset class can vary. Investors should consult their investment advisor, tax, legal, accounting, or other advisors about such information before making any investment decisions.

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