

EXPLORING OPPORTUNITIES IN PRIVATE MARKETS

The Adviser's Guide to Investing in Alternatives

Contributing Authors

**Andrew Jennings, managing director, infrastructure**

KKR

Andrew joined KKR in 2020 and is a member of the Asia Pacific Infrastructure team. He is responsible for infrastructure investments in Australia and New Zealand, and serves on the Board of Directors of Spark Infrastructure and Ritchies Transport.

Prior to joining KKR, Andrew was a sector lead for the energy and utilities team within QIC's global infrastructure business. He has led transactions across various sectors including renewable energy, regulated utilities and transport.

**Nehemiah Richardson, managing director and chief executive officer**

Pengana Credit

Nehemiah has over 20 years of financial services experience at leading international and Australian institutions including Credit Suisse, JPMorgan, Merrill Lynch (now BofA), National Australia Bank and Latitude Financial Services.

Nehemiah has advised large financial institutions and corporations on significant M&A and financing transactions. He has led teams that have delivered transformative improvements in strategic direction, reputation, risk management, financial performance and culture.

**Claire Smith, head of business development, private markets**

Schroders

Based in Sydney, Claire is responsible for working with clients to determine how private markets may help them meet their investment goals. She originally joined Schroders in 2017 as an investment director for the infrastructure financing business, based in London. Claire has over 20 years' experience in financial markets and holds a Bachelor of Economics from Macquarie University.

**Matt Walsh, general manager, distribution**

Praemium

With over 20 years of experience in wealth management, Matt is dedicated to helping high-net-worth and ultra-high-net-worth advisers achieve business success.

His background includes experience with UK Hedge Fund GLG Partners and senior wealth management roles at Bell Potter and JBWere in Australia.

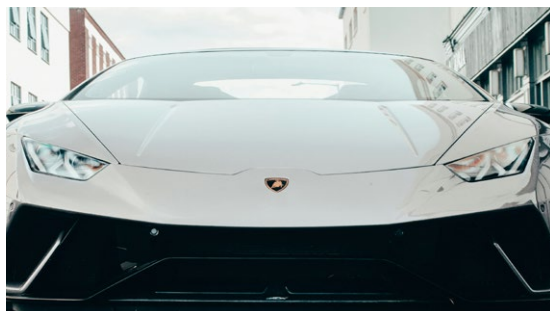
At Praemium, Matt is focused on equipping advisers with the tools and strategies to run efficient, scalable, and profitable businesses, leveraging technology for maximum impact.

**Chris Dastoor, editor**

Professional Planner

Chris is an experienced Sydney-based financial services journalist with a background in advice, superannuation, investment and risk insurance issues.

Contents



01

Introduction

p. 4

A poll of investment professionals conducted at the recent *Professional Planner* Researcher Forum found that 60 per cent intend to increase their allocation to alternatives over the next five years.

Our poll also found that the most popular alternative assets among advisers and their clients are private credit, infrastructure, and private equity. This guide explores their role in a diversified portfolio.

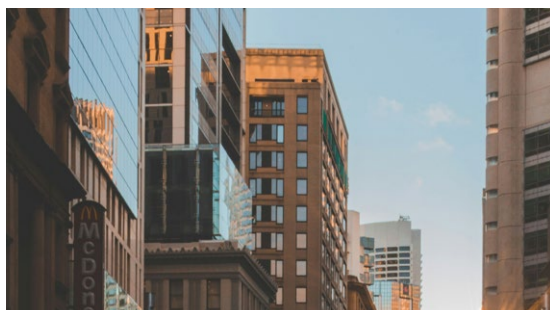


02

Alternative alpha: How the wealthy invest

p. 6

The rapid growth and increasing popularity of alternative investments, particularly among high-net-worth investors, highlights how crucial they have become as a component of modern portfolio construction, writes Praemium's Matt Walsh.



03

Buy small, sell big: Why PE investors are going downtown for deals

p. 9

Size is not an indication of performance but, all things being equal, funds that buy small to mid-cap private companies statistically outperform their large cap counterparts because they benefit from factors including a greater number of opportunities, lower entry multiples and a longer runway for growth, writes Schroder's Claire Smith.



04

Structural trends underpin private credit's long-term appeal

p. 13

Private credit managers play a crucial role in the financial services ecosystem, supplying finance to parts of the market that the banks don't have the risk appetite to participate in.

As banks continue their mid-market retreat and more people approach and enter retirement, supply and demand for global private credit is set to increase, writes Pengana's Nehemiah Richardson.



05

Private infrastructure: An asset class for all economic conditions

p. 16

The definition of infrastructure has broadened significantly in the past 10–15 years, giving investors exposure to a larger set of themes and opportunities, greater diversification, and potentially higher risk-adjusted returns, writes KKR's Andrew Jennings.



INTRODUCTION

Champagne, Couture and Alternative Investments

The number of high-net-worth investors and their level of wealth is unprecedented. This has led to higher demand for alternative investments.

AS PEOPLE GET richer, their tastes and preferences often change. From food to fashion, everything gets dialled up and the same goes for investments. This proclivity has implications for financial advisers. As clients get richer, their needs and expectations evolve, and advice must evolve too.

According to the 2024 UBS Global Wealth Report, the average wealth of Australian adults jumped 10 per cent in 2023.

The 2024 Capgemini World Wealth Report also found the number of Australian high-net-worth individuals (HNWIs), defined as people with investable assets of \$1 million to \$30 million, increased 7.8 per cent in 2023.

Australia is not unique. Globally, the number of HNWIs and their level of wealth is unprecedented, according to Capgemini. This has led to higher demand for non-traditional investments.

Alternative investments include all the privates: private equity, private infrastructure and private credit, plus hedge funds, commodities, digital assets, art and collectables.

Basically, anything outside of stocks, bonds and cash. According to PwC, alternative asset classes are set to hit \$21.1 trillion in 2025 and account for more than 15 per cent of global assets under management.

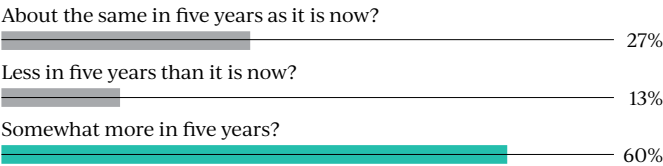
Institutional money accounts for the bulk but wholesale support is also strong.

In 2023, HNWIs increased their exposure to alternative assets to 15 per cent from 13 per cent, based on research by Capgemini.

Locally, 62 per cent of advisers dealing with HNWIs recommend alternative investments, according to research by CoreData, commissioned by Praemium.

Furthermore, a poll of asset consultants and professional investors conducted at the Professional Planner Researcher Forum in December 2024 found that 60 per cent intend to increase their allocation to alternatives and private assets over the next five years.

Will the use of private assets and alternatives among the advisers you support be



The poll also found that the most popular alternative assets among advisers and their clients are private credit, infrastructure and private equity.

Which alternative strategies are advisers and their clients showing most interest in? (multiple choices permitted)



This paper examines the case for alternative investments. It also explores the factors driving demand among wholesale investors, including a broader range of investment options and better platform implementation and reporting.

“
As clients get richer, their needs and expectations evolve.”

DEMAND DRIVERS

A number of important themes underpin long-term demand for alternatives, including:

- HNWIs seeking strong diversified risk-adjusted returns, against the backdrop of rising inflation, heightened stock market volatility, and a subdued outlook for some traditional asset classes.
- Slowdown in public listings in Australia and the US.
- Greater understanding of the range of alternative strategies available, with more financial advisers actively educating and engaging clients.
- Greater accessibility due to an increasing number of opportunities under the alternatives banner and the ability to manage non-custodial assets on platform.
- Advancements leading to opportunities in areas like digitalisation, decarbonisation and deconsolidation.

For financial advisers who specialise (or hope to specialise) in advising clients with sizeable assets, including HNWIs and family offices, it is crucial to understand their attitudes, behaviours and expectations in order to achieve their goals.

While all clients are different and have their own distinct personality, needs and goals, there are characteristics that many HNWIs share in common including higher levels of financial literacy and the tendency to be more adventurous than mass affluent investors.

But the sector is fraught with risks as well. Koda Capital chief investment officer Norman Zhang told the Researcher Forum there is a risk of “compounding negative returns at double digits per annum” if the wrong investment decisions are made in the sector.

Furthermore, ASIC has put private markets under its enforcement spotlight as the regulator looks to improve oversight of a sector that sceptics feel lacks transparency which could risk consumer harm as it continues to expand into the retail and wholesale markets.

Professional Planner has partnered with KKR, Pengana, Praemium and Schroders to put together this guide to alternative investing.

We hope that by reading this guide, you will have a deeper understanding of alternative asset classes, what’s underpinning long-term demand for alternative investments, and their role in a diversified portfolio. PP



CHRIS DASTOOR
Editor, Professional Planner

Brought to you by



Alternative Alpha: How The Wealthy Invest

The rapid growth and increasing popularity of alternative investments, particularly among high-net-worth investors, highlights how crucial the asset class has become as a component of modern portfolio construction. As traditional market dynamics evolve and the number of listed companies continues to decline, both investors and advisers are increasingly turning to alternatives to achieve their investment objectives, writes Matt Walsh, general manager, distribution, Praemium.

Key Findings

- High-net-worth investors are helping drive the rapid growth in alternatives.
- Advice on alternatives, as part of a wealth management proposition, can be an effective strategy for attracting and retaining sophisticated, higher value clients.
- Increased investment options and enhanced technology enable advisers to provide their clients with access to a broad choice of alternatives in a variety of structures including both on-platform and off-platform.

IN THE FIERCELY competitive world of wealth management, standing out from the crowd can be a challenge. Many wealth managers, family offices and private banks are vying for the same high-net-worth (HNW) clients, who typically have demanding expectations around personalised service, expertise, and investment returns. For forward-thinking advisers, building a sophisticated advice proposition that includes alternative investments can provide a compelling point of difference.

By incorporating alternatives into their service offering, advisers can build a comprehensive wealth management proposition that appeals to sophisticated, higher-value clients seeking specialised expertise and access to unique investment opportunities.

THE RISING TIDE OF ALTERNATIVE ASSETS

The alternative investment sector is experiencing remarkable growth, with PwC projecting global alternative assets will reach \$21.1 trillion this year, representing over 15 per cent of global assets under management.

According to private markets data provider Preqin, the Australian market achieved a milestone by hitting \$1.2 trillion in 2022, mostly driven by strong investment flows into data centres, life sciences, infrastructure, and agribusiness.

Private markets have become increasingly important as the number of publicly listed companies decline. While particularly true in the US, which has seen a 50 per cent decrease over the last 30 years, this trend is now visible in Australia with the ASX experiencing its first contraction in 20 years, as companies increasingly opt to remain private for longer.

Companies now typically wait 10 to 15 years before considering an IPO, compared to three to five years in the past. This means much of their value creation occurs while private, fundamentally changing how investors approach growth investing. Advisers and investors wanting to tap into this value creation phase will increasingly need to invest through private markets to capture growth opportunities.

HNW investors are helping to drive the increase in alternative asset allocation.

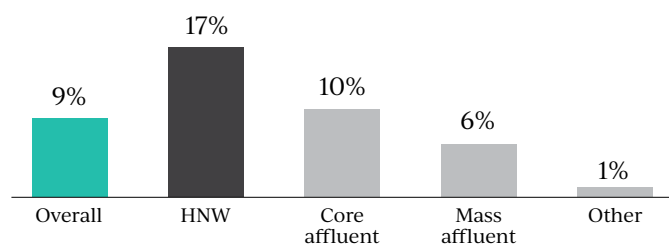
Our research with CoreData reveals that HNW investors typically allocate 17 per cent of their portfolios to alternatives; nearly double the 9 per cent allocation for average investors. The commitment to alternatives increases even further for ultra-high-net-worth investors, who are dedicating up to 20 per cent of their portfolios to these investments.

The research highlights a significant shift in HNW investor behaviour, with alternative investments playing an increasingly vital role in portfolio construction. This trend is particularly noteworthy given almost 70 per cent of HNW investors consider alternatives "essential" for future alpha generation.

“

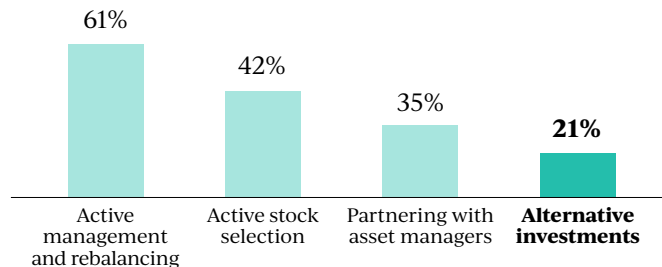
As the alternative investment sector continues its growth trajectory, advisers who can effectively incorporate these assets into their service offering will be well-positioned to attract and retain high-value clients.

Investor segments holding alternatives



Source: CoreData Investor Research 2023

Top four strategies for generating alpha



THE ALTERNATIVE ROUTE TO ALPHA

The shift toward alternatives isn't merely about diversification, it's about capturing new and unique opportunities for alpha generation. Praemium's research indicates that over 20 per cent of advisers identify alternative investments as a crucial strategy for generating excess returns, particularly in an environment where traditional market opportunities may be limited.

The research reveals clear preferences among HNW investors for the specific alternative vehicles below:

- Private infrastructure investments
- Private equity opportunities
- Private credit

Notably, 57 per cent of HNW investors prioritise direct investments in private companies. This preference aligns with their background, as many HNW investors have built their wealth through private business ownership, making them

naturally more comfortable with private market investments.

However, not all HNW investors are created equal. While there are common attributes, such as higher levels of financial literacy and a greater capacity for risk, some HNW investors are more adventurous than others.

This is reflected in the portfolios of those HNW investors who invest in alternatives compared to those who don't.

Both groups allocate a high percentage to Australian equities, but those who invest in alternatives have a greater allocation to real estate, cryptocurrency, and commodities.

Almost 30 per cent of HNW investors who invest in alternatives describe their investment approach as "aggressive", compared to 19 per cent of HNW investors who don't. This highlights a key difference in their appetite for risk and the need for advisers to tailor portfolios that align with the individual preferences, risk profiles and goals of their clients.

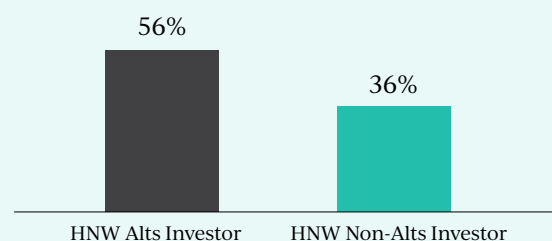
A NEW ENGAGEMENT STRATEGY

The investment case for alternatives is clear, but there's also a compelling business case. The growing appetite for alternatives presents a significant opportunity for financial advisers to enhance their value proposition.

Our research shows that 56 per cent of HNW investors who invest in alternatives maintain an ongoing relationship with their financial advisers, compared to just 36 per cent of those who don't invest in alternatives.

The research also reveals a striking engagement differential. Over 60 per cent of HNW investors who invest in alternatives describe themselves as "highly engaged" with their investments, versus 37 per cent of those who stick to traditional asset classes.

Clients who have an ongoing relationship with a financial adviser



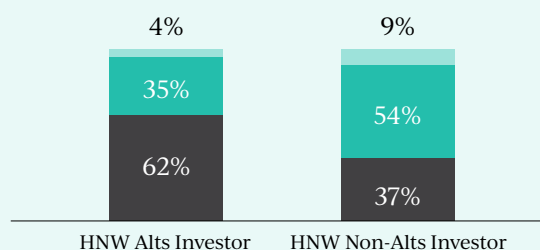
Source: CoreData Investor Research 2023

This heightened engagement stems from several factors:

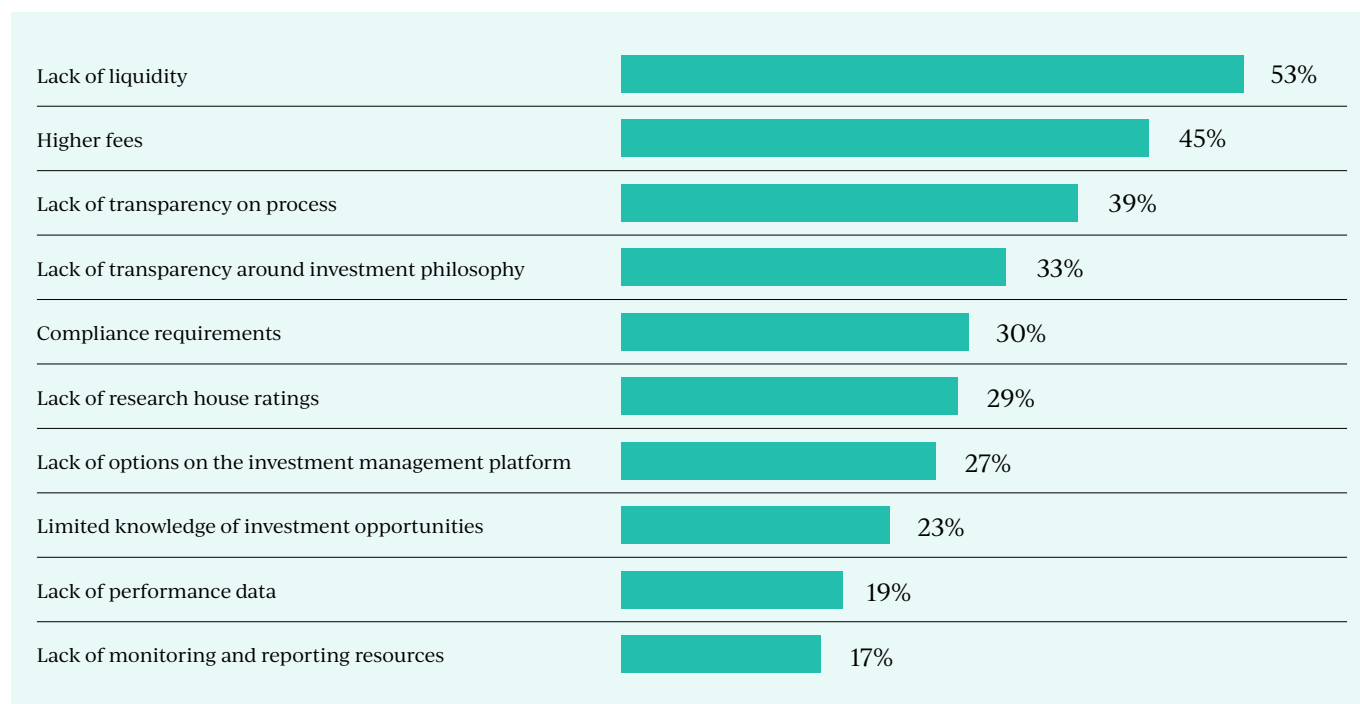
1. Access to a broader spectrum of investment opportunities;
2. The complexity of alternative investment strategies requiring deeper understanding of market dynamics, asset classes and portfolio construction; and
3. Greater collaboration opportunities between adviser and client in shaping investment strategies which foster a sense of empowerment and satisfaction.

The research also shows that 62 per cent of financial advisers who frequently work with HNW investors have recommended alternatives in the past 12 months, indicating growing adviser recognition of their importance in portfolio construction. It's also an acknowledgment by advisers of the importance this investor segment places on the inclusion of alternatives in their wealth management strategy.

Level of engagement in investing activities



Highly Reasonably Minimally

Top 10 challenges/barriers to recommending alternative investments**REMOVING BARRIERS**

When it comes to investing in alternatives, there are still some perceived challenges that must be addressed before advisers can fully embrace the opportunity.

Our research shows that the top three barriers preventing advisers from using more alternatives are liquidity, fees, and lack of transparency.

While over 25 per cent of advisers report difficulties accessing alternatives through existing platforms, these challenges are increasingly being addressed through modern platform solutions. The right platform partner can provide:

- Access to a broad range of alternative investments in varying structures;
- Support for both custodial and non-custodial asset holdings;
- Total wealth reporting and administration capabilities; and
- Efficient trading execution.

Modern platforms now offer alternatives ranging from traditional managed funds with daily liquidity to specialised alternative strategies, such as illiquid, semi-liquid or evergreen fund options, making the asset class more accessible than ever before. The research indicates that 29 per cent of advised HNW investors already invest in non-custodial assets, including illiquid alternatives.

Illiquid alternatives often have more complexity in their structure than semi-liquid or evergreen funds, including higher upfront and capital call commitments, where the timeframe and capital amount to be called in the future is unknown. This complexity means the structure of these funds may need to be held directly with the fund manager, so advisers wanting to deal in these strategies will need a platform provider with the flexibility to provide strong non-custodial capabilities, and a reporting solution that can consolidate all assets regardless of their custodial structures.

LOOKING AHEAD

As the alternative investment sector continues its growth trajectory, advisers who can effectively incorporate these assets into their service offering will be well-positioned to attract and retain high-value clients. The key to success lies in selecting the right platform partner and developing a clear strategy for integrating alternatives into the advice proposition.

To achieve this, advisers should focus on:

- Understanding their target client segment and its specific needs and risk appetite;
- Developing expertise in specific alternative asset classes;
- Ensuring their chosen platform can support their alternative investment strategy; and
- Building robust processes for due diligence and ongoing monitoring.

With the right approach and support infrastructure, alternatives can become a powerful differentiator in an adviser's service offering, leading to deeper client relationships and business growth. The research clearly shows that advisers who embrace alternatives are better positioned to serve the sophisticated needs of HNW investors while building more engaged and lasting relationships. **PP**

**MATT WALSH**

General Manager, Distribution,
Praemium

Brought to you by

Schroders

Buy Small, Sell Big: Why PE Investors Are Going Downtown For Deals

Private equity (PE) funds that focus on the small to mid-market have consistently outperformed their large cap peers, quashing the notion that the smaller end of the PE spectrum is a speculative and risky place to be, writes Claire Smith, head of business development, private markets, Schroders.

Key Findings

- Trampoline centres provide a welcome reprieve from Norway's freezing conditions.
- Private equity funds that focus on the small to mid-market have outperformed their large cap peers.
- The supply and demand imbalance in the private equity small to medium enterprise (SME) space is creating tailwinds for wholesale investors.
- Wholesale support for private equity is growing, particularly among families offices and high net worth investors.

NORWAY IS ONE of the most beautiful countries in the world. Known for its soaring mountains and vast wilderness it's the ideal playground for hikers, skiers and outdoor enthusiasts.

But Norway, particularly in the cooler months, can also be bitterly cold and wet. In winter, for example, temperatures hover around -10 degrees but frequently slip below -20 degrees, and the rain and snow can be relentless.

The days are shorter too and, at certain times of the year, there are only a few hours of sunlight, if the sun rises at all.

It's against that backdrop that indoor leisure company, Activeon (formerly Rush Group), has grown to become one of Europe's leading providers of indoor attractions and entertainment including 65 trampoline parks and 11 padel tennis centres.

Every year, millions of individuals, families, school groups and corporates throughout Europe and the Nordic region visit an Activeon centre seeking a warm, dry and safe place to exercise, connect and tire out their children.

Over the past five years, group revenues have increased by a factor of 13, which equates to a compound annual growth rate of 68 per cent, through both organic and M&A activity.

For Activeon shareholders, the business has been a consistent performer and, as an added bonus, acts as a hedge against the weather too.

It is just one of around 300 companies that investors in the Schroders Global Private Equity Fund have exposure to, and it is a great example of a successful mid-sized, founder-led business.

Since inception in 2015 until January 2025, the group's founder, John Nylen, ran the business, recently transitioning to the role of chief development Officer.

Founder-led and family-owned businesses are commonplace in private equity, particularly in the small to middle market, which consists of companies with an enterprise value of up to \$1 billion.

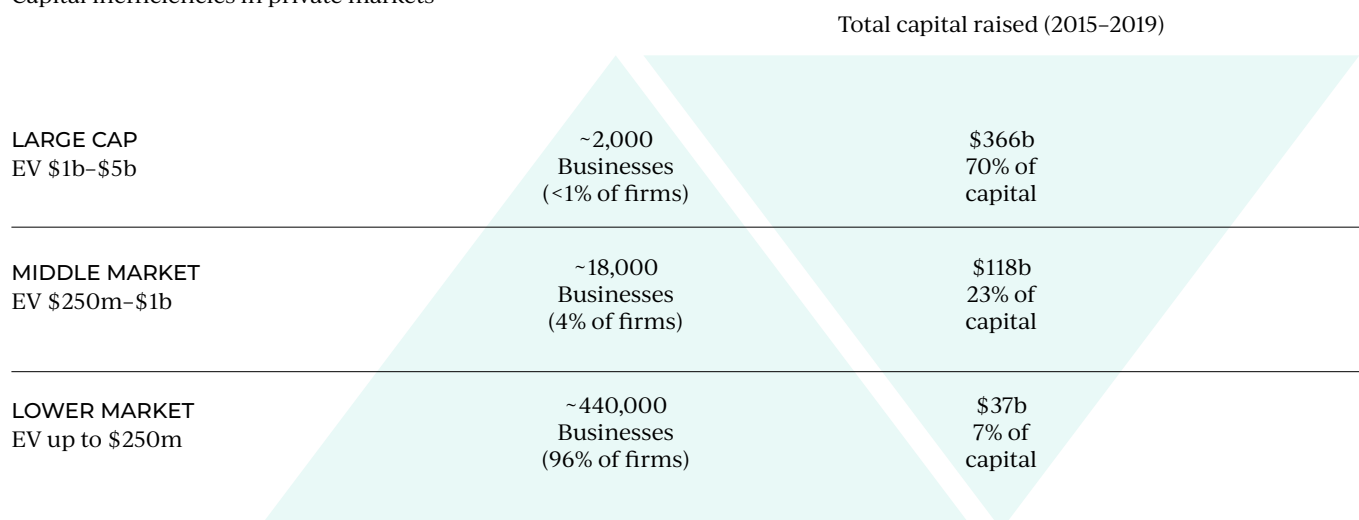
For the past 15–20 years, this space has been the sweet spot for private equity investors. On average, private equity funds that focus on the small to mid-market have outperformed their large cap peers, both on a net total value paid in basis, for vintages after 2005, and a net internal rate of return basis, for vintages after 2009.

Why private equity?

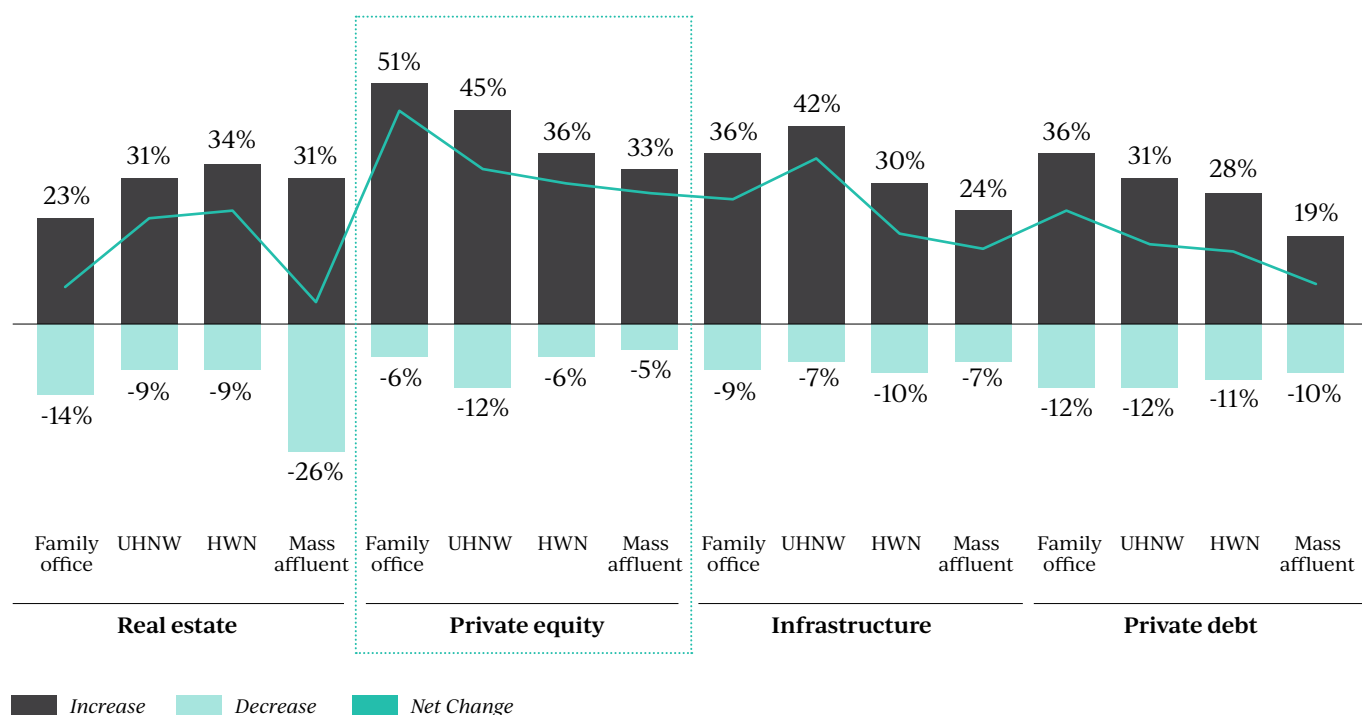
Private equity describes the universe of venture, growth, buyout, turnaround and mezzanine investments. Private equity managers provide equity capital to companies that are not listed on stock exchanges and that are seeking to actively build, grow, transform or innovate. Private equity can be used to develop new products and technologies, to expand working capital, to make acquisitions, or to strengthen a company's balance sheet. It can also resolve ownership and management issues, or succession in family-owned companies.

Deal size vs. opportunity

Capital inefficiencies in private markets¹



¹Source: National Center for Middle Markets. Burgiss, including all North American buyouts. Lower Middle Market is defined by funds whose sizes are between \$50m–\$500m. Middle Market is defined by funds whose sizes are between \$501m–\$2b. Large Cap is defined by funds whose sizes are greater than \$2b.

Anticipated asset allocation changes over the next 12–24 months

Source: Cerulli Associates Alternative Investments 2023

This quashes the misconception, in some corners, that the SME private equity market is a speculative and risky place to be, and that large companies outperform their SME counterparts.

In the SME segment of the market, attractive *buyout* opportunities abound.

As the name suggests, a buyout refers to the acquisition of a controlling interest in a company. The majority of buyouts involve mature, highly profitable businesses. Many are decades-old founder-led or family-owned businesses that need a succession solution and capital for growth. They are not start-ups or risky ventures.

Families offices and high net worth investors (HNWI) get it, evidenced by their strong and growing support for the asset class, and alternatives, in general.

When looking at the private equity segment of the private markets universe, on average 51 per cent of family offices plan on increasing their allocation to private equity, whereas only 6 per cent plan on reducing their allocation, according to a survey by Cerulli Associates. This effectively represents a net increase of 46 per cent across this cohort. Looking at ultra-high-net-worth, high-net-worth and the mass affluent, we can see increases of 33 per cent, 30 per cent and 28 per cent respectively.

For many HNWI and ultra-HNWI, the family business represents a significant chunk of their wealth, and the wealth of friends and colleagues. They have seen, first-hand, the many potential benefits of private investment, including superior returns to public equities, lower volatility, and diversification through exposure to a broader mix of sectors and industries, and companies at various stages of the business cycle.

Not surprisingly, family offices and HNWI are among private equities' biggest cheerleaders. Their long-term investment philosophy and approach, which often spans generations, is compatible with private assets.

DAVID BEATS GOLIATH

For Australian investors, the global private equity universe is exponentially broader and deeper than the domestic market. Wholesale investors also stand to benefit from changing supply and demand dynamics.

As a consequence of their enormous size, institutional investors like superannuation and pension funds need to allocate big chunks of money to asset classes in order for that allocation to have a material impact on overall portfolio performance.

This generally restricts them to the large and mega cap buyout space, which can more easily accommodate large licks of capital, although this too is proving increasingly difficult.

According to Preqin, fundraising among large cap funds increased 10.7x from 2010 to 2022 while deal flow only rose 3.6x. In other words, there was three times as much money as there were deals in the large cap space.

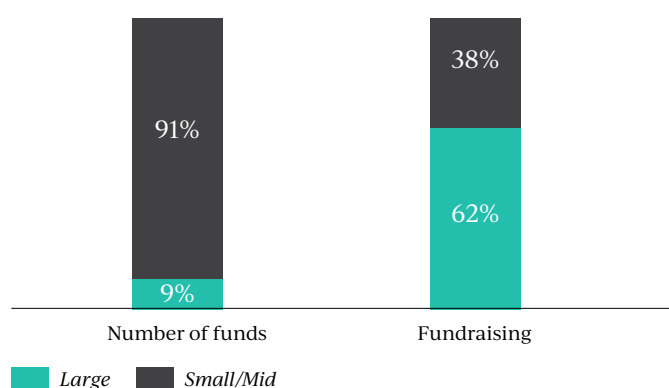
The result of this supply and demand imbalance is higher entry multiples for investors, adversely impacting overall growth multiples.

On the flipside, in the small and middle market, deal flow increased 4.2x from 2010 to 2022 while fundraising only rose 2.9x. This dynamic is creating tailwinds for private equity investors, enabling managers to buy small or mid-sized companies at lower entry multiples and sell them later, when they are larger.

While size is not an indication of performance, all things being equal, funds that buy small to mid-cap private companies statistically outperform their large cap managers because they benefit from factors including a greater number of opportunities, lower entry multiples and a longer runway for growth.

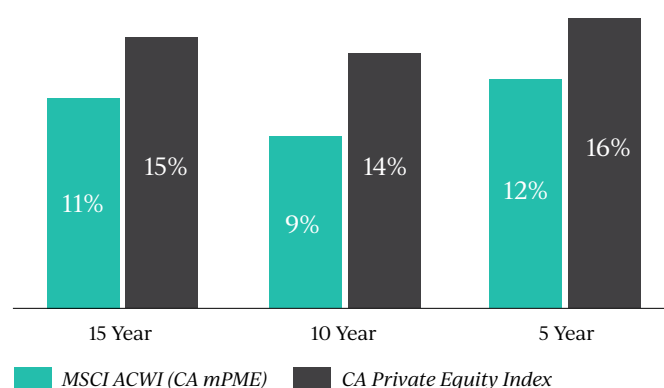


Private equity buyout fundraising 2010–2022



Source: Preqin, Schroders Capital, 2023. Fund size classification: Small: fund size below US\$500m; Medium: fund size between US\$500m and US\$2000m; Large: fund size above US\$2000m. Fund of funds and single asset funds excluded.

Private equity performance



Source: Cambridge Associates LLC, Schroders Capital, 2025.

STRUCTURAL CHANGES

To allow private equity investors to hold attractive assets for longer, new fund structures have emerged in recent years.

The most common are continuation funds, which offer a flexible alternative to traditional closed-ended funds.

Continuation funds enable investors to continue holding assets beyond the typical five-to-10-year term, where there is still significant upside to be had. Instead of selling assets to a third party, they can be rolled into a new fund.

A key attraction of continuation funds is that capital isn't locked up for lengthy periods because underlying companies are usually underwritten for a shorter term, say three years. As such, investors can potentially exit quicker.

Cynics argue that continuation funds only exist to allow private equity managers to *kick the can down the road* when they can't exit a company at an acceptable price at the end of term.

While investors definitely need to do their due diligence, savvy investors will require continuation fund managers to tip any existing exposure and all associated performance fees into the new vehicle, making it in their best interest to ultimately sell at a higher price than they could've achieved at the end of the initial term.

KEY RISK CONSIDERATIONS

The case for incorporating private equity into a diversified portfolio is generally well known and understood: the potential for upsized returns and the ability to diversify against market and cyclical risk.

However, there are risks to consider.

Like every company, private companies face a myriad of challenges and uncertainties.

In addition to investment risk, there's also interest rate risk, liquidity risk and valuation risk.

Investors should choose managers with the ability to not only identify attractive opportunities but also work with companies to drive performance and outcomes. They should have a proven track record of outperformance through market cycles. **PP**



CLAIRE SMITH

Head of Business Development,
Private Markets, Schroders

Brought to you by



Structural Trends Underpin Private Credit's Long-term Appeal

As US and European banks continue their retreat from mid-market corporate lending and more people approach and enter retirement, supply and demand for global private credit is set to increase significantly. This structural opportunity, alongside the growing acceptance and popularity of alternative assets among institutional and wholesale investors, underpins the long-term outlook for private credit, writes Nehemiah Richardson, managing director and CEO of Pengana Credit.

Key Findings

- The structural drivers behind growth in global private credit remain strong: US and European banks continue to withdraw from segments of the lending market due to regulatory capital constraints and risk appetite changes. This increases investment opportunities for ageing investors, particularly in developed countries, who require defensive assets that can provide a stable income.
- The global private credit opportunity set is significantly larger than what is available in Australia, providing critical scale and diversification benefits to meet investor requirements around income stability, capital preservation, risk/return and liquidity objectives.
- Multi-manager funds that invest in proven managers and strategies mitigate single, geographic, company, asset, fund and manager risk.

THE NOISE SURROUNDING private credit in Australia is loud but in other parts of the world, where markets are mature and exponentially bigger, the occasional bad debt barely rates a mention.

Like bank loan defaults, they are part and parcel of credit investing and their impact in a broadly diversified portfolio is generally immaterial, such is the size and scale of the global market with many established managers in this space.

In the past decade, global private credit assets under management have quadrupled to US\$2.1 trillion (\$3.4 trillion). North America accounts for 63 per cent of these assets and Europe accounts for 27 per cent.

Australia, with around \$40 billion in private debt outstanding, is only a fraction of the global opportunity set.

According to Statista, the value of outstanding debt securities from Australian corporates (including both public and private credit) totalled approximately US\$1.77 trillion at the start of 2024, compared to US\$33.6 trillion globally.

That's not to say that there aren't attractive opportunities here, only that the opportunity set is more limited given different structural dynamics in Australia.

The global opportunity set is exponentially greater, providing exposure to different sectors and themes, and

critically important scale and diversification benefits to meet investor requirements around income stability, capital preservation, risk/return and liquidity objectives.

Size aside, the structural dynamics that have underpinned the strong growth and performance of global private credit since the Global Financial Crisis are also very different to the factors at play locally.

This is reflected in the investment options available.

In Australia, 90 per cent of all credit is funded by the banks, either on a bilateral basis or through funding within non-bank securitisation vehicles. Consequently, Australian private credit is concentrated in the 10 per cent of the market that the banks don't touch, given their risk-return and regulatory capital requirements.

As a result, Australian private credit predominantly comprises of:

- Commercial property loans;
- Subordinated positions in asset-backed vehicles such as mortgages, small to medium enterprise (SME) lending and unsecured consumer finance; and
- Event-driven corporate credit including syndicated loans to finance large M&A transactions.

The limited size and depth of the Australian private credit market means there is limited scope for diversification, not only by number of underlying loans but across managers, strategies and industries. That said, private credit plays an important role in financing areas which are under served.

Performance is also closely correlated to the Australian economy.

Global private credit is a vastly different proposition.

In the US and Europe, which represent 90 per cent of the market, banks finance just 15 per cent of mid-market corporate loans due to regulatory capital constraints.

As a result, asset managers fund 85 per cent of credit. Asset backed finance represents another significant growth opportunity with the structural shift of homogeneous assets off bank balances sheets to the private credit sector only in its early stages.

This means there is an extremely broad and diverse range of private credit strategies available including direct lending, structured finance and credit opportunities.

Across the capital structure, there are also several risk-return options including senior secured, mezzanine, preferred and equity.

Importantly, there is a large number of asset managers, many of which have a long track record of performance through cycles.

Some managers have 300 companies in their portfolio. Others have over 1000. In structured finance it can be hundreds of thousands.

FUNDAMENTALS REMAIN STRONG

Private credit managers play a crucial role in the financial services ecosystem. They supply finance to parts of the market that the banks don't have the risk appetite to participate in and/or are too slow or inflexible to meet bespoke borrower requirements.

At the same time, they are important partners to banks, enabling them to maintain their scale and diversity while lowering their risk.

Since the Global Financial Crisis, non-bank lenders have played a considerably bigger role in lending to corporates, particularly those with an earnings before interest, taxes, depreciation, and amortisation (EBITDA) of between US\$10 million to US\$250 million.

According to research by Preqin, private credit assets are forecast to grow by 11 per cent per annum to 2028.

The structural changes already discussed underpin the sector's long-term outlook and appealing characteristics, including:

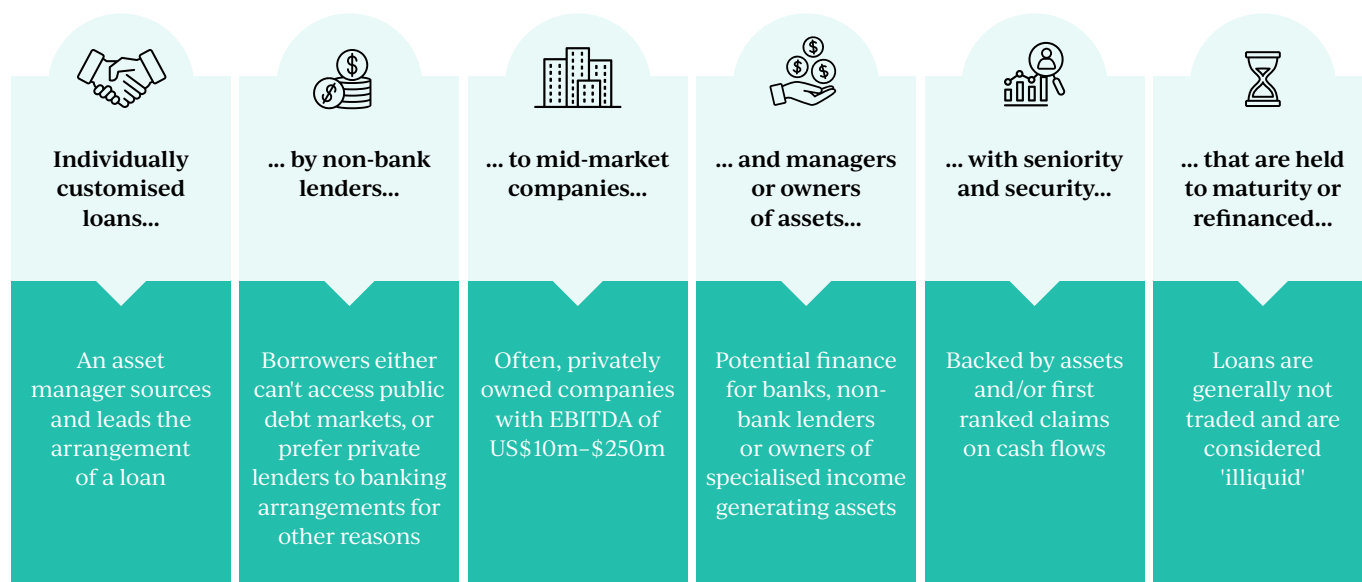
1. Attractive, uncorrelated income;
2. Capital stability and resilience; and
3. Diversification.

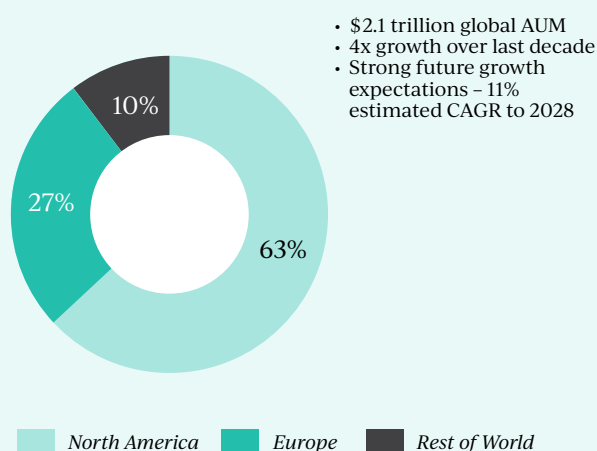
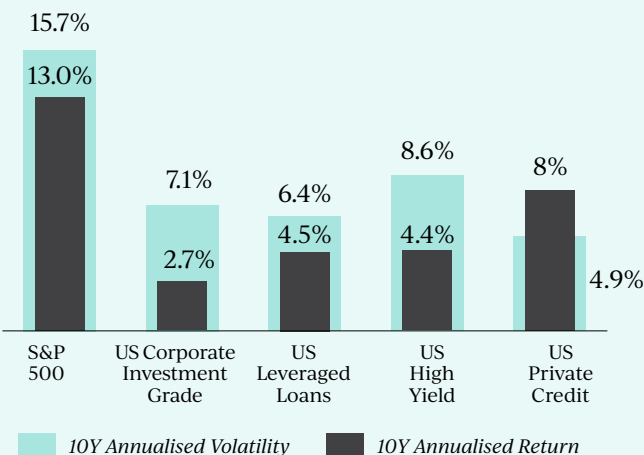
These qualities are even more critical and sought after, as the demographic profile of investors, particularly in developed countries, changes.

Ageing investors that are transitioning from accumulation to decumulation have a much sharper focus on capital preservation and investment income. Retirees and pre-retirees need defensive assets that can provide a stable income and keep pace with inflation.

GLOBAL PRIVATE CREDIT

Individually customised non-bank loans to US and European mid-market companies, with seniority and security, that are held to maturity or refinanced



Global Private Credit – AUM¹**Return vs. Volatility¹****PERFORMANCE**

While there isn't standardised performance data on global private credit, the performance of the US market, which makes up approximately 70 per cent of the universe, provides a meaningful proxy.

Over the past decade, US private credit has returned 7.8 per cent per annum.

It has outperformed US corporate investment grade bonds, US leveraged loans and US high yield on an absolute and a risk-adjusted basis.

PRIVATE V PUBLIC

Over every meaningful timeframe, private credit has outperformed public credit on a risk-adjusted basis.

This reflects the quality of the origination and management of loans in private credit, where managers gain access to detailed information in the underwriting process to allow them to secure appropriate structural protections to minimise the risk of loss. These are critical given the hold-to-maturity nature of loans.

By contrast, in public markets, covenants are typically not as stringent, as the credit is widely disbursed across many investors, and the securities actively traded and heavily influenced by the market's perspective on interest rates, credit spreads and valuations, which can change daily.

Private credit is a much simpler and less volatile proposition. Fund managers lend money to companies and are responsible for managing loans to maturity. Performance is driven by their ability to originate good deals and manage portfolios, including helping struggling companies to turn around performance. If a company is unable to pay back a loan, the fund managers may have to step in and take control.

In recent times, a small number of troubled transactions made by Australian investors have raised questions about the transparency, risks and sustainability of private credit returns.

This scrutiny and attention should be seen as good thing. Not only does it reflect strong and growing interest, it also provides an opportunity for the industry to build understanding of the asset class and its role in a diversified portfolio.

What is private credit?

Private credit refers to individually customised loans made by non-bank lenders (in this case private credit fund managers) to mid-market companies, or managers or owners of assets with seniority and security that are typically held to maturity by the fund manager or refinanced.

Financial advisers have a critical role to play in educating clients about alternative assets, like private credit and structured products, and helping them construct bespoke portfolios that meet their needs, objectives and risk profile.

With so much economic and geopolitical uncertainty, and more people entering retirement, there has never been a better time to be a financial adviser.

The need for professional advice on investing, portfolio construction and retirement planning is enormous.

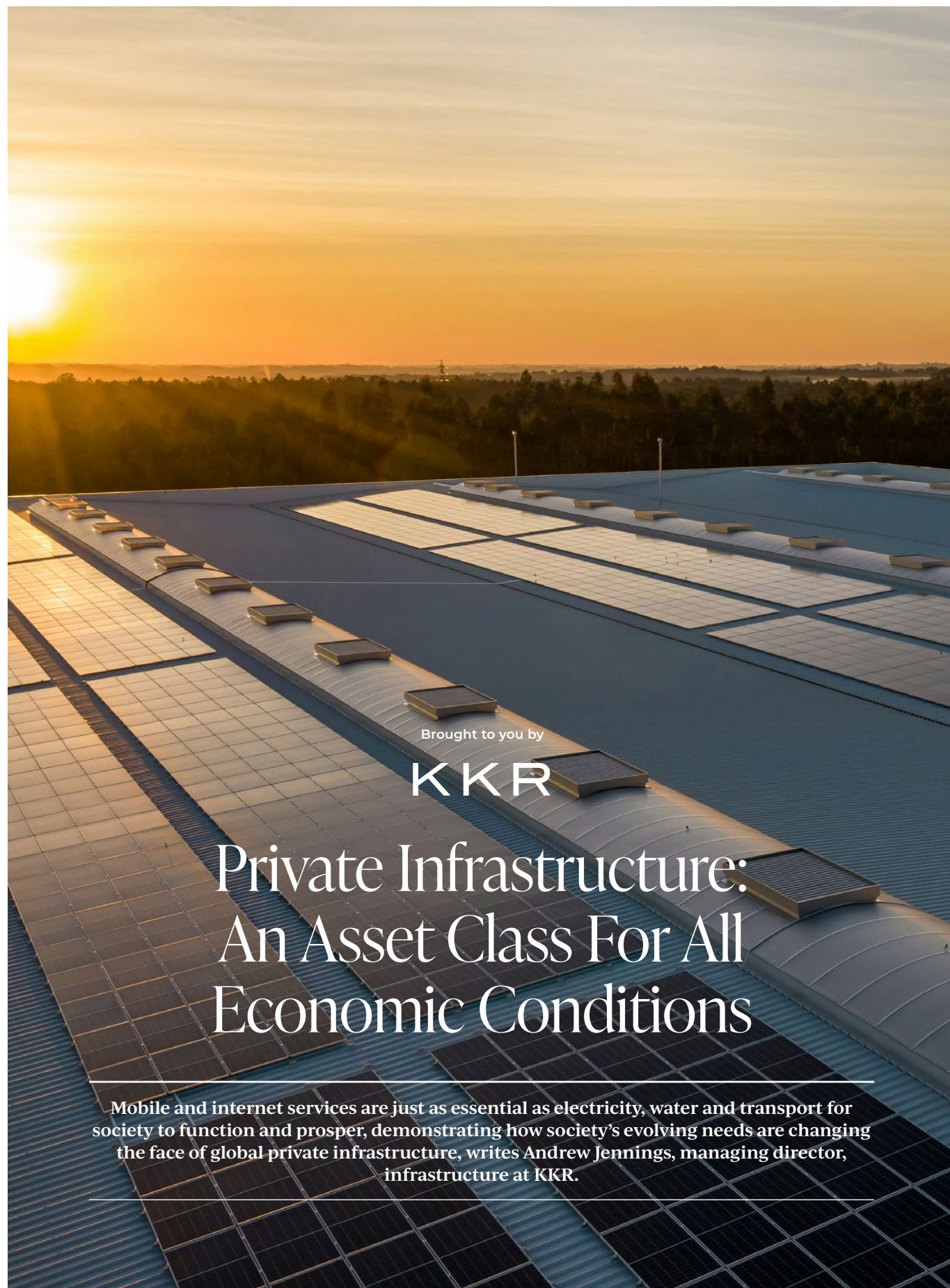
As Australians get older, it's not just about accumulation and capital growth anymore. Retirees and pre-retirees need defensive assets that can provide a stable income and keep pace with inflation while ensuring sufficient liquidity to ride out volatile environments.

Global private credit is just one of many asset classes that fall in the defensive bucket, alongside public credit, term deposits and hybrids. Over the past two decades, it has delivered investors strong returns with relatively low volatility, earning its place in a diversified portfolio. **PP**



NEHEMIAH RICHARDSON
Managing Director and CEO,
Pengana Credit

¹Sources: S&P (S&P 500 Total Return Index), Bloomberg (BloombergUS Corporate Total Return Value Unhedged USD), Burgiss (Burgiss – Private Debt (North America)), and Thomson Reuters Datastream (ICE BofAMLUS High Yield Master II, S&P Leveraged Loan). S&P, Bloomberg, Burgiss and Thomson Reuters have not provided consent to the inclusion of statements utilising their data.



Brought to you by

KKR

Private Infrastructure: An Asset Class For All Economic Conditions

Mobile and internet services are just as essential as electricity, water and transport for society to function and prosper, demonstrating how society's evolving needs are changing the face of global private infrastructure, writes Andrew Jennings, managing director, infrastructure at KKR.

Key Findings

- Infrastructure's definition has broadened significantly in the past 10–15 years, giving investors exposure to a larger set of themes and opportunities, and the ability to earn potentially higher risk-adjusted returns.
- The universe of listed infrastructure assets is rapidly shrinking, underpinning the rise and popularity of private infrastructure.
- Digitalisation, decarbonisation and deconsolidation are three long-term trends driving global private infrastructure investment.
- Key benefits of private infrastructure could include capital preservation, consistent cash distribution, inflation hedging, diversification and potential upside.

WHEN MOST INVESTORS think about infrastructure, they typically think about roads, airports, utilities and other physical assets that provide an essential service to society.

They don't immediately think about data centres, mobile phone towers and solar energy stations, yet people and economies depend on these services every day. These are vital for a high-functioning society, connecting communities, and building long-term economic prosperity.

While utilities and transport infrastructure are still core to many infrastructure portfolios, the definition of infrastructure has broadened significantly in the past 10–15 years, giving investors exposure to a larger set of themes and opportunities, greater diversification, and potentially higher risk-adjusted returns.

This development reflects society's evolving needs and expectations.

Digital infrastructure, for example, has become just as important to our daily lives as electricity, water and transport. Structural changes are also impacting the investment universe.

Over time, many listed core infrastructure assets have been taken private. Similarly, government assets that would have historically been listed or sold to listed entities are instead being privatised. One prime example is land and motor registries.

This has led to fewer listed infrastructure assets left, which has in turn driven the growing popularity of private infrastructure among investors.

What this means for investors that are entirely focused on public assets is that they are missing out on many compelling opportunities in emerging thematic trends across sectors and regions.

Once the exclusive domain of institutional investors, private infrastructure assets are attracting a broad range of investors because they exhibit the following characteristics:

- Capital preservation – essential services are required through market cycles and, therefore, resilient to economic shocks and market disruptions.
- Consistent cash distribution – predictable, highly-visible risk-adjusted returns often supported by long-term contracts or regulated revenues.
- Inflation hedging – pricing power, contracted price and inflation adjustments, regulated return framework and the ability to pass-through operating costs.
- Diversification – potentially low correlation to traditional asset classes including real estate and equities.
- Potential upside – investment opportunities in long-term thematic trends.

Why private infrastructure?

Broadly defined, infrastructure is comprised of the essential systems and services that facilitate society's needs which evolve over time. These include transportation, power and utilities, digital infrastructure, social infrastructure and waste management. Private infrastructure refers to infrastructure assets that are owned, operated, or financed by private investors rather than the government, and they typically generate stable, long-term cash flows through contracted or regulated revenues, and is backed by hard assets that display less volatility in uncertain times.

THEMATIC DRIVERS

KKR has identified three long-term trends influencing global private infrastructure investment: digitalisation, decarbonisation, and deconsolidation.

DIGITALISATION

Data is the fastest growing commodity, with global IP traffic expected to increase by a compound annual rate of 13 per cent, according to the Global Infrastructure Hub.

As more communities around the world spend more time online, demand for digital infrastructure assets, including fiber optics networks, data centres and mobile cell towers, will increase.

Consider also the rise of Artificial Intelligence, and the associated increase in computing power required, means the outlook for digital infrastructure is positive.

DECARBONISATION

While the commitment of some countries and companies to reduce their carbon footprint fluctuates, depending on the politics of the day, there is broad consensus that climate change is a global emergency that requires mammoth and urgent action.

Society is pushing for cleaner energy, buildings and transport, and there is a tremendous opportunity to reduce the carbon intensity of traditional fossil fuel energy infrastructure.

Representative investment opportunities include solar and wind assets, liquefied natural gas, and district heating and cooling.

Globally, an unprecedented amount of money is being invested in renewables and energy infrastructure. This will only intensify in the lead up to 2050, when 26 countries, including Australia, have pledged to achieve net zero carbon emissions.

Types of Alternatives to Generate Alpha

Infrastructure	74%
Private equity	65%
Private debt	50%
Hedge funds	29%
Commodities	15%
Derivatives	12%
Venture capital	11%
Collectibles	
Other	

DECONSOLIDATION

As industries and corporates seek to create financial value and operational efficiency by divesting non-core assets, there is an increasing range of potentially attractive opportunities.

Representative investment opportunities include corporate carve-outs, sale-leasebacks and asset leasing.

A LARGE, ADDRESSABLE MARKET

Global demand for infrastructure continues to rise significantly.

The Global Infrastructure Hub estimates that closing the infrastructure financing gap will require US\$94 trillion by 2040. Additionally, annual infrastructure investment is projected to increase from 3 per cent to 3.5 per cent of global GDP, amounting to approximately US\$3.7 trillion per year.

This dynamic has underpinned the exponential growth of global private infrastructure investment, with institutional investors leading the charge.

According to research by Cornell University in the United States, global institutional investors increased their target allocation to infrastructure to 5.5 per cent in 2024.

Locally, it's much higher, with data from the Australian Prudential Regulation Authority revealing that industry super funds allocated approximately 11 per cent to infrastructure, as of March 2024. Of that, private infrastructure accounted for 9.8 per cent.

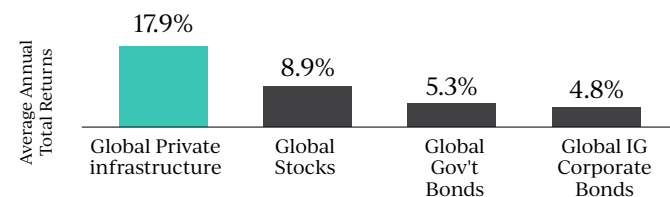
Infrastructure is the third most favoured asset class in industry fund portfolios in Australia, behind only equities (55.4 per cent) and fixed income (19.8 per cent).

A broader set of investors too are waking up to the benefits of global infrastructure. Retail super funds allocated around 5.2 per cent to infrastructure, as of March 2024.

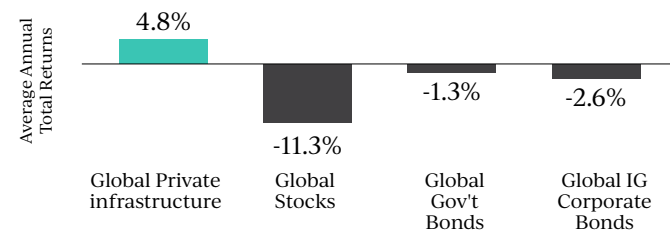
Financial advisers are playing a critical role in educating clients about the range of alternative asset classes available to them, particularly private market assets, and the potential role they play in a diversified portfolio, especially in the current economic environment.

Against a backdrop of higher inflation, geopolitical uncertainty and slower global economic growth, many wholesale investors are rethinking their asset allocation, with a sharper focus on alternatives. The increasing appeal

Above Average Growth / Above Average Inflation (2001–2022)¹



Below Average Growth / Above Average Inflation (2001–2022)¹



of private market investments, including private infrastructure, stems from the asset class's evolution towards more efficient and flexible structures, such as evergreen funds. These open-ended vehicles, lacking fixed terms or capital calls, offer semi-liquid features and enhanced transparency, making them more accessible and attractive to a broader spectrum of investors.

According to research by CoreData, 21 per cent of advisers believe alternatives are important for generating alpha.

Among those using alternatives, listed and unlisted infrastructure topped their list of preferred investments.

In inflationary environments, global private infrastructure has historically delivered stronger returns against public market assets such as equities and bonds.¹

Against the macroeconomic backdrop which has occurred this cycle, a different approach to asset allocation should be at the forefront of investors' minds. The nature of global private infrastructure as an asset class has demonstrated its ability to withstand economic shocks and historically represented lower risk and more stability than publicly listed markets during volatile periods.

Pleasingly, wholesale investors increasingly now have access to alternative asset classes, such as global private infrastructure that have traditionally been reserved for institutional investors. There is also more education and discussion about the benefits of private market assets, not just the risks.

Overall, KKR supports the changing face of alternative assets, and the significant role they can play in enhancing diversified portfolios. As global private infrastructure continues to evolve in the real economy with a sharper focus on digitisation and sustainability, these new opportunities for investor capital can provide a potential path forward to complement their broader portfolio allocations. **PP**



ANDREW JENNINGS
Managing Director, Infrastructure,
KKR

¹Source: Bloomberg, Standard & Poor's, Burgiss, KKR GBR Analysis, Bureau of Economic Analysis, Bureau of Labor Statistics. Analysis conducted on annual data between 2001 and 2022. Above Average Inflation is defined as the year-over-year change in the US CPI greater than 2.5% and Above Average Growth is defined as the year-over-year change in US real GDP greater than 2.0%. Analysis uses the Bloomberg Barclays Global Aggregate Index for Government and IG Corporate Bonds, MSCI World index for Global Stocks, and the Burgiss Global Infrastructure Index for Global Infrastructure.

Conclusion

ALTERNATIVE ASSETS ARE no longer just for institutional investors with long time horizons and the ability to make large allocations.

Demand from high-net-worth investors is increasing, and this trend is here to stay.

A combination of factors is behind this development, including greater awareness of the attractive returns and diversification benefits on offer.

The high barriers to entry that previously kept wholesale investors out are also being addressed, which means that advisers will play an important gatekeeper role in assessing the quality of the investment solutions coming to market.

And this role is essential as there has never been so much choice in terms of alternative managers, strategies, and product structures.

Wealthier people are typically more willing and able to accept risk in exchange for potentially higher returns. This is due, in part, to their reduced need for liquidity, enabling them to lock-up money over a longer time period.

But it's the changing nature of public markets that is

arguably the biggest factor underpinning long-term demand for alternative investments.

As highlighted in this guide, there just aren't as many public investment opportunities available, as asset owners stay private for longer, sell to other private companies, and access capital and debt for growth from private managers.

This dynamic is impacting traditional approaches to portfolio construction, namely the 60/40 model of allocating 60 per cent to listed equities and 40 per cent to fixed income.

While this model has been effective at building wealth for over 40 years, it's uncertain if this will be as effective going forward, particularly in an environment of higher rates and inflation, and heightened economic and geopolitical uncertainty.

As investors seek a broader opportunity set, higher returns and greater diversification, alternatives are emerging as important source of alpha.

We hope this guide has provided a deeper understanding of the types of opportunities available in the alternatives space and the themes underpinning long-term demand and growth.



WITH THANKS TO
OUR SPONSORS



Schroders



KKR



professionalplanner.com.au

Professional
PLANNER

conexus*financial*
PTY LTD

a *catalyst* for a more informed world