
The Evolution of Private Markets

One of the most pronounced shifts in capital markets during the past two decades has been the rise of private financing. Public market regulations have made it increasingly complex and costly for companies to issue equity or debt, and to operate as publicly traded entities. Consequently, the public market universe has contracted, resulting in fewer listed companies and less diverse indices. While many people are familiar with the growth of private equity, the growth of private financing has been much broader. Private capital is now regularly deployed across all types of debt financing—large, small, and niche—as well as for long-lived infrastructure projects, real estate, and any other area where capital can be deployed and earn an attractive rate of return.

This trend, coupled with evolving regulatory frameworks, has also coincided with the increasing democratization of private alternatives, making them more accessible to a broader range of investors. What used to be investment opportunities limited to large pensions, endowments, sovereign wealth funds, and the ultra-wealthy are now becoming broadly available to a much more diverse set of investors. Private markets have emerged as a vital and rapidly expanding investment frontier. In this piece, we explore the diverse realm of private markets, encompassing private equity, venture capital, private credit, private real estate, and private infrastructure. We will examine their characteristics, strategic importance, inherent risks, and compelling appeal to a broader spectrum of investors, as well as how Aureus implements these strategies in client portfolios.

UNDERSTANDING CORE PRIVATE MARKET ASSET CLASSES

Private markets offer access to a vast universe of companies and assets outside public investing, enabling investors to tap into unique growth opportunities and income streams that are often unavailable through traditional public market investments.

- **Private Equity:** This involves investing directly in or acquiring private companies, often with the goal of enhancing their operational efficiency and value, ultimately leading to a sale or public listing. Private equity strategies can range from large-scale buyouts of mature companies to growth equity investments in rapidly expanding businesses. Private equity represents a broad opportunity set, as a significant majority of companies across North America, Europe, and Asia are privately held. The amount that global private equity firms manage has experienced significant growth in recent years, reaching \$5 trillion in assets under management in 2025, according to Bain & Company.
- **Venture Capital:** As a specialized segment within private equity, Venture Capital focuses on providing early-stage funding to startups and nascent companies with high growth potential, typically in exchange for an equity stake. VC investments are characterized by higher risk and higher potential returns, supporting innovation and disruptive technologies.
- **Private Credit:** Following the 2008 financial crisis, as traditional banks de-risked their balance sheets, private lenders stepped in to fill the financing gap for businesses, particularly middle-market companies that may struggle to secure traditional bank loans. Private credit typically comprises directly originated corporate loans, often structured as senior-secured and floating-rate instruments, providing customized financing solutions with greater flexibility and speed. This market has seen

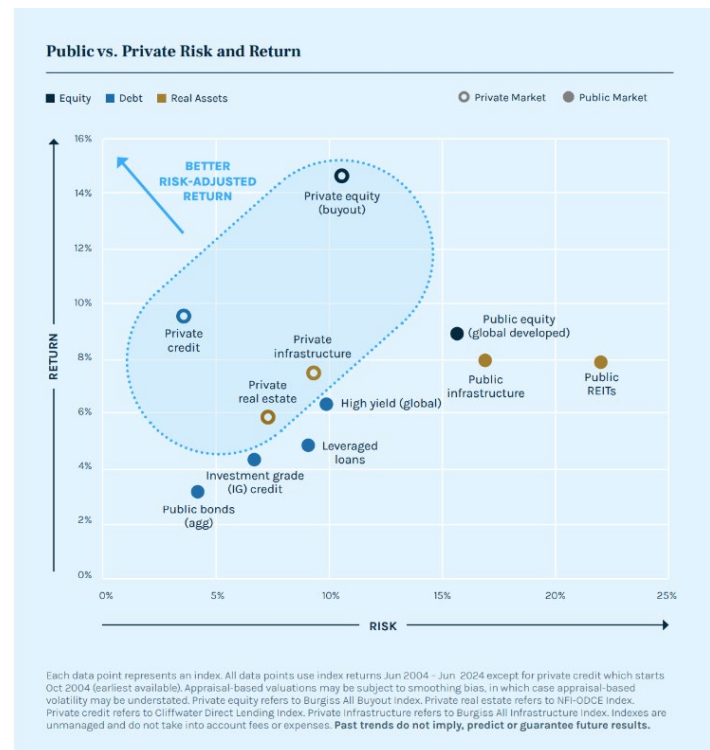
remarkable and consistent growth (\$2 trillion in AUM) over the past two decades, according to Moody's.

- **Private Real Estate:** This asset class offers direct access to a diverse portfolio of properties, ranging from industrial warehouses and data centers to residential apartments, as well as specialized assets such as healthcare facilities and retail spaces. Investors can gain exposure to various strategies, including core, value-add, and opportunistic, depending on their risk appetite and return objectives. The commercial and residential real estate market is substantial, with the vast majority being privately held.
- **Private Infrastructure:** This sector involves investments in essential physical assets that underpin critical services for economies and communities, such as energy grids, transportation networks (roads, bridges, airports), communication infrastructure (fiber optic networks, cell towers), and social infrastructure (hospitals, schools). These assets often provide stable, long-term cash flows and can offer a degree of inflation protection due to their essential nature and concession-based revenue streams. The global market value of infrastructure assets has reached new highs in recent years, showing consistent year-over-year growth.

WHY PRIVATE MARKETS ARE IMPORTANT TODAY

Private markets offer several compelling benefits for investors:

- **Attractive Risk-Adjusted Returns:** Private market asset classes have generally delivered superior risk-adjusted returns compared to their public market counterparts, often attributed to the illiquidity premium and active management.
- **Diversification Benefits:** Private market investments typically exhibit lower correlation with traditional public equity and fixed income, providing valuable diversification to mitigate portfolio volatility and potentially improve long-term returns.
- **Potential Portfolio Benefits:** Beyond diversification, private markets can contribute through capital appreciation, consistent income generation, inflation protection, and, in some structures, specific tax advantages.
- **Value Creation through Active Management:** Private market managers adopt an active role, leveraging industry knowledge, operational expertise, and strong governance to identify undervalued assets, improve efficiencies, and negotiate customized terms. This proactive approach drives value creation, which is less common and more difficult to execute in liquid public markets.



Source: Ares Management

ACCESSING PRIVATE MARKET INVESTMENTS

Historically, private markets were generally available to large institutional investors. However, this landscape is rapidly changing, with increasing availability for individual investors.

- **Growing Accessibility and Our Approach:** Over the past decade, innovative fund structures, such as perpetual funds (e.g., non-traded Business Development Companies “BDCs”), have emerged, making private markets more accessible. These vehicles offer lower minimums, periodic liquidity (subject to limits), and a continuous fund life, providing a more convenient entry point than traditional illiquid private funds. Assets under management in these perpetual funds for individual investors have grown substantially, from \$37 billion in Q3 2013 to \$422 billion in Q2 2023, a 28% annualized growth rate, according to Cerulli Associates.

At Aureus, we strategically integrate these private market funds as a component in managing client asset allocations. While we still use traditional drawdown vehicles, which typically involve K-1 tax forms, we have been increasingly shifting toward these innovative evergreen structures, which primarily file 1099 tax forms. This allows accredited investors to participate without the complications often associated with K-1 tax forms at year-end.

- **Manager Selection:** Given the complexity and illiquidity of private investments, selecting experienced and reputable private alternative managers is crucial. Their ability to identify attractive opportunities, conduct thorough due diligence, execute complex transactions, and actively manage portfolio companies or assets directly impacts the success of private market investments. A manager's deep industry knowledge, extensive network for deal sourcing, and proven operational expertise are paramount in navigating the less transparent private landscape and generating superior risk-adjusted returns. At Aureus, we conduct deep due diligence on potential managers, evaluating their investment philosophy and process, team experience, alignment of interests, and operational infrastructure.

RISKS INVOLVED WITH PRIVATE MARKETS

While private markets offer compelling benefits, investors must acknowledge their specific risks: illiquidity, valuation challenges, credit and default risk, and the amplified impact of leverage. While newer evergreen structures may offer more flexible liquidity (e.g., quarterly redemptions) compared to traditional private investment funds, these options should still be approached with a longer-term investment horizon given the nature of the underlying assets, necessitating careful consideration.

IN CLOSING

Private markets represent a significant and expanding investable universe that is becoming increasingly accessible to a broader range of investors. With their potential for strong risk-adjusted returns, valuable diversification benefits, and the active value creation capabilities of specialized managers, private equity, venture capital, private credit, private real estate, and private infrastructure are increasingly recognized as strategic core building blocks for well-diversified investment portfolios. For eligible investors, a thoughtful exploration of these opportunities can be a vital step in pursuing long-term financial objectives.

This piece was written for informational purposes only and should not be taken as investment advice. If you would like to learn more about our private offerings at Aureus, please contact your relationship manager.