Private Assets: From Afterthought to Anchor in Wealth Management

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Investment Trends for Wealth Managers

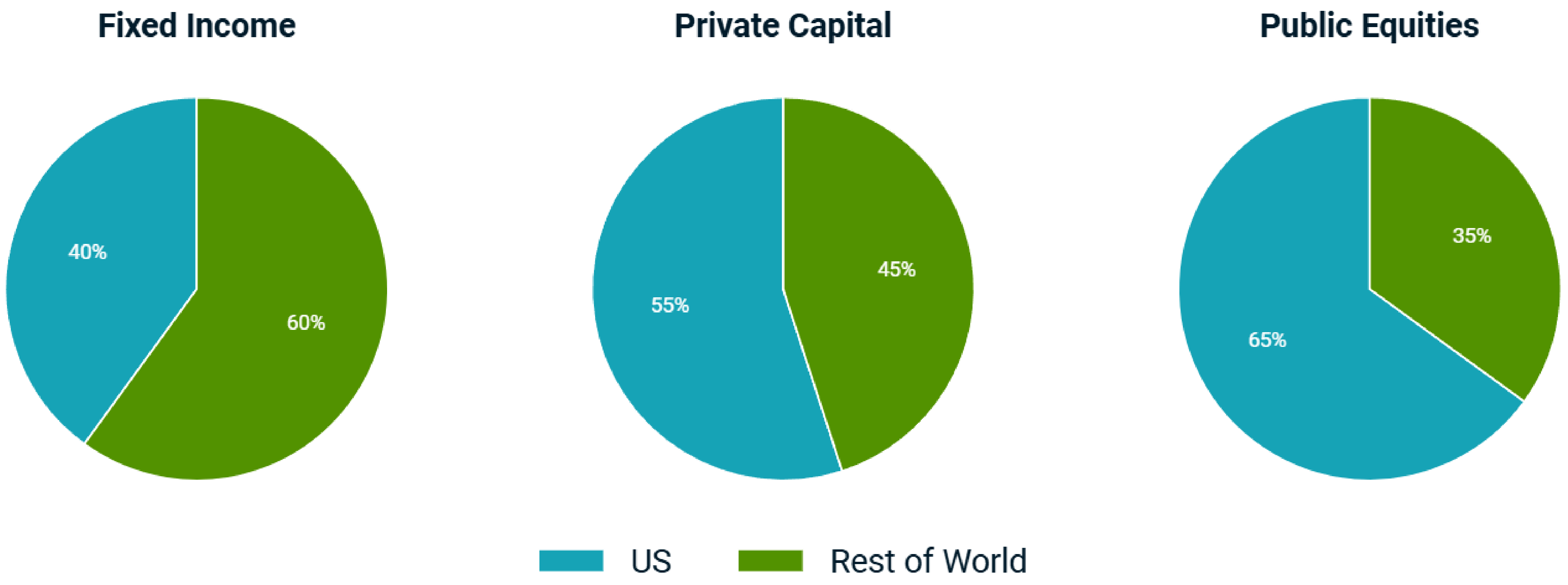
Kuldeep Yadav | Vice President, Research & Development

Key investment themes for Wealth Managers

- U.S. policy could further deepen economic divergence
- Regional Diversification in a Tripolar World
- Rising Allocation to Private Markets
- Total Portfolio Approach for Wealth Managers

“Long America” in multi-asset portfolios

In many ways, U.S. exposure has become the default allocation



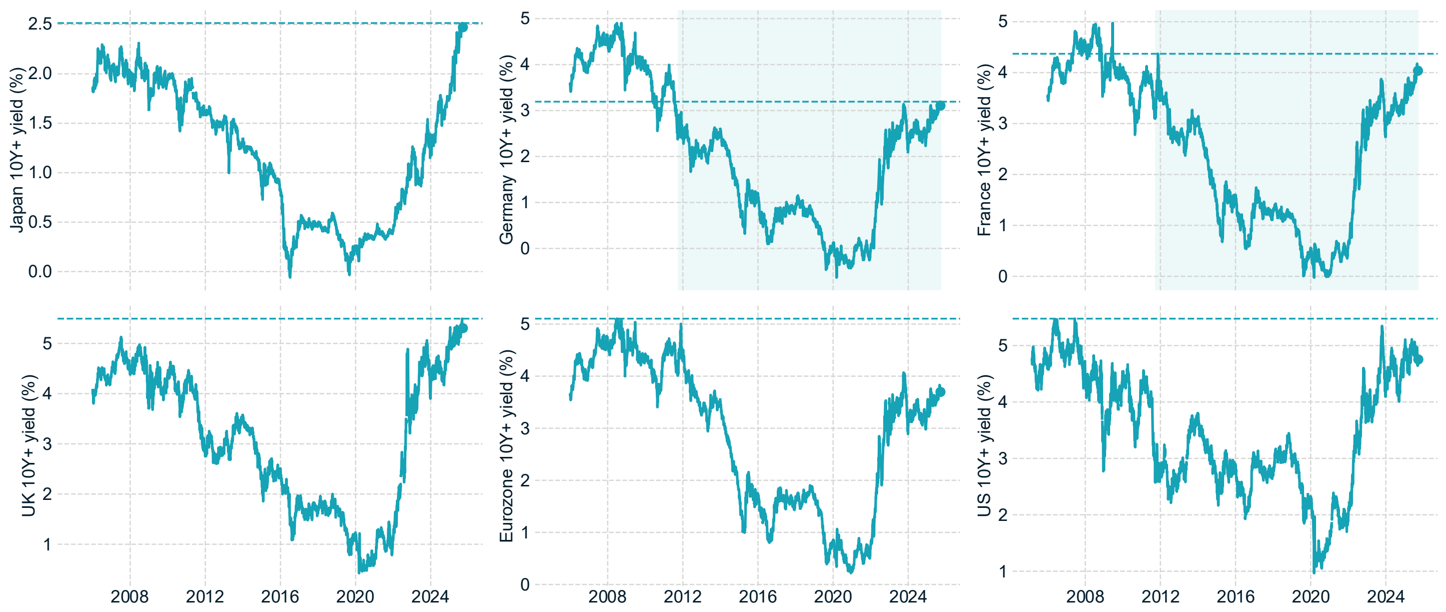
MSCI Global Fixed Income and Global Equity weights based on either USD-denominated debt or U.S. capitalization. Private asset weights based on MSCI Private Capital Solutions indexes.

U.S. policy could further deepen economic divergence

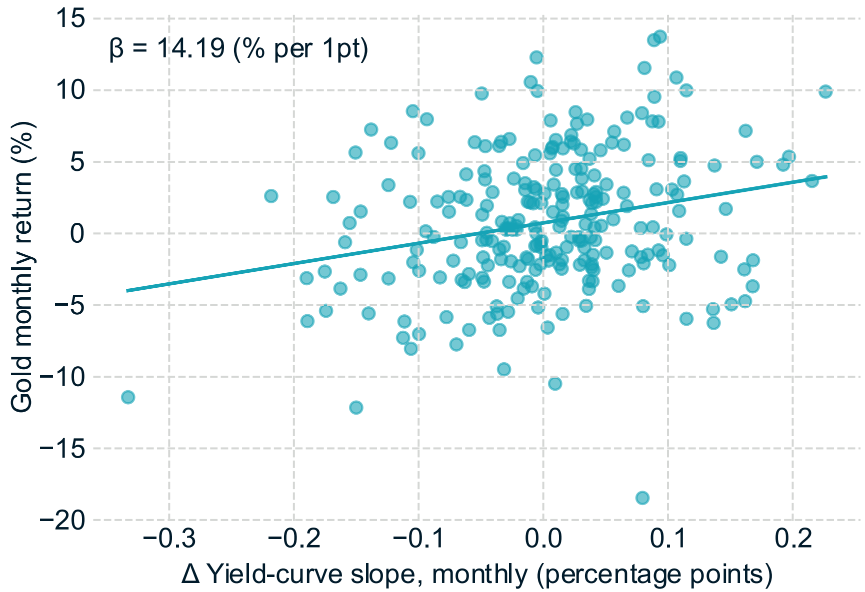
Long-End Yields Reprice Fiscal Risk as Gold Climbs

- Long-term bond yields hit multi-year highs despite rate cuts, driven by fiscal risks, heavy issuance, and inflation uncertainty, with U.S., Europe, UK, and Japan showing sharp yield curve back-end moves.
- Gold defied negative yield sensitivity, rising with long-term yields for geopolitical and fiscal-risk hedging, as yield-curve steepening enhanced its appeal as a risk-hedging diversifying asset.

Long-term yields have risen to multi-year highs across major markets



Gold rises with yield curve steepening

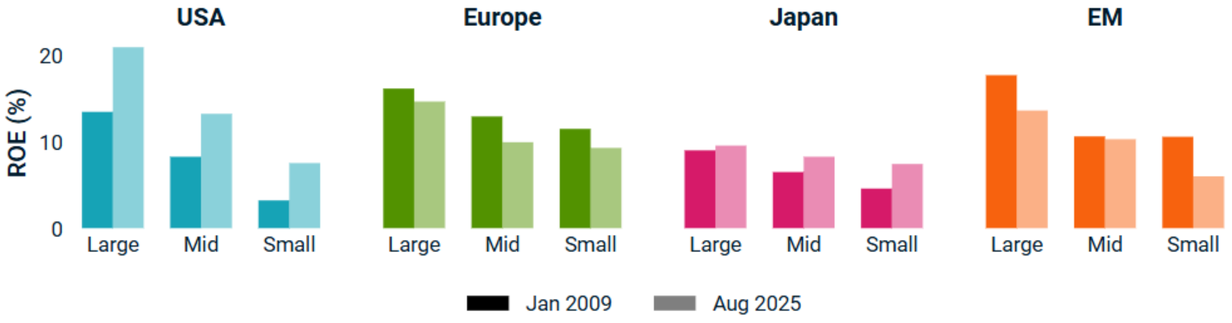


MSCI Research. Left chart: Sample period: Mar 1, 2005, to Sep 25, 2025, based on MSCI Sovereign Bond 10Y+ indexes yield-to-maturity. Right chart: Sample period: Mar 1, 2005, to Sep 25, 2025, based on MSCI Gold Futures Index returns and change in slope of the yield curve (MSCI US Government Bond 10Y+ Index – MSCI US Government Bond 7-10Y Index).

The Price of US Exceptionalism

- Since the GFC, U.S. large caps drove widening profitability and productivity, doubling sales per employee, accelerating R&D, and sustaining higher profit shares versus ex-U.S. markets, consistent with the "superstar firm" effect.
- Since the GFC, U.S. firms - especially large caps in tech and health care - sustain extraordinary growth phases longer than ex-U.S. peers, extending survivorship and supporting the persistent U.S. PEG premium.

U.S. firms widened their profitability post-GFC, notably in large caps

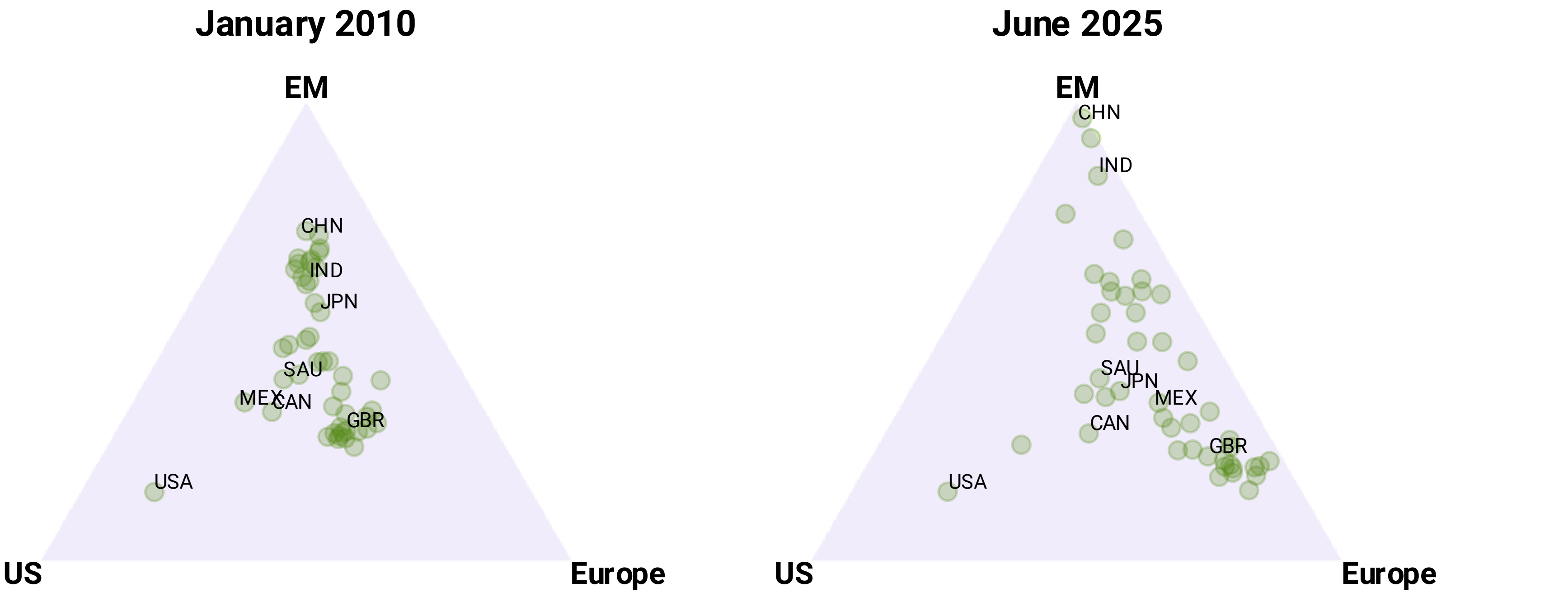


High growth phases lengthened in the U.S. post-GFC

MSCI Research. Left chart: Index level return on equity as of Jan 2009 and Aug 2025 and is based on MSCI Fundamental Data Methodology. Right chart: Using the same top-tercile sales-growth definition, we measure the half-life of each firm's high-growth spell (from entry until exit). The half-life is the median spell length within each region–size bucket. Periods are from Jan 1997 through Dec 2008 and Jan 2009 through Aug 2025.

Tripolar world

- Regional betas now cluster into clearer U.S., Europe and EM camps than in 2010 — a shift that restores global-diversification benefits lost right after the GFC.
- Country nuances: Canada's links pull it nearer the U.S./Europe; China stands out as distinctly EM; Japan, Australia and Saudi Arabia still span all three regions.

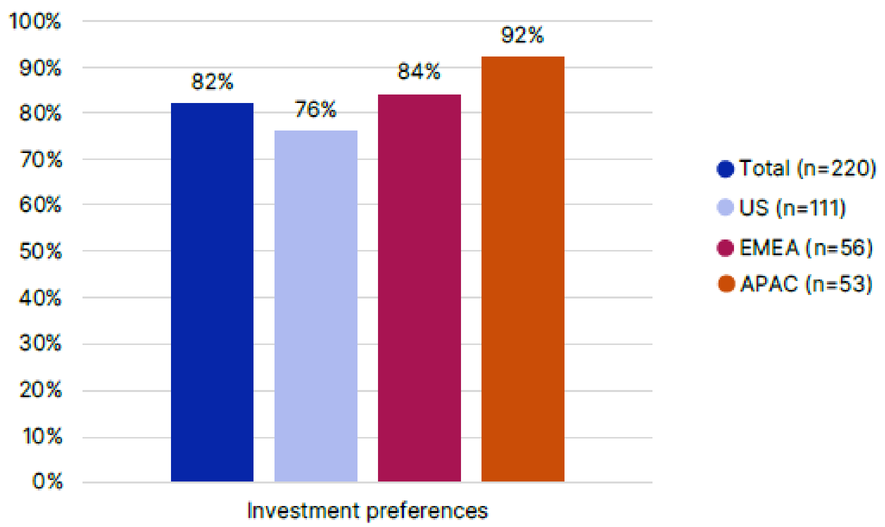


MSCI Global Equity Factor Model is used to estimate each country's beta to three regions (U.S., Europe, EM. Betas are as of December 31, 2009, and June 30, 2025, respectively. The sum of the three betas is normalized to one, and a country's location in the plot reflects the proportion of its overall beta allocated to each of the three regions.

Rising Allocation to Private Markets

Interest in Private Markets is growing...

Plans to increase allocations over the next 3 years



Over 80%

Percentage of wealth managers globally expecting to increase allocations to private markets over the next three years[1]

- →Private investments offer potential income streams with lower correlations to the public equity and bond markets
- →These markets can be very opaque, with less visibility into investment opportunities and much lower liquidity
- →Institutional investors have long been active in Private Markets, but Wealth Managers and Family offices are now starting to take an interest
- →Across all geographic regions, HNW investors and wealth managers are looking to increase their exposure to Private Assets

1 – 'Emerging Trends in Wealth Management', MSCI Wealth January 2025

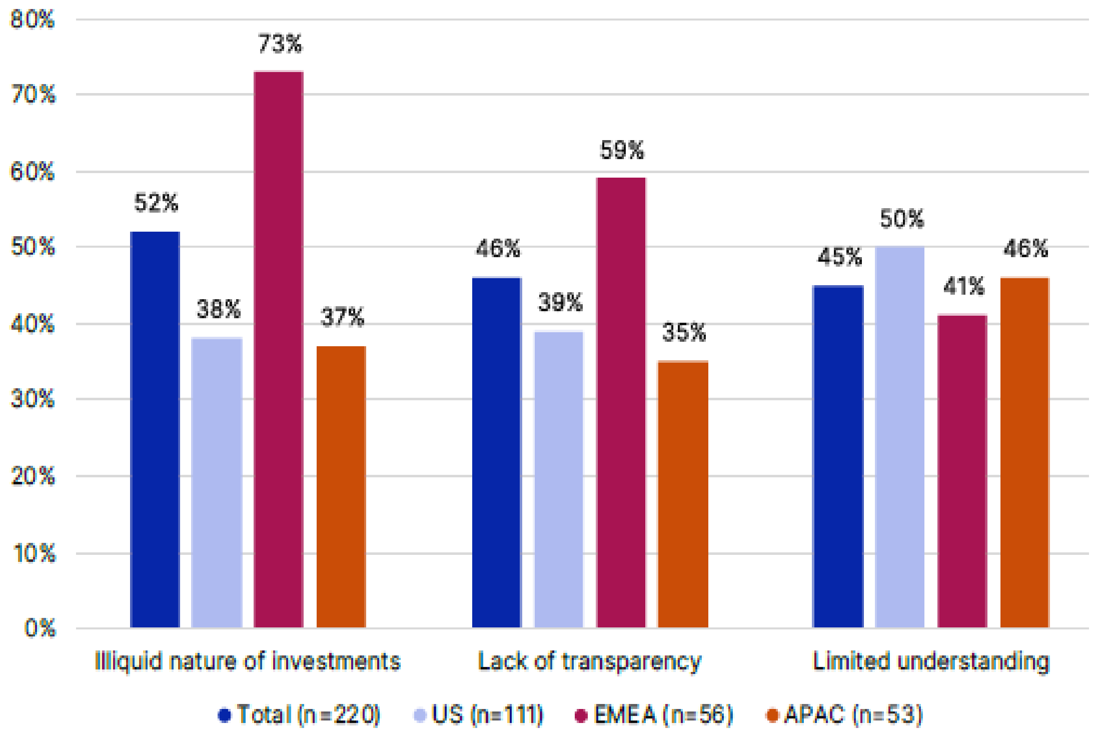
... But so are the questions

- →Wealth managers are trying to learn about Private Markets at the same time they are fielding questions from their clients:

- →*Basic Questions might include:*

- →What are the different types of strategy?
- →'What sort of return could I expect?'
- →'Can I get my money back if I need it?'
- →'I'm hearing a lot about Private Credit, how is that different?

Barriers to Increasing Allocations



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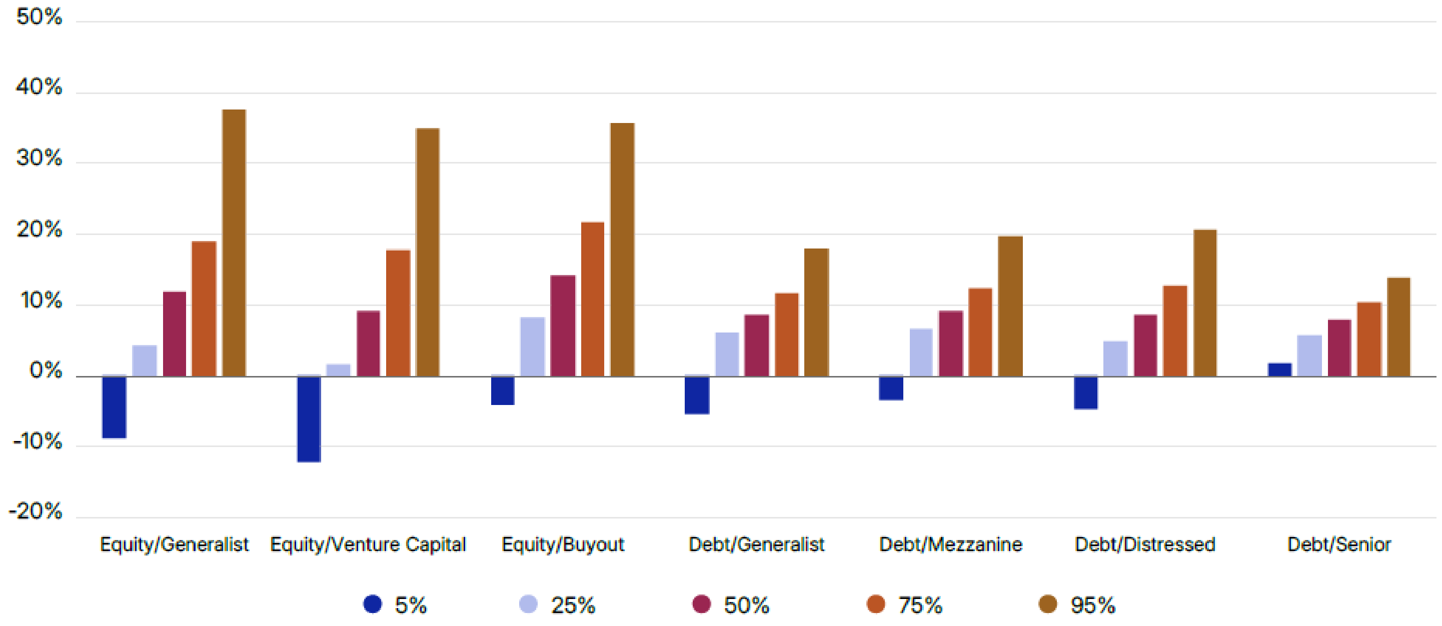
Fund Strategies and Return Distributions

→Historical Distribution of Return by Fund Strategy:



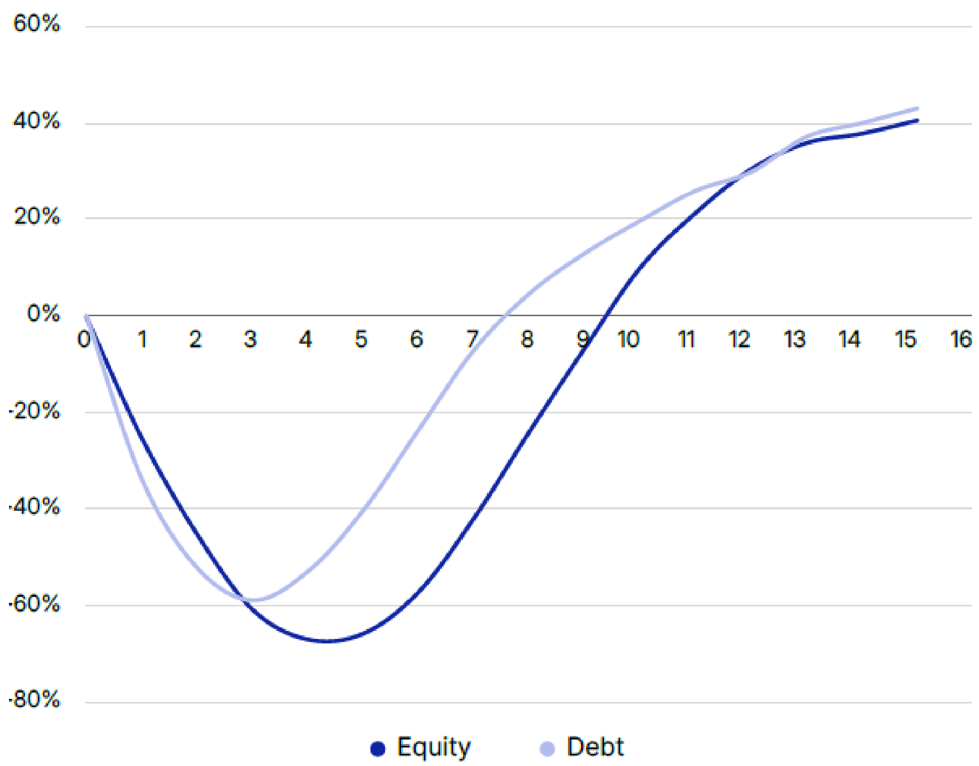
→Private Equity divided into two strategies: Venture Capital and Buyout. **Venture Capital** strategies invest in early-stage and high-growth startups, while **Buyouts** involve acquiring control of mature, cash-generating companies.

→Private Credit is divided into **Senior**, **Mezzanine** and **Distressed** strategies, largely reflecting the strategies for public debt

Source: MSCI Private Capital Universe; as of December 31, 2024, Data for funds with vintage year 2010 to 2019

Private Markets: Timeframes

The 'J-Curve': Cumulative Net Cashflows by Year



Source:. Calculated based on all private equity and private credit funds in the MSCI Private Capital Universe dataset; as of December 31, 2024.

→Investors in Private Markets refer to the 'J-curve' to understand cashflows from their investments

→Private investments typically involve capital drawdowns initially, with investments beginning to mature after a few years

→As products are developed, companies restructured, or loans repaid, net cash flows flatten out and the pace of distributions start to overtake that of investments

→On average, Credit funds have historically reached a breakeven point after about 7 years, and Equity funds have reached their breakeven point after 9 years

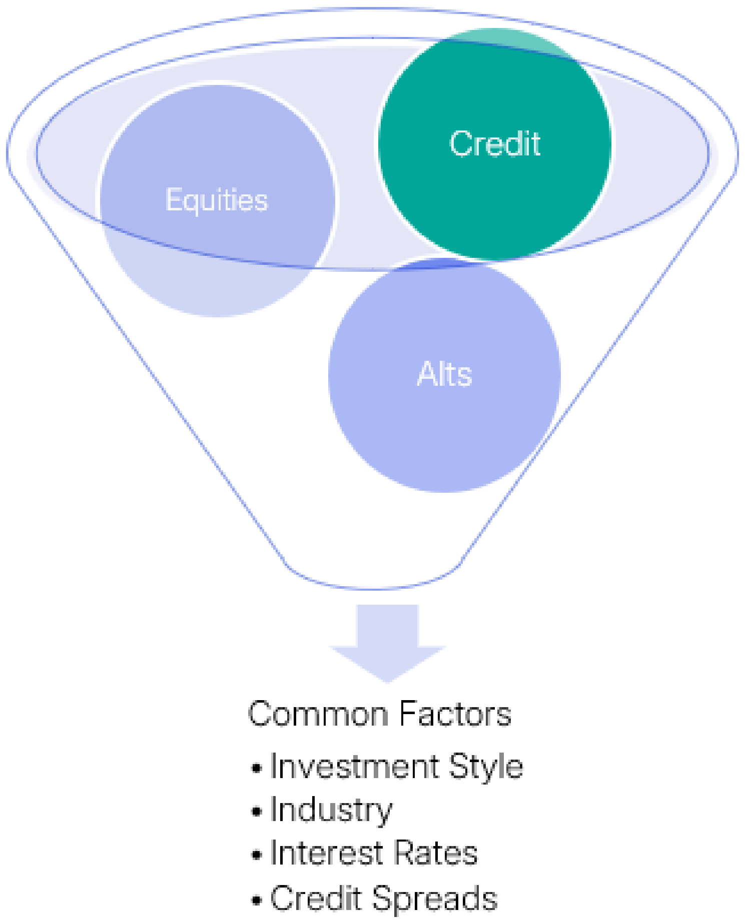
Total Portfolio Approach for Wealth Managers

Factors provide a common lens to understand behavior

→Factor models helps identify a set of common factors that explain portfolio risk and return

→MAC model breaks risk down into common factors and security specific risk

→Factors are estimated from time series data from financial markets



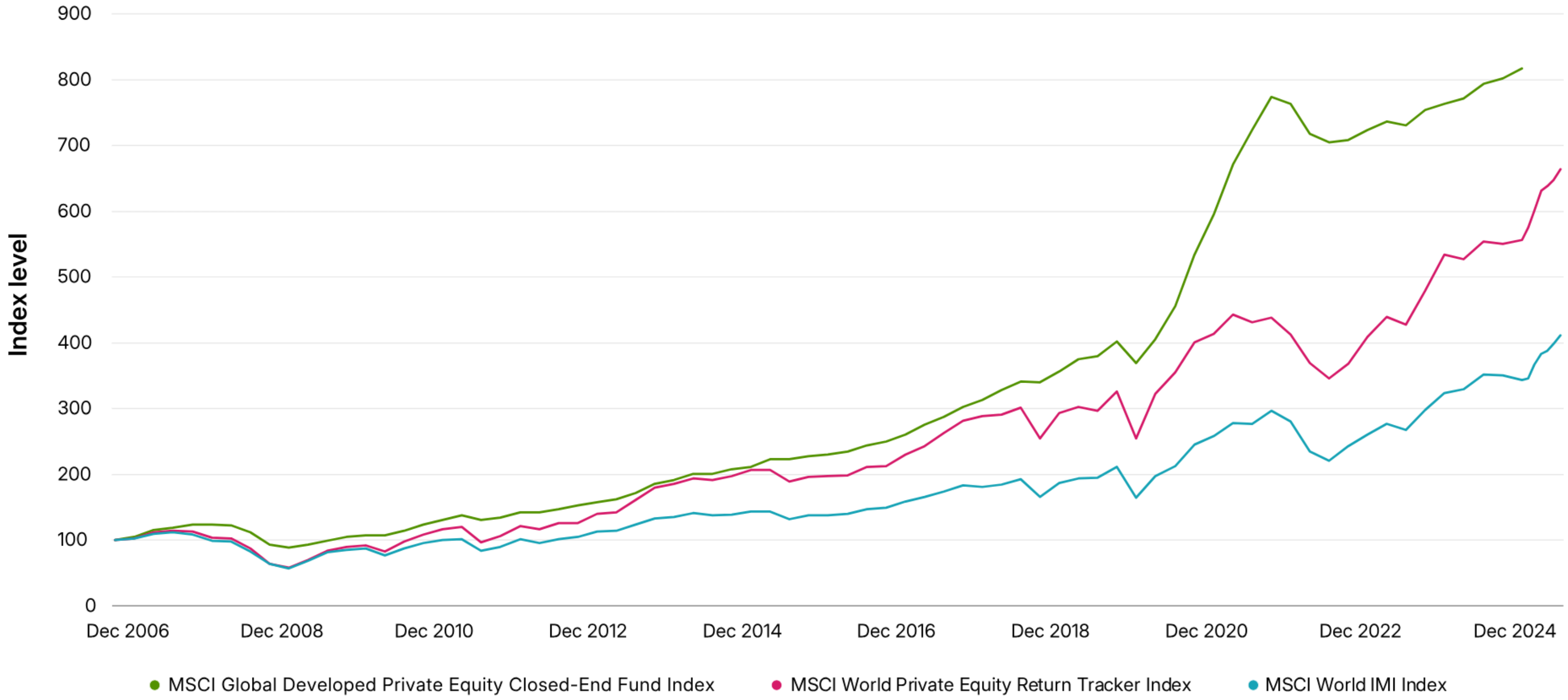
Note: Portfolio risk is estimated using the MSCI MAC Factor Model, which addresses the limitations of historical return based risk-estimation methodologies, particularly for private markets.

Identifying common drivers of risk and return

- → Factors like interest rates, inflation, country or industry are broad economic exposures that are universal across public equity, fixed income, private equity and real estate

- → The MSCI World Private Equity Return Tracker shows how part of Global PE's outperformance was due to sector and regional exposures, in addition to fundamental characteristics of underlying portfolio companies

Historical Performance of the MSCI World Private Equity Return Tracker Index vs global private equity and global public equities



Historical performance of the World PERT Index, the PE Fund Index (net of fees), and the World IMI. The World PERT Index and World IMI are indexes of liquid, publicly listed equities, shown as gross total return in USD. The PE Fund Index reflects the net-of-fees aggregate performance of private-equity funds in the MSCI Private Capital Universe and is not investable or directly replicable.

Correlation Matrix for Total Portfolio Allocation

Low-to-moderate correlations between private and public markets

- Mid- and large-cap U.S. stocks show high correlations with U.S. small-cap stocks
- Private credit has some overlap with high yield and investment grade credit but lower correlations with other asset classes
- Private equity has moderate correlation with public equity

Correlation Matrix of Markets in the Investment Universe

	U.S. investment grade credit	U.S. high yield credit	U.S. Treasurys	Domestic large- and mid-cap equity	Emerging market equity	Domestic small-cap equity	International developed market equity	Private credit	Private equity	Core real estate
U.S. investment grade credit										
U.S. high yield credit	0.72									
U.S. Treasurys	0.91	0.44								
Domestic large- and mid-cap equity	0.32	0.65	0.07							
Emerging market equity	0.33	0.55	0.12	0.60						
Domestic small-cap equity	0.21	0.51	-0.02	0.88	0.57					
International developed market equity	0.41	0.72	0.14	0.84	0.71	0.84				
Private credit	0.51	0.70	0.32	0.45	0.38	0.44	0.51			
Private equity	0.22	0.45	0.05	0.65	0.40	0.64	0.57	0.65		
Core real estate	0.20	0.31	0.10	0.40	0.26	0.38	0.35	0.21	0.27	

Color scale: 0.0, 0.2, 0.4, 0.6, 0.8, 1.0

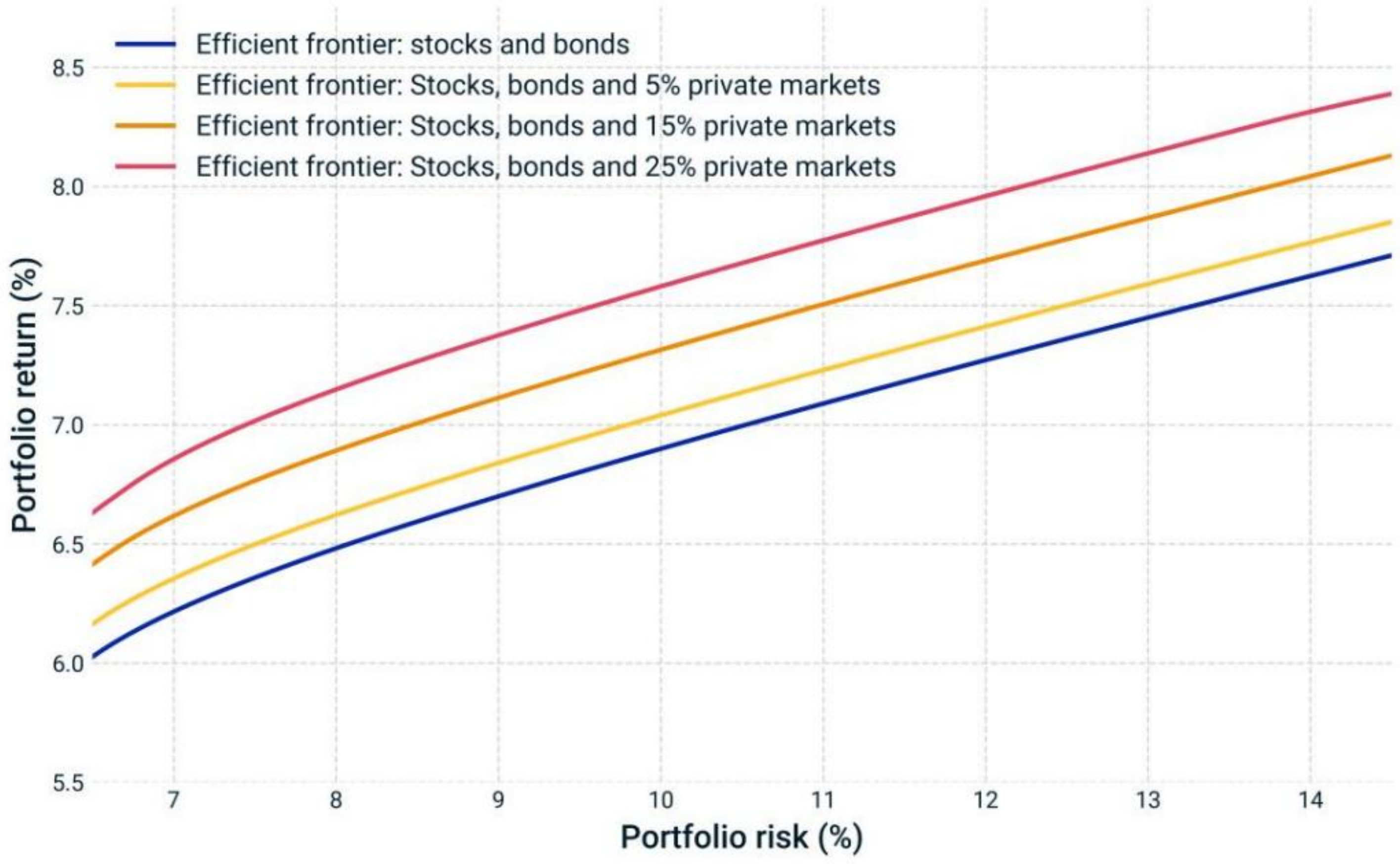
Note: Portfolio risk is estimated using the MSCI MAC Factor Model, which addresses the limitations of historical return based risk-estimation methodologies, particularly for private markets.

The Strategic Role of Private Assets

Including private markets in the investment universe expands the efficient frontier of risk-adjusted returns, but at the cost of:

- → Increased illiquidity
- → Valuation complexity
- → Challenges in performance Benchmarking

Efficient frontiers corresponding to different private-market exposures



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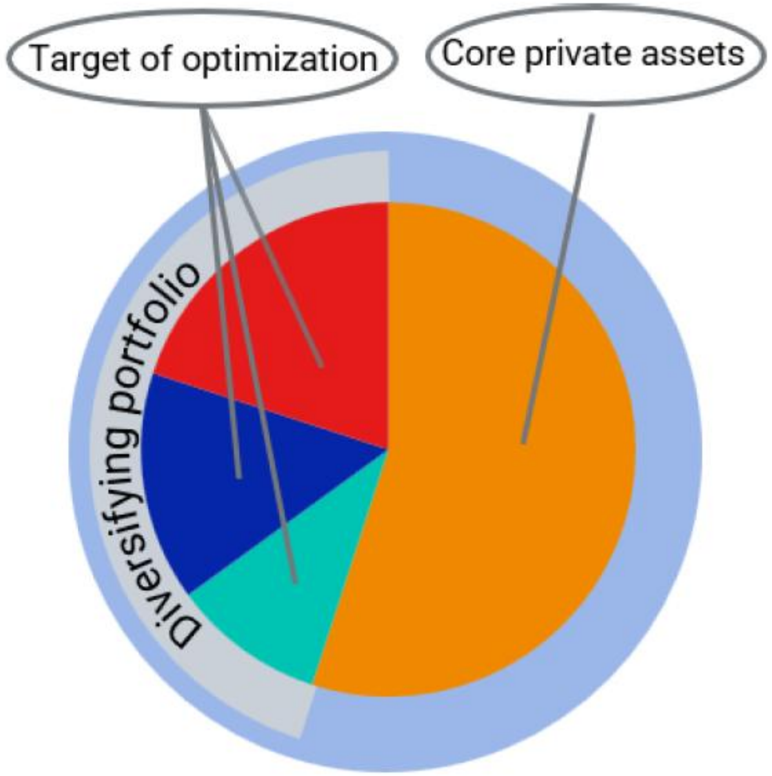
Constructing the diversifying portfolio

The diversifying portfolio is built with a deep understanding of the risk factors and economic exposures present in the core holdings.

→ Modeling the core private holdings

→ Complement existing core private-asset exposure

Total portfolio = core private assets + diversifying portfolio



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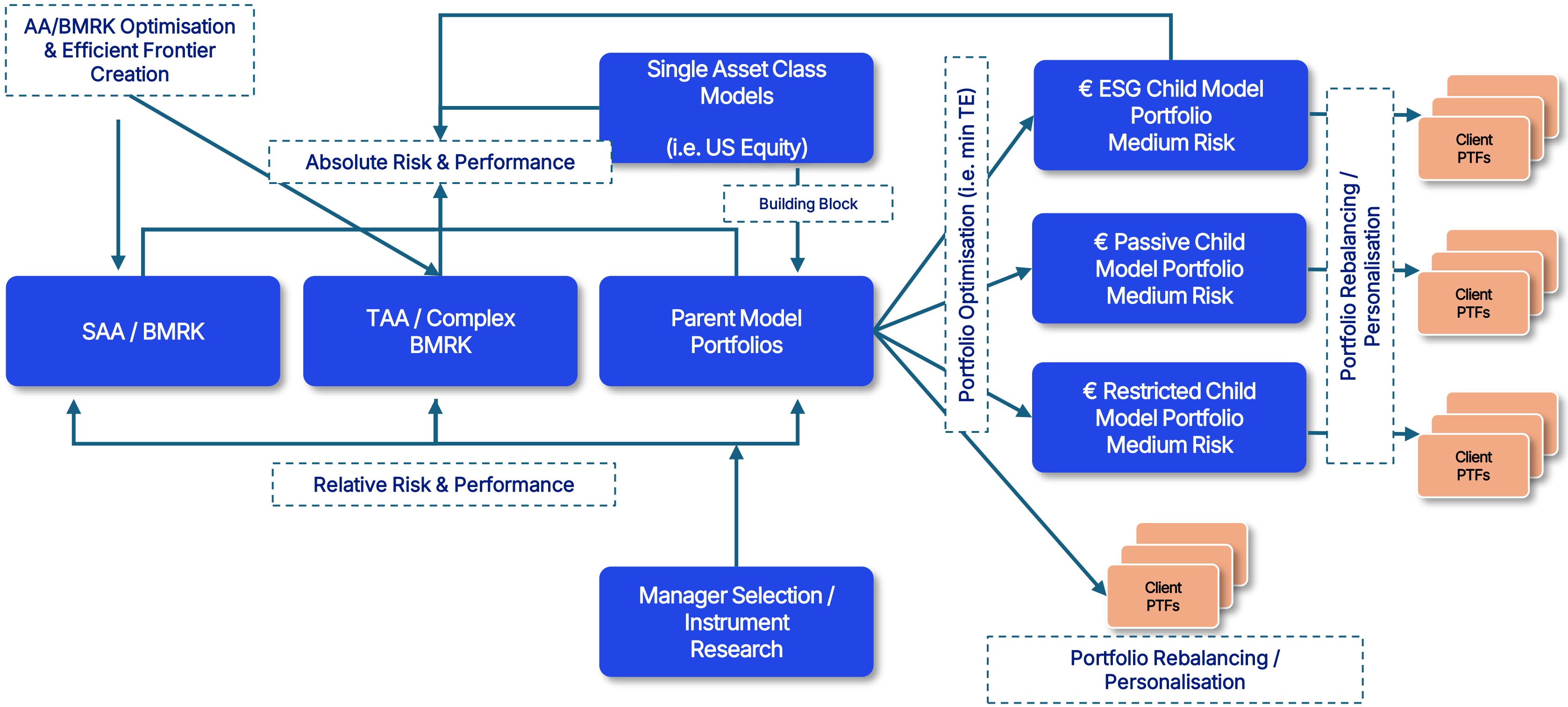
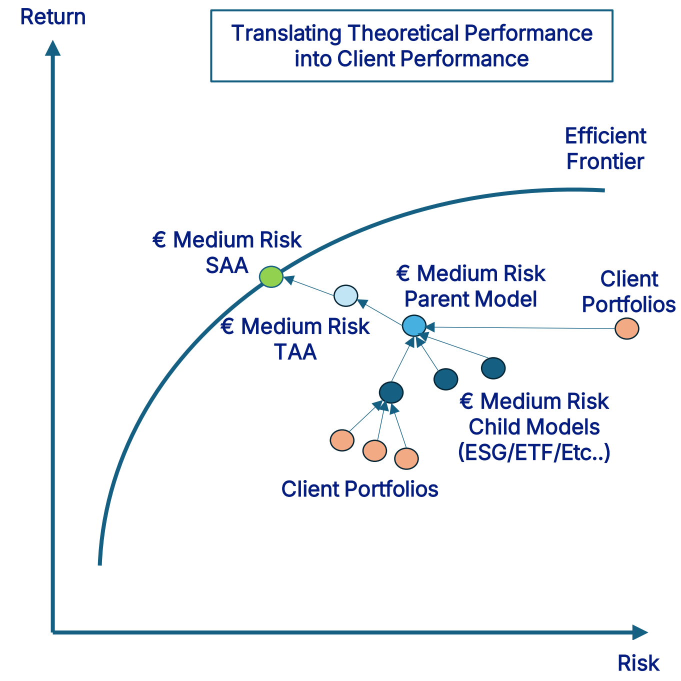
Practitioner's View on Integrating Private Assets in Wealth Management

Hassan Suffyan |
Head of Wealth Segment, EMEA & APAC

The Portfolio Management Journey: A Recap





Models | Client Portfolios

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The Benchmark Blindspot

Most Strategic Asset Allocations (SAAs) today primarily benchmark against public market assets. This creates a "blind spot" where private asset allocations are often seen as tactical deviations rather than core strategic components, which in turn consumes precious tracking error budget and forces short-term decision making.

Traditional Benchmark-Driven SAA

- Public Equity
- Bonds

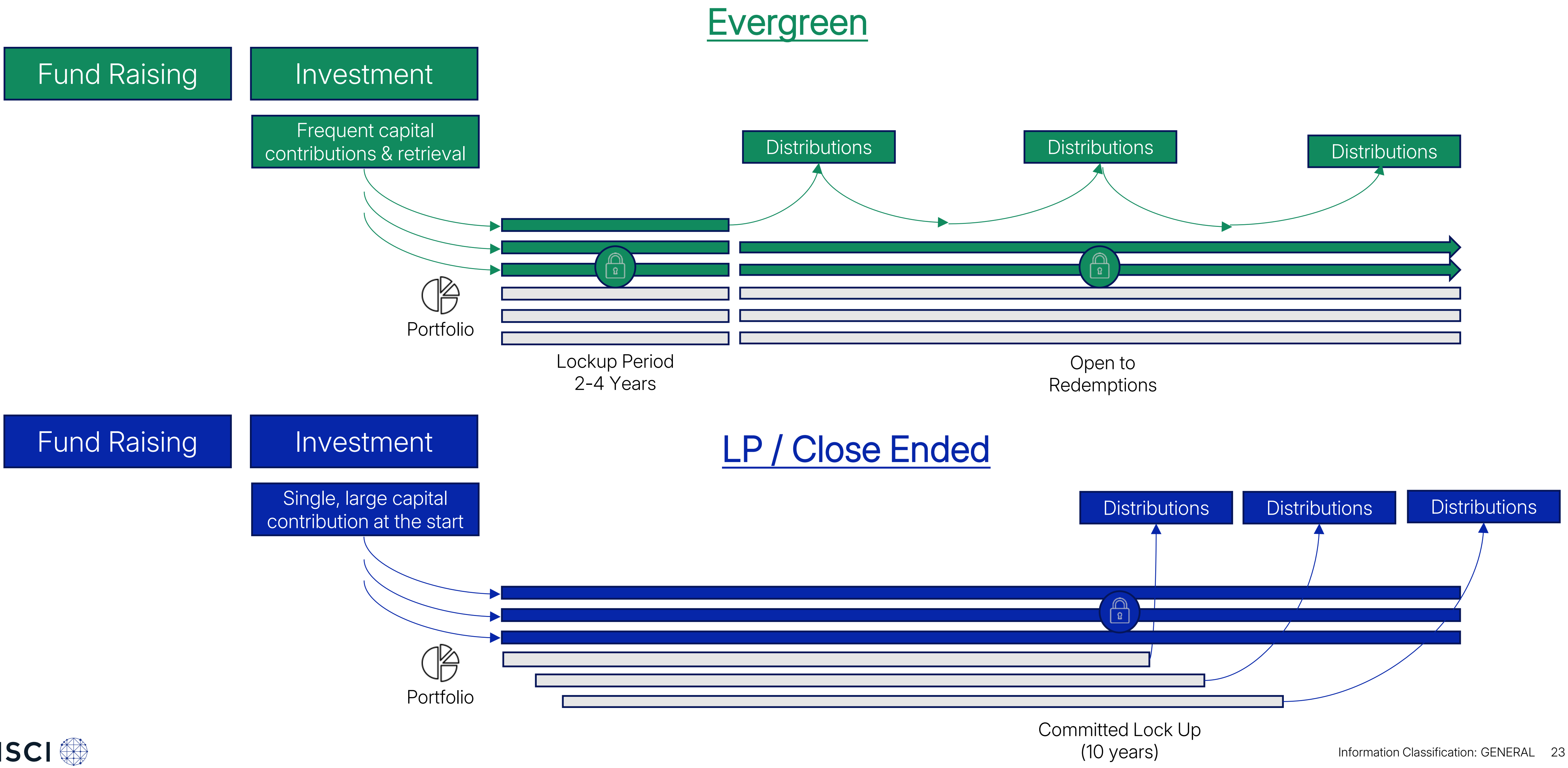
Theoretical Enhanced SAA

- Public Equity
- Bonds
- Private Equity
- Private Credit
- Real Assets
- Infrastructure

> “If it's not in the benchmark, it's a deviation”

Evolving benchmarks to include these critical asset classes is key to making private markets a core part of investment strategy.

Pathways to Private Market Exposure: A Recap



Manager Research & Selection: LPs vs. Evergreens

LP Funds (Closed-End)

Due Diligence Focus

Manager selection drives most dispersion — high impact from team skill, deal flow, and vintage.

Complexity

Requires deep analysis of historical fund performance, cashflow modeling, and IRR vs PME benchmarking.

Transparency

Limited interim reporting; NAVs updated quarterly; valuations lag market cycles.

Access

Often restricted to institutional or UHNW clients; illiquidity demands long-term commitment.

Research Implication

Requires bespoke frameworks to assess manager persistence and strategy consistency.

Evergreen Funds (Open-Ended)

Due Diligence Focus

Blend of public and private exposure — performance influenced by liquidity sleeve and valuation policy.

Complexity

Ongoing monitoring required for subscription/redemption terms, pricing methodology, and rebalancing mechanics.

Transparency

Higher frequency reporting (monthly/quarterly) but more model-based NAVs.

Access

Designed for wealth clients; scalable, but dispersion is narrower.

Research Implication

Requires adaptation of traditional peer group analysis to hybrid structures.

Summary: LPs require deep qualitative research and vintage-level analysis; Evergreens demand continuous oversight and risk calibration.

The structure you choose dictates the type of research required. LPs are all about manager skill, dispersion, and timing. Evergreens are about process discipline, liquidity management, and governance. Both need robust frameworks — but very different ones.

The Real-World Challenge of Model Portfolios: Combining Public and Private Markets

Model Design

Integrating Public & Private Markets

- Different valuation frequencies, benchmarks, and factor data.
- Correlation estimation and backtesting for private exposures.

Insight: Factor-based frameworks enable consistent modeling of risk and return.

Advisor Implementation

Turning the Model into Advice

- Managing capital calls vs. rebalancing cycles.
- Translating model performance into relatable client language.
- Product access and regulatory suitability.

Insight: Advisors need tools to align liquidity, timing, and communication.

Client Portfolio Delivery

Delivering Outcomes to Clients

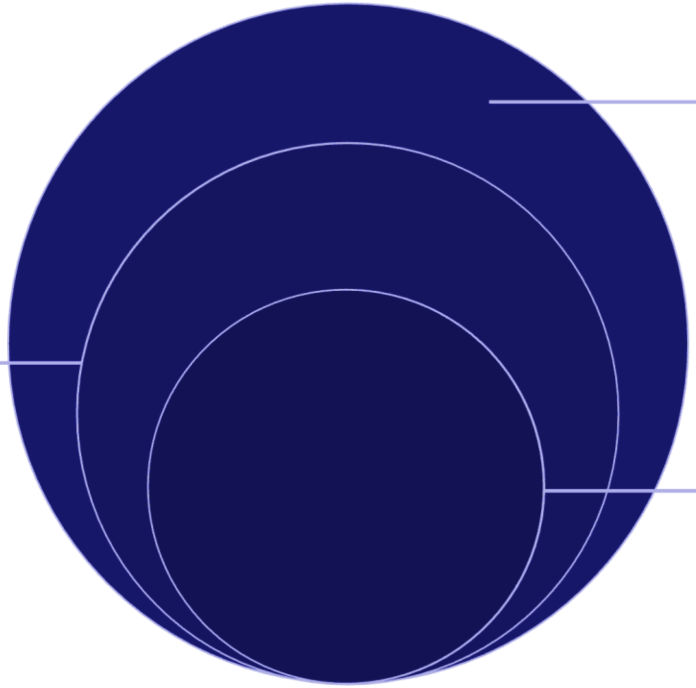
- Vintage dispersion — clients in "same" strategy, different outcomes.
- Reporting private + public assets in one coherent view.
- Behavioral coaching through long, illiquid cycles.

Insight: Education and lifecycle management matter as much as allocation.

"Building a model is relatively straight-forward. Implementing it across hundreds of clients with liquidity, timing, and transparency constraints — that's where the complexity lives."

The Partnership Imperative: Enabling Integration Across the Wealth Ecosystem

Embedding private assets across the entire portfolio management lifecycle requires a concerted effort. No single entity can achieve this integration alone; it demands robust collaboration.



Ecosystem Partners

Vendors, Asset Managers, Tech & Platforms, Custodians, Regulators.

Wealth Mangers & Advisors

Translate goals into portfolios; align advice, suitability, risk and client preferences.

Client / Investor

Goals, risk preferences, time horizon, ESG values.

True integration in wealth management requires collaboration — clients at the center, advisors bridging relationships, and partners such as Asset Managers developing client friendly strategies, Vendors enabling data, transparency, and Platforms enabling access.

Integration into Existing Frameworks is Key

→ Integration means private assets need to ‘talk’ to your public portfolio — through shared risk, liquidity, and ESG lenses.

Current assets

- Existing holdings
- Liquidity of assets

Client Criteria

- Risk appetite and tolerance
- Liquidity preferences
- Growth expectation
- Income requirements
- ESG Preferences

Market Views

- Capital Market Assumptions
- Scenarios

→ Private & Public Indexes
→ Private & Public Risk Models
→ Portfolio Optimization
→ Scenario & Stress Testing

Total Portfolio Approach

→ Integrated view of all assets in one framework

→ Assessing the impact of introducing private allocations to the portfolio

→ Diversifying allocations designed around locked-in private exposures

→ Efficient frontier analysis

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