

ALTitude

Summer
2024

Your quarterly guide to the world of alternative investing

Featured Article:
CEO Bill Bamber's
1,000-foot view of
the Alternatives
landscape

Also in this issue:
Bridging the "Alternatives Gap"
& the benefits of evergreens



Global Asset Management

Introducing Altitude

A Quarterly Guide to the World of Alternatives



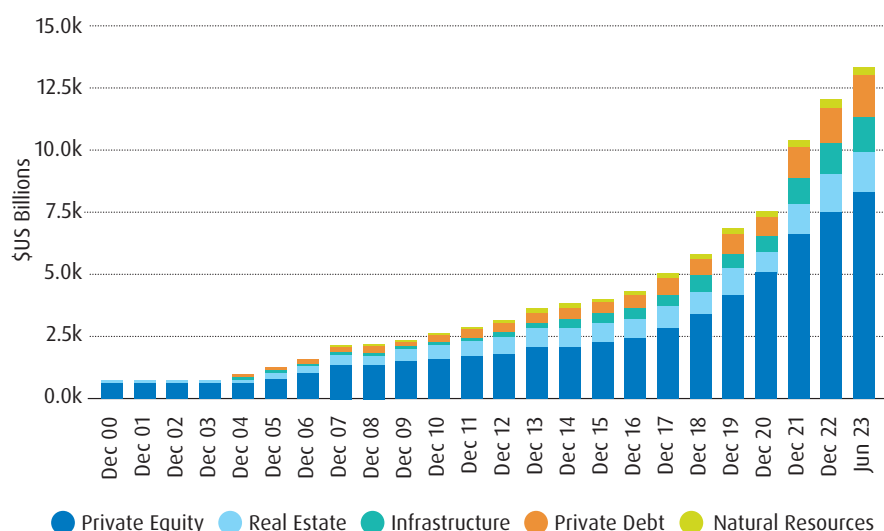
Bill Bamber

Chief Executive Officer,
BMO Global Asset
Management

When markets undergo a significant paradigm shift, as has happened recently, my colleagues and I at BMO Global Asset Management feel a deep sense of responsibility to evolve investing strategies for the benefit of Canadian investors. As part of this commitment, we have assembled a strong and capable Alternatives Distribution Team that will deliver client empowerment and education for investors across the spectrum—including Institutions, Advisors and accredited individuals alike. (Financial advisors should speak to their Wholesale Teams to request an introduction to an Alternatives product specialist.)

Our fundamental goal is to demystify Alternatives. Each team member has the knowledge and experience to not only present innovative strategies, but to navigate our clients across the complex landscape of private

Assets Under Management Breakdown



Source: [Preqin Pro, as of June 30, 2023](#).

markets. The group's mandate extends beyond the mere provision of investment opportunities; they are tasked with ensuring that clients—from the largest institutions to the most entrepreneurial accredited investors—gain a thorough understanding of these complex products, their inherent risks and their potential rewards.

Through one-on-one meetings, educational workshops and consistent thought leadership, the team will play a pivotal role in equipping clients with the information needed to make informed investment decisions. We aim to break down barriers in the alternatives market and usher in a new era of transparency that will redefine the possibilities for investors as they strive to build wealth for current and future generations.



Why Now, and Why Us?

Interest in alternative investments is undeniably on the rise—and has been for more than a decade. Globally, assets under management (AUM) more than tripled to over US\$12.5 trillion between 2013 and 2023.¹ But while the attraction of private markets is clear—research shows they reduce overall risk and improve portfolio returns²—navigating the growing number of strategies and providers remains a significant challenge for many investors.

By virtue of being part of BMO Financial Group, we have the scale, relationships and global reach to offer a distinct advantage. As we know, private markets often require local managers who have boots on the ground. With our size, we have the ability to forge partnerships with the strongest and most reputable firms in any given geography or sub-asset class. Once we have curated these local partnerships, our innovation is to execute the strategies on our product platform using simple access vehicles that investors know and understand.

In addition to well-crafted products, investors need guidance from professionals who specialize in Alternatives products. This quarterly report, *Altitude*, is designed to

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shine a light on the inner workings of private markets. We will explore challenging questions, such as: What are the benefits of evergreens versus closed-ended funds? Which sub-asset classes are suitable in this market, and why? We will deliver actionable insights and, through tireless education and transparency, will help Canadian investors meet the future with a clearer understanding of their investment options.

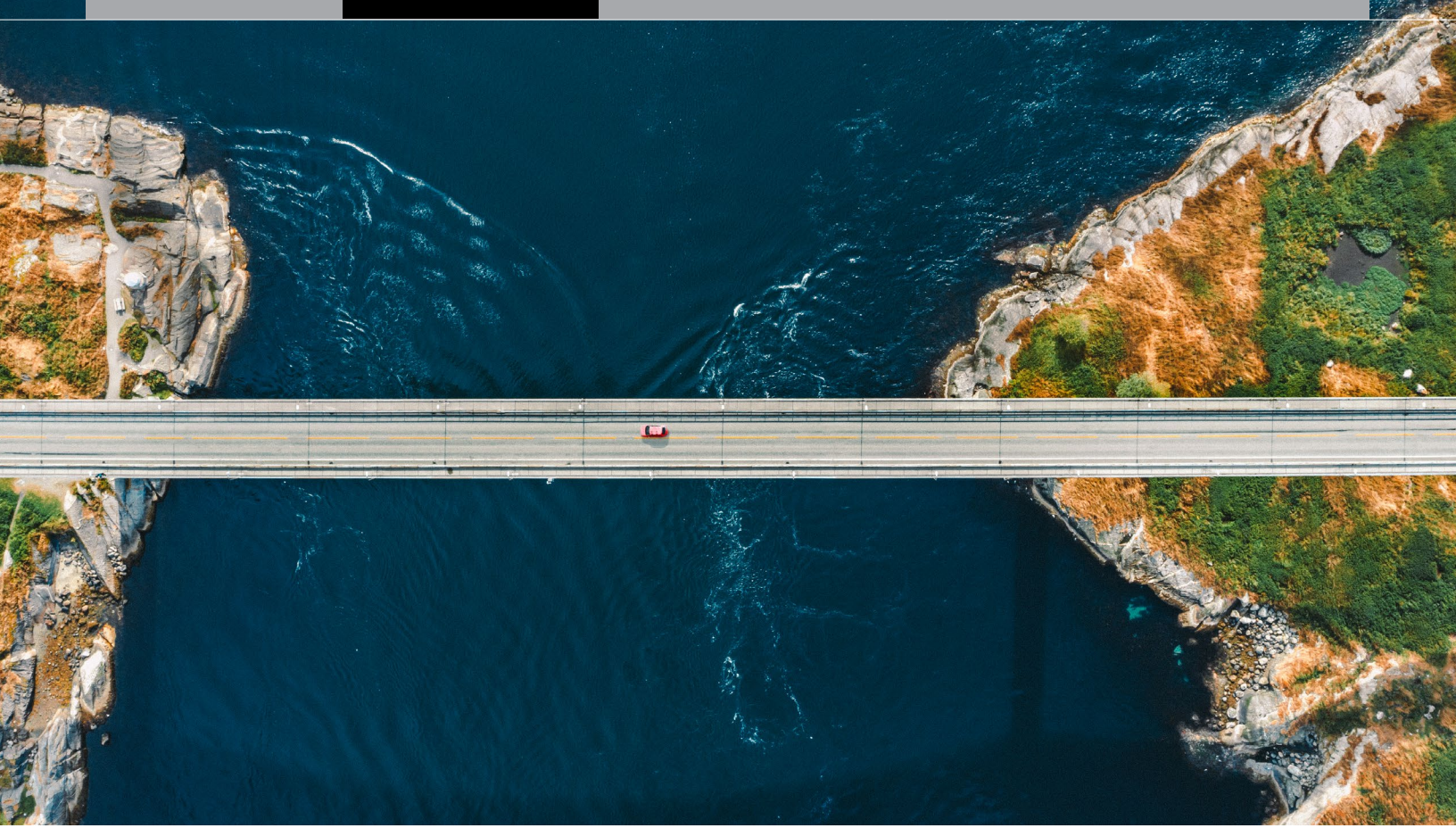
¹ [Preqin Pro, as of June 30, 2023.](#)

² [Chartered Alternative Investment Analyst Blog, *Impact Alternatives: Enhancing Portfolio Returns and Global Good*, February 3, 2022.](#)

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Bridging the “Alternatives Gap”

Narrowing the Divide Between Institutions
and Individual Accredited Investors

Author: Natalie Camara | Director, Alternatives Distribution,
BMO Global Asset Management

What is the “Alternatives Gap”?

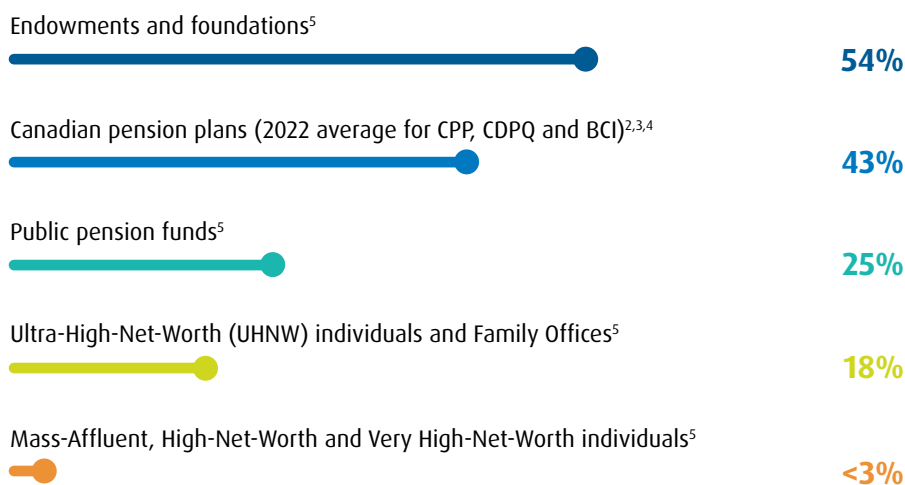
Canadian pension plans, endowments, and foundations are considered to be among the world’s most sophisticated investors—and for years, one of the reasons they have generated strong long-term performance is that they’ve had access to the unique growth, income, and diversification opportunities offered by private markets.¹ Historically, individual accredited investors have lacked access to these kinds of alternative investments. This has created a vast gap—the “Alternatives Gap”—between institutional and accredited investors’ portfolios.

Data shows that large institutions may allocate up to half of their portfolios to private markets. Mass-affluent, high-net-worth and very high-net-worth investors, by contrast, allocate less than 3% of their portfolios to private markets. Even Advisors’ and family offices’ most affluent clients—ultra-high-net-worth investors—allocate only 18% to private markets. This could indicate a positive correlation between allocation to private markets and the net worth of the investor.

What created this gap? A significant root cause is *accessibility*. Many private market investments require an initial investment in the millions

Who Invests in Private Markets?

Allocation to Private Markets by Type of Investor



of dollars, an entry point that is simply too high for most individuals—especially if it represents only a portion of their portfolio. Liquidity is also an issue, as many alternative investments require a capital commitment of several years or more. While these issues represent a significant barrier to individuals, they are less meaningful for large institutions, which typically manage large pools of assets, have more predictable liquidity needs, and deal in longer time horizons.

The Case for Alts

Alternative investments may offer three main benefits to portfolios: enhancing returns, generating income, and diversifying risk through a lower correlation to public market assets. These benefits have been proven over a long-term time horizon.⁶

The reality is that virtually all Canadians have exposure to alternative investments, because we are stakeholders in public pension plans such as Canadian Pension Plan (CPP). CPP allocates *nearly 60%* of its portfolio to private markets, including 33% to private equity, 7% to private credit, and 18% to real assets like real estate and infrastructure. This is roughly in line with Canada’s other “Maple Eight” pension funds, all but one of which allocate more than 40% to alternative investments.

¹ [Chartered Alternative Investment Analyst Blog, “Impact Alternatives: Enhancing Portfolio Returns and Global Good,” February 3, 2022.](#)

² CPP Annual Reports (2019, 2022) (CPP 2022 private credit percentage is from the total in figure 10.3.2: Terms to Maturity).

³ CDPQ Annual Reports (2016, 2019, 2022). While CDPQ does not divide private credit from public credit, it has noted private credit was a key driver of positive fixed income performance in 2016 and 2022 (cdpq.com).

⁴ BCI Annual reports (2015–16, 2018–19, 2021–22). While BCI does not divide private credits from public fixed income, it has noted that a net \$2.1Bn was deployed into private credit in 2021–22.

⁵ Bain & Company, Global Private Equity Report 2023; Preqin, GlobalData.

⁶ [Chartered Alternative Investment Analyst Blog, “Impact Alternatives: Enhancing Portfolio Returns and Global Good,” February 3, 2022.](#)

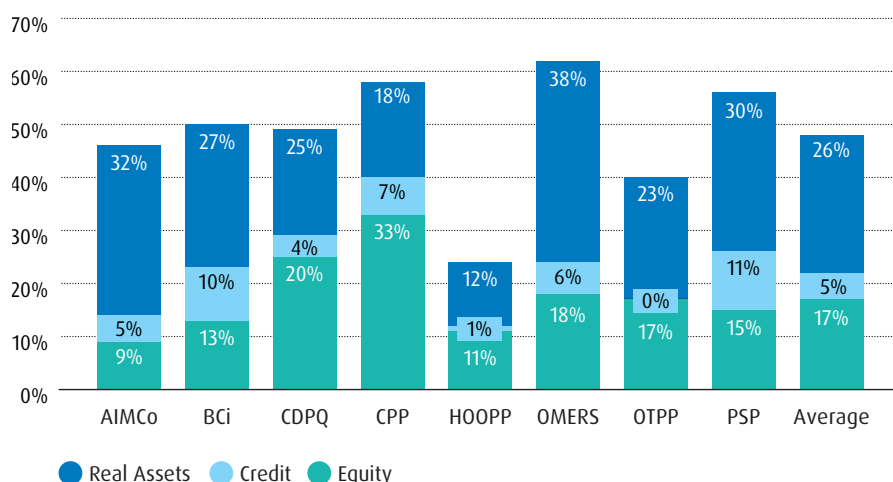
Pensions' mass adoption of alternative investment support the idea that they can deliver important, complementary benefits to traditional holdings. The question for accredited investors, then, is how best to unlock these benefits for their own portfolios.

Leveling the Playing Field Between Institutions and Accredited Investors

The alternatives landscape is currently undergoing a significant shift, as the investment industry develops innovative new solutions that enable accredited investors to access the world of private markets. Historically, private market investment vehicles tended to utilize closed-ended structures, meaning that investors often had to commit to the investment for up to a decade. As new ideas in the portfolio were vetted and explored, money often sat on the sidelines, uninvested, for one or two years. Then, the investor would be subject to capital calls—periodic requests for the money the investor has committed—which can be unpredictable.

Now, evergreen structures are leveling the playing field for accredited investors. These kinds of solutions may feature lower investment minimums and greater flexibility. For example, the [BMO Partners Group Private Markets Fund](#), which is available to Canadian accredited investors, features monthly subscriptions and redemptions with

Maple Eight Private Market Allocations Current Annual Reports (2022/23)



Sources: Annual reports. Where not explicitly cited in annual reports, private credit allocation is approximated by "Level 3" credit assets divided by gross plan investments.

Private Markets. Simplified.

BMO GAM's Alternatives team is focused on designing solutions that help accredited investors achieve their investment objectives, including improving access to private markets for accredited investors. Benefits of our solutions may include:

- Periodic subscriptions and redemptions with notice⁷
- No capital calls
- Relatively low minimum investments
- Ability for capital to compound within the fund itself rather than facing reinvestment risk
- Registered account eligibility (i.e., RRSP, RDSP, RRIIF, TFSA.)⁹
- Investing, not committing

notice.⁷ This enables investors to add to their position when desired and access their money when needed.⁸ Together, these are pivotal developments in making alternatives accessible to a much wider array of investors. Looking ahead, we view accredited investors as a major growth area for private markets.

⁷ Investors can subscribe on a monthly basis and periodically adjust their position subject to redemption restrictions, early redemption fees and redemption delays.

⁸ Redemption requests may be subject to certain restrictions, early redemption fees and redemption delays.

⁹ Subject to certain regulatory conditions.

Investing with a Trusted Partner

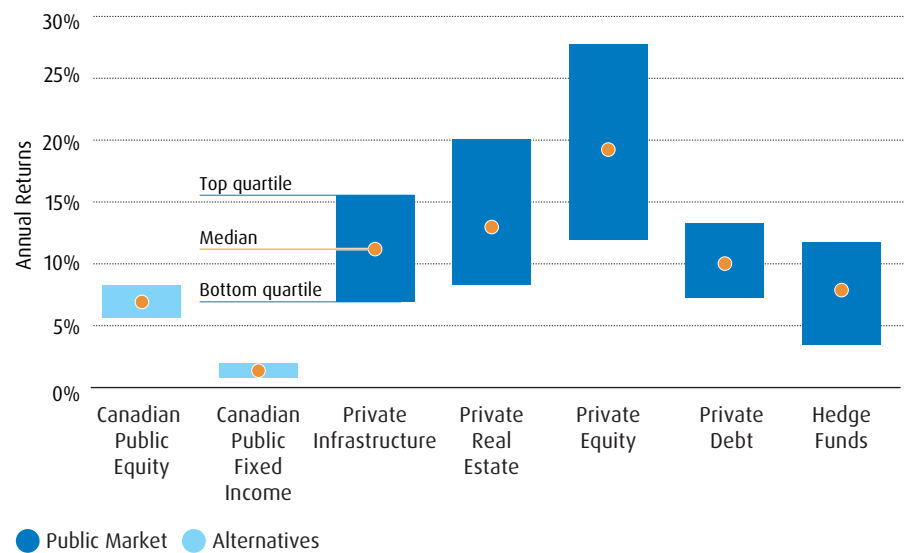
In private markets even more than public markets, who you invest with matters. Data shows that the difference in performance between the top and bottom quartile alternative investment managers is significantly wider than in public markets. That is, the stakes for *selecting the right manager* are noticeably higher for alternative investments.

As a result, the ability to effectively perform diligence on managers and strategies is a requirement for anyone considering alternative investments. Institutions like endowments and pension funds generally have large teams that are able to conduct extensive research on private market managers, their processes, and their performance. In contrast, many Advisors rely on their Manager Research teams or equivalent to screen opportunities on their behalf.

BMO GAM's alternative investment solutions help to solve these problems by providing an additional layer of diligence. Where we have the expertise and demonstrated track record, we develop proprietary product in-house. In areas where we don't have proprietary solutions, we take a research-first approach to identifying global managers, partnering with them to fit the needs of Canadian accredited investors.

The BMO Partners Group Private Markets Fund is an example of the latter. After a year-long selection

Manager Dispersion Over 10 Years – Public vs. Alternative Managers



Sources: Public markets: Morningstar data; results are based on 10-year total returns as of April 30, 2023. Alternatives: Preqin data; based on IRRs from global managers from 2011-2020. Based on chart from JP Morgan.

process, Partners Group was selected by BMO GAM because of its 30 years of experience in private markets—including private equity, private credit, real estate, and infrastructure—as well as its 20-plus-year track record managing evergreen funds and over \$147 billion in assets under management.¹⁰ Then, BMO GAM intentionally designed a solution suitable to the Canadian market to capture the benefits of alternative investments for its accredited investors client base.

Through funds like the BMO Partners Group Private Markets Fund, Advisors can narrow the “Alternatives Gap” in their clients’ portfolios, enabling them to access the benefits of private markets—potentially enhanced returns, income, and diversification—previously available only to institutions.

For more information, contact your [Regional BMO Global Asset Management Representative](#) or the [BMO GAM Alternatives Team](#) at alts.gamspecializedsolutions@bmo.com.



Natalie Camara

Director, Alternatives Distribution,
BMO Global Asset Management

¹⁰ Unaudited, inclusive of all Partners Group affiliates, as of December 31, 2023. Assets held globally.

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In addition to the risks described in the OM of the BMO PG Fund, the BMO PG Fund will bear the risks associated with the Partners Group BMO Master Limited (Master Fund) in proportion to the amount of the BMO PG Fund's investment in the Master Fund. Prospective investors in the BMO PG Fund should therefore carefully consider the risks described under "Certain risk factors", "Business and structure related risks", "Adviser related risks", "Investment-related risks" and "Limits of risk disclosure" in the OM of the Master Fund.

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The **Evergreen** Solution:

Solving the Challenges of Closed-End Funds

Author: Lillian Ferndrigger, CAIA | Director, Alternatives Distribution,
BMO Global Asset Management

Private markets have the potential to increase returns and diversify risk away from public holdings. Yet they have historically been adopted primarily by institutions while private wealth Advisors have been slower to embrace these solutions. One key reason private wealth has lagged is the way funds that provide exposure to these asset classes have traditionally been structured.

Specifically, closed-end fund structures have been the most common method of accessing private equity, private debt and real assets. This investment vehicle has a discrete fundraising period where investors indicate their commitment to join the deal, but do not call the capital until an attractive opportunity is found. Investors choose when to commit, but managers control the pace of actual investment. Additionally, investors generally do not have any ability to redeem their purchase within the life of the fund and only receive cash upon exit of the underlying investments.

By contrast, evergreen solutions resolve these pain points experienced by private wealth by permitting periodic subscriptions and redemptions (subject to certain restrictions and conditions), and assuming responsibility for deploying and re-investing capital themselves. It is not a coincidence that evergreen solutions have become an increasingly popular fund format in private markets along the same timeline as asset managers turning to the private wealth channel for fundraising.

Impediments with Closed-End Funds

Closed-end funds can be difficult to implement within private wealth for three main reasons:

- **Long lockups**—Typically closed-end funds have a life span of 10–12 years without on-demand liquidity. Not all private wealth clients are comfortable being locked into a product in which they can't access their cash.
- **Committed not invested**—The amount that is committed is not invested until the manager makes an investment. The Advisor will have to build a program for the money to be invested elsewhere so it doesn't sit idle waiting for the manager to make a capital call. Since the capital call is a legal obligation with only a few days to fulfill, most Advisors will keep the money in liquid, cash-like investments.

The evergreen structure offers solutions for certain challenges Advisors face when trying to access private markets.

- **Operational difficulty**—Advisors bear the reinvestment risk in a closed-end structure. As distributions from exits are paid out to the investor, the capital is typically deployed back into the liquidity sleeve with a lower-than-expected return than the initial closed-end fund's internal rate of return (IRR). Ensuring there are always closed-end deals available to redeploy the capital requires the Advisor to spend a significant amount of time to analyze and diligence new issues.

As there is no ability to redeem from a closed-end deal, an Advisor is not able to rebalance the portfolio. This can lead to the "denominator effect," where the private market allocation exceeds the set threshold in the investment policy statement as public markets decline. Conversely, an Advisor can't add profits from public markets back into the closed-end fund as the allocation has already been set.

Although closed-end funds certainly have a place in ultra-high net worth clients' portfolios to attain a pure private markets exposure, there is another option to provide a more democratized entry point.

The Evergreen Solution

At BMO Global Asset Management (BMO GAM), we have developed open-ended private market funds otherwise known as "evergreens."

The evergreen structure solves for some of the challenges Advisors face when trying to access private markets. By using a structure that is more Advisor-friendly for implementation, it will allow more retail investors to gain exposure to private markets.



The three main ways evergreen structures differ from closed-end funds:

- **Buy when you want, redeem when you need¹**—In a private markets evergreen structure, the Advisor can purchase monthly, meaning that all suitable clients will have exposure to the same fund regardless of when the Advisor brings the client on board. These evergreen structures also have built-in liquidity valves (subject to certain restrictions and conditions) which can allow the Advisor to make a redemption rather than having to wait for the underlying investments to exit. Although this structure will inherently have more cash drag for the liquidity sleeve, the trade off is that the investor can redeem with notice.²
- **Rapid capital deployment**—Closed-end funds have historically been subject to capital call restrictions; an investor commits a certain dollar amount, however that capital sits idle until the manager requires it. In contrast, a dollar invested today in an evergreen will see that dollar deployed into the fund on Day 1. Evergreens can also experience a steadier IRR—that is, the rate of return on capital actually invested—because the fund strives to deploy capital from the time it is invested. The open-subscription model allows the

manager to continue buying new assets, compounding returns over time.

- **Reinvestment risk shift from Advisors to fund**—It typically takes four closed-end fund commitments a year to mimic the same cycle that an evergreen fund provides. This requires a lot of time for an Advisor to source, diligence and fund these investments, making it operationally difficult to bring across a book of business. For an evergreen fund to be successful, the manager must have an established platform of private market investments to continuously recycle the capital and originate new investments. This contrasts with a closed-end model, where once an asset is sold or position is exited, that money is then distributed out to investors and the Advisor is responsible for finding a suitable private markets investment.

With an evergreen structure, the Advisor can rebalance portfolios as there is an ability to purchase more of the fund, or to redeem the fund with notice, subject to certain restrictions and conditions. By actively managing the portfolio, the Advisor is able to dynamically shift holdings when needed.

¹ Redemption requests are subject to specific terms of the Fund, and may be subject to certain restrictions, early redemption fees and redemption delays.

² In the case of the BMO Partners Group Private Markets Fund, monthly redemptions are available with notice of 3 months (plus 5 business days) prior the relevant dealing day up to limits of 7.5% of fund's net asset value per month, 20% per quarter and 25% per year. Subject to certain conditions, redemption payments will generally be made within 45 business days after the relevant dealing day. There is also a 2% early redemption fee in the first two years following the date of a unitholder's initial subscription to the fund.

The BMO Advantage

We have taken the approach to partner with leading asset managers around the world with strong reputations and track records of managing evergreen structures. Our evergreen solutions are structured with liquidity channels and cash management that matches with the redemption features of the fund. Through our deep due diligence, we ensure the manager will have ample capacity to source new investments to mitigate reinvestment risk.

An example of a partnership in action, is with the [BMO Partners Group Private Markets Fund](#)—a one-ticket access to private markets. Subject to certain restrictions and conditions, it features liquidity to ensure cash is available for redemptions, which may not disrupt the fund's long-term investment strategies. The Fund aims to provide competitive returns but also maintains a certain amount of liquidity, a rare combination in private market investments.

And we are just getting started. BMO GAM is committed to building solutions that offer broader diversification alongside potentially reduced volatility and enhanced returns for clients, by creating compelling complements to their public market portfolios.

For more information, contact your Regional [BMO Global Asset Management Representative](#) or the [BMO GAM Alternatives Team](#) at alts.gamspecializedsolutions@bmo.com



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On Your Radar

Resources for the Alternative Investor

BMO PARTNERS GROUP PRIVATE MARKETS FUND



Introducing the BMO Partners Group Private Markets Fund ▶

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BMO CARLYLE PRIVATE EQUITY STRATEGY PARTNERSHIP

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[Press Release](#)

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