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THE ALLURE OF PRIVATES

In the evolving world of investments, private strategies have garnered significant attention, attracting investors of all sizes with their promise of exclusivity and potential returns. At the heart of this landscape stands the Yale Model, celebrated for their leadership in alternatives and superior track record. Notably, this model places a strong emphasis on private investments like private equity and hedge funds. While such a strategy has been fruitful for larger institutions like Yale, the question remains: Could it be an equally fitting choice for smaller firms?

Could smaller investment funds benefit from investing in private markets? What are the drawbacks of private investing?



Why was the Yale Model successful?

The Yale Model's remarkable success is rooted in its unique investment approach. Diversification took center stage with investments across various asset classes like private equity, real estate, hedge funds etc. This diversification minimized risk, ensuring consistent returns over time. The model's long-term perspective allowed it to weather market fluctuations and benefit from illiquidity premiums, resulting in impressive performance. Moreover, access to top-tier fund managers and active management strategies was a competitive edge. In summary, the Yale Model's winning formula combined strategic asset allocation, a steadfast commitment to the long-term, and a sharp eye for managerial talent.

What challenges do smaller funds face with private investing?

Replicating private investment models presents formidable hurdles for smaller funds. The illiquid nature of investments can restrain capital for extended periods, ranging from 3 to 7 years, precisely when smaller funds often require liquidity. Moreover, access to seasoned fund managers is restricted due to intense competition and the prevalence of surplus capital in the market. Additionally, capital calls can occur during market downturns, compounding the challenge.



PRIVATE STRATEGIES

What are they...?

Private strategies include investments that extend beyond public market assets like stocks and bonds. These investments include private equity, venture capital, real estate, and private debt. They involve investing in unlisted entities or illiquid assets, aiming for substantial long-term gains.

Such strategies diversify portfolios and potentially yield higher returns but necessitate a long investment horizon and increased complexity compared to publicly traded assets. They also demand astute financial management and often require specialized knowledge and access. Complexity in operations is a key consideration in managing private investments.

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