SLOWER PRIVATE ASSET DISTRIBUTIONS

What Does It Mean for a CIO?

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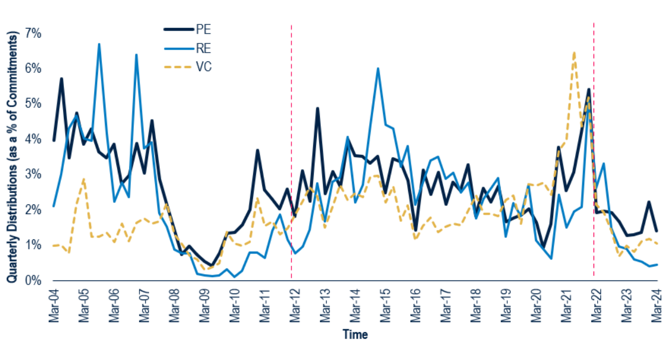
Lackluster private asset distributions have been a hot topic (*i.e.*, headache) for CIOs since 2022. Slower private asset distributions generally result in higher NAVs and less liquidity in institutional portfolios, with ramifications for investors' commitment pacing, portfolio risk and asset allocations.

The Figure below shows the private asset quarterly distributions (as a % of pooled commitments) over the past 20y. This long period of historical distributions provides a relatively complete picture of how private asset distributions have been evolving. To examine the magnitude of the slow-down of distributions in comparison with those in a normal market environment, we focus on two periods: Q1 2022 onwards, *i.e.*, the slower distribution period and the 10y prior to 2022, *i.e.*, a "normal" distribution period. Since 2022, the average quarterly PE distributions dropped to 1.7% compared to 2.8% in a normal market environment. In the meantime, RE distributions took the biggest hit – falling from 2.6% to 1.3%, on average.

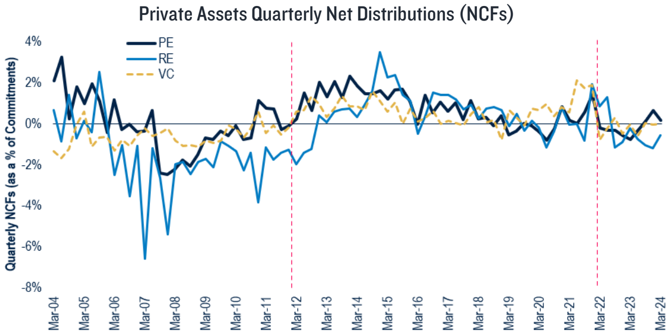
Private Assets Quarterly Distributions



Source: PGIM PMA and Burgiss. Provided for illustrative purposes only.

Institutional investors may be more concerned about net distributions or Net Cash Flows (NCFs) which directly affect their portfolio liquidity. If net distributions unexpectedly become negative, investors may have to sell assets they did not plan to sell or slow down new commitments to meet liquidity demands. The Figure below shows on average private assets experienced negative net distributions since 2022 compared to average positive quarterly distributions in normal markets.

Private Assets Quarterly Net Distributions (NCFs)



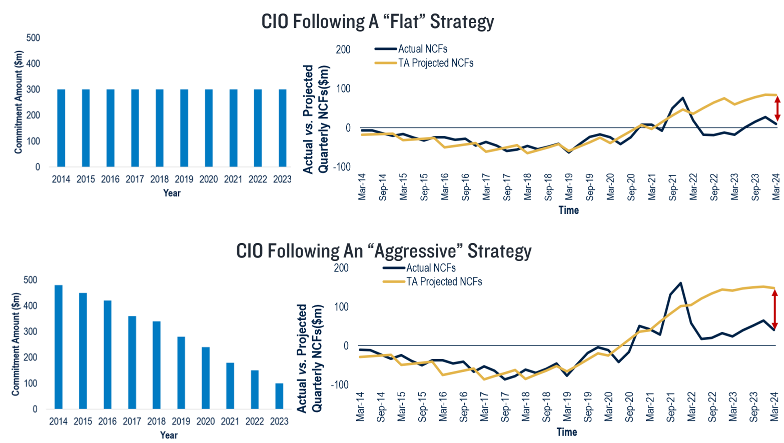
Source: PGIM PMA and Burgiss. Provided for illustrative purposes only.

Pooled distributions provide a good overview of the total slow-down of private asset distributions. However, in practice, CIOs have exposure to a collection of vintages, *i.e.*, a subset of the pooled universe. To make the recent slow-down in distributions more relevant to a CIO's experience, we assess how the slow-down might affect portfolio liquidity differently for two CIOs who followed a different commitment pacing strategy.

Assuming two CIOs have been investing in PE in the past 10y, each with $3b total commitments. One CIO followed a "Flat" pacing strategy, committed $300m every vintage year *vs.* the other CIO who followed an "Aggressive" strategy with commitments tapering off.

Both CIOs experience shortfalls in net distributions, but the level of shortfalls varies. The CIO following a "Flat" strategy faces less of a shortfall as they have less exposure to vintages around 2016, which are expected to be at the peak of their distributions and have been more significantly affected during the slow-down.

A Comparison of The Liquidity Impact of Slower Distributions
(A "Flat" *vs.* An "Aggressive" Strategy)



Note: TA Projected NCFs represent the CIO's expected net cash flows projected using the Takahashi-Alexander (TA) model with "No-view" historical average TA parameters. Source: PGIM PMA and Burgiss. Provided for illustrative purposes only.

Since 2022, CIOs have been grappling with slower distributions. However, the portfolio liquidity consequences of slower distributions vary depending on the investors' historical commitments, future commitment pacing strategy, and liquidity needs. Importantly, what makes this period particularly interesting is that the slow-down of private asset distributions coincided with the **boom of PRT transactions** – since 2022 higher interest rates combined with strong equity markets have significantly improved corporate DB plan funding ratios and increased the likelihood of PRTs – potentially resulting in higher NAVs and less liquidity in institutional portfolios making liquidity management more challenging[1].

In a world of slower private asset distributions, CIOs need to carefully evaluate their future commitment pacing strategies now to better manage portfolio liquidity risk going forward.

[1] PRT Ready? Private Commitment Pacing in a World of Higher Funding Ratios

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