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# Favorite holding period in private markets: forever

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**Private market investments, such as privately held equity exposures, are increasingly an indispensable component in a long-term investment approach, and within the context of our Wealth Way investment plan they make a good fit for the legacy strategy.**

Warren Buffett is without doubt one of the most quoted investors in history. The Sage of Omaha was and is famous for his annual letters to shareholders. In his 1988 letter, following the purchase of a significant stake in Coca-Cola, he wrote: "When we own portions of outstanding businesses with outstanding managements, our favorite holding period is forever."

Pursuing a long-term buy-and-hold strategy in companies when you have complete trust in their business model and management makes sense in public markets, but even more so in private equity investments. It could even be argued that such a strategy lends itself particularly well to private market investments. Things work differently at private equity firms compared with listed companies, where investors use detailed analyses to try to find out which are the ones with outstanding business models and outstanding management. Private equity firms very often take on board companies that appear to have unattractive business models with dormant potential and/or weak management, and then restructure them and make them into what Mr. Buffet refers to as outstanding businesses with outstanding managements. It goes without saying that this requires time and money and does not happen overnight. It is also self-evident that it is best to take a broadly diversified approach, and so to invest in several such turnaround companies.

We are firmly of the view that there continues to be good reasons for using private equity as an addition to publicly quoted stocks in a well-diversified portfolio. One reason is that companies are deciding in ever greater numbers to remain private, and so to put off listing on the stock exchange or not to list at all. Between 2000 and 2023, the number of companies

financed through private equity increased sixfold to almost 11,000. This means that part of the value created in these companies that previously found its way into public markets has instead flowed into private markets.

Investors that do not recognize these opportunities risk a long-term underexposure to fast-growing sectors of the economy in which companies decide not to list on the stock exchange. We expect private equity and private debt to generate annual returns of around 11% and 9%, respectively, over a full business cycle, which are both above the returns we expect from public equity and bond markets. Diversification over different vintages remains one of the most important preventive steps in mitigating potentially negative effects on existing investments.

However, investors in private markets have to bear other kinds of risk and to adopt a more strategic perspective than in public markets. A particular risk is that liquidity is generally limited in such investments. Within the context of our Wealth Way\* investment approach, we think they make a good fit for the third strategy, which is intended to provide a legacy for the next generation or for a good cause. And that brings us full circle back to Warren Buffett's words that we opened with. Favorite holding period: forever.

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