

Introduction to private markets and alternative investments

Private markets and alternative investments are rapidly transforming the investment landscape, offering new opportunities beyond traditional stocks (equities) and bonds (fixed income). Once reserved for institutional investors, these asset classes are now increasingly accessible to individual investors, providing powerful tools for diversification, enhanced returns, and risk management.

What are private markets and alternative investments?

Private markets and alternative investments refer to assets outside of traditional public equities (stocks) and fixed income (bonds). They include but are not limited to:



Private equity: Investments in private companies at various growth stages, from startups (venture capital) to mature businesses (buyouts).



Private credit: Typically (but not always) non-bank lending to private companies, often with higher yields than traditional bonds.



Hedge funds: Actively managed pooled funds using long/short strategies to achieve returns regardless of market direction.



Real assets: Investments in real estate, infrastructure, commodities, and more.

Private market and alternative investments are typically less liquid and are often not on public exchanges. As a result, investments in private markets and alternatives can require careful consideration of an investors time horizon and liquidity needs.

Key benefits to private markets and alternative investments

With greater accessibility, transparency, and product innovation, private markets and alternative investments are reshaping how portfolios are constructed due to a variety of investor benefits including:

Broader diversification

- Can reduce overall portfolio risk.
- Less correlation and sensitivity to public markets and geo political issues.
- More investment opportunities due to companies staying private for longer.

Enhanced returns

- Historically higher returns compared to publics.
- Access to growth and value creation in private companies.

Increased accessibility

- Exposure to a broader universe of investments.
- Increased accessibility and lower minimum investments.
- Increased liquidity for liquid funds.

Portfolio allocation considerations

As private market and alternative investments become more accessible, the question no longer is, whether to include them—but how to do so effectively. Successful allocation requires a thoughtful assessment of investor goals, risk tolerance, and liquidity needs. By integrating alternatives strategically, investors can unlock new levels of diversification, income, and growth potential. It is important to consider:

- **Investor needs:** Assess goals, risk tolerance, time horizon, and liquidity needs.
- **Allocation and exposure:** Newer structures allow for gradual entry and scaling of positions.
- **Diversification:** Use alternatives as a complement to traditional stocks and bonds (e.g., 50/30/20 split: stocks/bonds/alternatives).
- **Due diligence:** Evaluate manager track record, strategy, fees, and alignment of interests.



Associated risks and considerations for private markets and alternative investments

While the potential rewards of private markets and alternative investments are significant, it’s essential to recognize that these opportunities come with their own unique set of challenges. Before incorporating privates and alternatives into a portfolio, investors and advisors should consider the following factors.

Risk consideration	Explanation
Less liquid	▪ Many private investments require multi-year commitments and cannot be quickly sold. ▪ Many funds have soft lockups.
Less transparent reporting	▪ Less public information as there is less regulation on reporting structures and standardization of reporting. ▪ Due diligence can be critical.
Traditionally higher fee structures	▪ Typically higher than public market investments, including performance-based fees, early redemption fees, administrative fees and more.
Manager selection	▪ Manager selection can be critical. ▪ Wide dispersion in returns from one manager to the next. ▪ Strong due diligence is essential to identify top managers.

The bottom line

Private markets and alternative investments are reshaping the way investors build and diversify their portfolios. With broader access, innovative structures, and the potential for enhanced returns, these asset classes can offer compelling opportunities beyond traditional stocks and bonds. However, they also require careful consideration of liquidity, transparency, fees, and manager selection.

For more information on private markets and alternative investments, speak to your Advisor, or visit cibc.com/gam-alternatives

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