# Private Markets: A Strategic Lever for Portfolio Diversification

When we ask private wealth professionals why they incorporate private markets into client portfolios, two reasons consistently rise to the top: the potential for outperformance, and diversification.[1] In a recent webinar, Hamilton Lane's Juan Delgado-Moreira, Co-CEO, and Kerrine Koh, Head of Southeast Asia explored the multiple diversification benefits of private markets. Here are three key takeaways from their discussion:

**KEY TAKEAWAYS**

Private markets offer wealth professionals multiple layers of diversification to build resilient, opportunity-rich portfolios for their clients. This diversification spans:

1. **Strategies:** Private equity, infrastructure, venture capital and credit.
2. **Sectors:** Broad industry exposure to reduce concentration risk.
3. **Geographies & currencies:** Global reach with built-in currency hedging.
4. **Fund managers:** General partners with different approaches.

## 1. A Full Range of Strategies

Private markets are more than just access to a single asset class — they're a diverse set of strategies, each with its own risk and return profile, giving investors more tools to tailor their exposure and enhance diversification. These strategies include:

- **Private equity:** The most widely recognized private strategy offers the potential for enhanced returns through private companies.
- **Infrastructure:** Valued for inflation protection and steady, predictable cash flows, making it a natural hedge against rising prices.
- **Venture capital and growth equity:** Provide access to high-growth companies, offering significant upside potential but also higher risk.
- **Private credit:** Can offer reliable income, low volatility, and act as a natural hedge against inflation and currency risk.

By blending private market strategies, wealth professionals can construct portfolios that balance growth potential with downside protection—aligned to each client's financial objectives.

## 2. Access to Multiple Sectors

While strategy diversification refers to the range of investment approaches, sectors refer to specific industries—such as energy, technology, or healthcare. A single private markets strategy may span multiple sectors.

[1] Source: The Hamilton Lane Global Private Wealth Survey, 2024, 2025.

History demonstrates that over-concentration in trending sectors can heighten portfolio risk. A current example is the dominance of technology stocks in U.S. public markets, where the "Magnificent Seven[2]" now comprise over 30% of the S&P 500. This level of concentration echoes the buildup seen prior to the dot-com bubble of the late 1990s, underscoring the importance of sector diversification in managing downside exposure.

Private markets offer a more balanced approach, with less concentration risk. A fund within a single strategy, such as private equity, often provides access to multiple sectors. Strategic funds can also provide broad sector exposure, avoiding overreliance on a single industry.

## 3. Geographical and Currency Exposure

Private market funds can also provide geographic diversification, reducing exposure to localized disruptions such as political unrest or natural disasters, and capitalizing on regional potential.

Geographic diversification typically spans two key market types:

- **Developed markets**—such as the United States, Europe and Japan—offer stability, transparency and institutional depth, along with steady long-term return potential.
- **Emerging markets**—including India, China and Brazil—carry higher risk but stronger growth opportunities and lower correlation with developed economies, helping smooth overall portfolio performance.

Geographic diversification can also help mitigate currency risk. By allocating investments across regions and currencies, investors hedge against sharp moves in one currency—like the 11% decline in the dollar in the first half of 2025[3] — which could erode portfolio value.

## 4. Fund Manager Diversification

Wealth professionals can also seek diversification within individual private market funds, through exposure to multiple general partners (GPs)—who source and manage the underlying assets.

Private market funds are typically structured as either single-manager or multi-manager vehicles:

Single-manager funds are overseen by one firm responsible for all deal sourcing and execution. While some managers offer broad capabilities, others focus on specific sectors or regions. This can introduce concentration risk if the manager's strategy underperforms in a particular cycle.

Multi-manager funds invest across a range of GPs, often through co-investments or secondaries. This structure provides access to specialized expertise and helps reduce reliance on any single manager.

Incorporating manager diversification into portfolio design can enhance access to differentiated deal flow and improve risk-adjusted returns—adding another layer of resilience to client portfolios.

## Wealth Professionals Are Capitalizing on Diversification Opportunities

Institutional investors have long relied on private markets to pursue strong, consistent returns, often allocating 10 to 30% of their portfolios to alternative assets.

Today, many wealth professionals are adopting these proven frameworks, leveraging private markets to diversify across strategies, sectors, geographies, currencies and fund managers. This multi-layered approach helps balance risk and reward, unlock specialized growth opportunities and insulate portfolios from unpredictable disruptions.

As Koh aptly noted, "The first principle of diversification is simple: Don't put all your eggs in one basket. But diversification's power lies in how it can address multiple risks—and growth."

[2]Source:The Magnificent Seven includes: Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta and Tesla.
[3]Morningstar. How Low Can the Dollar Go? July 2025.

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