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Key considerations in allocating to private markets in model portfolios

As the investment landscape evolves, financial advisers and portfolio managers are increasingly integrating private market strategies – such as private real estate, private credit and private equity – into model portfolios. This shift is driven by the limitations of the traditional 60/40 equity-bond allocation, which has shown vulnerabilities during periods of market stress. Private markets offer diversification, resilience and the potential for enhanced returns, but their inclusion in model portfolios requires careful attention to a) liquidity, b) valuation and c) investor eligibility.

A. Liquidity in model portfolios

Liquidity is a primary concern when allocating to private market assets. A model portfolio that is composed of both public and private market strategies may not have to depend entirely on the private market allocation to provide necessary liquidity. However, the private market allocations must provide some liquidity to allow for income harvesting, rebalancing and potentially tax-loss harvesting.

The emergence of semi-liquid structures – such as interval funds, tender offer funds, nontraded REITs and nontraded BDCs (business development companies) – has expanded the range of liquidity profiles available for inclusion in model portfolios. Unlike other semi-liquid structures, interval funds are governed by a regulatory framework that requires regularly scheduled repurchase offers, which can align with portfolio rebalancing processes. Repurchase offers by interval funds are generally conducted quarterly, with a minimum offer size of 5 percent of net asset value (NAV). However, should the overall investor base request more than 5 percent of a fund's NAV in any given quarter, the fund would typically go into proration, resulting in each investor being unable to redeem the full amount requested. By contrast, tender offer funds, nontraded REITs and nontraded BDCs typically provide liquidity on a discretionary or event-driven basis, which may be modified or suspended during periods of market stress. This event-driven liquidity risk must be considered when incorporating these structures.

In evaluating how much portfolio liquidity is needed, we analyzed interval fund redemptions over a 10-year period and found that the average redemption is only a partial redemption and occurs about twice per year (see chart above).

B. Valuations of private markets in model portfolios

Valuation is a critical factor in determining if a private investment is a good fit for a model portfolio. Calculating a fund's NAV is essential for setting entry and exit values, aligning with portfolio performance and meeting regulatory requirements. To accurately value their assets, managers of private assets use multiple approaches, such as discounted cash flow analysis, public market

Investor redemption patterns over 10 years (Excluding dividend reinvestments)



comparisons, precedent transactions and calibration to actual outcomes. It is essential for advisers and portfolio managers to understand these different methodologies and how they impact the final valuation.

The frequency of valuation matters – longer intervals between valuations increase the risk of unrecognized changes in asset value. Regular, transparent valuation processes are essential for investor confidence and accurate performance tracking. Independent third-party validation of a manager's valuation process further enhances credibility and transparency.

C. Investor qualifications for private market assets

Investor eligibility is a key consideration. Depending on the structure, model portfolios with private market strategies may not be accessible to all of an adviser's clients. Interval funds governed by the 1940 Act do not require specific investor qualifications, making them broadly accessible. In contrast, private offerings like nontraded REITs and BDCs often require investors to meet accreditation requirements, limiting their availability.

This distinction has led many turnkey asset management platforms (TAMPs) to favor interval funds for initial private market allocations. Their broad accessibility eliminates the need for additional investor qualification processes and technology, making them easier to integrate into scalable model portfolios.

Conclusion

The integration of private market strategies into model portfolios marks a significant evolution in investment management. While traditional equity and bond allocations have been the norm, their limitations have prompted advisers and portfolio managers to seek broader, more resilient sources of diversification. Private markets, especially private real estate, offer unique benefits for model portfolios – diversification, resilience during market stress and enhanced long-term returns – paving the way for a potentially better investor experience in future economic cycles.



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CORPORATE OVERVIEW

Accordant Investments is a registered investment adviser based in Scottsdale, Ariz. Accordant creates investment solutions that allow private wealth investors to access private real estate in a way that was once only available to the world's largest investors.

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