OMNIGENCE
ASSET MANAGEMENT

Portable Alpha in Private Markets:

The wealth channel case

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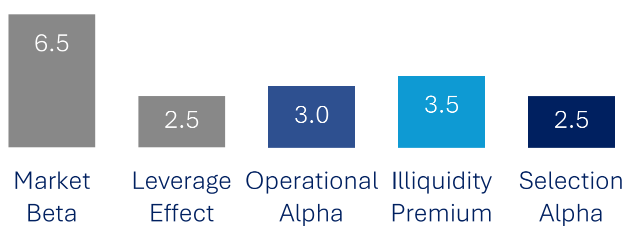
Portable Alpha in Private Markets

Portable alpha separates the return source (alpha) from the market exposure (beta) and transports the excess return onto a different risk base. In private markets, the mechanic runs as follows: a portfolio holds PE or private credit to generate illiquidity and complexity premia, then overlays liquid derivatives — equity index futures, rate swaps, or credit default swaps — to re-shape the net factor exposure without selling the underlying positions. The result is private market alpha running on a different beta than the one embedded in the fund itself. For institutional portfolios and the most sophisticated RIA books, this unlocks a structural improvement in risk-adjusted outcomes that neither asset class can achieve independently.

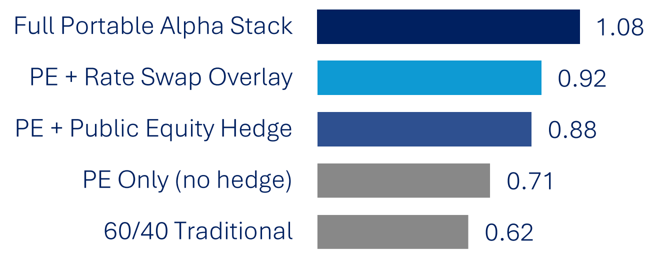
3–5% Estimated illiquidity premium in LMM PE vs. public equity	**0.3–0.5** Typical PE-to-S&P beta (lagged NAV measurement)	**~15bp** Cost to overlay S&P futures hedge (annualized, est.)	**0.6–0.8** Sharpe improvement typical in portable alpha structures

THE MECHANIC: SEPARATING ALPHA FROM BETA

PE Gross Return Decomposition (Hypothetical, %)

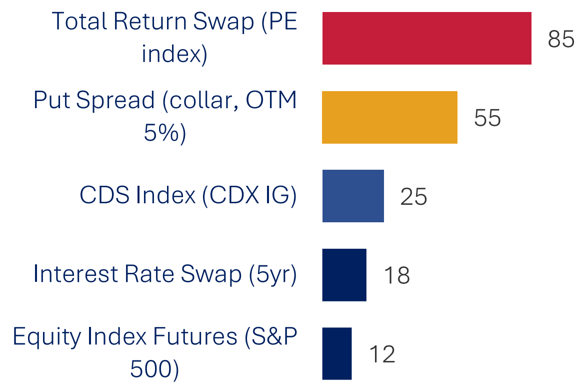


Simulated Sharpe Ratio: Portfolio Configurations

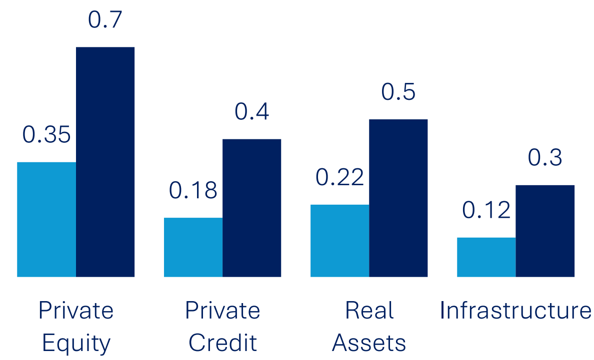


OVERLAY INSTRUMENTS & COST-BENEFIT

Estimated Annual Overlay Cost by Instrument (bps)



Reported (light blue) vs. Unsmoothed PE Beta (navy) to S&P 500 (Est.)



The most underappreciated risk in private markets is not illiquidity — it is hidden beta. Reported PE NAVs smooth valuations quarterly, understating true market sensitivity by roughly 2x. The portable alpha overlay corrects this: short equity index futures against the PE position strips out the embedded public market beta, leaving a cleaner return stream driven by operational improvement, covenant protection, and complexity premium. The overlay cost (12–85bps depending on instrument) is almost always less than the fee savings forgone in a drawdown fund structure. Implementation requires ISDA documentation, sufficient collateral, and a manager willing to hold derivatives alongside private positions.

Sources: Ilmanen et al., 'Demystifying Illiquid Assets,' AQR (2020); Ang, Papanikolaou & Westerfield, 'Portfolio Choice with Illiquid Assets,' Management Science (2014); Preqin Private Equity Returns Database 2024; CAIA Association Portable Alpha in Alternatives (2023); Bloomberg derivatives cost estimates; Sharpe ratios are simulated/illustrative and not guaranteed.

OMNIGENCE
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Toronto Office:
TD Canada Trust Tower, 161 Bay St.
27th Floor, P.O. Box 508
Toronto, ON, M5J 2S1

Calgary Office:
Suite 300, 4954 Richard Road SW
Calgary, AB, T3E 6L1

Montreal Office:
3 Place Ville Marie, Suite 3190
Montreal, QC H3B 2E3
www.omnigenceam.com