Private Market Investments

March 8, 2024

Public vs Private Investments

Public Market Investments

- Stocks (Equities) and Bonds (Debt)
- Traded on public markets (e.g., NYSE)
- Liquid - can be bought or sold throughout the day
- Can access via commingled funds or Separately Managed Accounts
- Passive options exist
- Fees are generally lower, with no performance-based fees

Private Market Investments

- Broad range of asset classes, including Equity, Debt, Real Estate, etc.
- Typically accessed via Limited Partner (LP) position in private partnerships managed by a General Partner (GP)
- Illiquid –trading in LP interests is infrequent and costly
- GP has full investment discretion over choice of assets and timing
- No passive options exist
- Fees are higher, and include performance-based fees

Representative PE Investment

GP announces that they are raising Buyout Fund IV:

- Will follow strategy of prior funds I (2014), II (2017), and III (2020)
  - Acquire US companies in the industrial and manufacturing sectors, with average annual income ≈$25m
  - Grow business via acquisitions, and implement operational improvements
  - Prior funds have produced net returns averaging 20%
- Target fund size $2B
- 10-year life, with (2) 1-year extensions at GP option
  - 5 year investment period, 5 year harvest period
- Management fee of 2%, Profit Sharing (Carried Interest) of 20%
- GP Commitment: 4% ($80m)
- Return Target: 20% net

Investor commits $10m to fund, which closes on 6/1/24.

Investor begins paying annual management fee of $200k as of fund close

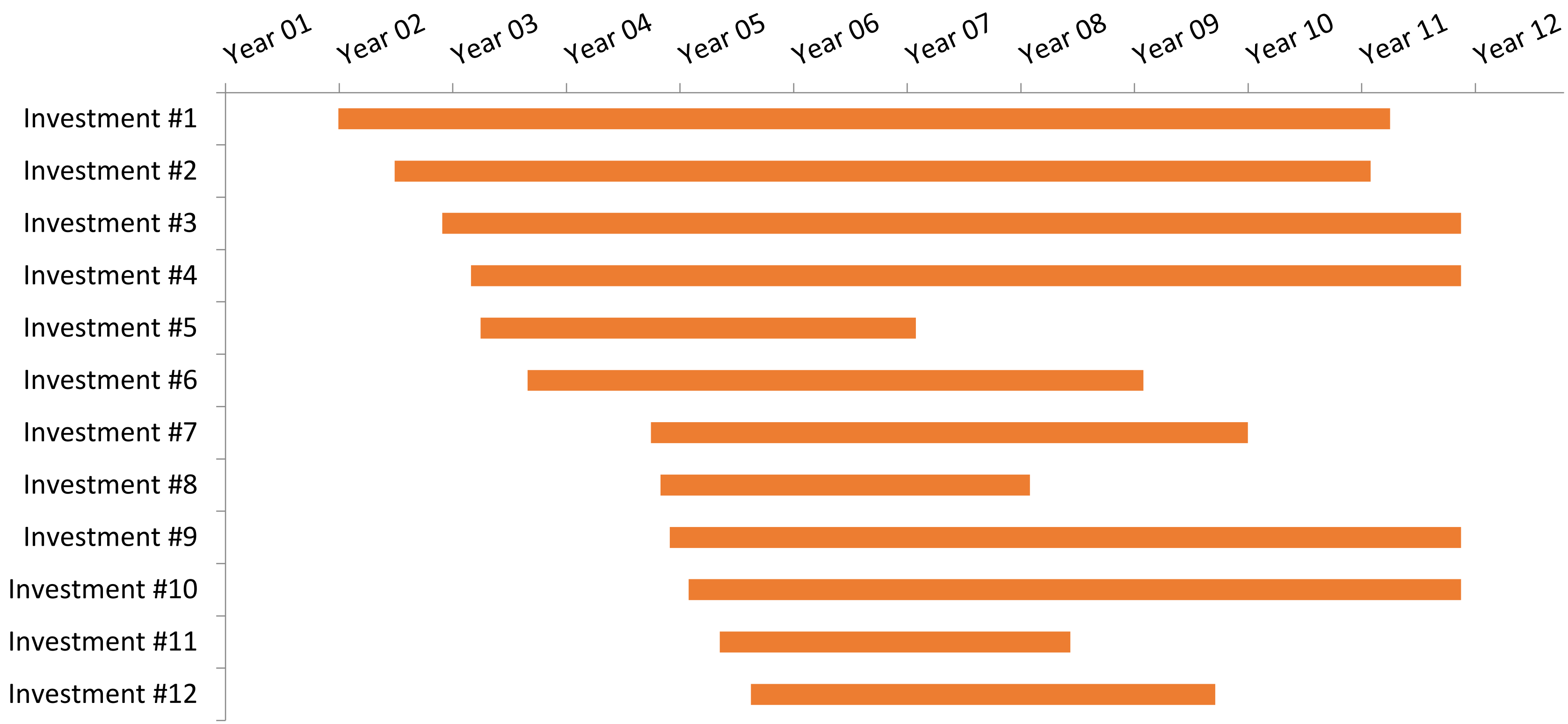
- Creates "J-curve" of negative returns in early years

Representative PE Investment

GP begins sourcing / acquiring / managing investments

- Capital is "called" from investors as investments are made
- Capital is returned to investors as investments are sold

LPs are NOT involved in investment decisions



Role of Private Equity in an Institutional Portfolio

The primary role of Private Equity in an institutional portfolio is to deliver HIGHER RETURNS than Public Equity

Private Equity also can provide:

- Exposure to growth in the economy and corporate profits
- Significant passthrough of inflation
- An ‘illiquidity premium’
- Exposure to factors less represented in the public markets
- Additional return through manager skill

Primary Role of Private Equity: Return

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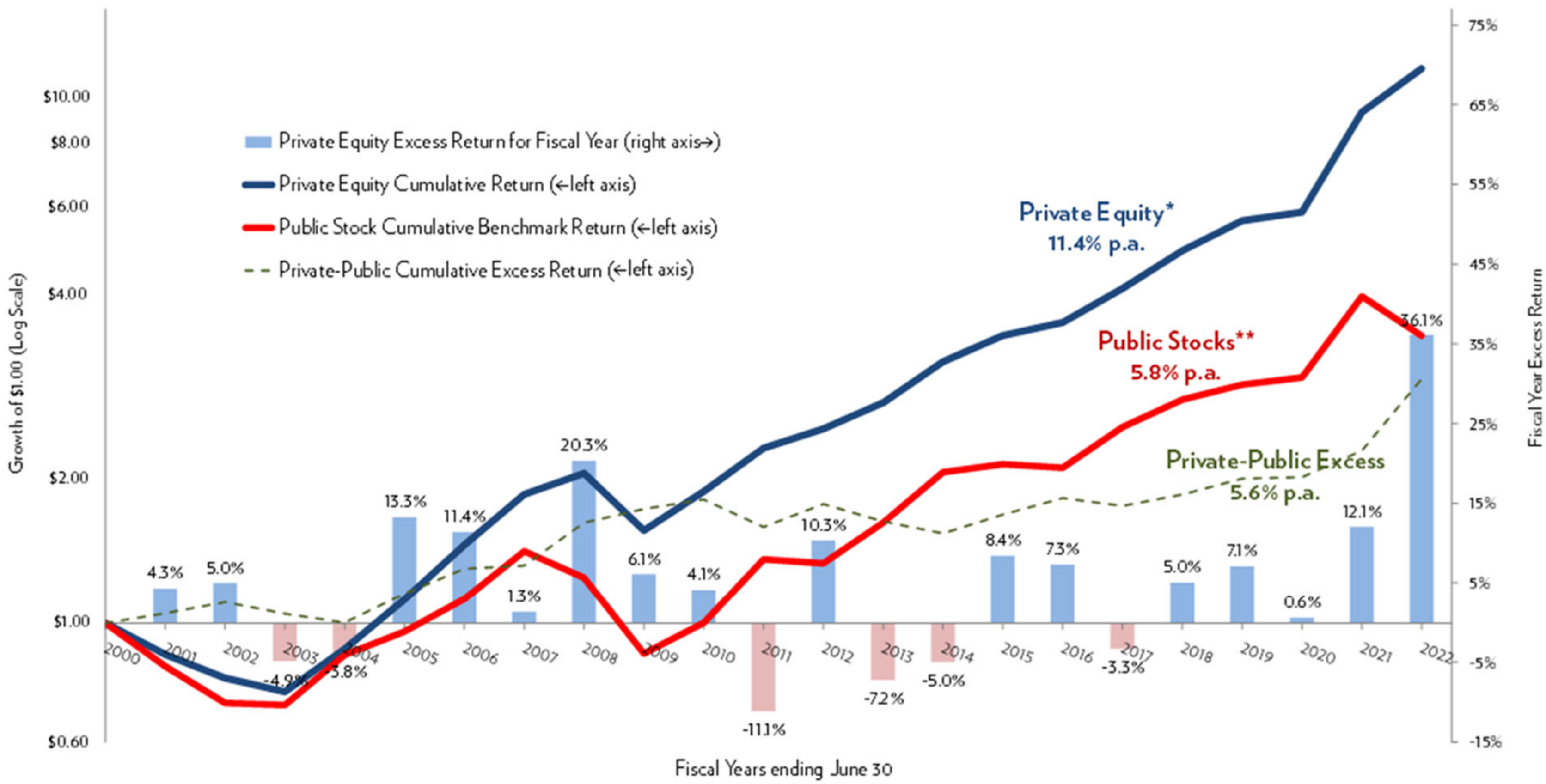
Private equity has provided a premium return over public equity…



* An equal-weighted average of all state funds who reported private equity returns in annual ACFRs for June 30 fiscal years 2001-2022. The equal-weighted average return of 19 state funds who reported private equity returns across all 21 fiscal years equaled 11.9% per annum.

** A public stock benchmark weighted 70% to the Russell 3000 Index (6.62% annualized return over 22 years) and 30% to the MSCI ACWI ex US Index (3.53% annualized return over 22 years), with assigned weights reflecting regression-based weightings (a.k.a. "style analysis").

Private Equity Facts and Figures

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History

Institutional investing in venture capital began in the 70's with passage of ERISA

Buyout investing began in the 80's

Market Size

Private equity market is ~$7.0 trillion in size[1]

Number of Managers

There are approximately 18,000 private equity firms globally[2]

Types of Investors

Public pension funds, endowments and sovereign wealth funds are the largest investors in private equity

US public pension funds have an average allocation to private equity of 13% [3]

Regulators

Most private equity funds are registered investment advisors with the SEC

Economic Impact

US private equity has backed 32,000 companies since 2017

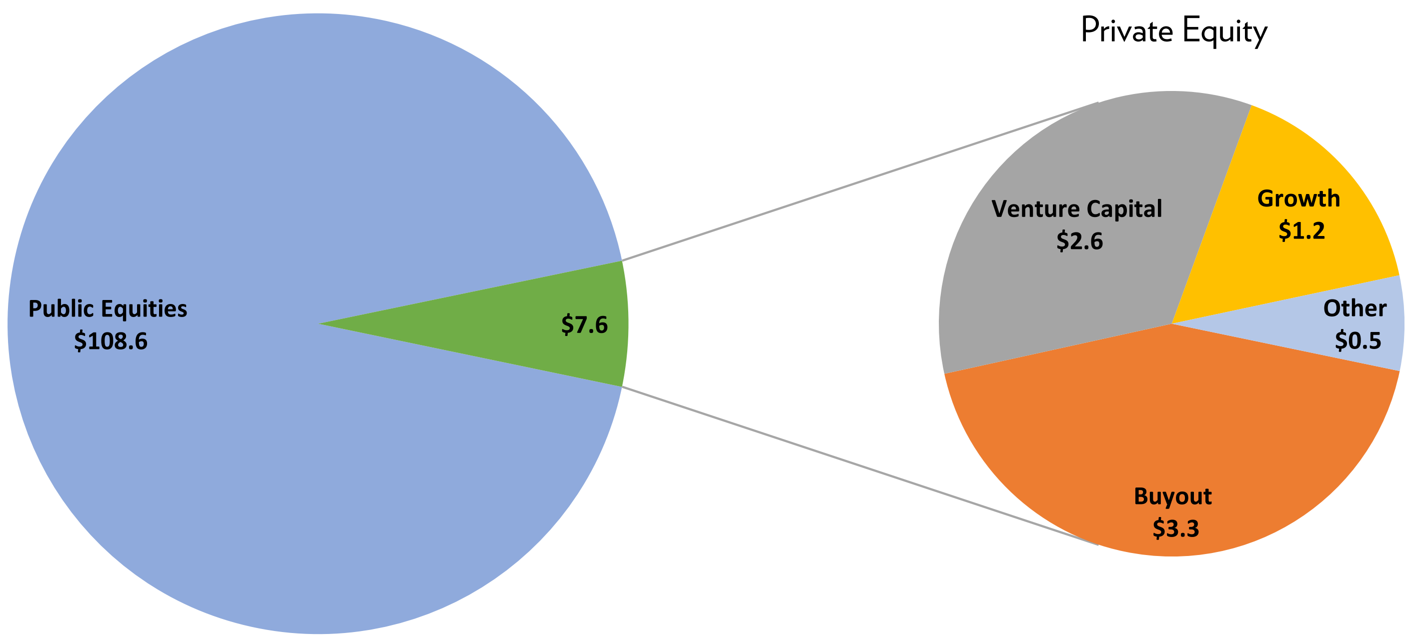
US private equity-backed companies employ over 12 million employees [4]

1 McKinsey & Company
2 Cliffwater
3Boston College Center for Retirement Research
4 AIC

Private Equity Market Size

Private equity makes up approximately 7% of total global equity market capitalization

Global Equity Market Capitalization (USD trillions)



Source: McKinsey & Company, Preqin, SIFMA. Data as of Q2 2023.

Types of Private Equity

What, How Much

Private Equity Sub-Asset Classes

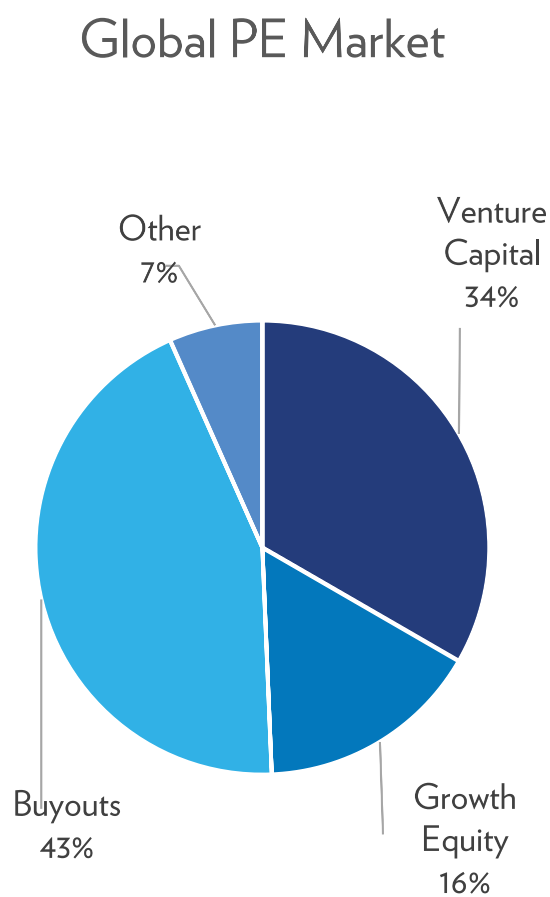
Venture Capital – private equity investment in new or young companies. Generally, the investor is a minority shareholder. The capital is used for company formation and growth.

Growth Equity – private equity investing in fast growing companies that need capital for growth and are willing to sell significant ownership stakes.

Buyouts – private equity investing in mature companies which generally involves a change of control. Capital is used for paying out existing owners and investing in the business.

Other opportunistic strategies:

- **Mezzanine** – junior credit strategy with warrants.
- **Distressed Debt** – converting debt to equity through restructuring process
- **Energy Private Equity** – investing in businesses with significant exposure to energy related commodities



How Private Equity Adds Value

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Source	Public Equity	Buyouts	Growth Equity	Venture Capital
Company selection	Yes	Yes	Yes	Yes
Difficult to access investments	No	Sometimes	Yes	Yes
Strategic advice	No	Yes	Yes	Yes
Supplementing management and boards	No	Yes	Yes	Yes
Providing revenue and sourcing leads	No	Yes	Yes	Yes
Value-added acquisitions	No	Yes	Yes	Sometimes
Operational improvements	No	Yes	Yes	Sometimes
Active exit process	No	Yes	Yes	Yes

Private Equity Issues

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Issue	What is the issue	Mitigating Factors	Mitigating Approaches
Fees	Private equity is more expensive than traditional asset classes	Majority of expense is performance fees where manager gets paid when investors get paid	Evaluation and negotiations of fees and other terms
Governance and Transparency	Private equity investments are typically structured as partnerships where the investor is a limited partner	Most private equity firms are SEC registered. Over the past 15 years, private equity managers have improved their governance and transparency.	Participation on limited partner advisory boards Following ILPA guidelines Active monitoring
Illiquidity and Valuations	Private equity funds typically have 10-12 year terms Investments are private not public	Most private equity funds are required to have annual audits, quarterly financials and adhere to accounting standards for valuation. General partners are, generally, not paid on unrealized gains.	Active monitoring

Characteristics of a Successful Private Equity Program

Risk management

- Diversification across style, market capitalization, and geography
- Thoughtful pacing plan to control portfolio size, mitigate J-curve effects, and diversify by vintage year

Selection and access are key

- Large dispersion within private market managers
- Top performing managers can be selective about their limited partners

Evaluation and due diligence

- Detailed understanding of strategy
- Quantitative analysis of track record
- Extensive reference checks

Investing vertically

- Investing in primary funds, secondaries, and co-investments