

STRATEGY  
DIVERSIFICATION

VINTAGE  
DIVERSIFICATION

DEMYSTIFYING

# PRIVATE EQUITY

PRIVATE COS VS. IPO

INSTITUTIONAL  
PE EXPOSURE

TRENDS

# PARTICIPATE IN PRIVATE MARKETS WITH PRIVATE EQUITY

Private equity is an established asset class, that continues to meet investor expectations.

**\$4.11 Tn**

AuM as of June 2019. <sup>2</sup>

**\$495 Bn**

**Capital distributed** by fund managers to investors in 2017. <sup>1</sup>

**86%**

of PE investors plan **to increase or maintain their commitment** in the longer term. <sup>2</sup>

Sources:

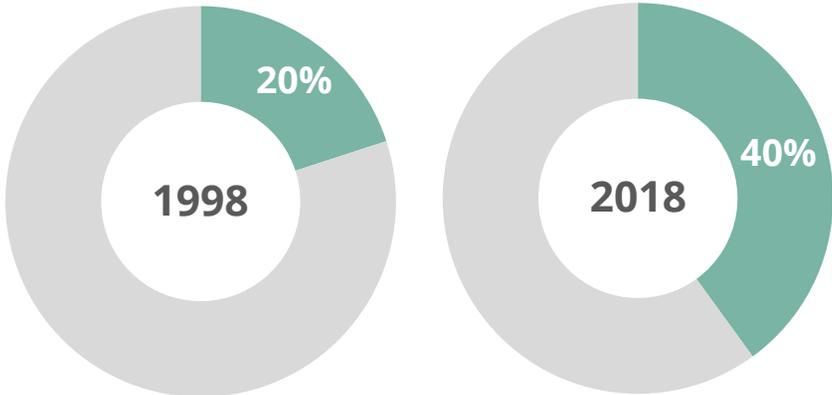
[1. Preqin Alternatives in 2019](#)

[2. Preqin Alternatives in 2020 Report](#)

# TOP PERFORMING INSTITUTIONAL INVESTORS ARE ALLOCATING 40% TO PRIVATE INVESTMENTS.

According to the latest research conducted by Cambridge Associates<sup>1</sup>, top decile performing institutional investors have increased their private investment\* allocations to a mean of 40%.

■ Private Investment\* Allocation



PRINCETON  
*University*  
46.9%<sup>2</sup>

UNIVERSITY  
*Of Texas*  
40.8%<sup>3</sup>

COLUMBIA  
*University*  
39.5%<sup>4</sup>

YALE  
*University*  
52.4%<sup>5</sup>

\*Private investments include non-venture private equity, venture capital, distressed securities (private equity structure), private real estate, private oil & gas/natural resources, timber, and other private investments.

<sup>1</sup>Cambridge Associates Research Report February 2019  
<sup>2</sup>Princeton University <sup>3</sup>University of Texas; <sup>4</sup>Columbia University; <sup>5</sup>Yale News

# THE HIGHER THE ALLOCATION TO PRIVATE INVESTMENTS\*, THE BETTER THE RETURNS.

According to Cambridge Associate's endowment and foundation research, the average annualized return for a greater than 15% allocation was 8.1 %, 160 basis points higher than the group with a less than 5% allocation.



Analysis includes 132 endowments and foundations that provided returns and beginning-year asset allocation for each June 30 from 1998 to 2018. Subgroups are based on each institution's 20-year average allocation to private investments. Solid lines are drawn where the median private investments allocation for the entire universe intersects with the median return for the entire universe.

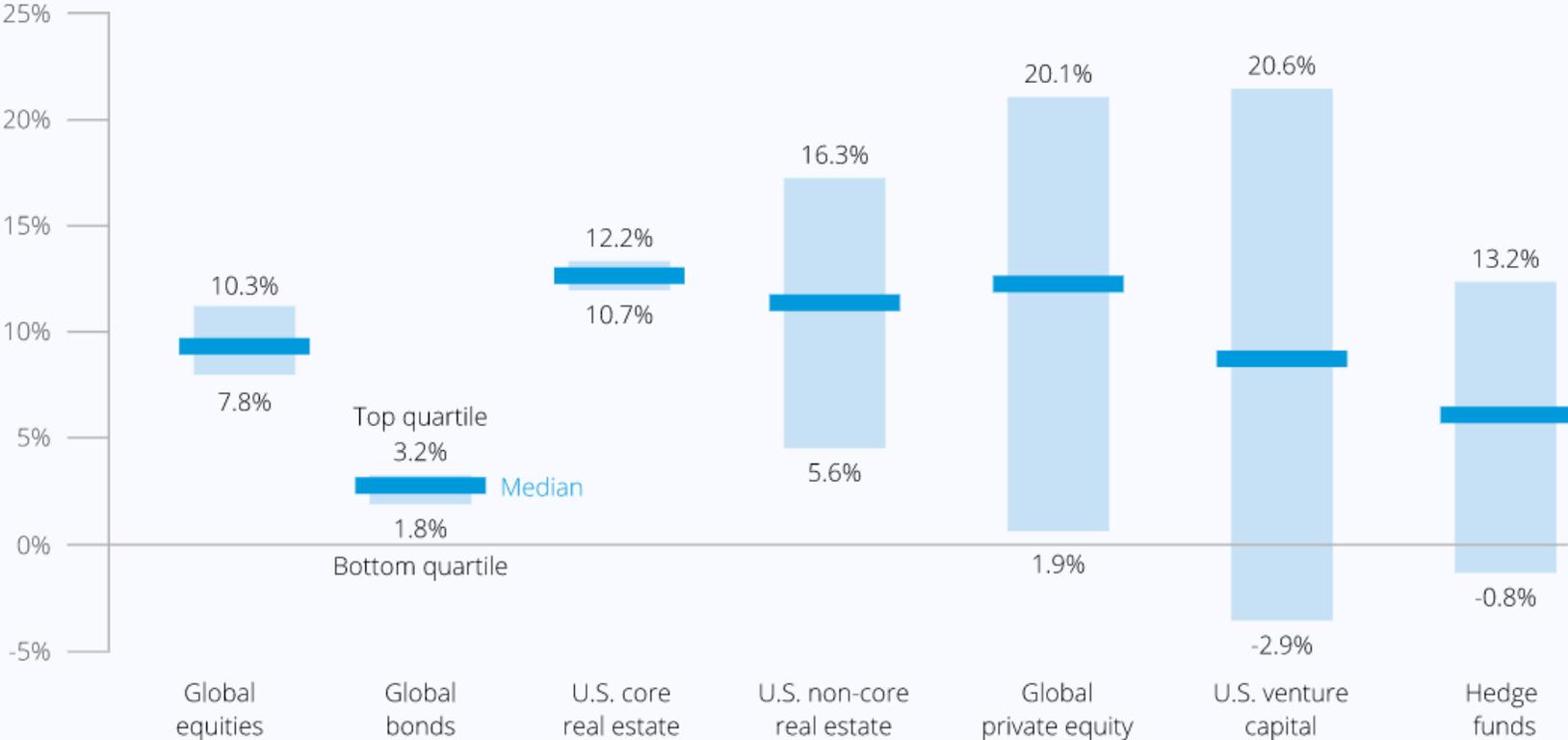
\*Private investments include non-venture private equity, venture capital, distressed security (private equity structure), private real estate, private oil & gas/natural resources, timber, and other investments. Endowment and foundation data as reported by Cambridge Associates LLC. Graphs are for illustrative purposes only.

Source: [Cambridge Associated Research Report February 2019](#)

# MANAGER SELECTION MATTERS, ESPECIALLY IN VC & PE

## PRIVATE AND PUBLIC MANAGER DISPERSION

Based on returns over a 10 year window



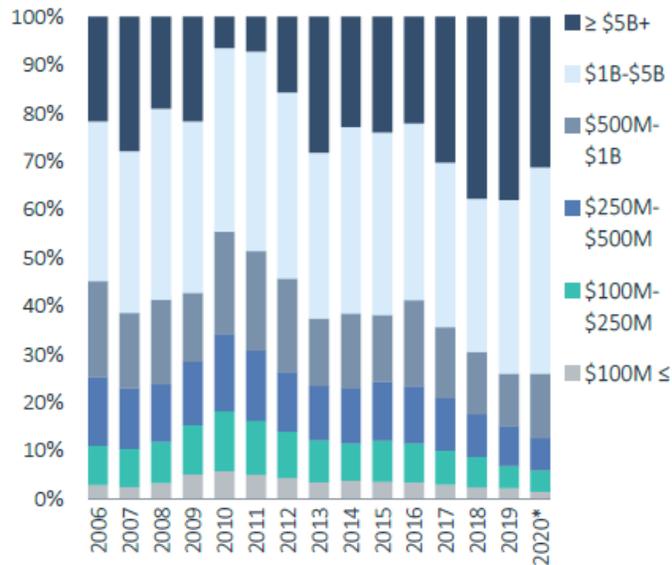
Sources: Lipper, NCREIF, Cambridge Associates, HFRI, J.P. Morgan Asset Management. Global equities (large cap) and global bonds dispersion are based on the world large stock and world bond categories, respectively. \*Manager dispersion is based on: 4Q 2009 - 4Q 2019 annual returns for global equities, global bonds, U.S. core real estate and hedge funds. U.S. non-core real estate, global private equity and U.S. venture capital are represented by the 10-year horizon internal rate of return (IRR) ending Q4 2019. Data is based on availability as of May 31, 2020.

Source: JPM Guide to Alternatives Q2, 2020

# THE BIG FUNDS ARE GETTING BIGGER

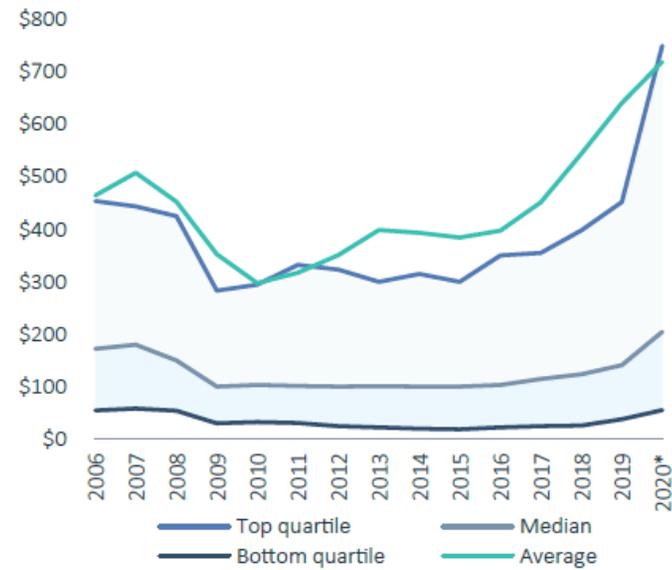
## Overview

### Private capital funds (\$) by size



Source: PitchBook | Geography: Global  
\*As of June 30, 2020

### Private capital fund sizes (\$M)



Source: PitchBook | Geography: Global  
\*As of June 30, 2020

# 98%

of businesses with  $\geq$  \$10M in sales are not publicly traded in the USA

<https://www.naics.com/custom-market-analysis-profiles/>  
[https://site.warrington.ufl.edu/ritter/files/Listed\\_19802019.pdf](https://site.warrington.ufl.edu/ritter/files/Listed_19802019.pdf)

# ↓ 46%

Decline in the number of US publicly traded companies since the 1997 peak

[Cambridge Associates November 2017](#),  
[World Bank 2018](#)

# 140k

Number of US private companies

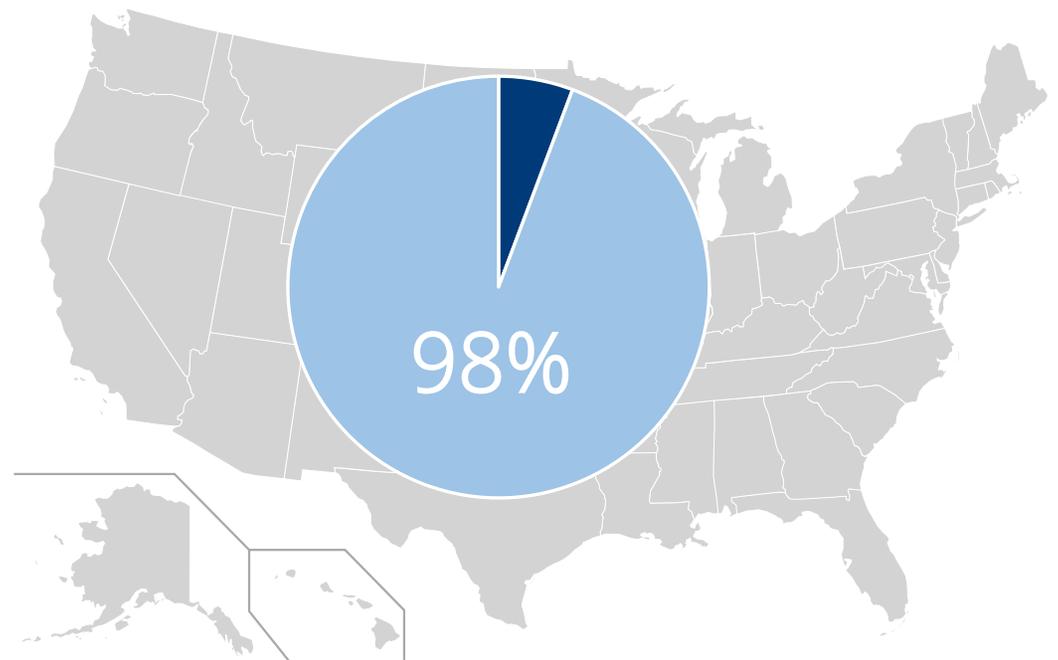
VS.

# 4k

Number of US public companies

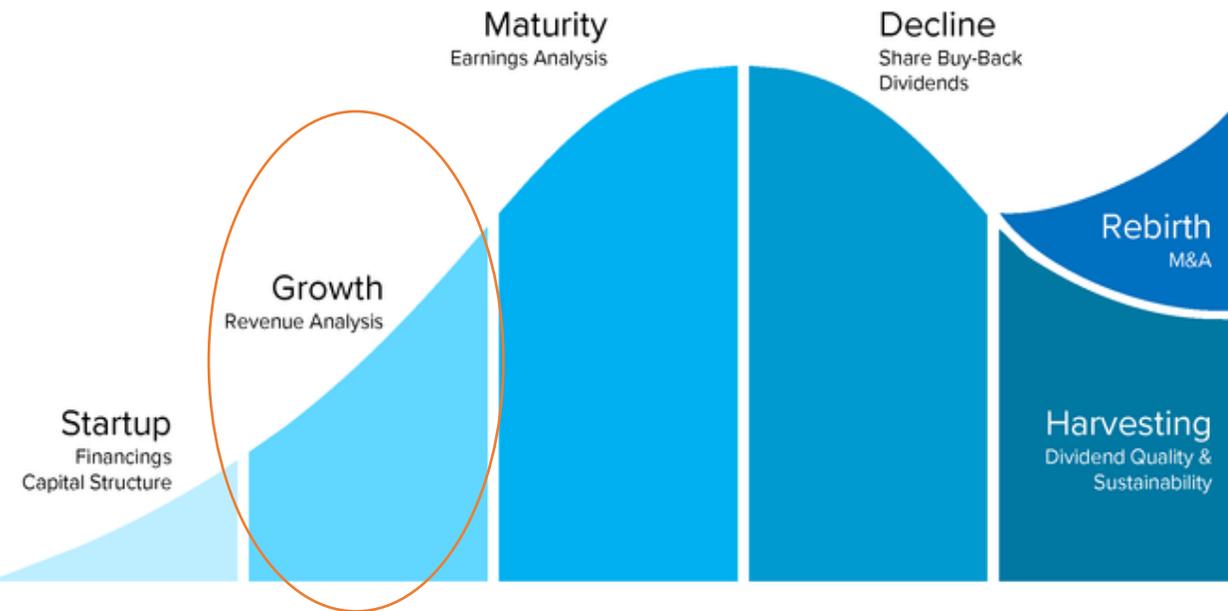
[Vanguard](#)

## THE PRIVATE COMPANY UNIVERSE IS SIGNIFICANTLY LARGER THAN THE SHRINKING PUBLIC COMPANY UNIVERSE, CREATING A HOST OF OPPORTUNITIES.



# THE MAJORITY OF A COMPANY'S GROWTH OCCURS IN A PRIVATE FORMAT.

Technology companies are increasingly reaching \$10Bn in value pre-IPO.

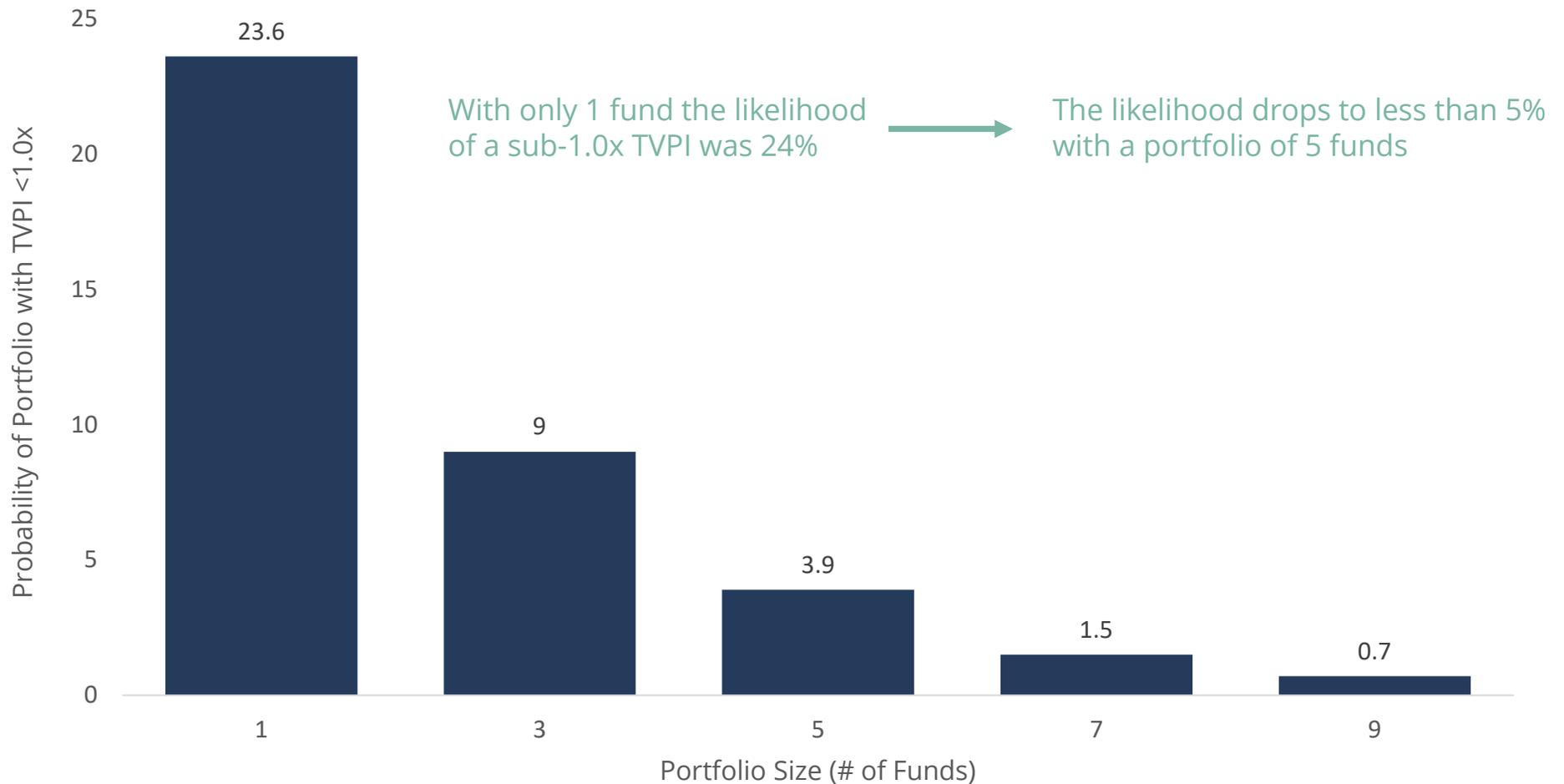


Source: [Global Company Coverage – At Every Stage in the Lifecycle](#)  
[CrystalResearch™](#), Vista Equity Partners Fund VII, Opportunities Set

# COMMON OBJECTION: TOO RISKY

Single deal flow or a single manager approach is a recipe for disaster. Proper diversification greatly reduces the risk of permanent capital.

### Probability of Portfolio with TVPI <1.0x Based on Portfolio Size

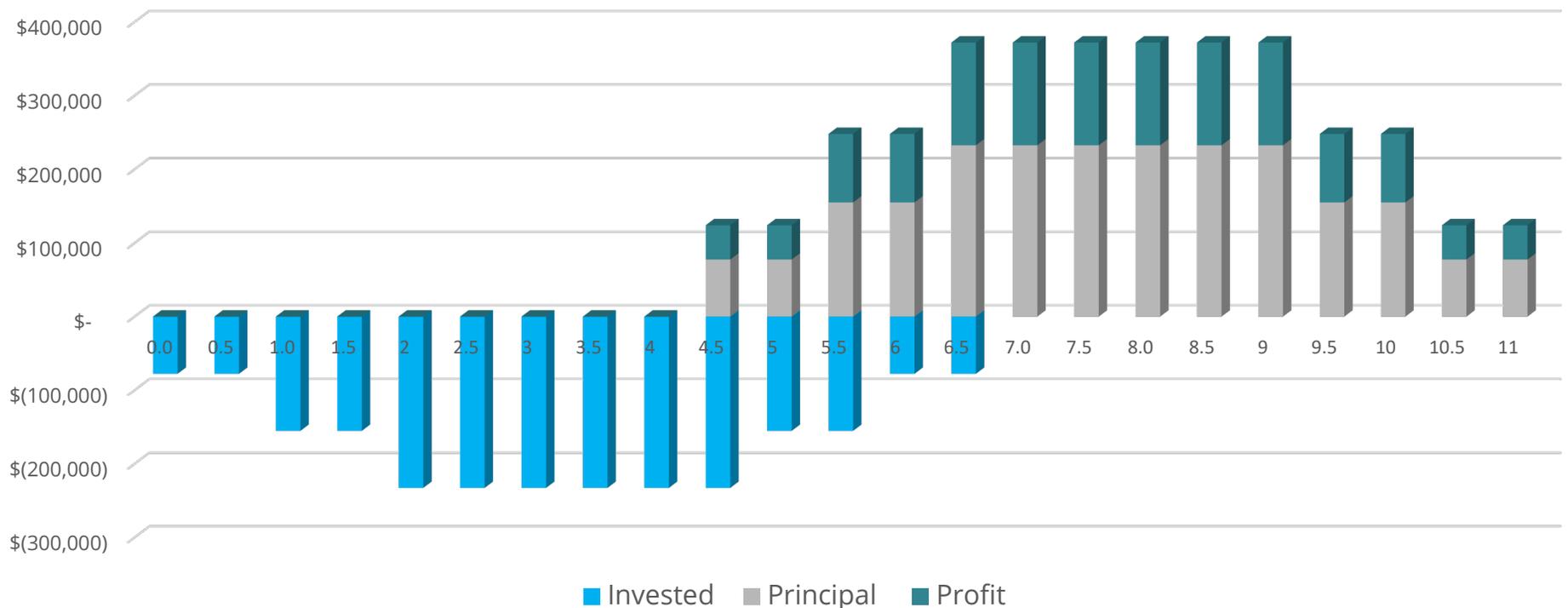


Source: Cambridge Associates Research Report February 2019

# COMMON OBJECTION: TOO ILLIQUID; I'M TOO OLD.

Laddered consistently and periodically over 5 years (vintage diversification), a systematically designed PE portfolio should produce a staggered series of consistent cash flows and liquidity events for an investor, based on the assumptions\* below.

## Laddered Diversified PE Portfolio Cash Flows For \$2.5M Total Commitments



The cashflows in this graph are based on several assumptions, are for illustrative purposes only and cannot be relied upon. The timing and amounts of actual cash flows can vary widely from this illustration and there is no guarantee of performance results.

\*The assumptions are 1) \$250K is invested every 6 months over 5 years in a new fund 2) each fund calls 1/3 of committed capital per year 3) the average weighted life of an invested dollar is 4.5 years 4) a 1.6 net MOIC was the assumed growth of each invested dollar.

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