



StepStone Academy

Private Markets Overview

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All data is as of August 2024.

Today's narrative

What are private markets: The basics

Navigating the private markets: The potential challenges

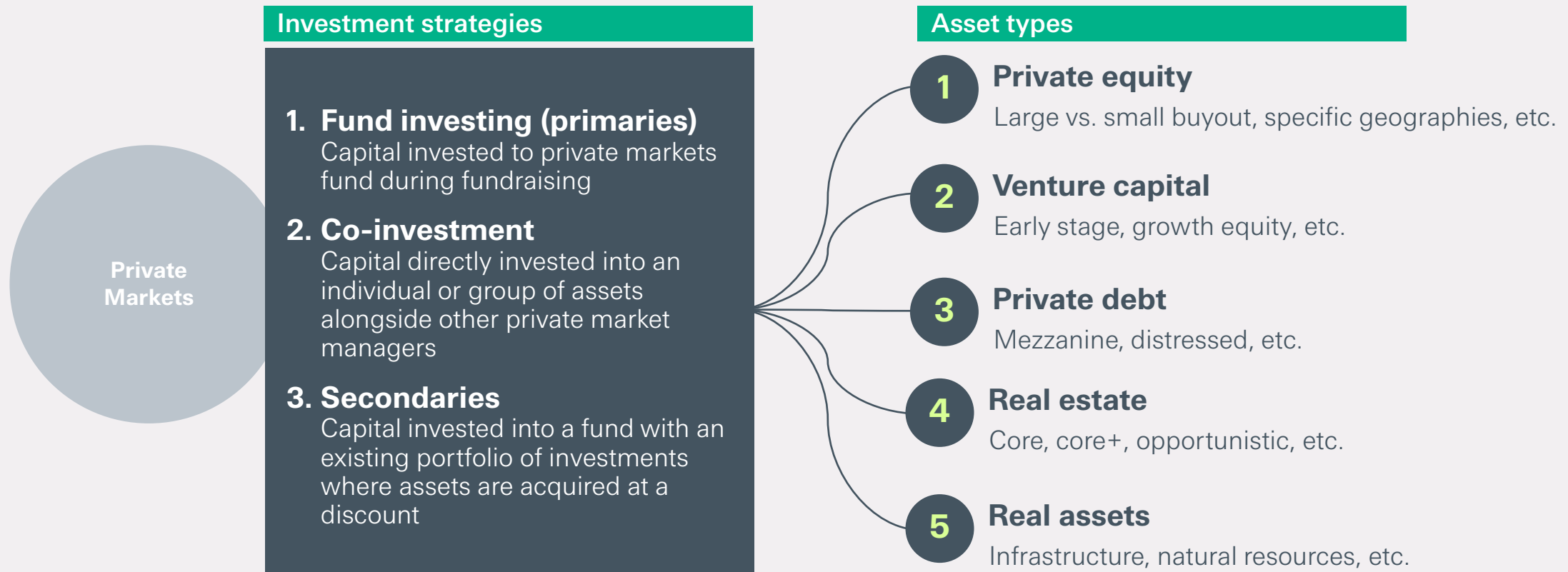
Private markets investing: The potential advantages

The basics



The different types of market investments

Private markets offer 5 general asset types via 3 general investment strategies



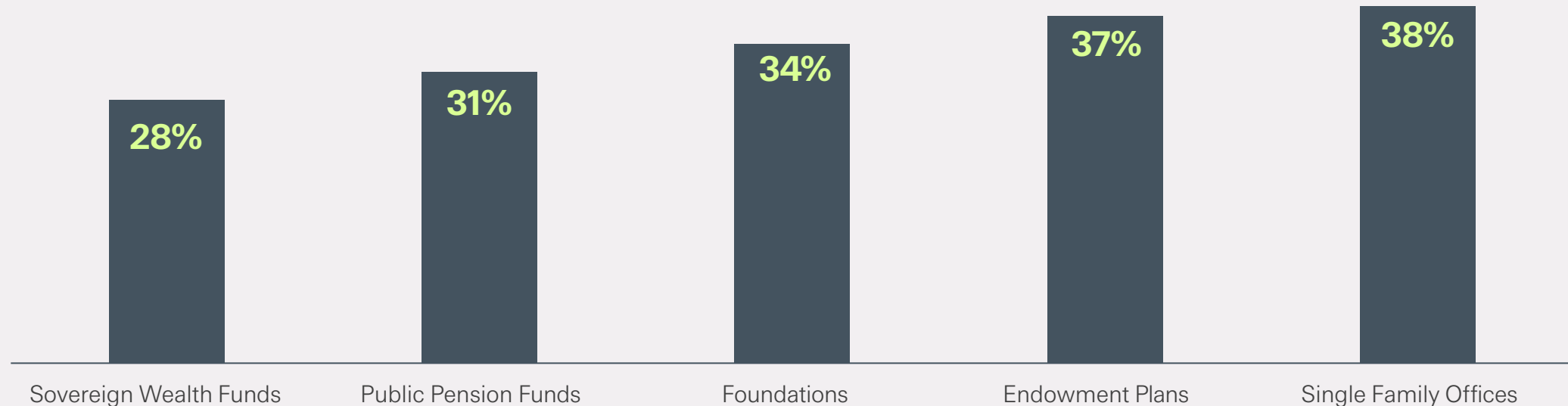
Characteristics of private markets investing

	Public markets	Private markets
Ownership	Many passive owners	Active owners
Liquidity	Liquid investments	Illiquid investments
Information availability	Information publicly available	Opaque information
Market correction	Sensitive to market conditions	Lower correlation to market movements

How are sophisticated institutions investing?

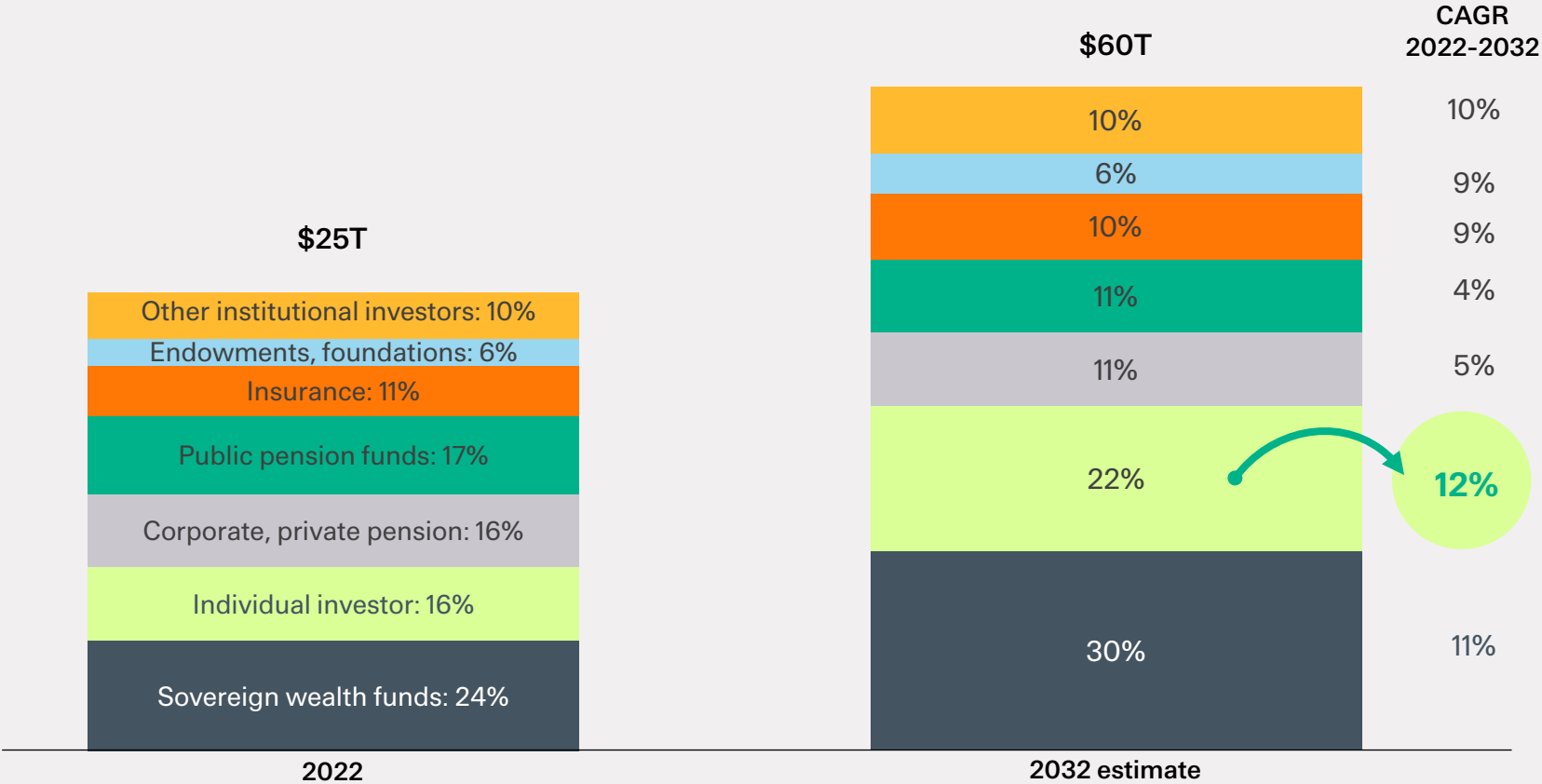
Institutional investors maintain significant private market allocations.

Current target allocation to private market alternatives



Individual investors share of private assets is set to rise

Percentage of global alternative assets under management by investment category



Sources: Bain & Company. "Avoiding Wipeout: How to Ride the Wave of Private Markets." August 2024. <https://www.bain.com/insights/avoiding-wipeout-how-to-ride-the-wave-of-private-markets/>

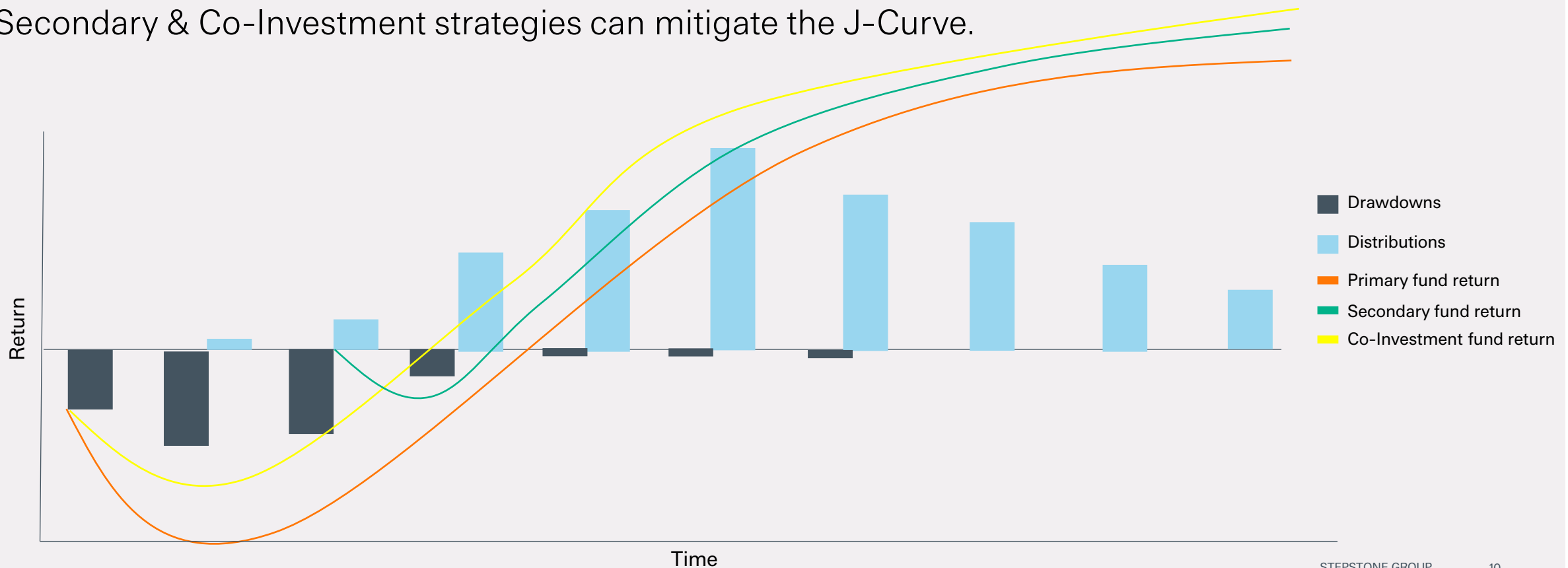
The potential challenges



Private markets investment cycle

Investment cycle cash flows follow the “J-Curve”, with LP capital called over the first 4-5 years of the mandate.

Secondary & Co-Investment strategies can mitigate the J-Curve.



Note: For illustrative purposes only

Private equity risk considerations

Illiquid Asset

Limited Partnership (“LP”) interests are not readily marketable or redeemable

“Blind Pool” Investing

Underlying fund investments are not identified at the time of commitment

Manager Selection

Performance varies significantly among managers

Difficult to replace managers / influence strategies

Timing of Returns is Uncertain

Exit events / distributions are difficult to project

Valuation

Not marked-to-market

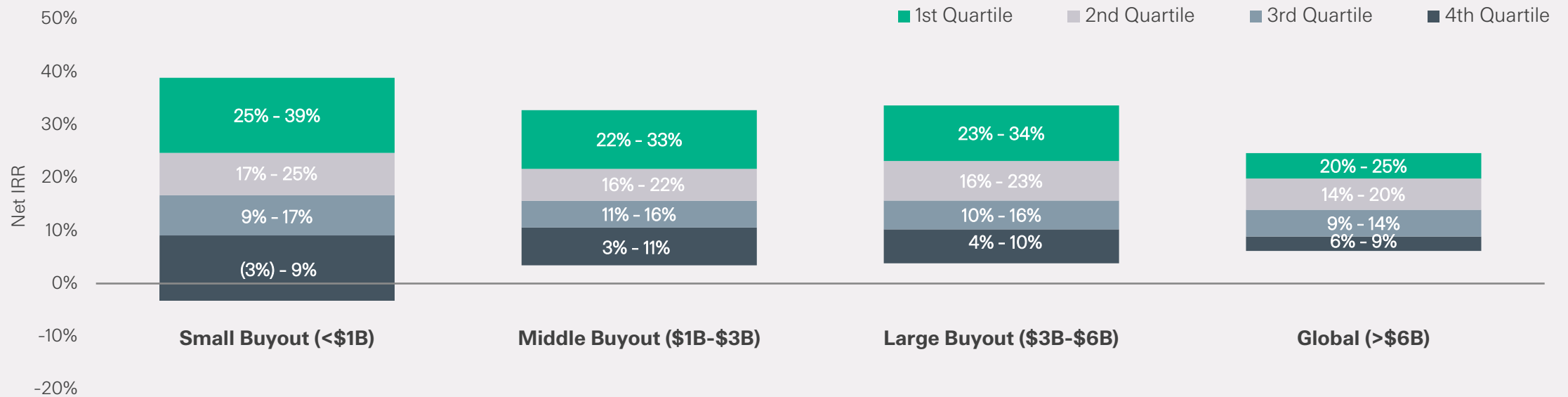
No universal industry standards / subjective interim valuations

Valuations are typically reported with a quarterly lag

Manager selection is a critical success factor

Greater performance variability of smaller buyouts compared to larger buyouts, as indicated by the dispersion of returns between quartiles and within each quartile

Quartile Analysis (2002–2018 North America Buyout Funds)



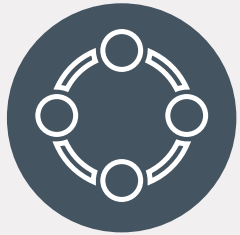
StepStone aims to identify the best managers within the top quartile and avoid exposure to the bottom quartile

- Essential for a top-performing small market program, as even one bottom quartile fund can have a significant impact on overall portfolio performance

Challenges to investing in private markets

Access

Access to top managers may be limited



Information

Data is not widely available or easily accessible



Liquidity

Liquidity constraints require sophisticated modeling



Cost

Limited number of ways to reduce fee levels



Expertise

Broad skill set needed to evaluate strategies and asset classes



Resources

Due diligence and ongoing monitoring



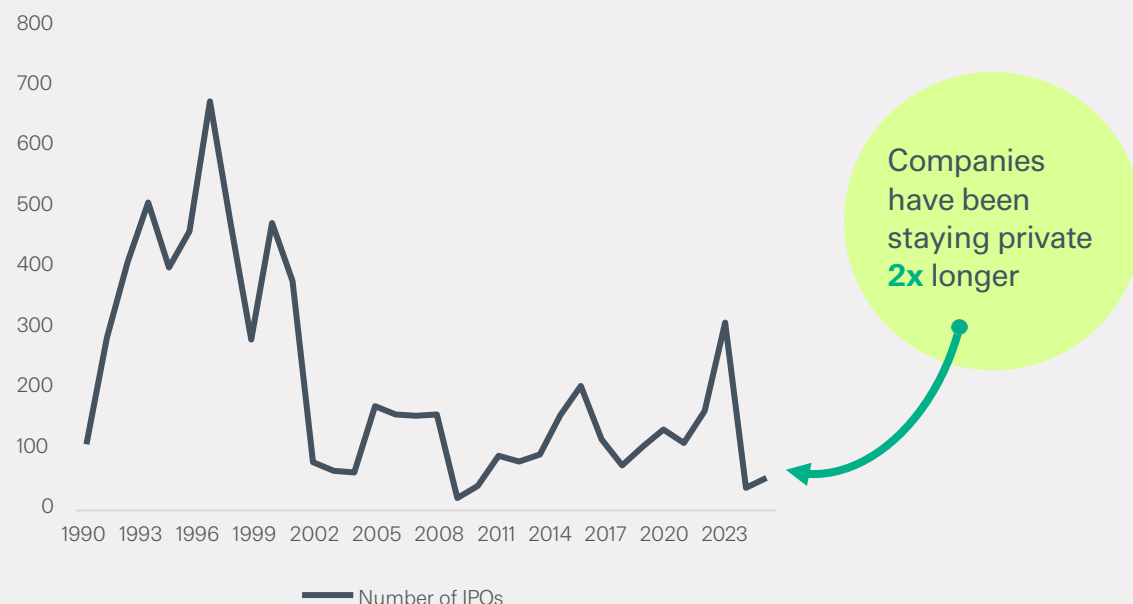
The potential advantages



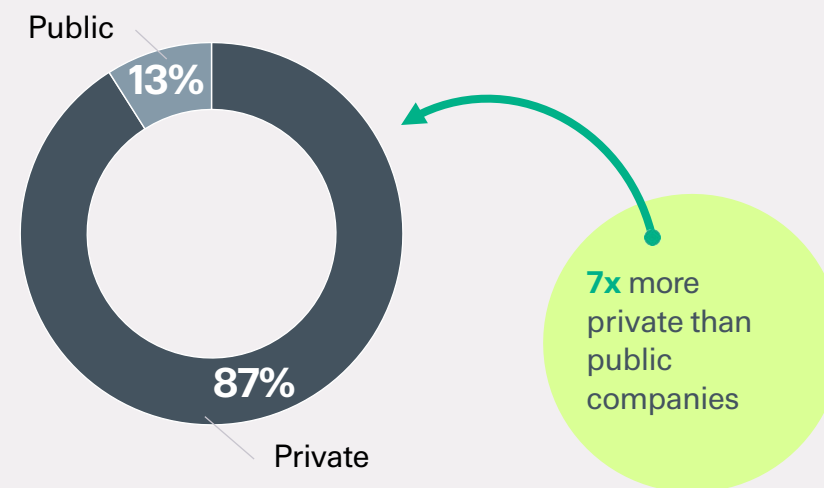
Why invest in the private markets?

Much of the growth, value creation, and opportunity has taken place in the private vs. public markets.

Number of US IPOs per year¹



Current blend of US private vs. public companies²



Past performance is not indicative of future results. Indices shown for illustrative purposes only and returns do not represent fund performance. Investors cannot invest directly in an index.

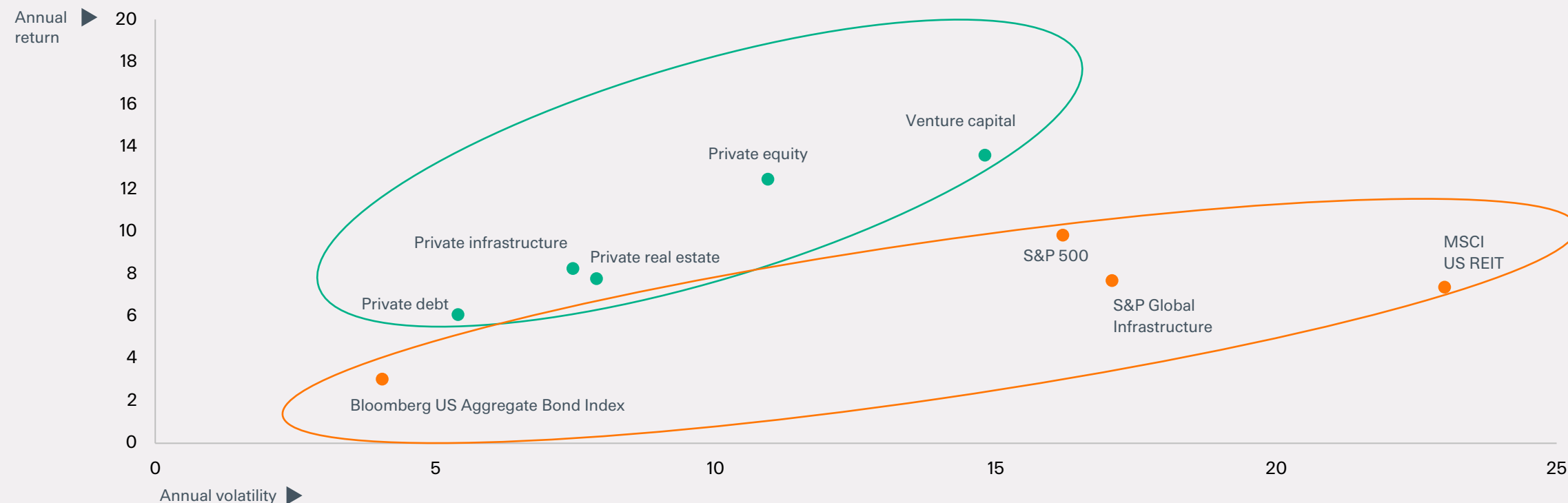
1. Jay R. Ritter. May 2024. Initial Public Offerings: Updated Statistics.

2. Capital IQ (February 2023). Note: 87% represents private US companies with >\$100M in revenue.

Private markets beat public equivalents on return and risk

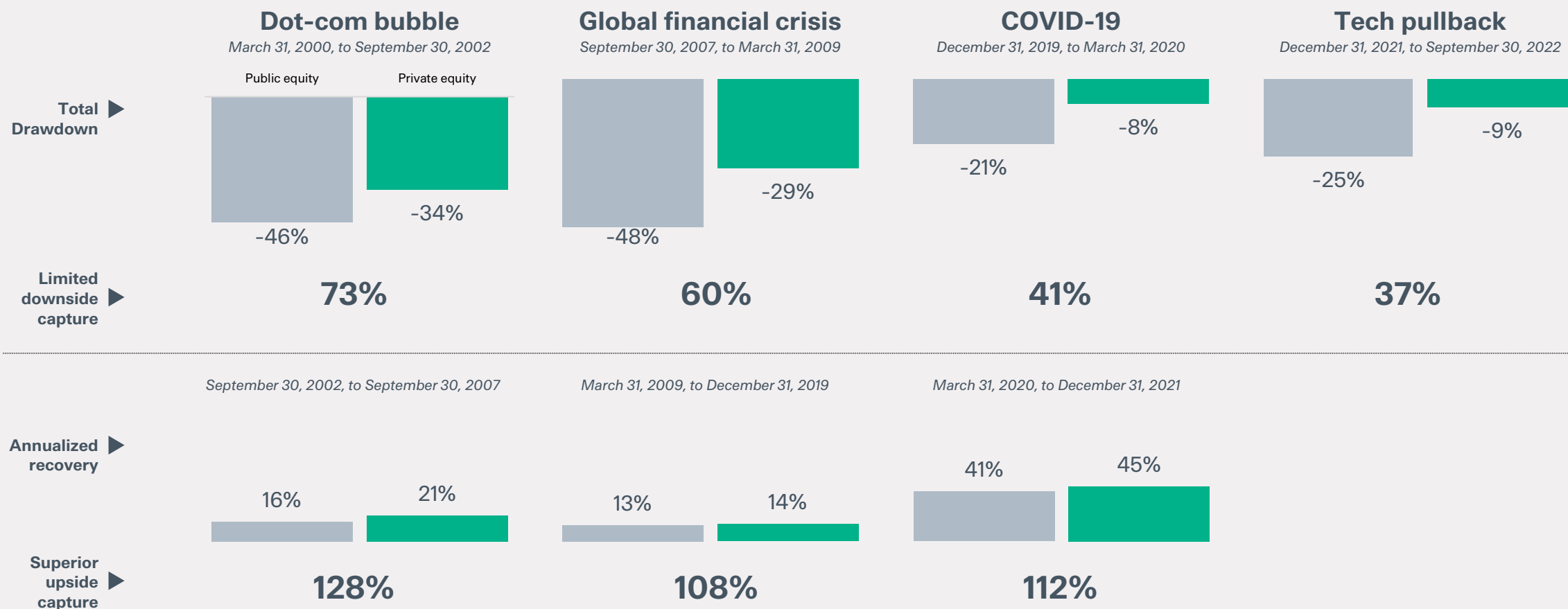
Over nearly the last 20 years, private markets have outperformed public market equivalents, delivering higher returns at lower levels of risk across asset classes

ANNUAL RETURN VS. ANNUAL VOLATILITY



SOURCE: StepStone and Bloomberg, based on quarterly returns from September 30, 2004, to June 30, 2023. The referenced indices/benchmarks are shown for general market comparisons and are not meant to represent any particular fund. An investor cannot directly invest in an index. Moreover, indices do not reflect commissions or fees that may be charged to an investment product based on the index, which may materially affect the performance data presented.

Outperformance driven by asymmetric risk capture



SOURCE: CapIQ as of May 2024, StepStone portfolio analytics and reporting as of December 31, 2023. Public equity performance represents the average of the S&P 500 and the MSCI World indices. Private equity performance represents the average of StepStone's portfolio and analytics reporting database and Burgiss. Total drawdown is defined as the maximum drawdown between the peak and trough during a crisis. Annualized recovery is the annualized return between the trough of the previous crisis and the peak of the next crisis.

RISKS AND OTHER CONSIDERATIONS

Risks Associated with Investments. Identifying attractive investment opportunities and the right underlying fund managers is difficult and involves a high degree of uncertainty. There is no assurance that the investments will be profitable and there is a substantial risk that losses and expenses will exceed income and gains.

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Reliance on Managers. The investment will be highly dependent on the capabilities of the managers.

Risk Associated with Portfolio Companies. The environment in which the investors directly or indirectly invests will sometimes involve a high degree of business and financial risk. StepStone generally will not seek control over the management of the portfolio companies in which investments are made, and the success of each investment generally will depend on the ability and success of the management of the portfolio company.

Uncertainty Due to Public Health Crisis. A public health crisis, such as the recent outbreak of the COVID-19 global pandemic, can have unpredictable and adverse impacts on global, national and local economies, which can, in turn, negatively impact StepStone and its investment performance. Disruptions to commercial activity (such as the imposition of quarantines or travel restrictions) or, more generally, a failure to contain or effectively manage a public health crisis, have the ability to adversely impact the businesses of StepStone's investments. In addition, such disruptions can negatively impact the ability of StepStone's personnel to effectively identify, monitor, operate and dispose of investments. Finally, the outbreak of COVID-19 has contributed to, and could continue to contribute to, extreme volatility in financial markets. Such volatility could adversely affect StepStone's ability to raise funds, find financing or identify potential purchasers of its investments, all of which could have material and adverse impact on StepStone's performance. The impact of a public health crisis such as COVID-19 (or any future pandemic, epidemic or outbreak of a contagious disease) is difficult to predict and presents material uncertainty and risk with respect to StepStone's performance.

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