



StepStone Academy Secondaries

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All data is as of October, 2024.



What are Secondaries

Secondary transaction types

Secondary market is characterized by two distinct types of secondary deal, LP interest and GP-led deals.

Limited Partner interests

Represent secondary investments involving the purchase of limited partnership interests in private equity funds.

These interests are sold privately by investors seeking to manage their portfolios, generate liquidity and/or obtain relief from unfunded liabilities.

Secondary buyers will typically purchase LP interests at a discount to net asset value ("NAV"), after a fund has invested a substantial portion of its capital and has entered the value creation phase of its life cycle (approximately three to seven years after inception).

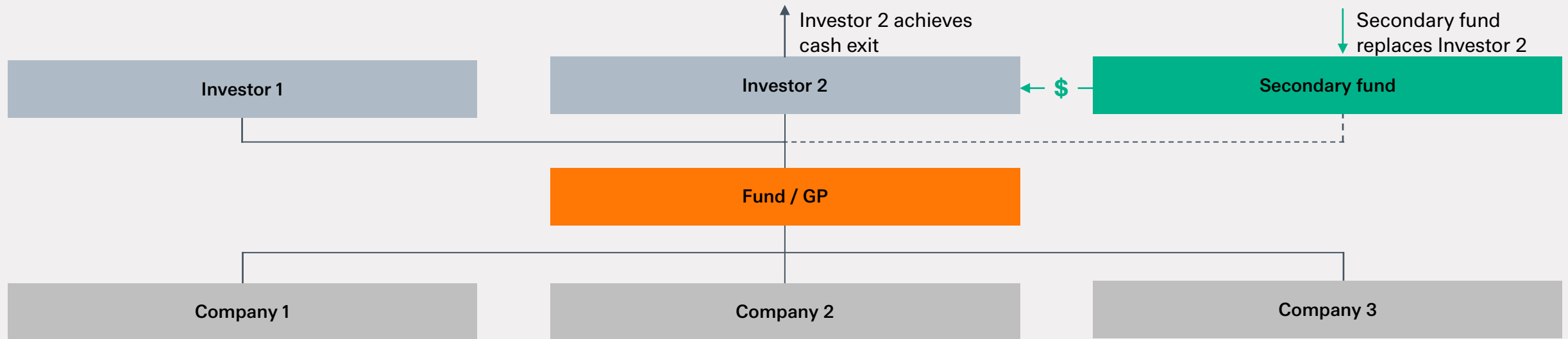
General Partner-led

Represent the sale of an asset(s) from an existing portfolio into a Continuation Vehicle ("CV") capitalized by secondary investors.

Most frequently characterized by one asset deals (single asset CV), multiple assets (multi-asset CV), or other less common, structures such as strip sales, GP / team spin-outs or staple transactions.

GP-led deals allow the GP to maintain ownership of assets to pursue further value creation, typically with new capital and revised economics. These deals also provide an option for longer-dated LPs to realize liquidity or maintain exposure by rolling into the new vehicle.

Limited Partner interest secondary transaction overview



Key considerations in LP interest transactions

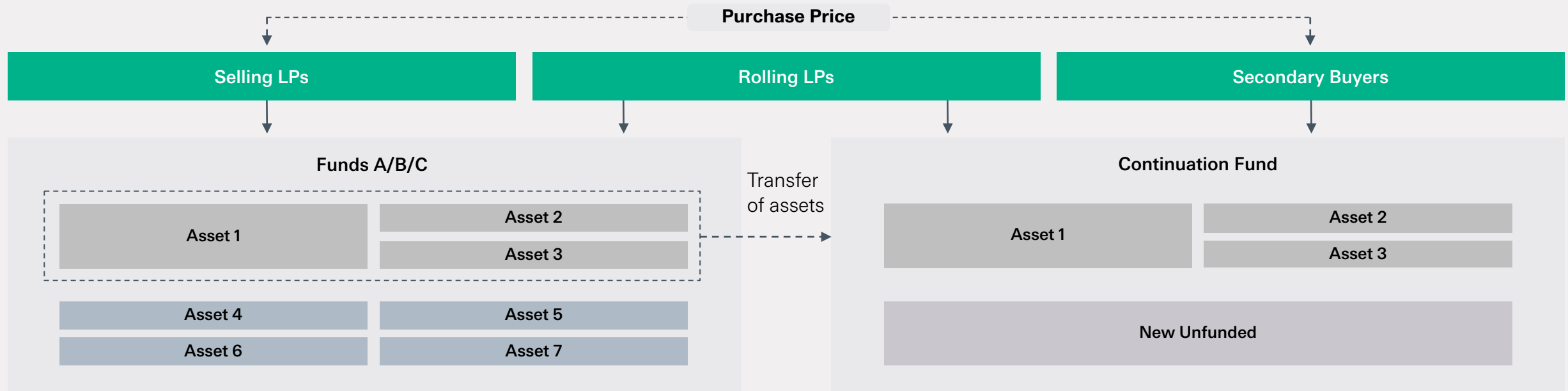
Why do LPs sell their interests in private equity funds?

- ✓ Achieve liquidity
- ✓ Active portfolio management
- ✓ Administrative ease

Potential benefits of LP sales for GPs

- ✓ Manage LP base
- ✓ Attain new commitments
- ✓ Affirm confidence in portfolio

General Partner-led secondary transaction overview



Key considerations in GP-led transactions

GP-led market opportunity

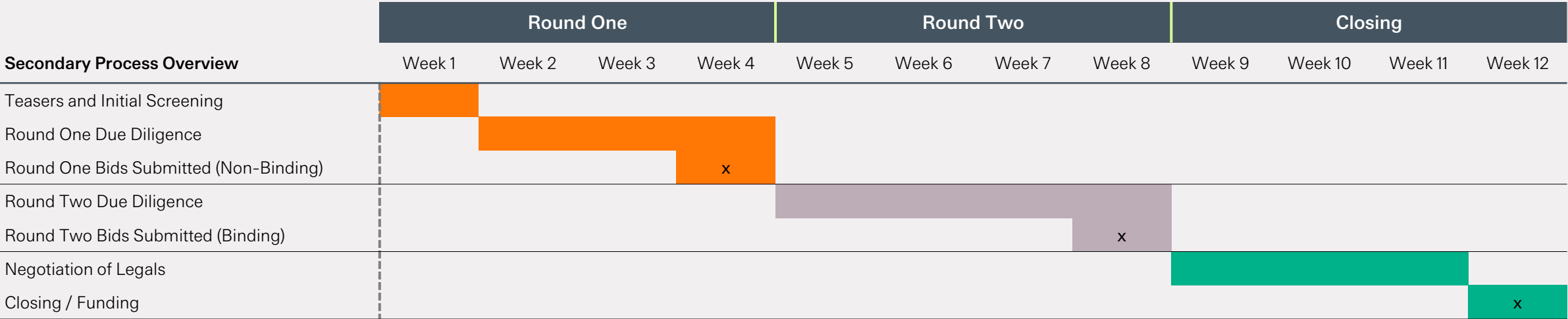
- ✓ Rapidly expanding market
- ✓ Growing market with undercapitalized buyers.
- ✓ Provides exit optionality
- ✓ Rebuying the winners

GP-leds provide an attractive solution

- ✓ Access to trophy assets and strong GP alignment
- ✓ Seek differentiated partners
- ✓ Attractive risk / return profile

Secondary process overview

Secondary transactions are often intermediated by brokers (including Lazard, Evercore, PJT, Campbell Lutyens and Greenhill), which aim to run a competitive process structured over two rounds

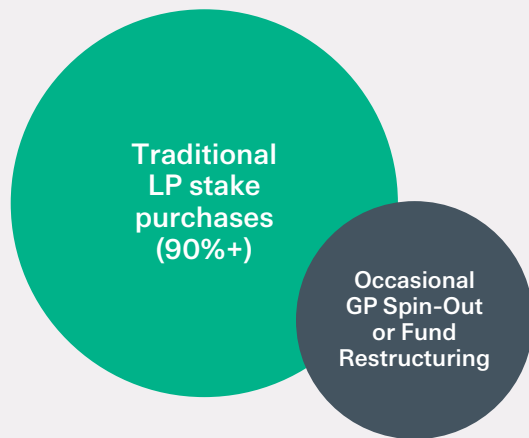




The Evolution of Secondaries

Secondary market then vs. now

Secondary market in 2010

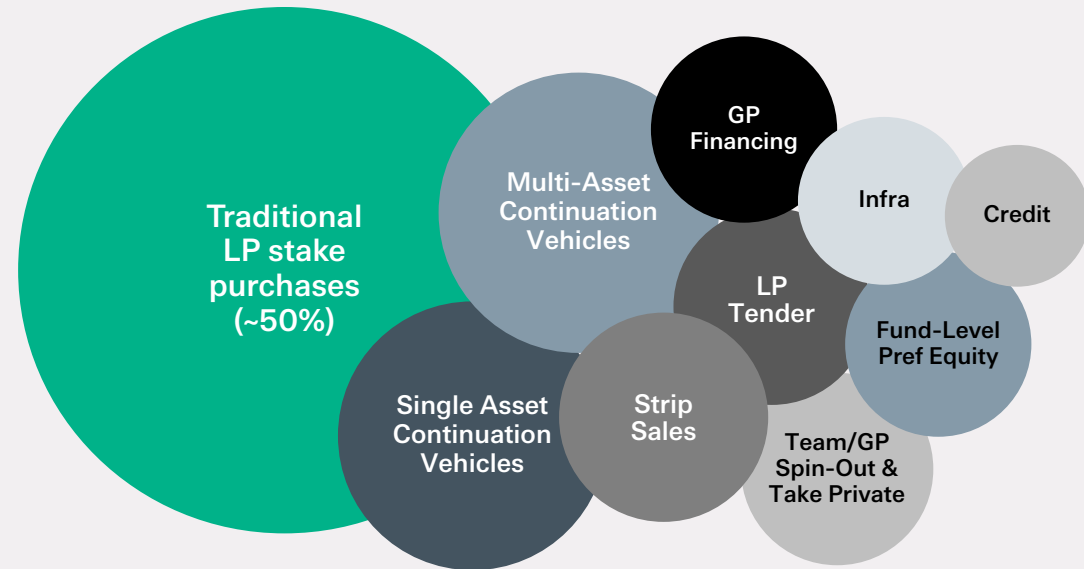


\$22 billion¹ market in 2010

Immature and emerging market

90%+ LP stake sales

Secondary market today



\$112 billion¹ market in 2023

Expanding market, driven in large part by dramatic growth of GP-led solutions

GP-led market is larger than entire secondary market in 2010/2013

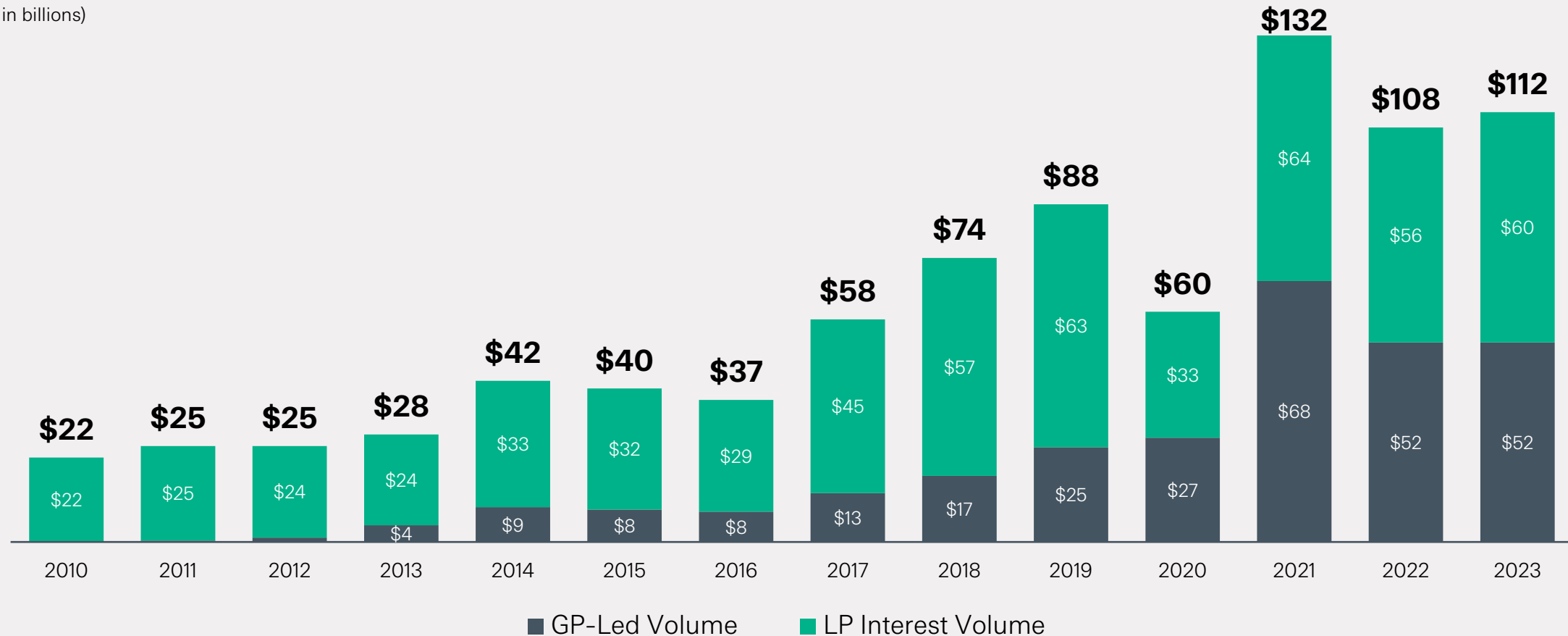
Size of bubbles is for illustrative purposes only.

1. Source: SPI by StepStone; Jefferies (January 2024). Market size includes real estate, infrastructure, and private debt secondaries.

Secondary market growth over time

Secondary market volume

(\$ in billions)



Source: SPI by StepStone; Jefferies (January 2024).



Challenges

Key diligence considerations

Team Makeup

Team continuity and experience

Capacity to effectively cover broad manager universe / develop expertise and knowledge base

Experience with relevant transaction types (LP / GP)

Primary Capital

What does their primary business look like?

What information do they have access to?

Market Position

Sourcing method

Type of transactions the fund will pursue traditional LP interests, restructurings, tender offers, spin outs

Size of deals the fund will pursue

Key diligence considerations

Leverage

Use of a credit facility for both short- and long-term leverage

Use of other inherent forms of leverage i.e. deferred payments

Proliferation of leverage in the market

Track Record

Strong returns across multiple funds

Low loss ratio

Benchmark to other secondary funds, broader private equity universe and public markets

Fees

Market terms are 1-1.25% management fee and 10-15% carry

Alignment of interest with GP: look to see 2%+ GP commitment

Co-investment opportunities

Why Invest in Secondaries?



The secondary market opportunity



**Accelerate capital
deployment**



**Mitigate
J-curve**



**Access to
quality managers**



**Immediate
diversification**

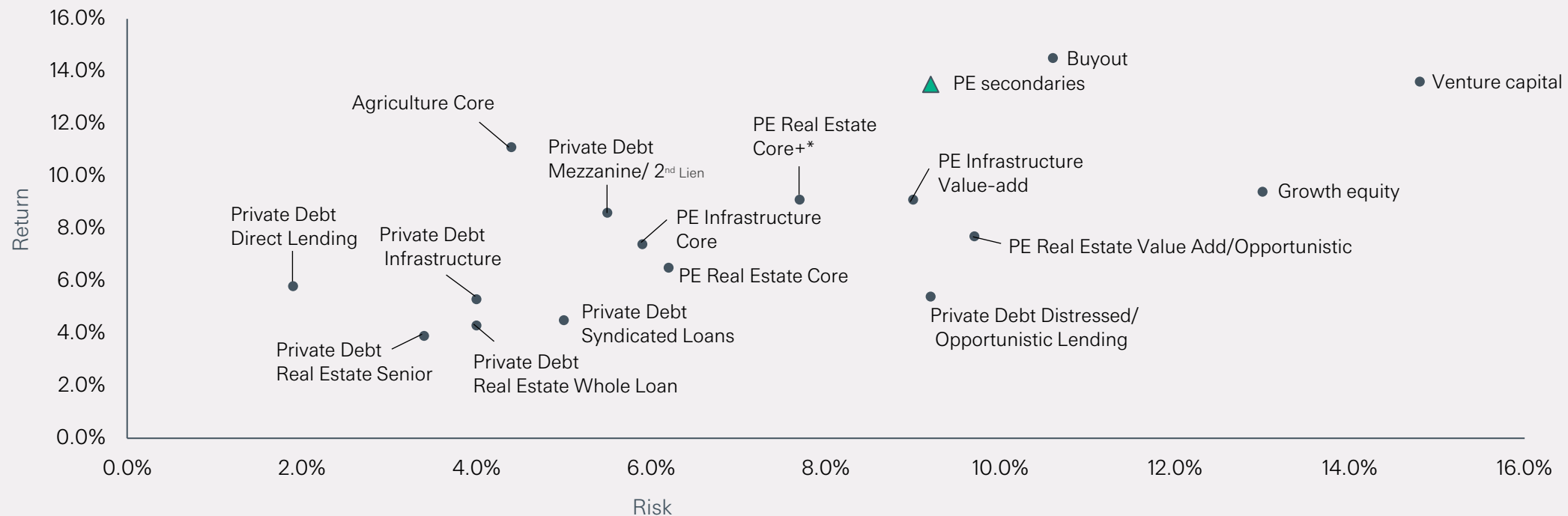


**Attractive buyout-like
returns with lower
losses & volatility**

Attractive relative returns with lower units of risk

Private Equity Secondaries generally provide some of the most attractive risk-weighted return characteristics in the private markets, with lower risk spectrum than other private equity sectors (due to the elimination of blind pool risk)

Historical returns¹



Note: For illustrative purposes only. **Past performance is not indicative of future results and there can be no assurance that the investment will achieve comparable results or avoid substantial losses.**

1. Source: Stepstone as of February 2024 Historical Returns based on quarterly returns from Q3 2004 – Q2 2023.

2. Loss ratio averages from years 2000-2022. All data derived from StepStone's SPI database, spanning 89,731 individual transactions.

Lower loss ratios

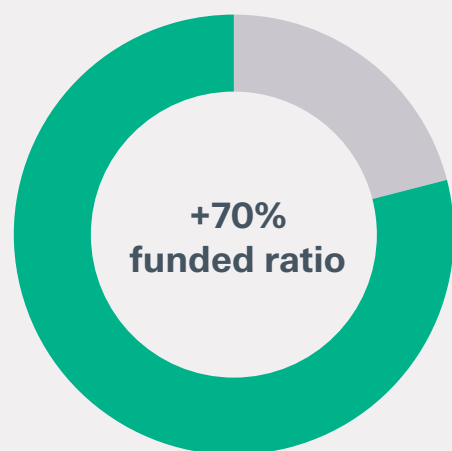
Secondaries can offer strong cross-cycle downside protection.



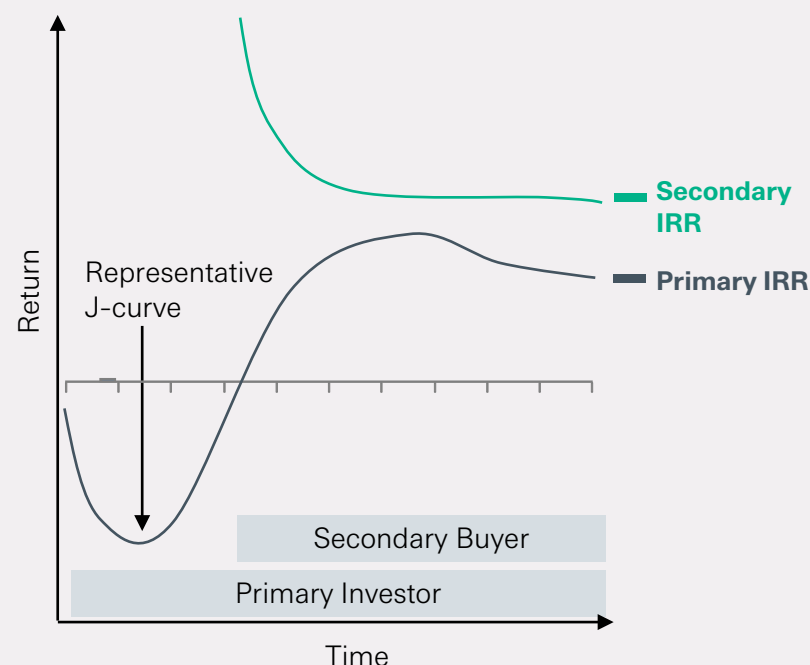
Loss ratio averages from years 2000-2022. All data derived from StepStone's SPI database, spanning 89,731 individual transactions.

Secondaries can be beneficial to portfolio returns

1. Help minimize blind-pool risks - invest in mature, substantially invested portfolios¹



2. Can smooth the J-curve effect - acquire positions in mature, highly funded portfolios that are closer to exit



3. Diversification - by investment strategy, geography, industry sector, fund manager and vintage year²



There is no guarantee that these allocation targets will be achieved. StepStone at its discretion may increase or decrease any of the target percentage allocations described above.

1. Represents StepStone's Secondary Program average funded ratio across all closed transactions.

2. Represents count of StepStone Secondary Program's underlying portfolio companies.

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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Limited Diversification of Investments. The investment opportunity does not have fixed guidelines for diversification and may make a limited number of investments.

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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.

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