

Beyond top quartile: what deal-level benchmarking unlocks for private market investors

Micheal Venne (intro): Top quartile, two words that have raised billions of dollars in private markets. Two words that have built careers. One mandates and justified fees for decades. But there's an uncomfortable question that few like to ask out loud. Top quartile...compared to what? In public markets, you can answer that in a second. In private markets, the answer is always dependent on which data set you had. What definitions it used, and how recently it was reported. Now that's starting to change. The deal level benchmarks that Stepstone has built over the years are now broadening out. We've just made them available to Pitchbook platform, thereby integrating them into an environment where many in the industry already work. And today we're going to talk about why that matters and what happens next.

Opening titles

Michel Venne: Welcome to RPM, the StepStone Group podcast that delivers quick takes and sharp insights on the themes and trends shaping private markets. I'm your host, Michael Venn. Today, we're tackling something that sits underneath almost every conversation in this industry, but rarely gets a podcast of its own. Of course, I'm talking about data, specifically, how we measure performance in a market where data has historically been fragmented across sources, inconsistent in its definitions, and slow to reach the people who need it. I'm joined by two people who think about this every day. Tyler Johnson is a partner and chief technology officer at StepStone and one of the architects of SPI., and joining him is Paul Santarelli, the chief solutions officer at Pitchbook, whose team you've almost certainly relied on if you've ever tried to make sense of a private deal. Tyler, Paul, welcome to RPM.

Paul Santarelli & Tyler Johnson: Thanks for having me

Micheal Venne: So I know we're all excited to talk about the new partnership and the new product, but before we go there, I want to lead with the problem, specifically why benchmarking in private markets has been so challenging. Paul, I'm going to start with you from your seat across the broader market. What's the state of benchmarking today and where do users hit a wall?

Paul Santarelli: Yeah, I mean, think about historically how benchmarking works, and it's always been, especially in the private capital markets done at the fund level, which historically has been very good. It tells you how excuse me, a fund manager has ranked, but it doesn't necessarily tell you how they got to those returns. Is it from picking the right strategy, is it picking the right sector, was it one individual deal that drove the entire fund, or was it a series of singles and doubles that drove the fund? And that has been a challenge forever in how GPs tell their story and how LPs evaluate funds across different potential managers.

Micheal Venne: And Tyler, um, follow up to you. What makes private market benchmarking structurally different from public markets? Is it the liquidity reporting cadence, something else?

Tyler Johnson: So, I'd say the single biggest difference, right, and maybe the most obvious is that in public markets, the data is generally publicly accessible, right? You can access the performance and operating metrics of publicly traded companies and, and access that data on the entire universe, right? But in private markets, simply not the case, right? No one, in fact, actually has the entire universe and different providers like, like us, right, have been able to aggregate data on some of the universe to derive some sort of insight on that, but again, no one has it. Now there's a couple of different sources, um, of how different firms can aggregate this data, we source that data by being one of the largest allocators in private markets, so, from our advisory, asset management and data services, we're able to aggregate and consolidate this data to give a view on private markets, but again, no one has everything and that's one of the major challenges that we have here in private markets. In addition to that, how the data is shared in private markets is still pretty archaic, right? It's different managers sharing their information through PDF documents that investors effectively have to, to parse and gather that data, extract it, review it, consolidate it, clean it.

And that data comes typically two, three, and sometimes even four months lagged, right, so investors effectively have to use technology to parse that data quickly to drive any sort of timely insight from that data in private markets.

Micheal Venne: When a GP says top quartile to something, we hear a lot, what's actually behind that claim and why does that pose any problems. Paul, why don't you take that one?

Paul Santarelli: Yeah, I mean, you know, top quartile of what, right? The manner in which a GP can define their peer group, the manager, the manner in which they can define who they want to

compare against. You can do that in a lot of different ways, there are historical benchmarks and certainly there are top level benchmarks that have been provided by many providers, including us over the years, they tell a story, um, but it doesn't allow a GP to really tell their own story, and I think that's one of the things that we've always tried to, to bring to the market at Pitchbook is an understanding of how you compose a peer group in the first place, so that you can say, hey, what are we doing as a firm? What is our investment thesis? What strategy are we deploying? And how can I find similar firms that are doing something the same or at least adjacent, so that when we go to an investor and we're looking to an LP to, to raise capital, that we can tell our story better. And I think that, you know, going back to your question on the wall, that still ends up being a fun to fund comparison at the returns level and this partnership that we have been able to create, and the data that StepStone has been able to collect over the years allows us to take that story down a level, right, and really understand what are those drivers that are happening within the fund, what are the deals that are happening? What are the details on those deals so that a GP can more effectively say to their investor, how did we create value in our portfolio? So you understand what you're getting when you're investing with us. And that's been a huge, huge thing that we have been hearing from our GP clients for years. We want a better way to tell our story. We want a better way to be able to show how we drive value creation. And without that underlying deal level benchmarking that the StepStone Group has been able to collect and clean, as Tyler mentioned over the years, it just hasn't been possible before. So now, in conjunction with being able to really understand the different strategies that GPS are, uh, deploying and then being able to tell that story at a more granular level, it really changes the dynamic in how do we get to say, hey, we're a top performing fund, right?

We can really define that and bring more transparency to the LPs, to the investors when they're in selection and for the GPS to tell their story.

Micheal Venne: I'm glad you jumped right into the next topic, which is, of course, what this partnership unlocked. You preempted one of my questions when you discuss things that GPS specifically were asking you. Were there any other asks that you were getting from other Pitchbook users that get resolved with this partnership and the deal level benchmarking that we are making more broadly accessible?

Paul Santarelli: Yeah. I mean, to frame the answer to that question, Pitchbook serves a lot of different types of clients. So, we have clients across the private capital market spectrum, investment banks, GPS, LPs, a lot of service providers who service deals or service funds in the

space. And the underlying theme is always, how do I understand what is going on in this market better? Private capital is an inherently and opaque asset class. We try to bring a lot of transparency so that people can make better decisions depending on, you know, what services they are offering. But it always comes down to the more intelligence we have, the better decisions we can make, the better manner in which we can serve our clients, the better strategies we can come up with. And ultimately, we hope that that drives better outcomes for our clients. So whether it's an investment bank or a GP, having that level of granularity to show what is really happening within, again, an inherently opaque asset class that's incredibly important across, you know, many of our clients well beyond just GPS.

Micheal Venne: You know, this partnership is starting to make a lot of sense because we describe the use case for SPI along very similar lines. Better insights, better decisions. Tyler we've been using SPI internally and with LPs for years. What does opening the deal level performance and operating metric data to the broader market through Pitchbook? What does that actually change?

Tyler Johnson: Yeah, so that's a super important point. We've been using this embedding this data set and these capabilities for years now internally to, to enhance our own decision-making processes, right? And we've actually shared much of this data with our LP clients historically to provide them with that same level of insight and transparency into the asset class.

So, we're going to continue to provide that to the to the LP community going forward, uh, through spy like we've done historically, but now we're really trying to broaden access to these benchmarks to a broader private markets community, including GP's and service providers. And effectively, how we're doing that is through Pitchbook. So, of course, a Pitchbook being one of the leading providers of deal and company intelligence data it just really ended up being a natural fit, right for us when we were looking for someone to distribute these benchmarks to, to a wider audience. But also as an added benefit, right?, again, with Pitchbook being one of the leading providers of company data, they brought a lot of very useful information as well on the companies and deals in our own data set that we were able to effectively enrich and expand some of the capabilities of the tool. Effectively, what we're able to do is attach their classifications to our data model to provide more granular filtering and reporting capabilities through the tool. So, it's not just distribution, really the data that they bring to the table just adds more capabilities and enhances the product itself. One thing, though, that I should make clear here though, is that data confidentiality is has been very important to us, and it's going to continue to be very important to us in this partnership as well. So, all of the outputs of the tool are all aggregated and anonymized,

right, to protect the confidentiality around individual managers or individual deals, and there's really no way to isolate individual deals and managers within the tool. It still does provide a lot of transparency to how different granular segments are performing, but it's not providing transparency into individual deals or managers themselves.

Micheal Venne: Oh, I'm glad you made that super important distinction.

Paul Santarelli: As much as our clients would love that, I think that's an important and it does in any way, you know, take away from how valuable that benchmark level data is at the aggregate.

Micheal Venne: I'm going to attempt to play back what I've been hearing. You've got a market where top quartile has been more art than science, partly because the data was fragmented, partly because there's no neutral place to put it, and what you're describing isn't just more data, it's a structural change in how a GP or an LP can actually answer the question, "how am I doing?", right? To Paul's point, how can I better tell my story? I think that's a great segue into what I want to discuss next, which is if benchmarks become real, what changes in behavior?

Paul, I'm going to go to you first to maybe tackle this from the general partner perspective, you know, does better benchmarking raise the bar on fundraising narratives or does it somehow commoditize them?

Paul Santarelli: Yeah, I don't think that it commoditize it, I think it absolutely raises the bar on behavior, and I think that this is what our GP's have been asking for, right? They are creating value but have a hard time providing that proof in the market. So being able to have that data to show where they are bringing genuine value creation to their portfolios and for their investors, I think is incredibly valuable, and the more transparency, the better. I think it creates avenues for further accessibility when you have a fall small fund with niche strategies to be able to show how that strategy is performing against maybe some larger funds so that LPs can ultimately understand their allocations, understand where they want to commit, do better manager diligence, etc. I think that all of that raises the bar entirely, and there's no downside to that level of transparency in this market, because we want to be able to show where wins are happening, what good looks like, and hopefully that can become replicable over, you know, many, many GP's.

Tyler Johnson: Great, and just building on Paul's comments on the GP use case, right, certainly valuable from an investor relations and fund-raising use case, but it's also valuable from a deal

underwriting use case as well, just as a way of understanding performance trends and trends across operating and valuation metrics across very granular cuts of the private market universe, right? So, for example, you can isolate a particular industries or sub industries and effectively leverage our very large database of private transaction comps to understand things like purchase price multiples, leverage multiples, margins, etc., within private markets.

Micheal Venne: Tyler. Similar follow up to you from maybe from the LP perspective. How does this shift or affect due diligence and the manager selection process?

Tyler Johnson: So, I think it certainly does shift and enhance the manager's selection, due diligence process for LPs, right? Like we've discussed already, right, fun benchmarking is still important, right? To understand what returns were actually delivered to LP and where that fund ranks and all the different funds out there in private markets. But where it falls short is really explaining why or how the manager generated that performance and quantifying that, right?

So to, to give you an example of, of how it's useful, the deal benchmarking we think allows us to separate the alpha and beta sources of returns, right?, and what I mean by that is did the manager generate the performance because they chose the right data at the right time, did they select the right industry, geography, strategy, etc. that performed on average above the other sectors, geographies, etc.? Or that would be beta source of return? Or did they actually generate alpha? Did they outperform in that particular industry, geography, etc.? So to give you a real-world example of where this is helpful, you know, take tech performance in general, for example. Tech has generated significant outperformance historically, so, when you look at many tech specialist funds that only invest in tech, they typically look pretty good on a fun benchmarking basis. But what these benchmarks allow you to do is look at the tech specialist performance relative to all other tech deals, for example, in buyouts, right? We are able to aggregate all the tech buyout deals completed by their peers and also generalists that also invest in tech and aggregate that into a centralized, tech focused buyout benchmark. To compare that manager on a more apples to apples basis. And you can look at things like performance metrics, right?, looking at on a, on a multiple or IRR basis, you can look at things like loss ratio, which you can only do with deal level benchmarking as a sort of gauge of risk. So if they were being relatively more aggressive or conservative compared to their peers, looking at operating and valuation metrics as well as value creation analysis. So there's a lot of different cuts of the data that you can use to, to effectively, like Paul said, explain the story, quantify how the manager under or outperformed relative to their peers. So certainly think that's a super important thing for LPs to do to have that kind of deeper

level of understanding, right. Is a very important consideration for LPs to make before committing to managers next fund.

Paul Santarelli: And we're certainly hearing just to corroborate your point from the GPS that their LPs are asking for, that they are asking to, you know, show how you are creating those returns, whether it's beta or alpha. So the inability to be able to do that at scale thus far is, is absolutely a blocker in being able to effectively fundraise and for LPs to do that diligence.

Micheal Venne: I'm going to ask you both to maybe put on gaze into a crystal ball. And beyond benchmarking, where do you see private markets data stack heading in the next few years? And you can...I'm guessing both of you may want to say AI, you can both say AI, provided you answer it slightly differently. So I get....

Paul Santarelli: I go first...

Micheal Venne: Yeah, you get to go first, Paul.

Paul Santarelli: I mean, I could certainly talk, I think that there's a number of different things and we can certainly talk about AI. You know, I wanted to go back to something that Tyler spoke on earlier and just the level of rigor that StepStone brings to validating cleaning, you know, putting methodology around the data sets, so that there is some level of standardization, and the work that our two teams are doing to be able to marry the Pitchbook methodologies and standardization with the StepStone and, having that source of truth, that lingua franca about what is happening in the market, I think that's incredibly important, especially in the age of AI where it is very easy to get answers, and it is also very easy for those answers to be wrong, and having trusted data sources that, you know, the rigor has been put into taking the 19 different sources of information that we might find something direct from the horse's mouth that you are, are going to see at StepStone, and turning that into standardized, normalized set of information that can be leveraged at scale. And that is incredibly difficult to do, and I think that our, our two teams and having that first principle around, that integrity and the methodology behind the data is really important, especially as more AI applications come onto market and data appears to be more accessible than maybe it is. So, I think that that's a really important point, and I'll transition into thinking about, you know, other components of where the private capital markets are going. Public private convergence is real, we are seeing it, you know, in a lot of different ways, a lot of funds creating

new vehicles, whether, you know, semiliquid evergreen vehicles, to increase accessibility into the market, from more channels, I think is a real trend, it is a real thing that will continue to happen, and as the private capital markets get more retail focused investors, the level of information that is necessary, the level of transparency that is necessary for that investor type to make good decisions really changes when you change the investor base. So, having this level of data to create more standardized benchmarks, to take it further to indexes that can really be marked against, I think is, is a trend that will happen and, you know, can only happen effectively if there is a solid set of foundational, fundamental, normalized, standardized benchmarking information that we as a partnership can provide the market.

Micheal Venne: Tyler.

Tyler Johnson: Great. And, you know, my answer is going to sound very similar to Paul's here, but yeah, no, I would think what's coming in the near term, right in the next 3 to 5 years is just more depth of data, more types of analysis that's been historically available within private markets, really leveraging AI we're able to gather more granular data that's been harder to access historically in private markets. So, just a better and more granular understanding of different trends and drivers in the asset class is probably what's on the horizon. So, where specifically helps again is on the data collection side, but it also helps us as well in leveraging, uh, high quality data sets in more ways across the organization. So, repeating a little bit of what Paul said, but focus on high quality, right?, AI doesn't help solve the classic garbage in, garbage out dilemma. You need to plug in AI tools into high quality, trusted data sources to generate any sort of high-quality insight derived on that data. So, it's certainly a focus of ours on making this data more accessible, that's certainly top of mind for us in Pitchbook and is on our near-term roadmap of targeting various integration options of the data in terms of feeds, APIs, etc., built into the data set beyond just the web application interface, right?, making these, data and tools more accessible to a broader data ecosystem and AI tooling is something that's super important for both of us in the near term.

Micheal Venne: Before we move on to the closing, I'm gonna maybe a quick lightning round, 30s to each of you...one thing that will look obvious in five years that looks novel today. Tyler, you get to go first.



Tyler Johnson: I don't have anything good...that's not just repeating what I've already said, right?...

Micheal Venne:...all right, this segment will just cutting room floor...

Tyler Johnson: ...maybe Paul has something good here...

Paul Santarelli: I mean, I might be repeating, but I do think, you know, the shifting investor base into alternative assets, I think is very real.

And I think that the prevalence and the increase in, uh, scrutiny and transparency required for investing in private capital and alternative assets is only going to increase, and I think we will look back in five years and say, "of course we have to have this level of information, of course, we have to have this level of transparency", and I'm glad that, you know, between Pitchbook and Stepstone, we can, you know, set the set the set the bar high for what that looks like over the next five years and really lead in that area.

Tyler Johnson: I think I actually have something...

Micheal Venne: Yes. Go!

Tyler Johnson: ...that builds on what Paul...

Paul Santarelli: ...just like keep going here...

Tyler Johnson: I'd say one thing that will look obvious in the next 3 to 5 years is that LPs, especially as we expand into more retail-oriented segments here, just demand a greater level of transparency into their underlying portfolios. It's not going to be enough that people just understand what funds they committed to, that they're going to really have to understand what deals and exposures they have underneath those funds. And then naturally, when they try to understand how those deals have performed, they're going to need a benchmark for those, for those deals, and that's the gap that that we think we're failing here.

Micheal Venne: We somehow landed on two great answers to AI. It seemed like an impossible question, so thanks for playing. So I'm going to attempt to land the conversation from today, so



really taken away three things from this conversation. One is private market benchmarking has been a credibility problem as much as a data problem. And partnerships like this one are how that gets solved, not by one firm declaring a standard, but by a neutral infrastructure that the whole market can point to.

Secondly, the real unlock isn't a new data set, a new default, a world where show me the comparables becomes easier to answer, and we're. Both GPs and LPs alike have to sharpen how they pitch and how they pick. And then three, you know, the more interesting frontier isn't maybe returns benchmarking, but it's the granularity and the standardization and really digging into like how companies are actually performing beneath the IRR. And that's where the next few years of this conversation are going to live. Tyler, Paul, thank you both so much for your time for joining me today.

Tyler Johnson: Thanks.

Paul Santarelli: Thank you Michael, my pleasure.

Closing credits

Michael Venne: That's it for this episode of RPM. To go deeper on what we covered today, links to spy by Stepstone and Pitchbook are both linked in the show notes. And if you're an LP or GP trying to figure out where you sit on the curve, well, that's exactly the question this partnership was built to help you answer. If you like this episode, the best thing you can do is share it with one person in your network who would find it useful and subscribe wherever you get your podcasts. I'm Michael Venne, thank you for listening and we'll see you next time on RPM.