A Tale of Two Markets

A Look into Private Equity

First Quarter 2025

A Tale of Two Markets

Private equity experienced a run-up in 2021 that excited investors and drove valuations to new highs, with the greatest exuberance in venture capital versus buyout. However, those levels were not sustainable.

Without the daily trading of the public markets, repricing illiquid assets takes time, so the private equity markets have taken substantially longer to adjust from the 2021 run-up than the public markets. As the market has repriced toward normality, distributions have waned, and holding periods have extended.

Several themes have developed among investors and in private equity markets:

- Investors have questioned whether stress will persist or if markets are shifting in a positive direction.
- Interest in artificial intelligence (AI) has grown as more vertical and specialized startups attract funding.
- Growth equity's risk/return profile has become increasingly compelling.
- Secondary volumes are increasing, and many general partners (GPs) are seeking early liquidity through a greater number of continuation funds.

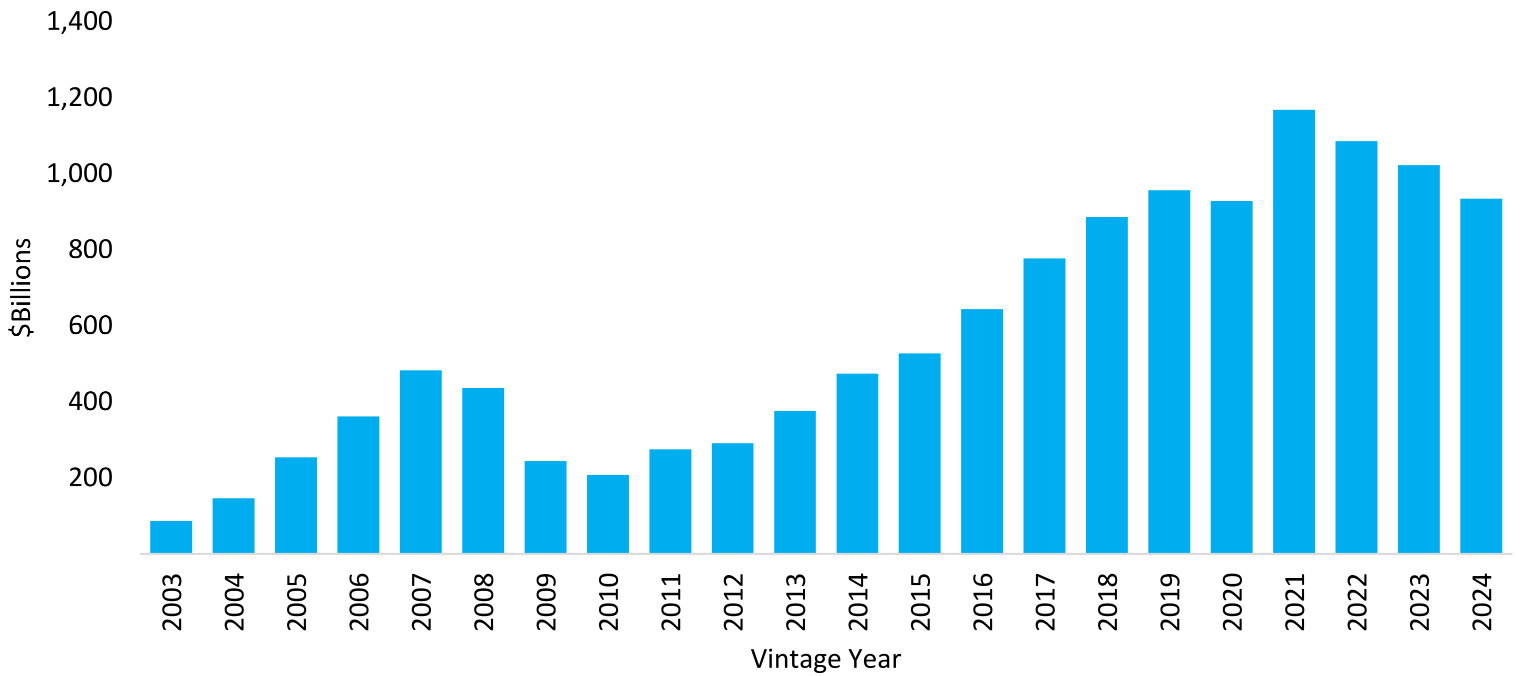
Source: Created with Microsoft Copilot powered by Dall-E

Private Equity Market Growth has been Substantial

- Over the past two decades, private equity markets have become an increasingly important allocation for institutional investors, leading to substantial growth of the asset class.
- Further, the much higher number of private companies relative to public companies, illustrates the size of the investment opportunity set.
- As more companies have elected to stay private longer and the number of venture-backed unicorns ($1 billion companies) has grown, the best way to access these companies and their business models remains through the private markets.

THE PRIVATE EQUITY MARKETS HAVE CONTINUED TO INCREASINGLY ATTRACT INVESTOR CAPITAL

Global Private Equity Committed Capital by Vintage Year



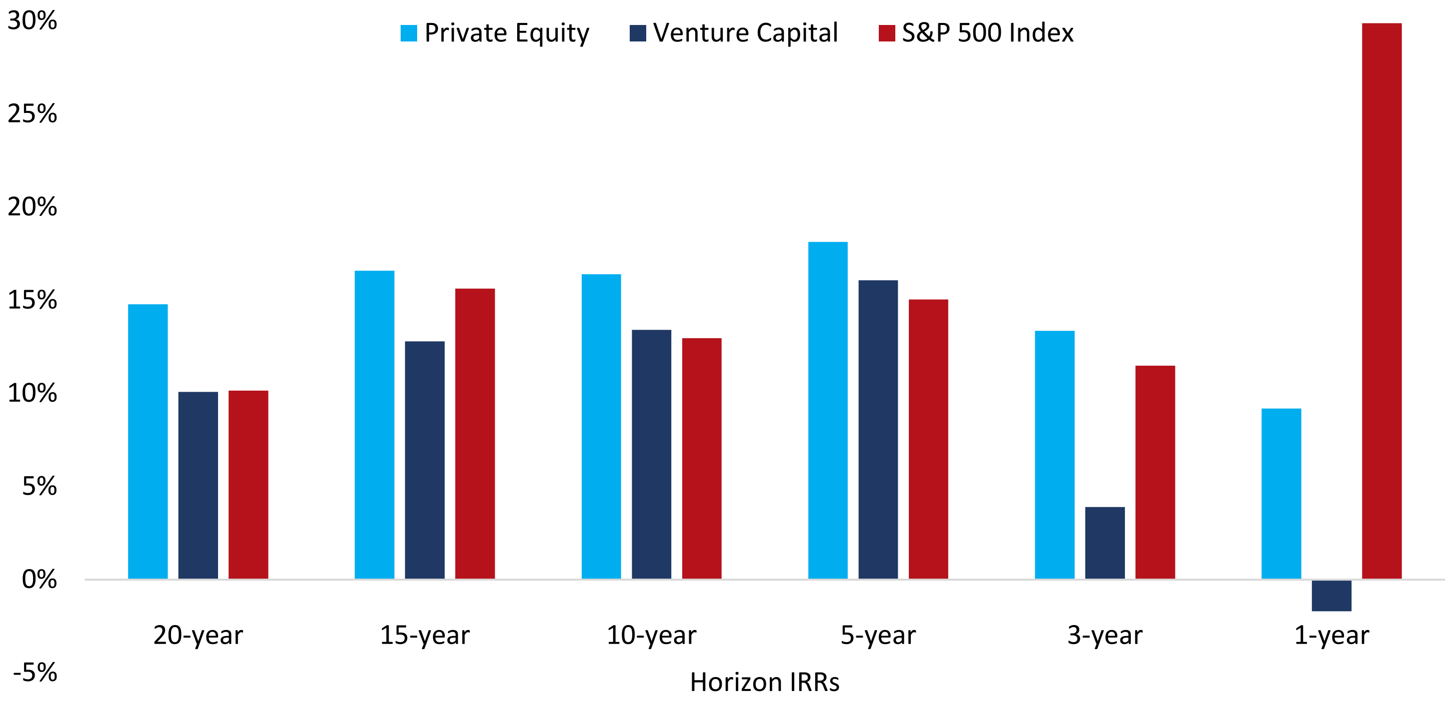
Data source: Pitchbook

Private Equity Performance has Lagged for Recent Allocations

- Private equity allocations that were invested at the peak of valuations have not provided the same exceptional performance over public markets as allocations made in the years prior.
- General partners (GPs) have held investments and sought growth strategies to maximize return potential, but these efforts will take time to provide benefits.
- Recent weak performance has occurred at a time when the more volatile public markets dropped in 2022 only to rally to new highs through 2024, outpacing private equity allocations on average over the past three years.

RECENT PRIVATE RETURNS HAVE LAGGED THE RALLYING PUBLIC EQUITY MARKET

Horizon IRRs



Data source: Pitchbook

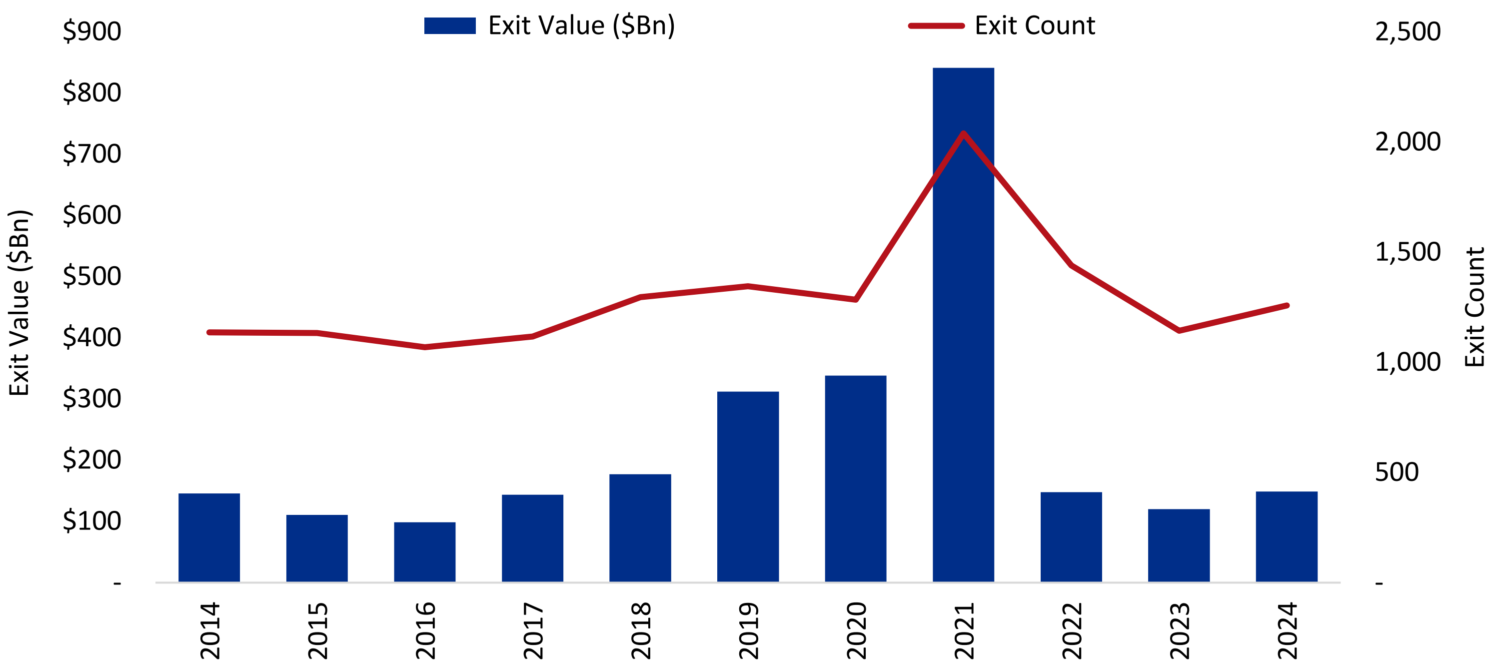
VENTURE IS STILL RECOVERING FROM A YEAR OF EXCEPTION

Venture Capital Activity Jumped to an Unsustainable Pace

- The unsustainable surge in venture capital markets in 2021 led to a quadrupling of exit value and count from 2018 levels and essentially a doubling from 2020. Exit values and counts cratered in the subsequent years as the markets began to revert.
- There are signs of improvement today, with exit values in 2024 up 24% from the prior year as firms are holding their investments longer due to exit conditions. However, the lack of exits will take additional time to improve, and we expect these conditions to present challenges to fundraising.

U.S. VENTURE EXIT VALUES QUADRUPLED FROM 2018 TO 2021

U.S. Venture Capital Exit Activity ($Bn) by Year



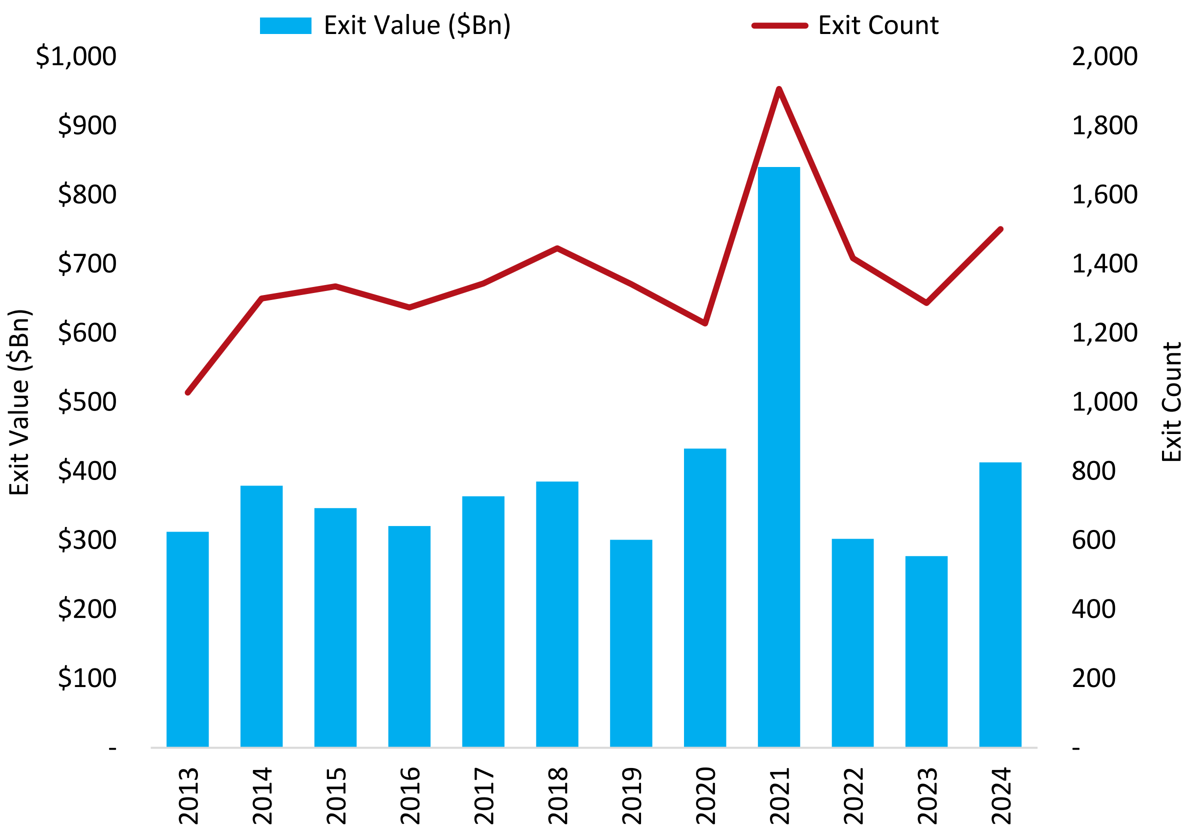
Data source: FEG; Pitchbook; “Q4 2024 PitchBook-NVCA Venture Monitor”; “The Q4 2024 US VC Valuations Report”; Most recent data available.

Buyout was Not Immune

- The 2021 surge in buyout activity was also unsustainable, but the exit value increase from 2018 was only 120% versus the 375% increase in venture capital.
- The adage that the bigger they are, the harder they fall rang true, allowing buyout exit activity to revert to sustainable levels more quickly.
- In 2024, exit value rebounded by nearly 50% from the prior year and now measures more comparable to historical levels.

BUYOUT ACTIVITY SURGED IN 2021, BUT TO A LESSER DEGREE THAN VENTURE

U.S. Private Equity Exit Activity ($Bn) by Year



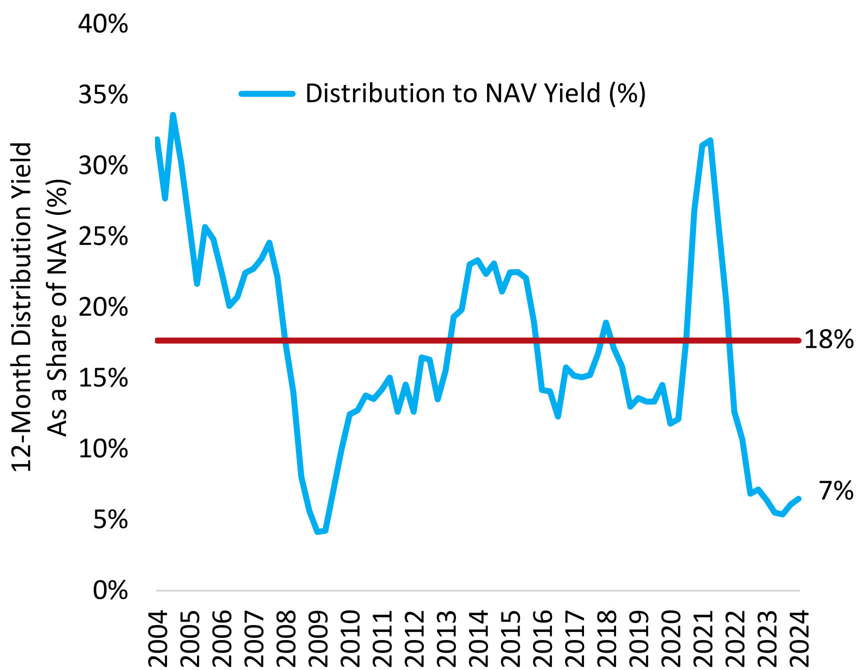
Data source: FEG; Pitchbook 2024 Annual U.S. PE Breakdown Summary; Most recent data available.

Returning to Normality has been Difficult

- Price discovery in private markets moves slowly, so the shift to a normal market has faced challenges that will likely take additional time to be fully resolved.
- VC distributions as a percentage of net asset value (NAV) are currently at 7%, significantly lower than the average over the past decade, but have shown signs of potentially bottoming.
- The median holding period for buyout assets sold dropped to 5.9 years, a level still elevated compared to the latter half of the prior decade.

VC DISTRIBUTIONS HAVE FALLEN TO HISTORICAL LOWS

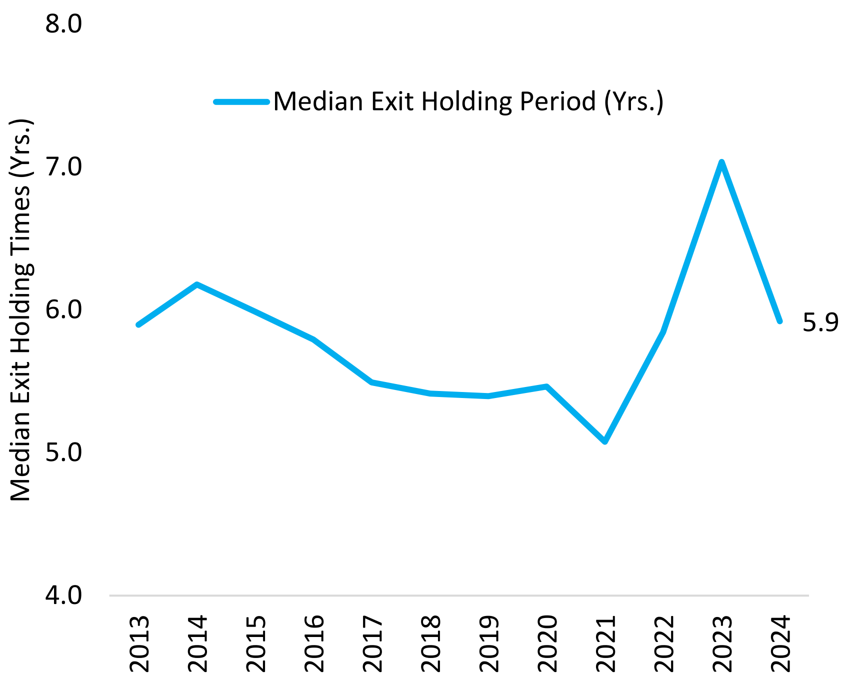
U.S. Venture Capital Distribution Yield (%)



Data source: FEG; Pitchbook; “Q4 2024 PitchBook-NVCA Venture Monitor”; “The Q4 2024 U.S. VC Valuations Report”; Most recent data available.

BUYOUT COMPANIES ARE BEING HELD LONGER

U.S. Private Equity Median Holding Period



Data source: FEG; Pitchbook “2024 Annual U.S. PE Breakdown Summary; Most recent data available.

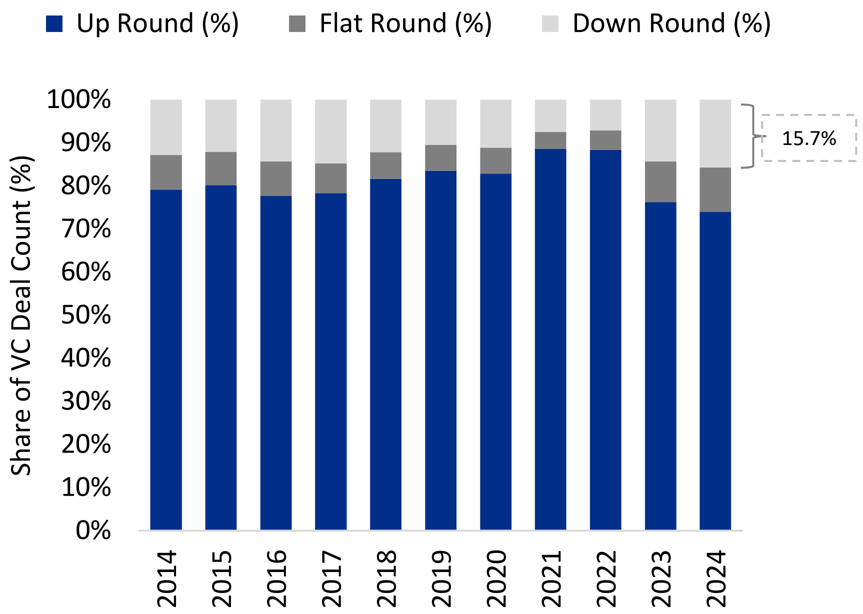
THE VENTURE TIDE MAY BE TURNING

Venture Capital Valuations Experience More Down Rounds

- As venture companies sought additional capital, an increased percentage of those companies experienced a decrease in valuation with that financing.
- In 2024, almost 16% of VC financing rounds were completed at a lower valuation, and over 10% were flat.
- Down rounds were more prevalent in late-stage financings as more than one-quarter of Series D+ venture financings in the U.S. were completed at a lower valuation.

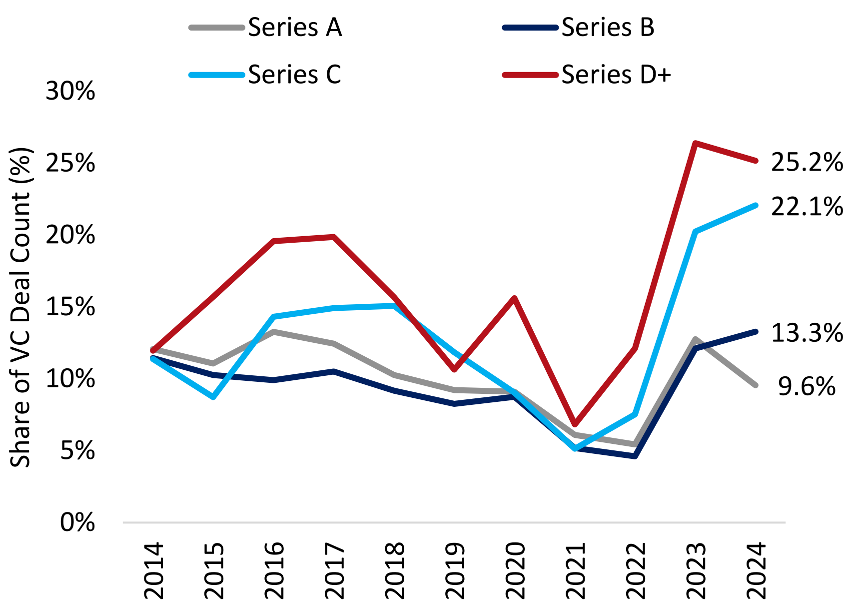
VENTURE COMPANIES ARE BEING REVALUED…

Share of VC Deal Count by Round Size



AND MANY VALUATIONS HAVE DECLINED

Down Rounds as Percent of VC Deals by Series



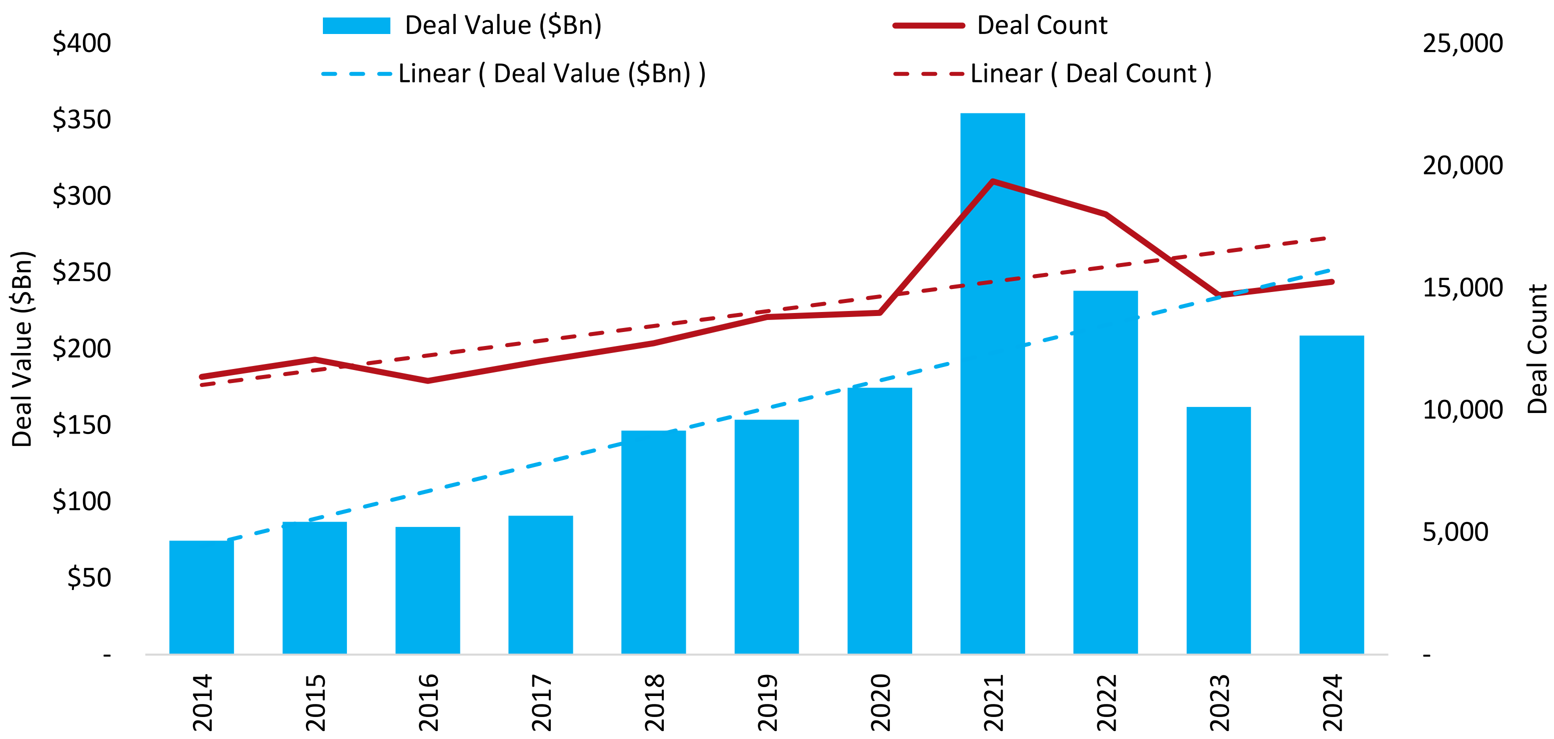
Data source: FEG; Pitchbook; "2024 Annual PitchBook-NVCA Venture Monitor"; "The 2024 Annual US VC Valuations Report"; Most recent data available.

Venture Markets are Clearing

- Venture activity fell precipitously from 2021 to 2023, ending near 2020 levels. Positively, activity rebounded in 2024 as transaction activity improved toward levels more consistent with venture's long-term growth trend.
- U.S. venture capital deal value last year increased by nearly 30% compared to 2023, while the annual deal count remained relatively stable.

VENTURE DEAL ACTIVITY JUMPED IN 2024 AS MARKETS BEGAN CLEARING

U.S. Venture Capital Deal Activity ($Bn) by Year



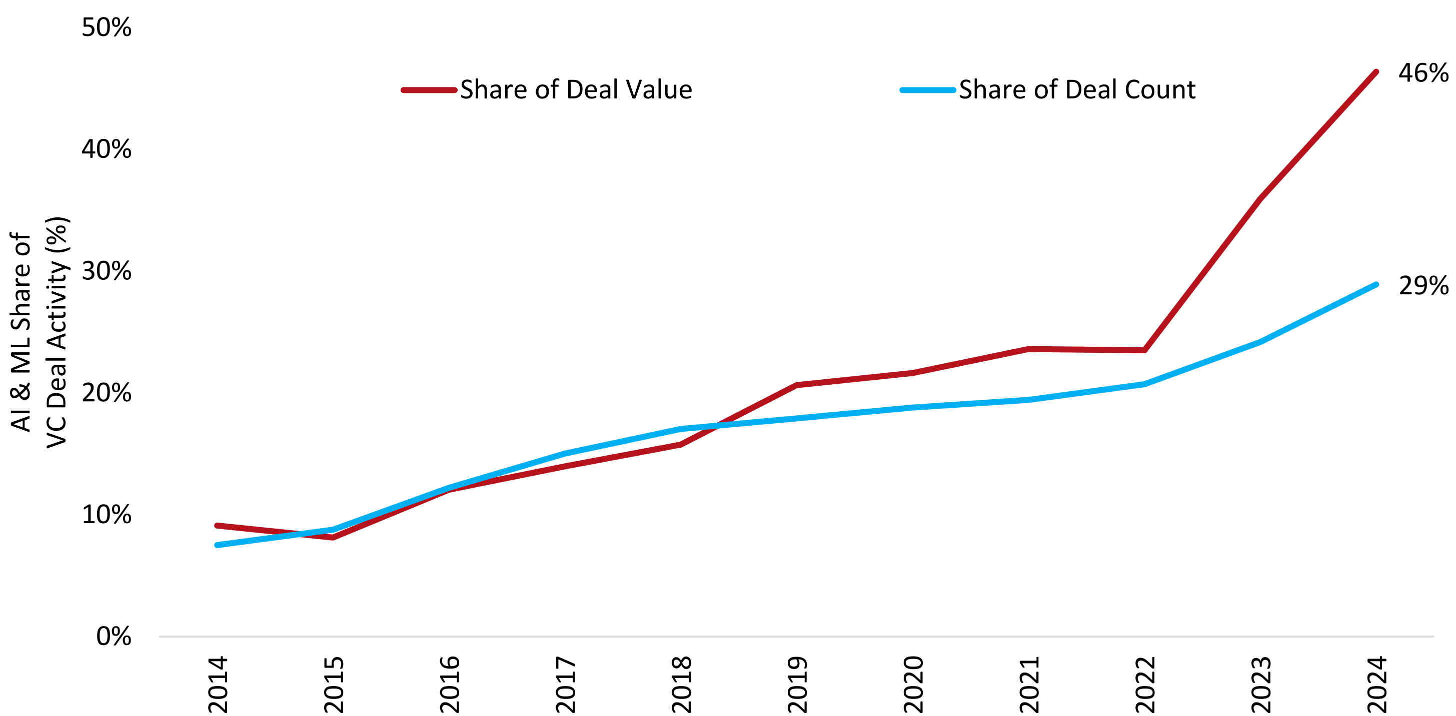
Data source: FEG; Pitchbook; "Q4 2024 PitchBook-NVCA Venture Monitor"; "The Q4 2024 U.S. VC Valuations Report"; Most recent data available.

Artificial Intelligence is a Focus in Venture Markets

- The benefits and optimism for the future of artificial intelligence (AI) is not just a mega-cap equity story but also one of venture start-ups.
- Venture capital investments have increasingly focused on AI and machine learning (ML), with AI and ML companies representing 46% of the total venture capital deal value and 29% of the total deal count.

OPTIMISM SURROUNDING ARTIFICIAL INTELLIGENCE IS BREEDING VENTURE DEALS

AI & ML Deal Activity as a Share of U.S. VC Deal Activity



Data source: FEG; Pitchbook; "Q4 2024 PitchBook-NVCA Venture Monitor"; "The Q4 2024 U.S. VC Valuations Report"; Most recent data available.

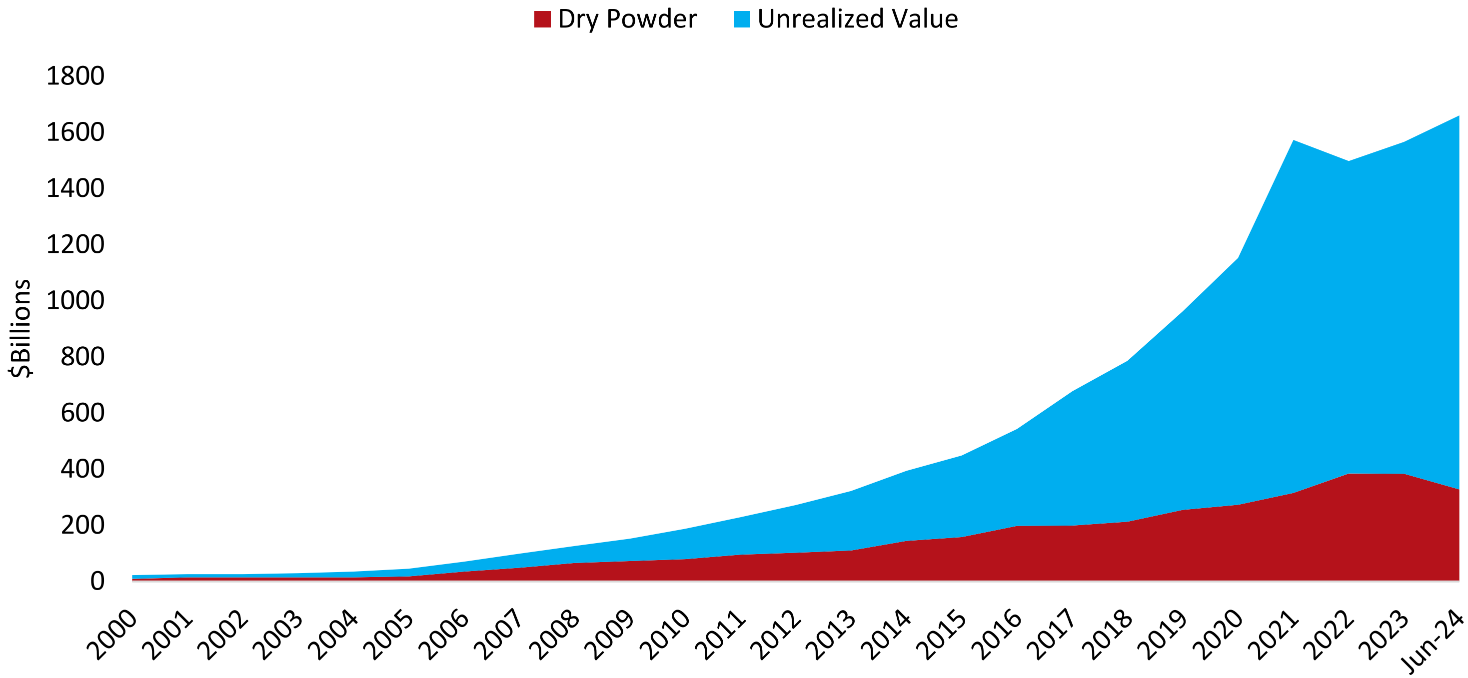
Note: Artificial Intelligence (AI) and Machine Learning (ML)

Growth Equity Is the Bridge Between Venture and Buyout

- With companies staying private longer and start-up companies in venture capital offering a high-risk/high-return profile, investors are increasingly seeking growth equity investments in younger companies that have survived the start-up phase and are seeking capital to continue their expansion.
- Growth equity companies are often technology or healthcare-related, similar to venture capital, but being further along in their lifecycle, generally offer a lower loss ratio and can be used to enhance a private capital portfolio.

GROWTH EQUITY ASSETS ARE INCREASING WITH COMPANIES STAYING PRIVATE LONGER

Growth Equity Assets Under Management, $Billion



Data source: Preqin

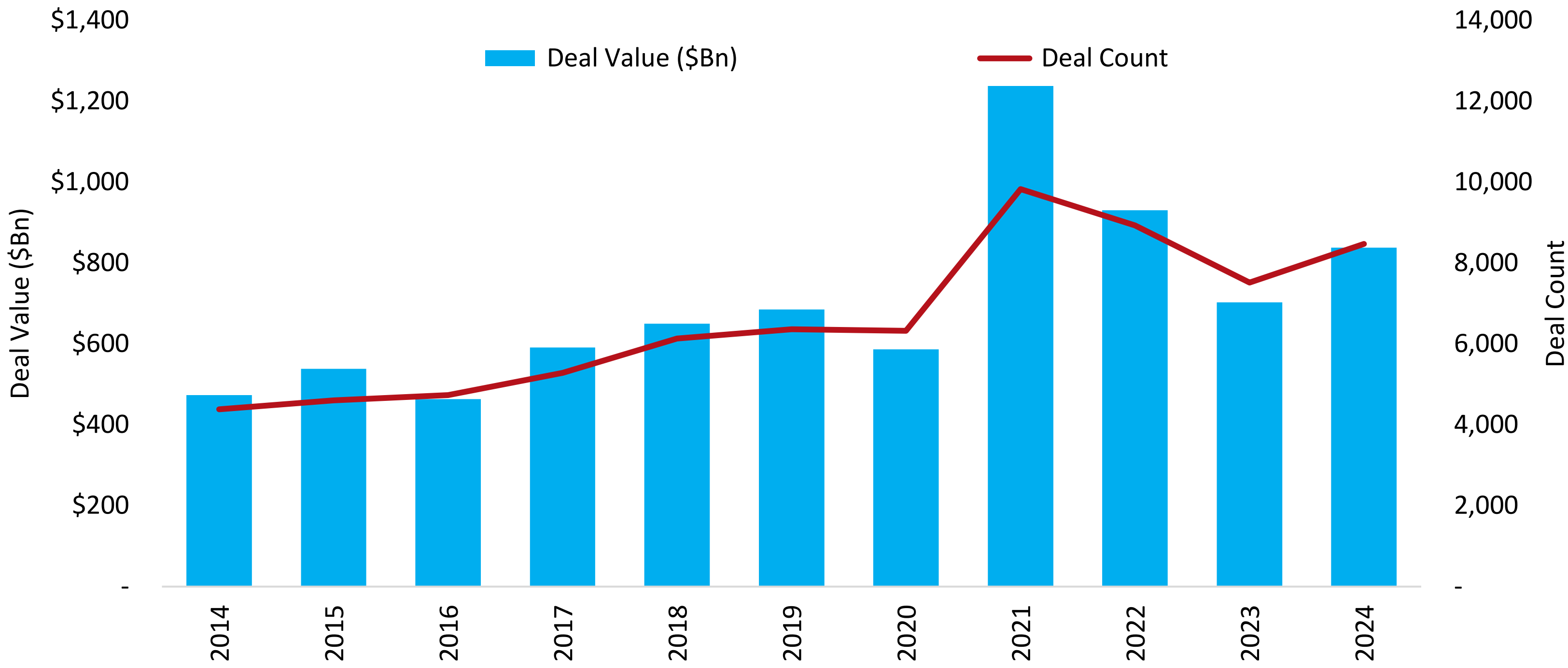
BUYOUT… LESS GLAMOUR, LESS STRESS

Buyout Deal Activity is Back to Trend

- The less glamorous but more stable businesses generally favored in the buyout market include business services, more established technology, and consumer goods and services, which have experienced a less dramatic return to trend.
- In 2024, deal value increased by almost 20% year over year to the third highest level on record, $830 billion, representing a 13% gain in deal volume.

BUYOUT DEAL ACTIVITY REFLECTS A STABILIZING MARKET

U.S. Private Equity Deal Activity ($Bn) by Year



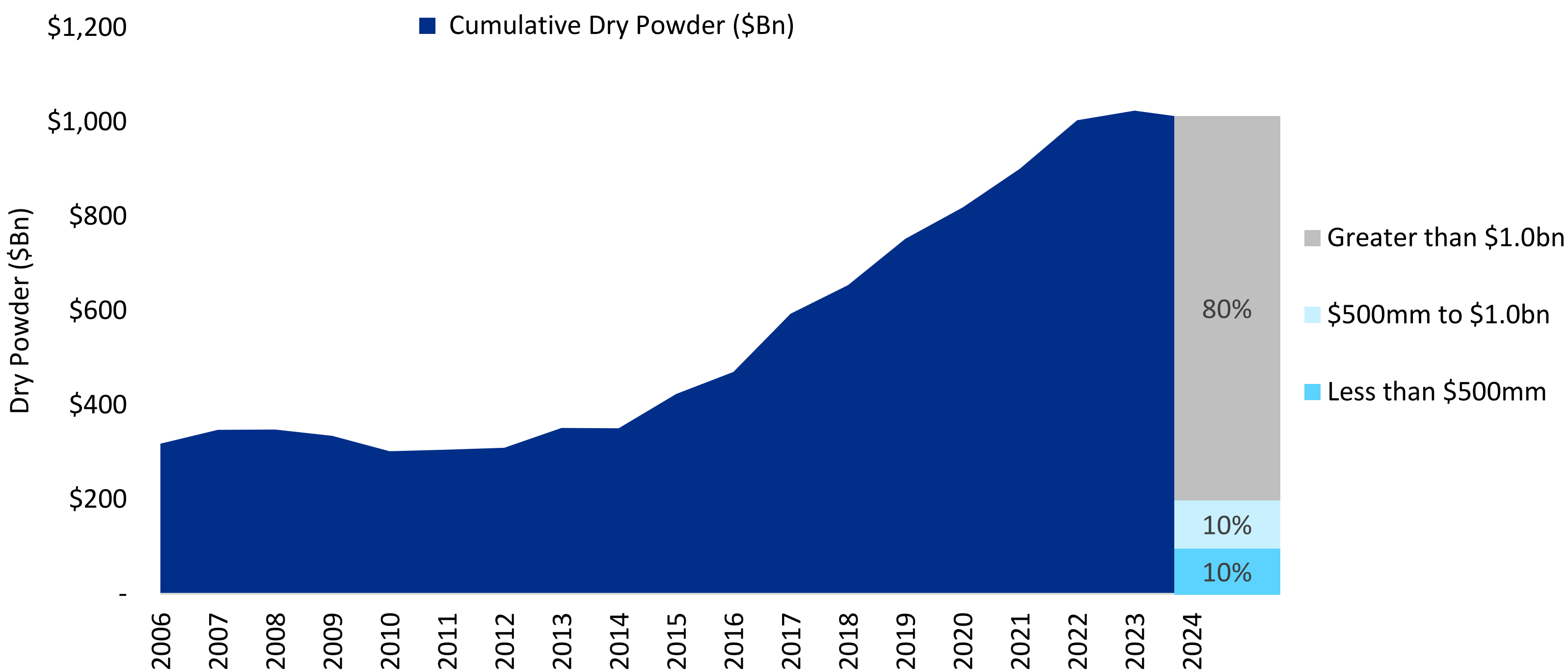
Data source: FEG; Pitchbook “2024 Annual US PE Breakdown Summary; Most recent data available.
Note: Enterprise Value (EV), Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA), Business-to-Business (B2B), Information Technology (IT), Business-to-Consumer (B2C), Materials & Resources (M&R)

Private Equity's Capital Overhang Remains Unchanged

- With dry powder standing at roughly $1.0 trillion, a measure relatively unchanged over the past several years, substantial capital remains yet to be deployed, potentially creating pressure to invest as well as price inflation.
- However, roughly 80% of U.S. private equity dry powder is held by funds that have raised $1 billion or more in aggregate capital commitments, which is why we advocate for allocating to smaller funds that can later sell to the mega-funds.

DRY POWDER IS CONSISTENTLY CONCENTRATED IN LARGE AND MEGA CAP FUNDS

U.S. Private Equity Dry Powder ($Bn) by Year



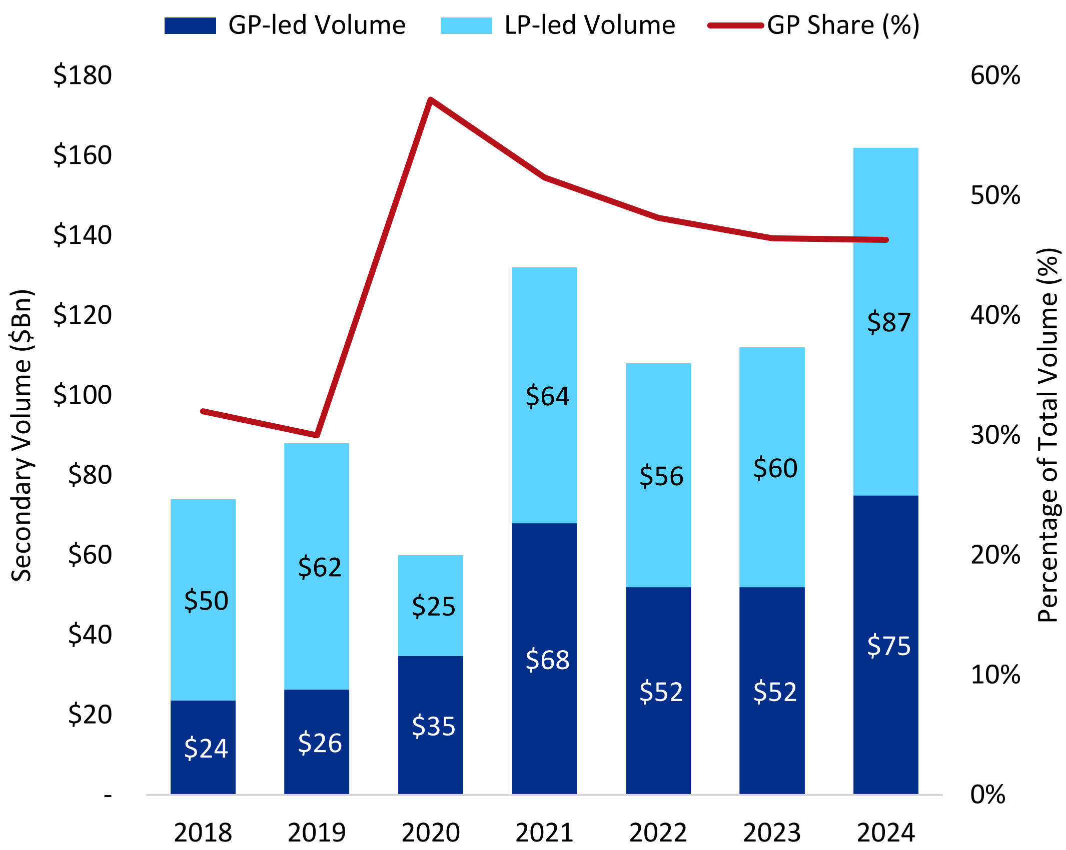
Data source: FEG; Pitchbook "2024 Annual U.S. PE Breakdown Summary; Most recent data available. Data as of June 30, 2024
Note: Dry Powder refers to the amount of committed but unallocated capital that a firm has on hand for future investments

Secondaries Have Become More Important to the Private Markets

- Private market secondaries have grown in response to longer holding periods and conflicting liquidity demand.
- General partner (GP)-led continuation vehicle transactions that recapitalize existing funds have become increasingly important.
- Secondaries provide new investors an opportunity for investors to immediately diversify, accelerate capital deployment, and reduce blind pool risk.
- In 2024, secondary volume surged to $162 billion, reflecting a 45% increase from the previous year and breaking the record set in 2021.

SECONDARIES PROVIDE LIQUIDITY AND INVESTMENT OPPORTUNITY

Annual Secondary Volume ($Bn) by Year



Data source: FEG; Jefferies "Global Secondary Market Review – January 2025"

CONCLUSION

Conclusion

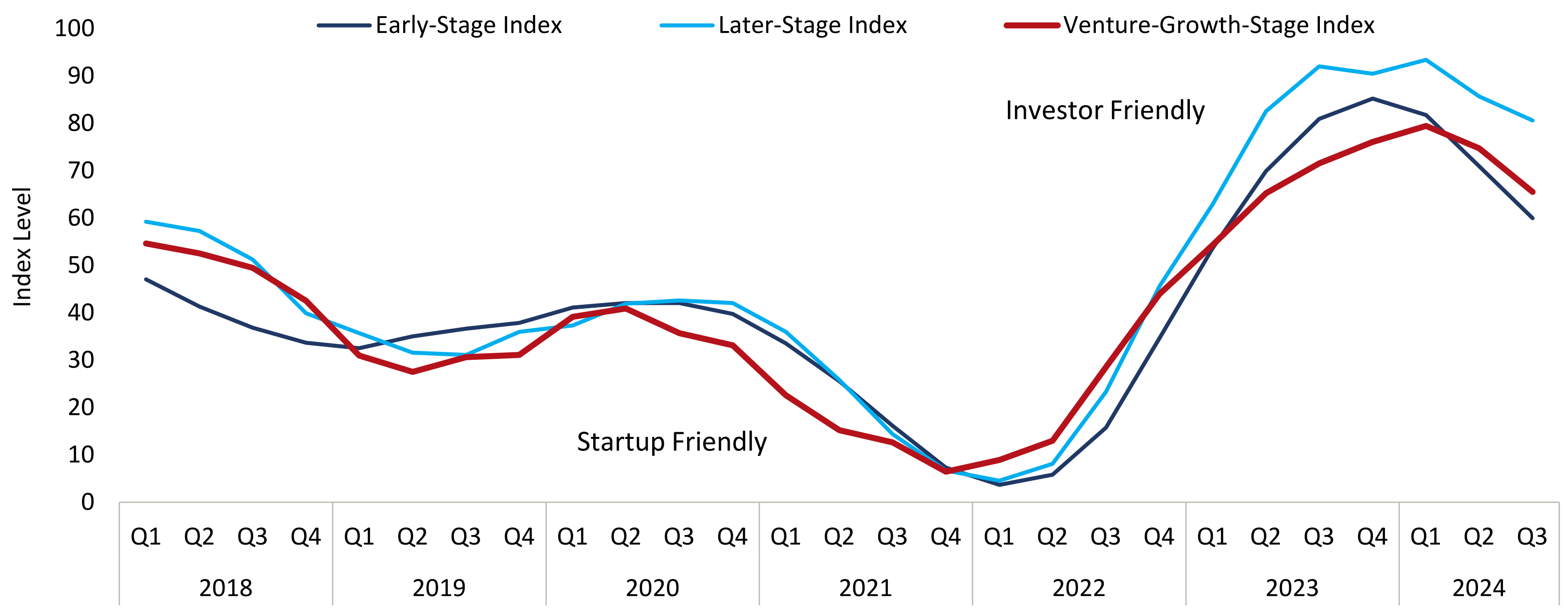
The private equity markets are active and improving following a period of unique stress, which breeds opportunity. However, the markets are not fully cleared, and stress remains, and we expect that to continue until large exits occur at a more steadfast pace.

The gradual return to normal conditions has private market activity at more sustainable levels while limiting exits. Still, improvements in exits should follow, so we advise investors to remain steadfast in their diversified private allocation plans and avoid emotional, reactionary changes.

Amid a scarcity of capital, much more investor-friendly terms are present in the private markets than at the 2021 peak of private equity euphoria, when capital was ample. Thus, the current market provides a more compelling environment for investment opportunities in all areas, from venture and buyout to secondaries.

PRIVATE EQUITY MARKET FAVORS INVESTORS OVER FOUNDERS

U.S. Venture Capital Dealmaking Indicator



Data source: Pitchbook

The dealmaking indicator measures dividend catch-up policies, liquidation preference, anti-dilution terms, voting rights, and valuation step-ups

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All data as of December 2024, unless otherwise specified.

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