

PRIVATE EQUITY OUTLOOK & REVIEW

2025 INVESTMENT OFFSITE

JANUARY 2025

Private Equity Team



TODAY'S SPEAKERS



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TOPICS

- Key Themes
- Year-in-Review & Outlook
- Buyout Opportunity
- Venture Opportunity



2025 PRIVATE EQUITY THEMES

LOWER END OF THE MARKET

- Targeting the smaller end of the market offers untapped potential, higher growth opportunities, and room for innovation with less competition compared to larger, more saturated markets
- Agile and emerging players in these markets are primed for disruption and expansion, often offering undervalued opportunities that can deliver substantial returns to proactive investors
- Smaller markets carry higher risks due to limited liquidity, increased volatility, and fewer resources, making them vulnerable to market fluctuations and operational challenges. Exits may also be more difficult compared to established players.

SLOWER DISTRIBUTIONS

- Distributions in 2025 are expected to remain below 2021 peaks, with slight improvement over recent years.
- Slower distributions may open doors to engage with historically less accessible managers, offering new long-term investment prospects
- Prolonged slow distributions may constrain liquidity for investors, limiting reinvestment opportunities and increasing cash flow risks

VALUATIONS

- Many NEPC FPL private equity investors have adjusted to higher interest rates and post-COVID economic shifts, with markdowns largely taken. However, conflicting views persist on whether further adjustments are necessary, particularly in areas of AI.
- Historically, strong private equity performance follows market resets or economic disruptions, suggesting potential returns as current valuation adjustments stabilize
- Some sectors, like artificial intelligence, show elevated valuations due to high demand, creating potential risk from overly optimistic expectations

YEAR-IN-REVIEW & OUTLOOK



BUYOUT ENVIRONMENT

1. **Credit markets are "open for business," and debt is widely available.** Banks are returning to the BSL (Broadly Syndicated Loan market) markets, but private lending still dominates. Refinancings have dramatically increased in 2024, much of it directed toward funding dividend recaps.
2. **Transaction levels remain low compared to 2021/2022 but are recovering with strong year-over-year (YoY) growth.** Much of this growth is driven by a more favorable rate outlook, combined with substantial dry powder and low activity over the past 18 months.
3. **After exit activity was cut by two-thirds from the peak in 2021, the decline appears to have washed out. Through Q3 2024, exit value has rebounded by 50.5% YoY.** However, exit count remains uncomfortably low and flat compared to the prior year on an annualized basis.
4. **GPs are only bringing their highest-quality assets to market,** holding off on others during this strained market period.
5. **Fundraising remains slow and in line with 2023 levels, as exit volume remains sluggish.** The median time to close a fund has increased to 16.8 months (up from 14 months in 2023). However, it should be noted that PE fundraising is still pacing ahead of the pre-pandemic (2017–2019) average of \$278.1 billion per annum, indicating the asset class is still raising capital at a rate above historical norms.
6. **Stress remains prevalent across portfolios, as many over-leveraged companies continue to struggle with servicing debt loads.** This creates opportunities for special situations strategies and flexible capital solutions.

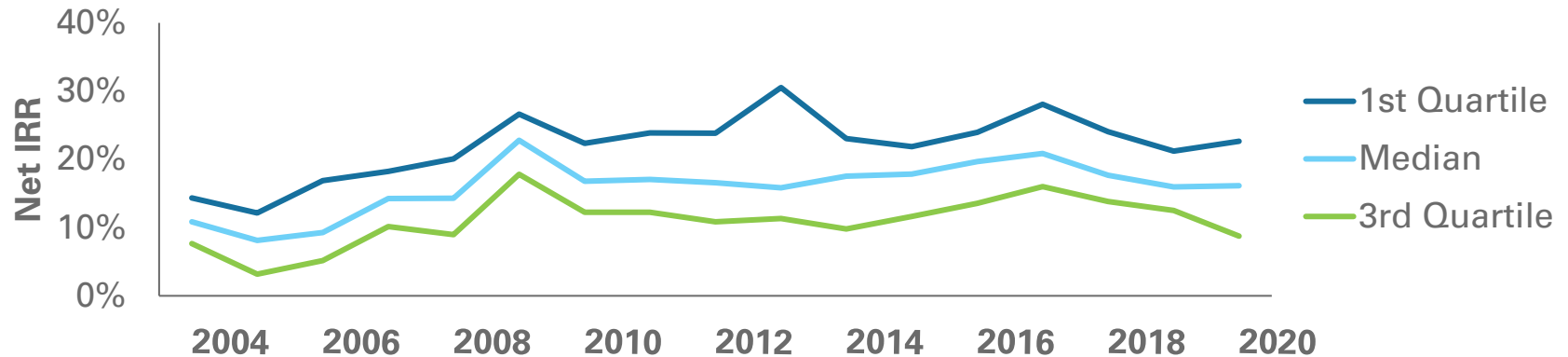
VENTURE ENVIRONMENT

- 1. Capital formation is at an all-time low.** The lack of distributions is exacerbating the slowdown in fundraising, as Limited Partners (LPs) have less capital to reinvest. Those currently in the market are witnessing a flight to quality, with more capital being concentrated among fewer firms. General Partners are also facing challenges in deploying capital, creating an overhang that must be addressed before new fundraising efforts can commence.
- 2. Transaction levels remain subdued compared to 2021/2022 but seem to have stabilized.** The increasing backlog of private companies is making it challenging for investors to turn unrealized gains into realized returns, restricting their ability to reinvest into the ecosystem.
- 3. Median valuations remain high across all stages.** These elevated medians are primarily driven by companies that last raised capital during the zero-interest-rate-policy (ZIRP) era and the current AI boom, rather than reflecting broad market growth.
- 4. Exit activity has plummeted.** Venture-backed companies are staying private longer as they wait for a more favorable dealmaking environment. According to PitchBook, the growing backlog of companies unable or unwilling to exit has pushed the inventory of U.S. private companies to 58 million. Late-stage and venture-growth startups—typically prime candidates for public listings—now represent an increasing share of this total, making up 32.4% of private companies compared to 30.0% three years ago.

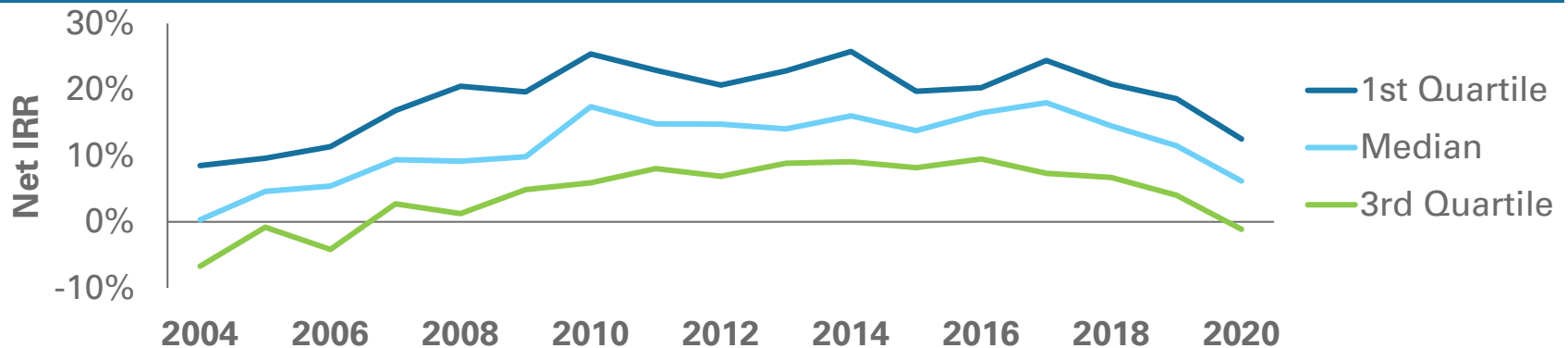
PRIVATE EQUITY RETURNS

ATTRACTIVE VINTAGE YEAR RETURNS

North America Buyout IRR



North America Venture IRR

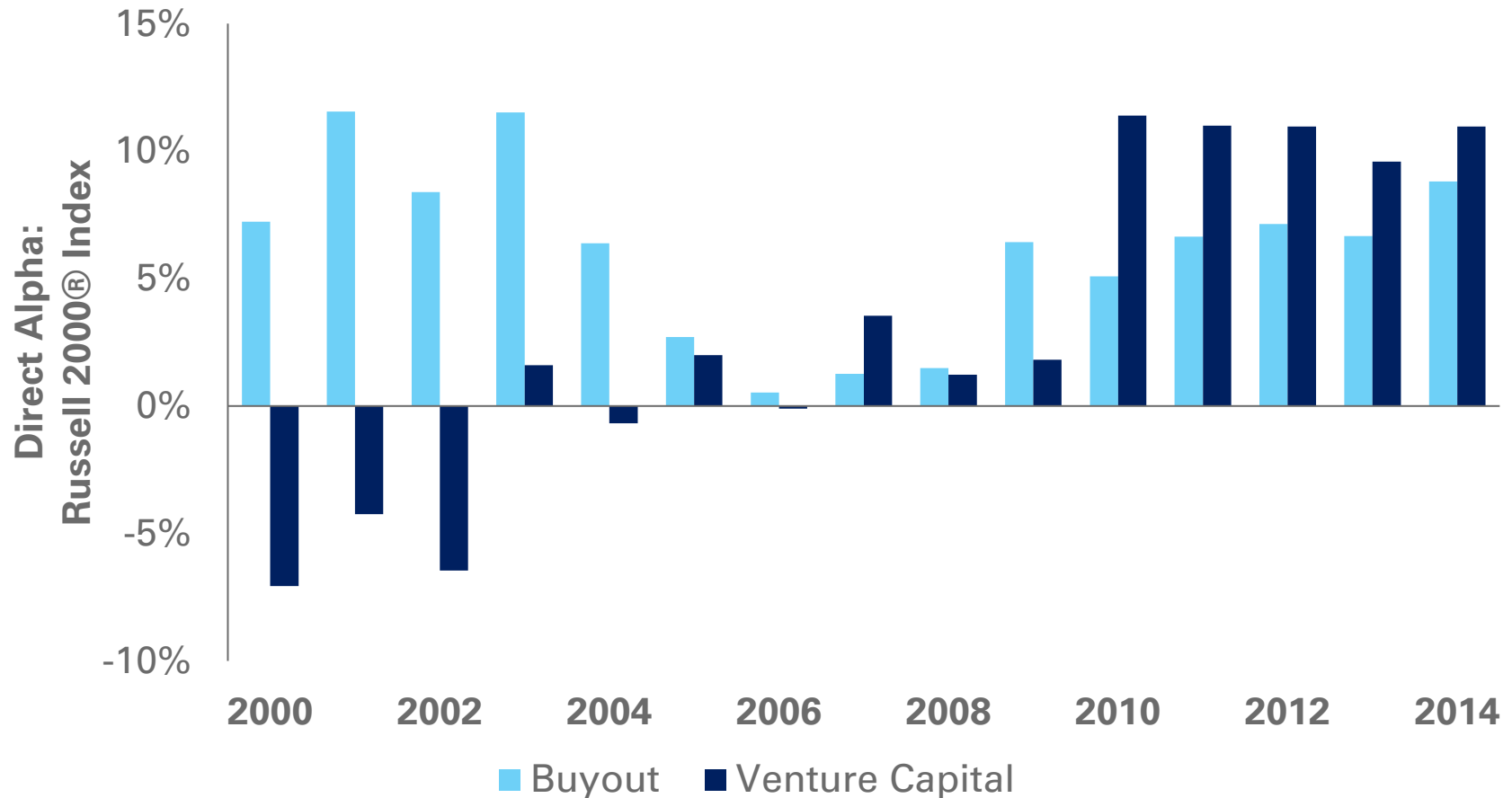


Source: Thomson One/C|A as of 06/30/2024.

Performance for most recent vintage funds not yet meaningful. Returns above are not representative of an investible fund/strategy.

PRIVATE MARKET EQUIVALENT

STRONG RISK ADJUSTED RETURNS POST-RECESSION PERIODS



Source: Thomson One/CJA as of 06/30/2024.

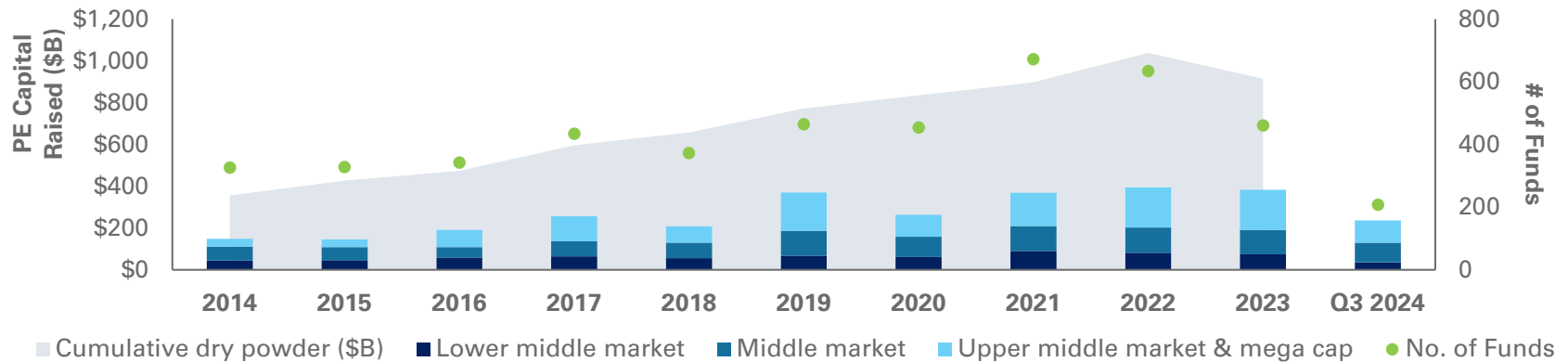
PE Out/Underperformance is shown based on a PME using the pooled cash flows of all funds. 1st Quartile outperformance will be meaningfully higher. PME method is Direct Alpha and benchmark is Russell 2000. Returns above are not representative of an investible fund/strategy.



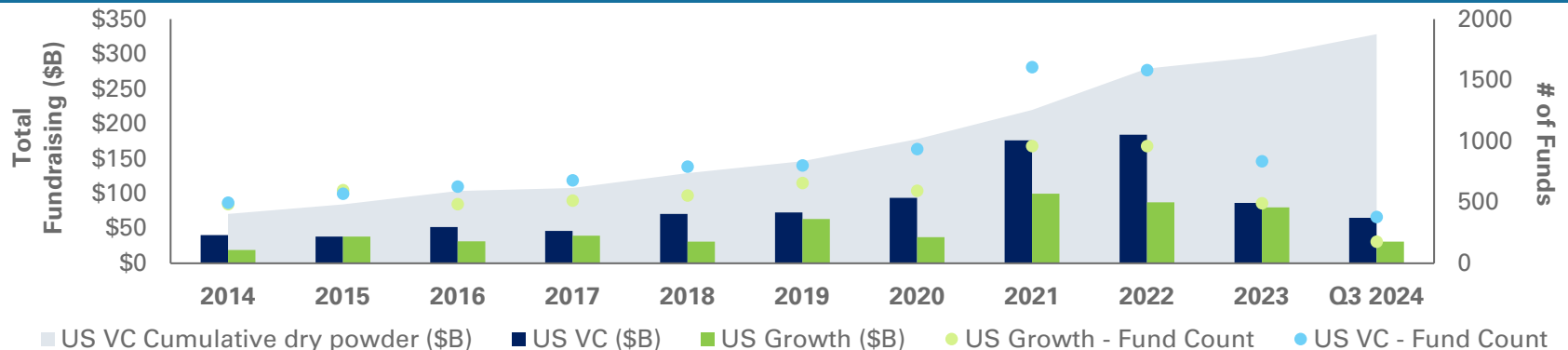
PRIVATE EQUITY FUNDRAISING

FUNDRAISING DOWN FROM ITS PEAK IN 2021-2022

North America Buyout Fundraising



North America Venture Fundraising

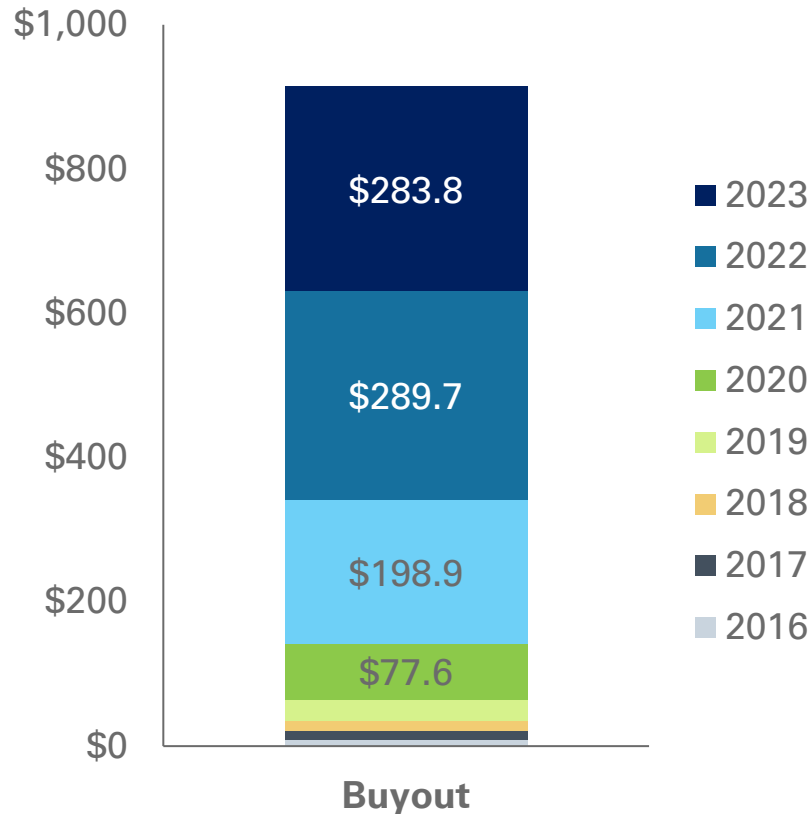


Source: Venture fundraising data from Q3 2024 Pitchbook NVCA Venture Monitor Report as of 09/30/2024. Venture dry powder data from Pitchbook Q3 2024 Pitchbook NVCA Venture Monitor Report as of 03/31/2024. Growth equity and buyout fundraising data from Pitchbook Q3 2024 US PE Breakdown Report as of 09/30/2024. Buyout dry powder data from Pitchbook Q3 2024 US PE Breakdown Report as of 12/31/2023.

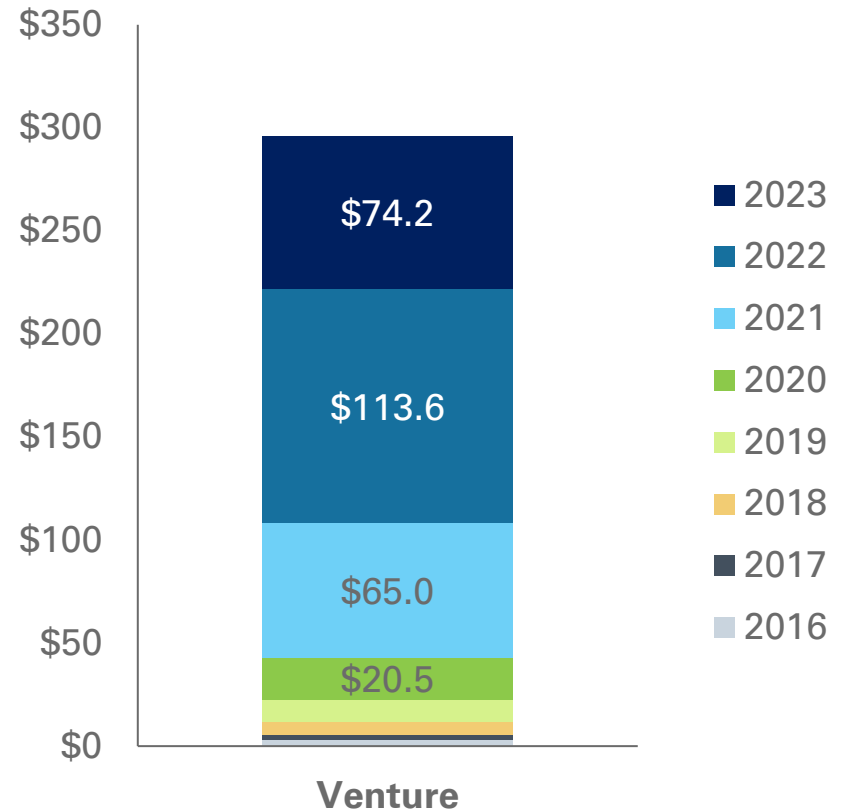
PRIVATE EQUITY DRY POWDER

DRY POWDER HAS GROWN ANNUALLY OVER THE PAST 15 YEARS

North America Buyout Dry Powder



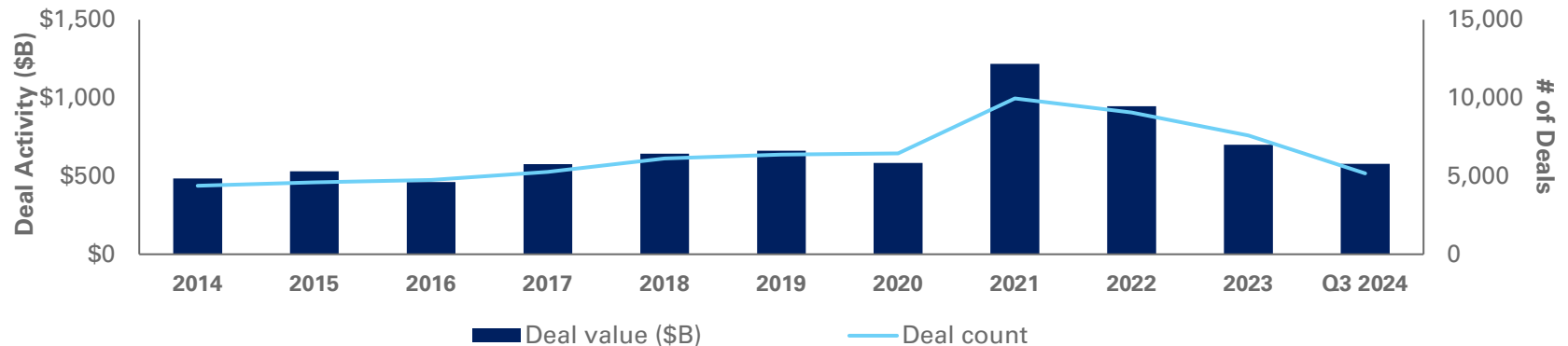
North America Venture Dry Powder Breakdown



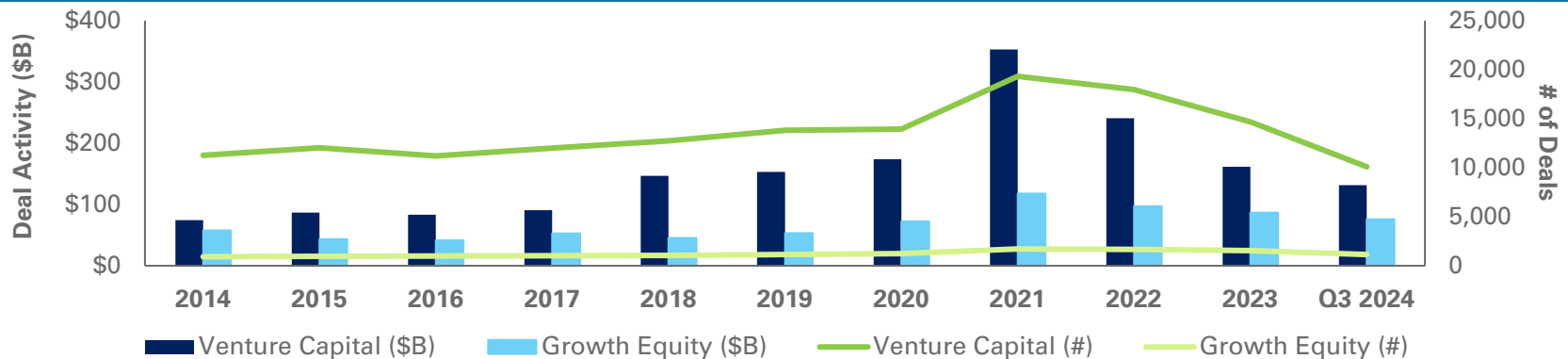
PRIVATE EQUITY DEAL ACTIVITY

PRIVATE EQUITY ACTIVITY HAS SLOWED MEANINGFULLY

North America Buyout New Deal Activity



North America Venture New Deal Activity

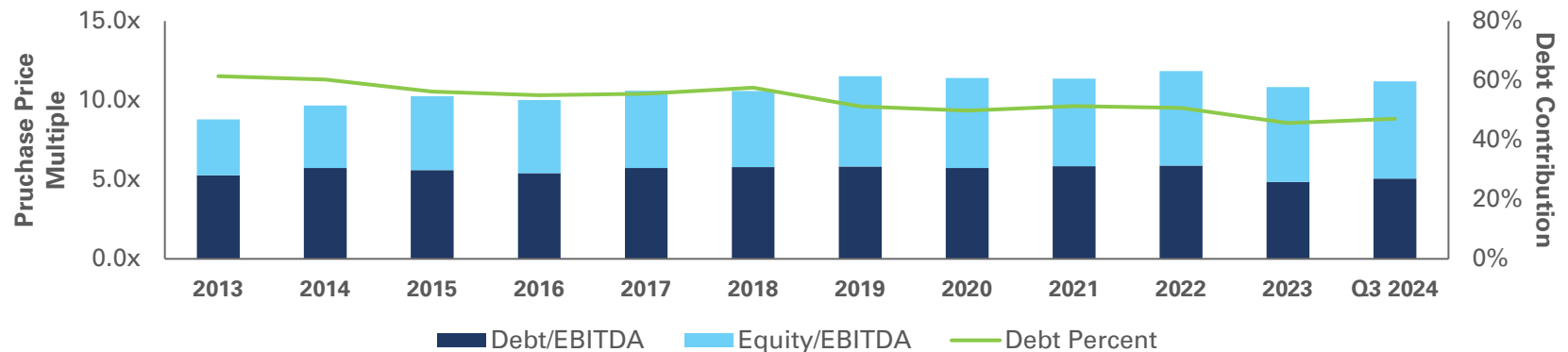


Source: Venture investment data from Q3 2024 Pitchbook NVCA Venture Monitor Report as of 09/30/2024. Growth equity and buyout investment data from Pitchbook Q3 2024 US PE Breakdown Report as of 09/30/2024.

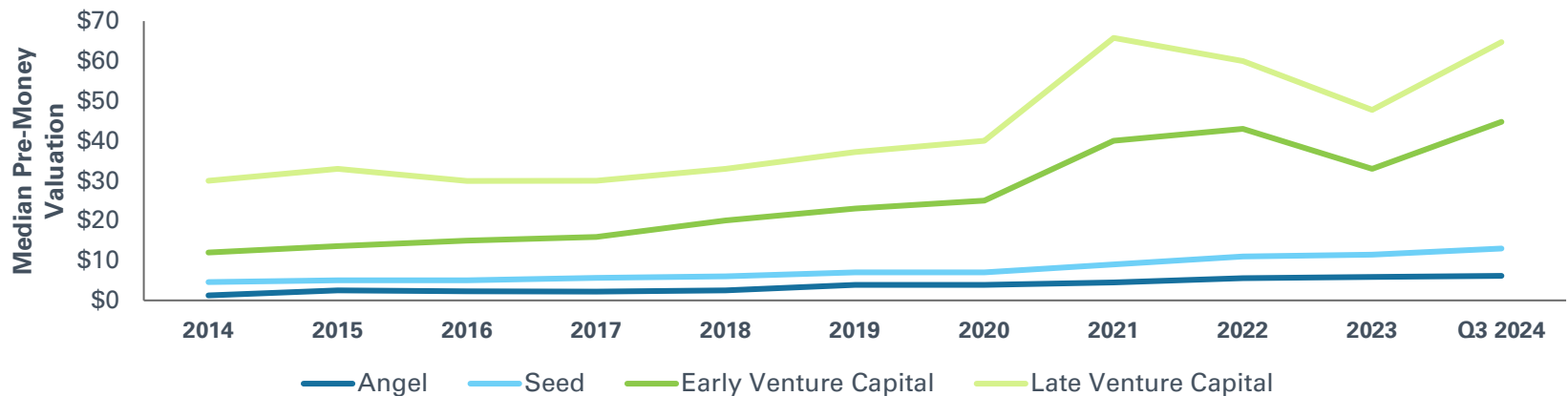
PRIVATE EQUITY VALUATIONS

VALUATIONS HAVE STALLED

North America Buyout Valuations



North America Venture Valuations

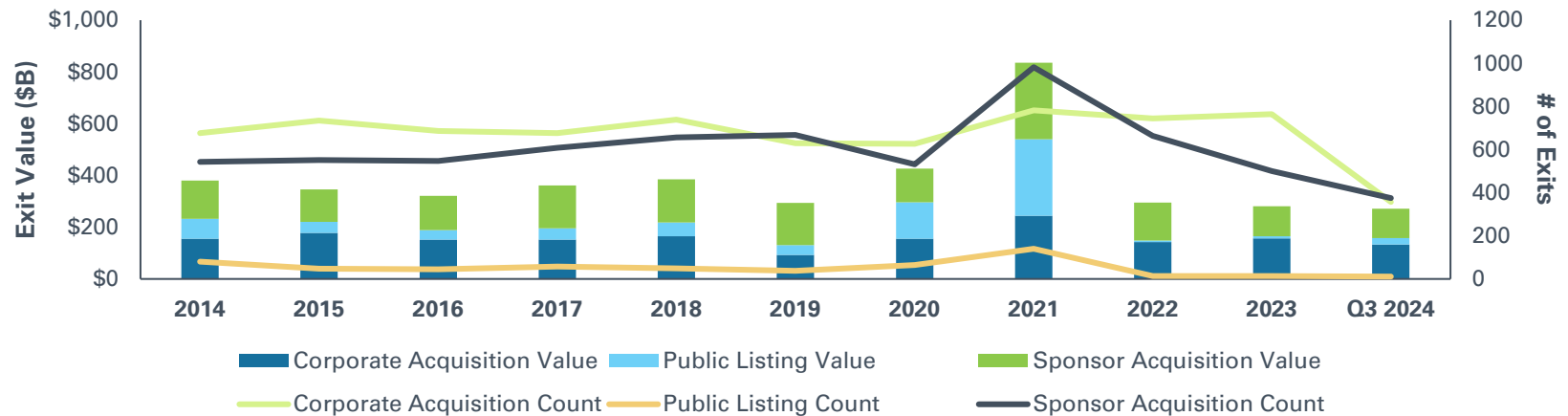


Source: Buyout valuation data from Pitchbook Q3 2024 US PE Breakdown Report as of 09/30/2024. Venture valuation data from Q3 2024 Pitchbook NVCA Venture Monitor Report as of 09/30/2024. Returns above are not representative of an investible fund/strategy.

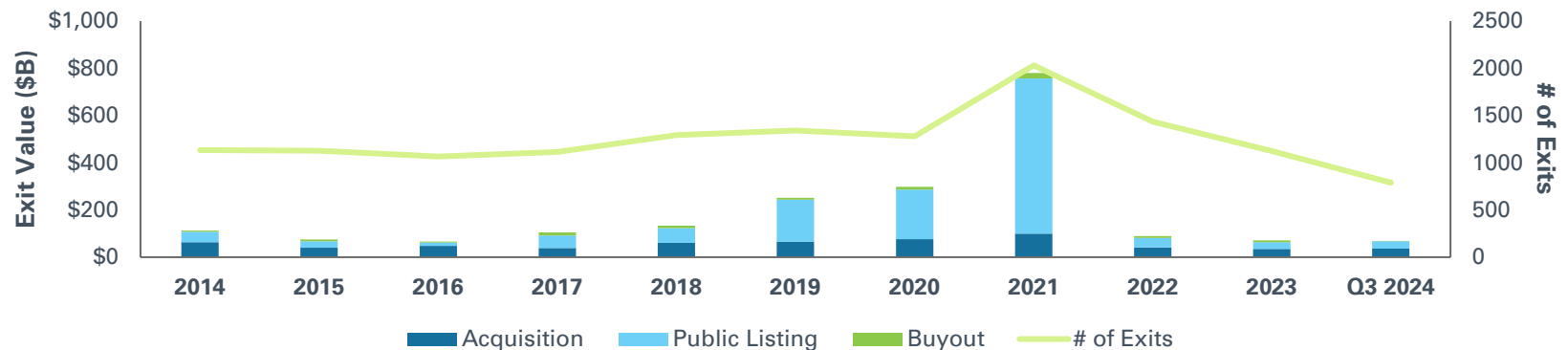
PRIVATE EQUITY EXITS

EXIT ACTIVITY HAS PLUMMETED

North America Buyout Exit Activity



North America Venture Exit Deal Activity



Source: Buyout exit data from Pitchbook Q3 2024 US PE Breakdown Report as of 09/30/2024. Venture exit data from Q3 2024 Pitchbook NVCA Venture Monitor Report as of 09/30/2024.

THE BUYOUT OPPORTUNITY



PRIVATE EQUITY: VALUE INVESTING

VALUE APPROACHES + WHAT TO LOOK FOR

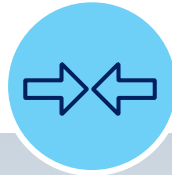
The basic premise of value-investing is buying a business where the purchase price is less than the intrinsic value

Watch out for the value trap!

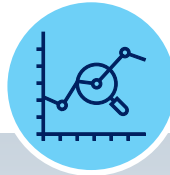
APPROACHES TO VALUE



**Situational
Complexities
or 'Special
Situations'**



**Contrarian
Approach**



**Volatile
Markets**
*Dislocation Between
Perceived Value
and Inherent Value*



**Partner of
Choice**



**Lower-Middle
Market**

PRIVATE EQUITY: VALUE INVESTING OPPORTUNITY

- Value is being able to buy an asset for less than the prevailing market price, or at a discount to what similar assets trade for.
- Investing for value can be challenging, especially when targeting high-quality companies—obviously, the competition for investment is high.
 - The last decade of ultra-low interest rates rewarded risk taking, high leverage, and growth at all costs, which led to an environment that ‘lifted all boats’. This left value strategies out of vogue.
- A higher rate regime is more conducive to value strategies and given that equity and debt valuations have traded down over the past year, more opportunities for value and even stress/distressed investing are emerging.



LOWER MIDDLE-MARKET (LMM)

ATTRACTIVE OPPORTUNITY SET OF PRIVATE EQUITY BUYOUT

- The LMM is an inefficient market in which top-tier GPs have provided strong returns
- Large universe of over 400K small businesses in U.S
- Massive amount of capital have been raised in the middle market, which presents large pool of potential buyers
- Significant opportunities for first institutional capital to drive operational, strategic, and financial value



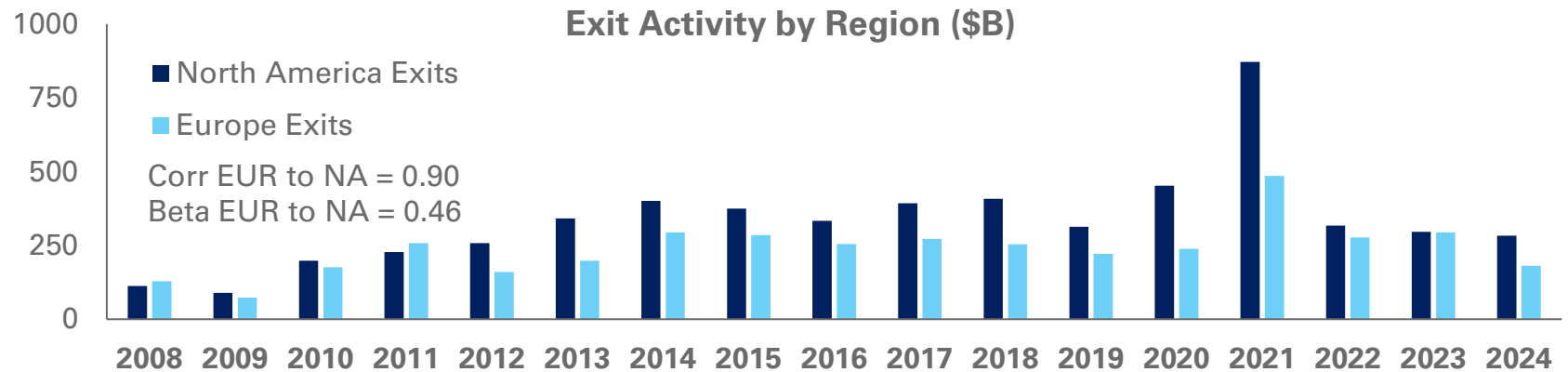
EUROPEAN BUYOUT OPPORTUNITY

Opportunity

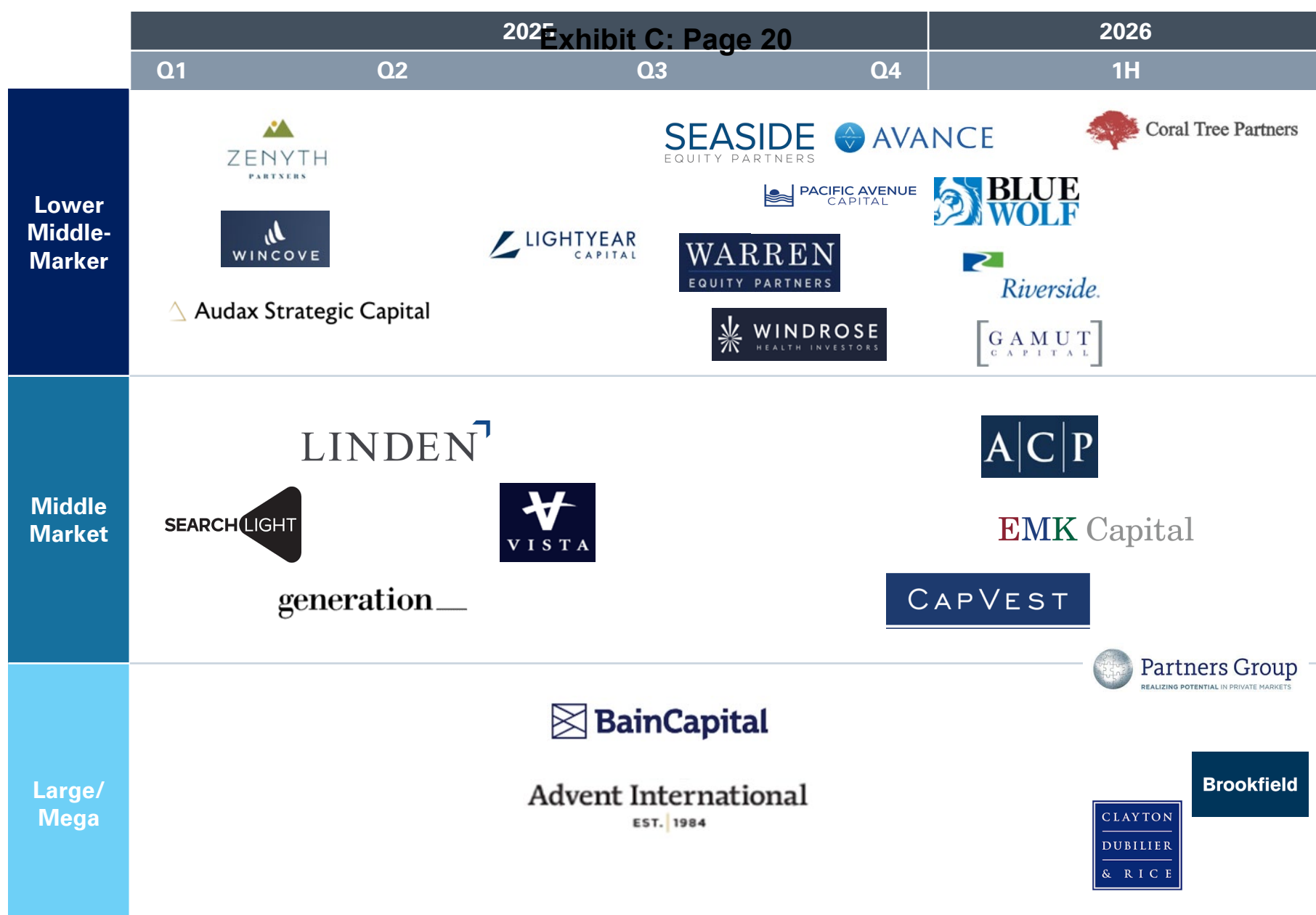
- **Fragmented market creates natural opportunity for geographic expansion and professionalization.**
 - 1.6 million SMEs with 10 – 250 employees in the European Union
 - Meaningful opportunity for Mid- and Lower-Mid Market investors
- **European exit environment has remained resilient relative to the US**
 - Europe and US had equal exit value in 2023 despite Europe consistently accounting for 30%-35% of global PE investment activity

Challenges/Risks

- **European economic outlook remains challenging relative to the US, with added geopolitical risks**
- **Many managers have a local county or regional focus, making it difficult to build a geographically diverse portfolio**
- **Currency risk and other operational burdens**



Source: SME data from Statista as of 9/18/24. All other data unless otherwise stated is from Pitchbook as of 9/30/24

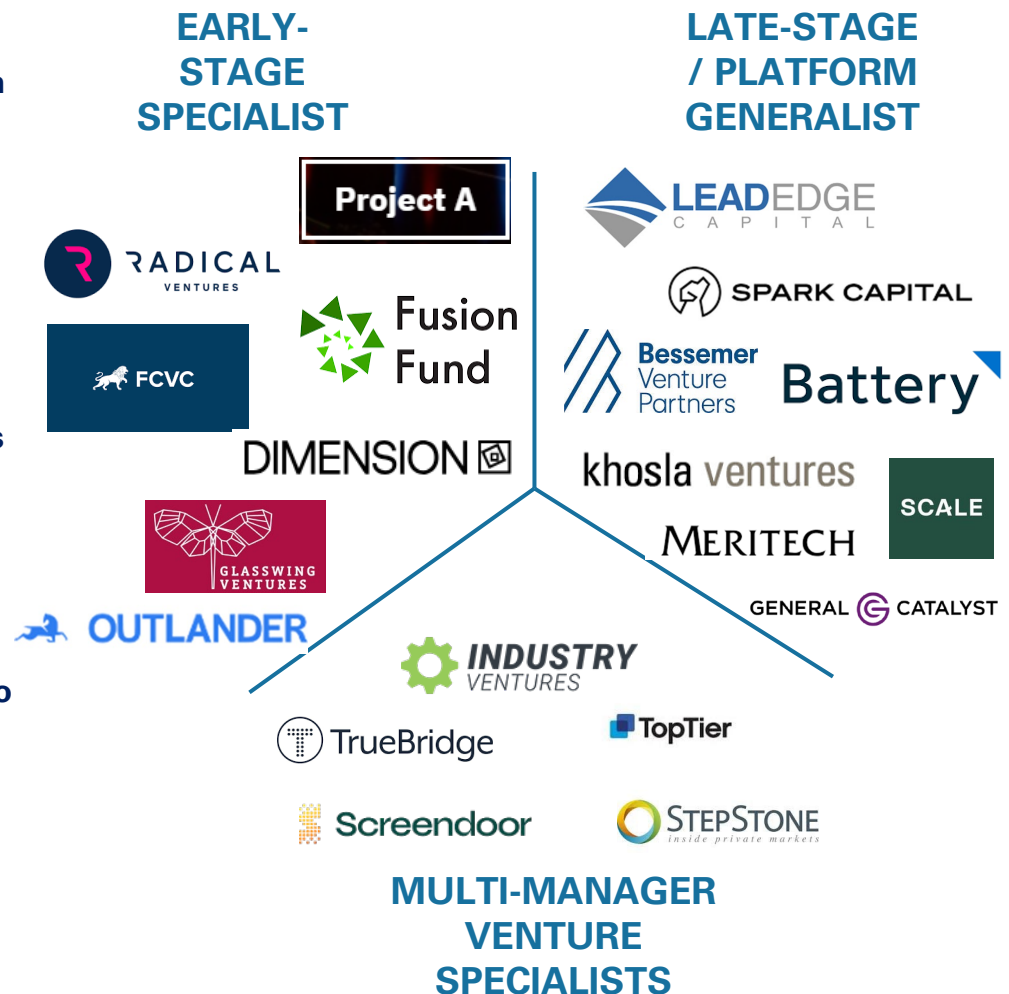


THE VENTURE OPPORTUNITY



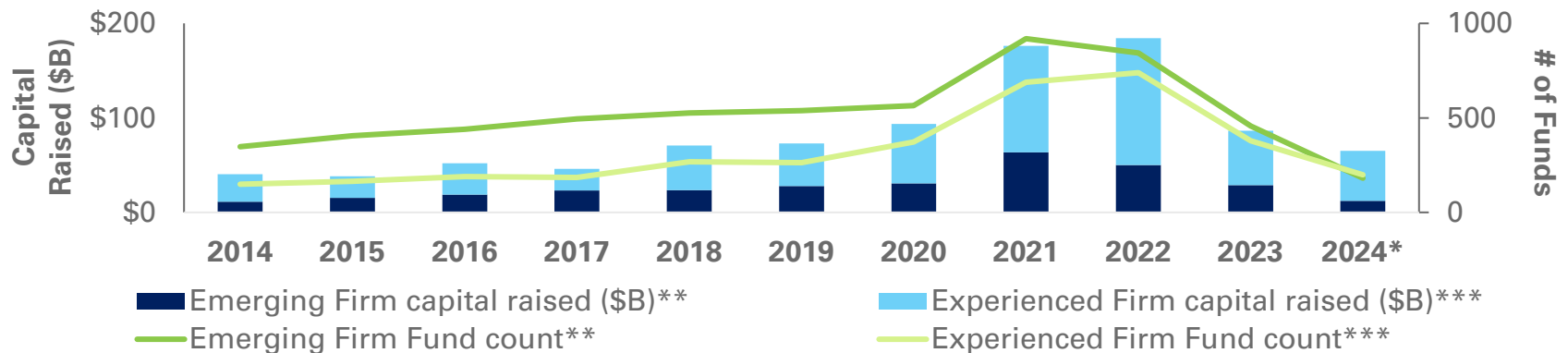
VENTURE CAPITAL: THE SEED OPPORTUNITY

- The venture market has seen a flight to quality as dislocation pushed capital into the hands of more established GPs, with platform funds arising with the goal of funding startups from seed through IPO and beyond.
- The simultaneous increase in generational transitions and spinouts has created opportunities at both the larger and smaller ends of the market, enabling LPs to pursue a core/satellite approach.
- While larger funds can deploy more resources and provide an easier path to fundraising for portfolio companies, their upside is more capped due to the higher valuations and reliance on ever larger decacorn outcomes to achieve venture-scale returns
- Anecdotally, the ability for startup founders to leverage AI and cloud tools to scale revenue rapidly could reduce the capital intensity, advantaging investors who can identify early opportunities and leverage pro rata rights.
- Multi-manager products can be used to build exposure quickly or access the smaller end of the market



EARLY-STAGE ADVANTAGES

- **The pullback of Limited Partners from the venture market has created openings for newer venture investors to access both platform funds at scale, as well as filling out the fundraises of emerging GPs that fly under the radar**
 - The key to accessing these opportunities is the ability to move with speed and conviction. Investors must get comfortable with underwriting smaller teams and more nascent track records, in addition the higher loss ratios.
 - Building a relationship with an emerging fund can allow you to grow with a GP, ideally maintaining preferential access to early-stage investments versus building a position in an incumbent platform through the growth allocation.
- **While seed and early-stage funds were impacted by the retrenchment in valuations in 2022 and 2023, the impact was far more muted compared to larger growth stage funds that paid premium multiples**
 - Seed investors with deep networks and technical/operational expertise oftentimes win deals at a lower price than their platform peers.
 - They are also less sensitive to market conditions and exit valuations given the long hold periods. However, thoughtful deployment of reserves is key to mitigate the impact of dilution at Series A and B.



Source: Pitchbook NVCA Venture Monitor Q3 2024

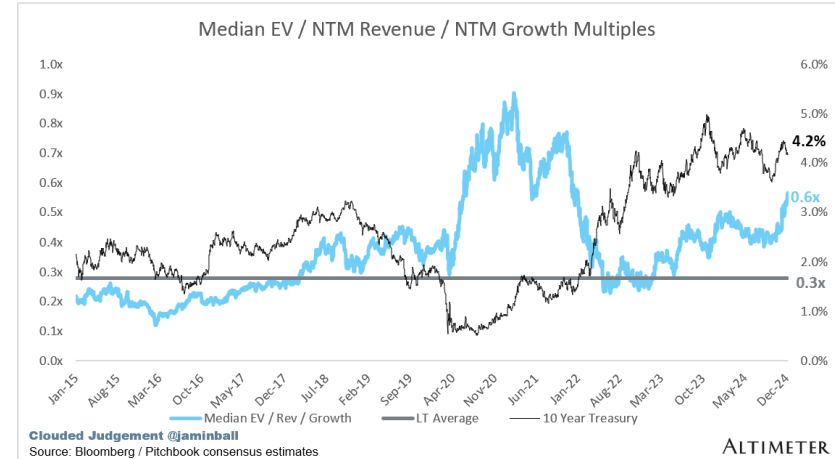
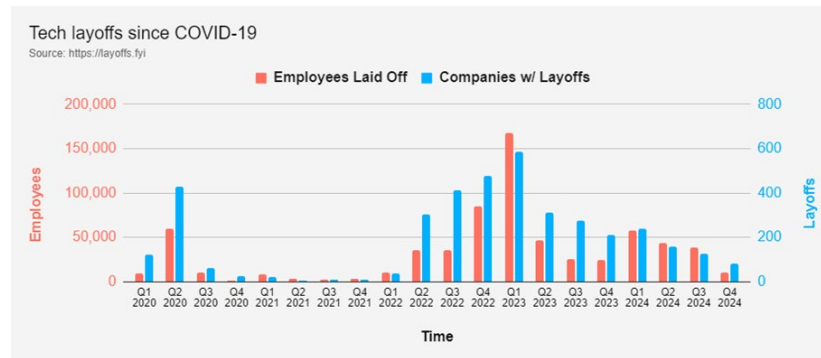
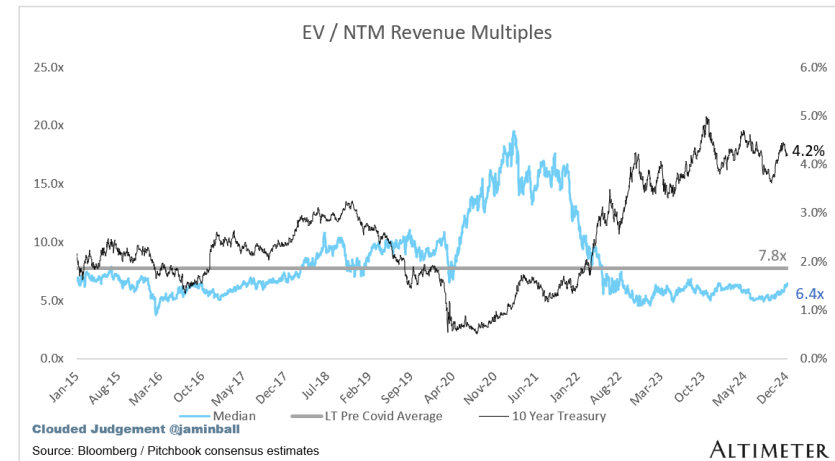
*As of 9/30/2024

** Emerging is defined as firms that have launched fewer than 4 funds

*** Experienced firms are defined as firms that have opened 4 or more funds

ATTRACTIVE MARKET CONDITIONS

- Despite the outperformance of the Mag 7, public SaaS companies are trading at a discount to their long-run revenue multiples.
 - However, an increased focus on free cash flow and sector headwinds has negatively impacted revenue, with growth-adjusted multiples looking expensive relative to long-term averages.
- Tech layoffs were severe in late 2022 and early 2023 but have tapered off in 2024.
 - The increased availability of software engineers, paired with the advent of AI-powered development tools, has the potential to supercharge startup growth



EUROPEAN VENTURE AT AN INFLECTION POINT

Opportunity

- European VC is nearly 20% of all global VC funding, almost doubling global share since 2015
- Lower valuations relative to US venture at every stage (seed through growth)
- Tier 1 US VCs have joined the Europe growth capital ecosystem over the past 5-7 years
- Large company-level outcomes support fund returns
- AI hubs in London, Berlin, Paris a huge opportunity in next innovation wave

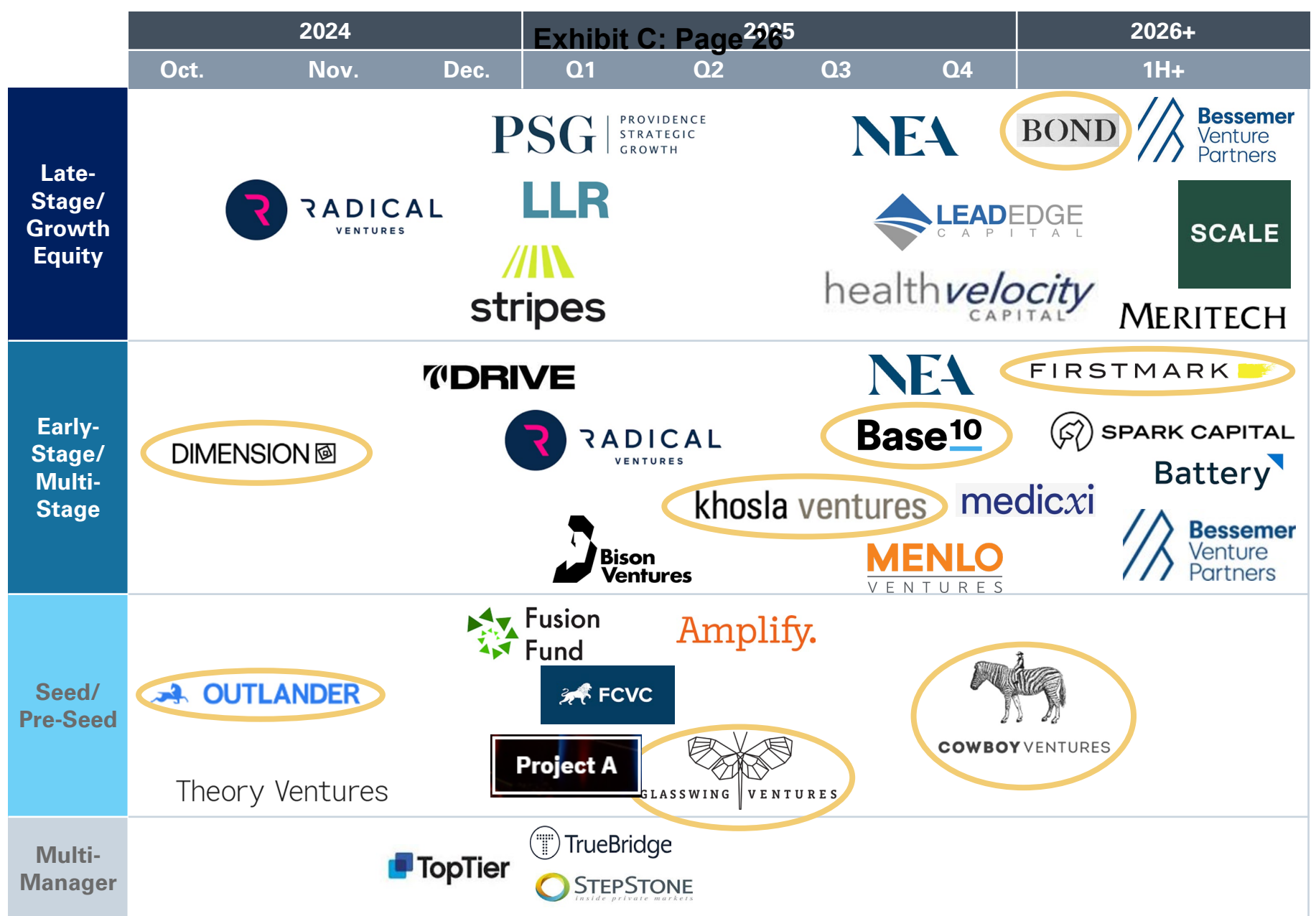
Challenges/Risks

- European economic outlook remains challenging relative to the US, with added geopolitical risks
- Series A/B dominated by small cohort of established, hard-to-access managers
- Currency risk and other operational burdens

WE WILL CONTINUE TO BE SELECTIVE WITH MANAGER UNDERWRITINGS



Source: Fundraising Pitchbook as of 9/30/24; Valuation data Atomico State of European Tech report 9/30/24



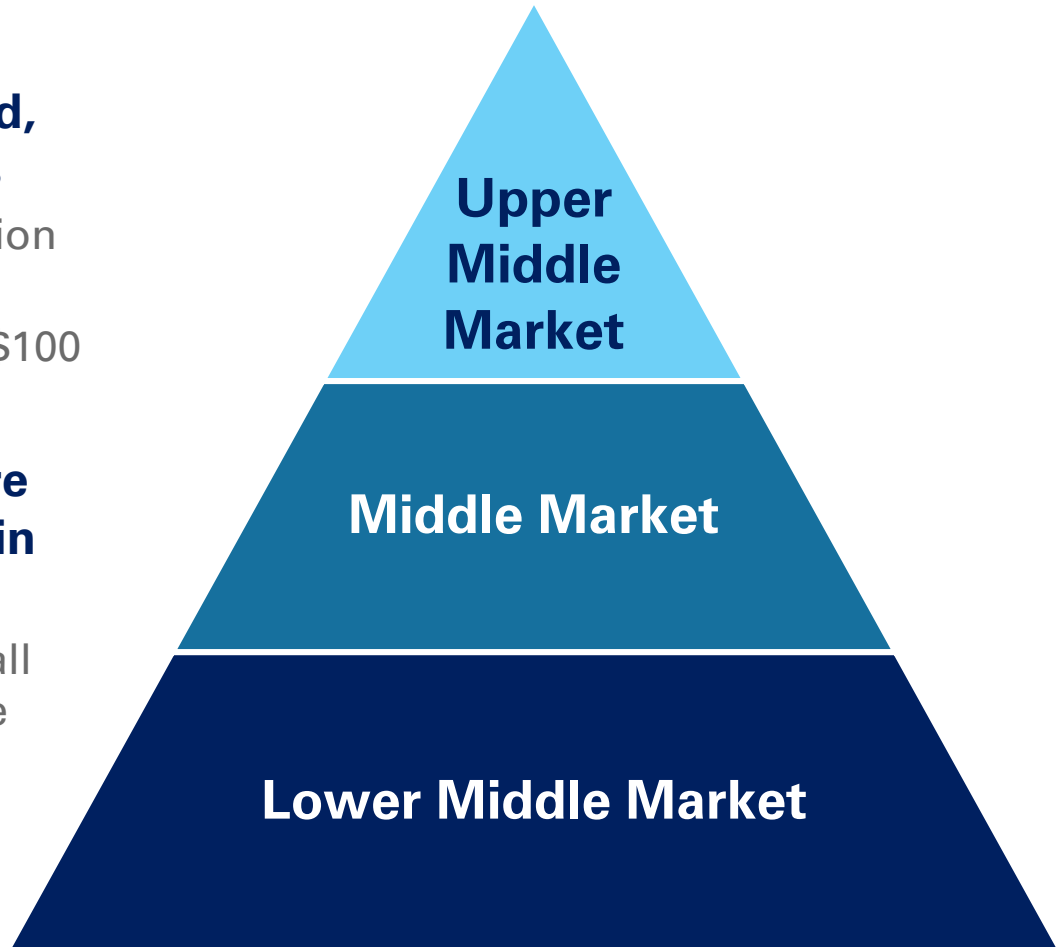
BUYOUT APPENDIX



THE MIDDLE MARKET

ESTABLISHING THE LOWER MIDDLE MARKET

- **Lower middle market companies are established, medium-sized businesses**
 - EBITDAs between \$3 million and \$30 million
 - Enterprise Values below \$100 million
- **There are historically more 100,000 LMM companies in the United States¹**
 - Comprising over 90% of all available potential private equity targets



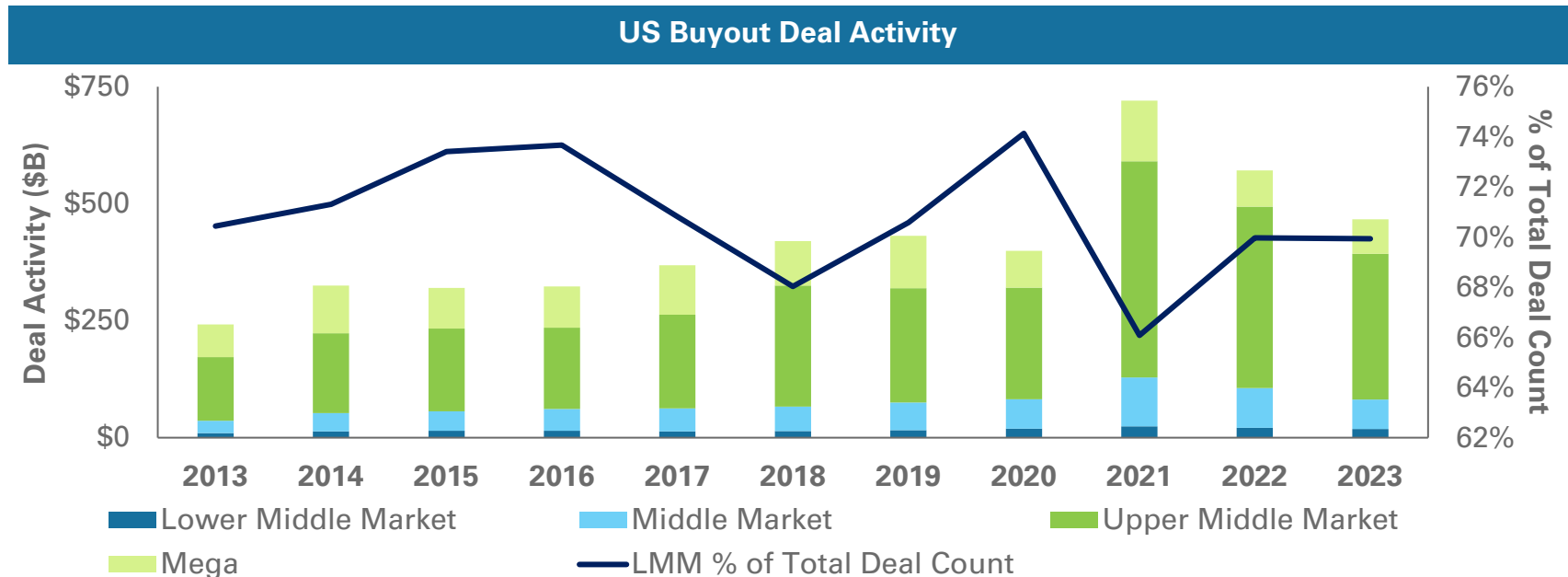
Source: RCP Advisors

This slide represents NEPC's specific definition of the Lower Middle Market and is subject to change as the larger private equity market evolves.

DEAL ACTIVITY

LOWER MIDDLE MARKET DEAL ACTIVITY HAS REBOUNDED AND REMAINS ROBUST

- While lower middle market deal activity is a small portion of the overall US buyout activity by capital, the lower middle market has historically contributed to 70% of total deals by count
 - Historically the lower middle market has attracted less capital than the larger end of the market, creating favorable supply and demand dynamics



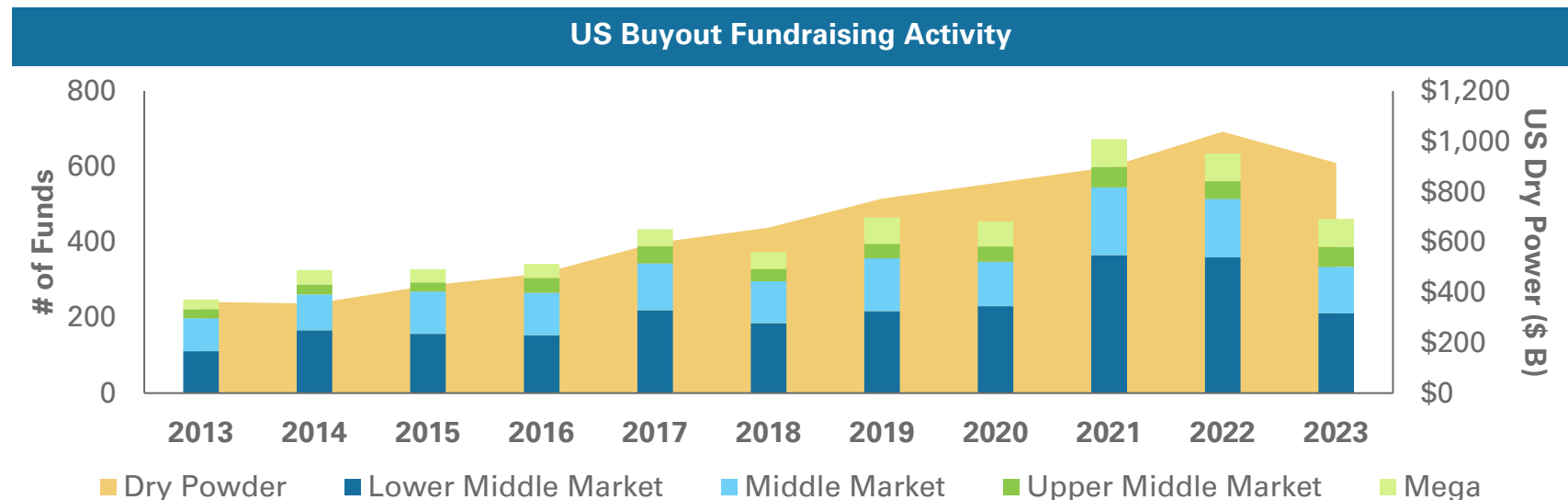
Source: Pitchbook Q3 2024 US PE Breakdown Report as of 09/30/2024.



AVAILABILITY OF CAPITAL

DRY POWDER DRIVEN BY MEGA BUYOUT FUNDS

- **Capital from mega buyout funds contribute the most the overall capital raised**
 - Over 80% of all capital available to invest comes from mega funds
- **The larger end of the buyout market has significant capital to deploy**
 - Opportunity for lower middle market managers to sell up market
- **Demand in the larger end of the buyout market for high-quality, scaled assets**
 - This dynamic creates the opportunity for multiple expansion upon exit



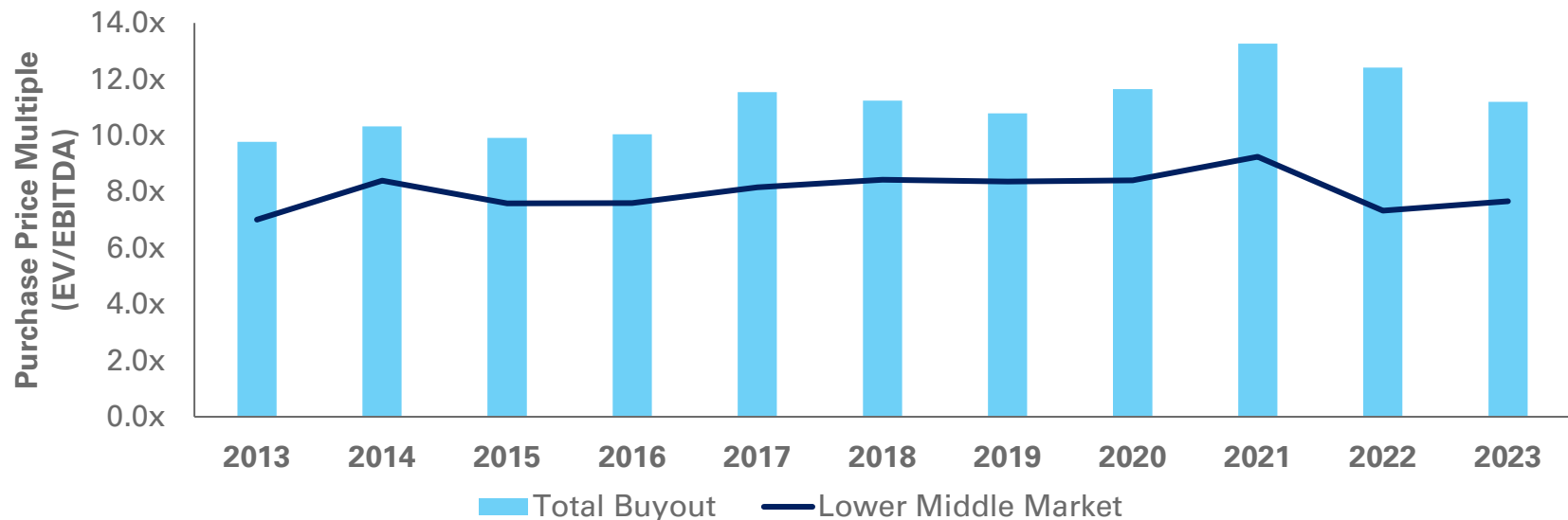
Source: Fundraising data from Pitchbook Q3 2024 US PE Report as of 09/30/2024. Dry powder data from Pitchbook Q3 2024 US PE Report as of 12/31/2023.

PURCHASE PRICE MULTIPLES

LOWER MIDDLE MARKET DEALS TRANSACT AT LOWER MULTIPLES

- **Historically, lower middle market deals have traded between 2x and 5x lower than the overall buyout market**
- **Purchase price multiples increase significantly as deals move up market**
 - Opportunity for attractive arbitrage and multiple expansion for lower middle market sellers

Global Purchase Price Multiples

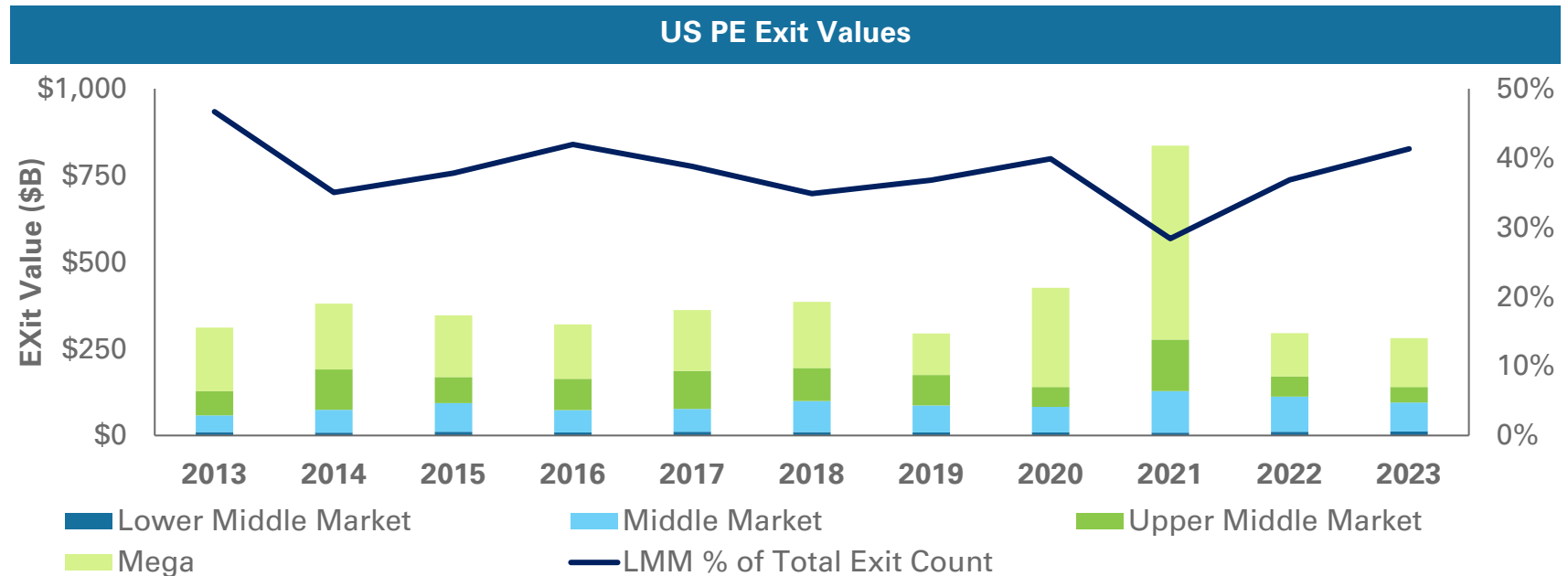


Source: Pitchbook Q3 2024 Global M&A Report. Returns above are not representative of an investible fund/strategy.

EXIT ACTIVITY BY SIZE

LOWER MIDDLE MARKET EXIT ACTIVITY REMAINS RESILIENT

- While exit activity across buyouts remain stagnant, the lower middle market continues to be a sizable portion of overall exit activity
 - Ample opportunity set of available small companies
- Increased pressure to identify and invest in scaled assets as the larger end of the market

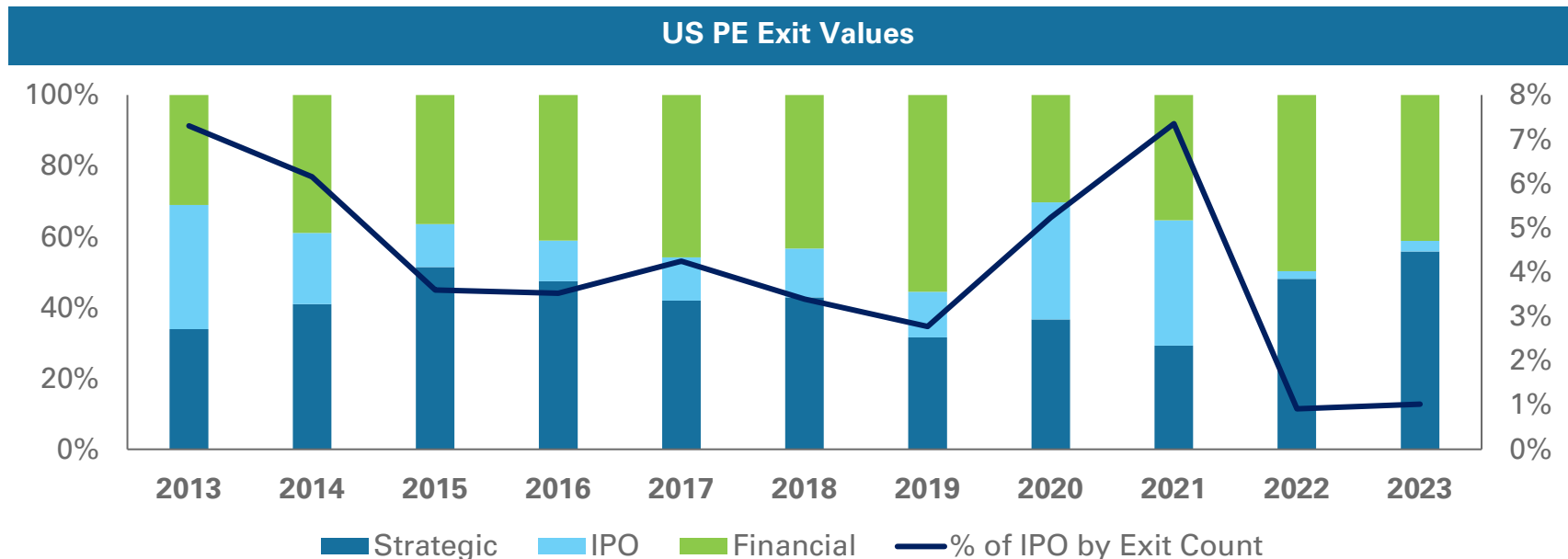


Source: Pitchbook Q3 2024 US PE Breakdown Report as of 09/30/2024.

EXIT ACTIVITY BY TYPE

LOWER MIDDLE MARKET IS LESS RELIANT ON FAVORABLE PUBLIC MARKET DYNAMICS

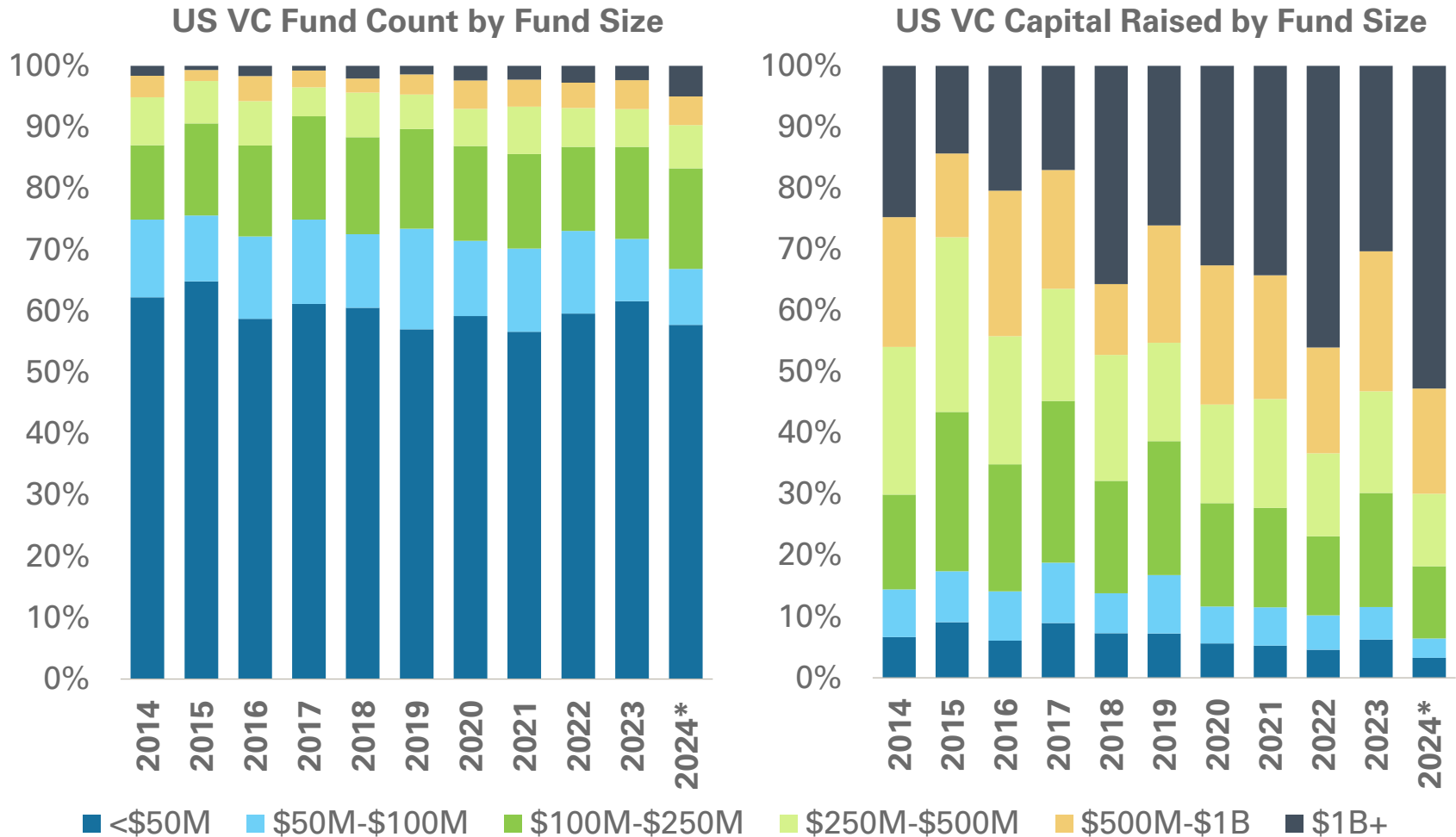
- **IPOs as a percentage of total exit volume remain at a 10-year low**
 - As public market exit activity slows, sellers must seek alternative routes to realization
- **Lower middle market sellers have optionality upon exit**
 - The majority of exits in the lower middle market are to strategic or financial buyers



VENTURE APPENDIX



RISE OF THE MEGA FUND



Source: Pitchbook-NVCA Venture Monitor Q3 2024
 *YTD through September 30, 2024



GRADUATION RATES REMAIN LOW

Getting from Seed to Series A

carta

Updated data on the “graduation rate” for seed cohorts over time

Data : 12,388 startups on Carta raising seed rounds from Q1 2018–Q4 2023

Date of Seed Round	Total	Percent that raised Series A over time: 0–9% 10–19% 20–29% 30–39% 40%+												
2018	Q1	272	1%	2%	9%	12%	19%	23%	27%	31%	33%	35%	37%	38%
	Q2	338	1%	2%	6%	11%	17%	20%	26%	29%	32%	36%	40%	44%
	Q3	319	2%	2%	5%	10%	15%	19%	22%	24%	27%	30%	35%	39%
	Q4	394	1%	3%	6%	11%	16%	21%	24%	28%	32%	36%	40%	44%
2019	Q1	290	2%	3%	9%	13%	15%	22%	26%	30%	35%	39%	43%	44%
	Q2	406	1%	2%	6%	10%	13%	18%	23%	29%	33%	38%	43%	45%
	Q3	405	0%	2%	4%	9%	12%	17%	22%	27%	33%	38%	41%	44%
	Q4	431	0%	3%	6%	9%	15%	23%	28%	31%	34%	38%	41%	42%
2020	Q1	417	1%	3%	7%	12%	22%	27%	31%	35%	40%	41%	43%	45%
	Q2	365	2%	5%	8%	16%	24%	31%	35%	38%	42%	44%	45%	47%
	Q3	381	2%	7%	13%	19%	28%	34%	36%	38%	40%	42%	43%	44%
	Q4	528	2%	6%	11%	19%	24%	28%	32%	34%	36%	36%	38%	39%
2021	Q1	448	2%	4%	10%	16%	21%	25%	27%	29%	31%	32%	33%	34%
	Q2	584	1%	5%	10%	15%	19%	23%	25%	26%	28%	29%	30%	32%
	Q3	583	2%	3%	6%	10%	12%	14%	16%	19%	19%	21%	24%	25%
	Q4	627	0%	2%	3%	6%	7%	10%	11%	13%	15%	18%	19%	
2022	Q1	536	1%	2%	4%	5%	7%	9%	11%	13%	14%	16%		
	Q2	576	0%	1%	2%	4%	5%	8%	10%	12%	13%			
	Q3	454	1%	2%	4%	5%	8%	10%	13%	15%				
	Q4	454	1%	2%	3%	5%	8%	12%	13%					
2023	Q1	350	0%	1%	3%	4%	8%	11%						
	Q2	441	1%	1%	3%	6%	8%							
	Q3	430	1%	1%	4%	6%								
	Q4	446	0%	1%	2%									

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Quarters since inception

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Quarters since inception

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Series A to Series B is a chasm

carta

For Series As raised in Q3 2022, only 9% have made it to B in under 2 years

Data : 11,028 startups on Carta raising primary Series A rounds from Q1 2018–Q4 2023

Date of A Round	Total	Percent that raised Series A over time: 0–9% 10–19% 20–29% 30–39% 40%+												
2018	Q1	253	1%	2%	5%	9%	13%	19%	24%	27%	30%	32%	36%	39%
	Q2	336	1%	4%	6%	10%	14%	18%	23%	26%	29%	33%	36%	40%
	Q3	299	0%	2%	4%	9%	11%	16%	21%	25%	29%	33%	39%	41%
	Q4	404	0%	1%	4%	9%	12%	16%	22%	26%	30%	36%	39%	41%
2019	Q1	301	1%	2%	7%	11%	15%	18%	23%	30%	36%	39%	44%	47%
	Q2	374	1%	2%	4%	6%	11%	17%	20%	26%	33%	36%	40%	44%
	Q3	362	1%	1%	3%	7%	10%	16%	22%	29%	33%	38%	41%	43%
	Q4	353	1%	2%	4%	8%	13%	21%	29%	32%	35%	37%	39%	40%
2020	Q1	306		1%	4%	8%	20%	30%	37%	41%	45%	47%	49%	50%
	Q2	308	1%	5%	10%	18%	24%	31%	35%	38%	41%	43%	45%	48%
	Q3	376	2%	5%	12%	18%	24%	33%	36%	38%	40%	40%	42%	44%
	Q4	454	1%	3%	9%	18%	24%	29%	31%	35%	37%	38%	40%	41%
2021	Q1	451	1%	7%	15%	20%	24%	27%	31%	32%	34%	36%	37%	38%
	Q2	628	2%	7%	12%	16%	18%	21%	23%	26%	26%	28%	29%	31%
	Q3	568	2%	4%	7%	9%	10%	13%	16%	18%	21%	23%	24%	26%
	Q4	678	0%	2%	2%	4%	6%	10%	11%	13%	15%	18%	20%	
2022	Q1	492	0%	1%	2%	3%	5%	7%	9%	13%	15%	16%		
	Q2	469	1%	1%	1%	3%	4%	5%	6%	8%	11%			
	Q3	402	0%	0%	1%	1%	2%	4%	7%	9%				
	Q4	341		0%	2%	4%	6%	9%	12%					
2023	Q1	256			2%	5%	8%	11%						
	Q2	303		1%	3%	5%	6%							
	Q3	257		0%	3%	5%								
	Q4	297		1%	3%									

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- **Tech M&A has largely been frozen since 2021**
 - Rate cut expectations and the return of banks to the leveraged loan market have reduced borrowing costs and spurred increased interest in tie-ups.
 - The incoming administration is expected to roll back the heavy-handed enforcement of anti-trust laws spearheaded by the Biden administration's FTC.
 - Founder and investor expectations have started to reset, reducing the bid/ask spread and opening up processes for companies that have not grown into their 2021 valuations.
- **The IPO window has been slow to reopen**
 - Many of the top private companies have recently completed tender offers, reducing internal pressure on management to go public.
 - IPOs tend to have six-month lockups for insiders – public listings in January would not produce liquidity for LPs until July at the earliest.
- **Liquidity expectations for 2025 may be overly optimistic – we would expect venture portfolios to be a drain on liquidity through 2025.**

NEPC DISCLOSURES

Past performance is no guarantee of future results.

All investments carry some level of risk. Diversification and other asset allocation techniques do not ensure profit or protect against losses.

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ALTERNATIVE INVESTMENT DISCLOSURES

It is important that investors understand the following characteristics of non-traditional investment strategies including hedge funds and private equity:

1. Performance can be volatile and investors could lose all or a substantial portion of their investment
2. Leverage and other speculative practices may increase the risk of loss
3. Past performance may be revised due to the revaluation of investments
4. These investments can be illiquid, and investors may be subject to lock-ups or lengthy redemption terms
5. A secondary market may not be available for all funds, and any sales that occur may take place at a discount to value
6. These funds are not subject to the same regulatory requirements as registered investment vehicles
7. Managers may not be required to provide periodic pricing or valuation information to investors
8. These funds may have complex tax structures and delays in distributing important tax information
9. These funds often charge high fees
10. Investment agreements often give the manager authority to trade in securities, markets or currencies that are not within the manager's realm of expertise or contemplated investment strategy

THANK YOU

