

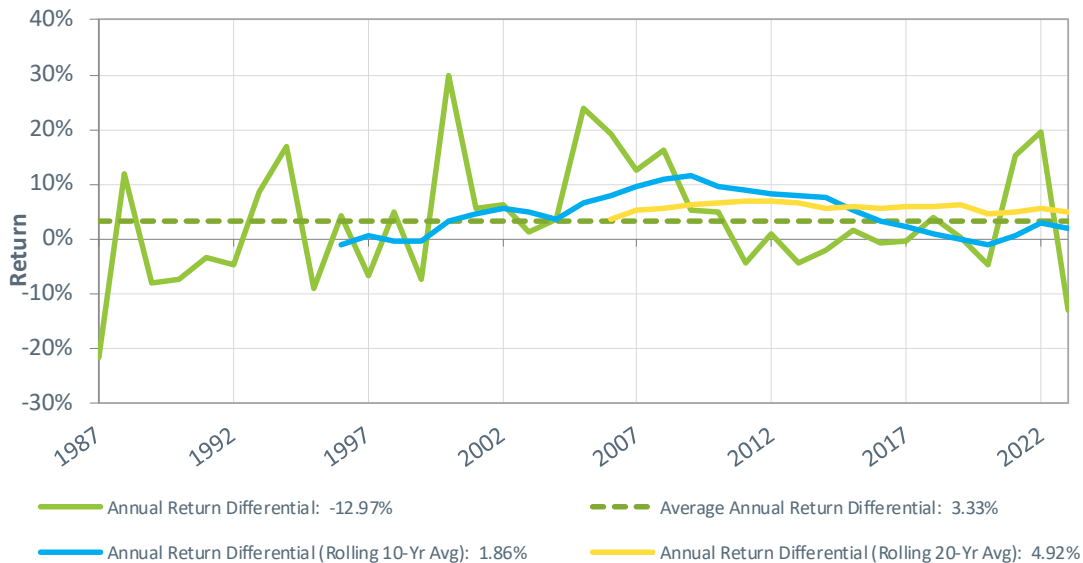
Private Equity Return Premiums and the Current Market

Due to the recent outperformance of public equity relative to private equity, RVK’s consultants have frequently been asked several related questions:

- Is the private equity illiquidity premium diminishing?
- If so, to what extent?
- Do you expect this change to be permanent?

While we are wary of predicting an exact value, given the complexity of markets and the number of assumptions involved, we are comfortable putting the current market environment into historical context and providing some broader observations from our consulting teams and research professionals. As shown in **Figure 1**, the recent underperformance of private equity relative to public markets is not an anomaly over the prior 37 years.

Figure 1: Cambridge US Private Equity Index vs. S&P 500 Index



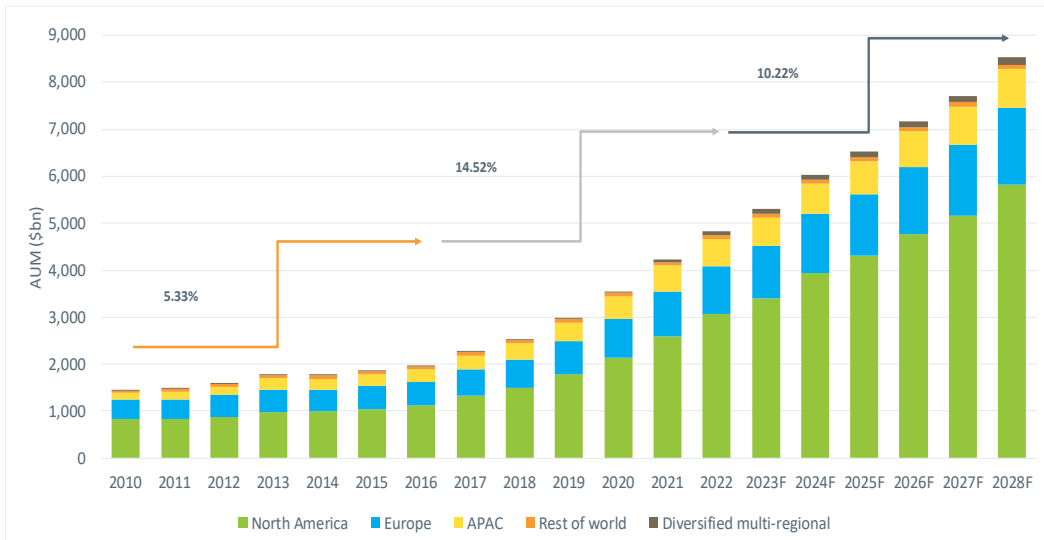
Source: Cambridge and S&P. The annual return differential shown is the difference between the Cambridge US Private Equity Index and the S&P 500 Index. Average Annual Return Differential is for the time period July 1, 1987 through June 30, 2023. Averages are calculated based on annual frequency.

Over longer rolling periods (3-, 10-, and 20-years), private equity holds an annualized return premium between 2% and 5%. RVK’s anecdotal experience and scholarly evidence suggest this premium exists for a number of reasons:

- Capital lock-ups that allow general partners (GPs) to focus on long-term growth in portfolio companies, avoiding the quarter-to-quarter decision-making that can occur at public companies.

- The general lower level of professionalization within the founder-owned companies targeted by private equity, where companies are often unoptimized due to their lack of professional management teams.
- The higher level of leverage among buyout portfolio companies, the largest segment of private equity, relative to what is common among public companies.

Figure 2: Private Equity AUM Growth

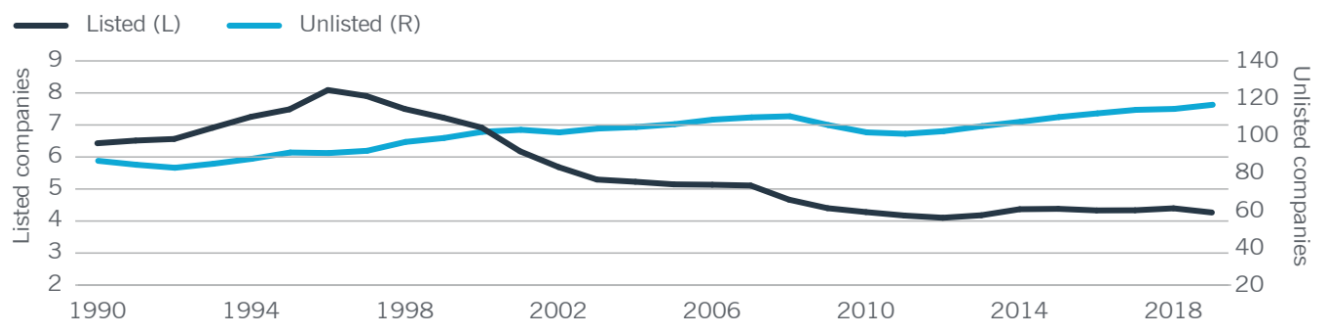


Source: Preqin Global Report 2024

Though RVK remains confident that the structural tailwinds that result from private ownership remain intact, recent and forecasted AUM growth in private equity, illustrated in **Figure 2**, does increase the possibility that future return premiums may come under pressure. We suspect this may occur even as the available number of companies targeted by

private equity grows and the number of public companies stagnates, as illustrated in **Figure 3**. Additionally, if the current higher rate environment persists, it is likely to weigh on the returns of buyout and other leverage-dependent strategies, as elevated debt payments consume cash slated for growth initiatives or dividends.

Figure 3: U.S. Listed vs. Unlisted Companies (000s)



Source: Nuveen, June 2023. Listed: World Federation of Exchanges (WFE); Unlisted: US Census Bureau, Jan. 1, 1990-Dec. 31, 2020.

Even if the illiquidity premium were to compress moderately going forward, that would be true whether short-term performance relative to public equity was positive or negative. Given the expected attractive risk/reward profiles of private equity, specifically, and private markets, generally, to total portfolios, we believe remaining allocated to these asset classes remains prudent in institutional portfolios.

RVK's ongoing research continues to suggest that private equity and other private markets allocations are likely to contribute positively to client portfolio allocations, particularly when managed with a long-term strategic plan and consistent investment process.

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About RVK

RVK was founded in 1985 to focus exclusively on investment consulting and today employs over 100 professionals. The firm is headquartered in Portland, Oregon, with regional offices in Boise, Chicago, and New York City. RVK is one of the five largest consulting firms in the world, as reported by *Pensions & Investments' 2023 Special Report—Consultants*. Additionally, in April 2023, RVK received a notable award as a *Coalition Greenwich Quality Leader* among large US investment consultants, based on Greenwich's 2022 study. Coalition Greenwich is an industry-recognized third-party firm which asks plan sponsors to rank their consultants on a series of key metrics. Notably, RVK is the only firm among large US consultants to receive an award for a sixth consecutive year. Coalition Greenwich issued the award on April 25, 2023 based on their February through November 2022 study. No direct or indirect compensation has been paid by RVK in connection with obtaining or using this award. To read more about the Greenwich award, please refer to the following URL: <https://www.rvkinc.com/about/about.php>. RVK's diversified client base spans over 30 states, and covers endowments, foundations, corporate and public defined benefit and contribution plans, Taft-Hartley plans, and high-net-worth individuals and families. The firm is independent, employee-owned, and derives 100% of its revenue from clients for investment consulting services.