The Private Investment Opportunity — April 2021

OVERVIEW

- **Private market investment allocations continue to grow for institutional and high net worth investors**
- **Private equity investors have benefitted from attractive, long-term returns versus other liquid equity options**
- **Private equity investors are capturing an increased share of equity value creation versus prior periods**

Background

Private equity has been an established asset class for institutional and private investors for well over two decades. The potential for outsized returns and exposure to the most exciting and innovative companies continues to drive investors toward the asset class.

Growth in Private Markets AUM

According to Preqin, alternative assets under management grew from $4.1 trillion in 2010 to approximately $10.7 trillion at year end 2020, a 10.6% annualized pace. Over the next five years, alternatives are projected to grow at a 9.8% annualized rate including growth of 15.6% per year for private equity assets. There is also a notable shift in the type of strategies that investors prefer as expected growth in private equity and private credit assets far outpaces the expected growth of hedge fund assets. While there are a combination of factors driving overall growth, low interest rates, low forecast equity returns, and increased availability of alternative investment vehicles continue to support increased investor allocations.

Source: Preqin

Private Equity Returns

Although much of the growth in alternative assets can be attributed to the factors mentioned above, none of these would matter if historical data did not demonstrate a clear return advantage for private investors. Although data lags make comparison of public and private market returns imprecise, there remains strong evidence of long-term outperformance by private equity investments. Over the trailing 5, 10 and 20-year periods ending June 30, 2020, private equity investments equaled or far exceeded other liquid equity assets classes.

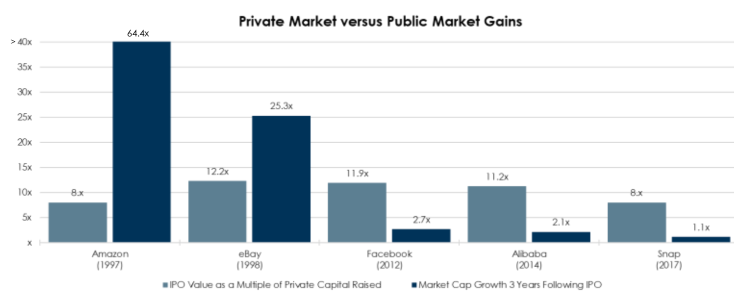
Trailing Period Returns at June 30, 2020

	5 Year	10 Year	20 Year
Private Equity	12.2%	13.9%	11.3%
S&P 500	10.7%	14.0%	5.9%
Russell 2000	4.3%	10.5%	6.7%
R2000 Growth	6.9%	12.9%	5.3%
MSCI EM	3.2%	3.6%	6.9%

Source: ACG Research, Pitchbook, Bloomberg, MSCI

Capturing Returns from Private Investments

Historically, risk-seeking investors could look to the small cap market as a potential source of incremental equity returns as many newer, growth-oriented companies reside there. However, increased access to private investment options and the subsequent flow of investor dollars into the asset class led to a change in how investment gains are split between public and private investors. Twenty years ago, many companies racked up gains in public markets that rivaled or exceeded those available in private markets. In more recent IPOs of high-profile companies including Facebook, Alibaba and Snap, private investors captured a much larger proportional gain than post-IPO investors.



Source: ACG Research, Pitchbook, Bloomberg

Other Considerations

Building a successful private investment program involves key trade-offs: liquidity versus long-term return potential, access versus allocation targets, and fees versus alignment of interests. Investors must become comfortable with issues that are not present in most traditional investment markets. Identifying and gaining access to high-quality investment strategies can take years. Mistakes can be costly as investment horizons often span a decade or more. Fees are high, liquidity is low and administrative burdens are materially higher than public equity markets. Identifying the right mix of investment vehicles and partners to achieve the long-term goals of the investment program while simultaneously managing risk is key to long-term success.

ACG's Position

There are many reasons for investors to pursue private investments. Some require incremental return potential to achieve a stated return objective. Others may desire early access to the next generation of great technology companies. In any case, private investments continue to play an important role as potential return enhancers. Although not appropriate for all portfolios, investors with the time-horizon, risk tolerance, patience and ability to identify and access high-quality private investment options should continue to be rewarded with incremental returns above those available in public equity markets.

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