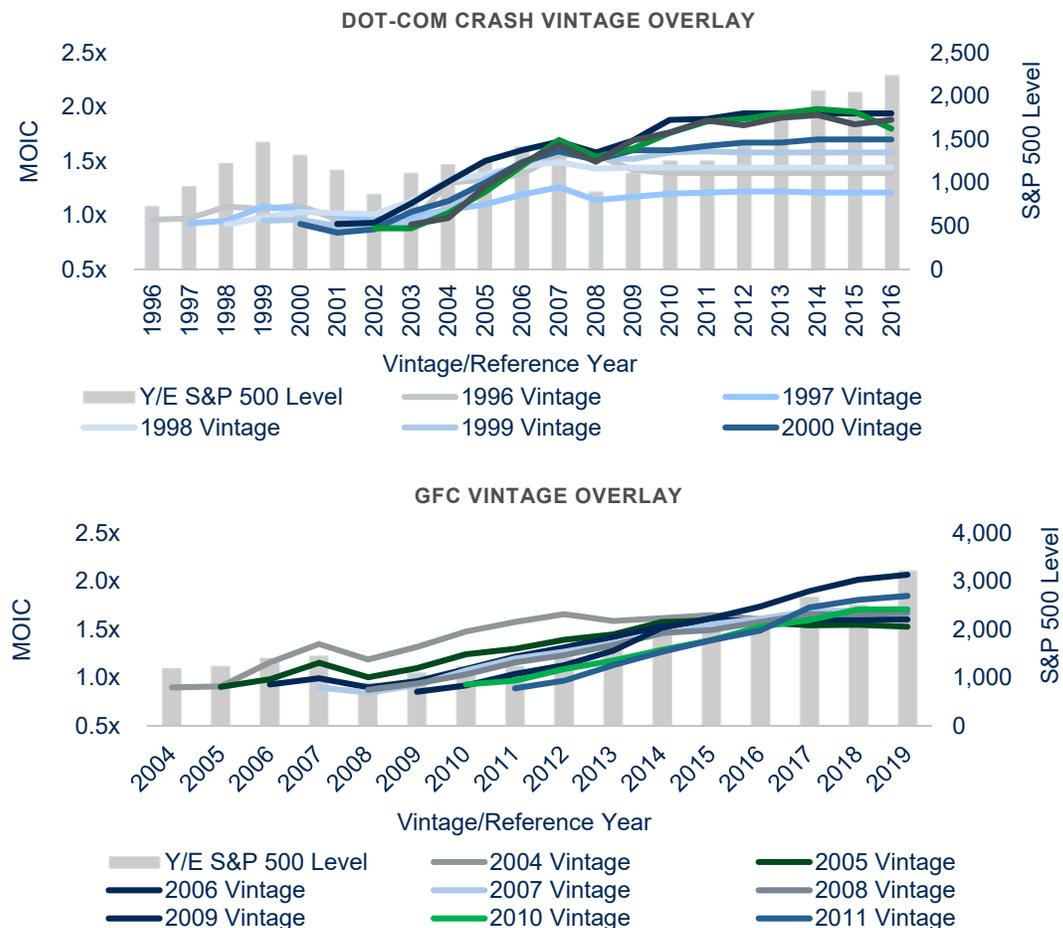


Private Equity's Return Persistence Through Downturns

Although downturns are all uniquely challenging, there are historical patterns to consider as we try to understand the likely impact of COVID-19 on our existing private equity portfolio. While each downturn has distinct attributes, these patterns can help identify potential deployment strategies to best position our portfolio for success under the current circumstances. By analyzing fund vintages that had notable exposure to the two most recent downturns (the dot-com crash, and the global financial crisis, or "GFC"), and overlaying how median investment returns for North American Private Equity Buyout funds performed relative to S&P 500 levels over time, we can draw some reassuring practical conclusions.

Burgiss Median Private Equity Buyout Fund Returns/S&P 500 Overlay (*):



Note(*): Investment returns based on median benchmarks from Burgiss for North American Private Equity Buyouts. Data as of December 31, 2019 (reports run on May 7, 2020). S&P 500 levels as of year-end.

Key Overlay Observations:

1. North American Private Equity (“PE”) Buyout funds have historically suffered less during downturns versus public markets by over 50% (based on year-end levels).
 - On average, North American PE Buyout funds (median benchmark) for 1996 to 1999 vintages (pre-crisis) declined approximately 2% to 16% from 2000 to 2002 (dot-com crash), versus the S&P 500, which suffered declines of 30%+ during the same timeframe. Similarly, North American PE Buyout funds (median benchmark) for 2004 to 2007 vintages (pre-crisis) declined an average of approximately 6% to 13% from 2007 to 2008 (GFC downturn), versus the S&P 500 with a 30%+ decline over the same timeframe.
2. Deploying capital in North American PE Buyout funds during downturns has generally paid off.
 - Investing later into the downturn/economic recovery cycle has generally outperformed vis-à-vis investing into the downturn early in the “toppy” part of the correction.
 - Investing in these funds early into the downturn, even above cycle troughs, has still generally fared better than vintages holding pre-crisis assets.
 - 1996–1999 vintage fund returns have lagged on average ~30% behind 2000–2003 vintage fund returns.
 - 2008–2011 vintage funds are likely to outperform 2004–2007 vintages by 15–20%+ over time (currently outperforming by 13%+ on average).
3. During downturns manager selection becomes more apparent, particularly when funds hold pre-crisis assets.
 - The divergence of returns between upper quartile and bottom quartile managers widens. The average spread between those quartiles can double during times of market dislocation and volatility (versus non-stressed vintages).
4. We have noted similar patterns as described above across other investment strategies outside of North American Buyouts.

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*As of March 31, 2020

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