Schroders capital

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THE DEMOCRATIZATION OF PRIVATE ASSETS: WHAT INSTITUTIONAL INVESTORS NEED TO KNOW

FPPTA Winter Trustee School

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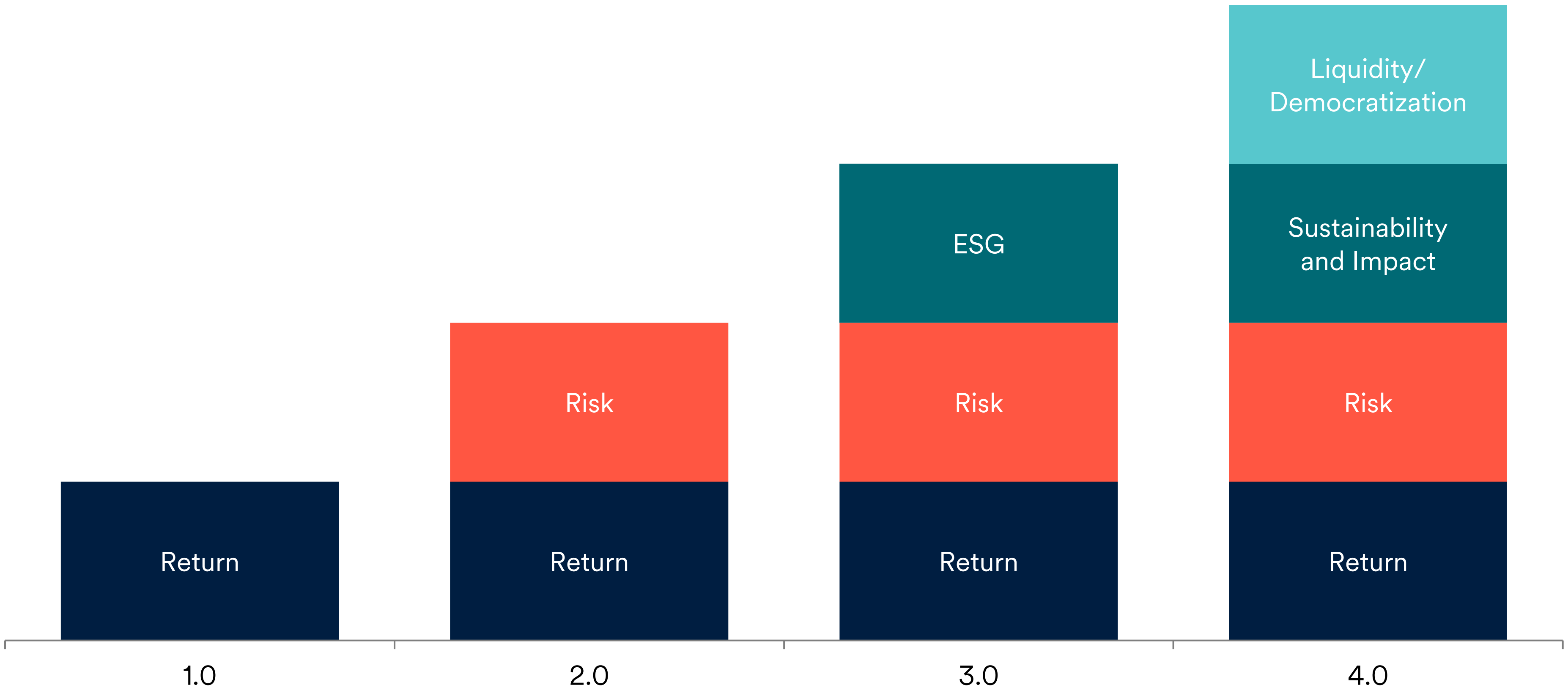
Private assets 4.0

How the global industry is evolving



Current trends

- Democratization through semi-liquid structures; GP led secondaries
- From ESG integration to sustainability and impact
- Diversification within private assets
- From illiquidity premium to complexity premium

Source: Schroders Capital, 2023.

Growing demand for private assets through new structures

What is driving the change?

Supply factors

- Product innovation
  - New fund structures to suit investor needs
  - Semi-liquid structures
- Technology opening up new access channels to new investors
- Broader range of assets classes only accessible via private markets
- Political initiatives to support investment in real economy promoted by governments

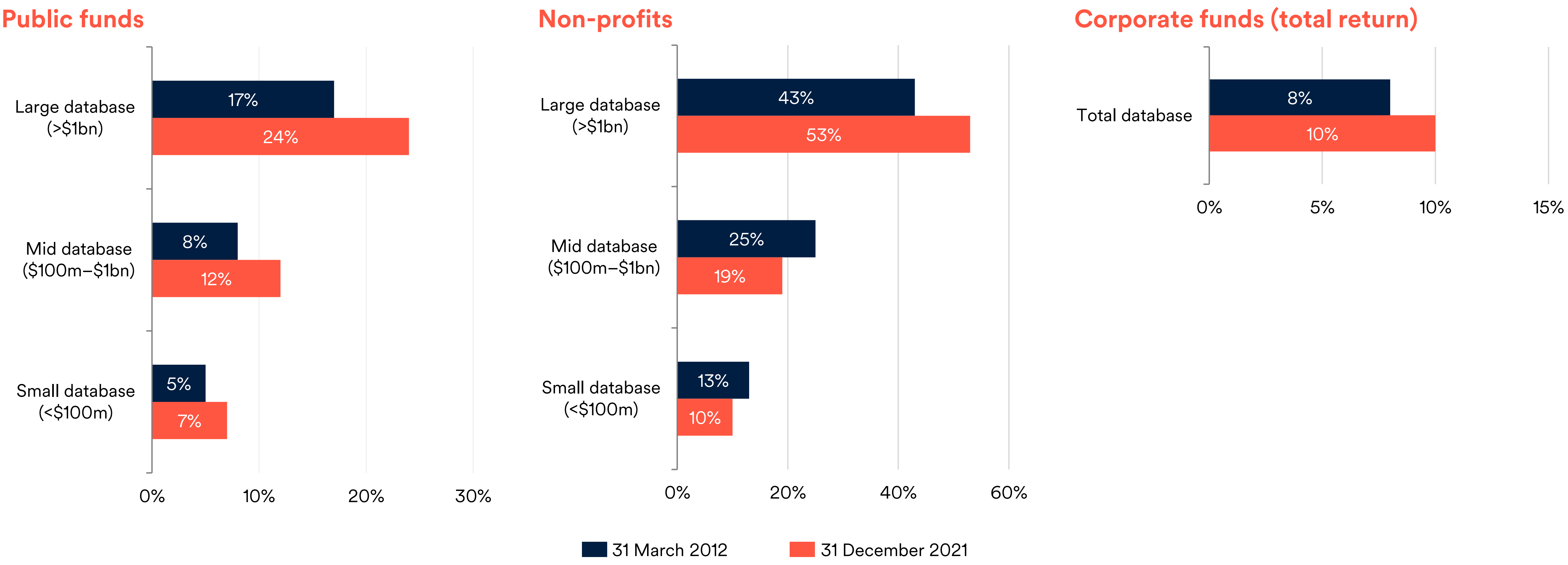
Demand factors

- Continued growth in allocation to private assets by institutional investors
- New demand from new investor types
  - Wealth management/retail investors
  - Defined contribution pension schemes/401K investors
- Growing demand for solutions and outcome orientated mandates
  - Emphasis on sustainability and impact
  - Integrated multi-asset solutions
  - Demand for bespoke mandates

Source: Schroders Capital, 2023.

Mid and small plans remain under allocated to private assets

Smaller increase to alternatives compared to larger plans over the past decade



Source: Callan, Schroders Capital 2022.
Alternative asset allocations include private equity, private credit, real estate, real assets, hedge funds, and other alternatives.

Supply factors supporting demand from smaller institutional investors

1 Product Innovation

- Increasing range of options to access private assets
- More flexibility and designed around investors
- Private and listed combinations

2 Regulation

- Private finance important to support economic growth
- New fund regulations support regulated access
- But pace of change is uneven

3 Technology

- Crowd funding platforms and peer-to-peer lending
- New distribution and communication channels
- Tokenization

Source: Schroders Capital, 2023.

How have products evolved?

New fund structures are expanding the range of solutions for accessing private equity

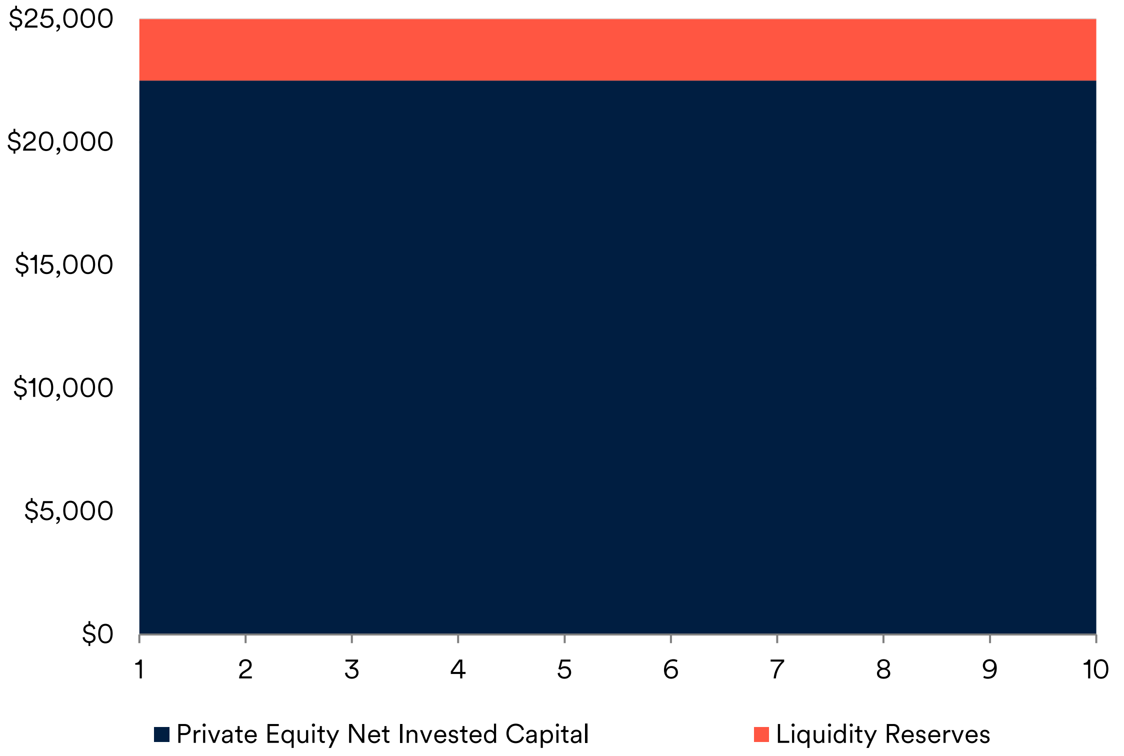
	Illiquid	Semi-liquid	Liquid
Closed-ended	**Closed ended funds held for term** Funds held for term with no liquidity or flexibility provided by the manager	**Closed ended funds with liquidity windows** Funds with a defined term and periodic windows for a managed secondary market as facilitated by the manager	**Listed closed ended** Closed ended funds listed on a recognized exchange to provide liquidity in a secondary market/stock exchange
Evergreen / Open-ended		**Monthly or quarterly liquidity** Redemptions met by liquidity from the underlying investment or from investor inflows	**Daily or weekly traded** Limited applicability in private assets

Source: Schroders Capital, 2023.

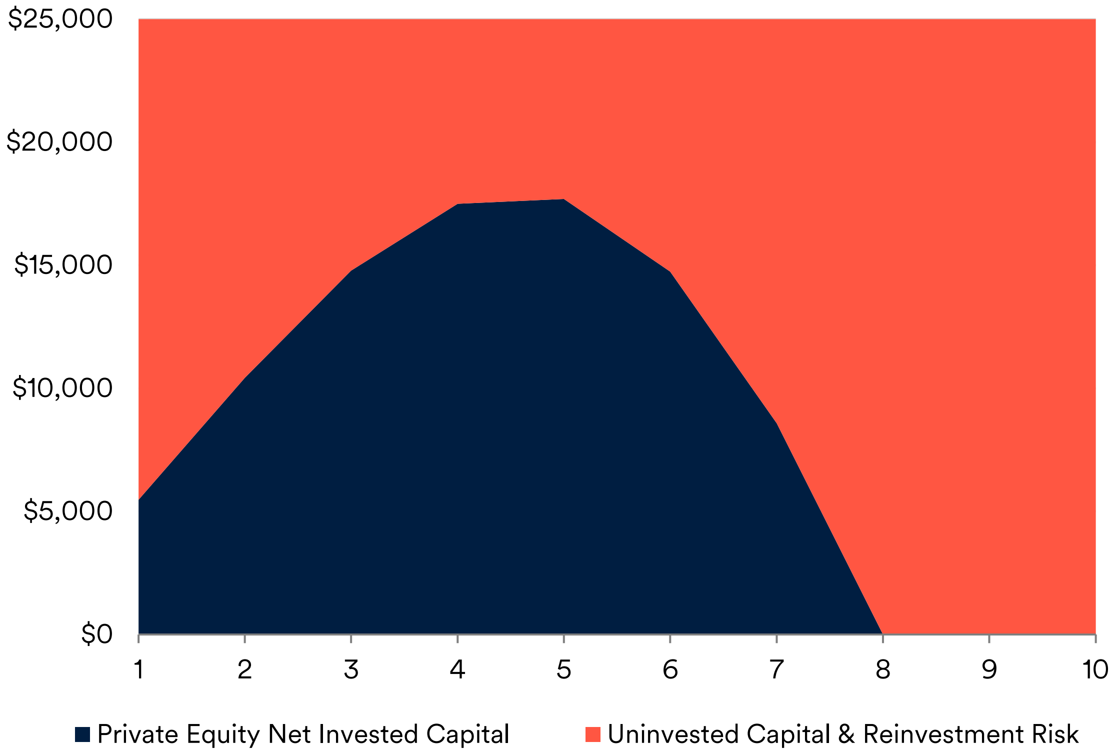
Evergreen funds are more efficient in establishing PE exposure

Comparing invested cost development between evergreen vs. closed-ended PE funds

Single $25K commitment to an evergreen Private Equity fund



Single $25k commitment to a closed-ended Private Equity fund



Source: Schroders Capital, 2023.
Note: The evergreen fund commitment example is a single $25,000 investment. The evergreen fund investment does not account for realized investment cost during the hold period as the decision to re-invest or distribute realizations is at the discretion of the investor. The closed-end Private Equity fund is the model capital drawdown pattern for a single $25,000 commitment to a buyout fund.

Evergreen fund return equates to a higher closed-end fund return

Three 10 year return scenarios between evergreen and closed-ended funds

Scenario 1: 2.0x return

7%

Evergreen annual return

14%

Closed-ended IRR equivalent

Scenario 2: 2.5x return

10%

Evergreen annual return

18%

Closed-ended IRR equivalent

Scenario 3: 3.0x return

12%

Evergreen annual return

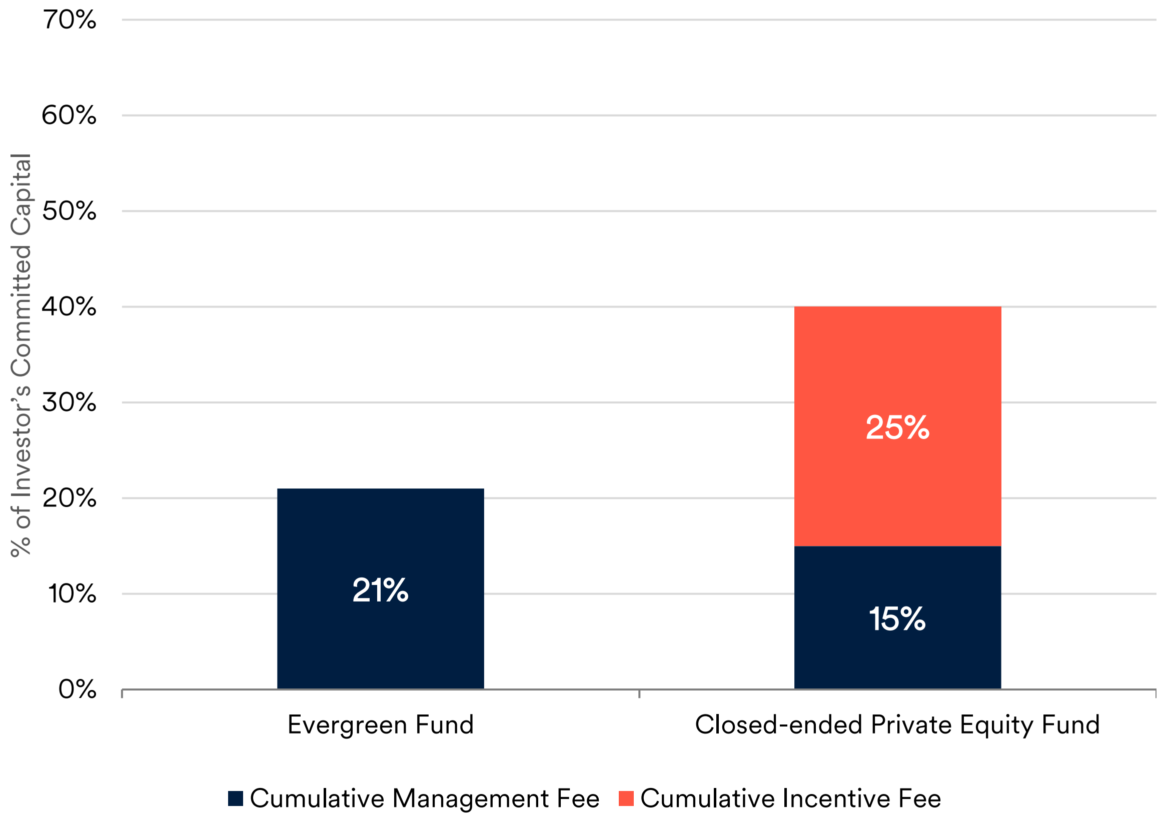
23%

Closed-ended IRR equivalent

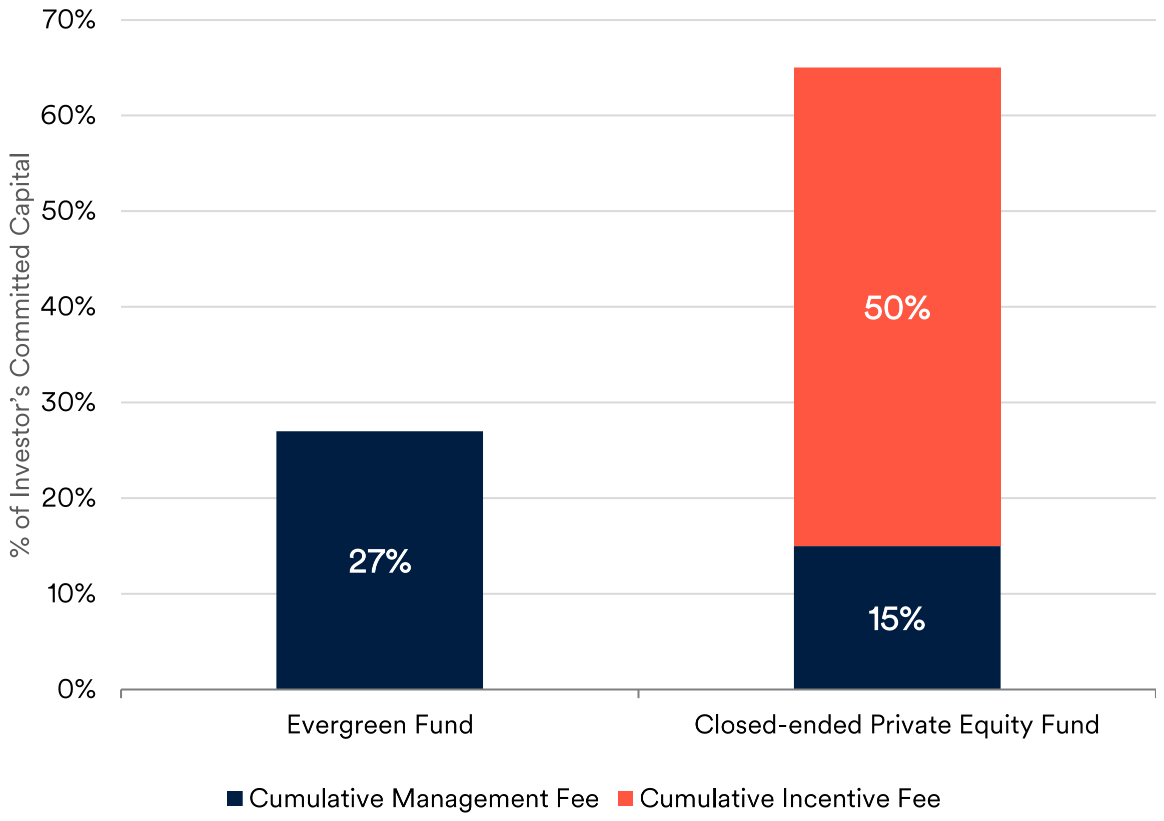
Source: Preqin, Schroders Capital, 2023.
Notes: Evergreen strategy funds utilize a time-weighted return format, and a traditional close-ended private equity funds use a dollar-weighted return format (internal rate of return or IRR).
For each return multiple scenario, the required annual time-weighted return for an evergreen strategy is compared to the equivalent dollar-weighted return for a traditional closed-ended private equity fund.
All returns shown are net of fees and expenses. Closed-ended private equity fund capital calls and distributions based on historical cash flow patterns sourced from Preqin as utilized by Schroders Capital to model the return expectations for a traditional close-ended private equity buyout fund.

Evergreen fund fee model is aligned and more attractive than traditional close-ended private equity fee model

Scenario 1: 2.0x net return in 10 years



Scenario 2: 3.0x net return in 10 years

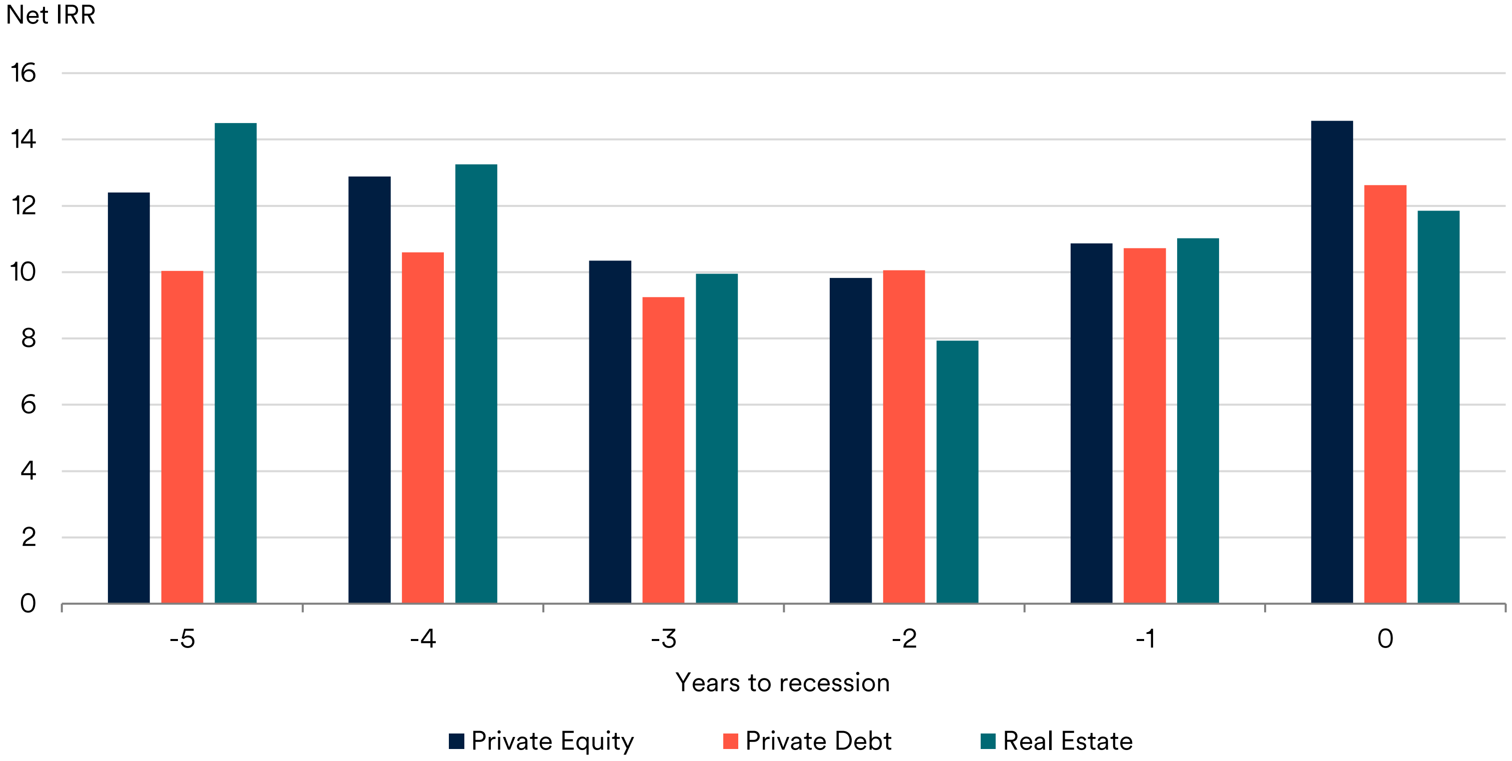


Source: Schroders Capital, 2023.
Note: All data shown represents fees that a prospective investor would pay to the investment manager and is not intended to represent a total expense ratio. The Evergreen Fund fees assume a 1.5% annual management fee on NAV, a 7% average annual net return over a 10 year investment horizon in scenario 1 and 12% average annual net return in scenario 2 and no incentive fee. The Closed-ended Private Equity Fund fees assume a traditional private equity 2% annual management fee on committed capital for the first five years and then 2% annually on net outstanding invested cost in year 6 – 10. The incentive fee (carried interest) is 20% on gains assuming an internal rate of return of 14% in scenario 1 and 23% internal rate of return in scenario 2.

For private assets, past crises were an opportunity

Recession years have been good vintage years for many strategies

Private asset vintage performance (average of median net IRRs)



- Recession years with better vintage year performance than preceding years for most asset classes
- Vintage years one to three years before recessions on average with lowest performance
- Recession years and preceding five years within a relatively narrow performance range for all asset classes
- Primary fund investments benefit from built-in vintage year diversification

Past performance is not a guide to future performance and may not be repeated.
Source: Preqin, Schroders Capital, 2023.
0 = year(s) of recession.
Based on analysis of vintage years from 1980 to 2020 (private debt from 1996, real estate from 1997, infrastructure not shown due to insufficient data history– therefore only limited data available for infrastructure).
Recessions determined based on NBER methodology (1980–1982, 1990–91, 2001, 2007–2009). Real estate debt is included in real estate. Infrastructure debt is included in infrastructure.

Schroders capital

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- *Secondaries*

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- *Asset-based finance*
- *Insurance linked*
- *Private debt*
- *Real asset debt*

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Real Estate
- *Living and hospitality*
- *Future workplaces*
- *Logistics and warehousing*

Wealth Solutions

Infrastructure
- *Renewables*
- *Digital*
- *Mobility*
- *Environment*
- *Social*

300+
investment professionals

680+ employees dedicated to private assets in 23 locations around the world and many more supporting the business from across the group

$88bn
assets under management in direct, primary, secondary, and co-investment capabilities

Long and consistent track record of delivering strong risk-adjusted returns

Transparent ESG integration, sustainability and impact measurement capabilities

Flexible suite of tools and services for institutional and private investors

Dedicated Private Assets Solutions team

In-house data science team supporting our investment practice

Source: Schroders Capital. AUM as at June 2022 including dry powder.

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on under-allocated segments of the market to complement clients' existing portfolios

ACCESS

to top GP's and unique deals via longstanding relationships

TEAM

that acts as global extended workbench to client's in-house investment staff

Source: Schroders Capital, 2023.

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	Gross value	Net value	Compound effect
1 Year	$5,500,000	$5,460,625	$39,375
3 Years	$6,655,000	$6,513,090	$141,910
5 Years	$8,052,550	$7,768,403	$284,147
10 Years	$12,968,712	$12,069,617	$899,095

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