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# JPMorgan Asset Management - Private Equity Group (PEG)

Florida Public Pension Trustees Association  
CEU Program

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# Private Equity session objectives

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-  Define **Private Equity (PE)**
-  Learn the **benefits and risks** of PE
-  Understand different **types and ways to invest** in PE
-  Consider current **market opportunities** in PE

# What is Private Equity (PE)?

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## Defining PE

An alternative investment class that invests in private companies that are not listed on a public stock exchange

## Main PE categories

- Buyouts
  - ⊙ *mature companies*
- Growth Equity
  - ⊙ *may/may not be profitable*
- Venture Capital
  - ⊙ *start-up companies*

# How does PE make a return?

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- **The PE manager (“GP”) helps the companies grow**
  - Revenue growth
    - Expand product line
    - Launch in new geography
  - Profit growth through operational improvements
- **Potential profits are realized through IPOs, selling to trade, selling to larger PE, and/or dividends**

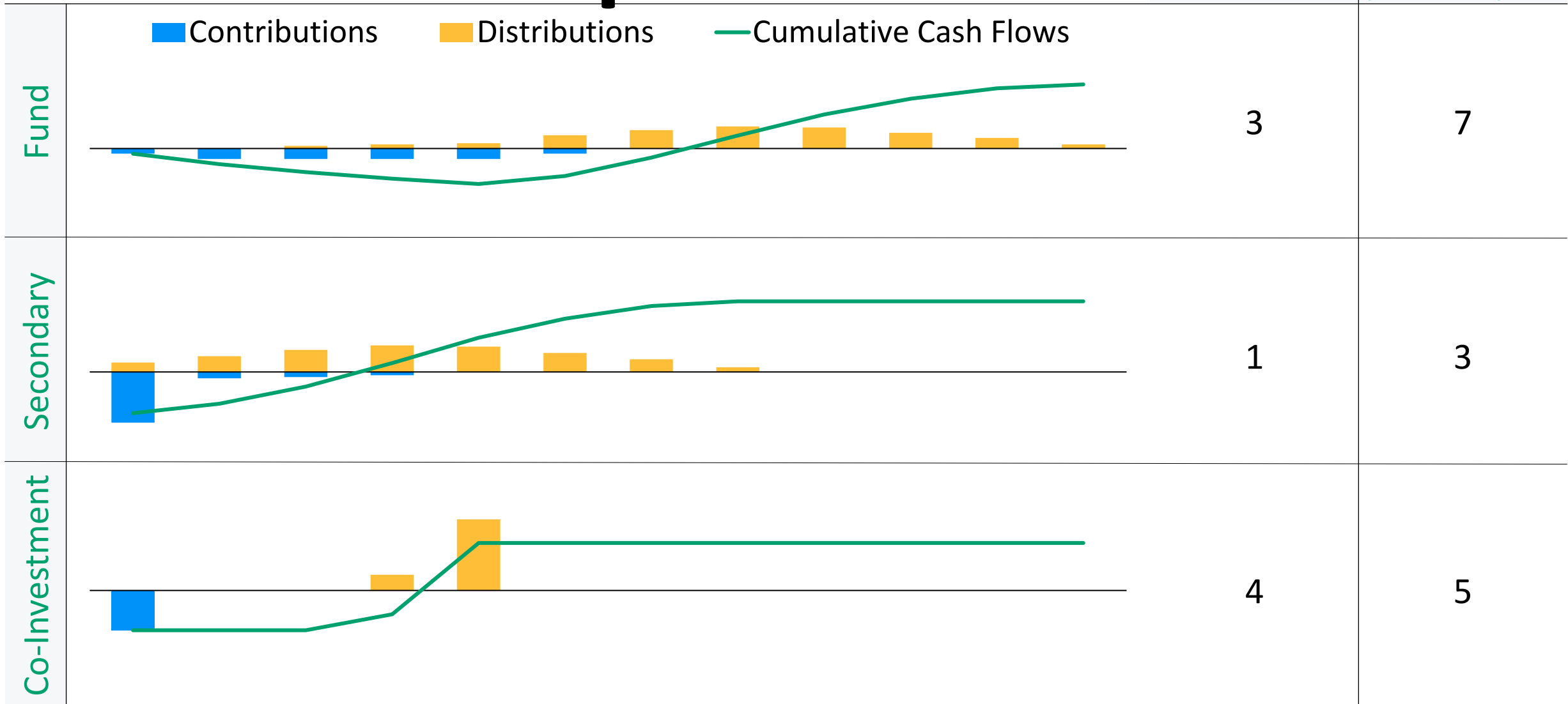
# PE investment types

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- **Fund, AKA Partnership, Primary, LP Interest**
  - Investor chooses a manager who then sources, conducts due diligence, and invests in company
- **Secondary**
  - Investor buys an LP Interest from another investor
- **Direct or Co-Investment**
  - Invest directly in company either on investor's own (direct) or alongside a manager (co-investment)

# PE cash flow patterns

1<sup>st</sup> year of distribution  
1<sup>st</sup> cash flow positive year



Hypothetical for illustrative purposes only. Past performance is no guarantee of future results. The manager seeks to achieve the stated objectives. There can be no guarantee those objectives will be met

# Benefits and considerations of PE

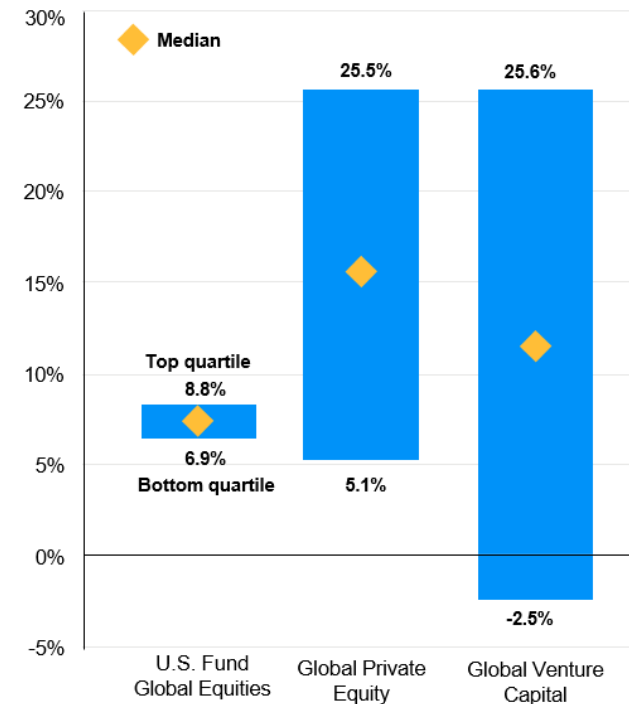
## Key Benefits

- Potential for higher return over long-term
- Expanded opportunity set
- Less efficient than public markets
- Access to non-public information

## Key Considerations

- Long-term, illiquid
- Selection is crucial as dispersion is wide

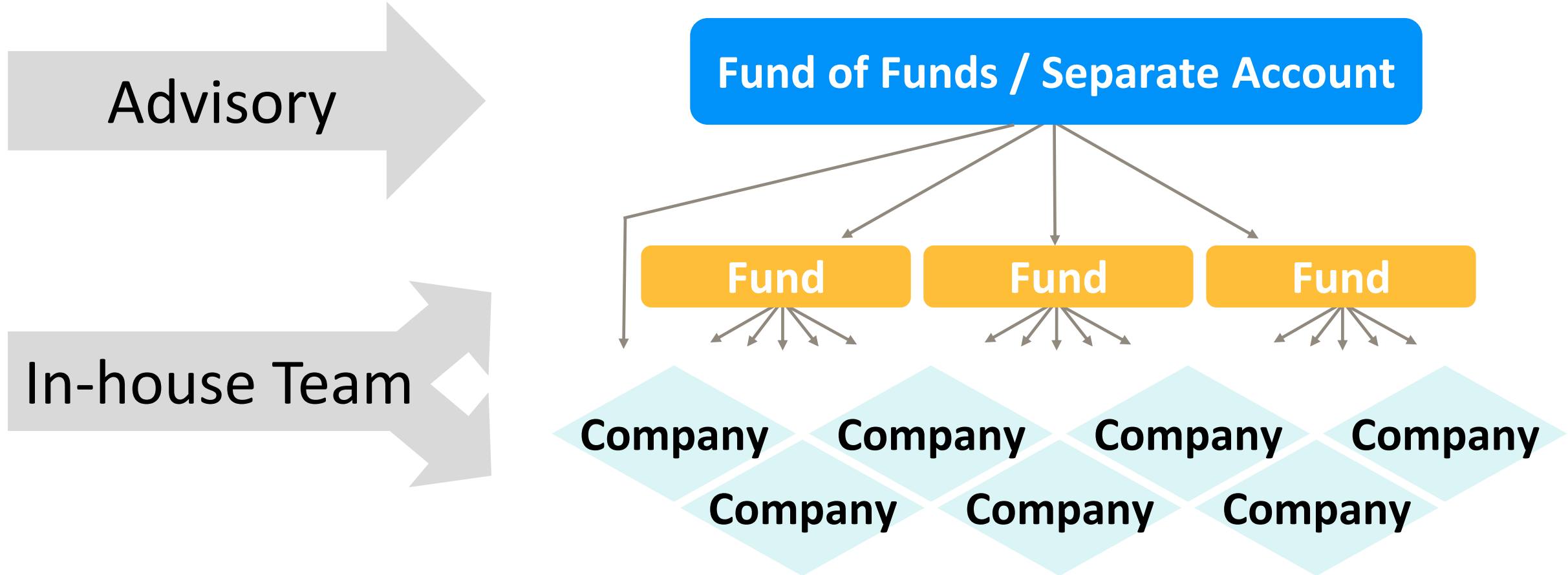
Public and private manager dispersion  
Based on returns over a 10-year window\*



Source: Burgiss, Morningstar, PivotalPath, J.P. Morgan Asset Management. Global equities (large cap) dispersion are based on the world large stock category. \*Global Private Equity and Global Venture Capital are represented by the 10-year horizon internal rate of return (IRR) ending 4Q 2022. U.S. Fund Global Equities are comprised of U.S.-domiciled mutual funds and ETFs. Data is based on availability as of May 31, 2023.

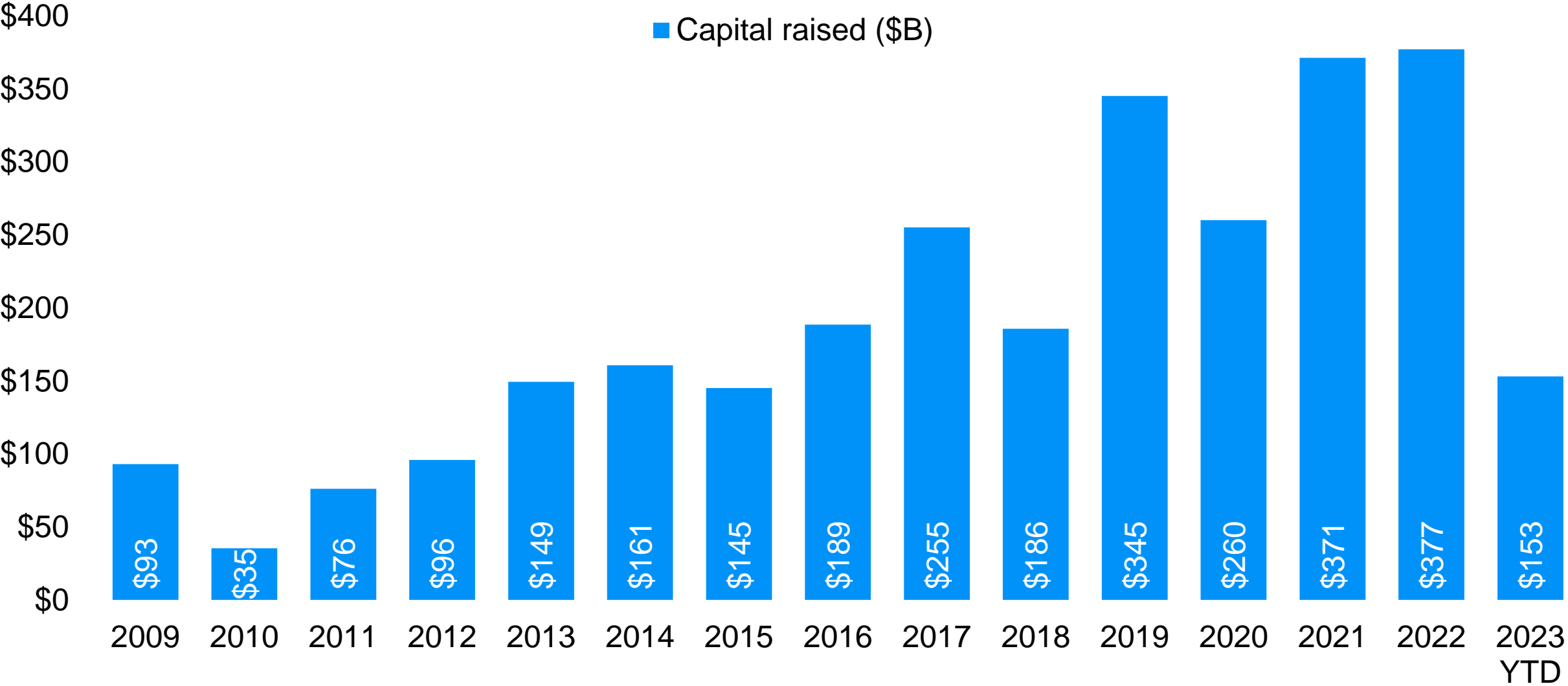
# Ways to invest in PE

Institutional investors typically access PE through:





# Robust U.S. PE fundraising



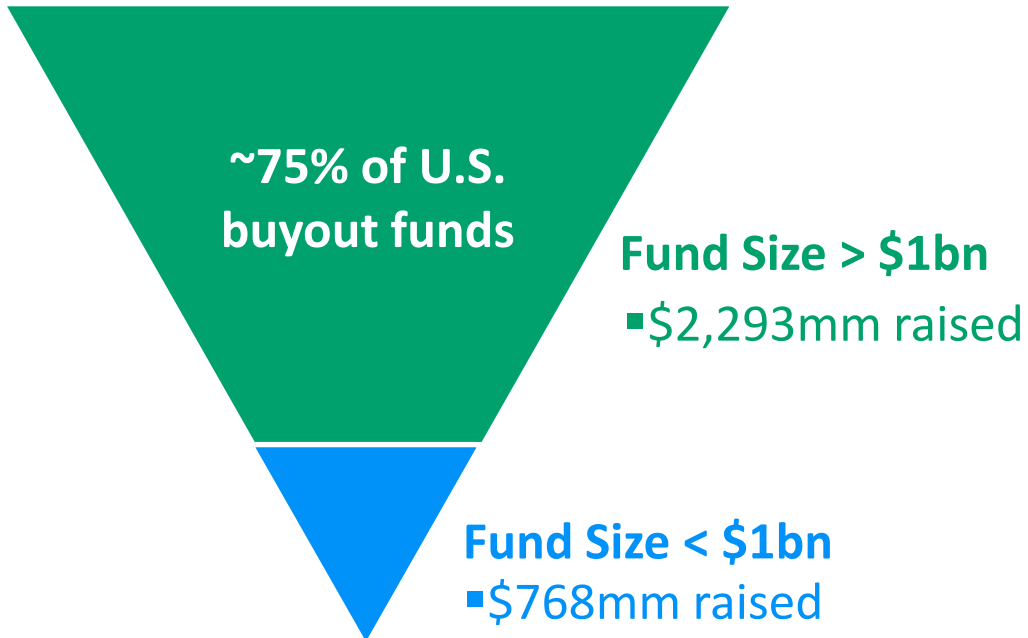
Source: PitchBook Q2 2023 US PE Breakdown – Fundraising Summary; as of June 30, 2023

Market Opportunity

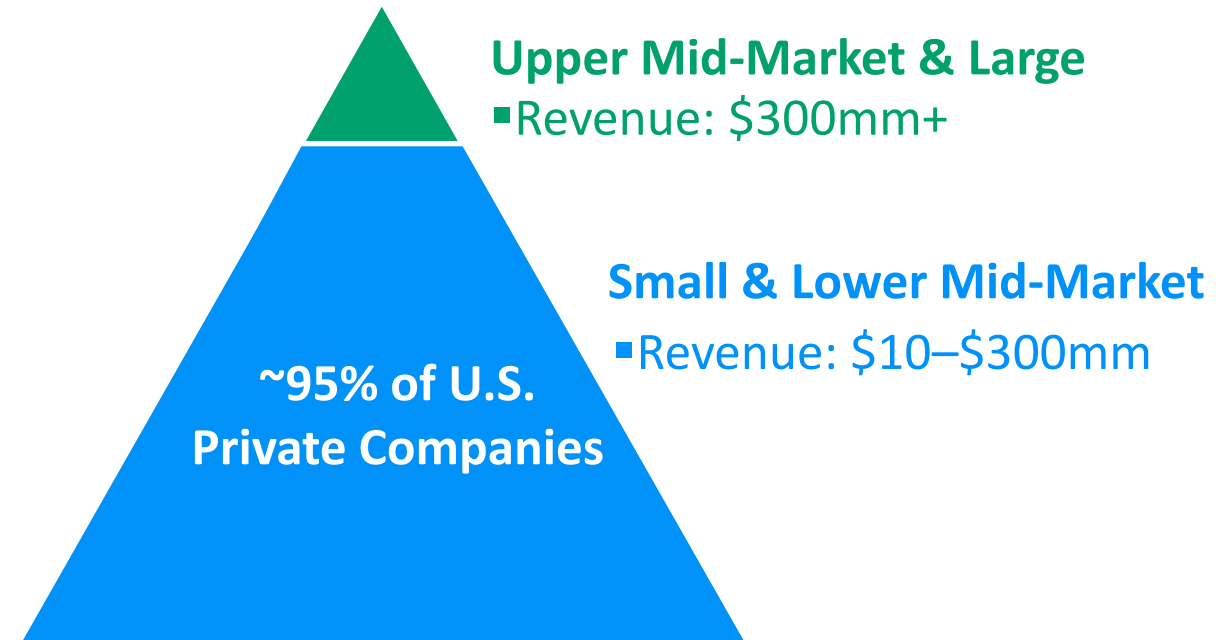
# Opportunity: small/mid market

Generate returns through growth and improvement of small & mid-sized businesses

## U.S. PE funds raised 2008 – Q3 2023<sup>1</sup>



## Distribution of U.S. private companies by size<sup>2</sup>



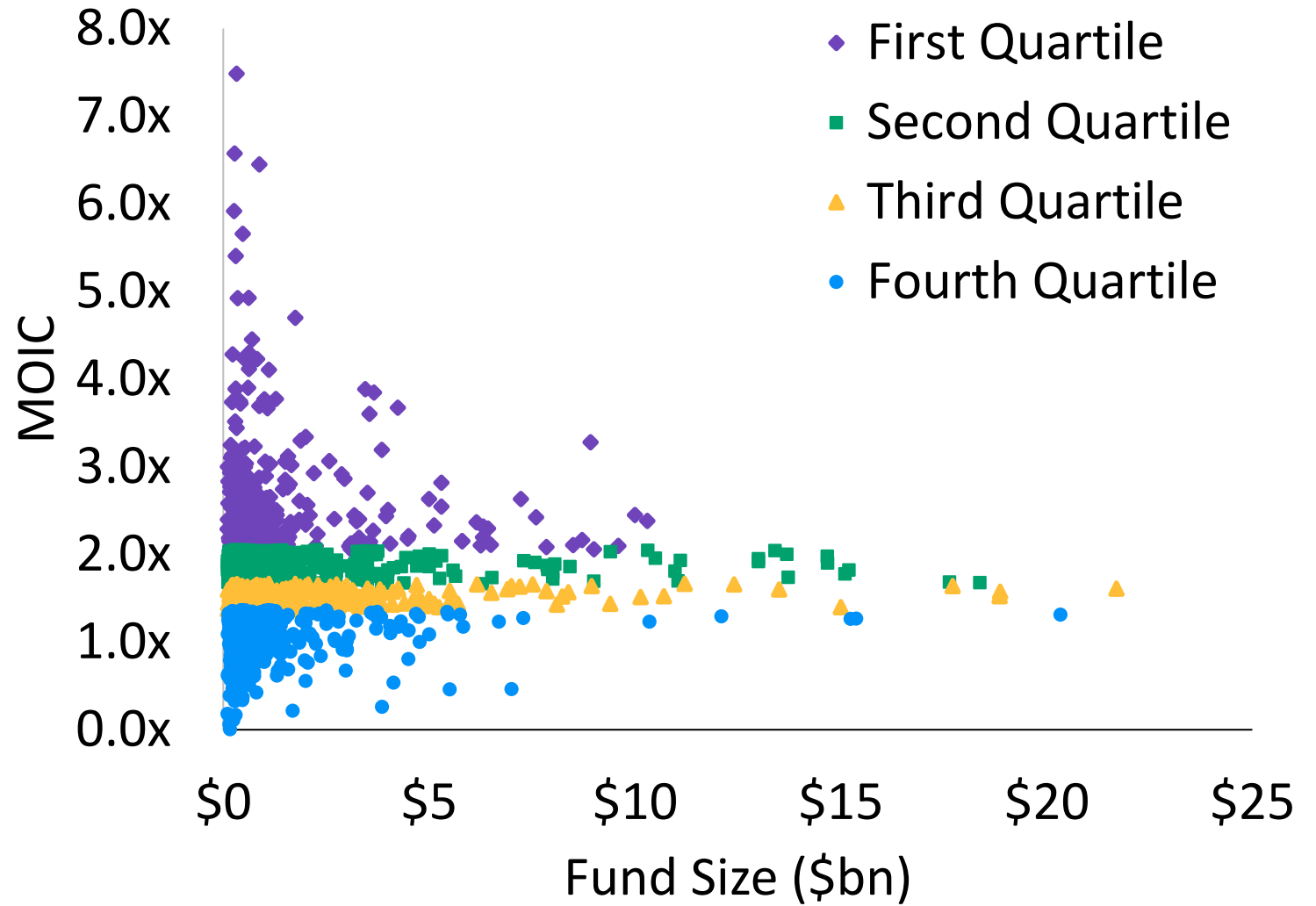
<sup>1</sup> Source: Pitchbook Q2 2023 US PE Breakdown Summary as of 6/30/2023

<sup>2</sup> Source: FactSet as of 2/28/2023.

The manager seeks to achieve the stated objectives. There can be no guarantee the objectives will be met..

# Opportunity: small/mid market

Small/mid market funds have greater ability to outperform, but exhibit greater return dispersion



Source: PitchBook, as of 8/31/2023. Fund performance is as of 3/31/2023.  
Past performance is not indicative of future results. MOIC = multiple of invested capital

# Small/mid market example

- Strategy: focused on complex corporate carve-outs and niche-oriented businesses in the consumer goods and services industry
- Sample investments by Brynwood Partners



*This example is included solely to illustrate strategies which have been utilized by PEG. Examples shown here are not intended to indicate overall performance that may be expected to be achieved by a fund or portfolio. There can be no guarantee or assurance that the portfolio will be able to make similar investments on similar terms in the future. The logo presented is registered trademark by its company.*

# Opportunity: emerging managers

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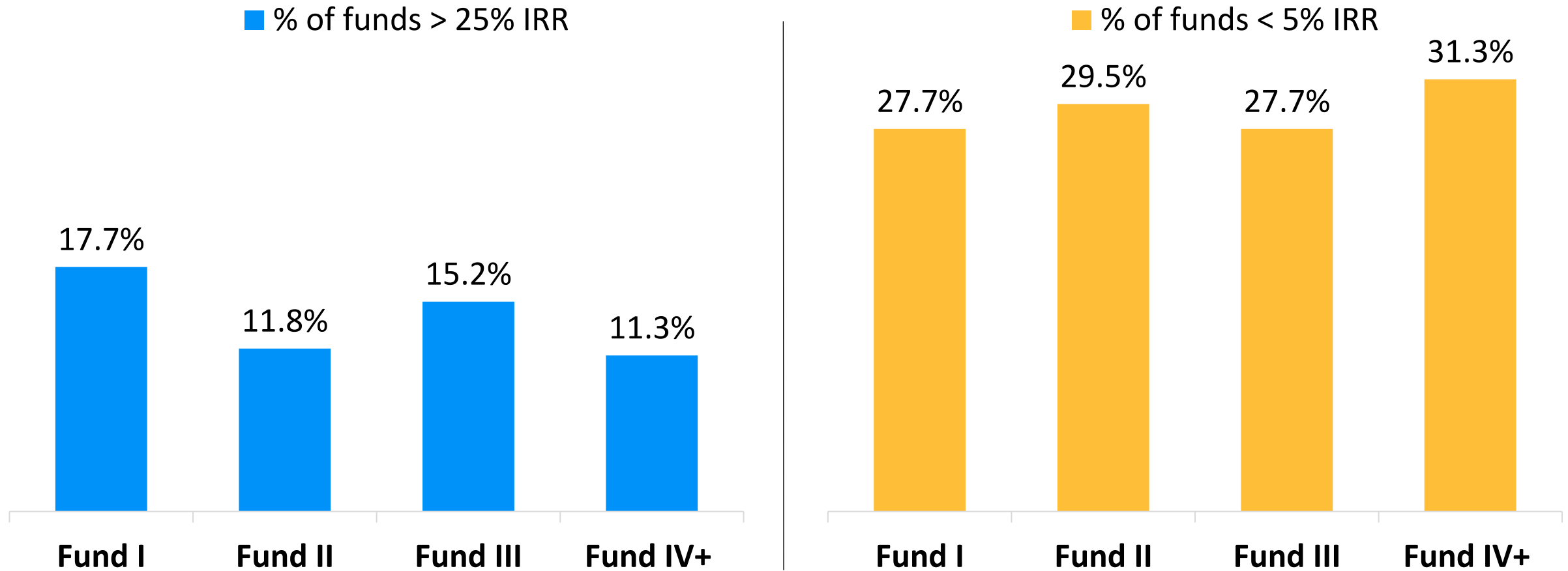
- New managers, particularly first-, second- or third-time funds
- Potential benefits:
  - Return enhancement
  - Preferred access to investment opportunities
  - Build relationships early

***Emerging Managers are difficult to source & underwrite***

The manager seeks to achieve the stated objectives. There can be no guarantee those objectives can be met.

# Opportunity: emerging managers

## Performance milestones reached by % of fund number



Source: PitchBook. Geography: Global. As of June 30, 2020.

Market Opportunity

# Opportunity: Co-Investments

## Potential benefits

- Access to return enhancing opportunities
- Shorter J-curve than traditional commitment
- Attractive economics
- Increased flexibility in portfolio construction

## Investment example



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**Market Opportunity**

# Opportunity: Secondary interests

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## Potential benefits

- Attractive risk-adjusted returns
- Information advantage
- J-curve mitigation & reduced duration
- Immediate diversification
- Growing opportunity set

## Investment example

**PROJECT PINE**

**Great Hill**  
P A R T N E R S

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**Market Opportunity**



# Opportunity: Venture Capital

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- Access, network, and domain expertise are key to driving VC/Growth returns
- The venture market is cyclical; cycles are longer
- Sector concentration in technology and selectively in tech-enabled healthcare
- Geographic concentration in U.S. (Silicon Valley); selectively outside U.S. (China, India, Europe, Israel)

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**Risks of private equity investments.** The venture capital companies in which the Fund will seek to invest may be in a conceptual or early stage of development, may not have a proven operating history and may have products that are not yet developed or ready to be marketed or that have no established market. Investments made in connection with acquisition transactions are subject to a variety of special risks, including the risk that the acquiring company has paid too much for the acquired business, the risk of unforeseen liabilities, the risks associated with new or unproven management or new business strategies and the risk that the acquired business will not be successfully integrated with existing businesses or produce the expected synergies.

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**An Internal Rate of Return – also sometimes called an Asset Weighted Return –** measures the performance of a portfolio or investment between two dates, taking into account the amount of capital invested during each time period. An Internal Rate of Return calculation gives greater weight to those time periods where more capital was invested and takes into account not only the size of cash flows, but also the length of time that each cash flow affected the portfolio. Essentially, an Internal Rate of Return answers the question, “if all the capital had been invested in a money market account instead (but the same contributions and withdrawals were made), what interest rate would have resulted in the same ending value?”

These calculations are used where the timing and size of cash flows are important to the validity of the results, for example, when reviewing the returns on individual investment positions. Internal Rates of Return are also used to compute an unleveraged return in order to illustrate the impact of leverage on performance. Internal Rates of Return are not annualized for individual investments or group of investments made less than a year prior to the calculation date. Private equity funds invest exclusively or almost entirely in financial instruments issued by companies that are not listed (or that takeover publicly listed companies with a view to delisting them). Investment in private equity funds is typically by way of commitment (i.e., whereby an investor agrees to commit to invest a certain amount in the fund and this amount is drawn down by the fund as and when it is needed to make private equity investments). Interest in an underlying private equity fund will consist primarily of capital commitments to, and investments in private equity strategies and activities which involve a high level of risk and uncertainty. Except for certain secondary funds, private equity funds will have no operating history upon which to evaluate their likely performance. Historical performance of private equity funds is not a guarantee or prediction of their future performance. Investments in private equity are often illiquid and investors seeking to redeem their holdings can experience significant delays and fluctuations in value.

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