



CONSTITUTION
Capital Partners

Private Equity

**Presented by Robert Hatch,
Managing Partner**

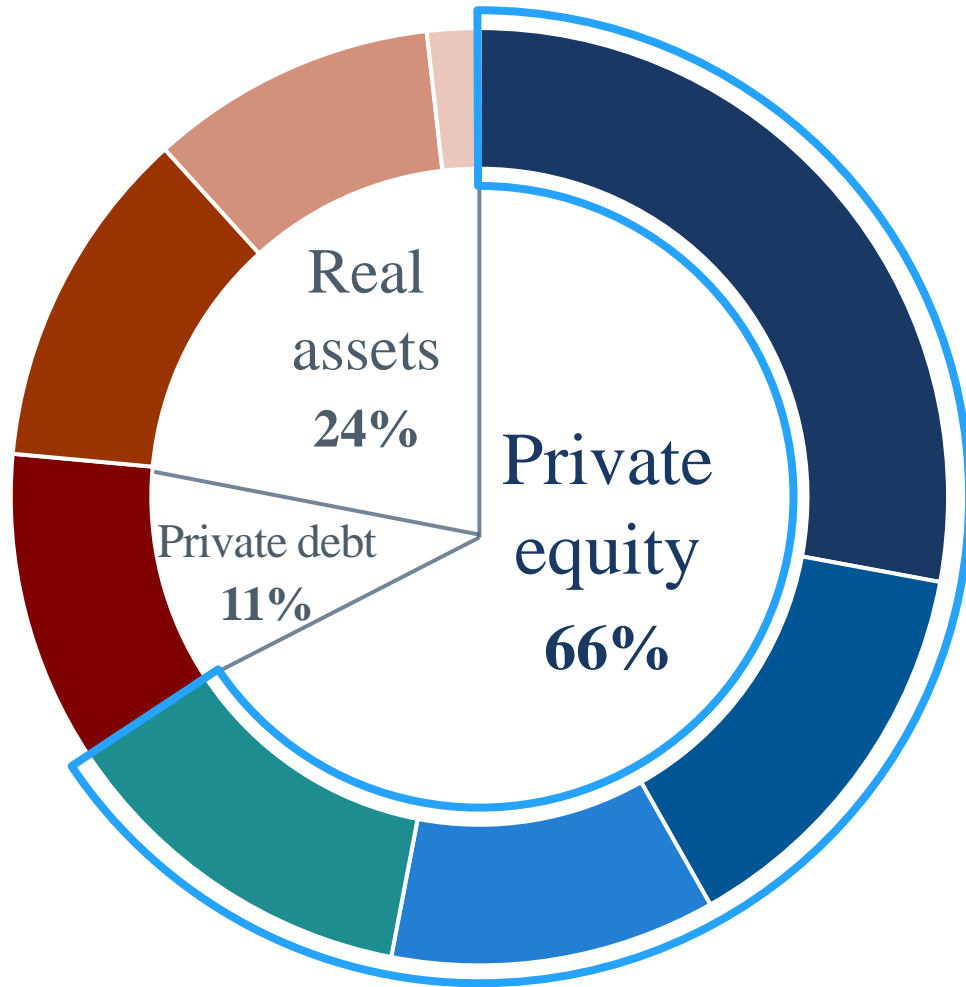


What are Private Markets?

- Traditionally investments in the equity and debt of companies and assets that are not listed on public exchanges
- Requires longer-term investment, usually through a limited partnership
- Approximately two-thirds of all Private Markets assets under management (AUM) is in Private Equity (buyout, venture, growth equity and other)

Introduction to Private Markets and Private Equity

Private Markets AUM



■	28%	\$4.0T	Buyout
■	14%	\$1.9T	Venture capital
■	11%	\$1.6T	Growth equity
■	13%	\$1.8T	Other private equity
■	11%	\$1.5T	Private debt
■	12%	\$1.7T	Real estate
■	10%	\$1.4T	Infrastructure
■	2%	\$0.3T	Natural Resources

Sub-Classes of Private Equity

Investments in Non-Public Companies

Angel Investing

Minority stakes in nascent companies, often in the idea phase. Potential to establish operations and market share.

Venture Capital

Minority stakes in young, unprofitable companies. Potential for rapid growth and high returns with higher risk and volatility.

Growth Equity

Minority stakes in established companies requiring capital for expansion; may or may not be generating a profit.

Buyouts

Majority stakes in mature, profitable companies. Potential to grow organically and through acquisitions, and improve free cash flow.

Sub-Classes of Private Equity

	Angel Investing	Venture Capital	Growth Equity	Buyouts
Ownership	Minority	Minority	Minority / Majority	Majority
Phase	Idea	Infancy	Growth	Mature Growth
Financials	Pre-Revenue	Revenue with Losses	Varies	Scaled and Profitable
Capital Use	Concept Launch	Grow Market Share	Accelerate Expansion	Drive Value Creation
Risk / Return	Binary Risk	High Risk with High Potential Return	Risk with Structured Downside	Strong Risk-Adjusted Returns

Why Invest in Private Equity?

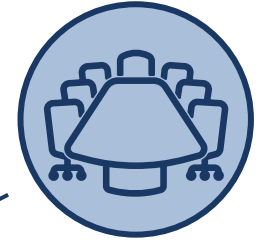
Potential long-term
historical **outperformance**
over public markets



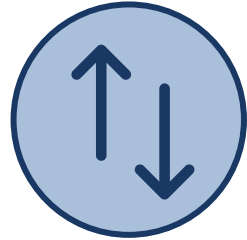
Diversification improves
risk and volatility
characteristics



Partnership with
management



Returns historically
have **lower correlation**
with public markets

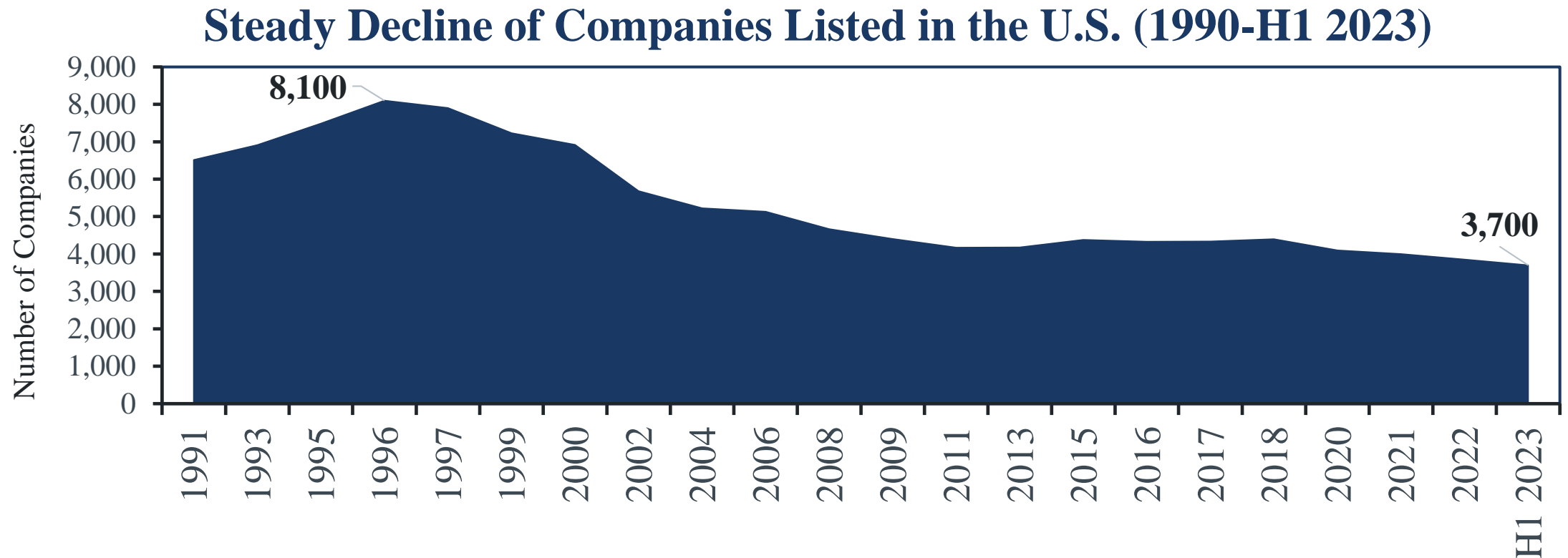


Exposure to non-
public companies



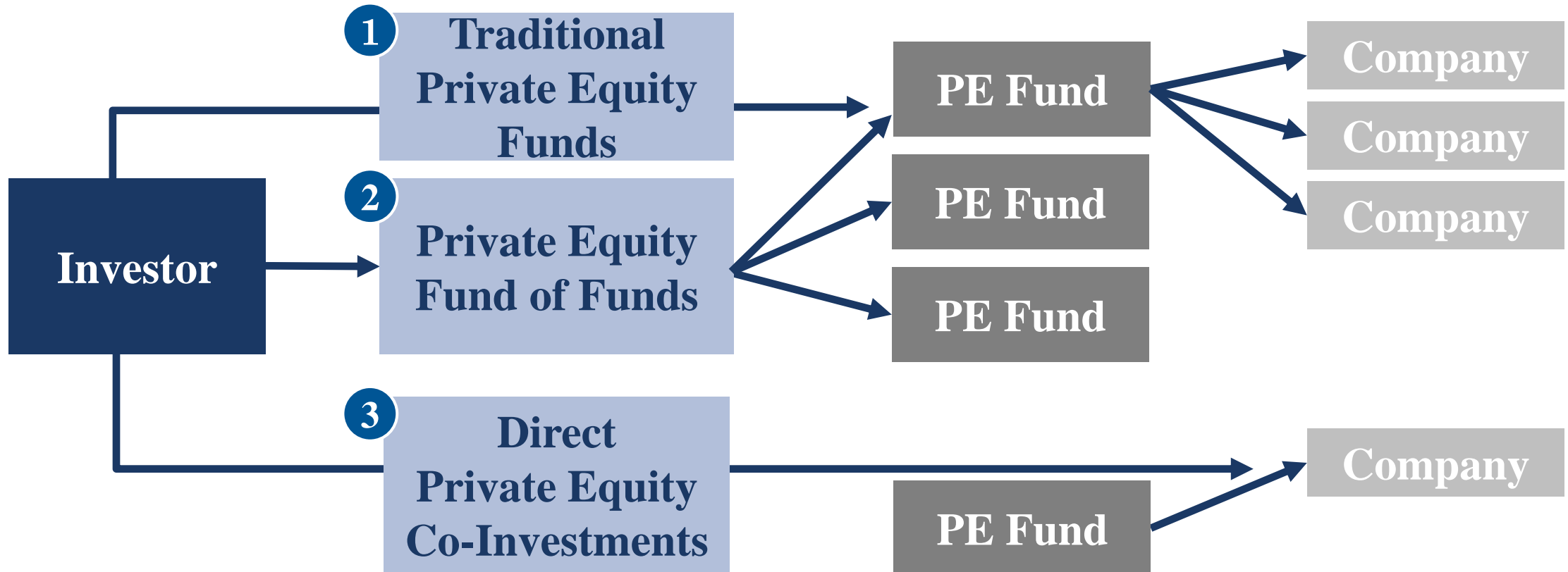
Trends Driving Interest

Companies staying private longer yielding opportunities to invest in high growth businesses in the private markets



Ways to Invest

There are three primary ways to access private equity, including (i) traditional private equity funds, (ii) fund of funds managers, and (iii) co-investments



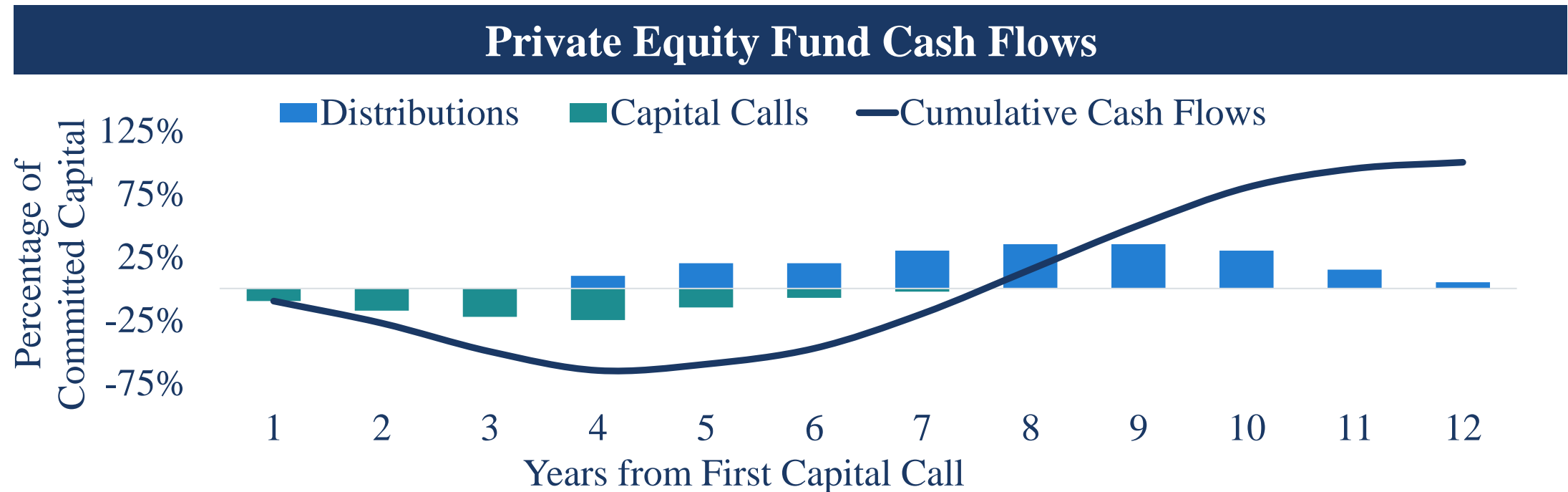
Key Attributes

		1	2	3
		Traditional Private Equity Fund	Private Equity Co-Investment Fund	Private Equity Fund of Funds
Key Value-Add		Company Sourcing and Selection	Company and Manager Selection	Manager Sourcing and Selection
Diversification	# of Deals	10 companies	30+ companies	120+ companies
	Private Equity Managers	1 manager	10+ managers	15+ managers
	Sectors	Limited to 1 or 2	3 to 5 each within manager's core sectors	3 to 5 each within manager's core sectors
Capital Deployment (<i>J-Curve</i>)		Medium	Shorter	Longer

Note: For illustrative purposes only

What is the J-curve?

The J-Curve represents the tendency of private equity funds to post negative cash flows in the initial years, followed by positive cash flows in later years as underlying investments appreciate and generate realizations



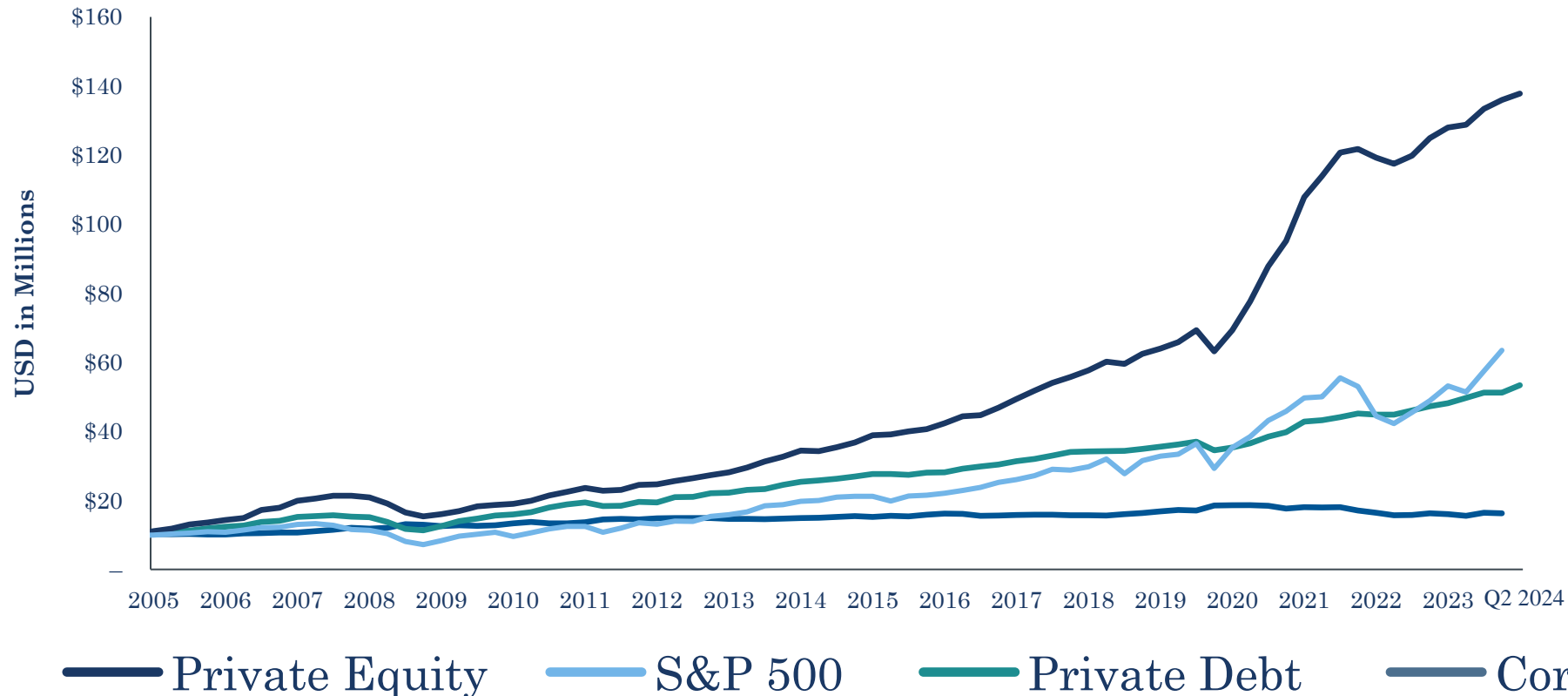
Note: For illustrative purposes only. Actual fund cash flows may deviate materially from those presented herein

Private Equity in Portfolio Construction

Long-Term Returns

Private Equity has outperformed the S&P 500 with lower risk

Growth of \$10 Million (2005- Q2 2024)



14.4% Return
9.3% Risk

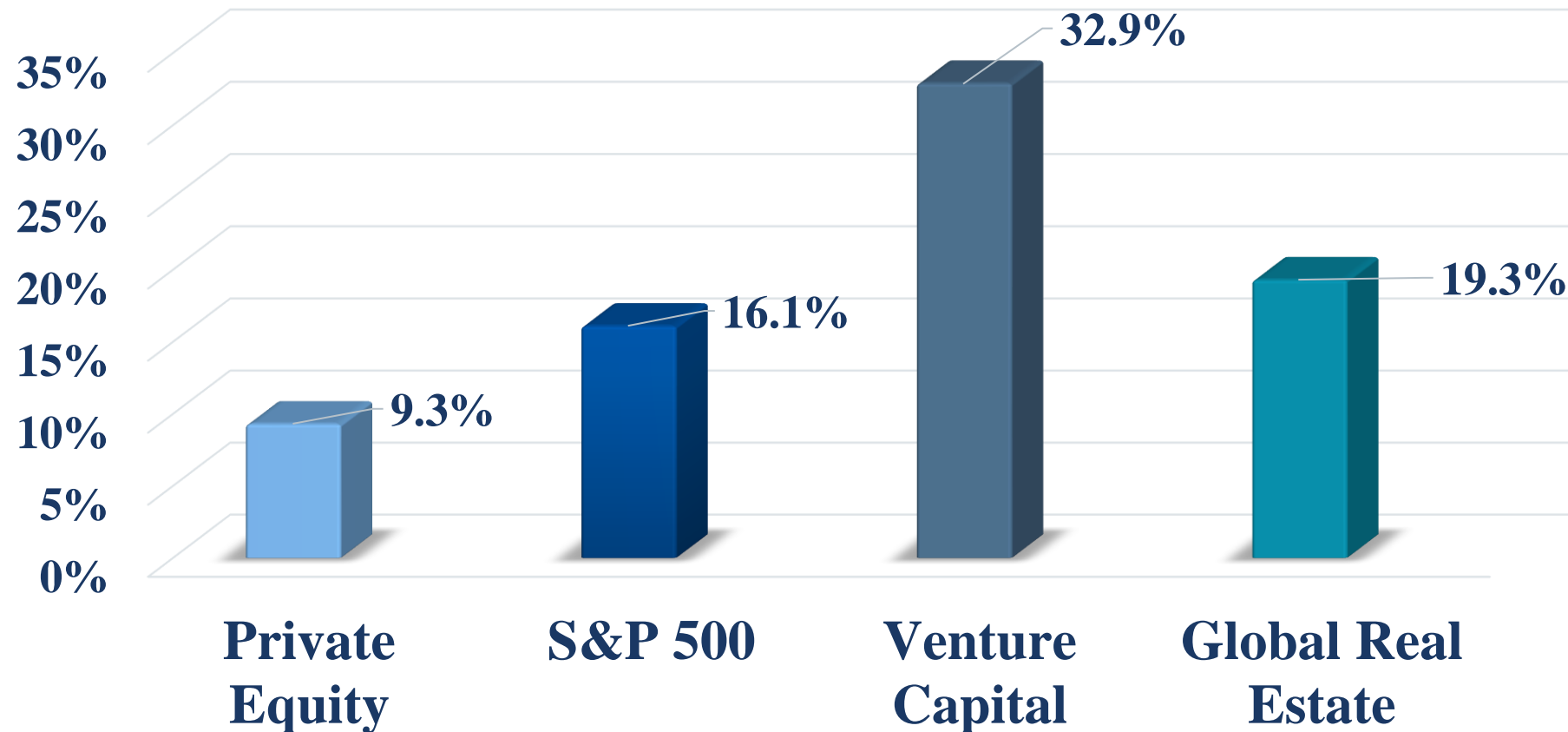
10.2% Return
16.1% Risk

8.9% Return
7.8% Risk

2.5% Return
5.2% Risk

Historical Volatility

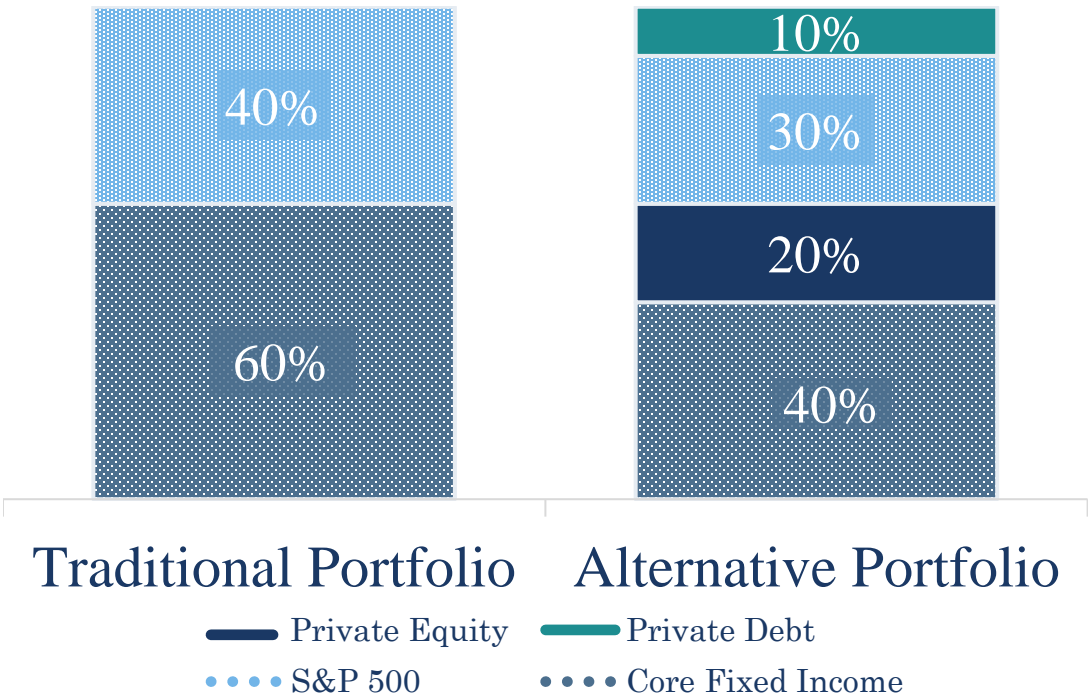
Private Equity has exhibited less volatility relative to other asset classes



Portfolio Impact

Historically, portfolios with private alternatives have delivered stronger absolute and risk-adjusted performance

Target Allocations (2005 – Q2 2024)



Performance Statistics (2005 – Q2 2024)

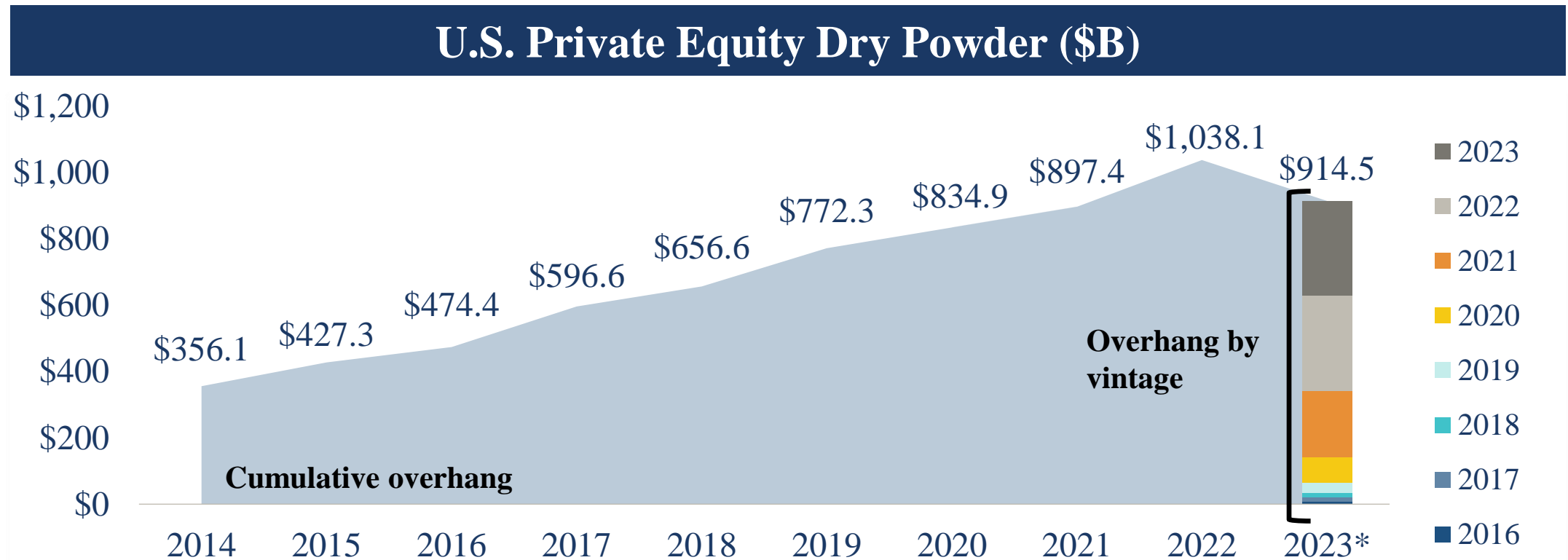
	IRR	Risk	Return / Risk
Traditional Portfolio	7.5%	9.2%	0.82
Alternative Portfolio	8.9%	8.0%	0.70
Delta	+1.4%	-1.2%	+0.29

Private Equity Landscape

Market Conditions

Private Equity firms hold ample dry powder that is ready to be deployed

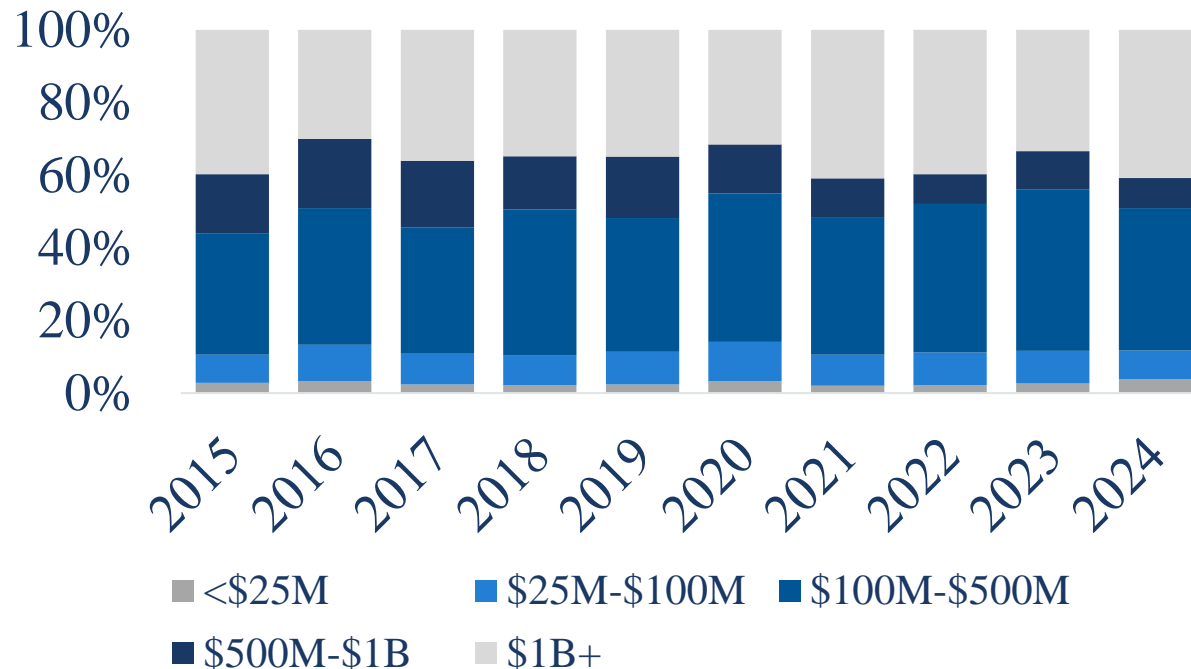
- *Dry powder refers to the amount of committed, but unallocated capital a firm has on hand*



Middle Market Opportunity

Within the US market, the middle market contains the largest opportunity set at attractive valuations yielding opportunity for value creation

U.S. Middle Market Share of Investments (\$)

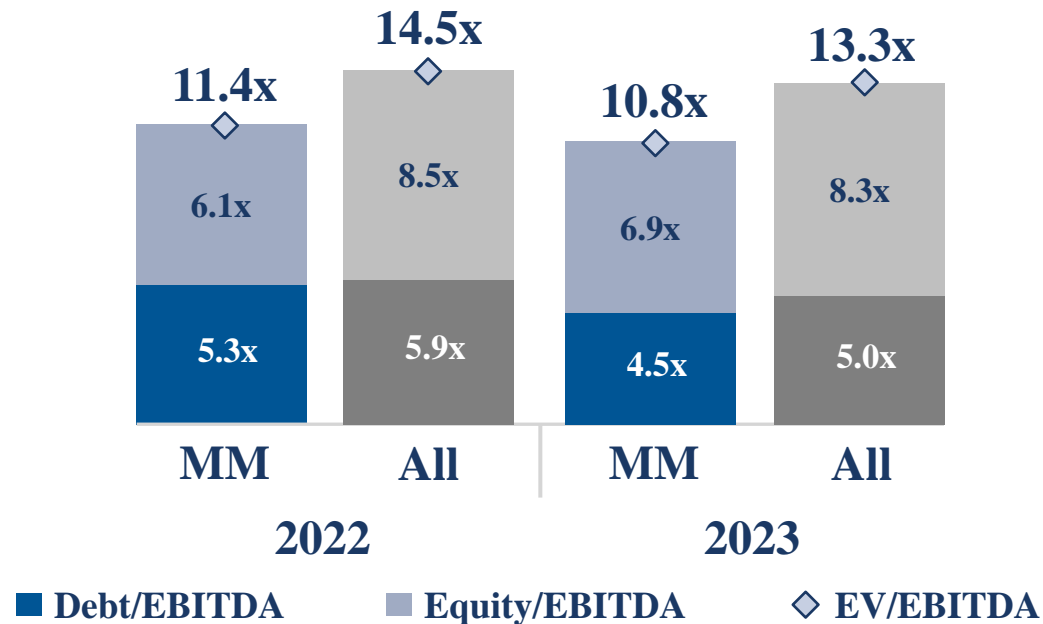


- Middle market businesses are more responsive to operational improvements given their smaller scale and less professionalized management teams, allowing for more meaningful value creation

Middle Market Opportunity

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US Middle Market and Broader PE Multiples

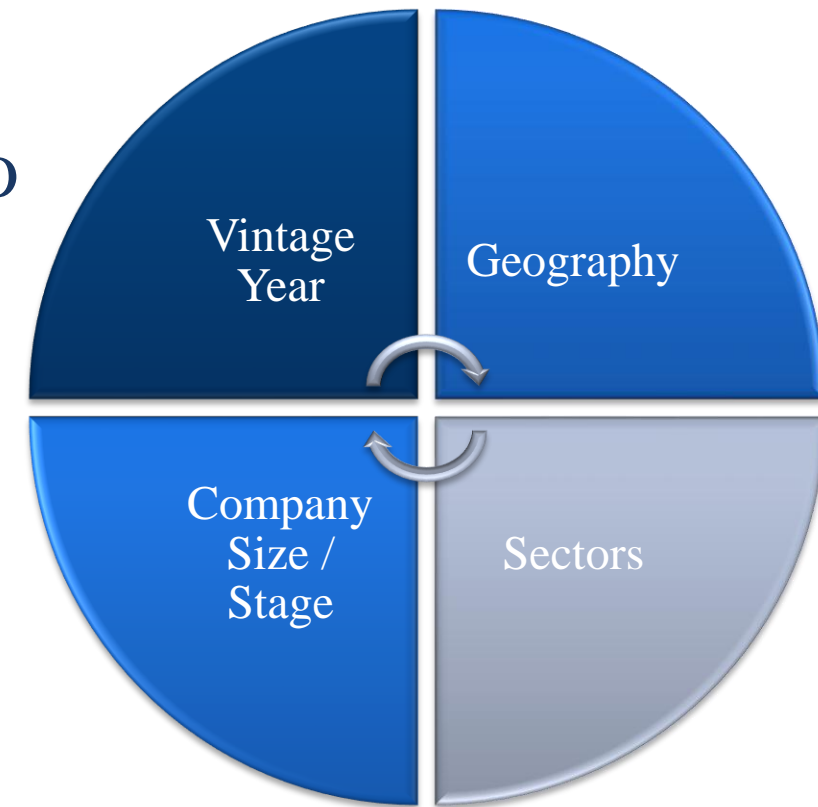


- Companies in the middle market have consistently traded at lower purchase price multiples with prudent leverage relative to the broader private equity market, and that trend has continued in 2023.

Takeaways

- Pension funds are increasing their investments in private asset alternatives
- Historically, have provided higher returns to pension funds with lower volatility
- There are a broad range of options
- Manager selection and alignment of interests are important because investments are illiquid and can have higher fees

Diversification is
Key



Footnotes

- 1) Prequin assets under management by strategy as of March 31, 2024. Figures may not sum to 100% due to rounding.
- 2) Listed Domestic Companies, Total (United States), Center for Research in Security Prices & World Bank Group (DataBank).
- 3) Return calculated as compound annualized return over the full period using quarterly return data. Risk calculated as annualized standard deviation of quarterly returns. Quarterly return data represented by PitchBook Private Capital Indexes Summary Report as of June 30, 2024. Private Equity returns and risk represented by buyout transaction data.
- 4) Data represented by Q2 2024 PitchBook Private Capital Indexes Report. Private Equity returns and risk represented by buyout transaction data.
- 5) The allocation for the Alternative Portfolio is represented by a 40% allocation to S&P 500, 30% allocation to Core Fixed Income, 10% allocation to Private Debt, and 20% allocation to Private Equity. Quarterly return data represented by PitchBook Private Capital Indexes Summary Report as of June 30, 2024. Return calculated as compound annualized return. Risk calculated as annualized standard deviation of quarterly returns. Private Equity returns represented by buyout transaction data.
- 6) Information as of September 30, 2024, per PitchBook Q3 2024 US PE Breakdown Report.
- 7) Information as of September 30, 2024, per per PitchBook Q3 2024 US PE Breakdown Report. PitchBook defines middle market as buyout transactions between \$25 million and \$1 billion.
- 8) Represents median EV/EBITDA multiples for US middle market private equity and broader private equity in the US, as reported by PitchBook Q3 2024 US PE Breakdown Report. Middle Market Debt/EBITDA and Equity/EBITDA multiples represented by the Capstone Partners Middle Market Leveraged Finance Report – Fall 2024. All PE Debt/EBITDA and Equity/EBITDA multiples represented by figures from the 2023 PitchBook US PE Breakdown report.