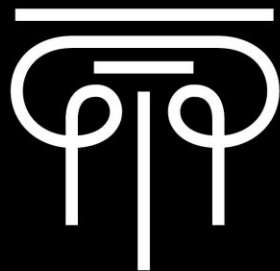

August 2024

Passive can beat active in private markets, too.

Edward Talmor-Gera
Founder & CEO, NewVest (New York)



Portfolio
Construction
Forum



Passive Will Beat Active in Private Markets too!



“ Warren Buffett:

“A *low-cost index fund* is the most sensible equity investment for the great majority of investors.”

(Berkshire Hathaway, AGM 2020)

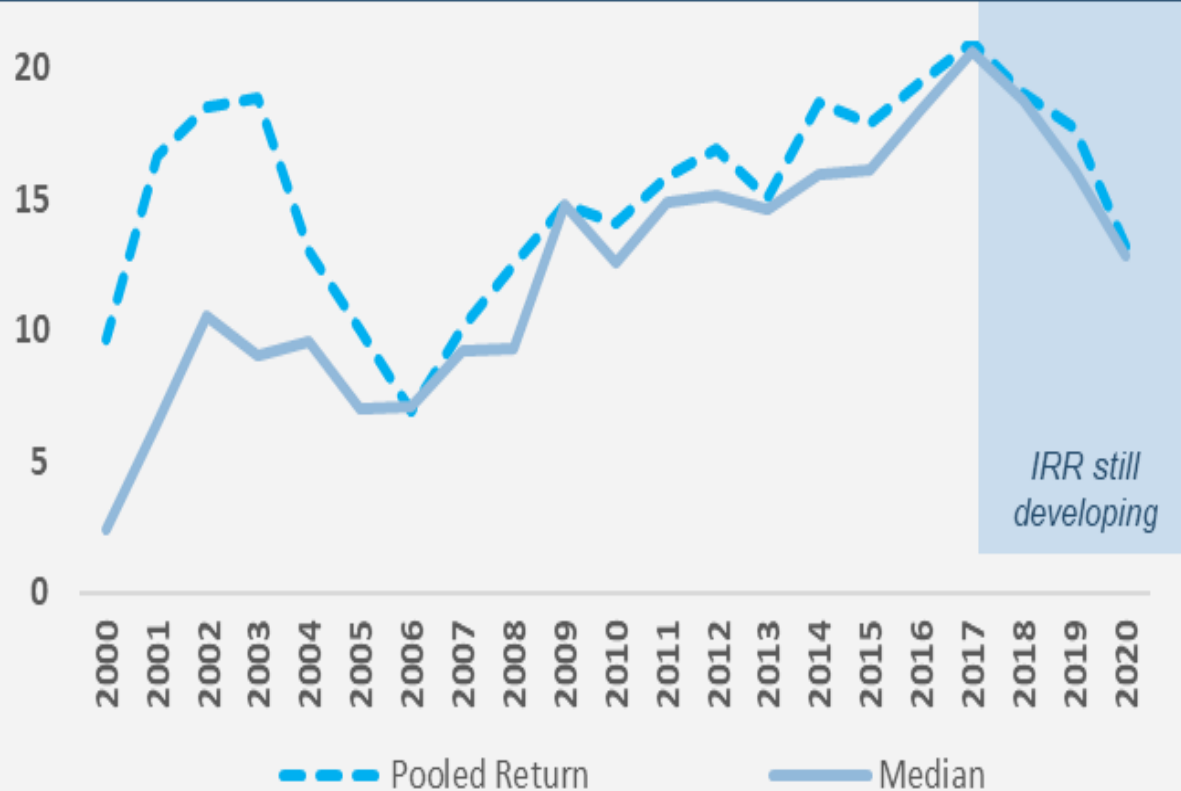
My Conjecture: Theory and Empirical Underpinning

- 1. PE funds have generated attractive returns**
- 2. Right-skewed distribution to PE funds**
- 3. Lack of persistence to relative and outlier returns by manager**
- 4. Most allocators' portfolio of PE funds underperforms the appropriate benchmark**
- 5. Risk in PE fund investing**

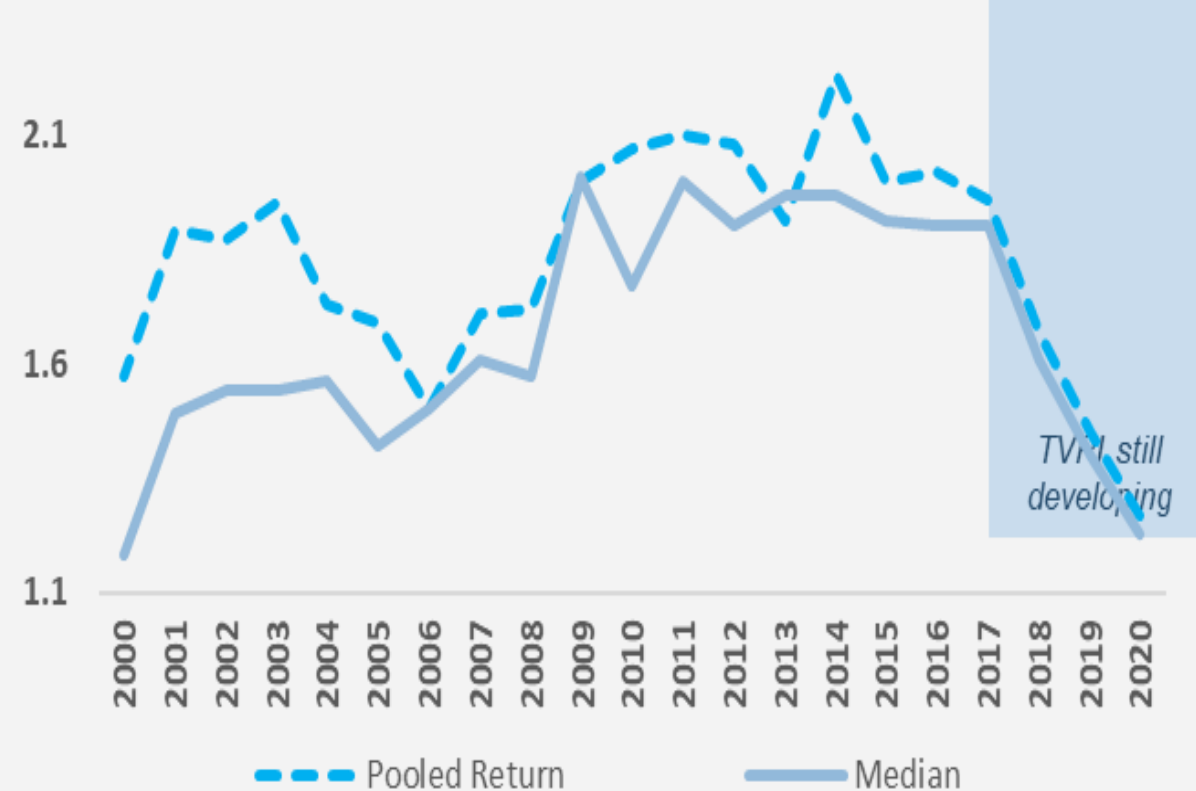
1. What Does “Buying the Market” Look Like in PE?

Vintages 2000-2017 average pooled returns of ~15% IRR and 1.9x TVPI

PE Asset Class Net IRR: Pooled Returns vs. Median

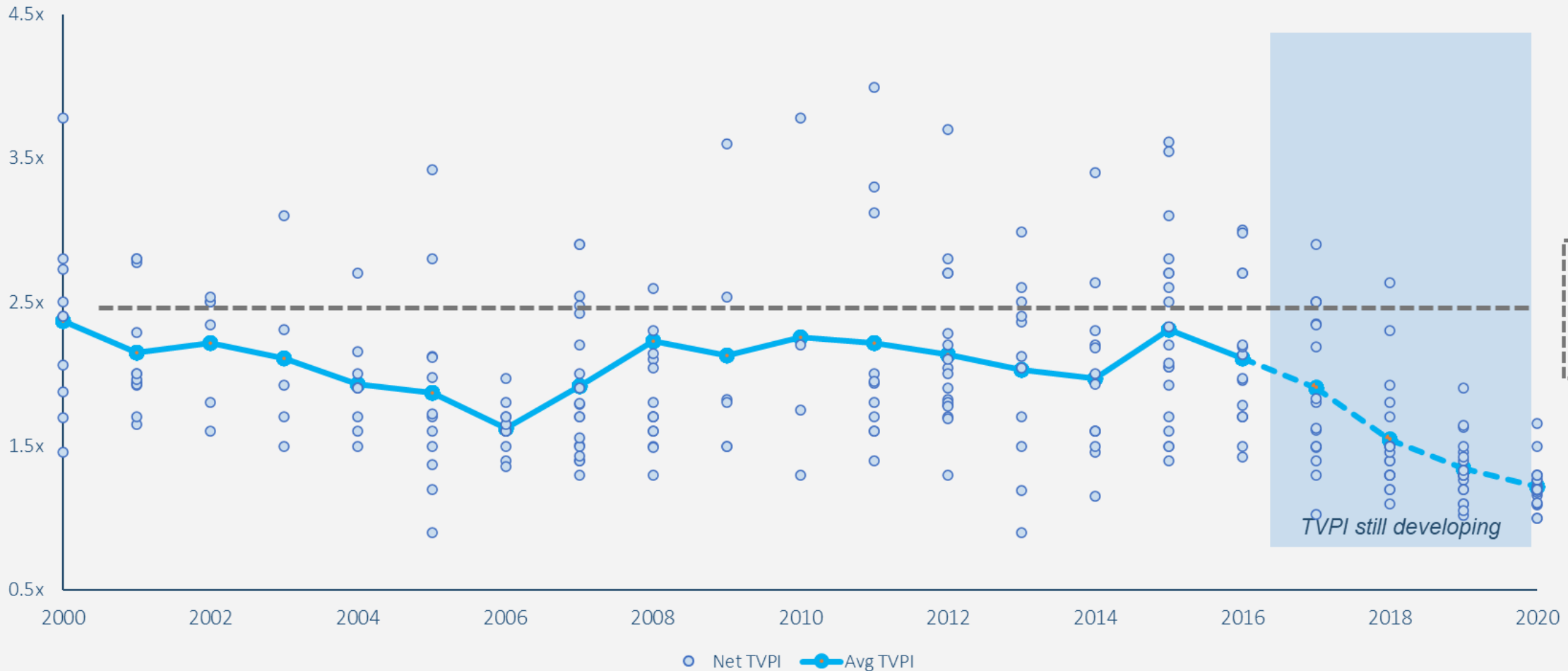


PE Asset Class Net TVPI: Pooled Returns vs. Median

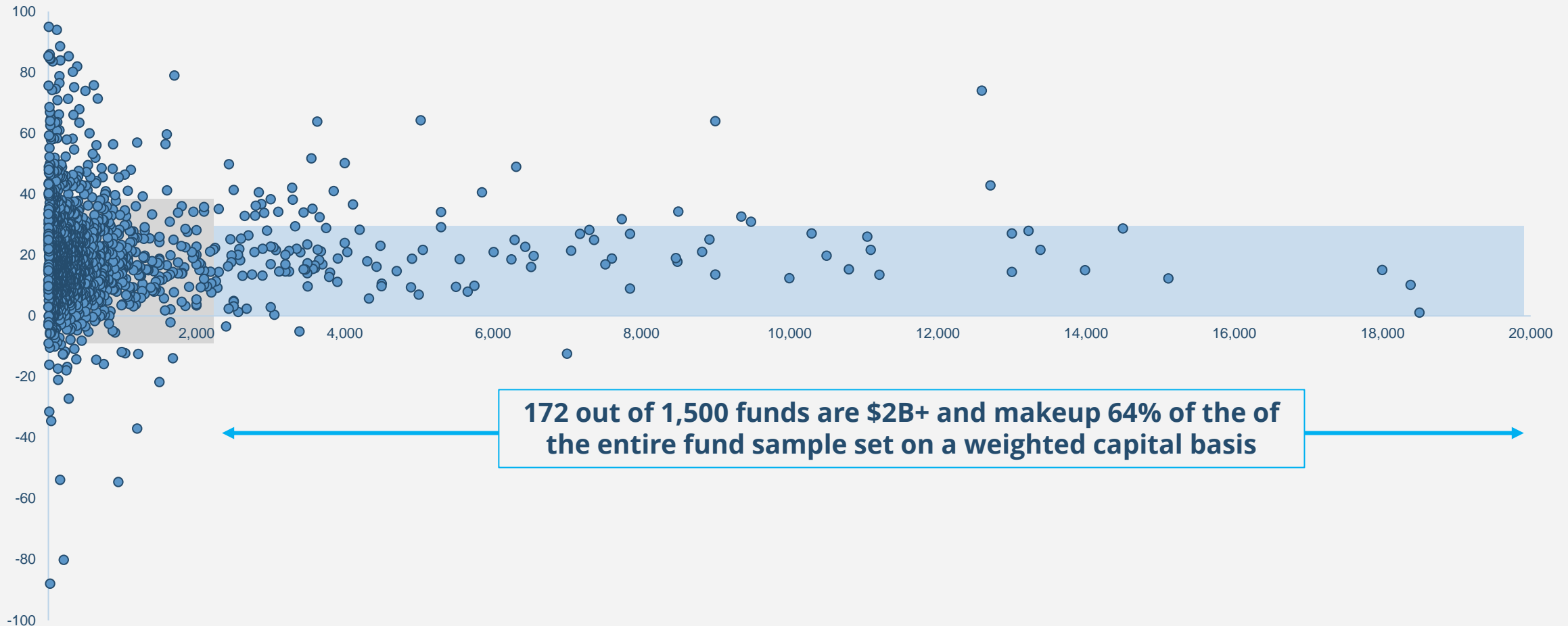


2. Average PE pooled returns exceeded average PE median returns for 2000-2017 (mature vintages) by:

310 bps (IRR) and 0.18x (TVPI)



2. Right-skewed distribution among small and large PE funds, with very similar average returns



3. Manager selection really DOES matter... but it is VERY difficult!

“80% of managers are in the top quartile”

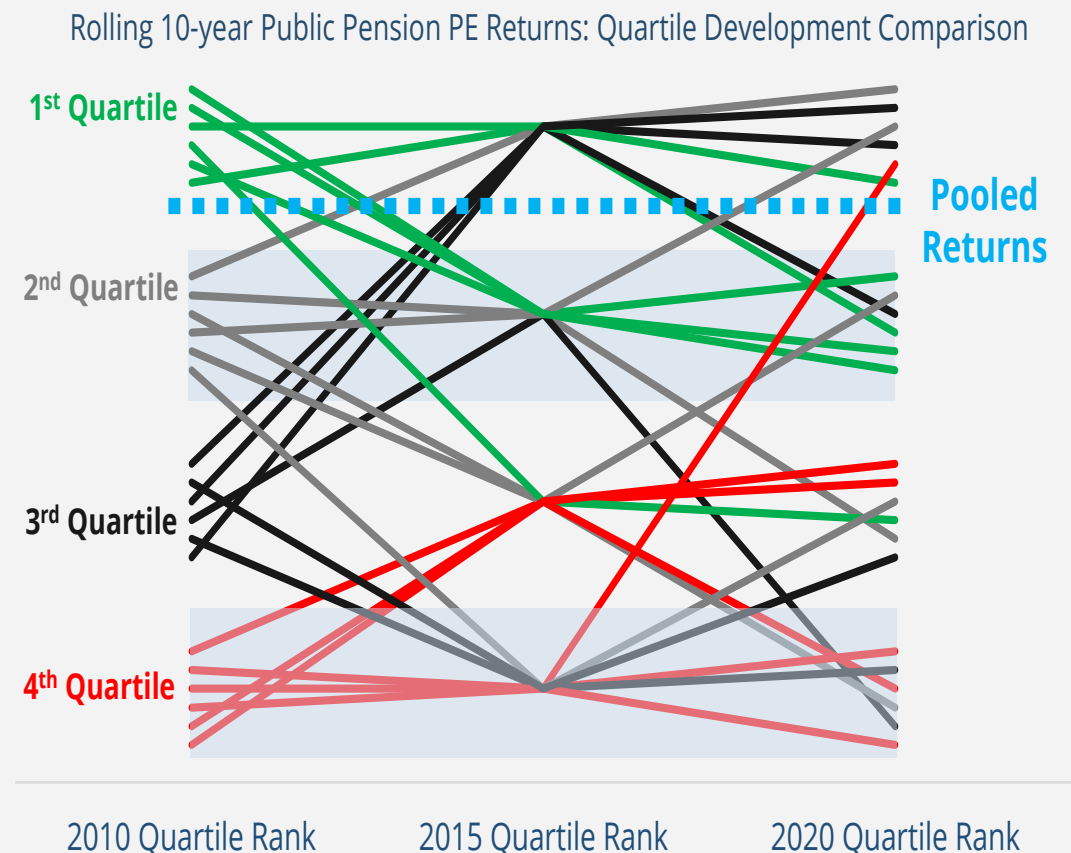
Previous to Subsequent Fund Quartile Relationship	Subsequent Fund Quartile Distribution			
Previous Fund Quartile ↓	1 st	2 nd	3 rd	4 th
1 st	24%	24%	27%	25%
2 nd	23%	28%	29%	20%
3 rd	17%	28%	32%	24%
4 th	27%	30%	21%	21%

4. At the risk of being unpopular: Research indicates a lack of persistence in relative returns among LPs

Top performing US public pensions by PE returns

Rank	2015	2020
1	Mass PRIT	ISBI
2	Texas Teachers	Mass PRIT
3	Minnesota SBI	Iowa PERS
4	Houston Fire.	PSRS
5	Iowa PERS	Minnesota SBI
6	San Fran ERS	KRS
7	Virginia RS	San Fran ERS
8	PERS	Arizona SPRS
9	NYSLRS	SERS
10	Utah Ret.	Michigan ORS

The lack of relative performance persistence



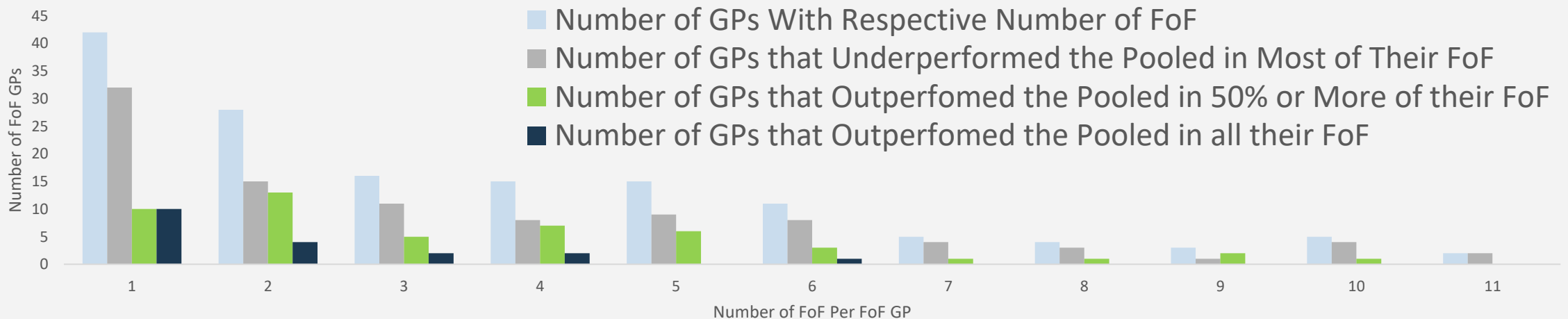
4. Active Management: Large, heavily resourced PE FoF manager underperformed the PE benchmark

PE-focused FoF average returns of a publicly listed fund manager



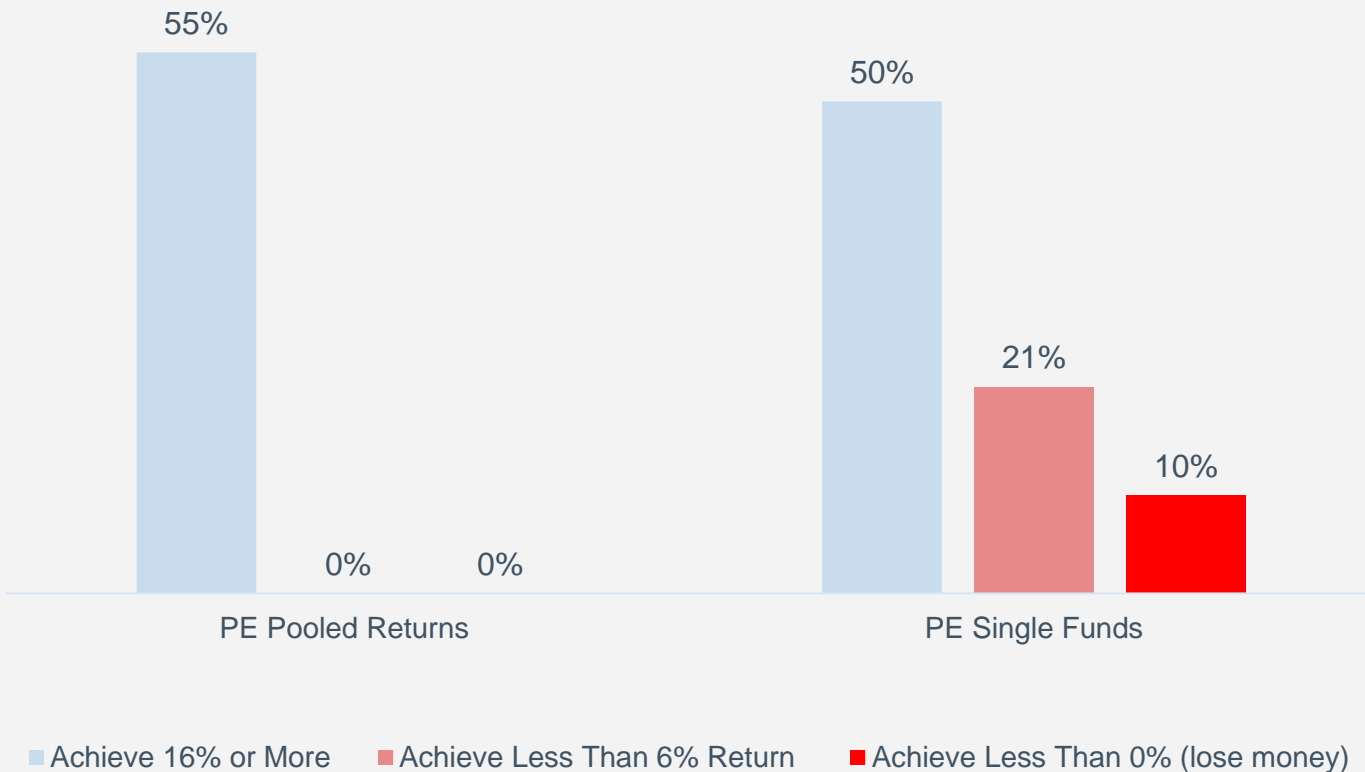
Pooled net IRR returns are on average 330bps higher than FoF net IRR returns

PE FoF manager performance persistence relative to PE pooled returns

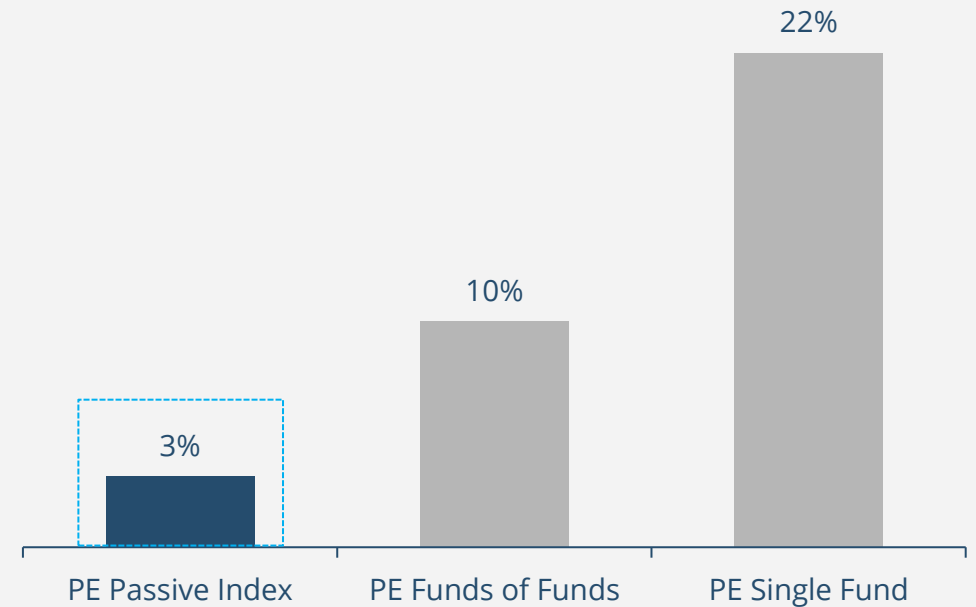


5. The “headache” of problematic funds in one’s portfolio

In PE, 55% of vintages (2000-2019) delivered pooled returns of 16% or more, none lost money, and none delivered less than 6%. Over the same period, only 50% of PE funds returned 16% or more, 21% delivered less than 6% and 10% lost money.



Standard Deviation Comparison (2009 to 2018)





*“Don't look for the needle in the haystack -
Just buy the haystack!”*

*“Don't look for the needle in the haystack -
Just buy the haystack!”* John C. Bogle



The BIG IDEA: Index Investing in Private Markets

Diversified exposure targeting access to top funds in the asset class

Attractive investment returns potential

Expected lower risk and lower volatility

Low-cost solution – designed to reduce gross-net spread

Simple efficient structure: administrative ease and cashflow predictability

Core-Satellite approach to private markets portfolio construction

“ *Still not convinced? How about the elephant in the room?* ”



Blackrock spends ~\$16bn in H1 2024 on private markets business acquisitions

Bloomberg

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Markets

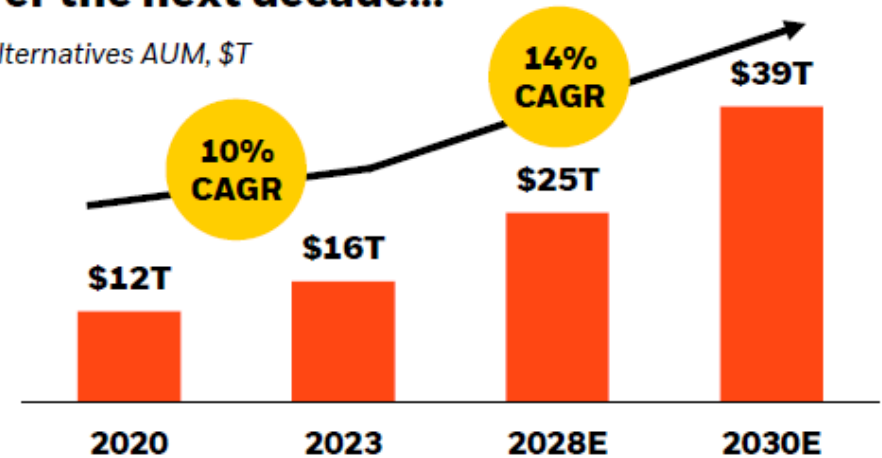
BlackRock Aims to 'Index the Private Markets' After Preqin Deal

- CEO Fink says data, indexes will democratize alternatives
- Deal accelerates BlackRock's push into private markets



Significant demand for alternatives projected over the next decade...¹

Alternatives AUM, \$T





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