Blackstone

Essentials of Private Markets

Private Equity

PRIVATE WEALTH SOLUTIONS

Need to Know

01 Vast Market Opportunity

The **universe of private equity (PE) is vast** given that most companies globally are privately held.[1] Endowments and other institutional investors have maintained **sizeable PE allocations for decades**, and more individual investors are following suit.[2]

02 A History of Outperformance

Private equity has outperformed stocks with **lower volatility** over the long run.[3] As a result, private equity can be a **core portfolio building block** for individual investors in search of diversification and enhanced performance.[4]

03 Value Creation

Private equity managers have extensive **value-creation capabilities**, which they can use to unlock growth potential over time in the companies in which they invest. These efforts create the potential for a higher return, but investors must trade off some liquidity to pursue this "illiquidity premium," as it is often called.

Understanding Private Equity

Private equity consists of investments in privately held companies, ranging from early-stage growth companies to large enterprises across every industry and geography. Private companies are a critical part of the global economy[5] and can take a longer-term orientation than the focus on share-price fluctuations of many public companies.

Private equity investors can help these businesses grow through active engagement and value creation strategies, including reshaping leadership, operations and financials.

Historically, return generation in private equity has been attractive,[6] and can be derived from earnings growth and multiple expansion by exiting at opportune moments.

1. Capital IQ; based on global data available in Capital IQ's database, August 2023. Measuring companies with revenues of $250 million-plus annually.
2. Yale Endowment Office, UBS, Money Management Institute, as of 2021, which is the last available.
3. Morningstar, Cambridge Associates, as of 3/31/2023. Private equity is represented by the Cambridge Associates US Private Equity Index. Public Equity is represented by the S&P 500 Index. Return is calculated using quarterly returns from 4/1/1986-3/31/2023 and is annualized over the period.
4. Diversification does not guarantee a return or protect against a loss.
5. See note 1 above.
6. See note 3 above.

Diversifying with a Vast Opportunity Set

Exhibit 1: Private Investment Opportunities Substantially Exceed Those in Public Markets[7]

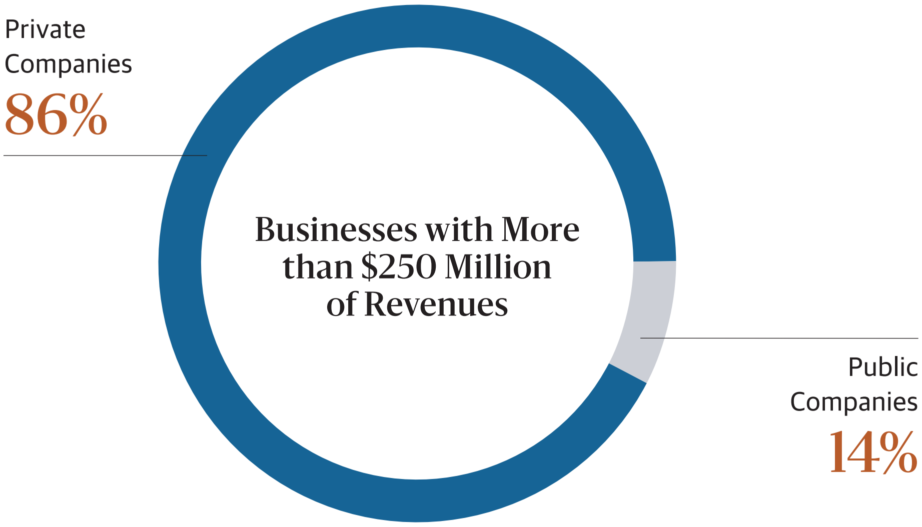
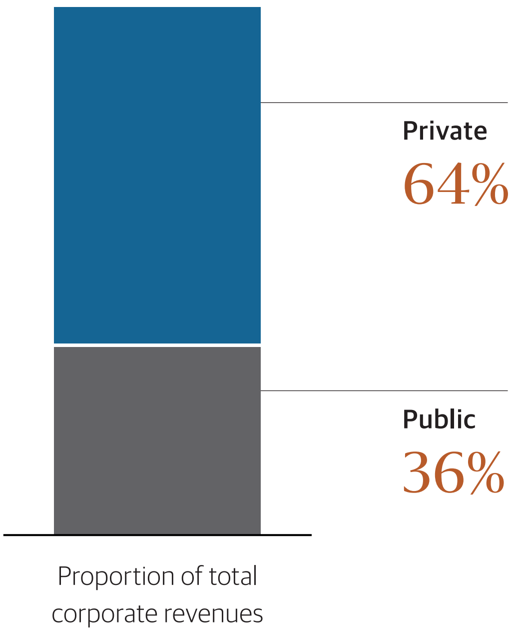


Exhibit 2: Breakdown by Revenues: Private Companies are a Critical Portion of the Global Economy[7]



Allocating to private equity can help investors access the full breadth of opportunities at a time when:

- S&P 500 is concentrated in the largest stocks — the top 5 companies represent more than 20% of the index market capitalization[8]
- High concentration of the technology sector representing 28% of index market capitalization[9]

Investors seeking a more diversified approach in our view should examine exposures beyond large-cap publicly traded equities, such as private equity[10]

7. Capital IQ; based on global data available in Capital IQ's database, August 2023. Measuring companies with revenues of $250 million-plus annually.
8. Morningstar, as of 9/30/2023.
9. Morningstar, as of 9/30/2023.
10. Diversification does not guarantee a return or protect against a loss.

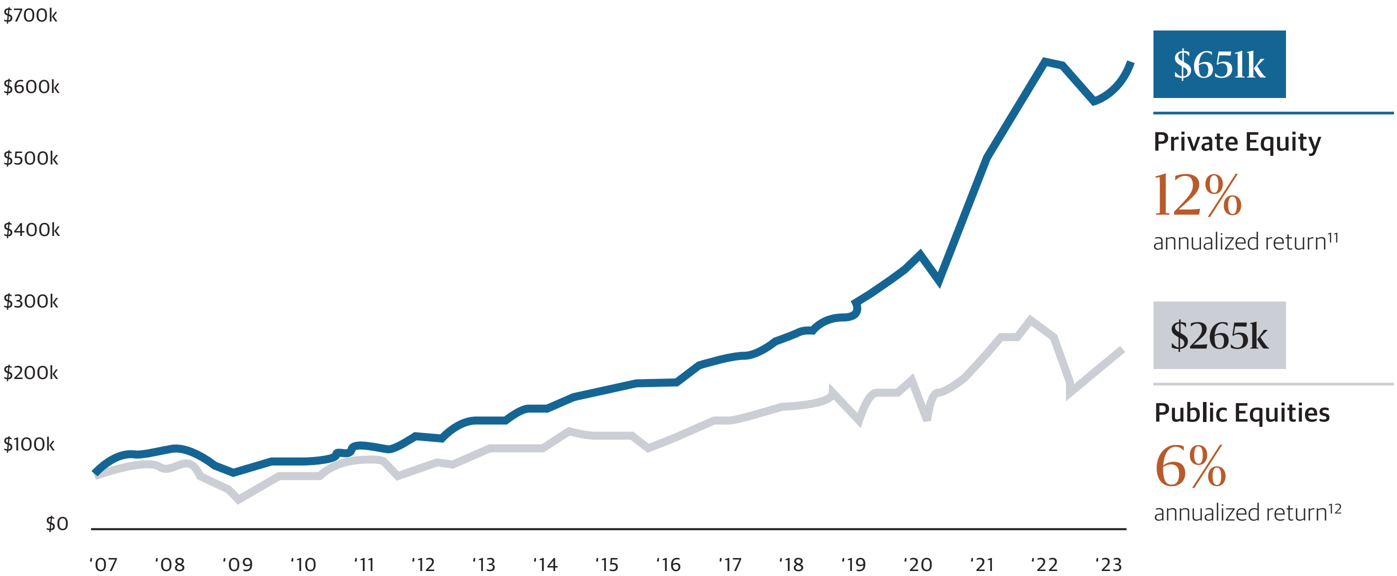
Investing for the Long Run

Private equity has traditionally been an illiquid asset class primarily accessible to institutional investors, such as pension funds and university endowments, who could accommodate the long (typically 7-10+ years) investment horizons that private equity managers need to drive valuation creation.

In exchange for making illiquid investments, investors seek a higher return than they might achieve holding liquid equities. This offset is known as the illiquidity premium. Even with recently available semi-liquid funds designed for individual investors to allow for periodic redemptions, private equity remains an asset class that aims to reward long-term investments. Over time, private equity has delivered meaningful long-term outperformance with less volatility versus public markets (Exhibit 3).

EXHIBIT 3: Private Equity's Historic Outperformance vs. Public Equities

Growth of $100,000 Investment in Private Equity vs. Public Equities, 2007-23

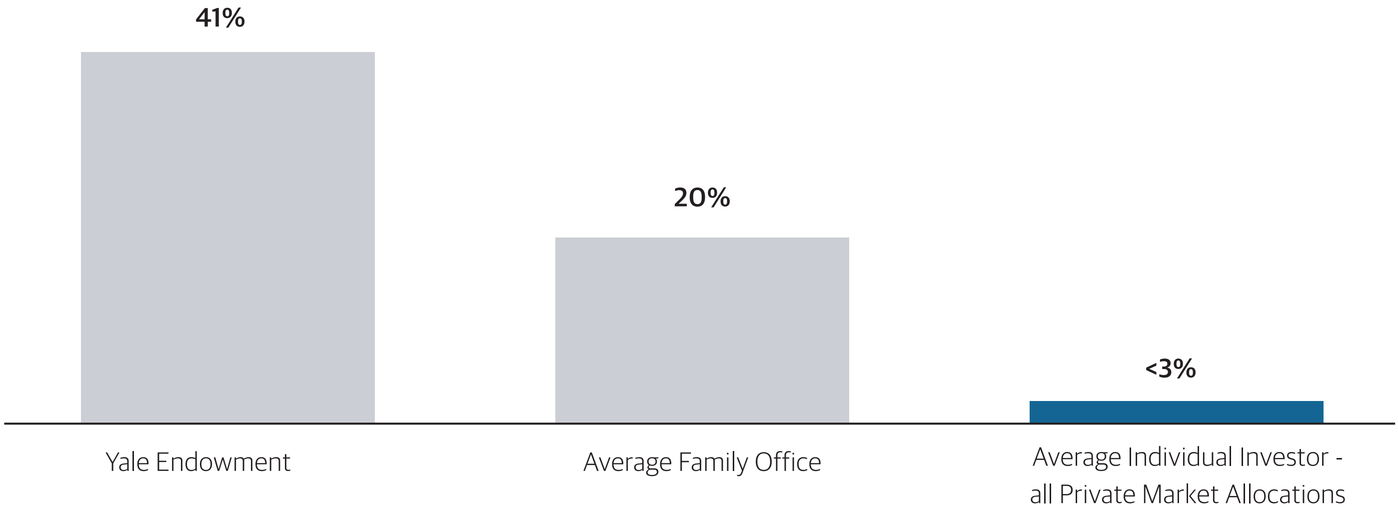


Source: Cambridge Associates, as of March 31, 2023. Note: Growth of $100,000 based on cumulative returns from January 1, 2007, to March 31, 2023, in order to capture performance throughout the Global Financial Crisis. **Past performance does not predict future returns**. "Private Equity" is represented by the pooled returns of the blended Cambridge Private Equity Index, which is comprised of buyout funds, secondary funds, and growth equity funds. "Public Equities" are represented by the Cambridge Modified Public Market Equivalent ("PME") analysis of the MSCI ACWI Index. Comparisons of private equity performance to an index is therefore based on the difference in performance between Cambridge Private Equity Index IRR and the hypothetical PME return of the applicable public index. Hypothetical PME index performance may differ materially from the performance of such index during the same time period on account of the adjustments made for the timing of cash flows as per the PME analysis. Returns shown above have been compounded quarter over quarter to show comparison over time and may not be representative of actual historical returns experienced by investors in either Private Equity or Public Equities. See Endnote i for additional information on the PME calculation methodology. Indices are provided for illustrative purposes only, and there are significant risks and limitations to relying on comparisons to an index, including the PME adjustments. See "Important Disclosure Information" including "Index Comparison" and "Index Definitions." Notes 11 & 12: Returns are annualized and net of fees.

11. Returns are annualized and net of fees.
12. Annualized returns are presented on an annualized basis over the time period from January 1, 2007 to March 31, 2023.

Private Equity: A Core Allocation

Exhibit 4: Institutional Investors Have Long Made PE a Core Part of Their Portfolios



Note: All allocations are as of 2021 except for Yale University Endowment, which is a 2021 target allocation, the latest available, as of 2021. Yale University Endowment selected as the most widely followed US university endowment. Private equity allocation includes "leveraged buyouts" and "venture capital." UBS Global Family Office Report 2021. Private equity allocation is only representative of family offices in the US Mid-to-low single digit industry average alternatives allocation estimate is based on Money Management Institute, "Retail Distribution of Alternative Investments," 2021. <3% Average Individual Allocation source: Bain & Company, "Global Private Equity Report," 2023.

Private Equity Strategies in Focus

Five widely recognized types of private equity

Type	Description
Buyout	Established companies typically with a controlling interest; capital appreciation as primary objective
Growth	Seeking the next major growth opportunities. Often early in a company's life cycle, but more mature than venture capital. Capital appreciation as primary objective
Secondaries	Negotiated purchase of existing private equity fund stakes often at a discount to fair value; typically a shorter period of time until return of capital compared to primary private equity
Opportunistic	Investing across a range of asset classes, sectors, industries, geographies and places in the capital structure. Typically preferred and structured equity investments, asset purchases or contractual arrangements seeking yield with a focus on downside protection and less volatile returns
Venture Capital	Financing provided to startup companies and small businesses believed to have long-term growth potential, often provided as early and seed-round funding

Unlocking Value in Portfolio Companies

Private equity managers' value creation capabilities fall into three broad categories:

Long-term business transformation: Managers strive to unlock growth potential over time to take high-performing companies to the next level.

Building a high-caliber management team: Managers can strengthen or reshape management teams in ways that are not possible for most public equity investors.

Synergies across portfolio companies: Large-scale managers can create synergies between portfolio companies by leveraging functional expertise and scale to help improve operating performance.

The value-creation toolkit utilized by private equity managers can include:

13. Diversification does not guarantee a return or protect against a loss.

Refinitiv: Value Creation at Work[14]

Refinitiv is a financial and economic data, news, analytics, and workflow solutions platform carved out from the Financial & Risk division of Thomson Reuters. The overall ~$20 billion corporate carveout was the largest in private equity history at the time.

- Built new product offerings leveraging Blackstone's alternatives experience and leveraged Blackstone's relationships to accelerate sales
- Spun off the electronic-trading subsidiary Tradeweb in a 2019 IPO valued at $18 billion, unlocking value for investors
- Upgraded executive leadership team and streamlined organizational structure
- Refinitiv merged with the London Stock Exchange Group in January of 2021, creating a leading global financial data and infrastructure provider

REFINITIV

LSEG

$20B

one of the largest corporate carveouts in private equity history[15]

Note: As of February 2021, which reflects data as of the date of Blackstone's partial exit. **Past performance does not predict future returns.** There can be no assurance that any Blackstone fund will achieve its objectives or avoid significant losses. The investment shown abovewas made by an existing Blackstone fund and is provided for illustrative purposes only. This example may not be representative of all investments of a given type or of investments generally and it should not be assumed that any Blackstone fund, investment or acquisition will make comparable or equally successful investments in the future. The investment shown above was made by an existing Blackstone fund and is provided for illustrative purposes only.

14. See "Important Disclosure Information" including "Case Studies."
15. Purchase price of Refinitiv at acquisition.

Considerations before Allocating

Ultimately, private market investing means active ownership of less liquid assets, as value creation takes time. Liquidity needs at the total portfolio level are one important consideration before allocating to private equity. In addition, manager selection may be of particular importance given the wider dispersion of returns compared to public markets. Key manager attributes include scale, staying power and a long track record.

Our Insights page consists of timely articles, educational publications and market views.

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Endnote i.
Public Market Equivalent ("PME") methodology replicates the date and amount of cash flows from Cambridge Global Private Equity Index capital calls or distributions in a public market index (i.e., Russell 2000, S&P 500). The hypothetical returns generated by these cash flows then track the public market index performance with the hypothetical PME NAV at the end of a given quarter used for the hypothetical PME Index IRR calculation. Comparisons of Cambridge Global Private Equity Index performance to an index is therefore based on the difference in performance between Cambridge Global Private Equity Index IRR and the hypothetical PME IRR of the applicable public index. Hypothetical PME index performance may differ materially from the performance of such index during the same time period on account of cash flow timing. Indices are provided for illustrative purposes only, and there are significant risks and limitations to relying on comparisons to an index, including the PME adjustments. Please see Important Disclosure Information, including "Index Comparison."

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Index Definitions

Cambridge Associates US Buyout Index: This index is a horizon calculation based on data compiled from US buyout funds formed between 1986 and 2023.

Cambridge Associates US Growth Equity Index: This index is a horizon calculation based on data compiled from US growth equity funds formed between 1986 and 2023.

Cambridge Associates US Private Equity Index: This index is a horizon calculation based on data compiled from US buyout and growth equity funds, formed between 1986 and 2023.

Cambridge Associates US Secondaries Index: This index is a horizon calculation based on data compiled from US secondary funds, formed between 1991 and 2023.

MSCI ACWI: The index measures the performance of the large and mid cap segments of all country markets. MSCI World Real Estate Index: The index measures the performance of the large and mid cap real estate (industry group) segments of world equity securities. It is constructed using GICS-Global Industry Classification Standard.

Russell 2000 Index: The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. The Russell 2000 Index measures the performance of the small-cap segment of the US equity universe.

S&P 500 Index: The index measures the performance of 500 widely held stocks in the US equity market. Standard and Poor's chooses member companies for the index based on market size, liquidity and industry group representation. Included are the stocks of industrial, financial, utility, and transportation companies. Since mid-1989, this composition has been more flexible and the number of issues in each sector has varied. It is market capitalization-weighted.