JANA
DEPTH WITH DIFFERENCE

# Why Allocate to Private Equity

March 2025

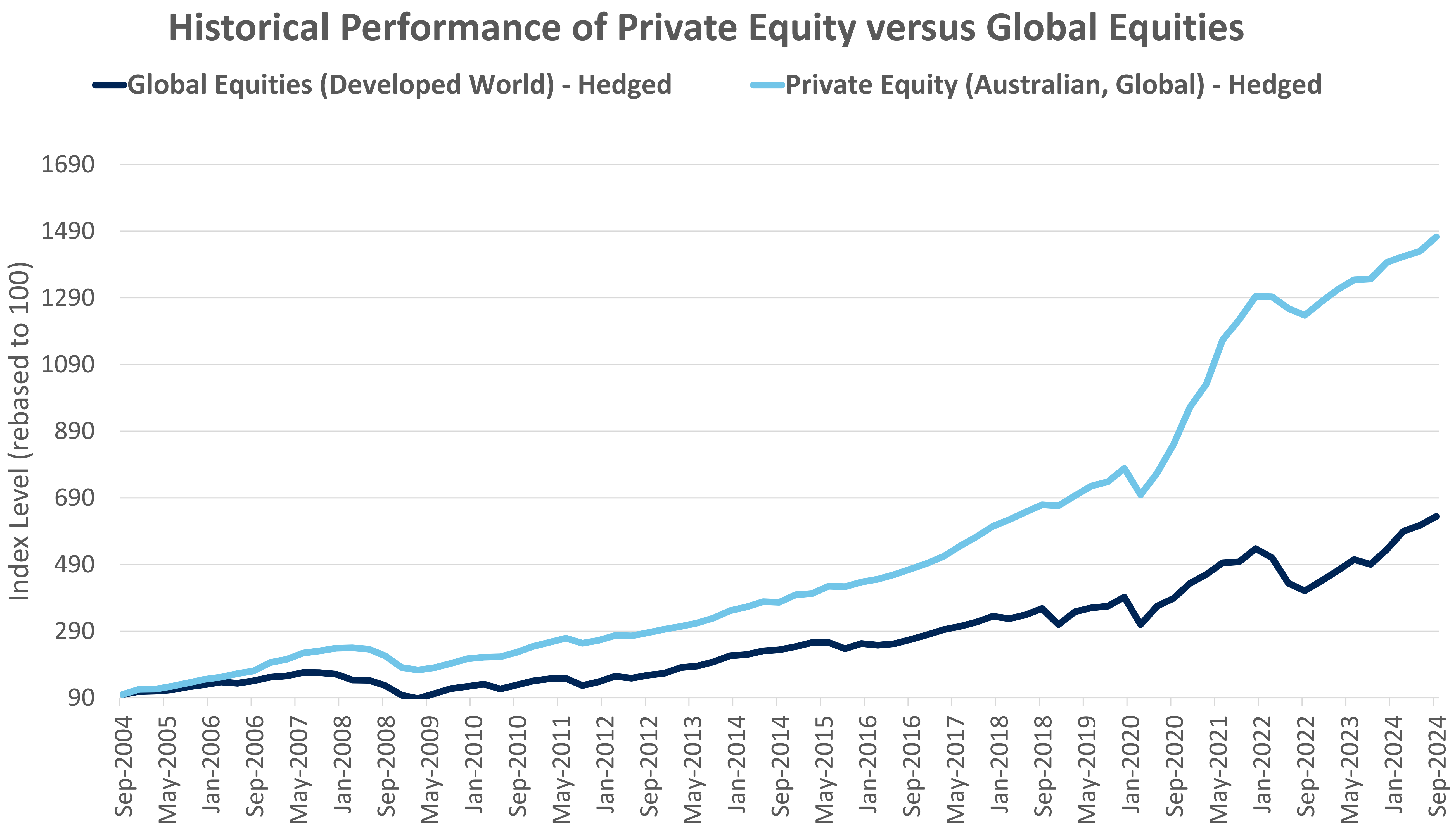
# Why Invest in Private Equity

Private equity investments seek to generate strong returns through operational value-add and market growth.

*Key objectives for investing in Private Equity are the expectation that it will, over the long term, deliver significant upside return potential and diversification benefits.*

## Significant return potential

Over the long-term private equity and venture capital have outperformed public markets, over market cycles and net of fees.




| | Global Equities (Developed World) - Hedged | Private Equity (Australian, Global) - Hedged |
|---|---|---|
| Annual Return | 9.7% | 14.4% |
| Annual Volatility | 15.7% | 9.7% |
| 5% CVaR | -18.3% | -10.2% |
| GFC Drawdown | -46.9% | -24.9% |

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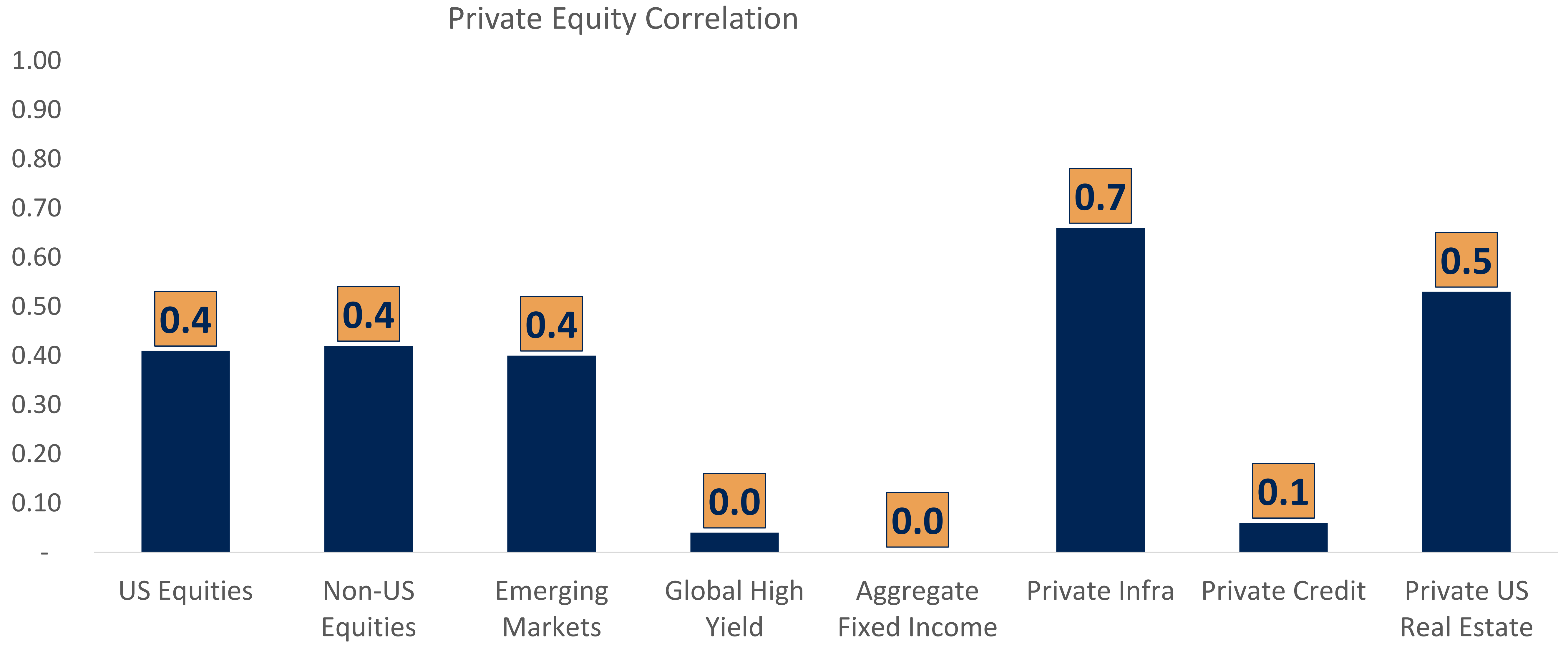
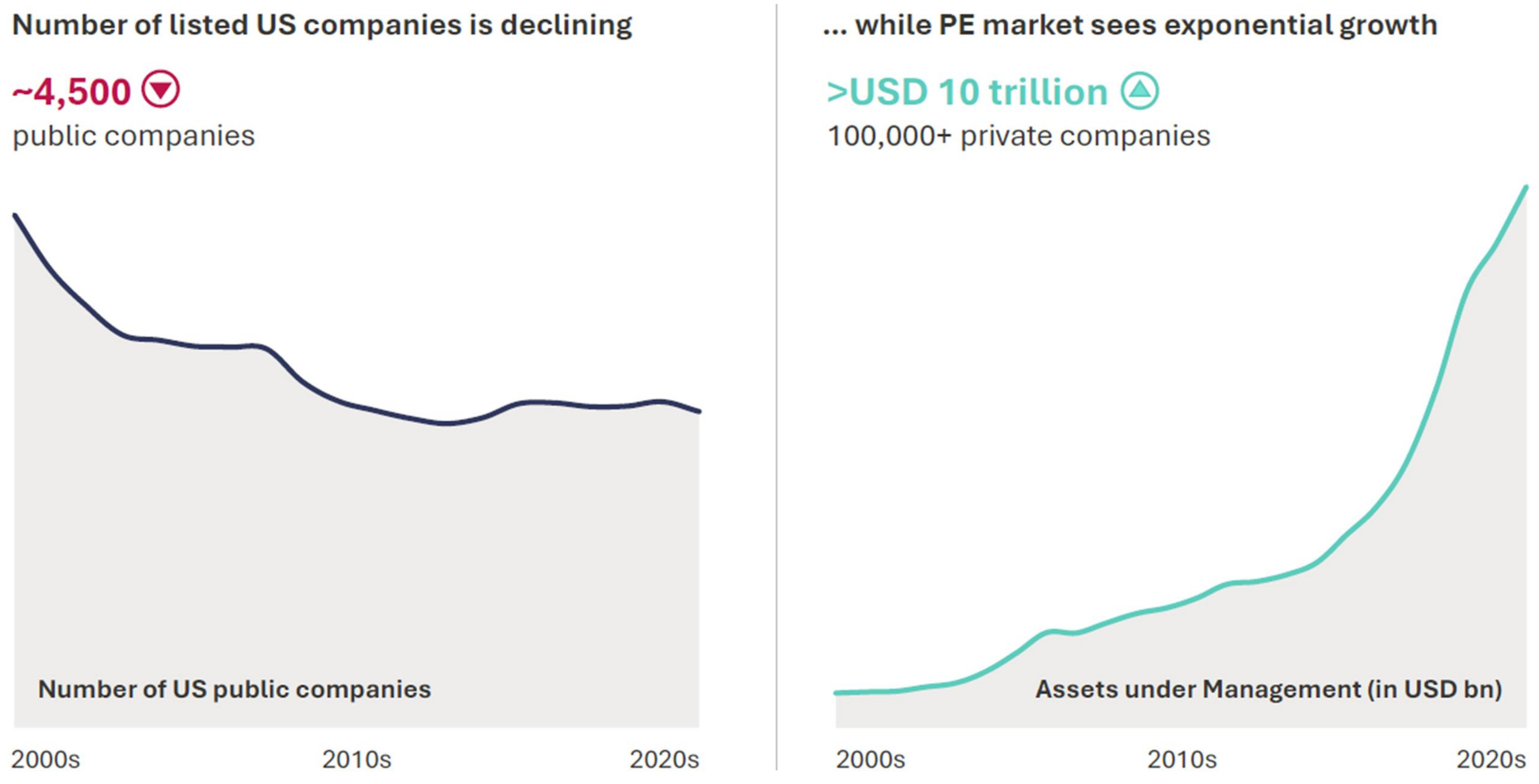
## Diversification benefits

### Lower volatility and uncorrelated




### Large Opportunity Set: Companies are staying private for longer




OpenAI
databricks
Revolut
FLEET
PsiQuantum
Canva

Source: LGT

# Why Invest in Private Equity

**Better return outcomes** and **lower volatility** based on historical returns.

**Better returns for same level of risk** based on forward looking modelling.

## Historical Returns – 20 Years (2004 – 2024)

| | Equities/Bonds/ Cash | 10% PE Allocation |
|---|---|---|
| Annual Return | 8.1% | 8.7% |
| Annual Volatility | 10.0% | 9.4% |
| 5% CVaR | -11.2% | -10.4% |
| GFC Drawdown | -29.9% | -28.2% |

## Forward Looking Modelled Returns

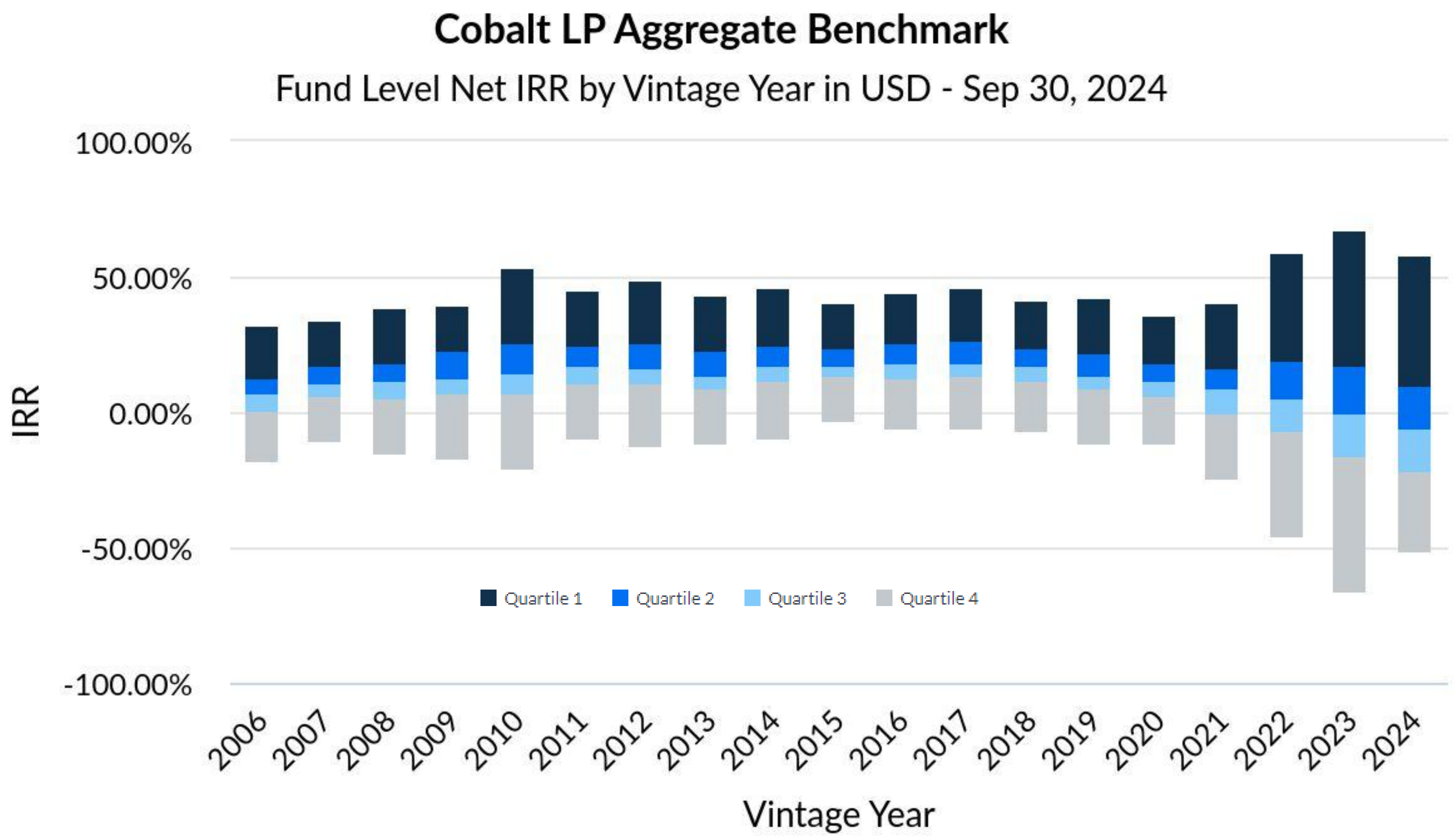
| | Equities/Bonds/ Cash | 10% PE Allocation |
|---|---|---|
| Annual Return | 5.9% | 6.3% |
| Annual Volatility | 10.8% | 10.8% |
| Probability of achieving CPI + 3% objective over 10 years | 56% | 63% |

Note the listed portfolio is 75% growth assets (30% AE and 45% GE 50% hedged, 15% bonds and 10% Cash. The 10% PE version reduces AE and GE by 5% each Modelled returns utilise JANA Solve, and refer to JANA's medium term 'market aware' assumptions as at December 31, which reflect the current valuation environment. .

# Manager Selection is Very Important in PE

## Wide dispersion in performance of managers / funds. Manager selection is crucial.

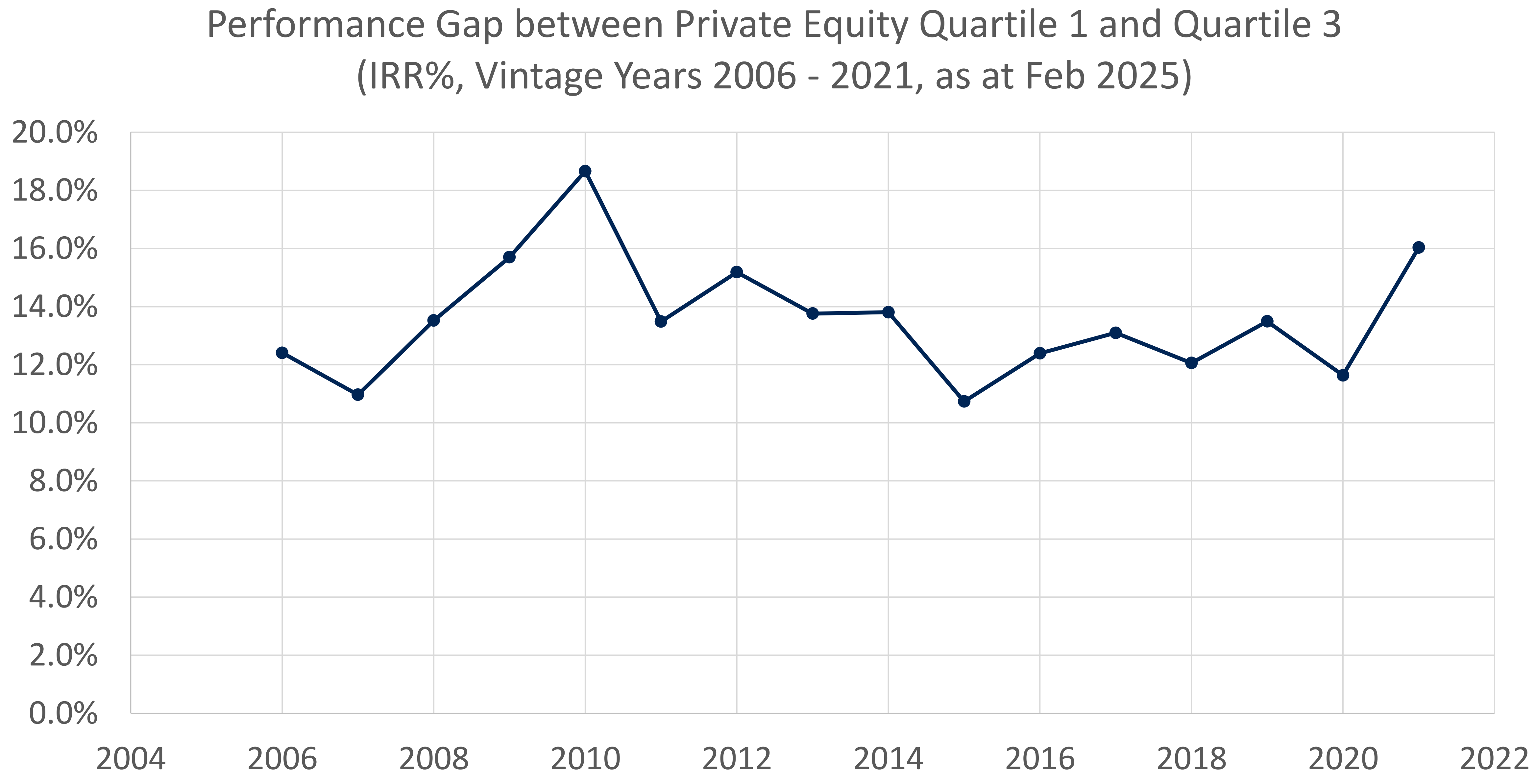
### Private Equity Net IRR Performance by Quartile




Source: Hamilton Lane, PitchBook, FactSet

Asset Class / Strategy includes Private Equity. Style/Focus includes Venture Capital, Growth Equity, Buyout, Fund of Funds, Secondaries, Co-Investment. Geography includes Global, North America, Europe - Western, Asia - Developed. Vintage Year includes 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, None.

### PE IRR Performance – Quartile Dispersion




The performance dispersion between a 1st and 3rd quartile private equity fund is, on average, ~13%. This exceeds the performance gap in active global listed equity managers

# Private Equity Characteristics

## High return potential, diversification and lower volatility; however, there are liquidity, access and fee considerations

### Key Drivers

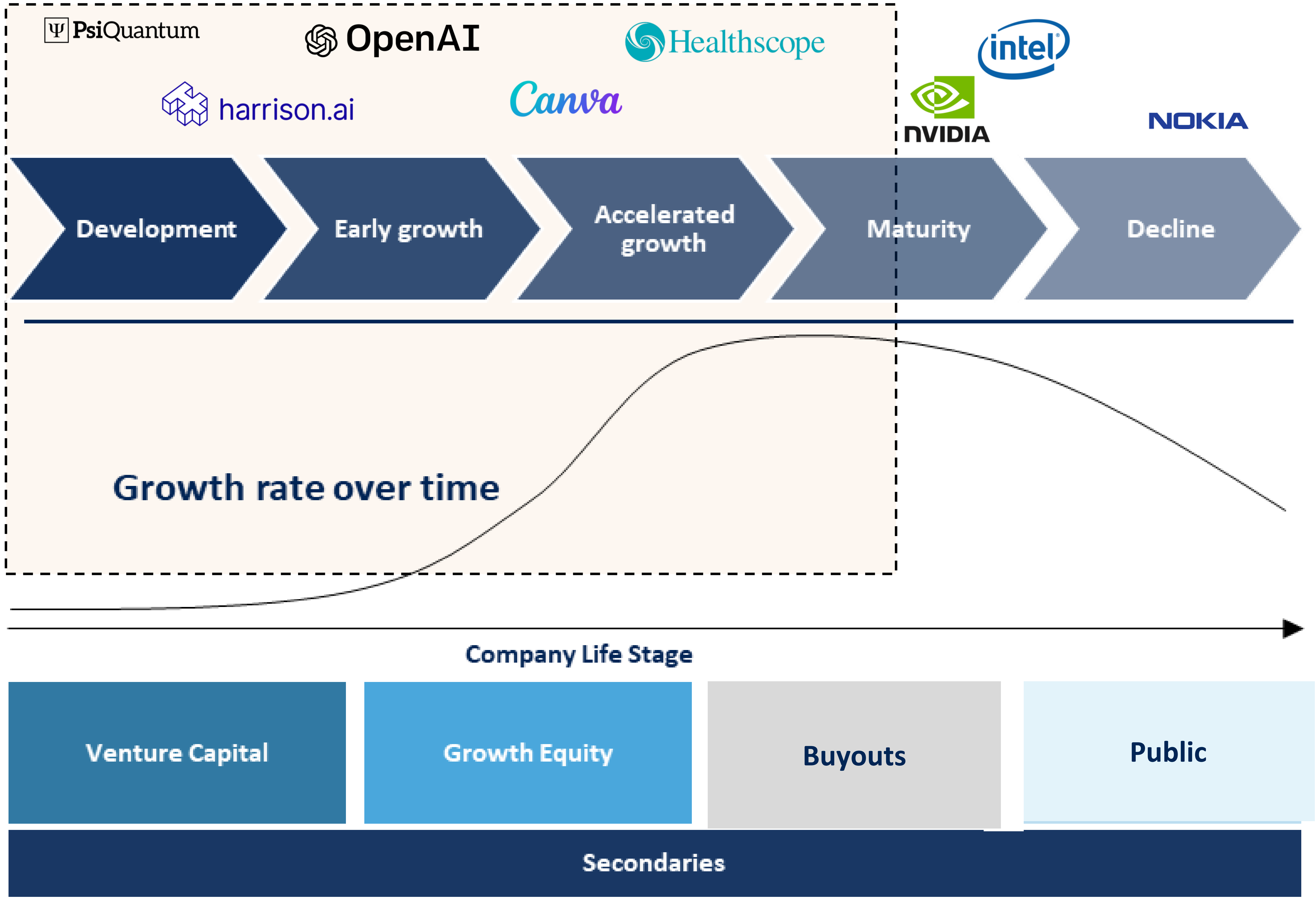
| | |
|---|---|
| **High returns** | Premium to Listed Equities |
| **Diversification** | Improves portfolio risk metrics |
| **Low volatility** | Not subject to daily price swings. <u>However, this does not mean lower risk.</u> |
| **Unique access** | Less efficient market with pricing discrepancies |

### Considerations

| | |
|---|---|
| **Illiquidity** | Need to lock up capital within illiquid vehicles. |
| **J-curve effect** | Takes time before returns and cashflows are received by investors. |
| **High fee structure** | Higher fee structure; typically, 1.5-2.0% management and 20% performance fee. |
| **Barriers to entry** | Large minimum commitment sizes.<br><br>More complexity involved than listed markets. |

# Opportunities Across The Private Equity Lifecycle

## Large Opportunity Set From Start-ups to Mature Companies




- **Venture Capital** –High risk, high reward. "Invest in where the world is going".
- **Growth Equity** – Successful VC companies ready for expansion.
- **Buyouts** –Established business. 'Traditional' PE – often family owned and ready to take the next step, or public companies being taken private.
- **Secondaries** – Sale of interests from one investor to another.

# Accessing PE – Different Vehicle Structures

**Three main types of vehicles to build a PE program.**

- **Fund of Funds (closed-ended)**
- **Direct PE Funds (closed-ended)**
- **Open-ended PE Funds**

**A combination of these structures can be used to build a Private Equity program.**

## Main investment structures to access private equity investments

| | Fund of Funds (closed-end) | Direct PE Funds (closed-end) | Open-ended PE Fund (evergreen) |
|---|---|---|---|
| Approach | • Fully outsourced model – investment and implementation.<br>• Well-diversified portfolio.<br>• Long drawn capital deployment (4-8 years) due to the nature of fund of funds structure.<br>• Must continually allocate to new funds due to closed-ended nature. | • More concentrated exposure.<br>• Investor has more control over portfolio allocations.<br>• Capital is draw down over the investment period (~4 years).<br>• Must continually allocate to new funds. | • Provides diversification<br>• Capital is fully drawn and invested immediately.<br>• Opened-ended PE funds provides limited liquidity to investors; hence can be used as PE proxy or funding source. |

# Accessing PE – Different Vehicle Structures

| | Fund of Funds (closed-end) | Direct PE Funds (closed-end) | Open-ended PE Fund (evergreen) |
|---|---|---|---|
| **Pros** | – Greater diversification<br>– Fully outsourced investment model | – Better risk-adjusted returns<br>– Relatively lower fees<br>– Greater flexibility and control<br>– Fee free co-investments option | – Minimal J-curve and blind pool risk<br>– Immediate exposure to PE<br>– **Semi liquid strategy**<br>– Minimal operational and administrative burden<br>– Fully outsourced investment and operation model |
| **Cons** | – Higher fees given fund of funds fees<br>– Over-diversification may reduce alpha<br>– Needs ongoing commitments to new funds<br>– Blind pool risk and significant J-curve effect<br>– Prolonged time to get fully invested in PE<br>– **Illiquid** | – Need a lot of capital to build a diversified portfolio<br>– Prolonged time (+5 years) to get fully invested in PE<br>– Needs ongoing commitments to new funds<br>– Blind pool risk and J-curve effect<br>– Significant operational / admin burden<br>– **Illiquid** | – Higher fees given fund of funds fees<br>– Over-diversification may reduce alpha |
| **Comments** | – **Suitable for smaller investors**<br>– ***Key challenges*** with this model are the relatively high fees, significant J-curve, illiquidity | – **Suitable for larger investors**<br>– ***Key challenges*** with this model are relatively large capital commitments, and need for internal resources for investment, operation and administration tasks | – **Suitable for smaller investors**<br>– ***Key challenges*** with this model are the relatively high fees |

# Where Do JANA See the Opportunities in PE?

**GP led (Direct) secondaries**

- Involves PE managers buying company equity from other PE managers.
- The segment has appeared attractive due to limited liquidity and exit activity.
- This environment allows investors to negotiate better terms and pricing.

**Small to mid-market buyouts**

- Better pricing in the small to mid-market buyout segment is due less competition, greater scope for operational improvements and multiple exit routes. This segment offers a greater runway to achieve returns.
- With a subdued market over the last 2 years, there are more attractive valuations to take advantage of.

**Venture – follow-on and secondaries/ Pre-IPO**

- Attractive VC opportunities, especially in late-stage and growth stages, allow investments in quality VC companies at reasonable pricing.
- Expect more opportunities at attractive valuations in the coming quarters as companies running out of cash will seek additional funding.
- VC secondaries are available at substantial discounts, though stale pricing may obscure the true discount for some assets, requiring greater scrutiny on valuation and discounts. A stabilized macro environment could potentially support IPO's.

# Key Takeaways

- **Private Equity can enhance portfolios and play an important role for clients.**
- **Access opportunities you can't find elsewhere.**
- **Invest from start-ups to mature businesses.**
- **Many ways to access the market, fund of funds, direct strategies and more recently evergreen funds.**
- **Small to mid-market opportunities and Pre-IPO are the most attractive pockets of opportunities in JANA's view**

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