**Diversification for an Overall Investment Portfolio**

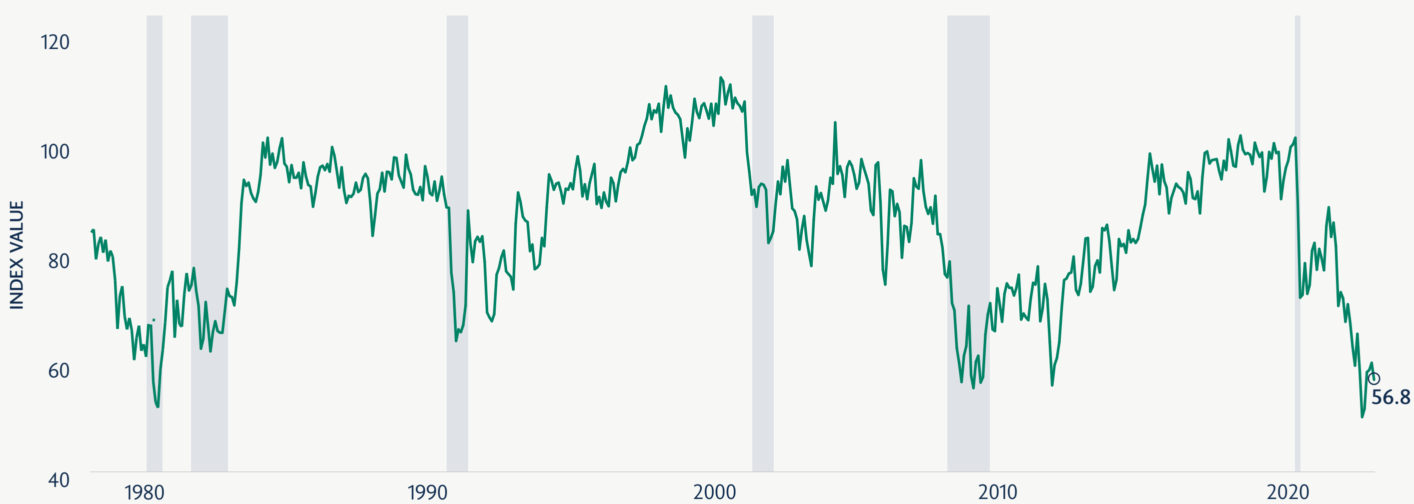
# Why 2023 Could Be a 'Good Vintage' for Private Equity

For most investors, 2022 was a challenging year. War in Ukraine, the U.S. Federal Reserve hiking interest rates and reducing its stockpile of bonds, pandemic-related supply shocks, and the highest inflation in four decades contributed to a highly volatile year in public markets with both stocks and bonds falling.

As if all that were not enough, now the gloomy outlook and recession expectations have made investors pessimistic. As shown in **Figure 1,** consumer sentiment is in a deep trough, lately recovering marginally after falling to levels below even those endured during the Global Financial Crisis (GFC) of 2007-2009. That fear and pessimism is causing investors to hoard cash. The average individual's cash allocation in November was 24%, a level last seen in March 2020 during pandemic lockdowns, according to the American Association of Individual Investors' Asset Allocation Survey.

**Figure 1**
**Consumer Sentiment is at its Lowest Since the Global Financial Crisis**

Index of Consumer Sentiment
**(Monthly)**




As of November 1, 2022.
Source: University of Michigan.

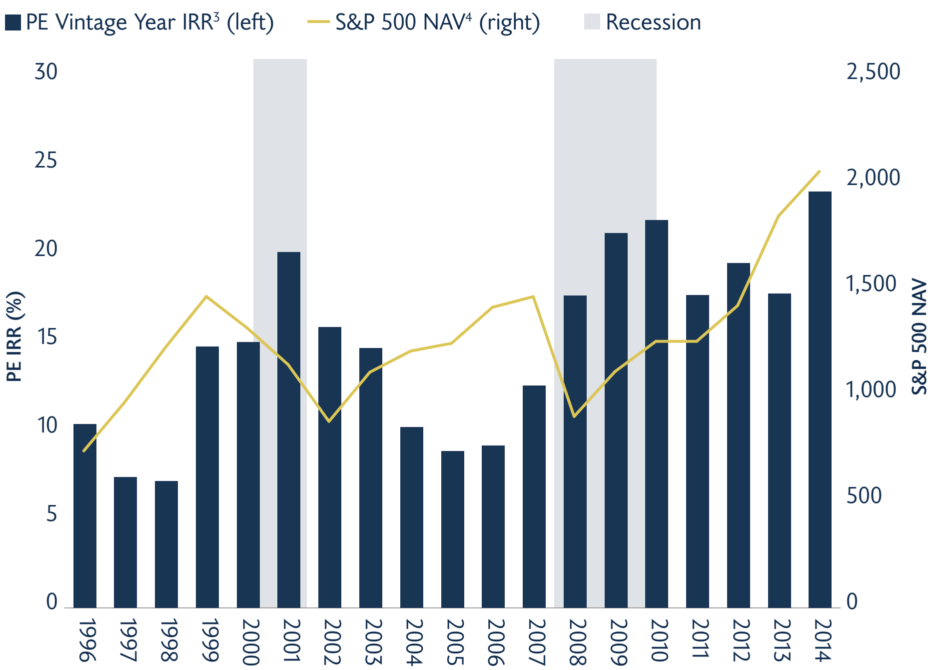
While it may be tempting to de-risk by holding cash in challenging times, Oaktree Capital Co-Chairman Howard Marks says allocating to cash is [almost always the worst choice for an investor.] So, where might investors consider deploying their cash? History suggests that private equity (PE) funds launched during environments similar to the current one have historically performed well, making this a potentially opportune time to invest in PE.[1]

[1] Past performance does not guarantee future results.

Looking at U.S. PE performance since 1996 **(Figure 2)** by vintage (the year a fund first invests capital,) the best-performing funds were those launched during extreme market dislocations or the recessions that followed, such as the bursting of the dot-com bubble (in 2001) and the GFC.

### Figure 2
### U.S. Private Equity Funds Launched During Bear Markets and Recessions Have Generally Outperformed

Comparing Private Equity Vintage Years to Public Equity Performance[2]




As of June 30, 2022.
Source: Cambridge Private Equity Index, Bloomberg.
**Past performance is not a guarantee of future results.**

Contrary to the risk-off behavior evidenced in investors' high cash allocations, we believe that this may be an opportune time to consider an allocation to PE given recession expectations and the recent contraction in valuations and deal activity, particularly with a manager experienced in navigating through multiple market cycles.

### PE Vintage Explained

**Like fine wines that need to age to reach their full value, private equity funds are known by their vintage, the year the fund made its first investment. A fund that invested capital in its first portfolio company in 2012 is a 2012 vintage, regardless of when it began raising capital or made other investments.**

**Since PE is illiquid (meaning investors cannot cash out until the manager achieves a liquidity event or unwinds the fund's underlying investments), performance is not solidified until a fund has matured and most of its investments have been realized. PE funds progress through various stages such as fundraising, sourcing, closing deals, managing and improving portfolio companies, and finally, divestiture and exit. Full terms typically range from 8-12 years. Analyzing PE performance by vintage year allows us to exclude funds that are still in the early stages, while highlighting which market environments produced the best/worst funds.**

[2] Private equity refers to investments in private companies not traded on public exchanges, here represented by the Cambridge Private Equity Index; public equity refers to publicly available exchange-traded stock markets, here represented by the S&P 500 Total Return Index.

[3] IRR stands for Internal Rate of Return, the preferred measure of the annualized return for PE funds.

[4] The Net Asset Value of the S&P 500 Total Return Index. Indices are unmanaged and cannot be purchased directly by investors.

## IMPORTANT DISCLOSURES

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As an asset class, private credit is comprised of a large variety of different debt instruments. While each has its own risk and return profile, private credit assets generally have increased risk of default, due to their typical opportunistic focus on companies with limited funding options, in comparison to their public equivalents.

Because private credit usually involves lending to below investment grade or non-rated issuers, yield on private credit assets is increased in return for taking on increased risk.



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