THE BANKING CRISIS CHANGES THE VIEW IN PRIVATE MARKETS

NEPC Private Wealth

April 2023

Benjamin Graham wrote about the absurdity of trying to forecast the market. So far, events in 2023 have confirmed his wisdom. Early on, rapidly rising rates had economists debating the relative likelihood of recession, soft landing, or no landing. But few suspected that rising rates would expose asset-liability mismatches in bank portfolios, leading to bank closures and disruption in financial markets.

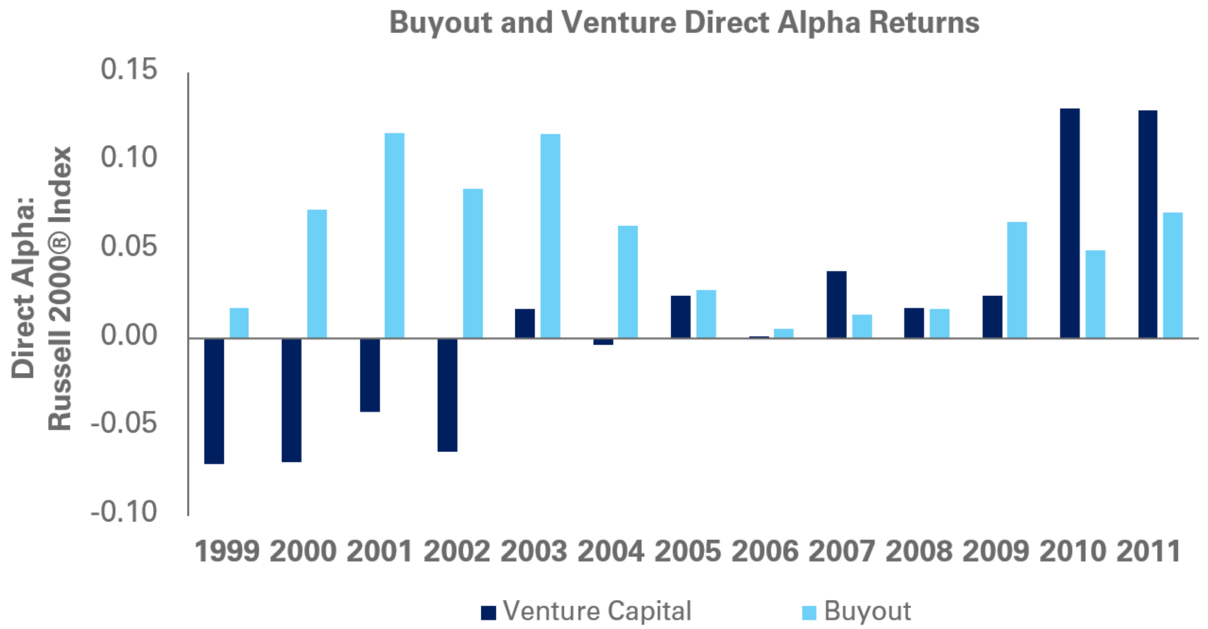
Still, in our opinion, the closures of Silvergate, Signature and Silicon Valley Banks are not as important as the impact those events are having in the wider private equity marketplace. Things have changed, but we think that private markets will continue to present attractive opportunities to investors who understand the risks.

Here are a few considerations for family offices and high-net-worth investors to keep in mind as they partner with advisors to access the private equity market:

1. **Expect less activity well into 2023.** Since June 2022, we have seen downward momentum in valuations with sharp slowdowns in deal activity, and declines in fundraising and exit totals. We believe private markets will continue to reset throughout 2023.

   While this environment brings challenges, such as reduced cash flows and less near-term liquidity for limited partners, it also presents opportunities. Lower valuations will provide attractive entry points. Look for chances to participate in secondary and complex/special situation strategies. We expect established, scaled managers to have a competitive advantage in this market.

2. **Think boldly when others are fearful.** As we have established, no one can accurately predict the future. However, hindsight has shown that committing to deals in difficult market conditions can be advantageous. Historically, recession- and recovery-era vintage years have created some of the best opportunities to deploy capital to private equity. The chart highlights this by showing the annual trend line of excess returns for buyout and venture relative to the Russell® 2000 Index.



Source: Thomson One/C|A as of 06/30/2022. PE Out/Underperformance is shown based on a PME using the pooled cash flows of all funds. 1st Quartile outperformance will be meaningfully higher. PME method is Direct Alpha and benchmark is Russell 2000.

3. **Continue to show your commitment.** Private equity managers tend to favor current investors, so maintaining commitments to fund managers that have performed well is important. We encourage you to strengthen manager relationships by continuing to commit, even if it means writing smaller checks.

   In addition, it may be possible to gain access to quality private equity fund managers who have had limited partners cut back, or fail to re-up, and are working to fill capital raises. This is a valuable opportunity. Even if the amounts are relatively small and/or your allocations are slightly overweight, winning access to previously inaccessible top-tier managers confers a significant advantage that could bolster results over time.

At NEPC, we believe it is important to remain cognizant of market conditions. That said, we encourage investors not to attempt to time their private market investments. In addition, we advocate ensuring your overall investment pool has the appropriate asset allocation to necessary liquid funding sources to meet capital calls and spending requirements.

Please reach out to your NEPC consultant to discuss your private markets portfolio and for any questions you may have.

IMPORTANT DISCLOSURES

Past performance is no guarantee of future results.

All investments carry some level of risk. Diversification and other asset allocation techniques are not guaranteed to ensure profit or protect against losses.

This memo should not be considered customized investment advice. Please contact NEPC for advice specific to your investment program.

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