Navigating the PE Fundraising Cycle:
Are We Out of the Woods?

July 2023

Confidential, Proprietary, and Trade Secret

This confidential presentation (this "Presentation") does not constitute an offer or solicitation by Arctos Sports Partners, its representatives or affiliates (collectively, "Arctos" or the "Manager") in any state or other jurisdiction to subscribe for or purchase any limited partnership interests in the Arctos Fund or any other investment fund.

This Presentation conveys the views and perspectives on financial markets that Arctos holds and is offered for informational purposes only. No aspect of this Presentation is intended as marketing for any particular investment, asset class, or financial product.

Statements are made as of the date on the cover of this Presentation unless otherwise stated and are subject to change. Arctos will not have an obligation to update or otherwise revise such statements or information to reflect information that becomes available or changes after such date.

Executive Summary

We think the supply/demand dynamic for capital to private equity remains unbalanced.

1. Since 2010, private equity fundraising was fueled by financial asset price growth and growing PE allocations. Since 2022, the overhang from the '21 PE Boom has left both fuel sources depleted.

2. The '21 PE Boom saw extraordinary, idiosyncratic returns in private equity (~13% per quarter), driven largely by write-ups.

3. These returns well outpaced public financial assets (stocks & bonds). As public assets have contracted, private equity valuations have remained elevated. This 'excess NAV' overhang persists as of Q2-'23.

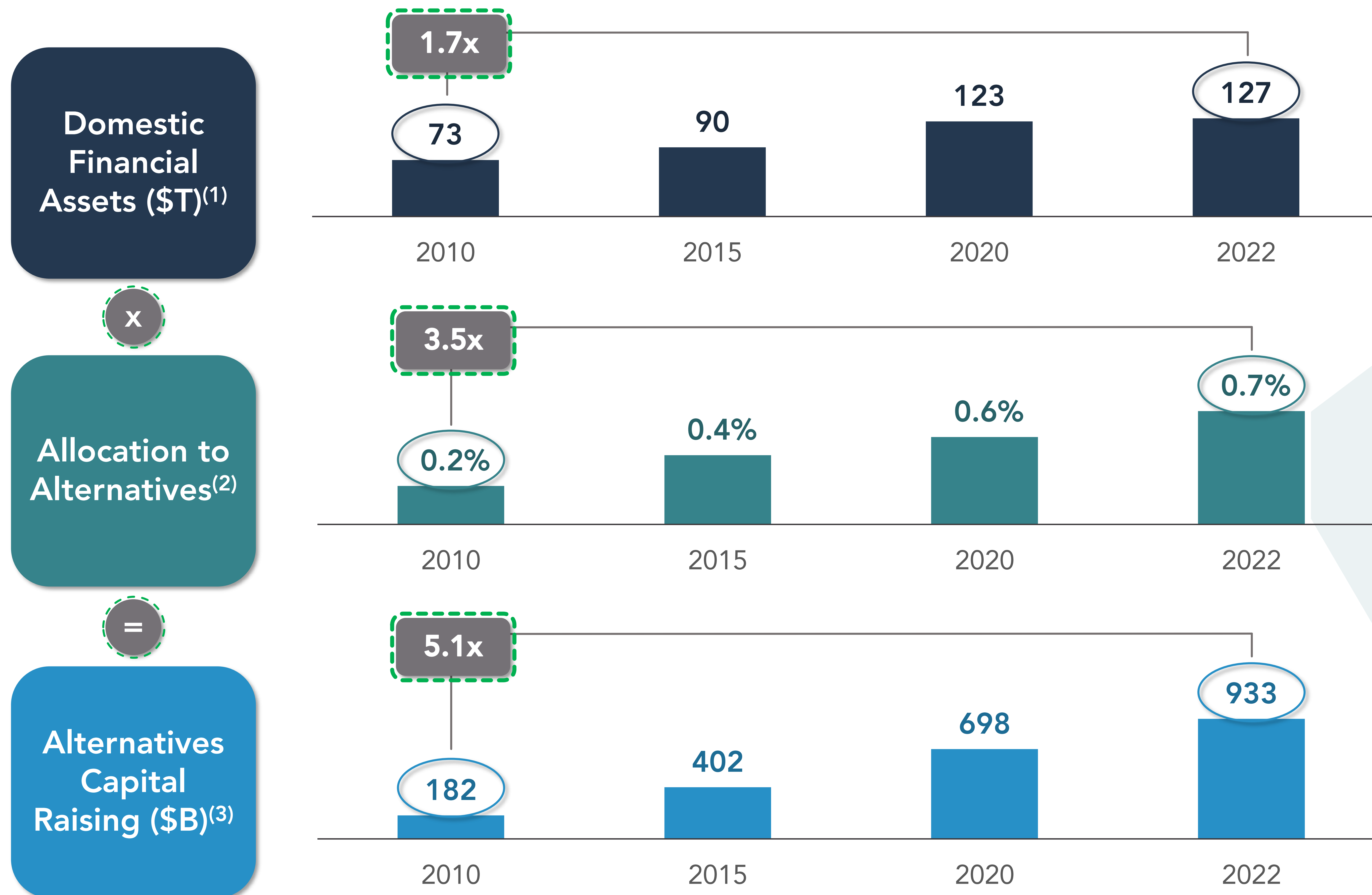
4. To clear excess NAV, we need a mix of write-downs (or low NAV growth), public asset reflation and/or sustained exits, and, most importantly, time. **Absent growth in target allocations, we estimate it could take >3 years to fully clear excess NAV.**

CONFIDENTIAL, PROPRIETARY, AND TRADE SECRET

SOURCE: ARCTOS.
NOTE: THERE CAN BE NO ASSURANCE THAT ANY EXPECTED TRENDS OR DEVELOPMENTS WILL CONTINUE DURING THE LIFE OF ANY FUND. CERTAIN INFORMATION WAS GATHERED FROM THIRD PARTIES WHILE OTHER STATEMENTS REFLECT ARCTOS' BELIEFS AS OF THE DATE HEREOF BASED ON CERTAIN ASSUMPTIONS THAT ARCTOS BELIEVES ARE REASONABLE, BUT MAY PROVE INCORRECT.

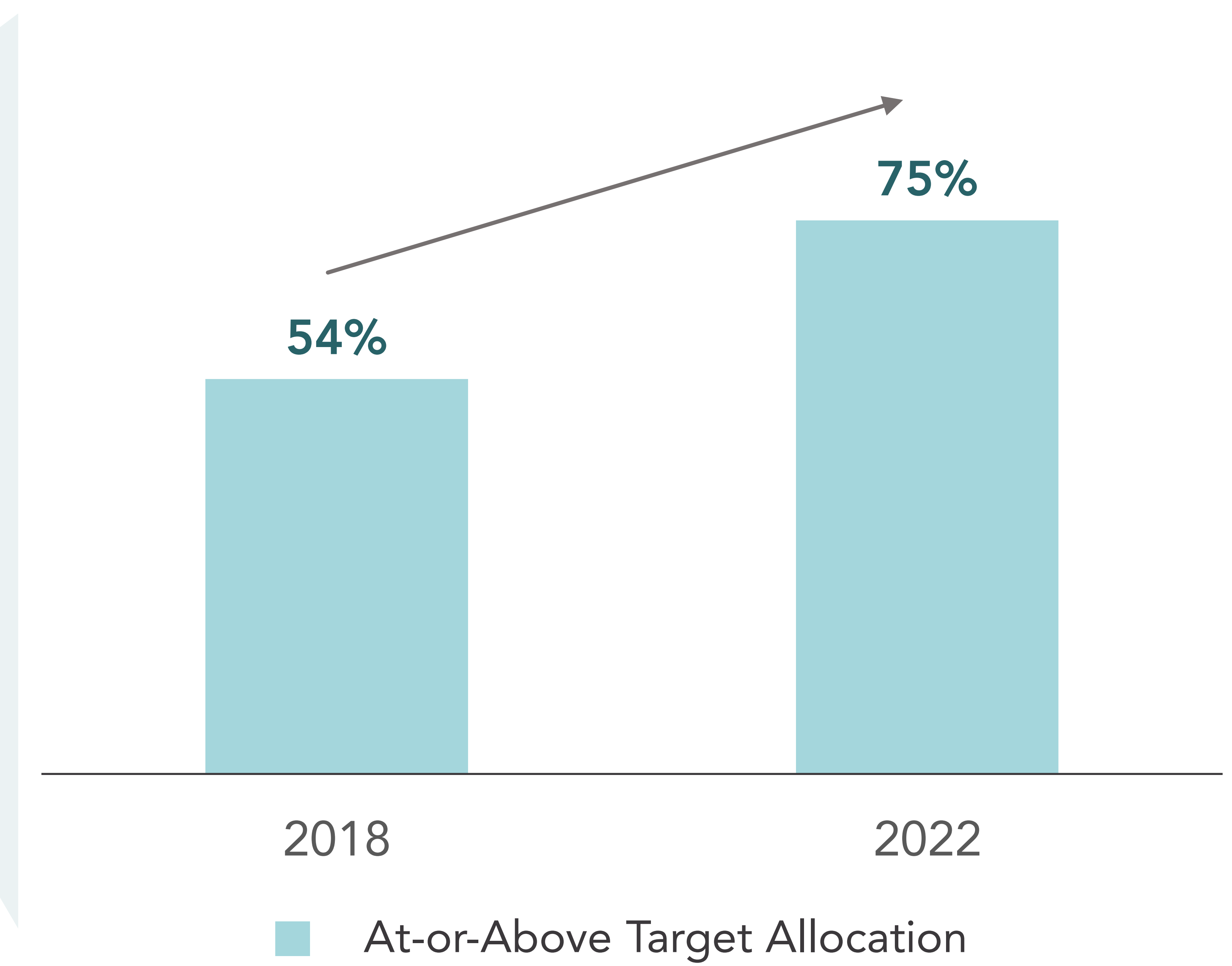
We Believe 'Goldilocks' Period for Asset and Allocation Growth Is Ending

GPs benefited from growth in financial assets and PE allocations; both are now slowing in a saturated market. **To reestablish alternatives AUM growth, allocations would have to double from here.[4]**



Inst'l Investors Close to Target Allocations[5]

LPs at or above target allocation has increased ~40%



(1) FED BOARD OF GOVERNORS, 7.1 FINANCIAL ACCOUNTS OF THE UNITED STATES, AS OF MAY 2023; (2) ARCTOS ANALYSIS BASED ON FEDERAL RESERVE BANK OF ST. LOUIS AND PREQIN, MAY 2023; (3) PREQIN, MAY 2023; (4) HISTORICAL AUM GROWTH OF 14%, AND ASSUMES FINANCIAL ASSET GROWTH IN-LINE WITH HISTORICAL RATES (5%); (5) BUYOUTS MAGAZINE, 2022

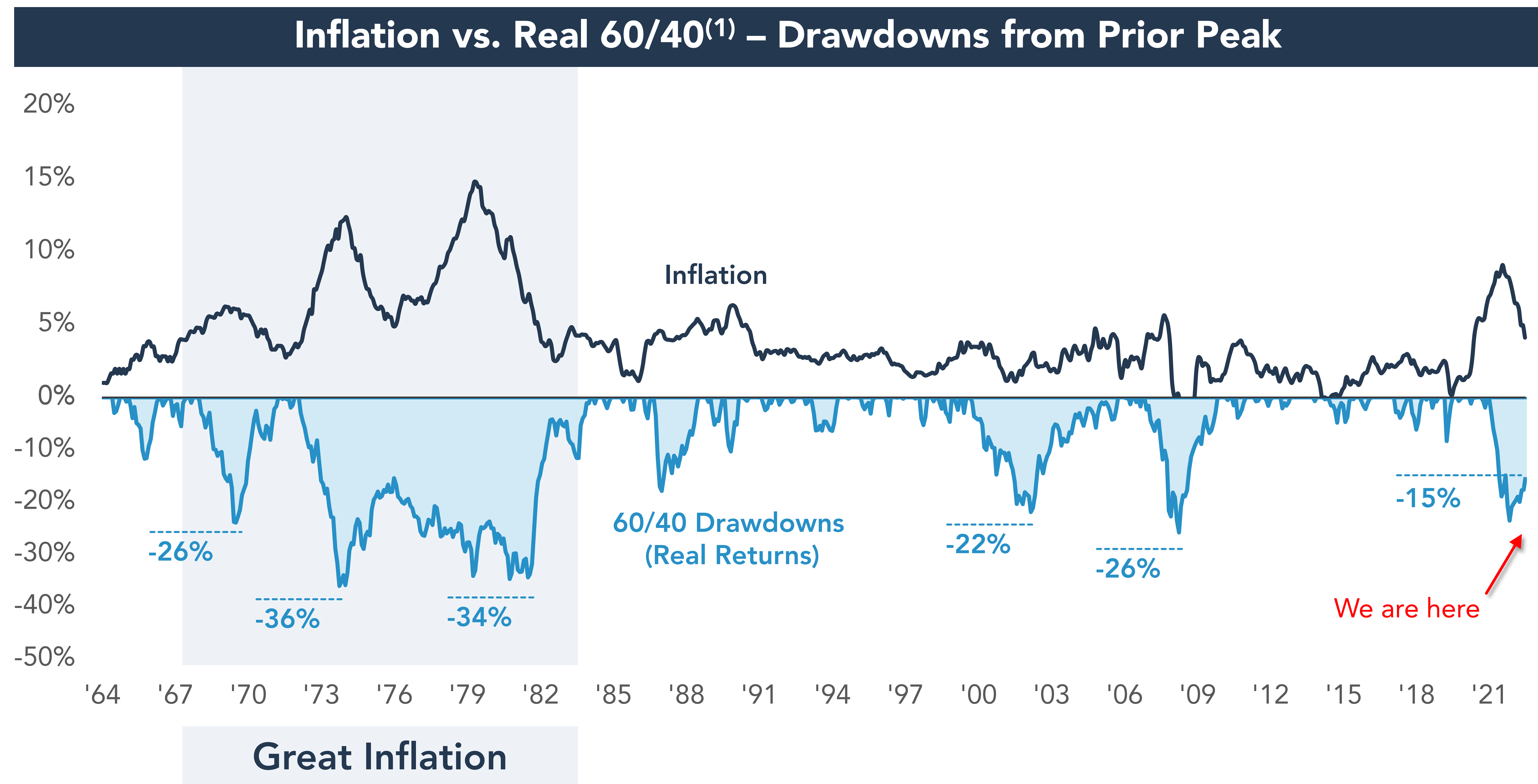
NOTE: THERE CAN BE NO ASSURANCE THAT ANY EXPECTED TRENDS OR DEVELOPMENTS WILL CONTINUE DURING THE LIFE OF ANY FUND. CERTAIN INFORMATION WAS GATHERED FROM THIRD PARTIES WHILE OTHER STATEMENTS REFLECT ARCTOS' BELIEFS AS OF THE DATE HEREOF BASED ON CERTAIN ASSUMPTIONS THAT ARCTOS BELIEVES ARE REASONABLE, BUT MAY PROVE INCORRECT.

CONFIDENTIAL, PROPRIETARY, AND TRADE SECRET

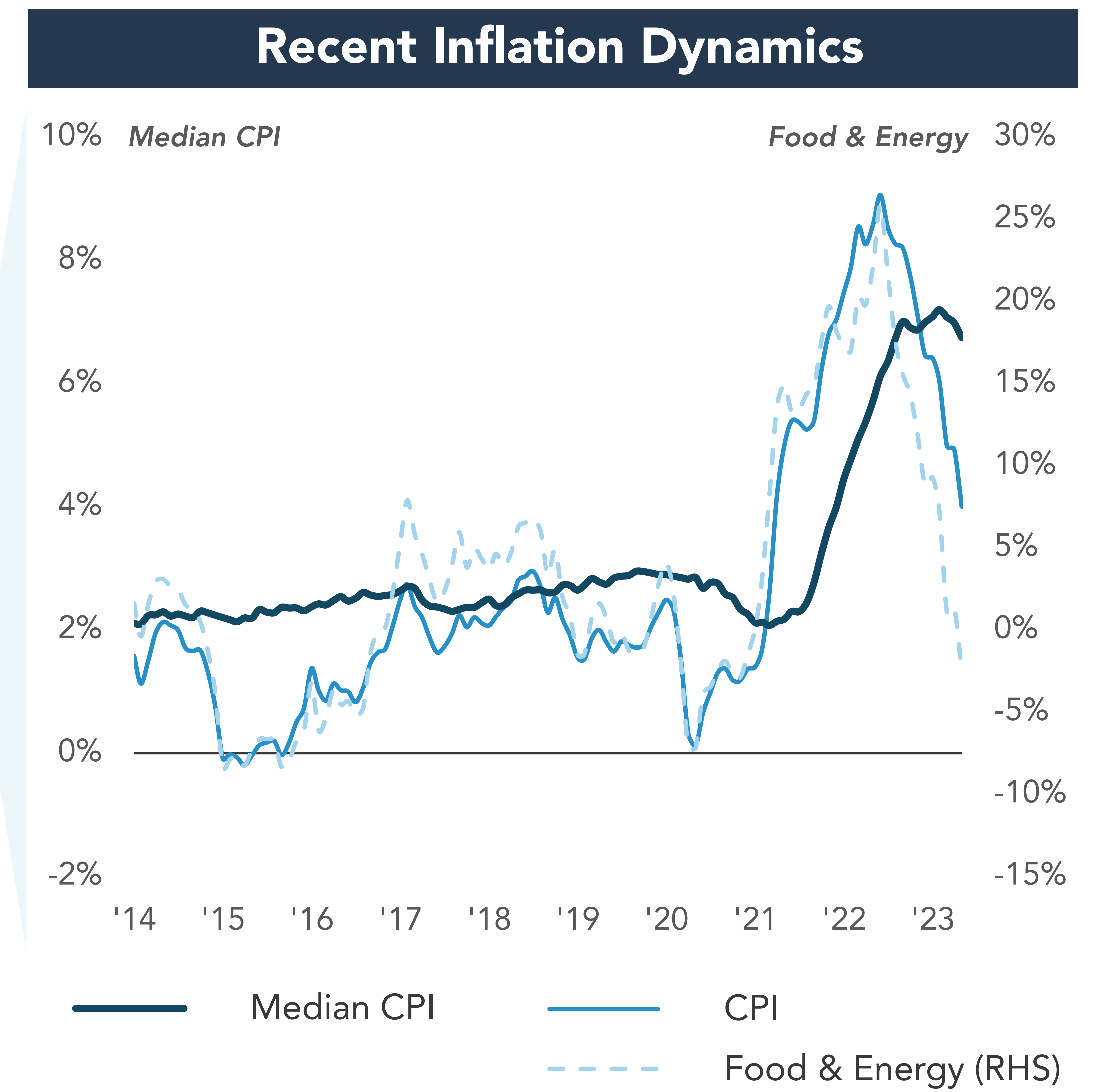
Financial Assets (60/40 Portfolio) Still Down

Despite some cooling of headline inflation, financial asset prices remain depressed in real terms, which we believe is driven by continued structural inflation in several sectors and high long-term rates.

Inflation vs. Real 60/40(1) – Drawdowns from Prior Peak



Recent Inflation Dynamics



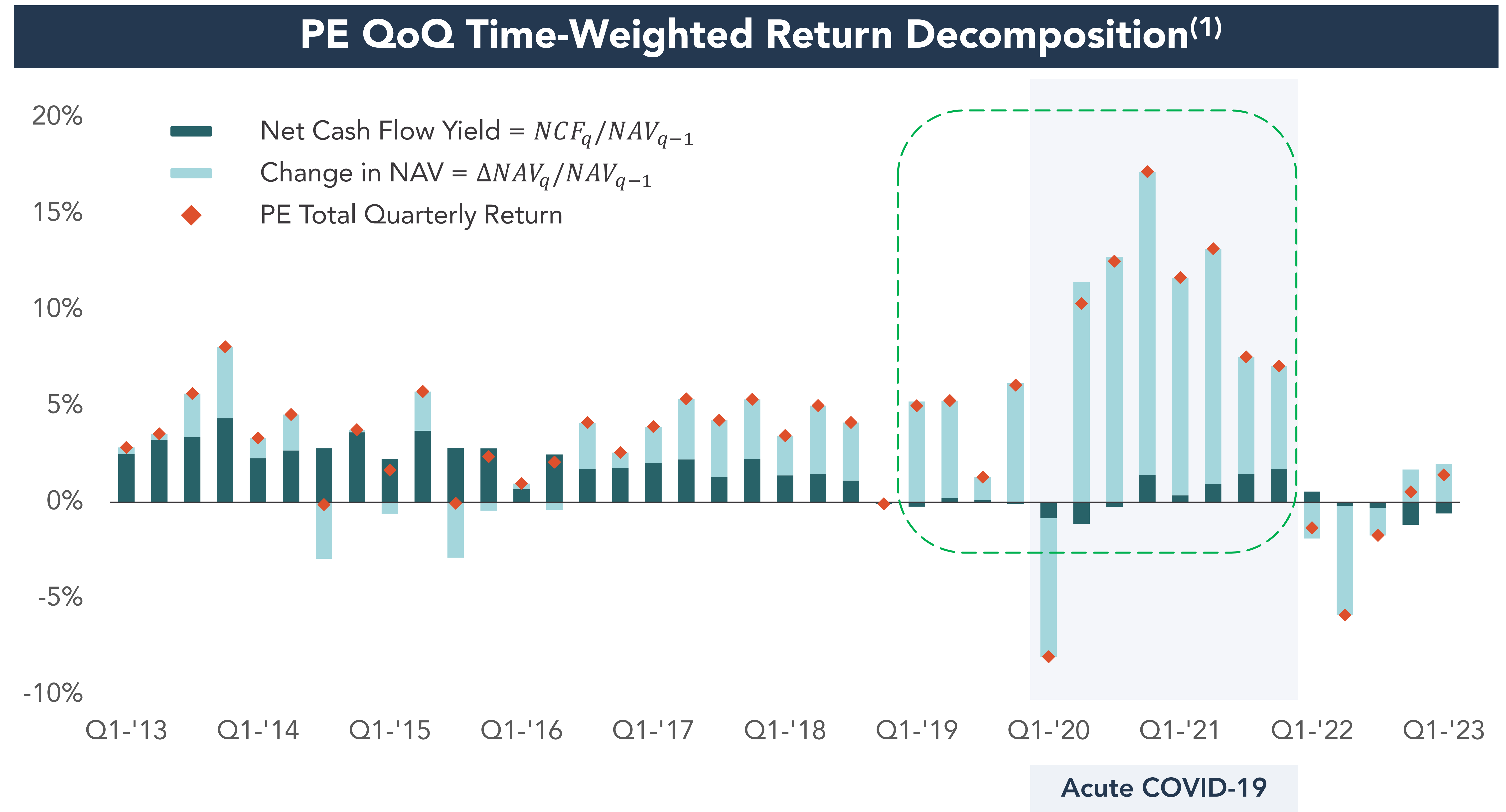
SOURCE: ST. LOUIS FED (CPI DATA), ROBERT SHILLER (HTTP://WWW.ECON.YALE.EDU/~SHILLER/DATA.HTM; STOCK & BOND PRICES), ARCTOS ANALYSIS, AS OF JUNE 2023.
(1) 60% S&P 500 TOTAL RETURN (DIVIDENDS REINVESTED MONTHLY) AND 40% 10-YEAR TREASURY BOND TOTAL RETURNS (COUPONS REINVESTED MONTHLY), REBALANCED ANNUALLY.
CERTAIN INFORMATION HEREIN REFLECTS CURRENT BELIEFS OF ARCTOS AND IS BASED ON A VARIETY OF ASSUMPTIONS AND ESTIMATES THAT ARE SUBJECT TO VARIOUS RISKS. THERE CAN BE NO ASSURANCES THAT ANY OF THE PLANS OR EXPECTATIONS DESCRIBED HEREIN WILL OCCUR AS EXPRESSED OR AT ALL

CONFIDENTIAL, PROPRIETARY, AND TRADE SECRET

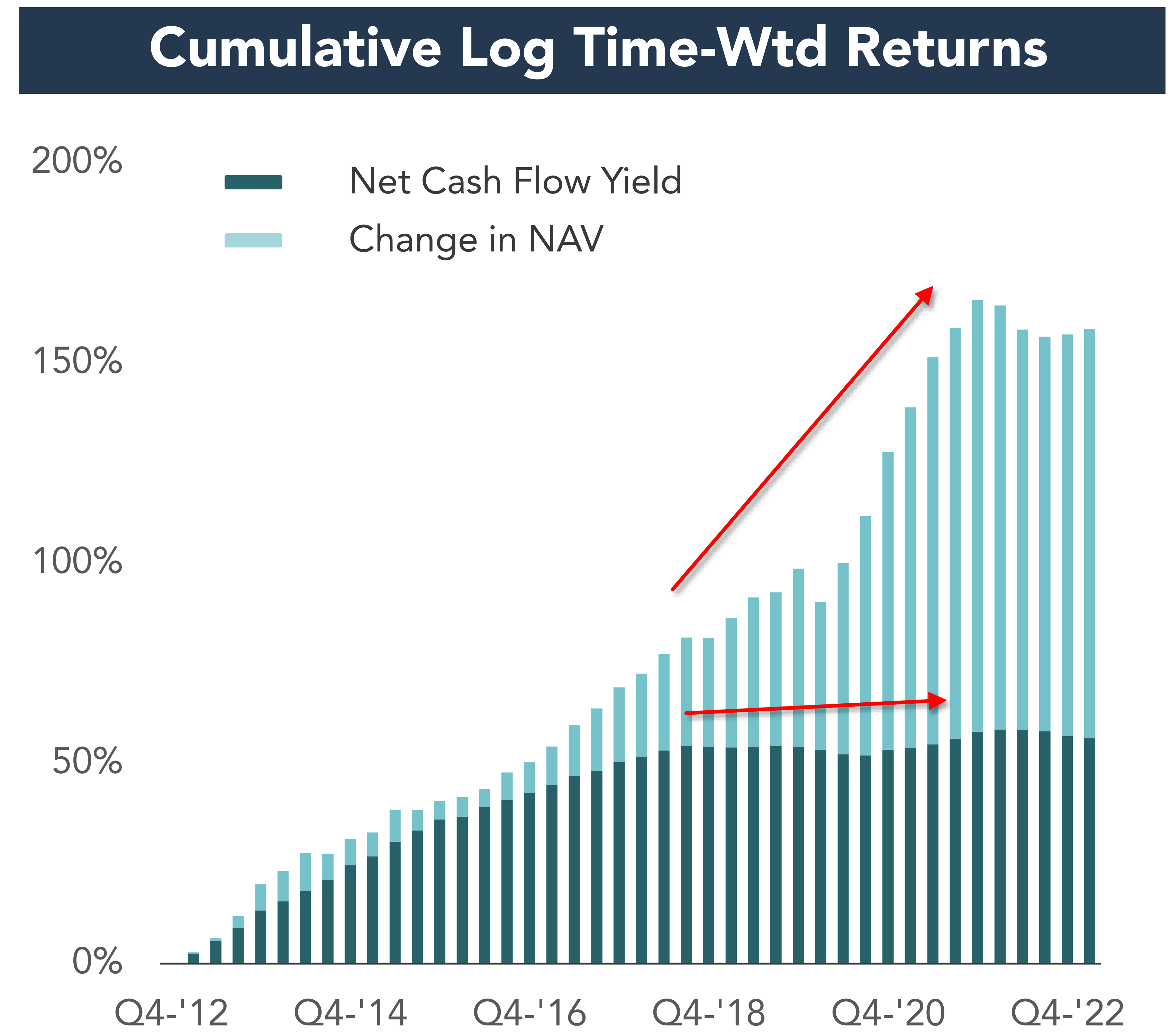
Private Equity Returns During COVID (1/3)

Prior to the correction in the 60/40, private equity returns surged, predominantly due to NAV growth. (Actually, NAV-driven returns began in Q1-2019, before the pandemic.)

PE QoQ Time-Weighted Return Decomposition[1]



Cumulative Log Time-Wtd Returns



CONFIDENTIAL, PROPRIETARY, AND TRADE SECRET

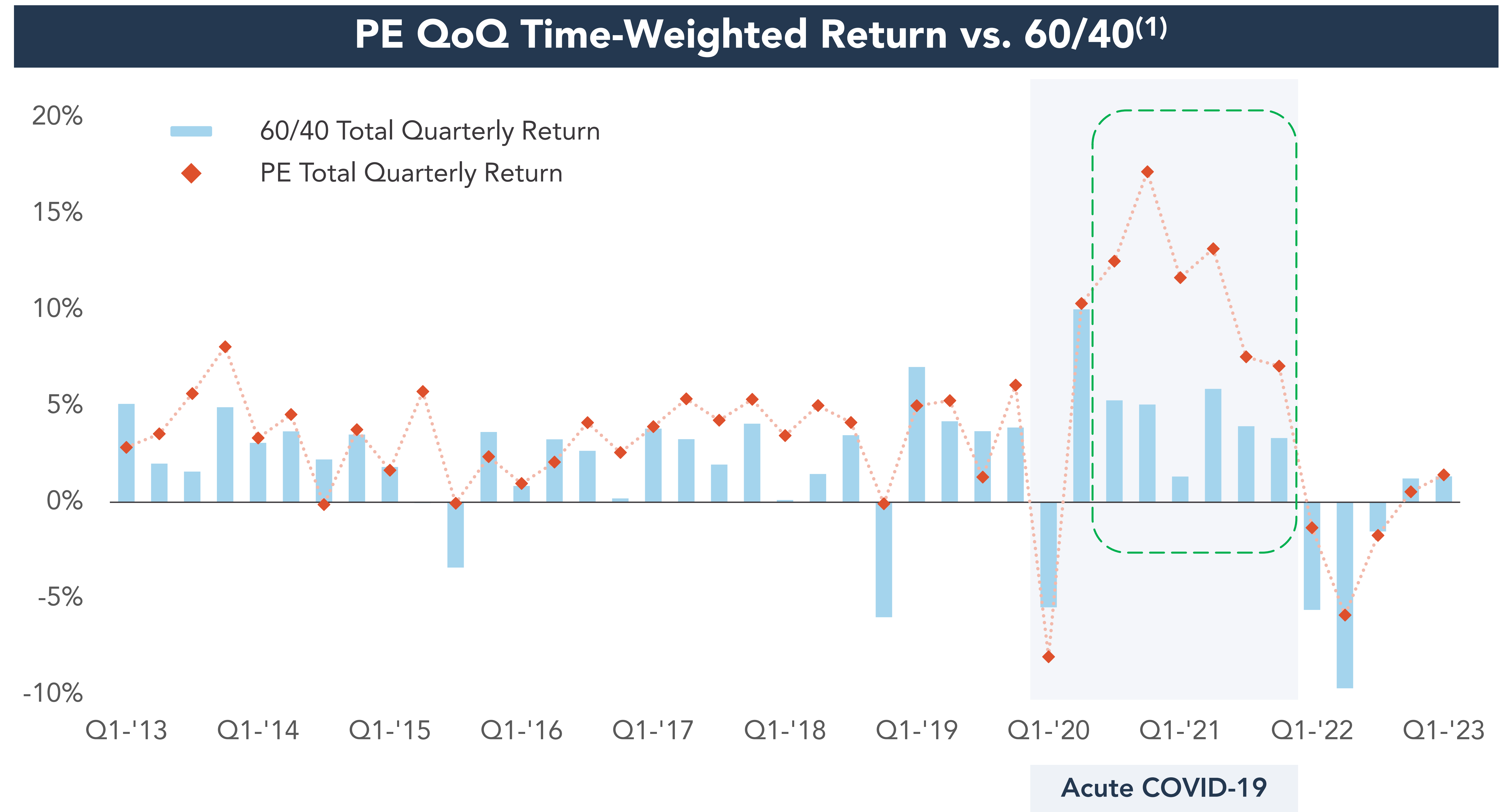
SOURCE: BURGISS (PRIVATE MARKET CASH FLOWS), ARCTOS ANALYSIS; AS OF JUNE 2023. LATEST QTR AVAILABLE IS Q1-2023. (1) NORTH AMERICA AND WESTERN EUROPE BUYOUT, GROWTH, AND VENTURE CAPITAL (EQUITY), VIA BURGISS.

CERTAIN INFORMATION HEREIN REFLECTS CURRENT BELIEFS OF ARCTOS AND IS BASED ON A VARIETY OF ASSUMPTIONS AND ESTIMATES THAT ARE SUBJECT TO VARIOUS RISKS. THERE CAN BE NO ASSURANCES THAT ANY OF THE PLANS OR EXPECTATIONS DESCRIBED HEREIN WILL OCCUR AS EXPRESSED OR AT ALL

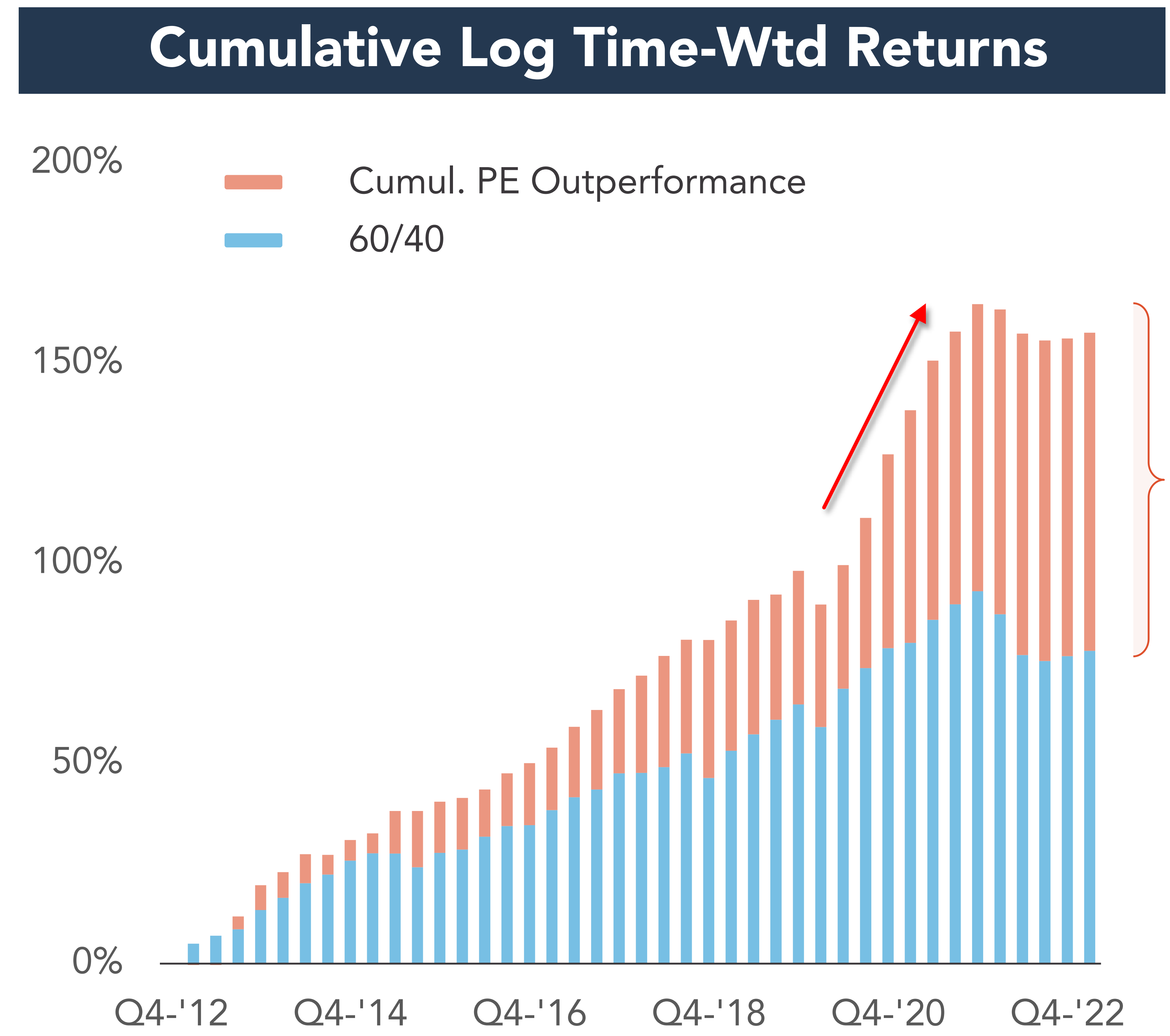
Private Equity Returns During COVID (2/3)

COVID-19 private equity returns dramatically outpaced public asset prices from Q3-'20 to Q4-'21, and there has been no equal-but-opposite negative underperformance since COVID ended.

PE QoQ Time-Weighted Return vs. 60/40(1)



Cumulative Log Time-Wtd Returns

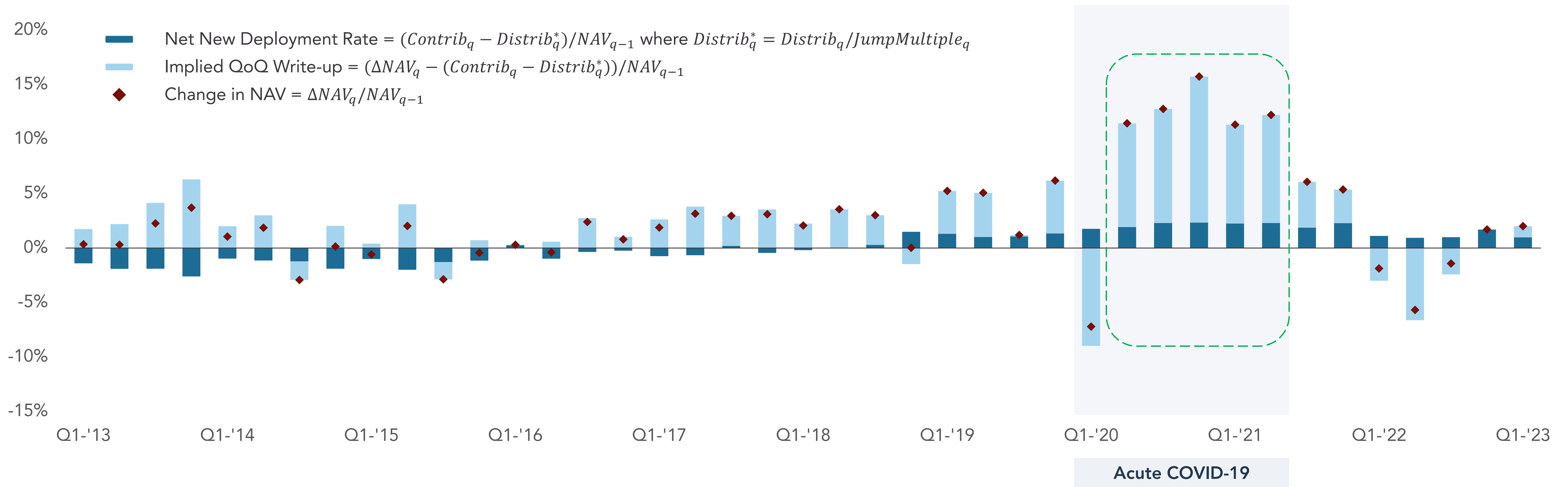


SOURCE: BURGISS (PRIVATE MARKET CASH FLOWS), ARCTOS ANALYSIS; AS OF JUNE 2023. LATEST QTR AVAILABLE IS Q1-2023. (1) NORTH AMERICA AND WESTERN EUROPE BUYOUT, GROWTH, AND VENTURE CAPITAL (EQUITY), VIA BURGISS.
CERTAIN INFORMATION HEREIN REFLECTS CURRENT BELIEFS OF ARCTOS AND IS BASED ON A VARIETY OF ASSUMPTIONS AND ESTIMATES THAT ARE SUBJECT TO VARIOUS RISKS. THERE CAN BE NO ASSURANCES THAT ANY OF THE PLANS OR EXPECTATIONS DESCRIBED HEREIN WILL OCCUR AS EXPRESSED OR AT ALL

Private Equity Returns During COVID (3/3)

We can estimate how much of this NAV growth came from write-ups of existing assets vs. net new deployment. Even assuming "jump multiples" at exit of 1.75x over prior quarter NAV during the PE Boom, NAV growth was driven by write-ups.*

PE NAV Growth Decomposition(1)



*Assumptions: Q3-'20 to Q1-'22, JumpMultiple = 1.75, otherwise, JumpMultiple = 1.3. Data is not sensitive to assumed intra-quarter timing of cash flows.

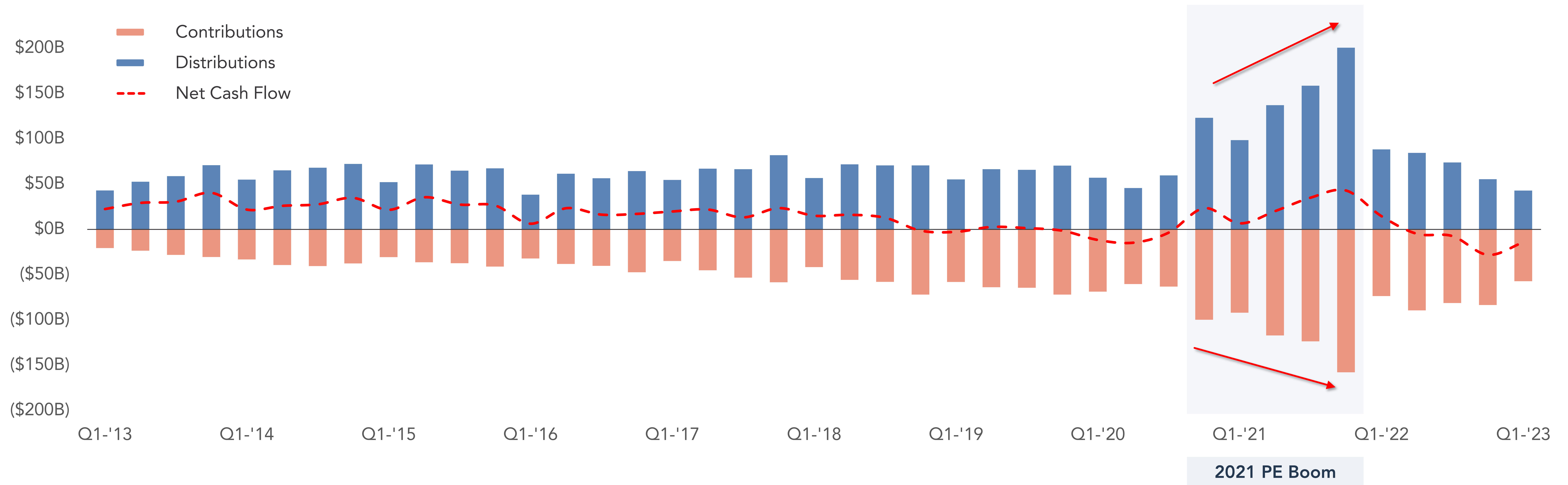
CONFIDENTIAL, PROPRIETARY, AND TRADE SECRET

SOURCE: BURGISS (PRIVATE MARKET CASH FLOWS), ARCTOS ANALYSIS; AS OF JUNE 2023. LATEST QTR AVAILABLE IS Q1-2023. (1) NORTH AMERICA AND WESTERN EUROPE BUYOUT, GROWTH, AND VENTURE CAPITAL (EQUITY), VIA BURGISS.

CERTAIN INFORMATION HEREIN REFLECTS CURRENT BELIEFS OF ARCTOS AND IS BASED ON A VARIETY OF ASSUMPTIONS AND ESTIMATES THAT ARE SUBJECT TO VARIOUS RISKS. THERE CAN BE NO ASSURANCES THAT ANY OF THE PLANS OR EXPECTATIONS DESCRIBED HEREIN WILL OCCUR AS EXPRESSED OR AT ALL

Why Didn't We See Excess NAV 'Clear' Through Record Harvesting?

The '21 PE Boom was not a particularly strong period for *net* cash flow. Distributions were nearly all called back for new deployment.



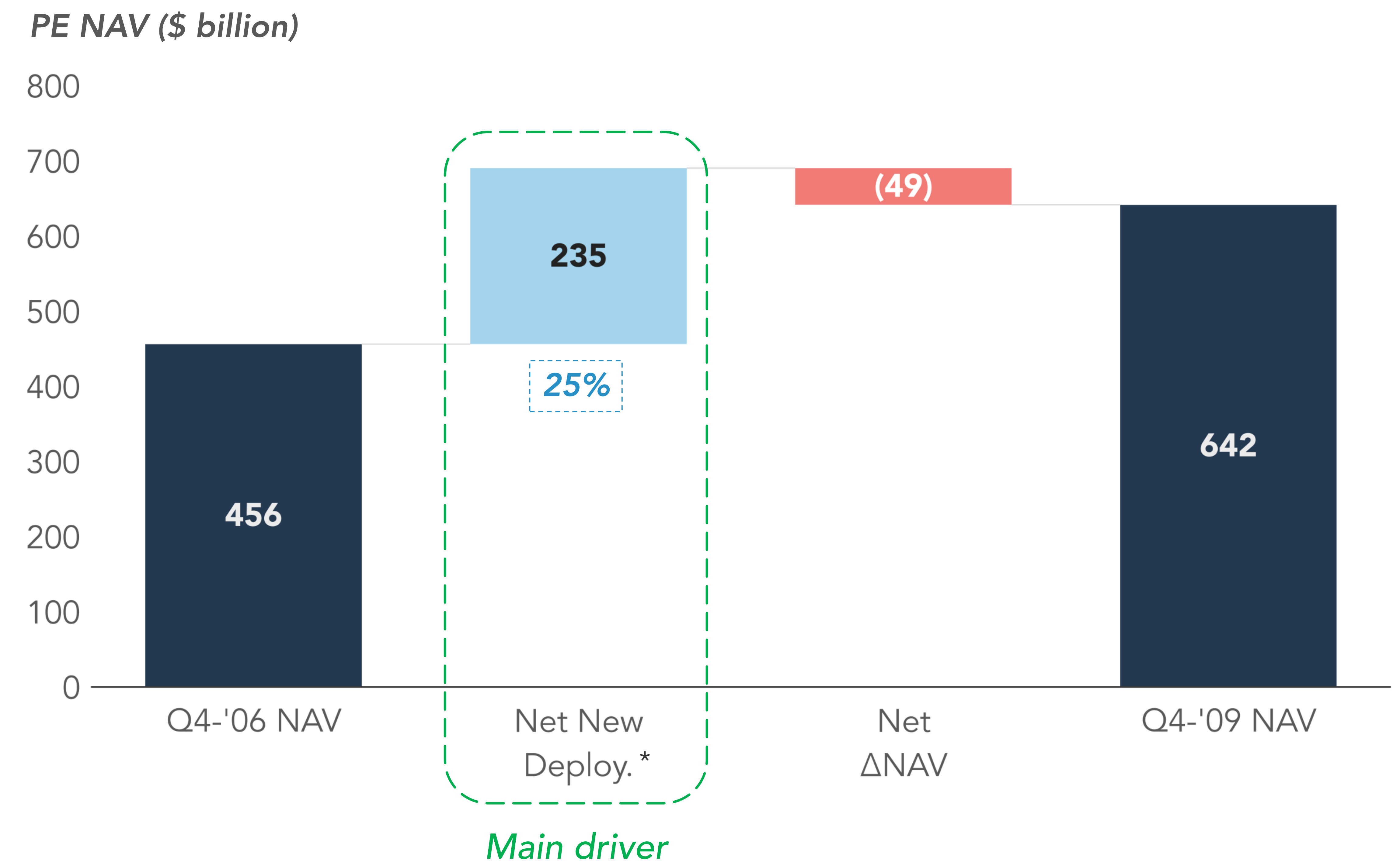
SOURCE: BURGISS (PRIVATE MARKET CASH FLOWS), ARCTOS ANALYSIS; AS OF JUNE 2023. LATEST QTR AVAILABLE IS Q4-2022. (1) NORTH AMERICA AND WESTERN EUROPE BUYOUT, GROWTH, AND VENTURE CAPITAL (EQUITY), VIA BURGISS.
CERTAIN INFORMATION HEREIN REFLECTS CURRENT BELIEFS OF ARCTOS AND IS BASED ON A VARIETY OF ASSUMPTIONS AND ESTIMATES THAT ARE SUBJECT TO VARIOUS RISKS. THERE CAN BE NO ASSURANCES THAT ANY OF THE PLANS OR EXPECTATIONS DESCRIBED HEREIN WILL OCCUR AS EXPRESSED OR AT ALL

Not Your Dad's Denominator Dilemma (1/2)

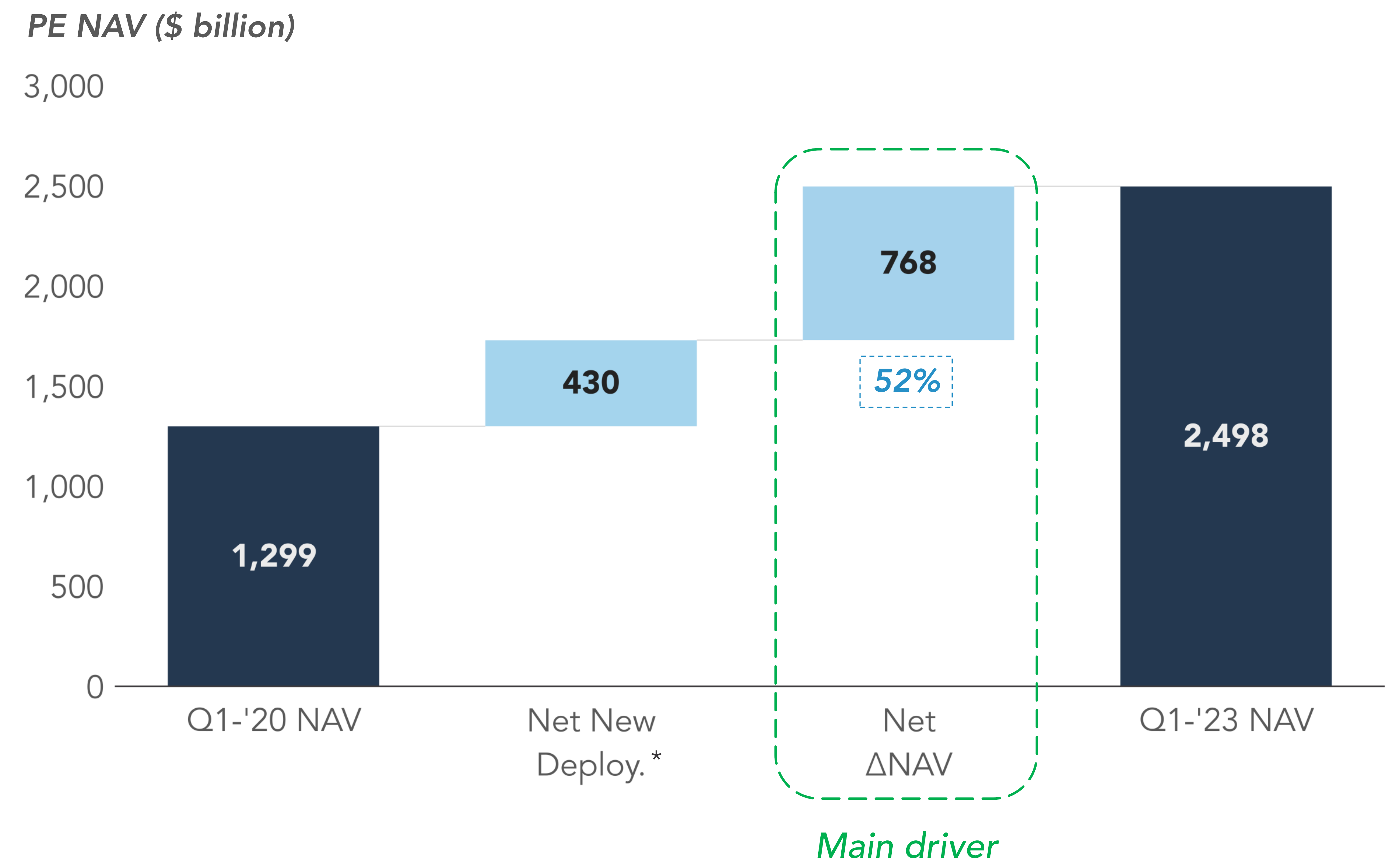
This data pattern is different from what explained the "excess NAV" of the pre-GFC boom, which was a spike in deployment. VC, Growth, and Tech Buyout were larger (though not exclusive) drivers of today's overhang.

% VC/Growth/Tech LBO

Pre-GFC Boom: Q4-'06 to Q4-'09 PE NAV Bridge(1)



'21 PE Boom: Q1-'20 to Q1-'23 PE NAV Bridge(1)



*Assumptions: Pre-GFC JumpMultiple = 1,3; PE Boom JumpMultiple = 1.75. Assuming 1.75 for both periods exacerbates the impact of NND for '06-'09.

CONFIDENTIAL, PROPRIETARY, AND TRADE SECRET

SOURCE: BURGISS (PRIVATE MARKET CASH FLOWS), ARCTOS ANALYSIS; AS OF JUNE 2023. LATEST QTR AVAILABLE IS Q1-2023. (1) NORTH AMERICA AND WESTERN EUROPE BUYOUT, GROWTH, AND VENTURE CAPITAL (EQUITY), VIA BURGISS.

CERTAIN INFORMATION HEREIN REFLECTS CURRENT BELIEFS OF ARCTOS AND IS BASED ON A VARIETY OF ASSUMPTIONS AND ESTIMATES THAT ARE SUBJECT TO VARIOUS RISKS. THERE CAN BE NO ASSURANCES THAT ANY OF THE PLANS OR EXPECTATIONS DESCRIBED HEREIN WILL OCCUR AS EXPRESSED OR AT ALL

Private Equity NAV vs. Public Markets

'Excess NAV' implies large, unrealized, and persistent alpha generation during the '21 PE boom – roughly Q3-'20 to Q4-'21 – unexplained by beta or leverage (which would have led to a correction).

PE NAV(1) vs. 60/40 Nominal Total Return (Matching 60/40 Level to Q4-'19)

SOURCE: BURGISS (PRIVATE MARKET CASH FLOWS), ARCTOS ANALYSIS; AS OF JUNE 2023. LATEST QTR AVAILABLE IS Q4-2022. ST. LOUIS FED (CPI DATA), ROBERT SHILLER (HTTP://WWW.ECON.YALE.EDU/~SHILLER/DATA.HTM; STOCK & BOND PRICES), ARCTOS ANALYSIS, AS OF JUNE 2023. (1) NORTH AMERICA AND WESTERN EUROPE BUYOUT, GROWTH, AND VENTURE CAPITAL (EQUITY), VIA BURGISS.
CERTAIN INFORMATION HEREIN REFLECTS CURRENT BELIEFS OF ARCTOS AND IS BASED ON A VARIETY OF ASSUMPTIONS AND ESTIMATES THAT ARE SUBJECT TO VARIOUS RISKS. THERE CAN BE NO ASSURANCES THAT ANY OF THE PLANS OR EXPECTATIONS DESCRIBED HEREIN WILL OCCUR AS EXPRESSED OR AT ALL

CONFIDENTIAL, PROPRIETARY, AND TRADE SECRET

Sidebar: NAV Overhang for Insurers

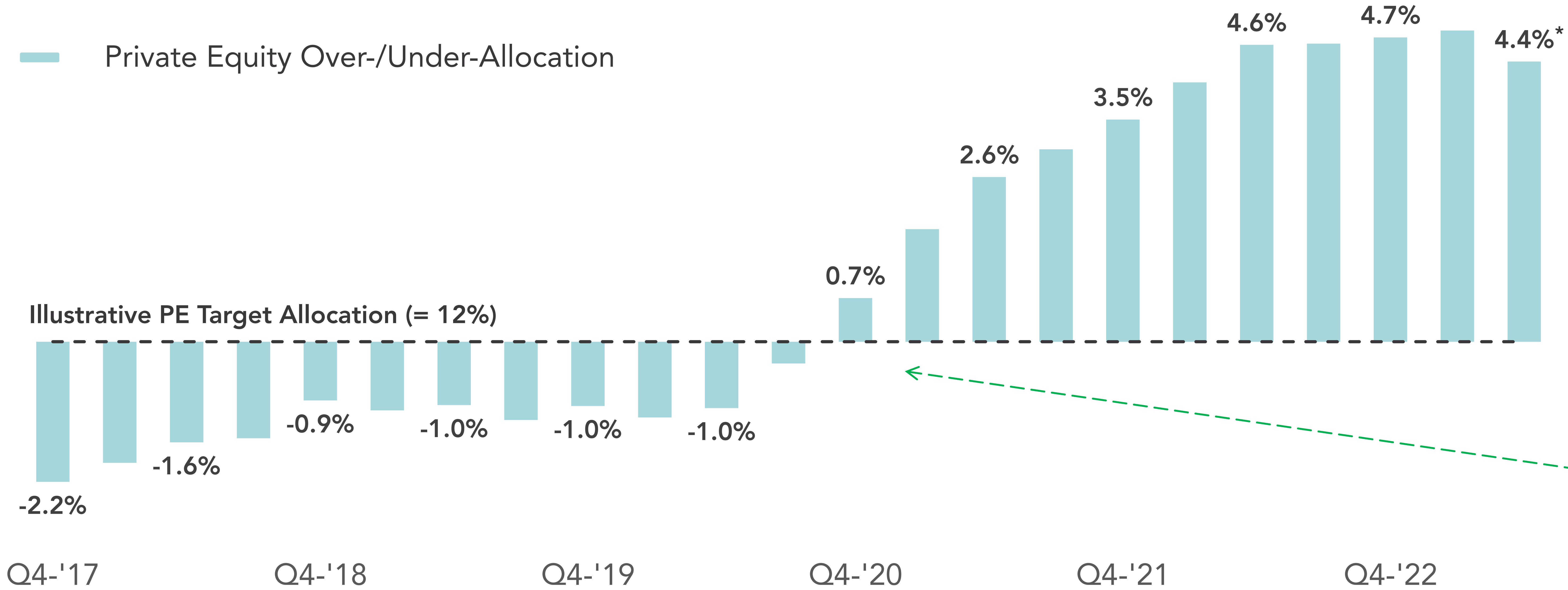
Using a hypothetical 10/90 portfolio as the base-line asset proxy – more accurate for insurers – makes the NAV overhang significantly worse. For all investor types, fixed income allocations have come down

CONFIDENTIAL, PROPRIETARY, AND TRADE SECRET

SOURCE: BURGISS (PRIVATE MARKET CASH FLOWS), ARCTOS ANALYSIS; AS OF JUNE 2023. LATEST QTR AVAILABLE IS Q4-2022. ST. LOUIS FED (CPI DATA), ROBERT SHILLER (HTTP://WWW.ECON.YALE.EDU/~SHILLER/DATA.HTM; STOCK & BOND PRICES), ARCTOS ANALYSIS, AS OF JUNE 2023. (1) NORTH AMERICA AND WESTERN EUROPE BUYOUT, GROWTH, AND VENTURE CAPITAL (EQUITY), VIA BURGISS.
CERTAIN INFORMATION HEREIN REFLECTS CURRENT BELIEFS OF ARCTOS AND IS BASED ON A VARIETY OF ASSUMPTIONS AND ESTIMATES THAT ARE SUBJECT TO VARIOUS RISKS. THERE CAN BE NO ASSURANCES THAT ANY OF THE PLANS OR EXPECTATIONS DESCRIBED HEREIN WILL OCCUR AS EXPRESSED OR AT ALL

Measuring Denominator Pressure

Using rough estimates of average institutional investor allocations pre-COVID, we estimate that denominator pressure strongly persists. We think this signal is key to estimating the PE fundraising market cycle.



Current Imbalance

To bring allocation back to target…

Target Allocations (Current = 12%)

+36% i.e., 12.0% ➡ 16.4%

60/40 Portfolio Return (Above PE)

+44%

Private Equity NAV Contraction / Harvest

-30%

Via write-downs or net CFs

Combination of three effects + moderate deployment is required to rebalance allocations

***Uses our nowcast est. of Private NAV for Q2-'23.**

CONFIDENTIAL, PROPRIETARY, AND TRADE SECRET

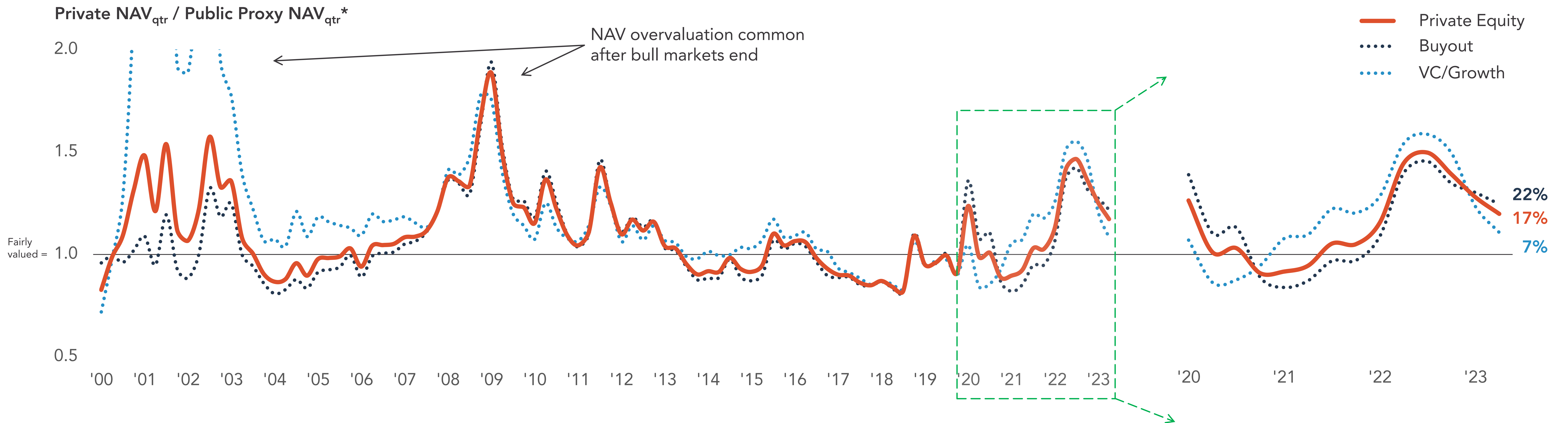
SOURCE: BURGISS (PRIVATE MARKET CASH FLOWS), ARCTOS ANALYSIS; AS OF JUNE 2023. LATEST QTR AVAILABLE IS Q4-2022. ST. LOUIS FED (CPI DATA), ROBERT SHILLER (HTTP://WWW.ECON.YALE.EDU/~SHILLER/DATA.HTM; STOCK & BOND PRICES), ARCTOS ANALYSIS, AS OF JUNE 2023. (1) NORTH AMERICA AND WESTERN EUROPE BUYOUT, GROWTH, AND VENTURE CAPITAL (EQUITY), VIA BURGISS. (1) ASSUMES 12% PE TARGET ALLOCATION; 11% ACTUAL ALLOCATION IN Q4-2019; 2% CASH ALLOCATION IN Q4-2012 (MODEL START QUARTER); ASSUMES ALL CASH FLOW FROM PE PORTFOLIO IS REINVESTED INTO PE PORTFOLIO SUBJECT TO A MIN CASH BALANCE; NON-PE ASSET RETURNS REPRESENTED BY THE 60/40 TOTAL RETURN INDEX WITH REINVESTED DIVIDENDS/COUPONS. (2) MEASURED THE MULTIPLE INCREASE IN AVERAGE HARVESTING YIELD (QUARTERLY DISTRIBUTIONS / PRIOR QUARTER NAV) REQUIRED FOR THE NEXT TWO YEARS TO CLEAR THE NAV OVERALLOCATION (I.E., EQUIVALENT DECLINE IN NAV AS A 31% WRITE-DOWN), ASSUMING 0% PRIVATE EQUITY VALUATION RETURNS AND CONTRIBUTIONS EQUIVALENT TO THE TRAILING FOUR-QUARTER AVERAGE.

CERTAIN INFORMATION HEREIN REFLECTS CURRENT BELIEFS OF ARCTOS AND IS BASED ON A VARIETY OF ASSUMPTIONS AND ESTIMATES THAT ARE SUBJECT TO VARIOUS RISKS. THERE CAN BE NO ASSURANCES THAT ANY OF THE PLANS OR EXPECTATIONS DESCRIBED HEREIN WILL OCCUR AS EXPRESSED OR AT ALL

NAV Overvaluation Implied by Public Proxies Is Coming Down

The issue is not NAV overvaluation alone. H1 2023 public equity rally in tech and continued VC write-downs have narrowed overvaluation in VC to only 7%. Overall overvaluation remains elevated, but write-downs to FMV alone cannot fix the excess NAV issue.

Public-Private Proxy: North American Buyout and VC/Growth (1.0 = Fairly Valued)



*Uses our nowcast est. of Private NAV for Q2-'23.

CONFIDENTIAL, PROPRIETARY, AND TRADE SECRET

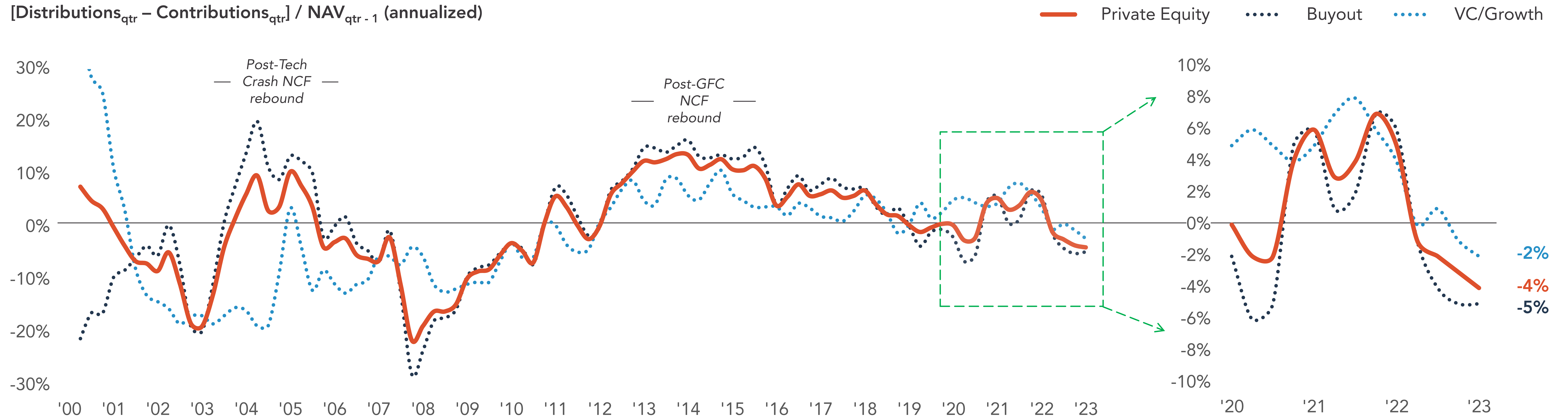
SOURCE: BURGISS (PRIVATE MARKET CASH FLOWS), ARCTOS ANALYSIS; AS OF JUNE 2023. LATEST QTR AVAILABLE IS Q4-2022. ST. LOUIS FED (CPI DATA), ROBERT SHILLER (HTTP://WWW.ECON.YALE.EDU/~SHILLER/DATA.HTM; STOCK & BOND PRICES), ARCTOS ANALYSIS, AS OF JUNE 2023. (1) NORTH AMERICA AND WESTERN EUROPE BUYOUT, GROWTH, AND VENTURE CAPITAL (EQUITY), VIA BURGISS. (1) ASSUMES 12% PE TARGET ALLOCATION; 11% ACTUAL ALLOCATION IN Q4-2019; 2% CASH ALLOCATION IN Q4-2012 (MODEL START QUARTER); ASSUMES ALL CASH FLOW FROM PE PORTFOLIO IS REINVESTED INTO PE PORTFOLIO SUBJECT TO A MIN CASH BALANCE; NON-PE ASSET RETURNS REPRESENTED BY THE 60/40 TOTAL RETURN INDEX WITH REINVESTED DIVIDENDS/COUPONS. (2) MEASURED THE MULTIPLE INCREASE IN AVERAGE HARVESTING YIELD (QUARTERLY DISTRIBUTIONS / PRIOR QUARTER NAV) REQUIRED FOR THE NEXT TWO YEARS TO CLEAR THE NAV OVERALLOCATION (I.E., EQUIVALENT DECLINE IN NAV AS A 31% WRITE-DOWN), ASSUMING 0% PRIVATE EQUITY VALUATION RETURNS AND CONTRIBUTIONS EQUIVALENT TO THE TRAILING FOUR-QUARTER AVERAGE.

CERTAIN INFORMATION HEREIN REFLECTS CURRENT BELIEFS OF ARCTOS AND IS BASED ON A VARIETY OF ASSUMPTIONS AND ESTIMATES THAT ARE SUBJECT TO VARIOUS RISKS. THERE CAN BE NO ASSURANCES THAT ANY OF THE PLANS OR EXPECTATIONS DESCRIBED HEREIN WILL OCCUR AS EXPRESSED OR AT ALL

Exit Activity Is Currently Depressed Relative to Deployment

Another lever is net cash flow (distributions over contributions), but NCF yield has not been a PE driver of return since at least pre-COVID. However, NCF yield could rise again if deployment rates remain low, as it typically does 3-5 years after a downturn.

Net Cash Flow Yield: North American Buyout and VC/Growth



CONFIDENTIAL, PROPRIETARY, AND TRADE SECRET

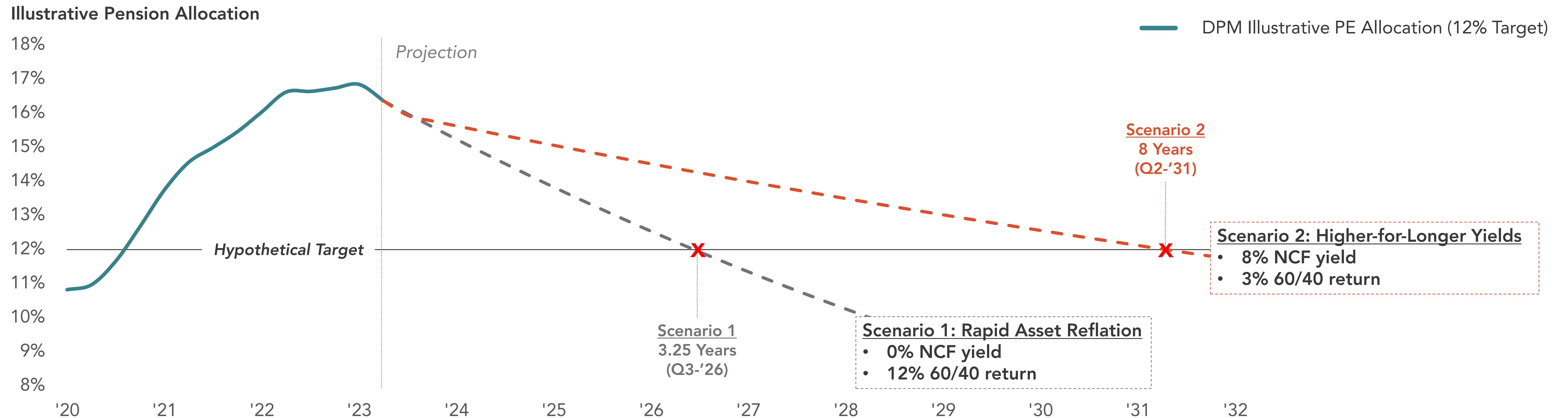
SOURCE: BURGISS (PRIVATE MARKET CASH FLOWS), ARCTOS ANALYSIS; AS OF JUNE 2023. LATEST QTR AVAILABLE IS Q4-2022. ST. LOUIS FED (CPI DATA), ROBERT SHILLER (HTTP://WWW.ECON.YALE.EDU/~SHILLER/DATA.HTM; STOCK & BOND PRICES), ARCTOS ANALYSIS, AS OF JUNE 2023. (1) NORTH AMERICA AND WESTERN EUROPE BUYOUT, GROWTH, AND VENTURE CAPITAL (EQUITY), VIA BURGISS. (1) ASSUMES 12% PE TARGET ALLOCATION; 11% ACTUAL ALLOCATION IN Q4-2019; 2% CASH ALLOCATION IN Q4-2012 (MODEL START QUARTER); ASSUMES ALL CASH FLOW FROM PE PORTFOLIO IS REINVESTED INTO PE PORTFOLIO SUBJECT TO A MIN CASH BALANCE; NON-PE ASSET RETURNS REPRESENTED BY THE 60/40 TOTAL RETURN INDEX WITH REINVESTED DIVIDENDS/COUPONS. (2) MEASURED THE MULTIPLE INCREASE IN AVERAGE HARVESTING YIELD (QUARTERLY DISTRIBUTIONS / PRIOR QUARTER NAV) REQUIRED FOR THE NEXT TWO YEARS TO CLEAR THE NAV OVERALLOCATION (I.E., EQUIVALENT DECLINE IN NAV AS A 31% WRITE-DOWN), ASSUMING 0% PRIVATE EQUITY VALUATION RETURNS AND CONTRIBUTIONS EQUIVALENT TO THE TRAILING FOUR-QUARTER AVERAGE.

CERTAIN INFORMATION HEREIN REFLECTS CURRENT BELIEFS OF ARCTOS AND IS BASED ON A VARIETY OF ASSUMPTIONS AND ESTIMATES THAT ARE SUBJECT TO VARIOUS RISKS. THERE CAN BE NO ASSURANCES THAT ANY OF THE PLANS OR EXPECTATIONS DESCRIBED HEREIN WILL OCCUR AS EXPRESSED OR AT ALL

Rebalancing Will Probably Take Time

Returning to prior target allocations will be a function of 60/40 performance, NAV growth, and NCF yield. In our view, a good base case would be >3 years. Upside would be driven by fast reflation of public assets and/or the return of lower rates. NCF yields should be low in a 'Fast Reflation' case as deployment activity kicks back on; it should be high in a very low-growth case, as it typically is post-recession.

Denominator Pressure Model (DPM) Output: Time to Rebalance Estimates



Note: all scenarios assume flat NAV growth (illustrative)

SOURCE: BURGISS (PRIVATE MARKET CASH FLOWS), ARCTOS ANALYSIS; AS OF JUNE 2023. LATEST QTR AVAILABLE IS Q4-2022. ST. LOUIS FED (CPI DATA), ROBERT SHILLER (HTTP://WWW.ECON.YALE.EDU/~SHILLER/DATA.HTM; STOCK & BOND PRICES), ARCTOS ANALYSIS, AS OF JUNE 2023. (1) NORTH AMERICA AND WESTERN EUROPE BUYOUT, GROWTH, AND VENTURE CAPITAL (EQUITY), VIA BURGISS. (1) ASSUMES 12% PE TARGET ALLOCATION; 11% ACTUAL ALLOCATION IN Q4-2019; 2% CASH ALLOCATION IN Q4-2012 (MODEL START QUARTER); ASSUMES ALL CASH FLOW FROM PE PORTFOLIO IS REINVESTED INTO PE PORTFOLIO SUBJECT TO A MIN CASH BALANCE; NON-PE ASSET RETURNS REPRESENTED BY THE 60/40 TOTAL RETURN INDEX WITH REINVESTED DIVIDENDS/COUPONS. (2) MEASURED THE MULTIPLE INCREASE IN AVERAGE HARVESTING YIELD (QUARTERLY DISTRIBUTIONS / PRIOR QUARTER NAV) REQUIRED FOR THE NEXT TWO YEARS TO CLEAR THE NAV OVERALLOCATION (I.E., EQUIVALENT DECLINE IN NAV AS A 31% WRITE-DOWN), ASSUMING 0% PRIVATE EQUITY VALUATION RETURNS AND CONTRIBUTIONS EQUIVALENT TO THE TRAILING FOUR-QUARTER AVERAGE.

CERTAIN INFORMATION HEREIN REFLECTS CURRENT BELIEFS OF ARCTOS AND IS BASED ON A VARIETY OF ASSUMPTIONS AND ESTIMATES THAT ARE SUBJECT TO VARIOUS RISKS. THERE CAN BE NO ASSURANCES THAT ANY OF THE PLANS OR EXPECTATIONS DESCRIBED HEREIN WILL OCCUR AS EXPRESSED OR AT ALL

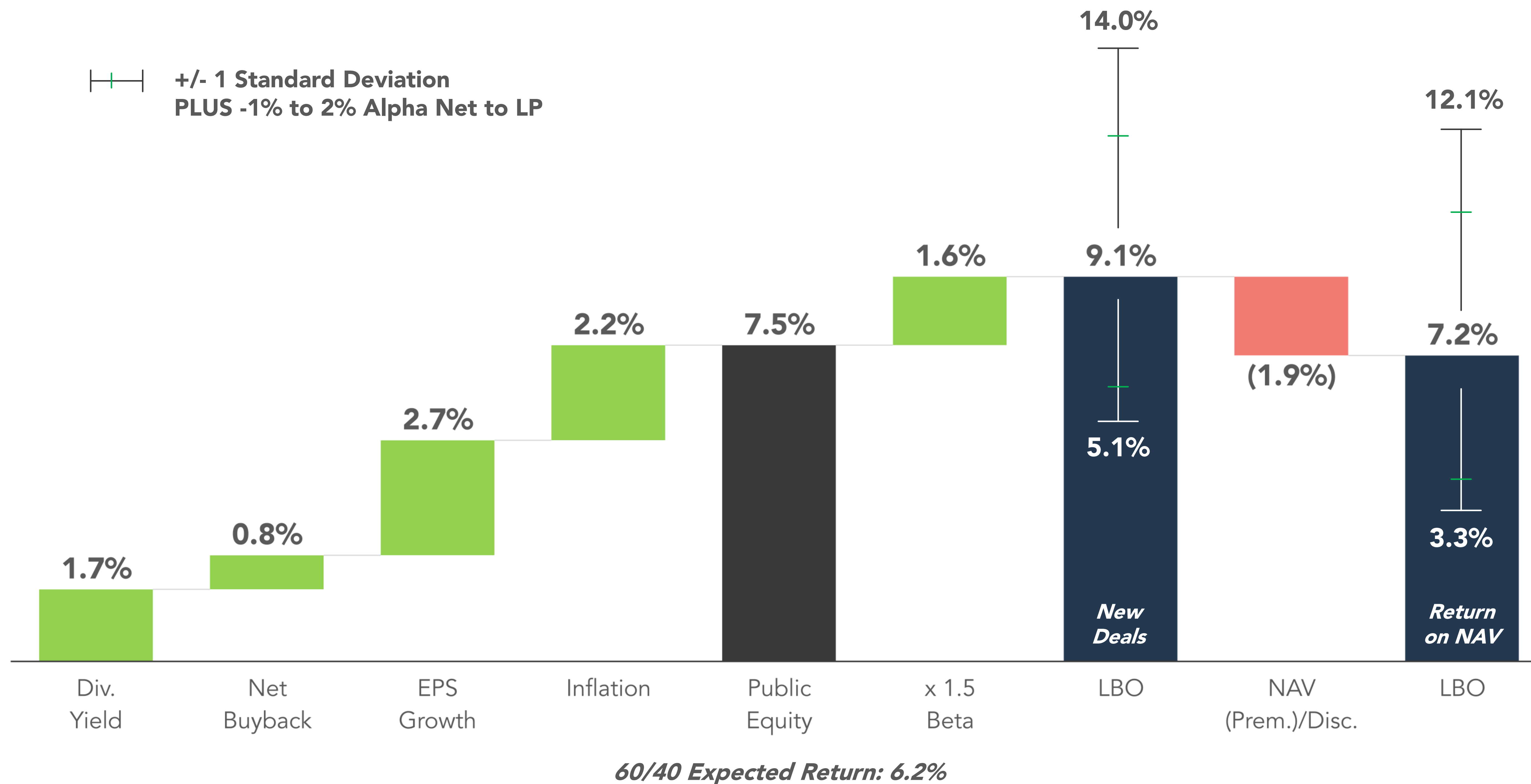
ARCTOS CONFIDENTIAL, PROPRIETARY, AND TRADE SECRET

We Expect Public Market Tailwinds to Be Low

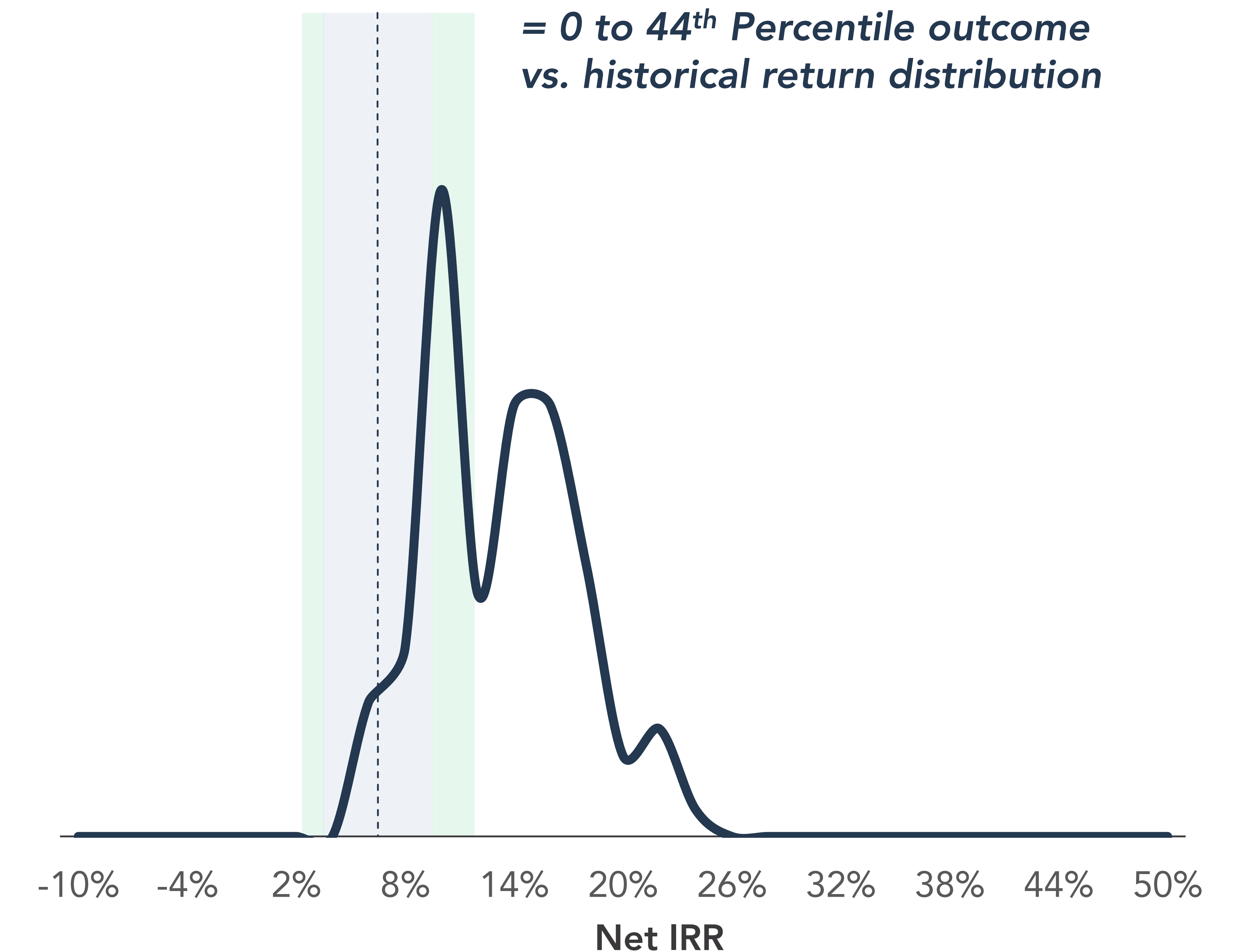
Our nominal return forecast for public equities and Buyout are relatively low vs. historical averages.

North American Buyout: Bottoms-up 7-yr Status Quo Return Forecast

As of Q2-'23



Buyout: Distribution of 7-yr Net Returns on NAV(1)



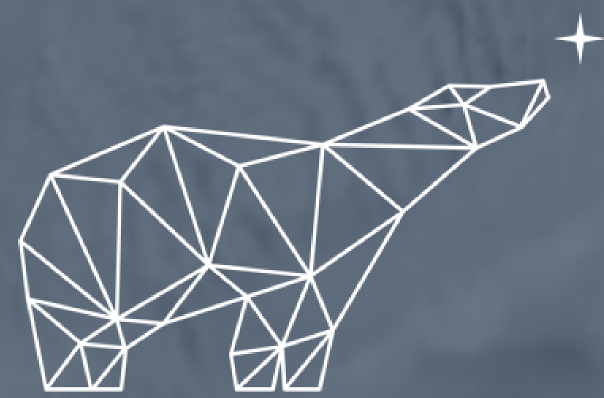
SOURCE: ARCTOS, S&P, FEDERAL RESERVE, AQR, FRED, ROBERT SHILLER DATA, BURGISS.
NBY = NET BUYBACK YIELD (SOURCE: ARCTOS CALC, AS OF MARCH 31, 2023). SOURCE: FEDERAL RESERVE. TAKES 12-QTR ROLLING AVERAGE NET BUYBACKS DIVIDED BY TOTAL U.S. EQUITY MARKET CAPITALIZATION.
(1) WE USE A SAMPLE THAT WE BELIEVE IS INDICATIVE OF GO-FORWARD PROBABILITY DISTRIBUTIONS. FOR BUYOUT THIS IS FORWARD 7-YEAR IRRS FOR SEPT-1992 TO MAR-2016 (MEDIAN: 13.1%).
CERTAIN INFORMATION HEREIN REFLECTS CURRENT BELIEFS OF ARCTOS AND IS BASED ON A VARIETY OF ASSUMPTIONS AND ESTIMATES THAT ARE SUBJECT TO VARIOUS RISKS. THERE CAN BE NO ASSURANCES THAT ANY OF THE PLANS OR EXPECTATIONS DESCRIBED HEREIN WILL OCCUR AS EXPRESSED OR AT ALL

Our Takeaways & Recommendations

Key Takeaways

- ✓ Even if excess NAV corrects itself in the near-term (a likely outcome, given trend lines), that will not solve overallocations at LPs. It is important for internal budgeting, product roadmap, hiring or M&A plans, etc. that this is recognized. The base case should be a sluggish environment for some time.
- ✓ In response to these market conditions, we expect GP M&A activity to increase – as it would in any market under growth stress. But M&A is not a requirement, and we think maintaining a high bar for M&A is critical, given how people-intense our business is.
- ✓ The temptation to grow by acquiring an en vogue platform (private credit, infrastructure, or secondaries) will be high. But do a careful right-to-win self-assessment first. Credit often requires significant scale, both people and capital, and is lower margin per dollar of AUM.
- ✓ Instead, "strengthening the core" is a basic, foundational approach that all managers can lean into. What we mean:
    - Do a bottoms-up people assessment. Ensure your star performers are excited and motivated.
    - Spend time on your fundraising strategy and staffing model. This may even be an area to add resources.
    - Most of your LPs need liquidity, so distributions differentiate. Focus creativity on sourcing *exits* as well as deals. There are creative solutions available that can preserve upside for you and your LPs and give them capital relief today.

SOURCE: ARCTOS.
CERTAIN INFORMATION HEREIN REFLECTS CURRENT BELIEFS OF ARCTOS AND IS BASED ON A VARIETY OF ASSUMPTIONS AND ESTIMATES THAT ARE SUBJECT TO VARIOUS RISKS. THERE CAN BE NO ASSURANCES THAT ANY OF THE PLANS OR EXPECTATIONS DESCRIBED HEREIN WILL OCCUR AS EXPRESSED OR AT ALL



ARCTOS