STEPSTONE

StepStone Academy

Private Equity & Venture Capital

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All data is as of August 2024.

Today’s narrative

A strategic overview: Buyout vs Venture

Navigating risks and other considerations

Key drivers and potential benefits

A strategic overview

Fewer opportunities for public market value capture

Past

Present

Time to liquidity (years)	Post-IPO valuation	Current valuation ($M)	Public multiple	Revenue at IPO ($M)
1.4	$430	$1,905,765	4,432.0x	$31
5.2	$23,053	$2,188,803	94.9x	$28
1.2	$715	$26,580	37.2x	$38
7.8	$19,973	$14,807	0.7x	$823
11.1	$40,626	$90,598	2.2x	$859
8.2	$33,203	$53,110	1.6x	$592

As of 5/20/24

For illustrative purposes only and does not reflect actual performance experienced by an investor. Not intended to represent or predict future portfolio investments. Source: Pitchbook, Thomson Reuters. Past performance is not indicative of future results. **Time to Liquidity:** The amount of time between the inception (or founding) of a company and a key liquidity even such and an IPO, or M&A event. **Post-IPO Valuation:** The market capitalization of the company immediately following an IPO. **Current Valuation:** The current market capitalization of a company. Public Return: The theoretical Gross TVPI (total value / paid-in) multiple associated with the investment horizon spanning from IPO to present day. **Revenue at IPO:** The annual revenue of the company in the year in which they held their IPO.

Private equity investments (asset class)

Broadly defined as investments in public or non-public companies that are privately negotiated transactions, and typically result in private ownership of businesses

Private equity managers are typically independent organizations that often take an active role in the direction of a company seeking to create value, enhance returns and exit successfully

Spans a spectrum of investment stages and strategies – principally comprising buyouts, including leveraged buyouts or LBOs (acquisition of established businesses with stable cash flows by utilizing debt financing) or venture capital (investing private capital in start-up to growth stage companies)

Alternative means of gaining equity exposure in portfolios

Characteristics

Illiquidity: private markets investments includes investments in assets not regularly traded in liquid markets

Long term horizon, generally ranging from 3 to 15+ years for certain asset classes

Cash flow dynamic

Carried Interest to align long term incentives for the general partners

J-curve: typically value of portfolios will be initially impacted by negative commission costs

Costs: high management fees due to specialized activities and involvement

Returns: returns have generally been higher than the liquid markets

Structure: close ended funds

Private equity spectrum (sub-sectors)

Stage	Seed and early stage venture capital	Late stage venture capital	Growth equity	Buyout
Risk type	Development and market risk		Execution risk	
Description	Concept stage	Unproven business model	Established companies with proven business model	Mature companies with proven business model
Revenues	Pre-revenues	>50% Revenue growth	>20% annual revenue growth	<15% annual revenue growth
EBITDA	Cash burn to fund rapid growth		Breakeven / cash flow positive	Cash flow positive
Leverage	None		Modest or no use of leverage	Yes
Return target	10x+	5x	3–5x	2–3x
Expected loss ratio	>50%	35%	25%	<20%
Control	Minority			Majority
Structure	Preferred equity; typically one funding; often highly structured		Preferred equity; typically one funding; often highly structured	Preferred or common equity; single control transactions; some structure
Strategy	Large portfolio: target emerging market leader		Concentrated portfolio: target clear market leader	
Thesis	Aggressive revenue growth; Valued on revenue multiple		Profitable revenue growth; Valued on EBITDA or revenue multiple	Growth, cost synergies on M&A; valued on EBITDA multiple

For illustrative purposes only.

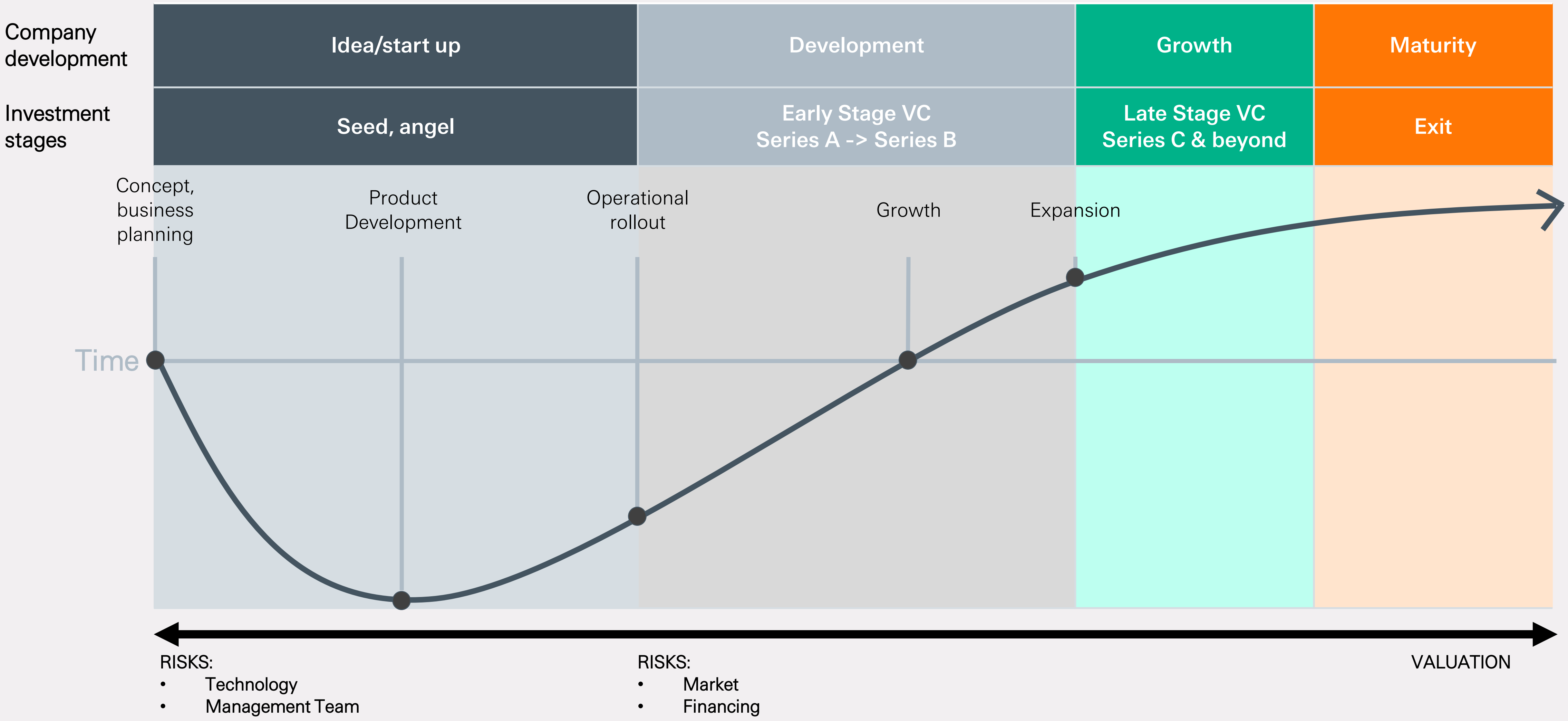
Note: Target returns are hypothetical and are neither guarantees nor predictions or projections of future performance. Future performance indications and financial market scenarios are no guarantee of current or future performance. There can be no assurance that such target returns will be achieved.

VC vs. buyout

	VC	Buyout
Capital sources	• Raise capital from limited partners	• Raise capital from limited partners • Borrows funds from a single bank or a syndicate: The bank structures the debt using a revolving credit line or revolving loan, which can be paid back and drawn on again when funds are needed
Use of capital	• Scale business and team • Develop product	• Acquisition of companies • Efforts to turn around underperforming companies
Equity	• Owns minority position in the company to influence in decision making processes	• Owns majority of the shares to make changes in the company
Profile of business	• Startups • Young companies typically with a tech focus	• More mature underperforming or undervalued companies
Return generation	• Growth of portfolio companies culminating in either successful acquisitions or IPO's	• Operational improvement and potential synergies through acquisitions, leverage/financial engineering, culminating in successful acquisitions or IPOs

For illustrative purposes only

VC-backed company life cycle timeline



For illustrative purposes only.
Source: NVCA.

VC fund timeline

Funds are typically raised every 2-3 years based on fund life-span. Funds can call capital from investors throughout the fund life-span to fund pre-existing companies in the portfolio

Investment period

Harvesting

Extension (if needed)

1-5 Years

- Funds take this time to evaluate companies and make new investments
- New investments must be made here to allow time for growth and to yield returns

5-10 Years

- The period where companies exit by way of M&A or IPO
- Reserves are properly allocated to ensure equity of a company remains unchanged

10+ Years

- This time is allocated for extending investments that still display unrealized potential

VC funds are investment vehicles to gain exposure to private companies

For illustrative purposes only

Navigating risks and other considerations

Private equity risk considerations

Illiquid Asset

Limited Partnership (“LP”) interests are not readily marketable or redeemable

“Blind Pool” Investing

Underlying fund investments are not identified at the time of commitment

Manager Selection

Performance varies significantly among managers

Difficult to replace managers / influence strategies

Timing of Returns is Uncertain

Exit events / distributions are difficult to project

Valuation

Not marked-to-market

No universal industry standards / subjective interim valuations

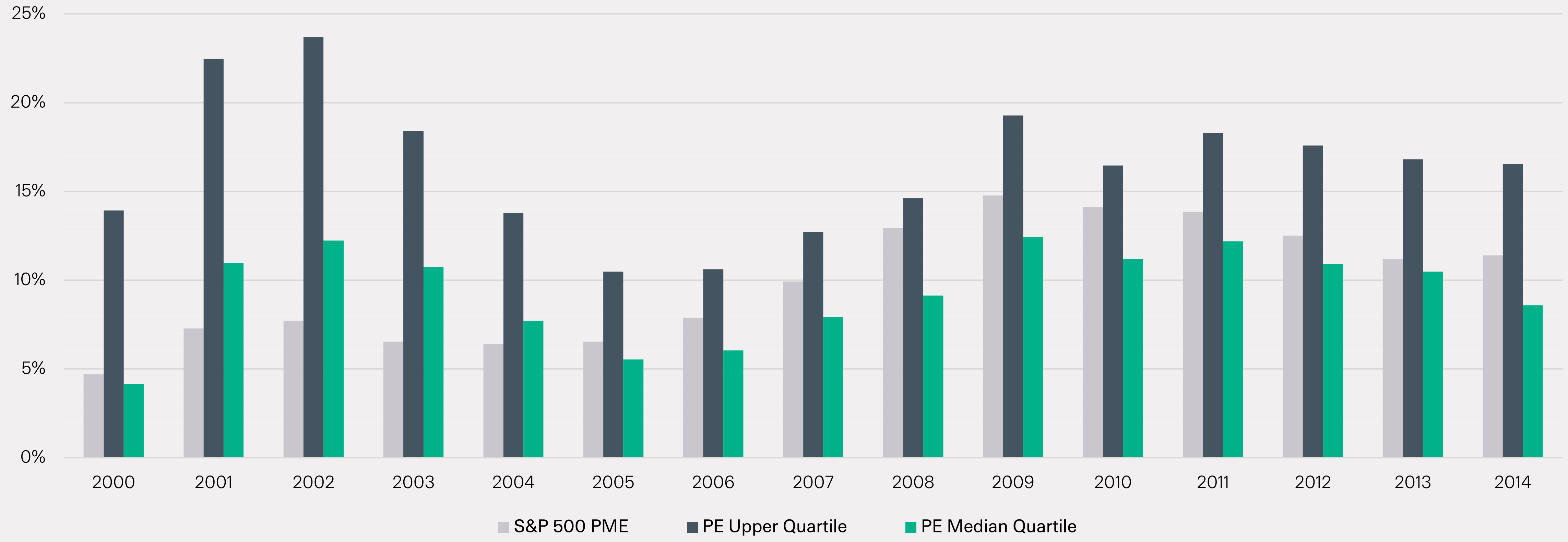
Valuations are typically reported with a quarterly lag

Default Remedies

Legally binding contracts that, in the case of a default, can result in forfeiture of interest

Importance of vintage year diversification

All private equity – upper and median quartile year returns[1]

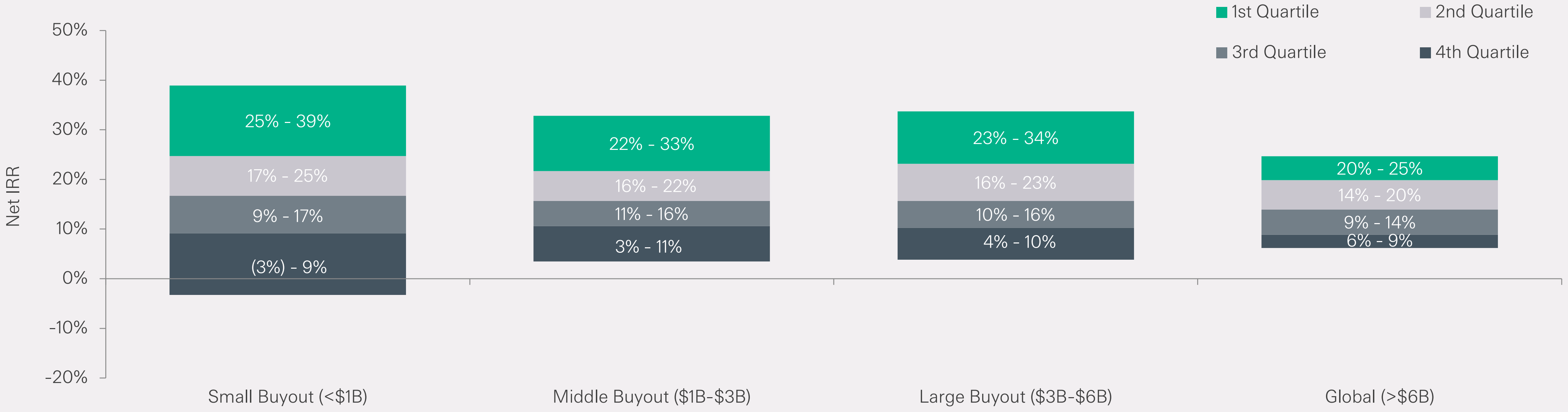


Source: Cambridge Associates, Thomson Reuters Datastream, Standard & Poor's. Note: **Past performance is no guarantee of future results, real results may vary, there can be no assurance that any investments to be made will produce comparable, or any, investment returns.** Returns are as of March 31, 2017, and calculated on an annual basis for All Private Equity investments from inception to Q2. S&P 500 figures represent the public market equivalent ("PME") of returns achieved across All Private Equity over the same time period. Vintage years post 2014 not included due to insufficient time for realizations to occur. Vintage years post 2014 not included due to insufficient time for realizations to occur.

Manager selection is critical in the private markets

In private markets, a commitment to open architecture, data intelligence, and a network of relationships provides access to who StepStone views as top-performing managers that may have a distinct advantage.

Quartile analysis (2002–2018 North America buyout funds)



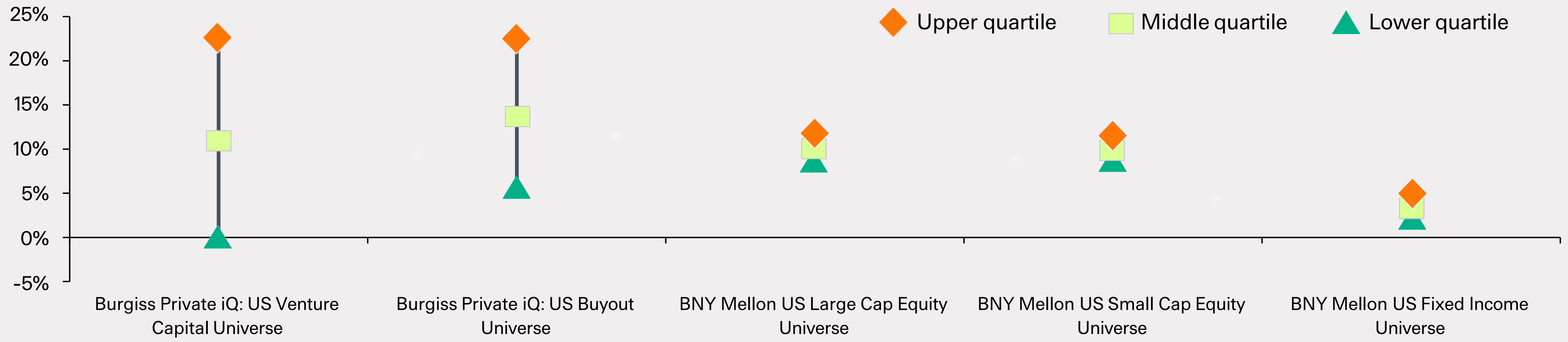
Source: Burgiss as of June 30, 2023, for North American Buyout Funds with vintages from 2002 – 2018. More recent vintages have been omitted as they are too young to be considered meaningful for this analysis. Funds report unaudited quarterly data to The Burgiss Group when creating the Burgiss Manager Universe. **The data is not transparent and cannot be independently verified. The Burgiss Group universe gets compiled four times a year to reflect the best data available. As part of that process, new data is added and transaction history is updated through the latest available quarter, the historical performance of the index is not fixed, cannot be replicated and will differ over time from the data presented in this communication. Burgiss' data universe captures only funds that have self-reported to the data vendor which may not be representative of the entire private equity universe and cause results to be skewed toward funds that have higher performance. Past performance is not indicative of future results.** For illustrative purposes only and returns do not represent Fund performance.

Access and selection are crucial to performance

While potentially rewarding, venture capital funds exhibit the widest performance disparity of any asset class, stressing the need for access and meaningful allocation to promising managers.

Return dispersion

15 year return - quartile analysis (1981-2018 vintage years)



Information is subject to change and is not a guarantee of future results.

Burgiss indexes reflect private equity internal rates of return (IRR) while BNY indexes reflect public equity time weighted returns (TWR). There are material differences between IRR and TWR. IRR is the discount rate that equates the cost of an investment with the cash generated by that investment. TWR is the return produced over time by a fund independent of contributions or withdrawals. While IRR accounts for the timing and magnitude of fund cash flows, TWR eliminates the impact of the timing of fund cash flows and isolates the portion of a portfolio's return that is attributable solely to the manager's actions.

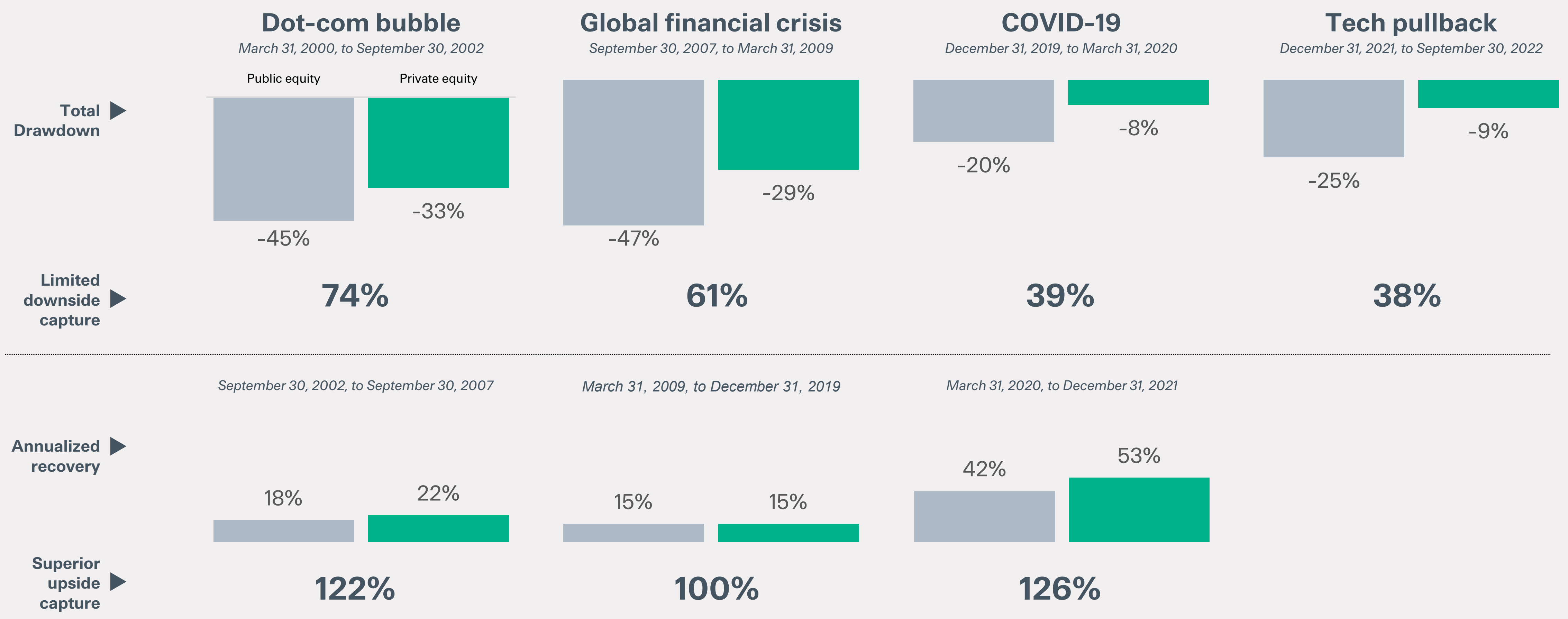
Source: Burgiss as of March 31, 2023 for US Funds with vintages from 1981 – 2018. More recent fund vintages are not included above, as they are not in the mature stage of their investment cycle, and their returns would not be meaningful for this analysis. Funds report unaudited quarterly data to The Burgiss Group when creating the Burgiss Manager Universe. The data is not transparent and cannot be independently verified. The Burgiss Group universe gets compiled four times a year to reflect the best data available. As part of that process, new data is added and transaction history is updated through the latest available quarter, the historical performance of the index is not fixed, cannot be replicated and will differ over time from the data presented in this communication. Burgiss' data universe captures only funds that have self-reported to the data vendor which may not be representative of the entire private equity universe and cause results to be skewed toward funds that have higher performance.

US Large Cap Equity, US Small Cap Equity and US Fixed Income returns are sourced from BNY Mellon as of March 31, 2023. Please refer to slide 25 for a complete list of definitions for each index.

StepStone believes that comparisons to public market indices provide useful information to investors. However, investors should be aware of the limitations for such illustrations which provide only one approach to comparison of returns. Prospective investors should consider comparisons to other indices & benchmarks. Indices are provided for illustrative purposes only. Private equity index returns do not represent Fund performance. Fund will not have exposure to many funds comprising the index.

Key drivers and potential benefits

Outperformance driven by asymmetric risk capture

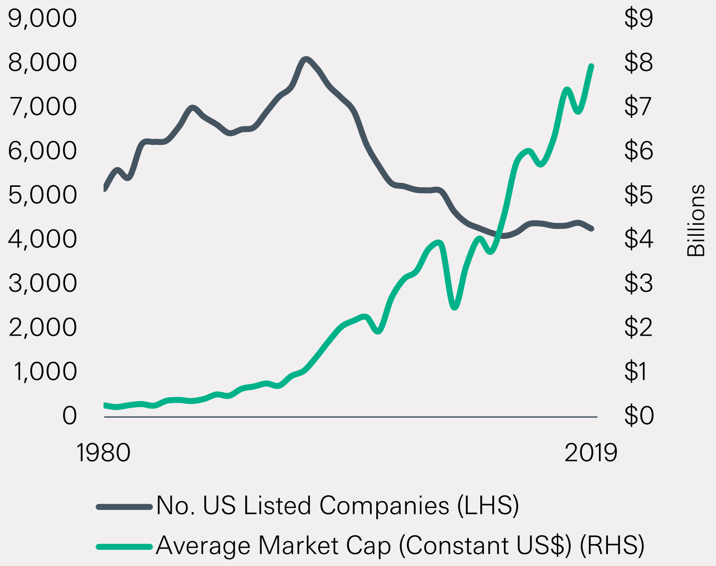


SOURCE: CapIQ, StepStone portfolio analytics and reporting as of May 2023. Public equity performance represents the average of the S&P 500 and the MSCI World indices. Private equity performance represents the average of StepStone's portfolio and analytics reporting database and Burgiss. Total drawdown is defined as the maximum drawdown between the peak and trough during a crisis. Annualized recovery is the annualized return between the trough of the previous crisis and the peak of the next crisis.

Critical diversifier to public equity exposure

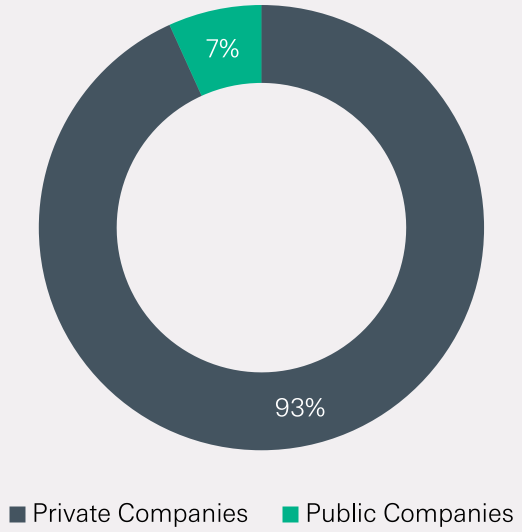
During the last 40 years, public equity markets have provided less and less exposure to small cap businesses. Moreover, private market exposure is increasingly skewing towards mid/large caps

Historical trend of US listed companies vs. avg. market cap



Public equity investment options more limited, skew towards larger companies

Current blend of US private vs. public companies[2]



13x more private than public companies

Buyout capital flows relative to investable universe of companies

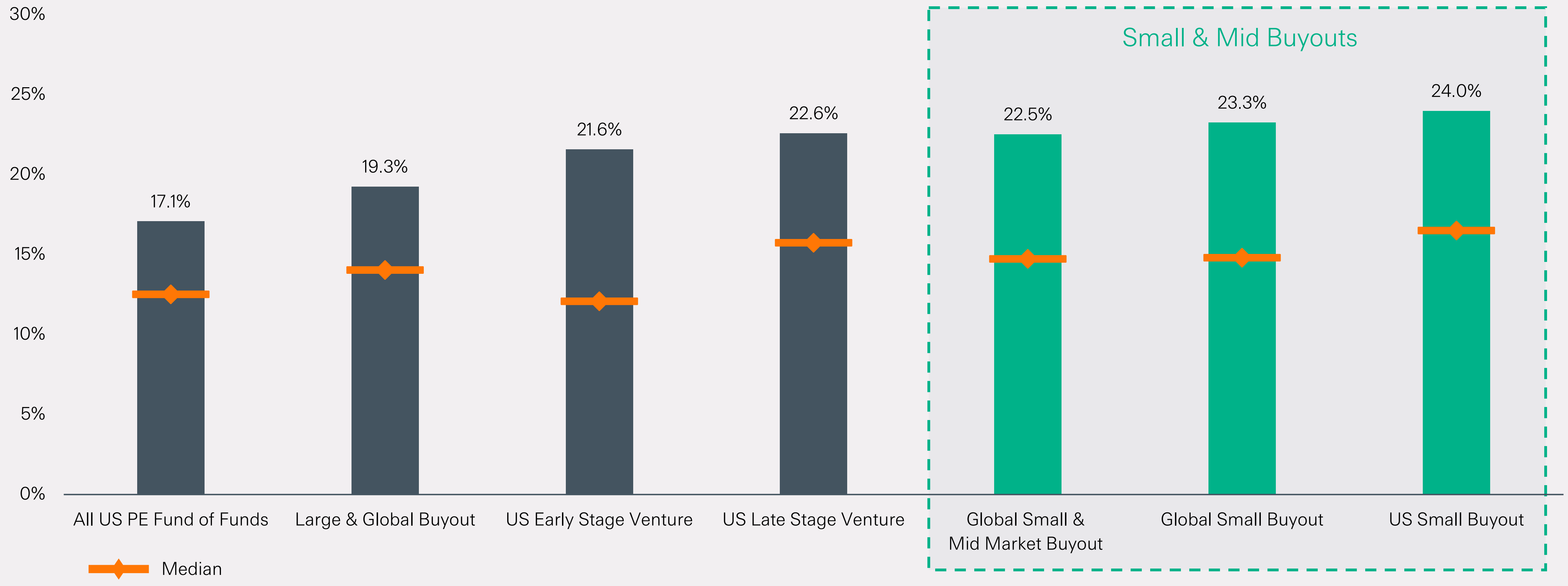
Tranche	Capital raise	# of private companies	Capital ratio
Large	$726B	951	0.763x
Middle	$326B	18,144	0.018x
Small	$321B	120,764	0.003x

Capital ratio strongly favors the small market

1. Jay R. Ritter. January 2023. Initial Public Offerings: Updated Statistics. https://site.warrington.ufl.edu/ritter/files/IPO-Statistics.pdf
2. Capital IQ (September 2023). Note: 93% represents private US companies with >$50M in revenue
3. Fundraising statistics sourced from Pitchbook for U.S. buyout funds raised from 2018 through 2022. Company statistics sourced from Capital IQ based on U.S. based operating companies for US Private Companies as of September 30, 2023. Small is defined as companies whose revenue is $10M–100M; middle as $100M–2B; and large as >$2B.

Potential for excess return

Top quartile private equity returns by strategy



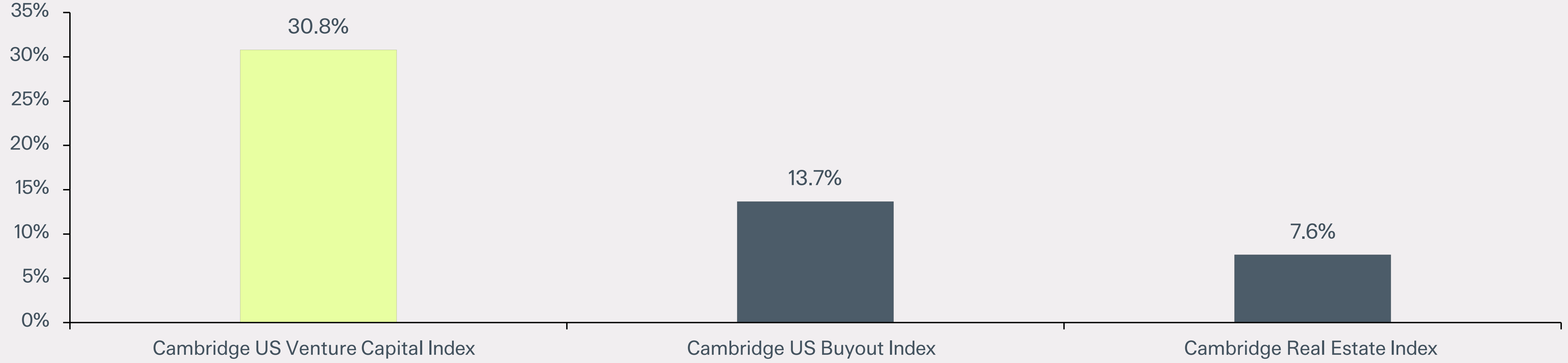
Source: Burgiss Private iQ Top Quartile benchmarks vintages 2001-2018, December 31, 2023.

Attractive historical performance

Institutional and high net worth investors are increasing allocations to private markets, where venture capital has outperformed over the long-term.

30-year horizon pooled returns

As of 9/30/2023



Cambridge data is typically compiled from funds that elect to self-report. Thus, this data may not be representative of all secondary funds, and may be biased toward those funds that generally have higher performance. Additionally the funds included in these measures may lack commonality. Over time, components of the data may change. Funds may begin or cease to be represented based on these factors, thereby creating a "survivorship bias" that may additionally impact the data reported.

The Cambridge indices consist of funds formed in the US between 1981 - 2021, including fully liquidated partnerships. Vintage years are defined by the first cashflow. All Cambridge Indexes shown are pooled horizon internal rate of return (IRR) calculations, net of fees, expenses and Carried interest, unless otherwise noted. All IRRs greater than one year are annualized. Asset class/ strategy is defined on a fund-by-fund basis by the Cambridge Associates research team. Past performance is not indicative of future results and there can be no assurance that the investment will achieve comparable results or avoid substantial losses.

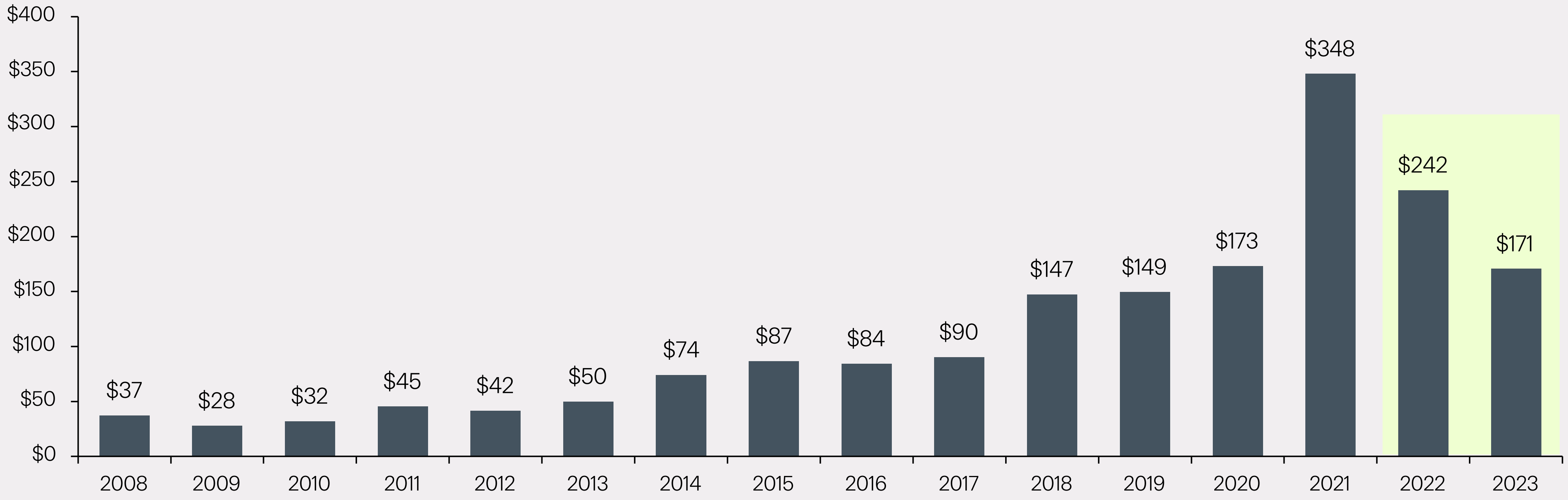
Source: Thomson Reuters Cambridge Benchmark Calculator.

Rapid acceleration of venture capital investments

Since 2009, US venture investment increased by a factor of over 12x through 2021, and the global pandemic accelerated the adoption of technology across all sectors. While pacing has slowed in 2022 & 2023, we believe there is an increasingly attractive investment landscape.

Annual US VC investment

As of 12/31/2023

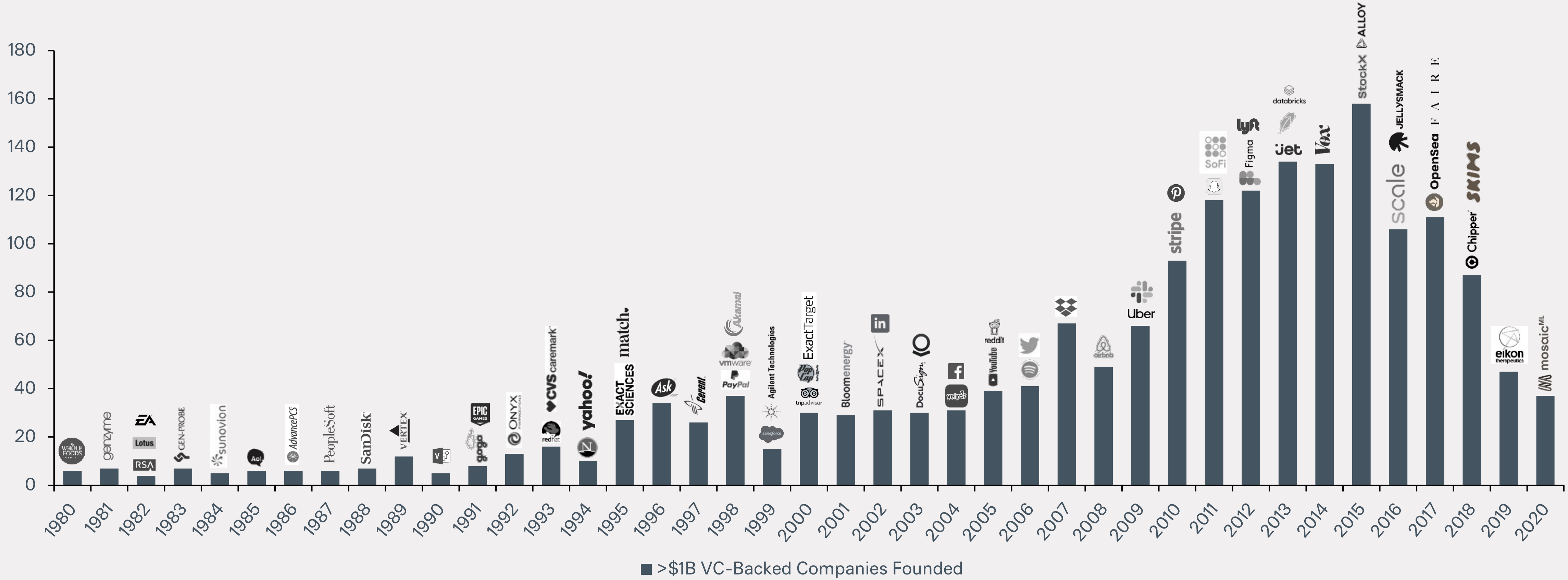


Information is subject to change and is not a guarantee of future results.
Source: Pitchbook. Data as of December 31, 2023.

Great companies are created in all market cycles

VC-backed companies valued over $1B, founded by year

As of December 2023



As of December 2023. Source: Pitchbook. Logos represent $1 billion private and public venture-backed companies based on founding year.

RISKS AND OTHER CONSIDERATIONS

Risks Associated with Investments. Identifying attractive investment opportunities and the right underlying fund managers is difficult and involves a high degree of uncertainty. There is no assurance that the investments will be profitable and there is a substantial risk that losses and expenses will exceed income and gains.

Restrictions on Transfer and Withdrawal; Illiquidity of Interests; Interests Not Registered. The investment is highly illiquid and subject to transfer restrictions and should only be acquired by an investor able to commit its funds for a significant period of time and to bear the risk inherent in such investment, with no certainty of return. Interests in the investment have not been and will not be registered under the laws of any jurisdiction. Investment has not been recommended by any securities commission or regulatory authority. Furthermore, the aforementioned authorities have not confirmed the accuracy or determined the adequacy of this document.

Limited Diversification of Investments. The investment opportunity does not have fixed guidelines for diversification and may make a limited number of investments.

Reliance on Third Parties. StepStone will require, and rely upon, the services of a variety of third parties, including but not limited to attorneys, accountants, brokers, custodians, consultants and other agents and failure by any of these third parties to perform their duties could have a material adverse effect on the investment.

Reliance on Managers. The investment will be highly dependent on the capabilities of the managers.

Risk Associated with Portfolio Companies. The environment in which the investors directly or indirectly invests will sometimes involve a high degree of business and financial risk. StepStone generally will not seek control over the management of the portfolio companies in which investments are made, and the success of each investment generally will depend on the ability and success of the management of the portfolio company.

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ESG Integration. While StepStone seeks to integrate certain ESG factors into its investment process and firm operations, there is no guarantee that StepStone's ESG strategy will be successfully implemented or that any investments or operations will have a positive ESG impact. Applying ESG factors to investment decisions involves qualitative and subjective decisions and there is no guarantee the criteria used by StepStone to formulate decisions regarding ESG, or StepStone's judgment regarding the same, will be reflected in the beliefs or values of any particular client or investor. There are significant differences in interpretation of what constitutes positive ESG impact and those interpretations are rapidly changing. The description of ESG integration herein is provided to illustrate StepStone's intended approach to investing and firm operations; however, there is no guarantee that the processes will be followed in every circumstance or at all.

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