PitchBook

Q2 2023

with preliminary Q3 2023 data

GLOBAL

Fund Performance Report

PitchBook

Contents

Horizon IRRs by strategy*

	Q3 2023**	1-year	3-year	5-year	10-year
Private equity	0.3%	6.6%	22.9%	17.6%	16.4%
Venture capital	-0.7%	-8.0%	18.0%	16.4%	15.1%
Real estate	2.3%	-1.2%	13.0%	9.3%	11.0%
Real assets	-2.5%	9.4%	15.7%	8.5%	7.8%
Private debt	0.2%	6.9%	10.1%	7.7%	8.2%
Funds of funds	3.2%	-3.7%	20.2%	15.8%	13.7%
Secondaries	0.6%	0.2%	20.9%	14.4%	13.5%
Private capital	**0.2%**	**4.4%**	**18.8%**	**13.9%**	**13.5%**

Source: PitchBook • Geography: Global • *As of June 30, 2023
**Preliminary quarterly return

Readers can access an accompanying Excel file containing additional charts and all underlying data for this report here.

PitchBook Benchmarks (as of Q2 2023 with preliminary Q3 2023 data) may be found here. The quarterly report provides greater detail than the Fund Performance Report, with granular IRR, multiple, and PME breakouts for Global, North America, Europe, Private Equity, Venture Capital, Real Estate, Real Assets, Private Debt, Funds of Funds, and Secondaries, as well as links to Excel versions of all Q2 2023 Benchmarks Reports.

Click here for PitchBook's report methodologies.

Click here for PitchBook's private market glossary.

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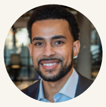

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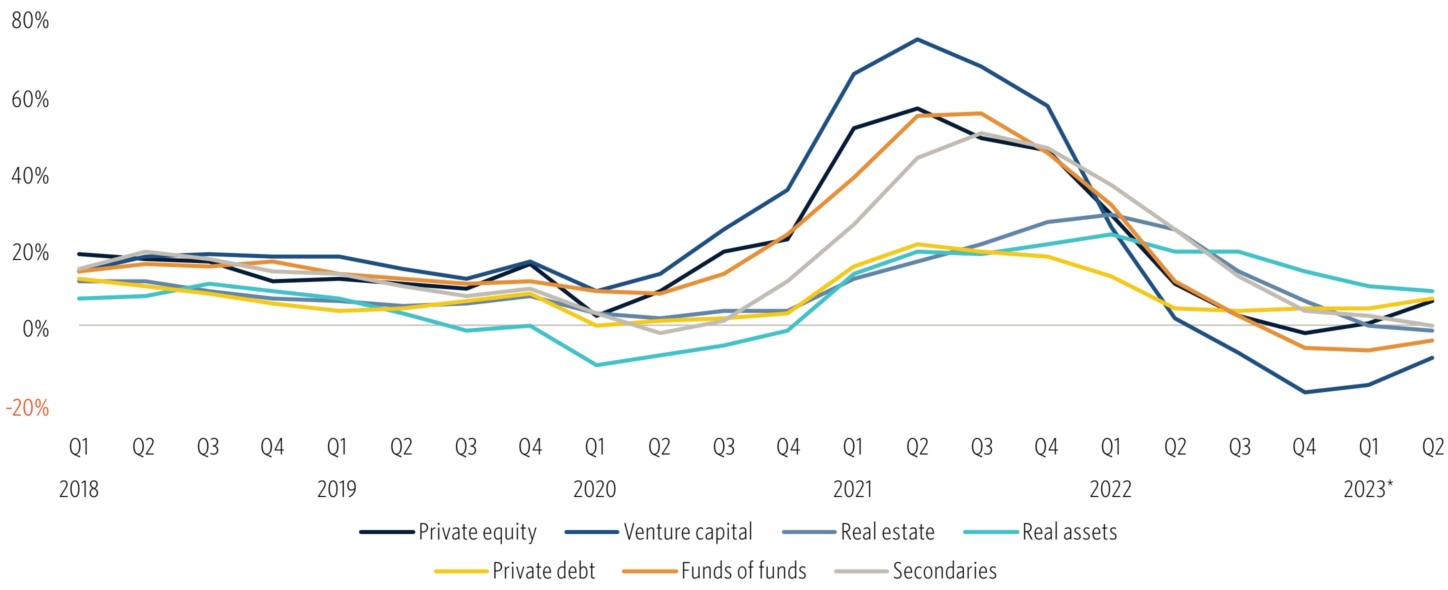
Overview

Rolling one-year horizon IRRs by strategy*

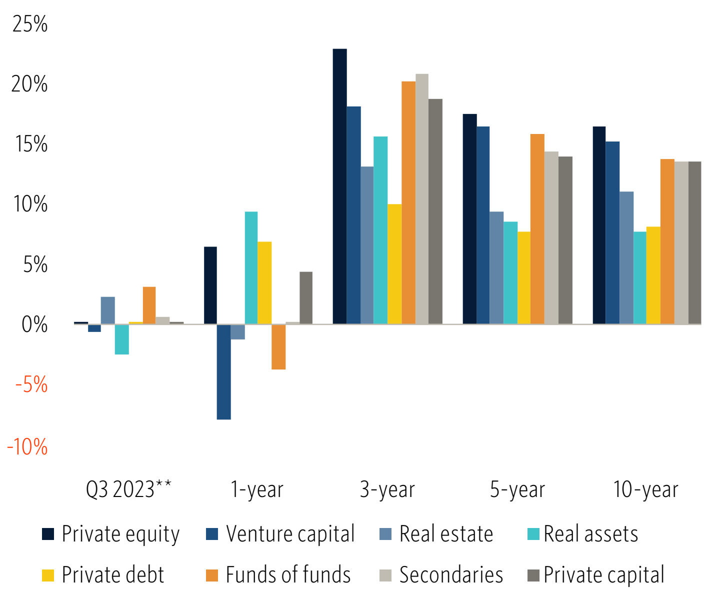


Source: PitchBook • Geography: Global • *As of June 30, 2023

Hilary Wiek CFA, CAIA
Senior Strategist

In the year through June 30, 2023, the returns of the various private market strategies did not track to long-term trends represented by 10-year returns. Only real assets, dominated by infrastructure, outperformed its 10-year average with a 9.4% short-term versus 7.8% long-term return. All other strategies, and private capital overall, had lower returns in the near term versus the annualized returns dating back to mid-2013. The relative rankings were also different in the short- and long-term periods. PE, the current long-term leader, returned only 6.6% for the year through June 2023, much lower than the 10-year return of 16.4%. VC, with the second-best long-term results, struggled the most in the recent period, declining 8.0%, as it continued to backtrack on 2021 valuation markups. Still, this poor showing in VC returns is relatively mild compared to what public markets can do when they are at their worst. Private debt, while still below its long-term average, has been enjoying positive returns, while the equity strategies have been marking down on-paper valuations since the peak of 2021.

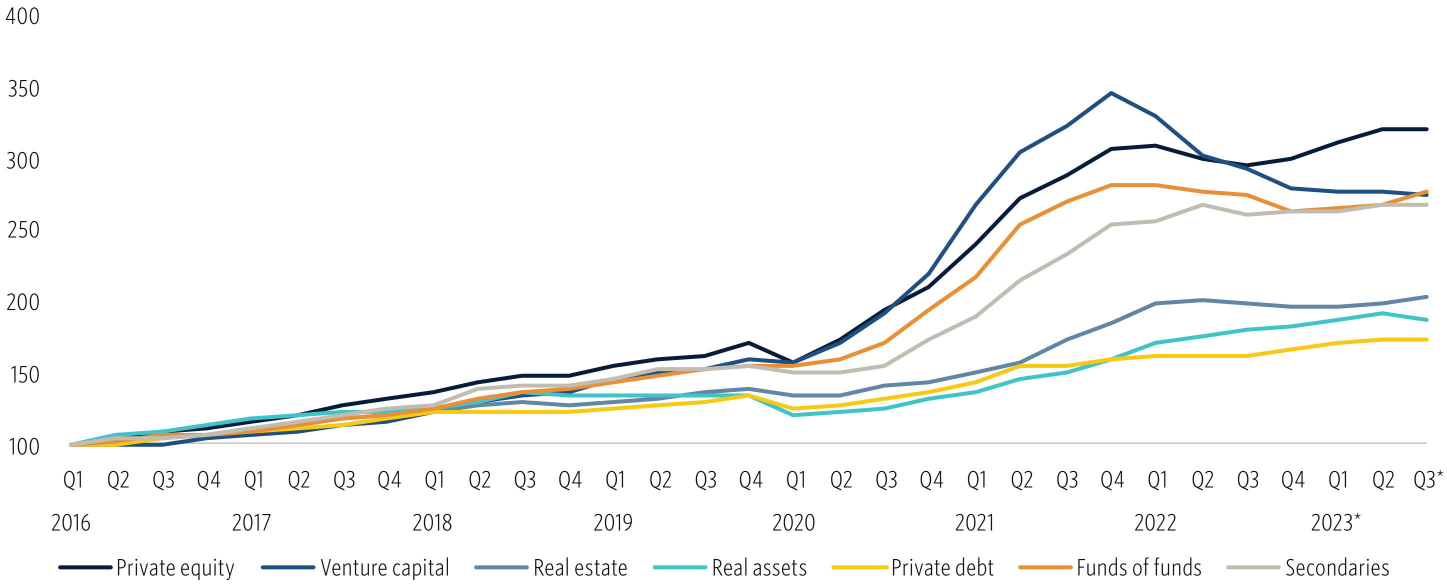
Horizon IRRs by strategy*



Source: PitchBook • Geography: Global • *As of June 30, 2023
**Preliminary returns are as of September 30, 2023

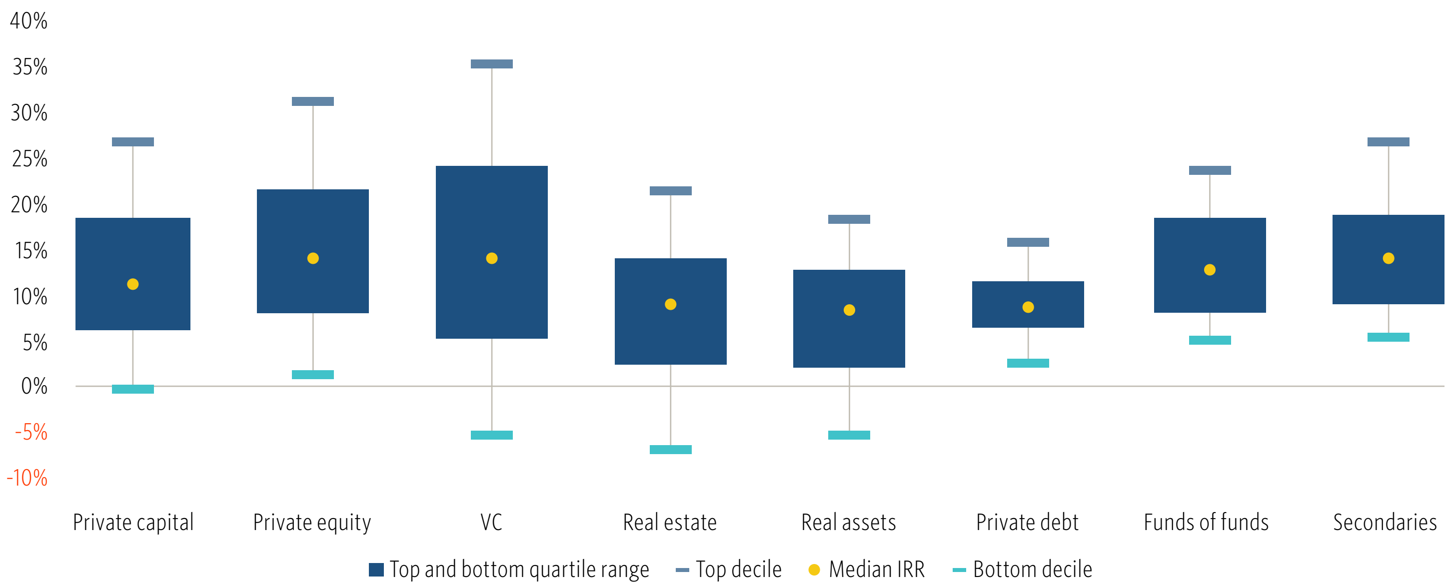
2023 ended up being a surprisingly good year in the public markets, particularly with Q4 returns reaching double digits for many public equity slices. Given the delay in private market reporting, it remains to be seen if VC and PE will track to those results. The public markets were down in Q3 2023, while the preliminary returns for the private market strategies are showing a slightly positive overall figure of 0.2%, with some variation across strategies—PE barely up, VC down, real estate up, real assets down, private debt only nominally up. To have a good Q4, private fund strategies would need to either find reasons for write-ups, which the public market performance could potentially justify, or they would need to have restarted the exit market, which our data does not indicate has happened. Even the many aging funds that are arranging some liquidity to LPs through continuation funds are likely not registering significant gains, given that fairness would dictate that the transfer of one or more assets into such a vehicle would need to happen in a way that would not harm either the exiting LPs or the new LPs. By this logic, any Q4 recovery in private fund performance would need to come from unrealized gains, something LPs may be less tolerant of after the excessive paper returns of 2021 and the subsequent need for write-downs.

Performance of PitchBook indexes by strategy*



Source: PitchBook • Geography: Global • *As of September 30, 2023
Note: Q3 2023 data is preliminary.

IRR fund performance dispersion by strategy (vintage years 2005-2018)*



Source: PitchBook • Geography: Global • *As of June 30, 2023

Pooled IRR comparisons by vintage year*

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	10-year horizon IRR
13.4%	15.5%	12.4%	19.8%	21.1%	17.0%	17.6%	22.0%	20.3%	24.8%	24.5%	22.9%	28.2%	38.3%	17.3%
10.3%	13.3%	12.3%	14.4%	16.4%	16.0%	15.3%	20.3%	19.0%	23.1%	23.2%	22.3%	26.0%	23.9%	16.3%
10.0%	13.0%	12.2%	14.2%	15.7%	15.9%	14.7%	19.1%	17.8%	19.1%	22.5%	20.5%	21.4%	20.0%	15.1%
8.8%	11.6%	12.1%	12.7%	14.8%	14.1%	14.4%	14.9%	17.0%	18.2%	22.4%	19.8%	20.4%	15.7%	13.7%
6.2%	10.4%	11.3%	12.2%	14.7%	13.3%	12.1%	14.0%	13.1%	18.2%	17.9%	18.5%	20.0%	15.5%	13.5%
6.0%	8.9%	11.1%	12.0%	14.3%	13.2%	10.6%	11.6%	13.1%	13.3%	16.2%	13.6%	19.7%	10.8%	11.1%
5.7%	7.9%	10.3%	10.5%	13.0%	13.1%	9.9%	10.7%	12.8%	12.3%	13.4%	11.0%	13.3%	10.5%	10.9%
5.0%	6.0%	6.1%	8.4%	7.2%	10.8%	7.9%	10.4%	10.8%	9.7%	11.3%	11.0%	13.1%	8.7%	10.4%
3.6%	5.0%	6.1%	7.2%	7.0%	5.7%	7.2%	9.3%	9.9%	9.7%	11.0%	10.3%	10.9%	8.1%	8.2%
2.5%	-3.0%	0.6%	-6.1%	-2.5%	0.4%	4.9%	6.6%	6.2%	6.4%	6.7%	9.5%	8.4%	-12.6%	4.1%

Buyout | Funds of funds | Growth-expansion | Infrastructure | Oil & gas
Private debt | Value-add real estate | Opportunistic real estate | Secondaries | Venture capital

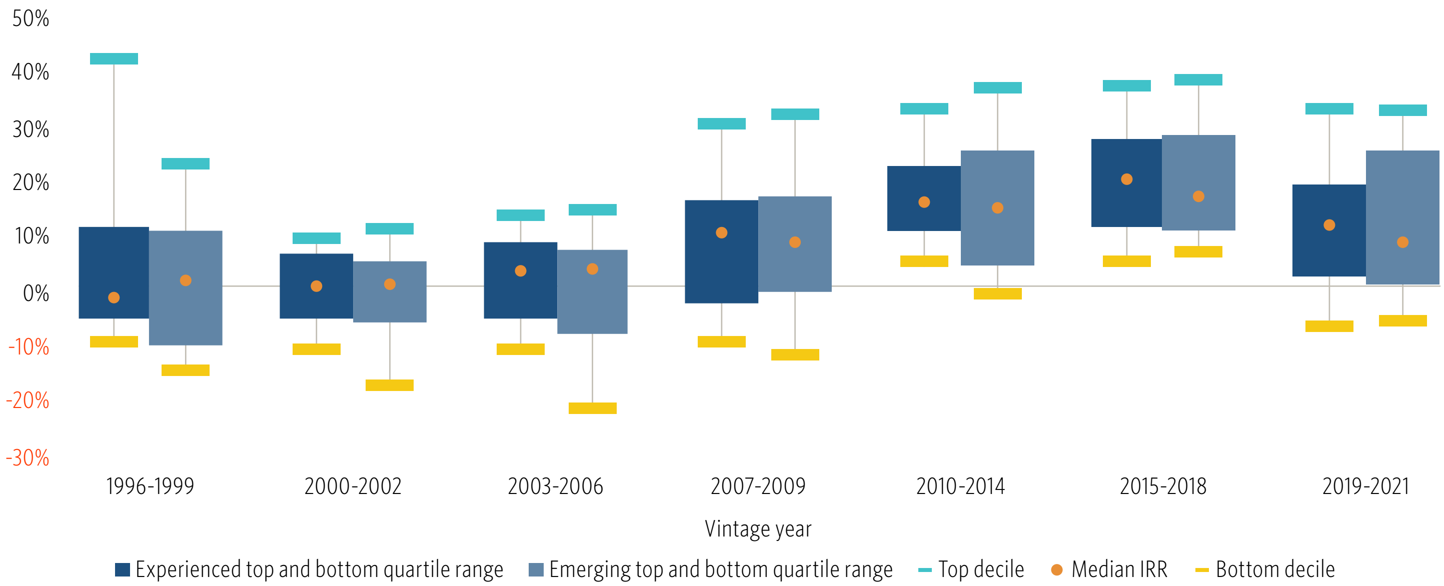
Source: PitchBook • Geography: Global • *As of June 30, 2023

Despite their lack of popularity compared to primary funds, it is interesting to note that for most vintage years between 2007 and 2020, funds of funds were among the top-performing strategies delineated in the latest quilt chart. Private debt has generally been near the bottom, although the 2020 vintage year has seen some relative improvement versus other strategies. That said, the 10.8% return is not abnormally high versus other vintages; it just compares well when VC and growth expansion fell to unusually low levels in that vintage's rankings. Another anomaly from older vintages has been secondaries. Whether it be the rise of GP-led transactions or just the ability to buy at a discount and ride the markups from VC and PE in 2020 and 2021, the 2018-2020 vintages have really shone. While skill is one determinant of how a fund will perform, starting at a particular point in time can also be advantageous to some strategies. It is important to recognize, however, that the results in the left half of the graphic above should be considered nearly final, while the vintages from 2015 forward will continue to see shifts in the relative rankings in future quarters.

SPOTLIGHT

Does experience matter?

Net VC fund IRR dispersion across vintage cohorts



Source: PitchBook • Geography: Global • *As of June 30, 2023

Zane Carmean, CFA, CAIA
Lead Analyst, Quantitative and Funds Research

We have been documenting the difficult fundraising environment in private markets for several quarters now.[1] It has been particularly taxing on emerging managers, who without a lengthy track record and well-known brand have had a difficult time prying loose LP commitments. Overallocations due to the denominator effect in 2022 turned into liquidity issues stemming from the slow exit environment, which has crimped LP distributions from aging funds. Private capital allocation budgets have therefore been consolidating, and LPs are being choosy about their manager relationships, favoring experienced managers at a higher clip than in years past.[2]

Emerging managers tend to be more accessible because many more new funds are being raised than LPs willing to take a chance on them. That said, some LPs are attracted to the potential for outperformance from better fee arrangements and a greater hunger felt by scrappy managers who haven't been gorging on an AUM-fee machine. Recent headlines have been made with CalSTRS tapping Sapphire Ventures to manage and build out its emerging manager program for its VC portfolio.[3] However, many LPs deal with reputational risk if manager selection goes poorly, and there can be greater costs in evaluating new managers relative to recommitting to existing relationships. Selecting name brands provides some comfort. With many LPs reevaluating their private capital investment portfolios and GP relationships—or looking to build out new investment programs—the debate on new versus old is ongoing. For this spotlight on performance, we have looked at historical fund returns for VC and buyout funds, specifically emerging versus experienced players, for clues as to whether or not targeting emerging managers is worth the risk-reward tradeoff.

We first break down return dispersion within each strategy, grouped by vintage cohorts representing different investment regimes. Focusing first on VC, we find that median returns

1: "Q3 2023 Global Private Market Fundraising Report," PitchBook, Hilary Wiek et al., December 4, 2023.
2: We define "experienced" managers as those that have raised four or more funds. "Emerging" managers are those that have raised three or fewer.
3: "CalSTRS and Sapphire Partners Join Forces to Invest in New and Next Generation VC Managers," Sapphire Ventures, September 13, 2023.

after the dotcom bubble burst have tended to be weaker in the emerging manager cohort relative to experienced firms. However, the upside potential tends to be greater, as measured by top-quartile and decile performers. For example, in our cohort of funds from 2010-2014, a quarter of emerging manager funds have achieved 24.7% net IRRs or better, versus a top-quartile threshold of 21.9% across mature GPs. In general, emerging managers have found it easier to achieve returns of at least 3.0x net TVPI (13.7% of funds from 1996-2018) compared to established VCs (10.1% of funds). The upside tends to come with wider dispersion in performance, however. The average difference in IRR between top and bottom quartiles from vintages 2003 to 2021 is 13.9% in our experienced GP cohort compared with 15.5% within emerging managers.

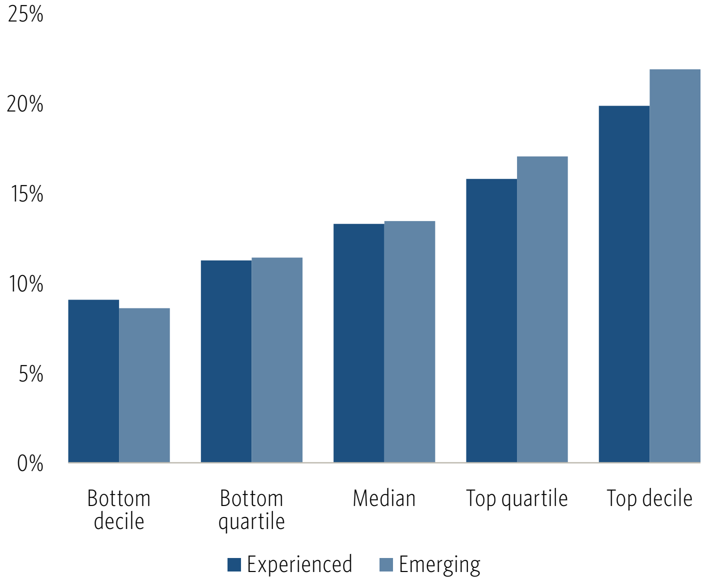
The logical next question becomes, "Is the upside potential of emerging managers worth the downside?" To answer that, we have created a simple portfolio simulator to randomly select a fund in each vintage year. We run one version of the simulations selecting funds from only our emerging manager group and created another version using only experienced managers, beginning in 2006.[4] We ran 100 simulations of each strategy. We allocate an equivalent amount in each hypothetical commitment and track the cash-on-cash returns as well as pooled IRRs of each portfolio.

Overall, we find that the emerging manager-dedicated VC portfolios would have tended to outperform the established-manager portfolios, although by relatively slim margins. The top decile simulation yielded a 22.0% net IRR from 2006 through Q2 2023 in our emerging manager portfolios. That beat our top decile portfolio of 19.9% IRR in the experienced GP portfolios. Significantly, our median and bottom quartile portfolio simulations eked out slight wins for the emerging manager portfolio as well, but the bottom decile underperformed by about 50 basis points.

The oft-touted benefit that mature GPs advertise is that their networks and access to high-quality founders/startups are difficult to replicate. However, the data indicates that new GPs can find success reliably.[5] The results suggest that in more than three-quarters of simulated cases, the emerging manager program would have outperformed compared with the experienced manager program. In addition, greater volatility across individual funds can be made up for by the potential of higher upside that emerging VCs have historically afforded. However, it is worth noting that the emerging manager portfolios tended to have lower DPI (meaning more of the returns are baked into unrealized value).

When turning our attention to buyout funds, we also find wider dispersion in emerging managers compared to experienced GPs, but with more limited upside potential relative to power-law driven VC funds.[6] The average top-quartile threshold from 1996-2018 is actually higher for experienced buyout GPs (20.6%) compared with emerging managers (19.2%), and they are each about as unlikely to achieve a net 3.0x TVPI, at sub-5% of funds in both groups. At the same time, lower downside for emerging managers suggests the risk-reward dynamics may not be quite the same in buyout strategies as they are for VCs.

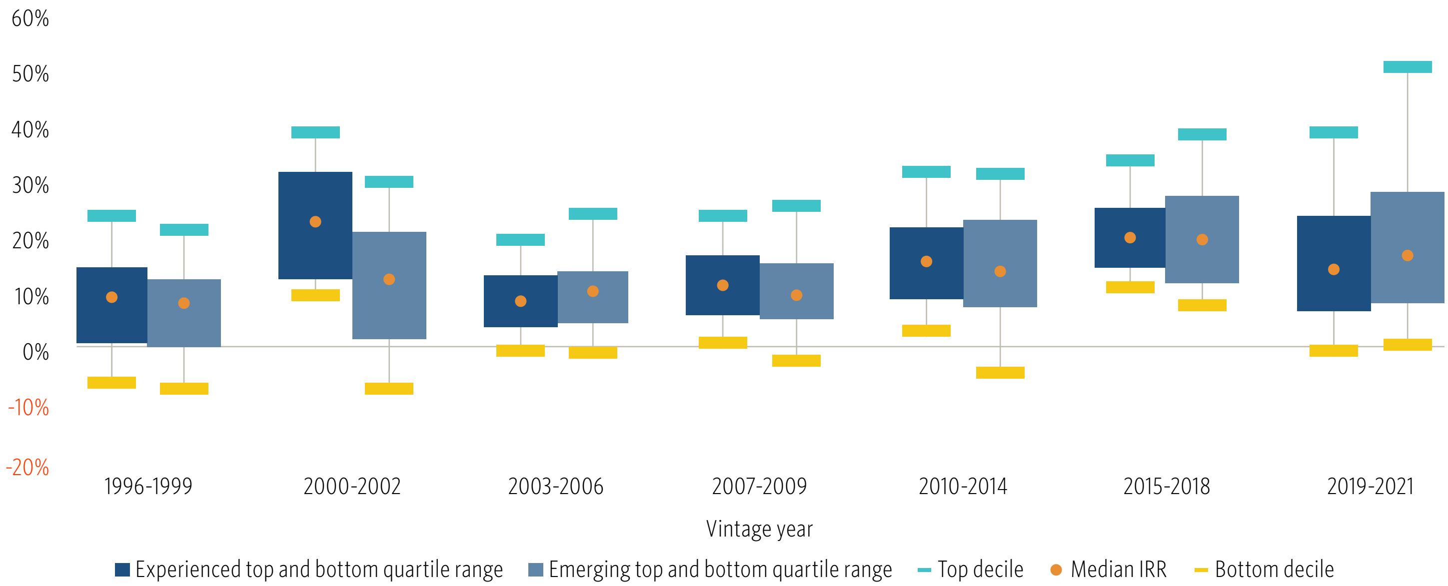
Pooled IRR quantiles of VC fund portfolio simulations by manager experience



Source: PitchBook • Geography: Global • *As of June 30, 2023

4: It's worth noting that limited data availability means portfolio simulations will have substantial overlap. In our analysis, there are 211 emerging VC manager funds with adequate cash flow data from 2006 to 2022. There are 489 experienced manager VC funds over the same timeframe.
5: An important caveat is that our data is not exhaustive and does not capture all private capital fund performance. There may be survivorship bias given that poor-performing managers may close up shop prior to attracting institutional investors, a key source for much of our funds return data. Likewise, some of the best-performing GPs have not accepted institutional capital historically.
6: "What AngelList Data Says About Power-Law Returns In Venture Capital," AngelList, Abe Othman, June 18, 2020.

Net buyout fund IRR dispersion across vintage cohorts

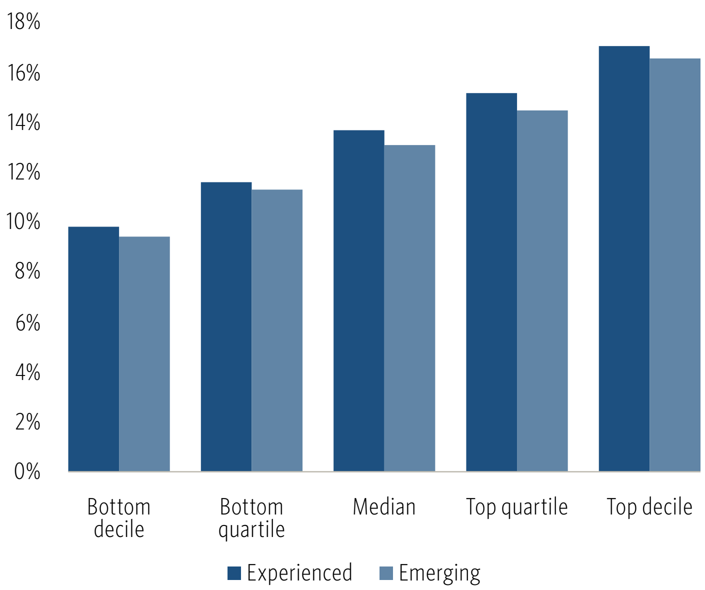


Source: PitchBook • Geography: Global • *As of June 30, 2023

Running our simulation results, again from 2006 to midway through 2023, our buyout strategy emerging manager programs tend to underperform their experienced GP counterparts. Across the best- and worst-performing portfolios, it would have been better to have committed capital to more mature managers. On average, the established GP portfolios generated a 13.4% net IRR compared with 12.9% for emerging GP portfolios. The relatively minor difference translates to about 5.3% more cash-on-cash return in the established-manager simulations on average, although that is understated given it ignores the compounding of capital recycling (distributions are not reinvested).

There are several factors beyond historical investment returns to consider when diligencing and selecting managers. From people to pricing, we outlined a helpful framework last year.[7] While this performance analysis is not definitive proof of the merits or drawbacks of emerging VC and buyout fund programs, it is a useful exercise for LPs to consider when thinking about their private market portfolio construction.

Pooled IRR quantiles of buyout fund portfolio simulations

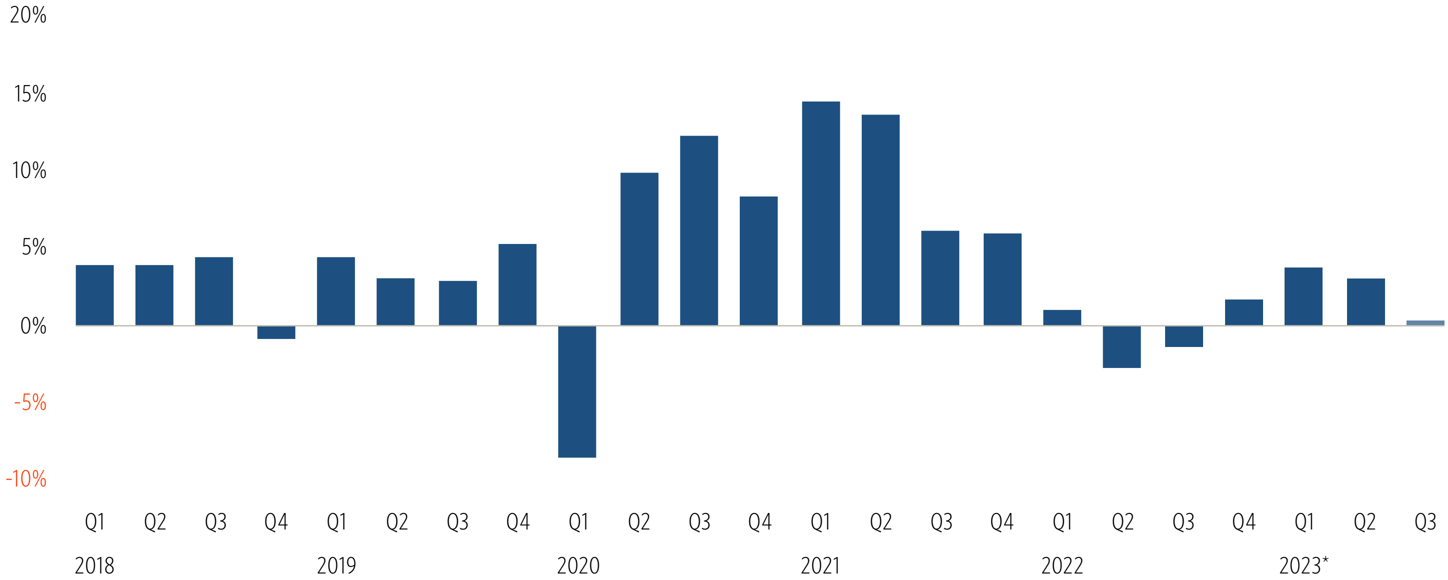


Source: PitchBook • Geography: Global • *As of June 30, 2023

7: "An LP's Guide to Manager Selection," PitchBook, Hilary Wiek, September 19, 2023.

Private equity

PitchBook Indexes: PE funds quarterly returns



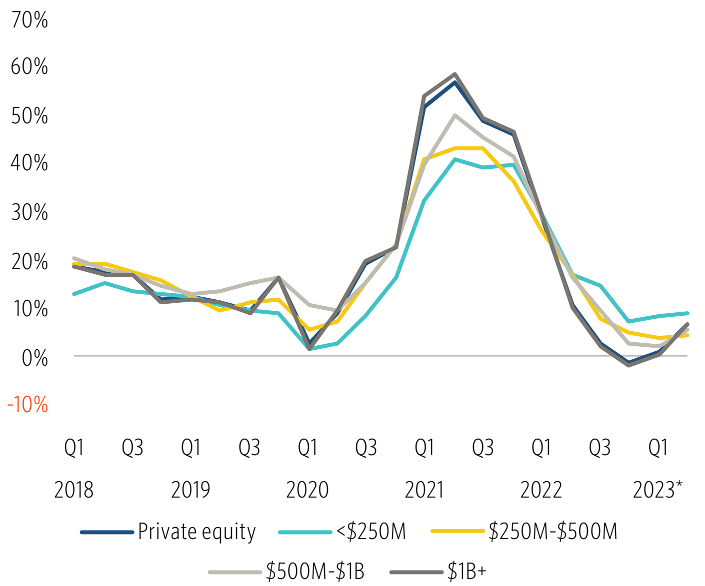
Source: PitchBook • Geography: Global • *As of September 30, 2023
Note: Q3 2023 data is preliminary

Jinny Choi
Senior Analyst, Private Equity

PE ended Q2 2023 with a one-year IRR of 6.6%, demonstrating a welcome recovery from the -1.5% return witnessed in Q4 2022, but is still far from the low double-digit returns the industry typically enjoyed between the Global Financial Crisis and the advent of the global pandemic. The relief may be temporary, however, as preliminary quarterly return figures for Q3 2023 point to another tempering of performance, with PE only rising 0.3%. Higher interest rates, depressed exits, and uncertain market dynamics continue to beleaguer PE, decelerating returns into Q3.

On a rolling one-year basis, Europe-based PE funds outperformed funds from other regions for the second quarter in a row, reversing a long-time trend of North American—and more specifically, US—outperformance. European funds returned 9.7% in Q2 and 4.8% in Q1 compared to US fund performance of 6.6% and 0.5%, respectively. However, the larger rebound in one-year horizon IRR was in US funds, improving 5.1% between Q1 and Q2, suggesting that Europe's outperformance may be short-lived. The changes in regional performance trends are indicative of shifting market dynamics and cyclical forces impacting PE returns across the globe.

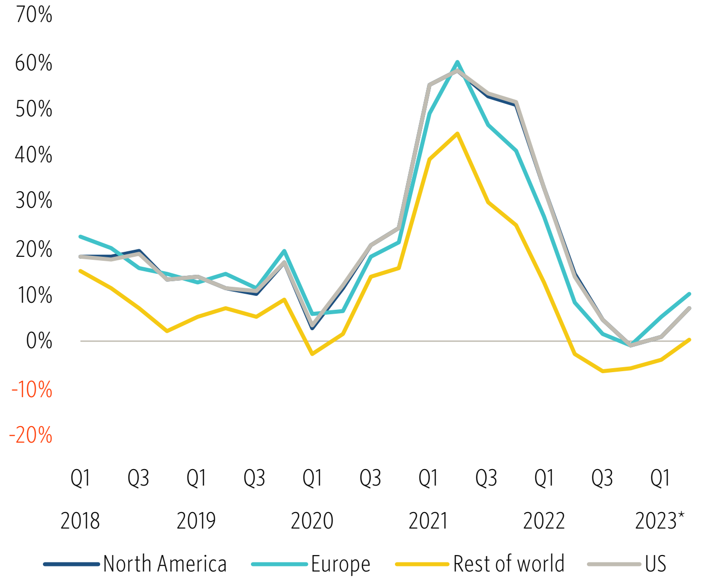
PitchBook Indexes: PE funds rolling one-year horizon IRRs by size bucket



Source: PitchBook • Geography: Global • *As of September 30, 2023

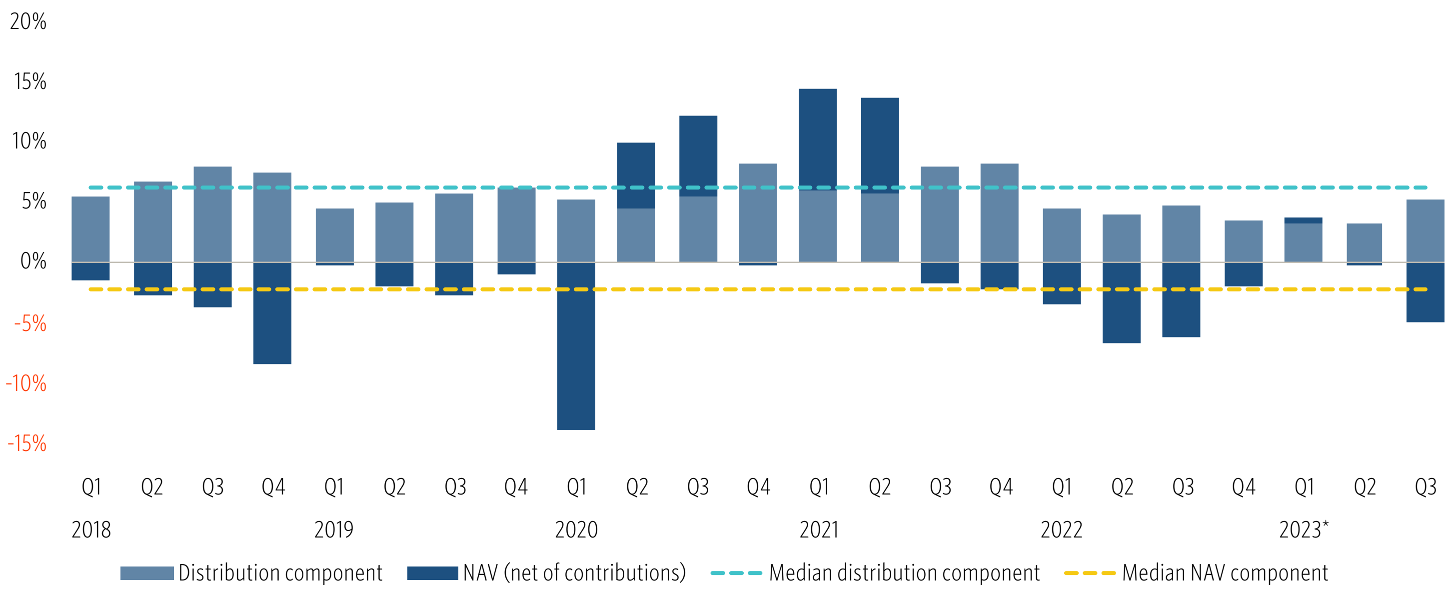
The one-year return on $1 billion+ funds improved meaningfully QoQ, jumping from 0.6% in Q1 to 6.7% in Q2, mirroring the improvement in the broader PE industry. The six major public PE firms are good indicators of more recent megafund performance: For the 12 months ending Q3 2023, the median gross return reported by these firms' core PE strategies was 11.5%.[8] Still, funds sized below $250 million maintained their performance advantage, coming out on top with a 9.2% return through Q2 on a one-year basis. Funds below $250 million have outperformed for five consecutive quarters since Q2 2022, marking their longest winning streak since 2012.

PitchBook Indexes: PE funds rolling one-year horizon IRRs by region*



Source: PitchBook • Geography: Global • *As of September 30, 2023

PitchBook Indexes PE funds quarterly return by source (% of beginning NAV)

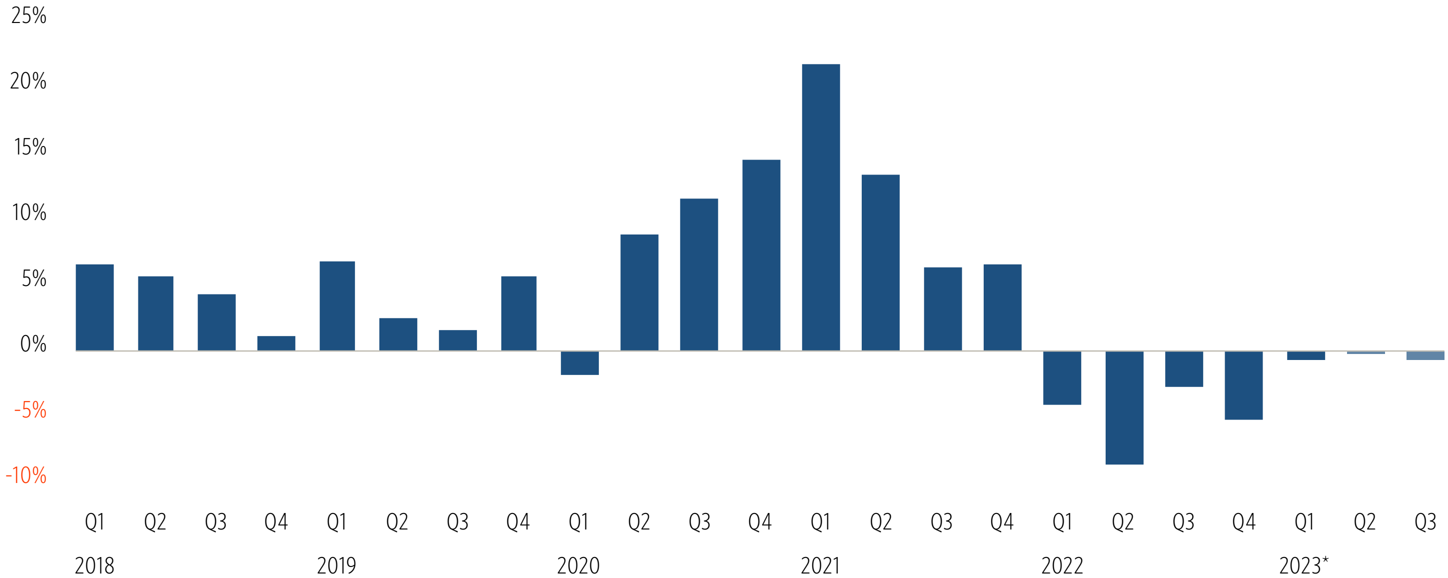


Source: PitchBook • Geography: Global • *As of September 30, 2023
Note: Q3 2023 data is preliminary

8: "Q3 2023 US Public PE and GP Deal Roundup," PitchBook, Tim Clarke et al., November 29, 2023.

Venture capital

PitchBook Indexes: VC funds quarterly returns



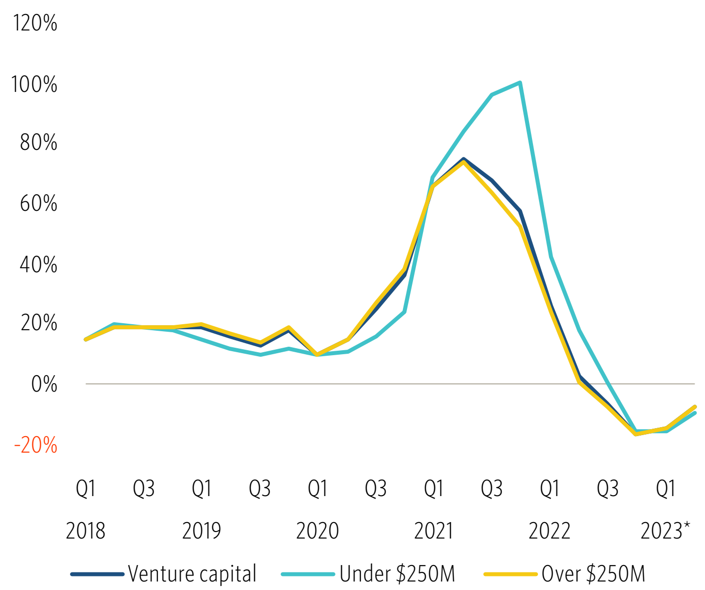
Source: PitchBook • Geography: Global • *As of September 30, 2023
Note: Q3 2023 data is preliminary

Vincent Harrison
Senior Analyst, Venture Capital

In the year through Q2 2023, the performance of VC funds continued to suffer, with the strategy generating negative returns for the fourth consecutive quarter. VC funds dropped 8.0% for the year but improved significantly compared to the preceding two quarters, which came in at −15.8% and −17.4%, respectively. Several factors have contributed to a decline in venture valuations and thus negative returns for many VC firms, particularly the languid exit environment, which has continued to restrict return potential for many startups and their investors. Moreover, a dearth of nontraditional venture investors, who historically have poured large amounts of capital into venture and assisted in buoying valuations, has created a more conservative pricing environment.[9]

These factors, among others, have created a liquidity crunch by restricting the amount of capital that can be returned to VC funds and their LPs. Not only does the liquidity crunch adversely impact fund IRRs, but it also limits the amount of capital able to be recycled back into the venture ecosystem from LP commitments. This affects both small and large

PitchBook Indexes: VC rolling one-year horizon IRRs by size*



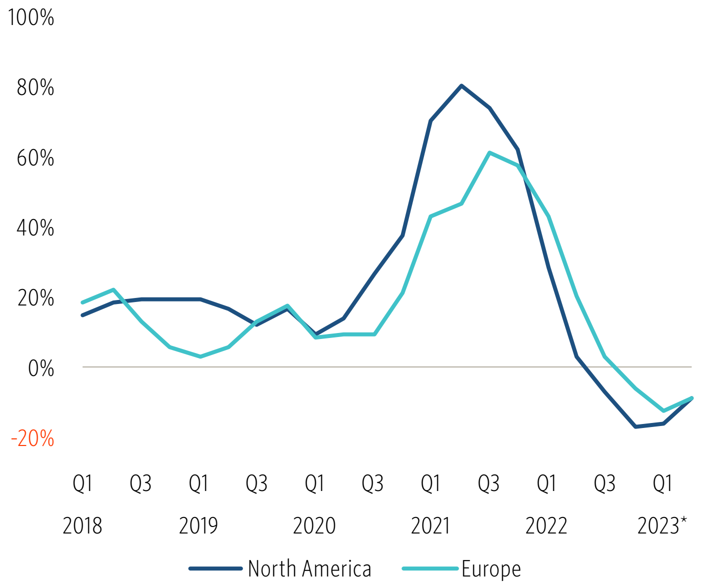
Source: PitchBook • Geography: Global • *As of September 30, 2023

9: "Q4 2023 PitchBook-NVCA Venture Monitor," PitchBook-NVCA, Kyle Stanford et al., January 10, 2024.

funds and, consequently, our data reveals broad synchrony for returns across different-sized funds. For funds under $250 million, the –10.1% one-year return observed through Q2 2023 is a notable improvement relative to Q1 and Q4 2022. Similarly, funds over $250 million notched a -7.6% return that, while still negative, is the best-performing quarter since Q2 2022. Q2 2023 marks the second consecutive quarter in which larger funds have outperformed smaller ones. This trend can likely be attributed to the larger funds' advantageous access to high-quality deals and their ability to construct more diversified portfolios, thereby providing a buffer against market fluctuations and mitigating the impact of underperformance in startup investments.

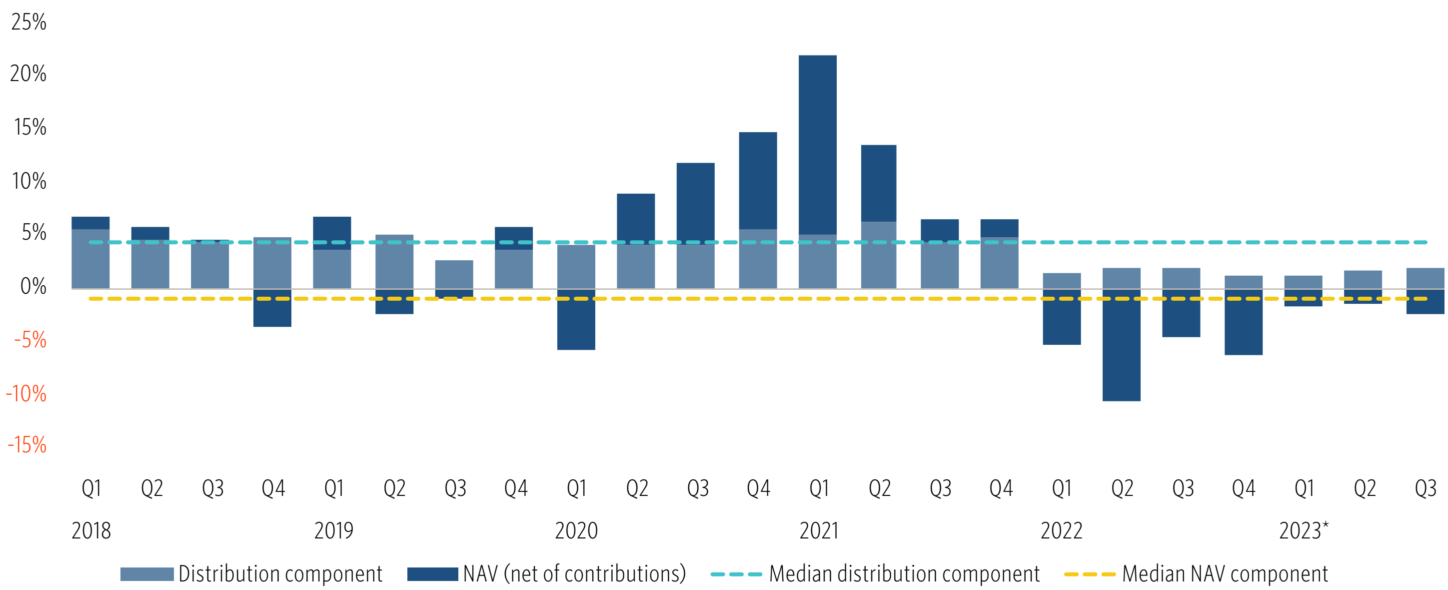
From a regional perspective, North American funds achieved near parity with those from Europe in the year through Q2 2023, the first one-year period since Q4 2021 in which North America outperformed its European counterparts, although only by 0.4%. As discussed in prior research, the recent strength from Europe is likely attributed to the fact that European VCs did not mark their portfolios up as much in 2021-22 and so had less need for write-downs in 2023.

PitchBook Indexes: VC funds rolling one-year horizon IRRs by region*



Source: PitchBook • Geography: Global • *As of September 30, 2023

PitchBook Indexes: VC funds quarterly return by source (% of beginning NAV)



Source: PitchBook • Geography: Global • *As of September 30, 2023
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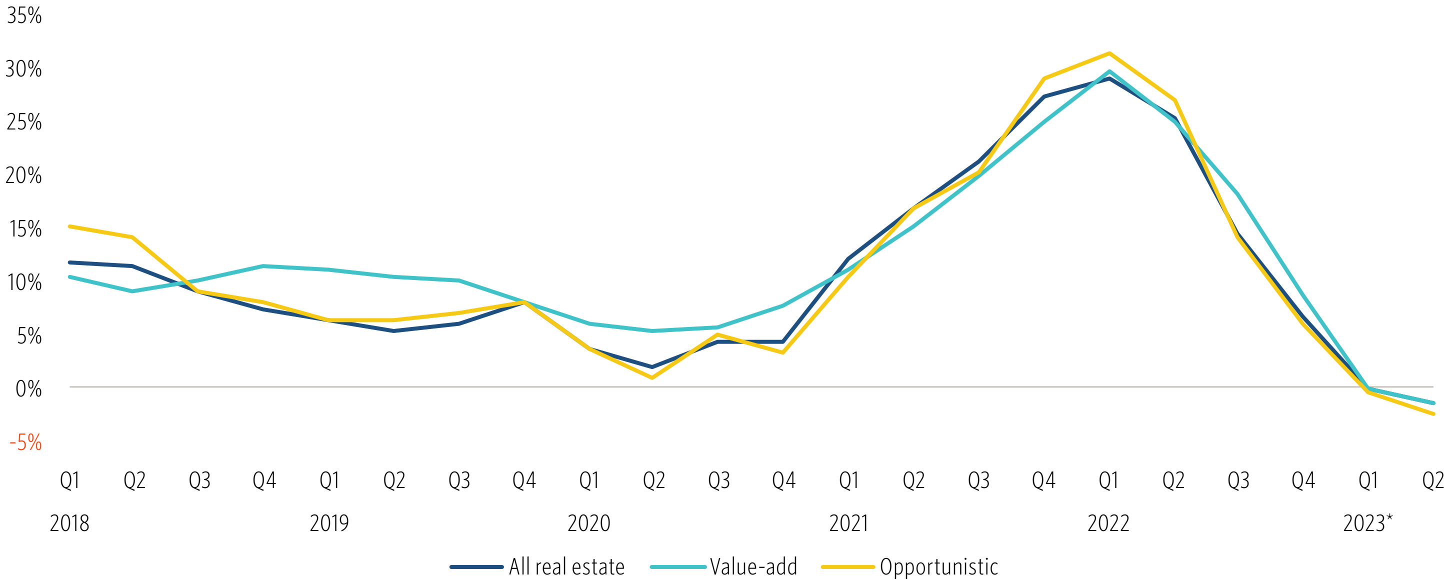
Real estate

PitchBook Indexes: Real estate funds rolling one-year horizon IRRs by type



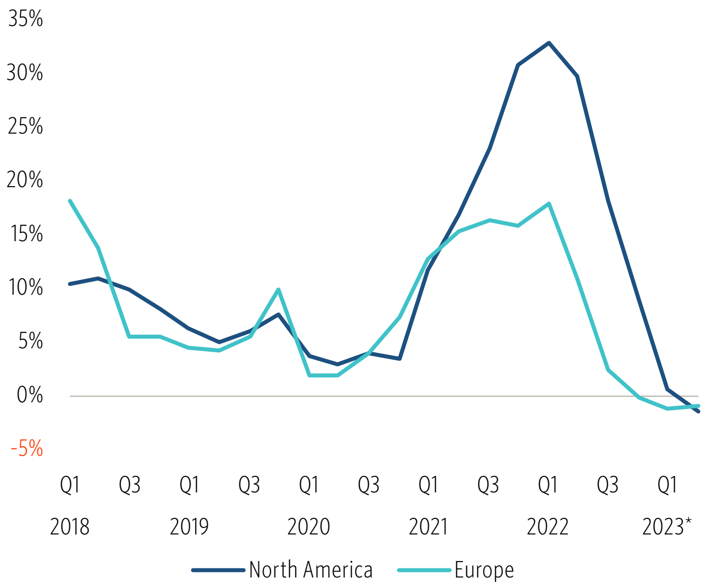
Source: PitchBook • Geography: Global • *As of September 30, 2023

Anikka Villegas
Senior Analyst, Fund Strategies & Sustainable Investing

In Q2 2023, real estate's one-year IRR went negative for the first time since 2010, dropping to -1.2% from the previous quarter's 0.0%. The past few years have seen widespread real estate asset re-pricing due to significant market shifts and a higher cost of capital, which have taken a toll on returns. Except for distressed, each of the underlying real estate strategies went negative in the year through Q2 2023, with core and core plus returning the lowest at -4.8% and value-add and opportunistic coming at -1.5% and -2.4%, respectively, per our Real Estate Benchmarks as of Q2 2023. In contrast, distressed funds achieved an 8.8% one-year IRR.

By geography, North American and European one-year returns were both negative, at -1.4% and -0.9%, respectively. However, European returns may be on the verge of a more dramatic upswing, with a 12.8% preliminary quarterly return for Q3 2023 compared to 0.6% for North America. While trends in North American and European real estate have often aligned historically, regional differences in factors such as office utilization can be impactful enough to create stark divergences in performance.

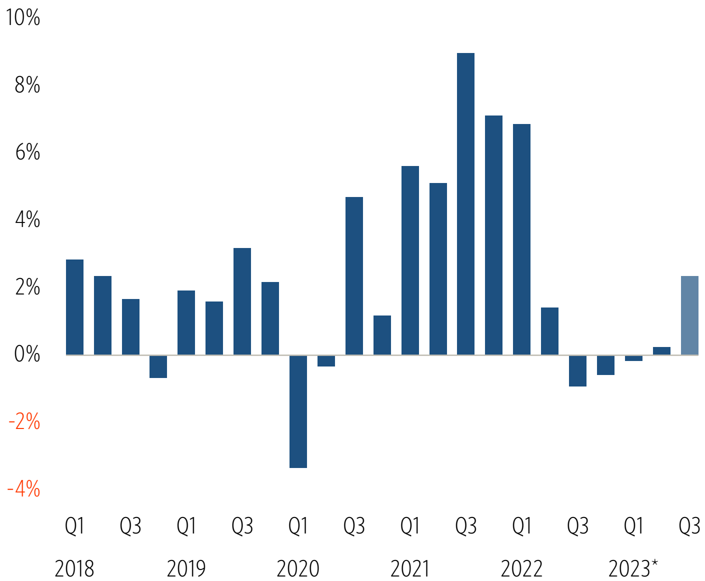
PitchBook Indexes: Real estate funds rolling one-year horizon IRRs by region



Source: PitchBook • Geography: Global • *As of September 30, 2023

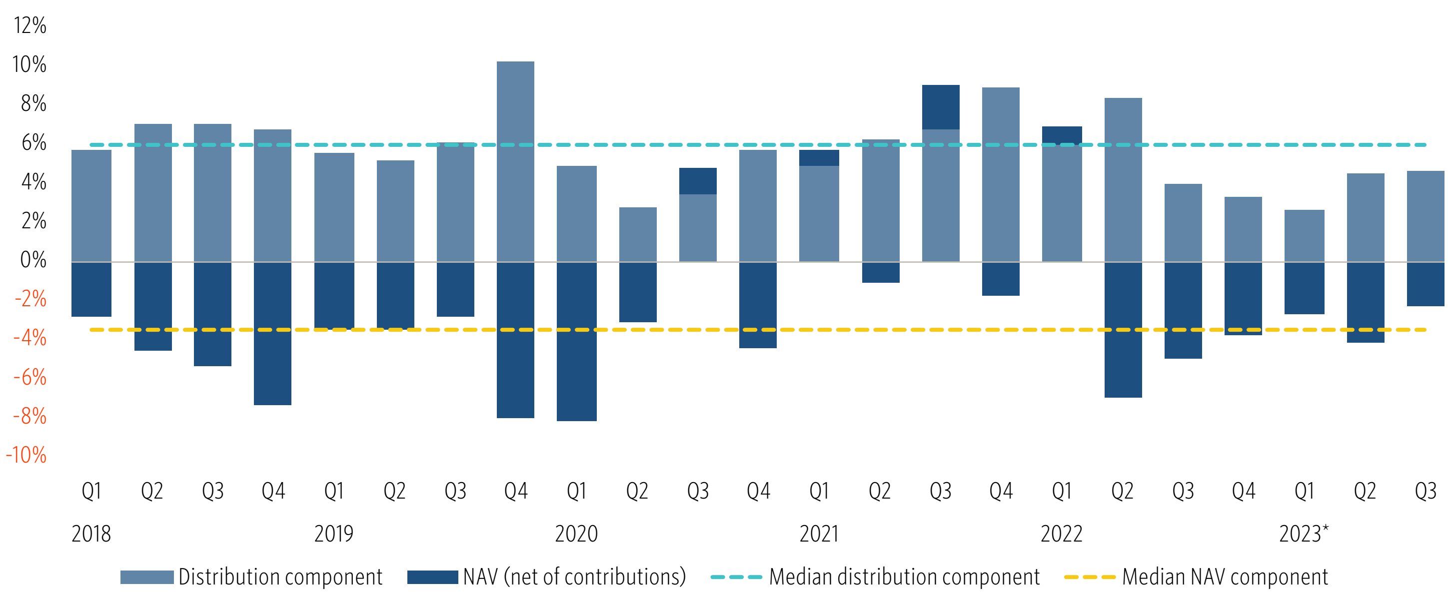
The preliminary quarterly return for real estate popped up to 2.3% in Q3 2023, with core and core plus returns rebounding to 7.3% and opportunistic increasing to 4.9%, while distressed plummeted by -10.6%, potentially erasing the advantage that strategy held in the one-year figures. Although NAV changes have been negative for six consecutive quarters, this is actually a normal state, as distributions turn into negative NAV when assets are sold. While the macroeconomic environment appears to have stabilized somewhat in late 2023 and early 2024, one or two quarters of stronger quarterly returns should not be considered a harbinger of recovery for real estate performance. With the prevailing narrative around real estate focusing on pockets of opportunity in noncore sectors, the subtext is that challenges are expected to persist for office, and to a lesser extent, portions of the multifamily, logistics, and retail sectors, in the coming year.

PitchBook Indexes: Real Estate funds quarterly returns



Source: PitchBook • Geography: Global • *As of June 30, 2023
Note: Q3 2023 data is preliminary

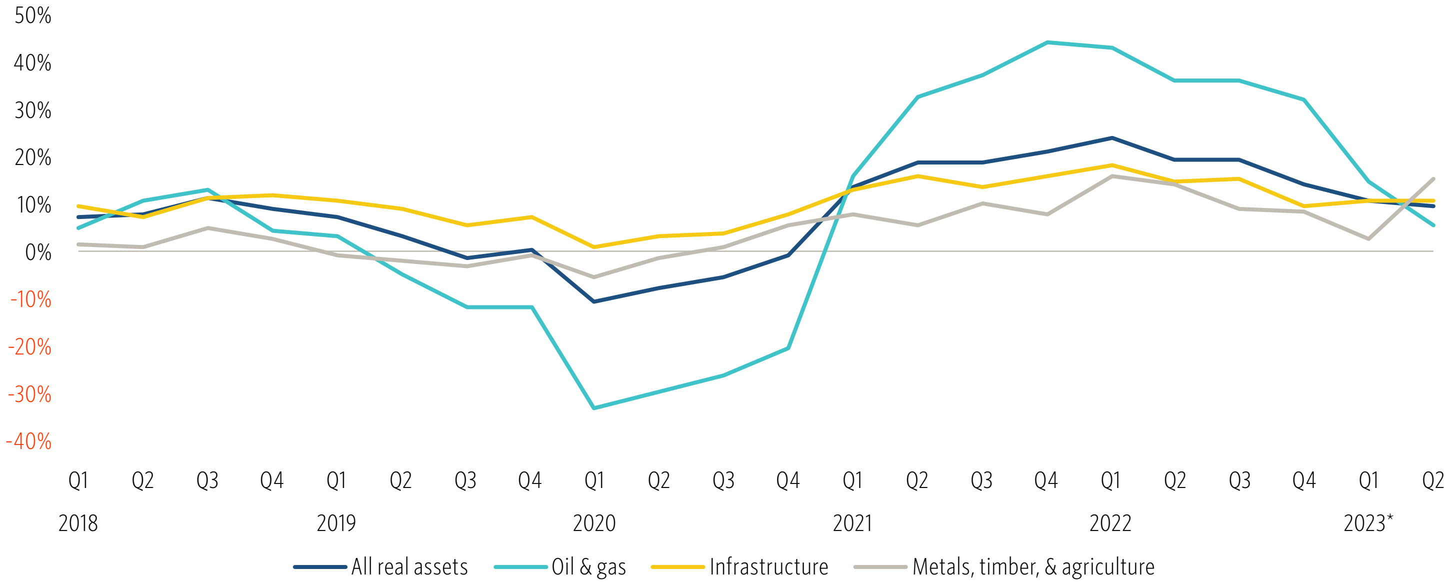
PitchBook Indexes: Real estate funds quarterly returns by source (% of beginning NAV)



Source: PitchBook • Geography: Global • *As of September 30, 2023
Note: Q3 2023 data is preliminary

Real assets

PitchBook Indexes: Real assets funds rolling one-year horizon IRRs by type



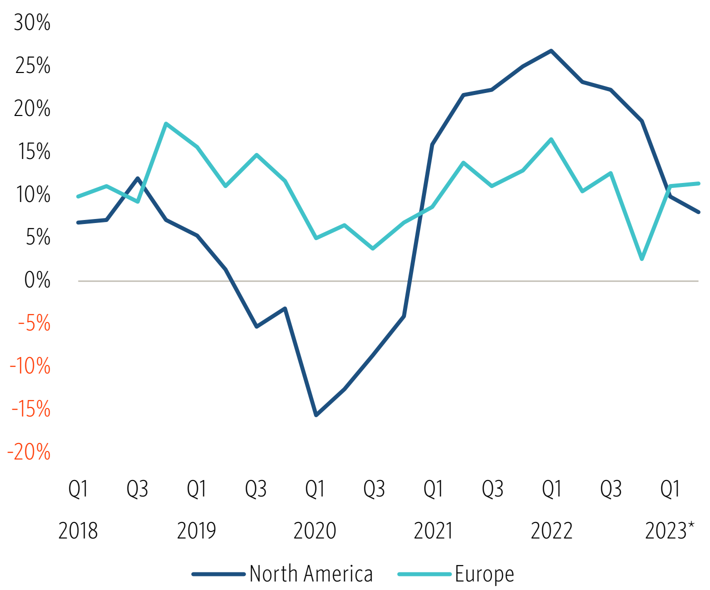
Source: PitchBook • Geography: Global • *As of September 30, 2023

Anikka Villegas
Senior Analyst, Fund Strategies & Sustainable Investing

Q2 2023 marked the fourth straight quarter in which real assets had the highest one-year IRR of any private capital strategy, with a 9.4% return. This recent bout of outperformance has reinforced the convictions of some that real assets can provide a countercyclical and inflation-hedging return stream, earning it a strategic place in allocator portfolios. With other strategies ticking back up and real assets returns declining, although still positive, it seems likely real assets will not continue to hold the lead across private market strategies. Beneath the overall figures, oil & gas continued its downward trajectory in the year through Q2, hitting 5.3% after Q1's 14.6%. With significant volatility in WTI crude oil prices in the back half of 2023, IRRs from the strategy will continue to swing in the coming quarters. Staying the course, infrastructure vehicles brought in a 10.7% rolling one-year IRR, while funds in the "other natural resources" bucket, including metals, timber, and agriculture, saw a spike to 15.3% from Q1's 2.7%.

North American real assets returns are more impacted by oil & gas, as are most of the private market funds from that region investing in traditional energy assets. While the

PitchBook Indexes: Real Assets funds rolling one-year horizon IRRs by region

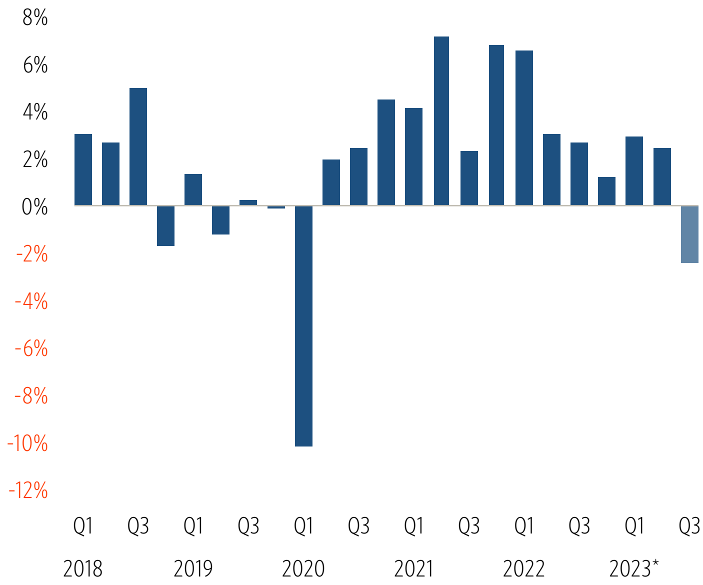


Source: PitchBook • Geography: Global • *As of September 30, 2023

majority of real assets capital sits in infrastructure vehicles in both regions, due to the oil & gas component of North American funds, Europe posted better real assets returns in the year through Q2 2023, rising 11.5% compared with 8.1% from North America.

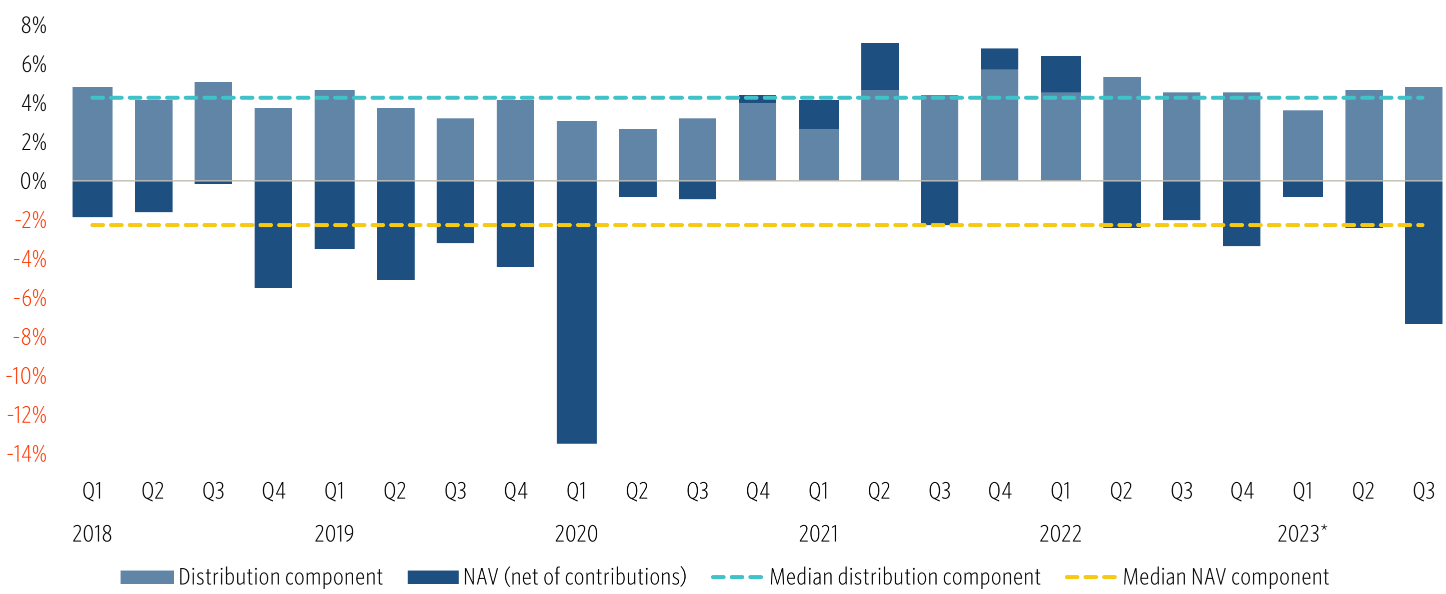
Preliminary Q3 returns suggest that the tide may be turning for real assets, as we currently show -2.5%, potentially the first time this metric has gone negative since Q1 2020. As distributions held strong—even slightly above Q2's 4.7%, at 4.8%—it was substantial NAV markdowns that dragged the quarterly return downward. Surprisingly, infrastructure vehicles are likely one of the culprits, as they pulled in a -3.6% preliminary quarterly return compared to oil & gas's 3.3%, according to our [Real Assets Benchmarks as of Q2 2023](). "Other natural resources" funds also played a role, with a -7.3% return, although they are a small portion of the universe of real assets funds and thus contribute less to the directionality of the overall return.

PitchBook Indexes: Real Assets funds quarterly returns



Source: PitchBook • Geography: Global • *As of September 30, 2023
Note: Q3 2023 data is preliminary

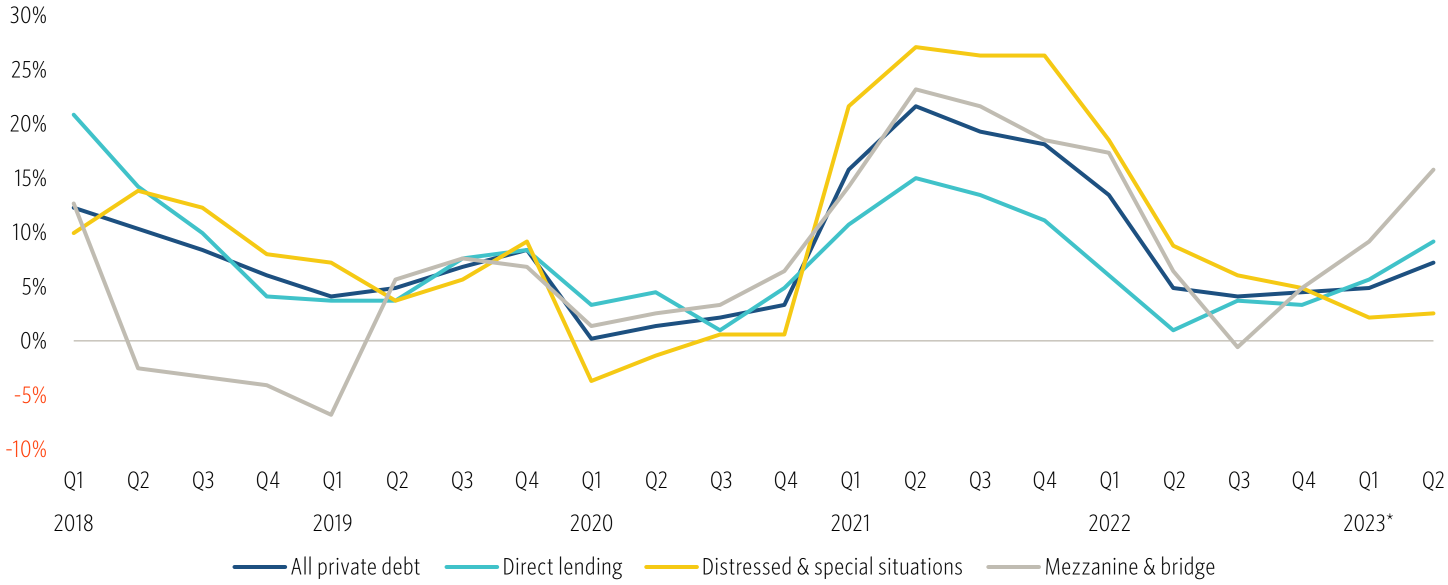
PitchBook Indexes: Real assets funds quarterly returns by source (% of beginning NAV)



Source: PitchBook • Geography: Global • *As of September 30, 2023
Note: Q3 2023 data is preliminary

Private debt

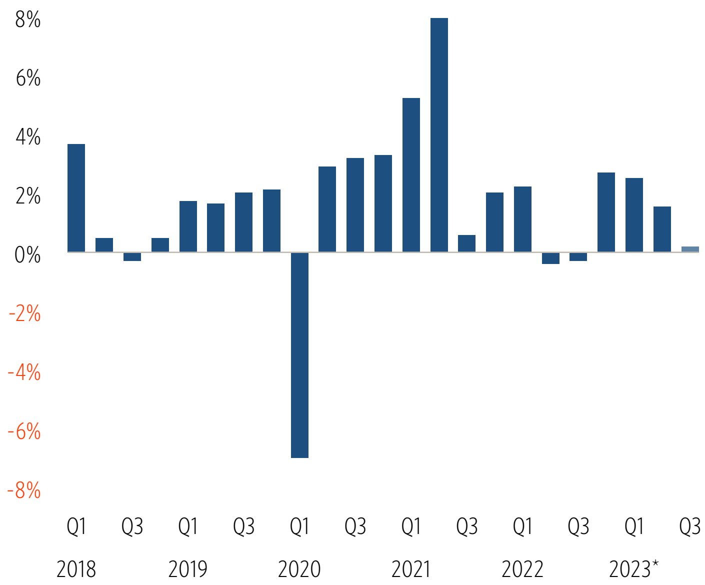
PitchBook Indexes: Private debt funds rolling one-year horizon IRRs by type



Source: PitchBook • Geography: Global • *As of June 30, 2023

Tim Clarke
Lead Analyst, Private Equity

PitchBook Indexes: Private debt funds quarterly returns



Source: PitchBook • Geography: Global • *As of September 30, 2023
Note: Q3 2023 data is preliminary

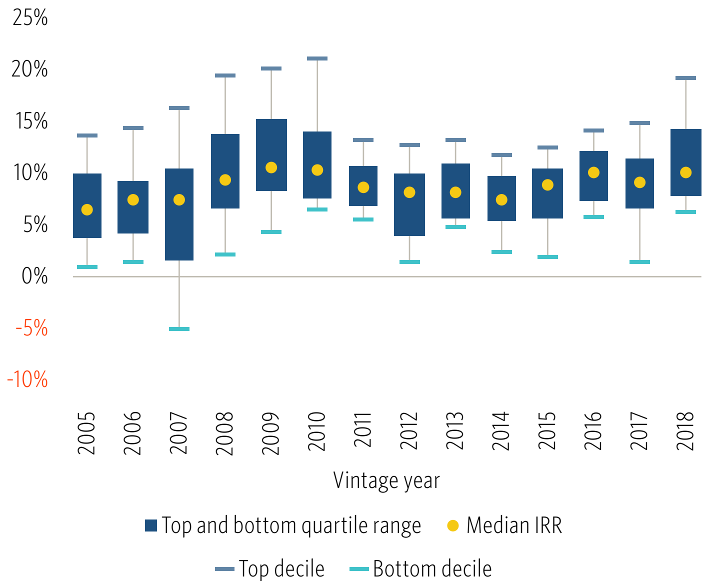
It was an exceptionally strong year for floating-rate leveraged loans, which represent the bulk of private debt fund holdings. A good proxy for how these loans performed, the US Morningstar LSTA index, gained 13.3% for the year. This was the highest annual reading since the Global Financial Crisis (GFC) and the second-strongest return ever. The equivalent index for Europe posted a nearly identical 13.4% return, also a post-GFC high. Nearly three quarters of the US LSTA index return (9.0% of the 13.3%) was coupon clipping. This roughly equates to the blended yield-to-maturity on newly issued LBO loans in the broadly syndicated market, which rose from 6.7% in 2022 to 10.4% in 2023 and closed out the year at a quarterly high of 11.6%.

These persistently high yields explain the continued popularity and strong relative performance of private debt funds. Many are originating loans at yields that are equal to or higher than the bank-led syndicated market, which has retrenched significantly outside of refinancing and re-pricing activity. As a result, private debt continues to inch up the performance league table relative to other private capital strategies and ranks as the second highest, with a one-year horizon return of 6.9% through Q2

2023. Our preliminary estimate of Q3 2023 performance by private debt funds is 0.2%, which compares favorably to the -3.0% return in corporate bonds and -5.2% return in US 10-year Treasuries during the same span.[10]

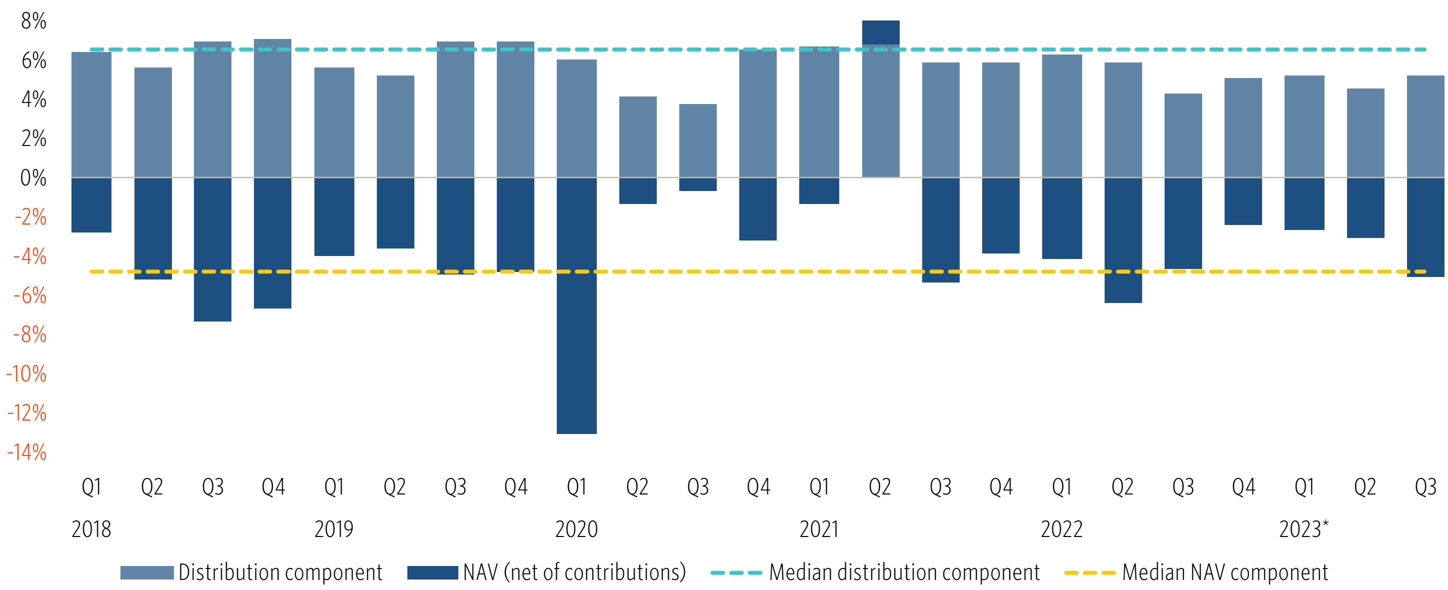
Drilling down to the major substrategies, mezzanine funds kicked into high gear with a one-year IRR of 15.5% as of Q2 2023. This compares to a one-year return of 2.3% for distressed/special situation funds. These represent the riskiest of the substrategies within private debt and historically the highest returning, but for the time being, distressed has been held back by a target-starved environment. The distressed subset of the LSTA Index has contracted by 39.5% in investable value from the March peak during the bank mini-crisis.[11] Additionally, default rates have defied expectations by dipping in August and September in the private credit and syndicated loan markets, and although they are rising again, many loan workouts are happening behind the scenes and preempting involvement by distressed funds. As for direct lending, private debt's largest strategy with more than half of all AUM, performance was solid at 9.0% for the 12 months ending in Q2 2023. The main headwind at this point is a constrained loan origination backdrop. With global M&A value down 15.7%, including a 25.2% decline in global PE deal value,[12] private credit funds are hard-pressed to deploy capital as quickly as they are raising it.

Private debt funds performance dispersion by vintage*



Source: PitchBook • Geography: Global • *As of September 30, 2023

PitchBook Indexes: Private debt funds quarterly returns by source (% of beginning NAV)*

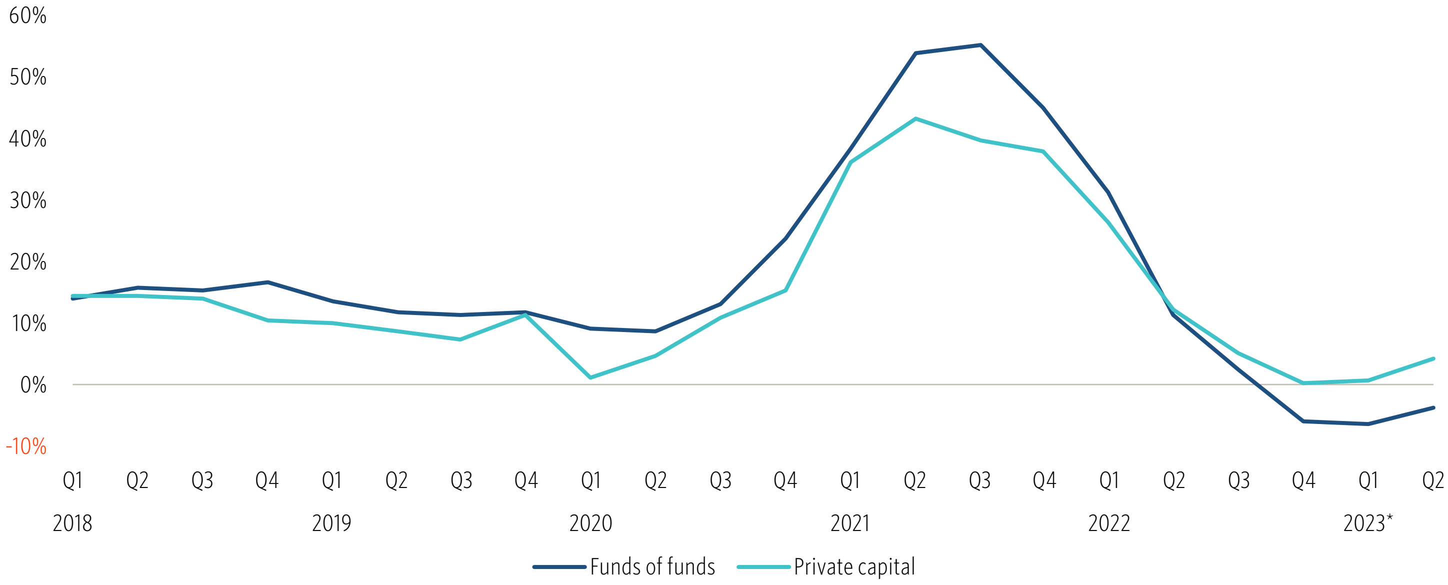


Source: PitchBook • Geography: Global • *As of September 30, 2023
Note: Q3 2023 data is preliminary. Median data is from 2012 onward.

10: Morningstar US Corporate Bond Index and S&P 10-year Treasury Index.
11: "Global Distressed Credit Weekly Wrap," PitchBook-LCD, October 13, 2023.
12: "2023 Annual Global PE First Look," PitchBook, January 3, 2024.

Funds of funds

PitchBook Indexes: FoF rolling one-year horizon IRRs



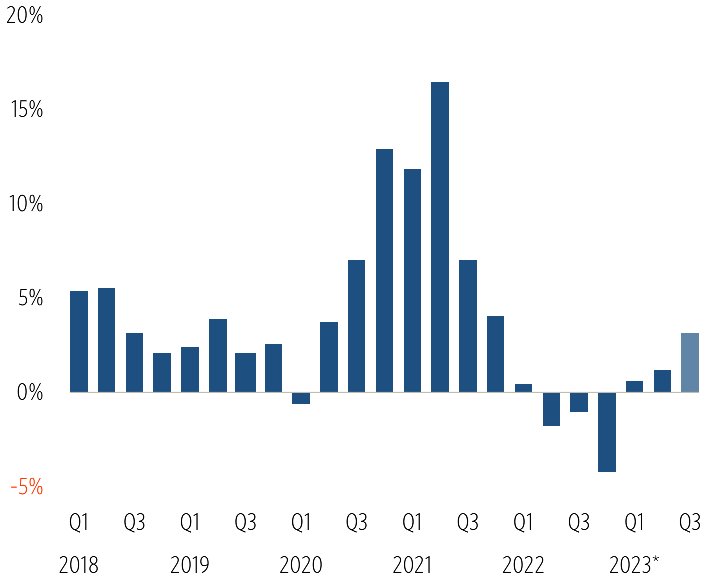
Source: PitchBook • Geography: Global • *As of September 30, 2023

Juliet Clemens
Analyst, Fund Strategies

FoF garnered a -3.7% one-year IRR as of Q2 2023, marking the fifth consecutive quarter that the yearly performance has underperformed against the broader private capital universe. Across the fund strategies we report, FoF were the second-worst performer after venture capital funds, a not coincidental relationship, given that the FoF universe has a higher exposure to VC than the overall private funds universe. Given that the three-year, five-year, and 10-year annualized IRRs for FoF were 13.7% or higher, this marks a significant departure from historical performance. However, there is evidence that FoF returns are recovering. The preliminary Q3 2023 return for FoF was 3.2%, which would make the third-straight positive quarterly return for this strategy.

Much of this upward progress can be attributed to the recovery in PE performance. According to PitchBook's Q2 2023 Private Capital Indexes report, PE FoF comprise roughly 50-60% of the full FoF universe, thus wielding outsized

PitchBook Indexes: FoF quarterly returns

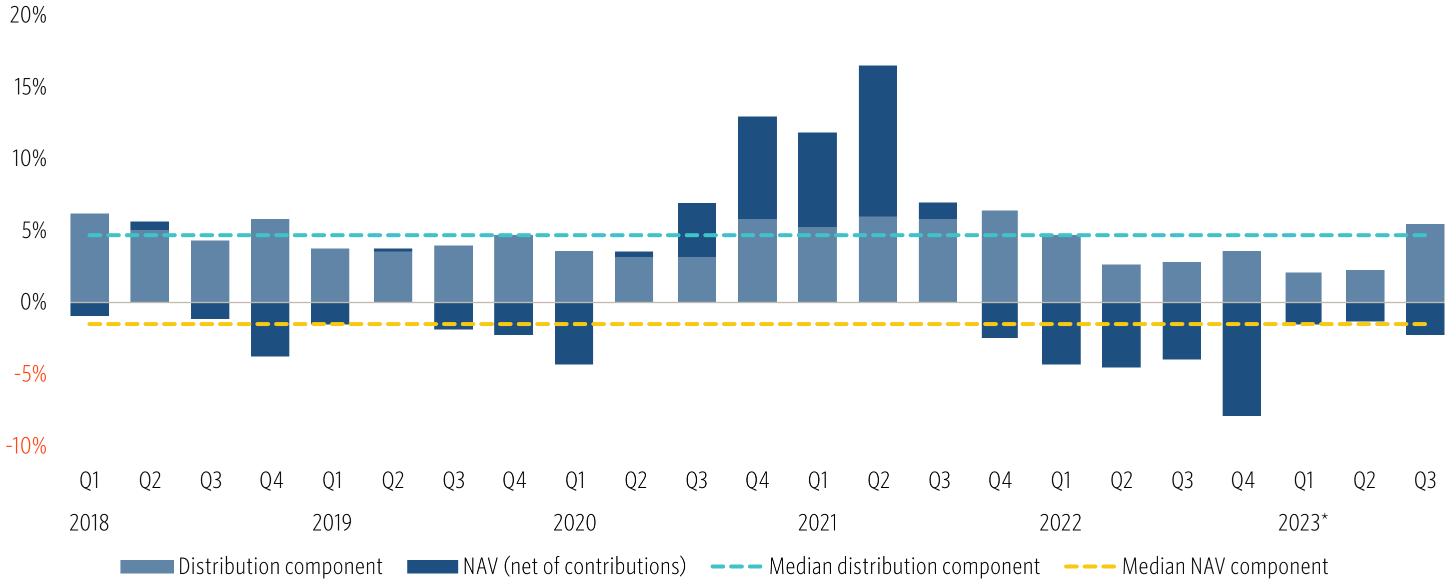


Source: PitchBook • Geography: Global • *As of September 30, 2023
Note: Q3 2023 data is preliminary

influence on how FoF as a whole perform. PE FoF one-year returns as of Q2 2023 flattened to -0.1%[13] as compared to the previous quarter's -2.9%,[14] indicating that more recent PE FoF quarterly returns are on a positive trajectory. When examining the FoF index quarterly return by source, we see this effect in action—Q2 2023's one-year IRR encompasses the negative quarterly returns of both Q3 and Q4 2022, the latter of which experienced particularly severe markdowns in NAV that outweighed distributions. Quarterly returns in Q1 and Q2 2023 have reversed this trend and are back on a positive trajectory as NAV normalizes across PE FoF.

However, VC FoF, which constitutes between 20-30% of the FoF universe—a higher share than we see in the fundraising figures for private capital overall—continues to struggle. The VC FoF one-year IRR as of Q2 2023 was -13.2%,[15] slightly worse than the -12.9% one-year IRR through the previous quarter,[16] demonstrating that NAV markdowns are still weighing down performance through the most recent quarters. Although FoF quarterly returns are moving in a positive direction, should there be further markdowns from VC assets, relative performance of FoF versus private capital will continue to compare unfavorably.

PitchBook Indexes: FoF quarterly return by source (% of beginning NAV)

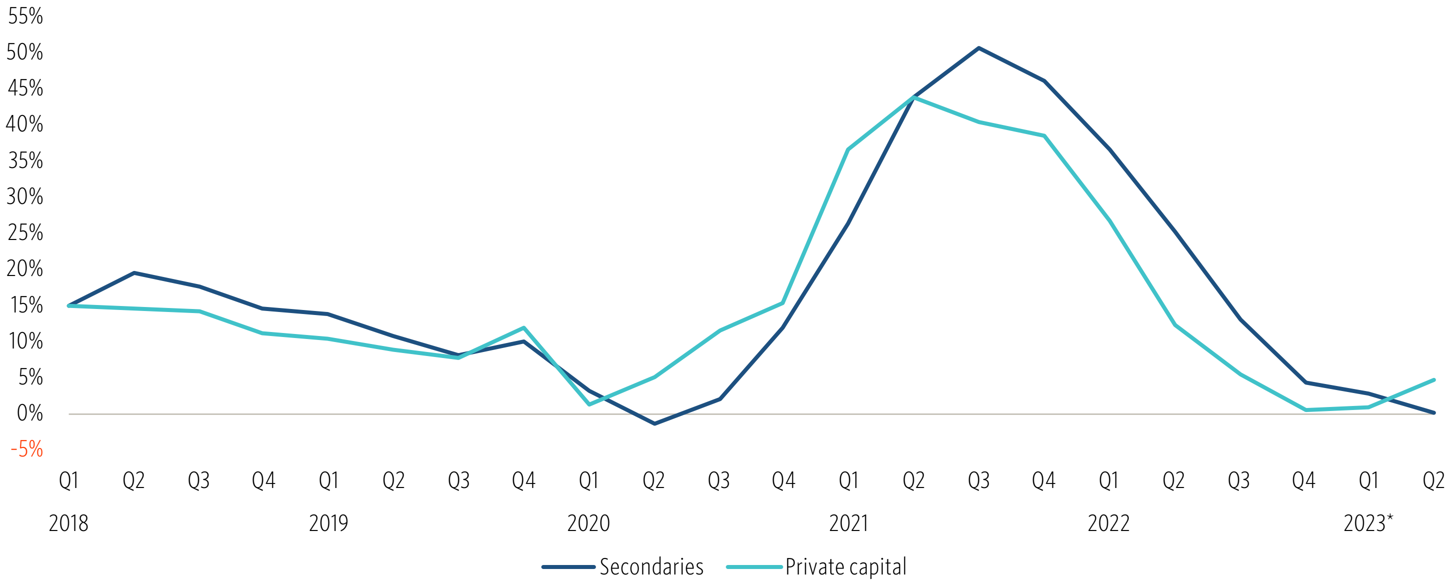


Source: PitchBook • Geography: Global • *As of September 30, 2023
Note: Q3 2023 data is preliminary

13: "PitchBook Benchmarks (as of Q2 2023): Funds of Funds," PitchBook, Zane Carmean, January 11, 2024.
14: "PitchBook Benchmarks (as of Q1 2023): Funds of Funds," PitchBook, Zane Carmean, October 12, 2023.
15: "PitchBook Benchmarks (as of Q2 2023): Funds of Funds," PitchBook, Zane Carmean, January 11, 2024.
16: "PitchBook Benchmarks (as of Q1 2023): Funds of Funds," PitchBook, Zane Carmean, October 12, 2023.

Secondaries

PitchBook Indexes: Secondaries funds rolling one-year horizon IRRs



Source: PitchBook • Geography: Global • *As of September 30, 2023

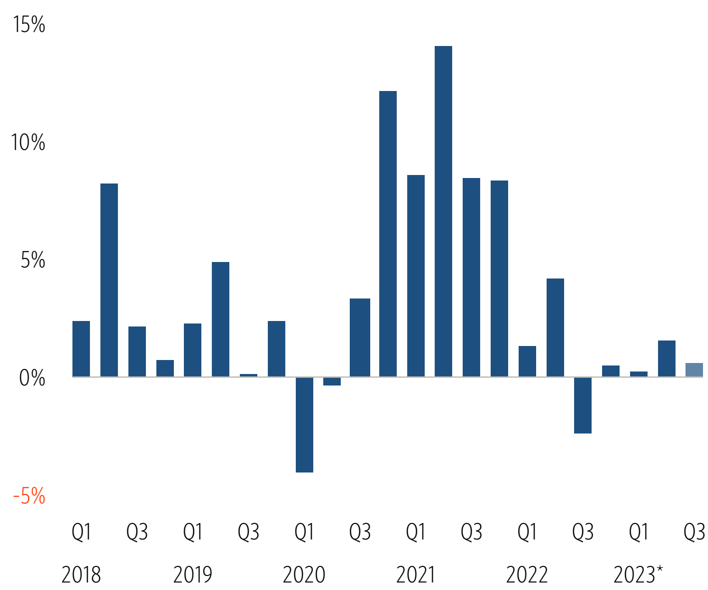
Juliet Clemens
Analyst, Fund Strategies

The one-year IRR for secondaries funds came to 0.2% as of Q2 2023, marking the first time since Q1 2021 that the asset class underperformed against the overall private capital market. In addition to falling well below the strategy's 10-year IRR of 13.5%, the one-year figure underscores a significant divergence from the 24.9% that secondaries funds delivered just a year prior.

In fact, secondaries' yearly performance has worsened for seven consecutive quarters since reaching a peak of 50.3% in Q3 2021 when private assets saw massive markups in NAV and secondaries purchasers were able to show extremely high returns on short-term holding periods due to the mechanics of the IRR calculation. As lofty valuations came back down to earth in Q1 2022, secondaries fund performance followed suit.

In examining quarterly returns, historically low distributions are also playing a role in the declining performance of secondaries. Although 2021 NAV write-ups became NAV write-downs in 2022—a return to a more normal environment—secondaries funds have been distributing far

PitchBook Indexes: Secondaries quarterly returns

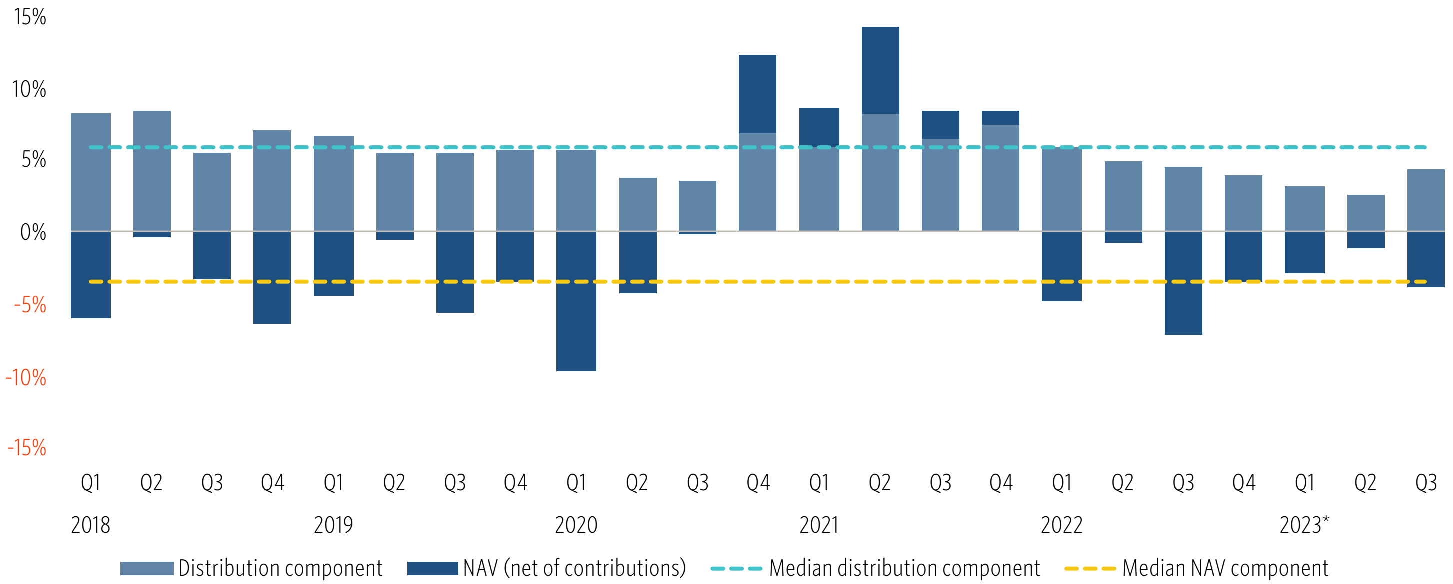


Source: PitchBook • Geography: Global • *As of September 30, 2023
Note: Q3 2023 data is preliminary

less capital back to LPs since Q2 2022 than is historically normal. Driven by 2022's tough market conditions, many GPs were unwilling to relinquish assets at suboptimal prices and chose to wait for market conditions to improve, drastically slowing exits. With valuations stabilizing in 2023, many market participants, secondary players included, are hoping for a resumption in deal activity that can translate to a return to normal for distributions going forward.

Turning to specific secondaries strategies,[16] the lowest performing was that of VC secondaries, with a one-year IRR of -2.0% through Q2 2023. It is interesting to note that VC secondaries funds are performing better than VC funds by a 6.0% margin. Generally speaking, because secondaries funds buy offloaded VC fund stakes that are further along the J-curve, they thus also distribute capital to LPs more quickly than VC funds typically do. In a period of depressed distributions, a further explanation may be that secondaries stakes are being sold at significant discounts, allowing secondaries buyers to post a moderate write-up soon after purchase as they adopt the valuations of the underlying funds. The best-performing secondaries strategy was real assets with a one-year IRR of 20.9%, although as discussed in our Q3 2023 Global Real Assets Report, moderating oil & gas performance may influence how this strategy performs going forward.

PitchBook Indexes: Secondaries quarterly return by source (% of beginning NAV)



Source: PitchBook • Geography: Global • *As of September 30, 2023
Note: Q3 2023 data is preliminary

17: "PitchBook Benchmarks (as of Q2 2023): Secondaries," PitchBook, Zane Carmean, January 11, 2024.

Additional research

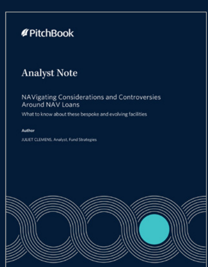
Private markets

2023 PitchBook Benchmarks (as of Q2 2023)

Download the report here

2024 Allocator Outlook

Download the report here



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