

Private Market Observations

First Quarter 2024



Anchor Investment • Middle Market • Emerging Talent • Enhanced Returns

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Note: Enhanced returns refers to the additional return potential from participating as a strategic anchor investor.



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All information is presented, as available, on the date noted on the cover of this presentation.

Key definitions, in bold.

Operating Partners Individuals who will not serve as employees of Steward Asset Management, but potentially operate as consultants and at times employees of Decagon Advisors.

1st Close The initial date where financial commitments are accepted, combining General and Limited Partner commitments, to a newly forming fund partnership vehicle with a life of between 5 and 12 years, for purposes of this presentation.

Net MOIC and TVPI The net multiples of invested capital (“MOIC”) or Total Valued to Paid In (“TVPI”) measures the aggregate value generated by a fund’s investments in absolute terms. Each MOIC or TVPI is calculated by adding together the total realized and unrealized values of a fund’s investments and dividing by the total amount of capital invested, after considering all fees and expenses.

Net IRR The internal rate of return of an investment, taking into account all cashflows, unrealized and realized investments, timing and expenses and carried interest allocations, that reflect the percentage return on capital during the time period invested.

EV Enterprise Value, a measure of a company’s total value, often used as a comprehensive alternative to equity market capitalization that includes debt.

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Q1 2024 Summary Observations

Pacing

- **Early normalization follows a risk-off environment** for merger and IPO activity
- **High add-on volume** propels small buyout exits and helps average down entry valuations for large buyouts
- **Investors are waiting for a wave of distributions** following a trough that took distributions to less than half of the long-term average

Deal Dynamics

- **Valuation adjustments** have been greatest for companies below \$100M and above \$250M
- **Innovation is generating productivity gains for companies** utilizing ecommerce, tech-enabling, data management and labor force upskilling to compete and grow
- **Equity investors are adding structural protections to acquisition terms** including downside preferences, payouts and higher rollover equity

Economic Outlook

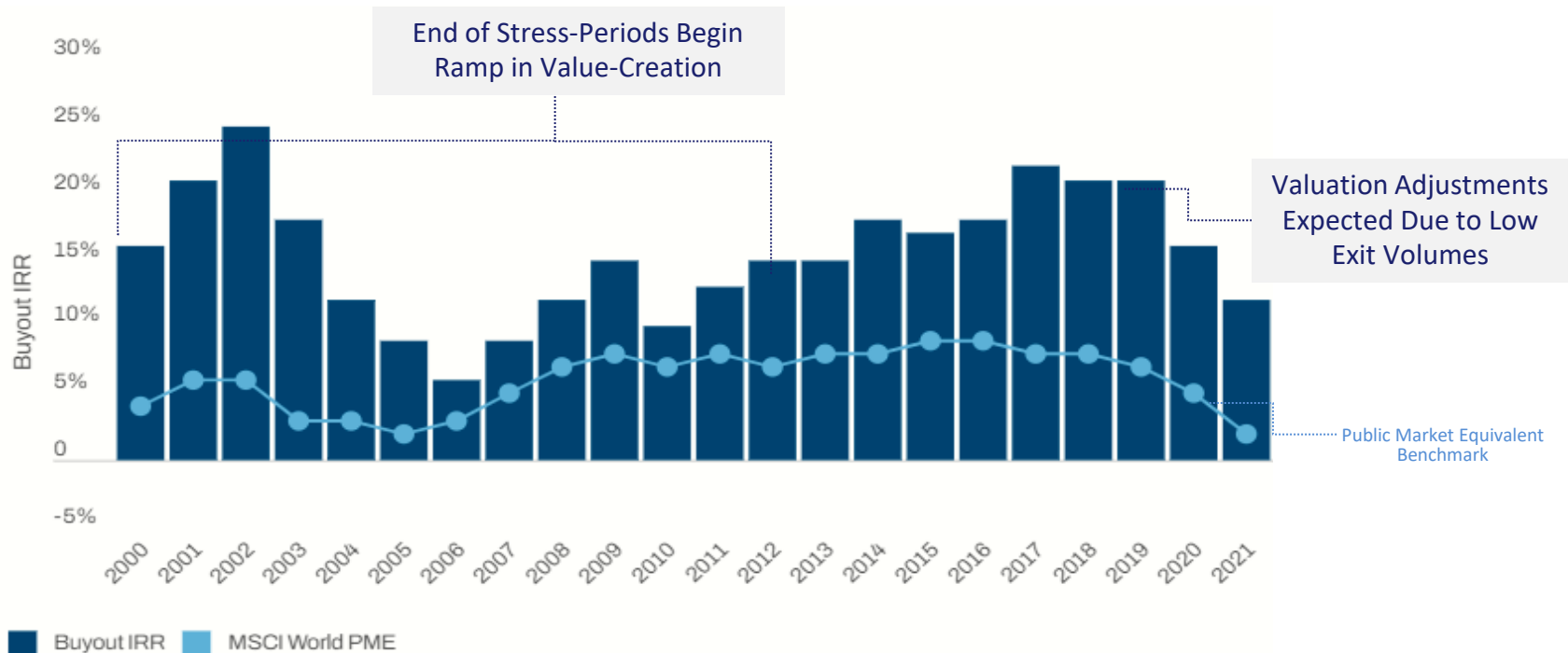
- **Waves of restructuring, mergers and defaults are expected** as credit maturities roll forward. Benefits of Fed rate declines may be offset by widening credit spreads
- **Anticipated increases in CapEx from surveyed Middle Market Businesses** demonstrate that business confidence is outpacing consumer sentiment
- **Two global hot spots risk sparking inflation**

Pacing Stress-Period Dynamics

Distributions rebound expected post 2023 decline to 9% of portfolio value from 22% average

Global Buyout by Vintage Year – Versus Public Market Equivalents¹

IRR Median Shown | Vintages 2000:2021



Sources: Hamilton Lane as of Jan 2024, Bloomberg Feb 2024.
 1. Past results may not be indicative of future performance.

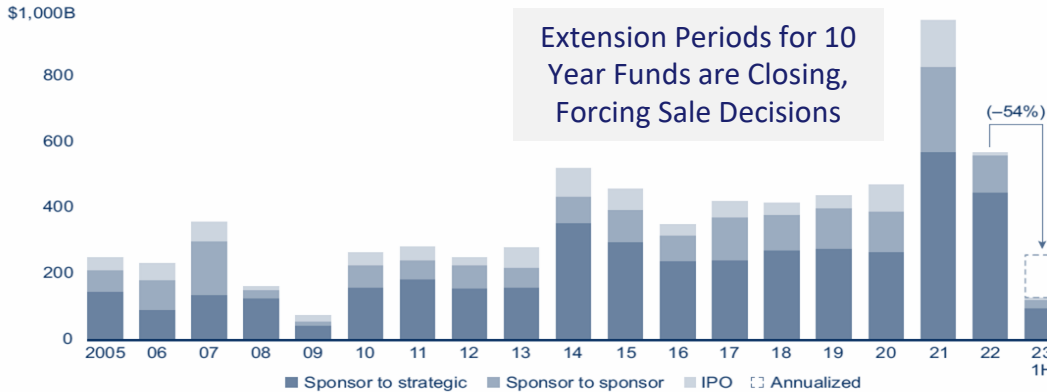
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Pacing Deal Activity is Backed Up

Dry powder builds as GPs assess valuations and liquidity

Global Buyout-Backed Exit/Distribution Value

Exits by Buyer Type, Through Q2 2023



Global Private Capital Dry Powder

Through Q2 2023



Sources: Bain. Prequin. Other includes Fund of Funds, Mezzanine and Hybrid.

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New Deal Dynamics

- Higher quality and cashflow requirements primarily due to higher rates
- Bank syndicated financing (required for larger deals) was down 64% in 2023
- Smaller deals at lower multiples have the power to average down entry multiples
- IPO exit multiples are lower

Pacing Large Differentials in Performance

Performance, Blended IRRs

Large Differences Underscore the Importance of Manager Selection

Investors are Redefining Where They Have Sourcing & Selection Advantages

Internal Rates of Return 6/2023 ¹	Annual Returns Blended IRRs			Deciles Vintages 2002-2018 IRR		
	2021 FY	2022 FY	2023 H1	Top Decile	Bottom Decile	Difference
All Private Capital	43.3%	0.4%	4.0%	27.2%	-0.6%	27.8%
Private Equity						
Buyout	50.3%	0.2%	7.7%	33.4%	2.3%	31.1%
Venture Capital	62.2%	-17.9%	-2.3%	33.7%	-8.1%	41.8%
Debt						
Private Debt	20.2%	4.4%	3.4%	16.0%	2.5%	13.5%
Real Assets						
Opp. Real Estate	35.2%	8.9%	-2.9%	22.2%	-7.6%	29.8%
Infrastructure	18.5%	13.9%	1.9%	18.0%	-2.0%	20.0%
Public Markets				5 Year Rolling Best / Worst		
S&P 500	28.7%	-18.2%	16.9%	18.3%	-2.1%	20.4%

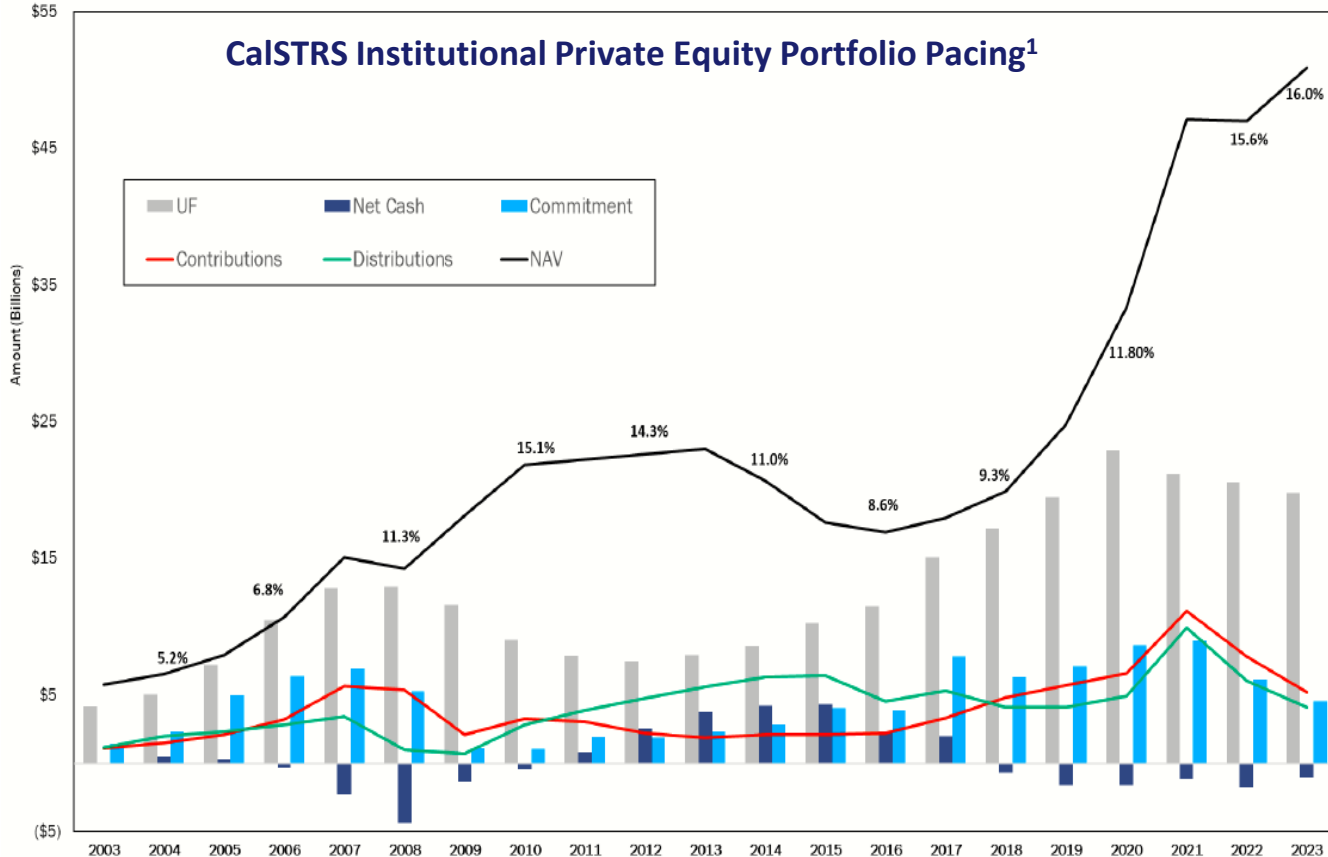
Source: Pitchbook.

1. Past results may not be indicative of future performance.

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Pacing Institutions Are Constrained

Institutions are restricted from leaning into current stressed pricing until distributions resume



Institutions are Reaching Peak Levels of Private Equity Exposure & Statutory Limits

Reduced commitments (light blue) until net cash (dark blue) rises

Sources: CalSTRS board presentation, Private Markets Pacing Report, January 2024.

1. Past results may not be indicative of future performance.

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Deal Dynamics Structuring Advantages in 2024

Key Trends

Capital Needs Have Increased

- Founders retaining a higher percentage of rollover equity at current valuation levels
- Opportunities to add significant downside structuring protections for equity

Higher Deal Motivations

- Demand is surging for companies with EV between \$100-\$250M as funds are seeking to average down their entry multiples
- Cost of debt is creating a preference for equity partnerships and stimulating merger activity

Near Shoring Demand

- Supply adjustments are creating new demand for local and redundant partnerships
- Self-sufficiency is high on the list of developed countries

Illiquid Pockets Will Be Forced to Sell

- 1/4 of 4,000 Private Equity shops are now zombie firms, unable to raise a new fund since 2015, entering their extension periods¹
- Large tranches of core real estate funds are failing to meet distribution needs for their institutional investors
- Loan portfolios and banking balance sheets are repositioning to avoid deteriorating coverage ratios

The Advantage of EV Crossing \$100M+

More reliable and higher multiples are observed as companies reach \$100M enterprise values

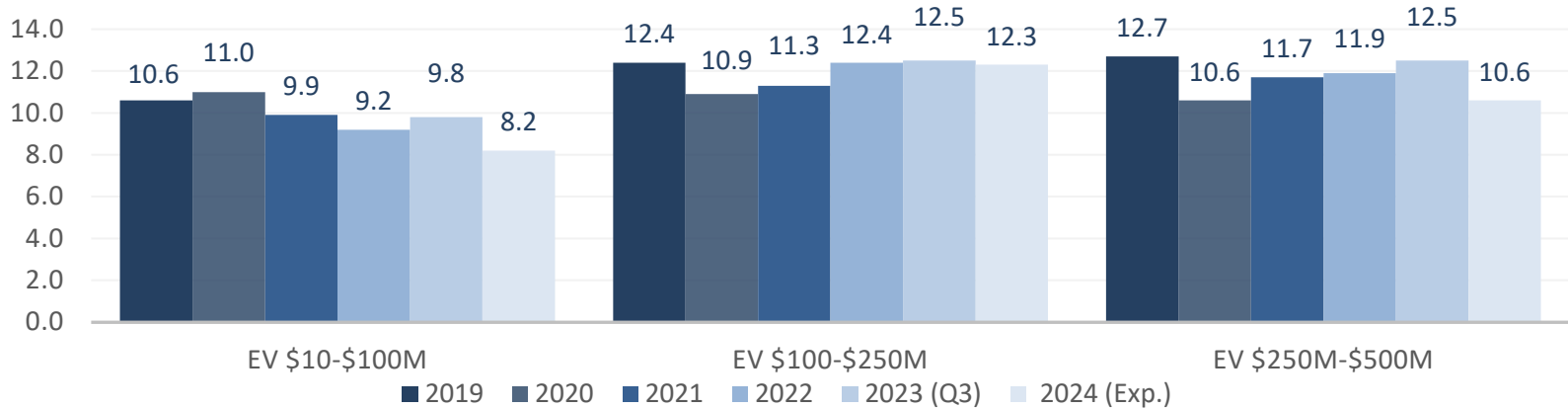
- Market share growth is easier to achieve for sector specialists with operational expertise
- Companies often exhibit mature contracts and sticky customer bases

1. Source: Bloomberg.

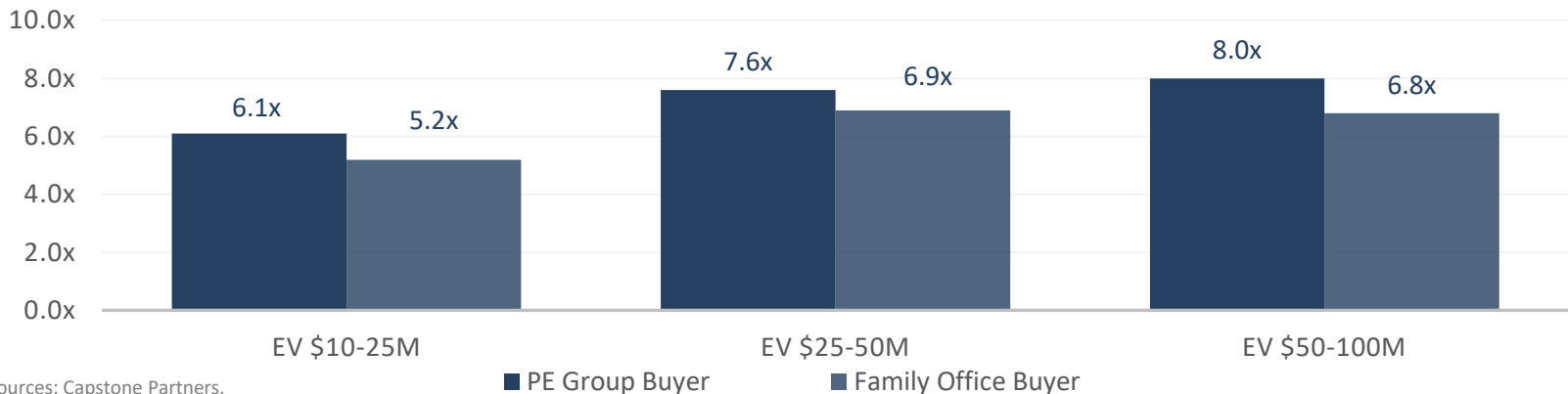
Deal Dynamics Middle Market Valuations

Companies with Enterprise Value (EV) below \$100M Are Ripe for Operational Expertise

EV/EBITDA Multiples by Enterprise Values (Size) of Company, by year¹



EV/EBITDA Entry Multiples by Buyer Group & Enterprise Value (Size), September 2023



Sources: Capstone Partners.

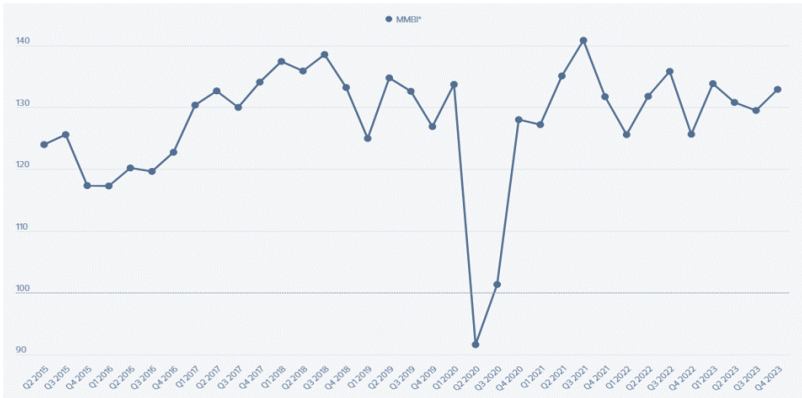
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Economic Outlook Growth Belies Sentiment

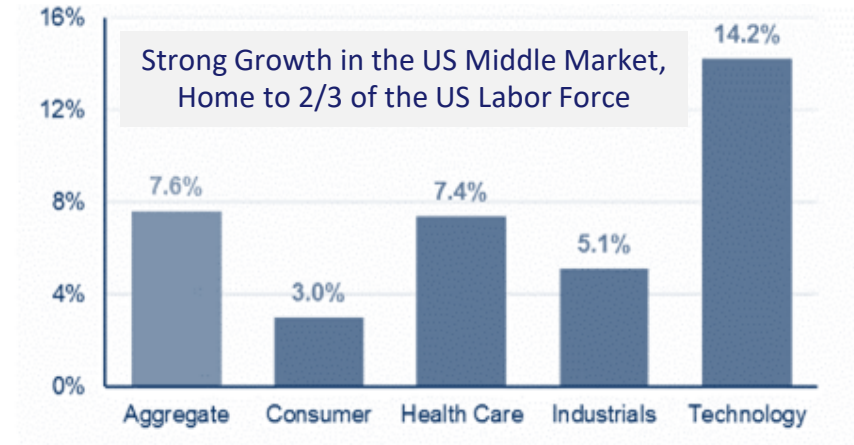
RSM US Middle Market Business Index

December 2023



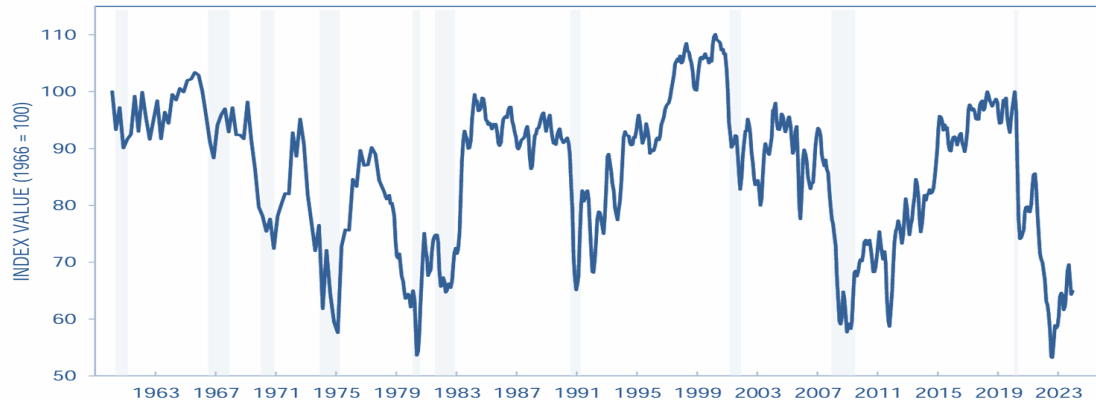
US Middle Market Private Company Revenues by Sector

Year-over-year growth, Q3 2023



Index of Consumer Sentiment

University of Michigan, December 2023



Consumer Sentiment is Recovering Much More Slowly

Sources: RSM, University of Michigan, JP Morgan Guide to the Markets December 2023.

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Sectors Examples of Growth Niches



Industrial



Technology



Healthcare



Consumer



**Waste Location Soil
Stabilization**
Landfill, Wildfire Recovery
Products and Services



**Supply Chain
Compliance**
Software for Regulatory
Requirements & Reporting



**Optimized Patient Records
Management**
Incidental Care, Identification
and Prevention



**Embedded Sports TV Media
Advertising**
Integrated Advertising
Placement Software

Note: All of the above company strategies reflect past transactions of potential portfolio investments of Steward.

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About Steward

GP stakes in smaller private equity firms

Capital Optimization

Fund of
Strategic Partnerships

Enhanced LP commitments
with GP participation¹

Co-Investment
with Sector Specialists

Active deal flow with sector-
specialist teams

Capacity
Rights

Current and successor
funds and deals

Tailored Processes

Unique Sourcing
Engines

Partnerships built to attract
tenured talent

Structuring
Expertise

Downside risk protections and
control rights¹

Diligence Targets
Small Fund Advantages

Deep foundational
assessment of team, process,
opportunity and structure

1. Past results may not be indicative of future returns. No assurance can be made that the investment objectives will be achieved.

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Memberships & Aligned Organizations



Media Links

GP Stakes Primer I - Why Fund Is and newer managers tend to outperform and the wider diligence lens required to build an information advantage

<https://stewardassetmgmt.com/wp-content/uploads/2023/12/Steward-GP-Stakes-Series-Primer-I-The-Debut-Fund-Opportunity-2023.pdf>

Sutton Capital Interview: Anchor LP - Joel Palathinkal of Sutton Capital discussed the history leading to the anchor strategy <https://www.linkedin.com/events/7150737379274747905/comments/>

Fund Flow Podcast - Jon Finger of McGuire Woods interviewing Sheryl Mejia

<https://player.captivate.fm/episode/2dd2d73a-0d13-494c-bf89-5b14d122003d>