



Advisor Academy

PRIVATE MARKETS 101

Private Markets Investing Essentials

Explore Opportunities in
Private Equity and Private Credit

LEADING WITH FORESIGHT™





Private Markets Investing Essentials

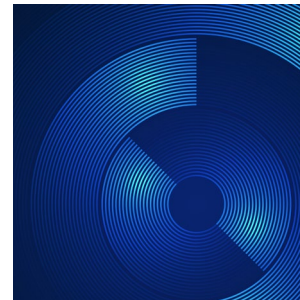
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About the Advisor Academy

Private Markets Educational Resource for Wealth Advisors

Adams Street Partners provides wealth managers and financial advisors access to private markets knowledge and investment solutions designed to help their clients grow and protect wealth. The firm was founded over 50 years ago and manages over \$62 billion for clients across private equity and venture capital funds, secondary, growth equity, buyout and venture co-investments, and private credit strategies. Adams Street has offices in Austin, Beijing, Boston, Chicago, London, Menlo Park, Munich, New York, Seoul, Singapore, Sydney, Tokyo, and Toronto.

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What is Private Markets Investing?

Private markets ⁱ investing refers to investing in assets not publicly traded or listed on a stock exchange.

DIFFERENCES BETWEEN PRIVATE EQUITY AND PRIVATE MARKETS

Private equity refers specifically to equity investments made directly into privately held companies, ranging from start-up companies to mature businesses with proven profitability. Private markets include a broader range of investments beyond just **private equity** ⁱ including private credit, real estate, infrastructure, and other illiquid assets.

PUBLIC VS. PRIVATE EQUITY

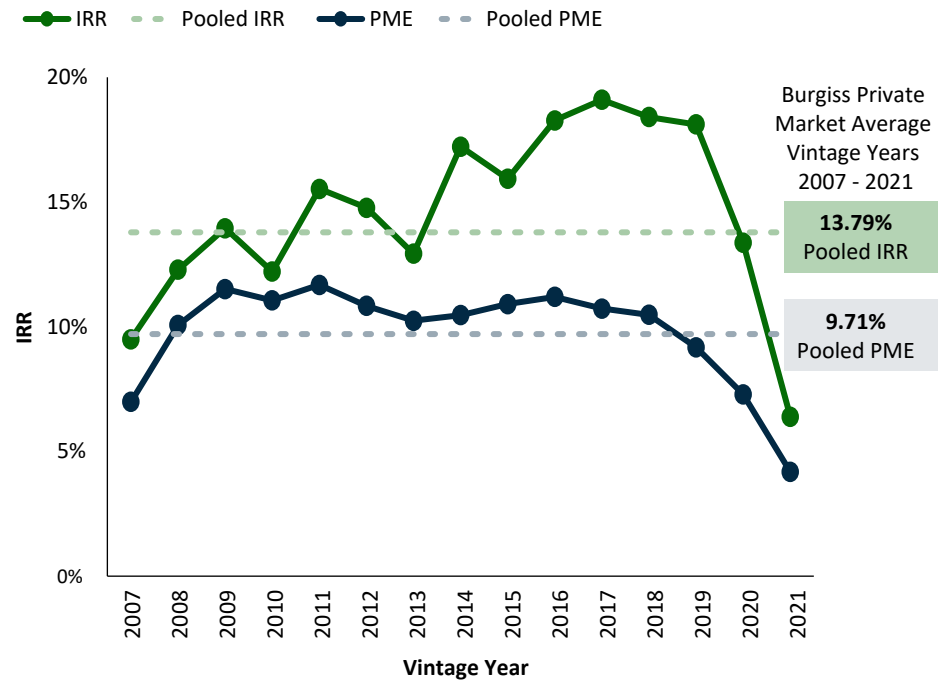
Private equity investments offer potentially higher returns than public markets due to greater growth potential. However, private equity is less liquid than public markets, as securities can't easily be traded in and out of.

Investors therefore have to be patient and willing to commit significant capital for longer periods before seeing a return. This is because private equity managers work to make the companies they invest in more valuable over time by improving and growing their operations before selling their interest to realize a profit for themselves and their investors.

Relative performance across a range of vintage years indicates the overall private equity market has consistently outperformed the **public market equivalent (PME)** ⁱ across different market environments, suggesting returns are due to more than just leveraged exposure to public markets.¹

Private Equity Has Consistently Outperformed Public Markets²

As of June 30, 2023



ⁱ To see definitions of highlighted terms, see [Key Terms](#) in this report



A Growing Investment Opportunity

A key reason for growth in private market investments is that more companies are opting to remain private. There are approximately 4,300 US public companies versus a peak in 1996 of 7,300.² The US is not alone. Between 1996 and 2022, the number of companies on the London Stock Exchange’s main market shrunk to 1,200 from 2,700.³

From 1980 to 1999, an average of more than 300 companies joined US stock markets annually, versus just 129 on average since then.⁴ The median age of a company going public in 2024 was 14 years,⁵ compared with around 6.5 years from 1980 to 2000.⁶

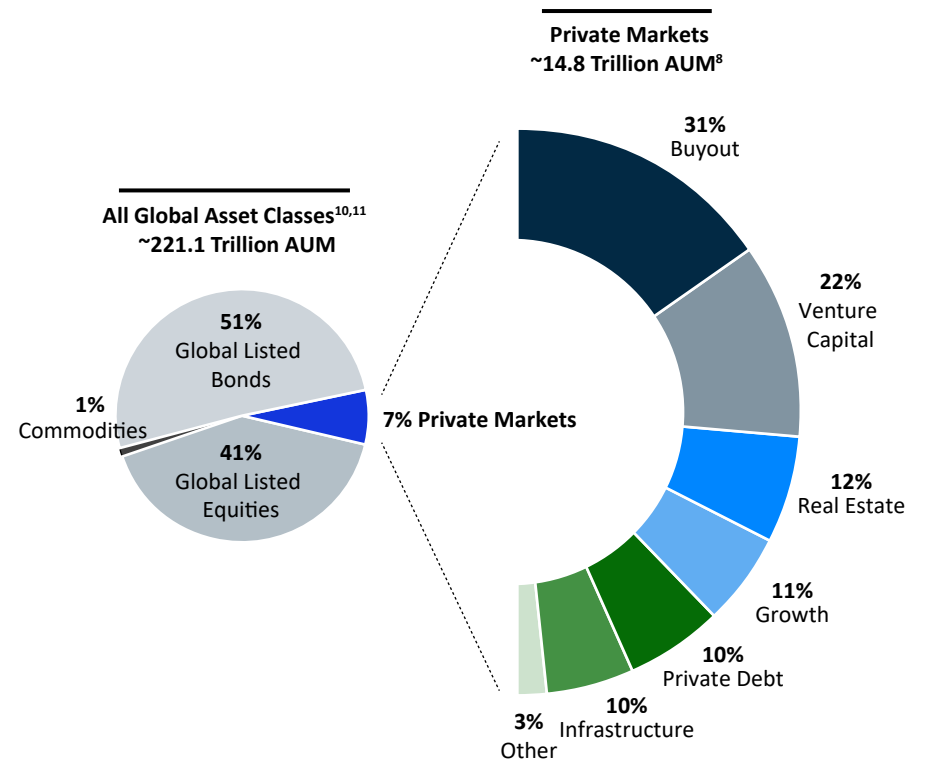
In fact, more than nine in 10 of US companies with revenue more than \$100 million are private,⁷ while the number of private US companies backed by private equity firms has grown to around 11,200 from about 1,900 over the past two decades.²

In 2024, private markets **assets under management (AUM)** ⁱ totaled \$14.8 trillion.⁸ Private markets AUM grew during the first quarter of 2024 but still remains a small portion of total investable assets.⁸ However, that is 7% of about \$221.1 trillion in total investable assets globally, showing the considerable growth runway for private markets. And while individual investors own about half of those investable assets, they are significantly under-exposed to **alternative investments** ⁱ, with less than 5% of private equity AUM coming from the cohort.⁹

Opportunity in Private Markets

Data as of March 31, 2024

Private markets AUM grew during the first quarter of 2024 but still remains a small portion of total investible assets⁸



ⁱ To see definitions of highlighted terms, see [Key Terms](#) in this report



Private Markets 101

ROLE OF PRIVATE EQUITY FIRMS AND HOW MANAGERS ADD VALUE

Private equity firms typically invest in fast-growing companies with the goal of improving their performance and selling them for a profit.

STRATEGIES EMPLOYED BY MANAGERS TO INCREASE VALUE

Private equity firms use multiple strategies to increase the value of the companies they acquire. Strategies include:

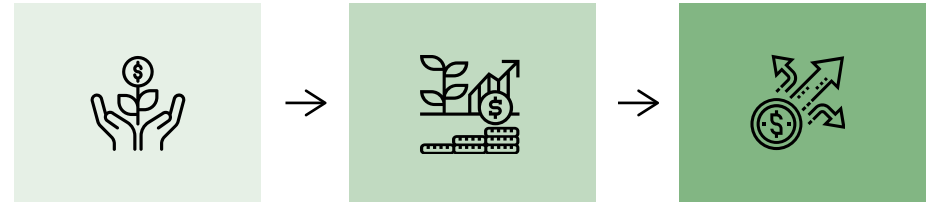
- strengthening executive teams
- expanding into new markets (or withdrawing from unprofitable ones)
- developing new products or services
- positioning companies for future growth by shifting strategic emphasis
- investing in operational improvements to drive efficiency
- finding add-on acquisitions to grow market share
- restructuring the capital stack

PRIVATE EQUITY STRATEGIES CAN DELIVER VALUE TO CLIENTS

The non-traded, illiquid nature of private equity gives managers the time they need to implement these improvements and generate attractive risk-adjusted returns, which historically have been in excess of public markets.

In return for identifying investable companies, improving and growing their operations, and selling them to new investors, private equity managers earn fees on the capital invested on behalf of their clients, and retain a portion of the profit they make from selling assets.

How Do Private Equity Funds Make Money?¹



Invest in a company
(at a price, let's say X)

Work with the company
(e.g., make it better, grow it, etc.)

Exit the company
(at that price X+, e.g., a higher price than the price when they invested)

Ways to Exit the Company

- Company sold to a financial sponsor (i.e. PE firm)
- Company sold to strategic buyer (i.e. a company/corporation)
- Company goes public (IPO)



COMMON TRANSACTION TYPES FOR INVESTING IN PRIVATE EQUITY¹²

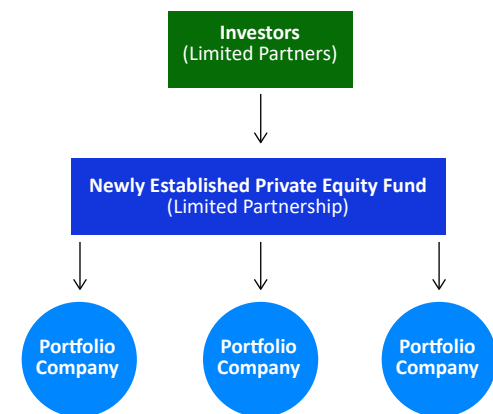
Each transaction type offers unique advantages and considerations for private markets investors. There are key parties in a private equity fund investment: **general partners (GPs)** ⁱ are the private equity firms making the investments, **limited partners (LPs)** ⁱ are the investors in the **private equity fund** ⁱ, and the portfolio companies who are the recipients of the investment from the fund.

Primary Investments

A primary investment is a private equity fund that does not include any transfer of LP interests from another fund. Commitments are typically made during the fundraising period for the primary fund and are sometimes referred to as blind pool commitments as the manager has not yet begun to deploy capital in portfolio companies.

Key Features¹³

- High long-term return potential
- Blind pool risk
- Longer duration

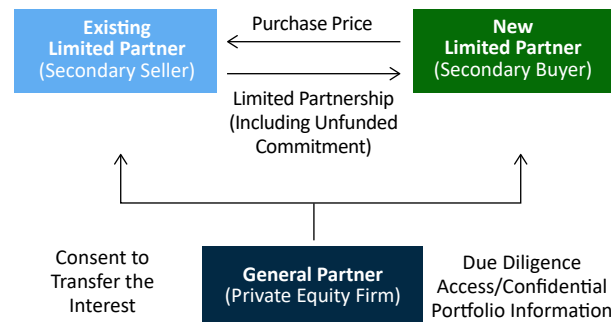


Secondary Investments

Secondary transactions are purchases of another investor's interest in a private equity primary fund or a subset of companies within a fund. GPs and LPs view secondaries as a valuable means for enhancing liquidity and optimizing portfolio management.

Key Features¹³

- Discount valuations
- Reduced blind pool risk
- J-curve mitigation; shorter duration

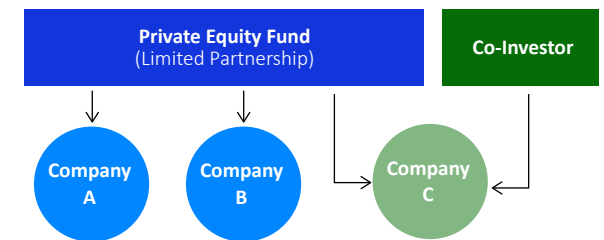


Co-Investments

A co-investments transaction is a minority investor (or a syndication among multiple minority investors) taking a position directly in a company alongside a lead private equity manager.

Key Features¹³

- Enhanced return potential
- Cost effective
- Direct company investment



ⁱ To see definitions of highlighted terms, see [Key Terms](#) in this report



PRIVATE MARKET STRATEGIES ACROSS A COMPANY'S LIFECYCLE¹⁴

Key sub-categories within private markets are venture capital, growth equity, and buyouts.

Venture

Venture funds invest in early stage companies, from initial seeding to early growth stages and tend to diversify across a significant number of investments to mitigate risks associated with earlier stage companies.

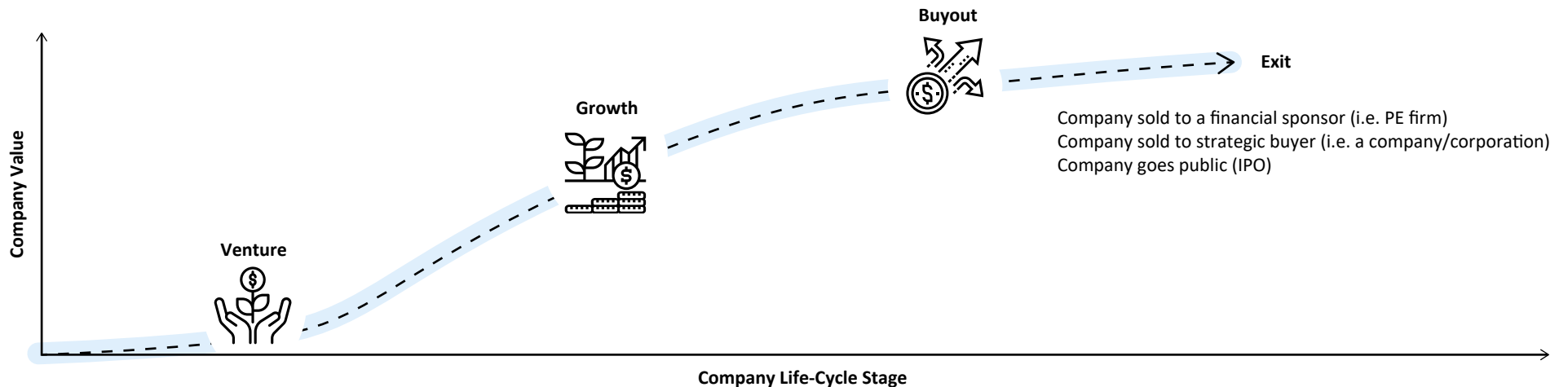
Growth

Established startups attract growth equity with proven revenue and operations. Growth equity strategies tend to invest in growing businesses preparing them for sales / IPO.

Buyout

Buyout funds invest in mature businesses with proven profitability. Leveraged buyouts aim to enhance operations, capital structures, and leadership to increase exit value.

Key Stages Across A Company's Lifecycle¹⁴





PRIVATE CREDIT OVERVIEW

Private credit typically funds the debt element of leverage buyouts and also a wide spectrum of debt finance options with various risk/return profiles to meet the diverse and complex needs of borrowers and investors.

Direct Lending

Private credit lenders are non-bank institutions that provide loans directly to non-listed companies. The predominant lending method in the private credit market is direct lending.

- Direct lending eliminates the need for intermediaries, such as banks, and allows investors direct access to issuers
- Private lenders generally hold these loans to maturity, unless the loan is repaid prior to maturity through a refinancing transaction

Capital Structure Seniority

Private credit is most typically provided in the form of first lien senior secured debt but can also be second lien or unsecured mezzanine debt.

First lien senior secured debt is positioned at the top of the capital structure. This provides investors with superior collateral protections and bankruptcy rights. Moreover, private credit loans typically have lower leverage and higher equity cushions than other credit-related asset classes.





Capital Structure¹⁵

The capital structure is important for private credit investors because it determines who is first in line for company cash flows and who gets paid first in a liquidation or sale of the company.

The basic premise is that the higher an investment is in the capital structure, the lower the risk profile and the more likely an investor will be paid back. First lien senior loans sit at the top of the capital structure and get paid back first. Common equity sits at the bottom and gets paid back last. **Direct lenders** ⁱ often invest in senior loans, but they can also invest in more junior debt and equity.

First Lien: Senior secured debt that sits at the top of the capital structure and generally has the first claim on a company’s cash flows and assets.

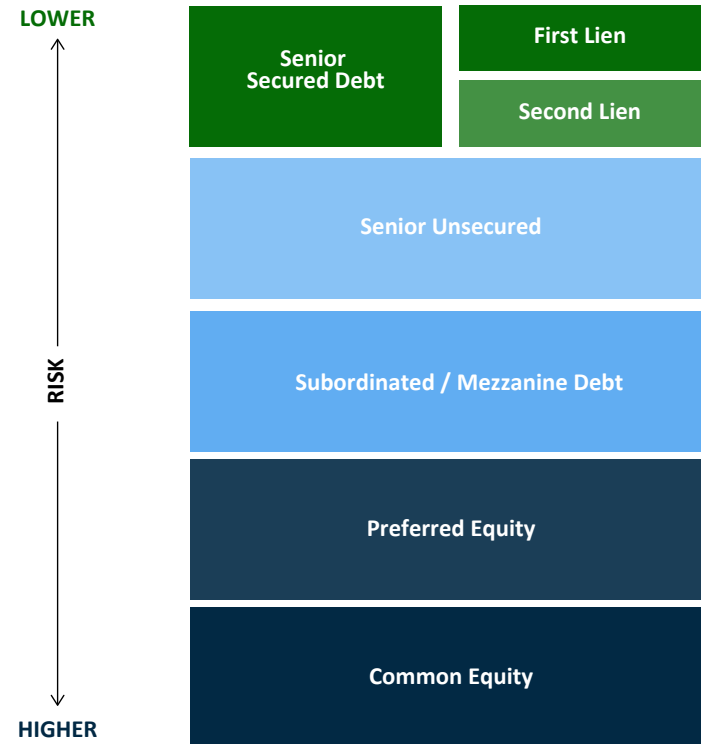
Second Lien: Senior secured debt that sits below first lien in the capital structure and generally has the second claim on cash flows and assets.

Senior Unsecured: Loans that are not backed by a company’s assets. In the event of a default, the lender has more risk to their recovery as there may not be sufficient residual value after the senior secured debt is paid off .

Mezzanine: Both unsecured and junior, mezzanine debt is an alternative form of hybrid financing that blends features of debt and equity. It offers a higher yield to senior secured debt but comes with high associated risk, high loss rates and less control.

Common Equity: Has the most upside potential but is also the riskiest part of the capital structure.

Corporate Capital Structure¹⁵



ⁱ To see definitions of highlighted terms, see [Key Terms](#) in this report



Private Equity Access Grows for Individual Investors

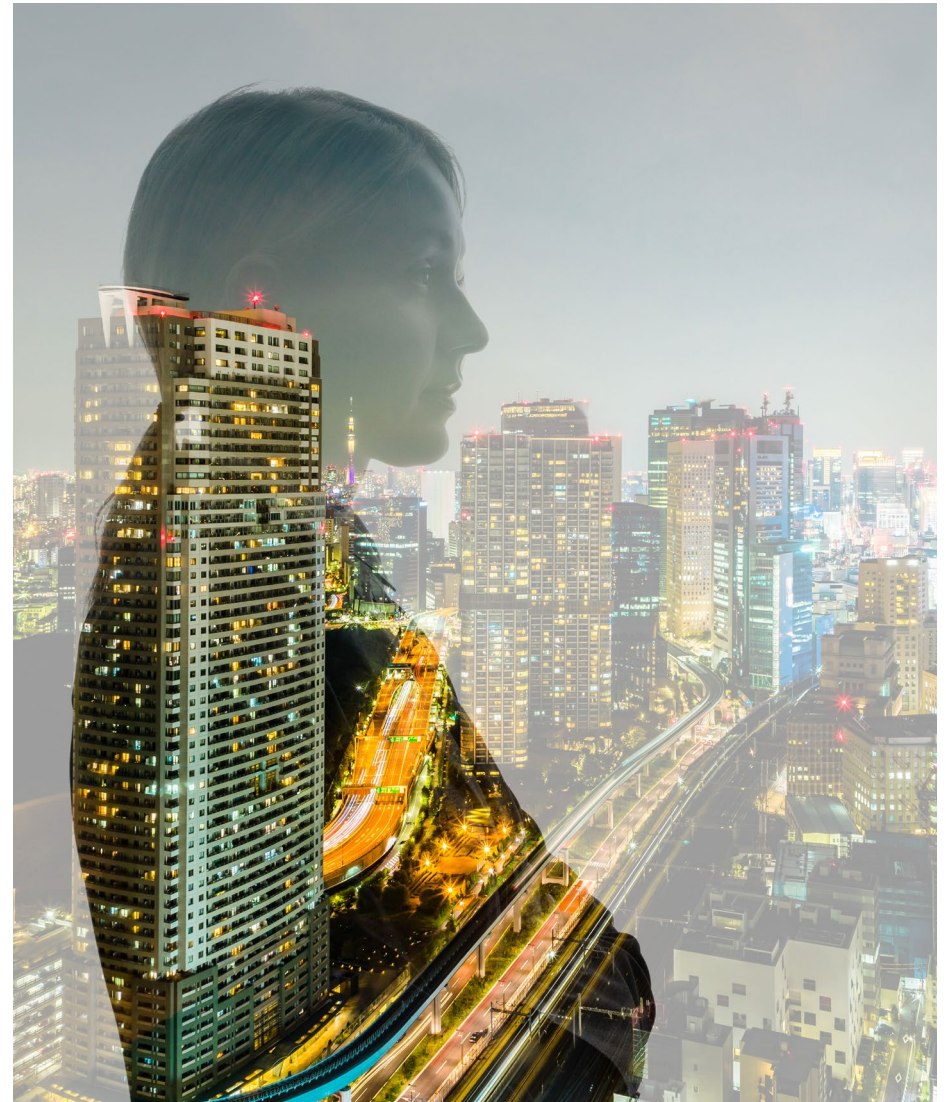
EVOLUTION OF PRIVATE EQUITY INVESTING

- The origin of private equity investing in the 1950s began with high net worth individuals in the venture capital space.
- In the 1970s to 1990s there was a rapid expansion driven largely by changing regulation and institutional investors flooding into the private equity asset class. The main players were pension funds, endowment funds, family offices, and ultra high net worth investors.
- In the 2000s, rapid growth of the asset class continued and private equity became more specialized, with managers increasingly focusing on specific areas of the market and offering more niche strategies in new markets around the world.

ACCESS GROWS FOR INDIVIDUAL INVESTORS

In the past, securities law restrictions and high investment minimums prevented individual investors from accessing private equity. Today, individual investors can now access private markets through innovative financial products. These products offer opportunities for individual investors to participate in the private markets with lower entry barriers.

This shift enables a broader range of individuals to diversify their portfolios and potentially benefit from the higher returns associated with private equity investments. Such developments align with the increasing demand for alternative investment options among individual investors seeking enhanced portfolio performance.





HOW PRIVATE EQUITY FITS INTO A TRADITIONAL PORTFOLIO

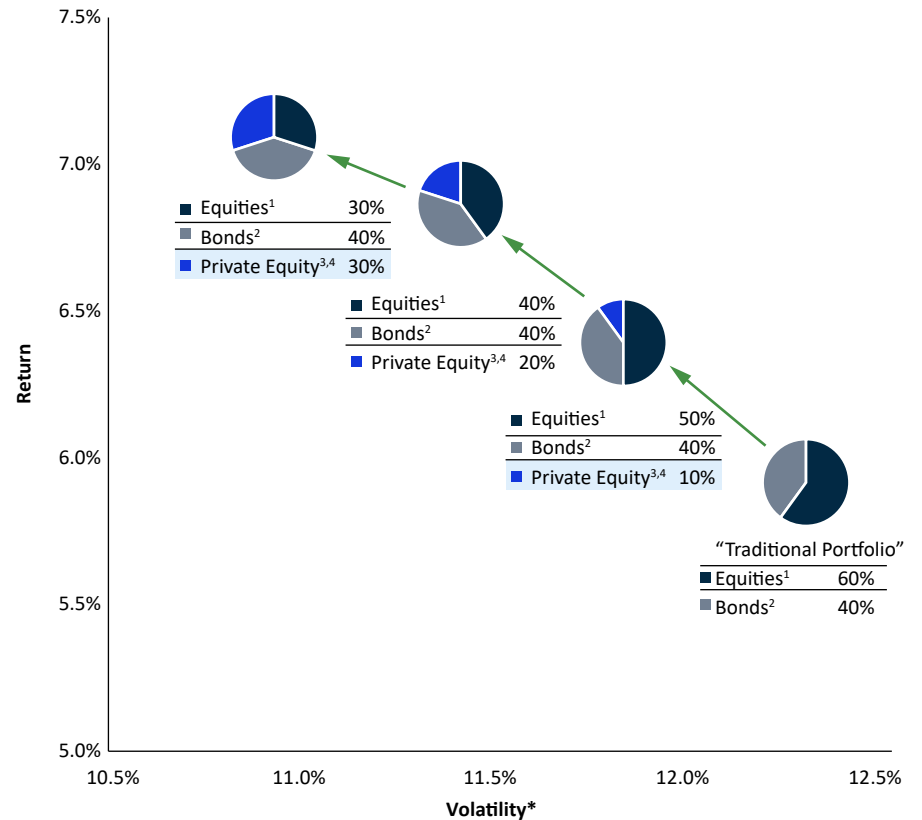
Private equity can play a crucial role in enhancing the diversification and potential returns of a traditional 60/40 portfolio, comprising 60% of public stocks and 40% bonds.

Private equity investments often have a lower correlation with traditional asset classes such as public stocks and bonds. Allocating a portion of a traditional portfolio to private equity investments can diversify a portfolio and help mitigate overall portfolio volatility/risk.

In addition, private equity offers exposure to unique investment opportunities not readily available in public markets, such as early-stage companies, buyout investments, and growth equity investments. This exposure can help reduce risks associated with market volatility and interest rate fluctuations, thereby enhancing the overall risk-adjusted returns of the portfolio. Adding private equity to a portfolio may also provide stronger overall returns given the potential for the asset class to outperform public equities over the long term.

Private Equity Investments Enhance Potential Risk-Adjusted Return¹⁶

Improvements to portfolio return and volatility





Closed-End vs. Evergreen Funds

Closed-end funds and evergreen funds are types of investment funds with distinct characteristics. Each offers different benefits and considerations for investors.

CLOSED-END PRIVATE EQUITY FUNDS

- Offer a finite investment period with a planned timeline for exits to maximize return¹⁷
- Concentrate on specific opportunities within a set timeframe for capital deployment
- Typically deliver strong performance by leveraging focused strategies and active management
- Given the closed-end structure, investors can generally expect their commitments to be locked up in the investment for 10+ years

EVERGREEN FUNDS

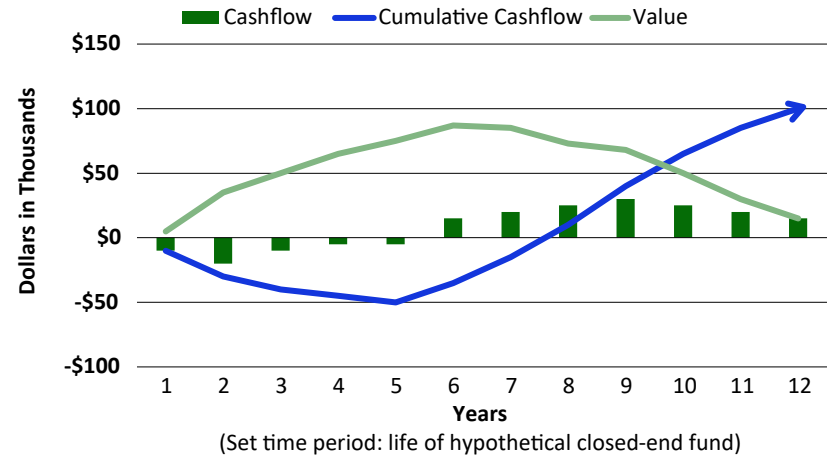
- Maintains an indefinite investment horizon allowing for perpetual capital reinvestment
- Provides consistent exposure to private equity opportunities without predefined exit timelines
- Often prioritizes diversification across multiple dimensions with the goal of mitigating risk and capturing opportunities on a rolling basis
- Investors have the option to request a redemption/repurchase of their interests for liquidity throughout the life of the investment¹⁹

Hypothetical Investment of \$100k: Closed-End Fund¹⁸

Cash Required at Close: \$0 [Capital calls will be issued in increments of 5-20%; capital calls may be offset by distributions]
Net Multiple: 2x

Year	Net Cashflow
1	-\$10,000
2	-\$20,000
3	-\$10,000
4	-\$5,000
5	-\$5,000
6	\$15,000
7	\$20,000
8	\$25,000
9	\$30,000
10	\$25,000
11	\$20,000
12	\$15,000
Net Profit	\$100,000

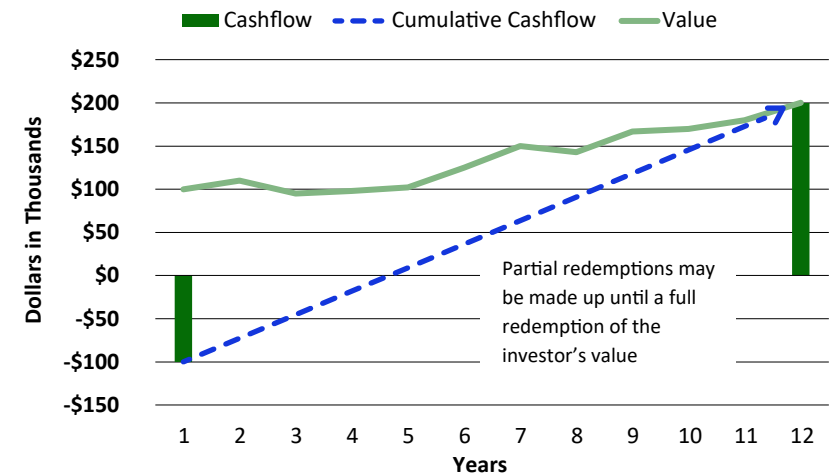
Investment Period: Years 1-5
Harvest Period: Years 6-12



Hypothetical Investment of \$100k: Evergreen Fund¹⁸

Cash Required at Close: \$100,000
Net Multiple: 2x

Year	Net Cashflow
1	\$100,000 ← Initial Investment
2	\$0
3	\$0
4	\$0
5	\$0
6	\$0
7	\$0
8	\$0
9	\$0
10	\$0
11	\$0
12	\$200,000 ← Full Redemption of Capital
Net Profit	\$100,000



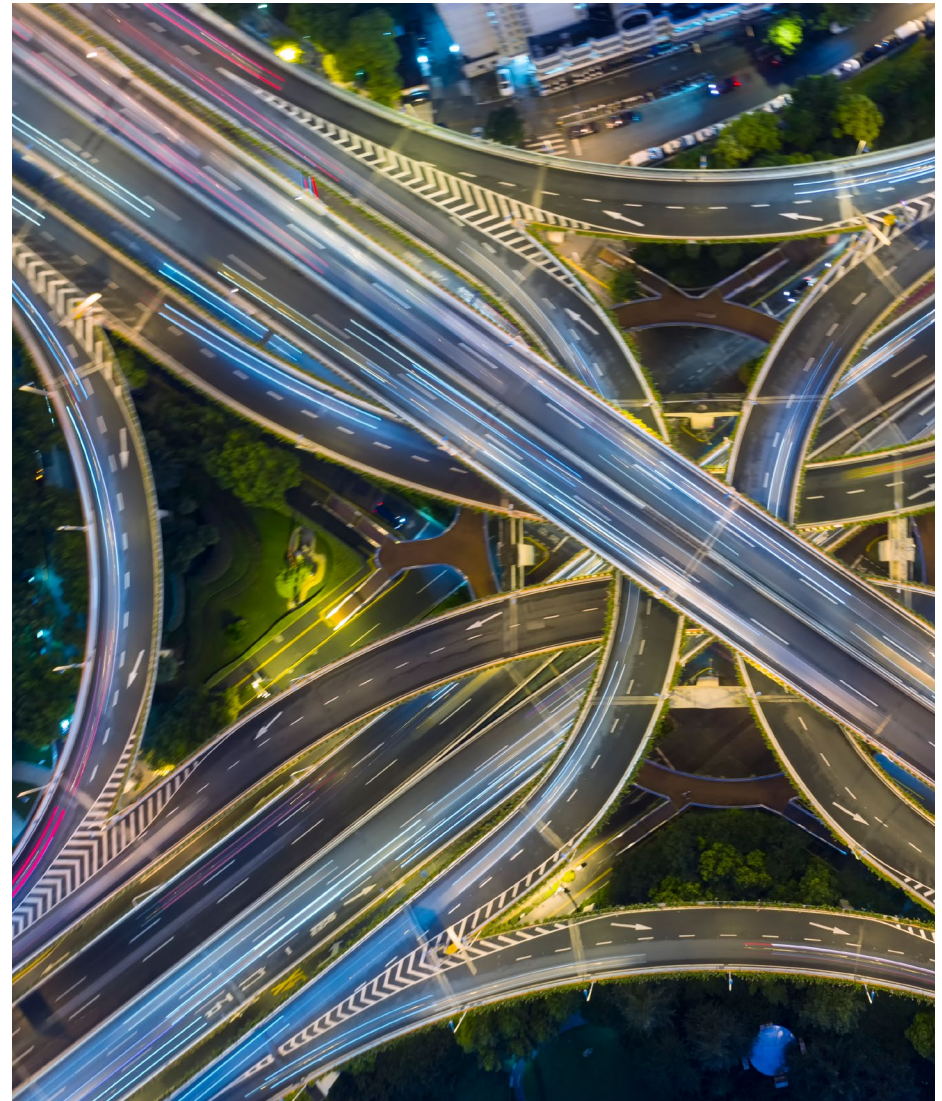
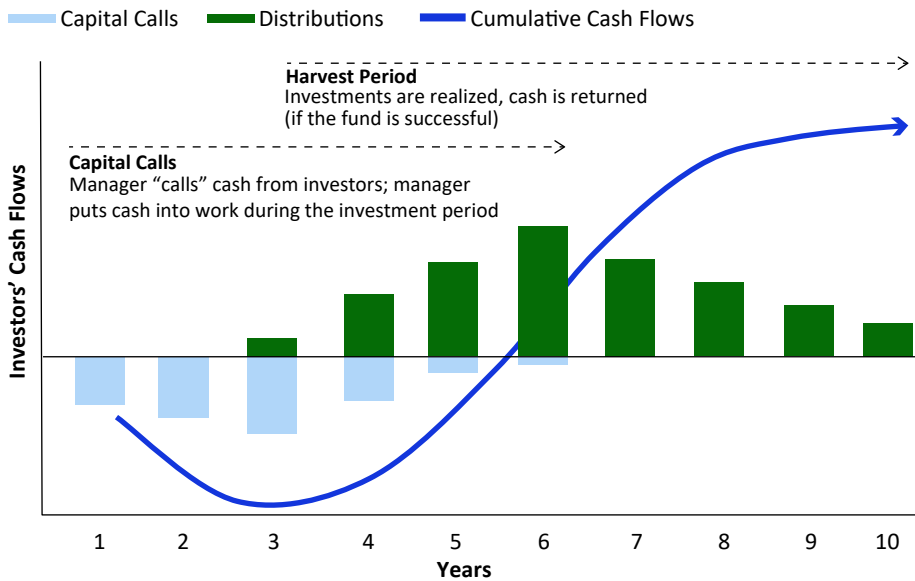


THE IMPACT OF THE J-CURVE

Private equity investments are characterized by a phenomenon known as the J-curve. A typical private equity fund comprises two distinct but overlapping periods. The fund's initial years are defined by capital calls, when the investor commits money to the manager. The manager then puts this cash to work by acquiring stakes in companies during the investment period. The final harvest period is when investments are realized and capital is returned to investors.

As can be seen in the chart below, returns are negative during the initial years of a fund vintage as capital is called and investment begins. Returns then typically swing into positive territory as assets are sold and profits are realized.

J-curve and Implementation²⁰





Key Terms

Alternative Investments

Investment opportunities beyond traditional stocks, bonds, ETF, mutual funds and cash, including hedge funds, private equity, private credit, real estate, commodities, art, and other assets. Alternative investments typically have lower correlation with public equity and bond markets and offer diversification and the potential for higher returns. Alternative investments may have structures that are more complex, and there is less regulatory oversight and lower liquidity versus publicly traded investments. Past performance is not a guarantee of future results; investments are subject to loss, including a complete loss, of capital.

AUM | Assets Under Management

The total value of assets managed by a financial institution or investment manager on behalf of clients. In some circumstances, the calculation of AUM may differ based on certain regulatory reporting standards, the inclusion of leverage and other factors.

Direct Lending

The origination of debt financing by private credit funds without intermediaries such as banks. Direct lending strategies establish direct relationships with companies and/or fund general partners to make investments and provide various debt instruments and customized deal structures.

GP | General Partner

Typically, a private markets firm responsible for the day-to-day operations of the partnership, including making investment decisions related to any assets held by the partnership. GPs aim to generate returns for LPs (investors) by investing partnership assets in a portfolio of private equity, private credit or other private market investment opportunities.

LP | Limited Partner

An investor in a limited partnership who has limited liability and typically does not participate in the day-to-day management or operations of the partnership, including decisions related to portfolio assets, which are managed by the partnership's GP. An LP's liability is typically limited to the amount of its capital commitment.

PME | Public Market Equivalent

Used as a reference point to compare the performance of an investment in a private fund versus those of a public market index, such as the S&P 500 or MSCI ACWI. A PME simulates the growth of an equivalent public market investment with the same cash flows and timing as the private investment, aiding the comparison and evaluation of the private investment's performance against public market investments.

Private Equity/Private Equity Fund

Equity investments made directly into privately held companies, ranging from start-ups to mature businesses with proven profitability.

A private equity fund pools capital from multiple investors to deploy in private companies. These funds aim to generate returns by acquiring equity stakes in various opportunities. Managers of private equity funds seek to add value to portfolio companies through active management and strategic guidance to achieve profits upon exit.

Private Markets

Investments in non-publicly listed entities, including private equity, venture capital, real assets, private credit and other alternative investments. Limited liquidity and potential for higher returns distinguish private market investments. Past performance is not a guarantee of future results; investments are subject to loss, including a complete loss, of capital.

For a full list of terms visit the Advisor Academy Glossary at pws.adamsstreetpartners.com/glossary

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Notes & Disclosures

1. For illustrative purposes only. There can be no guarantee that a private equity investment will be successful as past performance is not a guarantee of future results.
2. Source: Burgiss data as of June 30, 2023; sourced November 9, 2023. Private Equity investments include those classified by Burgiss as buyout, venture capital and other strategies and excludes secondary investments. PME is based on MSCI All Country World Index (Total Return). Returns are net of General Partner fees, carried interest, and expenses. Burgiss is a recognized source of private equity data, and the Burgiss Manager Universe includes funds representing the full range of private capital strategies; it may not include all private equity funds; Burgiss returns are included for illustrative purposes only as a reference point for certain sectors of the private market. Numbers are subject to updates by Burgiss. Data and calculations by Burgiss. The returns presented herein do not represent the return of Adams Street or any particular Adams Street Partners fund or investor.
3. JPMorganChase, “[Chairman and CEO Letter to Shareholders](#)”, April 8, 2024
4. Schroders, “[How should investors respond to the stock market’s dwindling status?](#)”, July 24, 2023
5. [Initial Public Offerings: Median Age of IPOs Through 2024](#), Jay R. Ritter, Cordell Professor of Finance University of Florida, January 3, 2025
6. Andreessen Horowitz, “[On Going Public: SPACs, Direct Listings, Public Offerings, and Access to Private Markets](#)”, May 24, 2021
7. Source: CapitalIQ data screens as of Jan. 21, 2025
8. McKinsey & Company, “[McKinsey Global Private Markets Review 2023](#)” and Preqin. Note: Figures may not sum precisely, because of rounding.
9. Yieldstreet, “[How Retail Investors Can Now Tap Into Private Equity](#)”, January 31, 2024
10. Global Listed Equities and Global Listed Bonds estimated: “Securities Industry and Financial Markets Association (SIFMA) Capital Markets Fact Book” and Bloomberg.
11. Commodities estimated: “Pantheon: Asset allocation: Private markets in global multi-asset portfolios” and Bloomberg.
12. For illustrative purposes only; the structures do not necessarily represent the structure or fund terms of any Adams Street investment vehicle; the structure and fund terms of any Adams Street investment vehicle are subject to, and qualified in their entirety by, the final governing documents of such offering.
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16. The chart is presented for illustrative purposes only and represents hypothetical performance, either composite, extracted or modeled performance, that was not achieved by any Adams Street Partners fund or investor. Please see the disclosures entitled “**Notes to: Private Equity Investments Enhance Potential Risk-Adjusted Return**” in this report for a more detailed description of the methodologies, assumptions and risks associated with the use and presentation of such hypothetical performance as well as other important information. Past performance is not a guarantee of future results. Additional information is available upon request from Adams Street Partners.
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19. There can be no guarantee that an investor will be able to liquidate its position in an evergreen fund when requested as the ability to realize a repurchase/redemption may be limited under the fund’s governing documents which may establish a “gate” or cap maximum quarterly repurchases/redemptions and/or allow the amount eligible for redemption/repurchase (whether up to or in excess of the cap) to be determined in the sole discretion of the the GP.
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Notes to: Private Equity Investments Enhance Potential Risk-Adjusted Return

As of March 30, 2024 (unless otherwise noted)

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The appropriate mix of investment sectors and strategies is an inherently fact-specific measurement; the ranges listed here are hypothetical and should not be relied upon as an asset allocation strategy.

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The information contained herein should not be used as the sole basis for making a decision as to whether or not to invest. Potential investors are strongly urged to discuss any prospective investment with their legal and tax advisors in order to make an independent determination of the suitability and consequences of such investment.

*Volatility estimates are based on quarterly returns for public and private markets strategies, including, in each case as applicable, the MSCI ACWI, Barclays US Aggregate TR Bond Index, and Burgiss Manager Universe Index, as of 3/15/2024 and measured over the period of time indicated for such indices in the corresponding footnote. Such periods were determined based on, with respect to (i) the graphic entitled "Improvements to Portfolio Return and Volatility" the oldest period of time for which relevant data for the Burgiss Manager Universe was available. Indices included herein are widely-used reference points within the investment industry but are not necessarily intended to be representative of, or directly comparable to, any Adams Street fund. Such indices may differ from Adams Street funds in terms of composition, risks, strategy, liquidity, or other factors. Additional information on return methodology is available upon request. Actual returns may vary.

Sources:

1. Equity Category is calculated using the reported MSCI ACWI Index since 12/31/1988; MSCI ACWI (All Country World Index) captures large and mid cap company representation across Developed and Emerging Markets countries. Data as of 9/30/2023, sourced on 3/15/2024
2. Bond Category is calculated using the reported Barclays US Aggregate TR Bond Index since 12/31/1988; is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States. Data as of 9/30/2023, sourced on 3/15/2024
3. Private Equity Category is calculated using the reported time series returns since 12/31/1988 from the Burgiss Manager Universe Index.
4. The Burgiss data presented here includes a set of Venture Capital and Buyout funds which are invested on a primary basis in venture and buyout strategies and excludes secondary investments. Pooled IRR is net of fees, expenses, and carried interest at the General Partner level. Burgiss is a recognized source of private equity data, and the Burgiss Manager Universe includes funds representing the full range of private capital strategies; however, it may not include all private equity funds and may include some funds which have investment focuses that Adams Street Partners does not invest in. Burgiss returns are included for illustrative purposes only as a reference point for certain sectors of the private market including sectors similar to those in which Adams Street invests. Numbers are subject to updates by Burgiss. Data and calculations by Burgiss, sourced on 3/15/2024.

Past performance is not a guarantee of future results.

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