Reimagining the 60/40 Portfolio with Private Equity Secondaries

Secondary private equity can potentially enhance the return and risk profile of a traditional 60/40 portfolio.

The core investment portfolio needed to balance return and risk – long viewed by financial advisors as a prototypical 60/40 stock/bond allocation – is taking on a different look. Advisors are coming to the same conclusion as institutional investors: alternatives are not alternatives anymore. Accordingly, advisors are making alternatives a core component of strategic asset allocations. As a result, some investors are seeking to add private markets to portfolios to potentially achieve greater longer-term returns and mitigate risk.

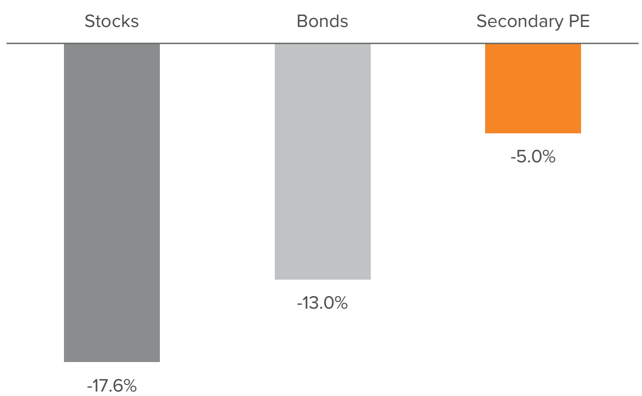
A long track record of lower risk and higher returns

Secondary private equity (PE) has emerged as an easy way to access private markets. Investors may benefit from its potential for attractive returns, modest volatility, and lower correlations to other asset classes.

Over the long term, secondary private equity has delivered higher absolute and risk-adjusted returns compared to public equities.

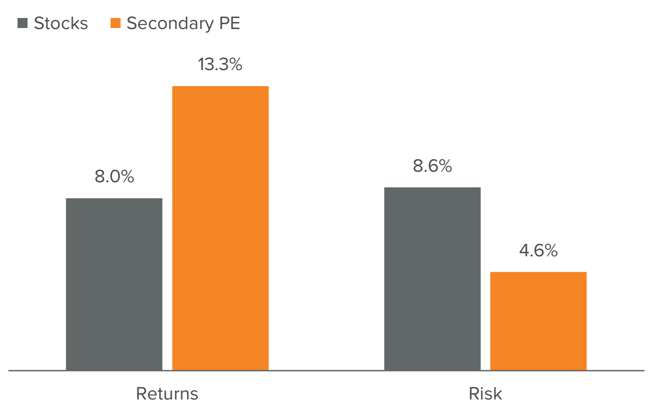
Secondary PE held up when stocks and bonds sold off

2022 annual returns



Secondary PE has outperformed public equities with less risk

Annualized returns and risk: 20 years ended 12/31/22



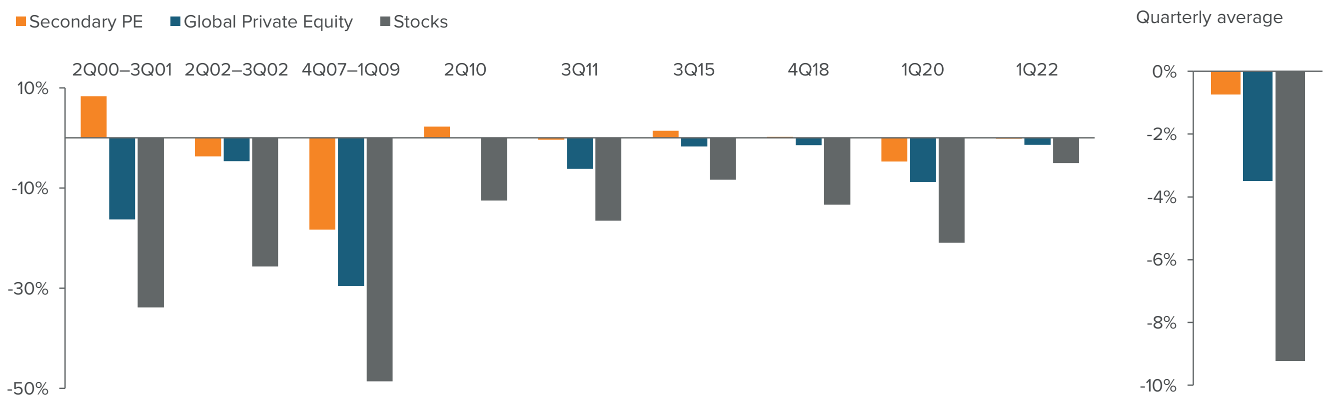
As of December 31, 2022. Source: MSCI, Bloomberg and Cambridge (www.cambridgeassociates.com). Stocks: mPMEConstructed Index: MSCI World/MSCI All Country World Index (gross). Bonds: Bloomberg U.S. Aggregate Index. Secondary PE: Cambridge Secondary Fund Index, a horizon calculation based on data compiled from 332 secondary funds, including fully liquidated partnerships, formed between 1991 and 2022. For stocks and secondary PE, risk is measured by the annualized standard deviation of the MSCI World All Country Index (stocks) and the Cambridge Secondary Fund Index (Secondary PE). Index returns do not reflect fees, brokerage commissions, taxes or other expenses of investing. Investors cannot invest directly in an index. **Past performance is no guarantee of future results.** See disclosures for more information.

Historically strong downside protection

When broader market conditions deteriorate, secondary private equity investments have exhibited lower volatility and downside risk compared to public equity, and even primary private equity investments.

Secondary PE has delivered stronger historical downside protection than primary PE

Cumulative Returns During Equity Drawdown Periods

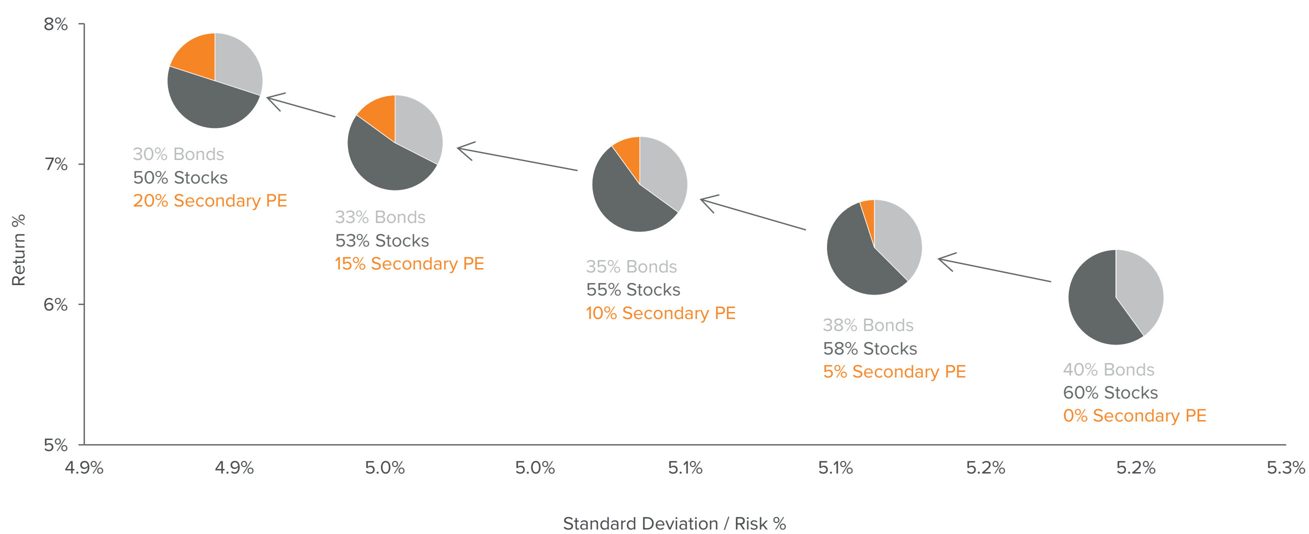


Twenty-two years ending March 31, 2022. Source: Cambridge Associates and MSCI World Index. The Secondary PE index represents a horizon calculation based on data compiled from 301 secondary funds, including fully liquidated partnerships, formed between 1991 and 2021. The Cambridge Global PE index represents a horizon calculation based on data compiled from 2,606 private equity funds, including fully liquidated partnerships, formed between 1986 and 2022. The equity drawdown periods identified in the chart above span 19 different quarterly periods. The Quarterly Average is calculated by taking the sum of returns in each of the 20 quarters and dividing the sum by 19 to reflect the number of quarters observed. **Past performance is no guarantee of future results. Indices are unmanaged and not available for direct investment.**

Secondary PE: A potential path to more attractive risk-adjusted returns

Adding secondary private equity to a 60/40 portfolio is one strategy to help enhance risk-adjusted returns. As the data below illustrates, reallocating a portion of the portfolio from public equities and bonds to secondary private equity enhanced the risk-return profile of the portfolio.

Adding secondary PE to a 60/40 portfolio increased returns and lowered risk



Twenty years ending December 31, 2022. Source: Cambridge Associates, Bloomberg and MSCI World Index. Stocks: MSCI All Country World Index (gross). Bonds: Bloomberg U.S. Aggregate Index. Secondary PE: Cambridge Secondary Fund Index, a horizon calculation based on data compiled from 332 secondary funds, including fully liquidated partnerships, formed between 1991 and 2022. For illustrative purposes only. Returns and risk do not reflect those of an actual strategy. **Past performance is no guarantee of future results.** Index returns do not reflect fees, brokerage commissions, taxes or other expenses of investing. Investors cannot invest directly in an index. See disclosures for more information.

By strategically incorporating secondary private equity into a traditional 60/40 allocation, advisors can seek to enhance risk-adjusted returns, diversify their holdings, and create a more balanced and resilient investment strategy for their clients' portfolios.

Risks of investing and important disclosures

Cambridge Associates Modified Public Market Equivalent (mPME): The mPME calculation is a private-to-public comparison that seeks to replicate private investment performance under public market conditions. The public index's shares are purchased and sold according to the private fund cash flow schedule, with distributions calculated in the same proportion as the private fund, and the mPME NAV (the value of the shares held by the public equivalent) is a function of mPME cash flows and public index returns. The mPME attempts to evaluate what return would have been earned had the dollars been deployed in the public markets instead of in private investments while avoiding the "negative NAV" issue inherent in some PME methodologies. The **Bloomberg US Aggregate Index** is a widely recognized, unmanaged index of publicly issued investment grade US government, mortgage-backed, asset-backed and corporate debt securities. The Index does not reflect fees, brokerage commissions, taxes or other expenses of investing. The **MSCI All Country World Index (gross)** captures large and mid cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. With 2,935 constituents, the index covers approximately 85% of the global investable equity opportunity set.

Private equity may not be suitable for every investor, may involve a high degree of risk, and may be appropriate investments only for sophisticated investors who are capable of understanding and assuming the risks involved. Private equity investments are subject to various risks. These risks are generally related to: (i) the ability of the manager to select and manage successful investment opportunities; (ii) the quality of the management of each company in which a private equity fund invests; (iii) the ability of a private equity fund to liquidate its investments; and (iv) general economic conditions. Private equity funds that focus on buyouts have generally been dependent on the availability of debt or equity financing to fund the acquisitions of their investments. Depending on market conditions, however, the availability of such financing may be reduced dramatically, limiting the ability of such private equity funds to obtain the required financing or reducing their expected rate of return. Private equity funds, as well as securities that invest in such funds and companies in which such funds or securities may invest, tend to lack the liquidity associated with the securities of publicly traded companies and as a result are inherently more speculative. All investments in bonds are subject to market risks. Bonds have fixed principal and return if held to maturity, but may fluctuate in the interim. Generally, when interest rates rise, bond prices fall. Bonds with longer maturities tend to be more sensitive to changes in interest rates. All equity investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. Foreign investing does pose special risks including currency fluctuation, economic and political risks not found in investments that are solely domestic. Emerging market stocks may be especially volatile. Stock of an issuer in the Fund's portfolio may decline in price if the issuer fails to make anticipated dividend payments because, among other reasons, the issuer of the security experiences a decline in its financial condition. Securities of small- and mid-sized companies may entail greater price volatility and less liquidity than investing in stocks of larger companies.

Past performance is no guarantee of future results. There are no guarantees a diversified portfolio will outperform a non-diversified portfolio. Diversification does not guarantee a profit or ensure against loss. Private equity may not be suitable for every investor, may involve a high degree of risk, and may be appropriate investments only for sophisticated investors who are capable of understanding and assuming the risks involved. Private equity investments are subject to various risks. These risks are generally related to: (i) the ability of the manager to select and manage successful investment opportunities; (ii) the quality of the management of each company in which a private equity fund invests; (iii) the ability of a private equity fund to liquidate its investments; and (iv) general economic conditions. Private equity funds that focus on buyouts have generally been dependent on the availability of debt or equity financing to fund the acquisitions of their investments. Depending on market conditions, however, the availability of such financing may be reduced dramatically, limiting the ability of such private equity funds to obtain the required financing or reducing their expected rate of return. Private equity funds, as well as securities that invest in such funds and companies in which such funds or securities may invest, tend to lack the liquidity associated with the securities of publicly traded companies and as a result are inherently more speculative.

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