



# PRIVATE MARKETS

POWERING YOUR INVESTMENT PROGRAM FROM  
STRATEGY TO IMPLEMENTATION AND OVERSIGHT

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THE POSS/IBLE®

# The private markets opportunity

Significant growth and investment

**659%**

Growth in the number  
of funds over the last  
20 years<sup>1</sup>

**\$9.8T**

Private Markets AUM  
H1 2021<sup>2</sup>

**\$15T**

Commitments to  
Private Markets over  
the last 50 years<sup>3</sup>

<sup>1</sup> Hamilton Lane, Cobalt November 2020. <sup>2</sup> McKinsey & Company, McKinsey Global Private Markets Review 2022. <sup>3</sup> Hamilton Lane, Cobalt 2022. All figures presented in USD

# Critical to diversify *across* asset type and vintage

Private markets asset class relative performance varies over time

Private market strategies' pooled IRR comparisons by vintage year\*

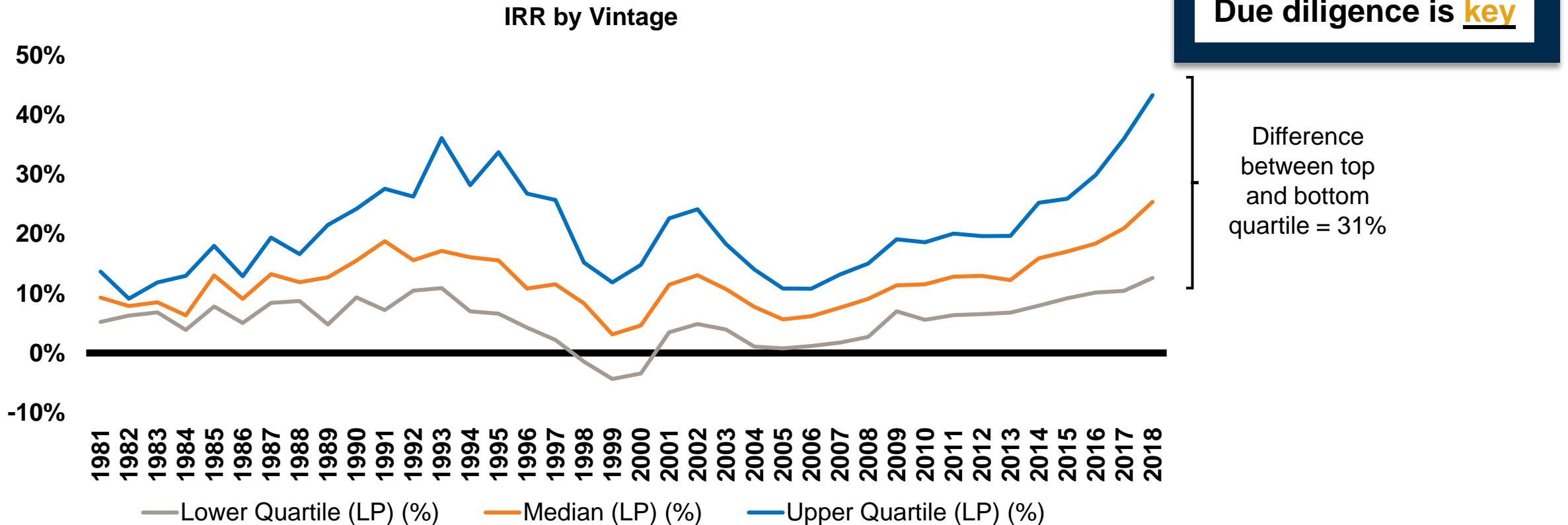
2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	10-year horizon IRR	
11.7%	13.6%	19.3%	19.5%	21.3%	21.4%	22.1%	25.5%	26.9%	36.9%	40.4%	47.8%	66.8%	87.4%	17.9%	
11.5%	13.5%	14.1%	17.7%	17.0%	18.4%	17.5%	21.7%	23.9%	31.3%	37.0%	33.9%	62.4%	68.5%	16.2%	
9.7%	13.0%	13.4%	16.1%	16.4%	16.6%	17.4%	21.7%	21.6%	24.0%	31.6%	32.7%	48.4%	65.3%	15.5%	
9.6%	11.3%	13.1%	13.6%	15.2%	14.0%	16.4%	20.9%	20.9%	22.9%	29.6%	32.6%	40.8%	64.5%	12.8%	
6.0%	6.5%	11.4%	13.1%	14.8%	13.1%	12.5%	15.3%	17.0%	22.1%	21.6%	32.2%	38.2%	42.1%	12.7%	
5.8%	5.9%	9.5%	12.8%	12.1%	13.1%	11.5%	10.6%	12.2%	13.8%	13.3%	15.6%	32.1%	26.4%	11.2%	
5.7%	5.8%	8.7%	8.5%	8.0%	12.1%	10.8%	10.2%	9.2%	12.7%	11.5%	11.6%	19.1%	20.0%	9.5%	
3.7%	4.3%	3.4%	7.9%	6.0%	6.5%	6.7%	8.1%	7.6%	12.1%	10.1%	9.0%	13.2%	12.1%	8.9%	
2.9%	-4.4%	3.1%	-7.9%	1.5%	-0.8%	3.8%	6.4%	5.3%	7.2%	7.9%	7.9%	7.6%	1.0%	1.9%	
Range	8.8%	18%	16.2%	27.4%	19.8%	22.2%	18.3%	19.1%	21.6%	29.7%	32.5%	39.9%	59.2%	86.4%	16%



Source: Pitchbook, Russell Investments. As of June 30, 2021. For illustrative purposes only. The returns shown above correspond to alternative investment products managed by third-party managers. They do not represent the actual investments of the Fund, Russell Investments or any of its other clients. Past performance does not predict future returns.

# ...and critical to diversify *within* asset class and vintage

High dispersion of performance by fund, especially late cycle



Source: Cambridge Associates All Private Equity, Venture Capital, Growth Equity and Buyouts, Mezzanine and Distressed, years from 1981 – 2019. Returns shown net of fund fees and expenses. Returns shown through 2018 because in the early life of a fund, IRR may not be meaningful as the fund is still in the investment period and therefore IRR does not truly reflect performance of the fund. Returns for more recent fund vintages may be lower than the returns shown above and IRRs are more likely to be negative. For illustrative purposes only. The returns shown above correspond to alternative investment products managed by third-party managers. They do not represent the actual investments of the Fund, Russell Investments or any of its other clients. Past performance does not predict future returns.

# Private markets

## Key investment themes

### Private Equity



- Leverage specialist managers with clear areas of domain expertise
- Onshoring of supply chains
- Secondary investments provide optionality in an uncertain economic environment

### Private Credit



- A focus on sponsor-backed loans
- Experienced management teams that have invested through multiple business and credit cycles
- Demonstrated ability to avoid losses with low default rates and loss rates

### Private Infrastructure



- Infrastructure is at the centre in the move toward decarbonization
- Secular rise in demand for data
- Transportation infrastructure supported by population growth and urbanization

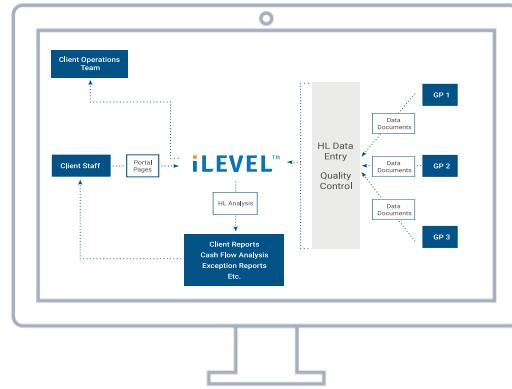
### Private Real Estate



- Access to the 21<sup>st</sup> century real estate ecosystem
- Secular growth trends associated with sectors such as industrial, student housing, and single family rentals
- Inflation protection

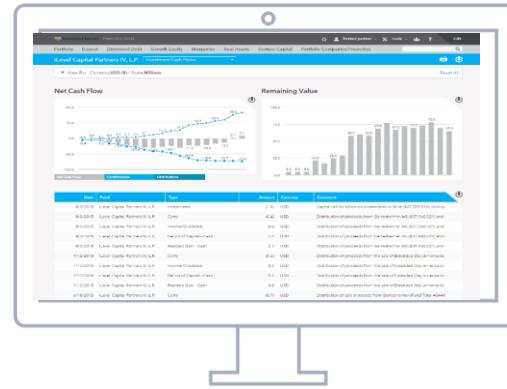
# Private markets: Operational burden and complexity

## Collect, store, analyze and report



# Data Collection

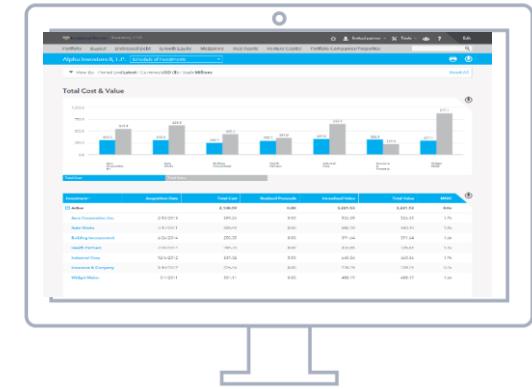
## Data collection for fund performance and individual portfolio companies



# Cash Management

## IRR calculations

## Capital call & distribution review and support



# Performance Reporting

Quantitative and qualitative  
performance analysis  
Portfolio diversification  
Benchmarking

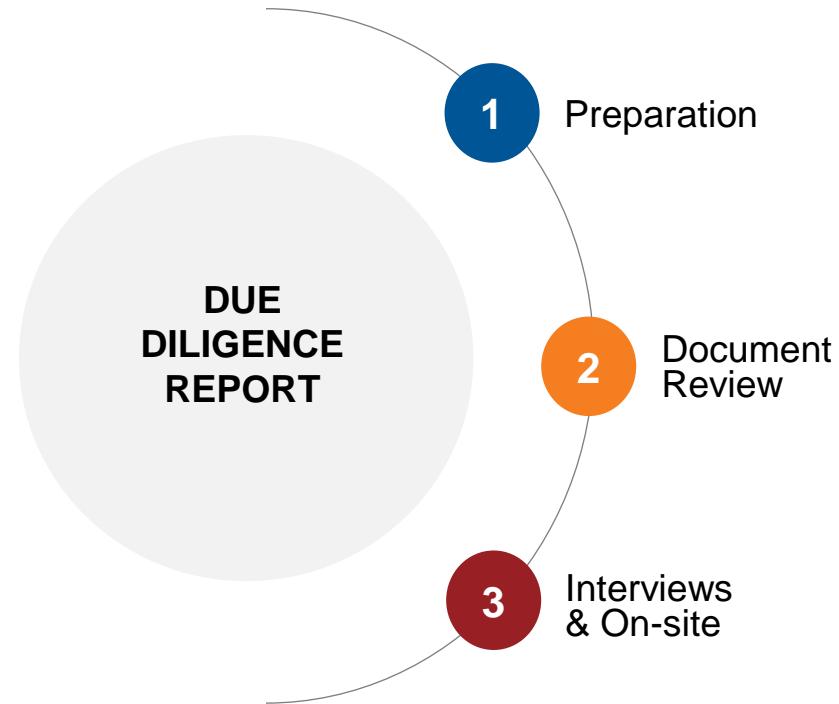
Source: Russell Investments, Hamilton Lane. For illustrative purposes only.

# Private markets are complex

Investment structures – *Accounting for your specific circumstances*



# Operational due diligence



DDQ – Due Diligence Questionnaire

P&Ps – Policies and Procedures

Source: Russell Investments. For illustrative purposes only.

## OPERATIONAL DUE DILIGENCE PROCESS:

<b>1 Preparation</b>	<b>Internal</b>	<ul style="list-style-type: none"><li>▪ Coordination with investment research</li><li>▪ Initial documentation inventory</li></ul>
	<b>External</b>	<ul style="list-style-type: none"><li>▪ Meeting scheduling</li><li>▪ Additional documentation request</li></ul>
<b>2 Document Review</b>	<b>ODD Team</b>	<ul style="list-style-type: none"><li>▪ Offering documents</li><li>▪ Marketing materials</li><li>▪ DDQs/ P&amp;Ps/ Audited financials</li></ul>
	<b>Compliance Review</b>	<ul style="list-style-type: none"><li>▪ Code of ethics</li><li>▪ Compliance manual</li><li>▪ Registration with regulatory authorities</li></ul>
	<b>Legal Review</b>	<ul style="list-style-type: none"><li>▪ Constitutive documents</li><li>▪ Side letters</li></ul>
<b>3 Interviews &amp; On-site</b>	<b>Direct Review</b>	<ul style="list-style-type: none"><li>▪ Walkthrough of trade process</li><li>▪ Review of pricing/ Cash controls</li><li>▪ Verification of stated process controls</li></ul>
	<b>Manager Reputation Review</b>	<ul style="list-style-type: none"><li>▪ Background checks</li><li>▪ Reference checks</li></ul>
	<b>3rd Party Service Providers</b>	<ul style="list-style-type: none"><li>▪ AUM verification</li><li>▪ Confirmation of services provided</li></ul>

# Key pillars of governance and oversight

Providing detailed risk analysis of your portfolio



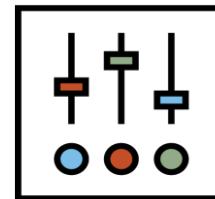
## PORTFOLIO PLANNING

Access to cash flow projection model and scenario testing analytics



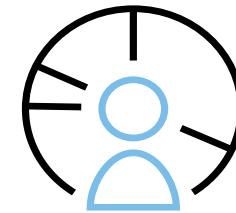
## ANALYTICS AND RISK AT TOTAL PORTFOLIO LEVEL

See risks and exposures at the total portfolio level



## INTEGRATE CUSTOM PREFERENCES

Incorporate client preferences, such as sector, geographical, risk profile or transaction type exposures



## OWNING TOTAL PORTFOLIO EXPOSURES

Make deliberate decisions on which exposures are intended and unintended



## OPERATIONAL DUE DILIGENCE

Safeguarding investor interests

Visibility & control

Improved investment outcomes

# Example: Investor A - real assets portfolio

## CHALLENGE:

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- Increase real asset portfolio from 5% to 20% of the total assets
- Funded from fixed income
- Global diversification
- Maintain real value of assets



## OUTCOME:

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- Access to a well diversified portfolio across strategy, geography, manager and asset
- Open ended-fund structures
- Core risk profile
- Income focus
- Inflation protection

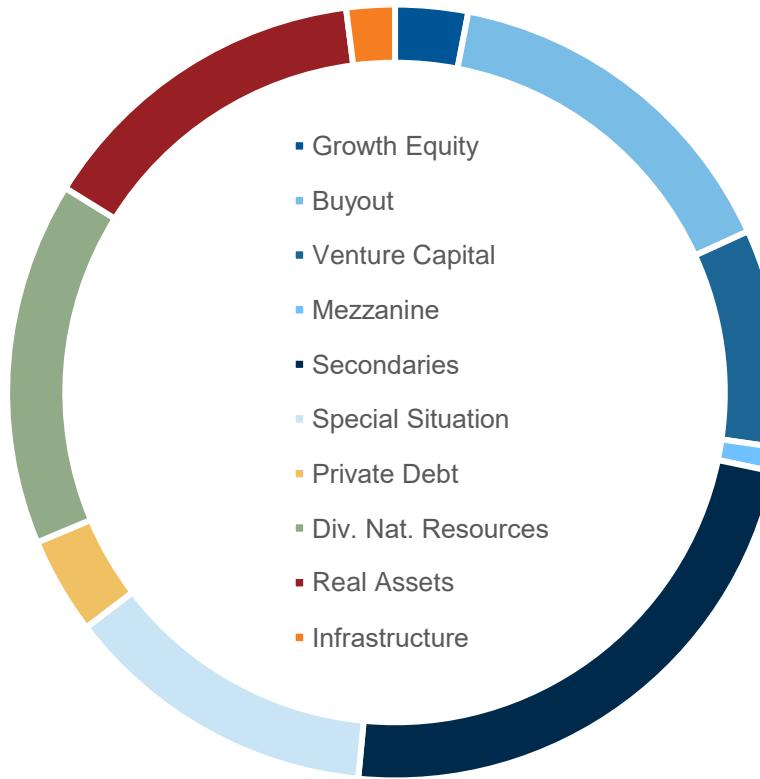
Source: Russell Investments, as at June 30, 2022. For illustrative purposes only.

# Example: Investor B - diversified growth portfolio

## CHALLENGE:

- Management of complex web of assets from M&A activity
- Streamlining 14 asset pools
- Generate higher returns than public market equivalent
- Diversify risk portfolio

PERPETUAL  
TERM



54  
INVESTMENTS

## OUTCOME:

- Asset and relationship pooling
- Reduced administrative burden
- Increased buying power
- Additional layer of manager oversight and risk mitigation

ANNUAL  
COMMITMENTS

# Private markets: powering your investment program

## Actionable insights

Manager selection and portfolio construction critical to performance



Expertise and scale can help manage the complexity of private markets



Incorporate key pillars of governance and oversight



# Important information

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