



***RETHINKING THE RE-UP IN
PRIVATE EQUITY***

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Four main areas of global change



Geopolitics



Growth



Environment



Social

End of an historic era (last 50–70 years)



GEOPOLITICS

- Approaching the end of US political, economic and military global dominance
- Largest land war in Europe since World War II



GROWTH

- End of growing labour forces across major economies
- End of 40+ years of declining inflation
- Record debt levels



ENVIRONMENT

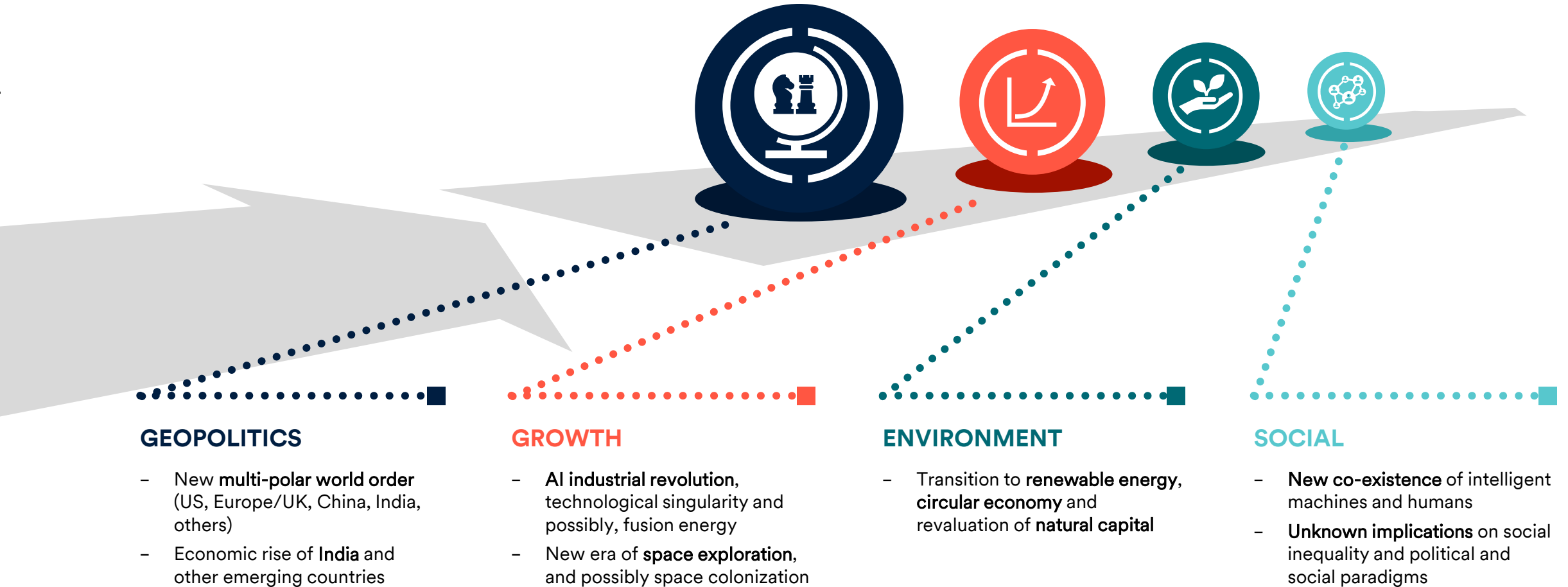
- Peak fossil energy, e.g. end of 140+ years of combustion cars
- End of 70+ years of nuclear energy in certain countries



SOCIAL

- Social inequality high and rising in many countries

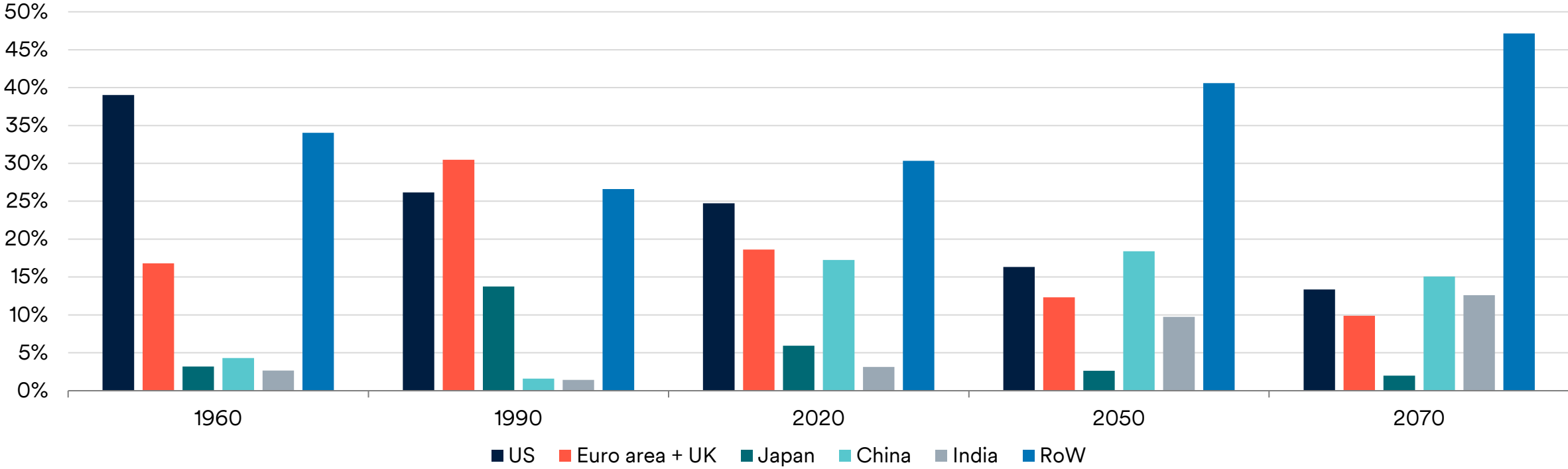
Start of a new era (next 50+ years)



Source: Schroders Capital, 2023.
The views shared are those of Schroders capital and may not be verified.

Geopolitics in the new era: a multi-polar world

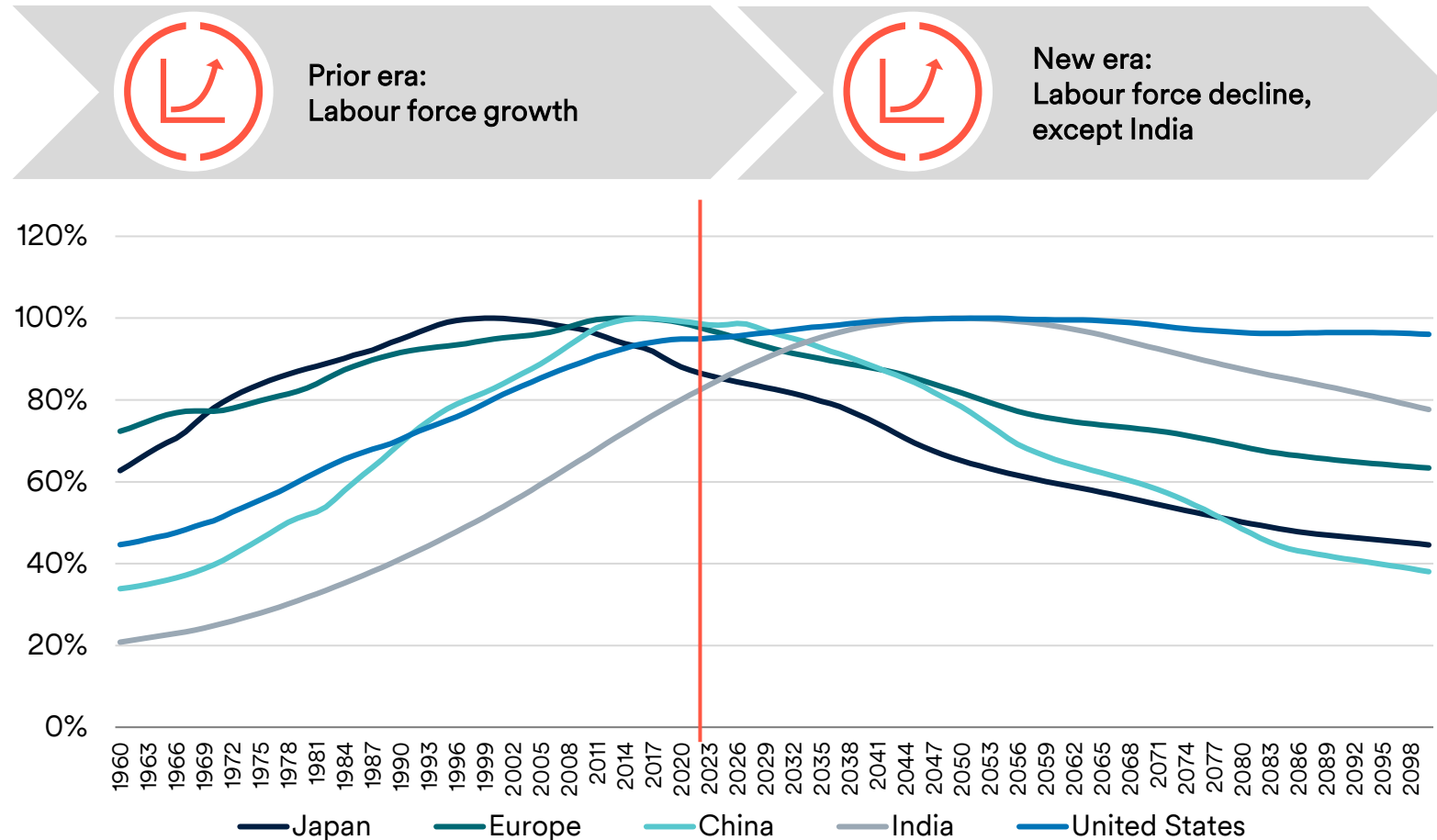
Share of global GDP in market exchange rates



Source: World Bank national accounts data, and OECD National Accounts data files, 2023, Goldman Sachs Global Investment Research, 2022, Schroders Capital, 2023. GDP calculated based on the market exchange rate approach is used, which involves converting each country's GDP into a common currency. Forecasts and estimates may not be realized.

Demographics: From labour force growth to decline, except India

Working population¹ development in major economies (100% = peak)



- Working population growth/decline directly linked to GDP growth
- Declining working population to continue to put pressure on growth in Europe, Japan and China
- US with stagnating labour force
- India with continued strong working population growth over coming decades
- Slow growth likely to lead to continued low real interest rate environment

Past performance is not a guide to future performance and may not be repeated.

Source: UN World Population Prospects 2022, Schrodgers Capital, 2023.

¹Working population defined as age group 20–70 years for Japan and 20–65 years for all other countries.

Scaling of graph: 100% = peak. Forecasts and estimates may not be realized.

Growth in the new era: 5th industrial revolution



INDUSTRY 1.0

Mechanization, water power, steam power

1784



INDUSTRY 2.0

Mass production, assembly line, electricity

1870



INDUSTRY 3.0

Computer, electronics and automation

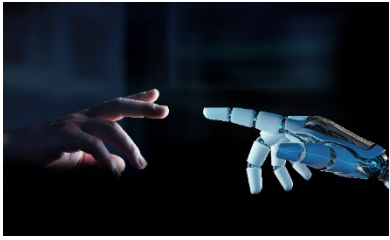
1969



INDUSTRY 4.0

Internet, smartphone, IoT

2010



INDUSTRY 5.0

Generative AI, quantum computing, space colonization

2020



TECHNOLOGICAL SINGULARITY

The equivalent of an iPhone becoming more intelligent than all humans on the planet combined

2040–2050

Source: Schrodgers Capital, 2023.
Years shown are estimates. Forecasts and estimates may not be realized.

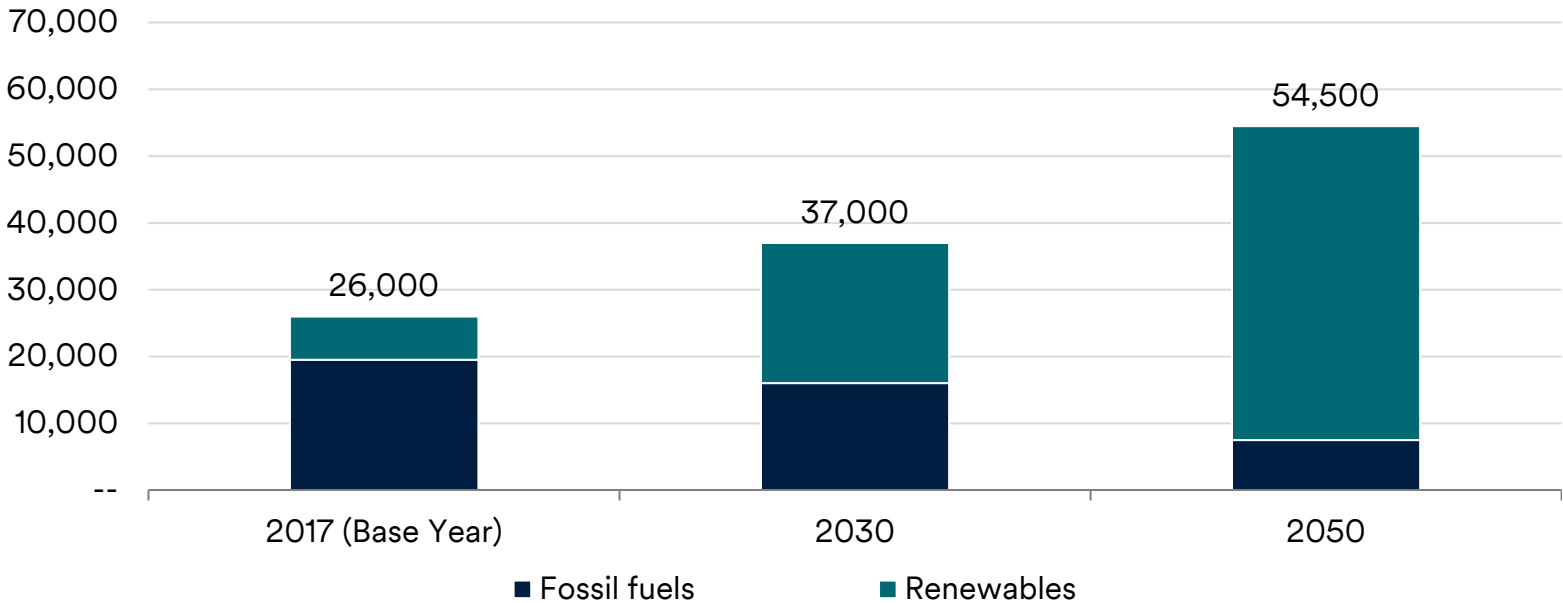
Energy in the new era: renewables dominate

Share of different energy sources in % of total energy supply



Share of modern renewables in electricity generation

2017, 2030 and 2050



Key considerations

- Electricity generation is forecast to grow as:
 - Demand increases from Emerging Market growth economies
 - Activities in all economies are electrified
- Proportion of electricity generated by renewables is expected to increase from ca. 25% to 86% by 2050
- The result being significant growth in the demand for renewable power generation

Source: IRENA 2019, Schrodgers Capital, 2023.
Forecasts and estimates may not be realized.

Net carbon emissions to fall over coming decades

CO₂ emissions by sector¹



1

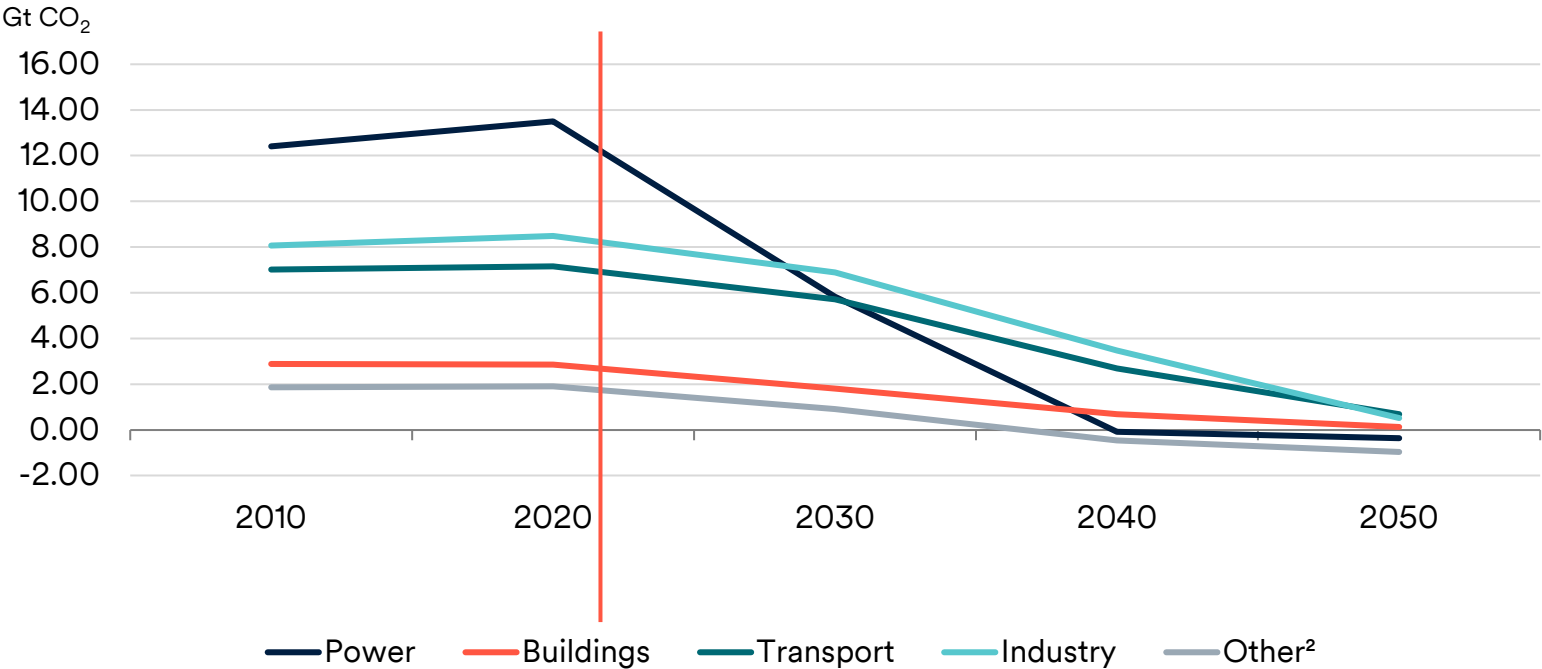
Decarbonise Power

2

Electrify as much as you can

3

Use hydrogen, carbon capture and storage for the residual

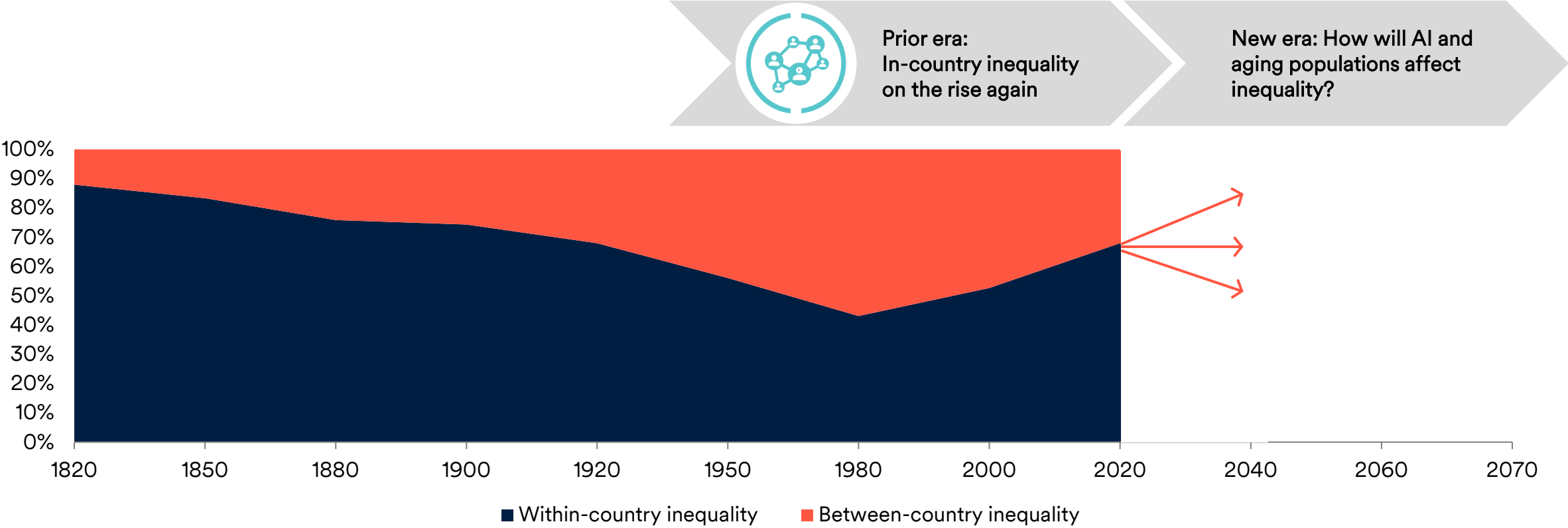


Source: Schrodgers Capital, 2023.

¹International Energy Agency (2021), Net Zero by 2050, IEA, Paris. ²Others includes agriculture, fuel production, transformation and related process emissions and direct air capture. Forecasts and estimates may not be realized.

How will in-country income inequality evolve in the new era?

Breakdown of global inequality into between and in-country, 1820–2020 (Theil index)



Share of within-country inequality as part of global income inequality has increased over the last 50 years and is back at levels seen in 1920 (period of communist revolution)

Source: wir2022.wid.world/methodology, 2021, Schroders Capital, 2023. Income is measured per capita after pension and unemployment insurance transfers and before income and wealth taxes. Forecasts and estimates may not be realized.

Current decade is a transition from one historic era to the next



Increased rate of change in four areas...

- Geopolitics
- Growth
- Environment
- Social

...resulting in high levels of

- Uncertainty
- Innovation and disruption
- Paradigm shifts
- Transformation

Success factors for private equity investments:

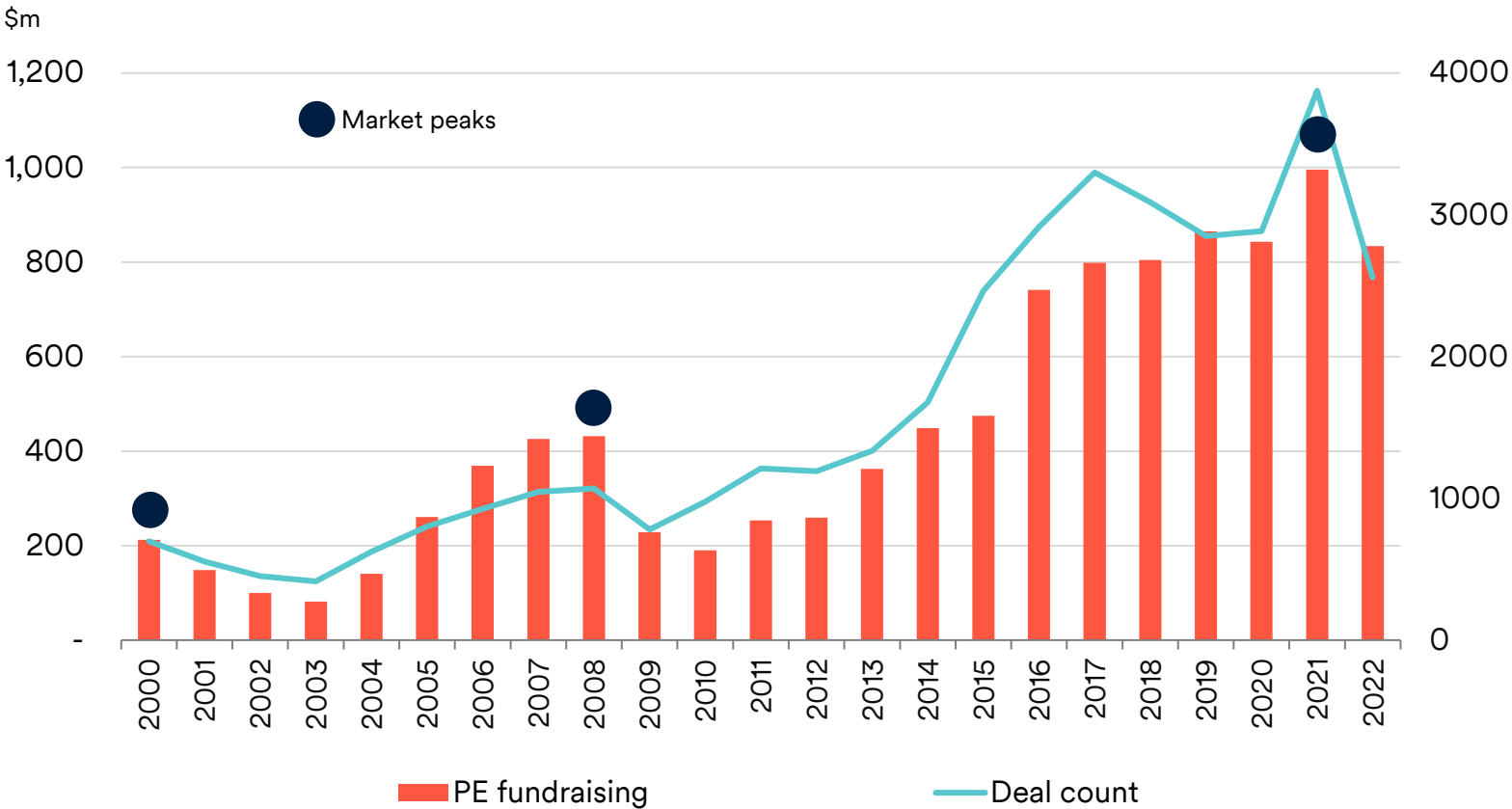
- Focus on long-term trends
- Robustness
- Diversification

Source: Schroders Capital, 2023.

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Private Equity market had 3 peaks since 2000

Private Equity fund raising 2000–2022



3 market peaks:

- Tech bubble peak (2000)
- Pre GFC peak (2008)
- Low interest environment peak (2021)

Market correction:

- 2022 fundraising at \$800bn, down from 2021 peak by 20%
- 2022 deal volumes at 2500 deals, down from 2021 peak by 30%
- Higher fundraising witnessed during 2016–2022

Source: Preqin, Schroders Capital, 2023.

Private Equity investors need to be well positioned for the future



General private equity exposure

+



Building change

+



Sustainability/
Impact

+



High level of selectivity

+



Portfolio diversification

Matching unique skills with complex investment opportunities

Source of returns with certain independence of general market beta

Driving and measuring sustainability and impact

Sustainability and impact as return enhancers

Establish proprietary/access restricted investments

Positive trend exposure

Avoid exposure to key market challenges

Diversification across private equity strategies

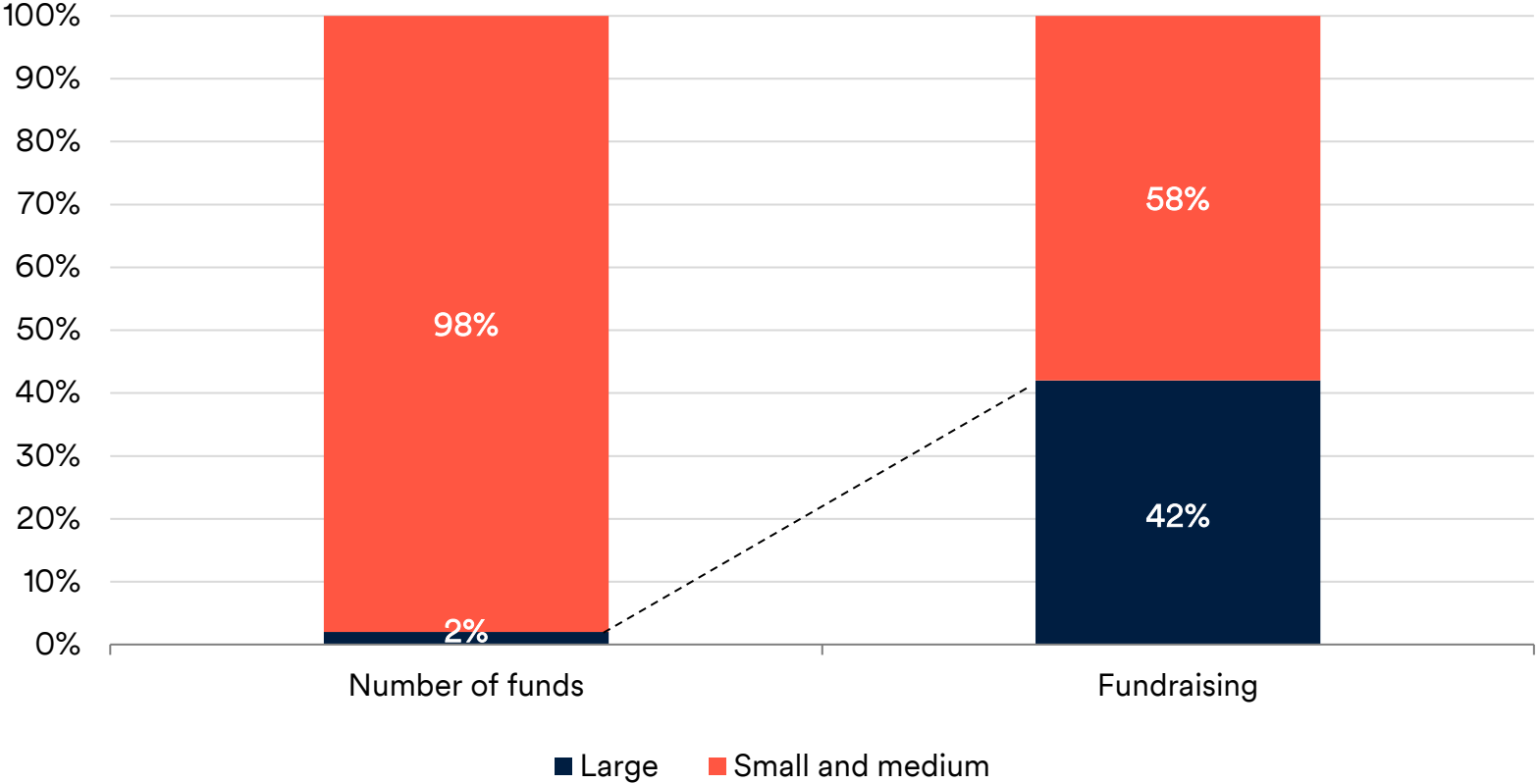
Long tail – small/mid-sized part of the market

Combination of idiosyncratic risks

Source: Schroders Capital, 2023.
No investment strategy can guarantee future results.

Disproportionate capital concentration at the larger end of the market (PE fundraising)

Private Equity fundraising 2010–2022

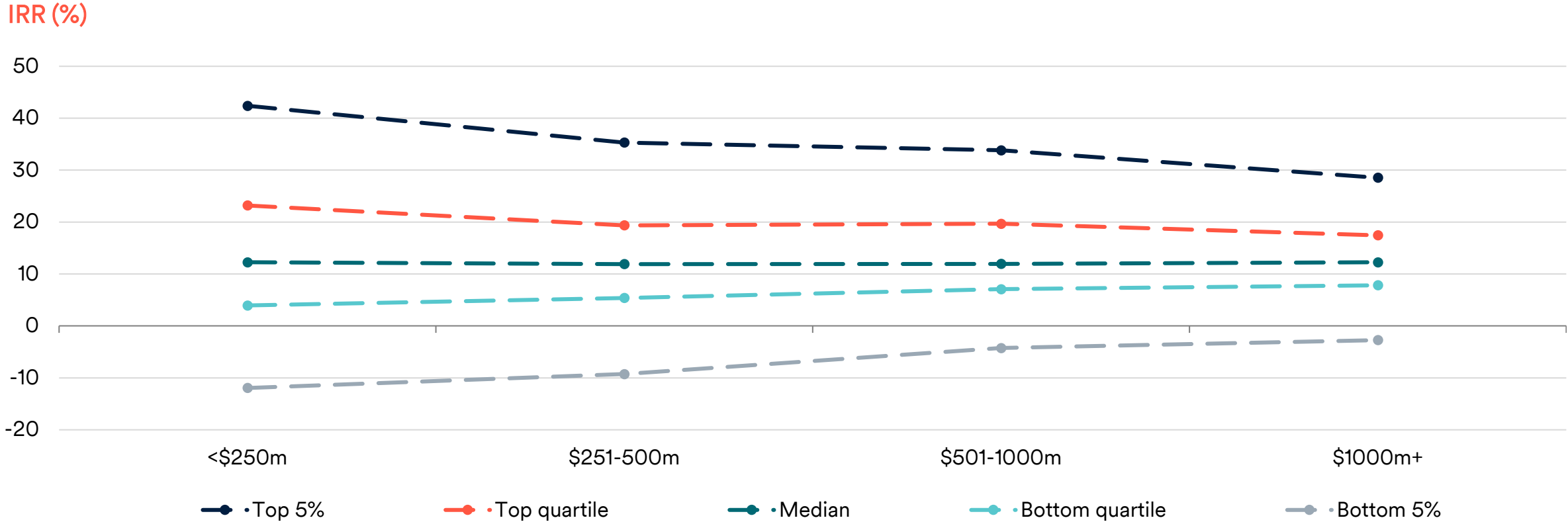


- Large funds only account for 2% of the funds, but have attracted a disproportionate amount of capital 42%
- Small/medium funds account for the majority of funds raised 98%, but only attract 58% of the capital

Source: Preqin, Schroders Capital, 2023.

Small funds can offer compelling returns; specialization is key

Internal rate of return (IRR) by fund size

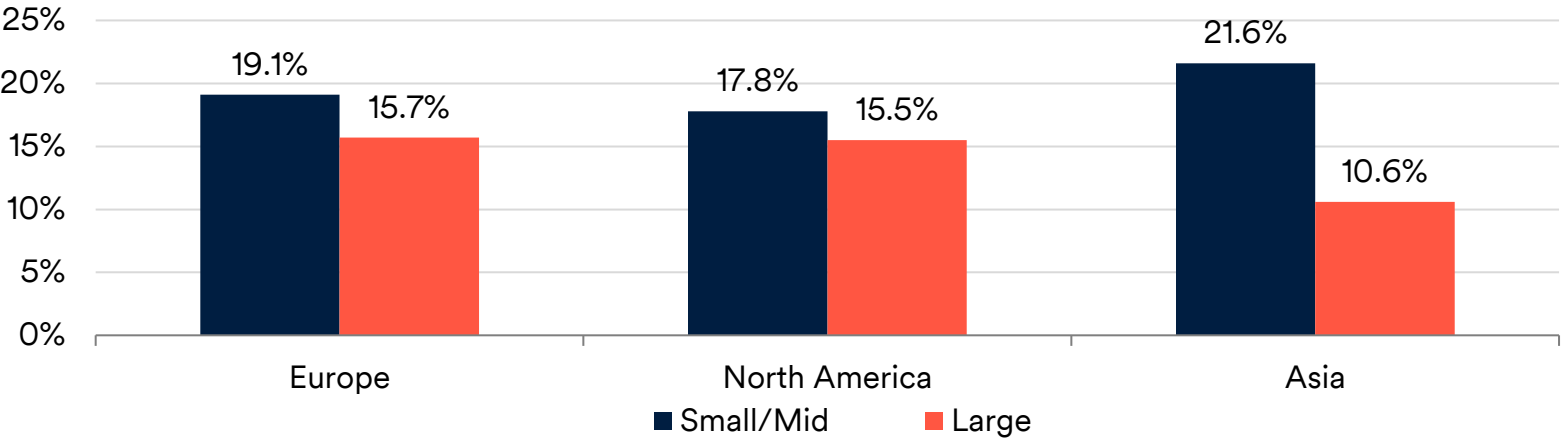
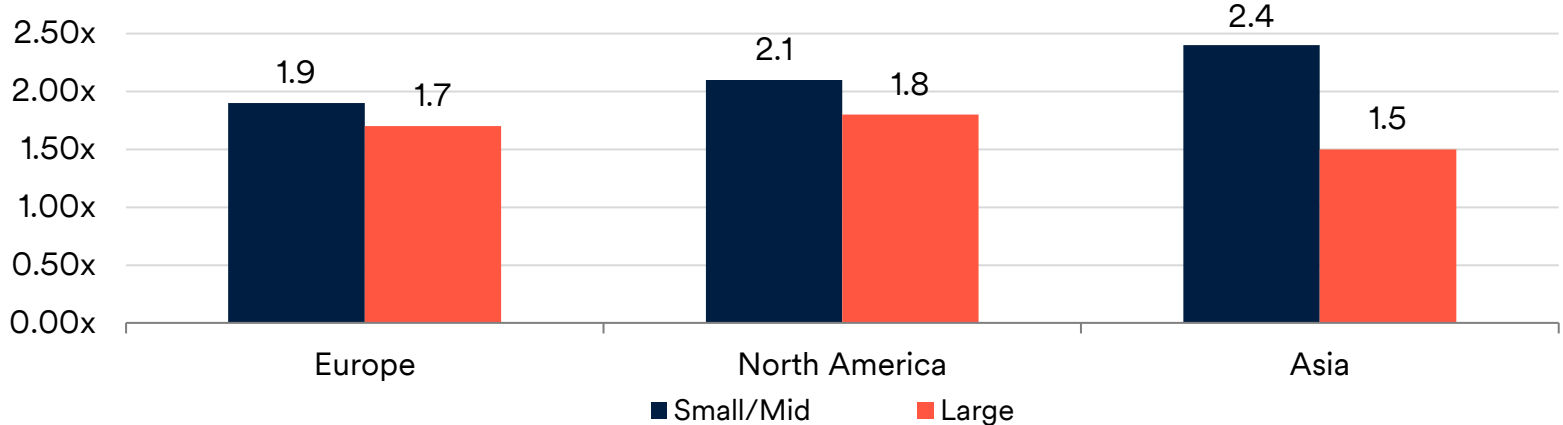


Smaller funds offer the opportunity for higher returns, but manager selection is paramount

Past performance is not a guide to future performance and may not be repeated.
Source: Schroders, Burgiss, August 2020. IRR data from Jan 2000 - March 2020 from fund vintages between 2000-2016.

Regional variations indicate outperformance by small/mid funds

Performance by region (average TVPI and IRR)



Period covered 2000-2017
Source: Preqin, Schroders Capital, 2023.

- Small/mid funds have performed better than large funds across all regions
- Largest outperformance visible in Asia

Investment selection and portfolio construction robustness

Top-down drivers of robustness

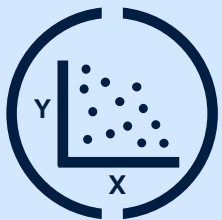


Strategies with healthy capital demand/supply balance

- Reasonable dry powder levels
- Healthy entry valuations



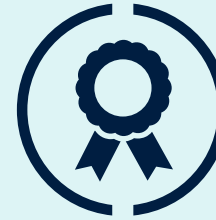
Strategies with low or no dependence on leverage



Strategies with low correlation with stock markets

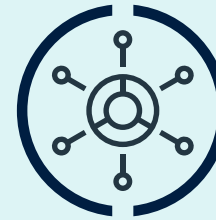
- Multiple exit routes

Bottom-up drivers of robustness



Market-leading companies

- Strong competitive advantage
- Pricing power



Robust business models

- Recurring revenues
- High customer switching costs



Fundamental value creation

- Complexity premium

Source: Schroders Capital, 2023.

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Conclusion – Rethink the Re-up in Private Equity



Big picture, very long-term view helps to identify opportunities and risks for investments with inherently long-term horizons like private equity



Transition from one historical era to the next creates opportunities for growth and company transformation



Focus on long-term trends, robustness and diversification helps to seize opportunities while managing risks during this transition



Investor should seek to increase focus on managers with more specialized strategies that have proven the ability to deliver on the complexity premium



Global diversification will allow investors to capture opportunities to improve their overall Private Equity risk / reward profile

Source: Schroders Capital, 2023.

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