S&P Dow Jones Indices

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Index Education

2023 Private Markets Review:

Cambridge Associates Benchmarks versus Public Indices

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Background on Cambridge Associates Private Investment Benchmarks

For over 50 years, Cambridge Associates has worked with endowments, foundations, family offices, pensions and other institutional investors to build and align portfolios to investors' goals. Cambridge Associates was an early proponent of private investing. Due to its deep understanding of datasets across private market asset classes, strategies and geographies, it remains a critical proponent and advisor in the private market landscape. Over decades of advising investors and working with private market fund managers, Cambridge Associates has developed a platform that tracks over 98,000 investments, 10,000 private investment funds and over 15,000 operating metrics, and it maintains over 6,600 General Partner (GP) relationships.

Cambridge Associates initially built private market benchmarks for their institutional investor clients' private portfolios. It still uses its benchmarks to advise its institutional clients on their private market exposures; however, the number of investments and strategies that comprise the benchmarks has grown drastically with the growth in the underlying markets. The benchmarks follow a rules-based approach and are constructed with clearly defined classifications established by Cambridge Associates.

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Benchmarking Private Markets

Private markets are among the fastest-growing but most opaque market segments. There's also a high degree of return dispersion, making benchmarking private markets more nuanced than public markets. Return measures at different points of the performance curve become critical for determining whether a fund manager is outperforming. Some critical differences in benchmarking private markets relative to public markets are disclosure requirements, financial statement reporting frequency and the impact fund managers play in the investment cycle (e.g., the timing of cashflows). Accurate benchmarking for private investments requires a diligent and thorough process and access to a "golden source" of performance data. In private markets, that golden source is fund financial statements.

Data Sourcing Is Key

Cambridge Associates sources its data directly from private investment fund managers. The managers contribute their data to the anonymous benchmark sample across all strategies and geographies. Contributing managers are screened to ensure the data is of institutional quality, meaning it's comprised of funds that are a viable opportunity for institutional investors, such as endowments and foundations, public pension and sovereign wealth funds, and large private family offices. This process differs from a private market benchmark built from public sources, which often rely on data collected through Freedom of Information Act (FOIA) requests or publicly available data. This can impact the accuracy and timeliness of the data.

The Cambridge Associates private investment benchmarking universe is broad and granular, reflecting the diverse opportunity set in private markets. Its standard benchmarks are organized intuitively into four main strategies: Private Equity, Venture Capital, Private Credit and Real Assets. Cambridge Associates also generates aggregated benchmarks that blend Private Equity and Venture Capital. Within these broad categories are carve-outs, including Buyouts, Growth Equity, Subordinated Capital, Distressed Debt, Infrastructure, Real Estate, Secondaries and Fund of Funds. The categories can further be broken down by geography, size or sector.

Benchmarking in 3D

Cambridge Associates advocates for using multiple metrics to evaluate private investments due to the unique performance drivers of private markets. Public investments often rely on time-weighted returns; however, for private investments, the focus is on the ability of investments and fund managers to return committed capital, which is locked up for the life of a given fund, in a timely manner. As private investments are typically a long-term commitment, the internal rate of return (IRR) is the predominant metric to assess performance. Cambridge

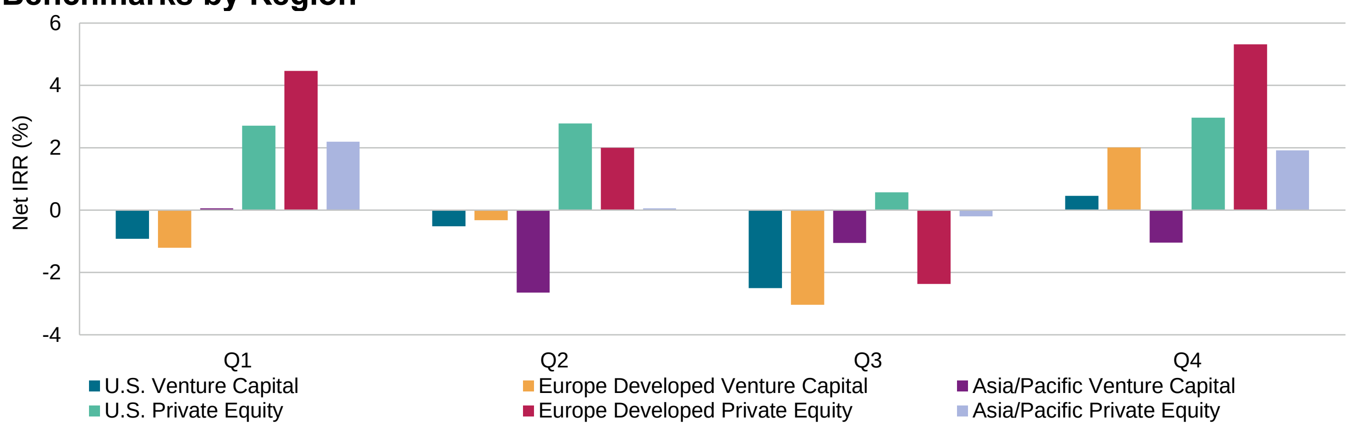
Associates encourages investors and managers to evaluate IRRs in conjunction with multiples, performance breakpoints, vintage year returns and public market equivalent data to support various use cases and lenses for performance evaluation. For example, an investor evaluating a manager may use quartile breakpoints to rank their investments in terms of IRR and multiples against a sample of the strategy funds from the same vintage year. Another lens for an investor might include performance versus a public market investment. If you compared the return of the S&P 500® against the IRR for the U.S. Private Equity benchmark, it would be apples to oranges. For this, Cambridge Associates uses public market equivalent (PME) analysis, which essentially addresses the question: what would my return look like if I invested capital in a given public market (i.e., the S&P 500) with the exact timing of private market cash flows?

Performance Analysis of Key Benchmarks in 2023

In the previous section, we covered the unique challenges of private market benchmarking and how Cambridge Associates has fostered a gold standard for measuring the market. In this section, we summarize the 2023 performance for a collection of the standard benchmarks.[1]

In 2023, Venture Capital faced severe headwinds relative to Private Equity (see Exhibit 1). Through the first three quarters of 2023, all U.S., Europe and Asia/Pacific Venture Capital funds showed negative performance (apart from Q1 for Asia/Pacific funds). There was a reversal in Q4, with U.S. and Europe Developed Venture Capital funds notching positive performance, but Asia/Pacific remained in the red to end the year. On the flip side, U.S. Private Equity funds had positive returns in each quarter of the year. Europe Developed and Asia/Pacific Private Equity experienced a similar story, only recording negative performance in Q3.

Exhibit 1: 2023 Quarterly Performance of Private Equity and Venture Capital Benchmarks by Region



Source: Cambridge Associates distributed via S&P Dow Jones Indices LLC. Data from Jan. 1, 2023, to Dec. 31, 2023. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

[1] Performance data is from Cambridge Associates via S&P Dow Jones Indices LLC.

Looking at the calendar year performance, U.S. and Europe Developed Private Equity funds each returned north of 9%, with Asia/Pacific Private Equity notching roughly 4%. Within Venture Capital, Asia/Pacific funds experienced the most challenging year, declining 4.62%, followed by the U.S. (-3.45%) and Europe Developed (-2.61%) (see Exhibit 2).

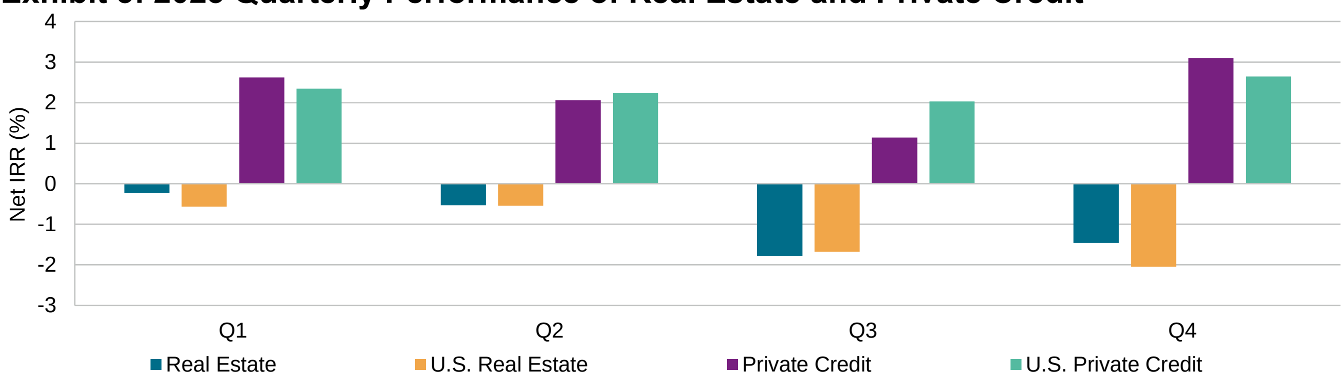
Exhibit 2: 2023 Performance of Private Equity and Venture Capital by Region

Benchmark	1-Year IRR (%)
U.S. Venture Capital	-3.45
Europe Developed Venture Capital	-2.61
Asia/Pacific Venture Capital	-4.62
U.S. Private Equity	9.31
Europe Developed Private Equity	9.58
Asia/Pacific Private Equity	3.98

Source: Cambridge Associates distributed via S&P Dow Jones Indices LLC. Data from Jan. 1, 2023, to Dec. 31, 2023. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

The “golden age” of Private Credit continued throughout 2023, with global and U.S.-focused Private Credit funds showing consistent, positive performance in each quarter of the year. Real Estate funds experienced some trouble at the start of the year, with Q3 and Q4 taking a further dive to close out the year (see Exhibit 3).

Exhibit 3: 2023 Quarterly Performance of Real Estate and Private Credit



Source: Cambridge Associates distributed via S&P Dow Jones Indices LLC. Data from Jan. 1, 2023, to Dec. 31, 2023. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

The major sub-strategies of Private Credit—Senior Debt (i.e., direct lending), Subordinated Capital (i.e., mezzanine) and Credit Opportunities—provided consistent returns at about 2%-3% per quarter and 8-12% for the year. Looking at the main property types measured for Real Estate (office, retail, residential/multi-family), retail-focused funds was the only strategy to achieve a positive return for the year (about 5%) (see Exhibit 4). Residential/multi-family funds had negative performance each quarter of the year and finished at about -5%. What brought down the Real Estate performance for the year, unsurprisingly, was the performance of office-focused funds: each quarter was negative, and the overall performance for the year was about -28%.

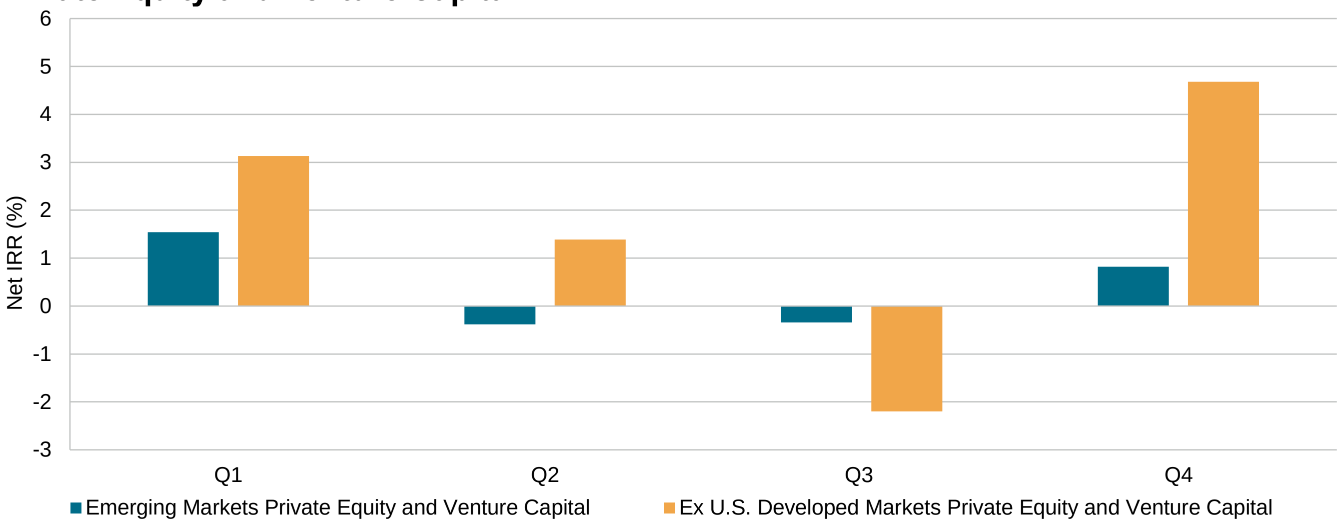
Exhibit 4: 2023 Performance of Real Estate and Private Credit – Global and U.S.

Benchmark	1-Year IRR (%)
Real Estate	-3.99
U.S. Real Estate	-4.78
Private Credit	9.20
U.S. Private Credit	9.56

Source: Cambridge Associates distributed via S&P Dow Jones Indices LLC. Data from Jan. 1, 2023, to Dec. 31, 2023. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Ex U.S. Developed Markets Private Equity and Venture Capital funds fared much better in 2023, outperforming Emerging Markets funds by almost 600 bps (see Exhibits 5 and 6). Separating Private Equity and Venture Capital, Emerging Markets Venture Capital funds mainly saw negative returns, with all quarters turning in negative results except for Q1, which turned in a marginal return of 19 bps. Emerging Markets Private Equity funds experienced the opposite, with positive performance each quarter and finishing up about 4% for the year.

Exhibit 5: 2023 Quarterly Performance of Emerging and Ex U.S. Developed Markets Private Equity and Venture Capital



Source: Cambridge Associates distributed via S&P Dow Jones Indices LLC. Data from Jan. 1, 2023, to Dec. 31, 2023. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

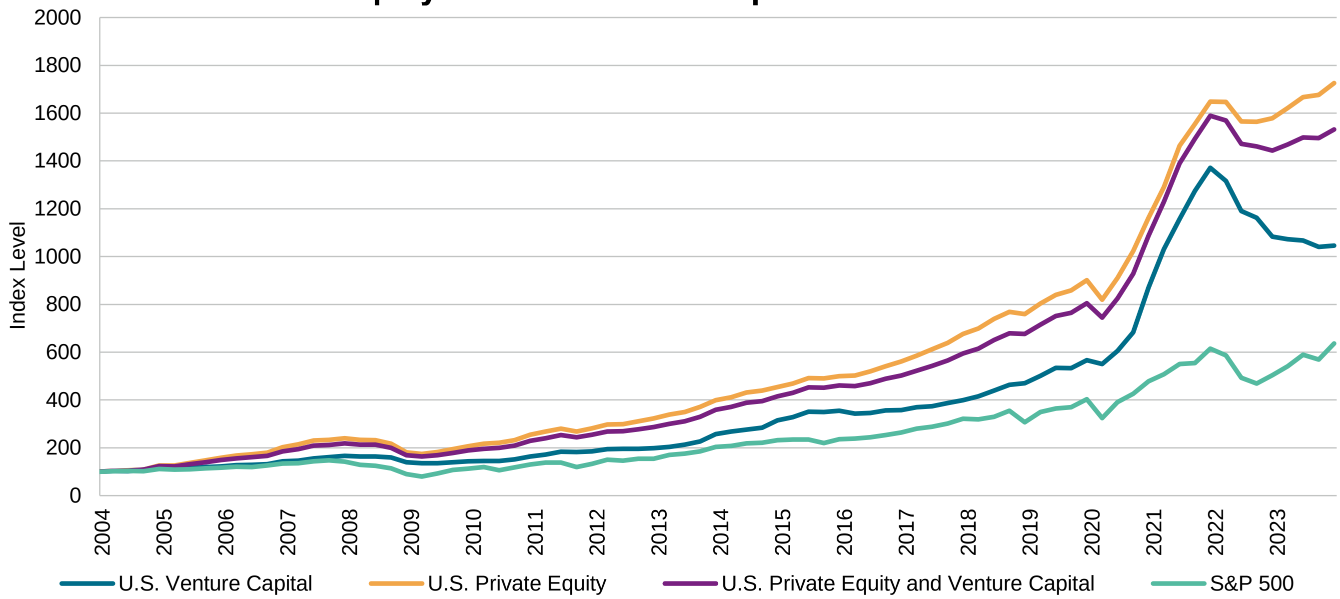
Exhibit 6: 2023 Performance of Emerging and Ex U.S. Developed Markets Private Equity and Venture Capital

Benchmark	1-Year IRR (%)
Emerging Markets Private Equity and Venture Capital	1.64
Ex U.S. Developed Markets Private Equity and Venture Capital	7.04

Source: Cambridge Associates distributed via S&P Dow Jones Indices LLC . Data as of Dec. 31, 2023. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Exhibit 7 shows the performance of the U.S. Private Equity, U.S. Venture Capital, and the S&P 500 over time, with indices rebased to 100 on Dec. 31, 2003. Some interesting findings include how closely U.S. Venture Capital and the S&P 500 tracked from the beginning of the examined period to late 2015. The dispersion between the two then started to grow, but the tracking of the two is something to note. U.S. Private Equity tracked the S&P 500 for a few years, but quickly started to outperform the S&P 500 by a wider margin than U.S. Venture Capital. The combined index, U.S. Private Equity and Venture Capital, tracked closer to U.S. Private Equity, showing that the dollar weight of the U.S. Private Equity index was greater, and Private Equity activity was more influential in the combined index's return.

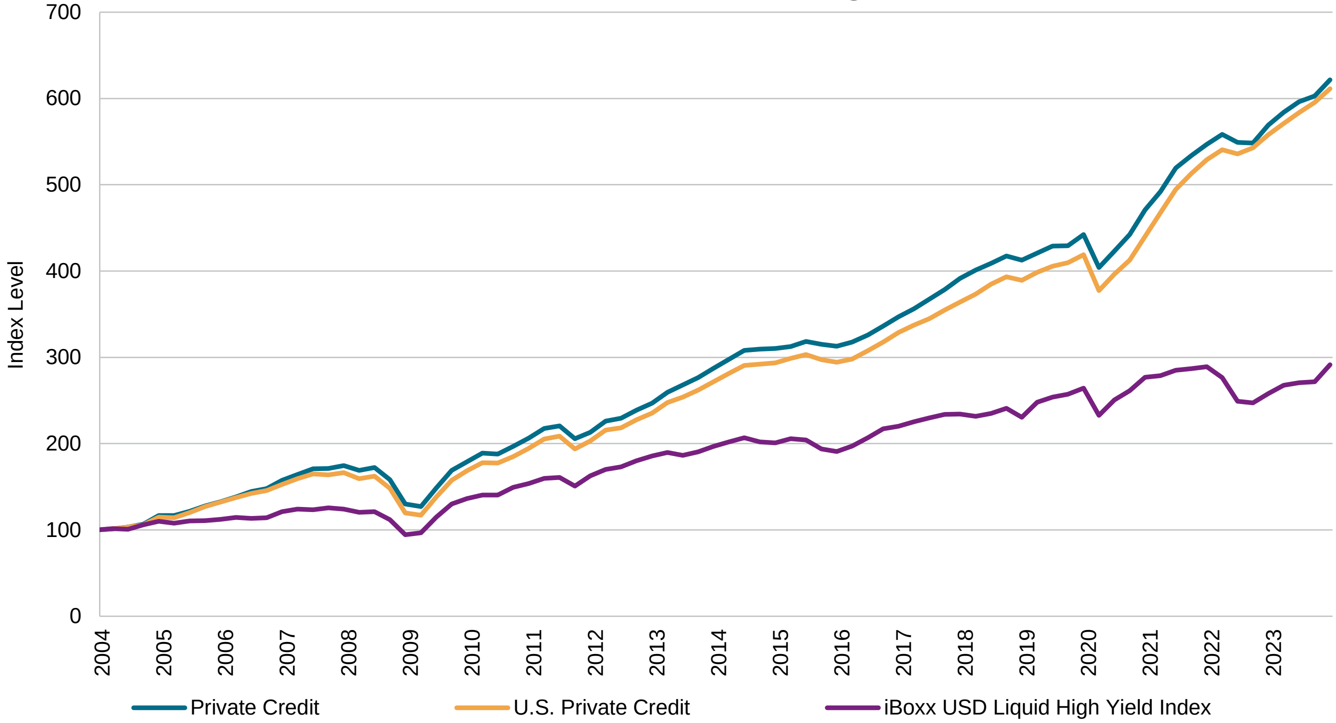
Exhibit 7: U.S. Private Equity and U.S. Venture Capital versus the S&P 500



Source: Cambridge Associates distributed via S&P Dow Jones Indices LLC, S&P Dow Jones Indices LLC. Data as of Dec. 31, 2023. Indices were rebased to 100 on Dec. 31, 2003. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Exhibit 8 shows the performance of global Private Credit, U.S. Private Credit and the iBoxx USD Liquid High Yield Index, which measures USD high yield corporate bonds, with indices rebased to 100 on Dec. 31, 2003. The performance of global versus U.S. Private Credit showed a marginal pickup, showing how a switch from investing strictly in U.S. Private Equity to a more diversified, global approach did not vary much from a return perspective. Although the two indices tracked closely, it's important to note the sharper increases that the Private Credit funds experienced relative to public credit—the iBoxx USD Liquid High Yield Index—especially during periods of market stress (specifically, the COVID-19 pandemic in early 2020). While the corporate bond market did begin to slowly return, the private credit market picked up at higher multiples relative to the public market. Given that the private market has achieved high returns relative to the public market, presumably due to the incremental liquidity premium, it will be interesting to see how these trends continue with the interest rate cuts anticipated for late 2024 and early 2025.

Exhibit 8: Private Credit versus the iBoxx USD Liquid High Yield Index



Source: Cambridge Associates distributed via S&P Dow Jones Indices LLC, S&P Dow Jones Indices LLC. Data as of Dec. 31, 2023. Indices were rebased to 100 on Dec. 31, 2003. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Key Takeaways and the Path Ahead

Private markets encompass a vast terrain that includes equity, debt and real asset strategies. Historically, these markets have been marked by opacity and inaccessibility. However, this is changing, thanks partly to private market benchmarks focusing on strategy-specific performance. Cambridge Associates benchmarks have been instrumental in providing detailed insights and robust performance evaluation tools for investors navigating this complex landscape.

As we've discussed, 2023 was a dynamic year for private markets, characterized by varied results across asset classes and sub-strategies. Private Equity performed well, mainly U.S. Private Equity, which achieved positive performance in all four quarters. In contrast, Venture Capital faced significant challenges, with each regional market posting negative performance in three out of four quarters. Private Credit demonstrated steady positive returns, standing in stark contrast to the difficulties faced by Real Estate, especially office-focused funds.

The role of Cambridge Associates benchmarks could become increasingly critical, with more investors seeking custom benchmark solutions to support performance measurement, fund manager selection or fund due diligence. As the private market industry evolves, several trends are taking shape.

- **Growth of Assets in Private Markets:** The continued expansion of assets under management in private markets underscores the need for sophisticated and comprehensive benchmarking tools.

- **Greater Transparency:** Enhanced transparency through more sophisticated benchmarks, data and tools could be crucial for investors seeking to navigate these complex markets.

- **Increased Demand from Individual Investors:** There is a growing demand from individual investors who have historically not had access to private market strategies, driven by technological advancements and greater market accessibility.

Cambridge Associates benchmarks provide robust, detailed and data-driven insights from deep expertise and engagement with private market participants. These benchmarks could play an important role in the evolving landscape, helping investors to identify opportunities, manage risks and drive portfolio performance.

S&P Dow Jones Indices will continue supporting clients, in collaboration with Cambridge Associates, providing private market solutions for investors with dynamic, fit-for-purpose benchmarks in an ever-changing market. As we progress, the insights derived from these benchmarks will help to navigate the dynamic and complex private market environment, assisting investors to be well equipped to handle emerging opportunities.

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