The case for:

Private Equity . . .

. . . and private equity-like investment approaches

Topics

Where does private equity fit in the diversified investors portfolio?

The high hopes for Private Equity in today's environment; are they realistic?

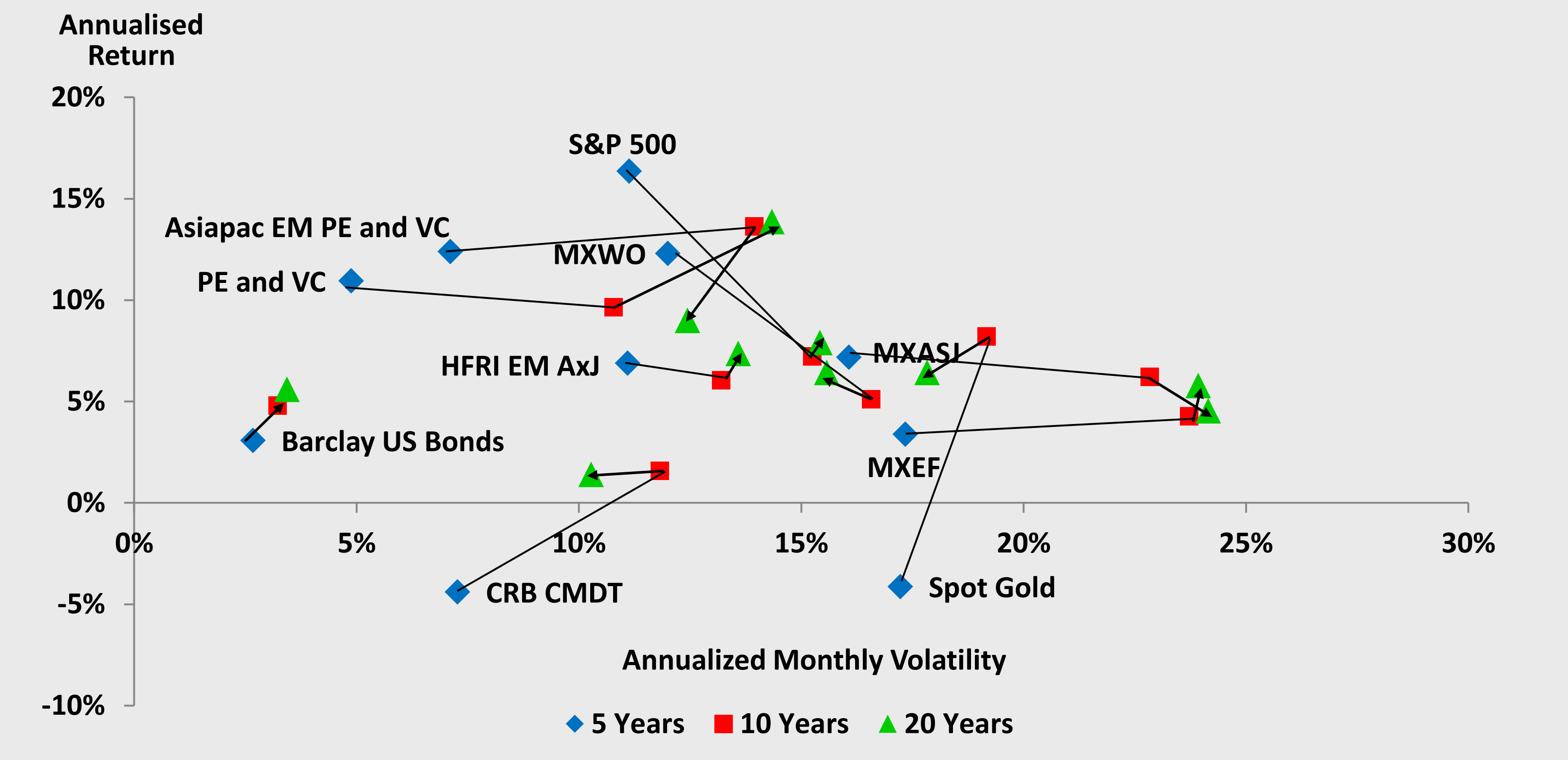
How does PE generate value?

A *private equity* approach to public equity

A public equity approach to *private equity*

Diversification is always advised

Risk/return for various asset classes – 5, 10, 20 Years

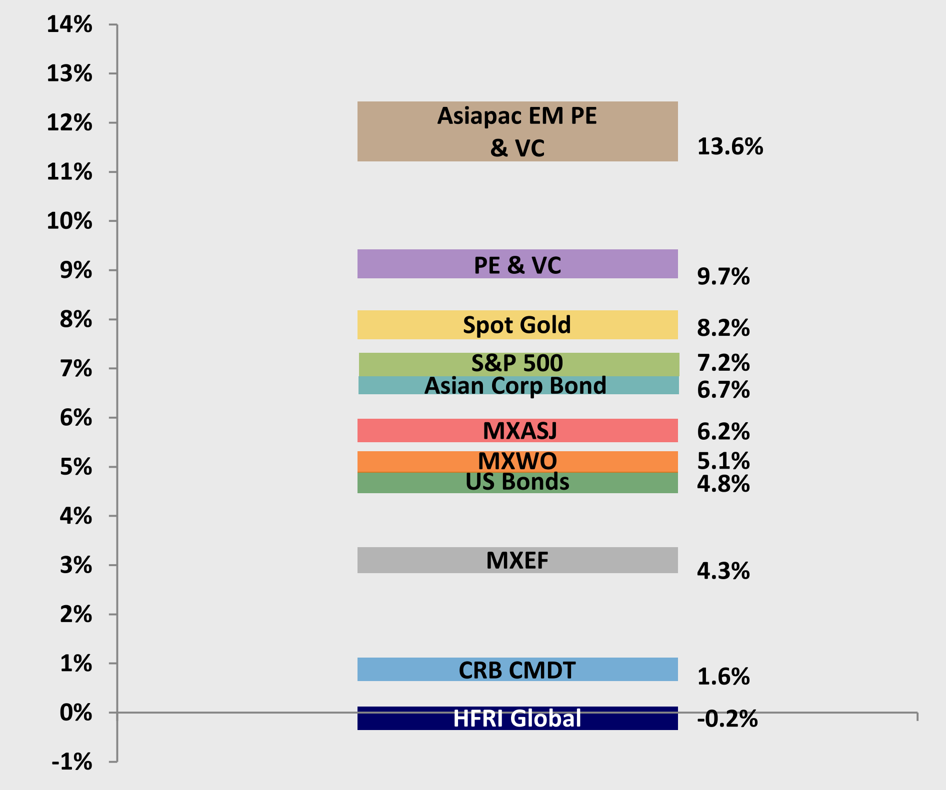


But lots of different winners and losers over any three-year period . . .

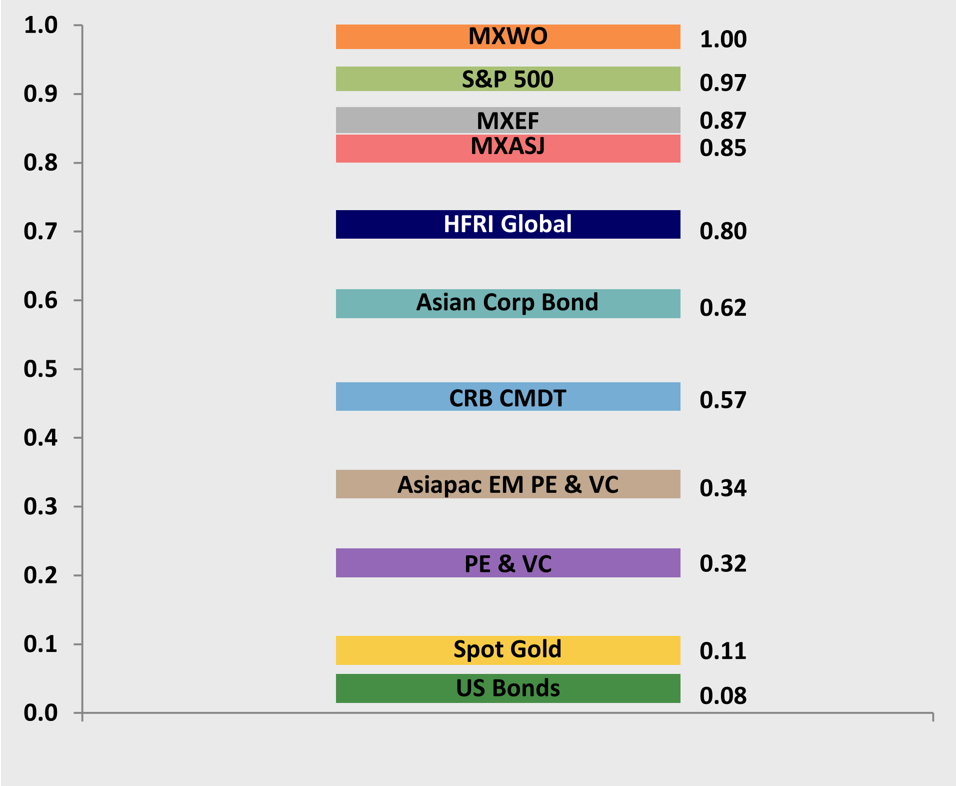
	’96 - ’98	’99 - ’01	’02 - ’04	’05 - ’07	’08 - ’10	’11 - ’13	’14 - ’16
Top 3	S&P 500	PE & VC	Crude Oil	MXEF	Gold	S&P 500	Global REIT
	PE & VC	Crude Oil	Global REIT	MXASJ	Asia Gov’t Bonds	PE & VC	Asia EM PE & VC
	MXWO	HFRI Global	MXEF	Crude Oil	Asia Corp Bonds	MXWO	Asia REIT
Bottom 3	MXASJ	CMDT	S&P 500	US Bonds	MXWO	Gold	Crude Oil
	Crude Oil	MXWO	US Bonds	Asia Corp Bonds	Global REIT	CMDT	CMDT
	MXEF	Asia EM PE & VC	Asia EM PE & VC	HFRI Global	HFRI Global	MXEF	HFRI Global

And correlation of returns also matters

Annualised returns



10-year correlation



Today's great hope for Private Equity

Public equity valuations are high

- **P/E**
- **CFROI**

For lots of reasons we may be stuck with lower growth than we are used to

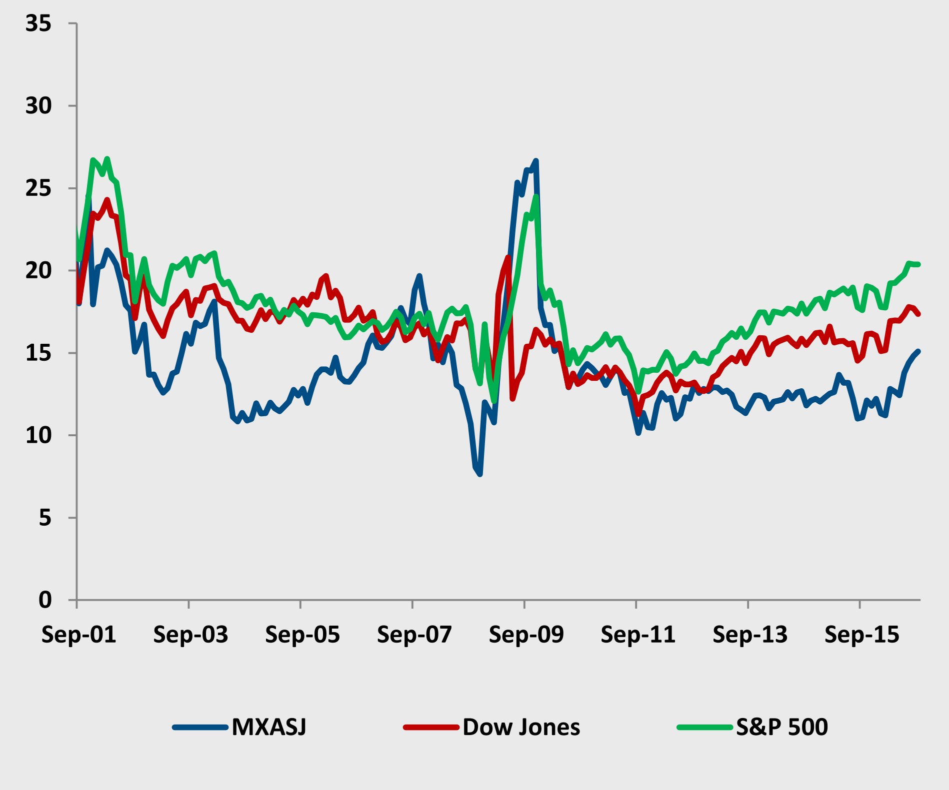
- **Population growth slowing**
- **Working age population growth slowing and negative in some places**
- **One time growth spurt from women entering the workforce is finished**

But prospective private equity returns still look attractive . . .
. . . and the cycle is so long it will be many years before they are proven or disproven

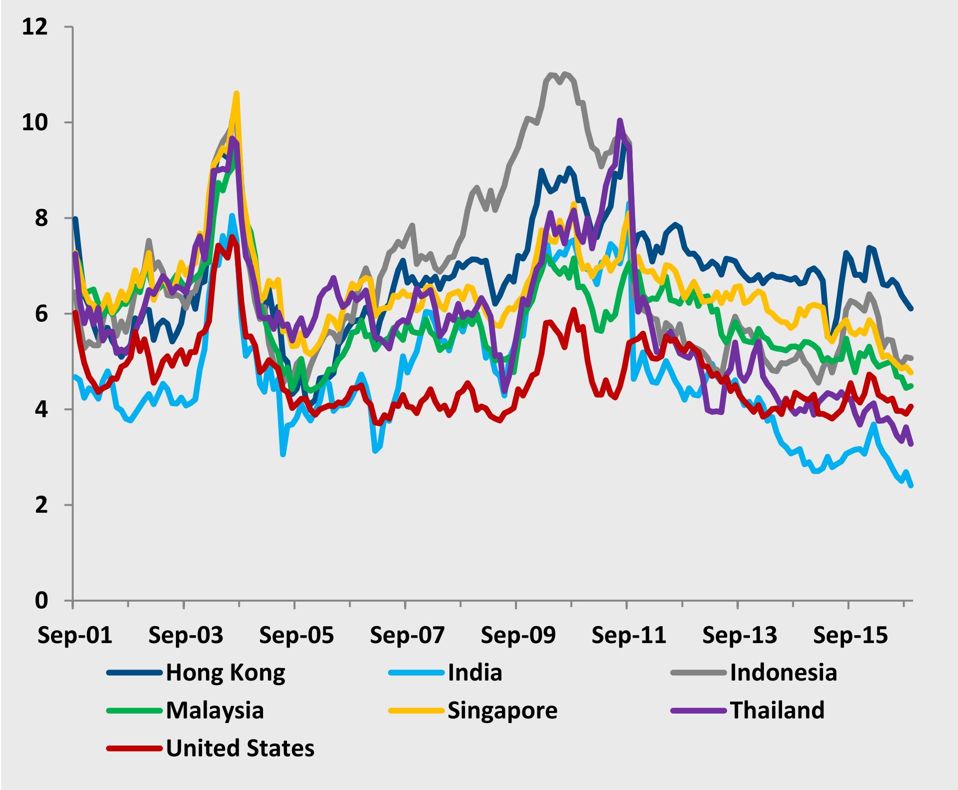
- **PE is one of the few ways to increase the expected return toward levels that have been assumed in long term return/liability models**
- **With low-ish correlation**

Valuations seem high – where can they go from here

Price/earnings ratio

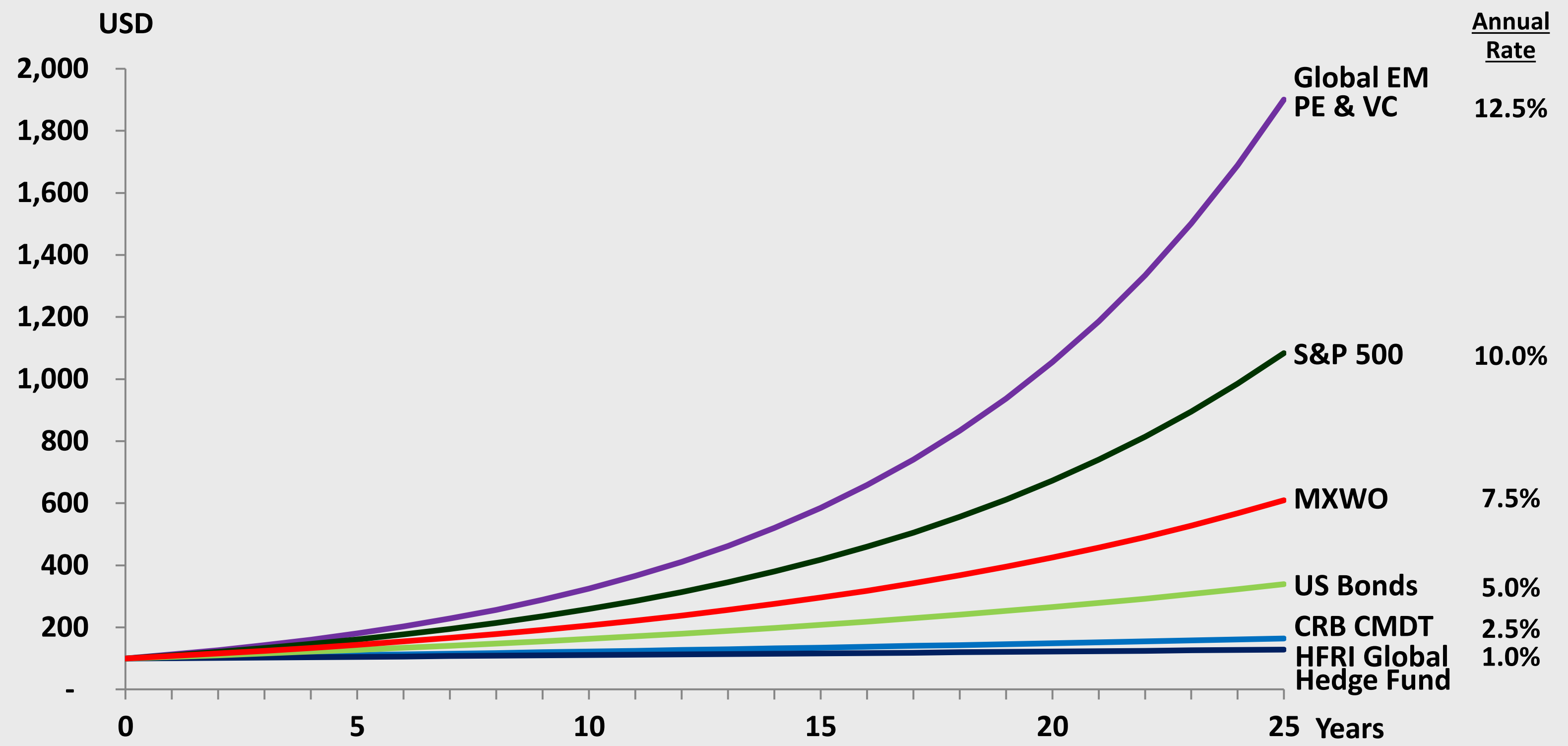


Discount rate



Seemingly small differences in annual returns add up

Value of $100 based on 10-year historic returns



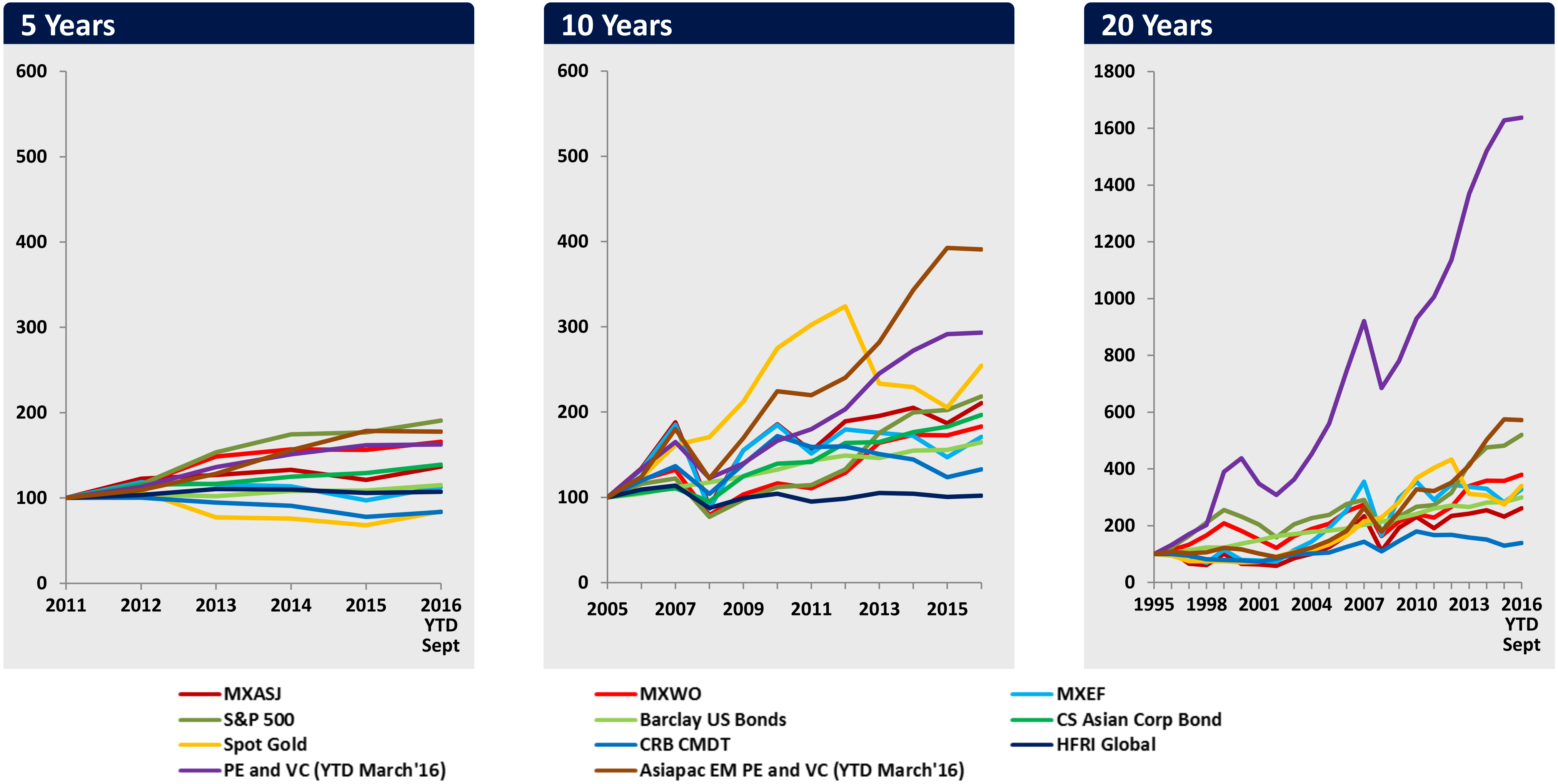
Are the hopes for Private Equity realistic?

Historic measure of long term PE returns

Beating the Fade

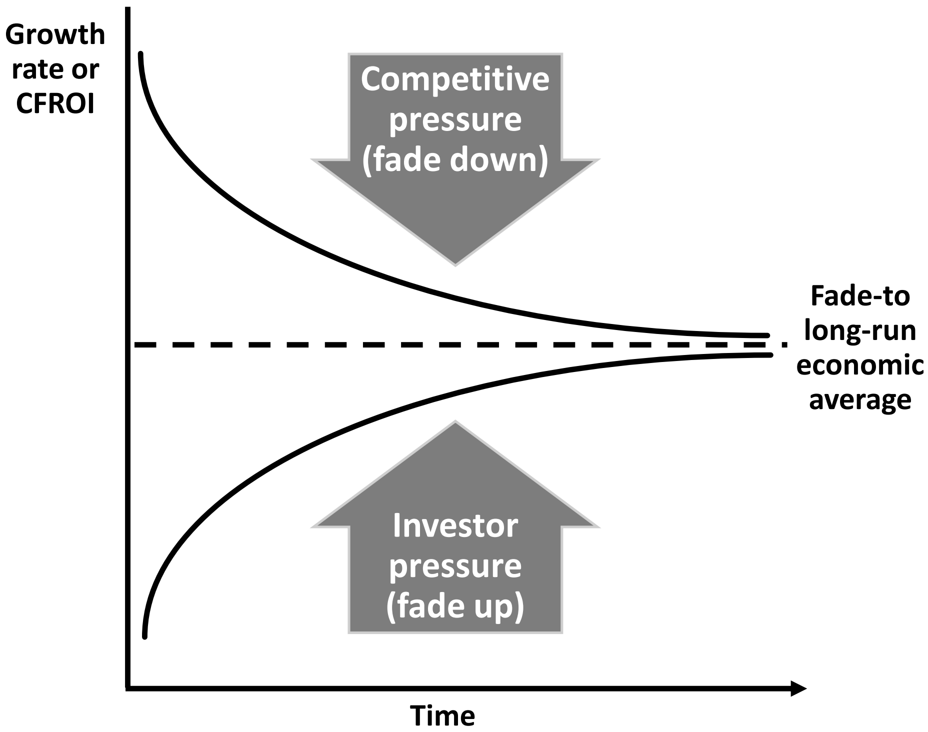
Future prospects

PE has historically delivered good long term returns – but the wait is long and there's little liquidity

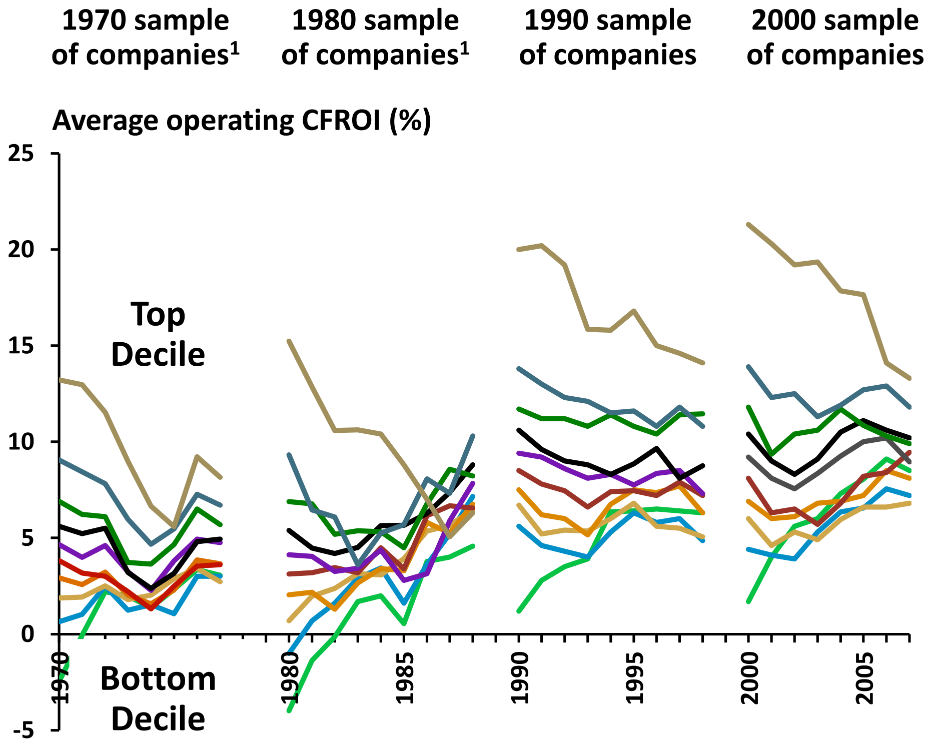


Most returns fade to mean . . . a strong gravitational force

The Concept



The Proof

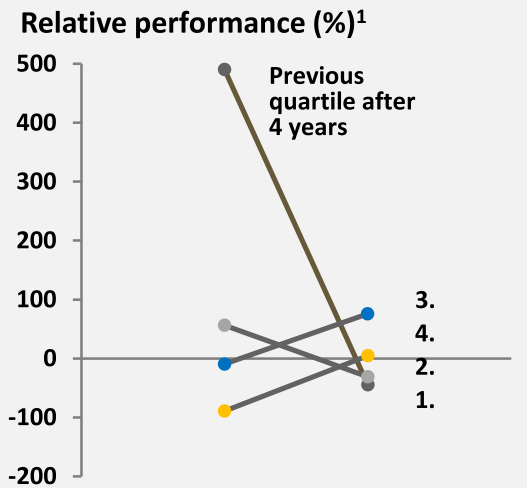


[1]CFROI database different from 1990 and 2000 sample, not comparable
Note: CFROI = Cash-Flow-Return-on-Investment

Source: BCG analysis

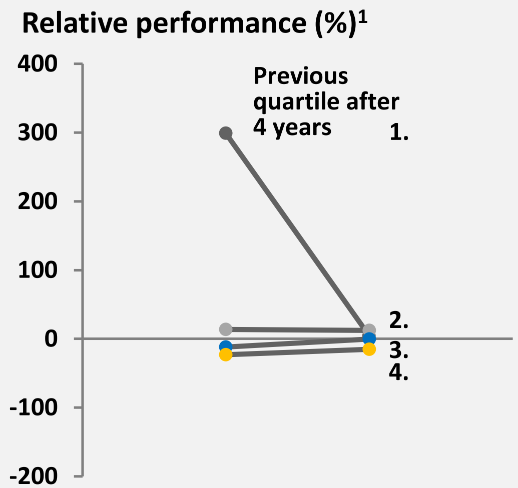
Private Equity seems to 'beat the fade'

Stocks



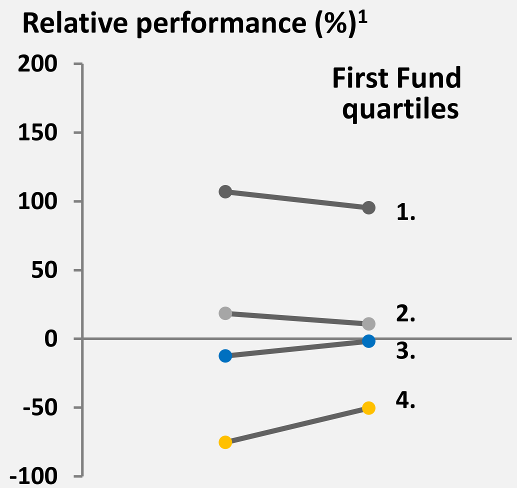
46 Pharmaceuticals and health care

Mutual Funds



66 Global large cap mutual funds

Private Equity



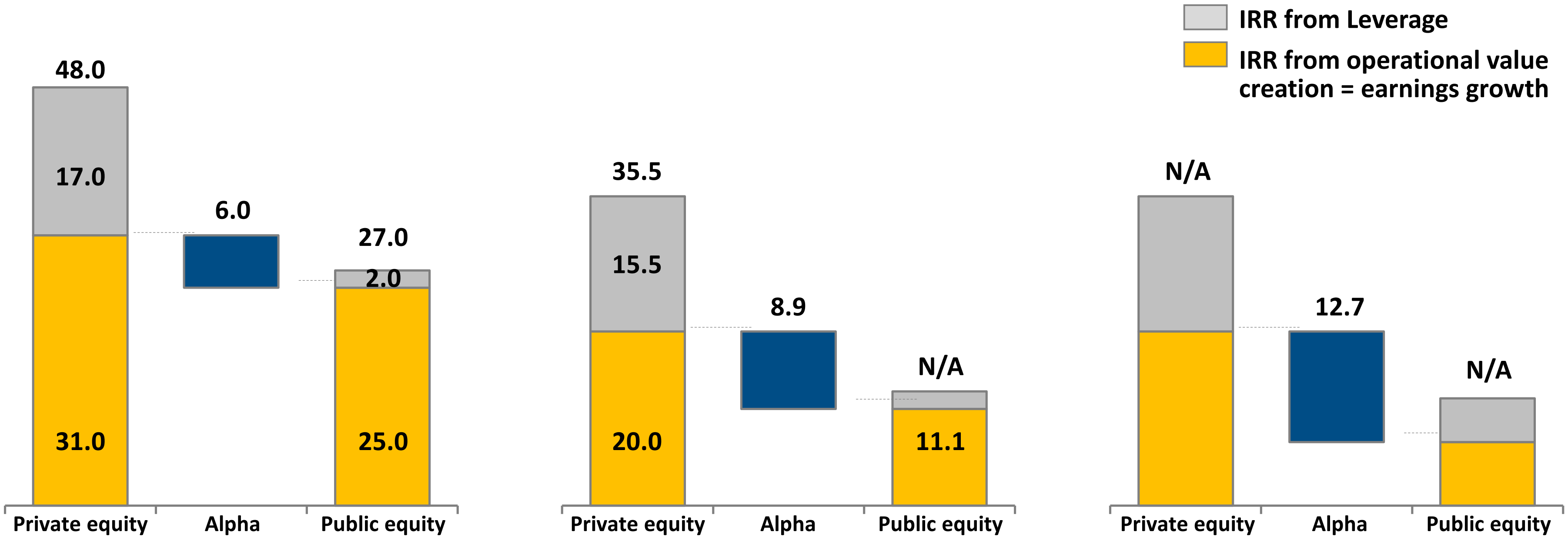
75 Private Equity funds, (23 years)

Top Private Equity funds consistently outperform their peers

[1] Relative performance measures the percentage by which each quartile either outperforms or underperforms the sample average for a given (vintage) year. 2006 data points measure the performance of identified 2002 quartile

Source: Bloomberg; Thomson Financial; Preqin; BCG-IESE analysis

Liquidity and Alpha: Academics believe they have proven superior performance of Private Equity



Achleitner (2009)
n = 241 (1989-2006)
Europe/US
Deal size: €1.0M - €4.3B

Acharya (2008)
n = 66 (1996-2007)
UK
Deal size: > €100M

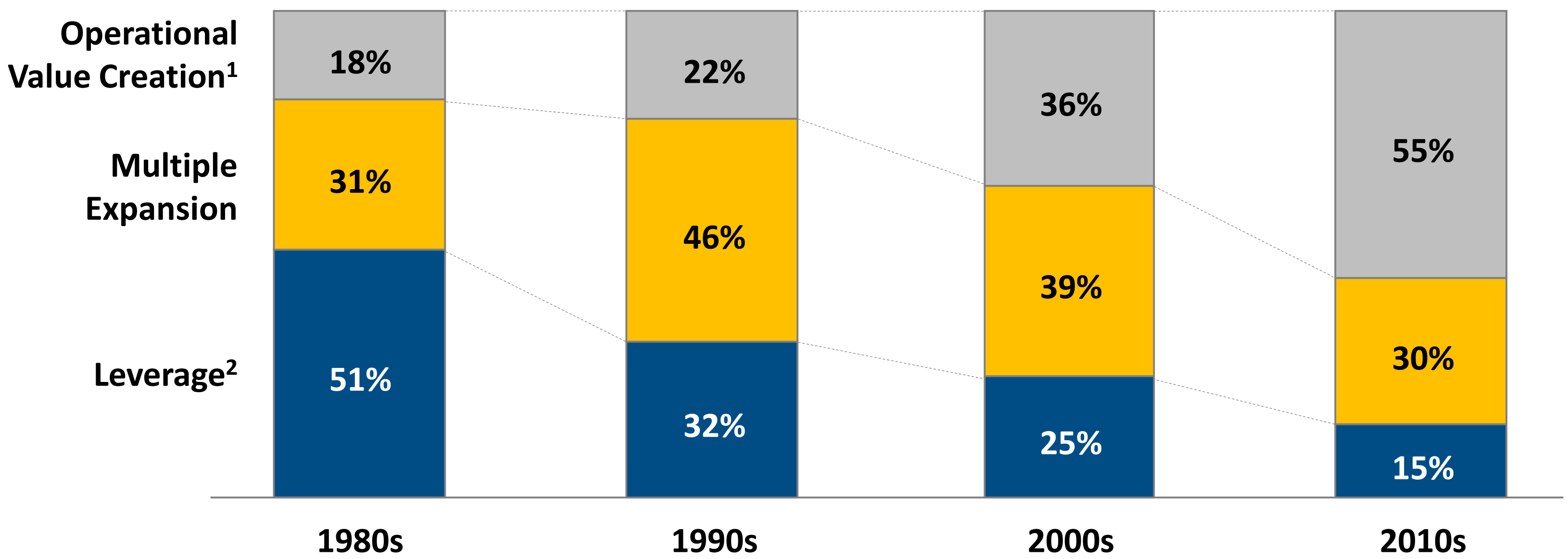
Groh/Gottschalg (2008)
n = 133 (1984-2004)
US
Deal size: $3.5M - $9.0B

Alpha ranges from 6.0 - 12.7%, but samples are smallish

Source: Achleitner (2009) - Wertsteigerungshebel in Private Equity Transaktionen, Acharya/Hahn/Kehoe (2008) - Corporate Governance and Value Creation: Evidence from Private Equity, Groh/Gottschalg (2008) - The Opportunity Cost of Capital of US Buyouts

‘Value Creation’ is an increasing driver of return

Value creation in private equity has shifted



“Operational value creation is the silver bullet to create sustainable value. It distinguishes winners from those that will disappear.”

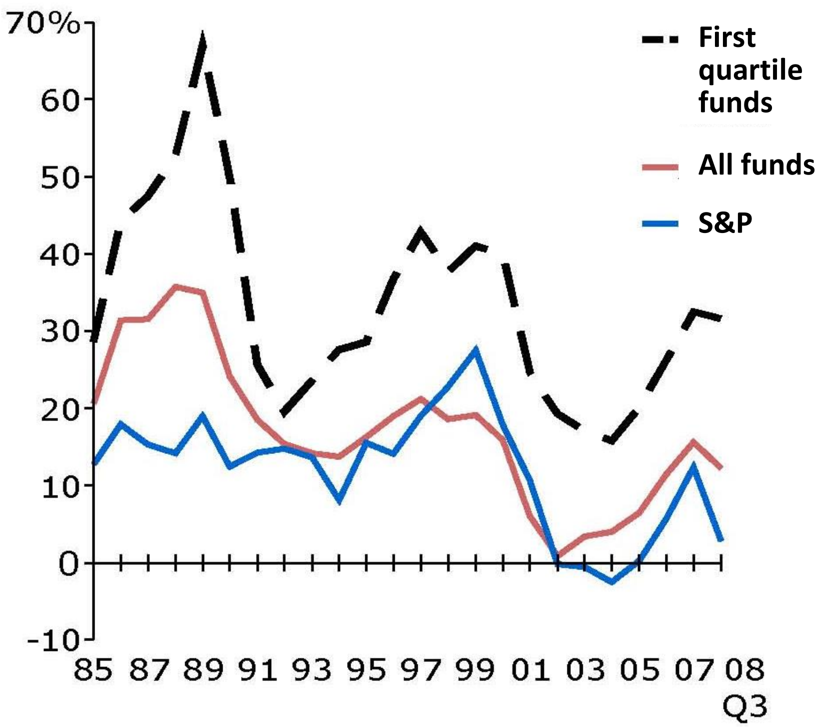
[1] Operational Value Creation measured by sales growth and change in EBITDA margin
[2] Adjusted for pay outs during the holding period

Source: Goldman & Sachs; BCG estimate; 20 structured interviews with major LPs

But not every only Private Equity fund or firm beats public markets

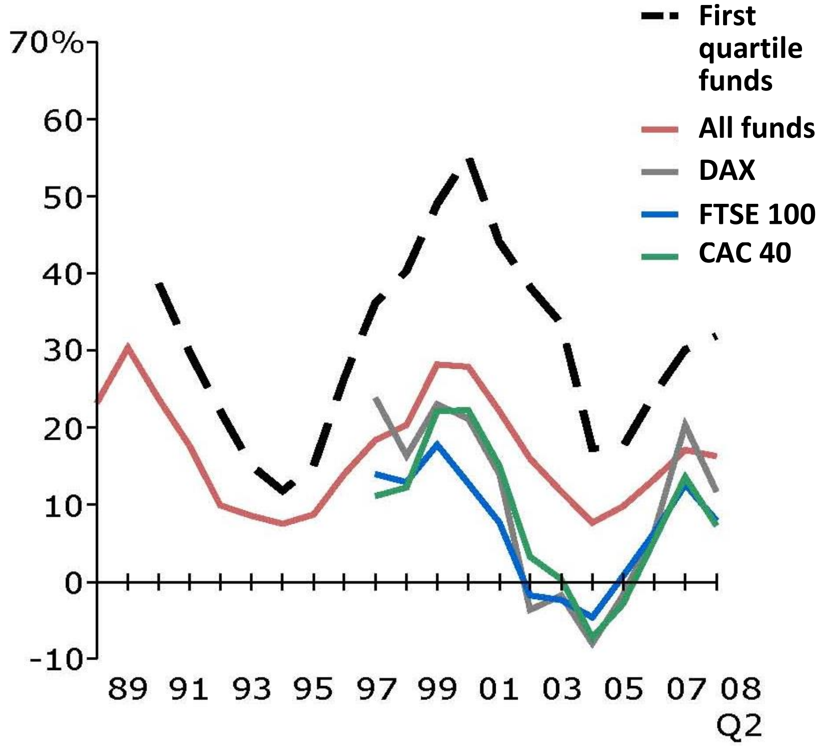
US Buoyout Funds

US Buyout fund returns:
Five-year rolling pooled IRR



European Buyout Funds

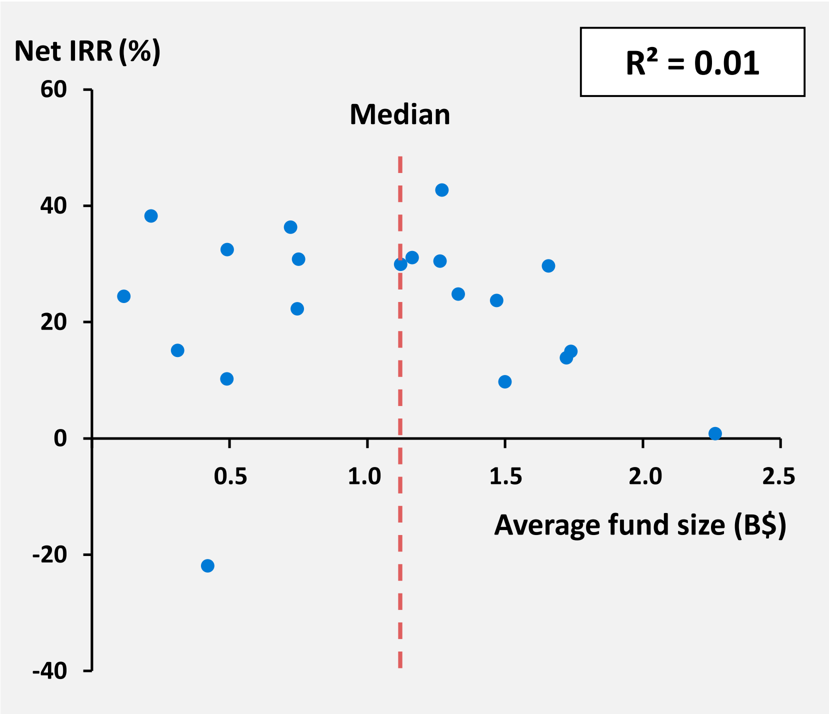
European Buyout fund returns:
Five-year rolling pooled IRR



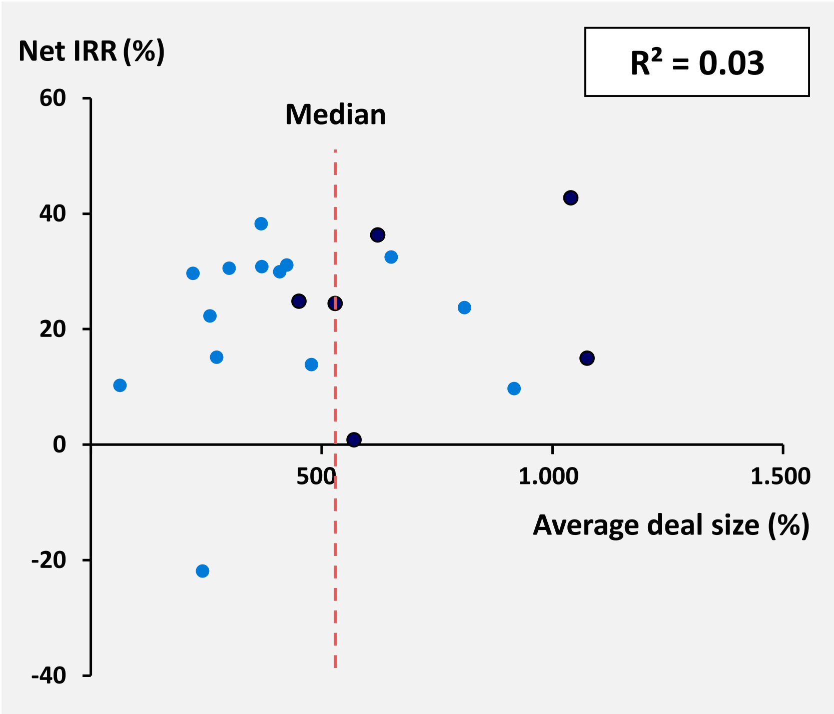
Source: Thomson Reuters, Bloomberg; Bain Analysis

Choosing a PE firm isn't necessarily easy since PE is not a scale business

Fund Size



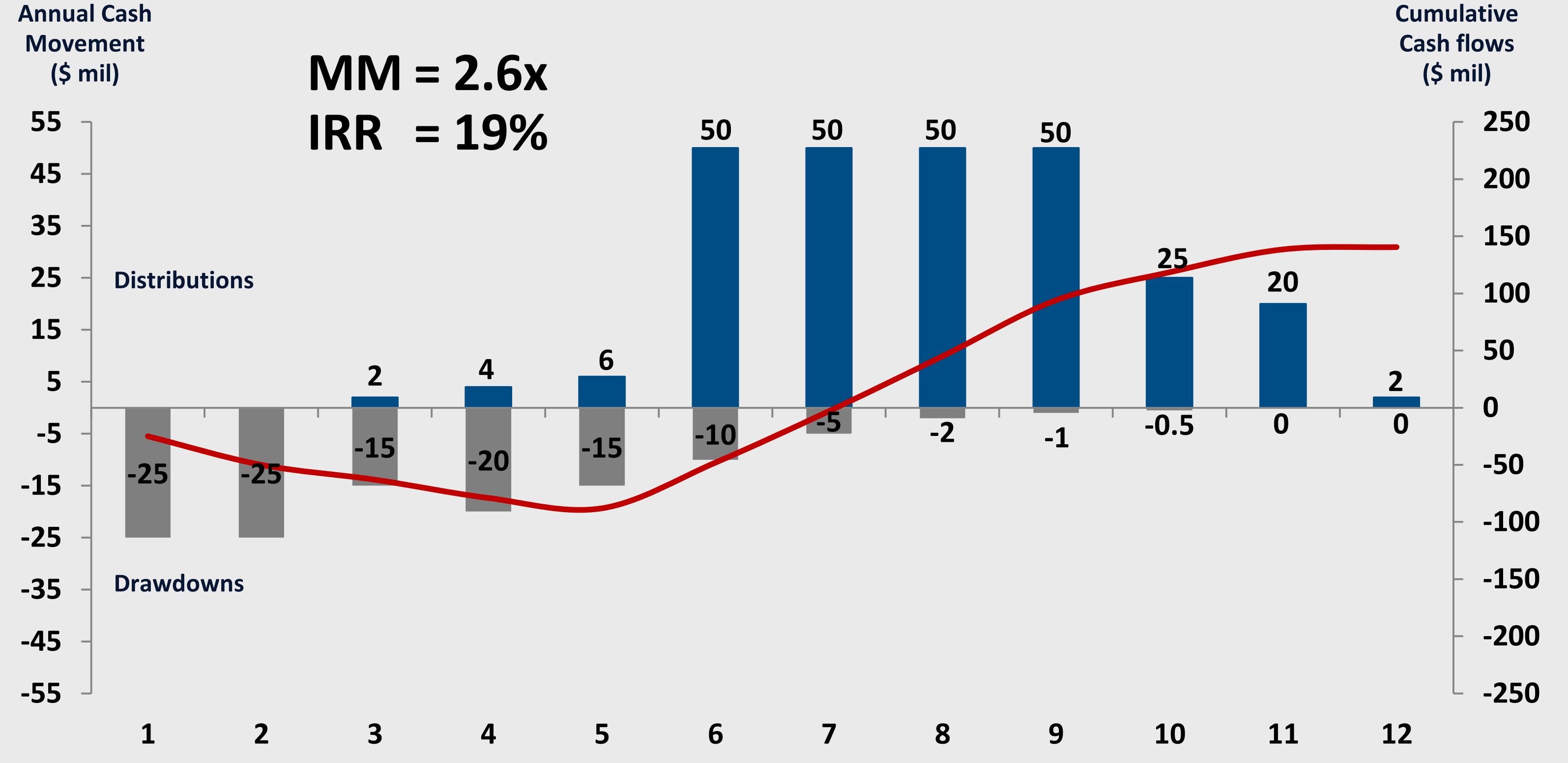
Deal Size



Source: Preqin; Merger Market; BCG-IESE database; BCG-IESE analysis

PE is more a marathon than a sprint

Cash flows associated with a capital commitment of USD100m



Private Equity returns from public equity (1)

The Navis Asia Navigator Fund – *a Private Equity approach to public equity*, with a lot of similarities in approach

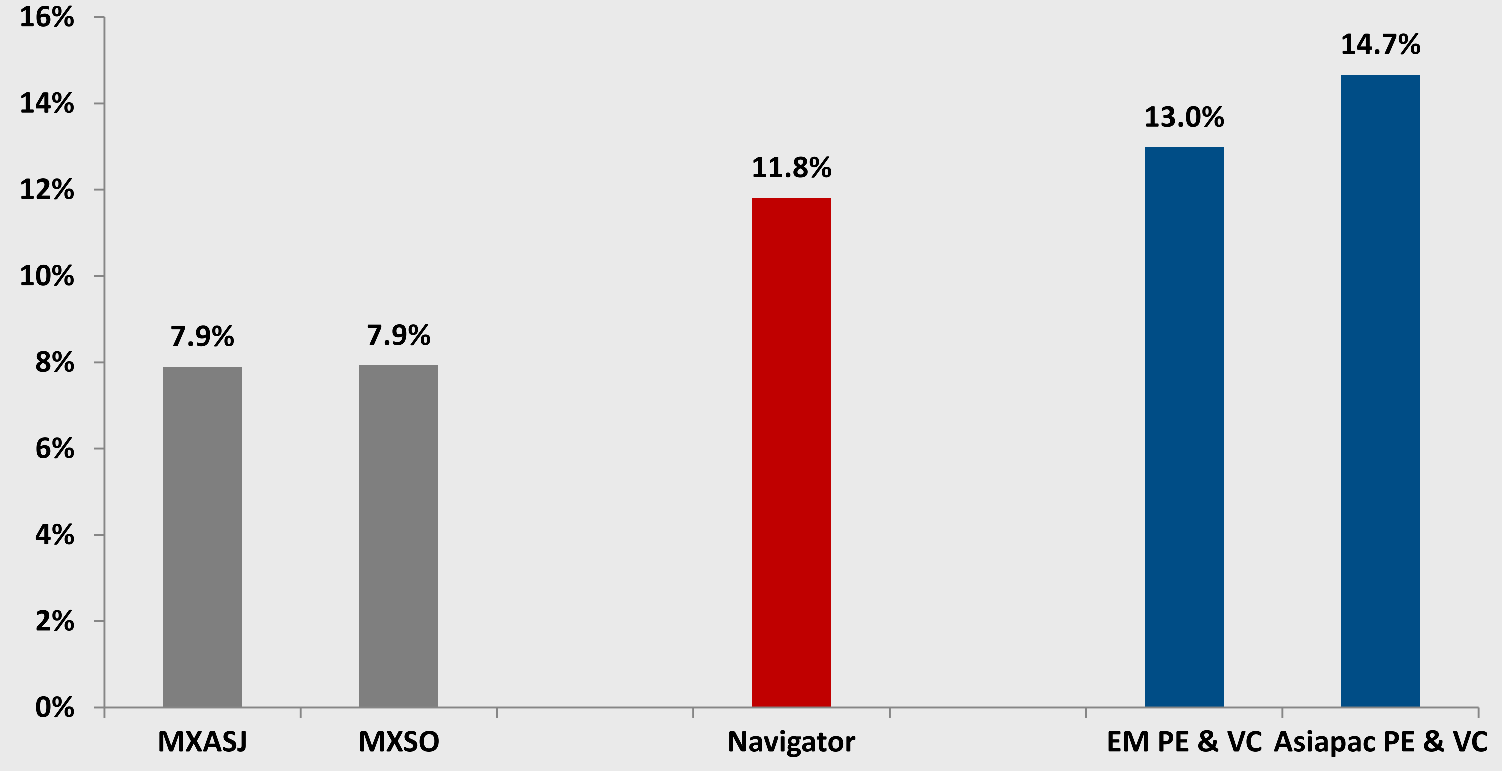
- **Concentrated portfolio**
- **Long (ish) holding period**
- **Extensive evaluation process**
- **Only invest with management we know and trust**

Unlike PE

- **There's no control and little influence**
- **But entry and exit are easy**

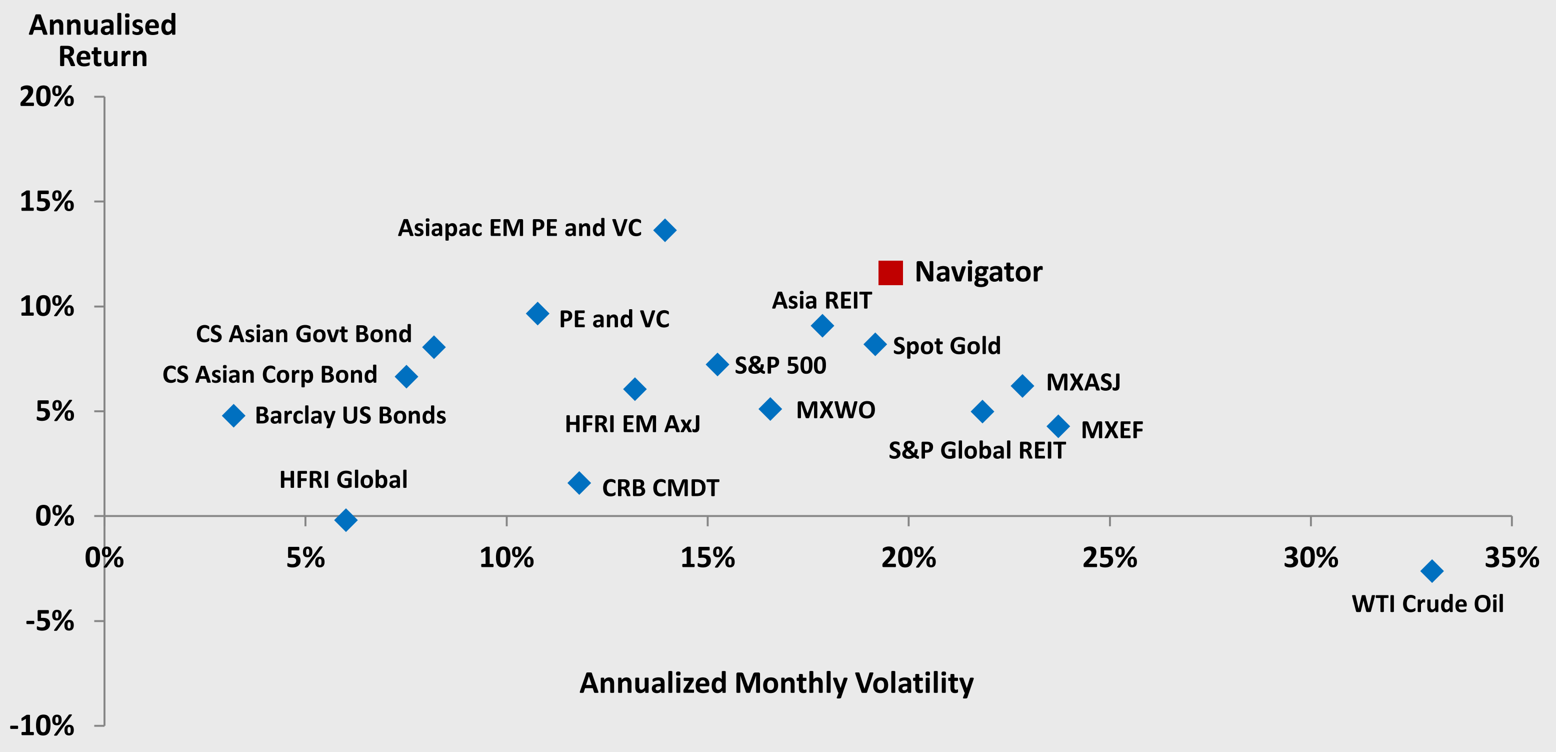
Our Private Equity approach to public equity has exceeded public market benchmarks and almost matched PE averages

2005-present



Measure of Navigator’s relative performance

10-Year risk/return



Private equity-like returns (2)

The Jockey Fund – *a public equity approach to Private Equity*

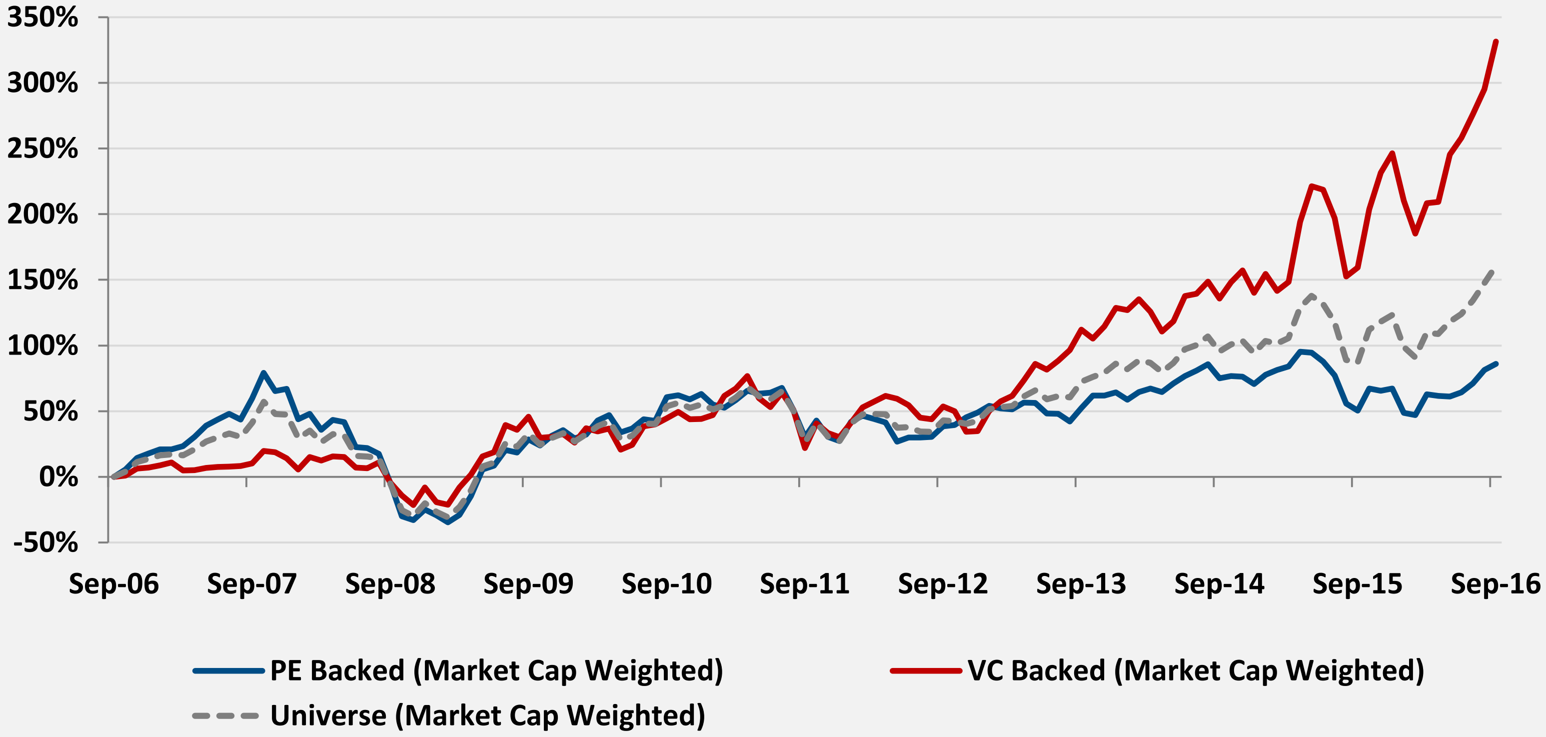
- **Listed companies with significant PE (and some Venture) ownership**
- **Invest only alongside PE firms we know and trust**
- **Lower deal costs and management fees for investors**
- **Greater timing flexibility**
- **Liquidity (daily for fund, quarterly for investors)**
- **Possible advantage of timing**

Risk of

- **Investing in the wrong deals (as any PE fund)**
- **Investing in good deals at the wrong time**

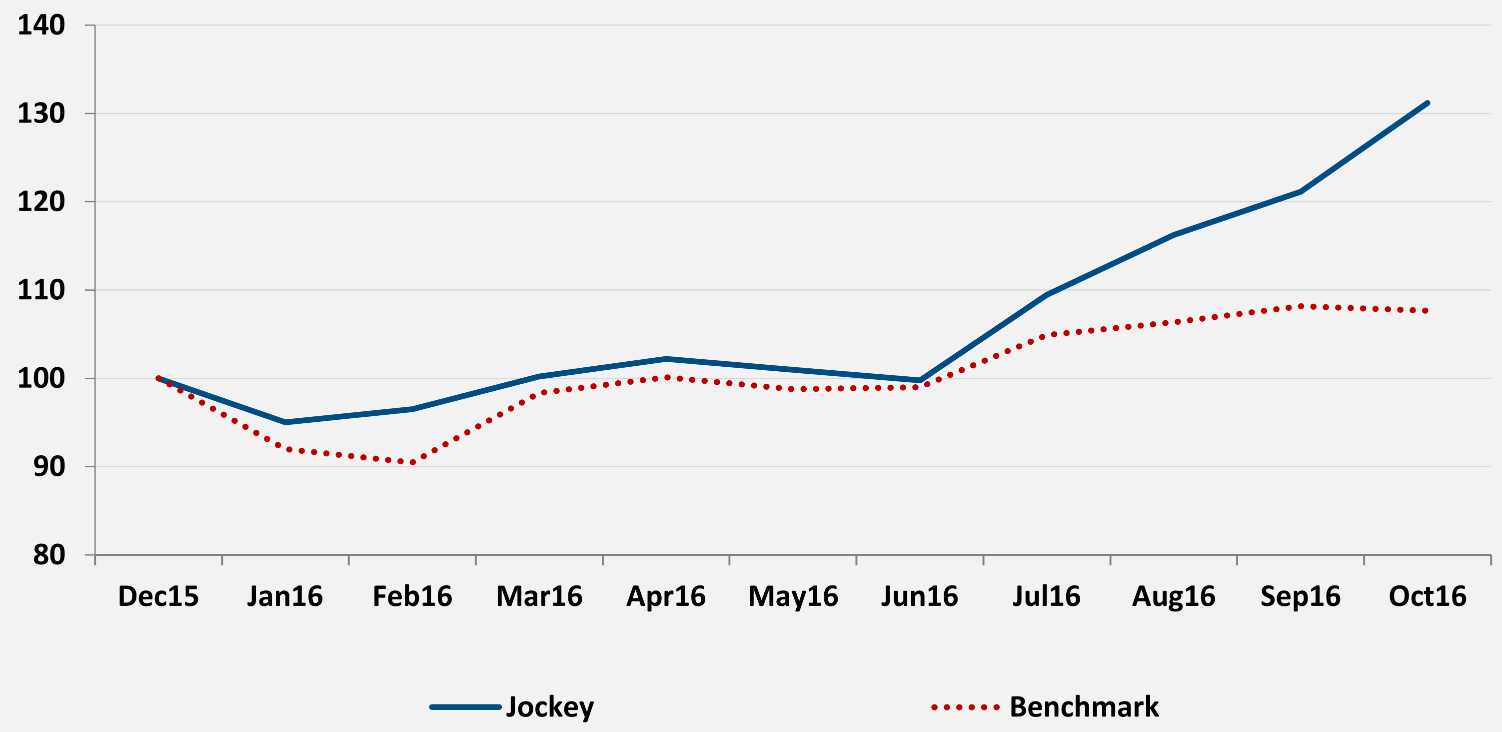
Attractive back tested returns for the entire universe of PE and VC-invested listed companies

Cumulative performance



A short history with good actual results to date

Jockey YTD vs Benchmarks



Summary

Most investors will want diversification

But especially in a low growth, low return on capital world, net returns matter more than ever

PE has raised portfolio average returns, without excessive or maybe even commensurate volatility

But, variance between funds and firms is substantial

And the time frames are very long

Achieving PE-like returns in public markets seems to be possible