

private2000[®] Q3 2024 Release

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Executive Summary

The private2000® Index, tracking 2,000 unlisted private companies globally, generated a robust 4.20% return for the quarter ending September 30, 2024, including a 0.72% return in September, for the value-weighted version. This performance marks a rebound from the previous quarter's subdued results, bringing the year-to-date return to 4.45%. The major findings include:

- **Key Performance Drivers:** Strong performance in the Information and Communication (up 9.18% YTD) and Professional Services sectors (up 3.39% YTD) propelled the index. Geographically, the Americas led the way, consistent with the index's weighting.
- **Sector and Geographic Breakdown:** The index is heavily weighted towards Information & Communication (24.0%) and Professional Services (21.0%). Geographically, the US dominates with a 46% allocation.
- **The PECCS® Framework:** The index leverages the PrivatE Company Classification Standard (PECCS®), which classifies private companies across five dimensions (industrial activity, lifecycle phase, revenue model, customer model, and value chain type), offering granular insights into performance.
- **Strong USD and size of the companies influence long-term performance:** The Local Currency (LCU) version of the index has generally performed better over longer horizons due to USD strengthening. Similarly, equally-weighted (or EW) indices have historically underperformed their value-weighted (VW) counterparts, suggesting larger private companies have generated a higher portion of returns. However, in September 2024, the EW index and the USD index slightly outperformed the VW and LCU indices, respectively, returning 0.75% versus 0.72%.
- **Information and Communication (AC05)** was the top-performing sector in September 2024. Over a longer time frame, Natural Resources (AC07) and Manufacturing (AC06) have delivered strong returns. Health (AC03) has been the least volatile sector, followed by Education and Public (AC01) and Retail (AC10).
- **Subscription-based revenue models** and companies in the **Americas** drove index performance in September 2024. Also, **Business-focused, mature,** and **service-oriented** companies were key contributors to index performance.
- **Valuation Drivers:** Third quarter 2024 private market performance was buoyed by expanding valuations in private market transactions, coupled with narrowing term spreads, and robust public market valuations in the U.S.

Outlook: The outlook for private markets is cautiously optimistic. The Federal Reserve's recent move to lower interest rates, combined with signs of cooling inflation, suggests a more favourable environment for private market investments. However, investors should closely monitor the factors outlined in this report, as they will play a crucial role in shaping the private markets' trajectory.

private2000® Index

Index Description

The private2000® Index offers a broad view of the global private company landscape, tracking the performance of 2,000 unlisted private firms across 30 key markets favored by private equity and venture capital investors. Designed to mirror a typical private equity portfolio, it weights each country and industry based on their respective global economic contributions. [Find out more about the private2000® here.](#)

The index specifically targets companies aligning with common private equity holdings in terms of size and profitability. A factor model, calibrated against actual private equity transactions, is used to price these companies monthly, ensuring accurate reflection of market prices. Annual rebalancing and regular maintenance account for corporate actions affecting the index constituents. Additionally, by leveraging the PECCS® (PrivatE Company Classification Standard) segmentation, the index allows for a granular understanding of performance across different segments. [Find out more about PECCS® here.](#)

As of September 30, 2024, the private2000® Index had a market capitalization of USD 1,931.5 billion. Notably, it recorded a 0.72% month-on-month increase and a 4.20% quarter-over-quarter rise in total return (USD, equal weights). This performance contrasts with the 0.49% return observed in the preceding quarter ending June 30, 2024. Further demonstrating positive momentum, market capitalization expanded by USD 76.89 billion from the previous quarter and a substantial USD 49.4 billion year-over-year.

Index Allocation

Examining the sector-wise allocation within the private2000® VW index reveals key insights into its composition. As of September 2024, Information & Communication (AC05) and Professional Services (AC08) and command the largest share, representing 24.0% and 21.0% of the index, respectively. This dominance underscores the significant role these sectors play in the global private market landscape. Conversely, Financials (AC02) holds a negligible allocation of 0.7%, a deliberate design choice reflecting the index's focus on conventional buyout targets, excluding heavily regulated entities like banks and insurance companies.

From a geographical standpoint, the United States (U.S.) asserts its dominance with a 46.0% allocation. This weighting aligns with the country's prominent position in the global economy and its robust private equity market. Following the U.S., other notable country allocations include Japan (7.1%), Germany (6.0%), and the United Kingdom (UK) (5.2%).

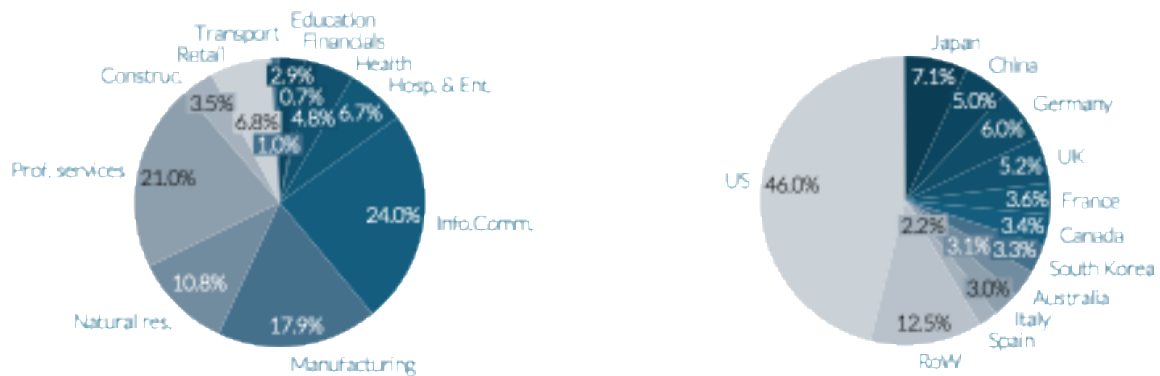
The PECCS® provides a multi-dimensional framework for classifying private companies. It consists of five distinct pillars: industrial activity, lifecycle phase, revenue model, customer model, and value chain type. This framework allows for a more nuanced understanding of the private2000® index composition beyond just industrial activity. Figure 2 illustrates the distribution of the private2000® across these additional PECCS® pillars. Highlights include:

- Revenue Model: Companies with a production-based revenue model (RM02) constitute the majority at 75.9%, while those relying on advertising revenue models (RM01) represent a mere 5.8%.
- Customer Model: Business-to-business (B2B) customer models (CM01) significantly outnumber business-to-consumer (B2C) models (CM02) at a ratio of more than 3 is to 1. This suggests a greater focus on companies serving other businesses within the private2000® index.

- Lifecycle and Value Chain: The index is predominantly composed of mature companies (LP03), accounting for 89.4% of the constituents. Moreover, companies primarily engaged in providing services (VC03) represent 67.0% of the index.

This detailed breakdown of the private2000® index allocation across various PECCS® pillars reveals a strong tilt towards mature, service-oriented B2B companies with production-based revenue models. Understanding these underlying characteristics is crucial for investors seeking to assess the index's risk and return profile and its potential alignment with their investment objectives.

Figure 1: private2000 PECCS® Activity and Country Allocation



Source: private2000® VW index, as of 30/9/2024

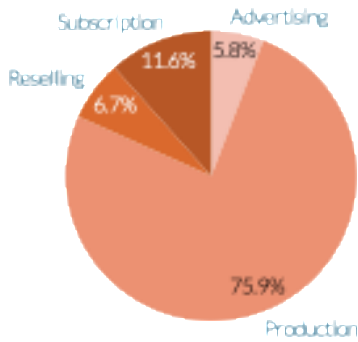
Index Performance

The private2000® Index, measured in USD and using value weights (VW), has demonstrated solid performance. Over the past three months leading up to September 30, 2024, the index delivered a cumulative return of 4.20%, contributing to a year-to-date return of 4.45%. Examining the long-term performance reveals annualised returns of 8.85% and 16.03% over the preceding five and ten years, respectively.

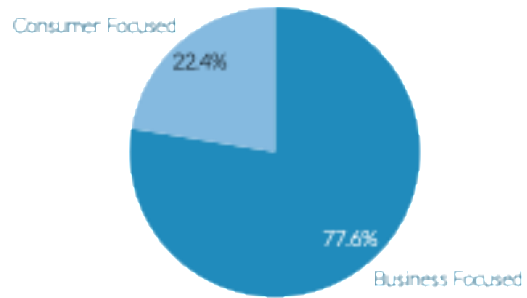
It's worth noting that the index's performance varies when measured in local currencies (LCU). The LCU-denominated index generally outperforms the USD variant, except for Q3 2024. This trend is attributed to the relative strengthening of the USD against most currencies over most periods, with the exception of the last quarter. Specifically, the VW LCU index registered a three-month cumulative return of 1,76%, a year-to-date return of 4.24%, and five- and ten-year annualised returns of 9.42% and 17.44%, respectively.

Figure 2: private2000 PECCS® Allocation

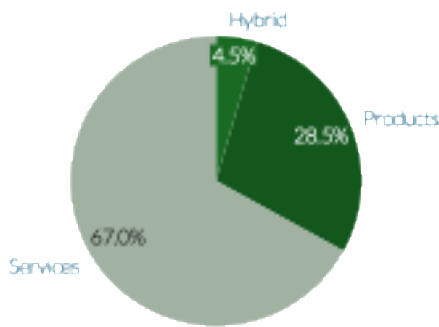
REVENUE MODEL



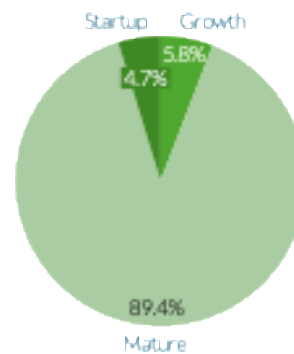
CUSTOMER MODEL



VALUE CHAIN



LIFECYCLE PILLAR



Source: private2000® VW index, as of 30/9/2024

Analysing the performance based on weighting methodologies reveals that the equal-weighted indices have generally underperformed over the VW index over extended periods. This suggests that larger private companies have played a more significant role in driving returns within the private2000® index. For instance, the private2000® EW USD index achieved a lower 9.78% ten-year annualised return, contrasting with the impressive 16.03% return of the VW USD index. However, a recent shift in performance is noteworthy. In the latest month, the EW index has surpassed the VW index by 3 and 4 basis points for the USD and LCU variants, respectively.

Table 2 provides a comprehensive overview of the total return performance and volatility of the private2000® index for September 2024. The five-year annualised volatility for both EW variants is around 13.6%, whereas the VW indices demonstrate higher volatility, with five-year figures exceeding 15%.

Table 2: Total Return Performance and Volatility for the private2000® in September 2024

Index	Sep 2024 Return	Three-month Cumulative Return	YTD Return	Five-year Ann. Return	10-year Ann. Return	Five-year Ann. Volatility	10-year Ann. Volatility
private2000 VW USD	0.72%	4.20%	4.45%	8.85%	16.03%	15.47%	19.28%
private2000 VW LCU	0.17%	1.76%	4.24%	9.42%	17.44%	15.39%	18.89%
private2000 EW USD	0.75%	2.74%	4.06%	3.50 %	9.78%	13.63%	15.50%
private2000 EW LCU	0.21%	0.33%	3.88%	4.03%	11.10%	13.58%	15.18%

Table 3 provides a breakdown of the performance and volatility of different industrial sectors within the private2000® index, as measured by PECCS® industrial activities. For ease of understanding the broad sector, these segments are equally-weighted. In the latest quarter, the Information and Communication sector (AC05) emerged as the top performer.

However, adopting a longer-term perspective reveals a different picture. Over a 5-year horizon, Natural Resources (AC07) and Manufacturing (AC06) have demonstrated strong performance, achieving annualised returns of 9.67% and 8.88%, respectively. Information and Communication (AC05) follows closely with a 6.65% annualised return over the same period.

When considering volatility, the Health (AC03) sector exhibits the lowest volatility, succeeded by Education and Public (AC01) and Retail (AC10). A risk-adjusted analysis, using the Sharpe ratio with an assumed risk-free rate of 1%, highlights Natural Resources, Manufacturing, and Information and Communication as the top three performing sectors. This suggests that these sectors offer attractive returns relative to their inherent risk levels.

It's important to acknowledge that the higher volatility observed across all sectors in Table 3 points to the influence of concentrated investment strategies on performance. Concentrated portfolios, by their nature, tend to exhibit higher volatility as they are more susceptible to fluctuations in the performance of individual holdings.

TABLE 3: Total Return Performance and Volatility for the private2000® by EW PECCS® industrial activity

Industrial Activity	Code	Sep 2024 Return	Three-month Cumulative Return	YTD Return	Five-year Ann. Return	Five-year Ann. Volatility
Education and public	AC01	0.54%	2.61%	5.80%	3.57%	21.61%
Health	AC03	0.76%	2.84%	2.81%	2.35%	16.36%
Hospitality and entertainment	AC04	1.09%	3.83%	3.40%	-2.54%	36.16%
Information and communication	AC05	4.23%	9.18%	4.89%	6.65%	31.30%
Manufacturing	AC06	0.75%	2.67%	2.87%	8.88%	39.88%
Natural resources	AC07	0.30%	2.28%	-0.25%	9.67%	41.18%
Professional services	AC08	0.73%	3.39%	4.73%	6.10%	33.22%
Real estate and construction	AC09	0.96%	4.12%	7.17%	1.94%	30.00%
Retail	AC10	0.37%	1.67%	5.05%	-2.04%	26.78%
Transportation	AC11	0.33%	1.32%	2.08%	3.81%	33.39%

Economic Fundamental Analysis

Macroeconomic Headwinds: Elevated inflation and interest rates have presented challenges to private markets. Notably, the number of transactions involving private equity portfolio companies, as tracked by privateMetrics, has declined significantly compared to the peak observed in 2021. Transaction volume in subsequent years has witnessed a contraction of 45.6%, 58.3%, and 73.9% (through September 30, 2024), respectively. The anticipated easing of inflationary pressures and interest rates is expected to facilitate a reversal of this trend.

A segment of the market that has witnessed growth is the private credit market, particularly the middle market segment, that has experienced increased activity¹ owing to the higher floating interest rates offered on these loans, which typically adjust every three months (e.g., FEDS notes, August 2024²). The resilience in this market driven by the lack of materialisation of the anticipated slowdown, some inventive use of Payment-in-Kind (PIK) restructurings³, and increasing inflows, have supported private market activity.

Now, with the interest rate easing cycle having begun in September 2024 with a 50-basis point cut⁴, and the growing expectation of a "soft landing" for the economy, uncertainties surrounding private market investments are expected to diminish. Looking ahead, several factors are likely to play a crucial role in shaping the trajectory of private market performance, including:

- **Interest Rate Trajectory:** The pace and extent of interest rate reductions will be a significant factor. Any unexpected resurgence of inflation could prompt a reversal in the easing cycle, potentially leading to valuation contractions.

- **Political and geopolitical uncertainty:** With the recent election of the republican candidate, policy changes have the potential to disrupt private markets. For instance, changes to the regulatory landscape for businesses, tariff changes, tax code changes, and changes to SEC leadership will all be closely watched by market participants. Similarly, ongoing conflicts and potential escalations can introduce volatility to private markets.

- **ESG Regulations:** The evolving regulatory framework around ESG (Environmental, Social, and Governance) factors will influence both listed and private companies. The way private companies adapt to broader ESG trends presents both opportunities and potential risks.

Beyond these macroeconomic factors, analysing specific trends within individual sectors is crucial as they present differential opportunities to enter and exit investments. Some of the notable trends include 1) the resurgence of tourism⁵ to pre-Covid levels relevant hospitality and entertainment (AC04), 2) the increasing investments⁶ in artificial intelligence-related activities (AI) is creating opportunities in information and communication technology (AC05), 3) the rise of trade barriers can impact the manufacturing sector (AC06) in countries with trade barriers enforced, while export oriented economies may bear the costs of the protection, and 4) falling interest rates may reverse the profitability that the financial sector (AC02) has recently realised due to the lack of pass through of the gains from higher rates to depositors.

¹ <https://www.morganstanley.com/ideas/private-credit-outlook-considerations>

² <https://www.federalreserve.gov/econres/notes/feds-notes/private-credit-growth-and-monetary-policy-transmission-20240802.html>

³ <https://www.privatedebtorinvestor.com/the-rise-of-pik-sparks-concerns/>

⁴ <https://www.jpmorgan.com/insights/global-research/economy/fed-rate-cuts>

⁵ <https://www.weforum.org/press/2024/05/tourism-is-back-to-pre-pandemic-levels-but-challenges-remain/>

⁶ <https://www.goldmansachs.com/insights/articles/will-the-1-trillion-of-generative-ai-investment-pay-off>

Thus, to sum up, we have a cautious yet optimistic outlook on private markets, with the trajectory of interest rate decreases, inflation levels, and U.S. regulatory developments all playing critical roles. It is essential to carefully assess the specific characteristics of individual companies and sectors within the private markets to identify potential opportunities and navigate potential risks. And to that extent, the data from the privateMetrics indices can help identify the opportunities and threats.

Index Performance Drivers

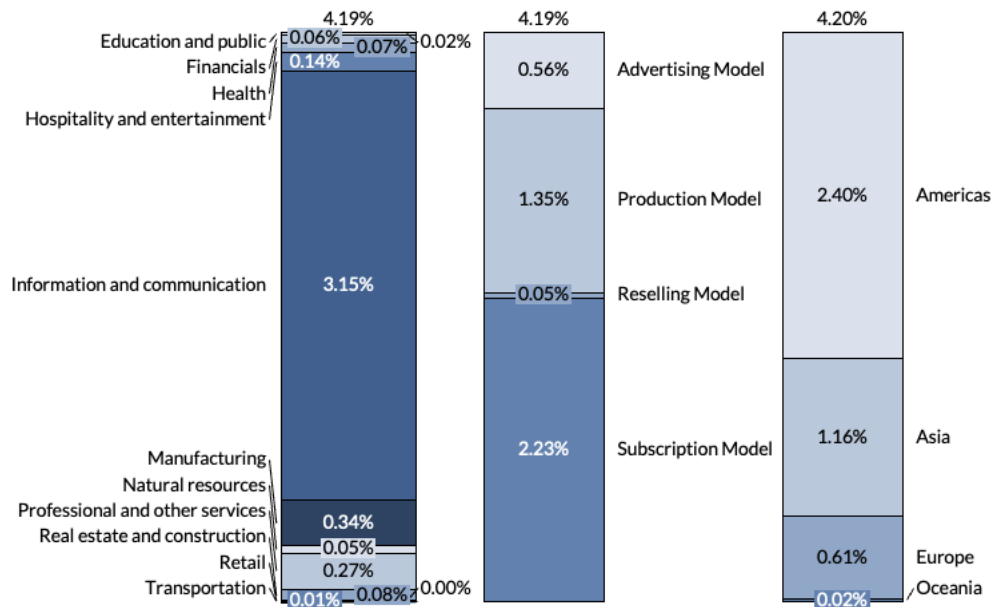
In 2024 Q3, the private2000[®] index, which represents the monthly total returns of 2,000 unlisted private companies across 30 key markets, saw positive contributions from all sectors. The **Information and communication** (AC05) sector led the returns, contributing close to 3.15% to the aggregate performance of the VW USD index. The Professional services (AC08) and Retail (AC10) followed behind with a distant contribution of 0.34% and 0.27%, respectively. Several factors contributed to the gains in these sectors:

- Information and communication (AC05) and Professional services (AC08) reported higher performance due to reported transactions occurring at higher valuations. For example, the average Price/Sales (P/S) ratios in private market transactions in a rolling window of 18-months moved up to 4.55x from 4.45x in AC05 and 3.03x from 2.81x in AC08.
- Public market valuations in these sectors witnessed sustained increases during the quarter. For example, P/S ratios in Information Technology, Consumer Discretionary, and Consumer Staples expanded by over 18.3%, 13.0%, and 8.4%, respectively, directly providing tailwinds to these sectors in private markets. In comparison, the overall public markets P/S ratios expanded this quarter only by 5.2%.
- In terms of other risk factors also, these sectors benefited from favorable exposure to characteristics that were rewarded this quarter. Specifically, relative to the companies in the global private equity universe, companies in AC05, AC08, and AC10, exhibit lower leverage. Also, companies in AC10 are larger than the average private company, while companies in AC05 and AC08 are more profitable. As discussed in the section '*Firm characteristic contribution to performance*', size and profits were positively rewarded this quarter, while leverage was negatively rewarded.

Looking at the monthly contributions in this quarter, we find that August and September were broadly positive across all the sectors, but majority of the sectors in July 2024 experienced negative returns, which also coincided with the smallest increase in valuation in public markets in the third quarter and increasing term spreads in the U.S. (Figure 8).

Subscription type revenue models drove the bulk of the performance, contributing 2.23% to the aggregate index. This suggests a period of cautious investor sentiment as companies with more sustainable revenue only outperformed. Regionally, the **Americas**, primarily the U.S., led the index's performance, while other regions such as Europe and Oceania showed more muted results. However, the relative performance across regions remained consistent with their respective weights in the index.

Figure 3: private2000® VW USD return contribution by key PECCS® pillars and regions in Q3 2024



Looking at the PECCS® pillars, **Business-Focused** companies (based on their customer model), **mature** companies (according to life cycle), and **service-oriented** companies (as per their value chain) have contributed over 3.30% returns to the private2000® VW USD index.

It's noteworthy that all classes across all PECCS® pillars and regions made positive contributions to the index's performance in 3Q of 2024. **This broad-based positive performance suggests a period of consolidation in the private markets.** The archetypal outperformer in this scenario has been a mature, US-based, service-oriented company with a subscription-based revenue model.

Turning to examining the splits between Price and Cash returns reveal interesting trends. **Price returns**, typically the dominant return component over cash returns, remained largely positive in the aggregate index in 3Q of 2024. These returns constituted more than 3/4th to the index performance, with cash returns making up the remaining quarter. Note that cash returns in privateMetrics are derived from modelled quarterly payouts based on macroeconomic data.

However, examining the split between Price and Cash returns by PECCS® industrial activity reveals interesting patterns. Three of the ten sectors had a small negative Price return, including Natural resources, Retail, and Transportation, but their total return were buoyed by the Cash return component for the quarter making them overall positive. The breakdown of index return components for the latest month and the trailing 12-month period for the overall index and at the averaged values at the PECCS® industrial sector level are presented in Figure 5.

Figure 4: private2000® VW USD return contribution by other PECCS® pillars in Q3 2024

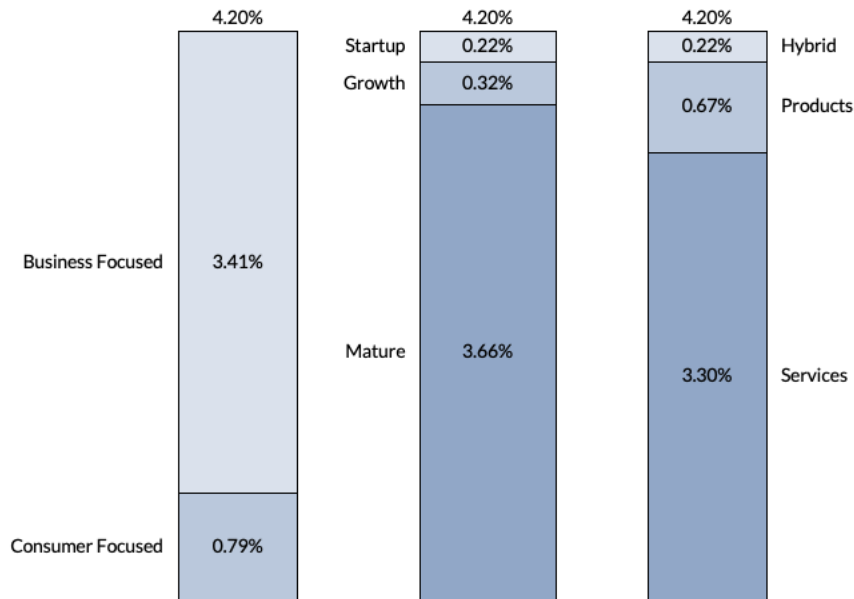
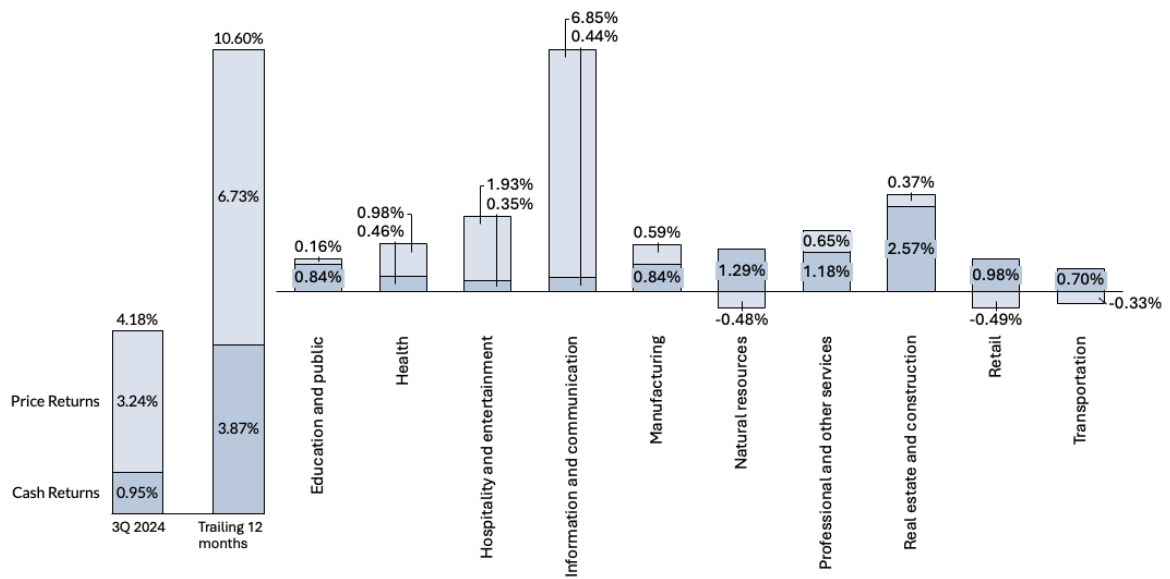


Figure 5: Cash and Price returns contribution for private2000® VW USD in aggregate and averaged by PECCS® industry



Valuation Analysis

This content is available in the client version only.

Index Constituent Changes

During Q3 2024, the median annualised turnover remained unchanged at 3% indicating that on average 5 companies were replaced each month during the quarter. The companies that exited the index represented a diverse range of industries and geography and were excluded due to insufficient information required to estimate their valuations.

Index Methodology Changes

Index construction and calculation methodology remained unchanged this month. Full index methodology is available [here](#).

Index Governance

The private2000® index will be registered with ESMA. The Regulation (EU) 2016/1011 apply to both EU and non-EU entities that administer indices that are used in the EU as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds. This Regulation aims to “ensure the accuracy and integrity of indices”. In compliance with EU Benchmark Regulation, Scientific Infra and Private Assets Pte Ltd has established governance processes to administer its benchmarks. It is achieved through the following index committees:

Index Oversight Committee

Chairman: Xavier Gendre; Voting members: Edward Grossi, Moataz Farid

The Index Oversight Committee oversees and reviews actions relating to the regulated benchmarks, helping to promote the integrity of all aspects of the provision of the benchmarks administered by the Company.

Index Review Committee

Chairman: Abhishek Gupta; Voting members: Jack Lee, Srinivasan Selvam; Non-voting members: Tim Whittaker

The Index Review Committee is responsible for interpreting index methodologies in exceptional cases when discretion is required in the application of the Index determination and calculation rules in the Company.

Research and Index Offering Committee

Chairman: Tim Whittaker

Voting members: Fabrice Lee Choon, Jianyong Shen

Non-voting members: Abhishek Gupta

The Research and Index Offering Committee is the decision-making authority in matters of methodologies for new offering and changes to existing methodologies and cessation of existing benchmarks in the Company.

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