

# HOW DID THE PRIVATE EQUITIES MARKET PERFORM THIS SEPTEMBER?

## PRIVATEMETRICS MARKET INDICES

October 2024 Data Release

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## Executive Summary

- The privateMetrics Market Indices and PECCS<sup>®</sup> Indices track the performance of unlisted equities at the asset level in 130 countries. PECCS<sup>®</sup> is a cutting-edge classification system of private companies which goes beyond standard industrial classification but instead captures multiple dimensions of private companies.
- privateMetrics indices are released monthly: in September 2024, the global private equities market, as represented by the private2000 index, achieved a return of 0.72%.
- In USD terms, the short-term performance of the private2000 index remains positive over the past three months and year-to-date, and exhibits positive long-term performance, with an annualised return of 8.85% over the past 5 years, indicating a degree of resilience and even recovery after two years of muted performance.
- Still, at the market segment level, performance varies significantly, with Hospitality and Entertainment leading the way in September and Education lagging.

Find out more about privateMetrics indices:

- [Product factsheet](#)
- [September 2024 data release factsheet](#)
- [September 2024 valuation factsheet](#)

## privateMetrics: private equities market indices

privateMetrics® indices must be distinguished from manager performance benchmarks that are constructed by aggregating manager-reported performance data. Whether these benchmarks are built by computing fund-level money-weighted returns (Cambridge Associates) or calculating fund-level (modified) Dietz returns (MSCI/Burgiss, Preqin), they are not market benchmarks but manager performance benchmarks i.e. peer group benchmarks, and as such they conflate at least two things that investors need to know about fund managers: beta and alpha.

The alpha of a private manager has several sources. The first is the selection of the right betas over the long term, meaning the market segments they choose to be exposed to. If private asset prices increase in say, Tech or Healthcare more than in the market as a whole, because there is more demand for these assets, then a proverbial rising tide raises all NAVs. A fund with a high beta (a high exposure) to these segments of private markets performs thanks to this market exposure.

The second source of alpha is the timing of investments and of cash flows, which have a significant impact on the fund's IRR (internal rate of return). This money-weighted return is one of the most widely used metrics in the private assets industry and it is also used in constructing manager indices. This timing implies that private equity investors do not have constant exposure to the private equity market and therefore have variable betas.

A third source of alpha is the ability to negotiate not only the entry and exit price but also the governance of the investment (e.g., liquidation preference clauses or preferential dividend rights). Lastly, there is the critical capability of selecting assets within a chosen allocation sector. This selection reflects systematic risk, represented not only by the company's activity but also by its exposure (i.e., betas) to specific risk factors (e.g., leverage, size, profitability, growth, etc.). In all cases, whether it involves long-term sectoral choices, timing of exposure, or asset selection, private equity investors assume systematic risk linked to these decisions.

privateMetrics indices and benchmarks measure the time-weighted equity returns of private (unlisted) companies. De facto, they represent the systematic exposures that investors face when building their investment strategy. Unlike fund manager performance indices, privateMetrics indices represent the performance and risk of the underlying assets computed at global or segment level. In other words, drawing a parallel with public equities, privateMetrics indices are the stock market indices for private markets whereas fund benchmarks are the equivalent of an index of listed mutual funds. Thus, to avoid confusion with the term 'private equity' which has become synonymous with investing in private equity funds, we talk of private equities to refer to the market for investing in the equity stakes of private companies. To find out more about privateMetrics indices, download our factsheet [here](#).

## September 2024 Performance

In September 2024, the global private equities market performance was positive. The private2000 index, a global benchmark of the financial performance of unlisted companies, recorded a monthly return of 0.72%, contributing to a cumulative three-month return of 4.20%

and a year-to-date return of 4.45% (see Table 1). Such positive performance suggests continued demand and a return of investment appetite for unlisted equities.

Overall, the private2000 index has performed well across recent time horizons: one-month, three-month, and year-to-date figures all indicate positive growth, and the long-term performance is equally good, with an annualised return of 8.85% over the past five years. The strong private2000 performance is also a result of the index having healthy exposure to risk factors that have been rewarded in the past 10 years (see Appendix 1 for a return attribution analysis). For example, in the latest quarter, the size and profit factors returned a cumulative 1.31% and 2.22%, respectively, and the private2000 VW index had  $\beta$ 's close to 1 and 0.5, respectively, for the two factors in the latest period.

In terms of risk profile, there are also important differences between a contributed manager benchmark and a market index like privateMetrics. Manager performance benchmarks do not capture risk because of the way they are computed: most of the data is the result of appraisals that are done quarterly at best without referring to the latest market data, understating the fluctuations in the asset returns. These smoothed returns lead to reporting artificially lower correlations with publicly traded assets, resulting in inflated Sharpe ratios and alphas. This smoothing effect causes significant positive autocorrelation and underestimates volatility, as the appraisal-based methodology fails to capture real market fluctuations.

Of course, fund managers also smooth risk through their skills i.e., in relation to the volatility of the private asset market, their ability to account for market conditions and their ultimately non-linear exposure to the market through the timing of investment entries and exits allows them, when their skills are proven, to reduce volatility. Furthermore, the structuring of their investments can have positive effects on the associated risk: for example, by securing preferential investment conditions compared to other shareholders. The underestimation of market risk through a benchmark can be misleading and lead to suboptimal investment decisions, whether it involves assessing the potential market risk within a private market allocation, selecting specific segments of that market, or, of course, understanding the systematic risk associated with investing in a particular project.

TABLE 1: RISK AND RETURN OF PRIVATE2000 COMPARED WITH PRIVATE EQUITIES SECTOR INDICES

	Sep 2024 Return	Three-month Cum. Return	YTD Return	Five-year Ann. Return	Five-year Ann. Volatility
private2000*	0.72%	4.20%	4.45%	8.85%	15.47%
PEU** Global Education	0.07%	0.75%	5.39%	10.27%	11.97%
PEU Global Financials	0.96%	0.95%	3.13%	21.31%	21.92%
PEU Global Health	0.60%	2.14%	3.32%	7.36%	10.78%
PEU Global Hosp. & Ent.	1.42%	3.49%	3.94%	9.07%	14.41%
PEU Global Info. & comm.	0.60%	6.38%	4.61%	11.70%	13.58%
PEU Global Manufacturing	0.53%	2.16%	3.10%	9.79%	18.65%
PEU Global Natural resources	0.16%	-0.20%	1.39%	11.90%	17.48%
PEU Global Professional services	0.43%	1.32%	4.12%	11.60%	15.65%
PEU Global Real est. & constr.	0.50%	1.88%	5.81%	14.74%	12.87%
PEU Global Retail	0.30%	-0.26%	2.64%	2.22%	9.82%
PEU Global Transportation	0.68%	2.48%	2.21%	16.31%	20.69%

Source: privateMetrics® all returns in USD, \*market cap weights \*\* PEU: privateMetrics Private Equity Universe

In contrast, privateMetrics indices are computed on the basis of the latest private market information available and aim to reflect the potential exit value (True Fair Value) of individual constituents at the end of each month. As a result, they do not exhibit serial correlation in

returns and the five-year annualised volatility of the private2000 index stands at 15.47%, indicating a level of risk on par with public equities and commensurate with returns over the same period and suggest that investors can be compensated for taking on this risk. To read more about the privateMetrics approach to measuring fair value, see [this paper](#).

## Market Segment Analysis

Asset taxonomies can provide a structured framework for classifying and segmenting private companies based on essential characteristics that drive their valuations, especially if such classifications go beyond traditional industry classifications and capture multiple dimensions of risk and return. The Private Company Classification Standard, or PECCS<sup>®</sup>, allows private companies to be organised along five key pillars: Industrial Activity, Revenue Model, Lifecycle Phase, Customer Model, and Value Chain. By considering these diverse factors, PECCS provides a more nuanced and insightful view of the private company universe (see Appendix 2).

At the PECCS industrial sector level significant disparities in returns do exist (Table 1). The PECCS indices track the performance of circa 175k firms across the privateMetrics private equity universe, or PEU, and represent circa USD17.5 trillion in market capitalisation in Q3 2024.

In September, the PEU Global Hosp. & Ent. Index, with a 1.42% return, and the PEU Global Financials Index, at 0.96%, stand out as top performers, exceeding the private2000 index's 0.72% return. This suggests a stronger appreciation in valuations within the Hospitality & Entertainment and Financial sectors compared to the broader private market, driven by robust revenue growth, expanding profit margins, and a generally positive market outlook that favours these specific sectors.

Sectors like Transportation (0.68%), Health (0.60%), and Info. & Comm. (0.60%) exhibited returns close to the private2000 index. Meanwhile, the PEU Global Education (0.07%) and PEU Global Natural resources (0.16%) indices trailed significantly behind the private2000 index. These sectors have experienced limited valuation uplift during September 2024 compared to the broader private market.

The wide range of returns across different sectors emphasise the importance of sector-specific considerations in private equity companies. Investors must carefully evaluate the opportunities and challenges within each sector, considering factors such as industry dynamics, regulatory landscape, and competitive intensity.

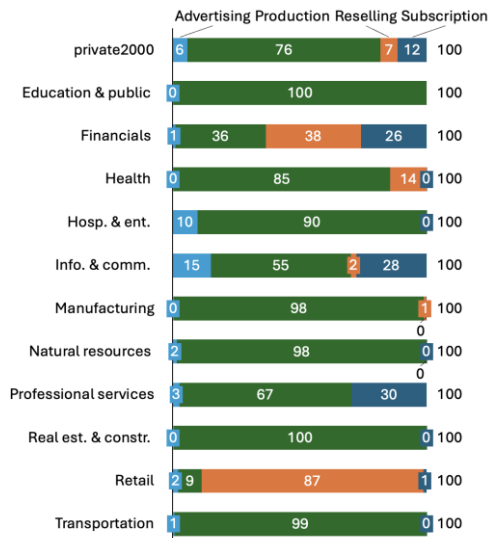
## Performance Drivers

The allocation of companies within the private2000<sup>®</sup> and the private equity sector indices across the Customer Model, Value Chain Model and Revenue Model PECCS pillars (Figure 1) provides a nuanced understanding of the market dynamics. For example, Production revenue models dominate the private equity landscape, accounting for 76% of companies in the

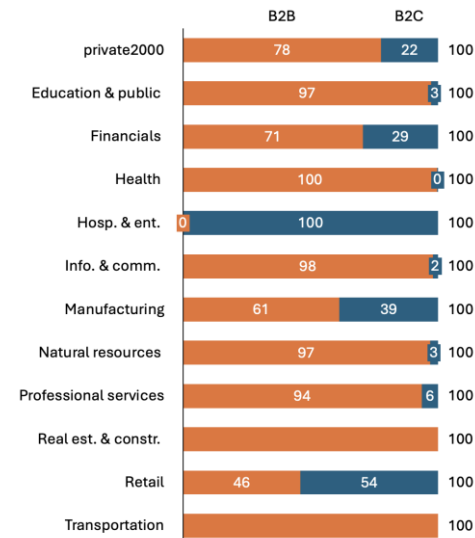
private2000® index. This highlights the significance of companies involved in manufacturing, processing, and production within the private equity portfolio.

FIGURE 1: PECCS PILLARS ALLOCATION OF THE PRIVATE2000 AND INDUSTRIAL SECTOR INDICES – SEP 2024

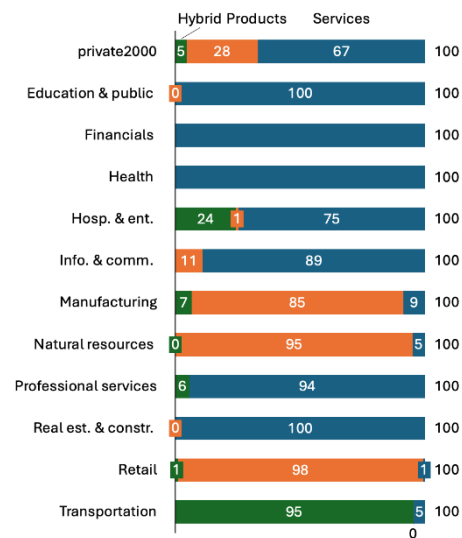
**PECCS Revenue Model**



**PECCS Customer Model**



**PECCS Value Chain Model**



Reselling revenue models, i.e., models in which value creation is typically lower, constitute a substantial portion of the Retail sector, accounting for 87% of companies within that index.

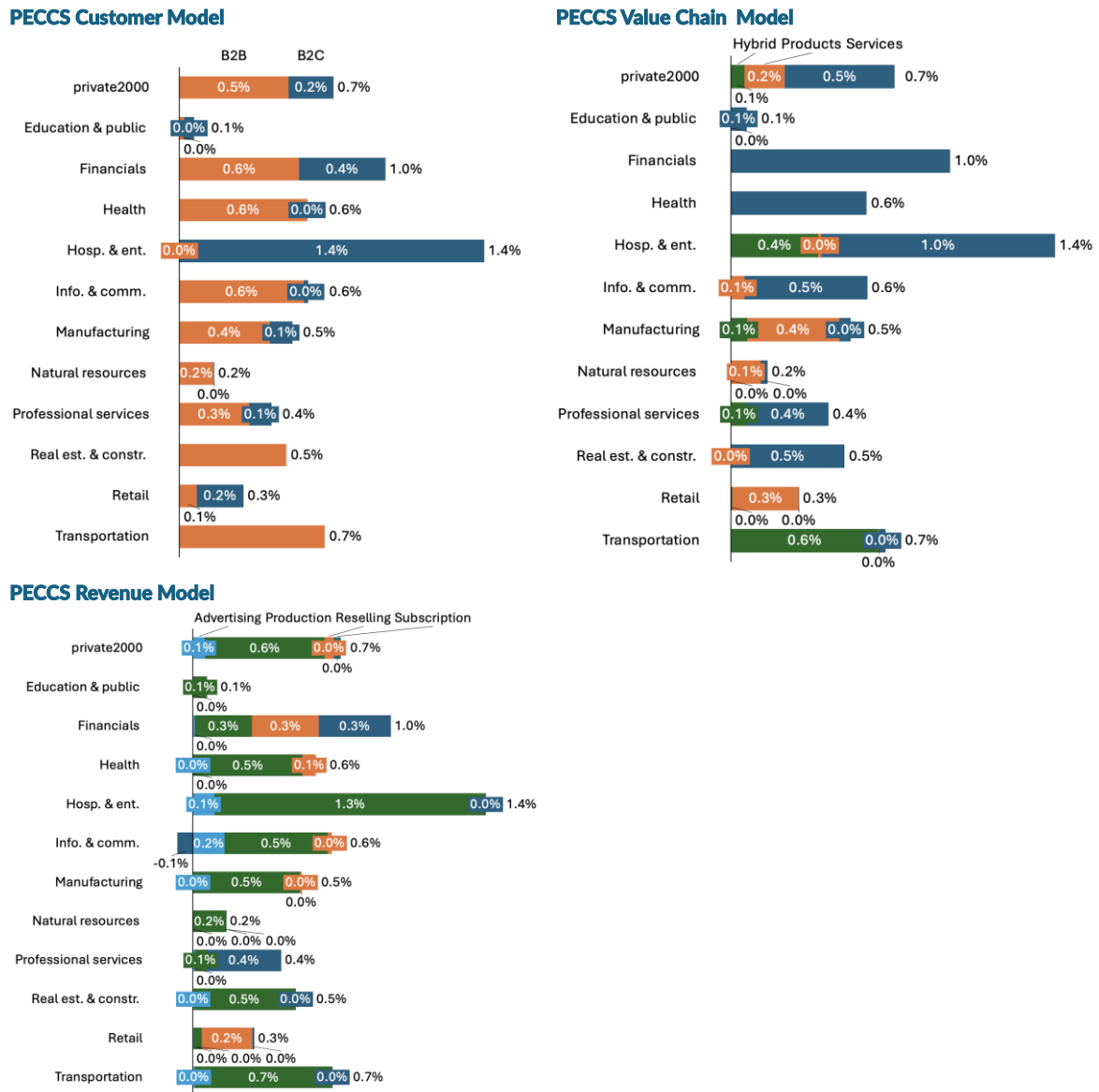
Subscription-based models are prominent in the Financials, Information & Communication, and Professional services sectors, indicating recurring revenue streams in these sectors. Subscription revenue models are generally more valuable as these offer predictable revenue streams with more loyal customers, thus making these sectors more attractive.

The allocation between business-focused (B2B) and consumer-focused (B2C) models is skewed towards B2B models. However, Hospitality and Entertainment, Manufacturing, Financials, and Retail comprise a healthy proportion of B2C focused companies. Likewise, by

value-chain, we see service-oriented companies more commonly across the sectors, with the exception of Transportation where Hybrid models dominate.

Analysing the return contributors (Figure 2) for different indices provides further insights into the factors driving performance in September 2024. Services constitute the largest return contributor for the overall private2000 index universe, highlighting the growing importance of service-oriented businesses within the private equity portfolio.

FIGURE 2: PERFORMANCE CONTRIBUTION OF PRIVATE2000 AND SECTOR INDICES BY PECCS PILLARS – SEP 2024



Production activities significantly contribute to the returns of the Healthcare and Hospitality & Entertainment sectors. The Financials sector derives its returns primarily from Hybrid products, suggesting a blend of product and service offerings driving its performance.

These variations in return contributors emphasise the distinct characteristics and underlying factors driving performance in different sectors. Investors must consider these sector-specific dynamics when evaluating potential investment opportunities.

## Conclusion

Finally, Tables 2 and 3 show the levels of the private2000 and the main PECCS Market Indices in USD and local currency unit respectively.

At the aggregate market level, as represented by the private2000 index, September 2024 was a high-water month for USD investors with the index at its 24-month high. However, the index includes c.50% of US assets. Looking at local currency index to remove the effect of foreign exchange, the market is essentially flat in September, matching the 3-month high but slightly lower than its 12-month high.

At the market segment level however, the September 2024 picture is different for USD investors who see the market reach new heights in all segments (table 1 & 2) while on a local currency unit basis (table 3), September sees slight declines from their 3-month and 12-month high in segments including Retail, Construction or Natural Resources. Even on a local currency basis, Health and Financial saw gains in September.

It remains to be seen whether a new dynamic is about to support private equities. September, while positive in aggregate was something of a wait-and-see month.

TABLE 2: 3, 12 AND 24 MONTH HIGH AND LOW LEVELS - PRIVATE2000 INDEX AND PRIVATE EQUITIES SECTOR INDICES - USD

	Sept. 24	Prev. 3 month High	Prev. 3 month Low	Prev. 12 month High	Prev. 12 month Low	Prev. 24 month High	Prev. 24 month Low
private2000	5760.3	5760.3	5514.6	5760.3	5259.6	5760.3	4771.5
PEU** Global Education	8611.5	8611.5	8527.5	8611.5	7860.8	8611.5	7581.6
PEU Global Financials	17322.9	17322.9	17143	17373.3	15489.6	17373.3	12925.6
PEU Global Health	5746.6	5746.6	5625.3	5746.6	5499.8	6011	5499.8
PEU Global Hosp. & Ent.	6884.4	6884.4	6646.4	6884.4	6533	6884.4	6227.6
PEU Global Info. & comm.	9291.7	9291.7	8669.4	9291.7	8603.7	9572.8	8318.9
PEU Global Manufacturing	5221	5221	5106.9	5221	4796.8	5221	4337.6
PEU Global Natural resources	12670.2	12670.2	12649.8	12793	11726.2	12793	10364.2
PEU Global Pro. services	10605.9	10605.9	10478	10605.9	9887.8	10605.9	9292.4
PEU Global Real est. & constr.	8785.1	8785.1	8650.2	8785.1	8048.9	8785.1	7568.3
PEU Global Retail	3094.2	3094.2	3083.3	3102.3	2958.2	3102.3	2887.7
PEU Global Transportation	11526.8	11526.8	11215	11629.4	10323	11629.4	9394

TABLE 3: 3, 12 AND 24 MONTH HIGH AND LOW LEVELS - PRIVATE2000 INDEX AND PRIVATE EQUITIES SECTOR INDICES - LOCAL CURRENCY UNITS

	Sept. 24	Prev. 3 month high	Prev. 3 month low	Prev. 12 month high	Prev. 12 month low	Prev. 24 month high	Prev. 24 month Low
private2000	6605.4	6594.1	6429.3	6675.6	6110.2	6675.6	5317.8
PEU** Global Education	10733.3	10809.5	10732.5	10809.5	9856	10809.5	9523.1
PEU Global Financials	22046.2	22542.3	22042.3	22652.5	20270.8	22652.5	16252.4
PEU Global Health	7704.1	7672	7573.1	7672	7417.8	8108.4	7417.8
PEU Global Hosp. & Ent.	8635.4	8554.1	8439.3	8674.5	8314.4	8765.1	7883.8
PEU Global Info. & comm.	11898.9	11895.2	11275.2	11975.6	11231	12511.5	10766.7
PEU Global Manufacturing	6504.9	6557.1	6503.8	6576.3	6168.2	6576.3	5210.6
PEU Global Natural resources	17058.3	17594.3	17190.5	17594.3	16109.4	17594.3	12942.8
PEU Global Pro. services	13022.3	13261.2	13078.8	13314.1	12577.1	13314.1	11637.6
PEU Global Real est. & constr.	12022.4	12236.5	12069.5	12236.5	11327.4	12236.5	9918.1
PEU Global Retail	4279.9	4408.9	4300.9	4408.9	4148.3	4408.9	3913.5
PEU Global Transportation	16867.4	16969.4	16773.9	17358.7	15673.8	17358.7	12636.5

Source: privateMetrics®, \*market cap weights \*\* PEU: privateMetrics Private Equity Universe



## Appendix 1. Return Attribution Analysis of the private2000 index

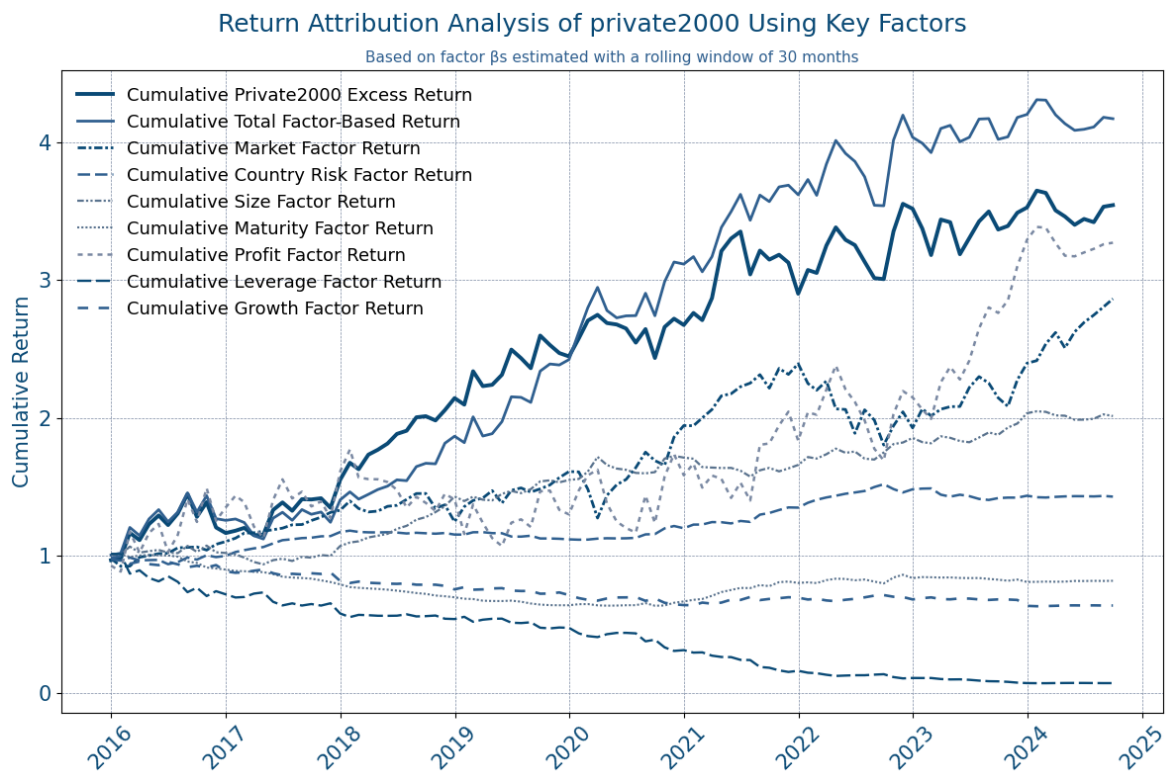
To understand the sources of performance the private2000 index, a factor-based return attribution analysis is conducted. Key risk factors, including size, leverage, profitability, growth, maturity, market, and country risk are selected. Factor returns are calculated by sorting private companies into deciles based on each characteristic (except the market factor) and computing the difference in returns between extreme deciles (e.g., the difference between the returns of the largest and smallest companies).

The excess returns of the private2000 index are then regressed onto these factor returns. This regression analysis helps estimate the factor betas ( $\beta$ ), which reflect the sensitivity of the private2000 index to each risk factor. For instance, a positive  $\beta$  for size would mean that the private2000 index tends to perform better when larger companies outperform smaller companies, as the size factor is defined as the difference in returns between the largest and smallest deciles by size.

The total factor-based return for the private2000 index is calculated by summing individual factor returns. This approach allows the index's overall performance to be broken down into the contributions of each risk factor. Figure A1 shows that the total factor-based return closely tracks the actual performance of the private2000 index. This alignment suggests that the chosen risk factors effectively capture the underlying drivers of the index's returns.

The private2000 index's long-term outperformance is likely due to its "healthy exposures" to these risk factors. This means the index is tilted towards factors that have historically generated superior returns in private markets.

FIGURE A1: RETURN ATTRIBUTION ANALYSIS OF PRIVATE2000 USING KEY RISK FACTORS



## Appendix 2. The PECCS® Taxonomy

PECCS™ stands for PrivatE Company Classification Standard and is a classification scheme exclusively built to classify, segment and organise the universe of private companies. It is a multi-pillar scheme that looks at different fundamental risk factors that can affect private companies such as growth stage, type of revenue model, customer model, value chain types, etc. These risk factors can be used to provide valuation on private companies. PECCS data comes from several segments across its five pillars to classify private companies, including:

- 12 classes and 67 subclasses of activity
- 3 classes and 7 subclasses of lifecycle phase
- 4 classes and 14 subclasses of revenue model
- 2 classes and 8 subclasses of customer model
- 3 classes and 6 subclasses of value chain

Table A1 shows the EV/EBITDA multiple of private equity by PECCS® activity and the prediction of the valuation across all the PECCS classes. The mean and median error in any class is almost zero, indicating that the privateMetrics model performs extremely well in the prediction of segment level valuation. Moreover, since it is built on the back of thousands of transactions, it can produce a time-varying and robust estimate of sectoral valuations.

TABLE A1: PRIVATEMETRICS EV/EBITDA MULTIPLE AND VALUATION ROBUSTNESS FOR PECCS ACTIVITIES

EV/EBITDA Multiple					Valuation
Activities	1st quartile	Median	3rd quartile	Obs. (000's)	Mean Estimation Error
Education	12.7x	14.5x	17.9x	12.5	0.009
Financials	22.1x	24.4x	46.9x	29.6	0.018
Health	16.5x	19.9x	24.5x	20.9	0.026
Hospitality and entert.	11.9x	16.5x	22.9x	28.6	-0.011
Information and comm.	14.2x	18.2x	25.1x	12.4	-0.044
Manufacturing	13x	17x	24x	104.8	0.025
Natural resources	9.9x	13.5x	20.2x	23.2x	0.094
Professional services	11.5x	15x	20.2x	79.7	0.033
Real estate and construction	14.4x	17.1x	21.4xx	93.6	0.019
Retail	14.6x	18.3x	24.1x	168.4	0.005
Transportation	18.2x	27.1x	34.3x	17.3	0.072
Utilities	11.6x	14.5x	22.8x	2.9	-0.022
<b>Full sample</b>					<b>0.011</b>

## PECCS INDEPENDENT REVIEW COMMITTEE

The PECCS Taxonomy is overseen by a representative review committee.

- Alex Dotov, TIAA
- William Kieser, Ares
- Michael Sterkel, Schroders Capital
- Ruediger Stucke, Warburg Pincus
- Jeroen Cornel, BlackRock
- Julian Krantz, InvestEurope
- Allen McDonell, LPPI
- Richard Olson, Lincoln International
- Chee Su Ling, GIC
- Marc Lickes, Stepstone
- Steven Kaplan, University of Chicago
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