
Consumer and Investment Management Division

Impact of COVID-19 on Private Equity Investing (Fourteenth in a Series)

May 18, 2020

Investment Strategy Group

Overview of Today's Call

- Update on COVID-19

- Impact of COVID-19 on Private Equity Investing
 - **Michael Brandmeyer**, Global Co-Head and Co-Chief Investment Officer of the Alternative Investments & Manager Selection (AIMS) Group within Goldman Sachs Asset Management

 - **Rich Friedman**, Chairman of the Goldman Sachs Merchant Banking Division (MBD)

 - **John Connaughton**, Co-Managing Partner at Bain Capital Private Equity

Michael Brandmeyer, Goldman Sachs

Michael Brandmeyer



Speaker Overview

- Co-head and co-chief investment officer of the Alternative Investments & Manager Selection (AIMS) Group in the Consumer and Investment Management Division.
- Serves on the group's investment committees across private equity, real estate, hedge fund and impact investment strategies.

Goldman Sachs AIMS Overview

- Over \$250bn under AUM across asset classes, investing in private equity, hedge fund, real estate, credit, public market and ESG managers as a limited partner, secondary-market investor, co-investor, or management company partner.
- Private Markets/PE: \$66bn+ of AUM across Primaries, Secondaries, Co-Investments, GP Stakes, Seeding and ESG.
 - Over \$25 billion of committed capital to more than 650 funds since 1997
 - Evaluated over 10,000 primary funds since inception
 - More than \$30 billion in capital committed since 1998 to one of the largest secondaries programs in the industry

Rich Friedman, Goldman Sachs

Rich Friedman

The Goldman Sachs logo, consisting of the words "Goldman Sachs" in white serif font on a blue square background.

Speaker Overview

- Chairman of the Merchant Banking Division (MBD) with a 38-year tenure at Goldman Sachs.
- Responsible for leading the development of Goldman Sachs's alternatives business since the early 1990s.
- Member of the Firmwide Management Committee, and co-chair of the Firmwide Investment Policy Committee, MBD Corporate Investment Committee, MBD Credit Investment Committee, MBD Growth Investment Committee, MBD Infrastructure Investment Committee, and MBD Real Estate Investment Committee.

Goldman Sachs MBD Overview

- Primary direct investing and lending platform at Goldman Sachs, and the largest private investment platform within a leading global bank.
- MBD manages approximately \$140bn in Total Assets¹ across private equity, growth equity, infrastructure, credit, and real estate strategies.
- Over 900 dedicated professionals located in 24 offices across 15 countries² around the world.
- Over 35 years of experience across asset classes, global markets, risk profiles, capital structures and investment cycles.

John Connaughton, Bain Capital

John Connaughton



Speaker Overview

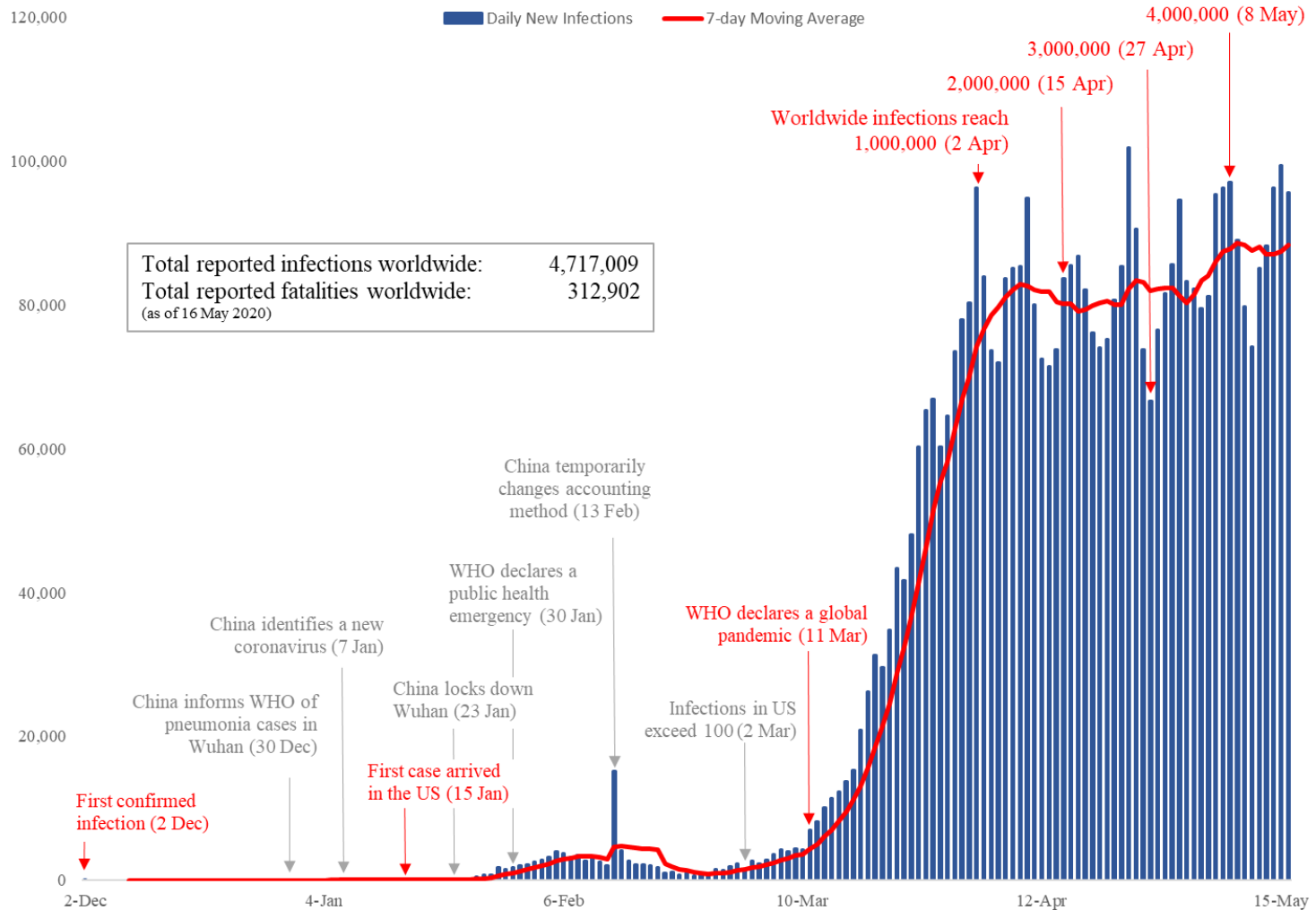
- Co-Managing Partner of Bain Capital, global head of Bain Capital Private Equity and the global head of the firm's healthcare vertical.
- Since joining the firm in 1989, Mr. Connaughton has played a leading role in a wide spectrum of prominent healthcare and information/media businesses in which Bain Capital Private Equity has made investments.
- Prior to joining Bain Capital, Mr. Connaughton was a strategy consultant at Bain & Company.



Bain Capital Overview

- Founded in 1984, Bain Capital has grown to 19 offices on four continents, 1,000 employees and \$105 billion in assets under management.
- Nine business units spanning asset classes: Private Equity, Credit, Ventures, Real Estate, Public Equity, Life Sciences, Double Impact, Tech Opportunities and Partnership Strategies.
- Private Equity business has more than 250 investment professionals globally, including one of the industry's largest portfolio teams focused on operational value-add within companies.

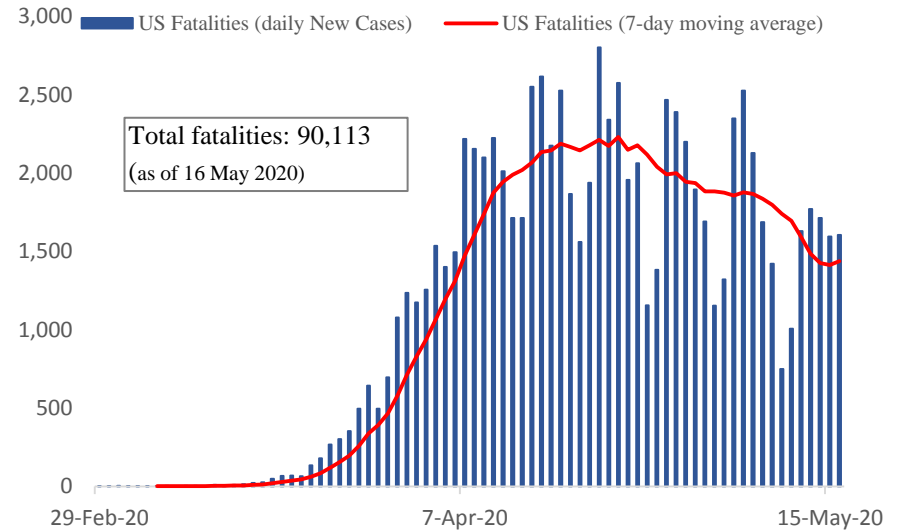
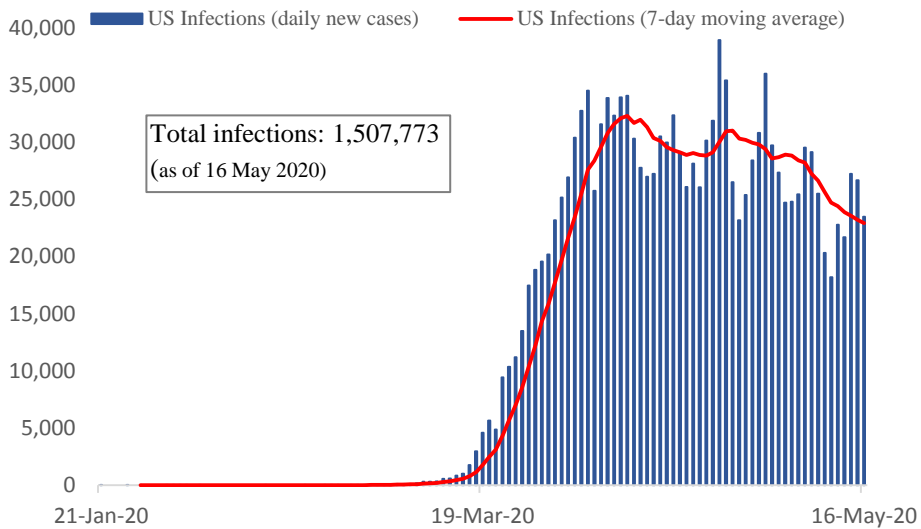
SARS-CoV-2 Pandemic Timeline



* As of May 16, 2020

Source: Investment Strategy Group, WHO, CDC, National Health Commission of People's Republic of China, John Hopkins University, Worldometers.

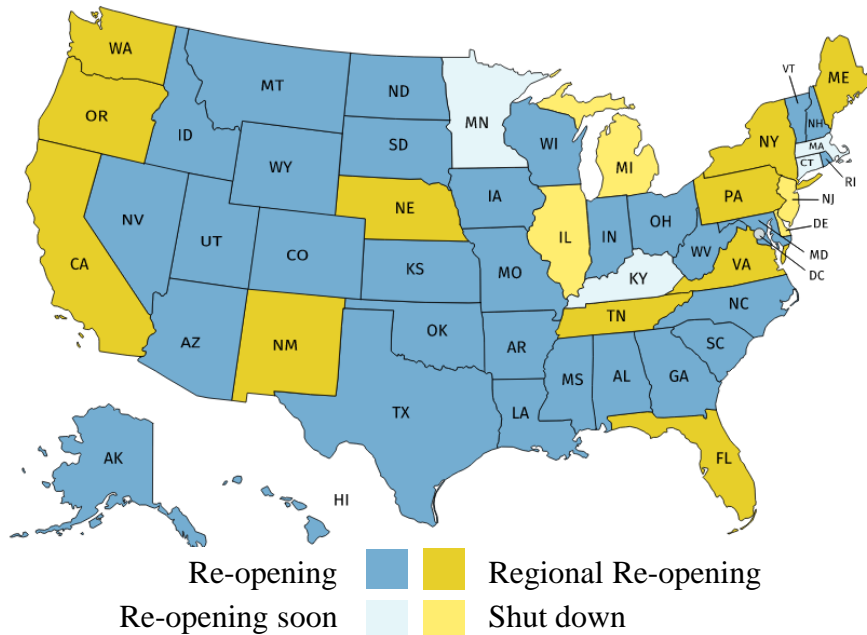
COVID-19 Infections and Fatalities in the United States



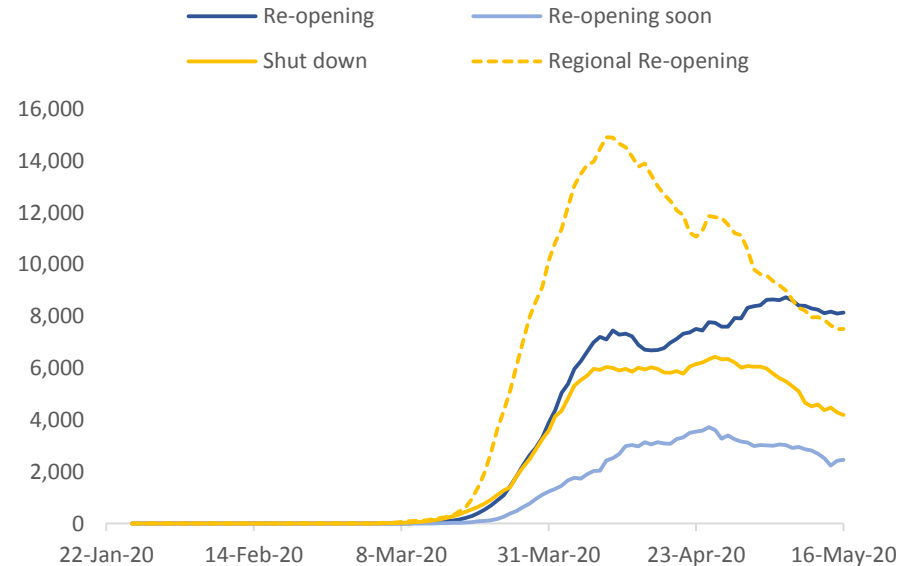
- While the number of new daily infections and fatalities continues to remain high in the United States, the outbreak appears to be decelerating.

US States Are Moving to Lift Restrictions

1. Re-opening of US States (as of 16 May 2020)



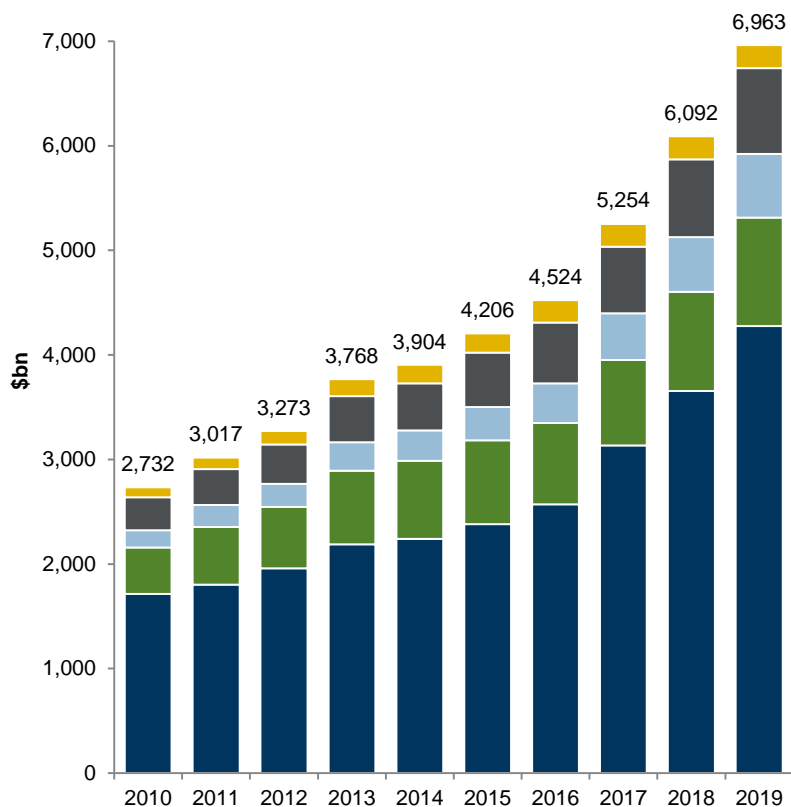
2. Daily new infections in US States (grouped by restriction status; 7-day moving average)



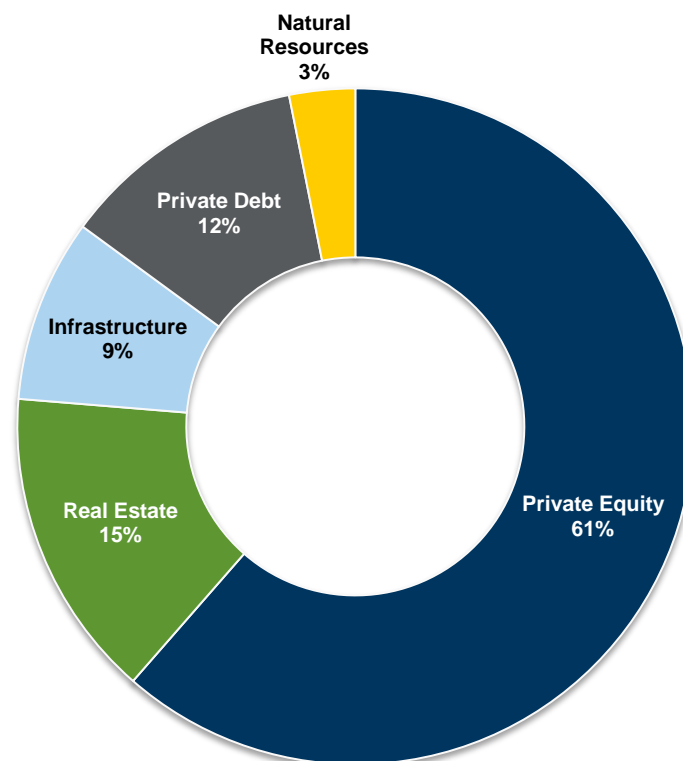
- A majority of states have started lifting their restrictions on economic and social activities.
- While current data suggests a slight uptick in infections in states that are re-opening, it will take up to three weeks to discern whether infections are increasing or whether existing infections are being uncovered due to enhanced diagnostic testing.
- Diagnostic testing in the US has been expanding considerably since April 21, with the last week averaging over 340,000 tests a day. Importantly, the positive rate of the diagnostic tests has fallen to 6-7%, well below the 10% ceiling recommended by the WHO and epidemiologists.

Private Market Assets Have Nearly Tripled Since 2010

Private Market Assets Under Management, 2010–19

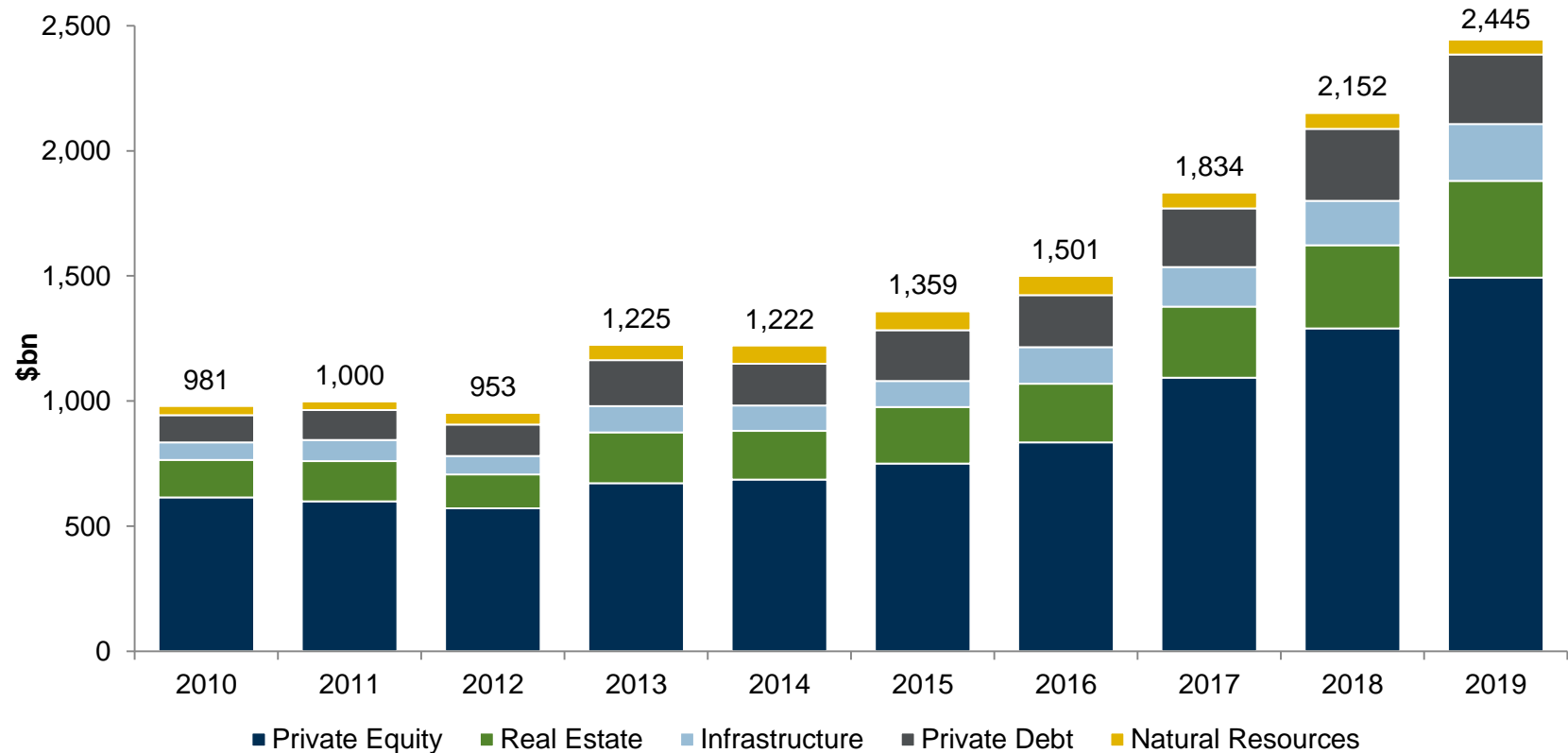


2019 Private Market Assets Under Management



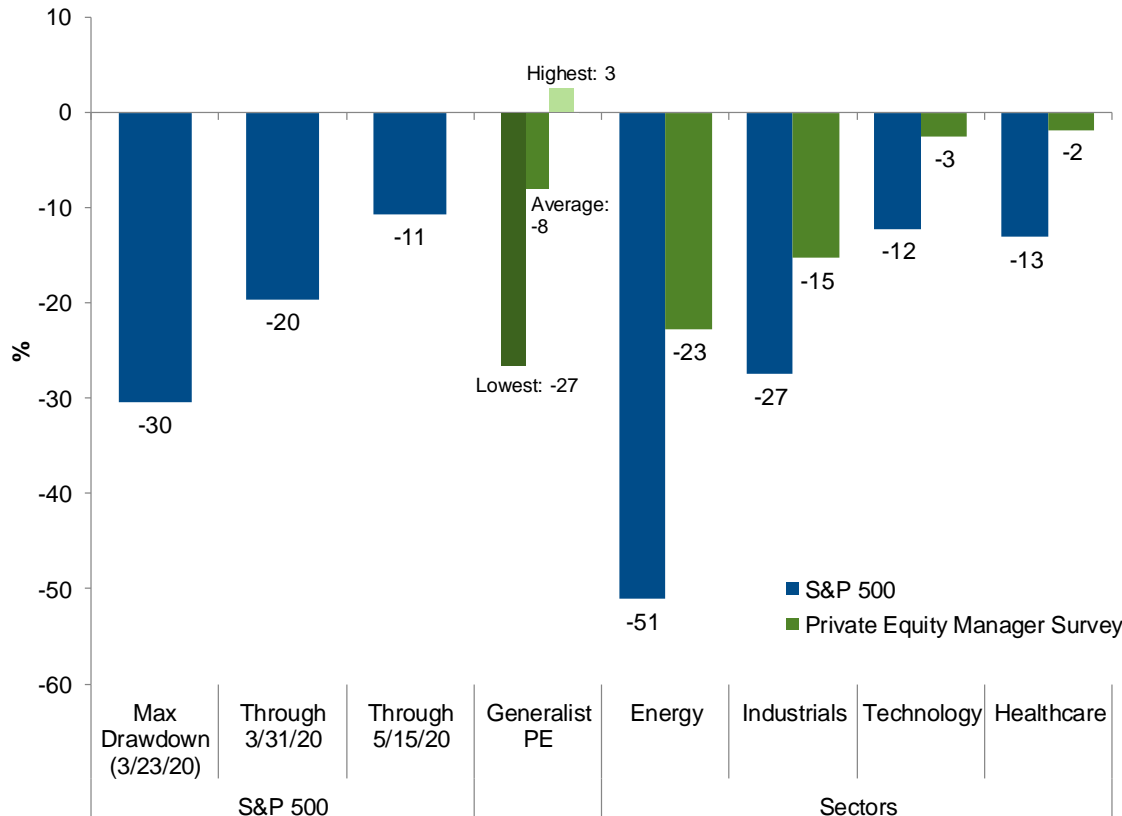
\$2.5 Trillion in Uncalled Capital

Private Market Uncalled Capital, 2010–19



Are Private Equity Asset Valuations Reliable?

Q1 Valuation Changes Across Public and Private Markets¹



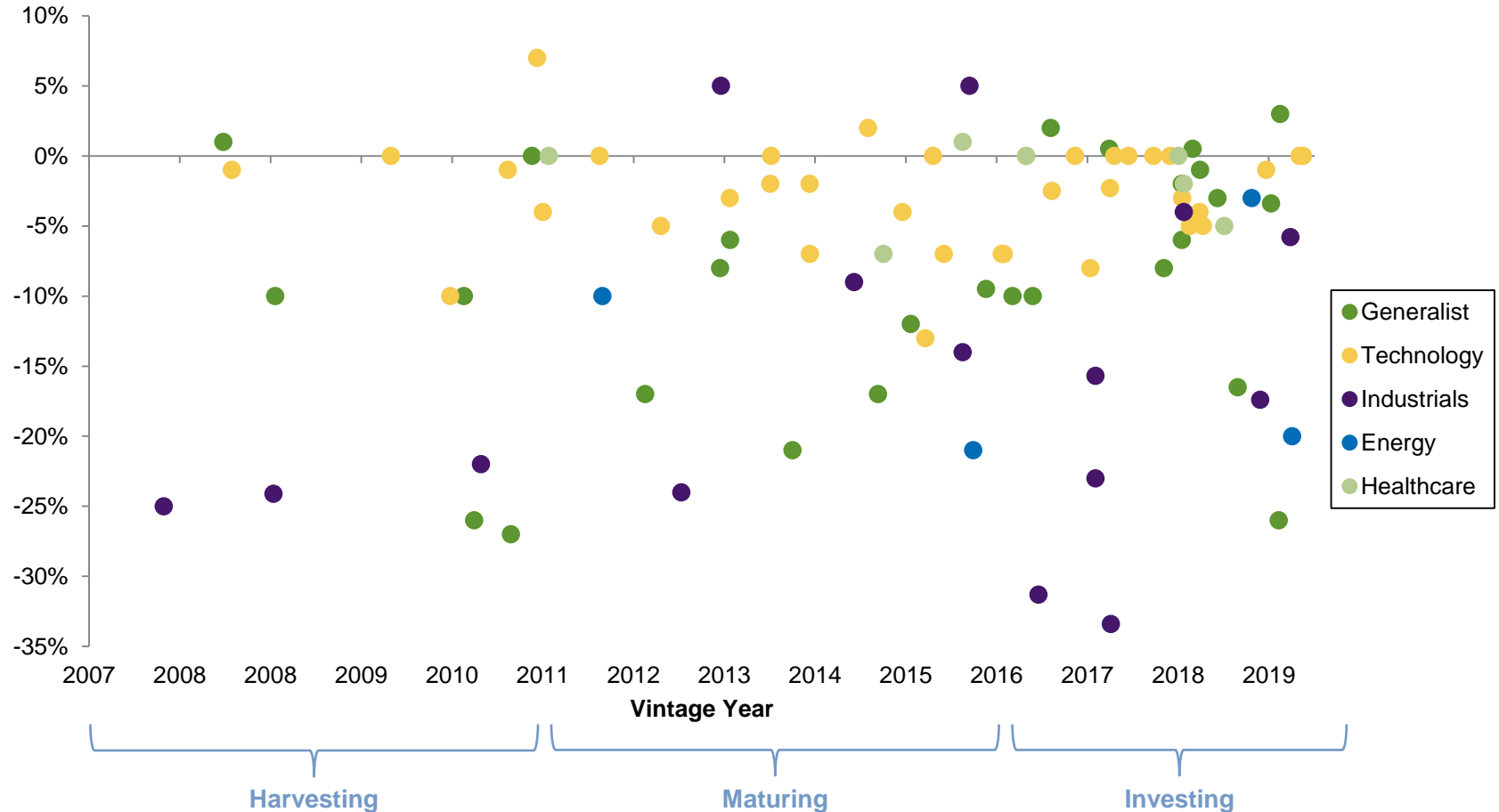
“Private company valuations have been hampered by volatile stock markets, minimal deal activity and uncertainty over how long the pandemic will last.”

– *Wall Street Journal:*
“*Coronavirus Pandemic Scrambles Private-Equity Valuations,*”
May 15, 2020

Source: AIMS, S&P, *Wall Street Journal*. 1) As of May 2020. S&P percent changes calculated off of December 31, 2019 index value. The trough was experienced on March 23, 2020. S&P 500 Sectors are as of March, 31, 2020. The private equity numbers above reflect estimates of Q1 valuations that AIMS has received from over 90 of its managers as of May 15, 2020. Many managers have yet to finalize their Q1 valuations and, therefore, the final marks may vary significantly from the estimates shown here. Private equity sector categorizations are in line with manager’s stated focus or core exposure. Generalist private equity is broken out into highest, average, and lowest expected valuations.

Significant Dispersion Across Managers, Strategies, and Vintage Years for Q1 2020 Valuations

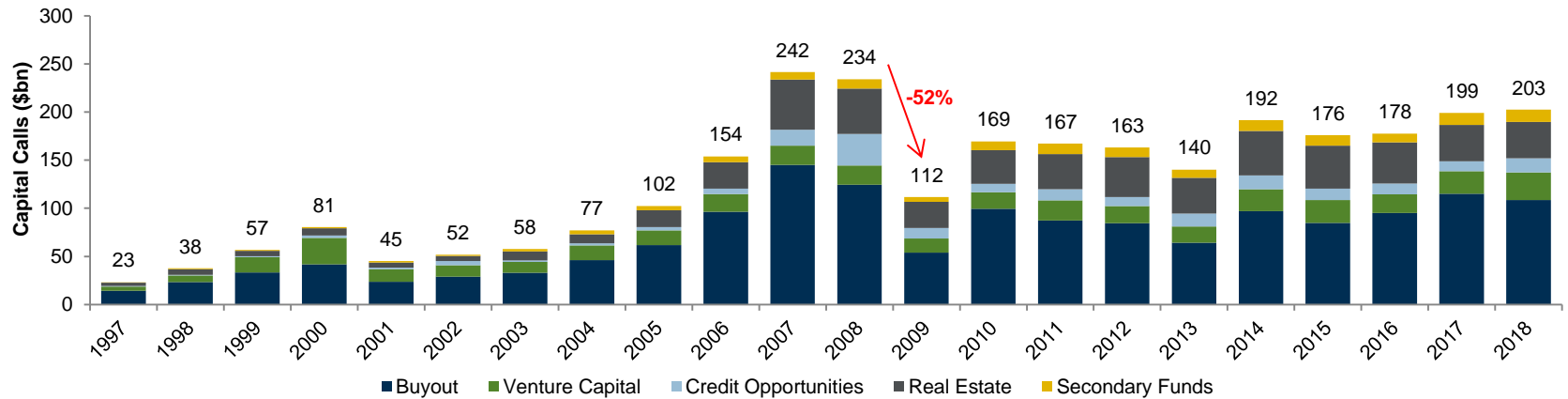
AIMS Private Equity Expected Q1 2020 Portfolio Valuation Changes



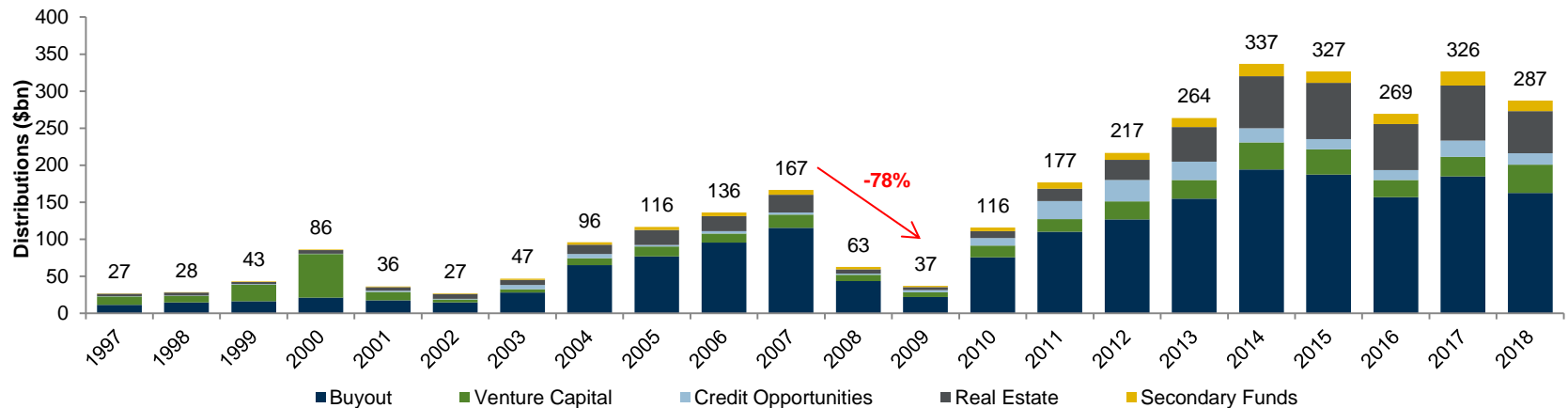
Source: AIMS. As of May 2020. The private equity numbers above reflect estimates of Q1 valuations that AIMS has received from 99 of its managers as of May 15, 2020. Many managers have yet to finalize their Q1 valuations and, therefore, the final marks may vary significantly from the estimates shown here. Private equity sector categorizations are in line with manager's stated focus or core exposure. One energy outlier has been removed.

Private Equity Cash Flows Over Market Cycles

Aggregate Capital Calls



Aggregate Distributions



Source: Cambridge Associates as of December 2018. Like all trackers of private equity fund data, data does not represent the complete universe of private equity funds. As such, the database may face bias risks such as survivorship bias and non-reporting bias risks which may lead to higher overall returns than if such biases did not exist.

Past performance does not guarantee future results, which may vary.

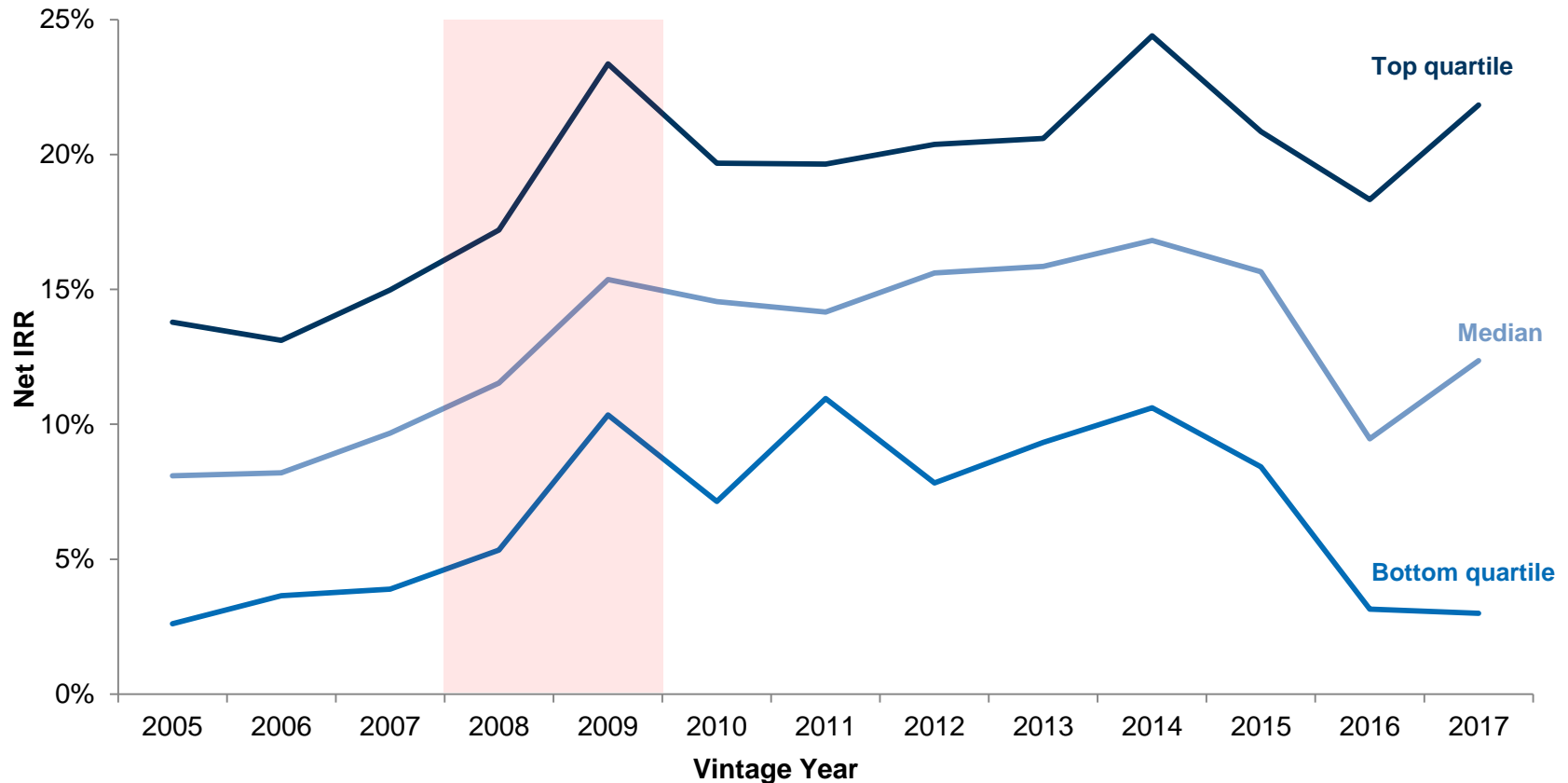
Everything is Moving at Warp Speed (4/12/2020 SNI)

- Spread of pandemic from Wuhan to the rest of the world
- Global equity market downdrafts
- US fiscal and monetary policy response
- Global equity market rallies
- Private equity general partner response?



Investing in Times of Stress Has Led to Some of the Strongest Vintages of Private Equity in Recent Years

Buyout Fund Performance, 2005–17

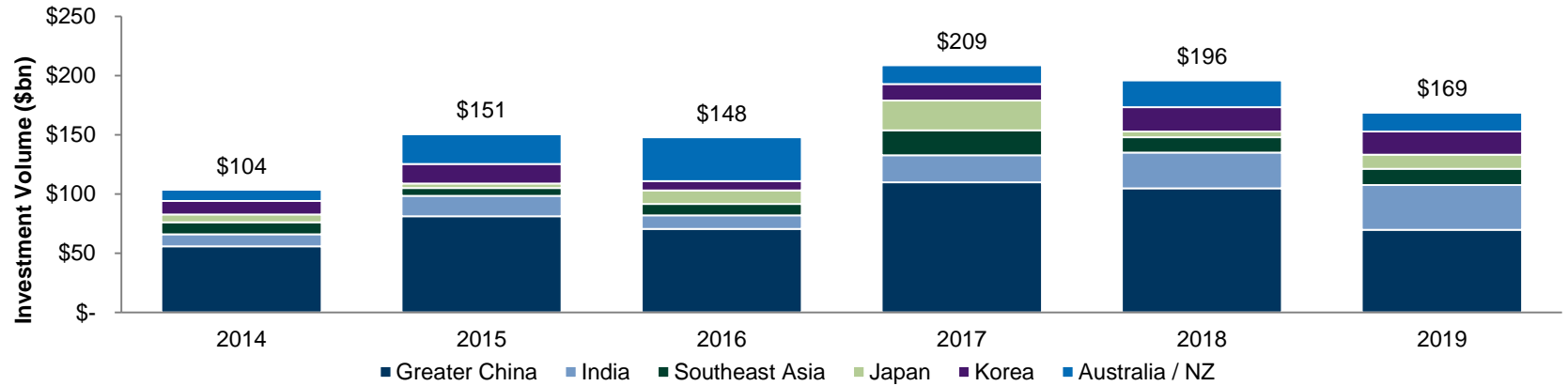


Source: AIMS, Cambridge Associates, as of September 30, 2019. Performance numbers represent median, upper quartile, and lower quartile vintage year returns.

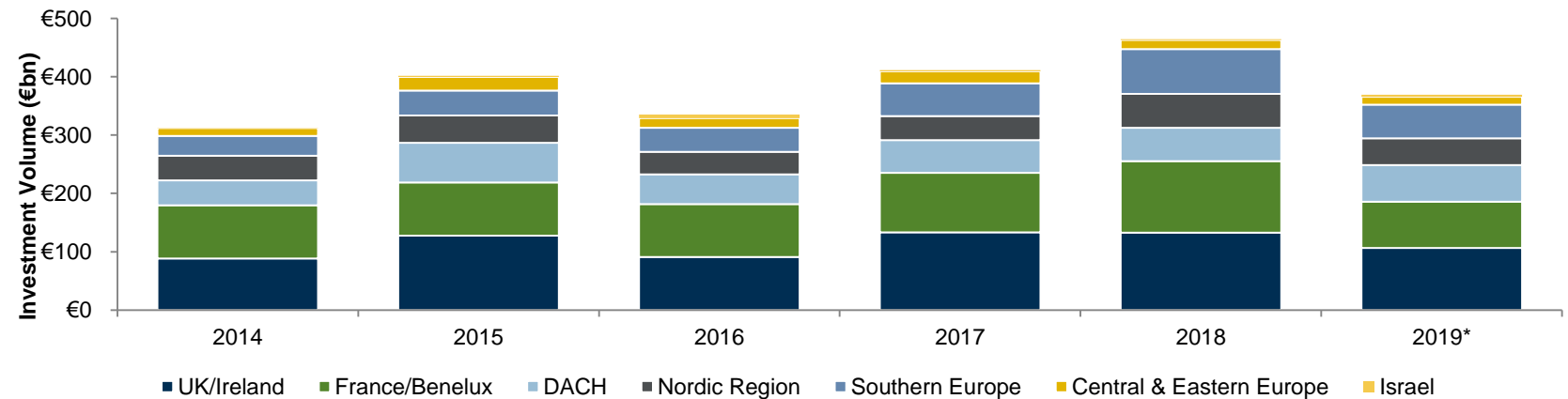
Past performance does not guarantee future results, which may vary.

Opportunities in Asia and Europe

Asia Opportunities¹



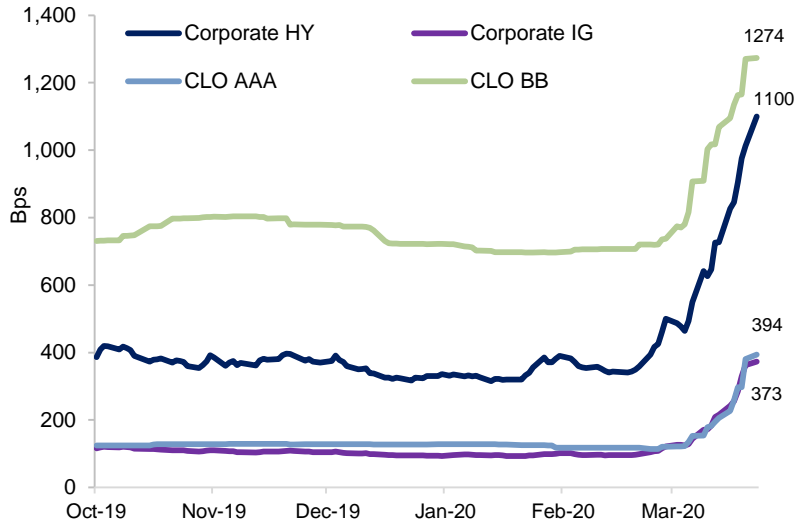
Europe Opportunities²



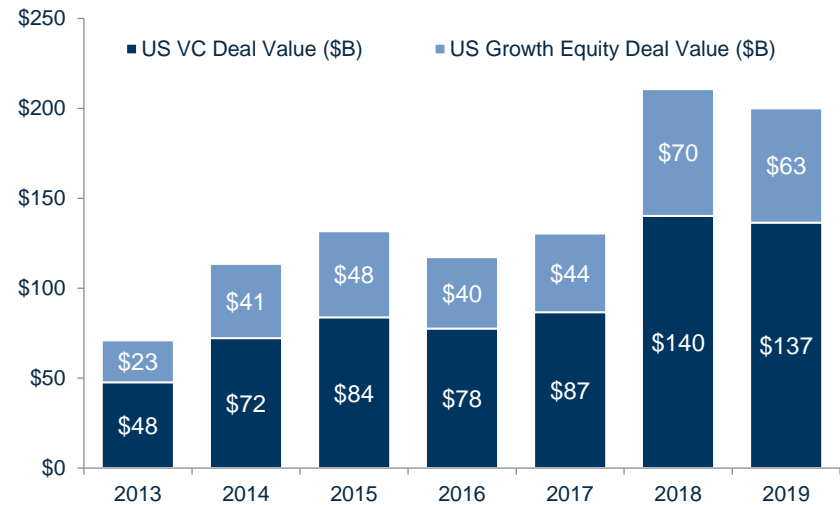
1) Source: AVCJ Research Database, as of December 2019. 2) Source: AIMS, Pitchbook, as of December 2019.

Where Are the Opportunities?

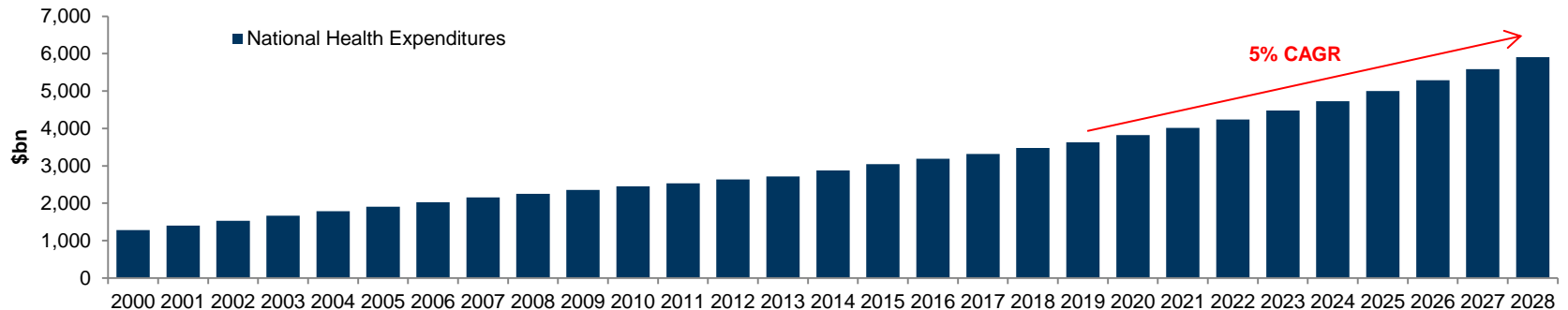
Credit¹



Technology²



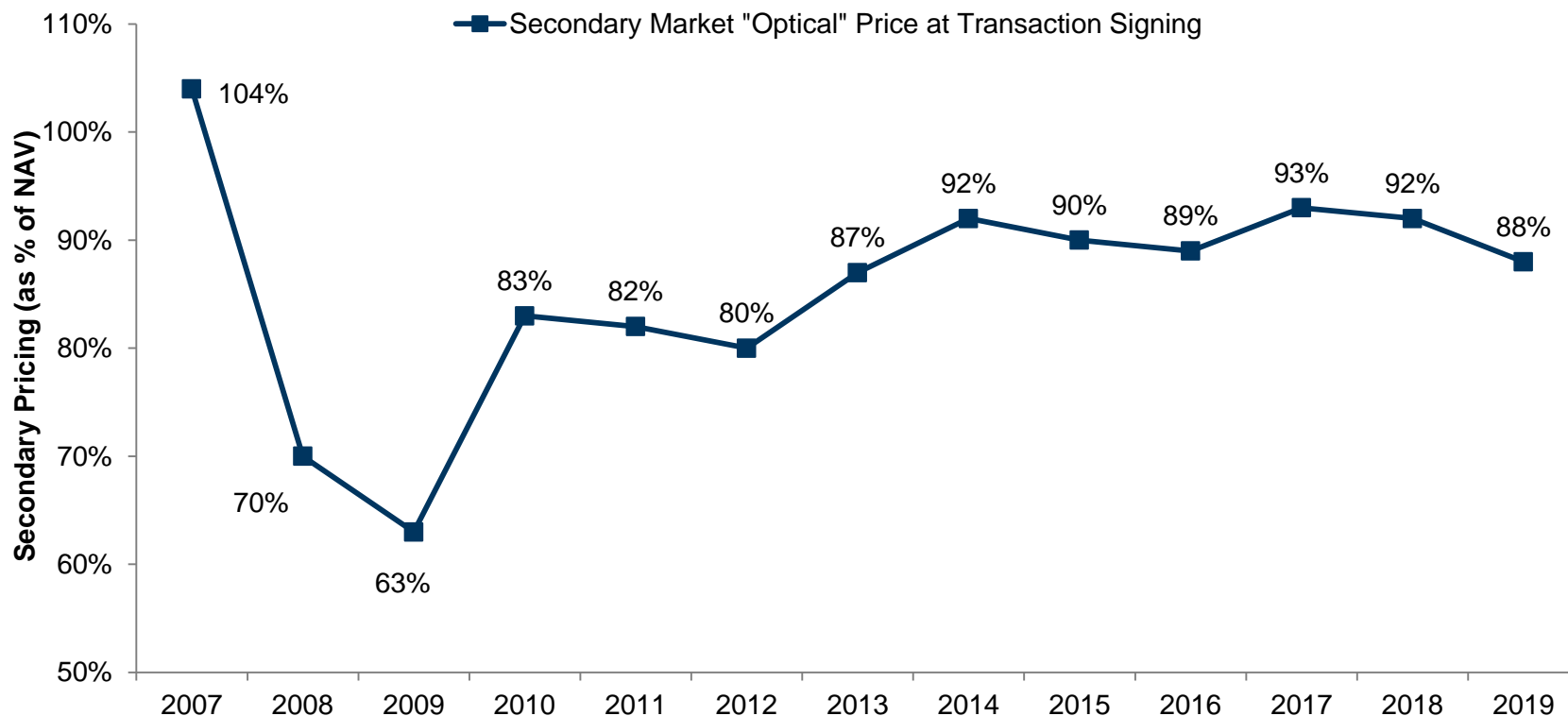
Healthcare³



1) Source: LCD Comps Quarterly Leveraged Lending Review: 3Q 2019. 2) Source: Pitchbook, National Venture Capital Association, as of December 31, 2019. 3) National Health Expenditure Accounts, Centers for Medicare & Medicaid Services.

Evolving Secondaries Market Opportunity Set

Secondaries Acquisition Prices



Source: Greenhill. As of December 31, 2019. For illustrative purposes only. Weighted average pricing by NAV. "Optical Price" represents discount paid relative to the transaction reference date NAV, which typically uses the best available NAV when a transaction process is launched.

Key Takeaways

- Uncertainty about the course of the pandemic implies uncertainty in private equity.
- Significant dispersion in Q1 valuations which will likely spill over to Q2 dispersion.
- Above-average managers will navigate the current environment more effectively.
- Primary focus should be on US private equity opportunities.
- Consider increasing allocations opportunistically over next 12-24 months.
- Adjusting for a client's risk tolerance, selling private equity limited partner ownership at GFC trough valuations may not be prudent.

Consumer and Investment Management Division

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Important Information

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Period	Gross Return	Net Return	Differential
1 year	6.17%	4.61%	1.56%
2 years	12.72%	9.43%	3.29%
10 years	81.94%	56.89%	25.05%

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