

RCP / Advisors

State of the Market & Hot Topics

June 2024

Access. Alignment. Performance.





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RCP Funds & The Small Buyout Market

Potential Benefits

- Attractive risk/return profile
- Historical outperformance of other asset classes
- Historical lower correlation with major market indices
- Long-term return potential
- Attractive market dynamics resulting in outperformance
- Proper diversification through one investment vehicle
- Potential access to top-tier and oversubscribed managers
- Administrative efficiency
- Favorable tax treatment
- Strategic and operating control post-investment

Potential Risks

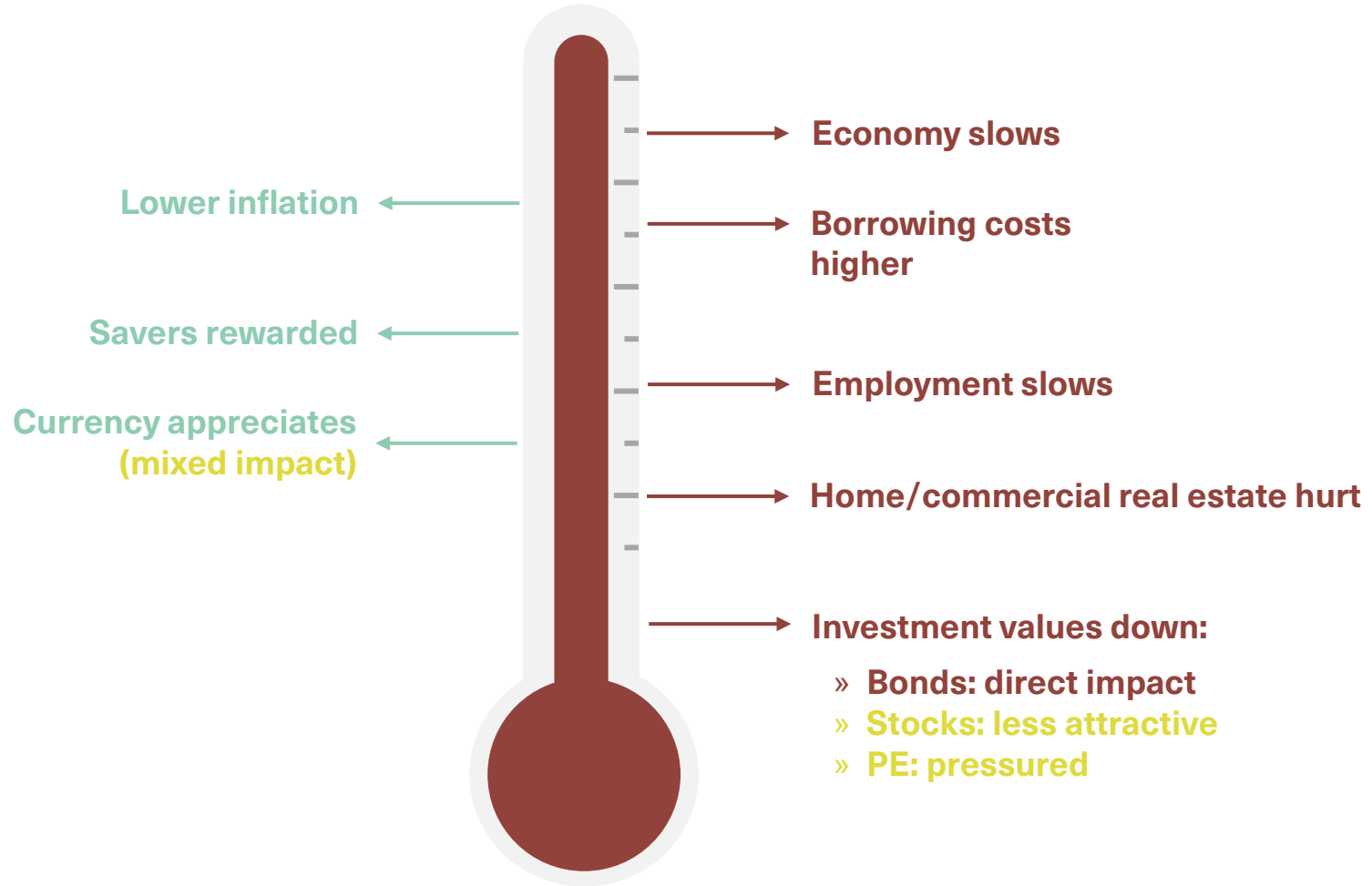
- Determining investment success in an illiquid asset
- Long-term nature of the private equity investment cycle
- Capacity, access, selection, and allocation of top-tier and oversubscribed managers is not guaranteed
- Highly illiquid
- Potential loss of capital
- Significant resources and expertise required
- Measuring or benchmarking long term returns is challenging
- High investment minimums
- Potential additional fees
- Determining investment success in an illiquid asset

The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in a Fund. Prospective investors should read the respective Fund's memorandum and partnership agreement (when available) and consult with their own counsel and advisors before deciding whether to invest in such Fund.

State of the Market



A look back at 2023: Rising interest rates was focus #1



Interest rates are central to economy, consumers, business, and investors

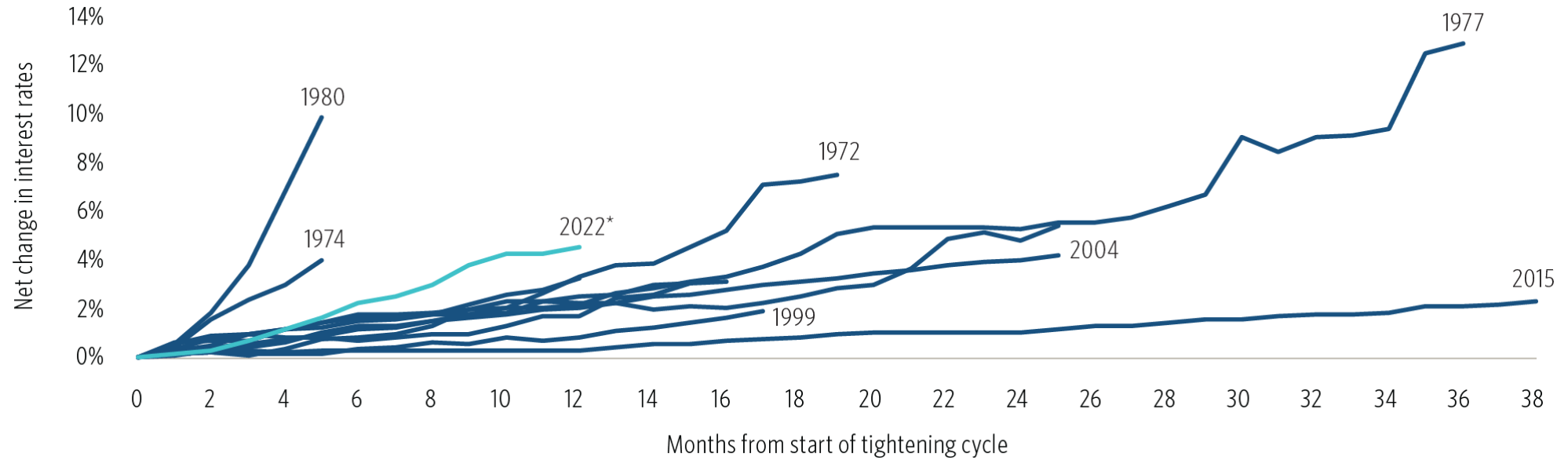
Large increases in 2023 to combat inflation; what has happened since then?



The Great 2022-2023 Interest Rate Increase

Rate of change was most notable

Fed funds rate indexed to the start of previous rate hikes



Abrupt change → Abrupt dislocation?

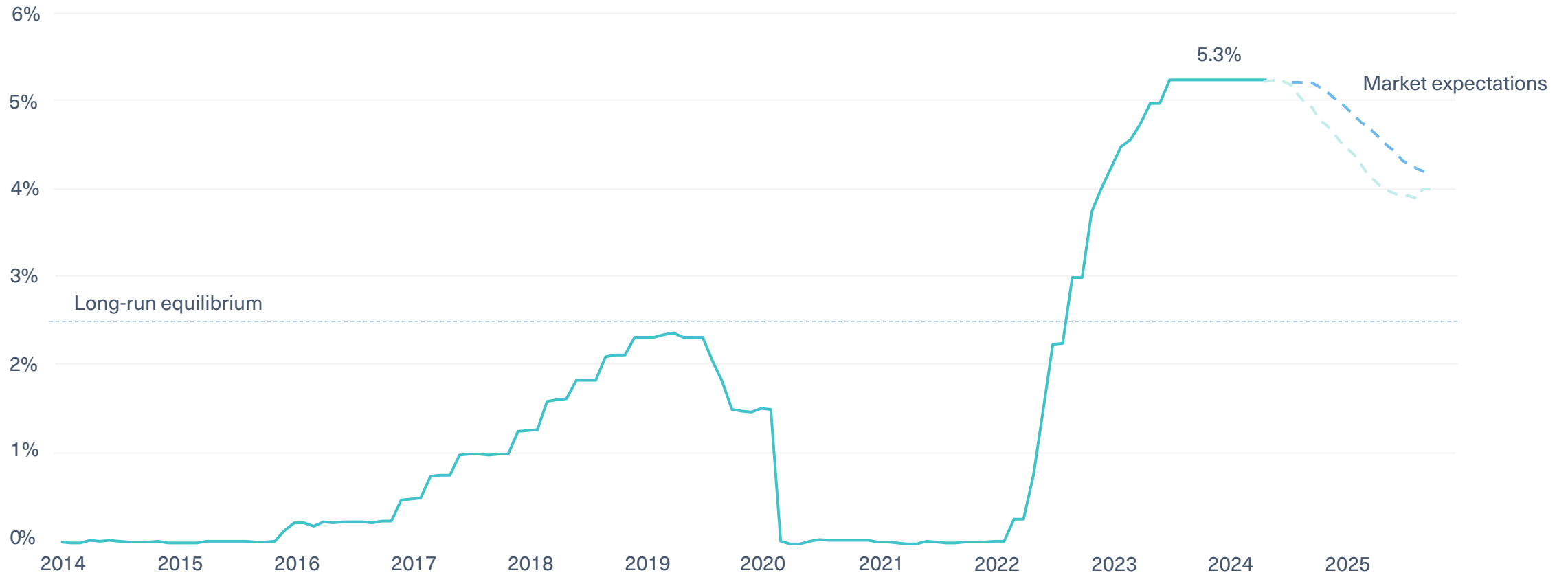
Sources: Federal Reserve and PitchBook.



Current status on interest rates: “The pause that refreshes”

Federal Reserve signals that increases are over; will future reductions follow market expectations?

Federal funds rate with forward market expectations*



Sources: Federal Reserve, CME Group · Geography: U.S. *As of 5/20/24.



Interest rate environment: Economic results & outlook

The good; the bad; the uncertain

POSITIVES:

- » Helped (as expected) in lowering inflation
- » Economy did not go into recession
 - In fact, most metrics very positive
- » Very strong job market
- » No significant debt default issues
- » No widespread investment value declines
 - In fact, '23-'24 has been very strong in the stock market

CONCERNS:

- » Inflation still higher than target
 - Has caused damage and uncertainty
- » Interest rates still higher than trend
 - Damage to commercial real estate
- » Non-US economies have sustained more damage
- » Economic “mood” still negative
 - Nostalgia for “Zero Rate good old days”
 - Economic benefits not evenly distributed?
 - Election year phenomenon?

Implications for PE investing

Last year's fears for PE did not materialize



BUYOUTS IN GENERAL

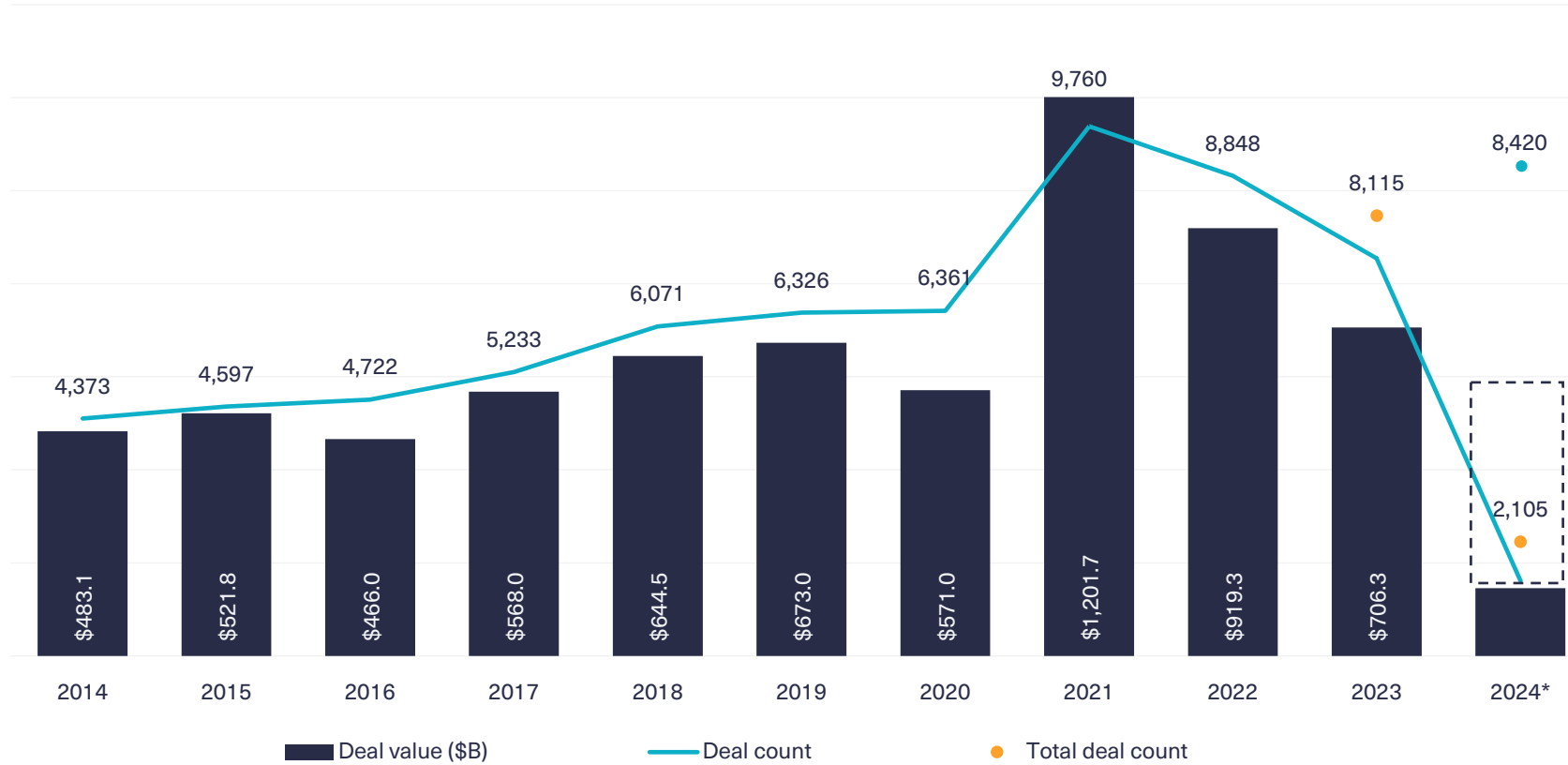
- » **Deal Activity:**
 - New Deals: Slow; mismatch buyer/seller expectations; tough financing market
 - Exits: Slow; for similar reasons
- » **Debt Markets:** Very difficult to raise large amounts; leverage lower/costs higher
- » **Fundraising:** Slower (reflects lower exits and investor hesitancy); reasonable demand for trusted names
- » **Valuations:** lower overall (mostly early 2023), but declines not as significant as feared; concentrated in growth/high multiple sectors

U.S. SMALL BUYOUTS

- » **Deal Activity:**
 - New Deals: Slower but better than market; relatively better financing environment; add-ons still widely available
 - Exits: Slow
- » **Debt Markets:** Available (significant contrast from overall market); but costs higher
- » **Fundraising:** Also slower, but “law of small numbers” helps success; strong demand for best existing and emerging GPs
- » **Valuations:** Flat/Moderate Increases

PE new deal activity

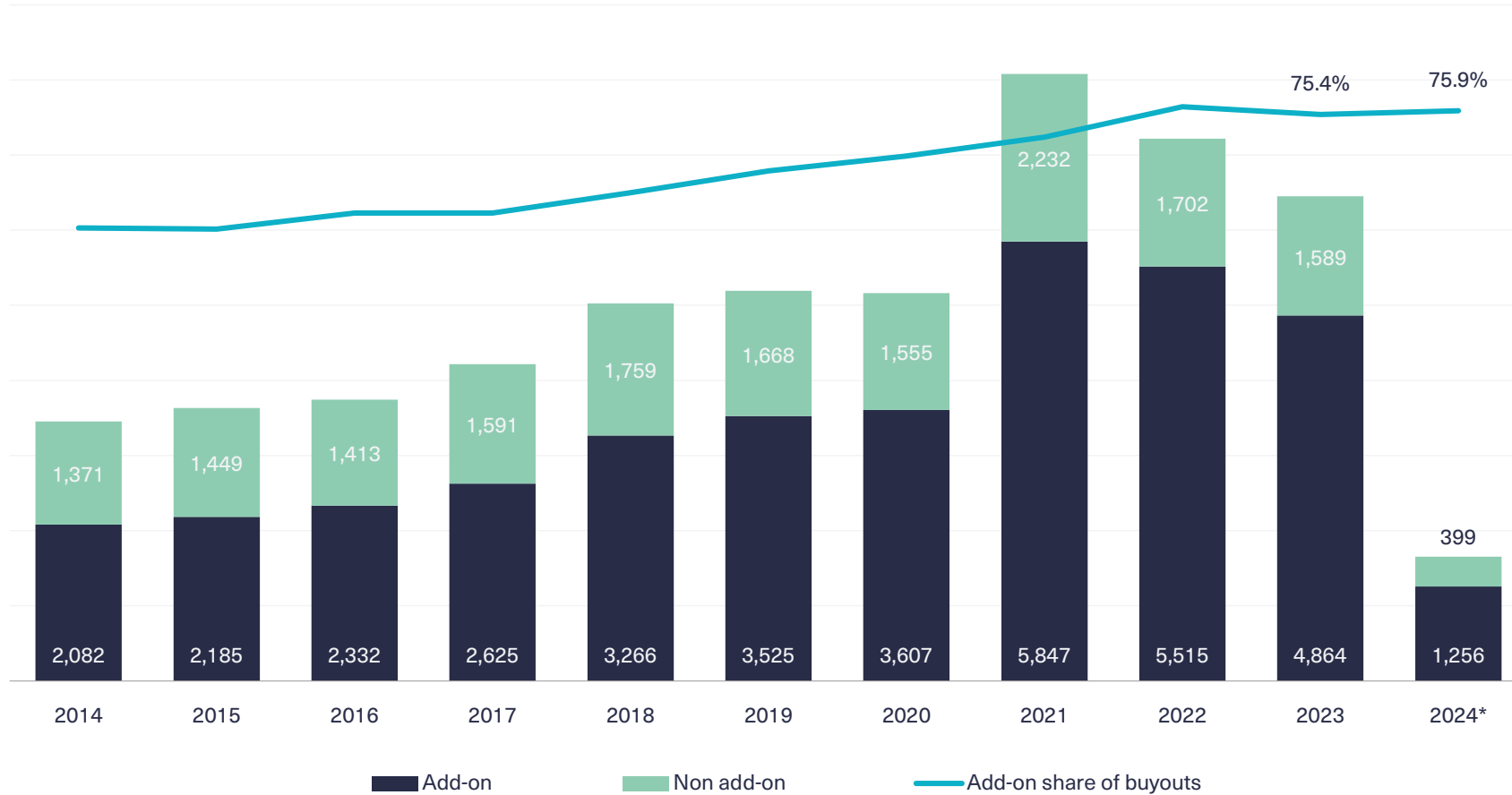
Overall activity is down (again); small buyout activity shows less volatility



Source: PitchBook - Geography: U.S. *As of 3/31/24. This market commentary and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.

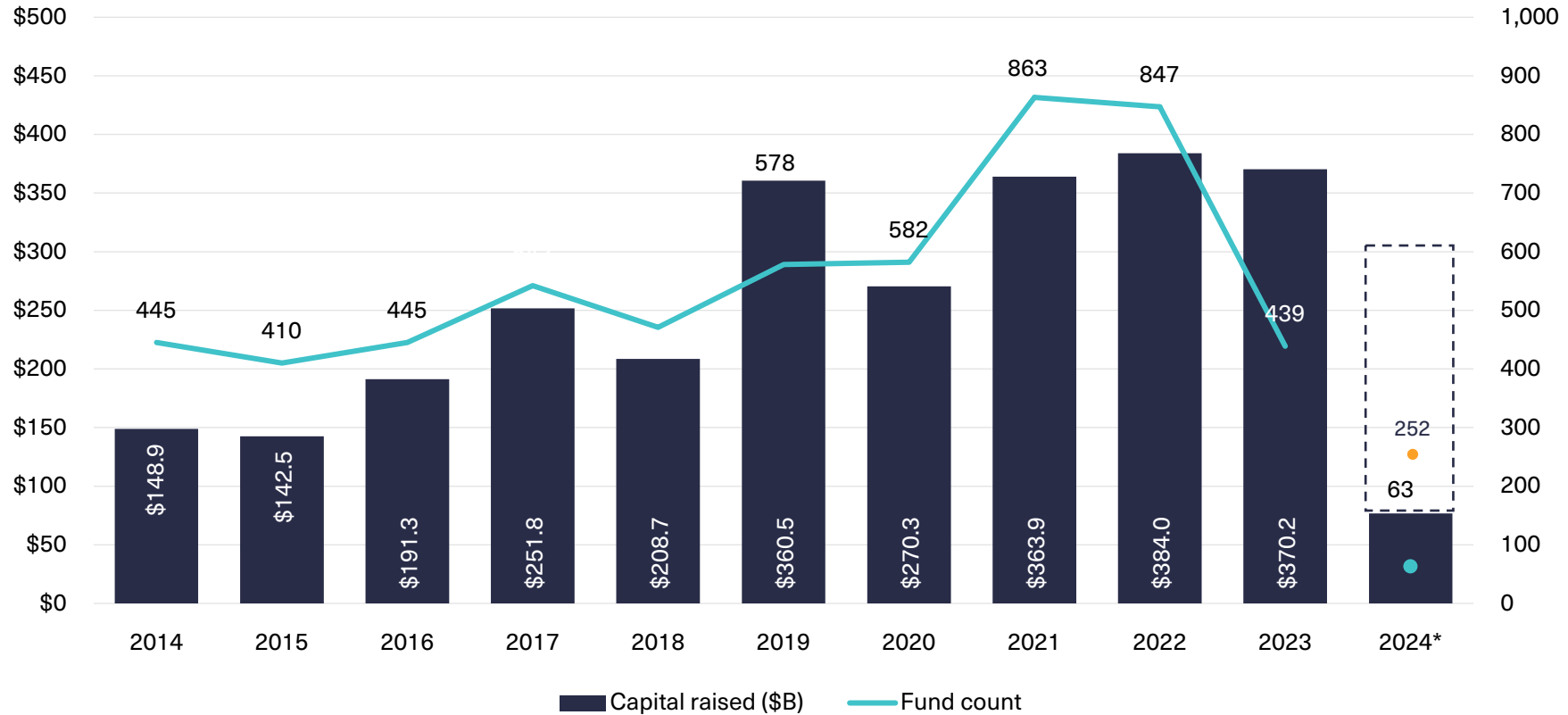
Add-on activity

Add-ons as a share of all PE buyouts



Source: PitchBook - Geography: U.S. *As of 3/31/24. This market commentary and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.

U.S. PE fundraising activity

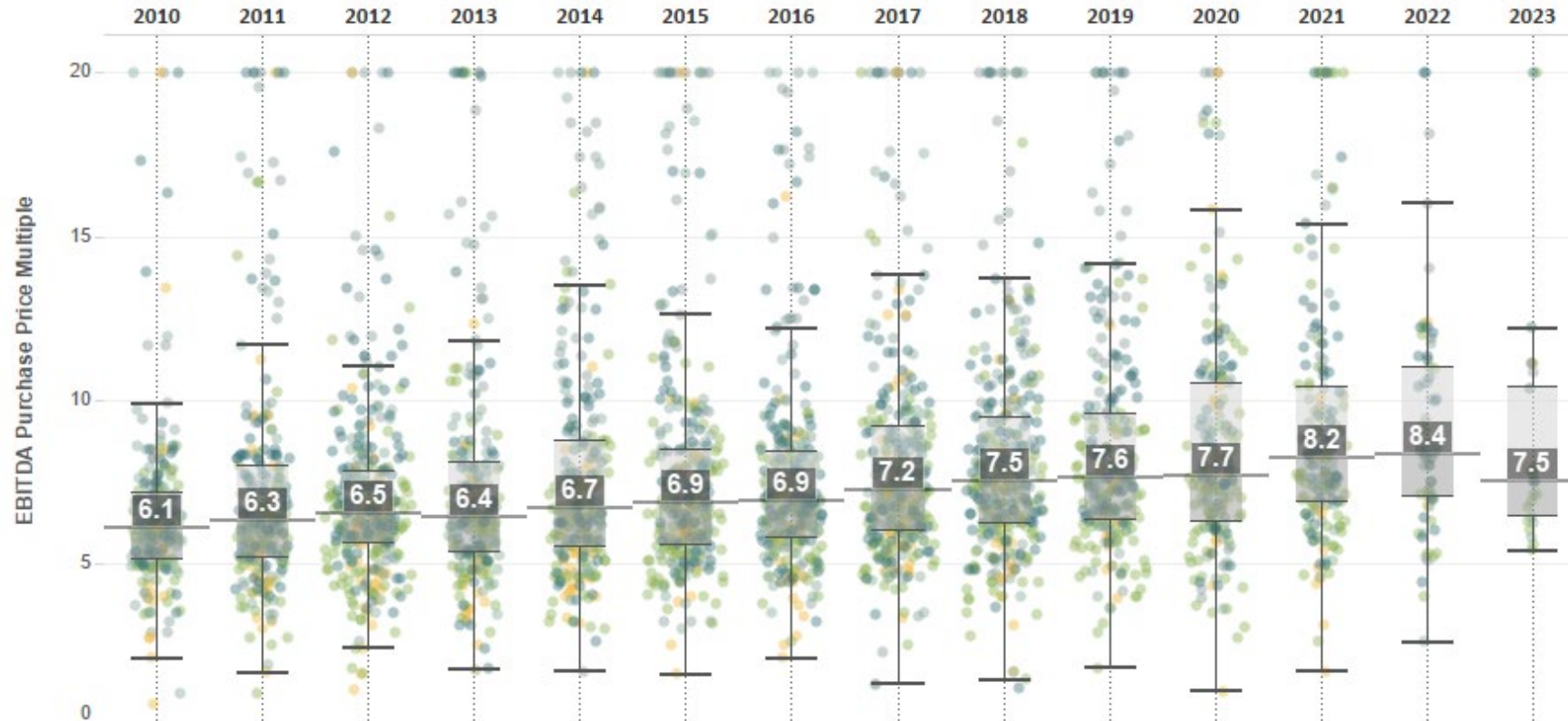


Source: PitchBook - Geography: U.S. *As of 3/31/24. This market commentary and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.



Purchase price multiples – Lower middle market

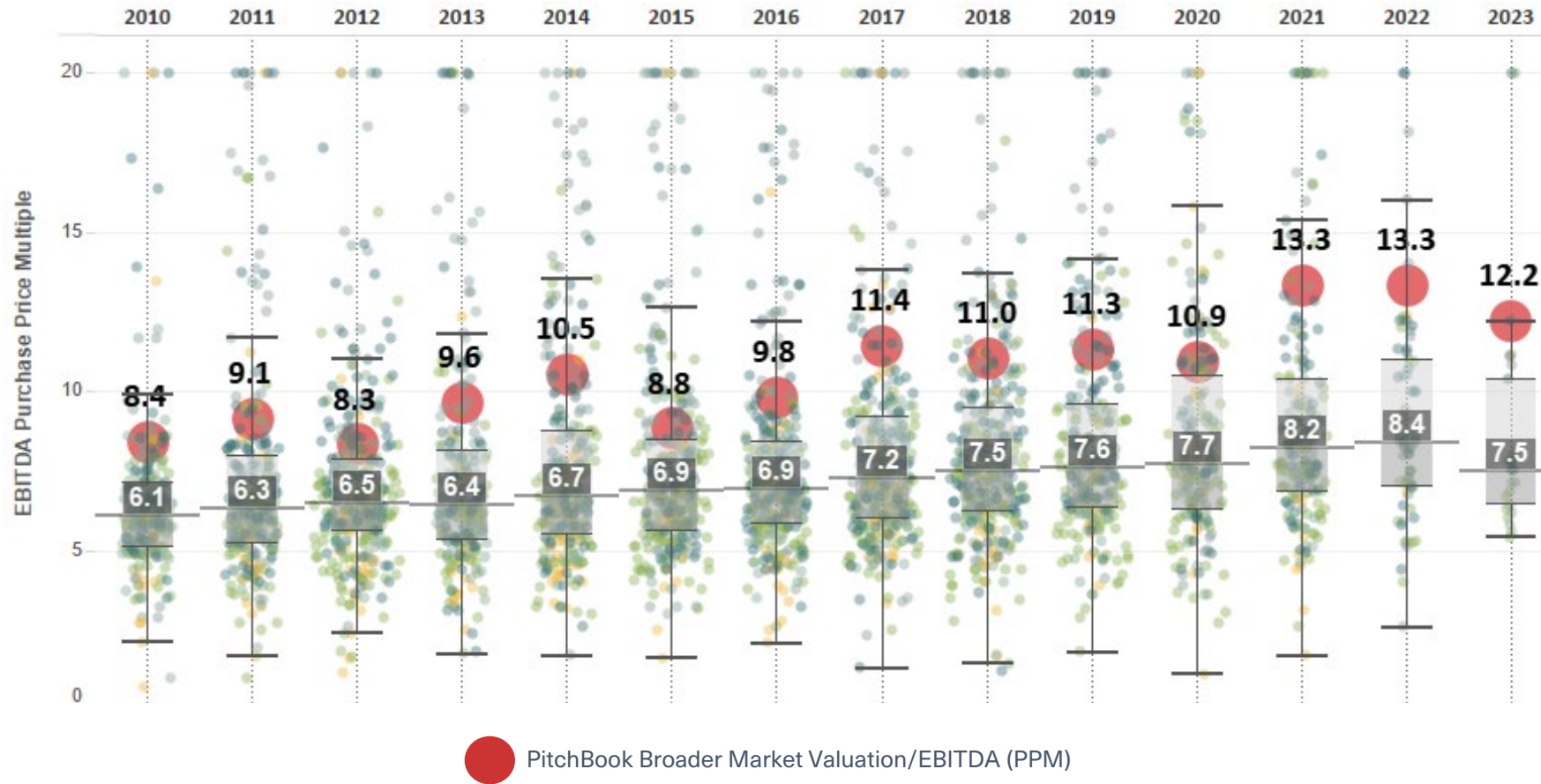
Purchase price multiples: < \$100M EV



Source: GPScout. Data reflects the median EBITDA purchase price multiples of transactions categorized as buyout, buyout & growth, and growth occurring between 2010 and 2023 for North American companies with enterprise values between \$10M and \$100M across all sectors. GPScout dataset includes 3,331 companies. As of 12/31/23. This market commentary and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.

Purchase price multiples – Lower middle market vs. broader PE market

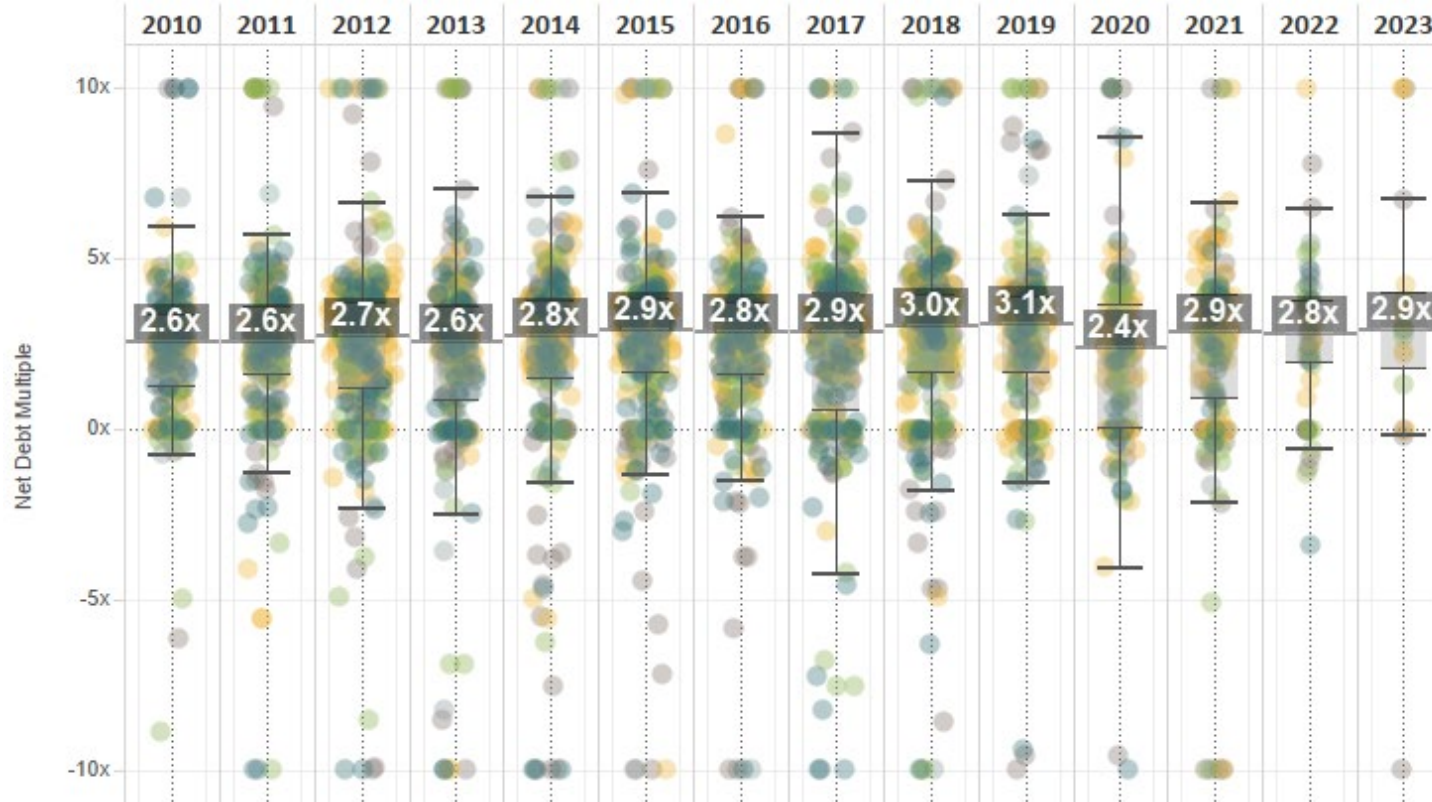
Purchase price multiples: < \$100M EV vs. broader market



Source: GPScout and PitchBook. Data reflects the median EBITDA purchase price multiples of transactions categorized as buyout, buyout & growth, and growth occurring between 2010 and 2023 for North American companies with enterprise values between \$10M and \$100M across all sectors. GPScout dataset includes 3,253 companies. PitchBook Broader Market represents U.S. PE buyouts. PitchBook dataset includes 1,028 companies. As of 12/31/23. This market commentary and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.

Debt multiples – Lower middle market

Median net debt levels: < \$100M EV



Source: GPScout. Data reflects the median entry net debt multiples of transactions categorized as buyout, buyout & growth, and growth occurring between 2010 and 2023 for North American companies with enterprise values between \$10M and \$100M across all sectors. GPScout dataset includes 3,003 companies. As of 12/31/23. This market commentary and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.



Today's PE #1 focus – Exits

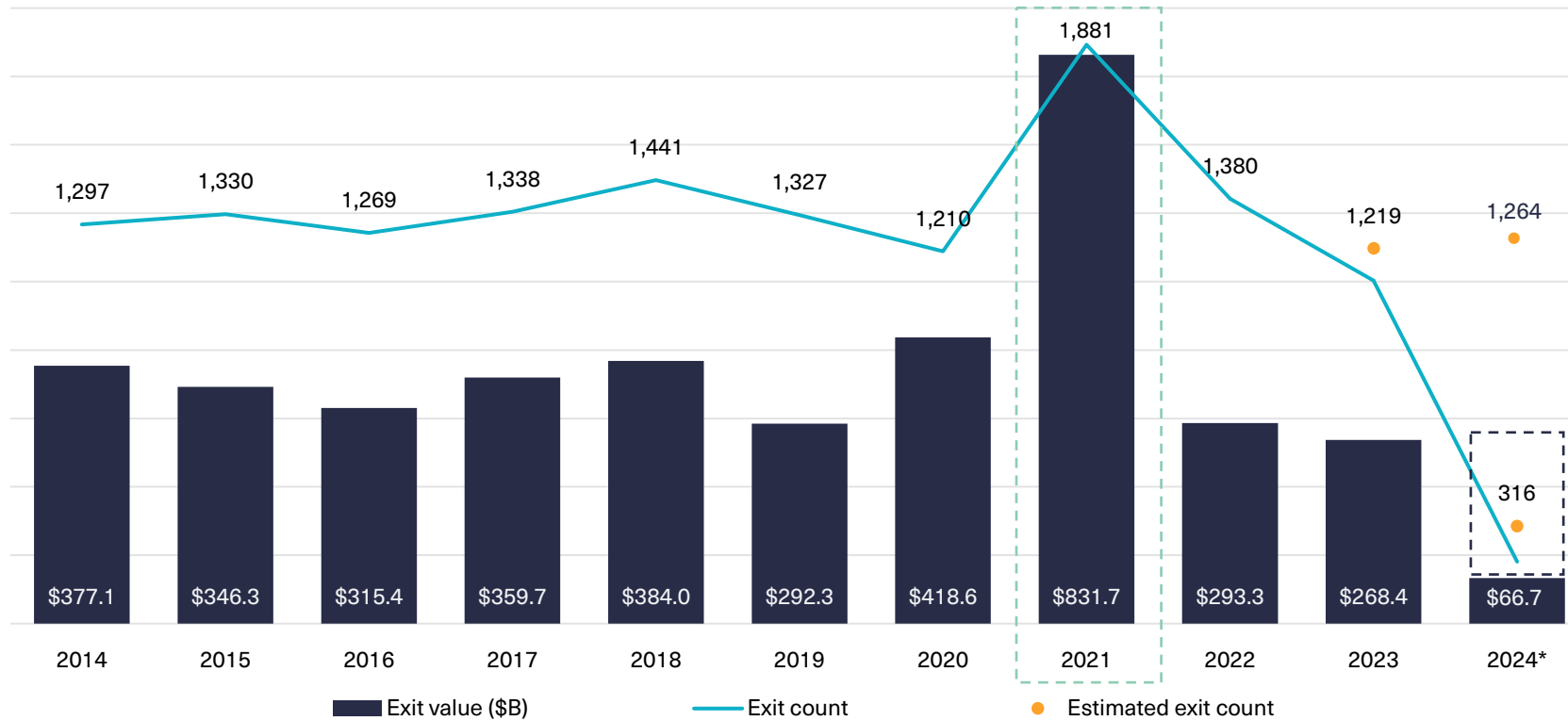


ISSUE AND OUTLOOK

- » Exits were down in the past year
 - Why?
- » But we hear that portfolios are healthy and “exit ready” for the upcoming year
 - Let's explore this further

PE exits – 2nd year of lower activity

U.S. PE exit activity

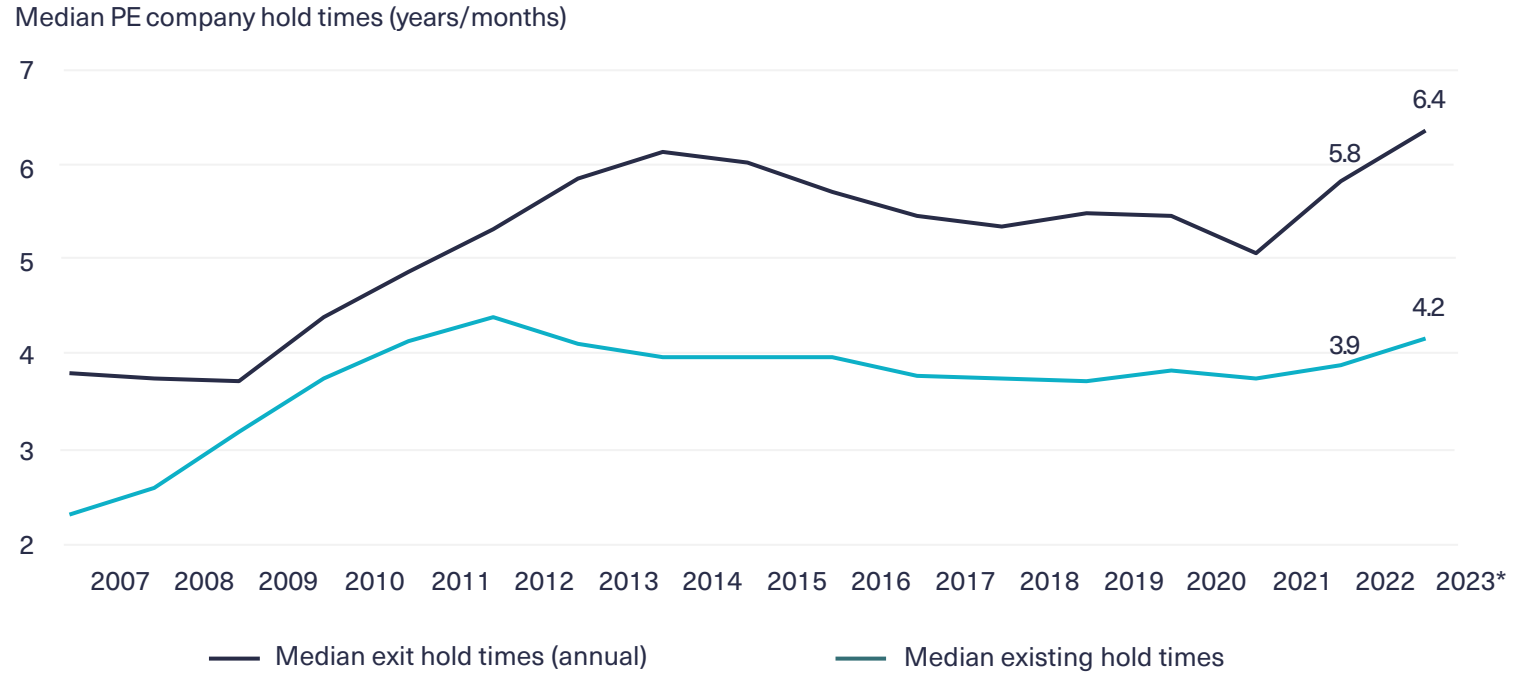


Source: PitchBook - Geography: U.S. *As of 3/31/24. This market commentary and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.



PE exits – Analysis

Holding times are getting longer



Source: PitchBook - Geography: U.S. *As of 12/31/23. This market commentary and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.



“Exit ready”? Insights from RCP’s portfolio

RCP Exit Expectations



Data: All RCP exit observations 2003-2023 (n=21,369)

Median Age on Exit: 4.5 years/Median Realized Gross ROIC: 2.1x

Current RCP “Harvest Stage” Portfolio Observations



Data: RCP Funds VII-X portfolio companies @ 4/15/24 (n=608)

Median Age on Exit: 4.6 years

Median Realized Gross ROIC: 2.9x

78% of active companies held > 4.5 years

40% of active companies valued > 2.1x

Hold time is lengthening; but portfolio quality is good

Past performance does not predict, and is not a guarantee of, future results. RCP's investment strategy is subject to significant risks and there is no guarantee that any RCP Fund will achieve comparable results as any prior investments or prior investment funds of RCP. Because the performance information contained herein relies on figures denominated in U.S. Dollars, returns may increase or decrease as a result of currency fluctuations. Source: RCP Advisors. Gross ROIC: calculated gross of underlying fees and expenses and gross of RCP fees and expenses. Because Gross ROIC does not reflect the deduction of underlying fees and expenses or RCP's fees and expenses, actual returns are less than what is shown. RCP's fees and expenses are described in Part 2 of RCP's Form ADV. This market commentary and all information contained herein is being provided solely for educational and informational purposes and may not be relied on in any manner as, legal, tax or investment advice or as an offer to sell or a solicitation of an offer to buy an interest in any investment sponsored by RCP or be construed as an offer to sell or a solicitation of an offer to buy any securities or investment products.

Exits on the horizon?

Conditions aligning for better exit environment



- » Effects of 2021 “Exit Pull-Forward” are abating
 - Supply of mature companies recovered
 - Portfolio quality is good

- » Portfolio holding periods are lengthening
 - Higher GP incentive to act

- » Economic/market conditions improving
 - Interest rate/inflation volatility abating
 - Economy is generally cooperating
 - Financing markets adjusting

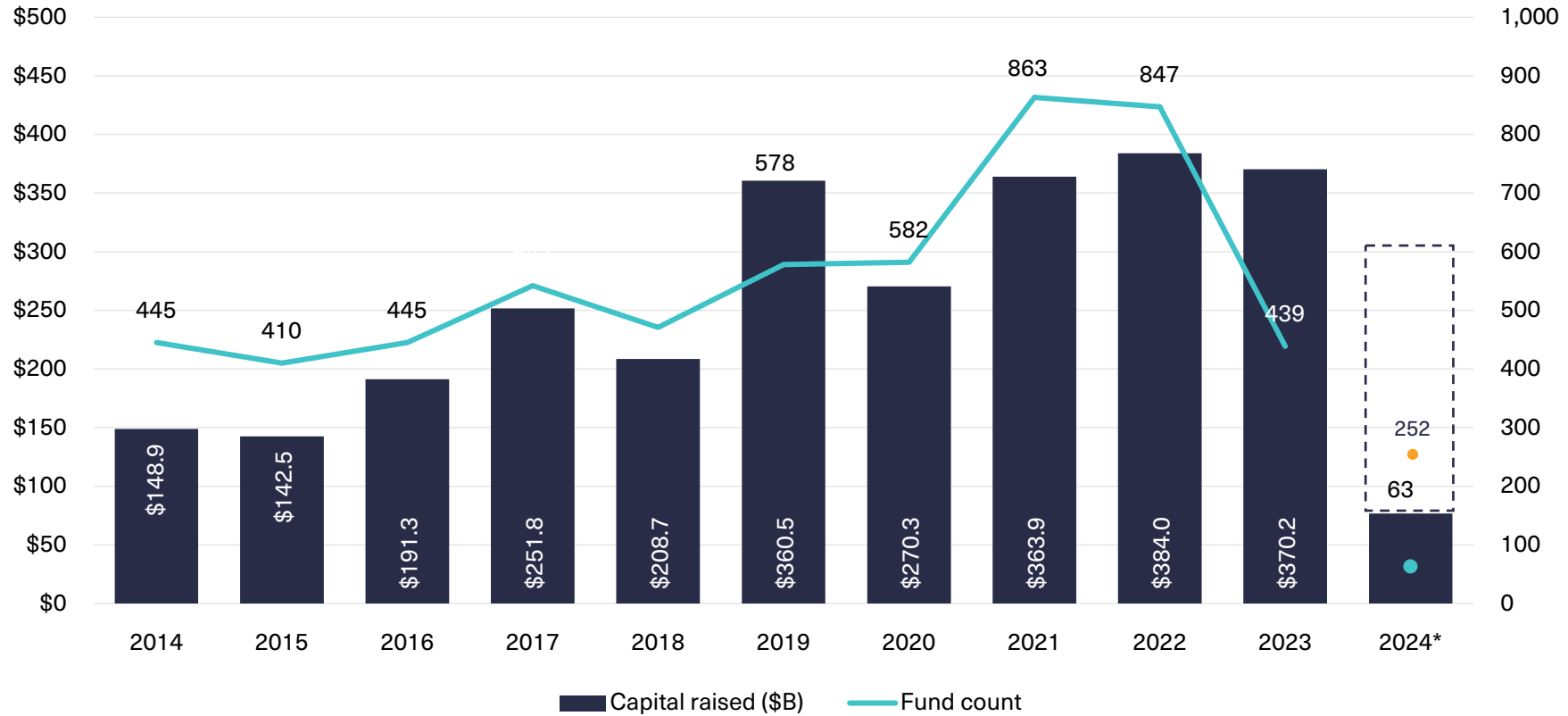
Hot Topics

Fundraising



PE activity

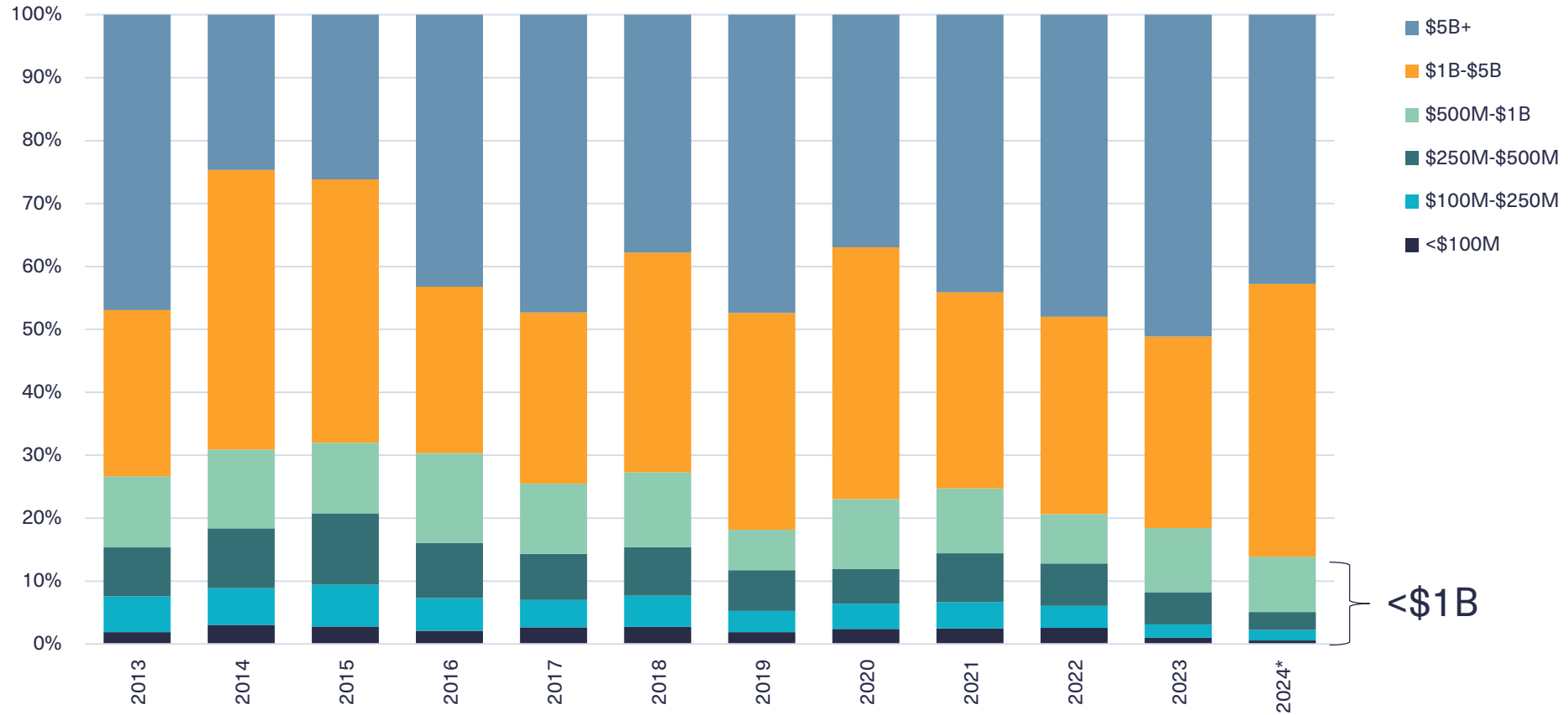
U.S. PE fundraising activity



Source: PitchBook - Geography: U.S. *As of 3/31/24

PE activity

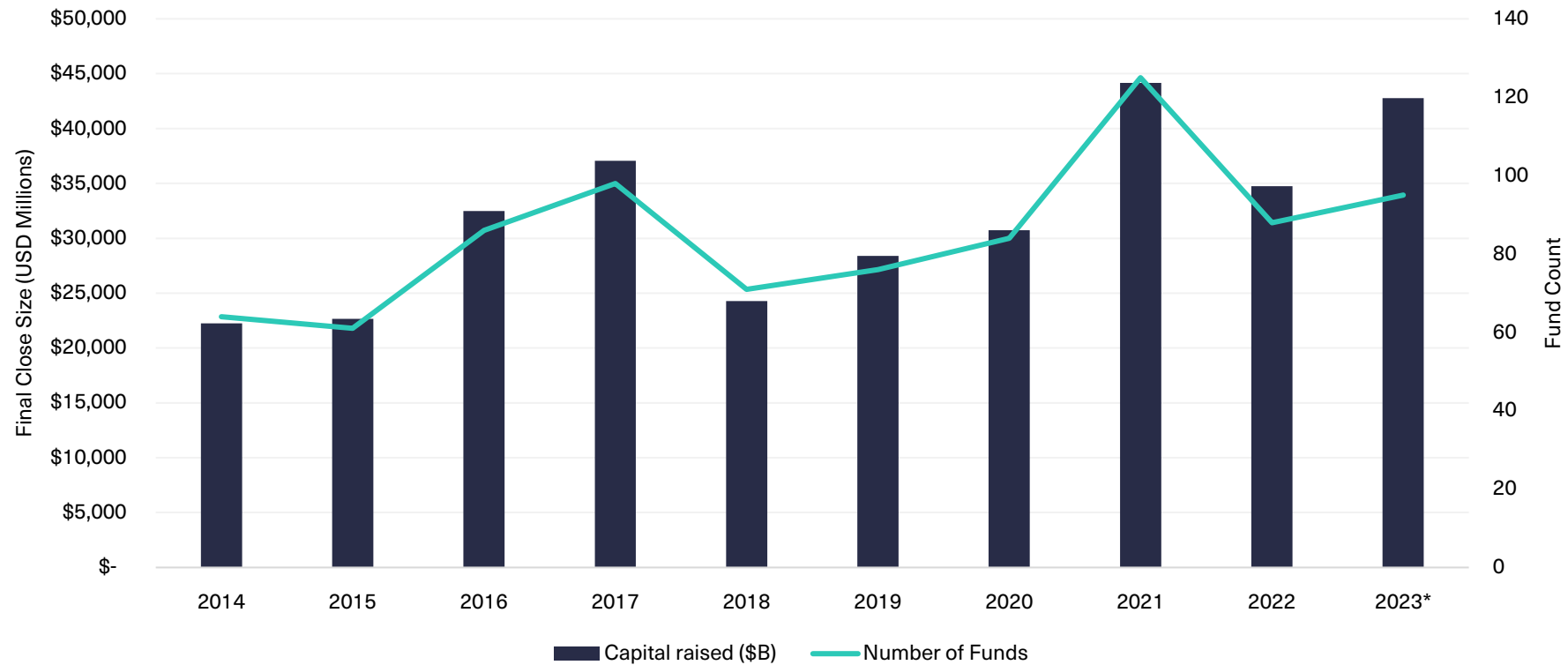
Share of U.S. PE capital raised by size



Source: PitchBook - Geography: U.S. *As of 3/31/24.

PE activity

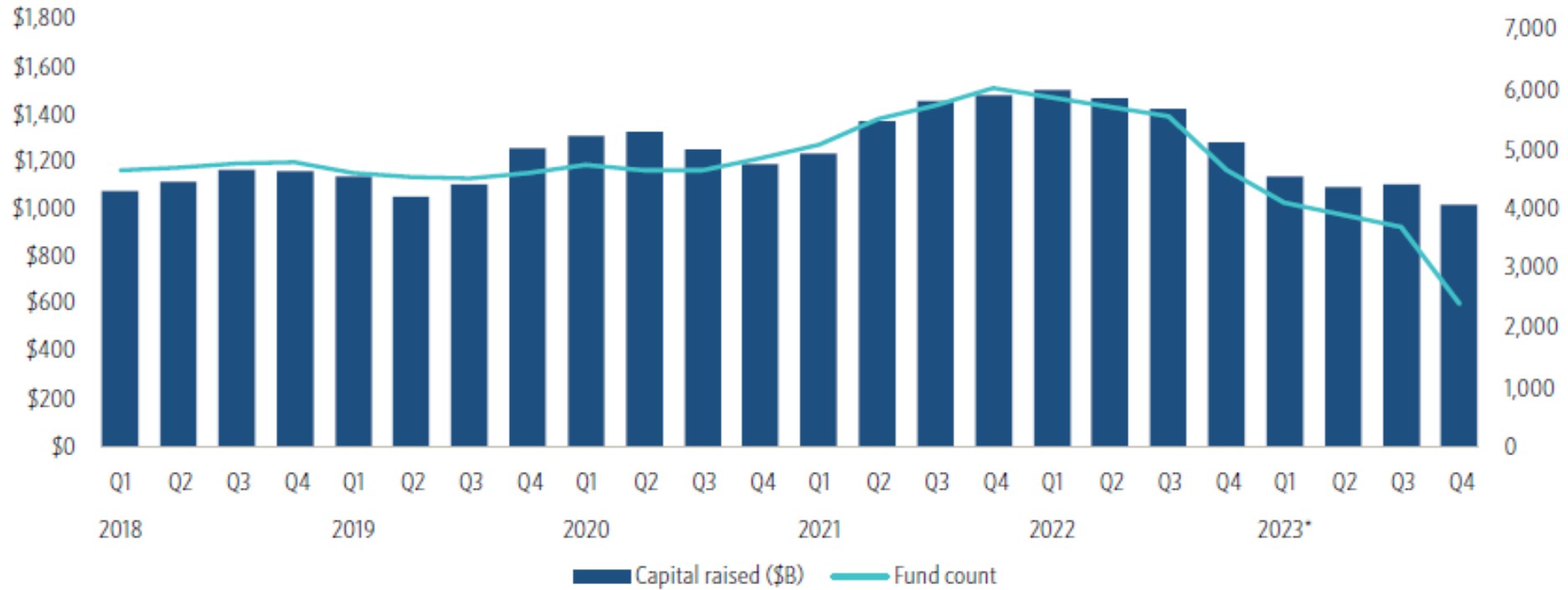
North America PE fundraising activity funds < \$1B



Source: Preqin - Geography: North America. *As of 12/31/23.

PE activity

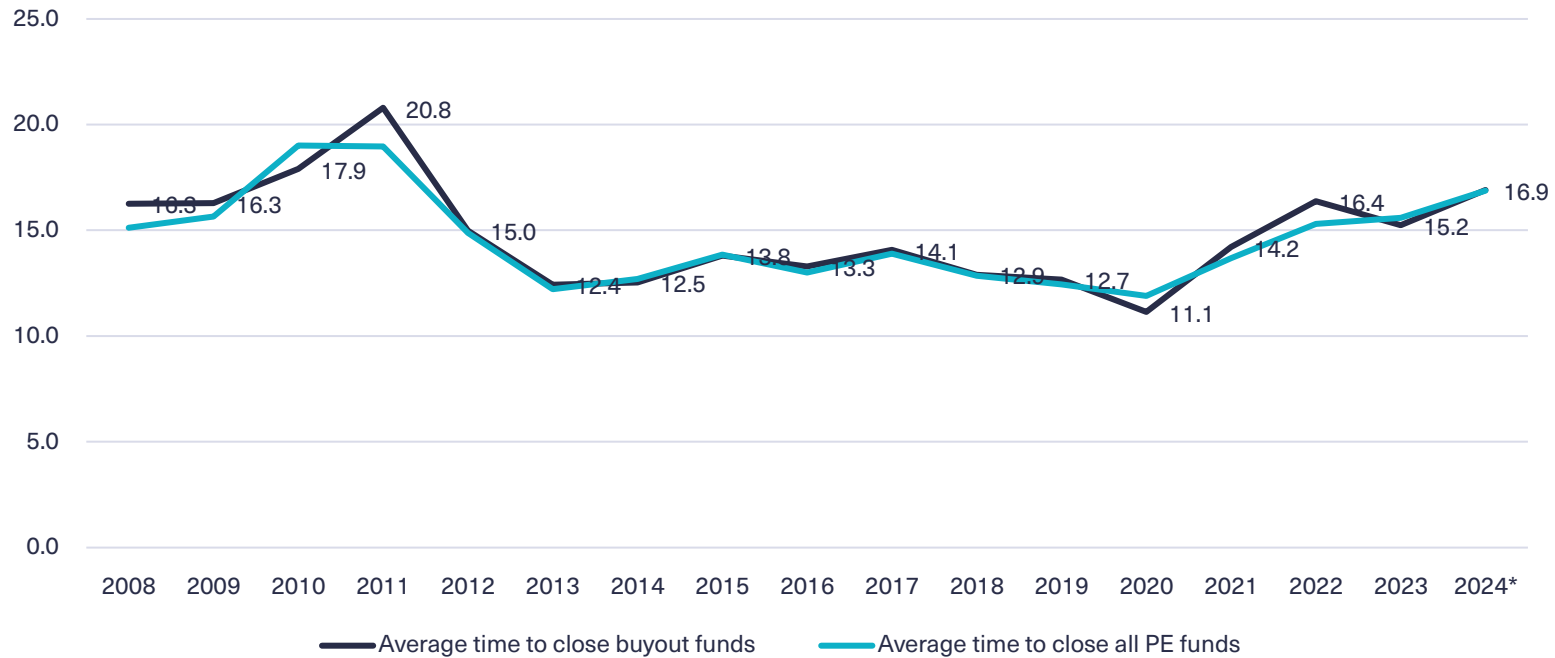
Rolling 12-month private capital fundraising activity



Source: PitchBook - Geography: Global. *As of 12/31/23.

PE activity

Average time (months) to close for U.S. PE funds



Source: PitchBook - Geography: U.S. *As of 3/31/24.

Hot Topics

Returns in a High Interest Environment

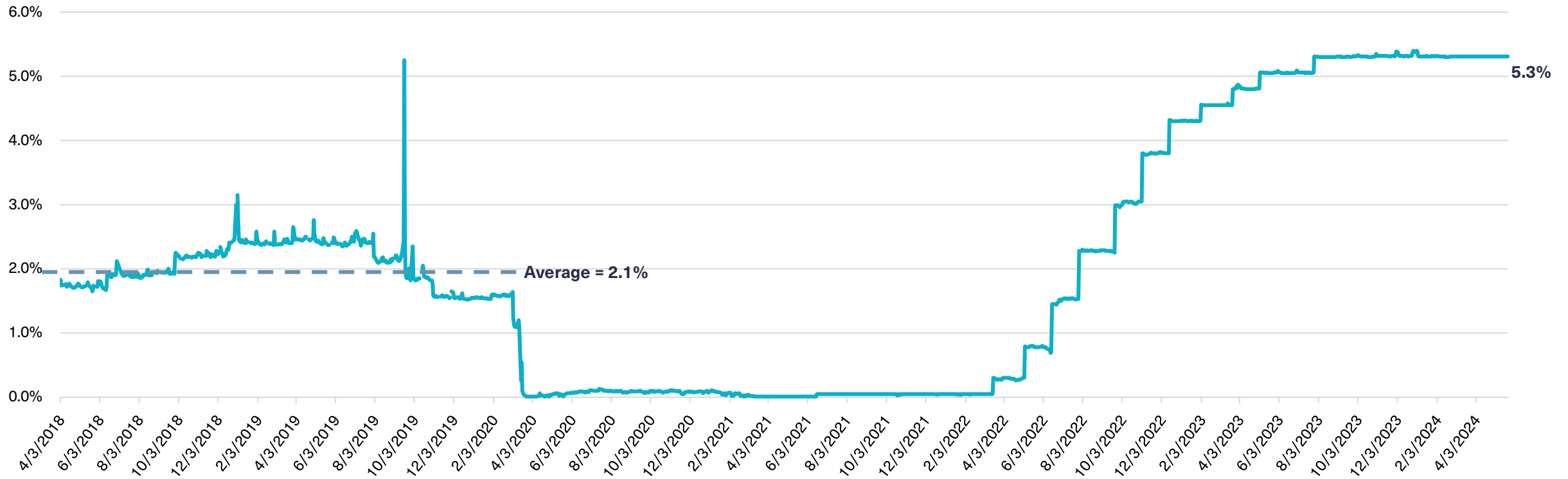




Rising interest rates – implications → buyout financing

SOFR is the key rate for debt pricing

Secured Overnight Financing Rate (SOFR)
April 2018 - May 2024



Source: FRED

Rising interest rates in the market

Middle market cost of debt changes



<u>Market Peak (Q4 2021)</u>	<u>Dislocation (Q4 2022)</u>	<u>(Q4 2023)</u>
500 to 600 bps Pricing Spread	650 to 750 bps Pricing Spread	575 to 675 bps Pricing Spread
6.00% - 7.00% All-in Pricing (assumes floor of 1.00%)	9.50% - 11.75% All-in Pricing (assumes SOFR of 3.00% to 4.25%)	11.25% - 12.25% All-in Pricing (assumes SOFR of 5.50%+)

Source: Lincoln International

Rising interest rate impact case study

LBO model return outputs using variable interest rates



	Market Peak	Dislocation	Now
All In Cost of Debt	6.50%	10.50%	11.75%
5 Year ROIC	3.2x	2.9x	2.8x
5 Year IRR	26.6%	24.0%	23.0%

Assumptions

Entry Multiple	8.0x	Debt: Equity Ratio	50%
Exit Multiple	8.0x	Lev Ratio	4.0x
Rev CAGR	5%	Hold Period	5 years
Entry EBITDA Margin	10%		
Exit EBITDA Margin	11%		

Past performance does not predict, and is not a guarantee, of future results. Because the performance information contained herein relies on figures denominated in U.S. Dollars, returns may increase or decrease as a result of currency fluctuations. There can be no assurance that a fund will achieve comparable results as any prior investments or prior investment funds of RCP. Source: RCP Advisors. Gross IRR and ROIC: calculated net of underlying fees and expenses, gross of RCP fees and expenses. Because Gross IRR does not reflect the deduction of RCP's fees and expenses, actual returns are less than what is shown. RCP's fees and expenses are described in Part 2 of RCP's Form ADV. **All references to fund metrics and performance contained in this Presentation are qualified in their entirety by reference to all of the notes contained in the Appendix. The explanatory notes and methodology contained in those notes should be carefully reviewed in full.**

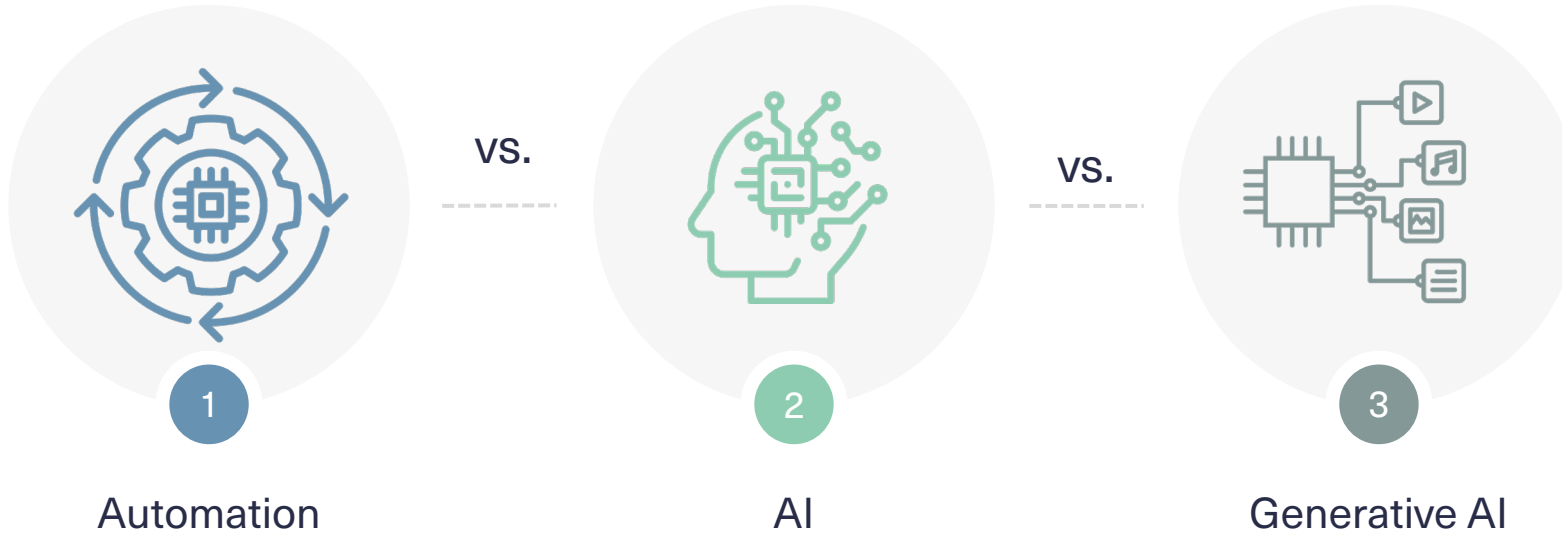
Hot Topics

AI and Private Equity



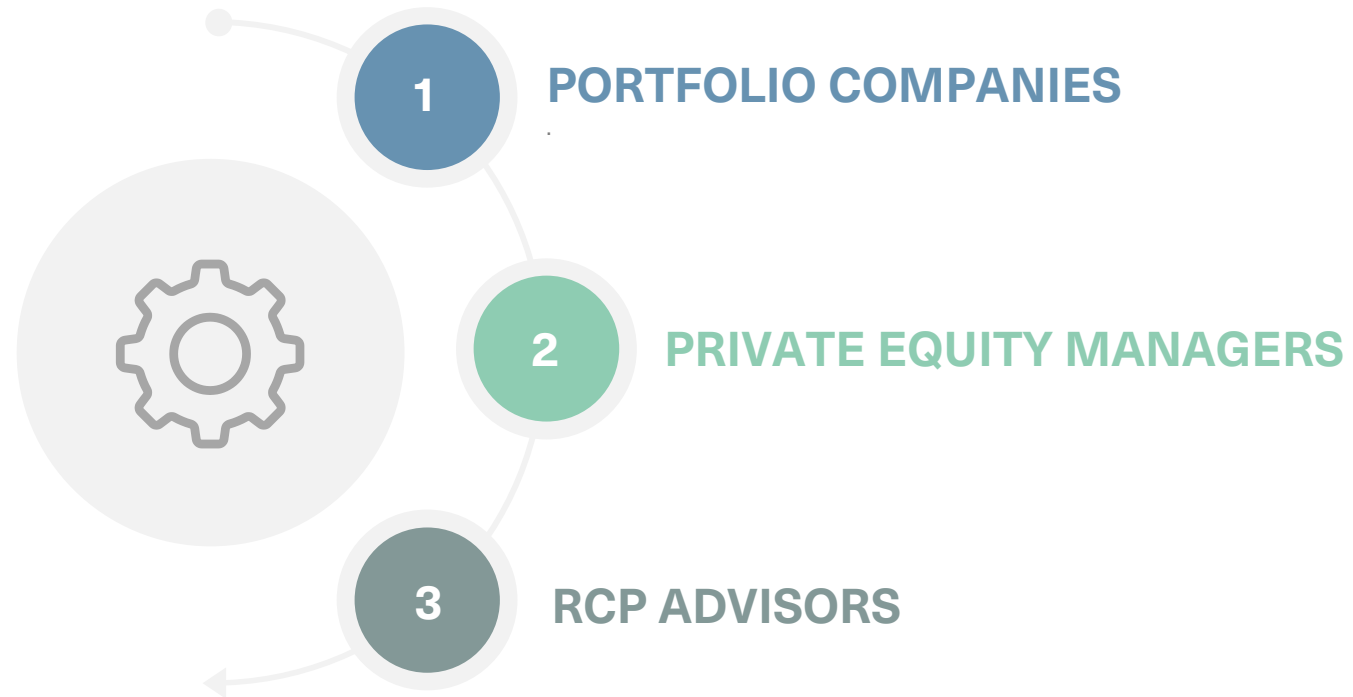
AI and PE activity

What type of AI are we talking about?



AI and PE activity

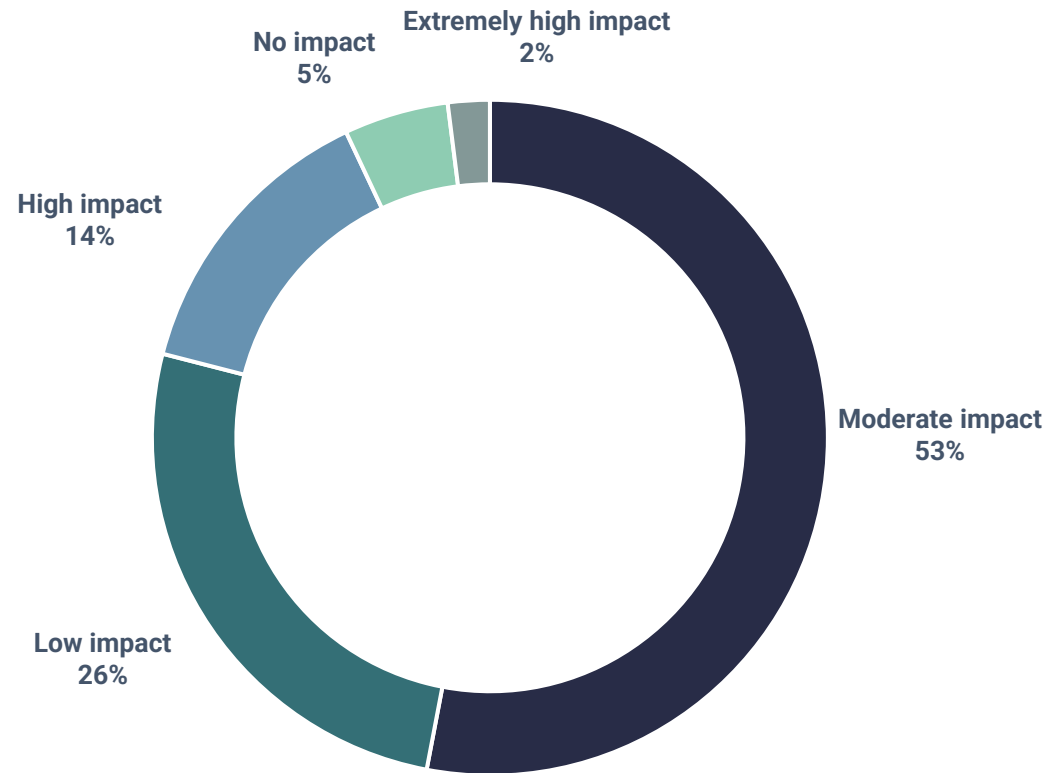
Three different parts of the PE ecosystem to discuss





AI and PE activity: Portfolio companies

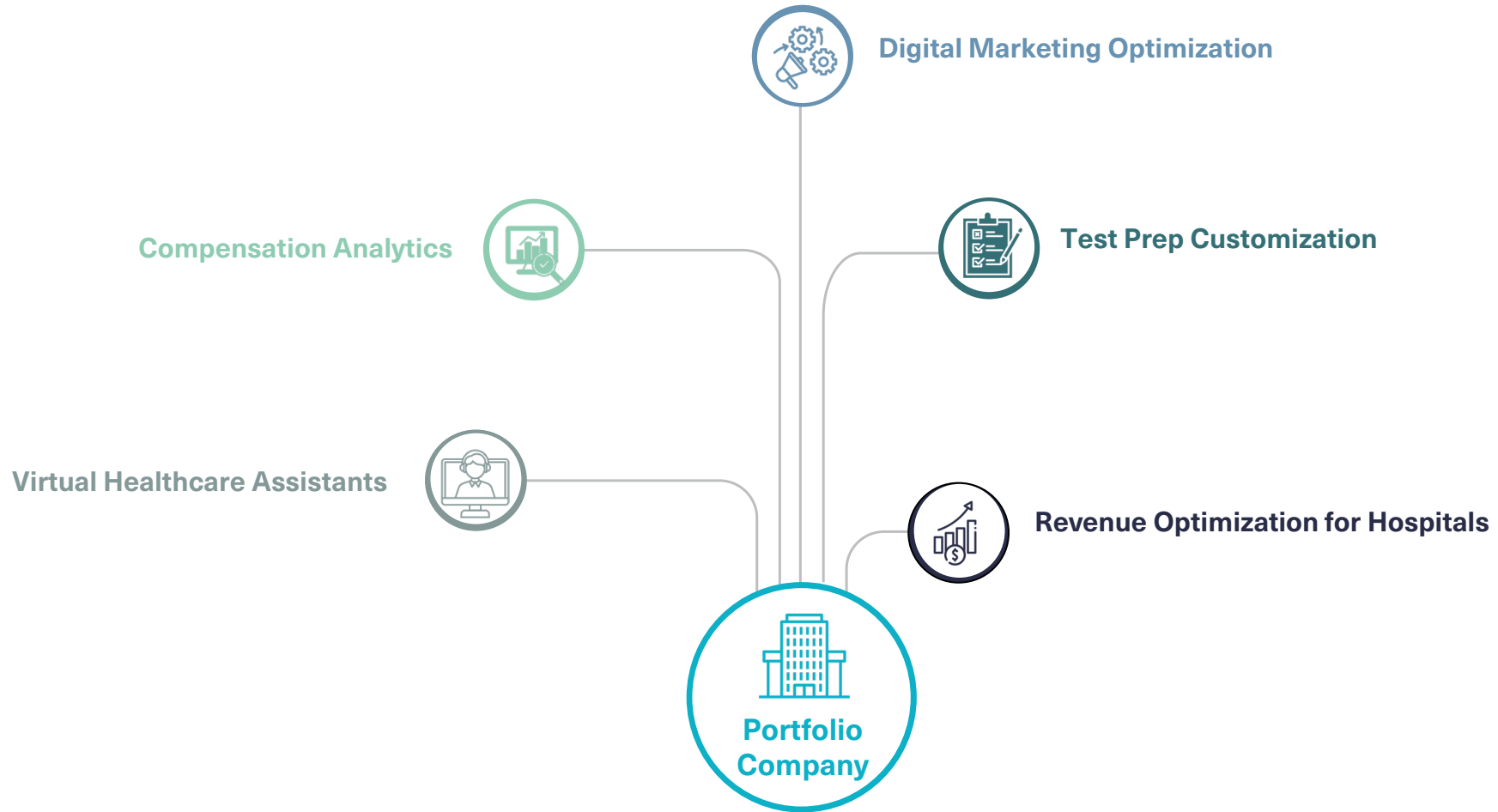
General Partners have added it to criteria, but it will not determine investments



Source: S&P Global Investment Manager Index. As of 6/30/23.

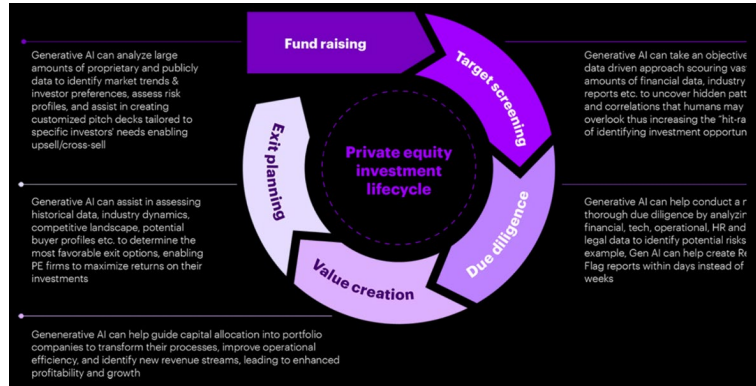
AI and PE activity: portfolio companies

Examples within the RCP portfolio

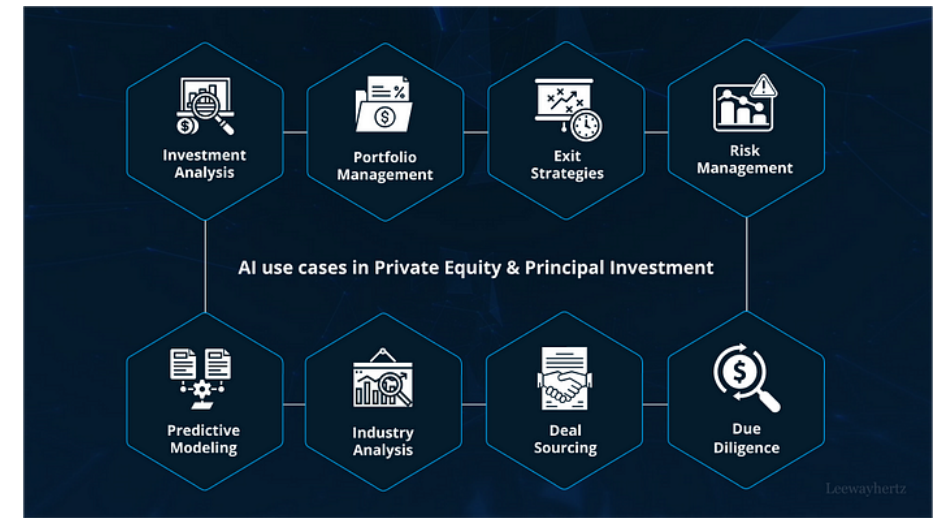


AI and PE activity: PE managers

Every consultant selling idea of AI for use by investment managers across investment cycle



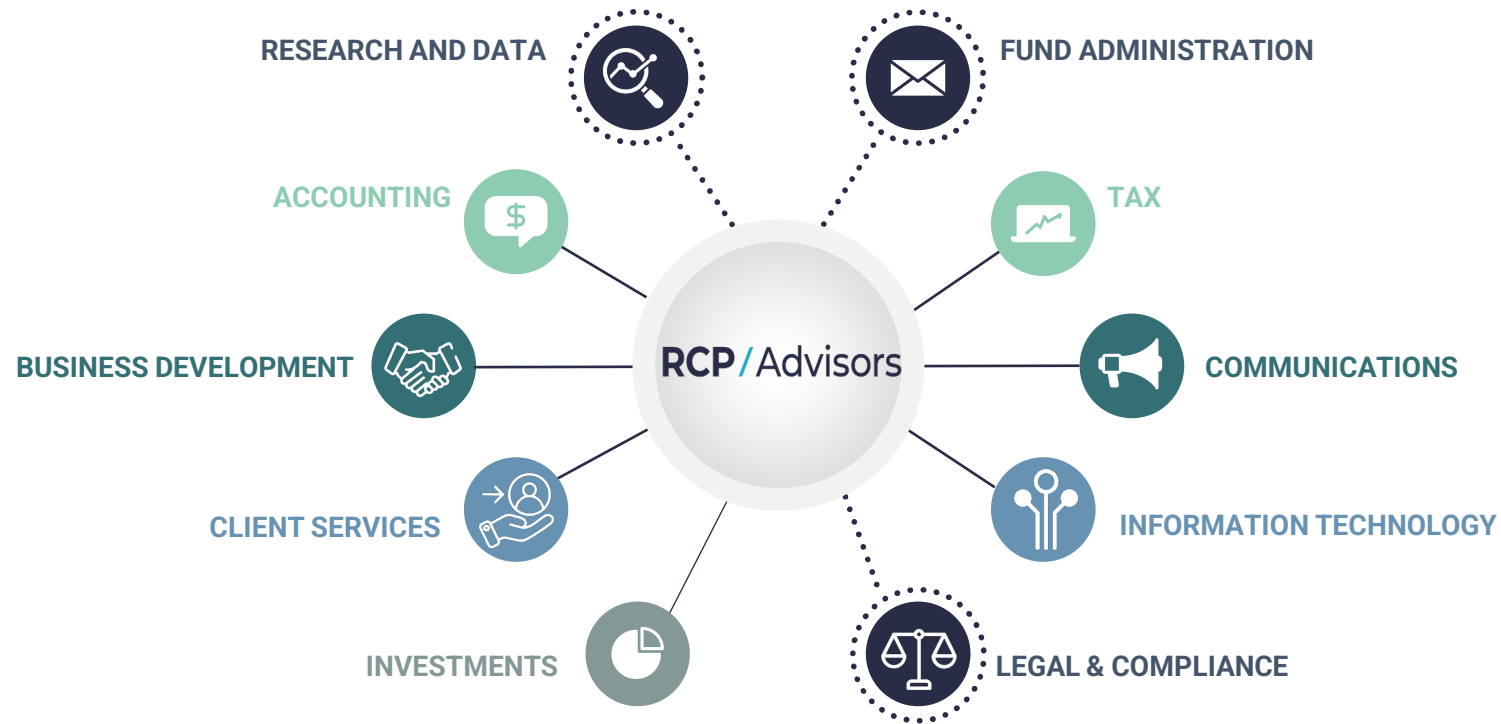
Deal sourcing	Due diligence	Portfolio management	Exit planning
Activity Overview			
<ul style="list-style-type: none"> Analyze large amounts of data, including news articles, financial reports, and market trends, to identify potential investment opportunities Obtain insights into companies and industries that may not be readily apparent through traditional research methods 	<ul style="list-style-type: none"> Assist in due diligence efforts by analyzing financial statements and other key documents to identify potential risks and opportunities Analyze market trends and customer sentiment 	<ul style="list-style-type: none"> Monitor PE firm's portfolio companies by analyzing financial and operational data, as well as news and social media sentiment, to identify potential risks and opportunities 	<ul style="list-style-type: none"> Prepare for exit events by analyzing market trends, potential buyers, and valuation models to help determine the best course of action
Potential Benefits			
<ul style="list-style-type: none"> Quicker and more efficient identification and evaluation of deals with deeper customization aligned to firms' strategies and objectives 	<ul style="list-style-type: none"> Enhanced accuracy and deeper analysis of due diligence due to volume of data sets analyzed Real-time decision-making based on current market sentiment analysis 	<ul style="list-style-type: none"> Efficiency and accuracy in trend identification for better predictions Improved risk management due to predictive modeling of historic data and trends 	<ul style="list-style-type: none"> Informed decision-making to maximize return realizations in case of exit events



Source: LeewayHertz, Deloitte, Accenture, and Medium.

AI and PE activity: RCP Advisors

RCP has been evaluating AI solutions related to our research/data, legal/compliance, and fund administration



Appendix



Endnotes

Terms

Median Purchase Price Multiple at acquisition: observations at 0.0x are excluded (signal that company was not bought based on EBITDA multiple – i.e., revenue multiple, book value multiple, OR negative EBITDA); observations above 35x are excluded.

Median Net Debt at acquisition: excludes multiples where EBITDA is negative; includes 0x observations where no debt was utilized; observations above 35x are excluded.

Median LTM Revenue and EBITDA represent financials at acquisition (provided by GP). If LTM is unavailable, represents performance provided by GP at time of acquisition on which valuation was based on – includes projections in some cases. For secondary funds, LTM represent financial performance at time of the original fund acquisition (not necessarily when purchased by SOF I, II, III, and IV). Please note, no currency adjustments were made for these metrics. Other factors to consider: no adjustments are made for proforma add-ons or earn-outs (EV, purchase price multiple, debt multiple, LTM Rev/EBITDA); and direct co-investments in earlier funds are excluded. The median purchase price multiples exclude growth equity deals purchased off of a revenue multiple.

Sources:

Accenture: An Irish-American professional services company based in Dublin, specializing in information technology (IT) services and consulting. A Fortune Global 500 company, it reported revenues of \$64.1 billion in 2023. Accenture's current clients include 91 of the Fortune Global 100 and more than three-quarters of the Fortune Global 500. As of 2022, Accenture is considered the largest consulting firm in the world by number of employees.

CME Group Inc.: A financial services company. Headquartered in Chicago, the company operates financial derivatives exchanges including the Chicago Mercantile Exchange, Chicago Board of Trade, New York Mercantile Exchange, and The Commodity Exchange. The company also owns 27% of S&P Dow Jones Indices. It is the world's largest operator of financial derivatives exchanges. Its exchanges are platforms for trading in agricultural products, currencies, energy, interest rates, metals, futures contracts, options, stock indexes, and cryptocurrencies futures.

Deloitte: A leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax, and related services. Deloitte currently has approximately 455,000 people in more than 150 countries and territories.

Federal Reserve Economic Data (FRED): A database that contains frequently updated US macro and regional economic time series at annual, quarterly, monthly, weekly, and daily frequencies. FRED aggregates economic data from a variety of sources—most of which are US government agencies.

GPScout: Provides private fund and investment-level performance data drawn from fundraising and diligence documents produced by general partners and publicly available information, as well as quarterly unaudited and audited annual financial statements produced by RCP's underlying fund managers. As of 6/21/2024, GPScout contains information on 4,000+ fund managers and more than 7,500 funds. These documents are provided to RCP by the fund managers themselves. Please note: RCP's database has been rebranded as GPScout. RCP's subscription-based manager research platform, formerly named GPScout, has been rebranded as GPScout Navigator.

LeewayHertz: The company designs and develops innovative mobile apps for some of the world's most famous brands, small businesses and startups alike.

Lincoln International: A multinational independent investment bank and financial services company specializing in advisory services and financings on middle market transactions.

Medium: An American online publishing platform developed by Evan Williams and launched in August 2012. It is owned by A Medium Corporation. The platform is an example of social journalism, having a hybrid collection of amateur and professional people and publications, or exclusive blogs or publishers on Medium, and is regularly regarded as a blog host.

PitchBook Data, Inc.: PitchBook is an independent and impartial research firm dedicated to providing premium data, news and analysis to the venture capital and private equity industries. As a specialty-focused information resource, PitchBook has the ability to meticulously collect, organize and analyze hard-to-find private equity deal data. Pitchbook has over 220,000 web crawlers to capture relevant information from numerous sources—including filings, press releases, websites and more.

Preqin: Preqin offers market data and information on alternative asset classes including private equity, venture capital, hedge funds, private debt, real estate, infrastructure, and natural resources, etc.

S&P Global Investment Manager Index: A survey-based indicator of market sentiment derived from active fund managers at institutional investment firms. IMI is designed to provide insights into what's driving markets as well as the forward-looking investment appetite and risk outlook for U.S. equities.

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