

Practical Application for Reporting

FOURTH QUARTER 2014

Private Capital Benchmarking

As allocations to Private Capital investments have risen exponentially over the past decade for institutional investors – they are Alternative Investments in name only - it is critical that investors have a better understanding about how private capital behaves as an asset class. Institutional investors no longer seem to be content viewing asset classes in a vacuum. Better comparisons and benchmarking have become vital for investors to be able to provide specific feedback to committees, boards, and executives that require more evaluation “to be comfortable with alternative strategies”.

Just as allocation to Private Capital investments have risen in the past decade, so too has the need and use of Private Capital benchmarks increased for investors. These benchmarks are no longer just for evaluating a manager’s performance, as important as that remains. Performance based compensation, analysis of Alternative to Active Management, proxies for asset classes in asset allocation and investment policy decisions require a representative benchmark for comparison. As important as these benchmarks have become, institutional investors are still looking for the “right benchmark”, the “right fit”. Looking at more than one hundred specific examples of BNY Mellon clients that had assigned benchmarks to their private equity allocations as of a few years ago, the range in benchmarks was the use of the T-Bill rate to S&P 500 + 1000 bps.

- 4% used actual return
- 70% use a public market index (ranging from +200 to +1000 bps)
 - 33% - Russell 3000 Index
 - 27% - S&P 500 index
 - 20% - MSCI ACWI Index
 - 8% - Other Russell Index
 - 5% - Blended Index
 - 5% - Dow Jones/Wilshire Index
 - 2% - MSCI EM Index
- 4% used CPI or Cash/Short Term
- 22% used Private Capital Universe/Database

This diversity in the benchmarking of Private Capital Investments continues today. The volatility of the public markets in recent years has rendered the public market index + bps more suspect than in the past. In the current environment of increased transparency and granularity, institutional investors have expressed the need for a more representative benchmark for the Private Capital asset class as being more urgent.

Through BNY Mellon’s strategic relationship with Burgiss, we offer a benchmarking and comparison solution – for your Private Capital Investments – to help compare relative performance and investment statistics against a research-quality database consisting of over 6,000 funds. The **Burgiss Manager Universe**, a dataset for Private Capital, aims to be representative of actual investor experience, sourced directly from Limited Partners, with full transactional history that can be used to analyze and summarize the behavior of fund investments in private markets.

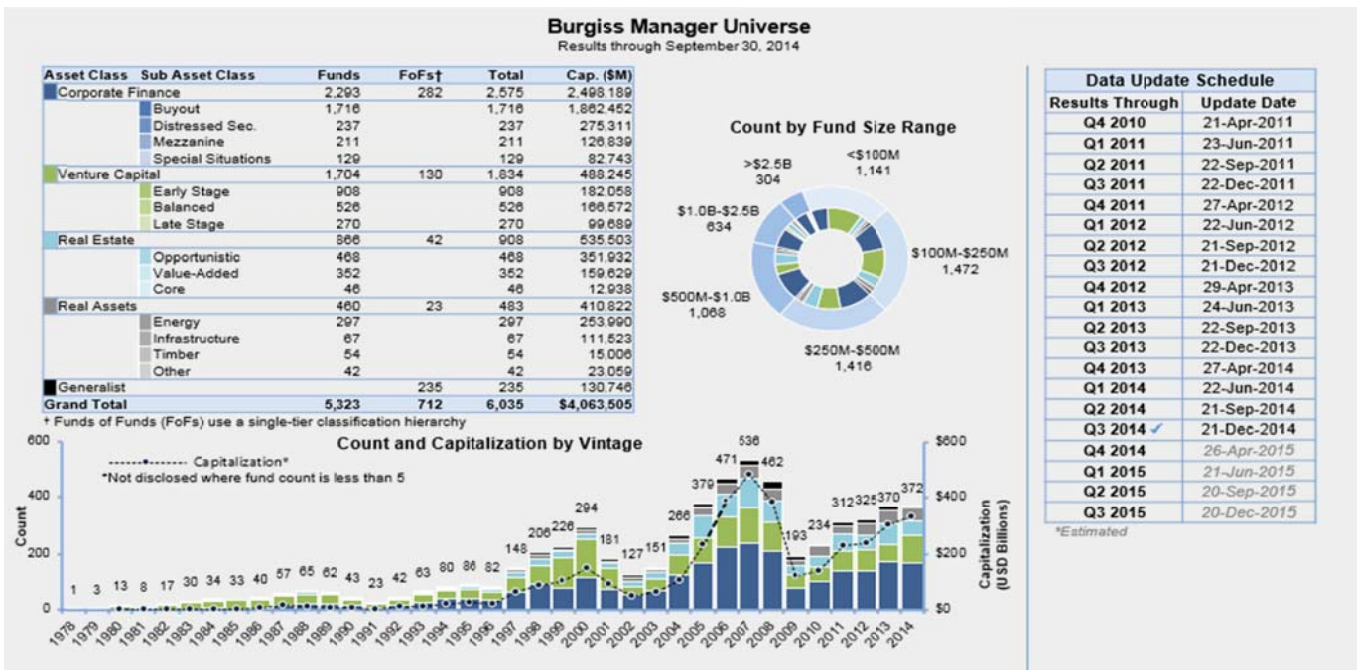


With this full transactional history, over multiple decades, you can compare the performance results, using IRR or Modified Dietz time-weighted returns, or other characteristics of a fund(s) using multiple criteria:

- Vintage Year
- Asset Class (Corporate Finance, Venture Capital, Real Assets, Real Estate etc)
- Sub-Asset Class (Buyout, Distressed, Mezzanine, Special Situations, Infrastructure, Energy, Timber, Core Opportunistic etc)
- Geographic Focus
- Industry Focus
- Currency

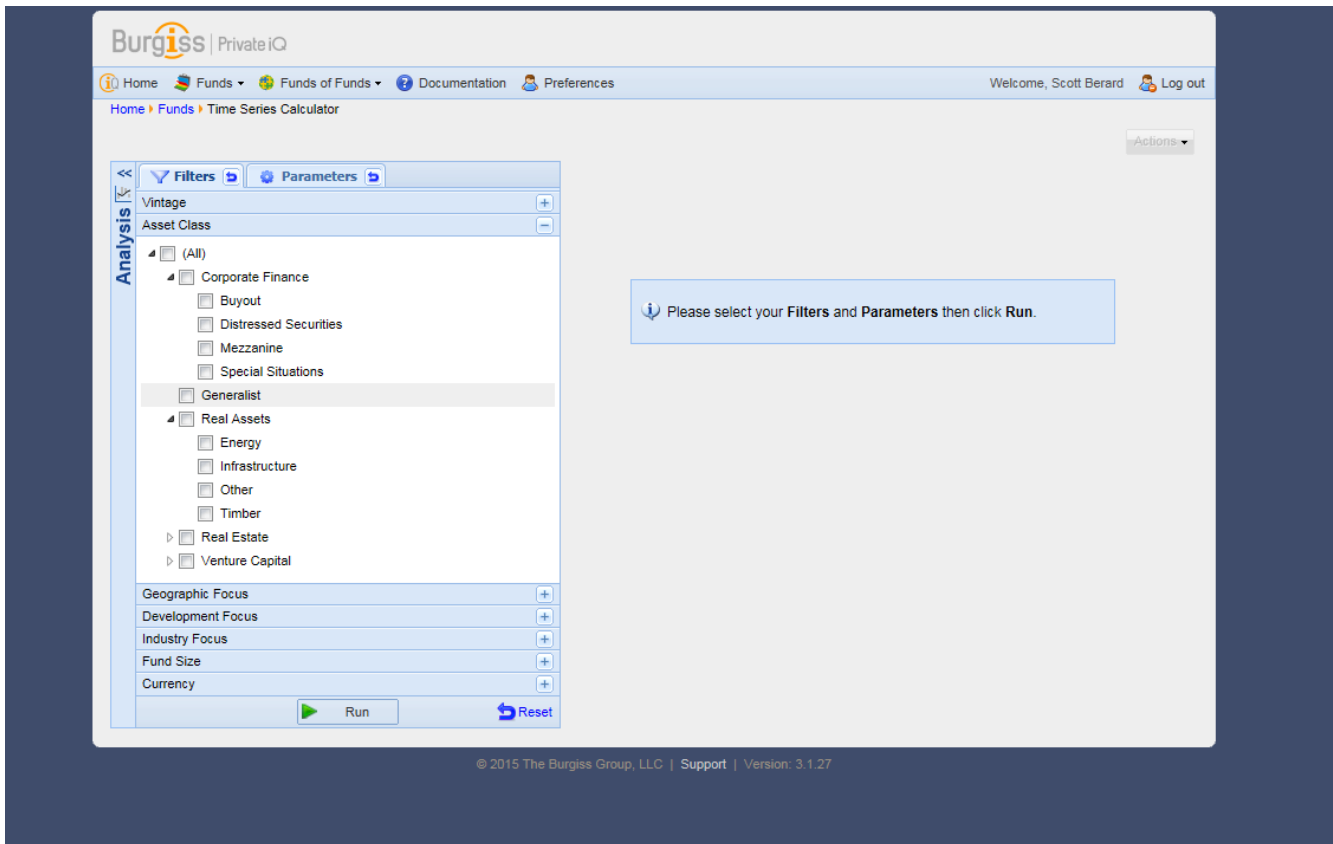
We believe that this Private Capital benchmarking solution may provide enhanced private capital market insight that has the potential to lead to more informed decision making. In the past 18 months, there has been significant movement away from public market benchmarks + bps and other Private Capital index providers. Thomson Reuters is no longer producing the Venture Economic Index series, a long standing benchmark in this asset class.

Leveraging **Private iQ** and the **Burgiss Manager Universe**, BNY Mellon's Global Risk Solutions Consulting group is currently calculating 30+ custom Private Capital benchmarks for approximately 12 asset owner clients, with another 10 asset owner actively looking to make a benchmark change.

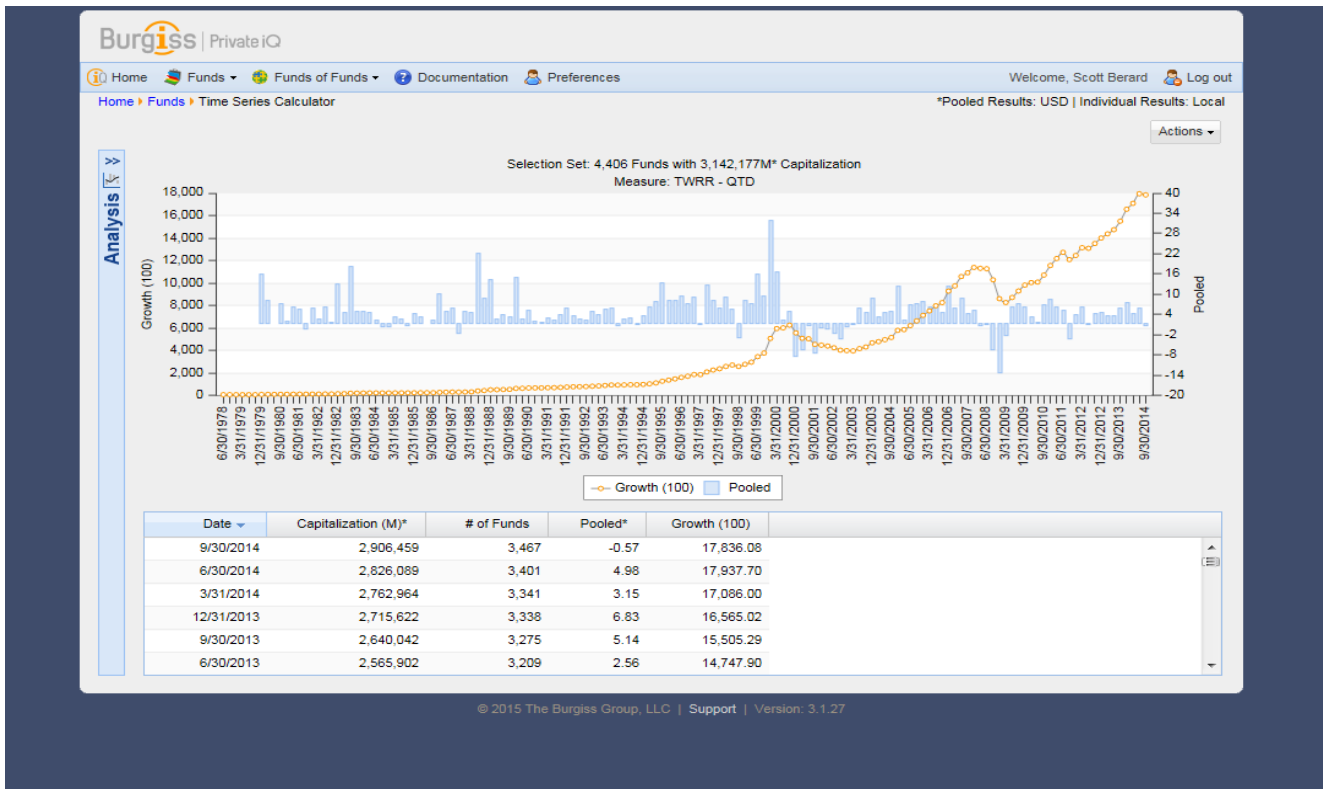


© 2015 The Burgiss Group, LLC | Support | Version: 3.1.27

The underlying dataset that powers **Private iQ** is the **Burgiss Manager Universe**. The database is a representation of actual investor experience as it is sourced directly from Limited Partners and contains the full transactional history between the Limited Partner and their fund investments. This approach stands in stark contrast to databases created with data sourced from General Partners, data gathered by citing Freedom of Information Act, or surveys, which inherently introduce survivorship bias. As of September 30, 2014, the **Burgiss Manager Universe** consisted of 6,035 funds with \$4.06 trillion in capitalization, believed to be approximately 70% of the Private Capital market.



The Private iQ Time Series Calculator provides a stream of quarterly time-weighted rates of return for a universe of funds, which can be specified using the filter selections above. The user has the ability to define each universe of funds at the broadest level or the most granular level by selecting the appropriate filter selections: Vintage Year, Asset Class, Sub-Asset Class, Geographic Focus, Development Focus, Industry Focus, Fund Size and/or Currency.



The Private iQ Time Series Calculator calculates pooled time-weighted rates of return using the Modified Dietz methodology, which better takes into account the timing of cash flows. All funds comprising the selected universe are treated as a composite to calculate the pooled quarterly result. Each quarterly return is computed by dynamically aggregating beginning and ending quarterly valuations and calculating the weighted net cash flow for the selected universe of funds. Custom benchmarks are calculated using these time-weighted results and can be rolled up as a component of Total Fund Policy benchmarks and Asset Class benchmarks.