WELLS FARGO
Investment Institute

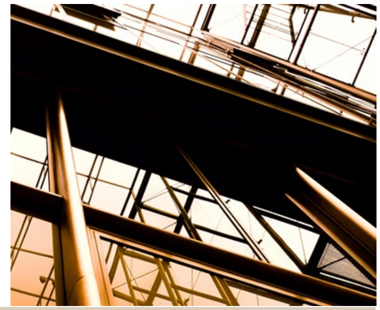
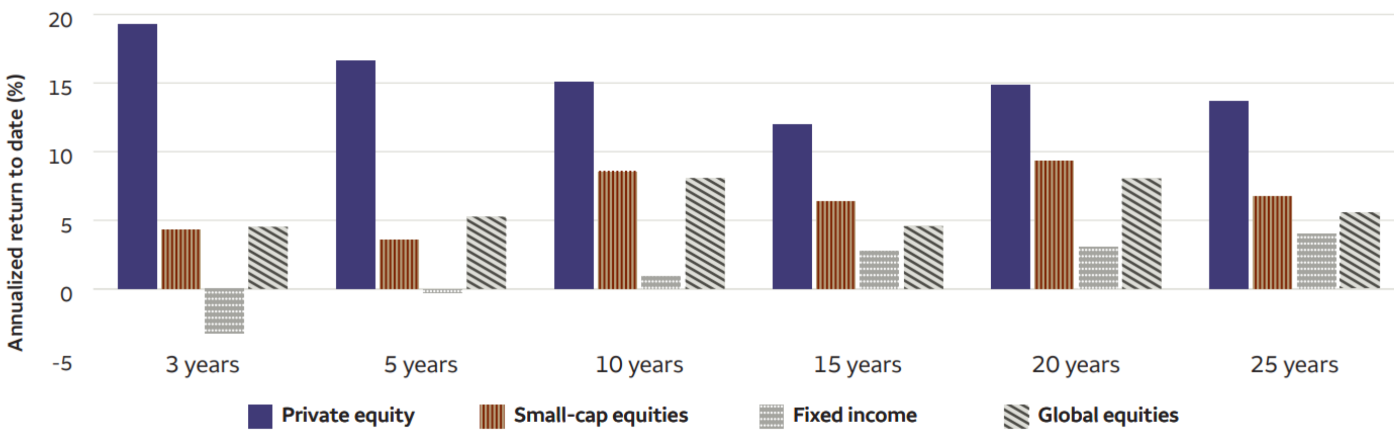


Chart of the Week

Weekly market analysis on key market indexes | June 6, 2023

Private equity investing — A U.S. growth story



Source: MPI Stylus. Data as of September 30, 2022. Performance results are for illustrative purposes only. Index returns do not represent fund performance or the results of actual trading. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.** Please see index definitions and disclosures on the next page.

Private equity has outperformed other asset classes over the long term

Many businesses today are choosing to remain private longer. In 1999, the average U.S. technology firm transitioned to the public markets after four years of operating history, and by 2019, that figure increased to 11 years.[1]

The additional seven years (on average) that the companies remained private meant that much of the value accrued during the early, faster growth phase of a firm's lifecycle benefited private market investors. Companies that remain private can avoid the burden and cost of regulatory requirements and focus on long-term strategic plans. The chart shows that over the long term, private equity (solid purple bar) has outperformed global equities, fixed income, and small-cap equities.

What it may mean for investors

The number of companies backed by private equity has grown steadily. There were 27,041 private equity-backed companies (more than five times the number of publicly traded U.S. companies) at the end of 2022, compared to just 4,581 in 2002.[2] However, this is still only a fraction of the total number of private companies, suggesting there could be many new potential investment opportunities in the coming years for qualified investors.

Mark Steffen, CFA, CAIA, *Global Alternative Investment Strategist*

Tracie McMillion, CFA, *Head of Global Asset Allocation Strategy*

This chart was excerpted from *Alternative Thinking* dated March 28, 2023.

1. Jay Ritter, "Initial Public Offerings: Updated Statistics," UF Warrington College of Business website, May 22, 2023.
2. Pitchbook. Data as of December 31, 2022.

Risk Considerations

Alternative investments, such as hedge funds, private equity/private debt and private real estate funds, are speculative and involve a high degree of risk that is appropriate only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in a fund and for which the fund does not represent a complete investment program. They entail significant risks that can include losses due to leveraging or other speculative investment practices, lack of liquidity, volatility of returns, restrictions on transferring interests in a fund, potential lack of diversification, absence and/or delay of information regarding valuations and pricing, complex tax structures and delays in tax reporting, less regulation and higher fees than mutual funds. Hedge fund, private equity, private debt and private real estate fund investing involves other material risks including capital loss and the loss of the entire amount invested. A fund's offering documents should be carefully reviewed prior to investing.

Private equity investments are less transparent than public investments and private equity investors are afforded less regulatory protection than investors in registered public securities. Private equity funds are sold in private placements and may be offered only to individuals who are both “qualified purchasers” (as defined in U.S. Investment Company Act of 1940, as amended) and “accredited investors” (as defined in the Securities Act) and for whom the investment is otherwise appropriate.

Equity securities are subject to market risk which means their value may fluctuate in response to general economic and market conditions and the perception of individual issuers. Investments in equity securities are generally more volatile than other types of securities. The prices of small-cap company stocks are generally more volatile than large company stocks. They often involve higher risks because smaller companies may lack the management expertise, financial resources, product diversification and competitive strengths to endure adverse economic conditions.

Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. These risks are heightened in emerging markets.

Investments in fixed-income securities are subject to interest rate, credit/default, liquidity, inflation and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond’s price. Credit risk is the risk that an issuer will default on payments of interest and principal. This risk is higher when investing in high yield bonds, also known as junk bonds, which have lower ratings and are subject to greater volatility. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity.

Definitions

The index representing private equity uses a modified private market equivalent (mPME) calculation as a way to replicate private investment performance under public market conditions. While traditional public market indexes calculate an average annual compounded return (time weighted over specified time periods), private indexes measure performance using internal rates of return and multiples based on cash flows (money-weighted returns). Public market indexes assume the reinvestment of dividends and other distributions but do not reflect deduction for fees, expenses, or taxes applicable to an actual investment. Index comparisons have limitations. No index is directly comparable with traditional or private investments and should not be relied upon as a measure of the performance a portfolio may achieve. Private equity represented by the Cambridge Associates U.S. Private Equity Index, developed market equities represented by the MSCI World Index, small-capitalization equities represented by the Russell 2000 Index, and fixed income represented by the Bloomberg U.S. Aggregate Bond Index.

Private equity: Cambridge Associates LLC U.S. Private Equity Index uses a horizon calculation based on data compiled from more than 1,400 institutional-quality buyout, growth equity, private equity energy, and subordinated capital funds formed between 1986 and 2017. The index uses a modified private market equivalent (mPME) calculation as a way to replicate private investment performance under public market conditions. While traditional public market indexes calculate an average annual compounded return (time weighted over specified time periods), private indexes measure performance using internal rates of return and multiples based on cash flows (money-weighted returns). The funds included in the index report their performance voluntarily, and therefore the index may reflect a bias toward funds with records of success. Funds report unaudited quarterly data to Cambridge Associates when calculating the index. The index is not transparent and cannot be independently verified because Cambridge Associates does not identify the funds included in the index. Because Cambridge Associates recalculates the index each time a new fund is added, the historical performance of the index is not fixed, can’t be replicated, and will differ over time from the day presented. The returns shown are net of fees, expenses, and carried interest. Index returns do not represent fund performance.

Bloomberg U.S. Aggregate Bond Index is a broad-based index that measures the investment-grade, U.S.-dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS, ABS, and CMBS.

MSCI World Index is a free-float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of 23 global developed markets.

Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

An index is unmanaged and not available for direct investment.

General Disclosures

Global Investment Strategy (GIS) is a division of Wells Fargo Investment Institute, Inc. (WFII). WFII is a registered investment adviser and wholly owned subsidiary of Wells Fargo Bank, N.A., a bank affiliate of Wells Fargo & Company.

The information in this report was prepared by Global Investment Strategy. Opinions represent GIS' opinion as of the date of this report and are for general information purposes only and are not intended to predict or guarantee the future performance of any individual security, market sector or the markets generally. GIS does not undertake to advise you of any change in its opinions or the information contained in this report. Wells Fargo & Company affiliates may issue reports or have opinions that are inconsistent with, and reach different conclusions from, this report.

The information contained herein constitutes general information and is not directed to, designed for, or individually tailored to, any particular investor or potential investor. This report is not intended to be a client-specific suitability or best interest analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities. Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon. The material contained herein has been prepared from sources and data we believe to be reliable but we make no guarantee to its accuracy or completeness.

Wells Fargo Advisors is registered with the U.S. Securities and Exchange Commission and the Financial Industry Regulatory Authority, but is not licensed or registered with any financial services regulatory authority outside of the U.S. Non-U.S. residents who maintain U.S.-based financial services account(s) with Wells Fargo Advisors may not be afforded certain protections conferred by legislation and regulations in their country of residence in respect of any investments, investment transactions or communications made with Wells Fargo Advisors.

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and non-bank affiliates of Wells Fargo & Company. CAR-0623-00202