Our Flagship Private Equity Funds Have Performed Well Over a Long Period of Time Across Market Cycles

	Inception to June 30, 2022					
($ millions)	Total Committed Capital	Net Committed Capital	Total Realized Proceeds	Estimated Remaining Value	Total Value	Q2 2022 Net IRR
Fund IX (2018)	$24,729	$14,099	$6,770	$20,209	$26,979	27%
Fund VIII (2013)	$18,377	$15,973	$19,616	$8,673	$28,289	10%
Fund VII (2008)	$14,677	$14,677	$34,083	$136	$34,219	23%
Fund VI (2006)	$10,136	$10,136	$21,135	$2	$21,136	8%
Fund V (2001)	$3,742	$3,742	$12,721	$2	$12,723	38%
Fund IV (1998)	$3,600	$3,600	$6,781	$0	$6,781	8%
Fund III (1995)	$1,500	$1,500	$2,695	$0	$2,695	11%
Fund I, II & MA (1990/1992)	$2,220	$2,200	$7,924	$0	$7,924	35%
Total	**$78,980**	**$65,946**	**$111,723**	**$29,022**	**$140,745**	**22%**

Top Quartile Performance in Private Equity Since Inception (1)

Note: As of June 30, 2022. Past performance is not indicative of future results. Please refer to the beginning of this presentation for important information relating to performance and the end of this presentation for definitions of key terms. (1) As provided by ThomsonOne, net IRR across applicable vintages for U.S. buyouts as of Q1 2022 (latest data available). Past performance is not indicative nor a guarantee of future results. Please refer to the Schedules of Investments at the end of this presentation for additional performance detail.

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Analysis 1)

The numbers on the Pitchbook are deceptive.

This is from a conversation with a prominent PE firm. This fund is being distributed by the finest firms on Wall Street. I had this conversation in Jan of 2023. I don't want to hurt the wholesaler so I am keeping it anonymous. He is referencing a 2018 deal with a 27% IRR (wink) as of 2Q 2022. He references the 3Q number as up 23%. (wink)

This is a PE wholesaler with 25 years of experience- they are using IRR as performance. This fund started in 2018. The date on the pitchbook is 2022. It is a high school quarterback- year 4 of a 12 year+ life.

I was called in to help look at a fund. He is leading with a very deceptive statement to a person he knows has experience. This product is only sold to QP investors. See my ML client letter. I asked Merrill Lynch: Show us how you taught your advisors and customers about IRR and the subscription line. They did not answer that question. If they educated their salesforce or customers on how IRR works, no one would invest.

PE: *Which was vintage 2018, which again is showing net IRR of 27%. In fact, if you look and what, what a lot of people ask us for is, you know, and what, what was your latest vintage, you know, tell me what you've done recently.*

That is deceptive,**He is leading the conversation to fake numbers that look like performance**. By leading the conversation to "what have you done recently"- which makes perfect sense for a mutual fund, he is taking me- an experienced advisor- and he is leading me into a trap. He is pretending that the fake high numbers of "early IRR"- were created by superior investment skill. Early IRR is juiced by the credit line and by the fake high re-investment rate, and with several other IRR tricks. **Early IRR is high and fake-**

[redacted]: *You're saying, oh, hold on. So, you're saying recently, in fund nine you did 27%?*

PE: *Actually, if you look, and this is through the end of the third quarter, the return of fund nine itself was up 23% for the year. So, for 2022, for the first three quarters, our vintage fund nine was up 23% when the S&P, as we all know, was down 25%.*

(Fake again, -see Howard Marks "You Can't Eat IRR/Lines In The Sand" in my IRR 101 section) The 23% can be created by a number of cash flow scenarios- some a loss--- It was 27% IRR at the end of Q2, and he is quoting at the end of Q3. What is for certain is that you can't make the comparison he is making which is a huge selling point- my stocks lost 25%, but PE made 23%- where do I sign up- this is breaking FINRA 2210 in multiple ways)

[redacted]: *One second. I'm taking notes here. Once. Go slow: Tell me again. So, in 2022, your Vintage nine, which is on the right side of this page.*

PE *Was up 23% for the year while the S&P was down 25%.*

█████ *Wow. And that's, that's the IRR, yours is the 23% IRR, correct?*

PE: *Right. That was the actual return. That's your return profile. So, 23% for the first three quarters of 2022.*
█████: *Okay. So that means if someone had a hundred dollars in January, they'd have $123 with you, but they'd have $75 with the market.*
PE: *Correct.*

Totally false. That 23% can mean a lot of things. It does not mean that this firm magically increased value when the S&P tanked. However, if you look at the pitchbook, it has large positive numbers. It LOOKS like performance. FINRA 2210 (d) requires the promoter to explain what that number means according to the audience. They can't use footnotes. Some of you will say, "well, they have 5 million, they are sophisticated, we can just assume they know how IRR works." The industry wholesalers who have a front row seat will say the 5 million + crowd has no idea how IRR works. They are laughing all the way to the bank. (The 5 million level has not been changed since 1982. It would be about 15 million today. See McKinsey on how IRR is mis-understood by industry professionals in my section on IRR 101) If this is tested in a Jury trial, I will bet on the side of the investors and against the PE industry. See my 11/17/22 customer letter to ML. I specifically ask them if they taught their customers and advisors about IRR. They ignored that question. Their only answer is that "IRR is standard." Charlie Munger says the PE industry only has to lie a little bit and the money comes rolling in. This is an example. The wholesaler knows exactly how to use the pitchbook to convince a "sophisticated investor" to lock up his money for 12 years. The investor will make just enough not to sue. The PE firms make billions.

To make the trap more compelling, the ML advisor tells the client to look at the "IRR" on ML the statement from the last investment in "Fund A" from Three years ago. The client sees a big number…let's say 25%...and the ML advisor says…."*look at the footnote- that IRR is understated because of the extra fees in the "early years.". Your 25% is probably worth 30% or more........ I know Mr. trusting (HA!), sophisticated (wink) client, that these deals are expensive and illiquid, but it is worth it because of the return(wink, wink) ….. where else can you get 20% plus….*

It sounds like something out of "Wolf of Wall Street".
See the ML deception- footnote on a monthly statement.

█████ *I'm taking notes here. I'm taking notes. One second. So, this is fund nine in 2022, a 100$ goes to 123$ with my good buddy PE, and the S&P, it goes to $75. That's pretty good.*
PE: *Correct.*

Totally incorrect and a complete distortion of IRR.However, the industry is stuck. If they told the investors that IRR is meaningless, no one would invest. If they showed month by month returns for each fund, no one would invest.

The numbers on the Pitchbook are deceptive.

Analysis 2)

I want to explain the deception in the pitchbook above. I want to show you how the wholesaler, who is talking to QP investors everyday, uses the deceptive numbers on the pitchbook to close business.

They have a banner on the top that says Our PE Funds have Performed well.....
The have a banner on the bottom that says " Top Quartile Performance in PE since Inception"
They are clearly saying that the IRR is performance.
They have 8 funds listed- 8 different vintage years.

If you look at the bottom of the page at the **BOLD NUMBERS** in the box. Every one of those numbers is created by addition. You simply add up the numbers in the rows above to get the bottom number.

Except for the IRR. The number should be 20%, but it is 22%. What is going on with IRR?

Here is the problem. It is not all performance. When a fund is totally done, the IRR is a pretty good measure of performance. When a deal is still going on, IRR can be easily manipulated. They make you think that "interim IRR" is the same as "final IRR." It isn't.

The two most recent IRR numbers for the 2013 fund and the 2018 fund are fake. They are IRR and not performance. These are also the largest funds. Our wholesaler below says the IRR is a "weighted average." That would mean these fake numbers should be given move value.

My guess is the 10% in the 2013 vintage will get as low as 7-8%. My guess is if they showed you IRR on a monthly basis that the 10% in the 2013 fund started a 50-60% IRR. Just like that 50-60% IRR was illusory, the 27% for the 2018 fund is illusory.

They won't show you month by month returns because it brings up too many questions. However, FINRA 2210(d) requires them to explain it so that the audience understands it. They can't use footnotes.

2013 Fund- 10% IRR: Kind of fake, it is not going to 25% and it is not going to 0. However, by making it 10%, they are telling you, if we do well, you get 20%+, if we do poorly, you get 10%. It just isn't true. They are very careful to make sure that when they go to market, that this page is compelling for an investor. They do that with various IRR tricks. One of which is delaying write-downs in the portfolio.

2018 fund: 27% IRR. That is totally fake. It is a product of the subscription line and the assumed reinvestment rate inside IRR. No one is making 27% in PE. That is why Buffet and Munger are saying the returns are dishonest. A friend of mine thinks it is common for a PE fund to sell an early deal "a tincy bit too cheap" in order to sell it quickly to get a high IRR on the pitchbook. Once it is there, it stays high for a long time.

This is important because if they showed the real IRR month by month, an investor would have the same view as Buffet. Don't get too excited about these. If they showed you the numbers without any tricks, my guess is 2018 would be a 10% IRR and 2013 would be an 8% IRR.

An investor would probably think, hey, coming out of a crisis, these guys may be a good bet, but they have been pretty average since 2013. Even before that, they do well coming out of a crisis, but kind of ho-hum the rest of the time. I am not locking up my money for 10%.

The wholesaler selling this also knows that returns coming out of a crisis in 2008 or 2001 are just not meaningful. Mutual funds go back 3/5/10 years. Beyond that, too much has changed. The wholesaler needs to prove that he can get the investors above market returns in 2023. He immediately looks at the fake numbers of the 2018 fund- pretends they are real and leads a "sophisticated investor" into a trap.

When a deal is totally finished, the IRR is meaningful. When a deal is still going on, IRR is easy to manipulate. If you see my quote from the FT on the landing page, many people argue that the subscription line makes the *completed IRR* higher than it should be.

Whenever you hear about someone who is "averaging" private investments, your radar should be up. Just like you can't average high school and pro quarterbacks, you can't average IRR.

You have to view funds like quarterbacks. Eyeball them. Wait. There is no rush. The S&P does great. However, the industry wants you to put up your money now, they have to create a sense of urgency.

The numbers on the Pitchbook are deceptive-
Wholesaler tries to explain them.

Analysis 3)

I asked the internal wholesaler in Jan of 22, how they got the number 22% at the bottom of the column. He called the home office and got back to me the next day.

Man 1- PE Wholesaler
Man 2- [redacted]

PE 1: Hey, [redacted]
KS: Hey, how are you?
Man 1: Good, how are you?
KS: Hey, let me just call up your document.
PE : Sure.
KS: PE access fund. What page are we talking about here?
KS 2: Okay. Yeah, here it is. Flagship Fund- Long periods, cross market cycles. So how this is the, number 22% at the bottom calculated. How do they get that?

PE : Yeah, so that, that's not (muffled) an average of what's on the paper.

(Of course it is not…- but they pretend it is as credible as the numbers next to it)

KS: Is it an average or it is not an average?

PE: It's NOT an average of the funds. It's a total net IRR of all the funds combined. So those eight on the side are not going to average out to 20. To get the 22%, you have to look at the cash flows of all of those funds put together to get to the 22%. So that, that bottom row, it looks kind of like it would be the average, but it's really the total net IRR of all of those funds combined.

(What does he mean? Try that sentence in front of a Jury with a skilled attorney? Force the PE firm to spell out how they got it… They, like Blackstone,know that a private client needs a number to latch onto- they want to pretend the returns are outstanding. You simply can't get private investors to lock up without promising high returns.)

KS: What does that mean, total net IRR of all the funds combined?

PE: So at net IRR you'd have to take, it looks at the cash flow between, you know, like we've talked about in the past. Obviously, you know, there's four years where you're not making any money in the fund, and then there's years where you're just investing and then obviously at the end you're capitalizing on your investments.

I believe in a Jury trial, these guys would be toast- I am 100% sure there is no spreadsheet backing up the 22% number- if so the spreadsheet would have to have entries for every single deal from 1990. They would market - weight the new fake deals. It all falls apart if you look closely. That is why IRR is so tricky. If there are 4 years where you are not making any money, why did the first wholesaler use a 4th year number as "performance" in the first analysis. I challenge this firm and the distributors to publish how they got the 22%.

KS: So the 22% it means... it looks like it's the average. I'm saying it looks like it, right?

PE: It Does, yeah. The way that, the way that page is set up is it looks like in that last column that would be the average. It's not, it's just the total net IRR of all the funds. If you look at that bottom last line, it's the total of all the funds. So it's, it's, it's not an average. It looks like it on the, on the document, but it's, it is not. That's why if you add them all up and divide by eight. It comes out to 20.

He is being really honest, it is designed to make a QP client think that the 22% is an achievable return- after all it is the “average” from the past 30 years- but it is a fake number.

KS 2: Right. [laugh], I was like, Hey, I tried that like a couple times and then I, You're saying it's, what is it again? I'm gonna take notes here. It's the total,

PE 1: It's, so it's the weighted net average of all of them, or the weighted net IRR of all of the funds combined.

He is digging himself deeper into an impossible answer, how do you market weight a fake number generated by the subscription line- Is it the money being invested or money when sold? What if the interest rates on the subscription lines are different? If each fund has 30 deals, that means 240 deals. How do you market weight the interplay of the subscription line, the assumed re-investment rate inside IRR which changes as the fund matures, and several other hard to assume variables.

The 2018 fund has 24 Billion committed and the numbers are fake- a high school quarterback. The 2013 fund has 18 Billion and the numbers are fake-but not as fake-a Rookie pro quarterback. Once we are market-cap weighting them, there are 30 Billion of deals that are completed and 42 Billion of fake deals that are not completed. Let’s not forget that before 2000, there were a lot less people chasing these deals. It was easier to make money. Today it is super competitive.

KS 2: When you say weighted what does that mean? Like how do they weigh 2018 versus 1990?

PE 1: Yeah, good question. So it's just based on cash flow. So, it's just based on, you know, investment A is made on this date and then it's closed on this date. From there to there, it's the cash flow, the money coming in. Some money may be recycled from that. So again, it goes, you know, back into another investment. So it's a, it's a complicated calculation, uh, to come up with the 22%. Again, you know, the total between all of the funds combined together gets you the 22% net IRR over the life since 1990 of the fund.

It is a good question, how do you market-weight a 24 Billion current fund which is manipulated by the subscription line with a fund from 1995 with 2 Billion in it. The fund from 1995 is a real number- but not that much money. It is a really complicated fake calculation and I am 100% sure the people making this document are relying on footnotes to say the IRR is fake- which won’t come up except in a arbitration anyway- there are too many variables to calculate a number like that and you either have to make up that number or make up the weightings of the various IRR’s which are fake anyway- why do you need to summarize it? They summarize it to make the private clients think “on par” they have an ability to get a 20+% return

Man 2: If they ask, I'm gonna get you and your buddy on the phone. Um,

Man 1: Sure. And, and you know, we're, we're happy, you know, if they're looking, you know, if they're ready to move on with an investment or need, uh, to meet with our PM team, we can try and set that up. Um, we've definitely done it in the past. We can do it again. So, uh, but

Man 2: Okay.

Man 1: If the clients want to figure out the 22% net IRR, they have to look at every cash flow for every fund. So, you know, there's nothing on this piece of paper on that slide that is going to do it, You have to look at the cash flow generation of every single investment made from 1990 to present.

I believe this violated FINRA 2210(D). IRR is very complicated. If you show people how IRRelevent it is (an industry joke)- people will realize these deals are not that good and they won't invest. If they showed people returns month by month without the credit line and without the re-investment rate, no one would touch these things. This is the most important page on the pitchbook and it is up to them to explain it according to the audience.

Man 2: So not just every fund, but if there was eight deals in the first fund and 10 deals in the second fund, and the third is in third fund. Look at every single deal.

Just think of that calculation and how to make it have meaning for an investor. 8 funds with 30 deals each. 240 deals with different amounts of money, many IRR's generated by the subscription line, what weighting do you give each deal, do you weight at the beginning of the deal or end of the deal, what if they don't send money back and re-invest in an add-on- ? Do you use the IRR at the beginning/middle or end of a deal? How do you market-weight the IRR as you invest more money?

It is easier to just make up the number and assume no one will dig in.

Man 1: Yep, exactly.

Man 2: Okay. Okay. I'll be back in touch. Thanks. I appreciate

Man 1: Your call. Bye-bye. Absolutely. Yep. Bye-bye.

[End]