



Morgan Stanley

INVESTMENT MANAGEMENT

Why Private Equity?

A Core Growth Engine
in Today's Portfolio

PRIVATE EQUITY | May 2026

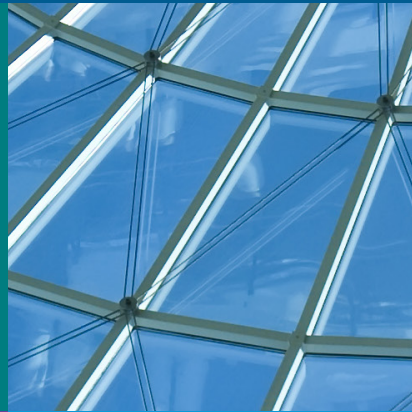
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WHAT IS
PRIVATE EQUITY?



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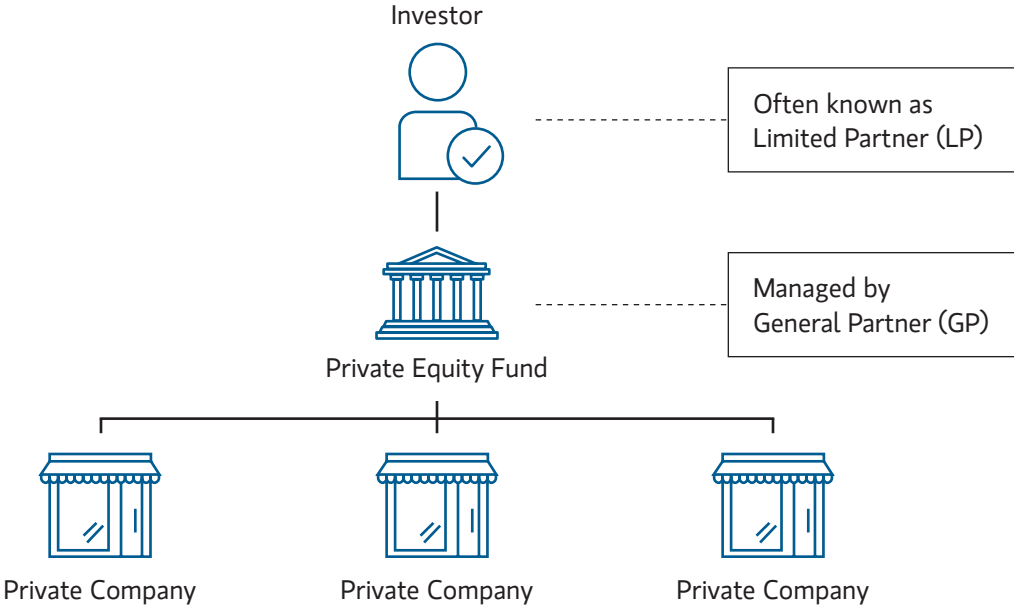
LOWER MIDDLE
MARKET

What is private equity?

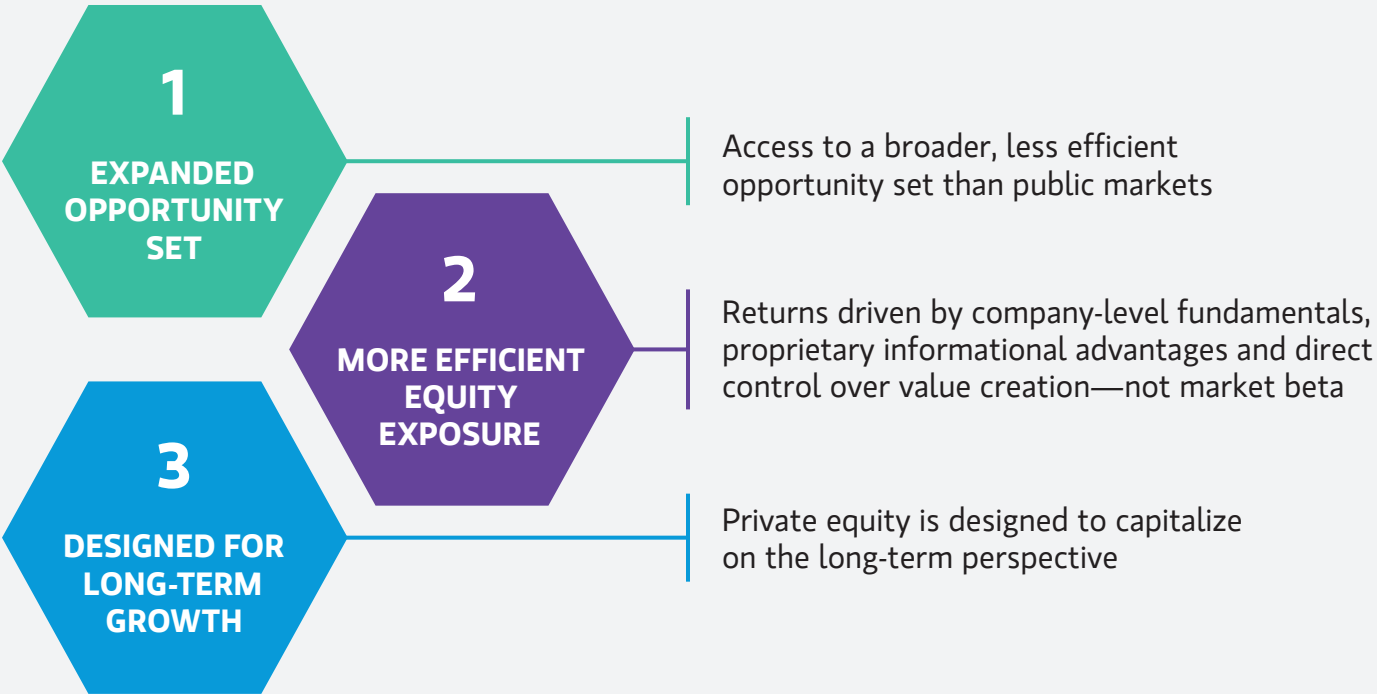
Private Equity is ownership in privately held companies, not sold on public exchanges, generally accessed through private funds where returns are driven by active ownership and value creation.

Public Equity is ownership in publicly traded companies, bought and sold on stock exchanges (NYSE, NASDAQ, etc.) with daily liquidity and market-driven pricing.

Illustrative Private Equity Fund Structure



Private equity offers a differentiated path to long-term capital growth



Wide Target-Rich Opportunity Set



More companies, more inefficiencies, more chances to generate alpha

The universe of private companies vastly exceeds the number of public companies and this opportunity set continues to grow as companies are staying private for longer.

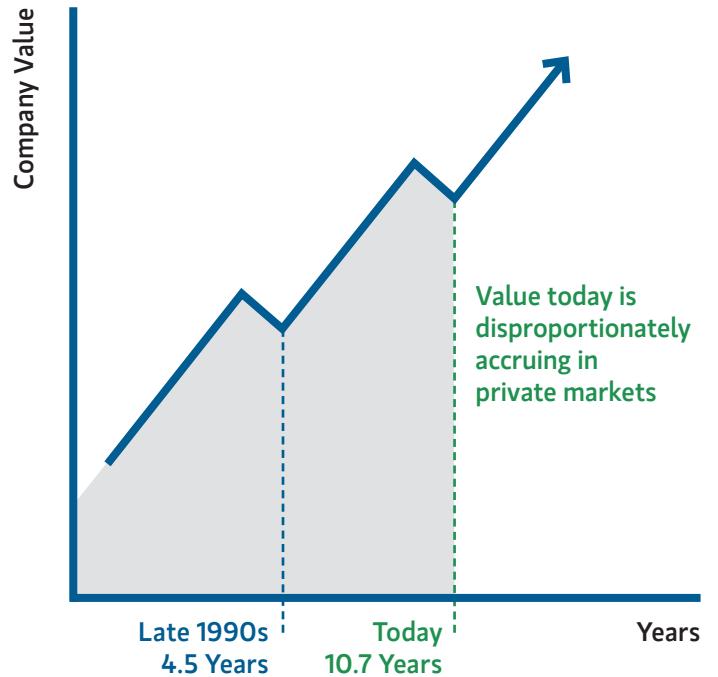
NUMBER OF COMPANIES



NUMBER OF U.S. PUBLICLY LISTED COMPANIES²

The number of companies publicly listed in the U.S. is **~4,050**

AVERAGE COMPANY AGE AT IPO³



For illustrative purposes only and is not representative of any actual or anticipated transactions. Diversification does not eliminate the risk of loss.

More Efficient Equity

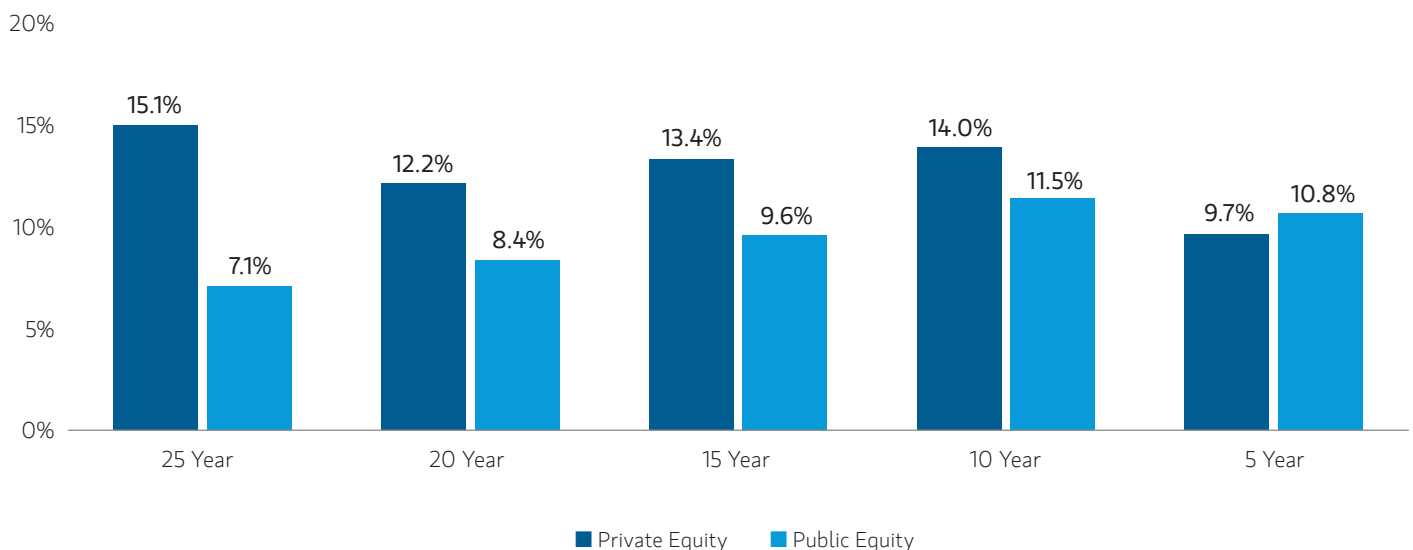


Deploy capital where it works hardest

- **Private Equity invests earlier** in the corporate lifecycle and targets **pricing inefficiencies** unavailable in public markets
- Capital deployed into businesses where it can **directly accelerate growth**, improve operations and unlock value
- Exposure to companies **before public-market efficiency** compresses returns
 - Public market investors are often only able to invest in companies after large gains have already been accrued by earlier stage private investors

Private Equity vs Public Markets

As of December 31, 2025



Source: Pitchbook Capital Indexes Dataset as of December 31, 2025. Public Equity is represented by the MSCI ACWI Index. All returns are net of fees. The **MSCI All Country World Index (ACWI)** is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of developed and emerging markets. The term “free float” represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends. For illustrative purposes only and is not representative of any actual or anticipated transactions. Diversification does not eliminate the risk of loss.

Informational Advantages & Control

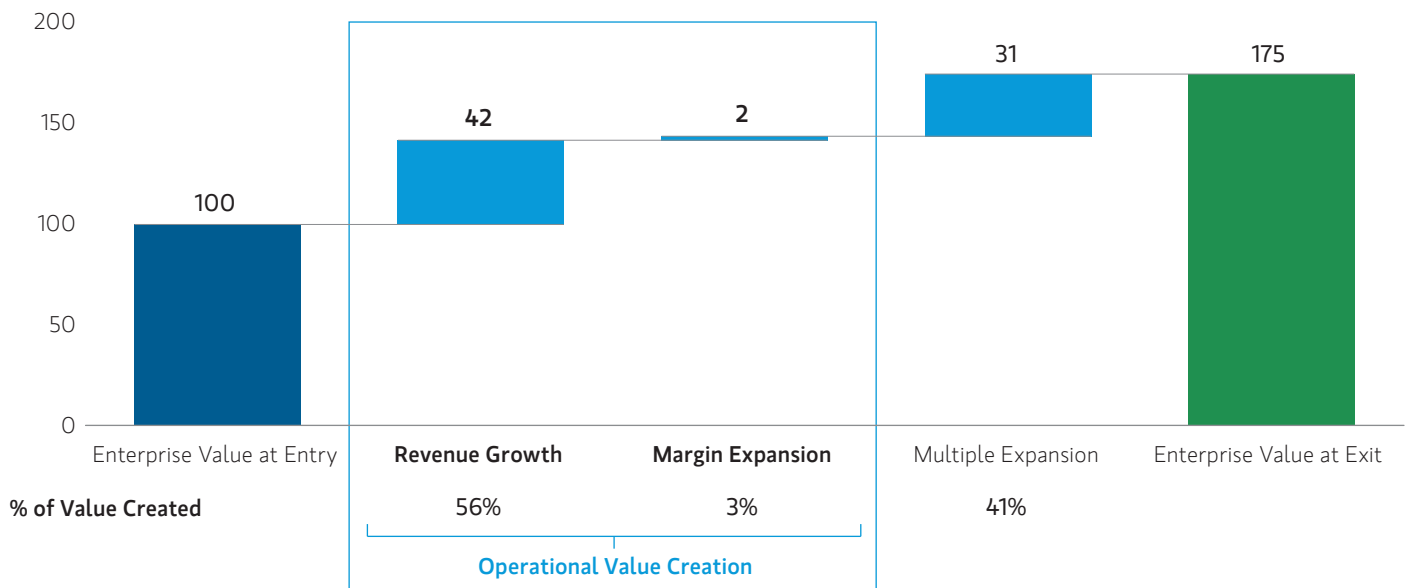


- Private markets are less transparent, creating opportunities for experienced managers to identify and **capitalize on mispriced assets**
- Direct access** to management teams and private financials can lead to **better underwriting**, earlier risk identification, and faster corrective action
- Ability to directly influence strategy, operations, capital allocation, management and governance to **drive intentional value creation**

Allocate to strategies where returns are driven by control, not market sentiment that's highly influenced by passive investors

Historically, 59% of Value Creation has come from Operational Improvements

Median indexed value creation, PE Buyout deals in the United States, entry years 2010-2024



Source: DealEdge.com (January 2026 for PitchBook). Note: Enterprise value figures are indexed and should not be used to assess the underlying deals' performance, i.e. a higher indexed enterprise value does not mean a higher deal MOIC. All calculations in \$. Deal universe includes fully and partially realized buyout deals with initial investments in 2010-2024 in the United States; all equity check sizes.

Designed for Long-Term Capital Growth



In Public Markets, managers often face pressure to support share price in the near term. This can incentivize decisions that optimize for short-term results at the expense of long-term value creation.

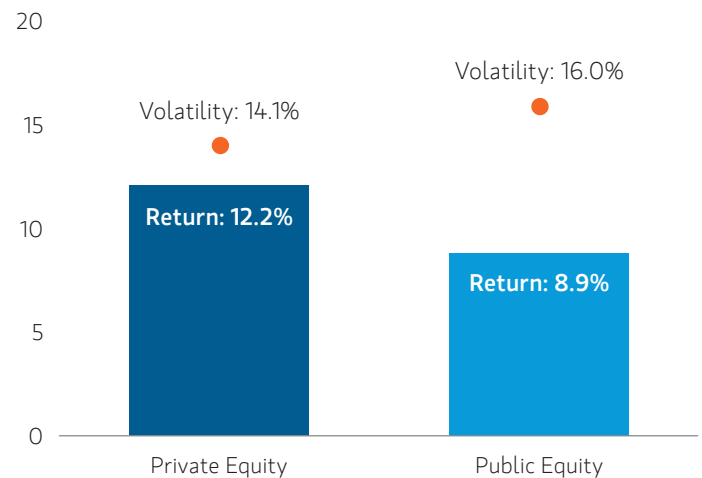
In Private Equity, investment decisions are evaluated on whether they will be value-accretive at exit, typically 3–4 years out.

This long-term mindset supports investment in:

- Operational improvements
- Strategic initiatives
- Sustainable growth

Private Equity Delivers Better Risk-Adjusted Returns over the Long Term

Private vs. Public Equity 20 Year Annualized Risk & Return



Source: Pitchbook Capital Indexes Dataset as of December 31, 2025. Public Equity is represented by the S&P 500 Index. All returns net of fees.

This long-term orientation has resulted in higher risk-adjusted returns over full cycles relative to public equity.

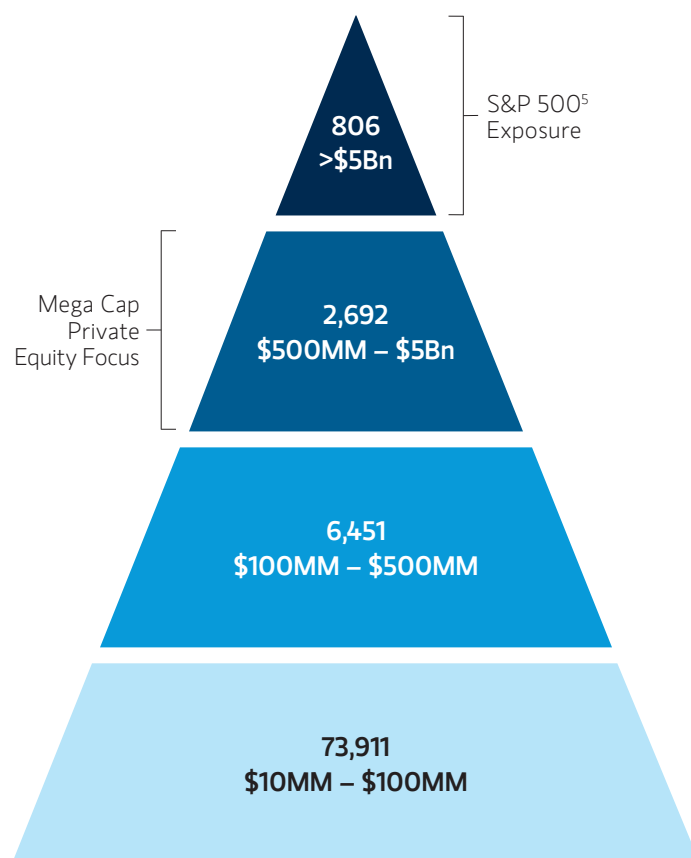
Why Lower Middle Market Private Equity

Lower Middle Market Private Equity presents an attractive opportunity set...

Within the universe of private equity, the opportunity set spans more than 700,000 privately held companies across a wide range of sizes, industries, and growth profiles. Against this backdrop, the lower middle market stands out as a particularly attractive segment with structural characteristics that have historically supported strong outcomes.

Defining the Lower Middle Market

Number of Companies by Revenue⁴



BROADER OPPORTUNITY SET

23x

more lower middle-market businesses than large-cap businesses⁶

LOWER ENTRY VALUATIONS

30%

discount compared to large-cap companies⁷

ATTRACTIVE PERFORMANCE

395bps

outperformance versus larger peers on an IRR basis⁸

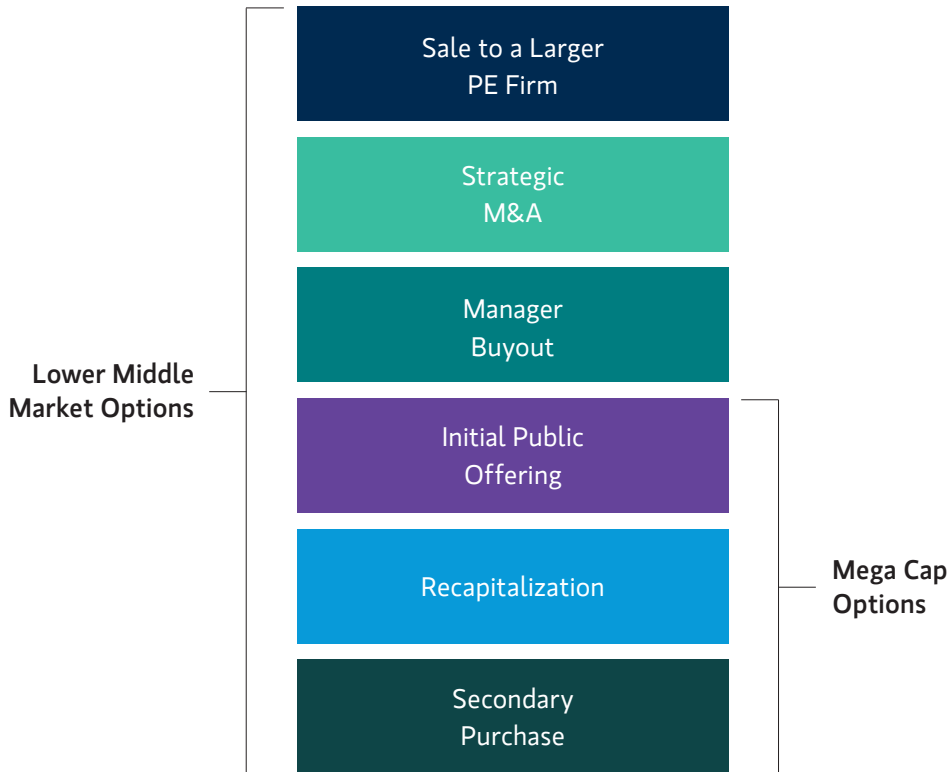
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...With more options for Liquidity than Mega Cap Segment

Favorable supply-demand dynamics, lower entry valuations, and more flexible liquidity—less dependent on macro conditions—create a compelling and resilient opportunity set. Importantly, this segment has historically been difficult to access, giving experienced managers a meaningful sourcing and information advantage.

Private Equity Typical Exit Types⁹



Lower middle market private equity investments have a variety of exit pathways, and the ability to be more flexible across market cycles.

Past performance is not indicative of future results. The statements above reflect the views and opinions of Morgan Stanley Private Equity Solutions as of the date hereof and will not be updated or supplemented.

END NOTES

¹ Source: NAICS Association, as of December 2025. Includes firms with 20 or more employees.

² Source: World federation of exchange-Number of listed domestic companies in Nasdaq and NYSE, as of December 2025.

³ Morningstar, "Unicorns and the growth of private markets | Morningstar Indexes", January 21, 2025.

⁴ Source: Capital IQ, includes operating public and private companies located in North America, as reported on January 16, 2026.

⁵ The Standard & Poor's 500 (S&P 500) is a stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ.

⁶ Source: Capital IQ, includes operating public and private companies located in North America, as reported on January 16, 2026. Lower Middle Market defined as companies with revenue between \$10MM-\$500MM, Large Cap defined as companies with revenue above \$500MM.

⁷ Source: Pitchbook, all U.S. LBOs from January 1, 2016 to December 31, 2025. Lower Middle Market defined as transaction size \$25MM-\$500MM, Large Cap defined as transaction size above \$500MM.

⁸ Cambridge Associates Index and Selected Benchmark Statistics are as of September 30, 2025. Benchmark includes global buyout funds from vintage years 2013 to 2022. Vintage year defined as legal inception date. Lower Middle Market defined as funds less than \$750MM, Larger Peers defined as funds greater than \$2Bn.

⁹ For illustrative purposes only. List is not exhaustive.

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Alternative investments are intended for qualified investors only. Alternative investments, including private equity funds, provide limited liquidity and include, among other things, the risks inherent in investing in securities and using leverage. An investment in an alternative investment fund can be speculative and should not constitute a complete investment program.

Private equity funds will typically invest in securities, instruments and assets that are not, and are not expected to become, publicly traded and therefore may require a substantial length of time to realize a return or fully liquidate. There can be no assurance that any such fund will be able to identify, choose, make or realize investments of the type targeted for their fund, or that such fund will be able to invest fully its committed capital. There can be no assurance that a fund will be able to generate returns for its investors or that returns will be commensurate with the risks of the investments within such fund's investment objectives. The business of identifying and structuring investments of the types contemplated by these funds is competitive and involves a high degree of uncertainty. In addition to competition from other investors, the availability of investment opportunities generally will be subject to market conditions as well as, in many cases, the prevailing regulatory or political climate.

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MIDDLE EAST

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