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INVESTMENT MANAGEMENT

Growth Investing in Private Markets: How Times Have Changed

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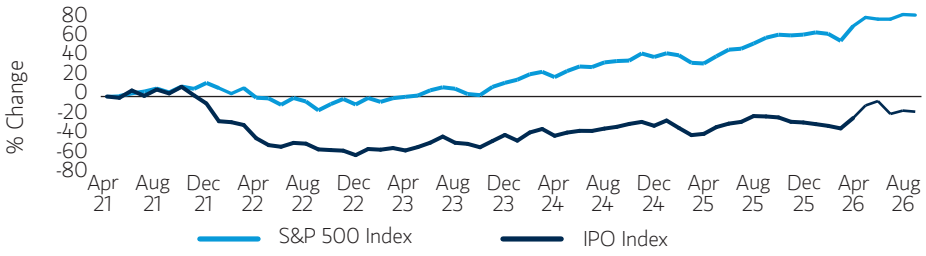
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Recent mega-IPOs have re-kindled the long-running debate of where equity investors can find the greatest growth and return potential: public markets or private, big companies or small, IPOs or secondaries, venture capital or private equity, active investing or just buy and hold the Mag 7?

While investing at a compelling value certainly helps, what's undeniable is that growth is the key ingredient to high compounding returns on a sustainable basis. And growth in these IPO candidates has been notably impressive. Since their founding, these companies have sprinted to an estimated value of ~$3.4 trillion in aggregate.[1] That is more than the exit value of all VC-backed IPOs combined prior to 2026.[2]

Private market investors stand to reap this enormous windfall, just as they did for the trillions in value generated by previous IPOs. And while many IPOs have gone on to generate equally spectacular gains as public companies, that has become more the exception than the rule in recent years. Since 2021, post-IPO returns have significantly underperformed the broader market by 100 percentage points (*Display 1*).

DISPLAY 1
Post-IPO performance of new listings versus the S&P 500 Index



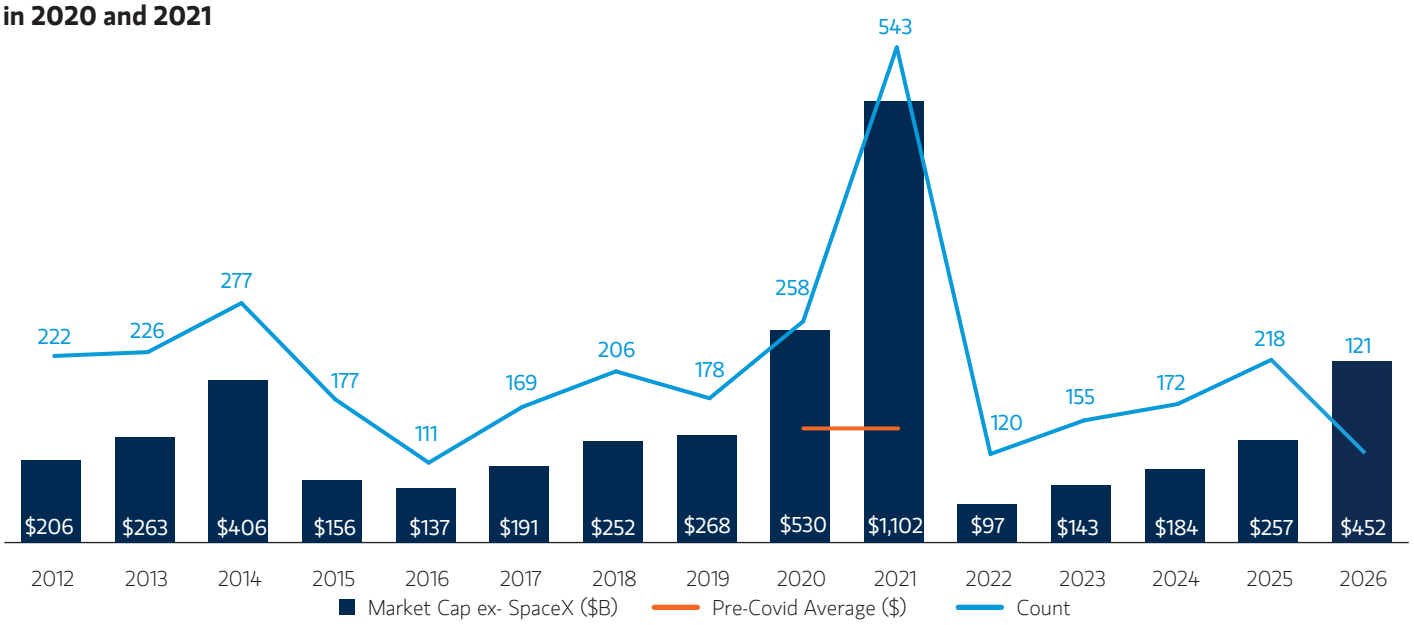
Source: Renaissance IPO Index, S&P Global. As of September 30, 2026.

[1] Dow Jones and Bloomberg news reporting. As of October 20, 2026.

[2] PitchBook, NVCA. As of September 30, 2026.

DISPLAY 2

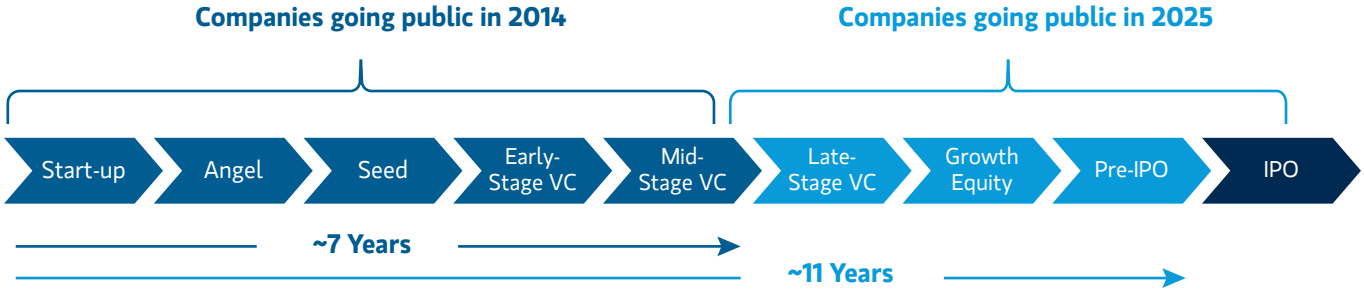
New listings of private companies have only recently recovered to pre-COVID levels after flooding public markets in 2020 and 2021



Source: Renaissance Capital, PitchBook. As of October 15, 2026. US only.
Note: Data includes IPOs, direct listings and SPAC-led reverse mergers. Excludes closed-end funds and SPACs that did not complete a reverse merger. Excludes new listings of companies with less than $50 million in total market cap. Excludes SpaceX IPO valued at $1.7 trillion in 2026.

DISPLAY 3

A disproportionate share of value is accruing in private markets as IPO-worthy companies stay private for longer



Source: Morningstar, Morgan Stanley Investment Management. As of December 31, 2025. For illustrative purposes only.

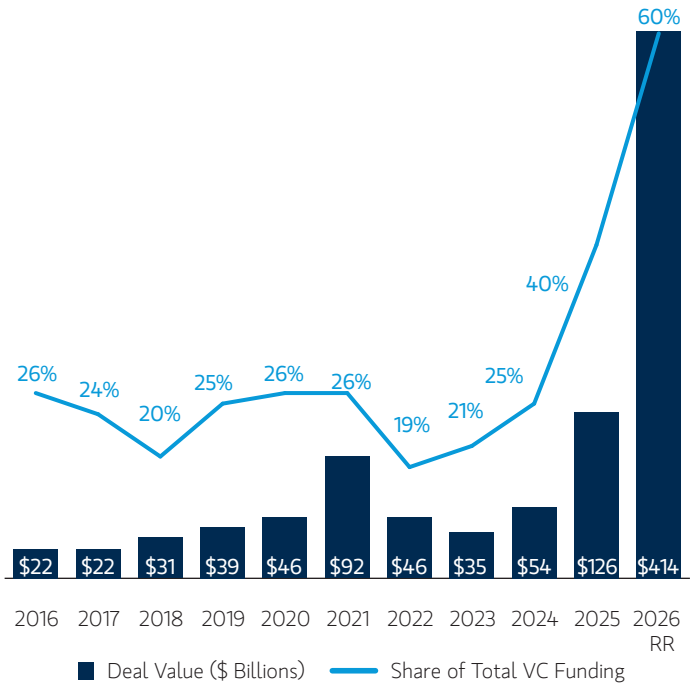
This underperformance can be traced to a deluge of supply in the 18 months following the global pandemic re-opening. During that span, 801 private companies and $1.6 trillion in market cap migrated to US public exchanges, a nearly 5-year supply relative to the run rate that prevailed previously (*Display 2*). New public listings have since collapsed to a two-decade low and only recently have they nudged above their pre-pandemic average, after removing the effects of this year's mega IPOs.

Lackluster post-IPO performance for investors and management teams alike has caused premier growth companies to stay private for longer. The median age of private companies going public has expanded from 6.9 years in 2014 to 11 years in 2025.[3] With the extra time, premier growth companies are raising multiple late-stage rounds at progressively higher valuations. This has shifted even more growth, return capture and value creation into the private phase of the life cycle for an IPO-worthy company (*Display 3*).

[3] Morningstar. As of December 31, 2025.

DISPLAY 4

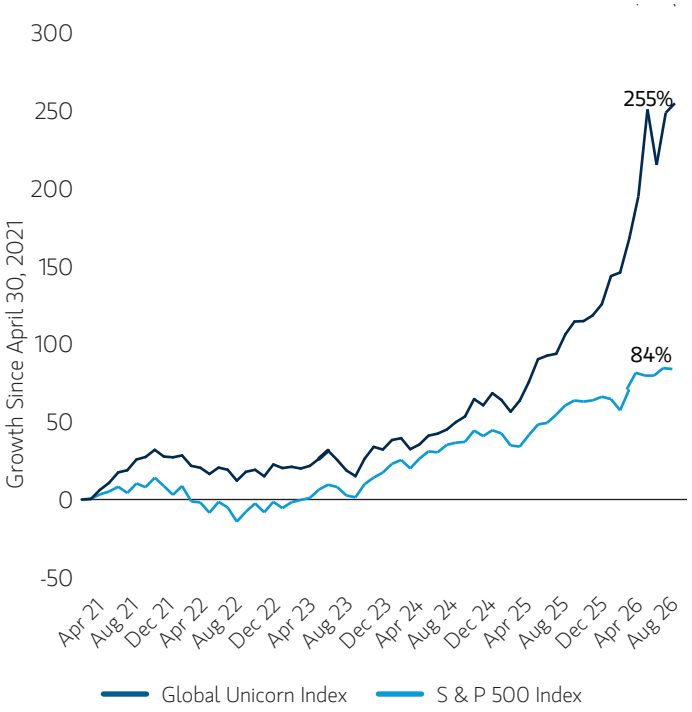
Capital flowing to late-stage private companies that have already received 6+ funding rounds has exploded in the last year



Source: PitchBook, NVCA. As of September 30, 2026. US only.

DISPLAY 5

Recent appreciation in the value of global Unicorns reflects a positive outlook for late-stage large scale growers within private markets



Source: Morningstar PitchBook Global Unicorn Index, S&P Global. As of April 30, 2026.

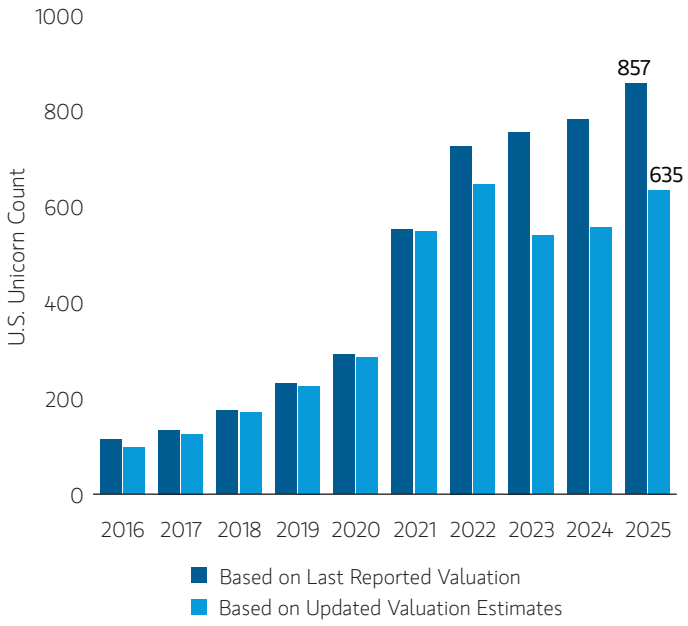
This dynamic has also blurred the lines between venture and growth equity investing. Traditionally, venture capital has flowed to start-ups with accelerating revenues but little to no profit, whereas growth equity has described PE-backed investments in larger private companies with more mature revenue streams and strong profits. It was unusual for VC-backed companies to receive as many as six funding rounds and those that did garnered just 25% of total capital deployed in any given year. In 2025, however, that number jumped to 40% and 2026 is on pace to increase more than three-fold compared to last year (*Display 4*).

What has changed at the margin is the arrival of a new breed of late-stage private companies that increasingly resemble public-quality assets in terms of age and maturity while featuring growth rates more akin to start-ups. These companies are being powered by a new wave of technological innovation that is most prominent within AI but also permeating other sectors of private markets by helping large companies accelerate growth and profitability. Among institutional investors, there is a growing view that new industry leaders will emerge from these transformative technologies. Also referred to as Unicorns, private VC-backed companies believed to be worth $1 billion or more, valuations of these companies have stepped up sharply in recent months, outpacing the S&P 500 index, and reflecting the positive outlook for late-stage, scaled growers within private markets (*Display 5*).

Drilling down on US Unicorns only reveals another important dynamic. While new Unicorns are on the upswing, most likely aided by the proliferation of AI native start-ups, that follows a period of retrenchment and hidden churn. In an analysis conducted by PitchBook, 40.6% of reported Unicorn values were found to be at least three years old due to inactive fundraising. To address the risk of stale and potentially lower values, all reported Unicorn values were replaced with new ones based on quantitatively derived estimates. In doing so, it found that the number of US Unicorns could be inflated by as much as 25% at present, or 635 versus 857 based on older reported values (*Display 6*). Most of the damage was done in the years immediately following 2021, with the proportion

DISPLAY 6

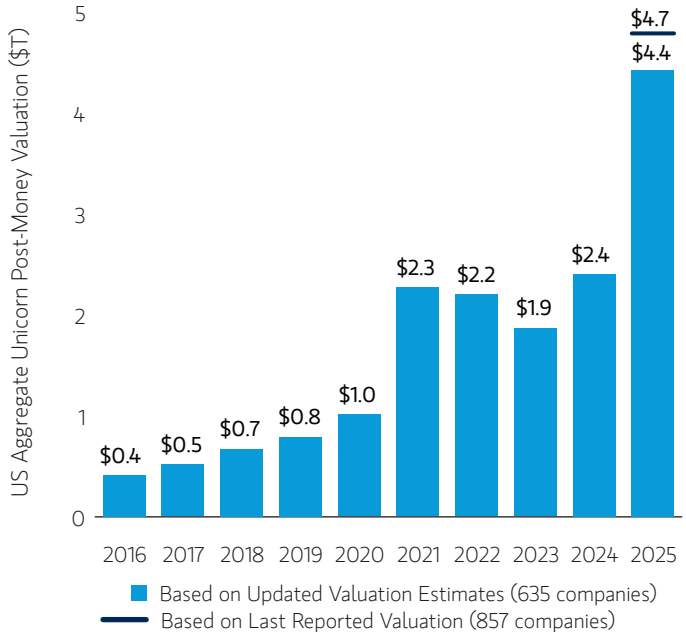
A refresh of estimated values indicates that the number of US Unicorns may have consolidated since the 2021 peak…



Source: PitchBook. As of December 31, 2025. US only.

DISPLAY 7

…Even so, estimated values have surged in the last year on this leaner base



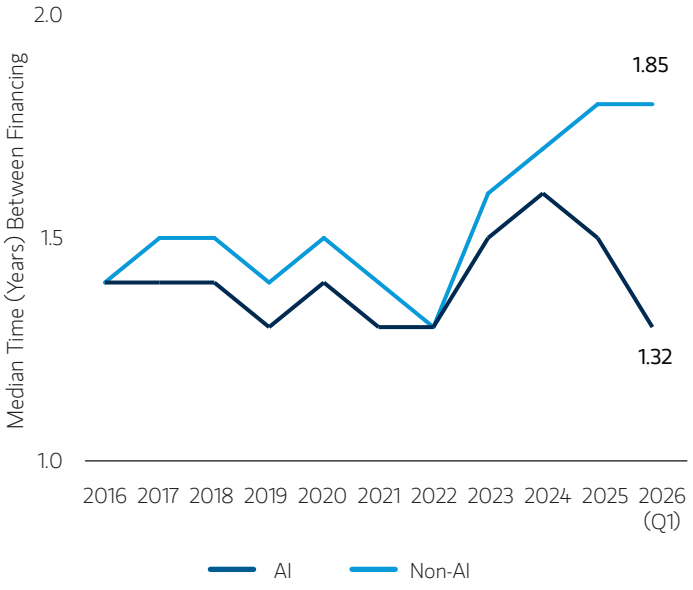
Source: PitchBook. As of December 31, 2025. US only.

of "fallen" Unicorns accelerating to ~14% annually from an average of ~5% in prior years.[4] Despite this high turnover and lower estimated base of companies, the analysis points to Unicorn value surging by nearly two-fold in 2025 to a level nearly equivalent to original reported value of the 857 (*Display 7*). Given the high level of hidden churn and fluid nature of rising and falling Unicorns, this suggests that active management and diversification are key when approaching late-stage private growth investing.

The final dynamic that has changed at the margin is the question of access. As more money flows in search of private markets' equivalent of a Magnificent 7, competition for access to periodic rounds conducted by premier growth companies has proven fierce. These rounds are frequently multiple times oversubscribed, leaving many investors unable to secure allocations. At the same time, leading companies are increasingly focused on partnering with investors who can provide a truly differentiated value proposition beyond capital alone. The typical interval between rounds has lengthened to nearly two years for most VC companies, with AI being the notable exception at a median of 1.3 years and trending downward (*Display 8*). That's good news for access, but experience is still needed to underwrite

DISPLAY 8

Median time (years) between VC rounds is trending down for AI versus non-AI companies



Source: PitchBook, NVCA. As of March 31, 2026. US only.

[4] Based on annual total of formal deletions from the Morningstar Global Unicorn Index, exclusive of exits, and implied deletions by PitchBook valuation estimates for the same year.

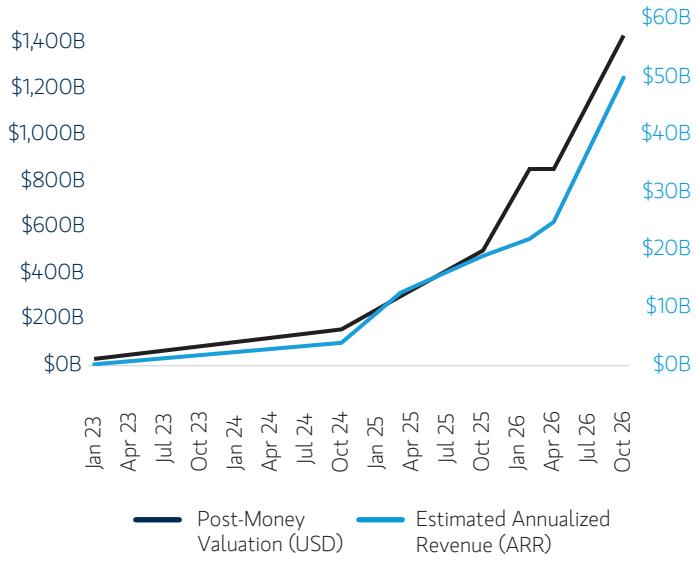
valuations and discern between winners and losers within this emerging technology.

Companies associated with transformative technologies such as AI are bucking the trend and raising capital more frequently due to a pace of revenue scaling rarely seen in prior innovation cycles. Many of these companies did not exist five years ago, and a good number have been able to ramp sales to hundreds of millions of dollars inside of 12 quarters.[5] AI start-ups are able to turn on revenue almost immediately, in stark contrast to the early days of consumer internet or even enterprise SaaS when companies would build a user base first and add advertising or subscription revenue second after a year or more had passed.[6]

Perhaps nowhere is this revenue velocity demonstrated best than within the universe of AI-native start-ups. OpenAI has disclosed that annualized revenue had reached $50 billion as of September 30, 2026, up from $4 billion just 24 months prior (*Display 9*).[7] That is equivalent to the total annual revenue for Salesforce, the perennial leader in SaaS. Framing this more broadly, in under three years' time,[8] top AI-native startups have sprinted to the same aggregate value that took public SaaS companies 20 years to build (*Display 10*).

DISPLAY 9

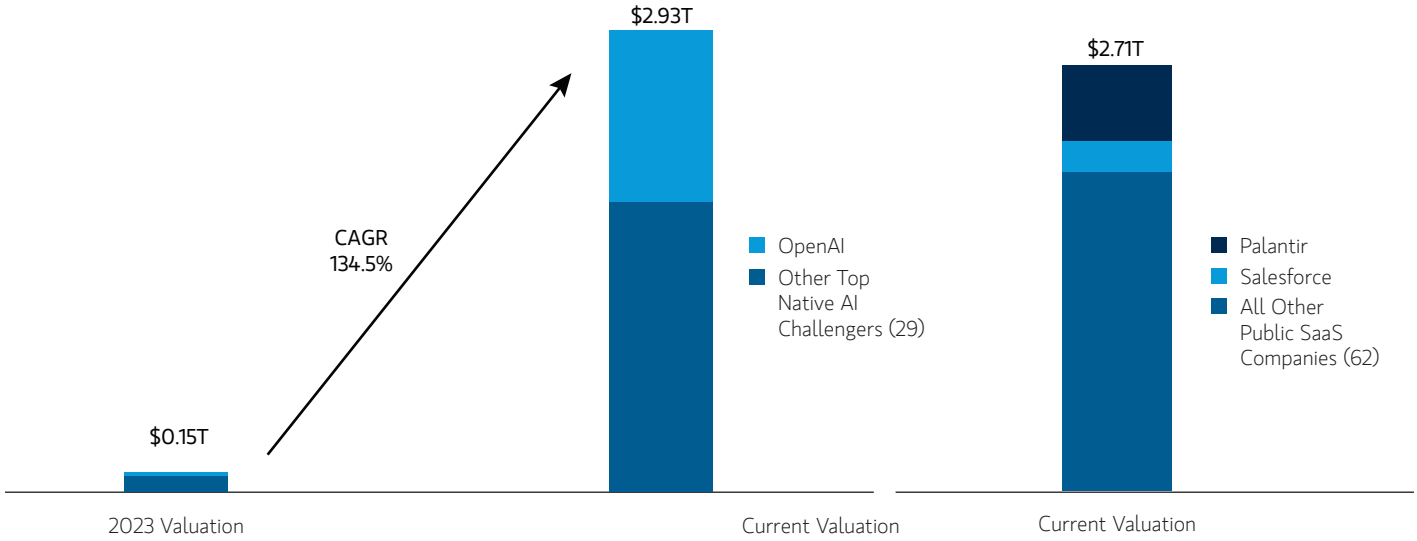
OpenAI's valuation has increased exponentially with each funding round, mirroring its extraordinary revenue growth while still private



Source: PitchBook, Jeffries Research, HSBC Research, Wedbush Research, OpenAI, The Information. Note: Post-money valuations and annualized revenue data based on company disclosures or Wall Street analyst estimates. As of September 30, 2026.

DISPLAY 10

Market cap of private AI-native companies vs. legacy public SaaS companies



Source: PitchBook LCD, Morgan Stanley Investment Management. As of September 30, 2026.
Note: Private company valuations based on PitchBook estimates or reported terms of recent fundraising rounds

[5] Morgan Stanley Research, "What's Causing the Collapse in Confidence?", February 9, 2026.

[6] William Blair Research, Beyond the Build: The Next Generation of GenAI Applications and Investment," January 22, 2026.

[7] UBS Research, "US Enterprise and Networking'" October 2, 2026.

[8] Company filings. Based on trailing 12-month revenue as of January 31, 2026.

Conclusion

The debate is real, but times have changed. The most exciting growth companies no longer make their debuts and generate their greatest returns in public markets only. Increasingly, those dynamics have shifted to private markets. Behind this year's crop of history-making IPOs is an expanding opportunity set for late-stage growth investing. After significant turnover, a new generation of private Unicorns are scaling revenue and creating value at a breathtaking pace, but only if they resemble public-quality assets and are executing on transformative technologies. Diversifying by industry and employing active management can play a key role, as well as experience and access.

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