



Investing for the Right Tail:

Asymmetric Wealth Creation Across Public and Private Markets

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Equity returns are not distributed evenly across companies. Over long horizons, a small number of firms account for most of the wealth that the stock market creates, while the majority of companies produce returns that are modest, flat, or negative. Statisticians call this pattern positive skewness, and it carries a practical consequence. The return of a broad equity portfolio depends heavily on whether it holds the few companies that drive the aggregate result. In other words, a handful of investments are so successful they more than offset the weaker results of the rest.

The same shape appears in private markets, and in venture capital it appears in its most pronounced form. A small fraction of investments generates most of a fund's return, and most investments return little or lose money. Investors sometimes describe exposure to this kind of payoff as buying a lottery ticket, on the theory that a small outlay can produce a very large gain. The analogy is useful, but it is also incomplete, and the ways in which it is incomplete are the subject of this paper.

This paper examines what it means to invest for the “right tail,” the small set of outsized winners that drive long-run wealth creation, and how institutional investors might think about capturing that exposure across both public and private markets. It does not argue that investors should pursue speculative positions, nor that today's market leaders will keep their positions. It distinguishes between two activities that are easily confused: capturing the right tail by holding a broad portfolio, which the evidence tends to support, and trying to select the winners in advance, for which the evidence is less compelling. That distinction has consequences for portfolio construction, for the debate over market concentration, and for how investors divide exposure between public and private holdings.

Key Takeaways

- › Equity wealth creation is highly skewed in both public and private markets. A small number of public companies, and in venture capital a small number of investments, account for most of the long-run gains, while the majority of companies produce little or lose money.
- › Capturing the right tail is mainly a portfolio question, not a selection question. The evidence suggests that broad exposure and a willingness to let winners grow capture the asymmetry, whereas deliberately concentrating in stocks that look like the next big winner has tended to disappoint.
- › The mechanics differ between public and private markets. In public equity, the right tail is available at low cost and requires no construction. In private markets, it must be deliberately built, which is why implementation differs so sharply between the two.
- › In public equity, investors can capture the right tail by owning a broad cross-section of the market, including its largest companies, and allowing winners to grow. This approach makes concentration an outcome rather than a deliberate choice. Downside protection would preferably come from other parts of the portfolio, such as bonds and risk mitigating strategies, rather than from reducing exposure to the largest equity holdings.
- › In private equity, capturing the same asymmetry has required deliberate construction: exposure to venture capital and growth equity, diversification across managers and vintage years, the best access an investor can obtain, and the patience to be judged over a decade rather than a few years.
- › Right-tail exposure is best treated as a deliberate, total-portfolio decision, in part because much of the asymmetry in a successful company's return can accrue before it ever lists. It increases concentration and the range of outcomes over time, so it calls for drawdown tolerance and clear policy rather than reactive adjustment.

The Shape of Equity Returns

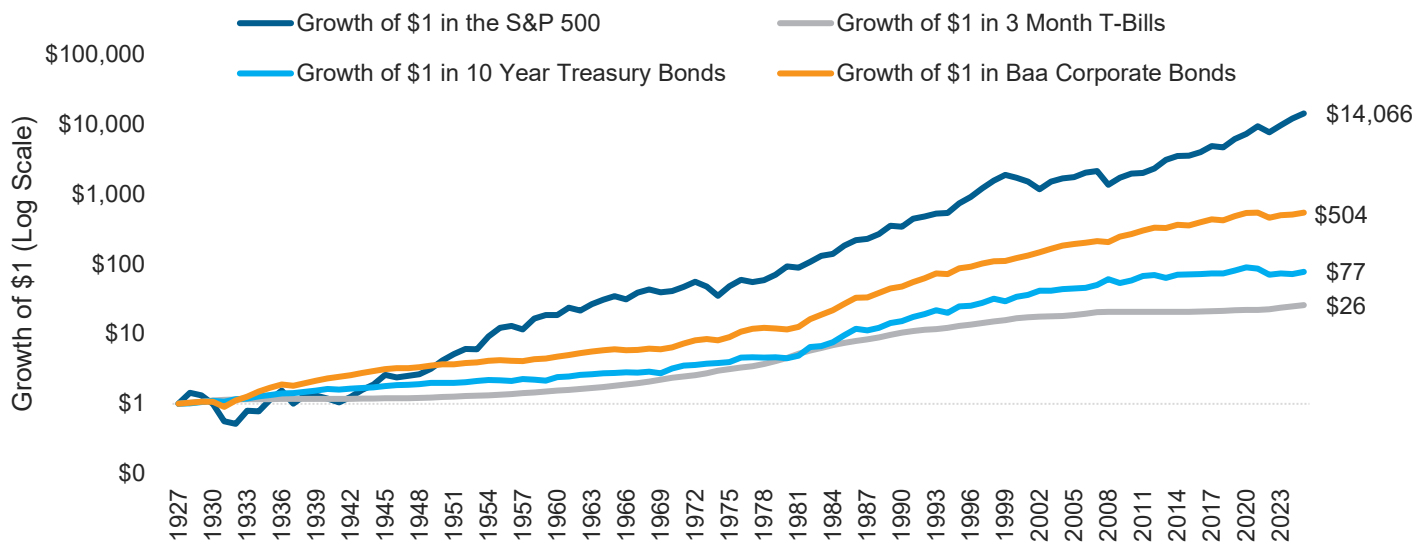
Most discussions of public equity returns begin with averages. The average annual return of a broad US equity index over the past century has comfortably exceeded the return on cash and bonds (see Figure 1), and that average is the basis for the equity risk premium that most institutional portfolios are built to harvest.

Averages, however, obscure the asymmetry of returns within each asset class. Rather than clustering around the average in a normal bell-shaped distribution, company returns are unevenly distributed. As a result, even though the distribution has an average and a median, neither may reflect the experience of a typical company.

Research on long-run individual stock performance has documented this unevenness in detail. A study of nearly a century of US equity returns found that most individual stocks did not beat one-month Treasury bills over their lifetimes, that the median stock produced a negative lifetime return, and that a small minority of companies accounted for essentially all of the net wealth the market created above the return on cash (see Figure 2).¹ Updated through more recent data, the concentration is, if anything, greater. Roughly 2% of companies produced about 90% of the aggregate net wealth, and a handful of names, including Apple, Microsoft, NVIDIA, Alphabet, Amazon, and ExxonMobil, together added on the order of \$17 trillion in value.² The pattern is not confined to the United States. Studies of non-US markets find a similar share of stocks failing to beat short-term government bills.³

Figure 1

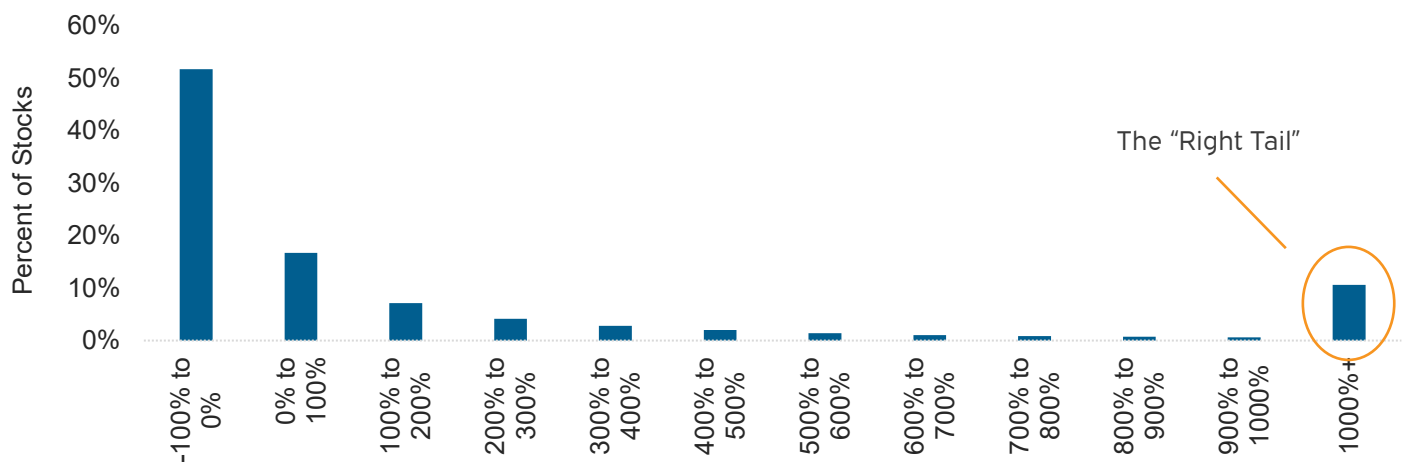
Long-term Returns for Stocks, Bonds and Cash



Source: InvMetrics and NYU Stern. Data is as of December 31, 2025. Indices used: S&P 500, 3-Month T-Bill, 10-Year US Treasury Bonds, Baa Corporate Bonds.

Figure 2

Distribution of Lifetime Cumulative Wealth Creation by Percentile of US Equities



Source: Hendrik Bessembinder, "Do Stocks Outperform Treasury Bills?," 2024. Data compiled by H. Bessembinder, using data in the CRSP common stock daily file, December 1925 to December 2023. Note that the lifetime universe includes more than 29,000 companies.

It would be a mistake to read these findings as an argument against equities. The aggregate market has created enormous wealth precisely because the gains of the few winners have far outweighed the losses of the many laggards. The findings are instead an argument about structure. Because so few companies drive the result, the central risk in equity investing has less to do with average volatility and more to do with whether a portfolio holds the companies that matter.

The reason returns take this shape is straightforward. A stock can lose no more than 100% of its value, but its gains are unbounded. A company that compounds successfully for years or decades can return many multiples of the original investment, while the worst outcome is a total loss. Aggregating many such outcomes produces a distribution with a long right tail, in which most observations cluster at or below zero excess return and a thin tail of extreme winners pulls the total upward. Compounding reinforces the effect, since the firms that grow fastest also tend to survive and to reach the largest size.

This same shape appears in private equity, specifically in venture capital. Industry data on venture capital (VC) returns describe a “power law,” in which a small number of investments produce most of a fund’s return and a large share of investments return less than the capital invested.⁴ Analyses of thousands of VC investments have found that a small percentage of deals generated the majority of returns, while half or more of deals lost money or merely returned cost.⁵

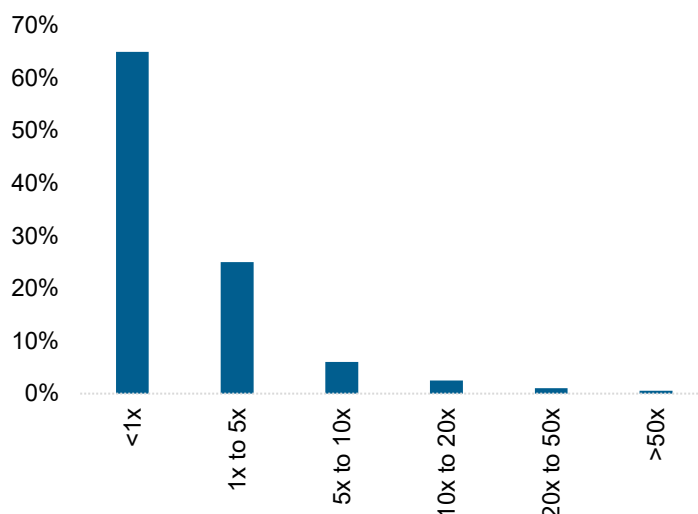
Public equity and venture capital are therefore not two separate phenomena. They are the same phenomenon observed at different points in a company’s life. VC captures the asymmetry at the earliest and most uncertain stage, when the range of outcomes is widest. Public markets capture a later stage, after many failures have already been screened out, but the underlying skew persists. Recognizing that the two are connected is the starting point for thinking about right-tail exposure across a whole portfolio.⁶

The Sources of Skewness: Volatility and Horizon

A natural question is why both public equity and venture capital display right-skewed returns while buyouts do not (to nearly the same degree), particularly since buyout funds and public equity indices both hold mature companies. The answer has less to do with the maturity of the underlying businesses than with two variables that govern how skewness arises: the volatility of the individual investment and the length of time it is held.

Figure 3

Distribution of Gross VC Multiples by Deals Financed



Source: Correlation Ventures. Published by Seth Levine, “Venture Outcomes Are Even More Skewed Than You Think,” VC Adventure (blog), August 12, 2014. <https://sethlevine.com/archives/2014/08/venture-outcomes-are-even-more-skewed-than-you-think.html>. Data is based on 21,640 US venture financings between 2004 and 2013. The distribution of outcomes by financing, measured on a gross cash-on-cash multiple. Correlation Ventures has since refreshed its data and reports the shape has held in the most recent decade, less than 4% of invested dollars returned 10x or more, about 37% of dollars returned less than 1x, and nearly half of deals lost money. See David Coats, “Venture Capital - We’re Still Not Normal,” VC by the Numbers (Medium), July 13, 2023, <https://medium.com/correlation-ventures/venture-capital-were-still-not-normal-9d07d354db88>.

Positive skewness is, in large part, a mechanical product of compounding. Returns compound multiplicatively, and the arithmetic is asymmetric. An investment can lose no more than all its value, but a position that compounds at a healthy rate for many years can grow to many times its original size. Holding an investment longer therefore stretches the distribution of cumulative outcomes further to the right. Research on long-horizon returns has formalized this. One study shows that compounding induces strong skewness at horizons beyond about five years, that the size of the effect is driven primarily by volatility, and that the result holds even when returns are symmetric.⁷ Another study reaches a similar conclusion through simulation, illustrating that long-run compound returns behave very differently from monthly or annual returns.⁸ The practical consequence is that the average long-run outcome sits far above the median one, since a few large winners pull the average up while most holdings return much less.

Two variables, then, volatility and holding horizon, largely explain the differences across markets. Public buy-and-hold exposure, and a capitalization-weighted index in particular, sits at one extreme on horizon. The volatility of a typical stock is moderate, but the holding period is effectively unlimited, so compounding runs for decades and the right tail develops fully.

Venture capital sits at the other extreme on volatility. Its holding period is finite, but the outcomes of individual companies are close to binary, and because volatility drives the magnitude of the effect, VC can reach an extreme tail even without a multi-decade horizon. Buyouts (and most other asset classes) sit low on both, as the volatility of the underlying companies is modest relative to VC, and they holds each company for only a few years, so compounding has little time to work. With neither driver present, the distribution for buyouts stays comparatively tight.

There is also a structural reason buyout lacks the tail, and it connects directly to the argument of this paper. A buyout fund has a finite life and must return capital to its investors, so it sells each company within a few years of buying it. That forced exit often truncates compounding before a right tail can form (i.e., it cannot let its winners run). A large cap or all-cap public index faces no such constraint and never sells a company simply for growing large, so a single winner can compound from a small position into a very large one over an extended period. Seen this way, buyout is a useful counterexample, since it shows what happens to the distribution when the holding period is capped and exit is mandatory, which is the opposite of the conditions that tend to produce outsized wealth.

The maturity of the underlying company, then, is not the key variable. The right tail in both public equity and VC arises from the same source, namely volatile payoffs that are compounded, or held, long enough without forced truncation. This distinction matters once the discussion turns to implementation, because it means that the VC and growth equity portion of a private equity program is the part that offers meaningful right-tail exposure.

A Lottery with Positive Expected Value

The lottery analogy captures something real about this payoff structure in venture capital. Like a lottery ticket, an individual early-stage investment usually expires at a loss, while the occasional winner provides a gain that can be many times the size of the initial stake. However, unlike a traditional lottery, the expected value of a diversified portfolio of such investments has historically been positive, because the winners have more than paid for the losers.

The analogy breaks at the point that matters most for implementation. The positive expected value belongs to the *portfolio*, not to any single ticket (i.e., company), and it does not follow that buying the tickets that most resemble

winners improves the result. Investors appear willing to pay a premium for the appearance of a jackpot. Studies have found that stocks with recent extreme positive returns, a common marker of lottery-like appeal, have tended to be priced richly and to produce lower returns in the near term, which researchers read as evidence that investors overpay for lottery-like exposure.⁹ Related work attributes the pattern to a behavioral preference for positive skewness, in which investors overweight the small probability of a large gain.¹⁰ These are short-horizon findings, measured over months rather than the multi-year holding periods this paper concerns, so they do not describe the eventual fate of a long-run winner. Their relevance is narrower but still direct: the names that most resemble the next large payoff are, on average, the ones other investors have already bid up, which is a weak basis for selection.

This does not conflict with capturing the right tail through the broad market. An index held at market weight neither tilts toward lottery-like names nor pays a premium for skewness. It holds the eventual winners alongside everything else, and the stocks that look like lottery tickets today are not necessarily the same as those that will compound over decades. This implies a distinction between holding the tail and trying to select from within it.

It is tempting to look at the list of companies that drove past wealth creation and conclude that an investor should simply have held those names. That reasoning is available only in hindsight. The companies that turned out to be the winners were not identifiable as such at the outset, and many endured severe declines along the way. For example, the average peak-to-trough decline for the six largest contributors to recent US wealth creation (Apple, Microsoft, NVIDIA, Alphabet, Amazon, and ExxonMobil) was 80% at some point in their history. This level of drawdown is comparable to that of the average stock.¹¹ Capturing the right tail historically required holding companies through long periods in which they did not look like winners, which is far harder in practice than it appears in a table of final outcomes.

Two Principles That Are Easily Confused

If the right tail is captured by holding rather than selecting, two principles follow. They are often grouped together under the heading of diversification, but they are distinct, and they have different consequences for how concentrated a portfolio becomes.

The first principle is breadth of inclusion. Because an investor cannot know in advance which companies will drive the aggregate result, owning a broad cross-section of the market raises the probability of holding the eventual winners. This is one of the conventional arguments for diversification, and in the context of skewed returns it carries additional force. The opportunity cost of excluding the small set of companies that produce most of the wealth is large, and it cannot be recovered by holding more of the companies that do not.

The second principle is restraint in trimming winners. Once a company grows into a large position, selling it back to a smaller weight shifts capital from the part of the portfolio that has been creating wealth to the part that has not. A strategy that systematically caps or equalizes positions does exactly this. It sells the winners as they rise and buys the laggards as they fall, which limits the contribution of the very names that drive the right tail.

These two principles point in different directions on the question of concentration. Breadth of inclusion argues for holding many names. Restraint in trimming argues for allowing some of those names to become large. A portfolio that follows both will hold a wide cross-section and will let its winners grow, which produces concentration as a result rather than as a deliberate choice.

In public equity, a single familiar structure follows both principles at once. A capitalization-weighted index that holds the entire market satisfies breadth of inclusion, and the weights of positions rise and fall with prices, so it never sells a company simply for becoming large.¹² Such an index lets winners run by construction. Concentration in such an index is therefore not a flaw that has crept in. It is the visible result of the index doing what it is designed to do, which is to reflect the market's own allocation of value.

This is worth stating plainly, because the alternative is often presented as the more prudent path. Equal-weighted and capped indices are frequently proposed as a way to reduce concentration, and they do reduce it as measured. By the same action, however, they reduce exposure to the companies most responsible for long-run wealth creation, and they change the portfolio's character in less visible ways, tilting it toward smaller and more value-oriented companies and requiring more frequent trading. In short, equal-weighted and capped indices would result in far less wealth creation than a portfolio that allows successful companies

to appreciate without constraint (i.e., let the winners run). By selling the best performers too early, an investor systematically cuts off the biggest payoffs.

Implications for Public Equity

The practical question for a public equity investor is what to do about concentration that has already arisen. In recent years, a small number of large companies have come to represent a substantial share of US index value. By one common measure, the largest ten companies account for approximately 40% of the S&P 500's market capitalization, a level high by the standards of recent decades though not without precedent earlier in the twentieth century.¹³ The discomfort this produces is understandable, since concentration is often associated with fragility. The right-tail framework offers a more specific way to think about it.

If wealth creation is skewed, and if today's large companies are the ones that have created that wealth, then today's concentration is the right tail made visible. A strategy that mechanically reduces concentration is, in this light, a strategy that trims the winners. The evidence is mixed, and worth stating carefully.

Equal-weighted indices have, over some multi-year periods, outperformed capitalization-weighted indices, notably in the years following the dot-com peak and the Global Financial Crisis (GFC). That outperformance, however, depended on extended stretches in which the largest companies delivered persistently low returns, and it reflects embedded tilts toward smaller and cheaper companies. That is, the outperformance of equal-weighted indices has been highly cyclical and driven by exposure to value and smaller-cap companies, rather than by any general benefit from trimming winners.

In addition, historical analyses that reduce equity exposure or reweight away from the largest names have generally not improved risk-adjusted outcomes, and the largest stocks have not displayed systematically worse risk characteristics than smaller ones.¹⁴ Capitalization weighting also carries practical advantages that have nothing to do with forecasting, including lower turnover and the absence of any active size or style tilt. Hence the case for equal-weighted and capped indices is based primarily on downside protection, not upside potential.

For an investor in a multi-asset class portfolio, downside risk is more commonly addressed outside the equity allocation than inside it, through the other assets the portfolio already holds, such as bonds and risk mitigating strategies. Framed that way, the equity allocation can be left to do what it does most efficiently, which is to hold the market in full, including the largest names, while the diversifying assets carry the burden of cushioning drawdowns.

A firm boundary sits at the other end. None of this supports deliberately concentrating a portfolio in the names an investor expects to become the next winners. That is selection, not capture, and it runs into the lottery evidence discussed earlier as well as the broader record of active management. Across large cap US equity mandates, the median active manager has not outperformed an appropriate index over long periods (see Figure 4).¹⁵ This indicates how hard it has been for the average manager to beat a cap-weighted large cap benchmark by selecting and overweighting names. Letting the market's winners run inside a broad equity allocation is not the same as betting on which companies the winners will be.

Two genuine risks deserve acknowledgment rather than reassurance. The first is that concentration may amplify specific risks, not just weights. If the largest companies share common drivers, such as sensitivity to interest rates or a common capex cycle, a shock to one can transmit

to many, and the diversification that breadth is meant to provide is less present when it is most needed. This is the risk that most calls for mitigation from outside the equity allocation, discussed below, rather than for trimming the concentrated names from within it.

The second risk is that the right tail can be expensive (i.e., investors may overpay for it). A capitalization-weighted portfolio is neutral in that it takes no active valuation view, but it is not insulated from valuation. It holds each company at the weight its price implies, so when the largest names are richly valued, a cap-weighted holder carries that valuation in its largest positions. The argument that broad exposure captures the future, unknown right tail at low cost is robust. The separate proposition, that today's visible winners will continue to outperform from current valuations, is a valuation-dependent bet that the framework does not offer an opinion on. Holding the winners and predicting their continued outperformance are different commitments, and only the first follows from the evidence.

Implications for Private Equity

The two principles that govern public equity, breadth of inclusion and restraint in trimming, apply with equal logic to private equity. The way they are implemented, however, differs sharply, and the difference is the most important practical point in this section.

Figure 4
Rolling 12-month Gross Excess Return of US Large Cap Equity Managers



Source: Meketa analysis of eVestment data as of December 31, 2025. Reflects rolling median one-year performance minus the respective benchmark performance over that same period, gross of fees. Net of fee returns would be lower.

In public equity, both principles are satisfied automatically and at low cost by a capitalization-weighted index. Private equity markets offer no equivalent. There is no investable portfolio of the entire private equity universe, so any private program is necessarily a selected subset of funds and companies. Breadth must be constructed deliberately, by holding enough investments that a portfolio is likely to contain some of the power-law winners.

The most significant difference is that the right tail in private equity is gated by access and selection in a way that the right tail in public equity is not. Dispersion between the best and worst private equity funds is far wider than for any public markets asset class (see Figure 5).¹⁶ The average return in venture capital is 23.5%, versus a median return of 14.9%, indicating a distinctly positive skew.¹⁷ In other words, the return investors seek from the asset class lives in the top funds, so an investor who invests only in average funds is likely to earn the much less remarkable median.

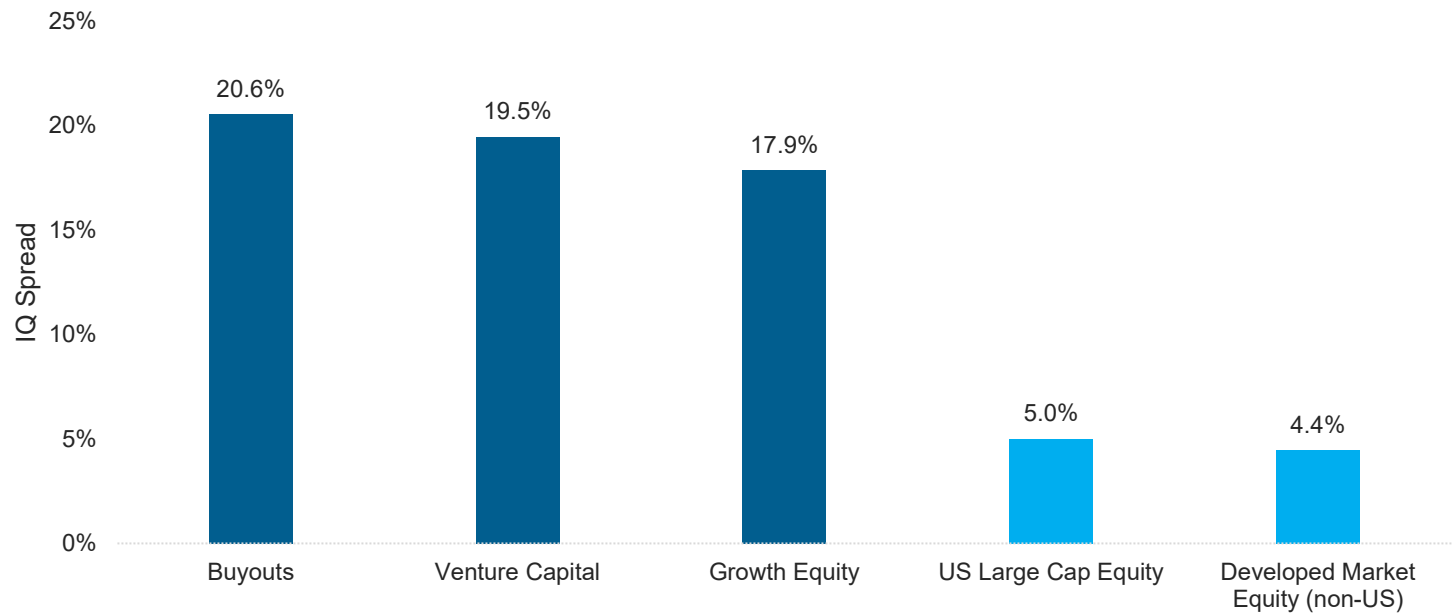
Access matters because performance persistence is strongest in venture capital, and the mechanism appears to be preferential access to the best opportunities. Studies have found that venture capital funds following a top-quartile predecessor reached the top quartile appreciably more often than chance would predict, and they reached above-median performance most of the time.¹⁸ However, the evidence is that persistence among buyout funds has declined as the market matured.¹⁹ What seems reasonably clear is that selection and access, rather than breadth alone, are important variables in venture capital outcomes. The strongest funds are frequently oversubscribed and closed to new capital, so realizing the value of selection depends on relationships and standing that are built over time, a constraint public markets do not impose.

This raises a practical question for investors who cannot be confident of access to the strongest managers. Is broad, diversified VC exposure, sometimes described as venture “beta,” a reasonable substitute? The answer appears to be that it is a partial mitigant rather than a true substitute. A sufficiently broad and diversified program raises the probability of holding some winners and lowers the risk of missing the right tail entirely, which can be more sensible than either a concentrated commitment to accessible but average funds or no VC exposure at all. Broad venture

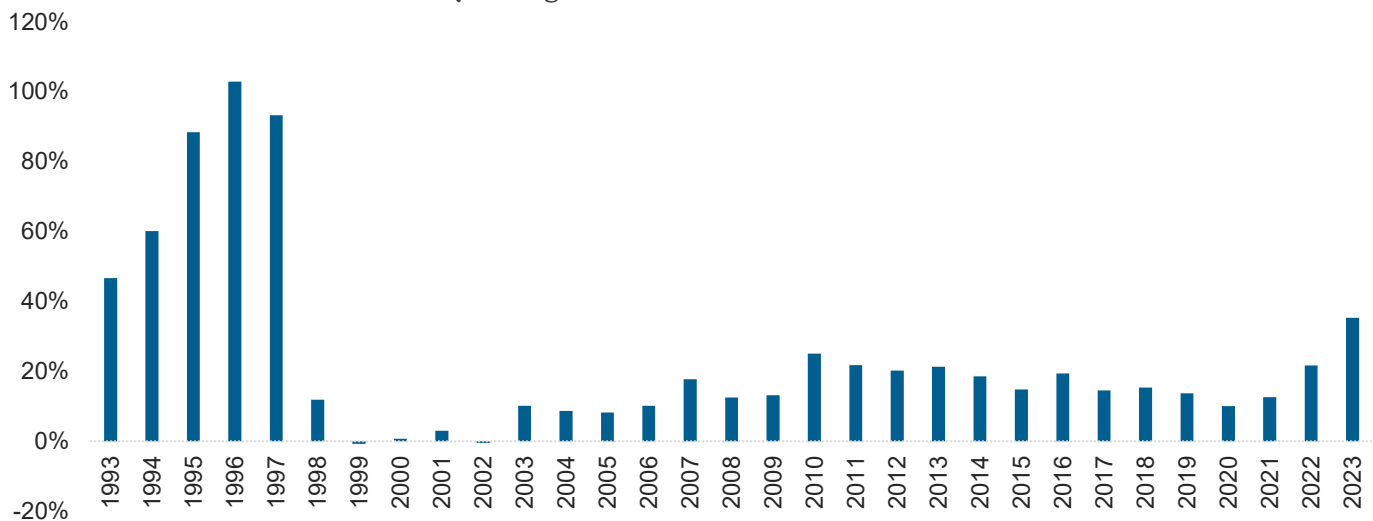
capital exposure therefore tends to raise the floor more than it raises the ceiling, which is close to the opposite of how breadth functions in public markets. That said, diversification remains the principal tool most investors have for making a right-tail outcome likely at all, so the more useful question is usually how to combine breadth with the best access an investor can obtain, rather than treating the two as alternatives.

Breadth in venture capital also has a time dimension. Dispersion across vintage years has been comparable in magnitude to dispersion across managers within a vintage. Aggregate VC performance has historically moved in cycles (see Figure 6). Therefore, an investor who commits in only one or two years or who misses a few years could easily miss the upside of the cycle. The practical response is to commit steadily across vintages and to accept the horizon that this requires. VC funds may hold investments for a decade or more, and many companies are choosing to stay private for longer than was historically the case.²⁰ Patience is therefore not just a temperamental preference in this asset class but a structural condition of earning the return. This is an important behavioral aspect to the asset class, as Trustees and Investment Committees may be inclined to judge a VC program over intervals too short to align with the cycle.²¹

One further feature of VC and growth equity investing bears on where the right tail is captured. Much of the asymmetry in a successful company’s return may accrue while it is still private. By the time a company reaches the public market through an initial public offering, a large share of its early growth, and the steepest part of its return, has often already been realized by private holders. The recent listing of SpaceX at a roughly \$1.78 trillion valuation is an (extreme) illustration, since it follows years of compounding across private financing rounds.²² Hence its listing offered access to a more mature business, with much of the early asymmetry already realized by private holders. For investors, this means that the question of where to capture the right tail is partly a question of where in a company’s life they can participate, and the public-market entry may occur after the most dramatic part of the distribution has played out.

Figure 5**Dispersion of Returns for Private Equity and Public Equity**

Source: Meketa analysis of data from eVestment and Cambridge Associates via S&P Global, as of June 30, 2025 (for private markets data) and September 30, 2025 (for public markets data). Public markets 10-year interquartile spreads are evaluated by taking the difference between the geometric average of the 75th percentile return and the 25th percentile over a rolling 12-month period. Private markets 10-year interquartile spreads are Cambridge's provided vintage year quartile spreads that we then take an average of. Private markets 2024 & 2025 vintage years are excluded as they are too recent to draw meaningful conclusions from their performance. Note that private markets performance is reported net of fees, and public markets performance is reported gross of fees.

Figure 6**Pooled Returns for the VC Universe by Vintage Year**

Source: Meketa analysis of Cambridge Associates via S&P Global as of March 31, 2026. Returns are since inception pooled IRRs. Index used: Cambridge US Venture Capital Index. Performance is presented net of fees. Vintage year period includes 1993 through 2023; 2024 and 2025 vintage years are excluded as they are too recent to draw meaningful conclusions from their performance.

Sourcing Right-Tail Exposure Across the Total Portfolio

Because the right tail appears in both public and private equity markets, and because the two are connected stages of the same process, an investor's total exposure to it is best assessed across the whole portfolio rather than within each sleeve.

A broad public equity allocation captures the realized public right tail automatically. But no index-like approach is available in private equity. Moreover, for good reasons (such as access and the ability to allocate large amounts of capital), buyouts tend to comprise the majority of the private equity exposure for many institutional investors.

Investors who want more of a right-tail profile from their private equity program have generally depended on four conditions working together: 1) meaningful venture capital and growth equity exposure, since that is where the asymmetry is most pronounced; 2) enough diversification across managers and vintage years to make holding a winner likely rather than hoped for; 3) the best access an investor can obtain, whether through direct relationships or top fund-of-funds; and 4) a horizon long enough for the asymmetry to appear, which in this asset class is measured in a decade or more rather than a few years.

The implication is not that one asset class is better than the other, but that exposure to the right tail is best treated as a deliberate choice made across the combined portfolio. An investor who wants exposure to the entire lifecycle of wealth creation would ideally pursue it by investing in both private equity and public equity. But an investor could reasonably prefer one to the other. For example, an investor who believes in the concept of right-tail investing for wealth creation may reasonably choose to pursue that path primarily or solely through broad public equity, where the exposure is readily available at low cost. Likewise, they might tilt more toward public equity exposure if they do not believe they can gain sufficient access to the best venture capital opportunities. Conversely, investors with a great VC network might prefer the reverse approach, particularly if they think their network tilts the right-tail odds in their favor in the VC opportunity set.

Capturing the Right Tail Without Chasing It

The framework in this paper points toward holding broad exposure and allowing winners to grow. Carried into practice, that prescription meets a behavioral and governance reality. Capturing the right tail means accepting that the portfolio grows more concentrated over time and more exposed to the common drivers of its largest holdings, and it means holding individual names through severe declines without intervening. None of this is comfortable to defend, and the discomfort tends to peak at the moments when intervention is most tempting and may be least advisable. This makes a long-term viewpoint and patience a prerequisite for right-tail investing. An institution that has not decided in advance how much of this it is

prepared to hold is more likely to abandon the position during a decline, which can convert a long-term structural exposure into a poorly timed trade.

The most useful contribution governance can make is to turn these into decisions taken in calm conditions. An investor that sets a policy allocation to equities with a clear understanding of the drawdowns that allocation implies, and that establishes ranges and rebalancing rules in advance, is far better placed to hold the exposure through stress than one that revisits the question in the middle of a decline. Holding assets or strategies designed to cushion equity drawdowns, such as high-quality bonds and risk mitigating strategies, serves the same purpose, since an investor positioned in advance to withstand a decline is more likely to hold the right-tail exposure through it. The distinction worth drawing is one of location. Risk mitigation sourced from elsewhere in the portfolio leaves the equity allocation intact, whereas risk mitigation sourced from within it tends to work by trimming the very exposure the investor is trying to hold. The discipline that allows an investor to capture the right tail is therefore mostly a matter of advance planning and commitment rather than reaction.

It is worth being explicit about what this approach does not do, since the honesty of the framework depends on it. It does not eliminate risk, and it does not promise that current leaders will remain leaders. The skewed distribution that produces the winners also produces a long list of companies that disappoint, and an investor who holds the broad market holds all of them. Accepting that most holdings will not be winners, in exchange for reliably holding the few that are, is the essence of the approach. It is a different posture from seeking out the winners, and a more defensible one.

Across the Russell 3000 since 1980, roughly 40% of stocks suffered a permanent decline of 70% or more from their peak, the median stock underperformed the broad index by more than 50%, and only about 7% of the universe accounted for the extreme right tail.²³ An investor selecting individual names therefore faces long odds of holding a winner and meaningful odds of permanent loss, which is why the right tail is more reliably captured by holding the whole distribution than by choosing from within it.

Conclusion

Equity wealth creation, in both public and private markets, is the product of a small number of extreme winners set against a majority of ordinary or disappointing outcomes. This asymmetry is not a market distortion to be corrected but a structural feature to be understood. Capturing it depends less on skill in selecting winners than on the discipline to hold a broad portfolio, to let winners grow rather than trimming them, and to decide deliberately where across the total portfolio, and where in a company's life, that exposure is sourced.

The mechanics differ by market. In public equity, a capitalization-weighted index captures the right tail automatically, and the concentration that results is the visible expression of that capture rather than a defect to be engineered away. In private markets, the same exposure has to be constructed, through allocations to venture capital and growth equity, diversification across managers and vintage years, the best access an investor can obtain, and a horizon long enough for the asymmetry

to appear. Breadth there reduces the risk of missing the tail, while access and patience largely determine how much of it is captured. In both cases, the exposure carries real risks, including correlated drawdowns among the largest holdings and the possibility of overpaying for winners that are already visible. Those risks are reasons to size and govern the exposure carefully, not reasons to forgo it, and they may be more prudently addressed through the other assets a portfolio holds, such as bonds and risk mitigating strategies, than by reweighting equities away from their largest names.

For long-horizon institutional investors, the practical conclusion is modest. Capturing the right tail is mostly a matter of not getting in one's own way, by owning the market as it is, including its largest names, resisting the urge to trim winners, sourcing downside protection from elsewhere in the portfolio, and allowing the time the asymmetry requires. It is not a forecast about which companies will win, and it is not a license to chase the ones that look as though they might.

End Notes

- ¹ Source: Hendrik Bessembinder, "Do Stocks Outperform Treasury Bills?" *Journal of Financial Economics* 129, no. 3 (2018): 440–457.
- ² Source: Bessembinder, "Do Stocks Outperform Treasury Bills?"; figures reflect data updated through December 2024, available via Arizona State University, WP Carey School of Business.
- ³ Source: Hendrik Bessembinder, Te-Feng Chen, Goeun Choi, and KC John Wei, "Long-Term Shareholder Returns: Evidence from 64,000 Global Stocks," working paper, 2023.
- ⁴ See, for example, Sebastian Mallaby, "The Power Law: Venture Capital and the Making of the New Future" (New York: Penguin Press), 2022.
- ⁵ Source: Benedict Evans, "In praise of failure," 2016. The data draw on analyses by Horsley Bridge Partners and Andreessen Horowitz of venture portfolios that included over 7,000 investments from 1985 to 2014. The data showed that just over half of all investments returned less than the original investment, and that 6% of deals produced at least a 10x return and those made up 60% of total returns.
- ⁶ Buyout returns are right-skewed too, but substantially less so than for venture capital. Hence, skew is not the defining feature of the distribution for buyouts the way it is in venture capital. This makes intuitive sense. Venture capital typically backs pre-profit companies whose outcomes are closer to binary, while buyouts tend to purchase mature companies where binary outcomes (e.g., of 50x or zero) are far less likely. This both thins the right tail and truncates the left one for buyouts.
- ⁷ Source: Adam Farago and Erik Hjalmarsson, "Long-Horizon Stock Returns Are Positively Skewed," *Review of Finance* 27, no. 2 (2023): 495–538. Put simply, the longer a volatile investment is held, the more its possible outcomes tilt toward a few very large gains, even when the year-to-year returns themselves are evenly balanced.
- ⁸ Source: Bessembinder, "Do Stocks Outperform Treasury Bills?".
- ⁹ Turan G. Bali, Nusret Cakici, and Robert F. Whitelaw, "Maxing Out: Stocks as Lotteries and the Cross-Section of Expected Returns," *Journal of Financial Economics* 99, no. 2 (2011): 427–446.
- ¹⁰ Nicholas Barberis and Ming Huang, "Stocks as Lotteries: The Implications of Probability Weighting for Security Prices," *American Economic Review* 98, no. 5 (2008): 2066–2100; Alok Kumar, "Who Gambles in the Stock Market?" *Journal of Finance* 64, no. 4 (2009): 1889–1933.
- ¹¹ Michael Mauboussin and Dan Callahan, "Drawdowns and Recoveries: Base Rates for Bottoms and Bounces," Counterpoint Global Insights, Morgan Stanley Investment Management, May 21, 2025.
- ¹² Note that using a total-market index mitigates the potential for material underperformance due to reconstitution drag, as what little churn occurs will be at a negligible weight.
- ¹³ Source: S&P 500 index exposure data from FactSet, as of June 30, 2026. Note that Alphabet Class A and C were combined into one category for this analysis. The top 10 stocks comprised 40.1% of the index by market capitalization. See Meketa's Market Concentration paper for more information on past periods of market concentration.
- ¹⁴ See Owen Lamont, "Higher Stock Market Concentration Does Not Mean Higher Risk," Acadian Asset Management, March 2024; Mark Kritzman and David Turkington, "The Fallacy of Concentration," working paper, 2025.
- ¹⁵ See S&P Dow Jones Indices, SPIVA US Scorecard, Year-End 2025, published March 3, 2026. Meketa's own manager analysis is directionally consistent.
- ¹⁶ Source: Meketa analysis of data from eVestment and Cambridge Associates via S&P Global, as of June 30, 2025 (private markets data) and as of September 30, 2025 (public markets data). Public Markets 10 Year interquartile spreads are evaluated by taking the difference between the geometric average of the 75th percentile return and the 25th percentile over a rolling 12-month period. Private Markets 10 Year interquartile spreads are Cambridge's provided vintage year quartile spreads that we then take an average of. Private Markets 2024 & 2025 vintage years are excluded as they are too recent to draw meaningful conclusions from their performance. See Meketa's Manager Alpha white paper for a fuller analysis of public market interquartile spreads.
- ¹⁷ Source: Meketa analysis of Cambridge Associates via S&P Global, as of March 31, 2026. Index used: Cambridge US Venture Capital Index. Returns represent since inception pooled IRR, that we then take an average of. Note that performance is net of fees. Data begins in vintage year 1981, as there are at least 10 funds available for analysis; 2024 and 2025 vintage years are excluded as they are too recent to draw meaningful conclusions from their performance.
- ¹⁸ Source: Robert S. Harris, Tim Jenkinson, Steven N. Kaplan, and Ruediger Stucke, "Has Persistence Persisted in Private Equity? Evidence from Buyout and Venture Capital Funds," *Journal of Corporate Finance* 81 (2023): 102361.
- ¹⁹ Source: Braun, Jenkinson, and Stoff, "How Persistent Is Private Equity Performance? Evidence from Deal-Level Data" (*Journal of Financial Economics*, 2017).
- ²⁰ See for example Meketa's whitepapers on the Decreasing Number of Public Companies (2024).
- ²¹ One result of the cyclicity in VC has been that, net of fees, VC has not reliably outperformed public equities since 2000 (i.e., relative outperformance is cyclical).
- ²² Source: Financial Times, "Elon Musk's SpaceX Raises \$75bn in World's Biggest IPO," June 11, 2026.
- ²³ Source: Michael Cembalest, "The Agony and the Ecstasy: The Risks and Rewards of a Concentrated Stock Position," *Eye on the Market*, J.P. Morgan Asset Management, 2024 update (first published 2004).

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