

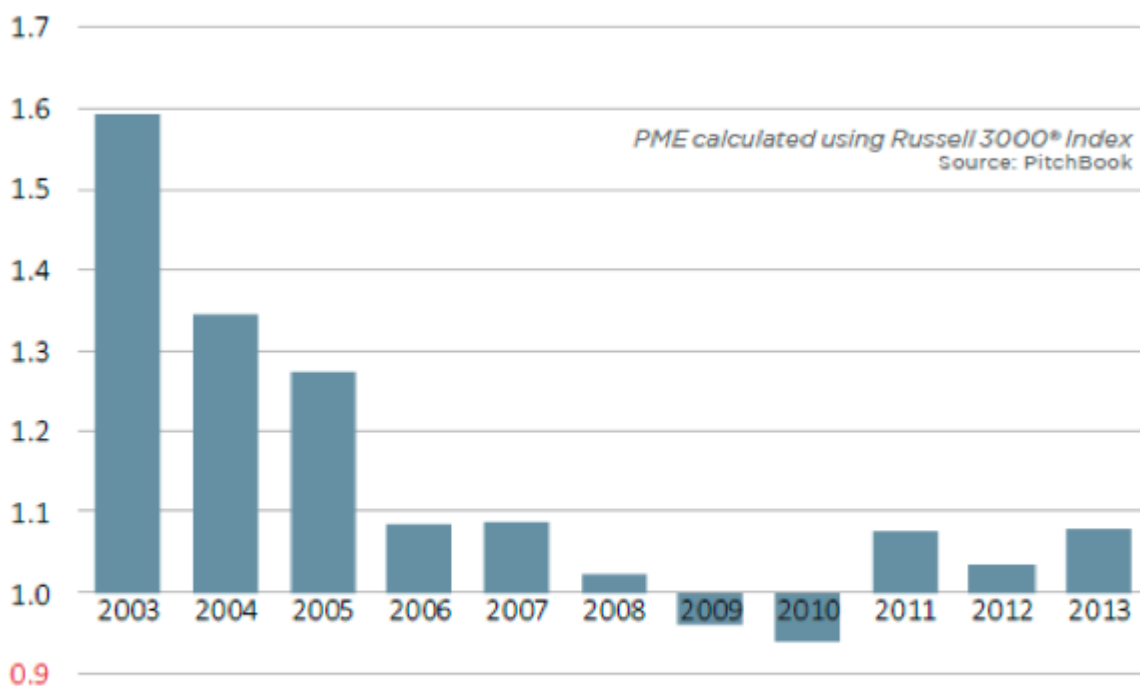
The Pulse of Private Equity – 12/12/2016

PitchBook | December 13, 2016

PE outperformance to persist?

Only two private equity fund vintages are still underperforming relative to public indices, net of all fees, as calculated by PitchBook using the Russell 3000 Index. Funds in those particular vintages can safely be assumed to be overly impacted by the global financial crisis, while the significant outperformance of funds from vintages prior to the boom times of 2006 and 2007 can also be chalked up to a highly fervid dealmaking environment. Moreover, the marginal outperformance of more youthful PE fund vintages from 2011 and 2013 suggests that thus far PE dealmakers have been able to capitalize on the elevated rates of global M&A over the past two years as well, although at a lesser rate given the relative age of the portfolio companies such funds would have been invested in.

PE KS-PME Benchmark by vintage



When using a KS-PME, a value greater than 1.0 indicates outperformance of the public index (net of all fees). For example, the current 1.27 value for 2005 vintage PE funds means investors in a typical vehicle from that year are 27% better off having invested in PE than if they had invested in public equities over the same period.

But examining the overall trend throughout the decade, even with the impact of the crisis taken into account, is PE's performance relative to public markets set to persist by a meaningful margin? Given stubbornly high transaction multiples as well as the level of competition engendered by the crowd of active PE fund managers,

alpha is increasingly difficult to find. However, it must be pointed out that if traditional PE strategies continue to evolve in response, but they continue to emphasize their long-term nature and relative stability, they may well still retain their allure. After all, the slim margin between PE fund performance and public indices over the past few years is primarily due to public markets' rally during that timeframe through to the present day. Should that rally reverse, which can happen with extraordinary rapidity as evidenced this year in not only February but also upon the occasion of Brexit, PE is likely to shine by comparison. Granted, the margin is still likely to remain thinner than in the past, but at that point, it comes down to how much of a margin fund investors like public pensions require once PE expenses have been factored in. In these times, it's likely that stability will trump the margin of outperformance, in the long run.

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