

The Pulse of Private Equity – 3/20/2017

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Recent PE vintages outpace public indices by a smaller margin

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Private equity funds of vintages 2005 and prior exhibit significant outperformance of public indices, employing the Russell 3000 Index for public market equivalents calculations. Since then, however, no vintage has exceeded 8% over public indices' performance. There are many factors behind this particular trend, not the least of which is the impact of the financial crisis, which prolonged holding periods as managers worked to proof impacted companies. Swift and subsequently record public market highs also further complicated matters in terms of PE outperformance. The industry has also grown more competitive, with newer entrants trickling in as more limited partners seek to maintain or increase exposure – given the lack of traditional havens for long-term investment in a persistently low-yield environment. It seems thus far that not a single vintage is close to achieving the heights marked by those from before 2006, and, given fund lifecycles, some shan't.

However, for more recent vintages, is that so assuredly the case? 2011, 2012 and 2013 vintages are a bare to marginal measure ahead of public indices' performance, enjoying mid-term gains from the recent M&A boom. Even if the M&A wave has crested, however, as expectations around fund lifecycles have extended somewhat in past years, fund managers of vehicles from those vintages may still have some flexibility in terms of time to build even further upon their outperformance. Plus, especially if public markets eventually begin to diminish from their current highs, PE managers' traditional edge may come into play once more. Frankly, given trepidation about significant headwinds forming or still running across the current macroeconomic scene, general partners are likely already positioning for just such an eventuality.