PE is consistent, even against Russell

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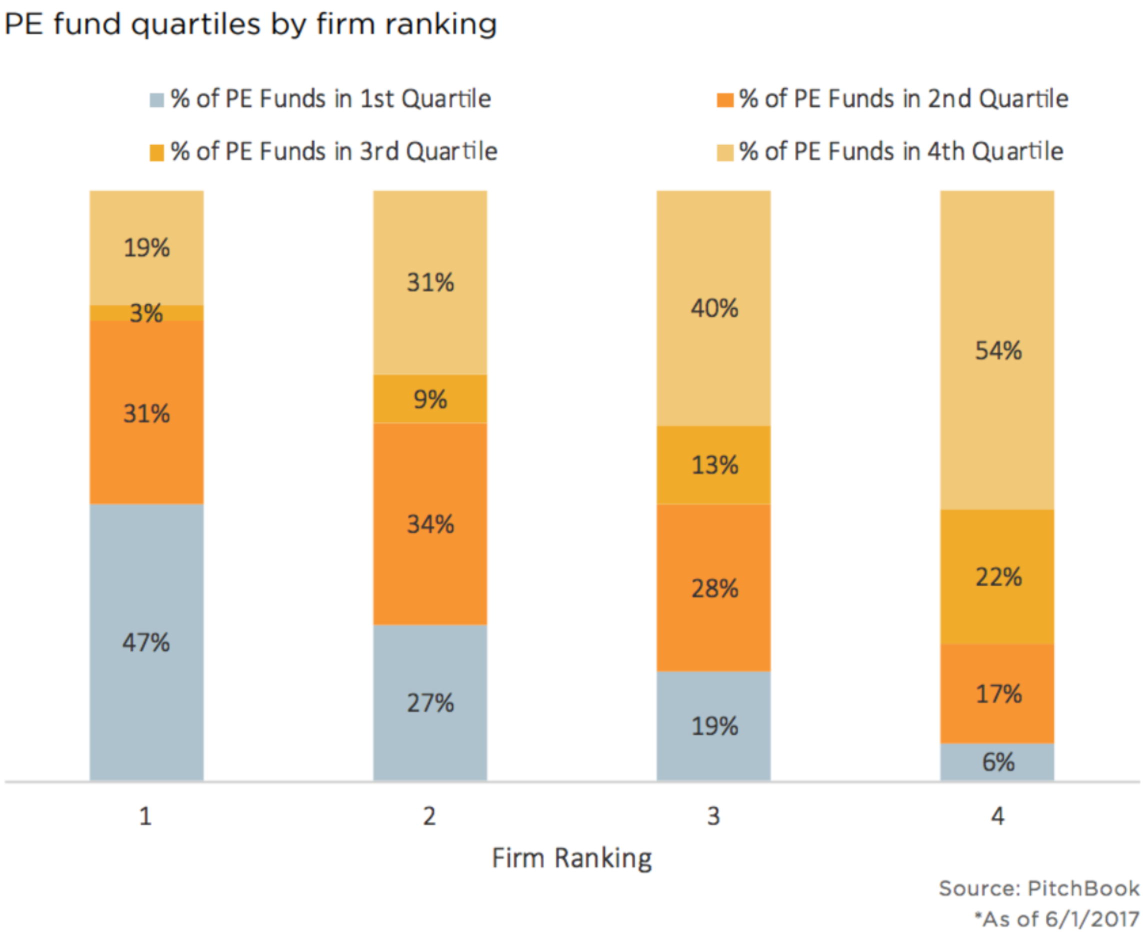

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Is private equity performance consistent? Managers will tell you yes – according to marketing materials, nearly every manager boasts of top quartile performance. Squishy numbers and contestable metrics have clouded the industry for years, and investors apparently fall for them every cycle.

While PE fund performance obviously varies, PitchBook's Analyst team wanted to see if the firms themselves performed consistently over time. After assigning quartiles to 1,300 individual funds across 310 PE firms, we averaged out and collated the fund quartiles (organized by vintage) into firm quartiles, graphed below. As we argue in a recent research note (linked here), there is a pronounced discrepancy between top-performing firms and bottom performers – for first- and fourth-quartile firms, roughly half of those funds were consistent with their firms' rankings.

This isn't news per se. Several academic studies also reach this conclusion, but often find top-quartile PE firm performance, net of fees, to be roughly equal to their public market equivalents. In other words, even the best

GPs don't outperform stocks and bonds when their PE funds are bundled together. Our research note found the opposite – top-performing firms outperformed the Russell 3000 at every horizon, but especially at the 10- and 15-year marks (1.35x and 1.42x, respectively). What's more, even bottom-performing firms held their own, notching a 1.06x multiple against the PME at the 1- and 15-year horizons. That helps explain one head-scratching trend: 41% of *consistently* bottom-quartile firms manage to raise at least three follow-on funds, and another 9% raise five or more. We might joke about all the "top-quartile" teams running around asking for more money, but even the poor performers have a few numbers on their side.