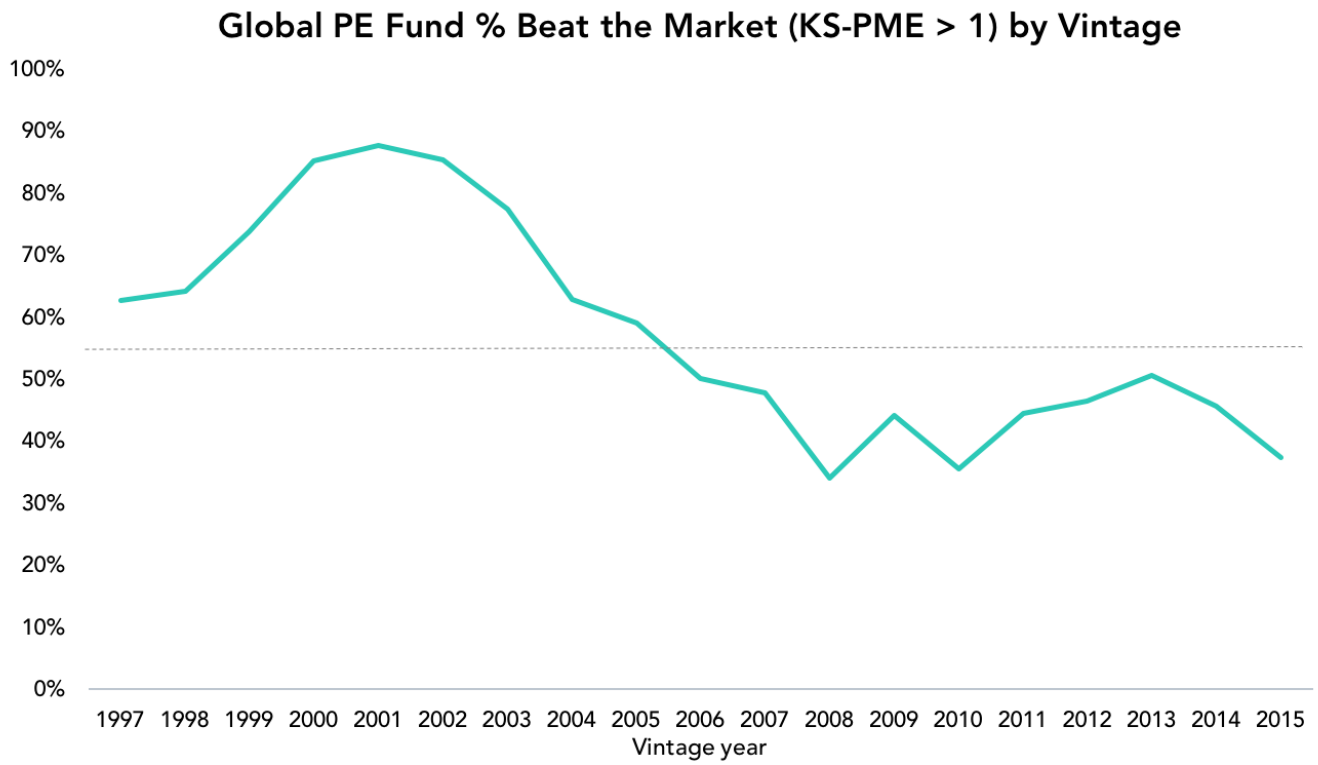
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Are the good times over?

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Private equity's calling card, from its early days in the 80s through the mid-2000s, has been its ability to beat the market. The asset class pretty handily beat stocks in bull and bear markets alike. Until 2006, LPs in PE funds had at least a 50/50 shot at beating the market—in 2001, outperformance was practically a layup, with almost 88% of PE funds in that vintage beating their public market equivalents (PMEs). Fortunes have turned over the last decade. Only one vintage over the past ten years (2013) saw at least half its funds beat the market, and just barely. Post-2007, LPs have faced longer odds—34% of 2008 PE funds beat the market (understandable), but only 36% of 2010 vintages have PMEs over 1x while 37% of 2015 vintages were ahead. That's like having John Stockton shoot your free throws for more than a decade, only to have him be replaced by Shaquille O'Neal for the next decade. And to be fair to Shaq, his career 52.7% FT percentage is actually better by comparison.

Sliced another way, the data shows that each vintage between 2006 and 2015 has seen median fund returns below 1x against their PMEs, underperforming the S&P 500 every year. Top-performing funds in the same timeframe all beat their PMEs, but even then, the level of top-decile outperformance is also in decline. Fifteen years ago, top-decile PE funds—on a median basis—beat their PMEs by at least 2x, a common sight between the late 90s and mid-00s. That across-the-board outperformance has whittled down to a 1.19x median for 2015 vintages. In other words, even the astute and/or lucky LPs that pick the big winners aren't being rewarded as they once were, either. If you've noticed an uptick in white papers, articles or interviews around the importance

of manager selection, the message is looking less like marketing hyperbole and more like reality. Picking outperformers really is getting harder, just as the industry is setting new dry powder records.

So, are the good times over? Not necessarily, and yes, we're hedging our answer to our own question. But if the question is even worth asking—and it seems to be, unfortunately—the really good times might be.

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