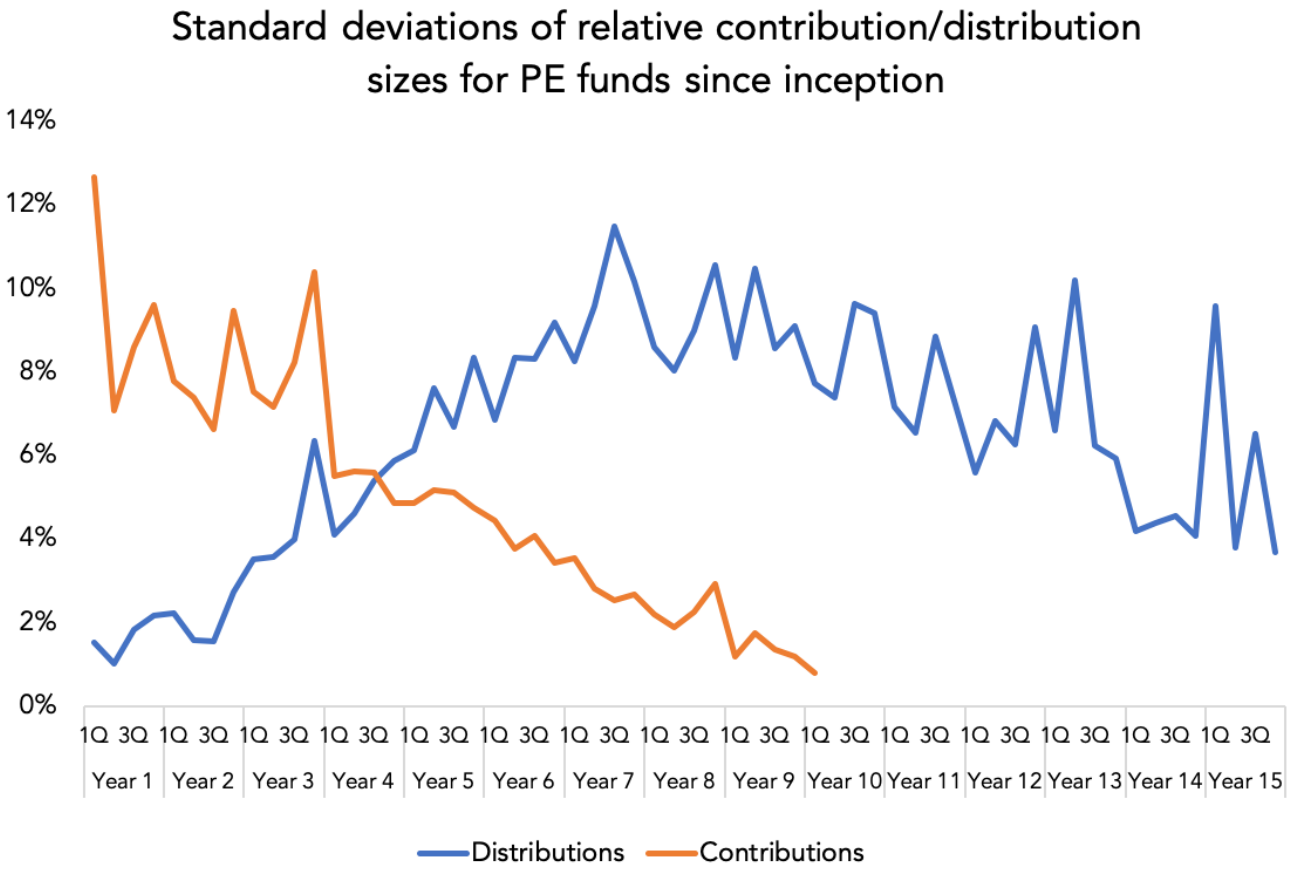
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Distributions – timing is everything

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With illiquid asset classes like PE, it's hard but worthwhile to try to figure out how quickly LP dollars go in and out of funds. Our latest analyst note on cash flow management focuses on distribution numbers, with interesting results for market observers and actionable data for limited partners. Through experience, most LPs know that capital calls tend to happen quickly while distributions can become a guessing game. Sometimes it's the macro environment—IPOs get shelved, buyside markets cool down—but other variables come into play that LPs should understand and appreciate.

One headline takeaway is that most funds take 12 years or more to fully liquidate. The industry is veering toward long-dated funds, some expressly intended to take 20 years or more to liquidate. The reality for "standard" funds is that many of them take almost as long to completely wind down. Many cases likely involve straggler investments and not the lion's share of a fund's portfolio, which may well be sold off well within a 5-7 year timeframe. In fact, our data shows some sunny results, with about half of all PE funds making their first distributions by the 1.5-year mark. Another 25% make their first distributions by the 2.5-year mark, while 10% of funds need 3.5 years before wiring money back to their LPs. It's not always true, but it can generally be said

that quality GPs are often in the quicker-than-average exit category; the broader market, no matter the environment, will recognize and value well thought out investments and snap them up quickly, and GPs will earn their paydays.

From an LP's perspective, the note covers important takeaways around fund sizes and timing. It might be obvious, but it's worth remembering that smaller funds tend to fully liquidate quicker than larger funds. That's one reason (among others) that smaller top-quartile funds tend to outperform large top-quartile funds on average. Another trend that popped up in the data—and one that's more difficult to control as an LP—is timing. Capital calls tend to be highly cyclical while distributions show signs of high countercyclicality. A pair of recent downturns (2000-2001 and 2009) provide test cases and indicate that post-recessionary funds invest slower but exit more quickly, while expansion-era vintages invest more quickly and exit slower. Despite it being a glacial asset class, market timing is difficult, and it's important to maintain diversity across several vintages in any portfolio over the long run.