Emerging manager performance

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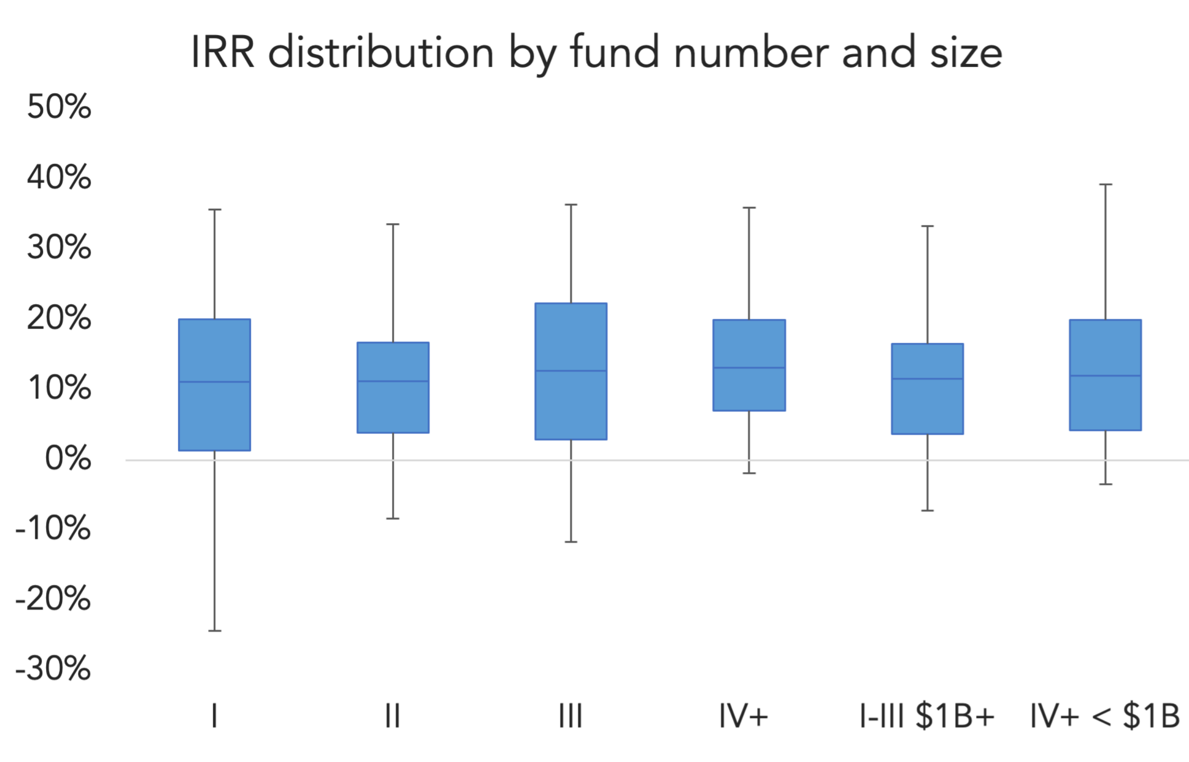

Download PitchBook's Report here.

A new PitchBook analyst note, Beyond Fund I, dives into several emerging manager topics. A few surprises stood out. The chart above, for example, shows fairly static performance between a manager's first fund and subsequent ones. Debut funds do, though, see the most performance variation compared to later funds, at least on an IRR basis. Debut funds perform better on a TVPI basis, however, suggesting that many first-time managers underutilize capital call facilities and dividend recaps, at least compared to more seasoned managers. The numbers suggest a small sophomore slump, with Fund IIs slightly underperforming debut funds.

We also noticed little differentiation in step-ups between smaller and larger first-time funds. There's a belief that smaller emerging managers begin to scale up at a faster pace. In theory, it should be easier to double a $100 million fund than a $1 billion fund. Our numbers, however, suggest that ambition starts earlier than Fund II. The sweet spot appears to be in the $500 million range, many of which are well-known spinouts that are aiming bigger right away. It helps that those types of managers already have relationships with prominent LPs that can write bigger checks. As a whole—including small, big and mid-sized managers—the biggest step-up within fund families is between the first and second fund. Given that many LPs are hesitant to back emerging managers at all, that isn't surprising. In cases where a manager's debut fund went swimmingly, those same LPs won't be hesitant to commit to their next fund.

(Past performance is no guarantee of future results.)