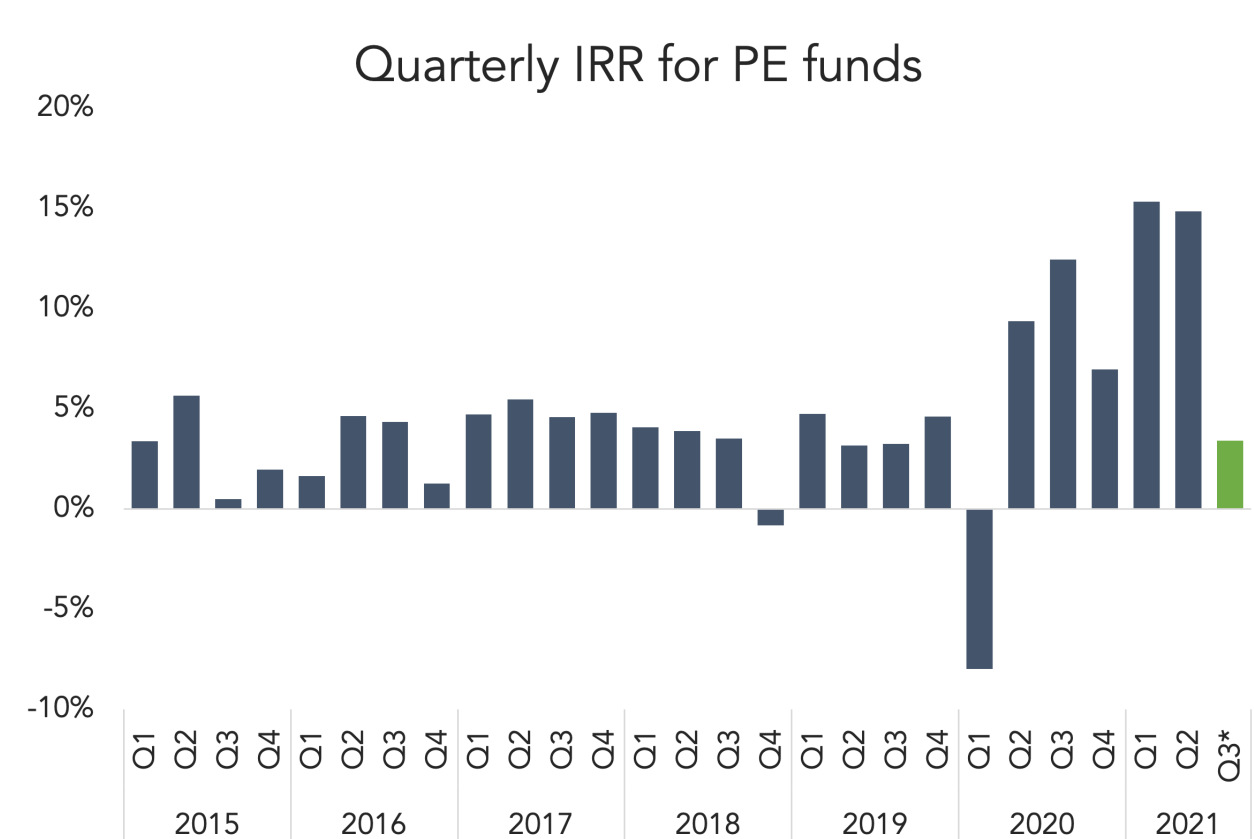


Quarterly IRRs returning to earth

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PE performance bounced back strongly following the pandemic, but that momentum appears to be slowing. PitchBook's just-released [Global Fund Performance Report](#) estimates a 3.4% quarterly IRR return for Q3 2021, where the data is preliminary. If that holds as we process more data, Q3 2021 will be represent the lowest quarterly return since the pandemic began. In context, though, it's worth noting how anomalous the past two years have been. As the markets regained their footing in late 2020, PE sponsors took a wave of portfolio companies to market. Records on the deal side have overshadowed record exit numbers, which translated into massive distribution levels heading back to LPs. Quarterly IRRs for early 2021 were abnormally high—15.3% in Q1 and 14.9% in Q2. Successful IPOs helped, as sponsors monetized assets well above carrying value, boosting performance figures along the way.

Headwinds are coming, as inflationary pressures are raising expectations for interest rate hikes. Higher rates will up the cost of leverage and probably impact the debt-to-equity breakdown of buyouts in the near term. That

would put downward pressure on multiples going forward. Any slowdown in the public markets would also have an impact, particularly at the high end. Our report notes that the biggest funds (\$5B+) have enjoyed the best performance since 2020, thanks to generous public market comps. How the public markets react to rate hikes will influence pockets of the PE market, potentially in a negative way.

(Past performance is no guarantee of future results.)