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Why Private Equity Matters (Part Eight)

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Diversification is an important topic and a strong consideration for any portfolio. It can come in many forms. In public markets, geographic diversification is often treated as a default best practice. However, in private equity, there is a compelling case for concentrating exposure exclusively in the United States rather than spreading capital across international markets.

The US remains the deepest, most efficient, and most transparent private equity market in the world. US buyout dominates global private equity, accounting for more than half of all deal activity. It also offers unparalleled depth across sectors, strategies, and company sizes. The US also benefits from the deepest pools of debt capital, the most active and competitive lending market, and robust M&A markets. These elements translate to more attractive targets, more seasoned managers, and more natural buyers at exit.

Performance also supports a US-centric approach. Possessing the strongest and most durable economy in the world, its PE base generally outperforms non-US PE. While certain international vintages or regions may occasionally shine, consistent manager and strategy selection and repeatable alpha generation have been more achievable here. For investors seeking consistent access to top-tier managers, no market offers a broader pool of options.

Global reach introduces meaningful complexity. Currency fluctuations can overwhelm operational gains—a 10% depreciation in local currency can erase performance improvements. Political instability, evolving regulations, and inconsistent legal frameworks add layers of uncertainty. In emerging economies, accounting standards and corporate governance may lack the rigor investors expect, creating due diligence challenges and information quality variability. These complexities are independent of and additive to company-level risk, which itself requires detailed understanding of foreign economies.

Finally, there’s value in portfolio simplicity. PE naturally introduces a spectrum of risks including illiquidity, leverage, operational changes, and ownership transitions. With that mix, it’s critical to select the best managers with top-quartile performances. Confining exposure to a single, well-understood market allows investors to diligence manager strategy and quality without introducing global economic variables.

US-focused private equity delivers scale, transparency, legal stability, and proven long-term performance. Global private equity tempts with diversification and fast-growing economies, but adds currency, political, and governance risks. Given the strength of the US economy, the maturity of its private equity ecosystem, and the familiarity of its regulatory system, a US-only private equity allocation is not a compromise – it’s a deliberate and defensible strategy.