The Pulse of Private Equity – 6/27/2016

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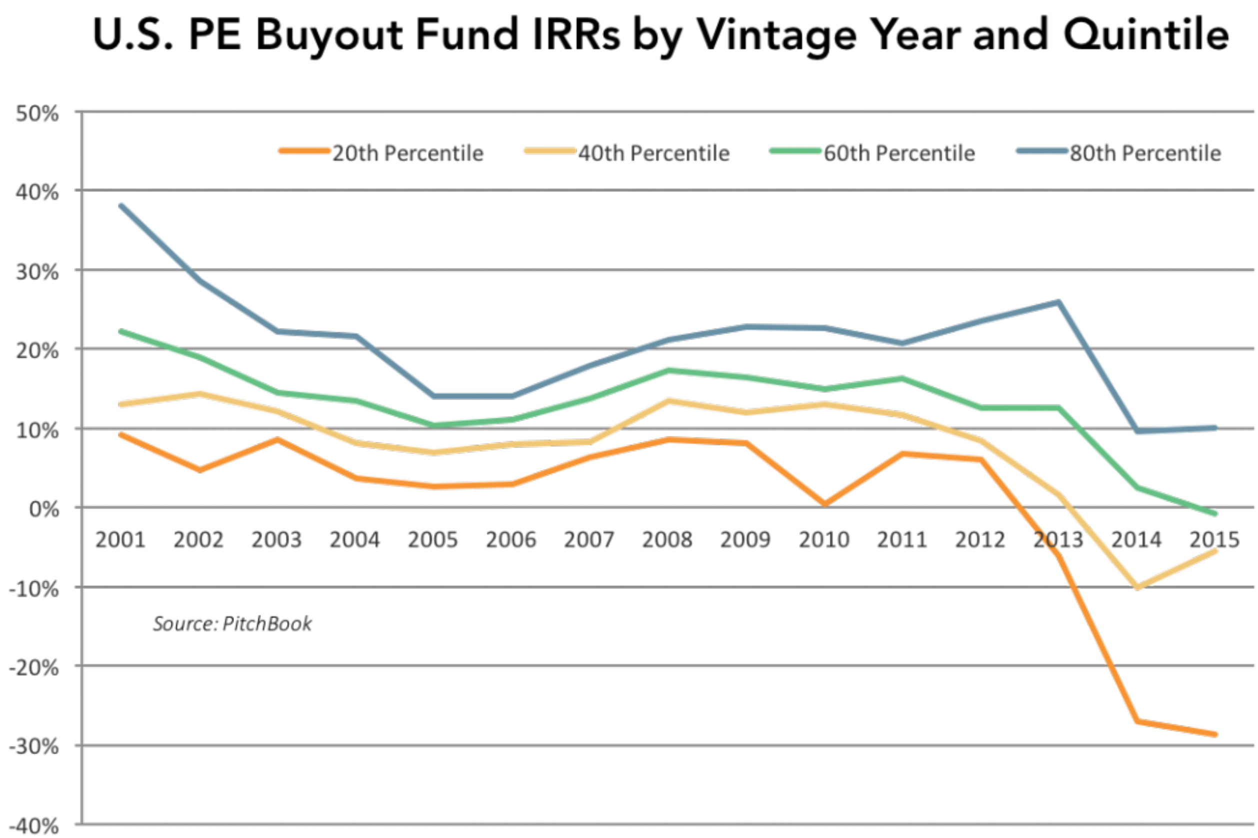
Recent Wave of Exits Differentiated U.S. PE Fund Managers

The boom in private equity-backed selling observed over the past few years, cresting in 2015, yielded rich returns for certain U.S. buyout funds. More than that, it proved a differentiating area for the top tier of U.S. fund managers. As illustrated by the chart above, certain vintages far outpace others in the long run in terms of IRR, while the financial crisis helped tighten performance across the board. But since 2009, significant variance began to arise once more, with the top quintile of PE fund managers able to post considerably higher performance all the way through 2013 vintages.



Of course, the J-curve effect comes into play for more recent vintages, although the extent to which the bottom quintile dips is illustrative of a current scarcity in quality targets. Given the roughly concurrent timing of the exit boom, it's clear that top U.S. buyout fund managers differentiated themselves quickly when the opportunity came by securing good deals as multiples grew more heated over the past few years. Those buyers capitalized on the worldwide surge in M&A and secondary buyouts, even after only a relatively brief holding period.

Their overall performance across all vintages, meanwhile, underlines the rationale for limited partners to maintain exposure to the asset class, recommitting to their most trusted fund managers that have been able to post such consistently high performance. The question now is whether or not such outperformance can be maintained as the buyout cycle winds down. Given the broader investment market, it’s likely that LPs will continue pouring money into PE allocations, willing to accept lower rates of return than historical highs in exchange for relative stability and even a slim margin of outperformance.

Contact: Garrett Black
garrett.black@pitchbook.com