Review of the Latest Research in Private Markets

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eFront
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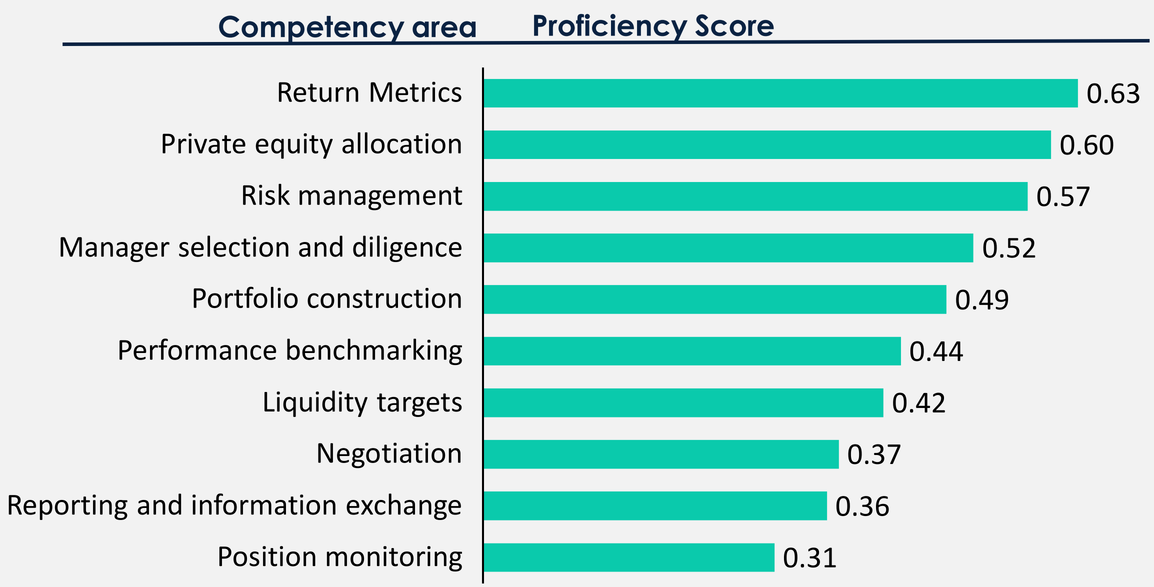
Agenda

- Introduction
- LP Practice Survey Insights
- Close Look at Market Results

LPs are least inclined to adopt the best practices in position monitoring, information exchange and negotiation



While investors perform very well across a number of key metrics, their sophistication score sits below half marks in six of the ten skill categories studied.

The best practices are employed in measuring the return on private market investments.

Position monitoring, reporting and information exchange, as well as negotiating terms with GPs are the activities that leave the most room for improvement.

Allocating a portion of overall portfolio to be invested into private markets is the decision with the highest level of consensus among LPs. Measuring risk for PE and benchmarking the reported performance process are the least clearly defined practices among LPs.

Source: eFront Survey

Large funds of funds exhibit the highest levels of PE investment proficiency

LP Type

- For most of the investment activities, the highest level of proficiency is exhibited by funds of funds, pension funds and insurance groups.
- Family offices reported high proficiency levels of private equity portfolio construction competency.

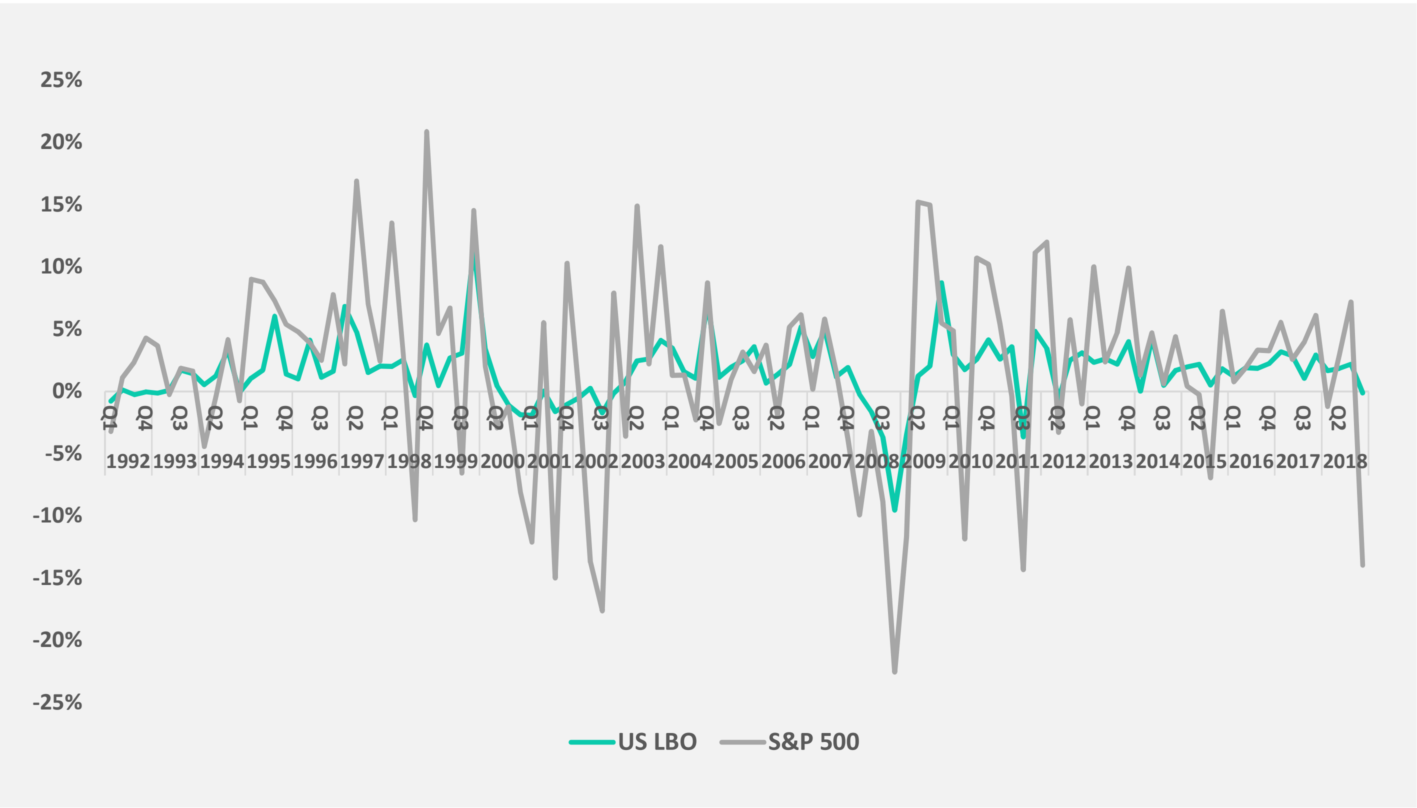
Private Equity AUM Size

- The AUM size has the highest correlation with the sophistication level of negotiation, position monitoring and reporting/data exchange practices.
- Large institutions reap the benefits of economies of scale, as the cost of operations per dollar of AUM is smaller than what is the case with relatively small investors.

Location of LP Institution

- LPs located in Europe exhibit above-average maturity levels in performing most of the investment competencies.
- North American LPs exhibit the highest level of sophistication in optimizing the private asset portfolio, while the LPs located in the rest of the world report the highest proficiency in performance benchmarking.

Private vs. public: co-movements are stronger than you think

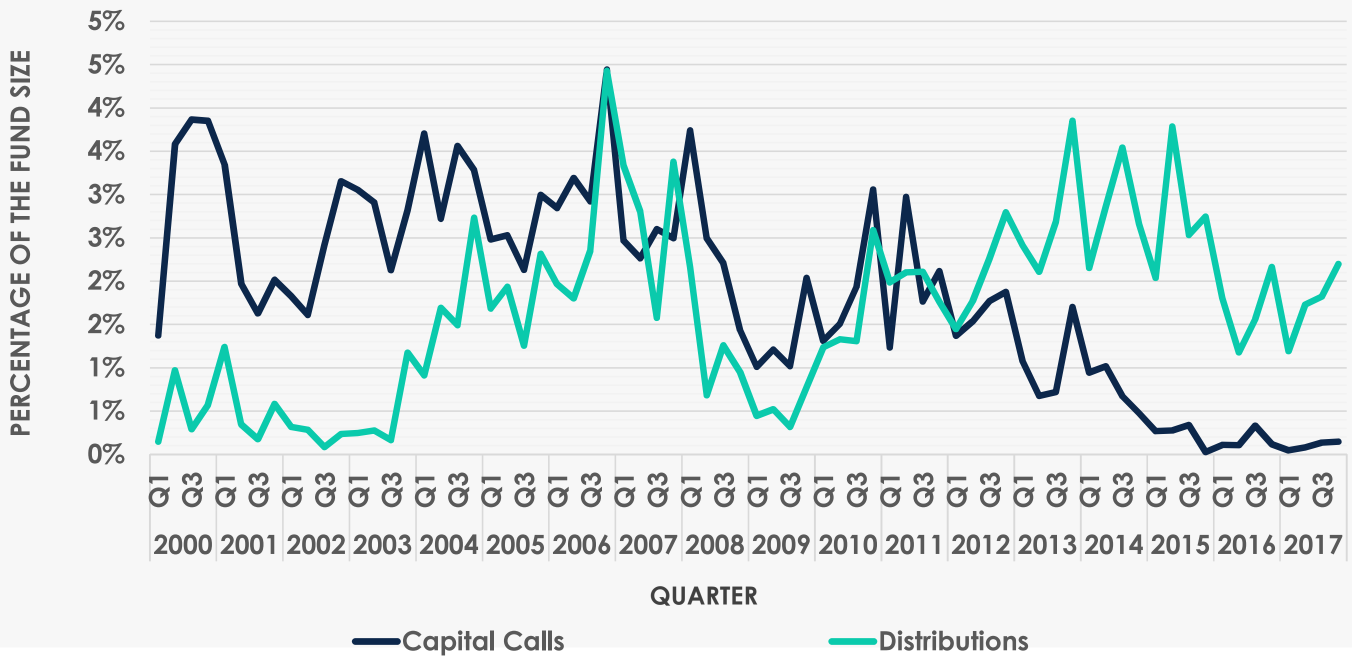


Quarterly movements of multiples of US LBO funds and S&P 500 index appear to be significantly positively correlated (0.639).

This observation is further amplified during the bullish market periods immediately before the markets contracted.

PE funds struggle to deploy capital at the same pace they raise it

Global private equity capital calls and distributions by quarter



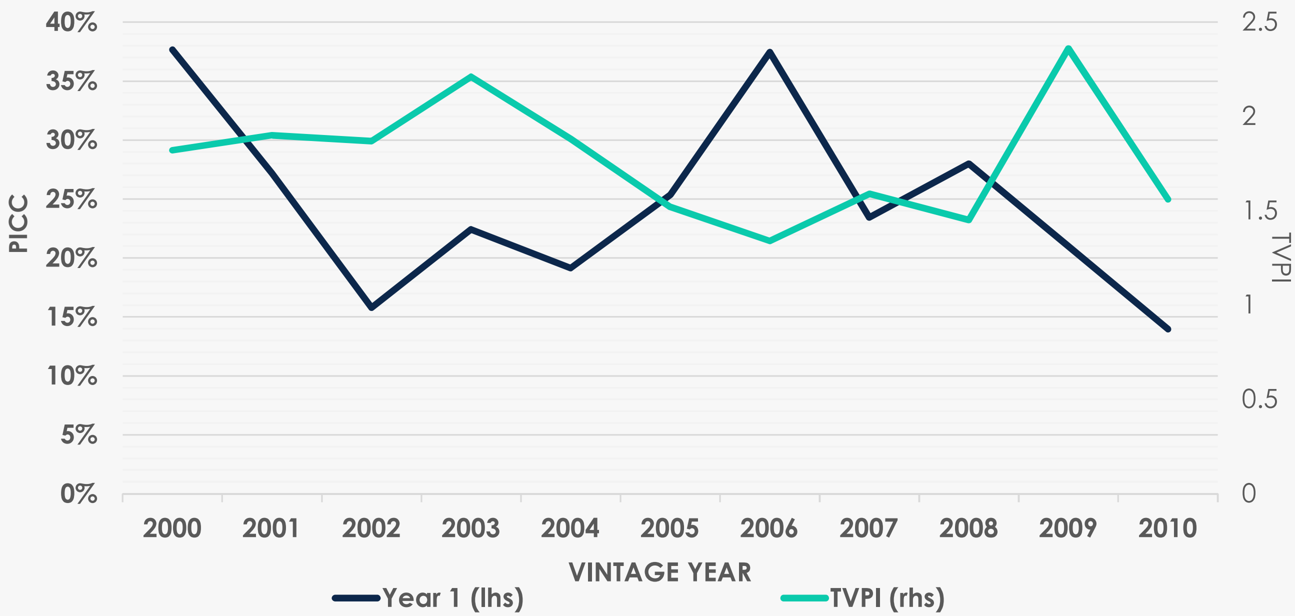
The main bottleneck for private equity to continue to thrive is not so much on the fundraising side but the sourcing side.

Making new investments can be challenging at the current time, not only because of high asset prices but also because of rising competition from corporates, who tend to be willing to spend more because of expected synergies.

Source: eFront Insight

Deploying capital early negatively impacts the performance

TVPI and 1-year PICC of US LBO funds (vintage years 2000-2010)

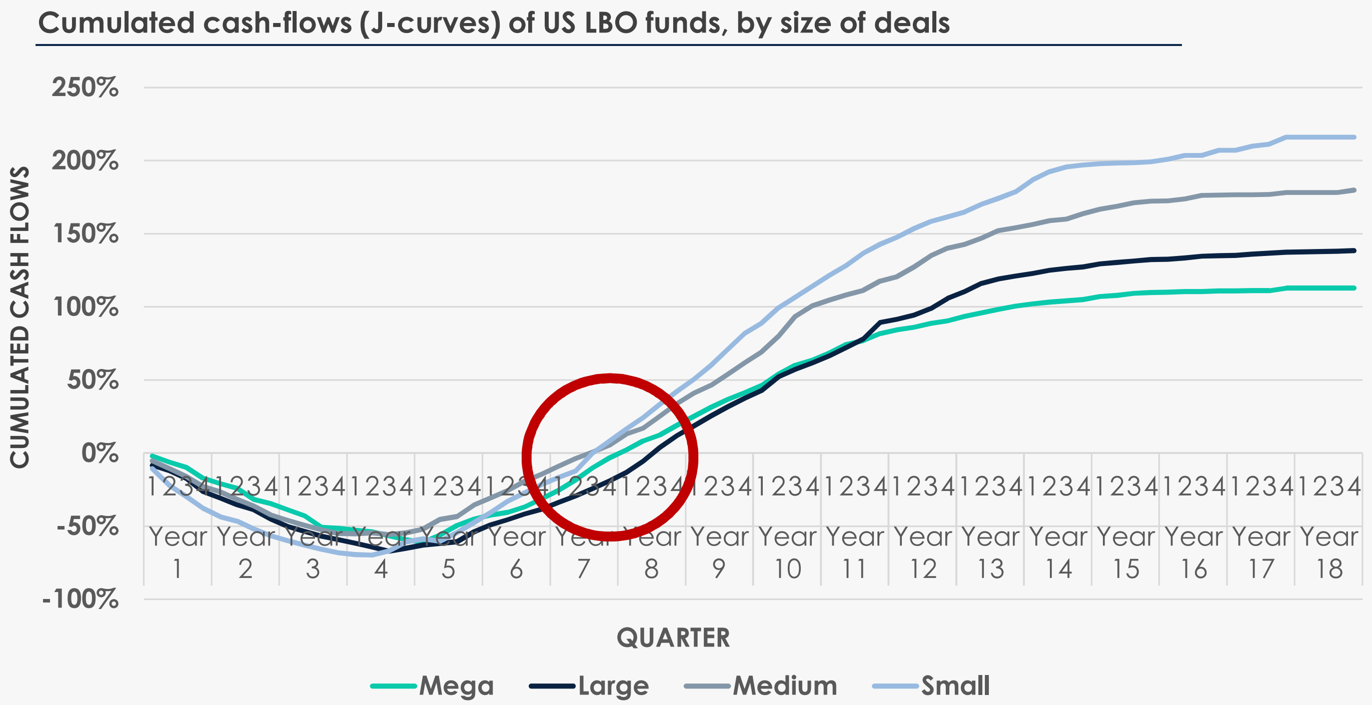


There seems to be an inverse correlation between the amount of capital deployed in Year 1 and the overall performance of funds (-0.32).

The same direction movements occur exclusively in the years that follow the recessions.

Source: eFront Insight

Small LBO funds return cash to their investors earlier than their mega funds peers.



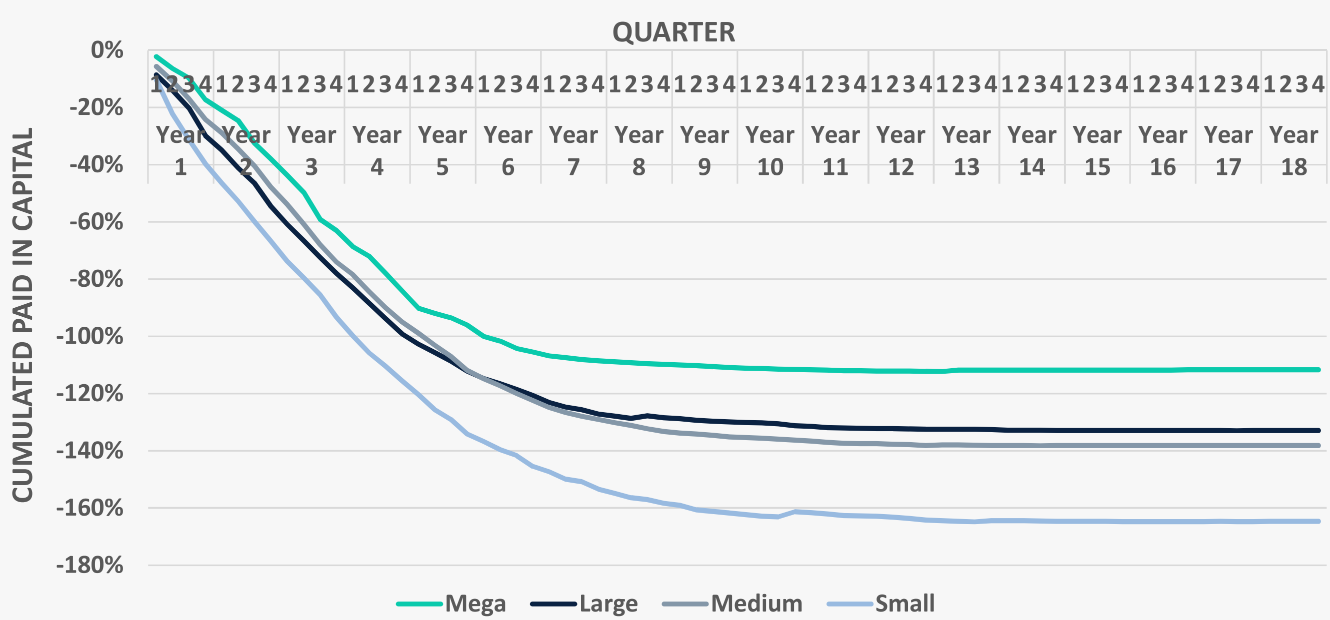
Small US LBO funds break even earlier than their large and mega-cap counterparts.

TVPI return of small funds is 1.67x, while mega funds generate 1.56x historically. The difference between their IRRs is even more striking (15.44% vs 9.48%).

Source: eFront Insight

Small funds are more prone to capital recycling and reinvestments

Cumulated cash-flows (J-curves) of US LBO funds, by size of deals



Funds of all sizes recycle capital, as total paid in capital goes above 100% of the capital committed.

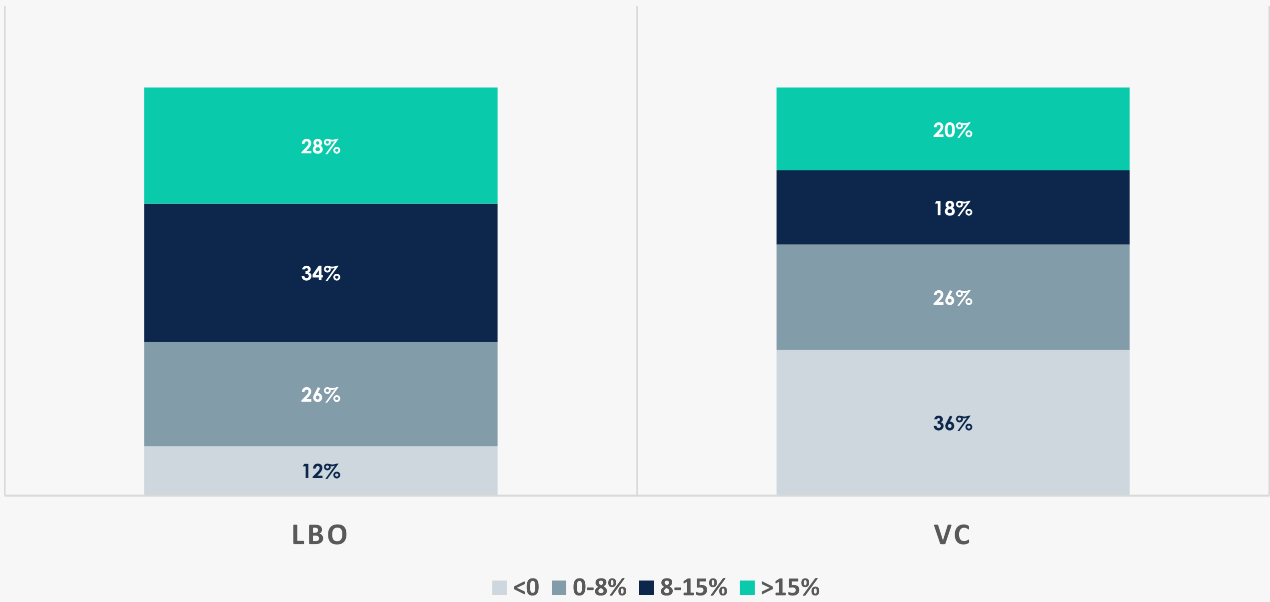
Small funds recycle more than all other types, as the total paid in goes above 160% of the capital initially committed (versus 112% for mega and 133% for large funds).

Investment period lasts longer for small cap funds (10 years). Mega cap funds stop investing by the end of year 6.

Source: eFront Insight

VC funds struggle to reach hurdle rate

% of funds in performance intervals



Reaching the hurdle rate – traditionally set at 8% – remains a significant challenge for venture capital funds and, to a lesser extent, LBO funds.

This confirms that shorter holding periods characteristic of buyout investments work in favor of LBO fund managers.

Source: eFront Insight

Thank You!

FIRESIDE CHAT

Christopher SCHELLING, Director,
Head of Private Equity - TMRS

Texas Municipal Retirement System

$30bn total AUM
$2.5bn exposure in PE
30 GP relationships

55% invested in Buyouts
1/3 emerging managers
1/6 women/minority owned