Buyout funds, distressed debt strategies outperform their peers

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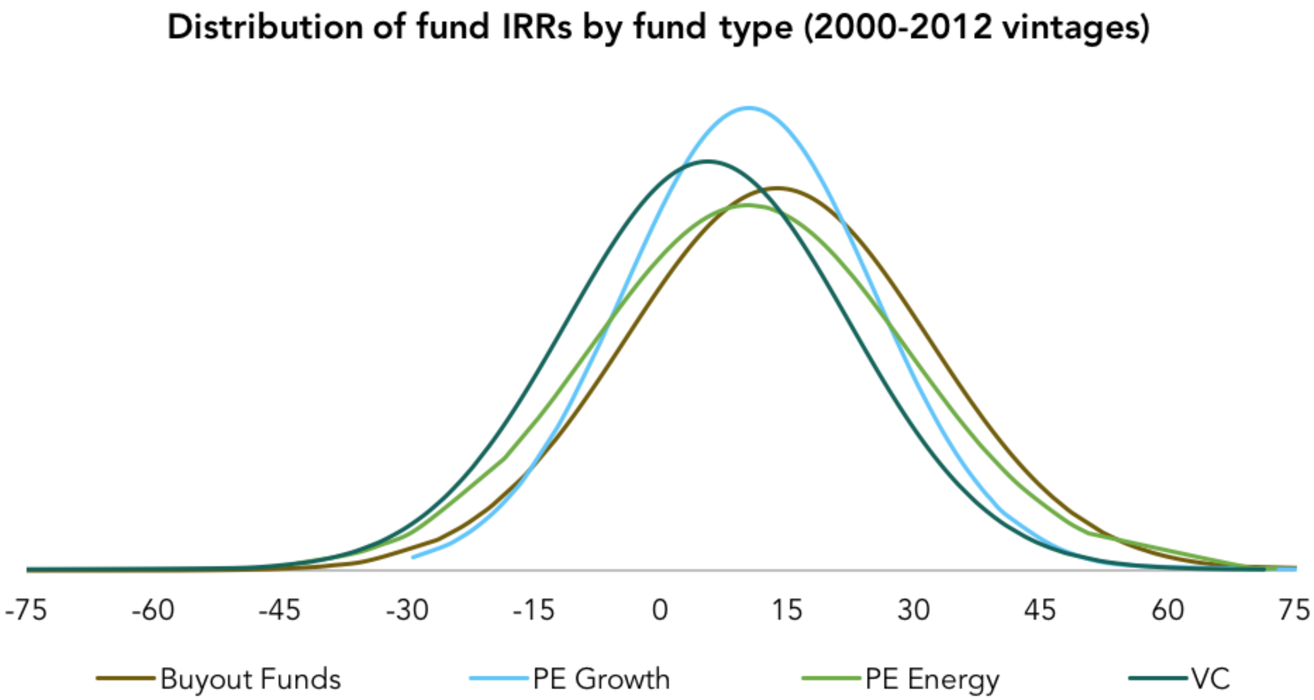

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How do private asset classes compare on a real and risk-adjusted basis? Our latest analyst note (Is the risk worth the wait?) gauged the risk/return profile of buyout funds between 2000 and 2012 against PE growth, PE energy and venture capital strategies, and found that buyout funds were the best performers on a real returns basis with a median IRR of 12.4%. On a risk-adjusted basis, distressed debt funds were the high-water mark at 10.1% (median) with a standard deviation of 11.0%. On the surface it would seem that distressed fund returns would carry with them higher variations in returns, given the inherent risks in the strategy. As the strategy has matured over the years, however, we shouldn't be as surprised to see lower variations in distressed as compared to other strategies; distressed investors have become much better at identifying turnaround opportunities with the most potential, and structuring those deals with minimal downside risk while maximizing upside opportunity. Distressed investors have two major levers they can pull to increase its upside—the size of the discount they can command, depending on the assets, and the creative adjustments they can make to the investment's capital structure itself.

At least on a relative basis, manager selection is less critical (though still important!) for buyout and distressed strategies compared to venture funds, which showed the worst returns of all on both a real and risk-adjusted basis.

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