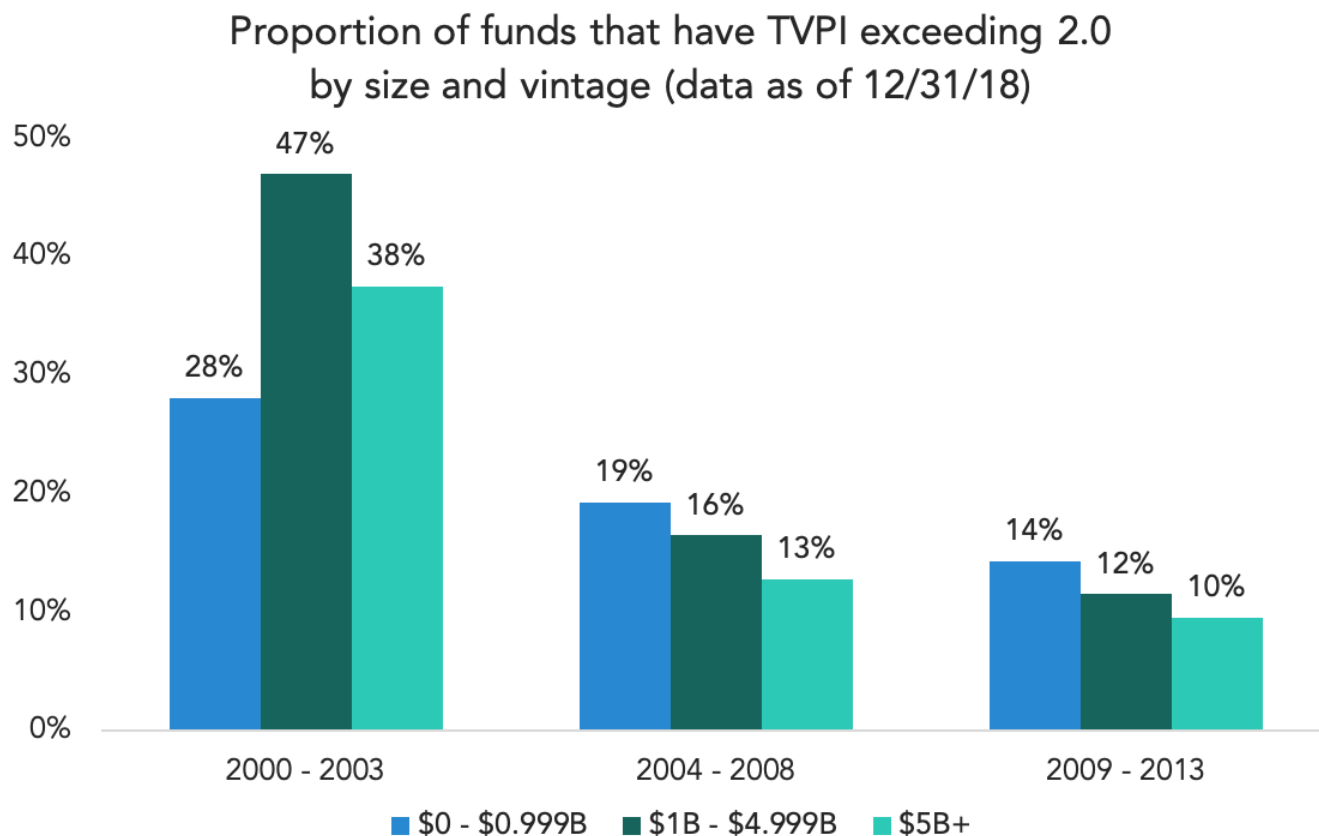


Usually good but seldom great

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PE mega-funds (of at least \$5 billion) have tended to outperform smaller funds over the past 20 years. That shouldn't come as a surprise, as mega-funds are only raised by firms that have outperformed over time. At least for private equity, the biggest firms are almost by definition some of the best firms, at least perception-wise, since they had to justify their growth to LPs over several funds. Not every top-performing firm opts to grow that large—the ones that do go on to raise mega-funds give themselves good odds of maintaining performance as they grow.

[Our latest analyst note](#) dives into performance metrics for \$5B+ funds and how they differ from the rest of the market. TVPI figures—which reflect a fund's investment multiple—suggest that mega-funds hit more doubles than the rest of the market but also fewer homeruns. For example, across several vintage buckets, mega-funds have a higher chance than smaller sized funds to achieve a TVPI of at least 1.5x. That's great news for larger LPs looking for consistently positive returns. Spliced another way, mega-funds have higher floors and lower ceilings in IRR terms, as well. For the 2009-2013 vintage bucket, top-quartile mega-funds boasted IRRs of 19% or better, not much worse than sub-\$1B funds that topped the list at 21.4%. But sub-\$1B funds in the bottom

quartile were miles away from that, returning 7.7%. Bottom quartile mega-funds, on the other hand, still returned 13.4%. It helps that mega-funds can more aggressively mark to market since their portfolio companies are larger and more comparable to listed companies. The bull market in equities has been kind to mega-funds in recent years.

On the flip side of the coin, smaller funds are more likely to return 2x or above. Over time, the next crop of mega-managers will separate themselves from their peers, but for now they're investing out of much smaller funds in a very crowded market.