Big firms hardly ever fail

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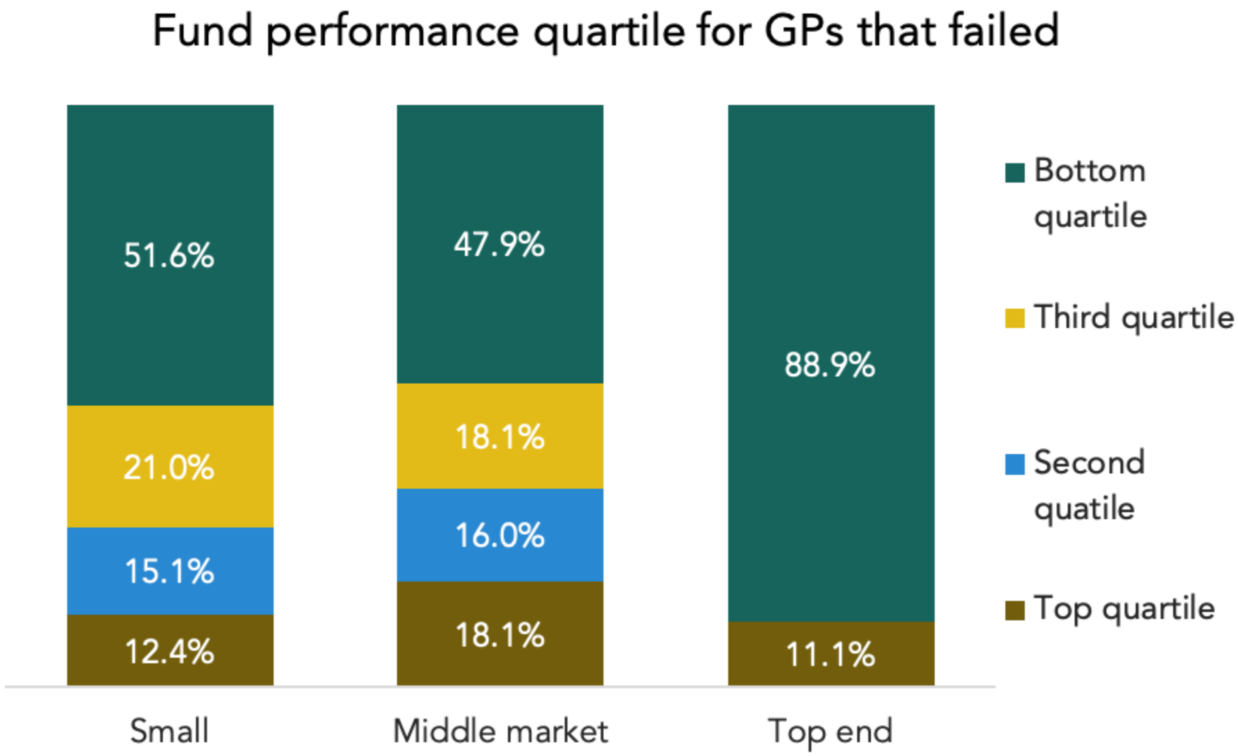

Download PitchBook's Report here.

PitchBook's latest analyst note, "Risks and Returns in GP Stakes Investing," takes a granular look at the burgeoning market for GP stakes. While there are many reasons to invest in smaller PE funds as a limited partner, the research shows that buying stakes in the GPs themselves means looking at bigger firms, almost exclusively. There are risks involved in private equity regardless of firm size, but backing a fund that fails to perform is different than buying a piece of a firm that itself could fail. According to the note, almost a quarter of small PE firms eventually fail. Chances of survival go up considerably as firms get larger. Middle market GPs go under at a much smaller 11.5% rate, and the biggest firms fail only 3% of the time.

Moreover, almost 90% of the big firms that go under fail due to bottom quartile fund performance. The numbers are quite different for middle market and smaller firms. Roughly speaking, only about half of those GP failures are due to bottom quartile fund performance. Other factors come into play at the lower end of the spectrum—health reasons, in-fighting, partner exits and outside offers to employees can be fatal to those firms' survival. Larger firms, meanwhile, are more concerned about fund performance and strategy expansion. Poor performance from a fund or two, especially amidst many other funds under a larger firm's umbrella, are often forgiven by LPs. Those firms became big for a reason, and it often loops back to good performance in the past. In fact, no top-end GPs have failed in nearly 20 years. It happened to two firms in the early 2000s, and both of them produced four bottom-quartile funds each.