The Pulse of Private Equity – 3/7/2016

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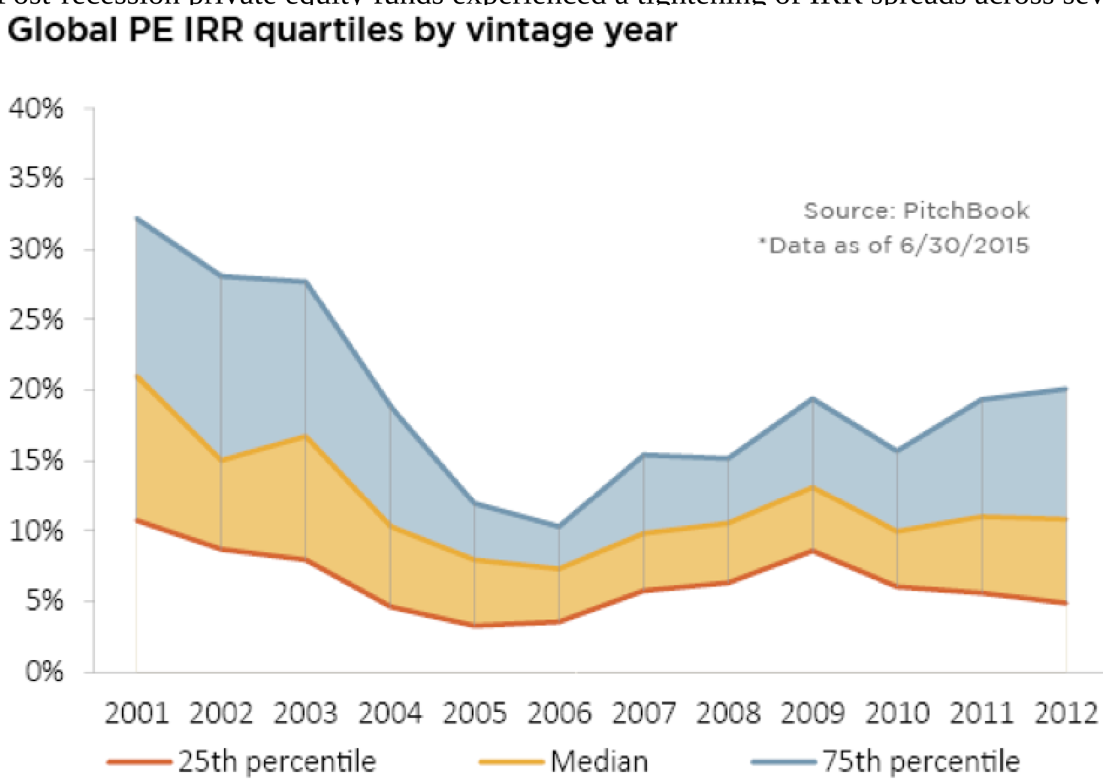
How Will Competition Among Fund Managers Affect Future Industry Performance Disparity?

Post-recession private equity funds experienced a tightening of IRR spreads across several different vintages, as



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Given the preponderance

of capital overhang in the PE industry, as well as the sheer number of firms competing to put that overhang to work, it’s reasonable to expect a fairly sizable disparity in performance going forward, although if the healthy seller’s market persists, then all quartiles may shift upward by a minute degree. The timing of such shifts, however, is likely to be prolonged. The level of competition is unlikely to slack, armed as general partners are with plenty of dry powder, and as uncertainty around prospective economic growth continues unabated, sustained quantitative easing may well keep asset prices at relatively high levels. These factors combined will discourage substantial investment levels, leaving only top-tier performers with strong track records and ample supplies of dry powder able to win competitive auctions and, moreover, exit at robust multiples, while broad swathes of the PE investor population may well see delays in their pace of investing and selling. Accordingly, the spread of performance is likely to remain wide for some time, until more recent vehicles are able to deploy capital in ever-more specialized strategies and potentially experience short-term upticks in IRR performance. Perhaps then, as time wends on, the performance gap will shrink somewhat, with general IRR quartiles tightening, much as seen in vintages prior to 2010.

Contact: Garrett Black
garrett.black@pitchbook.com